Economy may benefit from credit card debt

More consumers beginning to spend, use cards again

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No one wants Americans to return to their charge-now, pay-later ways.

But with 70 percent of the economy tied to consumer spending, a little more plastic and a little less caution might not be a bad thing.

While consumers are using their credit cards a bit more lately, they largely remain tight-fisted, according to a recent Federal Reserve report.

"What we're seeing is a return of consumers to their credit cards but a very slow one," says economist Gregory Daco of IHS Global Insight. "We would like to see it go up."

Jill Jarvis, of New Castle, N.H., paid down much of her balances after maxing out her credit cards several years ago, but she is still using them sparingly because she worries her income as a real estate owner and manager could fall. "I want to have all my cards paid off," says Jarvis, who's in her 40s.

Many economists have said consumer spending wouldn't rebound until Americans worked off record debt run up in the mid-2000s boom. They've made headway, whittling their collective credit card balances to about $790 billion in April, down $180 billion since August 2008. The ratio of non-mortgage consumer debt to disposable income is at a 15-year low of 20.7 percent, according to IHS Global Insight.

The pace of the decline has slowed lately. MasterCard said consumer credit card purchases rose less than 5 percent in the first quarter vs. a year ago, after falling until the fourth quarter.

Still, credit card usage is restrained in part because consumer spending generally has turned up slowly

Experts also point to a post-recession caution. "We're seeing consumers saying, 'I'll have credit cards, but I'll never have credit card balances,'" says Darryl Dahlheimer, program director for LSS Financial Counseling Service of Minneapolis. "There's a culture shift."

Amy and Brian Stonesifer of Houston halved their $30,000 in credit card balances the past year after their interest rates soared and Amy, 45, began worrying about her job security. But after a year of scrimping, they recently charged clothes, a grill and other non-essential goods. "We just got tired of not having things," she says.