Quick Take: US Personal Income and Outlays (August)

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The August personal income and outlays data suggests stronger consumer spending despite relatively modest income growth. Nominal consumer spending grew 0.9%, in line with consensus expectation and accelerated from the 0.1% monthly pace in July. On the other hand, personal income disappointed, coming in at 0.2% m/m for August, decelerated from the 0.4% m/m in July. The deceleration in monthly personal income came largely from dividend income and transfers income. In inflation-adjusted terms, personal spending grew 0.6% in August, slightly higher than the consensus expectation of 0.5%, the strong growth was led by goods spending as both durable and nondurable goods spending surpassed 1% m/m. Services spending on the other hand decelerated to 0.2% m/m in August from 0.3% m/m in July. Real personal income actually declined by 0.1% in August. On inflation, the headline PCE index, rose 0.3%, in line with consensus. Core PCE increased 0.2%, A touch lower than consensus expectation of 0.3%. July's monthly pace was also revised down by 0.1 p.p. for both total and core PCE inflation. The release incorporates the 2026 annual update to the national accounts, with revisions going back to January 2021 and important methodology changes on the deflators of portfolio management and software prices. The downward revisions as well as small negative surprise on core for August brings the year-over-year of total PCE inflation to 3.4% (prev: 3.7%) and core PCE inflation to 3.0% (prev: 3.3%). Overall, the August data and the annual revision supports strong consumption growth in the US despite modest income growth. While inflation is slightly cooler than previously thought, it still remains well above the Fed's 2% target, and hence we still expect the Fed to deliver another rate hike in their upcoming October meeting.

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