Report on US economic growth points to continuing stagnation

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The US economy grew at an annualized rate of 2.5 percent in the first three months of 2013, according to an initial estimate released Friday by the Commerce Department's Bureau of Economic Analysis. This rate, far lower than economists' projections of 3.0 percent to 3.2 percent, reflects a continuation of the stagnation since the financial crash of 2008 that has left unemployment at near-Depression levels and fueled the growth of poverty, homelessness and social inequality.

A growth rate of 2.5 percent in the country's gross domestic product (GDP) is too weak to significantly impact the jobs crisis. US employers added only 88,000 new jobs in March, according to the employment report released on April 5 by the Labor Department. The official jobless rate declined to 7.6 percent only because a staggering 496,000 people gave up looking for work and dropped out of the labor market.

Most economists expect the US economy to slow even more in the coming months, as the impact of the Obama administration's austerity policies make themselves felt more forcefully, along with the recession in Europe and a slowdown in China. The prospects for global economic growth were reflected in the front-page headline of the British *Financial Times* on Wednesday: "Pessimism deepens over global economy."

The $85 billion in across-the-board US sequester cuts this fiscal year took effect only at the beginning of March. Those cuts, combined with the ending January 1 of a two-year reduction in the payroll tax, are already having a negative effect on workers' income. The Commerce Department report noted that real disposable personal income fell by 5.3 percent in the first quarter of this year, the biggest drop since the third quarter of 2009.

Meanwhile, corporate profits continue to soar, buoyed by wage-cutting and the Federal Reserve Board's infusion into the financial markets of $85 billion a month in virtually free credit. In the current round of first quarter corporate profit reports, more than two-thirds of firms have surpassed the earnings projections of Wall Street economists.

The gap between the financial elite and everyone else, which, according to a report released this week by the Pew Research Center, saw the wealth of the bottom 93 percent fall during the so-called "recovery" while that of the top 7 percent jumped 28 percent, will only grow wider.

The first-quarter growth of 2.5 percent follows an even more dismal pace of 0.4 percent in the previous quarter. Overall, the economy grew 2.2 percent last year. It has grown at an average pace of 2.1 percent since the so-called recovery officially began in June of 2009. This rate is far lower than those in previous post-World War II recoveries and well below the average growth rate of 3.2 percent over that period.

There are still 3 million fewer jobs in the US than when the recession officially began in December of 2007.

The 2.5 percent figure is somewhat misleading, since it is propped up by a large increase in inventories. "Final demand," which discounts the contribution to GDP by changes in inventories, grew by only 1.5 percent. The other major plus factor was an increase in personal consumption of 3.2 percent, the strongest figure since the end of 2010. This, however, is considered unsustainable in an environment of budget cuts, higher taxes for working people and continued high unemployment.

Equipment and software investment in the first quarter rose by only 3.0 percent, compared to 11.8 percent in the final quarter of 2012 and 7.3 percent for the year as a whole. This reflects a deceleration in the pace of business investment.

A major factor in holding back growth was a further cutback in spending at all levels of government—federal, state and local. Non-defense federal spending fell by 2.0 percent and defense spending contracted by 11.5 percent. State and local government spending fell by 1.2 percent. Overall, government spending fell at an annual rate of 8.4 percent, after decreasing by 14.8 percent in the previous quarter.

A rise in the US trade deficit cut another 0.5 percentage points from the GDP figure.

The GDP report follows a raft of poor economic data. As Bloomberg News put it on Friday, “On the whole, the information we have been gathering about the health of the economy has been overwhelmingly negative.”

On Wednesday, the Commerce Department reported that durable goods orders fell sharply in March. Orders for such goods—those meant to last three years or more—dropped by 5.7 percent after a downwardly revised gain of 4.3 percent in February. This was the biggest fall in seven months.

The flash Purchasing Managers Index (PMI) for the US, released this week, showed a fall to 52 in April, down from 54.6 in March and the lowest figure since last November. The PMI is a key indicator of industrial output.

The *Wall Street Journal* reported Friday, citing Federal Reserve data, that US companies are pulling back on borrowing, resulting in a 9 percent decline in outstanding loans by the biggest banks in the first two weeks of April, as compared to the end of March. Speaking of the sudden drying up of loans, the chairman and CEO of BB&T bank, Kelly King, said, “We didn’t expect the wall we hit.”

US companies are continuing to announce large-scale layoffs. Among those announced over the past week:

* Jones Group, the parent company of Nine West shoes and Jones New York apparel, said it will shut some 170 retail stores by the middle of next year, cutting 850 jobs, or 8 percent of its workforce.

* Volkswagen said it will lay off some 500 workers, 15 percent of the workforce, at its plant in Chattanooga, Tennessee.

* Heavy equipment manufacturer Caterpillar announced it will lay off 11 percent of the workforce at its Decatur, Illinois plant, affecting 460 workers.

* Novartis, a pharmaceutical firm, said it will cut 300 positions at its plant outside of Lincoln, Nebraska. The layoffs will eliminate 40 percent of the current workforce by 2015.

* Commercial Turf Products announced it will close its facility in Streetsboro, Ohio, laying off 267 manufacturing workers and 23 employees at its distribution center. The layoffs will begin on June 14.

* Defense contractor Raytheon sent layoff notices to 224 workers at a Federal Aviation Administration training center in Oklahoma City. Raytheon had been awarded a 10-year, $437 million contract to train air traffic controllers. The layoffs are the result of federal sequester cuts.

* L3 Communications Systems-West, a Utah defense contractor, announced it is laying off over 4 percent of its workforce, or some 180 employees.

* First Data, an Atlanta-based electronic payments processing firm, told employees it will lay off 125 workers at facilities across the country.

* The Tennessee Department of Labor and Workforce Development told 125 workers their jobs will be eliminated.