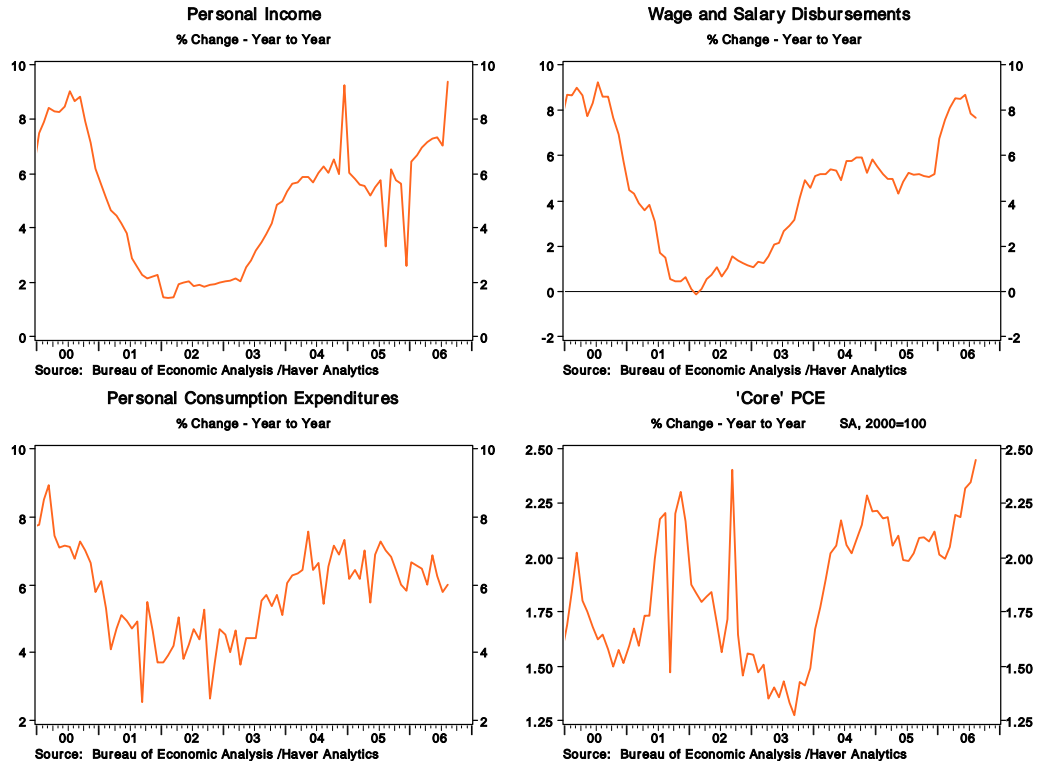


## AUGUST PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.3% in August, after a 0.5% gain in July. Personal income is up 9.4% in the past year. Wages and salaries increased 0.1% last month, and are 7.7% higher than a year ago.
- Personal consumption expenditures (PCE) increased 0.1% last month and 6.0% in the past 12 months.
- The PCE deflator increased 0.2% last month and is up 3.2% in the past year. The “core” PCE deflator rose 0.2% in August and is up 2.5% in the past year – the fastest YOY increase since 1995.

**Implications:** Personal income grew 0.3% in August, while wages and salaries increased just 0.1%. On the spending side, personal consumption rose 0.1%, the slowest increase since Hurricane Katrina hit the Gulf Coast a year ago. The weakness in this data will likely encourage more economic pessimism. But this slowdown appears to be more of a lull than a sign of significant weakness. Pauses in economic growth are normal and talk of a “landing” is premature. For example, during the six months ending in May 2005, personal income grew 4.9%, wages and salaries increased 3.5%, and personal consumption rose 5.6% (all at annual rates). These are below the current six-month annualized changes of 6.3%, 5.8%, and 6.2%, respectively. Yet the weakness during the spring of 2005 did not precede a recession; instead the economy accelerated and real GDP grew at a 4.2% rate in Q3 2005. This acceleration occurred even with the Fed hiking interest rates. With productivity booming, profits strong, and tax rates low, we expect a similar re-acceleration of growth during the end of this year. One area of the economy that is showing no signs of a pause is inflation. The “core” PCE deflator (the Fed’s preferred measure of inflation) rose 0.2% in August and is up 2.5% in the past year. This is the fastest YOY gain since 1995 and is well above the Fed’s comfort zone. We continue to believe that inflation, not slowing growth, is the real concern for investors and the Fed. We expect the next Fed move to be a rate hike; not a rate cut.



Personal Income & Consumption <i>All data seasonally adjusted</i>	Aug-06	Jul-06	Jun-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.3%	0.5%	0.6%	5.9%	6.3%	9.4%
less Personal Tax and Nontax Payments	0.0%	-0.3%	0.9%	2.0%	7.6%	14.0%
equals Disposal Income	0.4%	0.6%	0.5%	6.5%	6.1%	8.8%
Wages and Salaries	0.1%	0.6%	0.6%	5.2%	5.8%	7.7%
Personal Consumption Expenditures (PCE)	0.1%	0.8%	0.3%	5.2%	6.2%	6.0%
Durables	-1.3%	1.8%	0.5%	4.1%	2.5%	2.5%
Nondurable Goods	0.2%	0.9%	0.1%	4.9%	8.2%	7.1%
Services	0.4%	0.6%	0.4%	5.6%	6.0%	6.2%
PCE Deflator	0.2%	0.3%	0.1%	2.9%	3.8%	3.2%
Savings Rate	-0.5%	-0.7%	-0.6%	-0.6%	-0.6%	-3.0%

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

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.