# Economic growth slows to 1.6 pct. in the spring

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The economy grew at a much slower pace this spring than previously estimated, mostly due to the largest surge in imports in 26 years and a slowdown in companies' restocking of goods,

The nation's gross domestic product — the broadest measure of the economy's output — grew at a 1.6 percent annual rate in the April-to-June period, the Commerce Department said Friday. That's down from an initial estimate of 2.4 percent last month and much slower than the first quarter's 3.7 percent pace.

Shortly after the revision was announced, Federal Reserve Chairman Ben Bernanke said the Fed will consider making another large-scale purchase of securities if the slowing economy deteriorates significantly.

But the Fed chief stopped short of committing to any specific action.

Bernanke described the economic outlook as "inherently uncertain" and said the economy "remains vulnerable to unexpected developments."

The lower estimate for economic growth and Bernanke's comments follow a week of disappointing economic reports. The housing sector is slumping badly after the expiration of a government homebuyer tax credit. And business spending on big-ticket manufactured items such as machinery and software, an important source of growth earlier this year, is also tapering off.

Most analysts expect the economy will grow at a similarly weak pace for the rest of this year.

"We seem to be in the early stages of what might be called a 'growth recession,'" said Ethan Harris, an economist at Bank of America-Merrill Lynch. The economy is likely to keep expanding, but at a snail's pace and without creating many more jobs. Harris expects the nation's output will grow at about a 2 percent pace in the second half of this year. As a result, the jobless rate could rise from its current level of 9.5 percent.

That's "very disappointing relative to a normal business cycle," he said. "Usually you get a bigger bounce back."

The stock market rose in response to Bernanke's remarks. The Dow Jones industrial average increased by 116 points in midday trading. Broader indexes also moved up.

Wall Street looked past a disappointing statement from chip-maker Intel Corp. The world's biggest provider of microprocessors for personal computers said it was cutting its sales forecast for the quarter after sensing weaker demand from consumers in the U.S. and Europe than expected. The warning comes a little more than a month after Intel reported its biggest quarterly profit in a decade.

Investors appeared to be more focused on the Fed chairman's remarks.

"Markets were looking for reassurance from Bernanke today and the Fed chairman did not disappoint," Zach Pandl, an economist at Nomura Securities, said in a note to clients. Bernanke's comments indicate the central bank is likely to take steps to boost the economy in the near future, Pandl said.

Meanwhile, the widening trade deficit subtracted nearly 3.4 percentage points from second quarter growth, the largest hit from a trade imbalance since 1947, the government said.

Many economists expect that impact to lessen in the coming quarters. As businesses pare back their spending on inventories and reduce investment in new equipment, imports should decline.

The economy has grown for four straight quarters, but that growth has averaged only 2.9 percent, a weak pace after such a steep recession. The economy needs to expand at about 3 percent just to keep the unemployment rate from rising.

Business investment in new machinery, computers and software drove much of the growth last quarter, increasing nearly 25 percent.

But much of that spending involved the purchase of imported goods. Imports surged 32.4 percent, the most since 1984. That overwhelmed a 9.1 percent increase in exports.

Consumers spent a bit more in the second quarter than previously calculated. Their spending rose at a 2 percent annual rate, above the 1.6 percent estimated last month and slightly higher than the first quarter's 1.9 percent. The revised estimate was largely due to higher electricity and natural gas usage, the Commerce Department said.

Economists expect many other supports for economic growth to fade. Federal government spending and the housing sector bolstered the economy last quarter, but housing has slumped again and will likely drag growth down in the third quarter. The impact of the federal government's $862 billion stimulus package is also projected to taper off this year.

There are few other signs of strength. Even business investment is expected to drop, as a report earlier this week showed that business orders for capital goods fell in July.

Many analysts say the uncertainty surrounding the economy is holding back consumers from spending and companies from investing and hiring.

Consumers can't be sure their jobs are safe, with unemployment so high. Business executives don't know if sales and profits will grow enough to justify adding jobs. And potential changes to tax laws at the end of this year and other policy reforms also make it hard to plan ahead, economists say.

When adjusted for inflation, the economy is still smaller than it was before the recession. The nation produced about $13.23 trillion in goods and services in 2007. That total fell to $12.88 trillion in 2009, during the depths of the downturn, and has since recovered to a $13.19 billion annual pace in the April-to-June period.

The government's GDP report measures the economy's output of goods and services and covers everything from autos to haircuts. Friday's report is the second of three estimates the government makes each quarter.

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