



TD Economics

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Data Release: Income and spending up soundly in May

- Personal income rose 0.5% in May, well ahead of market expectations for 0.2%. Removing taxes and inflation, real disposable personal income rose a robust 0.4% in May.
- Personal consumption expenditures rose by 0.3% in nominal terms, in line with expectations. In real terms spending was up 0.2% following a downwardly revised -0.1% in April. By component, durable goods spending led the way, rising by 0.6%. Spending on non-durables was also strong, up 0.5%, but spending on services – the largest component – fell by 0.1%.
- The personal saving rate ticked up to 3.2% from an upwardly revised 3.0% in April.
- Inflation as measured by the year-over-year change in the personal consumption deflator rose to 1.0% from 0.7% in April, while core PCE inflation (excluding food & energy) remained unchanged at 1.1%.

Key Implications

- With May's data we have a pretty good view of one of the largest components of second quarter GDP. While spending growth in May was relatively strong, the downward revision to April and March put the tracking for PCE below our March forecast for 2.0%. With the important caveat that this data is also subject to future revisions, personal consumption looks likely to disappoint our earlier expectation, putting downside risk to our second quarter GDP forecast for 1.5%.
- Economic data are paramount in determining the Fed's next move. Today's report was relatively positive, but also contained some cautionary elements. On the plus side, both income growth and spending were strong in May. On the downside, this followed declines in April and significant downward revisions to the first quarter.
- Core inflation did not fall any further in May and actually ticked up ever so slightly to three decimal places – reversing a 6 month disinflationary trend. Nonetheless, price growth remains relatively subdued. The soft inflation environment has not gone completely unnoticed by the Federal Reserve. FOMC member, James Bullard, mentioned it as the reason for his dissent at the last meeting and Ben Bernanke backed up this sentiment in his press conference. If inflation and the economy do not begin to turn upward with more vigor, the odds increase that the Federal Reserve will push out the timing for the removal of policy.

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