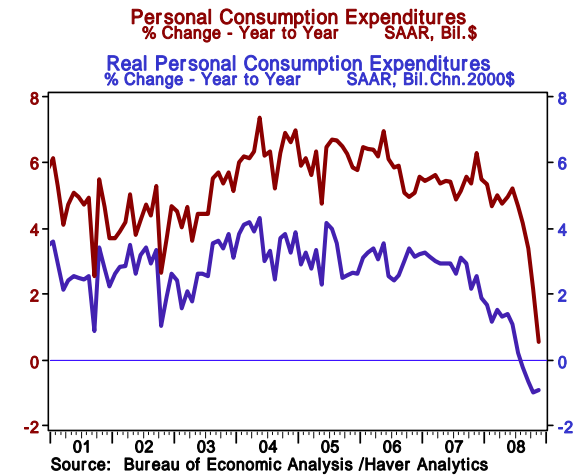


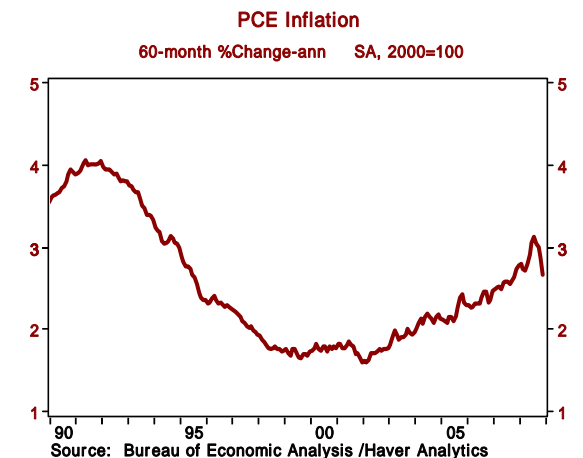
NOVEMBER PERSONAL INCOME AND CONSUMPTION

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- Personal income declined 0.2% in November versus consensus expectations that it would be unchanged. Personal consumption declined 0.6%, slightly better than consensus expectations. Personal income is up 2.5% in the past year while personal consumption is up 0.5%.
- Disposable personal income (income after taxes) declined 0.1% in November but is up 3.0% versus last year. Pre-tax wages and salaries were down 0.1% in November.
- The overall PCE deflator (consumer inflation) was down 1.1% in November but is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in November but is up 1.9% versus a year ago.
- After adjusting for inflation, real consumption was up 0.6% in November but down 0.9% versus last year.



Implications: Rapidly falling prices are making the headline consumer spending numbers look bad, but “real” (inflation-adjusted) spending increased in November for the first time in six months and the increase was the largest in almost two years. With prices continuing their energy-led decline into December, we expect further gains this month in real consumer spending, suggesting the worst of the risk aversion hysteria has passed. When risk aversion hysteria was at its worst, consumers were shopping less even though prices were falling. Now, they are taking advantage of those lower prices. Personal income declined in November, including private sector wages and salaries. However, much of the loss in overall income was due to lower interest income, a negative consequence of the Federal Reserve’s reductions of interest rates. Meanwhile, inflation continues its temporary hibernation, with overall PCE prices down 1.1% in November, by far the most on record, and prices down at a 6.1% annual rate in the past three months. “Core” prices (excluding food and energy) were unchanged in November and are up at only a 0.5% rate in the past three months. However, given the increase in the money supply in recent months, monthly inflation readings are going to pick up again in 2009 and will become a problem if the Fed does not back away quickly from loose money as the economy starts to re-accelerate.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Nov-08	Oct-08	Sep-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	-0.2%	0.1%	0.0%	-0.2%	-0.9%	2.5%
Disposal (After-Tax) Income	-0.1%	0.2%	0.1%	0.6%	-7.2%	3.0%
Personal Consumption Expenditures (PCE)	-0.6%	-1.0%	-0.4%	-7.5%	-3.3%	0.5%
Durables	0.0%	-4.3%	-3.4%	-26.9%	-19.5%	-11.9%
Nondurable Goods	-2.2%	-2.8%	-0.6%	-20.2%	-9.6%	-1.7%
Services	0.1%	0.4%	0.3%	3.1%	3.0%	3.9%
PCE Prices	-1.1%	-0.5%	0.1%	-6.1%	-0.6%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.0%	0.1%	0.5%	1.6%	1.9%
Real PCE	0.6%	-0.5%	-0.5%	-1.5%	-2.8%	-0.9%

Source: Bureau of Economic Analysis

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