

As recession fears hovered, economy grew more slowly at 2.1% from April through June

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Corrections & Clarifications: An earlier version of this story misidentified the quarter in which consumer spending grew 4.3%.

The U.S. economy grew more slowly in the second quarter as a pullback in business stockpiling and exports offset strong spending by consumers.

The results portrayed solid activity even as recession concerns continue to hover.

The nation's gross domestic product – the value of all goods and services produced in the U.S. – increased at a seasonally adjusted annual rate of 2.1% in the April-June period, following a 3.1% gain in the first quarter, the Commerce Department said Friday. Economists expected a 1.8% increase in output.

The report comes amid mounting worries that the sluggish global economy and President Trump's trade war with China could lead to a recession by next year. Those fears have bolstered expectations that the Federal Reserve will cut interest rates next week for the first time in a decade to head off a potential downturn and help lift stubbornly weak inflation.

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"The U.S. economy continues to look healthy," economist Gregory Daco of Oxford Economics wrote in a note to clients. But he added that slowing momentum and meager inflation will likely prompt the Fed to cut its key rate by a quarter percentage point three times over the next nine months.



About two-thirds of the U.S. economy consists of consumer spending. (Photo: Photo by Tim Boyle / Getty Images)

The latest snapshot of economic activity has been eagerly awaited because first-quarter growth was strong but inflated by business stockpiling and exports, both of which are volatile. Consumer spending, the economy's chief engine, sputtered early this year and a second straight feeble showing would have stoked recession fears.

More broadly, the record 10-year-old economic expansion has continued to chug along. The economy grew 2.9% last year, matching a post-recession high. But the Trump-led federal tax cuts and spending increases that juiced growth are set to fade by the second half of 2019. And the trade fight is projected to take a bigger toll on exports, as well as on business confidence and investment.

Many analysts expect growth to slow to about 2% in the second half of the year, in line with the tepid average during the expansion and below the 3% or more that Trump has promised. Most economists surveyed by the National Association of Business Economics are forecasting a recession by late next year.

Consumer spending surges

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Consumer spending grew 4.3% in the second quarter, well above the paltry 1.1% pace early in the year. Average monthly job growth has slowed to 171,000 from 223,000 in 2018 as the federal stimulus has lost some punch and the low 3.7% unemployment rate has made it harder to find qualified workers. But that's still a solid increase that, along with average annual wage growth of about 3%, has left more discretionary income in the pockets of Americans.

Household purchases make up about 70% of economic activity.

Government outlays jump

Federal, state and local spending increased 5%, up from a 2.9% rise in the first quarter, adding nearly a percentage point to growth. The \$300 billion in additional federal spending approved by Congress in early 2018 continued to boost the economy but the stimulus is expected to lose steam by late this year. A budget deal approved by Congress this week ensures outlays will support growth next year.

Business trim stockpiles

Companies drew down inventories, reducing growth by 0.86 percentage points. In the first quarter, firms aggressively built up stocks ahead of an anticipated hike in tariffs on Chinese imports, adding to growth. As a result, there was little need to add to those reserves in the second quarter and overall firms whittled them down, lessening the need to place new orders.

Business investment drops

Business investment fell 0.6% – the first drop in three years – following a 4.6% increase in the first quarter as spending on structures tumbled 10.6%. Business spending on new equipment, software and buildings has slowed markedly from the robust pace in early 2018, when tax incentives may have encouraged more projects. More recently, uncertainty over the trade war has dented confidence, surveys show and likely dampened investment.

Exports slide

U.S. exports declined 5%, offsetting a healthy rise early in the year. Trump's tariffs on \$250 billion in Chinese imports have sparked counter-tariffs by China that have curtailed shipments of soybeans, vegetables and other products. Meanwhile, imports edged up 0.1%. As a result, trade overall subtracted nearly seven-tenths of a percentage point from growth.

Residential investment falls again

Construction of new single-family homes and apartments, along with renovations, fell 1.5%, posing a drag on growth for the sixth straight quarter. A shortage of labor and available lots has constrained builders while rising mortgage rates last year shelved some projects.

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