US first-quarter economic growth downgraded

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28 June 2013

The Department of Commerce said Thursday that the US economy grew at a rate of only 1.8 percent in the first quarter of this year, down from an initial estimate of 2.4 percent. Economists had expected the updated estimate to remain at 2.4 percent.

The reported growth rate is not sufficient to significantly reduce the unemployment rate, officially at 7.6 percent. The weak report for the first quarter of 2013, moreover, follows a 2012 fourth quarter that saw virtually no growth, with the economy expanding by a mere 0.4 percent.

Wall Street, in keeping with the trend of rising share values and record corporate profits alongside mass unemployment and stagnation in the real economy, rejoiced at the indicators of continued slump, sending stock prices soaring. The bankers and speculators calculated that the miserable growth rate made it less likely that Federal Reserve Chairman Ben Bernanke would make good on his stated intention of scaling back the central bank's injection into the financial markets of $85 billion a month in virtually free credit.

The heady mood on Wall Street was further boosted by reassuring statements from Fed officials that any reduction in the central bank's so-called "quantitative easing" program would be predicated on significant improvements in the jobs market and overall economy.

William Dudley, the president of the Federal Reserve Bank of New York, stressed Thursday that a slowdown in the Fed's monetary stimulus program was only "one possible outcome" and would be based on "the outlook rather than the calendar."

"If labor market conditions and the economy's growth momentum were to be less favorable than in the [Federal Reserve's policy-making Federal Open Market Committee] outlook—and this is what has happened in recent years—I would expect that the asset purchases would continue at a higher pace for longer," he said.

The previous day, Jeffrey Lacker, president of the Federal Reserve Bank of Richmond, said he expected US economic growth to be "sluggish" for "a couple more years," a remark that prompted a significant rally on the stock market.

Lacker and Dudley echoed points made Wednesday by European Central Bank President Mario Draghi, who said in a speech before the French National Assembly that monetary policy would "stay accommodative for the foreseeable future," and that a change in course was "very distant."

The Dow Jones Industrial Average rose a combined 264 points on Wednesday and Thursday, while the Standard & Poor's 500 index climbed 25 points.

The rise in stock prices in response to signs of ongoing slump in the real economy underscores the parasitic character of the US economy, dominated by various forms of financial speculation that depend on virtually free cash from the Fed, near-zero short-term interest rates, and mounting debt. The greater the economic and social crisis facing the working class, the better the prospects for further enriching the financial aristocracy.

The central bankers' statements came after investors pulled $8.6 billion from US bonds over the past week, sending total withdrawals over the past four weeks to $23.7 billion, the largest monthly outflow from bond markets since the 2008 crash. So far this year, four-fifths of bond funds tracked by Lipper, the financial data firm, have lost money for investors.

The most recent bond selloff has led to significant increases in interest rates, a trend that is already impacting the real economy. Rates on 30-year mortgages stood at 4.56 percent Wednesday, up from

3.74 percent a month ago, while high-grade corporate bonds hit 3.47 percent, up from 2.73 percent in the same period.

The most significant factor in the downward revision of the first-quarter gross domestic product (GDP) figure was a decline in the growth rate of consumer spending, which fell from 3.4 percent to 2.6 percent. A portion of this drop was the result of the expiration in January of a two-year payroll tax cut, which reduced a typical worker's take-home pay by $20.

At the same time, business investment remained stagnant, rising by just 0.4 percent.

Following the release of the American GDP figure, the UK's Office for National Statistics released figures showing that the 2008 recession impacted the country far worse than had previously been estimated. According to the report, the British economy is 3.9 percent smaller than it was before the crash. Previously, the contraction was estimated at 2.6 percent. Based on the revised figures, the British economy will not regain its pre-crisis level of output until 2015.

"The data continues to show that the economy is growing at a very slow pace and that unemployment is improving at a very slow pace," Oliver Pursche, a fund manager at Gary Goldberg Financial Services, told the *Wall Street Journal*. "It means the likelihood that the Federal Reserve changing course on its monetary policy this year is very low."

The torpid state of the real US economy was outlined in a Thursday *Wall Street Journal* article entitled "Companies Still Wary Despite Hefty Profits." The article noted that US corporations, while holding vast quantities of cash, have failed to make any significant increases in investment or hiring, while manufacturing faces a protracted slump.

The report noted, "Despite stellar profits and lean payrolls, US firms remain scarred by the deep downturn," and that "their appetite for investing continues to be patchy and their hiring slow."

The report noted that capital investment by US companies is four percent below its pre-2007 level, and total manufacturing output in May was five percent less than before the crash.

This was despite the fact that US corporations are drowning in cash and profits. The *Journal* noted that non-financial US companies are sitting on $1.8 trillion in cash and cash equivalents, up by 30 percent from 2008. Corporate profits, meanwhile, are at a post-World War II record of 12 percent of economic output, with this figure having nearly doubled over the past ten years.