US economic output tumbled by 2.9 percent in the first quarter

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The US economy contracted at a 2.9 percent annual rate in the first three months of this year, the sharpest quarterly fall in output since 2009, according to data released Wednesday by the Commerce Department. The figure was the second revision to the gross domestic product (GDP) estimate released in late April, and is the biggest such revision on record.

The sharp contraction expresses the fact that, nearly six years after the 2008 crash, the US economy remains mired in slump. Behind the booming stock market, record corporate profits and CEO pay, daily life for broad sections of the population is dominated by unemployment, economic insecurity and falling wages. This was reflected in the Commerce Department report's downward revision for consumer spending, which grew at the slowest pace in five years and added only 0.71 percentage points to economic output, compared to an earlier estimate of 3.1 percent.

The US stock market responded positively to the report. The Dow Jones Industrial Average closed up by 49 points, or 0.3 percent, while the Standard & Poor's 500 stock index closed up by 9 points, or 0.5 percent. The Nasdaq rose 29 points, or 0.7 percent. This perverse reaction to the worst economic data in five years is an expression of the increasingly speculative and parasitic character of the US economy.

The disastrous figures were brushed off by media commentators, who called them a fluke attributable to the particularly cold winter. While the bad weather no doubt contributed to the negative data, the figures are more fundamentally an expression of the depressed state of the real economy. Since 2007, the average growth rate of the US economy has been about one percent, one-third the rate of growth for the rest of the post-World War II period.

The slowdown in consumer spending was driven by a very large downward adjustment in health care spending. In previous estimates, the government assumed that the rollout of the Affordable Care Act (Obamacare) would lead to greater access to health care and consequently greater health care spending, but this did not materialize.

US residents spent 1.4 percent less on health care in the first quarter of 2014 than they did in the final three months of 2013, while the government had forecast a 9.9 percent increase. That projection was based on "information on Medicaid benefits and on Affordable Care Act insurance exchange enrollments," while the newly revised figure is based on actual revenue reports from doctors and hospitals.

An additional drag on growth was the deterioration of the US trade balance. While imports grew at a higher-than-expected pace, exports shrank dramatically, contracting at a rate of 8.9 percent. A drawdown of business inventories also contributed to the negative figures. Stores had stockpiled goods for the holiday season at the end of last year, but sales were much lower than expected, leaving an overhang that retailers drew down in the first quarter.

A further drag on economic growth was a collapse in investment, which fell by 11.7 percent compared to the previous estimate of a 6.1 percent fall. Even as corporations are sitting on massive cash hoards or initiating stock buybacks to inflate the wealth of their shareholders, they are generally refusing to invest in production.

According to a separate report released Wednesday, US orders for durable goods—products designed to last more than three years, such as cars and refrigerators—tumbled one percent last month. The figure was the first decline in four months and was significantly worse than expected by economists.

These figures follow similarly negative readings from Europe. On Monday, the June euro zone Purchasing Managers' Index (PMI) from Markit came in significantly lower than expected, at 52.8, compared to

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forecasts of 53.5. The figures indicated that France, Europe’s second-biggest economy, was contracting, with a reading of 48.

The new GDP data for the US follows closely behind the Federal Reserve’s announcement last week that it expects the US economy to grow at a rate of around two percent this year, down from a March forecast of up to three percent.

This assessment was in line with two other economic reports released this month. On June 11, the World Bank cut its projection for global growth this year to 2.8 percent from its earlier estimate of 3.2 percent, and downgraded its prediction for the US from 2.8 percent to 2.1 percent. On June 16, the International Monetary Fund downwardly revised its estimate for US growth this year from 2.8 percent to 2.0 percent.

While sweeping cuts in social spending are being imposed on working people, when it comes to the banks and Wall Street speculators there is no shortage of cash. Speaking last week, Fed Chair Janet Yellen reiterated that the Federal Reserve would keep its benchmark federal funds rate near zero “for a considerable time,” guaranteeing that the flow of virtually free credit to the banks would continue. The Fed has held its federal funds rate at near zero since December 2008.

This influx of free cash is fueling a huge asset bubble, with stock markets hitting record levels day after day despite the near-moribund state of the economy. The increasingly speculative character of Wall Street’s activities was reflected in a report published Wednesday by the Office of the Comptroller of Currency (OCC), which warned that “credit risk is building in supervised national banks and federal savings associations,” and that “easing in underwriting and increased risk layering is also occurring in commercial loans.”

The so-called economic “recovery” is, in fact, a vast redistribution of wealth from the great majority of the population to the super-rich, whose wealth has more than doubled since 2009.

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