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Spending spree buoys outlook for recovery

Pre-Christmas retail sales exceeded expectations, and if the trend continues -- as analysts believe it will -- jobs will result.

By JEANNINE AVERSA The Associated Press

WASHINGTON - Consumers spent a lot over the holidays and should keep it up this year. Economists say that will embolden companies to expand and hire.

Americans spent more in the 50 days before Christmas than retail analysts expected. Spending grew at the fastest rate since 2006 -- the surest sign yet we're becoming less frugal as the economy rebounds.

"It has been the consumer that has been afraid to spend that has held the economy back and held businesses back from hiring," says Joel Naroff of Naroff Economic Advisors. "That cycle is beginning to break."

Normally in January, shoppers pull back. But they're not likely to this year. Economists say the tax cuts approved by Congress, a rising stock market, a slow but steady rise in hiring and growing willingness by banks to lend will sustain spending by consumers.

"I don't think consumers are going to suffer a hangover after Christmas," says Mark Zandi, chief economist at Moody's Analytics. "They are going to hang tough and spend more aggressively in 2011."

Zandi thinks consumer spending will rise 3.6 percent in 2011, twice as fast as in 2010. That would propel the economy to grow about 4 percent, up from the 2.8 percent Zandi expects for 2010. The government's report on fourth-quarter growth for 2010 comes out later this month.

Other economists expect economic growth closer to 3.5 percent this year.

The stronger growth should lead companies to add 2.9 million jobs this year, up from 1.1 million projected for last year, Zandi says. That would drop the unemployment rate to 9 percent in 2011, down from an average of 9.5 percent expected for all of 2010.

Excluding auto sales, holiday shopping in the 50 days before Christmas totaled $584 billion, according to MasterCard SpendingPulse.

That was 5.5 percent more than in 2009 -- the biggest increase since 2006.

From Oct. 31 to Jan. 1, revenue at stores open at least a year rose 3.8 percent over last year, according to an index compiled by the International Council of Shopping Centers. That's the biggest increase since 2006, when the measurement rose 4.4 percent.

Despite a depressed housing market, rising energy prices and unemployment at 9.8 percent, economists say they think the spending momentum will carry well into 2011.

Consumers boosted spending a solid 0.4 percent in December 2009 but just 0.1 percent in January 2010. This year, Zandi expects 0.4 percent both months.

Working Americans will start seeing extra money in their first paycheck this year because the tax law cut Social Security taxes.

The Standard & Poor's 500 stock index rose about 20 percent the last four months of the year. The higher stock prices have boosted wealth, making people more inclined to spend.

"We think it is going to be a very strong January for retailers," says Gary Stibel, CEO of the New England Consulting Group, whose clients have included McDonald's and Wal-Mart.

Besides higher gasoline and food prices, the economy faces other threats that could, if they worsen, derail forecasts:

•Further declines in home prices and more foreclosures.

•Higher interest rates, which could further depress home sales, reduce expensive purchases like cars and make it costlier for businesses to expand and hire.

•Layoffs and spending cutbacks by struggling state and local governments.

The Labor Department reported Thursday that fewer people applied for unemployment benefits over the past month than in any other four-week period since July 2008 -- a sign that layoffs are slowing.

And a December survey by the Business Roundtable found that 45 percent of CEOs of large companies planned to add jobs within six months, up from 31 percent who said so in the fall.

One reason spending will be strong is that consumers will save less. Zandi thinks they'll save 5.3 percent of disposable income, down from 5.8 percent last year. Some economists predict as little as 4 percent.