



Economics Group

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Strong Consumption Driving Growth in Q2

The strong April consumption numbers were followed by strong numbers in May. Personal income growth slowed down a bit, perhaps as a consequence of the slowdown in job growth observed in April and May.

Personal Income Growth Slows Down in May

Personal income growth slowed down a bit in May, posting a rate of growth of 0.2 percent versus 0.3 percent in March and an upwardly revised 0.5 percent in April. Still, the 0.2 percent increase in May was strong but it was clearly negatively affected by the weakening we saw in nonfarm employment in both April and May.

Wages and salaries increased only \$14.7 billion in May compared to \$40.4 billion in April. Meanwhile, we also saw weak proprietors' income during the month, up \$1.2 billion versus \$10 billion the previous month. Furthermore, personal current transfer receipts were also weak, increasing \$4.8 billion.

Disposable personal income also increased 0.2 percent in May after a 0.5 percent increase in April, while real disposable personal income inched up only 0.1 percent after an increase of 0.2 percent in April. Inflation took a bite of the real number in both months.

Consumption Surge in Q2 Intact, and Then Some

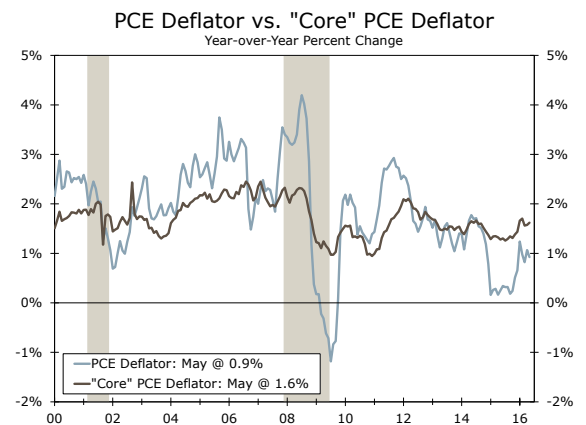
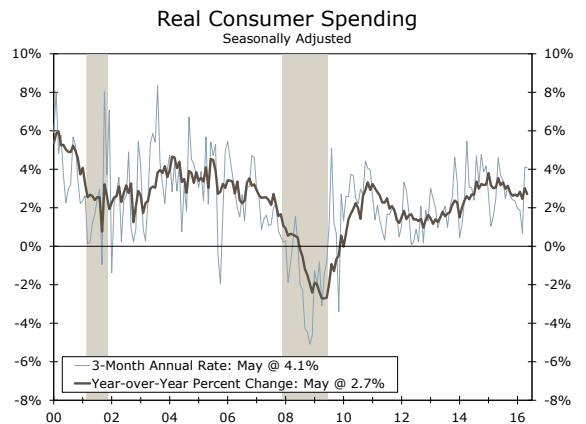
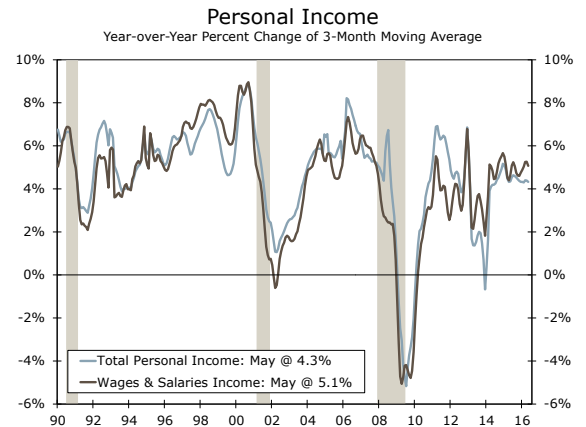
Personal consumption expenditures (PCE) increased an "expected" 0.4 percent in May. However, that "expected" 0.4 percent came after April's already strong growth rate was revised further up to 1.1 percent from a previous 1.0 percent increase. Thus, the 0.4 percent in May was actually stronger than the 0.4 percent "expected" by consensus.

However, more important for second quarter GDP was the upward revision to real spending, or real PCE. Real PCE had started the second quarter at a very strong pace, rising 0.6 percent in April. However, that growth rate was revised up to 0.8 percent. Furthermore, real PCE was up a higher than expected 0.3 percent in May, which means that consumer demand remained strong during the second month and will add an even stronger note to the second quarter's performance.

It is very possible that June's consumption number remained strong given that consumer confidence also improved during the month. The effect of the Brexit vote and the increased nervousness regarding the plunge in the stock market could dampen consumption going forward. However, we believe that this effect, if any, will be seen in July rather than in June as the Brexit vote occurred at the end of this month.

Inflation Tame Enough for Fed

Although the PCE deflator remained tame in May, increasing 0.2 percent, the Federal Reserve may start to gain more confidence that strength in consumer demand could trigger higher inflation going forward. However, we still believe that recent heightened uncertainty will probably trump any concern regarding inflation by the Fed and keep them from moving in the near term.



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