

Biggest Drop in Economy Since '58

Prices Rise at Faster Clip

Washington

The nation's economy sank swiftly toward recession levels in the first quarter of the year, while inflation pushed prices upward at an ever-increasing rate, according to government figures released yesterday.

The Commerce Department said the country's Gross National Product dropped at a 5.8 per cent annual rate in the first three months of the year, the first decline in three years and the biggest drop since 1958.

Inflation, on the other hand, soared at a 10.8 per cent annual rate.

The double-barreled dose of bad economic news came one day after President Nixon announced he is going to play a bigger role in economic policy making.

It also raised serious questions whether the U.S. will be able to avoid a recession this year, as Mr. Nixon has promised.

A recession is technically defined as two consecutive quarters of GNP decline.

The GNP measures the total value of output of the nation's goods and services and is considered the best index of the health of the economy.

Sydney L. Jones, the Commerce Department's chief economist, said he expects the economy to recover to a normal growth pattern, about four per cent, by early 1975. But Jones said it was touch-and-go whether the turnaround would occur fast

enough to avert a second straight quarter of minus Jones said. "He is out session.

"I would expect the second quarter, if not flat (zero growth), to be relatively close to it," Jones told reporters.

The key to the recovery is inflation and what it is doing

Back Page Col. 4

From Page 1

to consumer spending patterns.

"The consumer is not just sitting in his cave, waiting," Jones said. "He is out spending." He noted that the percentage of income deposited in savings accounts has fallen in the last three months.

But the extraordinarily rapid rate of inflation is swallowing a big chunk of these consumer dollars that in more normal times would be spent for other goods.

"The problem is that the rate of inflation is too intense for him to increase the quantity of his acquisitions," Jones said.

The Arab oil embargo and the energy crisis apparently were important factors in the first-quarter economic decline. The Commerce Department said the sharp cut-back in auto production was one of two major reasons for the falling GNP. The other was a decline in home building, which has been hit by high interest rates.

The 5.8 per cent decline in the GNP growth rate in the first quarter compared with an increase of 1.6 per cent in the fourth quarter and 8.7 per cent growth in the first quarter of 1973 at the height of an economic boom.

The first-quarter drop was

the biggest since a 9.2 per cent decline in the first quarter of 1958. The last previous decline was in the fourth quarter of 1970, when the GNP annual rate fell 4.8 per cent.

Figures computed at an annual rate mean that the rate would be the final figure at the end of a 12-month period if the trend continued unchanged.

Over-all GNP in the first quarter increased \$14.3 billion, or 4.4 per cent over the fourth quarter, to an annual rate of \$1351.8 billion.

All of the increase was due to inflation.

The inflation rate of 10.8 per cent showed the administration has a long way to go before meeting its promise of a much more moderate rate of price increases in the second half of the year. The rate compared with an 8.8 per cent rise in the fourth quarter of last year.

Administration economists had predicted the economy would decline at a three to four per cent rate in the first quarter of the year, followed by a leveling off in the second quarter and renewed, although moderate, growth in the second half of the year.

The official forecast is for an over-all 1974 growth rate of about one per cent.

A.P. & U.P.