

The Washington Post

Economic growth slows to 2.4 percent pace in second quarter

By Neil Irwin
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The pace of economic growth slowed this spring, according to new government data, as Americans remained reluctant to consume and imports soared.

The gross domestic product rose at a 2.4 percent annual rate in the April-through-June quarter, the Commerce Department said Friday, down from a revised 3.7 percent rate in the first quarter. The downshift in second-quarter growth shows an economic recovery that, one year in, seems to be settling into a middling pace. The 2.4 percent rate, while roughly in line with analysts' expectations, is slightly below the level that the nation is capable of growing in the longer run, meaning it is not fast enough to drive down the jobless rate.

There was some good news in the report -- most notably, business investment is soaring, with spending on equipment and software rising at a 21.9 percent rate. But the overall tone was subdued, and several growth indicators were at risk of dissipating over the second half of the year.

Personal consumption spending, the ultimate driver of more than two-thirds of economic activity, rose at a mere 1.6 percent rate, reflecting continued strains on Americans who face high unemployment and an

overhang of debt from years past.

(In slow economy, fewer Americans on the move)

The biggest drain on growth was imports, which rose 28.8 percent, compared with only a 10.3 percent gain in exports. That is particularly worrisome given that to complete the longer-term rebalancing of the U.S. economy that analysts want to see, the nation needs exports to rise faster than imports.

Another big rise in growth came from the federal government, which rose at a 9.2 percent annual rate, including a 13 percent pace of gain in nondefense spending. That reflects in part the fiscal stimulus action that was enacted last year, but which will taper off beginning in the second half of the year.

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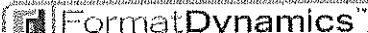


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Growth also received a boost from businesses rebuilding their inventories. Also, residential investment rose at a very strong 27.9 percent rate. But those indicators, too, are likely to dissipate as the year progresses. Housing activity has already been softening since the expiration of a homebuyers tax credit in April. And once businesses have finished rebuilding their inventories, that source of growth is unlikely to repeat.

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