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TD Economics

Data Release: Consumers spending holds up in May despite slower income growth

- Personal income rose 0.2% (m/m) in May, a hair below the consensus forecast for 0.3%. Real disposable personal income (removing inflation and taxes) edged up 0.1% on the month.
- Personal spending rose 0.4% (m/m) on the month, on par with expectations. This came on top of upward revisions to April, which rose 1.1% (from 1.0% previously).
- Real spending continued to charge ahead, rising 0.3% (ahead of the consensus for 0.2%). Revisions were also positive with April now up 0.8% (from 0.6%). Real spending was led by durable goods (+0.6%). Non-durable goods rose 0.5%, while services spending growth decelerated to 0.1% (from 0.5% in April).
- Both headline and core prices (as measured by PCE deflators) rose 0.2% on the month. Headline inflation on a year-on-year basis decelerated to 0.9% (from 1.0%), but the core rate held steady at 1.6%).
- The savings rate edged down to 5.3% from 5.4% in April and 6.0% in March.

Key Implications

- The slowdown in income growth in this report was mildly disappointing, but comes after a string of truly stellar performances over the start of the year. The disappointment was offset by upward revision to the April number. Moreover, we expect income growth will accelerate next month as the effects of the Verizon strike dissipate and job growth rebounds.
- The good news is that consumption held up well, suggesting that consumers have built up a savings buffer related to low gas prices and rising wages and are now reaping the benefits. In fact, after a timid first quarter American shoppers appeared to be out in full force during the second quarter, with real consumption rising more than 4% annualized – enough to boost GDP growth above the mid-2% mark this quarter.
- The PCE deflators, both headline and core, came in as expected. Inflation at this point is not keeping Fed officials up at night. Given the recent Brexit related volatility and related dollar surge, as well as the elevated downside risks to the global and U.S. economies, we expect the Fed will be increasingly patient with monetary policy.

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