A boost in buying



Shoppers unload a cart at a Costco in Pembroke Pines, Fla. Consumer spending in September rose at three times the pace in August, but income was flat. Some analysts say spending is up because the interest on savings is worthless. J PAT CARTER/AP

Interest on savings falls as incomes stall

Shift turning savers into shoppers

By Martin Crutsinger
The Associated Press

WASHINGTON — Americans' incomes have stagnated for three straight months. Yet they boosted their spending in September 0.6 percent — three times the increase in August. Under normal circumstances, that'd be a troubling sign for the economy.

But a closer look at Friday's report from the Commerce Department on income and spending in September suggests something else: Many people are cutting savings because the interest they are earning has become nearly worthless.

Consumers earned just 0.1 percent last month. And after adjusting for inflation, after-tax incomes fell 0.1 percent in September — the third straight monthly decline. But the drop was largely because of a 1.4 percent drop in interest income, the third sharp monthly drop. Wages and salaries increased 0.3 percent in September.

Paul Ashworth, chief U.S. economist at Capital Economics, said the report could signal that there is a transfer of income from those who saved to those with high debts, which may result in more spending by consumers.

"The sharp decline in the saving rate doesn't concern us quite as much as it did, since it is possible that it partly reflects a sharp decline in debt servicing costs," he said.

Consumer spending is closely watched because it accounts for 70 percent of economic activity.

A sharp rise in spending during the summer helped to fuel annual growth of 2.5 percent in the July-September quarter, the best quarterly expansion in a year.

Still, the economy would have to grow at nearly double the third-quarter pace to make a dent in the unemployment rate, which has stayed near 9 percent since the recession officially ended more than two years ago.

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In recent months, job growth has stagnated. Employers have added an average of only 72,000 jobs per month in the past five months. That's far below the 100,000 per month needed to keep up with population growth. And it's down from an average of 180,000 in the first four months of this year.

Employers added only 103,000 jobs in September, and the unemployment rate remained 9.1 percent for a third straight month.

The government releases the October employment report on Nov. 4.

And spending could tumble next year if Congress fails to extend a Social Security tax cut, which gave most Americans an extra $1,000 to $2,000 this year, or long-term unemployment benefits. Both expire at the end of the year.

The spending increases in September included a 2.2 percent jump in purchases of durable goods, reflecting strong car sales during the month. Sales of non-durable goods such as clothing were also up a solid 1.1 percent while purchases of services such as rent and utility payments edged up 0.2 percent.

Inflation, as measured by a price gauge tied to consumer spending, edged up 0.2 percent in September. But core inflation, which excludes food and energy, showed no gain at all. That left core inflation rising at a moderate 1.6 percent over the last 12 months.

Many economists worry that consumers won't be able to keep spending like they did this summer without earning more. For spending gains to be sustained, employers need to step up hiring.