

News analysis: U.S. economic growth accelerates in Q1 as concerns linger

WASHINGTON, April 26 (Xinhua)-- U.S. economic growth sped up to an annual rate of 2.5 percent in the first quarter of this year, the Commerce Department said Friday. It was an acceleration from the prior quarter, but not as much as expected, raising concerns that the World's largest economy may lose steam through spring and summer for another year.

MISSES EXPECTATION

The real gross domestic product (GDP), a measure of all goods and services produced in the country, expanded faster from January to March than the final three months of 2012, but the pace was slower than the 3 percent forecasters had expected. The gains mainly came from stronger consumer spending and increased stockpiling by businesses. The pick-up was also propelled by an upturn in exports and a smaller decrease in federal government spending, according to the report.

On the bright side, consumer spending, which makes up roughly two-thirds of U.S. economic activity, increased by 3.2 percent. It advanced by the fastest pace since the final quarter of 2010 despite the lapse of the payroll tax credit at the beginning of this year. The change in business inventories contributed 1.03 percentage points to the change in real GDP after subtracting 1.52 percentage points from the fourth-quarter change. However, businesses slowed the pace of investment as growth of nonresidential fixed investment moderated to just 2.1 percent last quarter after a strong gain of 13.2 percent in the final quarter of last year. Real federal government consumption expenditures and investment decreased 8.4 percent in the first quarter, compared with a decrease of 14.8 percent in the fourth. It subtracted more than half percentage point from the GDP growth. Meanwhile, exports was outpaced by imports, resulting a trade deficit that cut off half a percentage point from growth rate.

"There's good news and bad news buried in the detail. The good is that consumers seem interested in spending again. We'll see whether that holds up over coming months. The bad is that firms aren't so optimistic, and investment was lackluster," said Justin Wolfers, senior fellow at the Brookings Institution.

FEARS OVER LOSS OF MOMENTUM

The smaller-than-expected increase in GDP, along with a train of disappointing economic news, is likely to fuel the concerns that current trend will not continue in the months ahead. In March, the month when the 85-billion-dollar federal sequester cuts went into affect, job growth dramatically slowed, retail sales dropped and manufacturing sector showed signs of weakness. Some analysts cited these as evidences that the U.S. economy may have slowed at the end of the first quarter.

"The 'advance' estimate of first quarter GDP growth encompasses the first month after sequestration began on March 1. It is likely that the contraction in federal defense and non-defense spending, at least in part, reflects the onset of sequestration," Alan Krueger, chairman of the White House Council of Economic Advisers, said Friday in a statement. "These arbitrary and unnecessary cuts to government services will be a headwind in the months to come, and will cut key investments in the nation's future competitiveness. The

Congressional Budget Office has estimated that the sequester will reduce GDP growth by 0.6 percentage point for the year," he added. Some argued that the first-quarter acceleration was possibly because of the unusually weak performance at the end of 2012, when growth was dragged down by smaller restocking of businesses and big decline in government spending. "The bigger picture is that we have a fledgling recovery which needs help, but isn't getting it. Fiscal policy is set as a drag on growth, and monetary policy delivering below-target inflation," said Wolfers. This summer, the Commerce Department will release its benchmark revisions for the calculation of GDP. Expenditures on research and development (R&D), which currently are not recorded as final expenditures, will be recognized as fixed investment. Creative works, including entertainment, literary, and other artistic originals, are also expected to add billions of dollars to the overall size of the U.S. economy but without changing the underlying trend of the growth.