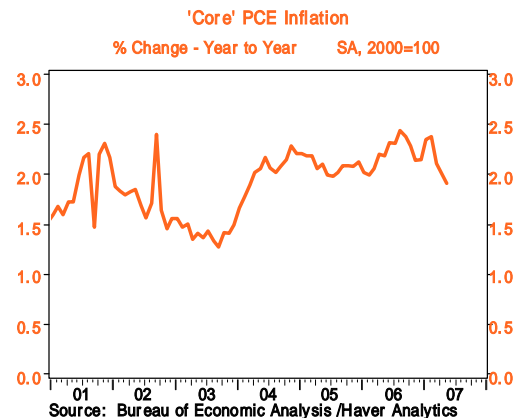
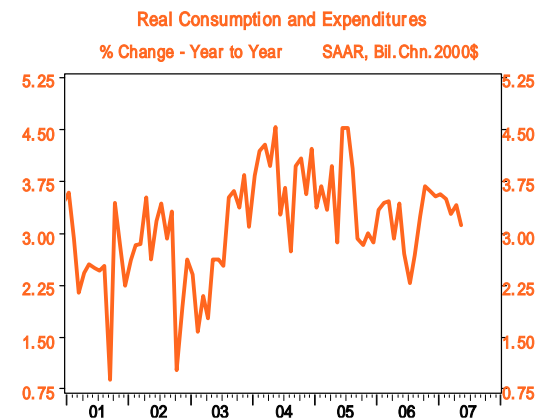


MAY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.4% in May versus a consensus expected increase of 0.6%. Personal consumption increased 0.5% compared to a consensus expected 0.7%.
- Disposable income (income after taxes) increased 0.4% in May and was up 5.8% versus a year ago.
- Consumption (PCE) prices rose 0.5% in May and are up 2.3% versus last year. Core consumption prices, which exclude food and energy, were up 0.1% in May and up 1.9% versus a year ago.
- After adjusting for inflation, real consumption was up 0.1% in May but was revised down for March and April. Real consumption is up 3.1% versus May 2006.



Implications: Private-sector wages and salaries are up 6.1% versus last year, driving gains in personal income. Meanwhile, after-tax income is up 5.8%. Given these healthy figures and considering consumer net worth (assets minus liabilities) is up \$17.2 trillion in the past four years, consumption is not going to enter a prolonged downward spiral. However, new data suggest real consumption growth will be in the relatively slow 1.5% to 2% range in the second quarter, following 4.2% growth in the last quarter of 2006 and first quarter of 2007. In turn, this suggests slightly more risk to the downside than the upside for our forecast of 4% real GDP growth in the second quarter. On inflation, we are not celebrating that core PCE inflation dipped below 2% for the first time in three years. Overall PCE inflation was up 2.3% versus last year and up at a 4.9% annual rate the past three months. With the exception of the months affected by Hurricanes Katrina and Rita, that's the most rapid 3-month growth in PCE prices since 1990. Core inflation is useful when food and energy prices move up *and* down, not when they consistently move up. The Federal Reserve still has work to do in taming inflation and we believe its statement yesterday shows it is readying to the task.

Personal Income & Spending <i>All Data Seasonally Adjusted</i>	May-07	Apr-07	Mar-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.4%	-0.2%	0.8%	3.9%	6.7%	6.1%
Disposal (After-Tax) Income	0.4%	-0.3%	0.7%	3.3%	5.9%	5.8%
Personal Consumption Expenditures (PCE)	0.5%	0.5%	0.4%	5.8%	7.3%	5.5%
Durables	0.4%	-0.6%	0.5%	1.4%	3.4%	3.9%
Nondurable Goods	1.4%	0.5%	1.2%	13.3%	11.2%	5.1%
Services	0.1%	0.8%	-0.1%	3.2%	6.2%	6.0%
PCE Prices	0.5%	0.3%	0.4%	4.9%	4.3%	2.3%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.0%	1.1%	1.9%	1.9%
Real PCE	0.1%	0.2%	-0.1%	0.9%	2.8%	3.1%

Source: Bureau of Economic Analysis

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