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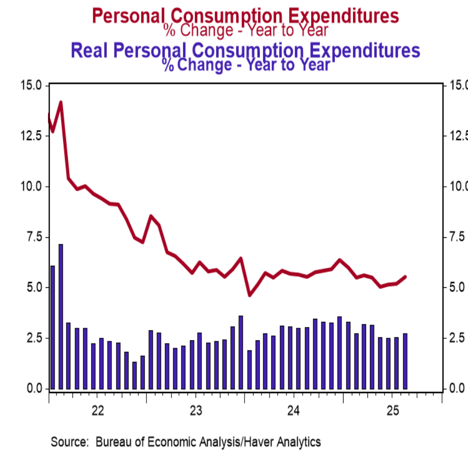
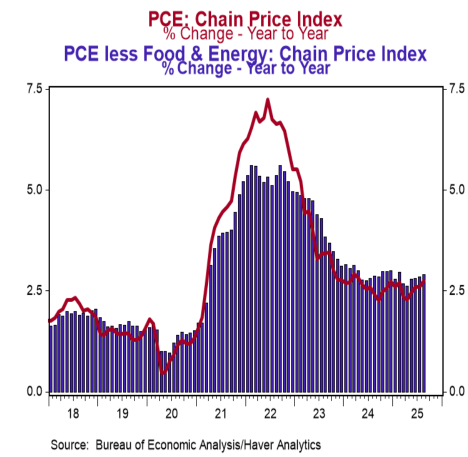
August Personal Income and Consumption

Andrew Opdyke, CFA – Senior Economist
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- Personal income rose 0.4% in August, beating the consensus expected +0.3%. Personal consumption increased 0.6%, versus a consensus expected +0.5%. Personal income is up 5.1% in the past year, while spending has increased 5.6%.
- Disposable personal income (income after taxes) rose 0.4% in August and is up 4.7% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in August and is up 2.7% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.2% in August and is up 2.9% in the past year.
- After adjusting for inflation, "real" consumption rose 0.3% in August and is up 2.7% from a year ago.





Implications: It's been a strong summer for consumers. Following healthy growth in June and July, both income and spending grew at an outsized pace in August, rising 0.4% and 0.6%, respectively. On the income front, private-sector wages and salaries increased 0.3% in August while government transfer payments rose 0.4%. Although we'd like to see private earnings rising faster than government transfers – which are not a reliable (or desirable) long-term source of income – a 0.4% gain after no change in July represents a slowdown in these transfers, which rose 0.9% or more in five of the first six months this year. On the spending front, personal consumption rose 0.6% in August with broad-based growth. Spending on goods jumped 0.8% led by recreational goods & vehicles and gasoline. Services spending rose 0.5% with transportation services and food services & accommodations increasing the most. Some of the increases may reflect tariff impacts on goods prices, but as we have noted in other pieces on inflation, higher consumer spending in some categories is largely being offset by declines in other categories, and inflation has shown little net movement in response to the tariffs. PCE prices, the Feds preferred inflation metric rose 0.3% in August while the year ago reading rose to 2.7%. That 2.7% pace in the past twelve months is up from the 2.4% rate for the twelve-months ending August of 2024, but it's important to note that inflation readings – while a bit volatile from month to month – are up at a more modest 2.2% annualized pace over the past six months. In other words, there has been no clear acceleration in prices since tariffs ramped up, but they continue to run above the Fed's 2% target. With M2 growth running below the historical 6% rate, we believe inflation will diminish in the year ahead. And with a weakening jobs market pushing the employment side of the dual mandate towards center stage in Fed voters' minds, it looks likely rate cuts will continue at the next meeting late-October, and we anticipate another cut in December. In other recent news, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, rose to +4 in September from +1 in August, signaling activity in that region expanded at a modest pace.

Personal Income and Spending *All Data Seasonally Adjusted*	Aug-25	Jul-25	Jun-25	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.4%	0.3%	4.2%	4.5%	5.1%
Disposable (After-Tax) Income	**0.4%**	0.4%	0.3%	4.2%	4.3%	4.7%
Personal Consumption Expenditures (PCE)	**0.6%**	0.5%	0.5%	7.1%	5.9%	5.6%
Durables	**0.8%**	1.7%	0.3%	11.8%	9.4%	6.4%
Nondurable Goods	**0.8%**	0.0%	1.1%	7.6%	2.8%	4.4%
Services	**0.5%**	0.5%	0.4%	6.2%	6.2%	5.8%
PCE Prices	**0.3%**	0.2%	0.3%	2.9%	2.2%	2.7%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.2%	0.3%	2.9%	2.5%	2.9%
Real PCE	**0.3%**	0.4%	0.3%	4.0%	3.6%	2.7%

Source: Bureau of Economic Analysis