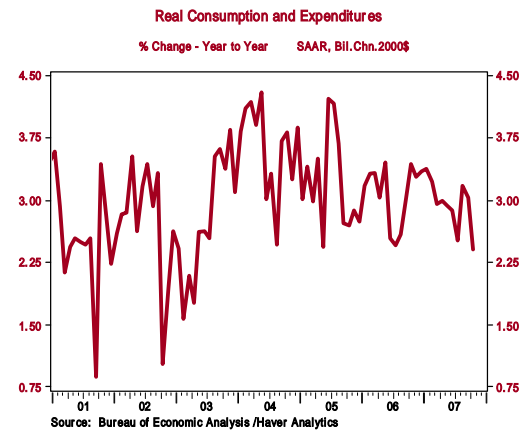


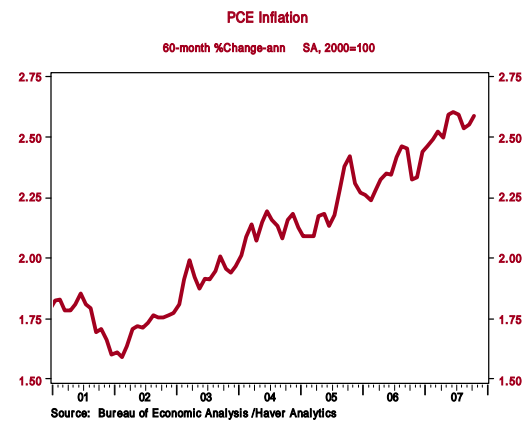
OCTOBER PERSONAL INCOME AND CONSUMPTION

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- Personal income and personal consumption each increased 0.2% in October. The consensus expected personal income to increase 0.4% and personal consumption to increase 0.3%.
- Disposable personal income (income after taxes) increased 0.1% in October (0.14% unrounded) and is up 5.7% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.3% in October and is up 2.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in October and is up 1.9% versus a year ago. Both year-to-year price increases are higher than the consensus expected.
- After adjusting for inflation, real consumption was unchanged in October and up 2.4% versus a year ago.



Implications: Today’s report on personal income and spending shows real (inflation-adjusted) consumption has been essentially unchanged for the past two months. But the sky is not falling on US economic growth. Considering all the data we have so far suggests real consumption will be up at about a 1.5% annual rate in Q4 and the real GDP growth rate should be in the 2% to 2.5% range. (For an example of the economy growing faster than consumption, in Q2.2007 real consumption grew at a 1.4% annual rate while real GDP increased at a 3.8% annual rate). We continue to fear inflation, not weak growth. The “core” PCE price index increased 0.2% in October, as expected. However, “core” inflation was revised up for September, bringing the year-to-year change to 1.9%, which was above consensus expectations. Meanwhile, overall PCE prices increased 0.3% in October and are up 2.9% versus last year. In other news this morning the Chicago PMI report showed a rebound in manufacturing activity in the Chicago region in November, with the overall index rising to 52.9 versus 49.7 in October. The increase was powered by a sharp rise in the production index and an upward move in the employment index.



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Oct-07	Sep-07	Aug-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.2%	0.4%	0.4%	4.3%	5.0%	6.0%
Disposal (After-Tax) Income	0.1%	0.4%	0.5%	4.2%	5.0%	5.7%
Personal Consumption Expenditures (PCE)	0.2%	0.3%	0.4%	3.9%	4.3%	5.4%
Durables	-0.5%	0.5%	2.1%	8.8%	3.3%	3.3%
Nondurable Goods	0.3%	0.6%	-0.8%	0.1%	4.4%	6.2%
Services	0.4%	0.2%	0.6%	4.9%	4.4%	5.4%
PCE Prices	0.3%	0.3%	0.0%	2.1%	2.5%	2.9%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.1%	2.3%	1.9%	1.9%
Real PCE	0.0%	0.1%	0.4%	1.8%	1.8%	2.4%

Source: Bureau of Economic Analysis

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