Why consumers may keep economy from sinking

Falling stocks, global turbulence hasn't ruffled Americans yet

Feb 8, 2016
By Jeffrey Bartash

The U.S. economy is undoubtedly on a more slippery slope in early 2016. Just don't expect growth to experience fatal fall so long as consumers keep their footing.

Last week brought more evidence the economy has slipped into a slower pace of growth. The number of new jobs created in January, for example, tapered off to 151,000 from a blistering 278,000 monthly average in the fourth quarter.

Not all the news was negative, though.

The U.S. unemployment rate fell below 5% for the first time since early 2008. And companies are clearly under pressure to raise wages for some workers as the available supply of talented labor dries up. Hourly pay, while stilling lagging historically, is increasing at the fastest rate of the recovery.

That's what will keep the U.S. economy moving despite signs of increasing economic stress around the world. Millions of Americans have found jobs in the past several years and workers are gradually gaining more bargaining power.

"As the competition to find suitable workers intensifies, employers are feeling the pressure to lift wages," said **Bernard Baumohl, chief global economist at The Economic Outlook Group.**

The results are in. Consumer spending — the main engine of the U.S. economy — rose 3.1% in 2015 to set the fastest pace since 2005.

Unless Americans suddenly turn pessimistic, they'll keep spending at a decent clip this year and give businesses no reason to resort to mass layoffs.

One major bellwether is car sales. After snapping up a record 17.5 million new vehicles in 2015, Americans were back at it in January. Sales rose last month rose at the same robust 17.5 million pace. That's not a sign of an increasingly anxious consumer.

Another good sign: rising home sales and housing market that keeps setting new post-recession highs.

Healthier labor and housing markets are likely to be a focal point of Janet Yellen this week when the Federal Reserve chairwoman goes before Congress to update lawmakers on the economy.

Even if she offers soothing words, however, most Fed watchers believe the central bank is worried enough to put off its next increase in interest rates until early summer. Fed VIPs want to see if stock market turbulence fades and the global economy rebounds.

At the end of the week, Wall Street will get a look at retail sales in January. But the report probably won't give good vibes. Sales were surprisingly weak last year despite steady economic growth and retailers suffered through a lackluster holiday season. January receipts are also expected to be soft.

Although poor retail sales used to be viewed as a bad omen, the behavior of consumers has changed dramatically. More people shop online or in nontraditional ways than ever before. And two-thirds of what consumers spend are now on services such as retailing, banking, health care or dining out.

Economists are surprised consumers aren't spending even more, but there's a good reason for that: Americans have boosted their savings rate to the highest level in three years.

The scars from the Great Recession, it appears, have made Americans anxious enough to prepare for the rainy day that's bound to come within a few years. But the current forecast doesn't call for precipitation.

"While there have even been growing whispers about the still-remote chance of a U.S. recession forming this year, the data simply do not support that concern," asserted Douglas Porter, chief economist at BMO Capital Markets.

###