

Economy in Worst Fall Since '82

Output Sank 6.2% Last Quarter; Plunging Trade, Investment Signal Trouble Ahead

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The U.S. economy deteriorated far more than previously thought in the fourth quarter, according to new revisions of government data, casting fresh doubt about the chances of a recovery this year.

With falloffs in consumer spending and exports, gross domestic product declined at a 6.2% annual rate in the fourth quarter of 2008, according to a Commerce Department report Friday. The agency's first estimate for GDP, reported in January, was for a 3.8% decline.

The more recent figure—which represents the steepest dropoff since the depths of the 1982 recession—raises pessimism among economists. Until recently, many had been hoping for a rebound in 2009 and now sound downbeat about the remainder of this year.

Besides the revised GDP, economic indicators for the first two months of the year point to a deepening recession—and the prospect of a dismal first quarter, too. Every week in February, more than 600,000 people filed new claims for unemployment insurance, and the unemployment rate rose to 7.6% in January, from 7.2% in December.

"The first quarter is going to be bad," said Christina Romer, chairwoman of the Council of Economic Advisers, at an economics gathering Friday sponsored by the University of Chicago and Brandeis University. She told the audience that Obama administration officials have been watching with deepening concern what's been going on around the world.

The U.S. has been hurt by the synchronized nature of the current global downturn. Exports declined at a 24% annual rate, compared with the 20% rate previously reported. Meanwhile, it appears the world's other economies truly fell apart in the fourth

Continued from the prior page quarter. India reported on Friday its fourth-quarter GDP growth was lower than expected, while Japan said last week its GDP had contracted more than 12%. Growth in both Europe and the U.K. fell at an identical 5.9% annual rate. These numbers mean the U.S. can't lean on its trading partners to buy goods and help buoy business activity.

Private investment, which encompasses everything from business spending to homebuilding, fell at a 21% annual rate in the fourth quarter. That portends poorly for the first quarter of this year since one company's cutbacks in spending can lead another to do the same.

In Essex Junction, Vt., Bradley Aldrich, the president of an engineering firm, says he is putting off big purchases until he gets a clearer idea of where the economy is headed. His company, Forcier Aldrich & Associates Inc., spends up to \$40,000 a year on various equipment. Mr. Aldrich has particular interest in a \$30,000 software system that would allow the firm to hold a vast database of blueprints and other documents. He guesses it would save up to \$5,000 a year in paper costs.

"It makes sense to do it, but with the economy the way it is right now we're reluctant to make the investment," says Mr. Aldrich.

Still, Ms. Romer strikes an optimistic tone about the prospects for a turnaround in the economy later this year. The Obama administration Thursday offered economic projections in its budget that were rosier than most private-sector forecasts. Defending the projections, Ms. Romer said a turnaround is likely this year as the federal fiscal stimulus package works its way through the economy.

Some economists have a

much dimmer view, arguing the best the stimulus can do is prevent a recession from turning into depression. "There's no way we are going to be able to avert a deep and long recession," says Joshua Shapiro, chief U.S. economist at research firm MFR, Inc. Conrad DeQuadros, senior economist at RDQ Economics in New York, forecasts "a fairly lackluster recovery in 2010," and projects that unemployment will graze double digits from its current 7.6%.

Federal Reserve officials in recent days have tempered their call for an economic rebound this year, saying they still expect one, but it depends critically on the success of officials in repairing the damaged financial system. "Below-potential growth is likely to persist until financial markets and financial institutions can resume more normal functioning," Eric Rosengren, president of the Federal Reserve Bank of Boston said at the Friday economics conference.

Nearly half of the revision was due to inventory levels that turned out to be lower than originally thought—meaning companies ordered fewer goods in anticipation of weak customer demand. Inventory levels were first reported to add about 1.3 percentage points to growth in the fourth quarter, but that was revised down to just a 0.16 percentage-point boost. The silver lining, however, is that companies may rebuild stocks some-

time in the first part of this year, possibly giving a bigger boost than anticipated to growth.

Retailers in particular weathered a brutal fourth quarter, as the loss of consumer spending hit right during their crucial holiday season. The Commerce Department's GDP report showed that consumer spending on non-durable goods, such as food and clothing, declined at a 9.2% annual rate. That compares to the previously-reported figure of

7.1%. With an abysmal finish to 2008, retailers responded with layoffs, store closings and cost-cuts that stand to further weaken the U.S. economy.

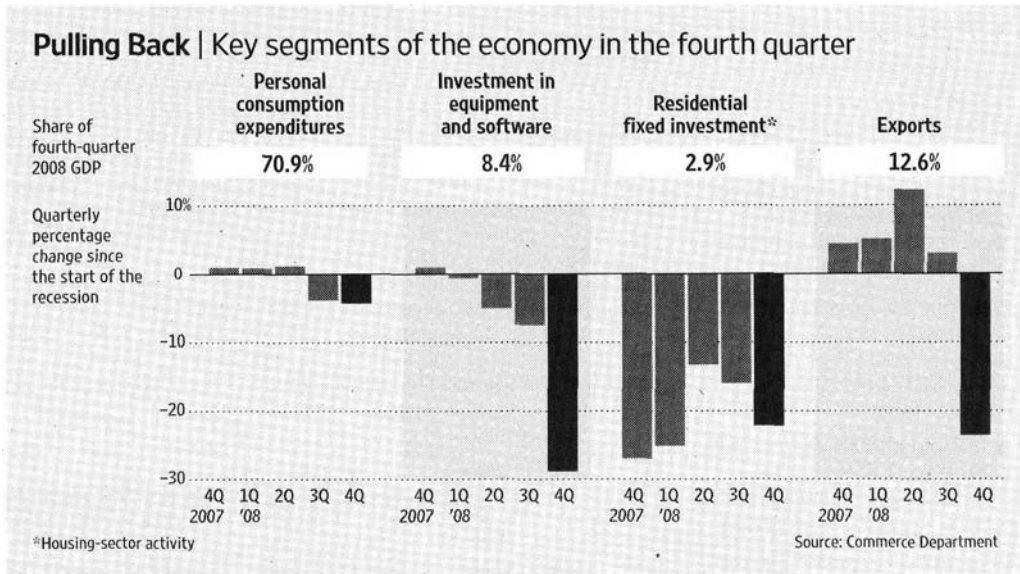
Saks Inc., for example, expects sales in stores open at least a year to drop by double-digits this year, as chief executive Stephen I. Sadove this week called the current landscape "perhaps the most challenging the company has faced in its 84-year history." Leather-goods retailer Coach Inc. laid off 150 employees, or about 10% of its U.S. corporate staff. It is also reducing prices and paring back new-store openings this year.

Even lower-priced chains are reeling, and are moving quickly to adjust inventories to match customer demand. Kohl's Corp. said Thursday its fourth-quarter net income dropped 18%, and chief executive Kevin Mansell said the company is "planning conservatively in our sales expectations, inventory levels, and expenses" for 2009.

Federal spending helped blunt the GDP decline, but was offset by a fall in state and local spending. Falling sales, income and property taxes have saddled cities and states with the worst budget gaps in a generation, forcing them to lay off employees and make cuts in normally untouchable programs like schools and police forces.

—Jon Hilsenrath contributed to this article.





Sharper Contraction

GDP, quarterly change at a seasonally adjusted annual rate

