May consumer spending disappointingly weak

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WASHINGTON — U.S. consumers boosted their spending only modestly in May, a disappointment to economists who said the weaker-than-expected gain will likely mean a lesser economic rebound in the April-June quarter than many had envisioned.

Spending rose just 0.2 percent last month after no gain in April, the Commerce Department said Thursday. The two months followed a robust spending surge of 0.8 percent in March.

Income rose a solid 0.4 percent in May after a 0.3 percent April gain.

Last month's 0.2 percent gain in spending was just half the increase that analysts had been expecting. Some said that unless June brings a big increase, spending may not provide as much support to the economy in the second half of the year as they had been expecting.

Paul Dales, senior U.S. economist at Capital Economics, said consumer spending may end up rising at an annual rate of 1.7 percent in the April-June quarter, which he said "wouldn't be much of a rebound" from the sluggish 1 percent growth in consumer spending last quarter.

Consumer spending is closely watched because it accounts for about 70 percent of economic activity.

Dales said strength in other areas should still lift economic growth to around a 3 percent annual rate in the current quarter after a dismal 2.9 percent annual decline in economic output in the first three months of the year.



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Conquisia Tyler, right, gives change to a customer at Sam's Club in Bentonville, Ark., on June 5. The Commerce Department released figures for personal income and spending for May on Thursday.

Jennifer Lee, senior economist at BMO Capital Markets, agreed that the spending figure was pointing to economic growth of around 3 percent in the second quarter, instead of the 3.8 percent she had earlier forecast.

An inflation gauge that's closely monitored by the Federal Reserve has risen 1.8 percent over the past 12 months through May, the fastest rise since late 2012 but still below the Fed's 2 percent target.

In May, spending on durable goods jumped 0.7 percent, a rebound after having fallen 0.9 percent in April. In May, auto dealers reported their best sales month in nine years, helped by brisk demand for SUVs and pickup trucks.

Sales of nondurable goods rose 0.2 percent in May after a stronger 0.4 percent April gain, while spending on services such as rent and utilities increased a modest 0.1 percent.

The inflation gauge the Fed watches edged up 0.2 percent in May. The 1.8 percent increase over the past 12 months was up from a 12-month increase of 1.6 percent in April and increases 1 percent or less for much of the past year.

But the Fed at its meeting last week expressed no concerns about the slight uptick in inflation. It was a signal to financial markets that the Fed is comfortable keeping interest rates at record low levels for now to give the economy a boost. Many analysts believe the Fed's first rate hike will not occur until the summer of 2015.

The government reported Wednesday that overall economic growth, as measured by the gross domestic product, shrank at an annual rate of 2.9 percent in the January-March quarter. That's the biggest drop since the depth of the recession five years ago.

But analysts said the big dip reflected temporary facts such as harsh winter weather that cut into consumer and business activity.