

# Income and Consumer Spending in the 3Q25



Credit Rating Agency

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### US household demand softens as real income and spending lose momentum at the end of the 3Q25

According to the BEA, household conditions softened in September. The stagnation in real spending, combined with slowing income momentum, suggests that inflation adjusted household demand is losing strength as 4Q25 begins. The data reinforces our view of a cooling consumption cycle after a resilient first half of the year. On a monthly basis, real income continued to grow, but marginally. Real Disposable Income (real DPI) increased only 0.1% month over month (m/m) in September, marking the second consecutive month of weak growth following a slight gain in July. From a broader perspective, real DPI has essentially plateaued since April. This stagnation highlights slower wage growth as labor market pressures ease, a continued drag of elevated (though moderated) inflation, and limited real income capacity to drive additional consumption growth.

Meanwhile, real Personal Consumption Expenditures (Real PCE) remained unchanged following a modest gain of 0.2% in August. The September flat reading masks a clear divergence with durable (-0.5% m/m) and non-durable goods (-0.2% m/m), dropping, while real services increased 0.5%, continuing to outperform goods, but at a slower pace than earlier in the year.

Inflation developments in September point to continue but uneven disinflation. The headline PCE price index rose 0.3% m/m, while core PCE increased 0.2%, with both measures holding at 2.8% year over year (y/y). Compared to August figures, headline inflation increased from 2.7%, while core inflation decelerated from 2.9%. The lack of additional progress in inflation highlights a degree of stickiness and although the inflation continues to trend above the Federal's Reserve target of 2.0%, the slower pace real consumption might suggest that price dynamics may be approaching a turning point, aligned with softer demand conditions.

Figure 1 shows the actual annualized change in the components of personal income and consumption. The data indicates that 3Q25 marked a clear deceleration from 2Q25. Real DPI slowed from 3.1% in June to 0.4% in September, while employee compensation moderated from 2.8% at the end of 2Q25 to 1.8% in September, reflecting softer labor market momentum. On the demand side, however, real PCE strengthened modestly, rising from 2.5% in June to 2.7% in September, as this improvement largely reflects greater reliance on household savings, as the savings rate averaged 4.8% in 3Q25 compared to 5.3% in June.

Looking ahead to 4Q25, we expect household demand to remain subdued as real income growth shows limited momentum and the capacity to rely on accumulated savings gradually declines. The persistence of inflationary pressures continues to restrict real purchasing power, which, in our assessment, is unlikely to generate a significant lift to GDP in the final quarter of the year. Based on



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the data observed through the third quarter, we anticipate that the GDP of the United States will grow by 2.0% in 2025, compared to 2.8% in 2024.

**Figure 1. Real Annualized Quarterly Change in Personal Income and its Disposition**

Quarterly data	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Wages & Salaries	1.7%	2.3%	3.3%	2.8%	2.1%	1.2%	1.7%
Supplements to W&S	2.5%	2.8%	3.4%	2.9%	2.7%	2.2%	2.3%
<b>Employee Compensation</b>	<b>1.9%</b>	<b>2.4%</b>	<b>3.4%</b>	<b>2.8%</b>	<b>2.2%</b>	<b>1.4%</b>	<b>1.8%</b>
<b>Proprietors' Income</b>	<b>4.2%</b>	<b>5.9%</b>	<b>4.0%</b>	<b>-1.7%</b>	<b>-8.3%</b>	<b>-6.8%</b>	<b>-2.7%</b>
<b>Rental Income</b>	<b>3.5%</b>	<b>4.1%</b>	<b>2.9%</b>	<b>-0.8%</b>	<b>-3.6%</b>	<b>-4.4%</b>	<b>-3.2%</b>
Interest Income	-0.7%	-1.4%	-1.0%	-0.9%	-0.6%	-0.4%	0.7%
Dividend Income	1.0%	-4.0%	-1.9%	-1.5%	0.6%	-1.8%	-1.8%
<b>Personal Income on Assets</b>	<b>0.2%</b>	<b>-2.8%</b>	<b>-1.5%</b>	<b>-1.2%</b>	<b>0.0%</b>	<b>-1.1%</b>	<b>-0.7%</b>
<b>Personal Income before Taxes and Transf</b>	<b>1.9%</b>	<b>1.8%</b>	<b>2.5%</b>	<b>1.5%</b>	<b>0.5%</b>	<b>-0.1%</b>	<b>0.7%</b>
Plus Personal Current Transfers	8.4%	15.5%	14.6%	12.1%	2.9%	2.7%	1.7%
Less: Contrib. for govt. social insurance	4.1%	3.5%	3.5%	2.0%	1.5%	0.7%	1.2%
<b>Personal Income before Taxes</b>	<b>2.9%</b>	<b>4.1%</b>	<b>4.6%</b>	<b>3.3%</b>	<b>0.9%</b>	<b>0.3%</b>	<b>0.8%</b>
Less: Personal current taxes	7.3%	6.4%	6.3%	4.9%	4.4%	3.4%	3.7%
<b>Disposable Personal Income (DPI)</b>	<b>2.3%</b>	<b>3.8%</b>	<b>4.3%</b>	<b>3.1%</b>	<b>0.4%</b>	<b>-0.1%</b>	<b>0.4%</b>
<b>Less personal savings</b>	<b>44.3%</b>	<b>63.2%</b>	<b>49.4%</b>	<b>15.5%</b>	<b>-23.5%</b>	<b>-33.4%</b>	<b>-34.9%</b>
Less interest payments	-0.2%	1.3%	1.0%	-2.4%	-3.0%	-0.6%	5.5%
Less personal current transfers	-9.8%	15.3%	15.6%	15.1%	1.1%	0.8%	0.3%
Non pers. consumer expend. outflows	2.5%	3.7%	4.3%	3.1%	0.5%	-0.1%	0.3%
<b>Personal Consumption Expenditures</b>	0.6%	1.1%	2.2%	2.5%	2.0%	2.2%	2.7%
<b>Taxes &amp; SS less Transfers</b>	<b>-19.8%</b>	<b>-71.1%</b>	<b>-69.2%</b>	<b>-68.4%</b>	<b>9.4%</b>	<b>-3.2%</b>	<b>24.3%</b>

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



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