BUSINESS

Personal income, spending up

Economists say gains too weak to fuel strong economic recovery

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WASHINGTON — Personal incomes rose in November at the fastest pace in six months, while spending posted a second straight increase. But economists caution that the gains remain too weak to sustain a strong U.S. economic recovery.

The Commerce Department said Wednesday that personal incomes rose 0.4 percent in November, helped by a $16.1 billion increase in wages and salaries. It reflected the drop in unemployment that occurred last month.

The rise in incomes helped bolster spending, which rose 0.5 percent in November. Both the income and spending gains were slightly less than economists had expected.

After taking inflation into account, after-tax incomes are rising at an annual rate of just 1.2 percent. Economists say the recovery will require higher levels of income and spending. This is especially true at a time when households are using some income to shrink debt loads and rebuild savings.

"Annualized income growth of a little over 1 percent will not be enough to drive a significant recovery in consumption at the same time that debt needs to be paid down," said Paul Dales, U.S. economist at Capital Economics.

Consumer spending is closely watched because it accounts for 70 percent of economic activity. A revival in spending this summer, spurred by the Cash for Clunkers program, helped lift overall economic growth back into positive territory, the strongest signal yet that the country has emerged from its deepest recession since the Great Depression.

The government Tuesday trimmed its estimate for third-quarter growth in the gross domestic product to an annual rate of 2.2 percent, down from 2.8 percent. Still, GDP showed growth after a record four consecutive quarters of declines.

Many economists warn the rebound could falter early next year as the benefits of government stimulus efforts wane and the unemployment rate remains high.

The jobless rate dipped to 10 percent in November, down from a 26-year high of 10.2 percent in October. But many economists say it will stay high as discouraged job seekers return to the labor market to look for work and employers remain reluctant to hire.

The 0.4 percent rise in incomes followed a 0.3 percent October gain. It was the best showing since a 1.5 percent spurt in May, a month when incomes were boosted by government payments and tax relief from the economic stimulus program.

The 0.5 percent rise in consumer spending reflected the surprisingly strong 1.3 percent jump in retail sales that occurred during November — a boost that came from shoppers crowding malls seeking deep discounts over the Thanksgiving weekend.

The rises in incomes and spending left the savings rate unchanged in November at 4.7 percent of after-tax incomes.

A price gauge tied to consumer spending edged up a modest 0.2 percent in November from the previous month and was actually flat excluding energy and food. Over the past year, this price gauge excluding food and energy is up just 1.4 percent.