Strong Growth in Consumer Spending in August; Better Numbers on Saving

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Headlines

- **Nominal personal income rose 0.2% in August, with a 0.3% increase in after-tax income.**
- **Nominal consumer spending rose a strong 0.9% over the month.**
- **The personal consumption expenditures price index rose 0.3% in August, with the core PCE price index up 0.2%.**
- **Real after-tax income was flat in August, with real consumer spending up 0.6%.**
- **The personal saving rate was 4.1% in August, but there was a substantial upward revision to the saving rate in prior months.**
- **Overall PCE inflation was 3.4% year-over-year in August, with core PCE inflation of 3.0%.** There were methodological changes incorporated into the PCE price index with this release that reduced measured inflation, but it remains well above the Fed's target.
- **Real GDP growth was 2.2% in the second quarter, an upward revision from 1.5%.**
- **PNC's forecast is for fed funds rate hikes in December and March.**

Details

Personal income rose 0.2% in August from July, before adjustment for inflation, according to the Personal Income and Outlays report from the Bureau of Economic Analysis. Nominal disposable (after-tax) personal income (DPI) rose 0.3% over the month. Wages and salary income, which is important for consumer spending, was also up 0.3% in August. Nominal after-tax personal income rose 0.4% in July (revised down from a 0.5% increase).

Nominal consumer spending rose 0.9% in August, the biggest gain since March. Spending on energy goods and services jumped 2.5% over the month on much higher prices for gasoline and other types of energy. But even after taking out energy, consumer spending rose 0.8% in August.

With spending rising much faster than income, the personal saving rate—saving as a share of after-tax income—was 4.1% in August, down from 4.6% in July.

However, there was a substantial upward revision to personal income in 2026 in this release. For example, disposable income growth in July 2026 from a year earlier was revised up from 4.2% to 4.9%. With a much higher level of income, the personal saving rate in July was revised up to 4.6% from 3.0%. **This large upward revision to the saving rate paints a much better picture of household finances,** reducing concerns about overstretched consumers.

The personal consumption expenditures price index—the Federal Reserve's preferred inflation measure—rose 0.3% in August from July. The core index, excluding volatile food and energy prices, rose 0.2% over the month. On a year-ago basis overall PCE inflation was 3.4% in August, with core inflation of 3.0%. Both of these are well above the Fed's 2% objective, and inflation using these measures has been above the objective since early 2021.

However, there were methodological changes to the PCE price index incorporated in this release that reduced the measured rate of inflation. Year-over-year overall PCE inflation in July was 3.4% after the revisions, compared to 3.7% before the revisions. Similarly core inflation was 3.0% post-revision in July, compared to 3.3% pre-revision. Inflation remains above the central bank's target, and the revisions don't mitigate the need for fed funds rate hikes, but the Fed's task isn't quite as daunting as it previously appeared.

The BEA also released the third estimate for second quarter real GDP. **Annualized growth in the second quarter was revised notably higher, to 2.2%, from 1.5%** in the second estimate. There were upward revisions to business investment, consumer spending, and government spending in the third estimate. On a year-over-year basis real GDP growth was a solid 2.2% in the second quarter.

Core GDP—consumer spending, business fixed investment, and residential investment—rose a very strong 4.7% annualized in the second quarter, thanks to big gains in consumer spending and business investment.

The release also included the annual updates to GDP. GDP growth in the first quarter of 2026 was revised up to 2.5%, from 2.1%. The revisions indicate that economic growth in the first half of the year was much stronger than previously thought. Solid growth in consumer spending and surging investment in AI and other types of tech drove economic growth in the first part of 2026, and those drivers appear to remain in place in the second half of this year.

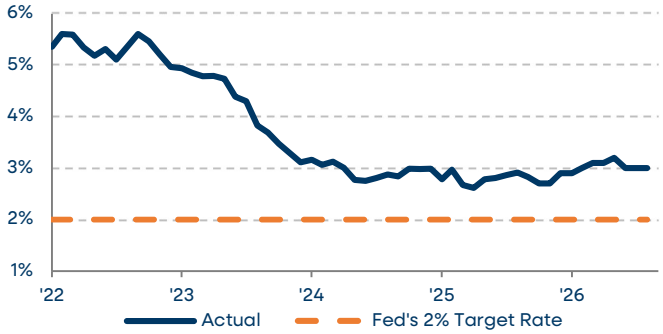
Real gross domestic income, an alternative measure of the size of the economy based on the income going to households and businesses from economic activity, increased 2.6% annualized in the second quarter, revised higher from 2.2%. Real gross domestic income growth was also revised higher in the first quarter, to 2.5% from 1.2%. On a year-ago basis growth in real gross domestic income was a strong 2.7%.

