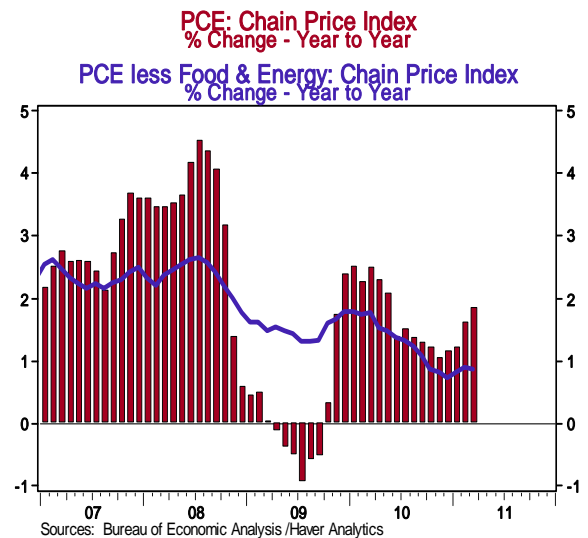
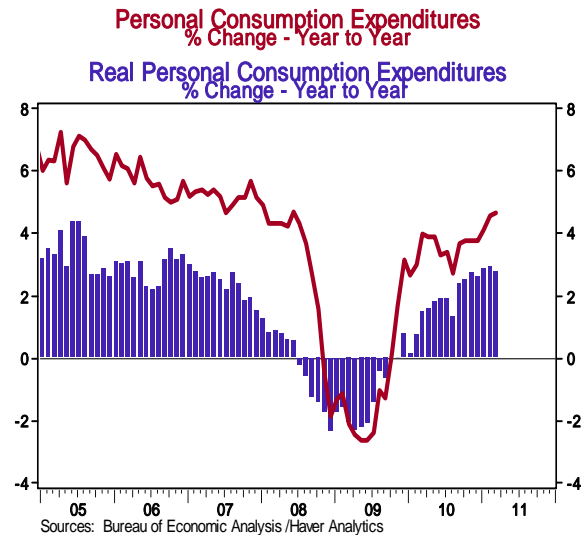


MARCH PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in March (0.6% including upward revisions to prior months). The consensus expected an increase of 0.4%. Personal consumption increased 0.6% in March (1.0% including upward revisions to prior months). The consensus had expected 0.5%. In the past six months, both personal income and spending are up at a 6.9% annual rate.
- Disposable personal income (income after taxes) was up 0.6% in March (0.7% including revisions to prior months) and is up at a 6.1% annual rate in the past six months. The rise in March was led by government transfers, private-sector wages and salaries, rental income, and dividends.
- The overall PCE deflator (consumer inflation) increased 0.4% in March and is up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in March and is up 0.9% since last year.
- After adjusting for inflation, “real” consumption rose 0.2% in March and is up at a 3.1% annual rate in the past three months.

Implications: Today’s report on personal income and spending shows inflation, but not stagflation. Despite substantially higher gas prices, “real” (inflation-adjusted) consumer spending expanded at a 2% annual rate in March and at a nearly 7% annual rate including upward revisions to prior months. In the first three months of the year, real spending is up at a healthy 3.1% annual rate. Meanwhile, nominal consumer spending is accelerating: up 4.6% versus last year but up at a 7.9% annual rate in the past three months. Certainly, inflation is a growing problem: overall consumption prices are up at a 4.7% annual rate in the past three months. Our point is that, so far, the economy is clearly weathering the oil-price storm. Much of that is due to higher private-sector earnings, where wages, salaries and small business profits are up 5.6% versus a year ago. In addition, consumer balance sheets are healthier and financial obligations (monthly payments like mortgages, rent, car loans/leases, as well as other debt service) are the smallest share of disposable income since 1995.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-11	Feb-11	Jan-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.4%	1.1%	8.6%	6.9%	5.3%
Disposal (After-Tax) Income	0.6%	0.4%	0.8%	7.3%	6.1%	4.6%
Personal Consumption Expenditures (PCE)	0.6%	0.9%	0.5%	7.9%	6.9%	4.6%
Durables	0.1%	2.1%	0.7%	12.1%	13.3%	7.6%
Nondurable Goods	0.9%	1.7%	1.4%	17.1%	13.1%	7.4%
Services	0.5%	0.4%	0.1%	4.3%	3.8%	3.2%
PCE Prices	0.4%	0.4%	0.3%	4.7%	3.4%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.2%	1.9%	1.2%	0.9%
Real PCE	0.2%	0.5%	0.1%	3.1%	3.4%	2.7%

Source: Bureau of Economic Analysis

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