

U.S. Economy: Consumer Sentiment Falls on Concern Over Jobs

By Shobhana Chandra

July 24 (Bloomberg) -- Confidence among U.S. consumers fell in July for the first time in five months as mounting unemployment and stagnant wages shook households.

The Reuters/University of Michigan final [index](#) of consumer sentiment decreased to 66, in line with forecasts, from 70.8 in June. A preliminary report for July showed a reading of 64.6.

The biggest employment slump of any recession in the last eight decades is making Americans less secure, which is likely to restrain spending and lift savings. [Amazon.com Inc.](#) cut prices last quarter to boost sales and [American Express Co.](#) said more cardholders fell behind on payments, resulting in lower- than-anticipated earnings that hurt stocks today.

"The consumer isn't going to be a leader in this recovery," said [Nigel Gault](#), chief U.S. economist at IHS Global Insight in Lexington, Massachusetts, who accurately forecast the drop in sentiment. "Consumers are aware that the labor market is still pretty bleak. Any recovery in consumer spending will be very, very modest."

Stocks retreated from the highest levels of the year after Amazon.com, American Express and Microsoft Corp. earnings disappointed investors. The Standard & Poor's 500 index fell 0.5 percent to 971 at 11:41 a.m. in New York. Treasury securities were little changed.

The confidence index was forecast to fall to 65, according to the [median](#) of 57 economists surveyed by Bloomberg News. Estimates ranged from 62.5 to 68. During the expansion that began in late 2001 and ended in December 2007, the index averaged 89.2.

Components

The University of Michigan's gauge of current conditions, which reflects Americans' perceptions of their financial situation and whether it is a good time to buy big-ticket items like cars, fell to 70.5 from 73.2.

The index of consumer expectations for six months from now, which more closely projects the direction of consumer spending, declined to 63.2 from 69.2.

Consumers in the survey said they expect an inflation rate of 2.9 percent over the next 12 months, compared with 3.1 percent in the June survey.

Over the next five years, the figures tracked by Federal Reserve policy makers, Americans expected a 3 percent rate of inflation, the same as last month.

The final Reuters/University of Michigan consumer confidence report reflects about 500 responses, compared with 300 households for the preliminary survey.

Job Losses

The economy has lost 6.5 million jobs since the recession began in December 2007. Economists surveyed by Bloomberg predict the unemployment rate may reach 10 percent by year-end from 9.5 percent in June, the highest level since 1983.

Growing joblessness is putting a strain on wages. Earnings per hour climbed at a 0.7 percent annual pace on average over the last three months, the smallest gain since records began in 1964, according to figures from the Labor Department. A report from the Commerce Department showed the savings rate in May jumped to a 15-year high.

"Job insecurity, together with declines in home values and tight credit, is likely to limit gains in consumer spending," Fed Chair [Ben S. Bernanke](#) said this week in testimony to lawmakers. At the same time, the economy is showing "tentative signs of stabilization," he said.

Housing Stabilizing

One such sign is that the four-year housing slump, which precipitated the financial crisis, is stabilizing. Existing-home sales rose in June for a third straight month, reaching the highest level since October, the National Association of Realtors reported yesterday. The median price fell

15 percent from June 2008.

A decline in fuel prices may provide some relief. A gallon of regular unleaded [gasoline](#) at the pump cost \$2.46 this week, down from an average \$2.64 in June, according to AAA.

Retailers' results in June showed Americans were shopping more at discounters. Framingham, Massachusetts-based [TJX Cos.](#), owner of T.J. Maxx and Marshalls stores, and City of Commerce, California-based [99 Cents Only Stores](#) reported sales gains.

[Yum! Brands Inc.](#), the owner of the Pizza Hut and Taco Bell restaurant chains, cut its outlook for same-store sales growth this year, indicating consumers may be reluctant to spend on meals outside the home.

"There is no question that the consumer is under pressure, making it difficult to drive sales growth," Chief Executive Office [David Novak](#) said in a statement on July 14.

To contact the reporter on this story: [Shobhana Chandra](#) in Washington at schandra1@bloomberg.net

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aAne32JBq3vk>