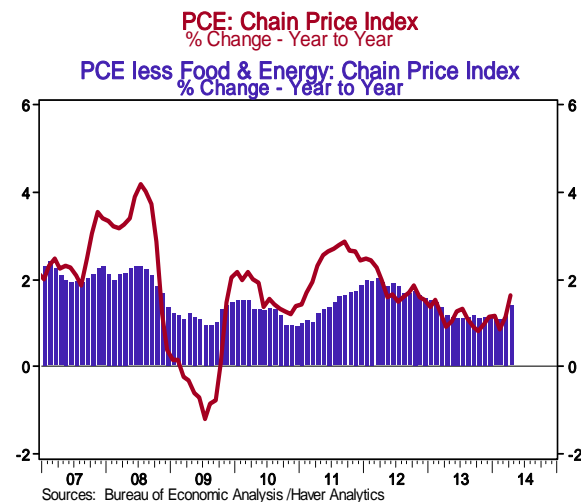
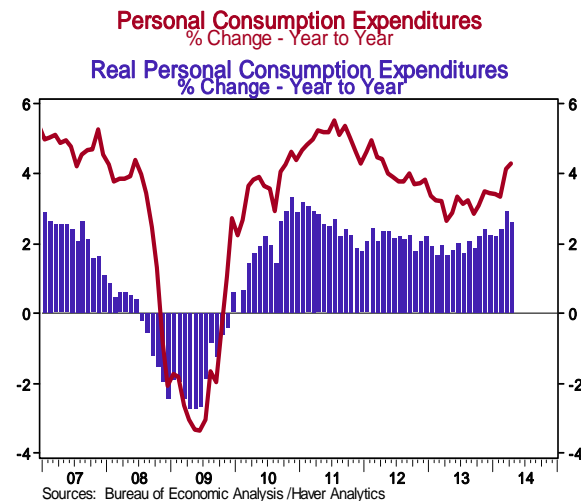


April Personal Income and Consumption

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- Personal income increased 0.3% in April, matching consensus expectations. Personal consumption declined 0.1%, coming in below the consensus expected gain of 0.2%. Personal income is up 3.6% in the past year, while spending is up 4.3%.
- Disposable personal income (income after taxes) increased 0.3% in April and is up 3.6% from a year ago. The gain in April was led by private sector wages & salaries and dividend income.
- The overall PCE deflator (consumer prices) increased 0.2% in April and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in April and is up 1.4% in the past year.
- After adjusting for inflation, “real” consumption declined 0.3% in April but is up 2.7% from a year ago.

Implications: After March, when consumers increased spending at the fastest pace in almost five years, consumers took a breather in April, with spending slipping 0.1%. This is not a big deal. Despite the slight decline in April, spending is up at a 6.1% annual rate in the past three months and a 4.7% rate in the past six months. These are faster than the 4.3% gain in the past year, so the underlying trend appears to be accelerating. Personal income matched expectations, rising 0.3% in April and is up 3.6% from a year ago. The gain in income was led by private-sector wages & salaries which were up 0.3% in April and are up 4.2% from a year ago. Over the past three months, private-sector wages & salaries have also accelerated, up at a 5.5% annual rate. We expect both income and spending to keep growing at a healthy clip. Job growth continues and we expect payroll gains of around 200,000 for May. Meanwhile, as unemployment gradually declines, employers will offer higher wages. In addition, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was up 0.2% in April, the same as “core” consumption prices, which exclude food and energy. Overall consumption prices and core prices are up 1.6% and 1.4%, respectively, in the past year, both below the Fed’s 2% target. But, as recently as October 2013 PCE prices were up only 0.8% from a year ago and we expect to hit the 2% target by year end, putting pressure on the Federal Reserve to start raising interest rates sometime in the first half of 2015. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that key region, increased to 65.5 in May from 63.0 in April. As a result, we expect the national ISM Manufacturing report (to be released Monday) to increase to 55.9 in May from 54.9 in April. After a winter lull, the Plow Horse economy is picking up her pace.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-14	Mar-14	Feb-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.5%	0.4%	5.0%	3.5%	3.6%
Disposable (After-Tax) Income	0.3%	0.5%	0.4%	5.0%	3.4%	3.6%
Personal Consumption Expenditures (PCE)	-0.1%	1.0%	0.6%	6.1%	4.7%	4.3%
Durables	-0.5%	3.6%	1.3%	18.7%	3.9%	4.1%
Nondurable Goods	0.1%	0.4%	1.0%	6.1%	2.5%	4.1%
Services	-0.1%	0.8%	0.3%	4.2%	5.7%	4.4%
PCE Prices	0.2%	0.2%	0.1%	1.8%	1.6%	1.6%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.1%	1.8%	1.5%	1.4%
Real PCE	-0.3%	0.8%	0.5%	4.2%	3.1%	2.7%

Source: Bureau of Economic Analysis

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.