Incomes grow slowly



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Consumer spending up slightly in July

Government spending cuts drag on economy

By Martin Crutsinger
Associated Press

WASHINGTON — Consumers barely increased their spending in July as their income grew more slowly, held back in part by steep government spending cuts that reduced federal workers' salaries. The tepid gains suggest economic growth is off to a weak start in the July-September quarter.

The Commerce Department said Friday that consumer spending rose just 0.1 percent in July from the previous month. That's slower than June's 0.6 percent increase. Consumers cut their spending on long-lasting manufactured goods, such as cars and appliances. Spending on services was unchanged.

Income rose 0.1 percent in July following a 0.3 percent June gain. Overall wages and salaries tumbled $21.8 billion from June — a third of the decline came from forced furloughs of federal workers.

Consumers' spending drives roughly 70 percent of economic activity. The weak spending report led some economists to sound a more pessimistic note about economic growth in the current July-September quarter. It follows July data showing steep drops in orders for long-lasting manufactured goods and new-home sales.

"This is a disappointing report on a number of levels," said James Marple, senior economist at TD Economics. "Prospects for a pickup in economic growth in the third quarter hinge on a broad-based acceleration in spending by households and business to offset the ongoing drag from government. The data for the first month of the quarter are not following this script."

Several analysts said that economic growth is unlikely to match the 2.5 percent annual rate reported Thursday for the April-June quarter. That was more than twice the growth rate in the first quarter and far above an initial estimate of a 1.7 percent rate for April through June.

Marple predicts third-quarter growth will fall around 2 percent, perhaps even lower.