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## Spending lags despite tax cut

By Martin Crutsinger and David Pitt

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WASHINGTON — A Social Security tax cut that economists say should help the economy this year is off to a slow start. Consumers increased their spending last month at the weakest pace since June, even with the extra money in their paychecks.

Some people may be using the additional money to pay holiday credit card bills or higher gas prices, analysts said. And harsh weather may have deterred some people from shopping in January.

Personal finance specialists say the real test of the tax cut's impact will come this spring, with Easter holiday sales.

Still, consumers increased spending by only 0.2 percent in January, the smallest gain since June, the Commerce Department said yesterday. At the same time, their incomes rose 1 percent — the biggest jump in nearly two years and a reflection of the cut.

Economists say workers will receive an additional \$110 billion this year from the cut in their Social Security taxes. Most families will see about \$1,000 to \$2,000 in extra income. Households with two high-income earners could receive up to \$4,000 more.

In December, when President Obama signed the cut as part of a broader tax package, economists predicted Americans would spend about two-thirds of the extra money and save one-third.

Economists said the extra spending would help boost growth and could lead businesses to hire more. Still, all that was before tensions in the Middle East sent oil prices soaring. And a surge in global commodity prices is now expected to push US food prices up slightly this year, too.

Many analysts say such inflation could siphon off most of the benefit of the tax cut. Yesterday, several scaled back expectations for growth after seeing January's disappointing report.

"It doesn't look like the economy is going to get any strong net boost from the Social Security tax cut," said Paul Dales, senior economist at Capital Economics. "It will just go to pay higher prices on food and energy."

Consumer spending was growing at the fastest pace in four years in the final three months of 2010, helping to support the overall economy. The weak showing in January raised questions about how strong consumer spending, which accounts for 70 percent of economic activity, will be this year.

The modest 0.2 percent rise in spending was even weaker when inflation was taken into account. After adjusting for price changes — particularly a steep rise in energy costs — spending actually dipped 0.1 percent in January. That was the poorest showing since September 2009.

"I think the next big event we need to watch for is Easter sales," said Arun Jain, professor of marketing research at the University at Buffalo School of Management.

"That will reflect what they want to buy for spring. That to me will tell us how confident they are."

An early sign of that would be an increase in clothing sales at discount department stores such as Sears, J.C. Penney, and Target, Jain said.

"When people get these types of paycheck boosts from the government, typically the first area people will spend on is essentials for the family," Jain said.

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