



Written by [Steven Yates](#) on August 4, 2009

U.S. Incomes Fall 1.3 % in June

According to the latest figures from the U.S. Department of Commerce, Americans' personal incomes dropped 1.3 percent in June, the biggest drop in four years.

This report comes on the heels of a 1.4 percent rise in May, a product of one-time stimulus payments. Spending in June rose slightly (0.4 percent), but when adjusted for inflation (the official rate, which does not include food and fuel costs), purchases actually dropped by 0.1 percent.

This signals that for all the talk about the easing by the end of this year of the worst economic downturn since the Great Depression, consumer spending is a long way from recovering. Consumer spending accounts for roughly 70 percent of economic activity. Inflation-adjusted spending on durable goods such as automobiles, furniture, and other such items dropped 0.2 percent in June after rising 1.2 percent in May.



Consumer spending fell 1.2 percent last quarter, after a first quarter gain was revised to 0.6 percent. Spending has fallen 2 percent since the end of 2007, the sharpest drop since 1980. Rising unemployment and falling home values are prompting consumers to save more and limit their spending to necessities.

Indeed, the official unemployment rate (which does not count discouraged workers who have stopped seeking work, those whose unemployment benefits have run out, and former workers who have returned to school to beef up their skills) is projected to surpass 10 percent in early 2010. According to the Labor Department, payrolls fell by 325,000 in July, following June's drop of 467,000.

According to economists, in the absence of a sustained turnaround in the labor market, we will not have much in the way of improvement in consumer spending. According to James O'Sullivan, senior economist at UBS Securities LLC of Stamford, Connecticut, "We'll see a weak economic recovery by past standards. For a sustained pickup in consumer spending, we need a clear-cut improvement in the labor market."

Previously owned (foreclosed upon) home sales rose in June, because the lower prices attracted buyers. The federal government's "cash for clunkers" program (which offers as much as \$4,500 for trading in older, less fuel-efficient vehicles) has prompted an uptick in car sales. Both of these are temporary states of affairs. Overall, the only enterprise presently showing steady growth is government.



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