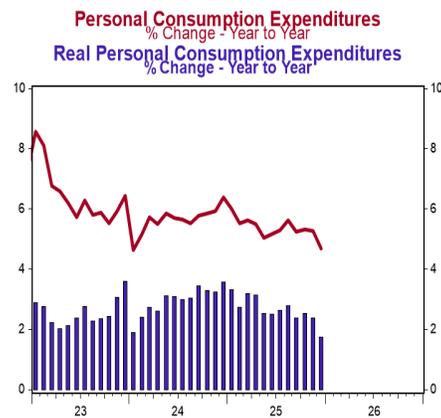


December Personal Income and Consumption

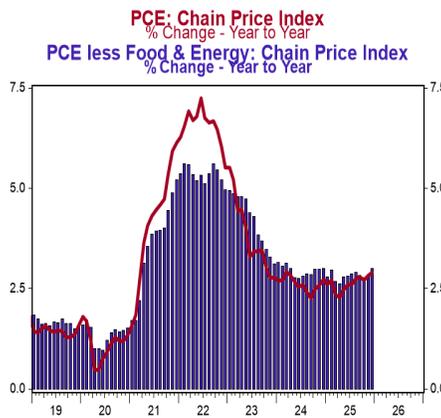
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- Personal income rose 0.3% in December, matching consensus expectations. Personal consumption increased 0.4% (+0.3% including revisions to previous months), versus a consensus expected +0.3%. Personal income is up 4.3% in the past year, while spending has increased 4.7%.
- Disposable personal income (income after taxes) rose 0.3% in December and is up 3.8% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in December and is up 2.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, also increased 0.4% in December and is up 3.0% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in December and is up 1.7% from a year ago.

Implications: Consumers closed out 2025 with healthy growth in both income and spending, up 0.3% and 0.4% in December, respectively. Unfortunately, the news on the income side is not quite as strong as the headline suggests. Private-sector wages and salaries rose 0.2% in December, the slowest pace in six months, although they finished up a solid 3.9% for the year. The largest driver of income gains in December came from transfer payments, rising 0.8%, although more than half of that increase came from a settlement paid by a utility company for the damage caused by the 2023 Maui wildfire. Government transfer payments increased 0.3% in December, finishing up a massive 9.0% in 2025. We hope to see private earnings rise at a faster pace than government transfers in the year ahead, private earnings being a more reliable (and desirable) long-term source of income. On the spending front, personal consumption rose 0.4% in December, led by a 0.7% increase for services, partially offset by a 0.1% decline in goods spending. Service spending rose 6.1% for all of 2025, compared to a 1.6% increase for spending on goods. The bad news in today’s report is that inflation accelerated unexpectedly in December, with PCE prices – the Fed’s preferred inflation metric – rising 0.4% while the year-ago reading rose to 2.9%, above the 2.7% rate for the twelve-months ending in December 2024. “Core” prices, which strip out the volatile food and energy categories, also rose 0.4% in December, as well, with the year-ago comparison moving up to 3.0%, matching the increase for the twelve-months ending in December 2024. Interestingly, the tariff-sensitive goods category was not the primary driver of inflation in 2025, rising just 1.7% over the past year. Instead it was services that led the way, increasing 3.4% over the same period. This will be worth watching in the months to come as both headline and core measures remain stubbornly above the Federal Reserve’s 2.0% target.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-25	Nov-25	Oct-25	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.4%	0.1%	3.4%	4.2%	4.3%
Disposable (After-Tax) Income	0.3%	0.3%	0.1%	3.0%	3.8%	3.8%
Personal Consumption Expenditures (PCE)	0.4%	0.4%	0.5%	5.2%	5.9%	4.7%
Durables	-0.3%	0.6%	0.1%	1.1%	2.0%	-0.8%
Nondurable Goods	0.0%	0.4%	0.0%	1.5%	3.4%	2.9%
Services	0.7%	0.4%	0.7%	7.0%	7.3%	6.1%
PCE Prices	0.4%	0.2%	0.2%	3.1%	3.0%	2.9%
"Core" PCE Prices (Ex Food and Energy)	0.4%	0.2%	0.2%	3.1%	2.9%	3.0%
Real PCE	0.1%	0.2%	0.3%	2.1%	2.9%	1.7%

Source: Bureau of Economic Analysis