

US economy grew at 4.0 percent in second quarter

Andre Damon
31 July 2014

The US economy grew at an annualized rate of 4.0 percent in the second quarter, according to an initial estimate released Wednesday by the Commerce Department. The figure, exceeding economists' projections, followed a 2.1 percent contraction in the first three months of 2014.

The Commerce Department report was quickly seized upon by the Obama administration and the press to promote the notion of a broad economic recovery from the slump unleashed by the financial crash of 2008.

"This morning, we found out that in the second quarter of this year our economy grew at a strong pace, and businesses are investing, workers are building new homes, consumers are spending, America is exporting goods around the world," proclaimed President Obama Wednesday at a speech in Kansas City.

The uptick of the preceding three months does not alter the fact that the current "recovery" is overwhelmingly centered in the financial markets and corporate profits and disproportionately benefits the rich and super-rich, while production and productive investment continue to stagnate. The rate of economic growth remains far below that of all previous post-World War II rebounds from recession.

Since June of 2009, when the recession officially ended, the US economy has grown at a rate of 2.1 percent per year. By contrast, the average growth rate during the postwar period was 3.3 percent, and, when the economy was not in recession, 4.1 percent.

"We made up some of the ground lost in the first three months of this year, but there's nothing in today's data to indicate that the economy is growing more strongly than it has for the past couple of years," commented the Economic Policy Institute in a press release Wednesday.

While the second-quarter gross domestic product

(GDP) figure was the third strongest quarterly growth rate since 2008, significant parts of the report were one-time adjustments that did not point to a return of sustained and healthy growth.

The largest driver of the increase in economic output was the growth of business inventories, which accounted for 1.7 percentage points of the 4.0 percent increase in GDP. If the unusually large buildup of inventories in stores and warehouses were taken out of the equation, and only final sales considered, economic growth would be at a much more moderate rate of 2.3 percent.

The largest driver of economic growth was personal consumption of goods and services, which added 1.6 percentage points to output, while business investment added only 0.68 percent and residential investment added a mere 0.23 percent. The preponderance of imports over exports slashed 0.61 percentage points from GDP figure.

According to estimates from the Congressional Budget Office, the US economy remains at \$770 billion, or 4.2 percent below its long-term economic potential, as a result of the 2008-2009 recession, and the gap between America's actual GDP and potential output has barely narrowed during the course of the "recovery."

To the extent that the lackluster economic growth rate has expressed itself in new hiring, the jobs created have for the most part been low-wage, contingent and part-time, with poor health and retirement benefits. In April, the National Employment Law Project issued a report showing that since the financial crash of 2008, 1.9 million high- and average-paying jobs in the private sector have been eliminated and replaced with 1.8 million low-wage jobs. Real median household income in the US fell from \$55,600 in 2007 to \$51,017 in

2012—a decrease of nearly ten percent in just five years.

Stocks did not respond positively to the better-than-expected data, as improved economic conditions have generally been interpreted by Wall Street to mean central banks will be inclined to pull back on their ultra-low interest rate and money-printing policies. The Dow Jones Industrial Average closed down by 31 points.

Speaking at a press conference Wednesday after a two-day meeting of the Federal Reserve's policy-setting Federal Open Market Committee, Fed Chairwoman Janet Yellen emphasized that the US central bank would continue to keep interest rates at their near-zero rate for "a considerable time." The benchmark federal funds rate has remained at essentially zero for nearly six years, helping to fuel an enormous run-up in stock prices.

In its Wednesday policy statement, the Federal Reserve said that while "activity rebounded in the second quarter," there are "a range of labor market indicators" that suggest "there remains significant underutilization of labor resources."

The GDP report comes amid several reports pointing to an economic slowdown. Late last week, a number of consumer-oriented companies posted weaker-than-expected sales figures and projections, including Amazon, the largest online retailer, Wal-Mart, the largest brick-and-mortar retailer, and Visa, the credit and debit card transaction company.

Home prices grew at their slowest pace in fifteen months, according to figures from the Standard & Poor's/Case-Shiller twenty-city home price index for May, released Tuesday.



To contact the WSWWS and the
Socialist Equality Party visit:

wsws.org/contact