GDP Numbers Sink Again to +1.6% for Second Quarter

Real U.S. Gross Domestic Product increased at a far slower pace than previously reported, according to the U.S. Bureau of Economic Analysis (BEA), which reported that second quarter GDP increased at a 1.6 percent annualized rate rather than the 2.4 percent rate it estimated back on July 30. The lowered estimate means that another recession — the infamous “double dip” — may be just on the horizon.

The BEA noted that the growth for the second quarter of 2010 was less than half the growth the economy experienced during the first quarter of the year:

> Real gross domestic product — the output of goods and services produced by labor and property located in the United States — increased at an annual rate of 1.6 percent in the second quarter of 2010, (that is, from the first quarter to the second quarter), according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 3.7 percent.

The BEA also noted that while private investment categories had a mixed impact on GDP, one solid factor in GDP “growth” continued to be increased government spending at all levels:

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> The deceleration in real GDP in the second quarter primarily reflected a sharp acceleration in imports and a sharp deceleration in private inventory investment that were partly offset by an upturn in residential fixed investment, an acceleration in nonresidential fixed investment, an upturn in state and local government spending, and an acceleration in federal government spending.

The American “recovery” continues to increasingly depend upon government and consumer spending, rather than savings and business investment. Bloomberg news reported August 27 that consumer spending is increasing at a faster pace than the economy as a whole: “Consumer spending, which accounts for about 70 percent of the economy, rose at a 2 percent annual rate in the second quarter, compared with a previously reported 1.6 percent pace.”

Meanwhile, Federal Reserve Chairman Ben Bernanke tried in vain to reassure bankers in an August 26 speech from Jackson Hole, Wyoming, by amazingly noting that “the pace of recovery in output and employment has slowed somewhat in recent months, in part because of slower-than-expected growth in consumer spending, as well as continued weakness in residential and nonresidential construction.” Of course, why should the consumers continue to spend more if they are not earning more? But this reality does not seem to register with Bernanke, who pledged, “Should further action prove necessary, policy options are available to provide additional stimulus.... [The Federal Reserve] will certainly use its tools as needed to maintain price stability — avoiding excessive inflation or further disinflation — and to promote the continuation of the economic recovery.”

Bernanke specifically referred to the Federal Reserve purchasing additional government debt, an inflationary action, in order to "stimulate" the economy. The markets reacted to the news with a sharp withdrawal from federal Treasury debt mechanisms, perhaps in an inflationary fear. Bloomberg news reported that "Treasuries dropped, pushing two-year note yields up the most since April, after remarks from Federal Reserve Chairman Ben S. Bernanke tempered speculation that the central bank will step up debt buying." Gearing up inflation won't be an easy fix for the economy, and it will make federal budget deficits even larger.

The Federal Reserve Bank has already suppressed regular interest rates nearly to zero, a key factor in temporarily spurring housing purchases (because lower interest means lower payments and more affordability). It seems strange to say, but so long as the Federal Reserve continues to suppress interest rates, housing prices are — and will remain — artificially inflated.

But the current housing bubble may burst again soon. The President of the St. Louis branch of the Federal Reserve Bank, James Bullard, pointed out in a monograph on August 6 that zero interest rates for Japan for a decade or more did nothing to stimulate their economy, which remains mired in a 20-year depression. Bullard's paper may mean a divided Federal Reserve Open Market committee, as Bullard advocated increasing the discount "Federal rate" 200 basis points (two percent) in order to avoid the Japanese disaster while Bernanke favors keeping the discount rate near zero. Even though a two-percent interest rates for banks is still artificially low by historical standards, an additional two percent on mortgage rates would certainly put a damper on an already moribund housing market.

In short, it seems that the Federal Reserve is out of interventionist fixes for the U.S. economy that are both easy and phony. In fact, it's the interventionist fixes of the past — specifically the suppression of interest rates — that caused much of the trouble under which the American consumer is now suffering.