

CONSUMER SPENDING STALLS, THREATENS RECOVERY

msnbc.com news services

Talk about the new normal. Americans are shopping less, saving more, working harder without getting paid more — if they even have a job — and not even thinking about buying homes. A government report Tuesday offered more evidence that the recovery is being stalled by sluggish consumer spending. Personal spending was unchanged in June, reflecting a third straight month of lackluster consumer demand. Incomes were also flat, the weakest showing in nine months. The disappointing Commerce Department report on spending and income was among a raft of data released Tuesday that confirmed the economy ended the April-to-June quarter on a weak note.

Factory orders dropped 1.2 percent in June to a seasonally adjusted \$406.4 billion, the Commerce Department said. It was the second consecutive decline after nine straight months of gains. Lower demand for steel, construction machinery and aircraft dragged down the figure. And the number of buyers who signed contracts to purchase homes fell in June. The National Association of Realtors said its seasonally adjusted index of sales agreements for previously occupied homes dipped 2.6 percent to a reading of 75.7. That was the lowest on records dating back to 2001 and down nearly 19 percent from the same month a year earlier.

Last week the government estimated that economic growth for the second quarter slowed to a sluggish annual rate of 2.4 percent from 3.7 percent in the first quarter. Many analysts believe it will dip further in the second half of the year as high unemployment, shaky consumer confidence and renewed troubles in housing weigh on the year-old economic recovery. The personal savings rate rose to 6.4 percent of after-tax income in June, the highest reading in nearly a year. The savings rate is now about three times the 2.1 percent average for all of 2007, before the recession began.

While income growth was flat in June, incomes did post solid gains in April and May. But households chose to save the extra money rather than spend it. Higher savings restrain spending in the near term. But the extra resources allow households to repair their tattered balance sheets. "It is of some comfort that households now appear to have something of a cushion that can be used to pay down debt or support spending," said Paul Dales, U.S. economist at Capital Economics.

In an opinion piece published in The New York Times Tuesday and titled "Welcome to the Recovery," Treasury Secretary Tim Geithner said that despite challenges the economy is "on a path back to growth." He focused on strong exports, modest job growth, better banking stability and improving auto sales. General Motors Tuesday reported a modest increase in sales for July but said sales of its four core brands were up 25 percent over year-ago levels. "We all understand and appreciate that these signs of strength in parts of the economy are cold comfort to those Americans still looking for work and to those industries, like construction, hit hardest by the crisis," Geithner said in his opinion article. "But these economic measures, nonetheless,

do represent an encouraging turnaround from the frightening future we faced just 18 months ago."

Still, in a sign of how tough the recovery is likely to be, Geithner said on ABC's "Good Morning America" that the unemployment rate, already high at 9.5 percent, likely would rise further as more job-seekers return to the work force. The slowdown in GDP in the second quarter partly reflected a decline in consumer spending, which rose at an annual rate of 1.6 percent in the second quarter, compared to 1.9 percent in the first quarter.

Economists are worried that the financial troubles weighing on households could cause spending to ebb even more in the second half of the year. The subpar economic growth, just about half the pace normally seen coming out of a deep recession, has made little headway in reducing the 9.5 percent unemployment rate.

The zero reading on income growth was weaker than the 0.2 percent increase economists had expected. It followed a 0.3 percent rise in May and was the poorest showing since incomes were also flat in September. Part of the weakness in June reflected a decline in the number of temporary census workers, which subtracted \$3.4 billion from federal payrolls at an annual rate. A spurt in census hiring in May had boosted government payrolls.

The zero reading on consumer spending was also slightly weaker than economists had forecast. It followed a small 0.1 percent rise in May and a 0.1 percent decline in April. The weak economy is keeping a lid on inflation. A price gauge tied to consumer spending dropped by 0.1 percent in June. Prices are up just 1.4 percent over the past 12 months, well within the Federal Reserve's comfort zone for inflation.