

The New York Times

Bouncing Back, Economy Grew 4% for Quarter



By DIONNE SEARCEY JULY 30, 2014

The United States economy rebounded strongly in the second quarter of the year, shaking off the negative effects of an unusually harsh winter and stirring hopes that it might finally be establishing a solid enough footing to put the lingering effects of the recession squarely in the past.

The Commerce Department, in its initial estimate for April, May and June, reported on Wednesday that the economy grew at a seasonally adjusted annual rate of 4 percent, surpassing expectations.

During the first quarter, output shrank at a rate of 2.1 percent, less than had been reported. The department had earlier said that first-quarter output fell 2.9 percent.

Some experts, citing a range of indicators including an improving job market, were encouraged by the signs of healthy business investment and consumer spending, but others cautioned that the economy had yet to break out of an underlying pattern of steady but relatively sluggish growth that has plagued the nation since the Great Recession officially ended in mid-2009.

President Obama heralded the positive economic news on a visit to Kansas City, Mo.

Federal Reserve policy makers, meeting this week in Washington, said they were taking a wait-and-see attitude toward the latest data, emphasizing concern about the millions of Americans who still cannot find jobs.

In a statement released Wednesday afternoon, the Fed acknowledged that growth had “rebounded,” but its tone was measured and it made clear that it had no plans to raise interest rates anytime soon. It described the chances of faster growth as roughly even with the chances that the expansion would slow down.

“The recovery so far has been unspectacular,” said Ben Herzon, a senior economist at Macroeconomic Advisers, a consulting firm based in St. Louis. “With the exception of a few wiggles here and there, it’s been on this steady growth path, which is not great but it’s been good enough.”

Democrats are hoping to use the signs of an improving economy as a selling point in the run-up to midterm elections as proof their policies are working. Mr. Obama seemed energized by the report, though even his take was muted. He said a healthy jobs market was the real measure of whether the economy was working.

“I’m glad that G.D.P. is growing, and I’m glad that corporate profits are high, and I’m glad that the stock market is booming,” the president told a boisterous crowd in Kansas City. “But what I really want to see is a guy working 9 to 5, and then working some overtime. I want that guy making more than the minimum wage.”

Consumer spending on automobiles, furniture and recreational goods helped bolster G.D.P. for the second quarter, as did an increase in state and local government expenditures that offset a modest decline in federal spending. But the biggest factor in the quarterly expansion was a sharp increase in the stocks of goods in warehouses and on store shelves as businesses anticipated that consumers were developing a greater urge to shop.

The rate at which businesses stock their shelves can be volatile, and the second-quarter gains could falter if consumers do not continue to spend freely in the second half of the year. For all the exuberance over Wednesday’s news, at least one economist chalked up the latest numbers mostly to “payback” for the poor showing in the first quarter.

Looking back over the last 12 months, the overall inflation-adjusted output of goods and services for the second quarter was 2.4 percent higher than the same quarter a year earlier, barely ahead of the average pace of 2.2 percent growth since the recession ended.

Still, most economists say that — little by little — the economy is returning to a healthier state.

“It isn’t something people are going to get excited about, but it does represent honest, real progress,” said Michael Gapen, a senior economist for Barclays, which predicted more of the same for the rest of the year.

Perhaps the biggest factor holding back the economy has been slow wage growth, as the high number of people out of work means that businesses see little need to pay much more to attract new employees.

Housing has partly recovered from the depths it fell to during the recession but has not significantly helped power the economy forward as it did in the early stages of past expansions.

Second-quarter earnings for many companies have been mixed. Labor conditions continue to be underwhelming, contributing to the belief of many jobless Americans that the economy is leaving them behind.

“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,” the Economic Policy Institute, a left-leaning nonprofit group focused on low and middle income workers, said in a release on Wednesday.

The White House Council of Economic Advisers said in a statement that the economy could perform even better if Congress makes sure infrastructure improvements such as road and bridge work do not stall.

Bob Baur, chief global economist for Principal Global Investors, made up a name for what he thinks has been holding back both consumers and businesses from the more exuberant kind of spending that would help close the gap of as much as \$1 trillion between the economy’s current level and its larger capacity for generating goods and services without setting off a significant rise in inflation.

He called it “post-crisis relapse disorder,” which he defined as behavior based on the expectation that the economic outlook will be grim merely because it has been so grim for months before.

Still, another positive sign for the economy came this week when the Conference Board said consumers were more upbeat about the economy than they had been in the last seven years. On Wednesday, ADP, the payroll processing company, said private employers added 218,000 jobs in the last month, down from 281,000 in June. It was the fourth straight month of job gains above 200,000.

But the company’s figures cover only private businesses and often do not track with the government’s jobs report, which will be released Friday morning.
