

PERSONAL INCOMES ON THE RISE BUT CONSUMERS WARY OF A FRAGILE ECONOMY TIGHTEN BELTS



Even though Commerce Department reports, released on Monday are reflecting favourably towards consumer income, which is showing a growth of 0.4 percent, that is a 0.1 percent additional growth to what analysts had predicted, it does not reflect in additional spending. On the contrary it shows that there is only a marginal increase in spending and that the extra-money is being saved for another day. With spending less than the earnings, the saving rate increased to 3.8 percent. Last month, household purchases were up by 0.3 percent, resulting in increased sales of \$29.6 billion. However, this falls significantly short of the \$93.7 billion spending in February, during which household purchases had registered a gain of 0.9 percent. Reacting to the fall in business, Gary Thayer, a macro strategist at Wells Fargo Advisors in St. Louis said, "The economy is losing a little momentum." Analysts feel that it is heartening that the rise in earnings has continued for the 28th consecutive month. The 0.4 percent growth means that the average personal income has increased by \$50.3 billion. Of late there have been many indicators that the economy is on the rise, gas prices seem to be lessening, home values were reaching realistic levels, a report by Zillow Inc. had said that home values in March, were the most buyer-friendly since 2006 and that it would have bottomed out and stopped fluctuating in most major cities by the year end, and that there was a drop in the unemployment rates, with the Federal reserve projecting an unemployment rate as low as 7.8 percent, towards the end of this year. Consumer confidence rose to 76.4 in April, from 76.2 in March. In February consumer confidence fell to an all-time 25.3 in February 2009, a yardstick that many analyst feels is a crucial indicator of the health of the economy. In spite of these positive indicators, people are still apprehensive and wary of the economy and not inclined to spend their hard-earned money, preferring to stash it away, for future unforeseen times. The reason could be that the people are still a little apprehensive of the economy and continue to scale back their spending. Even though spending for the month is comparatively lower, it averages out to 2.9 percent over the full first quarter. Household purchases and personal spending make up for approximately 70 percent of the US economy. The 2.9 percent average is the best in over a year and an indication of better times ahead. Commerce Secretary Rebecca Blank agreed that while the data was heartening, still a lot needs to be done. She said, "While the data are encouraging, we must continue to do everything possible to support American businesses and create jobs as we continue to heal from the worst recession since the Great Depression." Details of what the Americans purchased showed that there was less interest for appliances and long-lasting resilient goods and more of the buying was limited to temporary items like clothing. At a news conference on Wednesday, Fed Chairman Ben Bernanke had said, "We remain prepared to do more as needed to make sure that this recovery continues and that inflation stays close to target."