

September Personal Income and Consumption

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

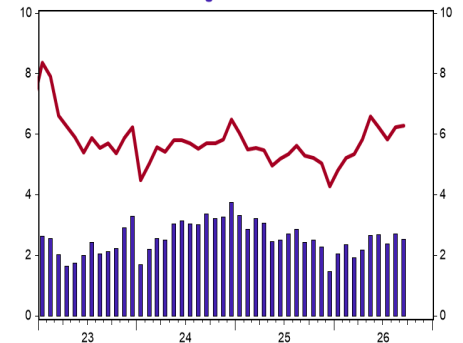
- Personal income rose 0.2% in September (+0.3% including revisions to prior months), versus a consensus expected +0.3%. Personal consumption increased 0.5% (+0.6% including revisions), versus a consensus expected +0.6%. Personal income is up 4.1% in the past year, while spending has increased 6.3%.
- Disposable personal income (income after taxes) rose 0.2% in September and is up 4.6% from a year ago.
- The overall PCE deflator (consumer prices) increased 0.5% in September and is up 3.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in September and is up 3.1% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in September (+0.1% including revisions) and is up 2.5% from a year ago.

Implications: Consumers continue to spend at a healthy clip, but inflation ate into their purchasing power in September. Starting with prices, which remain in the spotlight as the Fed set the table yesterday for a rate hike at the next meeting in December, PCE prices rose 0.5% in September and are up 3.6% in the past year. Gasoline and other energy goods prices rose 9.1% in September, leading the overall increase. Meanwhile “core” prices – which strip out the volatile food and energy components, rose 0.3% in September and are up 3.1% from a year ago. Inflation remains notably above the 2.0% target, and we aren’t arguing for the Fed to cut rates, but we believe the market is pricing in more hikes for 2027 than will come to pass. The M2 measure of the money supply rose 0.5% in September and is up 5.7% in the past year, in line with the 6% average growth rate seen in the 2010s when inflation ran consistently below 2%, and we expect inflation will trend toward the Fed’s target in the year ahead even without further rate movement. Moving on to personal income - which rose 0.2% in September – shows growth was led by private sector wages and salaries (up 0.2% in September and 4.6% in the past year) and government transfer payments, (+0.3% in September and +4.2% from a year ago). While wage growth near 5.0% sounds strong, it’s important to remember that the ongoing above-trend inflation has taken a big bite out of consumers’ purchasing power. Case in point, personal consumption rose a healthy 0.5% in September, led by spending on gasoline and other energy goods, transportation services, and housing, but with prices also up 0.5% it means the increase in spending didn’t buy more things, it simply kept pace with inflation. Spending has been running hot in 2026, with September marking the sixth time since the start of the year that consumption grew over 0.5% in a month. That has helped to outpace inflation, but it is also outpacing income. The personal saving rate — which tracks how much after-tax income is not consumed — declined to 3.8% in September and remains near the lowest readings since the COVID-era in 2022 (and before that during the Great Financial Crisis in 2008!). This low level of saving allows for more spending today but isn’t sustainable long-term.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-26	Aug-26	Jul-26	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.3%	0.3%	3.4%	3.9%	4.1%
Disposable (After-Tax) Income	0.2%	0.3%	0.4%	3.7%	4.1%	4.6%
Personal Consumption Expenditures (PCE)	0.5%	0.9%	0.2%	6.6%	7.1%	6.3%
Durables	-0.6%	1.8%	-0.8%	1.7%	4.5%	6.2%
Nondurable Goods	1.1%	1.3%	-0.3%	8.8%	6.6%	6.7%
Services	0.5%	0.6%	0.5%	6.8%	7.7%	6.2%
PCE Prices	0.5%	0.3%	0.1%	3.6%	3.3%	3.6%
“Core” PCE Prices (Ex Food and Energy)	0.3%	0.3%	0.1%	2.9%	2.9%	3.1%
Real PCE	0.0%	0.5%	0.2%	3.0%	3.7%	2.5%

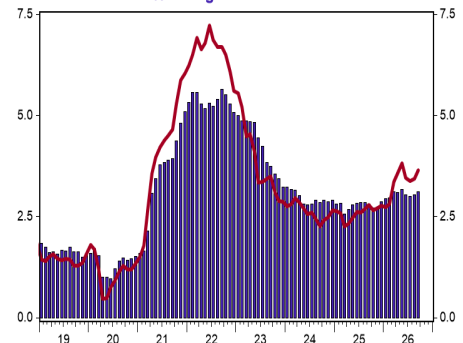
Source: Bureau of Economic Analysis

Personal Consumption Expenditures
% Change - Year to Year
Real Personal Consumption Expenditures
% Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics

PCE: Chain Price Index
% Change - Year to Year
PCE less Food & Energy: Chain Price Index
% Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics