Weak spending fuels doubts

'14 economy growth predictions lowered

Paul Davidson
USA TODAY

An economy that was expected to finally take off this year instead may disappoint again.

Recent reports showing feeble consumer spending in May and an unexpectedly sharp economic contraction in the first quarter have prompted some analysts to cast doubt on a much-anticipated acceleration in growth.

"It does call into question — is this the year that's going to be the good year after all?" economist Paul Edelstein of IHS Global Insight said of the consumer spending data.

After accounting for inflation, consumer spending dipped 0.1% in May after falling 0.2% in April, the Commerce Department said. Reduced spending on health care and utilities made up much of the decline. But excluding auto purchases, household consumption of goods was weak as well.

"It does call into question — is this the year that's going to be the good year after all?"

Paul Edelstein, IHS Global Insight economist

That defied the Hollywood script written by many economists. After consumer spending rose just 1% in a first quarter battered by harsh winter weather, shoppers were expected to hit the malls with a vengeance in the current quarter, snapping up everything from summer outfits to flat-screen TVs.

But while personal income rose solidly, rising food and energy prices prompted many Americans to rein in discretionary purchases, Edelstein said.

"The juxtaposition of pathetic economic growth and accelerating inflation doesn't speak wonders about the economy's growth potential," Michael Feroli of JPMorgan Chase said in a research note.

IHS has lowered its second-quarter estimate for economic growth from 3.7% at an annual rate to about 3.4%. Allowing for the economy's first-quarter contraction of 2.9%, IHS predicts growth for the year will be 1.6%, down from its previous 2.2% forecast. The economy grew 2.6% last year.

Most economists have shrugged off the 2.9% decline in first-quarter output — the economy's worst showing since the recession ended five years ago — chalking it up to bad weather, among other temporary factors.