



UNITED STATES

Growth in U.S. consumption returns to a more normal pace

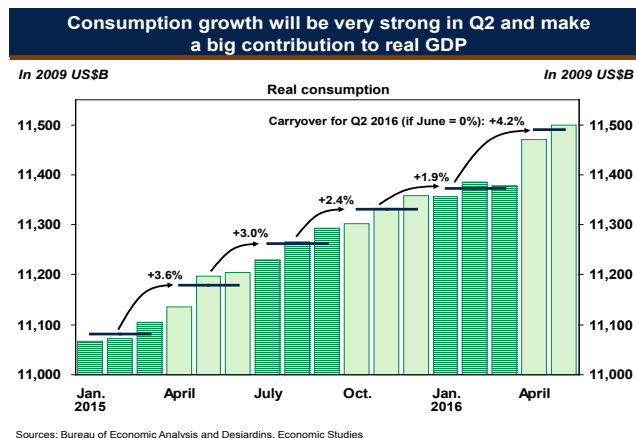
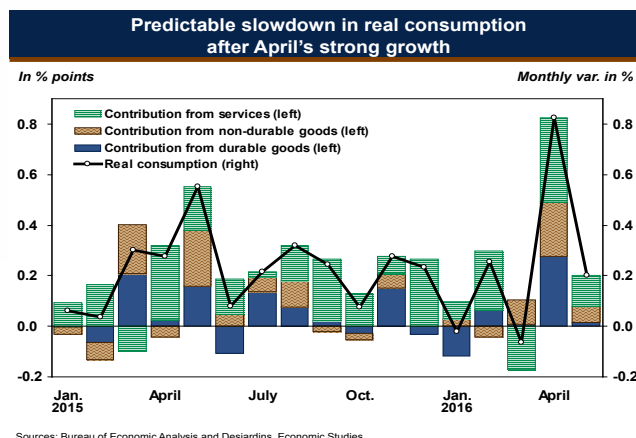
HIGHLIGHTS

- Real consumption rose 0.3% in May after jumping 0.8% in April (revised from 0.6%) and edging down 0.1% in March. Spending on durable goods increased 0.6%. Consumption of non-durable goods advanced 0.5%. Consumption of services rose only 0.1%.
- Real disposable personal income increased 0.1%.
- The household savings rate went from 6.0% in March to 5.4% in April, and then to 5.3% in May, its lowest point in 2016.

COMMENTS

It was clear after April's strong performance by consumer spending that May's results would be lower, something also suggested by retail sales, auto sales, and energy production. The data on consumption released today is still quite encouraging. The upgrade to April's data, which was already strong, combined with the fact that May's monthly growth in real consumption is a little better than the consensus forecast (0.2%). The only dark spot in the picture is the slowdown in disposable income, which reflects May's disappointing job creation. That decline hurt the savings rate, but it had been particularly high to date in 2016.

Implications: On the heels of last winter's modest performance, we can expect consumption to make a big contribution to real GDP growth in the second quarter. The carryover for real household spending is now 4.2%, assuming that real consumption stagnates in June. Also, June's rebound in consumer confidence is promising for the quarter's last month and consumption could therefore be even stronger. Annualized real GDP growth could therefore close in on 3% for the second quarter. What remains to be seen is whether the outcome of the referendum in the United Kingdom and its immediate impact on the financial markets will affect U.S. confidence over the summer, which could negatively affect the third quarter's economic growth.



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