Stingy spenders hold back

Consumers are not buying into positive economic reports

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Only penny-pinching consumers tainted the picture sketched by a batch of reports Monday of an economy emerging from a brutal winter.

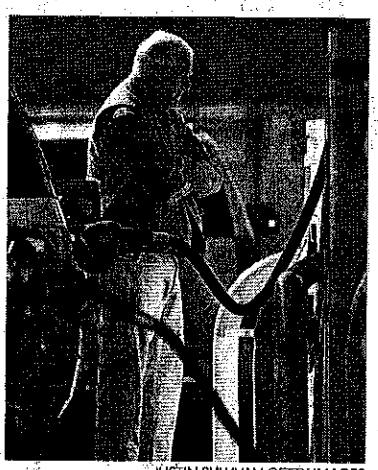
The data show construction spending rising sharply and manufacturing activity expanding at a faster pace after a string of slowdowns. And with household finances firming, economists say, it's only a matter of time before consumers step up their purchases and power solid growth in the second half of the year.

In April, consumption was flat despite a 0.4% rise in personal income, the Commerce Department said. Spending on durable goods such as cars and furniture fell 0.8% while outlays on services ticked up 0.1%. The failure of consumers to splurge with their windfall from low gasoline prices is confounding economists.

"You would think it would spill into better consumer spending," says Joseph LaVorgna, chief U.S. economist of Deutsche Bank.

Instead, Americans are using their extra cash to pay down debt and fatten their bank accounts. The portion of disposable income socked away rose to a historically high 5.6% from 5.2% in March.

In a report, Goldman Sachs says consumers initially believed low gas prices were fleeting but recently became convinced they'll stick around, portending a pickup in spending this year.



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Falling gas prices have put more money into Americans' pockets, but the cash is largely staying there.

LaVorgna says strong job growth — averaging nearly 200,000 a month so far this year and 260,000 in 2014 — and faster wage gains in coming months will also fuel stronger consumption.

Other sectors are rebounding. Construction spending surged 2.2% in April after slumping through the harsh winter, Commerce said, soundly beating the 0.7% increase forecast by economists. Outlays for home building increased 0.6%, and non-residential projects jumped 3.2%. Lavorgna estimates that will trim the 0.7% drop.

An index of manufacturing activity, meanwhile, rose to 52.8 from 51.5 in April, the Institute for Supply Management said, the first increase since October. A reading above 50 indicates that the sector is expanding.

Last month, a measure of new orders — a barometer of future production — and employment jumped, but a gauge of production slipped.

Although a strong dollar continues to weigh on exports, its rise has slowed. Meanwhile, shipment backlogs from a now-settled labor conflict at West Coast ports have eased, and a pullback in oil drilling is expected to stabilize as crude prices rise, bolstering steel and other makers.

After the economy shrank in the first quarter, many analysts estimate it will grow about 2.5% in this quarter and 3% in the second half of the year.

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