GDP could turn around before year's end



ELAINE THOMPSON / The Associated Press

A customer looks over large screen televisions at a Costco store in Shoreline, Wash.

Consumers begin showing more faith in economy

By Martin Crutsinger
THE ASSOCIATED PRESS

WASHINGTON — After a half year of declines, consumer spending edged up for a second month in February even though incomes sagged under the weight of further job losses. The spending increases were seen as a hopeful sign that this key sector of the economy is staging a modest rebound that could help pull the country out of the recession.

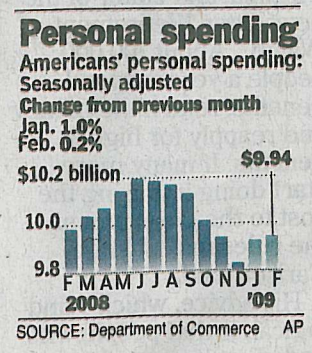
Consumer spending rose by 0.2 percent last month after an even bigger 1 percent jump in January, which was the largest one-month gain in 3 1/2 years, the Commerce Department reported Friday. Those gains followed a record six straight monthly declines as consumers tightened their belts in the face of a deepening recession.

Americans' incomes slipped further in February, dropping by 0.2 percent, the fourth drop in the past five months, as wages and salaries continued to be battered by the massive layoffs that have occurred as the recession, already the longest in a quarter century, has deepened.

Consumer belt-tightening has caused the personal savings rate, which was hovering near zero a year ago, to jump sharply. It stood at 4.2 percent in February after being at 4.4 percent in January. That was the first time in more than a decade that the savings rate has been above 4 percent for two straight months.

A separate report Friday showed that the Reuters-University of Michigan's survey of consumer confidence rose to 57.3 in March, still near a three-decade low but higher than the February reading of 56.3.





Economists said the slight rise in consumer confidence and the back-to-back increases in consumer spending after string of declines provided some reason to hope that at the very least the steep slide in the economy could be coming to an end.

"The fact that consumers have stopped retrenching is the most hopeful sign for the economy in a long time," said Mark Zandi, chief economist at Moody's Economy.com.

Consumer spending is closely followed because it accounts for about 70 percent of total economic activity. Spending fell at a rate of 3.8 percent in the July-September quarter and then by a 4.3 percent rate in the fourth quarter, the biggest quarterly drop in 28 years.

While economists had feared that spending would

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fall further in the current quarter, the results from January and February have led many economists to believe that this key sector could actually show a slight positive of around 1 percent.

The overall economy, as measured by the gross domestic product, fell at an annual rate of 6.3 percent, the government reported Thursday, the biggest GDP drop since 1982. Economists still believe that GDP will show a big decline in the January-March quarter, even if consumer spending turns positive just because of all the other negative forces weighing down growth at the moment from falling business spending to weak exports and continued declines in housing construction.

But analysts said the GDP decline could be a slightly less severe 5 percent in the first quarter, moderating to a 2.5 percent drop in the April-June quarter, a zero reading in the third quarter and a small positive of perhaps 1 percent in the fourth quarter.

Part of the reason analysts believe that any recovery will take awhile to begin are the ongoing problems in the financial sector which are keeping banks from resuming more normal lending to banks and businesses and the expected further wave of job layoffs in the months ahead as companies continue to slash payrolls.

And consumers, even if they stop slashing spending, are not expected to go on a buying spree anytime soon, given those job losses and the hit to their investment holdings.

The rebound in consumer spending and the slight uptick in consumer confidence followed better-than-expected readings earlier in the week showing that orders for big-ticket manufactured goods rose in February by 3.4 percent, the first increase after six monthly declines, whil sales of both new and exis ing homes increased las month.

"I think we have seen the end of the biggest part of the downswing for the economy but it is going to take awhile for the economy to level off and then to start picking up," said David Wyss, chief economist at Standard & Poor's in New York.

He said the tax cuts which will soon start showing up in people's paychecks in the form of lower withholding amounts plus other parts of the $787 billion stimulus bill should start to bolster the economy. He predicted the recession will come to an end around September.

But Wyss and many other economists are looking for at-best a tepid recovery in the early stages, in part because of the severe problems facing the nation's financial sector and the need for many baby boomers, who are now approaching retirement, to rebuild their investments.

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