GDP 3Q26 revision and Personal Consumer Expenditure during October

United States

Economy
November 26, 2026



Edgar González
edgar.gonzalez@hrratings.com
Economic Analysis and Sovereign Debt Senior Associate



Santiago Liceaga
santiago.liceaga@hrratings.com
Economic Analysis and Sovereign Debt Analyst



Ricardo Gallegos
ricardo.gallegos@hrratings.com
Deputy Chief Economic Analysis Officer



Felix Boni
felix.boni@hrratings.com
Chief Credit and Economic Analysis Officer

GDP and consumer spending, buoyed by savings and fiscal policy, stronger in the third quarter than initially reported

GDP for 3Q26 revised upwards

The Bureau of Economic Analysis (BEA) published its second estimate of real Gross Domestic Product (GDP) for the third quarter of the year. The data indicated an annualized quarterly expansion of 4.3%, marking the largest increase since 3Q23 (4.5%) and reflecting an upward revision of 0.9 percentage points (pp) from the advance estimate (3.4%). Although the primary positive adjustment in GDP contribution occurred in nonresidential investment (0.4pp)—driven by Artificial Intelligence (AI) and data center activity—Personal Consumption Expenditures (PCE) also stood out with a 0.3pp boost. This reflects an upward revision in goods that was partly offset by a downward revision in services.

With this adjustment, consumer spending in 3Q26 grew at an annualized quarterly rate of 4.2%, compared to the 3.8% increase reported in the preliminary release. While Disposable Personal Income (DPI) advanced slightly faster than previously estimated (2.4% q/q vs. 2.3% q/q), the main driver behind this additional consumption was an even lower personal savings rate. The advance estimate placed this rate at 4.1% for the period ending in September; however, the most recent figures put it at 3.9%, reaching its lowest level since 4Q22. As HR Ratings noted in its 3Q26 Personal Income and Spending report[1], the personal savings rate is the key differentiator supporting current PCE figures and remains a primary catalyst for this impressive GDP growth.

Personal Income and Spending in October

During the three-month period ending in October, PCE posted an annualized quarterly gain of 3.8% (vs. the three-month period that ended in July), as illustrated in Figure 1. Despite a moderate slowdown from the July quarter (4.0%), the start of 4Q demonstrates that household spending remains strong. A major reason for this trend is the personal savings rate, which fell by 47 basis points (bps) between those two periods (from 4.3% to 3.8%), staying at a four-year low. HR Ratings considers that a lower savings rate could continue to support consumer spending in upcoming periods despite—or perhaps because of—weak DPI growth, especially in employee compensation. Over the longer term, however, it is questionable how much longer declining savings rates can boost PCE above weaker income growth.

[1] To view the report, go to the following link: https://www.hrratings.com/pdf/Income_and_Personal_Spending_in_3Q_26.pdf

Figure 1. Quarterly Personal Income and its Disposition as of October 2026

Quarterly Data	Billions of Real 2017 USD			Real Annualized Change		
	Apr-26	Jul-26	Oct-26	Apr-26	Jul-26	Oct-26
Employee Compensation	**12,480**	**12,469**	**12,493**	**1.1%**	**-0.4%**	**0.8%**
Wages & Salaries	10,295	10,276	10,290	0.6%	-0.7%	0.5%
Supplements to W&S	2,185	2,193	2,203	3.4%	1.4%	1.8%
Proprietors' Income	**1,614**	**1,634**	**1,636**	**7.5%**	**4.9%**	**0.6%**
Rental Income	**906**	**915**	**912**	**5.0%**	**4.1%**	**-1.1%**
Personal Income on Assets	**3,560**	**3,571**	**3,585**	**-2.3%**	**1.3%**	**1.6%**
Interest Income	1,888	1,903	1,915	-2.5%	3.1%	2.6%
Dividend Income	1,671	1,669	1,670	-2.1%	-0.7%	0.4%
Personal Income before Taxes and Transfers	**18,560**	**18,589**	**18,626**	**1.2%**	**0.6%**	**0.8%**
Plus Personal Current Transfers	3,901	3,933	3,956	-2.0%	3.3%	2.4%
Less Contrib. for govt. social insurance	1,593	1,591	1,593	7.4%	-0.4%	0.5%
Personal Income before Taxes	**20,868**	**20,931**	**20,989**	**0.1%**	**1.2%**	**1.1%**
Less Personal current taxes	2,600	2,597	2,581	-10.1%	-0.5%	-2.5%
Disposable Personal Income (DPI)	**18,268**	**18,334**	**18,409**	**1.7%**	**1.4%**	**1.6%**
Less personal savings	898	791	708	1.9%	-39.9%	-35.9%
Interest payments	459	471	469	1.4%	10.5%	-1.1%
Personal current transfers	234	232	232	-4.3%	-2.8%	-0.1%
Less non pers. cons. expend.coutflows	693	703	702	-0.6%	5.8%	-0.7%
Personal Consumption Expenditures	**16,677**	**16,840**	**16,999**	**1.8%**	**4.0%**	**3.8%**
Personal Savings Rate*	**4.9%**	**4.3%**	**3.8%**	**0.3**	**-60.4**	**-47.0**
Taxes & SS less Transfers	-291	-255	-218	-25.5%	-41.2%	-47.2%

Source: HR Ratings with seasonally adjusted data from US BEA.

*Personal Savings Rate reflects the quarterly level, followed by the quarter-over-quarter change in basis points.

