

U.S. Economy Expanded Faster In Q1 Than Expected

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WASHINGTON (AP) — The U.S. economy expanded a little faster at the beginning of the year than previously estimated. But the pace was still anemic and economists don't see that changing until later this year.

The Commerce Department on Friday said the economy grew at an annual rate of 1.9 percent in the January-March quarter. That's not much better than the 1.8 percent rate estimated a month ago. The small upward revision reflected stronger exports and more business spending on stockpiles.

High gas prices were a major reason growth slowed. The impact of those prices is expected carry over into to the current quarter. The economy is growing in the current April-June quarter at a rate of about 2.3 percent, according to an Associated Press survey of 38 top economists.

Economic growth must be stronger to make a noticeable dent in unemployment, which was 9.1 percent last month. The economy would need to grow 5 percent for a whole year to significantly bring down the unemployment rate. Economic growth of just 3 percent a year would hold the unemployment steady and keep up with population growth.

A parts shortage stemming from the March 11 earthquake and tsunami in Japan is another reason economists expect sluggish growth this spring. But those supply disruptions may be easing.

Durable goods orders increased 1.9 percent in last month, the Commerce Department said Friday. The rise in demand follows a 2.7 percent decline in April. The inability to get critical component parts in such industries as autos and electronics was a major reason U.S. factory production slowed.

Orders for autos and auto parts rose 0.6 percent in May after having fallen 5.3 percent in April. The rebound supports the view that the supply disruptions are temporary. Many economists predict growth will pick up in the second half of the year.

The economists surveyed by the AP expect growth for the entire year to be around 2.6 percent, down from 2.9 percent in 2010. The Federal Reserve acknowledged the slowdown this year, issuing an updated forecast on Wednesday that put growth this year in a range of 2.7 percent to 2.9 percent.

The spike in gas has forced consumers to spend less on discretionary items that help boost the economy, such as appliances, vacations and furniture. Consumer

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spending is important because it makes up 70 percent of economic activity.

Consumer spending slowed to a rate of just 2.2 percent in the first three months of the year, just about half the 4 percent pace of spending growth in the previous quarter. That estimate was unchanged from last month.

Government spending fell at an annual rate of 5.8 percent in the first three months of the year, reflecting big cuts in defense spending and state and local government outlays. Housing construction was dropping at an annual rate of 2 percent in the first three months of the year, underscoring that home building remains under severe strains.

Federal Reserve Chairman Ben Bernanke warned that some problems, such as the weak housing market, could persist into next year. Under the Fed's forecast, growth would improve in the second half of this year but many private economists believe the central bank, even with its downgrade, is being too optimistic.

As a result, the Fed raised its unemployment rate estimate slightly, saying it would not fall below 8.6 percent this year.

The nation will add only about 1.9 million jobs this year and the unemployment rate will fall to only 8.7 percent, according to the AP Economy survey. The economy needs to generate at least 125,000 jobs per month just to keep up with population growth. And at least twice that many jobs are needed to bring down the unemployment rate, which rose to 9.1 percent in May.

Employers added only 54,000 net new jobs in May, much slower than the average gain of 220,000 per month in the previous three months.

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