Economy Shrinks At Fastest Pace In 26 Years

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WASHINGTON (AP) — The economy contracted at a staggering 6.2 percent pace at the end of 2008, the worst showing in a quarter-century, as consumers and businesses ratcheted back spending, plunging the country deeper into recession.

The Commerce Department report released Friday showed the economy sinking much faster than the 3.8 percent annualized drop for the October-December quarter first estimated last month. It also was considerably weaker than the 5.4 percent annualized decline economists expected.

A much sharper cutback in consumer spending — which accounts for about two-thirds of economic activity — along with a bigger drop in U.S. exports sales, and reductions in business spending and inventories all contributed to the large downgrade.

Looking ahead, economists predict consumers and businesses will keep cutting back spending, making the first six months of this year especially rocky.

"Right now we're in the period of maximum recession stress, where the big cuts are being made," said economist Ken Mayland, president of ClearView Economics.

On Wall Street, stocks slid as investors second-guessed Citigroup Inc.'s plans to turn over a bigger piece of itself to the government in a move designed to keep the banking giant alive and bolster its capital in the face of growing losses amid the global recession. The Dow Jones industrials lost about 50 points in morning trading.

The new report offered grim proof that the economy's economic tailspin accelerated in the fourth quarter under a slew of negative forces feeding on each other. The economy started off 2008 on feeble footing, picked up a bit of speed in the spring and then contracted at an annualized rate of 0.5 percent in the third quarter.

The faster downhill slide in the final quarter of last year came as the financial crisis — the worst since the 1930s — intensified.

Consumers at the end of the year slashed spending by the most in 28 years. They chopped spending on cars, furniture, appliances, clothes and other things. Businesses retrenched sharply, too, dropping the ax on equipment and software, home building and commercial construction.

Before Friday's report was released, many economists were projecting an annualized drop of 5 percent in the current January-March quarter. However, given the fourth quarter's showing and the dismal state of the jobs market, Mayland believes a decline of closer to 6 percent in the current quarter is possible.

The nation's unemployment rate is now at 7.6 percent, the highest in more than 16 years. The Federal Reserve expects the jobless rate to rise to close to 9 percent this year, and probably remain above normal levels of around 5 percent into 2011.

A smaller decline in the economy is expected for the second quarter of this year. But the new GDP figure — like the old one — marked the weakest quarterly showing since an annualized drop of 6.4 percent in the first quarter of 1982, when the country was suffering through an intense recession.

"It's going to be a challenging 2009," Scott Davis, chief executive officer of global shipping giant UPS, said Thursday while speaking at the U.S. Chamber of Commerce in Washington.

American consumers — spooked by vanishing jobs, sinking home values and shrinking investment portfolios have cut back. In turn, companies are slashing production and payrolls. Rising foreclosures are aggravating the already stricken housing market, hard-to-get credit has stymied business investment and is crimping the ability of some consumers to make big-ticket purchases.

It's creating a self-perpetuating vicious cycle that Washington policymakers are finding hard to break.

To jolt life back into the economy, President Barack Obama recently signed a $787 billion recovery package of increased government spending and tax cuts. The president also unveiled a $75 billion plan to stem home foreclosures and Treasury Secretary Timothy Geithner said as much as $2 trillion could be plowed into the financial system to jump-start lending.

For all of 2008, the economy grew by just 1.1 percent, weaker than the government initially estimated. That was down from a 2 percent gain in 2007 and marked the slowest growth since the last recession in 2001.

With Friday's figures, Mayland lowered his forecast for this year to show a deeper contraction of just over 2 percent.

In the fourth quarter, consumers cut spending at a 4.3 percent pace. That was deeper than the initial 3.5 percent annualized drop and marked the biggest decline since the second quarter of 1980.

Businesses slashed spending on equipment and software at an annualized pace of 28.8 percent in the final quarter of last year. That also was deeper than first reported and was the worst showing since the first quarter of 1958.

Fallout from the housing collapse spread to other areas. Builders cut spending on commercial construction projects by 21.1 percent, the most since the first quarter of 1975. Home builders slashed spending at a 22.2 percent pace, the most since the start of 2008.

A sharper drop in U.S. exports also factored into the weaker fourth-quarter

performance. Economic troubles overseas are sapping demand for domestic goods and services.

Businesses also cut investments in inventories — as they scrambled to reduce stocks in the face of dwindling customer demand — another factor contributing to the weaker fourth-quarter reading. The government last month thought businesses had boosted inventories, which added to gross domestic product, or GDP.

GDP is the value of all goods and services produced in the United States and is the best barometer of the country's economic health.

Fed Chairman Ben Bernanke earlier this week told Congress that the economy is suffering a "severe contraction" and is likely to keep shrinking in the first six months of this year. But he planted a seed of hope that the recession might end his year if the government managed to prop up the shaky banking system.

Even in the best-case scenario that the recession ends this year and an economic recovery happens next year, unemployment is likely to keep rising.

That's partly because many analysts don't think the early stages of any recovery will be vigorous, and because companies won't be inclined to ramp up hiring until they feel confident that any economic rebound will have staying power.

More job losses were announced this week. JPMorgan Chase & Co. on Thursday said it would eliminate about 12,000 jobs as it absorbs the operations of failed savings and loan Washington Mutual Inc. That figure includes 9,200 cuts announced previously and 2,800 jobs expected to be lost through attrition.

The NFL said Wednesday that the league dropped 169 jobs through buyouts, layoffs and other reductions. Textile maker Milliken & Co. said it would cut 650 jobs at facilities worldwide, while jeweler Zale Corp. said it will close 115 stores and eliminate 245 positions.

AP Business Writer Harry Weber in Atlanta contributed to this report.

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