US economy contracted by 1 percent in first three months of 2014

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The US economy contracted at an annualized rate of one percent in the first quarter of 2014, the first time the economy shrank since 2011, according to revised figures for the gross domestic product (GDP) published Thursday by the Commerce Department.

The figures reflect the fact that nearly six years after the 2008 financial meltdown, the US economy remains mired in stagnation and slump. Behind the booming stock market and record corporate profits and CEO pay, daily life for broad sections of the population is dominated by unemployment, falling wages and growing poverty.

The US stock market responded to the disastrous report by closing at record highs. The S&P 500 stock index hit a new record of 1,920 in its third consecutive day of gains, while the Dow Jones Industrial Average rose by 65 points, to 16,698.74. This perverse reaction to the worst data in three years is an expression of the increasingly speculative and parasitic character of the entire economy.

The Commerce Department report on first quarter GDP came just two days after the publication of surveys showing that the median pay of CEOs of S&P 500 corporations topped $10 million for the first time in 2013. The reports noted that CEO compensation in the US has risen by more than 50 percent over the past four years.

The new GDP figure is a significant downward revision from the government's earlier estimate of a 0.1 percent contraction. It follows negligible growth of 0.25 percent the previous quarter. Economists had expected a much smaller downward revision of 0.5 percent.

The majority of media economic commentators, having failed to predict the contraction, sought to present the figure as a fluke result of the unseasonably cold winter.

In fact, the disastrous GDP figure, together with a series of negative indicators for the real economy, point to the increasingly precarious financial position of American households under the impact of high unemployment, falling wages and major cuts to social programs.

The release of the GDP figure comes only days after Retail Metrics reported that earnings for US retail stores in the first quarter fell below estimates by the largest level in thirteen years. The major retailers surveyed saw their earnings fall by 4.1 percent, compared to January estimates of a 13 percent increase.

While stores selling to low-income customers such as Wal-Mart posted sharply negative results, stores that cater to affluent consumers, such as Nordstrom and Dillard's, saw their sales grow significantly. Wal-Mart blamed its worse-than-expected sales on the economic difficulties facing low-income buyers as well as the two successive cuts to food stamps implemented over the past year.

Another reflection of the stagnation that dominates the real economy and the growing economic distress of working people is the slowdown in the housing market. On Wednesday, the Federal Home Loan Mortgage Corporation published figures showing that housing market conditions were improving in only thirteen of the fifty states.

"Less than half of the housing markets [the survey] covers are showing an improving trend, whereas at this time last year more than 90 percent of these same markets were headed in the right direction," said the organization's chief economist, Frank Nothaft, in a statement.

Existing home sales fell from 5.3 million in July, 2013 to 4.6 million in April of this year. In testimony before Congress earlier this month, Federal Reserve Chair Janet Yellen warned, “The recent flattening out in housing activity… could prove more protracted than currently expected.”

Given the fact that household incomes have plummeted since 2008, many families simply cannot afford to buy a house. The rate of new household formation has plunged, with many people in their 20s and 30s being forced to live with their parents.

Under these conditions, owning a home is becoming more and more the prerogative of the wealthy. The *Financial Times* noted that “builders are putting up much bigger homes to cater to wealthy Americans who are doing well, which helps to explain why the number of [housing] starts is low.” The newspaper added, “The average new home now covers around 2,700 sq. ft.—even larger than before the housing crash.”

The housing market slowdown was reflected in the first quarter GDP report, which showed that residential fixed investment contracted at an annualized rate of 5 percent.

Even as corporations are sitting on massive cash hoards or initiating stock buybacks to inflate the wealth of their shareholders, they are largely refusing to invest in production. Business investment fell by 1.6 percent in the first quarter. Investment in structures fell by 7.5 percent and equipment investment fell at a rate of 3.1 percent.

Speculative activity, meanwhile, is reaching a fever pitch. In an analysis published Tuesday, the *Wall Street Journal* noted that “money has flocked to [hedge] fund managers who have bought into lower-rated debt such as junk bonds, emerging-market debt and mortgage securities.”

Thursday’s stock rally was an expression of the fact that stock markets interpret a worsening of economic conditions as an indication that the Federal Reserve will continue its zero interest rate policy. The Fed has held its benchmark Federal Funds rate at essentially zero since December 2008, and in congressional testimony earlier this month Federal Reserve Chair Yellen said she intends to hold interest rates near zero “for a considerable time.”

As a result of the Federal Reserve’s enormous cash infusions into the financial markets, the S&P 500 index increased by nearly a third in 2013.

The disparity between the phenomenal growth of the stock market, corporate profits and executive compensation on one hand, and worsening conditions for the great majority of the population on the other, expresses the basic character of American society. What is being billed as an economic “recovery” is little more than the transfer of wealth from the great majority of society to the super rich, a policy that is being overseen by the Obama administration.

The American ruling class is waging a brutal campaign against workers’ living standards, seeking to slash wages and social services while all instruments of government policy are directed at expanding the wealth of the financial aristocracy.

In the first quarter, cuts to government spending shaved 0.15 percentage points from the GDP figure, according to the *Wall Street Journal*. Over the past year, the White House and Congress have cut food stamp benefits twice, ended federal jobless benefits for more than three million long-term unemployed, implemented across-the-board cuts in social spending, and used the rollout of the Affordable Care Act to encourage companies to slash employee health benefits.