

# America spent more with same income

WASHINGTON (AP) — Americans' income stagnated in April, but they tapped their savings and spent generously anyway, according to government figures released Tuesday.

Incomes were unchanged at a seasonally adjusted annual rate of \$5.26 trillion, breaking a string of four consecutive increases, the Commerce Department said. They had risen 0.6 percent in March.

Meanwhile, personal consumption spending jumped 1 percent to a seasonally adjusted annual rate of \$4.28 trillion. It was the strongest increase in six months. A month earlier, spending had fallen 0.2 percent, depressed by the mid-March blizzard that hit the East Coast.

"It's a very simple story. People spent a lot of money in April but they didn't get any," said economist David Wyss of DRI-McGraw Hill, a Lexington, Mass., forecasting firm.

The combination produced the lowest savings rate — savings as a percentage of income — in five months. It was 4.3 percent in April, down from 5.3 percent the month before.

Wyss and other economists warned that consumers can't outspend their income indefinitely and predicted spending would lapse unless employers start hiring faster. The nation's unemployment rate has remained stuck at 7 percent since February.

"We're just not seeing income gains. People are doing their best to keep up their spending, but with the savings rate now down to 4.3 percent, it's going to be darn hard to spend more," Wyss said.

Two other reports issued Monday also depicted a struggling economy.

- An index of manufacturing activity grew modestly in May, to 51.1 percent from 49.7 percent, the National Association of Purchasing Management said. However, a subindex on employment fell to the lowest level in 16 months, to 43.4 percent in May from 44.4 percent a month earlier. A reading below 48 in the subindex is generally associated with declining factory employment.

- The Commerce Department said construction spending unexpectedly failed to rebound in April from severe winter weather in March. Spending fell 0.4 percent in April following a 0.1 percent decline in March. Increases in government and commercial construction were not enough to offset a decline in home building.

Most analysts expect economic growth, which registered an anemic 0.9 percent annual rate during the first three months of this year, will improve to about a 3 percent rate during the second half.

But they said that forecast is endangered by the taxes in President Bill Clinton's deficit reduction plan and expected in his health care package. Also, if Congress gives Clinton less deficit-reduction than he requested, it could send long-term interest rates higher, further dampening growth, they said.

"I see more and more uncertainty now. Businesses don't want to hire people because they don't know what's going to happen. The plans are for higher taxes and there's nothing there to promote job growth and now the deficit-reduction is in question as well," said economist Evelina Tainer of Prime Economic Consulting in Chicago.

In April, the most-watched component of income — wages and salaries — rose a modest 0.3 percent to \$3.01 trillion. It had been unchanged in March and down 0.2 percent in February.

Government transfer payments, such as unemployment benefits, increased in April. Business owners' income rose, but interest income declined.

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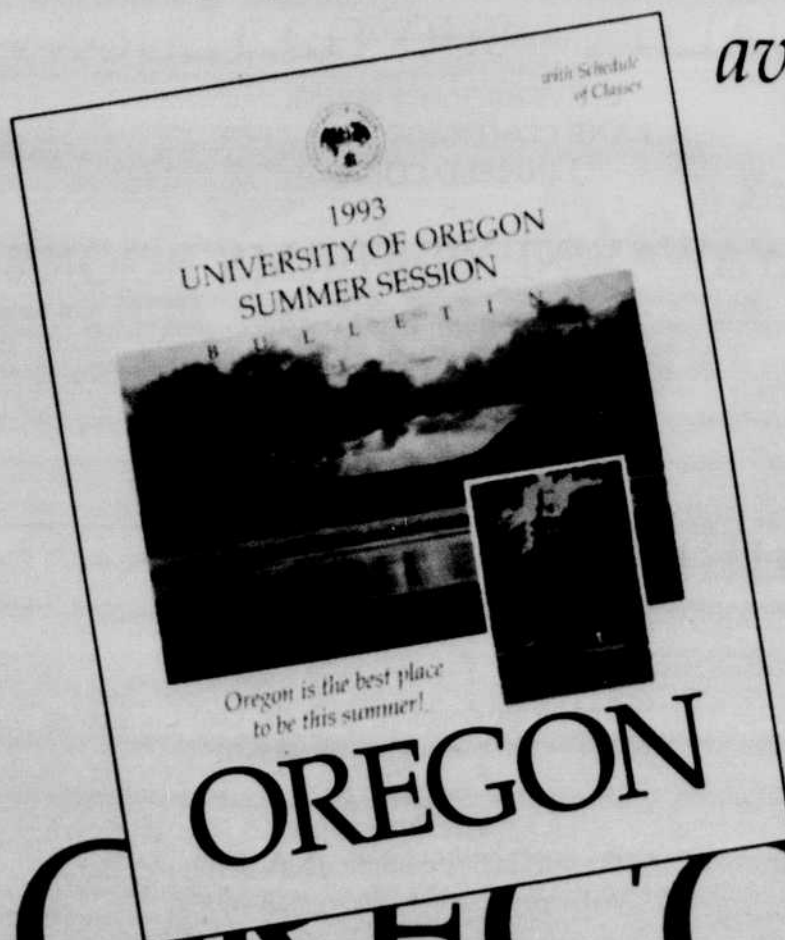


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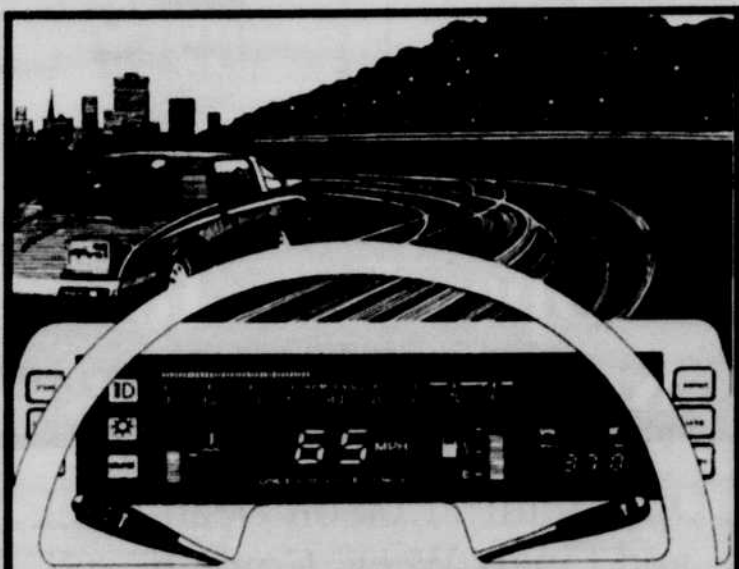
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