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With Recovery Slowing, the Jobs Outlook Dims

By CATHERINE RAMPELL

There is no more disputing it: the economic recovery in the United States has indeed slowed.

The nation's economy has been growing for a year, with few new jobs to show for it. Now, with the government reporting a growth rate of just 2.4 percent in the second quarter and federal stimulus measures fading, the jobs outlook appears even more discouraging.

“Given how weak the labor market is, how long we've been without real growth, the rest of this year is probably still going to feel like a **recession**,” said Prajakta Bhide, a research analyst for the United States economy at Roubini Global Economics. “It's still positive growth — rather than contraction — but it's going to be very, very protracted.”

A **Commerce Department report** on Friday showed that economic growth slipped sharply in the latest quarter from a much brisker pace earlier, an annual rate of 5 percent at the end of 2009 and 3.7 percent in the first quarter of 2010. Consumer spending, however, was weaker than initially indicated earlier in the recovery.

Many economists are forecasting a further slowdown in the second half of the year, perhaps to an annual rate as low as 1.5 percent. That is largely because businesses have refilled the stockroom shelves

that were whittled down during the **financial crisis**, and there will not be much need for additional orders.

Additionally, the fiscal stimulus measures that have propped up growth are expiring. Proposals for individual programs like another expansion of unemployment benefits have been beaten back each time they have come up in Congress.

“We need 2.5 percent growth just to keep the unemployment rate where it is,” said **Christina Romer**, chairwoman of the president’s **Council of Economic Advisers**. “If you want to get it down quickly, you need substantially stronger growth than that. That’s what I’ve been saying for the last several quarters, and that’s why I’ve been hoping that we’ll please pass the jobs measures just sitting on the floor of Congress.”

The approaching midterm elections, however, may harden the political standoff after Congress returns from its August recess. As a result, pressure will probably increase on the **Federal Reserve** to use its available tools to prevent a double-dip recession. **Recent reports from Fed policy makers** suggest the central bank has become increasingly worried about where the economy is headed.

American businesses, if not American households, seem to be hanging on.

The crucial driver of growth in the second quarter was business investment in such things as office buildings and equipment and software. Such activity rocketed up at an annual rate of 17 percent in the second quarter, compared with a 7.8 percent increase in the first. The equipment and software category alone grew at an annual rate of 21.9 percent, the fastest pace in 12 years.

“We’re seeing a sort of handover from consumer spending to capital spending,” said John Ryding, chief economist at RDQ Economics. “The consumer also looks to have saved more than we thought before, which means they’re perhaps further on the road to financial adjustment than we thought they were previously.”

Consumer spending, which is usually a leading indicator of a recovery and which accounts for most

economic activity in the United States, has been leveling off. It grew at an annual rate of 1.6 percent in the second quarter after a 1.9 percent rate in the previous quarter.

Personal savings was estimated at 6.2 percent of disposable income last quarter, significantly higher than the 4 percent that had been estimated earlier.

A [separate report](#) released on Friday by the [University of Michigan](#) and [Thomson Reuters](#) showed that consumer confidence tumbled in July.

The fact that businesses seem to be investing more in equipment than in hiring may be a reason consumers have been reluctant, or perhaps unable, to pick up the pace of their spending.

“There are limits on the degree to which you can substitute capital for labor,” Mr. Ryding said. “But you can understand that businesses don’t have to pay health care on equipment and software, and these get better tax treatment than you get for hiring people. If you can get away with upgrading capital spending and deferring hiring for a while, that makes economic sense, especially in this uncertain policy environment.”

The government painted a portrait of a deeper recession when it also released revised data for the last three years on Friday. Over all, 2009 and 2008 were slightly worse than previously reported, but the first quarter of 2010 was better.

As the global economy recovers, America’s trade has picked up. But imports once again grew faster than exports. Imports grew at an annual rate of 28.8 percent, the biggest jump in a quarter-century, compared with a 10.3 percent gain in exports.

Government spending shot up more than many anticipated, at an annual growth rate of 4.4 percent after a decline of 1.6 percent in the first quarter. Public spending was broad-based, with even state and local expenditures increasing for the first time in a year. Local governments may have taken advantage of warmer weather to use more of their federal stimulus money.

“You could see this in the monthly number for state and local construction spending,” said Nigel Gault, chief United States economist at IHS Global Insight. “Construction slows down during winter months, so stimulus may not have been doing as much earlier this year.”

Other policy initiatives, like the homebuyer’s tax credit, also appear to have lifted demand. Consumers rushing to take advantage of the credit as it was nearing its expiration pushed up spending on housing and related property investments by an annual pace of 27.9 percent in the second quarter. Such spending had fallen 12.3 percent the previous period.

“This will almost certainly reverse hard next quarter,” Jay Feldman, director of economics at [Credit Suisse Securities](#), wrote in a note to clients.



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