

US economy seen narrowly averting technical recession

Economists expect GDP to grow at annualised 0.4% in April–June period; consumer spending likely decelerated 1.2% on an annual basis

BLOOMBERG

27 July

The US economy may have eked out modest growth in the second quarter to skirt a so-called technical recession, yet at a pace tepid enough to feed concerns of an eventual downturn.

Economists expect gross domestic product grew an annualised 0.4 per cent in the April–June period, which on the surface would be an improvement after the 1.6 per cent drop in the first quarter. However, the breakdown of second-quarter GDP may illustrate a more concern-

ing softening of demand.

The first-quarter decline largely stemmed from a surge in imports and a more moderate pace of consumption. While a narrowing of the trade deficit in the second quarter likely added to GDP, consumer spending probably decelerated further.

Walmart on Monday announced a cut in its profit outlook, raising concerns about the wherewithal of consumers to sustain discretionary spending, especially for big-ticket items. The retail heavyweight's warning follows a similar move last month by Target as companies



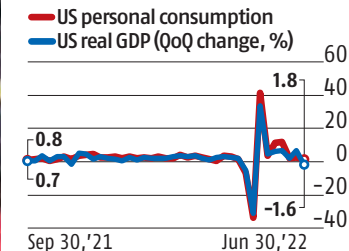
contend with a buildup in stockpiles of unwanted merchandise.

Cooler business investment, a weaker housing market and a

slower pace of inventory growth are also seen taking a bite out of second-quarter GDP.

“One thing that we’re all watch-

THE UNCERTAINTY



ing is how swiftly underlying activity is slowing down,” said Andrew Hollenhorst, chief US economist at Citigroup. “Economists can debate

what a recession is, but at the end of the day, if businesses and individuals believe there is a recession that’s how they’ll behave.”

The economy may grow just enough to avoid a so-called technical recession — defined as two straight quarters of economic contraction — but economists’ forecasts vary widely. Roughly a third of them said GDP declined, according to the *Bloomberg* survey in which estimates range from a 2.1 per cent drop to a 2 per cent advance.

Even if Thursday’s report shows GDP increased, fears are mounting that decades-high inflation and a

Federal Reserve determined to curb it will ultimately send the economy into a recession.

Consumer spending

Consumer spending, the main engine of the US economy, will be the most important part of the report for many. Economists project that outlays decelerated further in the second quarter to an annualised rate of 1.2 per cent, the weakest pace of the expansion. Inflation-adjusted spending declined in May from the prior month, and June outlays are expected to be flat when reported later this week.