Americans Spending More As Gas Prices Fall

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WASHINGTON (AP) — Americans are starting to see some relief from higher gas prices, a change that could revive the economy in the months ahead.

Consumer prices were flat in April, largely because of a decline in gas prices. Lower prices at the pump may be combining with steady job growth to power more spending on big purchases.

Sales of autos, furniture and electronics all rose in April. And Americans spent more at restaurants and bars — generally a sign of confidence in the economy.

"Consumer spending looks to have started the second quarter on a solid footing," said Paul Ashworth, an economist at Capital Economics.

Despite the strength in key areas, overall retail sales increased just 0.1 percent last month, the Commerce Department said Tuesday. That modest gain followed two stronger months in February and March.

Cheaper gas offset some of the gains in big purchases. The mild winter was also a factor. In the previous two months, it boosted sales in areas such as building materials and gardening supplies. Spending in those categories fell sharply in April.

Still, economists were encouraged by the details in the report. Excluding autos, gas station sales and spending on building materials, so-called core retail sales increased 0.4 percent, a modest gain.

"All the categories that showed gains are positive signs for consumer spending going forward," said Leslie Levesque, senior economist at IHS Global Insight. "The categories where there were declines were mainly a payback for the warmer weather."

Recent job growth has contributed to higher consumer confidence. Employers have added 1 million jobs in the past five months, though the pace of gains has slowed recently.

Another reason to be optimistic: gas prices are falling after spiking earlier this year. The national average dropped to $3.73 per gallon on Tuesday, about 17 cents cheaper than a month ago, according to a survey by AAA. Sales at gas stations fell 0.3 percent in April.

"We had expected gas prices to be elevated until Memorial Day," Levesque said. "The fact that they have already retreated so much is a very good sign. It alleviates the strain on consumers' pockets."

Cheaper gas also kept inflation tame. Gas prices fell a seasonally adjusted 2.6 percent in April, the Labor Department said. That offset mild increases in the cost of food, housing, and clothes.

Overall, the consumer price index was flat. Excluding volatile food and gas costs, so-called "core" prices rose 0.2 percent.

In the past 12 months, prices have risen 2.3 percent, the smallest gain in more than a year.

Mild inflation leaves consumers with more money to spend, which tends to boost economic growth. It could also encourage businesses to invest more in their stockpiles this spring.

Businesses took a more cautious approach to restocking in March, a trend that has helped slow economic growth this year. Companies' inventories grew just 0.3 percent, the Commerce Department said in a separate report. It was the smallest increase in four months.

When companies cut back on stockpiling, it slows factory production and growth tends to decline.

But if retail spending keeps rising, businesses will likely step up their restocking. That could boost growth in the April-June quarter.

Two other reports provided some reason for optimism. A measure of manufacturing activity in New York state jumped in May, reversing a large drop in April. Measures of new orders and employment rose.

And homebuilder confidence reached its highest level in five years in May, according to the National Association of Home Builders/Wells Fargo housing market index. Builders reported greater sales and higher traffic from prospective buyers.

The retail sales report represents the government's first look at consumer spending for the April-June quarter. Consumer spending is closely watched since it accounts for 70 percent of economic activity.

Consumer confidence has improved as gas prices have fallen. The University of Michigan said Friday that its Consumer Sentiment index for May rose to its highest level since January 2008.

In the January-March quarter, overall economic growth slowed to an annual pace of 2.2 percent. That's down from the 3 percent increase in the October-December period, but faster than last year's 1.7 percent pace.

Economists are concerned that income growth continues to lag behind inflation. That could weaken further if job gains don't pick up in coming months. Workers' average hourly earnings have risen just 1.3 percent in the 12 months that ended in April. And adjusted for inflation, average hourly pay declined 0.5 percent from April

2011 to April 2012.

Many economists expect job growth will pick up in the next few months. But few see it being as strong as earlier this year. That should keep consumers spending and help the economy grow at a moderate pace.

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