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Economics Group

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Personal Income Rises Modestly In May

Personal income rose 0.4 percent in May and April's gain was revised 0.1 percentage point lower to 0.2 percent. Spending came in slightly below expectations and was flat after accounting for inflation.

Modest Income & Spending Growth Will Temper Q2 Enthusiasm

This past week's economic data have led many forecasters to ramp up their expectations for second quarter growth from already lofty expectations. May's personal income and spending data should temper some of that enthusiasm. Overall, personal income rose largely in line with expectations, climbing 0.4 percent. Wages and salaries rose 0.3 percent, with a 0.4 percent drop in manufacturing earnings holding back the topline gain. A fire at a major motor vehicle parts supplier caused several assembly plants to reduce or halt output in May. The cutbacks were reflected earlier in reduced manufacturing hours and industrial production and are now evident in the wage data. The good news is all these facilities are back up and running, which should produce a nice rebound in June.

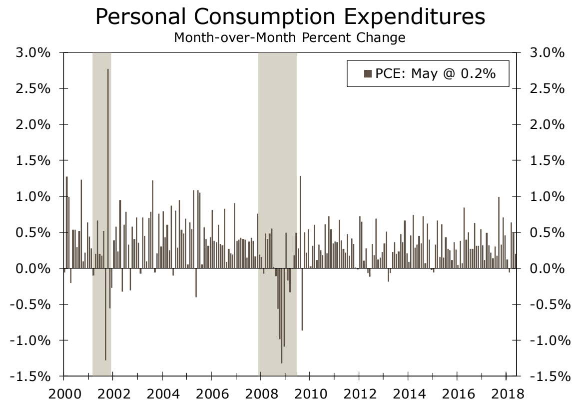
While wages and salaries were soft, overall income growth came in exactly in line with consensus expectations. Wage growth outside of manufacturing was fairly robust in May, with the trade, transportation and utilities sector posting a 0.7 percent increase. Trucking firms, railroads and airlines are all running flat right now, as supply chain bottlenecks are becoming more prevalent. Wages and salaries in the government sector rose 0.2 percent.

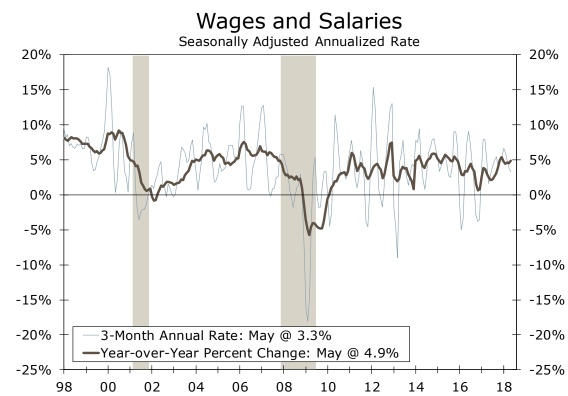
Personal consumption expenditures came in weaker than expected. Nominal outlays rose just 0.2 percent and April's gain was revised 0.1 percentage point lower to 0.5 percent. All of May's shortfall was due to a 0.2 percentage point drop in services outlays, which the BEA notes was due to a drop in utility usage. The drop in outlays for household utilities was largely due to unseasonably mild spring weather, which allowed consumers to use their air conditioners a little less than usual. With nicer weather across much of the country spending for recreational goods picked up, which offset some of the utilities related drop. June saw temperatures heat up across much of the country, so services outlays will likely bounce back smartly next month.

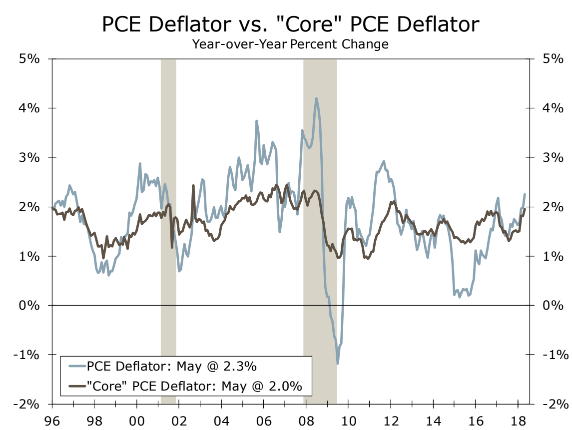
The softer consumer spending will likely cause many forecasters to scale back their expectations for second quarter economic growth. Real personal consumption outlays were flat in May and, through the first two months of the second quarter, are up at just a 2.3 percent annual rate from Q1. If consumer spending rebounds 0.4 percent in June, personal consumption would rise at just a 2.9 percent annual rate. Most forecasts were expecting spending to rise at a 3 percent pace or better.

The softer consumer spending data mean that the saving rate rose in May, but saving remains low from a historic perspective. The income data may be revised higher in coming months, which may boost the reported saving rate.

The PCE inflation data rose in line with expectations. The overall PCE deflator rose 0.2 percent and is now up 2.3 percent year to year. Higher energy prices are behind much of that gain. The core PCE deflator also rose 0.2 percent and is up 2.0 percent year to year.







Source: U.S. Department of Commerce and Wells Fargo Securities

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