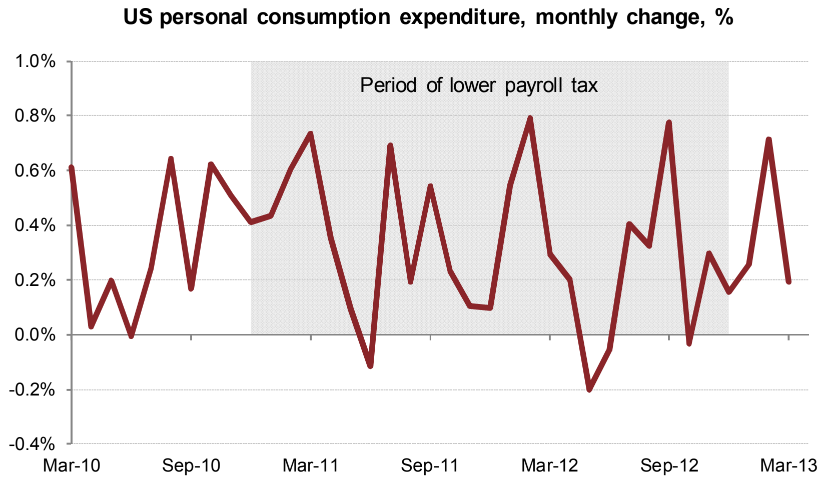
STEIN BROTHERS

LONDON-STOCKHOLM

US personal spending OK

- **Spending weak but not as weak as expected**
- **Q1 GDP could potentially be revised up**
- **Soft spot will not be too soft**

Today's US personal income and spending number was not great. But nor was it as bad as expected. At 0.2%, the monthly rise in spending was slightly lower than the 0.3% average over the past 12 months (the difference narrows if you go to the second decimal), but this period was distorted by the 0.7% jump in February spending. The series is in any case highly volatile.



Nevertheless, there are a few points which perhaps deserve to be made. The rise was marginally stronger than expected. That could mean an eventual upward revision of the (disappointing) Q1 growth data in coming months. Much of the strength came in spending on services, which are generally forecast to slow in the current quarter. It is likely that Q2 2013 will turn out to be a 'soft spot' in the US recovery. But, crucially, other data remains reasonably healthy and the soft spot, while it will show below-trend growth (ie, below 2-2½%) need not be as soft as expected. Output growth should remain positive and could still be in the 1-2% range, although it is admittedly too early in the quarter to make any firmer forecast. However, monetary data, including commercial & industrial and consumer credit loans, has improved so far in April. The soft spot should also be a very short one and the outlook for 2013 remains one where the US economy increasingly diverges from that of the euro area, which should mean continued dollar strength and attractive US risk asset prices.

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