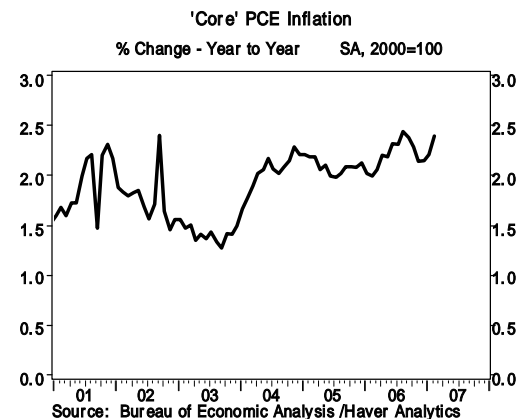
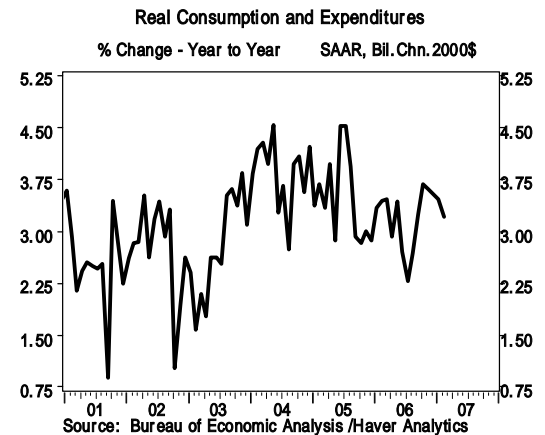


FEBRUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income and consumption both increased 0.6% in February, beating the consensus expected 0.3% gain for each.
- Personal income was up 5.3% versus a year ago. Disposable income, which is income after taxes, increased 0.5% and was up 4.9% versus a year ago. Consumption was unchanged for goods, both durables and nondurables. All of the increase in spending was due to services.
- Consumption (PCE) prices rose 0.4% in February and are up 2.2% versus last year. Core consumption prices, which exclude food and energy, were up 0.3%, the largest single-month rise in more than five years. Core prices were up 2.4% versus a year ago.
- After adjusting for inflation, real consumption was up 0.2% in February and 3.2% versus last year. Real consumer spending has increased 3.7% at an annual rate in the past three months.



Implications: Income gains have been strong lately. In January there was a large increase in wages and salaries in the service industry related to bonuses in the financial sector. In February, there were unusually strong gains in proprietors' income (small businesses) and income on assets (interest and dividends). Meanwhile, consumption continues to move ahead at a healthy clip despite the fear in some quarters that the housing correction would curb spending. As we've previously forecast, consumption looks set to rise in the 3.5% to 4% range in Q1 of 2007. Other economic news today indicates the economy is picking up. The Chicago Purchasing Managers Index increased to 61.7 in March from 47.9 in February (a reading above 50 signals expansion in manufacturing, below 50 signals contraction). The one-month increase in the index was the largest in history, dating back to 1968. Meanwhile, with private non-residential building surging 2.3%, total construction spending increased 0.3% in February, the largest gain in eleven months. Our major concern has been inflation and today's data confirm this view. Core PCE prices (the Federal Reserve's favorite inflation measure) are up 2.4% from a year ago, making an almost three year run of inflation greater than the 1% to 2% range Fed Chairman Bernanke has said is his "comfort zone."

| Personal Income & Spending <i>All Data Seasonally Adjusted</i> | Feb-07 | Jan-07 | Dec-06 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Personal Income | 0.6% | 1.0% | 0.5% | 8.7% | 6.6% | 5.3% |
| Disposal (After-Tax) Income | 0.5% | 0.8% | 0.5% | 7.4% | 5.7% | 4.9% |
| Personal Consumption Expenditures (PCE) | 0.6% | 0.5% | 0.7% | 7.6% | 5.0% | 5.6% |
| Durables | 0.0% | 1.0% | 0.3% | 5.3% | 4.9% | 3.7% |
| Nondurable Goods | 0.0% | 0.2% | 1.6% | 7.6% | 0.7% | 4.4% |
| Services | 1.0% | 0.6% | 0.4% | 8.0% | 7.2% | 6.5% |
| PCE Prices | 0.4% | 0.2% | 0.3% | 3.8% | 0.8% | 2.2% |
| "Core" PCE Prices (Ex Food and Energy) | 0.3% | 0.2% | 0.1% | 2.8% | 2.2% | 2.4% |
| Real PCE | 0.2% | 0.3% | 0.4% | 3.7% | 4.2% | 3.2% |

Source: Bureau of Economic Analysis

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