The economy is in solid shape in the fall of 2026. GDP growth was strong in the first half of the year, especially after the recent data revisions, and consumer spending has continued to expand in the third quarter. The upward revision to personal income is a positive for near-term growth in consumer spending, and higher-income households are benefiting from the strong stock market.

Tech spending has been driving the growth in business investment and was a huge contributor to second quarter growth. However, higher interest rates and concerns about returns on this investment are significant downside risks to growth in late 2026 and 2027.

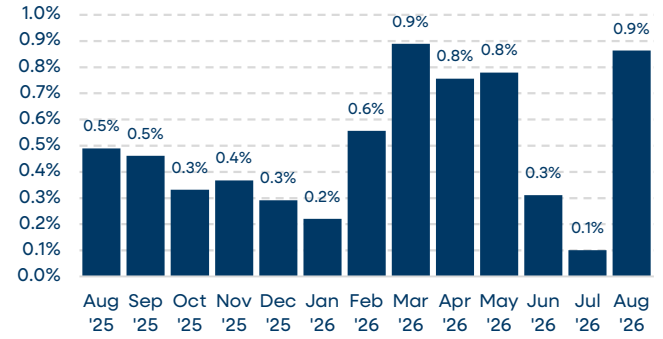
The FOMC increased the fed funds rate by 25 basis points in mid-September. Given solid economic growth and inflation that continues to run well above the Fed's 2% objective, **PNC expects additional 25 basis point rate hikes at the FOMC's December and March meetings.** This would take the fed funds rate to a range of 4.25% to 4.50% by early spring.

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



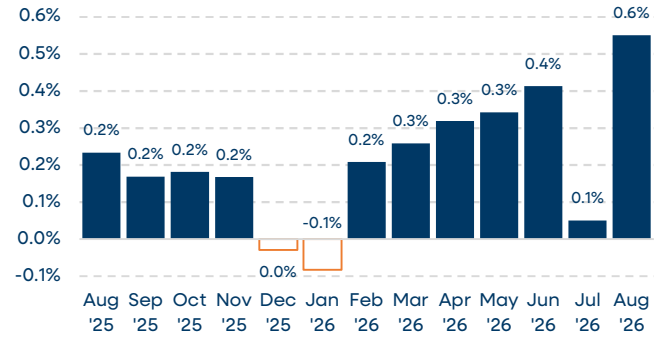
Sources: BEA, PNC

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



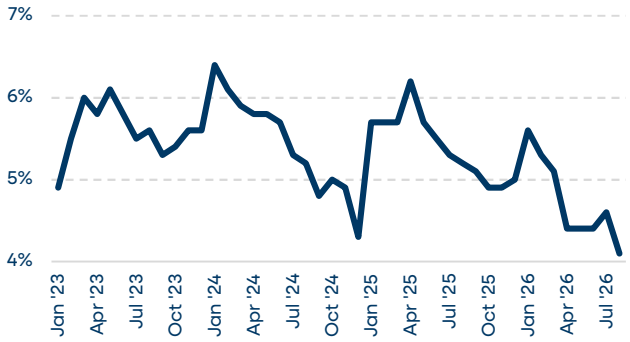
Sources: BEA, PNC

Figure 3: Real consumer spending (% chg., m/m)



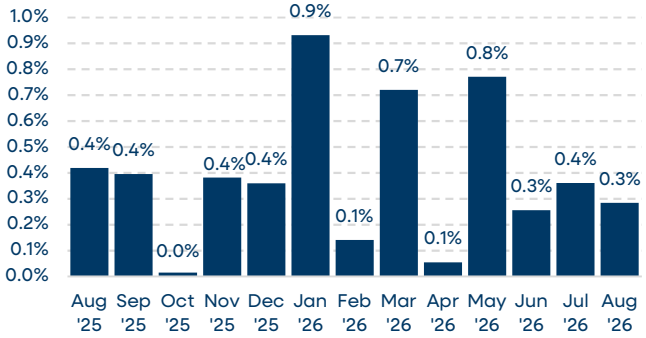
Sources: BEA, PNC

Figure 4: Personal savings as a proportion of DPI



Sources: BEA, PNC

Figure 5: Nominal DPI (% chg., m/m)



Sources: BEA, PNC

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