



Many analysts say rising food, fuel prices could siphon off most of the benefit.

Tax cut offers little boost so far

By MARTIN CRUTSINGER and DAVID PITT • Associated Press | Posted: Tuesday, March 1, 2011 12:00 am

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 down holiday credit card bills or higher gas prices, analysts said. And harsh weather may have deterred some people from shopping in January.

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

The increased income is part of an additional \$110 billion economists say workers will receive this year from the cut in their 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.

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

Many analysts say such inflation could siphon off most of the benefit. Several scaled back expectations for growth Monday after seeing January's disappointing report.

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.

Marshal Cohen, chief industry analyst for a New York-based consumer market research firm, cautioned that most people might not have spent a lot because they didn't see much change in their income after only one month.

"One or two percent in your paycheck is not going to change the way you live," said Cohen, of the NPD Group Inc. "It'll make living easier. What it will do is keep you spending the way you've been spending, so it will keep the status quo."

Over time, however, as consumers have the opportunity to pay down debt, they'll feel more like spending again, Cohen said.

That could bode well for retailers, who are now looking for shoppers to open up for spring.

"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."