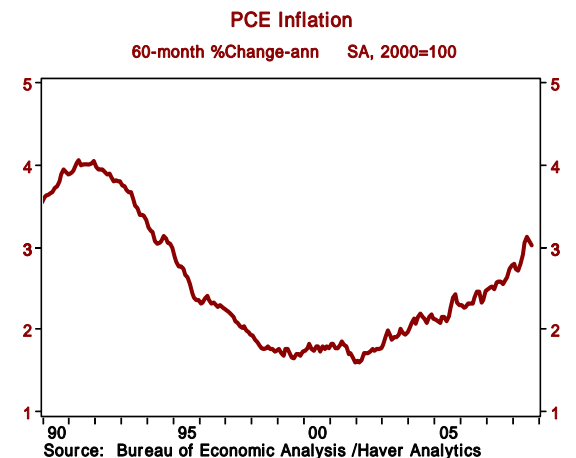
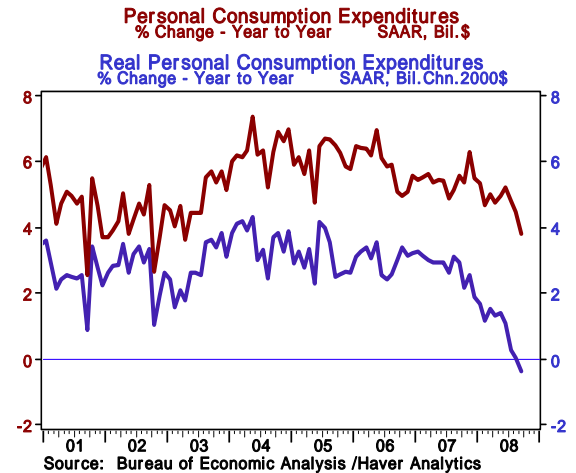


SEPTEMBER PERSONAL INCOME AND CONSUMPTION

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Personal income increased 0.2% in September versus a consensus expected 0.1% gain. Personal consumption declined 0.3% versus a consensus expected 0.2% drop. Personal income is up 3.9% in the past year while personal consumption is up 3.8%.
- Disposable personal income (income after taxes) increased 0.2% in September and is up 4.2% versus last year. Pre-tax wages and salaries were up 0.1% in September.
- The overall PCE deflator (consumer inflation) was up 0.1% in September and 4.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in September and is up 2.4% versus a year ago.
- After adjusting for inflation, real consumption was down 0.4% in September, down 0.4% versus last year, and down at a 3.9% annual rate in the past three months, the steepest decline since 1990-91.



Implications: Apparently, people are driving the same car, eating out of their pantries, and dressing their kids in hand-me-downs. Consumption fell in September, reflecting both a tightening of lending standards and a panic-induced constraint among consumers. When the President, Fed Chairman, and Treasury Secretary openly talk about a potential financial catastrophe, people listen. Although the weakness was concentrated in consumer durables, like autos and furniture, even nondurables, like food and clothing, declined in September. The data on income were buffeted by special factors, including the end of tax rebates, Hurricane Ike, and the extension of unemployment benefits, making it hard to reach conclusions. On the inflation front, although PCE prices are up 4.2% versus a year ago, they increased only 0.1% in September. Given the decline in energy prices and slowdown in monetary velocity – the speed at which money moves through the economy – we expect inflation to diminish over the next several months. However, this does not mean inflation is dead. As soon as the credit crunch comes to an end, loose monetary policy will result in a resurgence of inflation. In other news this morning, the Chicago Purchasing Managers Index, a measure of manufacturing in that region, fell 18.9 points to 37.8, by far the largest one-month decline in the index’s history. This is consistent with our forecast of the fourth quarter being the weakest of the recession.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-08	Aug-08	Jul-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.2%	0.4%	-0.8%	-0.8%	4.2%	3.9%
Disposal (After-Tax) Income	0.2%	-1.0%	-1.0%	-6.7%	4.9%	4.2%
Personal Consumption Expenditures (PCE)	-0.3%	0.0%	0.0%	-1.0%	2.6%	3.8%
Durables	-3.1%	1.7%	-3.1%	-16.5%	-11.4%	-8.2%
Nondurable Goods	-0.6%	-0.6%	0.2%	-4.0%	4.2%	6.2%
Services	0.3%	0.1%	0.5%	3.4%	4.4%	4.8%
PCE Prices	0.1%	0.0%	0.6%	3.0%	4.5%	4.2%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.3%	2.6%	2.6%	2.4%
Real PCE	-0.4%	0.0%	-0.6%	-3.9%	-1.8%	-0.4%

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.