

Economic hopes rise

Spending, income, earnings up 11-25-10
and the jobless rate has fallen

By Jeannine Aversa
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WASHINGTON — Americans are earning and spending more, companies are shedding fewer workers and hopes are rising for the economy as the holiday shopping season starts.

Still, with businesses spending less on manufactured

goods and new-home sales near their lowest level in 47 years, consumers alone might not be able to invigorate the economy and drive down unemployment.

All told, government data released the day before Thanksgiving suggest an improving economic picture. But it is increasingly depen-

dent on the consumer, even with U.S. companies having reported record profits in the July-September quarter.

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from a 0.3 percent increase in September, the Commerce Department reported Wednesday. Many are benefiting from thicker paychecks. Americans' incomes rose 0.5 percent in October, pulled up by a 0.6 percent rise in wages and salaries. That was after incomes didn't grow at all in September.

At the same time, the pace of layoffs is slowing. Initial jobless claims dropped by 34,000 to a seasonally adjusted 407,000 in the week ending Nov. 20, the Labor Department said. Applications have fallen in four of the past six weeks.

Last week's figure was the lowest since July 2008 and the first time that claims have fallen below 425,000 since then. Economists generally believe that weekly first-time applications for jobless aid would need to drop consistently below 425,000 to signal sustained job gains.

Even with last month's pickup in spending, consumers are shying away from the type of buying needed to significantly lower the 9.6 percent unemployment rate. And economists expect more modest income gains in the months ahead. That's why some doubt incomes will grow consistently and keep consumers spending enough to invigorate the economy.

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Households have started to pick up the baton of growth from businesses," said Paul Dales, U.S. economist at Capital Economics. "Whether or not households will be able to shoulder the burden of growth on their own is another matter."

Americans have become more frugal, saving 5.7 percent of their disposable income in October, compared with just over 1 percent before the recession hit. ShopperTrak, a research firm that tracks sales and traffic at more than 70,000 outlets, now expects holiday sales to grow 3.2 percent. That's up from a previous forecast of 2.9 percent. The upgraded forecast would mark a turnaround from the 0.4 percent sales drop in 2009, according to ShopperTrak's calculations.

Even so, retailers will struggle for a piece of consumers' wallets. Shoppers will want to stick to lists and focus on bargains, experts predict.

The National Retail Federation, the nation's retail trade group, expects a 2.3 percent increase in holiday spending. That would fall short of the 10-year historic average of 2.5 percent, according to the retail trade group.

An inflation index that the Federal Reserve monitors most closely, meanwhile, is running at a rec-

ord low. Prices for goods excluding food and energy rose just 0.9 percent in the 12 months that ended in October, the Commerce Department said. That was down from a 1.2 percent annual gain posted in September.

Even though shoppers welcome low prices, inflation is running at a pace below the Fed's comfort zone of between 1.5 percent and 2 percent. Fed officials worry that very low inflation could devolve into deflation — a prolonged drop in the prices of wages, goods and services and in the value of assets like stocks or homes.

Despite improved consumer spending, businesses still lack confidence that economic growth will accelerate.

Durable-goods orders dropped 3.3 percent last month, the biggest setback since January 2009, when the country was still mired in a recession.

encouraging news on the economy buoyed stocks. The Dow Jones industrial average closed up 150 points.

Many retailers depend on the holiday shopping season to make their year. The November-December shopping season can account for up to 40 percent of retailers' revenue and profits.

Consumers boosted spending 0.4 percent in October, up

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