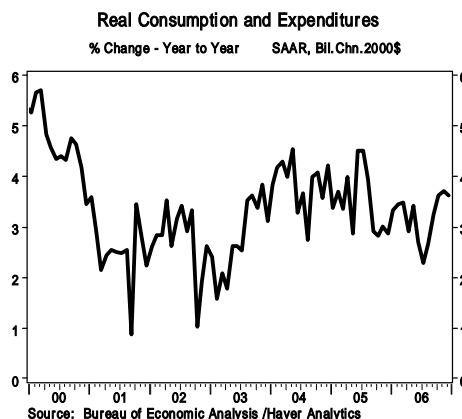




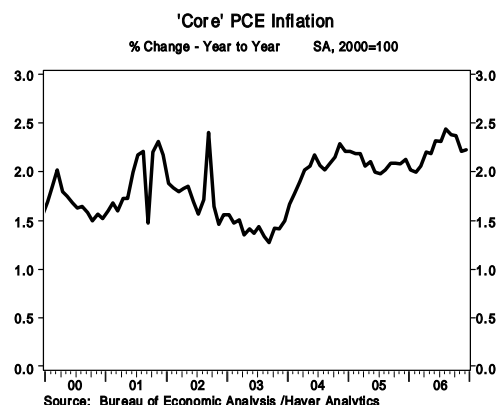
DECEMBER PERSONAL INCOME AND CONSUMPTION

Chief Economist - Brian S. Wesbury
 Senior Economist - Robert Stein, CFA
 Economic Research Analyst - Trevor D. Scott

- Personal income increased 0.5% in December, as the consensus expected. Disposable income, which is income after taxes, also increased 0.5%.
- Personal spending increased 0.7% in December, as the consensus expected. Spending on goods, both durables and non-durables, was strong, while the growth of services spending remained moderate by comparison.
- Consumption (PCE) prices rose 0.4% in December and were up 2.3% versus last year. "Core" consumption prices, which exclude food and energy, were up 0.1% and increased 2.2% in 2006 (December/December), the largest increase for any calendar year since 1994.
- After adjusting for inflation, real consumption was up 0.3% and has increased 3.6% versus last year. Real consumer spending has increased 5.5% at an annual rate in the past three months.



Implications: Despite a significant decline in housing activity, the consumer has not lost any steam. In fact, strong job growth and broad-based income gains have led to an acceleration of consumer spending in recent months. While some argue that the -1% savings rate in 2006 is a sign of a tapped out consumer, that measure of saving ignores income from capital gains as well as retiree withdrawals from 401ks and IRAs. As a result, spendable income is understated, which artificially lower the savings rate. Meanwhile, we also believe it is premature to declare victory over inflation. "Core" PCE prices increased 2.2% in 2006 (December/December) and we expect the year-to-year growth of these prices to re-accelerate in the months ahead as we drop off the relatively small increases of a year ago (last January and February). We continue to believe that both economic growth and inflation will come in on the high side of the consensus forecast.



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Dec-06	Nov-06	Oct-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.5%	0.3%	0.3%	4.6%	5.7%	5.9%
Disposal (After-Tax) Income	0.5%	0.3%	0.2%	4.1%	5.9%	5.2%
Personal Consumption Expenditures (PCE)	0.7%	0.5%	0.3%	6.2%	4.8%	6.0%
Durables	0.8%	0.9%	0.2%	7.7%	5.5%	5.1%
Nondurable Goods	1.6%	0.6%	-0.5%	6.7%	2.8%	6.8%
Services	0.3%	0.4%	0.7%	5.8%	5.7%	5.7%
PCE Prices	0.4%	0.0%	-0.2%	0.7%	0.8%	2.3%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.2%	1.7%	1.9%	2.2%
Real PCE	0.3%	0.5%	0.5%	5.5%	3.9%	3.6%

Source: Bureau of Economic Analysis

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.