U.S. Consumer Spending Flat, Income Up 0.5 Percent

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WASHINGTON (AP) — Americans spent no more in June than they did in May, even though their income grew at the fastest pace in three months.

The lack of growth in spending follows a decline in the previous month, suggesting consumers are staying cautious with their money as they economy weakens.

Income rose 0.5 percent, the Commerce Department said in its June report on consumer spending and income. That was the biggest gain since March and was driven by a 0.5 percent increase in wages, the largest component of income. After-taxes and adjusting for inflation, income grew 0.3 percent.

The extra money in June paychecks went straight to savings. The savings rate rose to 4.4 percent in June, the highest level in a year.

Slower growth in consumer spending this spring was the main reason the economy grew at an annual pace of just 1.5 percent in the April-June quarter. That's less than the 2 percent growth rate in the January-March quarter this year. Consumer spending drives roughly 70 percent of growth.

In June, consumers spent slightly more on services. But they cut back on autos and other long-lasting manufactured goods. They also spent less on non-durable goods, such as clothing, food and gasoline — although some of that may reflect lower gas prices.

"Consumption ended the second quarter on a very weak note as households opted to save rather than spend their extra income," said Paul Dales, senior U.S. economist at Capital Economics. "Renewed concerns over the jobs outlook, growing fears of tax hikes and worries over the health of the overall economy are prompting households to keep their wallets in their pockets."

Economists don't expect growth to accelerate much in the second half of the year. Europe's financial woes and a U.S. budget crisis are likely to weigh on business and consumer confidence. And job growth is expected to stay weak.

Annual growth of 2 percent generally adds only about 90,000 jobs a month, according to economists. That's not enough to drive down the unemployment rate, which is stuck at 8.2 percent. Healthier growth of 4 percent or more is needed to reduce unemployment significantly.

The government will release the July jobs report on Friday. Economists forecast that employers added 100,000 jobs. That would be only slightly better than the 75,000 a

month from April through June and still down from a healthy 226,000 average in the first three months of the year.

Without more jobs, income growth is likely to remain sub-par and consumers are likely to remain cautious about spending.

Sluggish economic growth could compel the Federal Reserve to announce further efforts to bolster the economy. Fed officials meet Tuesday and Wednesday.

Still, many private economists believe the Fed will wait until their Sept. 12-13 meeting. That would allow the Fed more time to review the July and August jobs reports before taking new steps.

Economists had hoped that falling gas prices would give consumers more money to spend elsewhere and boost growth in the second half of the year.

But gas prices have stopped falling and have even started to rise in recent weeks. And this summer's severe drought is expected to push food prices up toward the end of the year.

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