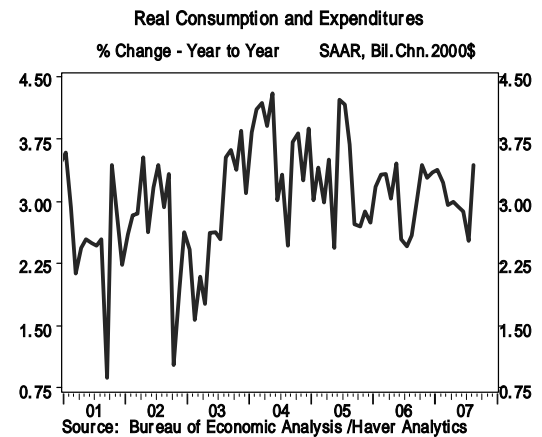


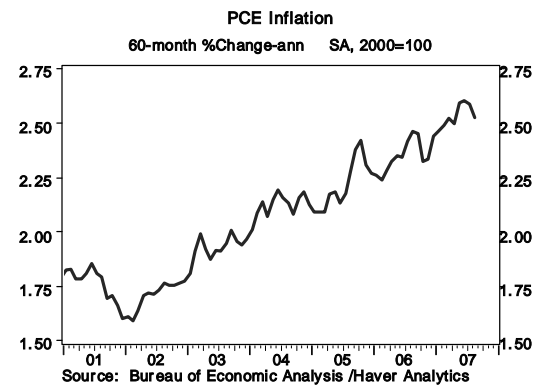
AUGUST PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.3% in August while personal consumption increased 0.6%. The consensus expected gain for each was 0.4%.
- Disposable personal income (income after taxes) increased 0.4% in August and was up 6.2% versus a year ago.
- The overall PCE deflator (consumer price inflation) declined 0.1% in August. The “core” PCE deflator, which excludes food and energy, rose 0.1%. Both deflators were up 1.8% versus last year.
- After adjusting for inflation, real consumption was up 0.6% in August and up 3.4% versus a year ago.



Implications: Today’s report on personal income and spending shows credit market turmoil and declining home prices are having little to no impact on consumers. Real (inflation-adjusted) spending was up at an 8% annual rate in August, the fastest in two years. Data available so far suggests real consumption will grow in the 3-3.5% annual rate range in Q3, a major acceleration from the 1.4% rate in Q2. While most economists have been forecasting a real GDP growth rate of about 2% in Q3, we have consistently made the lonely forecast that the economy would grow at a 3% rate. Today’s report makes us much more confident in our forecast, to the point where we think there is more risk to the upside than the downside for our 3% call. Unlike most other economists we fear inflation, not slow growth, despite today’s seemingly benign 1.8% year-to-year increases in both the overall and “core” PCE price indexes. Due to a large (and un-sustained) drop in commodity prices last September/October, the year-to-year measures of inflation are artificially low. In the last ten months, overall PCE prices are up at a 2.8% annual rate. That same 2.8% rate has prevailed in the past six months, too. In this environment, the last thing the economy needs from the Fed is another rate cut.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-07	Jul-07	Jun-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.3%	0.5%	0.5%	5.4%	5.4%	6.8%
Disposal (After-Tax) Income	0.4%	0.6%	0.4%	5.7%	5.3%	6.2%
Personal Consumption Expenditures (PCE)	0.6%	0.4%	0.2%	4.8%	5.2%	5.2%
Durables	2.4%	-0.4%	-1.7%	1.3%	3.3%	4.3%
Nondurable Goods	-0.5%	0.6%	-0.1%	0.1%	6.5%	3.3%
Services	0.7%	0.4%	0.7%	7.8%	5.0%	6.4%
PCE Prices	-0.1%	0.1%	0.1%	0.6%	2.8%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.5%	1.3%	1.8%
Real PCE	0.6%	0.3%	0.1%	4.1%	2.4%	3.4%

Source: Bureau of Economic Analysis

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