Consumer spending rises 0.4% in December

By Martin Crutsinger
Associated Press

WASHINGTON — Americans increased their spending at a solid pace for the second straight month in December even though their income was flat.

Consumer spending rose 0.4 percent in December, compared with November when spending had increased an even stronger 0.6 percent, the Commerce Department reported Friday. That was the best gain in five months.

Income, however, showed no gain at all in December after a 0.2 percent rise in November. Wages and salaries were basically flat in December, reflecting a sharp slowing in employment growth.

For all of 2013, income growth was 2.8 percent, the weakest performance since 2009 when income fell 2.8 percent as the country struggled with a deep recession.

Economists are hoping that stronger economic growth will promote stronger employment and income gains this year.

The combination of stronger spending in December but no improvement in income meant that consumers tapped savings to finance their spending. The saving rate slipped to 3.9 percent of after-tax income in December, down from 4.3 percent in November. It was the lowest monthly saving rate since it dropped to 3.6 percent last January.

For the year, the saving rate slipped 4.5 percent, the lowest level since the rate was 3 percent in 2007. The saving rate had fallen before the Great Recession as surging home prices made Americans feel wealthier and more willing to spend more and save less.



The Commerce Department reported Friday that consumer spending rose 0.4 percent in December, while incomes showed no gain. JEFF CHIU/AP

However, once the recession took hold and millions lost their jobs while home prices plunged, Americans became more frugal and the saving rate rose, peaking at 6.1 percent in 2009.

Consumer spending is closely watched because it accounts for 70 percent of economic activity.

For the October-December quarter, consumer spending was rising at the fastest pace in three years, giving economists hope that the economy has finally turned the corner to faster growth.