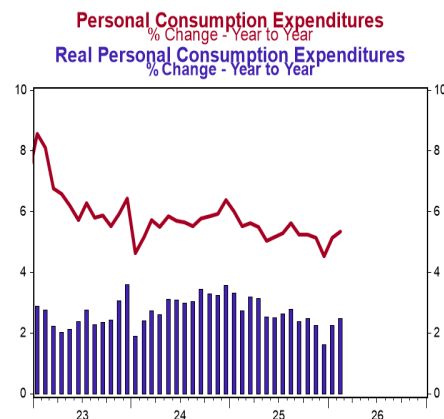


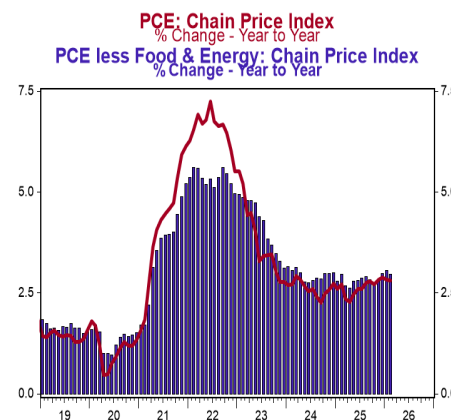
## February Personal Income and Consumption

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- Personal income declined 0.1% in February widely lagging the consensus expected +0.3%. Personal consumption increased 0.5% (+0.4% including revisions to previous months) versus a consensus expected +0.6%. Personal income is up 3.7% in the past year, while spending has increased 5.3%.
- Disposable personal income (income after taxes) declined 0.1% in February (-0.2% including revisions) but is up 3.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in February and is up 2.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, also increased 0.4% in February and is up 3.0% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in February and is up 2.5% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



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**Implications:** Incomes fell and spending rose in February, while inflation remained on everyone’s radar. The decline in income was a surprise, but not as unpleasant as the headline suggests. The drop was due to a 0.4% decline in government transfer payments, particularly smaller subsidy payments under the Affordable Care Act. Our view is that over time less government spending will help boost the private sector. In February itself, private-sector wages and salaries rose 0.2% and are up 4.6% in the past year. However, government transfers are still up 6.0% from a year ago, which shows more work needs to be done on controlling government spending. Meanwhile, personal consumption rose 0.5% in February, with a 0.9% jump in spending on goods while services spending rose 0.3%. In the past year, spending on services is up 6.4%, compared to a 3.0% increase for goods. The combination of stronger spending and weaker incomes left the savings rate at 4.0% – abysmally low. At the same time, inflation remains uncomfortably high with PCE prices – the Fed’s preferred inflation metric – up 0.4% in February, while the year-ago reading stands at 2.8%, matching where it stood in January, and virtually unchanged from the 2.7% reading for the twelve-months ending in February 2025. “Core” prices, which strip out the volatile food and energy categories, also rose 0.4% in February, with the year-ago comparison remaining at 3.0%, exactly matching the pace seen for the twelve-months ending in February 2025. Accounting for inflation, real consumption rose a modest 0.1% in February after a flat reading in January (and incomes fell). Expect volatility in the inflation readings in the months ahead as the geopolitical events in Iran, which escalated in March, start showing in the data. In other news this morning, initial jobless claims rose 16,000 last week to 219,000, while continuing claims fell 38,000 to 1.794 million, suggesting jobs growth continues, but at a modest pace.

| Personal Income and Spending<br><i>All Data Seasonally Adjusted</i> | Feb-26 | Jan-26 | Dec-25 | 3-mo % ch.<br>annualized | 6-mo % ch.<br>annualized | Yr to Yr<br>% change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| <b>Personal Income</b>  | -0.1%  | 0.4%   | 0.3%   | 2.5%                     | 2.9%                     | 3.7%                 |
| <b>Disposable (After-Tax) Income</b>                                | -0.1%  | 0.9%   | 0.3%   | 4.6%                     | 3.7%                     | 3.9%                 |
| <b>Personal Consumption Expenditures (PCE)</b>                      | 0.5%   | 0.3%   | 0.4%   | 4.9%                     | 4.7%                     | 5.3%                 |
| <b>Durables</b>   | 2.0%   | -1.0%  | 0.0%   | 3.6%                     | 2.4%                     | 4.5%                 |
| <b>Nondurable Goods</b>   | 0.3%   | -0.5%  | 0.1%   | -0.2%                    | 1.3%                     | 2.2%                 |
| <b>Services</b>   | 0.3%   | 0.7%   | 0.6%   | 6.7%                     | 6.1%                     | 6.4%                 |
| <b>PCE Prices</b>   | 0.4%   | 0.3%   | 0.3%   | 4.1%                     | 3.4%                     | 2.8%                 |
| <b>"Core" PCE Prices (Ex Food and Energy)</b>                       | 0.4%   | 0.4%   | 0.3%   | 4.4%                     | 3.4%                     | 3.0%                 |
| <b>Real PCE</b>   | 0.1%   | 0.0%   | 0.1%   | 0.8%                     | 1.2%                     | 2.5%                 |

Source: Bureau of Economic Analysis