New Figures for GDP Decline and Job Losses

America's gross domestic product declined in the second quarter of this year, and in September the economy continued to lose jobs. Yet because the decline in the GDP was not as bad as predicted, and the number of jobs lost in September was less than those lost in August, both economic trends were generally reported in a positive light.

For the April through June quarter, there was a 0.7-percent drop in gross domestic product. This is less than earlier estimates of a one percent drop. It is also much less than the 6.4-percent decline in the first quarter of the year, which was the worst decline in almost three decades.

Gross domestic product is a measure of the value of all the goods and services produced or offered in the United States, and economists use it as a convenient way to gauge America's overall economic health. In the last quarter of 2008, the GDP fell 5.4 percent, so after subsequently going down 6.4 percent earlier this year, a mere 0.7 percent drop in the last three months looks good by comparison.

The main reason the GDP shrinkage didn't match predictions is that businesses and consumers didn't cut back on spending as much as was expected. This relatively positive news comes on the last day of the third quarter, a quarter during which many analysts predict the economy will prove to have started positive growth again.

Predictions for growth during the July through September quarter are hovering around three percent. "Growth should be solidly positive," stated Mark Vitner, a Wells Fargo Securities economist.

Jobs, on the other hand, are still hemorrhaging, though also at a slower rate. The payroll firm ADP released a report on September 30 showing a loss of 254,000 jobs in September. Despite this cut of a quarter of a million jobs by employers, September is the sixth straight month that job losses have declined.

ADP figures indicate the service sector lost 103,000 jobs in September, down from a loss of 146,000 in August. On the other hand, the goods-producing sector barely changed, registering 151,000 job cuts in September versus a loss of 152,000 positions during the previous month.

Looked at another way, the cuts hit small- and medium-sized businesses the hardest. Small-sized businesses of 1 to 49 employees lost 100,000 jobs in September, down from a loss of 122,000 in August. Medium-sized businesses employing 50 to 499 workers saw 93,000 job cuts in September rather than the 116,000 cuts that took place in August. Large businesses employing 500 or more people were fairly steady at 61,000 positions lost in September compared to the 60,000 lost the month before.

Economists are quick to credit the President's stimulus package and the cash-for-clunkers auto sales program as being responsible for the changes in the economy. Vitner thinks the slower rate of economic hemorrhaging, which he sees as a positive development, "sets the stage for a stronger rebound in the third quarter. The stimulus program may be flowing through a little bit quicker than people had thought. State and local governments were so hard-pressed, and when the stimulus package passed it provided some immediate relief."

The *New York Times* pointed out on September 30 that "none of this suggests that businesses will be creating many jobs anytime soon." The Times noted that "the national unemployment rate, already at 26-year highs, is expected to climb to 9.8 percent when the government reports its monthly job figures on Friday."

Personal spending is responsible for 70 percent of the economy, and it fell by 0.9 percent in the second quarter. Many economists believe spending will further dry up now that the artificial, taxpayer-supported auto buying spree has ended.

In essence, the government was able to manipulate the economy by tossing out taxpayer dollars to inflate auto sales. That can't go on forever, so it will be interesting to see how the economy fares after this artificial prop is no longer a factor.