

First Read**US Economic Comment****Q2 consumption (+5%) bouncing back from soft Q1****Economics**

Americas

Strong spending, softer income, core PCE a soft 0.2% m/m

Income, spending, and PCE prices roughly matched expectations in May, with a sharp acceleration in Q2 real spending growth, continued core inflation momentum, and a still-slipping saving rate.

Nominal spending rose 0.4% as expected but was revised up to 1.1% from 1.0% in Apr. Income rose 0.2% (cons 0.3%, UBSe 0.2%) but was revised up to 1.1% from 1.0% in Apr. Core PCE prices were on the soft side, rising 0.2%, but only just (0.162% before rounding), and after downward revision to Q1 reported in yesterday's GDP report.

Spending growth is being supported by a falling saving rate. The saving rate fell to 5.3% in May from a recent peak of 6.0% in March. We expect that downtrend to continue. Please see "Will Personal Saving Rate Upset Forecasts?" [LINK](#)

Spending boom: real consumer spending up at almost a 5% a.r. from Q1

Real consumer spending is rising at a 4.8% annual rate so far in Q2 versus Q1. Even with the downward revision to Q1 reported in yesterday's GDP report (to 1.5% pace from 1.9%), the result is year to date real spending growth up at a decent 2.3% annual rate from Q4—and with an accelerating trend.

The strength puts upward pressure on our forecast for Q2 real GDP growth. We have been estimating a 2.0% annual rate; the latest figures are more consistent with a 3¼% pace for real GDP growth (allowing for some of that consumption growth to be met through imports and inventories).

Somewhat softer core PCE inflation—but still up at a 2.0% a.r. year to date

May core PCE prices, at 0.162% m/m before rounding, came in on the softer side of our expectation. Combined with the revision to Q1 (2.0% rather than 2.1%), the result is core inflation up at a 2.0% annual rate year-to-date. That's a decent acceleration from the 1.4% y/y in Q415, and it's above the Fed's projections for this year, but it is not quite as strong an acceleration as figures had suggested before yesterday's GDP and today's personal income report.

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