Consumer spending slowdown hits US economy

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The US economy slowed significantly during the second quarter of 2012, according to figures released Friday by the Department of Commerce, with a fallback in consumer spending, particularly on new cars, accounting for the bulk of the slowdown.

US gross domestic product grew by 1.5 percent from April to June, down from 2 percent during the first three months of the year (revised up slightly from the previously reported 1.9 percent) and less than half the 4.1 percent rate of growth in the fourth quarter of 2011.

Consumer spending was the main contributor to the slowdown, rising 1.5 percent in the second quarter, compared to 2.4 percent in the previous three-month period. Spending on durable goods, such as cars and home appliances, actually fell 1.0 percent during the quarter. Spending by state and local government also declined, falling 2.1 percent.

Business investment on buildings and equipment was one of the few sectors showing sizeable growth, up 5.3 percent, but even this represented a slowdown from a 7.5 percent growth rate in the first quarter. This spending did not translate into significant new hiring, as the official unemployment has remained stuck at 8.2 percent.

According to the breakdown supplied by the Commerce Department's Bureau of Economic Analysis, car production contributed a positive 0.13 percentage points to GDP growth in the second quarter, compared to 0.72 points in the first quarter. The decline of 0.59 points is greater than the entire decline in the GDP growth rate, meaning that the falloff in auto production accounted for virtually all the falloff in the overall economy.

A Commerce Department report a week ago found an across-the-board decline in retail sales in June, down 0.5 percent compared to May, with sales at auto dealerships, furniture and appliance stores, garden and yard suppliers and department stores all down. Retail sales fell for the third straight month, the first such drop since the 2008 financial crash.

A major factor in the slowdown was the decision of consumers to save more and spend less. Personal saving rose by $55.8 billion in the second quarter, while personal outlays rose only $59.9 billion, compared to an increase of $143.1 billion in the first quarter.

In effect, many people decided not to buy cars and instead saved nearly one out of every two dollars in additional income, a clear indication of mounting concern over job security and the rising cost of living.

The US economy is in a downward spiral, as long-term unemployment and fears of job loss curb consumer spending, and small businesses with weak sales and few customers cannot hire. Government spending is a net drag on the economy, actually declining over the past two years, while corporations are sitting on a cash hoard of more than $2 trillion, refusing to invest or hire new workers.

The response of the Obama administration to the dismal figures on GDP growth was to claim a silver lining in the storm cloud, while at the same denying any responsibility for the ongoing jobs crisis.

Alan B. Krueger, chairman of the White House Council of Economic Advisers, issued a statement saying, “Today’s report shows that the economy posted its twelfth straight quarter of positive growth.” The second quarter was “positive growth” only by comparison to a Greek-style collapse.

Krueger added, “Over the last three years, the economy has expanded by 6.7 percent overall, and the private components of GDP have grown by 9.9 percent.” This repackages one of Obama’s most notorious comments, his declaration last month that “the private sector is doing fine.”

The CEA chairman concluded, “While the economy continues to move in the right direction, additional growth is needed to replace the jobs lost in the deep recession that began at the end of 2007.”

Citing the onset of recession in 2007 is a transparent effort to shift the blame from Obama onto his predecessor, President George W. Bush. But neither Krueger nor any other Obama administration official has indicated how “additional growth” can be generated.

Both Obama and his Republican challenger Mitt Romney agree that any growth must come from the private sector, and that no action should be taken by the federal government to provide jobs directly for the tens of millions of unemployed, many of whom have been out of work for a year or more.

But private capital refuses to hire. According to one calculation, the number of employed workers in the United States stands at 142.4 million, approximately the same as in 2006, though there are 17 million more people of working age than six years ago. The number of workers employed at full-time hours, 35 hours a week or more, has actually fallen significantly, while part-time employment is up by 8 million.

The stagnation in the US economy is a major component of the deepening worldwide crisis of the capitalist system. In the past week alone, the British government reported an actual economic decline of 0.7 percent in the second quarter, while the Spanish economy contracted 0.4 percent during the same period. Business confidence plunged in Germany, while growth rates in China, India and Brazil have all slowed significantly.