

Martin Crutsinger, AP Economics Writer, On Friday March 11, 2011, 4:50 pm EST

WASHINGTON (AP) -- Americans are using extra money from their tax cuts to buy new cars, clothing, sporting goods and electronics.

The reduction in Social Security taxes helped lift retail sales for the eighth straight month in February and by the largest amount since the fall. Still, higher oil prices threaten to chip away at consumers' disposable income over the next few months.

"Consumers are back, but whether they will stay is the big question," said David Wyss, chief economist at Standard & Poor's in New York.

Retail sales rose 1 percent last month, the Commerce Department said Friday. Shoppers returned to department stores after snow storms kept many away in January. And they flooded car lots to take advantage of deals.

Consumers also paid more for gasoline. Turmoil in the Middle East has sent oil prices surging this winter. Pump prices jumped 9 percent in February to an average price of \$3.38 a gallon, according to AAA's Daily Fuel Gauge Report. They have gone up even further this month. On Friday, the average price was \$3.54 a gallon.

Tax cuts have helped to ease the shock of higher prices. The reduction in payroll taxes is giving most Americans an extra \$1,000 to \$2,000 this year.

Economists expect that will boost economic growth this year and lead to stronger hiring. But higher prices for oil, food and other commodities have dampened that outlook slightly.

Consumer sentiment dropped sharply in early March, according to a University of Michigan survey. Many economists cited the jump in gas prices as a major reason for the decline.

Economists at JPMorgan Chase said they were cutting their forecast for overall economic growth in the current January-March quarter, from 3.5 percent down to 2.5 percent, and reducing their forecast for growth in the April-June quarter from 4 percent down to 3.5 percent.

Robert Dye, senior economist at PNC Financial, said: "I am concerned that rising energy prices, a flattening stock market, events in the Middle East and now the earthquake in Japan will just add to a heightened sense of uncertainty at a time when the consumer psyche remains fragile."

President Barack Obama said Friday that he was prepared to tap the nation's emergency oil reserve should the situation demand it.

Most economists stressed that oil prices would have to move much higher -- closer to \$150 a barrel -- to have a serious impact on economic growth. Many still expect healthy growth this year, between 3 percent and 3.5 percent. That would be better than last year's pace of 2.8 percent. But not high enough to significantly lower the unemployment rate, which was 8.9 percent in February.

A big reason they see the economy expanding is that people are spending, and that accounts for 70 percent of the gross domestic product.

The retail sales report showed big upward revisions to sales activity in December and January, including a revision in January that more than doubled the initial figure.

February sales totaled \$387.1 billion, up 15.3 percent from the recession low reached in December 2008.

And people are making big purchases.

Auto sales rose 2.3 percent in February. The major automakers offered discounts last month and that gave added momentum to sales. All the major car companies reported double-digit gains.

Richard Bazy, who runs two Ford and Lincoln dealerships outside of Pittsburgh, said he saw a dramatic upswing in car and pickup truck sales.

Consumers are "more confident in the economy. The loans have loosened up," Bazy said.

Better weather in February brought shoppers back to department stores. Sales rose 1 percent after a decline in January, when winter storms kept many away.

People also spent more at specialty clothing stores, at hardware stores, and on electronics and appliances.

So far, the sales momentum is continuing into March. But the big worry is inflation.

Macy's, Kohl's and Abercrombie & Fitch Co. have all said shoppers should expect price increases. They are necessary to offset higher costs for raw materials and increasing labor costs in China.

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"Continued uncertainty is still the biggest challenge," Kevin Mansell, CEO of Kohl's told The Associated Press in a recent interview. "As people are feeling better, they are being hit with higher prices" in food, fuel and clothing.

AP Business Writers Tom Krisher in Detroit, Anne D'Innocenzio in New York and Christopher Rugaber in Washington contributed to this report.