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## Consumer optimism seen with January rise in spending

By Ylan Q. Mui  
Washington Post Staff Writer  
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Perhaps the lessons of the Great Recession are not so deep-seated after all.

Consumers spent more and saved less in January, according to government data released Monday, a sign that Americans feel increasingly secure about their financial situation, economists said. The growth in spending and the decline in savings were, respectively, more and less than analysts had predicted -- adding weight to a growing consensus that consumers' newfound frugality was just a fling.

"The big question really is whether this Great Recession that we've come through has been traumatic enough to really change people's underlying behavior patterns," said William Cheney, chief economist at John Hancock Financial Services. "My guess is that it hasn't."

According to the Commerce Department, personal spending jumped 0.5 percent, outpacing growth in income for the fourth consecutive monthly increase. Meanwhile, the savings rate dipped to 3.3 percent, the lowest level since October 2008.

The sometimes precarious balance between spending and saving is known as the paradox of thrift. Consumers are the primary driver of the nation's economy, accounting for roughly 70 percent of the gross domestic product. Before the recession, they raided their savings accounts and maxed out credit cards to finance a spending spree that propelled the country's robust growth -- but ultimately proved unsustainable.

The recession sparked the opposite reaction: After dipping into negative territory over the past decade, the personal savings rate rebounded to 4.3 percent last year. Rising unemployment, falling home prices and a roller-coaster stock market scared shoppers into holding on to their wallets -- and economists feared the nation could not recover without them.

But the new government data suggest that consumers have just been on a spending diet. Inflation-adjusted purchases of durable goods such as cars and appliances jumped 0.7 percent in January, indicating that shoppers are once again willing to take on some big-ticket items. The growth in spending overall was also higher than the rise in wages and

income. In fact, disposable income fell in January by 0.4 percent, in part because of higher taxes.

"That's a sign of consumer optimism," said **Bernard Baumohl**, executive director of the Economic Outlook Group, a consulting firm. "I'm actually very encouraged by what I saw in the January numbers."

Pent-up demand is also fueling some of the increased spending. Consumers have cut back for so long that some say they simply need to replace worn-out items. Jean Gunby, who is in her 60s, gave away her old living-room and dining-room sets when she moved from an apartment in the District to Hyattsville.

"I just wanted something fresh," she said, while eating at the food court at the Fashion Centre at Pentagon City on Monday.

Two weeks ago, Gunby was shopping at [Jennifer Convertibles](#) when an ottoman caught her eye. Even though it cost nearly \$600, she decided to splurge. A year ago, Gunby said, she might have made a different decision.

**Baumohl** said the jump in spending came as consumers dipped into savings, rather than from credit. Outstanding loans dropped by roughly \$100 billion in 2009 compared with the previous year, according to data from the Federal Reserve. But economists cautioned that spending could not outstrip income growth indefinitely.

"Consumers can't do that for very long," said Mark Zandi, chief economist for Moody's Economy.com. "Incomes are still very soft, and there isn't enough income to maintain the expansion."

Eventually, the economy must create jobs in order to sustain the engine of consumer spending. The manufacturing sector has been one of a handful of industries to hire new workers, and a monthly report by the Institute for Supply Management released on Monday showed the group's manufacturing employment index rising 2.8 percentage points, to 56.1 percent, in February, the highest reading in five years.

Overall, the group's index of business activity showed the seventh consecutive month of growth for the industry, albeit at a slower rate. The index dipped 1.9 percentage points, to 56.5 percent. A reading above 50 typically indicates expansion.

Consumers remain fragile, however, and they are not likely to renounce their new frugality just yet. Consumer confidence fell sharply in February after several months of increases, according to the Conference Board. And severe snowstorms across the country last month could hurt sales results.

"Now we have to see some job growth," Zandi said. "If it doesn't come in the next few months, consumers will get more nervous and start pulling back again."