

Consumer spending falls 0.5 percent in September

Consumer spending falls in September by largest amount in 9 months while incomes are flat

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WASHINGTON (AP) -- Consumer spending plunged in September by the largest amount in nine months, reflecting the end of the government's Cash for Clunkers auto sales program. Incomes, the fuel for future spending, were flat.

While the government reported that the overall economy grew in the July-September period, signaling the end of the worst recession in seven decades, the weakness in spending and incomes as the quarter ended underscores the fragility of the recovery.

The Commerce Department said Friday that spending dropped 0.5 percent in September, matching economists' expectations. Personal incomes were unchanged as workers contend with rising unemployment and a squeeze on wages.

Economists worry that the recovery could falter in coming months if households cut back on spending to cope with rising unemployment, heavy debt loads and tight credit conditions.

The concern is that much of third-quarter growth stemmed from temporary government programs such as the clunkers sales incentives that ended in August.

The government said Thursday the gross domestic product, the broadest measure of economic health, expanded at an annual rate of 3.5 percent in the third quarter, the first increase after a record four straight declines. A 3.4 percent rise in consumer spending, which accounts for 70 percent of total economic activity, powered the gain.

And consumers appear willing to pay a little more for Colgate toothpaste, Kellogg's Frosted Flakes and Gillette Fusion shavers, according to earnings released Thursday. Procter & Gamble Co., Colgate-Palmolive Co. and Kellogg Co. all gave upbeat reports and even stronger outlooks for next year.

However, some economists believe that consumer spending will slow sharply in the current quarter, lowering GDP growth to perhaps 1.5 percent. Analysts said the risk of a double-dip recession cannot be ruled out over the next year.

The 0.5 percent drop in consumer spending in September followed a 1.4 percent surge in August which was propelled by the big jump in car sales that month as consumers rushed to take advantage of the clunkers' incentives.

Last month's drop in spending resulted in a boost in the savings rate to 3.3 percent of after-tax incomes, up from 2.8 percent in August. Many analysts believe households will keep striving to increase savings in the months ahead to replenish nest eggs that were crushed by last year's stock market crash. That also would hold back spending in the months ahead, weakening the recovery.

The Obama administration is being encouraged to extend some of the elements of the \$787 billion economic stimulus package that Congress passed last February to jump-start the economy, but the White House has been cautious in endorsing various proposals being advanced by Democratic lawmakers for fear of pushing the federal budget deficit even higher. The deficit hit an all-time high of \$1.42 trillion for the budget year ending Sept. 30.

But inflation remains in check. An inflation gauge tied to consumer spending edged up just 0.1 percent in September, after a 0.3 percent August rise. Excluding food and energy, the gauge rose 1.3 percent over the past year, well within the Federal Reserve's comfort zone.

Fed officials meet next week and economists believe they will again keep a key interest rate at a record low in an effort to support the economy given that inflation is not a threat.