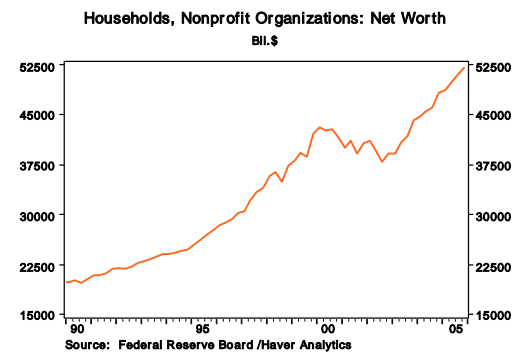
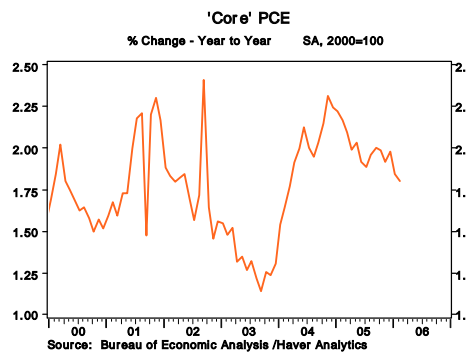
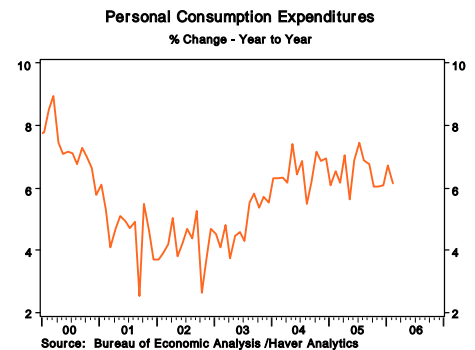
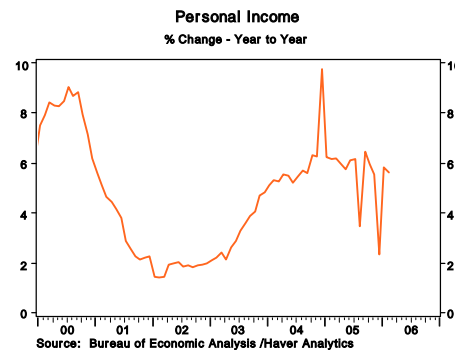


FEBRUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.3% in February versus a 0.7% increase in January. Personal income is up an annualized 6.4% in the last three months and 5.6% in the past year. Wages and salaries rose 0.4% last month and 5.1% in the past year.
- Personal consumption rose 0.1% last month after a 0.8% gain in January. Spending on services accounted for all of the gain, rising 0.9% last month – the largest gain since October 2001. Consumption is up 6.2% in the past year.
- The PCE deflator was flat last month but is up 2.9% in the past year. The “core” PCE deflator increased 0.1% last month and is up 1.8% in the past year – the upper end of the Fed’s comfort zone.



Implications: Both personal income and consumption posted modest increases in February following robust gains in January. Personal income was held back by a 3.0% decline in rental income and a 2.2% decline in farm income – likely the residual effect of hurricanes destroying property and crops. A surge in spending on services kept consumption in the black, as falling auto sales pulled durable goods sales down 1.9% and a drop in gasoline price pulled nondurable goods sales down 0.6%. These are temporary factors and we expect consumption to regain momentum in the months ahead. Once again, the headline maker out of this report is the -0.5% savings rate for the month. As we have said before, this negative savings rate is misleading. For example, capital gains on investments (stocks, mutual funds or real estate) do not count as income but the taxes paid on these gains do subtract from income. The best measure of household balance sheets is calculated by the Federal Reserve Flow of Funds. This data shows households had \$64.0 trillion assets at the end of December and a net worth of \$52.1 trillion – an all-time high. This is a \$3.9 trillion increase in net worth in the past year suggesting that households are accumulating wealth rapidly.

Personal Income & Consumption <i>All data seasonally adjusted</i>	Feb-06	Jan-06	Dec-05	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.3%	0.7%	0.5%	6.4%	11.4%	5.6%
<i>less</i> Personal Tax and Nontax Payments	0.8%	1.9%	0.6%	13.9%	10.3%	9.3%
<i>equals</i> Disposal Income	0.2%	0.6%	0.5%	5.4%	11.6%	5.1%
Wages and Salaries	0.4%	0.7%	0.5%	6.5%	5.6%	5.1%
Personal Consumption Expenditures (PCE)	0.1%	0.8%	0.7%	6.8%	5.7%	6.2%
Durables	-1.9%	1.2%	4.0%	13.4%	0.2%	1.5%
Nondurable Goods	-0.6%	2.0%	0.1%	6.0%	5.3%	7.6%
Services	0.9%	0.1%	0.4%	6.0%	7.1%	6.4%
PCE Deflator	0.0%	0.5%	0.0%	2.1%	2.5%	2.9%
Savings Rate	-0.5%	-0.5%	-0.3%	-0.4%	-0.3%	0.5%

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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