Consumer spending edges up; income flat

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Associated Press

WASHINGTON — Consumer spending edged up in July with help from the popular Cash for Clunkers program, but household incomes, the fuel for future spending increases, were flat.

Consumer spending is the big question mark as the economy struggles to emerge from the recession. Economists worry that households hurt by rising unemployment, weak income growth and depleted investments will not provide the support the economy needs to rebound to sustained growth.

The Commerce Department said Friday that consumer spending rose 0.2 percent in July, matching economists' expectations. Personal incomes were unchanged last month, a weaker showing than the expected 0.2 percent gain.

With incomes flat in July as spending rose, the personal savings rate dipped slightly to 4.2 percent from 4.5 percent in June. The savings rate was 2.6 percent a year ago.

Economists expect the savings rate to rise in coming months to around 6 percent as workers try to rebuild depleted nest eggs. The process of rebuilding savings is one of the factors expected to depress consumer spending and weaken the broader recovery.

The modest rise in spending last month followed a 0.6 percent jump in June, a gain driven by a surge in gasoline prices. Adjusting for inflation, spending rose 0.2 percent in July, and 0.1 percent in June.

The slight rise in spending reflected a 1.3 percent jump in purchases of durable goods such as cars, a gain propelled by the clunkers program that started at the end of July. Purchases of nondurable goods such as clothing actually fell 0.3 percent last month.

The unchanged reading for personal incomes followed large swings in the previous two months that reflected payments to individuals from the government's $787 billion economic stimulus program. Those payments pushed incomes up 1.4 percent in May and their absence in June caused incomes to fall 1.1 percent.

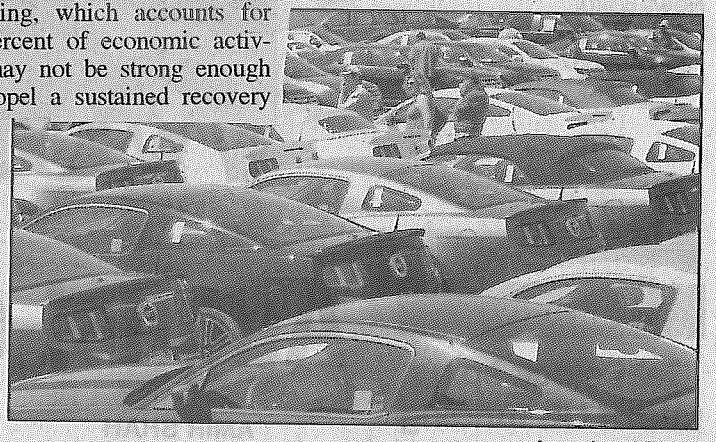
Incomes have taken a beating during the recession as employers slashed payrolls and forced workers to take unpaid days off to hold down wage costs. In addition, households with sufficient income to hit the shopping malls have trimmed their purchases and boosted savings to cope with a severe financial crisis, which sent the stock market into a nosedive last year.

The concern is that consumer spending, which accounts for 70 percent of economic activity, may not be strong enough to propel a sustained recovery from the longest recession since World War II.

The Federal Reserve has pushed a key interest rate to a record low near zero in an effort to boost the economy and is pledging to keep rates low for a considerable period even as the economy begins to grow again.

The Fed is able to make that pledge because inflation is not a problem. A price gauge tied to consumer spending was unchanged in July after a 0.5 percent jump in June that had reflected a big rise in energy prices. Excluding food and energy, the price gauge showed a 0.1 percent rise, and over the past year increased 1.4 percent, well within the Fed's comfort zone for inflation.

The government reported Thursday that the overall economy, as measured by the gross domestic product, fell at an annual rate of 1 percent in the April-June quarter. It marked the fourth consecutive decline in GDP, the longest stretch on records that go back more than six decades.



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Potential new car buyers look through the Galpin Ford dealership lot in Los Angeles on the final day of the federal government's Cash for Clunkers program, which is being cited as one cause for a spurt in consumer spending in July.