

U.S. Flash

Personal Income and Spending Grow, 2Q13 Still Unclear

- Personal income rose at a faster pace, 0.5% after weaker growth in April
- Consumer spending rebounded after its decline in April, up 0.3%
- Core PCE inflation rose only 0.1% in May, remaining stable on a YoY basis

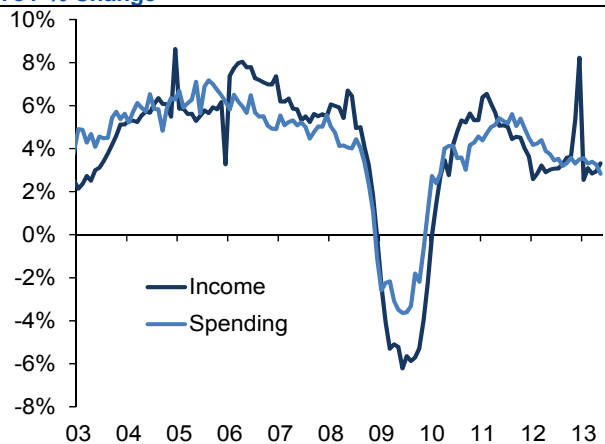
After a mixed set of data which showed the consumer had taken their foot off of the throttle in April, the picture seems far more optimistic as both income and spending rose in May. After a moderate gain of only 0.1% in April, personal income made a significant leap back in May, rising 0.5% as wage and salary disbursements rose 0.3%. Outside of the private industry, government wages rose just below 0.1% as the sector continues to feel the pressure of spending reductions across the board and will unlikely shed the flat income growth trend in the coming quarters. There was some accelerated growth in dividend income in May, rising 1.6% as companies chose to dish out some extra incentives as the equity markets continued to rally.

Consumer spending was a similar bright spot in May as it reversed its decline from April but in the goods sector rather than services. This is good news since pundits have been touting slack goods demand as a catalyst for the decline in manufacturing over the past months. Up 0.3% in May, the outlays portion of the report was bolstered by a 0.5% rise in goods spending. While non-durable goods rose 0.3% after a significant decline the month prior, durable goods jumped 0.9%, its fastest pace since December of last year. This is on the back of a retail sales report for the months that showed some growth in the sector after two months of slight declines. In terms of how this might play out for 2Q13, the notion that the first two months of the quarter have been, on average, almost flat, puts quite a bit of pressure on June's figures to provide a clue as to how the consumer fares.

In terms of inflation the situation has not changed from April at the core level, rising only 0.1% after remaining flat the month prior. The YoY figure was stable at 1.1% for the reading which is on par with the shift the month prior and further signals that the Fed's policies are not translating into accelerated inflation for the time being. With that being the case, we expect this month's inflationary reading to continue to favor the Fed's current policy action.

Chart 1

Real Personal Income and Spending YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

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