U.S. Recession Worst Since Great Depression, Revised Data Show

By Bob Willis

Aug. 1 (Bloomberg) -- The first 12 months of the U.S. recession saw the economy shrink more than twice as much as previously estimated, reflecting even bigger declines in consumer spending and housing, revised figures showed.

The world's largest economy contracted 1.9 percent from the fourth quarter of 2007 to the last three months of 2008, compared with the 0.8 percent drop previously on the books, the Commerce Department said yesterday in Washington. Gross domestic product has shrunk 3.9 percent in the past year, the report said, indicating the worst slump since the Great Depression.

Updated statistics also showed that Americans earned more over the last 10 years and socked away a larger share of that cash in savings. The report signals the process of repairing tattered balance sheets following the biggest drop in household wealth on record may be further along than anticipated.

"The current downturn beginning in 2008 is more pronounced," Steven Landefeld, director of the Commerce Department's Bureau of Economic Analysis, said in a press briefing this week. The revisions were in line with past experience in which initial figures tended to underestimate the severity of contractions during their early stages, he said.

Consumer spending, which accounts for 70 percent of the economy, decreased 1.8 percent in last year's fourth quarter from the same period in 2007, exceeding the prior estimate of a 1.5 percent drop. Purchases also began sinking sooner than previously projected, registering their first decline at the start of 2008 rather than in the second half.

Treasuries, Stocks

Treasuries gained after the GDP report, while stocks closed little changed. Benchmark 10-year note yields dropped to 3.48 percent by the close in New York, from 3.61 percent late the day before. The Standard & Poor's 500 Stock Index closed at 987.48.

Residential construction fell 21 percent during the period, almost 2 percentage points more than previously reported, aggravating what was already the worst slump since the Great Depression.

The Commerce Department also reported yesterday that the economy contracted at a 1 percent annual rate from April through June after shrinking at a 6.4 percent pace in the first quarter, the most since 1982. The decline in the first three months of the year was previously reported as 5.5 percent.

Recession's Start

The National Bureau of Economic Research, the arbiter of U.S. business cycles, last year determined the recession started in December 2007. The private group is based in Cambridge, Massachusetts,

Yesterday's updates are part of comprehensive revisions that take place about every five years and are more extensive than the changes announced at this time each year. Figures as far back as 1929 can be revised.

Over the most recent period, the third quarter of 2008 underwent one of the biggest changes, going from a 0.5 percent decrease in GDP to a 2.7 percent drop. The new reading better illustrates the effect the September collapse of Lehman Brothers Holdings Inc. had on the economy and credit markets.

The deeper deterioration last year underscores why Federal Reserve Chairman Ben S. Bernanke and his colleagues at the central bank cut the benchmark rate to a record low and extended credit to non-banks for the first time since the 1930s.

The new GDP data also help explain why the unemployment rate shot up 2.3 percentage points last year, the biggest annual jump since 1982.

2001 Recession Milder

The revisions showed that the 2001 recession was less severe than originally estimated, reflecting a smaller decline in business investment. The economy actually grew 0.1 percent from the fourth quarter of 2000 to the third quarter of 2001, erasing the 0.2 percent drop previously reported.

Personal income was revised up over the last decade, after the government boosted its adjustments for the underreporting and non-reporting of income using more recent data from the Internal Revenue Service. The increases in the most recent years reflect gains from rents, interest and proprietors' income. The government changed the way it accounts for natural disasters, such as Hurricane Katrina, eliminating much of the prior volatility in income calculations.

Higher incomes and less spending translated into bigger savings. The savings rate for 2008 was revised up to 2.7 percent from 1.8 percent. The rate shot up to 5.2 percent in the second quarter, the highest level since 1998.

The government revised corporate profits down for 2006-2008 and up for 2004 and 2005.

Finally, Commerce shifted food services, which include meals purchased at restaurants or served in schools, out of the food category. As a result, the Fed's preferred inflation gauge -- which tracks consumer spending and excludes food and fuel -- was pushed up by 0.2 percentage point for the three-year period from 2006 to 2008.

The costs of meals away from home are not as volatile as fresh food, the government said, and therefore services should be included in the measure commonly known as the core index.

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Last Updated: August 1, 2009 12:00 EDT