

U.S. Consumer Confidence Plunges

MARTIN CRUTSINGER, AP Economics Writer

WASHINGTON (AP) — An increase in Social Security taxes is leaving Americans with less take-home pay — and a more negative outlook for the U.S. economy.

The Conference Board said Tuesday that its index of consumer confidence plunged 8.1 points in January from December to 58.6. That's the lowest reading in 14 months and the third straight decline.

Congress and the White House reached a deal in January to keep income taxes from rising on most Americans. But the agreement did not extend a temporary cut in the Social Security taxes.

The tax increase will leave a household earning \$50,000 a year with about \$1,000 less to spend in 2013. A household with two high-paid workers will have up to \$4,500 less.

The private research group said the tax hike was the key reason consumers felt less confident in January. The survey was conducted through Jan. 17, at which point most people began to realize their paychecks were lighter.

"It may take a while for confidence to rebound and consumers to recover from their initial paycheck shock," said Lynn Franco, the Conference Board's economist.

Consumers also said they felt less optimistic about their job prospects over the next six months.

Taxes are rising at a time when hiring is limited and wages are barely growing. The combination is expected to hurt consumer spending and slow economic growth.

"Perhaps more important than the shock to confidence, the hit to income is also likely to show up in a slower pace of consumer spending in the first half of this year," said Thomas Feltmate, an economist at TD Economics, in a note to clients.

The index has declined for three straight months since hitting a nearly five-year high of 73.1 in October 2012. It's still above the post-recession low of 40.9 reached in October 2011.

Consumers began to feel less optimistic at the end of the year when it appeared congressional Republicans and President Barack Obama were at an impasse over sharp spending cuts and tax increases.

Obama reached a deal with Republicans on Jan. 1 that kept most Americans from seeing higher income taxes. But they postponed decisions on spending cuts and raising the nation's debt limit until later in the year. And they allowed the Social

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Security tax cut to expire.

"All the negative news about the dysfunction in Washington surrounding the fiscal cliff negotiations contributed to the December plunge, and ongoing shenanigans concerning the debt ceiling and fiscal sanity in general continued to weigh in January," said Joshua Shapiro, chief U.S. economist at MFR Inc., in a note to clients.

Many economists predict economic growth slowed in the October-December quarter to an annual rate of around 1.2 percent. That would be much weaker than the 3.1 percent rate in the July-September quarter.

Most economists say the tax increase will hold back growth in the first quarter of 2013.

The decline in confidence comes as the economy is signaling improvement elsewhere.

A recovery in housing market is looking more sustainable and is expected to strength this year.

A separate report Tuesday showed home prices accelerated this fall, pushed higher by rising sales and a tighter supply of available homes. The Standard & Poor's/Case-Shiller 20-city home price index rose 5.5 percent in November compared with the same month a year ago. That's the largest year-over-year gain in six years.

The U.S. auto industry and financial sector are also picking up.

Auto sales reached a five-year high of 14.5 million in 2012. Analysts expect sales will climb even higher this year, to 15.5 million.

Stocks are near their all-time highs. The Standard and Poor's 500 has more than doubled from its low in 2009.

Still, the job market remains sluggish. Employers have added an average of about 150,000 jobs a month for the past two years. That's enough for a gradual decline in the unemployment rate, which remains high at 7.8 percent.

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