The U.S. economy contracted in the first quarter by the most since the depths of the last recession as consumer spending cooled.

Gross domestic product fell at a 2.9 percent annualized rate, more than forecast and the worst reading since the same three months in 2009, after a previously reported 1 percent drop, the Commerce Department said today in Washington. It marked the biggest downward revision from the agency’s second GDP estimate since records began in 1976. The revision reflected a slowdown in health care spending.

Consumers returned to stores and car dealerships, companies placed more orders for equipment and manufacturing picked up as temperatures warmed, indicating the early-year setback was temporary. Combined with more job gains, such data underscore the view of Federal Reserve policy makers that the economy is improving and in less need of monetary stimulus.

The first-quarter slump is “not really reflective of fundamentals,” said Sam Coffin, an economist at UBS Securities LLC in New York and the best forecaster of GDP in the last two years, according to data compiled by Bloomberg. “For the second quarter, we’ll see some weather rebound and a return to more normal activity after that long winter.”

**Durable Goods**

Another report showed orders for business equipment climbed in May, showing corporate investment is helping revive the economy after the slump at the start of the year. Bookings for non-military capital goods excluding aircraft rose 0.7 percent after a 1.1 percent drop in April, according to the Commerce Department.

Demand for all durable goods -- items meant to last at least three years -- decreased 1 percent, reflecting declines in the volatile transportation and defense categories.

Stock-index futures declined after the figures, with the contract on the Standard & Poor’s 500 Index dropping 0.2 percent to 1,939.1 at 8:55 a.m. in New York.
Economists surveyed by Bloomberg projected a 1.8 percent drop in first-quarter GDP, according to the median of 76 forecasts. Estimates ranged from declines of 0.5 percent to 2.4 percent. The economy expanded at a 2.6 percent pace in the final three months of 2013.

This marked the last of three readings for the quarter. The advance estimate of second-quarter GDP is scheduled for July 30.

**GDP Forecasts**

The economy will expand at a 3.5 percent rate in the second quarter and average 3.1 percent in last half of the year, according to the median projection economists surveyed by Bloomberg from June 6 to June 11. For all of 2013, the economy expanded 1.9 percent after a 2.8 percent gain in the prior year.

Consumer purchases, which account for about 70 percent of the economy, rose at a 1 percent annualized rate in the first quarter, the weakest pace in five years. The gain, which added 0.71 percentage point to GDP, compared with the previous estimate of 3.1 percent.

The revision reflected a drop in spending tied to health care services. The Bureau of Economic Analysis had estimated that major provisions of President Obama’s signature health care law would boost outlays. A quarterly services survey released this month showed the assumptions were too optimistic. Outlays for health spending actually slowed in the first quarter, subtracting 0.16 percentage point from GDP. The Commerce Department previously estimated those outlays added 1 percentage point to GDP.

**Inventory Building**

Companies boosted stockpiles by $45.9 billion in the first quarter, compared the $49 billion gain previously reported and less than the $111.7 billion buildup in the final three months of 2013. Inventories subtracted 1.7 percentage points from GDP from January to March, the most since the fourth quarter 2012.

Final sales, which exclude inventories, decreased 1.3 percent in the first quarter compared with a previously reported 0.6 percent increase.

Aside from services, consumer outlays on goods also slowed from the end of 2013, rising at a 0.2 percent rate. Demand faltered as the northern and eastern U.S. experienced above-average snowfall from December through February, keeping Americans closer to home.

Since then, households have boosted spending. Cars and light trucks sold in May at a 16.7 million annualized rate, the strongest since February 2007, according to data from Ward’s Automotive Group.
Business Investment

The weather earlier this year also hampered production at factories, which had trouble obtaining materials in time. Since then, assembly lines have become busier.

Business investment fell at a 1.2 percent annualized rate, today’s figures showed, compared with a previously reported 1.6 percent annualized drop. Companies reduced their spending on structures at a 7.7 percent pace, and spending for equipment fell 2.8 percent, today’s report showed.

Trade was also a bigger drag on GDP than last estimated. Net exports subtracted 1.53 percentage points from GDP, compared with a prior estimate of 0.95 percentage point.

Improving job opportunities are boosting prospects for the economy. Employers added 217,000 workers in May following a 282,000 gain in April, according to the Labor Department.

FedEx Outlook

Officials at FedEx Corp. (FDX), the Memphis, Tennessee-based operator of the world’s largest cargo airline, are looking for continued economic pickup this year and into next. The company forecast 2.2 percent U.S. growth for 2014 and 3.1 percent for 2015, T. Michael Glenn, executive vice president for marketing development, said on a June 18 earnings call.

“Our expectations for economic growth for the remainder of the year have actually improved somewhat,” Glenn said. “The global economy is recovering from the Q1 setback in the U.S. and slowdown in China and should steadily improve.”

Price pressures remained muted in the first quarter. A measure of inflation, which is tied to consumer spending and excludes food and energy, climbed at a 1.2 percent rate.

Subdued inflation is giving the Fed’s policy making committee room to keep the main interest rate near zero to encourage lending and spur growth. Even so, the Fed announced June 18 that it is paring asset purchases by $10 billion to $35 billion per month, showing that it remains confident that the U.S. economy can make do with lessened stimulus.

The Fed said economic activity “has rebounded in recent months” as the labor market showed improvement and household spending showed signs of “rising moderately.”

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