



Economics Group

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May Consumer Spending Stronger Than Expected

Personal income increased for the 10th straight month and consumer spending increased a more-than-expected 0.2 percent. Five straight months of job growth helped lift wages and salaries 0.5 percent in May.

Wage Growth Fuels Spending, But May Not Last

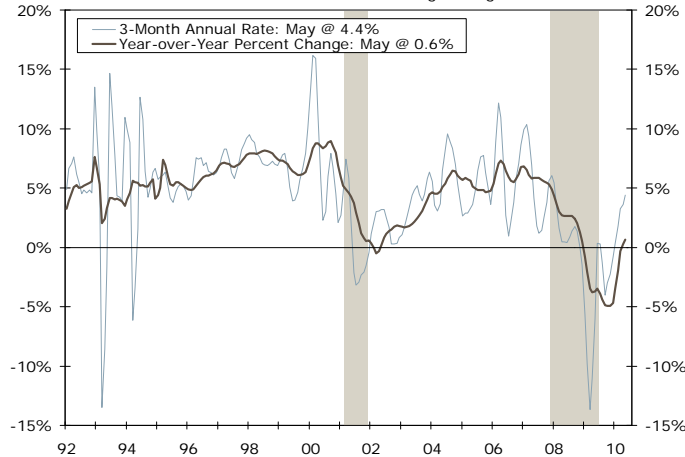
- The recent strength in wage and salary growth has brought the three month annualized growth rate to the highest level since the recession began. While the gains may seem at odds with the weak private sector jobs data, hours worked have increased and earnings from those with jobs are growing. Second quarter spending likely grew at a 2.7 percent rate, but the strength in spending may roll off in coming months as job growth slows.

Saving Rate Picks Up; Inflation Benign

- The personal saving rate climbed to 4.0 percent. This may be a sign of a new post-recession mentality in which income gains will translate into growth not only in spending but in saving as well. We look for modest personal income gains to fuel both saving and spending increases in the second half of the year.
- Inflation remains a non-issue with the core deflator up just 0.2 percent in May and only 1.3 percent over the past year.

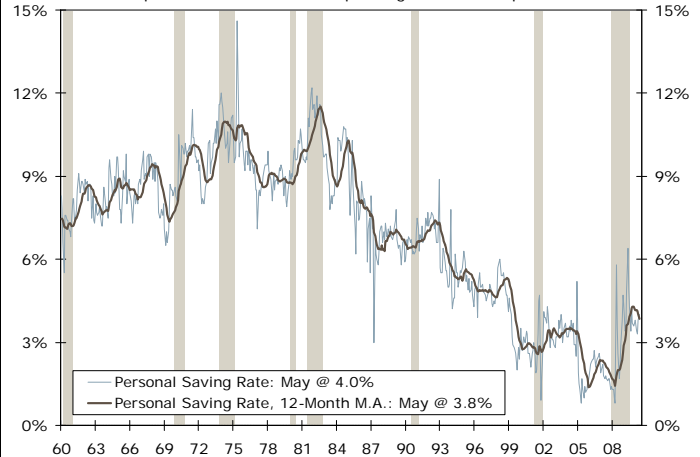
Wages and Salaries

Both Series are 3-Month Moving Averages



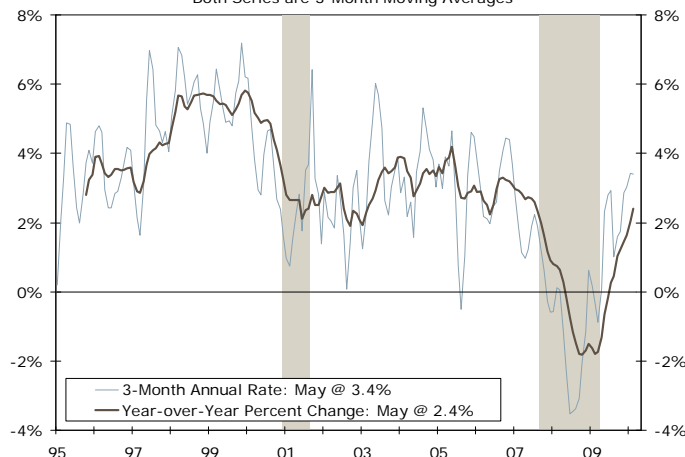
Personal Saving Rate

Disp. Personal Income Less Spending as a % of Disp. Income



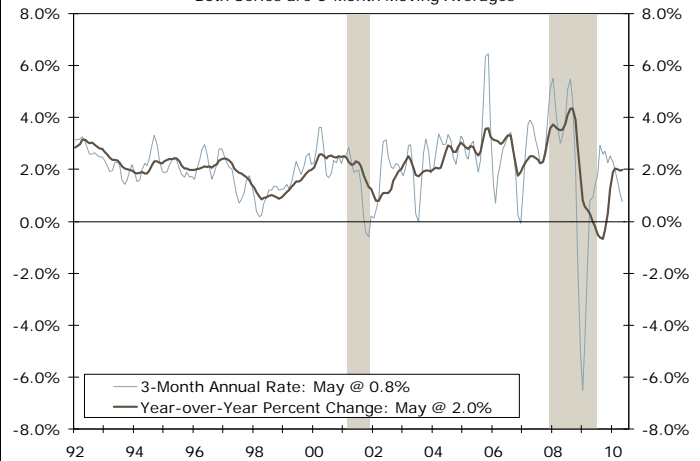
Real Consumer Spending

Both Series are 3-Month Moving Averages



PCE Deflator

Both Series are 3-Month Moving Averages



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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