# First-quarter GDP Report Is Awful

The report released Wednesday morning by the Bureau of Economic Analysis (BEA) was stark: The economy stalled in the first quarter in every sector, with overall growth barely positive, and embarrassing once again economists who predicted substantially better results. According to the BEA the economy in the first quarter grew at an annual rate of just 0.2 percent, compared to estimates of between 1.0 and 2.0 percent by the "experts."

Personal spending dropped by nearly two thirds from the fourth quarter of 2014; durable goods purchases fell by more than 80 percent; and non-durable goods purchases almost disappeared compared to the last quarter, falling by 0.3 percent compared to an increase of more than four percent. The service industry limped along at two-thirds of last quarter's pace.

Investment in business capital equipment went negative, as did new business construction, while exports and imports both posted declines from last quarter.

Explanations were swift in coming: Bad weather kept consumers indoors; the West Coast port disruptions delayed getting goods onto stores' shelves; the energy sector is shrinking thanks to declines in oil prices; the strong dollar (at least compared to weaker currencies abroad) makes U.S. goods more expensive, thereby reducing demand, and so forth.

The report should have shown stronger growth, if for no other reason than that the recovery from the Great Recession (which reportedly began in the summer of 2009) is now closing in on its sixth year. Lower gas prices have been keeping money in consumers' pockets where, it is believed by economists, it won't stay for very long before being spent on something else. Minimum wage increases, whether mandated or not, should show up in the numbers, if the experts are correct. Average hours worked per week have been increasing along with the average wage. Inflation is low, so consumers are told, and so prices remain attractive.

But the BEA report tells a different and more dismal story. Consumers aren't spending; they're saving. Their confidence in the economy dropped by seven points in April, according to the Conference Board's Consumer Confidence Index, the lowest level since December. Those expecting more jobs in the coming months decreased from 15.3 percent to 13.8 percent.

Lynn Franco, who follows all those economic indicators for the Board, reflected the economy's dismal performance:

> Consumer confidence, which had rebounded in March, gave back all of the gain and more in April. This month's retreat was prompted by a softening in current conditions, likely sparked by the recent lackluster performance of the labor market, and apprehension about the short-term outlook. The Present Situation Index declined for the third consecutive month. Coupled with waning expectations, there is little to suggest that economic momentum will pick up in the months ahead.

Wednesday's BEA report came in on top of a report from the Richmond Fed that was equally gloomy:

"All the early indications on the manufacturing sector show weakness this month." It noted that shipments, order backlogs, and the volume of new orders all declined. Behind that headline, its manufacturing index has fallen 11 points just since February, reflecting declines in volumes of new orders, shipments, and backlogs.

Mainstream economists — none of whom appear to be chastened by being so far off the mark for the first quarter — are predicting a sharp rebound in the second and third quarters, just like last year when the first quarter went negative followed by gains that led the economy to a poor but at least positive showing of two percent for the year. But the headwinds are more pervasive than just the Fed's unwillingness to weaken the dollar further, thus making it the cleanest shirt in the laundry. It's more pervasive than just the temporary cutbacks in capital expenditures in the oil patch.

It's government meddling, regulations, and the resultant continuing uncertainty about future governmental mandates. Activist agencies such as the EPA (coal emissions mandates) and the FCC ("net neutrality" mandates) are giving private investors and entrepreneurs pause. A stock market that continues to set new highs despite declines in earnings is generating concerns about a manipulated market bubble about to burst. New and higher taxes that drain off capital that would otherwise find its way into new ventures and new technologies keep the economy hamstrung.

What's remarkable is that the great economic engine of the United States economy continues to operate as well as it does in spite of continuing attacks by the anti-capitalists in the White House and Congress. Even if the predicted rebound happens, growth for the year will remain substantially sub-par, setting the "new normal" at somewhere between "dismal" and "pathetic."

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