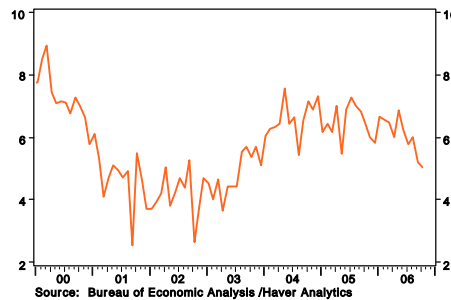


OCTOBER PERSONAL INCOME AND CONSUMPTION

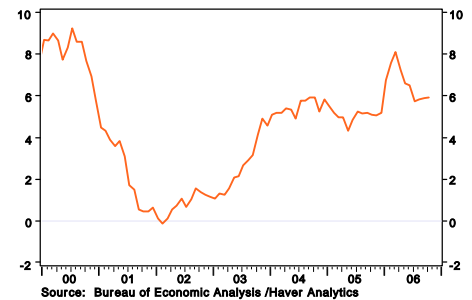
Brian S. Wesbury
Chief Economist

- Personal income increased by 0.4% in October, slightly less than the consensus expected. Wages and salaries increased by 0.6% in October and are up 6.7% at an annual rate in the past 3 months.
- Personal consumption increased 0.2% last month, slightly more than the consensus expected. After adjustment for inflation, consumption was up 0.4%. Spending on services continued to be a bright spot.
- The Personal Consumption Expenditure (PCE) deflator fell 0.2% in October, after a 0.3% decline in September. After subtracting food and energy prices, the “core” PCE deflator rose 0.2%. In the past year, overall PCE prices are up 1.5%, while “core” PCE prices are up 2.4%.

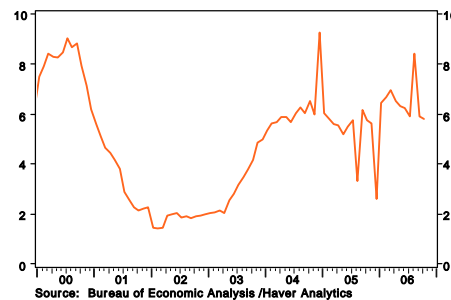
Personal Consumption Expenditures
% Change - Year to Year



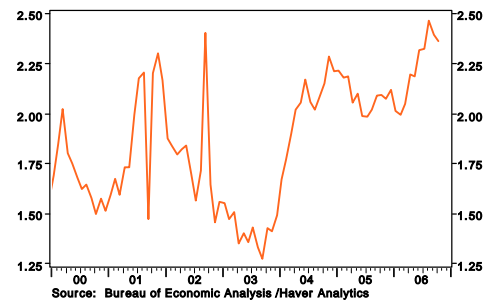
Wage and Salary Disbursements
% Change - Year to Year



Personal Income
% Change - Year to Year



'Core' PCE
% Change - Year to Year SA, 2000=100



Implications: Despite a sharp slowdown in housing activity and 17 Fed rate hikes, which have caused many forecasters to become very bearish, personal income and consumption data continue to show a sturdy economy. Total compensation, which includes benefits, grew by 0.6% in October. In the past three months, compensation is up 6.5% at an annual rate, while wages and salaries are up an annualized 6.7%. These increases in income are a function of strong job growth and a tight labor market. As a result, consumption has been relatively strong. While total spending increased just 0.2% in October, much of this slower growth is due to massive declines in gasoline prices. After adjusting for a 0.2% drop in the PCE deflator, real consumer spending rose 0.4%. For the fourth quarter, we expect real consumer spending to increase in the 3.0% to 3.5% annualized range, which would be faster than the 2.9% growth in Q3. “Core” inflation is still on the rise. The “core” PCE deflator is up 2.4% in the past 12 months and 2.7% at an annual rate in the past three months. This continues a trend that began back in September 2003 when the YOY “core” PCE deflator bottomed at a 1.3% rate. Separately, initial claims jumped sharply higher to 357,000 for the week of 11/25, up 34,000 from the prior week. This was the highest level of claims since October 8, 2005. While seasonal adjustment at this time of the year is difficult, it could be that layoffs in construction are beginning to affect the data.

Personal Income & Consumption <i>All data seasonally adjusted</i>	Oct-06	Sep-06	Aug-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.4%	0.5%	0.5%	6.0%	5.1%	5.8%
<i>less</i> Personal Tax and Nontax Payments	1.2%	0.4%	0.2%	7.1%	4.2%	12.1%
<i>equals</i> Disposable Income	0.3%	0.5%	0.6%	5.8%	5.3%	4.9%
Wages and Salaries	0.6%	0.6%	0.4%	6.7%	4.2%	5.9%
Personal Consumption Expenditures (PCE)	0.2%	-0.2%	0.1%	0.6%	4.1%	5.0%
Durables	0.2%	0.1%	-1.5%	-4.9%	1.4%	7.5%
Nondurable Goods	-0.6%	-1.5%	0.2%	-7.7%	-0.2%	1.9%
Services	0.6%	0.5%	0.4%	6.2%	6.8%	6.2%
PCE Deflator	-0.2%	-0.3%	0.3%	-1.1%	1.1%	1.5%
Savings Rate	-0.6%	-0.7%	-1.3%	-0.9%	-1.2%	-0.3%

Source: Bureau of Economic Analysis

*The 3 and 6 month changes in the Savings Rate are averages, the year-over-year percentage is the year-ago level

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