Economy in U.S. Grows More Than Forecast After Smaller Dr

By Shobhana Chandra - Jul 30, 2014

Gains in consumer spending and business investment helped the U.S. economy rebound more than forecast in the second quarter following a slump in the prior three months that was smaller than previously estimated.

Gross domestic product rose at a 4 percent annualized rate after shrinking 2.1 percent from January through March, Commerce Department figures showed today in Washington. The median forecast of 80 economists surveyed by Bloomberg called for a 3 percent advance. Consumer spending, the biggest part of the economy, rose 2.5 percent, reflecting the biggest gain in purchases of durable goods such as autos in almost five years.

Manufacturers such as Whirlpool Corp. project sales will keep improving in the second half of 2014 as increasing employment lifts consumer confidence and spending. The pickup in growth, as the expansion enters its sixth year, is among reasons Federal Reserve officials meeting today may continue to pare monthly asset purchases while keeping interest rates low.

“The economy is poised for much faster growth,” Joe LaVorgna, chief U.S. economist at Deutsche Bank Securities Inc. in New York, said before the report. “The job market has gotten progressively better and that sets us up for better growth. Consumption should fare better. As confidence in the economic outlook improves, corporate investment will grow.”

Payrolls Rise

Companies added 218,000 workers to payrolls in July, exceeding the average for the year and showing improving demand is bolstering the job market, a private report showed today. The gain this month followed a 281,000 increase in June that was the strongest since November 2012, according to data from the ADP Research Institute in Roseland, New Jersey.

Stock-index futures rose after the GDP report, adding to earlier gains. The contract on the Standard & Poor’s 500 Index maturing in September climbed 0.4 percent to 1,971.7 at 8:36 a.m. in New York.

With today’s report, the Commerce Department issued its annual revisions, incorporating newly available data from sources including corporate tax returns and wage surveys. The update altered most statistics back to 1999, with the biggest revisions affecting the past three years.

Less Compensation
The update showed worker pay was a smaller piece of the income pie than earlier estimated as some Americans reaped significantly more in interest and dividend payments over the past two years. The report also showed the world’s largest economy expanded more slowly over the past three years, only picking up momentum going into 2014.

For the second quarter, economists’ growth estimates ranged from 1.9 percent to 5.2 percent. The first-quarter reading was revised up from a previously reported 2.9 percent drop.

The GDP figures are the first of three for the quarter, with the other releases scheduled for August and September when more information becomes available.

The increase in household consumption, which accounts for almost 70 percent of the economy, exceeded the 1.9 percent median forecast of economists surveyed by Bloomberg and followed a 1.2 percent advance in the first three months of 2014. Purchases added 1.7 percentage points to growth.

Purchases of durable goods, including autos, furniture and appliances and recreational vehicles, jumped at a 14 percent annualized rate, the most since the third quarter of 2009, when the recovery began.

## Appliance Sales

Whirlpool, a Benton Harbor, Michigan-based appliance maker, is among companies expecting demand to improve the rest of this year after a weak, winter-depressed start to 2014.

“Macroeconomic indicators point to a strong second half as we’re seeing the lowest unemployment rate since September 2008,” Marc Bitzer, president of Whirlpool’s North America unit, said on a July 23 earnings call. He also cited gains in housing and said “strong replacement demand will continue as consumers replace older appliances.”

Automobiles remain a bright spot for consumer spending and for factory production. Cars and light trucks sold at a **16.9 million** pace in June, the fastest rate since July 2006, figures from Ward’s Automotive Group showed.

At the same time, retail industry forecasters say the back-to-school season won’t be as strong as last year as recent positive news, such as job growth, isn’t enough to persuade shoppers to spend freely. Wal-Mart Stores Inc. is reducing prices on 10 percent more items this year. American Eagle Outfitters Inc. is giving away college tuition money in a sweepstakes to attract shoppers.

## Business Investment

Corporate spending increased at a 5.9 percent annualized rate after being little changed in the first quarter, contributing 0.9 percentage point to growth.

Inventory accumulation also picked up, adding 1.7 percentage points to GDP growth. Stockpiles were rebuilt at a $93.4 billion annualized pace after a $35.2 billion annualized gain in the first three months of the year.
In addition to consumer spending and business investment, including the jump in inventories, growth got a boost from the biggest gain in state and local government expenditures in five years. A widening trade gap subtracted 0.6 percentage point from growth.

Excluding inventories and trade, so-called final sales to domestic purchasers climbed at a 2.8 percent rate, the biggest increase since the third quarter of 2011.

Today’s report also showed price pressures remain limited. A measure of inflation, which is tied to consumer spending and strips out food and energy costs, climbed at a 2 percent annualized pace compared with 1.2 percent in the prior quarter. It was the biggest gain since the first quarter of 2012.

Fed Chair Janet Yellen told lawmakers this month that the central bank plans to press on with record easing to combat job-market slack. Speaking in semi-annual testimony, she repeated that policy makers will probably keep interest rates low for a “considerable period” after ending monthly bond purchases, which she said may be announced at an October policy meeting.

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