



Roundup: Global events spook U.S. consumers, businesses: expert

by Matthew Rusling

WASHINGTON, March 2 (Xinhua) -- From Mid East turmoil to rising oil prices to the massive quake that recently rocked Japan, global events are giving U.S. consumers the jitters, according to an analysis released on Thursday.

"The looming question is how much U.S. economic growth decelerates as a result of these headwinds -- and how will they affect sales, jobs and incomes?" said **Bernard Baumohl**, chief global economist at the Economic Outlook Group and frequent guest on PBS' Nightly Business Report.

"At the very least, evidence is building that companies and households are turning much more cautious about spending," he contended.

Up until Thursday morning, there was widespread expectation that business orders for durable goods would jump by more than 1 percent in February. But in a reversal of those forecasts, the government reported that companies cut orders by 0.9 percent, **Baumohl** noted.

One major reason for that decline was that core business capital spending, which can reflect confidence that companies have about the path of the economy, dropped 1.3 percent last month after plunging 6 percent in January.

Such a major decline means that factories will have less to produce in the months ahead, which can put a damper on hiring and slow household income growth, **Baumohl** found.

While it is a truism that manufacturing comprises just 12 percent of the

economy, that sector is more sensitive than the services industry when it comes to reacting to changes in the business cycle, he contended.

It was manufacturing that led the United States out of recession in 2009, so any persistent weakness is worrisome, especially given the newly passed tax incentives Congress granted firms this year to write off 100 percent of their capital spending, according to **Baumohl**.

Angst over the unrest encircling Saudi Arabia, the cold war brewing between Saudi Arabia and Iran and the civil war in Libya have trumped the inducement to invest from the tax incentives, he argued.

And while fuel and food prices are surging, Americans have no leverage to demand more pay in this weak job market.

That leaves less money available for discretionary spending, and real income growth -- earnings adjusted for inflation -- has been either zero or falling the last four months.

"This erosion in purchasing power has very clearly frustrated consumers," he contended. "Several recent measures of consumer confidence show optimism over the economy and personal finances is rapidly falling."

Thursday's release of Bloomberg's weekly Consumer Comfort Index plummeted to the lowest level since last August, **Baumohl** noted.

The University of Michigan also detected rising anxiety among households. The university's Mid-March Consumer Sentiment Index confidence suddenly dropped to its lowest point in five months, he noted.

This erosion in confidence has not gone unnoticed among retailers and real estate agents. Earlier this week, the International Council of Shopping Centers reported that same store retail sales dropped 0.1 percent in the week ending March 19th.

Moreover, new home sales took a nose dive last month, dropping to a 250,000 annual rate, the lowest since such records began in 1963, and that followed a near 10 percent plunge in existing home sales in the same month.

Baumohl said he suspects the data in the coming months will show that businesses have chosen to put off major capital spending projects and scale back hiring in the face of so much uncertainty about future sales and earnings.

"Clearly, the head of steam the economy displayed when it entered 2011

appears to be dissipating," he argued.

Still, there may be some good news on the horizon.

"As gloomy as this sounds, we still expect some of that earlier momentum return in the second half of the year and 2012 as geopolitical tensions ease in the Middle East and once Japan begins its reconstruction program."