Americans Cut Spending For First Time In 2 Years

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WASHINGTON (AP) — Americans cut their spending in June for the first time in nearly two years after seeing their incomes grow by the smallest amount in nine months. The latest data offered a troubling sign for an economy that is adding few jobs and barely growing.

Consumer spending dropped 0.2 percent in June, the Commerce Department said Tuesday. It was the first decline since September 2009.

Some of the decline was the result of food and energy prices moderating after sharp increases earlier this year. When excluding spending on those items, consumer spending was flat.

Still, consumers also cut back on big-ticket items, such as cars and appliances, which help drive growth.

Incomes rose 0.1 percent, the smallest gain since September. Many people are also pocketing more of their paychecks. The personal savings rate rose to 5.4 percent of after-tax incomes, the highest level since August 2010.

The data confirmed last week's report that showed the economy expanded at an annual rate of just 1.3 percent in the spring after only 0.4 percent growth in the first three months of the year. It also highlighted that consumer spending softened at the end of the April-June quarter, which could mean the sluggish economy is worsening.

Stocks fell after the report was released. The Dow Jones industrial average dropped more than 100 points in morning trading. Broader indexes also declined.

"The recent run of weak economic news has made us more concerned that any rebound will be more modest than previously looked likely," said Paul Dales, senior U.S. economist at Capital Economics.

High gas prices and unemployment have squeezed household budgets this spring. Many Americans are cutting back on purchases of cars, furniture, appliances and electronics. Consumer spending is closely watched because it accounts for 70 percent of economic activity.

Employers have responded by reducing hiring. The economy added just 18,000 net jobs in June, the fewest in nine months. The unemployment rate rose to 9.2 percent, the highest level this year.

The government issues its July employment report on Friday.

Businesses are creating fewer jobs despite reporting strong earnings and sitting on large cash reserves.

"What worries me is that businesses are deriving their strong earnings growth through productivity gains, limited wage increases and foreign activities," said Joel Naroff of Naroff Economic Advisors. "While that may be good for an individual firm, when most companies do that, income gains become so limited that spending and ultimately growth fades. That is the problem we are now facing."

The biggest drop in spending occurred in such items as food and gasoline. Spending on such non-durable goods fell 5.5 percent, reflecting price declines after spikes early this year. An inflation gauge tied to consumer spending dropped 0.2 percent in June, the biggest one-month decline since September 2009. Outside of food and energy, prices were up 0.1 percent.

Still, spending on durable goods, such as autos, also fell in June 1.1 percent. One reason for the decline may be the shortage of popular car models in showrooms. Supply chain disruptions caused by the March earthquake in Japan have limited production of auto and electronic parts.

Many analysts are still hopeful that growth will rebound in the second half of the year. They expect auto production and sales to pick up once supply chain disruptions ease.

But the turnaround may not come for a while. Manufacturers had their weakest growth in two years in July, according to the Institute for Supply Management.

And gas prices remain high, even after coming down from their peak of nearly $4 a gallon in early May. The average price for a gallon was $3.70 on Tuesday — 14 cents higher than a month ago and almost a dollar more than the same month last year.

Some economists have begun to trim their forecasts for the second half of the year. Dales and his colleagues at Capital Economics have cut their outlook for second half growth to 2 percent, down from a previous forecast of 2.5 percent growth in the second half of this year.

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