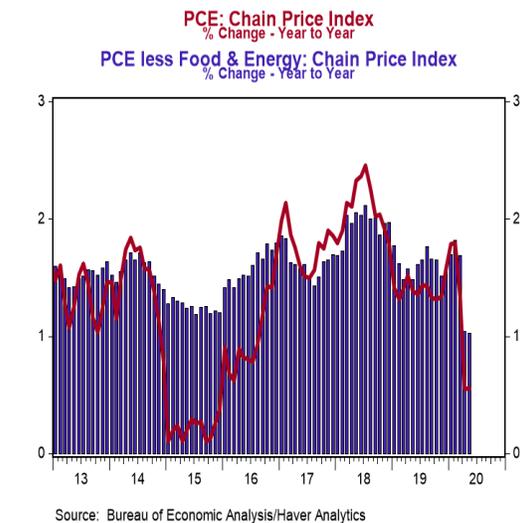
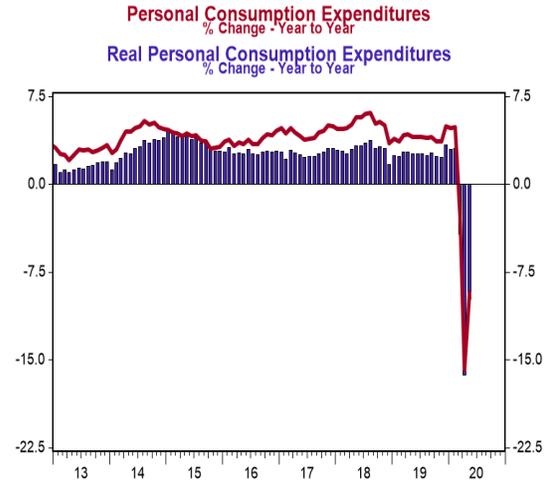


May Personal Income and Consumption

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- Personal income declined 4.2% in May, beating the consensus expected decline of 6.0%. Personal consumption rose 8.2% in May, lagging the consensus expected 9.3%. Personal income is up 7.0% in the past year, while spending has declined 9.3%.
- Disposable personal income (income after taxes) fell 4.9% in May, but is up 8.8% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.1% in May and is up 0.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in May and is up 1.0% in the past year.
- After adjusting for inflation, “real” consumption increased 8.1% in May but is down 9.8% from a year ago.

Implications: Spending rose and government transfer payments (think the \$1,200 “economic impact payments”) fell, as the reopening of America kicked into gear in May. As expected, incomes took a hit coming off the inflated April number that reflected government stimulus checks. While unemployment benefits jumped in May, and private sector wages and salaries turned higher, they were simply no match for the decline in CARES act stimulus payments. Outside of government transfer payments, personal income rose by 1.6% in May, led higher by wages in salaries, which should come as little surprise given the net 2.5 million jobs that returned in May. Even with the increased spending and decline in incomes, the savings rate remained elevated in May at 23.2%. This is down from the 32% rate we saw back in April, but still well above “normal” levels. As we noted in this week’s [Monday Morning Outlook](#), these savings represent pent-up demand, yes, but also borrowing from the future. The next few months will continue to see the numbers muddled by the extraordinary measures taken in response to COVID-19, but what is clear is that the economy has turned the corner and the recovery process is under way. On the spending side, personal consumption surged 8.2% in May, the largest monthly increase in the report’s history (through coming off two straight months of record monthly declines). The rise was led by spending on goods, which grew 14.1%. Within the category, durable goods led the way, as consumers picked up purchases of autos and recreational goods and vehicles. Spending on services rose 5.4% in May, as, once again, health care spending showed one of the largest movements, up 23.7%. While spending rose across most major categories, a few highlights in May include spending on museums and libraries (+130.1%), air transportation (+111.0%), shoes and footwear (+53.6%), hotels (+48.9%), dental services (+43.2%), furniture (+32.8%), and hairdressers (+20.0%). On the inflation front, PCE prices rose 0.1% in May and are up 0.5% from a year ago. Core prices, which exclude food and, more importantly, the very volatile energy component, also rose 0.1% in May, and core prices are up 1.0% from a year ago. We expect to see prices start moving gradually higher as the recovery progresses. While the news is dominated by concerns over the increase in cases in states like Arizona, Texas, and Florida, the nation as a whole continues to see activity on the rise. And the states experiencing their first wave of COVID are far better prepared – with better hospital planning and increased testing capacity – than the states that battled the virus back in March and April. We do not expect to see a return to large-scale shutdowns, but continued economic progress, though the pace of growth may be lumpy geographically in the weeks and months ahead.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-20	Apr-20	Mar-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-4.2%	10.8%	-2.2%	16.0%	10.6%	7.0%
Disposable (After-Tax) Income	-4.9%	13.1%	-2.1%	23.2%	14.0%	8.8%
Personal Consumption Expenditures (PCE)	8.2%	-12.6%	-6.6%	-39.3%	-20.8%	-9.3%
Durables	28.6%	-12.4%	-12.4%	-4.9%	-3.7%	-0.3%
Nondurable Goods	7.7%	-14.0%	3.9%	-14.1%	-6.3%	-2.4%
Services	5.4%	-12.2%	-8.9%	-49.4%	-27.2%	-12.7%
PCE Prices	0.1%	-0.5%	-0.2%	-2.4%	-0.2%	0.5%
"Core" PCE Prices (Ex Food and Energy)	0.1%	-0.4%	-0.1%	-1.5%	0.4%	1.0%
Real PCE	8.1%	-12.2%	-6.4%	-37.8%	-20.6%	-9.8%

Source: Bureau of Economic Analysis