MarketWatch
THE WALL STREET JOURNAL.

Q1 GDP report seen as workhorse, not show pony

By Greg Robb April 26, 2012

WASHINGTON (MarketWatch) — If the first-quarter gross domestic product report is an animal, then economists say it's more a workhorse than a pony.

The report will show the economy "plugging along and it will not be spectacular or something to write home about," said Sung Won Sohn, a professor at California State University Channel Islands.

"It is not something to get excited about," **agreed Bernard Baumohl, managing director of The Economic Outlook Group.**

Economists polled by MarketWatch expect a 2.7% growth rate in the first quarter, slightly slower than the 3.0% rate in the fourth quarter.

There was a wide range of forecasts, from just above a 2% growth rate up to a 3.2%.

But if GDP meets expectations, the last quarter of 2011 and the first quarter of 2012 would mark the best period of back-to-back growth in two years.

Sohn said that the source of strength in the first quarter would be business spending on equipment and software.

Consumer spending in the first quarter is expected to be close to the 2.1% rate seen in the fourth quarter.

And final sales to private domestic purchases, a key measure of domestic demand, could strengthen in the first quarter.

Still, economists are not jumping on the bandwagon.

Michael Feroli, economist at JPMorgan Chase, noted that a decent chunk of first-quarter growth will come from a buildup in inventories which could be reversed in the second quarter.

The Blue Chip survey of economic forecasters also has a cautious stance in their latest survey.

They note that analysts were pretty optimistic about the recovery in the summer of 2010 only to see the wheels fall off later, with growth sputtering down to 0.4% in the first quarter of 2010.

Although many indicators since the start of 2012 have suggested broadening of the expansion, "having been burned in the past, many panelists have remained reluctant to extrapolate this improvement into markedly stronger forecasts of economic growth in 2012 and 2013," the Blue Chip panel said.

"Most of the increase is that people went out spending, taking advantage of the warmer weather," **Baumohl** said.

"I think in the second quarter and the rest of the year, consumers and businesses will be a bit more apprehensive," **Baumohl** said, forecasting only a 1.5% growth rate in the second quarter.

Two big uncertainties are weighing on the economy, he said.

The first is the massive fiscal tightening now set for the end of the year if Congress doesn't act to thwart scheduled tax hikes and spending cuts. If not prevented, the so-called "fiscal cliff" could potentially throw the economy into recession.

The second worry is that Europe seems to lurch from crisis to crisis. This will make banks more conservative and there will be less credit available, he said.

Sohn said the economy deserved a little more respect.

“I don’t think growth is going to peter out, so we don’t have to worry about a double-dip like we did last year,” he said.

“The economy is not strong, but it is not falling off the cliff.”