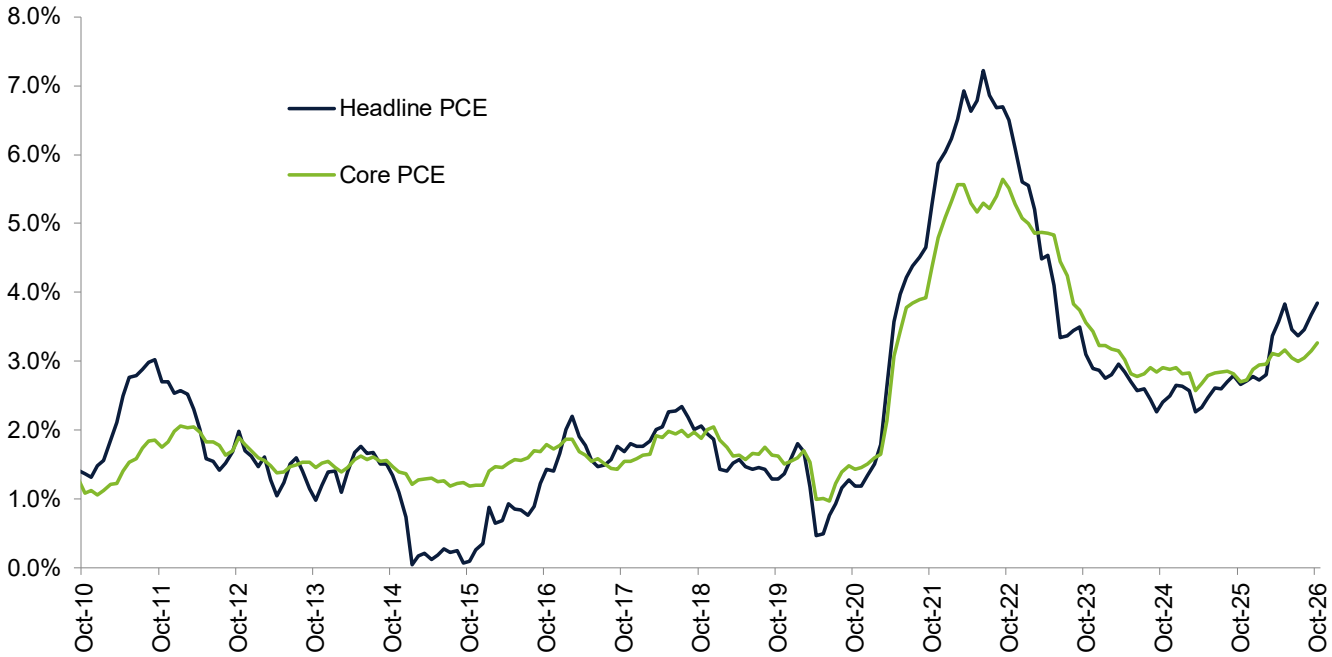
DPI expanded at a relatively modest 1.6% annualized quarterly rate, in line with prior periods. A significant factor behind this weakness was employee remuneration, which increased by a mere 0.8%—a disappointing rebound from the 0.4% contraction in the July quarter. Real growth in employee compensation has also been hindered by persistent inflationary pressures. Despite the heavy weight of employee compensation in overall DPI, total disposable income still achieved a stronger 1.6% gain. This relative improvement was largely due to a sharp 2.5% drop in personal current taxes. However, this tax decline is smaller than the one observed earlier in the year, when 1Q26 figures were heavily influenced by Internal Revenue Service (IRS) federal tax refunds and adjustments from the 2025 One Big Beautiful Bill (OBBB) tax law. In contrast, DPI was weighed down by weaker performance in proprietors' and rental income (0.6% and -1.1%, respectively) compared to previous quarters.

These positive fiscal effects are also evident in the strong 2.4% rise in personal current transfers and the mild 0.5% increase in social insurance contributions. In fact, DPI growth of 1.6% is double the 0.8% growth of personal income before taxes and transfers. Thus, fiscal policy and declining savings rates are the primary engines behind strong consumer spending. Still, given the growing federal deficit, the sustainability of this spending pace remains uncertain.

This evolution takes place amid persistently high prices, making the resilience of household spending even more notable. During October, both the Headline and Core PCE price indexes recorded a monthly change of 0.3% m/m, matching analyst consensus. On an annual basis, Headline PCE inflation reached 3.8%, while Core PCE inflation stood at 3.3%. The upward trend in both indicators has prompted the Federal Reserve (Fed) to adopt a more restrictive stance. Currently, market participants anticipate a 25bp rate hike at the central bank's December meeting, followed by another increase of the same magnitude in early 2027.

Despite the inflationary pressures shown in Figure 2, consumer spending remains resilient, as reflected in the October figures. Even though these levels rely mostly on a reduced personal savings rate and government support rather than higher disposable income, prevailing conditions still appear reasonably favorable given the high-inflation context. Assuming that AI-related investment momentum is not hampered by growing political opposition to data centers and that a possible government shutdown in December does not carry major economic consequences, U.S. economic growth this year will likely remain strong. At HR Ratings, our expansion forecast for 2026 stands at 2.5%, which implies annualized quarterly growth of 3.0% during 4Q26. Nevertheless, 2027 would begin on strong yet uncertain foundations.

Figure 2. U.S. PCE Inflation (YoY % Change)



Source: HR Ratings with data from BEA.

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Media Contact

comunicaciones@hrratings.com