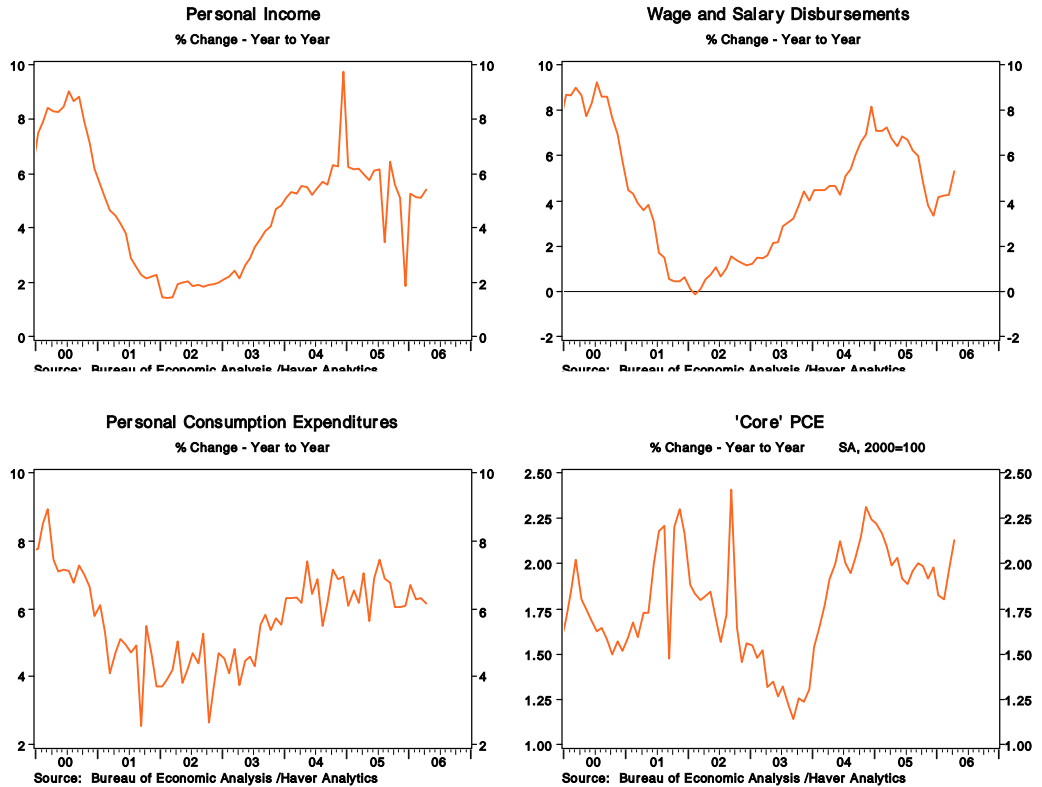


APRIL PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in April, after an identical increase in March. Personal income is up 5.4% in the past year. Wages and salaries jumped 0.9% and are up annualized 7.7% in the last three months and 5.3% in the past year.
- Personal consumption increased 0.6% last month after a 0.5% gain in March. Consumption is up 6.2% in the past year.
- The PCE deflator increased 0.5% last month and is up 2.9% in the past year. The “core” PCE deflator increased 0.249% and is up 2.1% in the past year.

Implications: While the increase in both personal income and personal consumption expenditures was weak in April in respect to consensus and inflation, the underlying data tell a more complex story. Wages and salaries jumped 0.9% last month. This concurs with the recent strength in employment and hourly earnings data and suggests that wages are rising fast enough to keep consumption strong. Nonetheless, inflation is starting to take its toll on the economy. A 0.5% increase in the PCE deflator wiped out nearly all the gains in incomes and consumption during April. Real personal income was flat in April and real consumption rose just 0.1%. Even more worrisome was a 0.249% increase in the “core” PCE deflator. The “core” PCE deflator has risen 3.0% at an annual rate in the past three months – well above the Fed’s comfort zone. In fact, when the Fed was lifting the Fed Funds rate to 6.5% in 2000, the YOY gain in the “core” PCE deflator never rose above 2.0%. This makes the Fed’s mission clear. If the Fed pauses too soon, inflationary pressures will continue to rise and force the Fed to restart rate hikes later this year or early 2007. At that point, the Fed would be so far behind the inflation curve that they would need to lift rates well above neutral, which would threaten the recovery and equity markets. We believe the Fed will not make this mistake and expect them to continue to lift rates to neutral (near 6.0%). This would be monetary policy nirvana, and would allow this robust economic expansion to continue.



Personal Income & Consumption <i>All data seasonally adjusted</i>	Apr-06	Mar-06	Feb-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.5%	0.5%	0.4%	5.5%	5.6%	5.4%
less Personal Tax and Nontax Payments	1.6%	0.9%	0.9%	14.3%	16.1%	10.7%
equals Disposal Income	0.4%	0.4%	0.3%	4.4%	4.2%	4.7%
Wages and Salaries	0.9%	0.5%	0.5%	7.7%	5.9%	5.3%
Personal Consumption Expenditures (PCE)	0.6%	0.5%	0.3%	5.8%	6.9%	6.2%
Durables	0.3%	0.4%	-1.8%	-4.4%	17.7%	0.1%
Nondurable Goods	1.3%	0.4%	-0.3%	5.9%	5.2%	7.8%
Services	0.3%	0.6%	1.0%	7.8%	5.8%	6.6%
PCE Deflator	0.5%	0.4%	0.1%	3.7%	1.9%	2.9%
Savings Rate	-1.6%	-1.4%	-1.3%	-1.4%	-1.2%	-0.2%

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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