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Spending Slowed in October

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Consumer spending slowed in October as incomes rose at the fastest pace since March, showing that Americans were cautious about opening their wallets amid glum news about the European debt crisis and continued high unemployment.
Meanwhile, U.S. workers filed more new applications for unemployment benefits last week, though the pace of layoffs might offer some hope for the weak jobs market.
Separately, orders for durable goods continued to fall in October, as demand for big-ticket items like planes remains weak amid a lackluster economic recovery.

Personal consumption expenditures grew by just 0.1% in October, the Commerce Department reported Wednesday. That followed a 0.7% rise in September.
U.S. incomes meanwhile were up 0.4% last in October, following a 0.1% rise in the prior month.
Economists surveyed by Dow Jones Newswires were expecting both spending and income to rise 0.3%.

Consumer spending is a key component of the economy, though it has not been strong enough to generate fast overall growth through most of the recovery. American's willingness to spend during the final three months of the year will likely determine if fourth quarter economic growth exceeds the downwardly revised 2.0% gross domestic product growth figure reported Tuesday.

The National Retail Federation predicts that spending in November and December will grow 2.8% compared to last year's holiday shopping season.
But Wednesday's report showed October spending slowing significantly after solid gains in two of the previous three months, including a 0.9% jump in July.

Apparel seller Gap Inc. is among those struggling to attract customers amid an uncertain economy. The retailer reported last week that its fiscal-third-quarter earnings fell 36% as sales slid and margins tightened.

Incomes, however, had remained relatively flat from July to September before this month's jump. High unemployment, which remained elevated at 9.0% last month, has helped keep wages in check this year.

That put pressure on American's ability to save. The personal savings rate last month rose slightly to 3.5% from the downwardly revised 3.3% seen in September, the lowest level since December 2007.

Consumers may also turn to their credit cards to finance their purchases.

Americans "have to make up the gap between dismal pay and rising prices," **Bernard Baumohl, an economist with the Economic Outlook Group**, said in a report last week. "History has shown the two most common ways to do this is to dramatically curb saving and increase borrowing."

The price index for personal consumption expenditures rose 2.7% on a year-over-year basis in October. On a monthly basis, the PCE price gauge in October fell 0.1% after an 0.2% jump in September.

The core PCE index, which excludes volatile food and energy prices, climbed 1.7% on a year-over-year basis in October. In September that measure was up 1.6% from the same month in 2010.

The core index is watched closely by Federal Reserve policymakers as an indicator of inflation trends. The central bank has an informal annual inflation target of under 2%.
At the Fed's policy-setting meeting earlier this month, officials considered taking additional steps to bolster the U.S. economy but agreed to hold off until the economic outlook becomes more clear, according to minutes of the meeting released Tuesday.
If inflation continues to moderate it could give the Fed more leeway to pursue stimulus policies, including another round of mortgage-backed securities purchases.
The core price index was up 0.1% on a month-to-month basis, in line with economists' predictions.

Jobless Claims Increase Slightly

Initial jobless claims rose by 2,000, to a seasonally adjusted 393,000 the week ended Nov. 19, the Labor Department said Wednesday.
The weekly report was released a day early because of the Thanksgiving Day holiday.
Economists surveyed by Dow Jones Newswires had forecast initial jobless claims would climb by 2,000 to 390,000.
The increase followed three consecutive declines. For the week ended Nov. 12, claims were revised up to 391,000 from an originally reported 388,000, according to the report Wednesday.

A Labor Department official said there was nothing unusual about the latest state-level claims data.

The four-week moving average of new jobless claims, a more reliable indicator of the labor market's performance because it smoothes out volatile weekly figures, fell last week by 3,250 to 394,250.

Despite the increase in the weekly number, new claims, at 393,000, remained below 400,000 for the third consecutive week, a positive sign for the jobs market. Still, new claims have fallen below that level several times this year - only to bounce back over it. Economists generally believe claims must remain consistently below that mark to signal a real turnaround.

Companies aren't hiring aggressively. In October, non-farm payrolls increased by only 80,000 jobs, according to the Labor Department's key monthly snapshot of employment in the U.S. The jobless rate slid, but, at 9.0%, remains high.

Unemployment and the overall economy will be major issues in the U.S. presidential race, as the incumbent, Barack Obama, fends off challenges to the White House. The election is about a year from now.

Joblessness is seen remaining elevated next year and beyond, with the Federal Reserve predicting an unemployment rate in a range of 6.8% to 7.7% during 2014.
Food company H.J. Heinz announced it is closing factories. The company's second-quarter earnings fell, and it expects rising commodity costs next year.

Drugmaker Myrexis says it will reduce its small workforce, while oil giant ConocoPhillips and Swiss bank Credit Suisse Group (CS) are planning modest jobs cuts as well.

The Labor report Wednesday showed the number of continuing unemployment benefit claims--those drawn by workers for more than a week--rose by 68,000 to 3,691,000 in the week ended Nov. 12. Continuing claims are reported with a one-week lag.
The unemployment rate for workers with unemployment insurance for the week ending Nov. 12 remained flat at 2.9% compared to the prior week.

The state-by-state breakdown in initial jobless claims, which is also released with a one-week lag, showed the biggest decrease in claims the week ended Nov. 12 was in California, with a drop of 9,382 amid fewer service industry layoffs. The largest increase in claims was in Indiana, up 2,251 because of manufacturing layoffs.

Durable-Goods Orders Fall
Manufacturers' orders for goods designed to last at least three years decreased by 0.7% to a seasonally adjusted $197.68 billion, the Commerce Department said Wednesday.

Economists surveyed by Dow Jones Newswires had predicted a 1.5% drop. However, durable goods orders in September were revised down sharply to a 1.5% drop, from an earlier estimate of a 0.6% decline.

A key barometer of business confidence also registered a big decline. New orders for non-defense capital goods excluding aircraft fell 1.8%.

The durables figures, though volatile, provide an important indicator of the health of the U.S. manufacturing base. The decrease was the second in a row, following gains over the prior two months.

The U.S. recovery, while picking up some speed, remains weighed down by stubbornly high unemployment and a depressed housing sector. Third-quarter growth was revised down Tuesday to 2.0% from 2.5%, due in part to weaker-than-expected inventory buildup and business investment.

When the Federal Reserve met earlier this month, some central bankers suggested more steps may be needed to prop up the economy, but agreed to hold off for now, according to minutes released Tuesday.

The decline in durables last month was driven largely by a 16.4% drop in commercial airplane orders, which contracted 26.8% in September.
Other sectors registered gains, including a 6.2% rise in orders for motor vehicles and parts.

Outside transportation, orders for all other durables rose 0.7% in October, following a 0.6% increase the previous month.

Orders for defense capital goods slumped 19.8%. Overall capital goods orders were down 6.2%, with a 4.6% decline in non-defense capital goods orders.
Excluding defense, durables were up 0.2% in October, following a 1.7% decrease the previous month.

Shipments of durable goods rose 1.3% last month, while inventories were 0.5% higher. Unfilled orders, a sign of future demand, increased 0.2%.