Consumer spending in the U.S. grew less than forecast in May as Americans used gains in income to shore up household finances.

Purchases, which account for about 70 percent of the economy, climbed 0.2 percent after being little changed in April, Commerce Department figures showed today in Washington. The median forecast of 76 economists in a Bloomberg survey called for a 0.4 percent rise. Incomes advanced 0.4 percent and the saving rate increased to an eight-month high.

Today's report dims the outlook for a pickup in growth after figures yesterday showed consumer spending in the first quarter grew at the weakest pace in five years, restrained by a drop in health-care outlays. Sustained progress in the job market and even bigger income gains are needed to give households the means to cope with rising fuel and food costs.

“Clearly the consumer is getting a bit squeezed here,” said Nariman Behravesh, chief economist at IHS Inc. in Lexington, Massachusetts, who correctly projected the gain in spending. “The second quarter could come in a little lower” than currently projected.

Another report today showed claims for jobless benefits dropped by 2,000 last week to 312,000, signaling steady progress in the job market, according to figures from the Labor Department.

Stocks fell for the third time in four days after the reports. The Standard & Poor’s 500 Index dropped 0.6 percent to 1,947.53 at 10 a.m. in New York.

More Inflation

The Commerce Department’s report also showed inflation was inching closer to the Federal Reserve’s goal. The price measure tied to consumer spending watched by the Fed rose 0.2 percent in May from the prior month and was up 1.8 percent from a year earlier. That was the biggest 12-month increase since October 2012. The central bank’s goal is for inflation to climb at around 2 percent.
Projections for spending ranged from gains of 0.1 percent to 0.6 percent. The previous month’s reading was initially reported as a drop of 0.1 percent.

The Bloomberg survey median called for incomes to rise 0.4 percent. The prior month’s income figure was unrevised from the previously reported 0.3 percent gain.

**GDP Slump**

The economy contracted at a 2.9 percent annualized rate from January through March, the biggest drop-off since the first quarter of 2009, the Commerce Department reported yesterday. Consumer purchases grew at a 1 percent annualized rate, the weakest pace in five years and revised down from a prior estimate of 3.1 percent. Some of that was related to health-care services.

The **Bureau of Economic Analysis** had estimated that major provisions of President **Barack Obama**’s signature health care law would boost outlays and instead a survey earlier this month showed a decline.

Today’s report showed that adjusting spending for inflation, which generates the figures used to calculate gross domestic product, purchases dropped 0.1 percent last month after falling 0.2 percent in April.

Purchases of durable goods, including automobiles, increased 1 percent adjusted for inflation, following a 0.9 percent drop. Auto sales accounted for more than half of the gain, according to the report.

**Auto Sales**

**Cars (SAARTOTL)** and light trucks sold at a 16.7 million pace in May, the fastest rate since February 2007.

“Spending has been concentrated in the automobile sector, and consumers have less money left to spend on other things,” Yelena Shulyatyeva, a U.S. economist at BNP Paribas in New York, said before the report. “If consumers choose to spend on one thing, they’ll spend less on something else. Without much of a financial accelerator, we can’t have an acceleration in spending.”

Purchases of non-durable goods, which include gasoline, decreased 0.3 percent in May after adjusting for inflation on the heels of a 0.1 percent drop the prior month, today’s report showed.

Household outlays on services declined 0.2 percent after adjusting for inflation, the biggest
drop-off since August 2012. The category, which includes tourism, legal help, health care, and personal care items such as haircuts, is typically difficult for the government to estimate accurately.

**Trim Forecasts**

Today’s figures may prompt economists to rein in second-quarter growth forecasts. Currently, GDP is projected to grow this quarter at a 3.5 percent rate, according to the median forecast in a Bloomberg survey conducted June 6 to June 11. Household purchases are expected to rise 3 percent, it showed.

Some companies are concerned about demand. Shoe Carnival Inc. (SCVL), an Evansville, Indiana-based footwear retailer, said shopper traffic has slowed in the past two quarters, and the harsh winter weather in early 2014 meant customers received high utility bills they would’ve had to pay later.

“You combine this fact with higher health-care costs along with unemployment and underemployment, we along with many other retailers have taken a cautious stance on the second quarter,” Clifton Sifford, chief executive officer, said during a conference presentation on June 11.

Disposable income, or the money left over after taxes, rose 0.2 percent in May for the second month after adjusting for inflation, according to today’s report.

The saving rate increased to 4.8 percent, the highest since September, from 4.5 percent.

To contact the reporter on this story: Shobhana Chandra in Washington at schandra1@bloomberg.net

To contact the editor responsible for this story: Carlos Torres at etorres2@bloomberg.net

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