Real After-Tax Income Fell in September, With Real Spending Flat; Inflation Picked Up

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Headlines

- **Nominal personal income rose 0.2% in September, the weakest growth since April.**
- **Nominal consumer spending rose 0.5% in September.**
- **PCE price inflation was 0.5% in September, with core PCE inflation of 0.3%.**
- **On a year-ago basis, overall PCE inflation was 3.6% in September, with core PCE inflation of 3.1%. Both of these picked up from August, and inflation has been above the Federal Reserve's 2% objective for more than five years.**
- **Consumers are under pressure from weak income growth and high inflation, but spending has managed to hold up for now.**
- **Today's release supports a fed funds rate hike at the FOMC's early December meeting.**

Details

Personal income increased a modest 0.2% in September from August before adjusting for inflation, according to the Personal Income and Outlays Report from the Bureau of Economic Analysis. This was the smallest increase in personal income since April. Wages and salaries, which are important for consumer spending, rose 0.3% over the month. There was a small drop in investment returns on the month. Disposable (after-tax) personal income also rose 0.2% in September, its smallest increase since April.

Consumer spending rose 0.5% on the month before adjustment for inflation. With spending up more than after-tax income, **the personal saving rate fell to 3.8% in September from 4.0% in August. This was the lowest personal saving rate since households were spending down their savings during the recovery from the pandemic in late 2022.** However, there was a large upward revision to the personal saving rate in the August release (the July 2026 saving rate was revised up to 4.5% from 3.0%), so the picture of household finances looks better than it did a couple of months ago. That being said, households are saving less as high inflation and a softer labor market are taking a toll on consumer finances.

The personal consumption expenditures price index rose 0.5% in September, the highest inflation since March, immediately after the U.S. conflict with Iran started. Prices for gasoline and other energy goods

jumped more than 9% on the month in September, driving up overall inflation. **The core PCE price index, which excludes volatile food and energy prices, rose 0.3% in September.** This is the same pace as in August but is up from 0.1% core inflation in June and July.

On a year-ago basis, overall PCE inflation was 3.6% in September, up from 3.4% in July and August. Core PCE inflation was 3.1% year-over-year in September, the first time it has been that high since May. The Federal Reserve has set an inflation objective of 2% for the PCE price index; **both overall and core inflation have been above that target since 2021 and have moved higher since the spring of 2025.** In his comments yesterday following the Federal Open Market Committee meeting, Fed Chair Warsh restated his commitment to returning inflation to 2%.

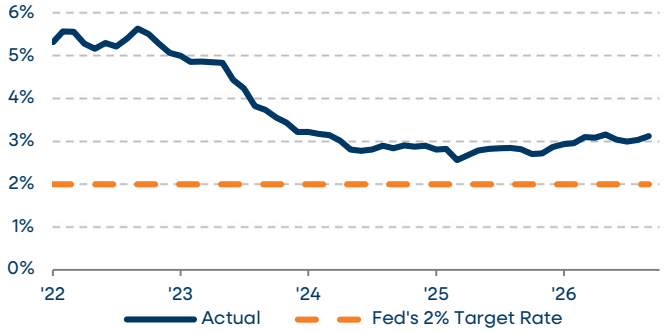
Real (inflation-adjusted) after-tax income was down 0.3% in September from August, the first decline in real income since April. Real disposable income growth was 1.0% year-over-year in September (0.95% before rounding). Outside of April, this is the first time real disposable income growth has been below 1% since late 2022, when pandemic-related government transfer payments were distorting the data.

Real consumer spending was flat in September as higher prices and slower income growth are leading consumers to be more cautious. Real spending on durable goods fell 0.8% over the month, while nondurable goods spending was flat. Real consumer services spending rose 0.2%. On a year-over-year basis, real consumer spending growth was still a solid 2.5%, down from 2.7% in August.

The September personal income and outlays report was soft. Nominal (before adjustment for inflation) disposable income growth was weak, and it was down 0.3% after adjusting for inflation. Real consumer spending was flat on the month as higher energy prices are making households rethink their spending decisions. Although the upward revisions to the personal saving rate released last month painted a better picture of household finances, the personal saving rate in September was still the lowest since the post-pandemic recovery, and outside of that the lowest since the Great Recession almost 20 years ago. Real after-tax income growth is weak due to the softer labor market and high inflation, and consumers are feeling stretched. The strong stock market and a falling saving rate have allowed consumers to continue to increase their spending, but there are no guarantees that those supports will hold up.

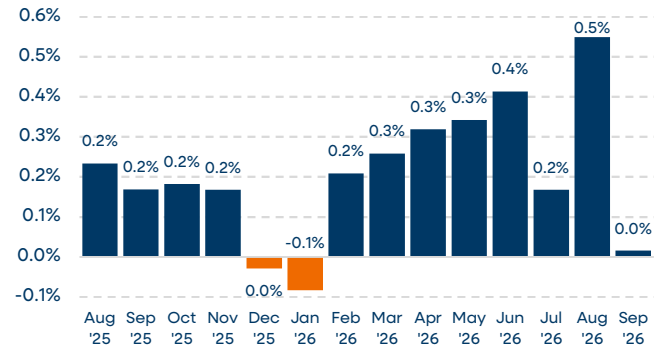
At the same time, inflation remains too high for the Fed. It has been above the 2% objective for more than five years, and is moving higher, not lower. The FOMC kept the fed funds rate, their key short-term policy interest rate, unchanged at yesterday's meeting, but **today's inflation data support a 25-basis-point hike at the FOMC's next meeting,** on December 8 and 9. PNC then expects an additional fed funds rate hike at the FOMC's mid-March meeting, which would take the fed funds rate to a range of 4.25% to 4.50% by early spring. Right now, the fed funds futures market is pricing in an 83% probability of a rate hike in December.

Figure 1: Core PCE inflation (y/y, % chg.)



Sources: BEA, PNC

Figure 2: Real consumer spending (m/m % chg.)



Sources: BEA, PNC

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