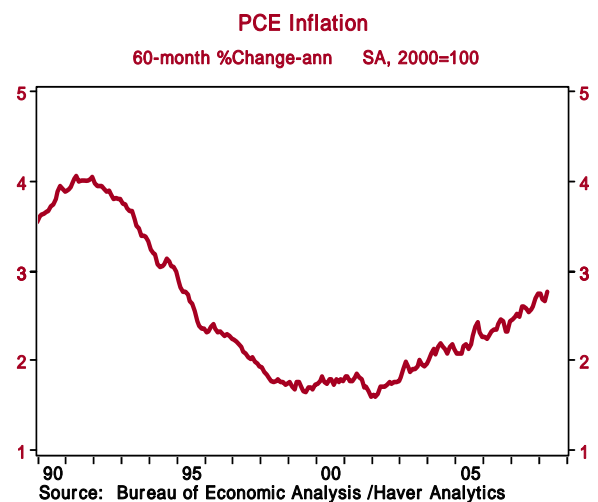
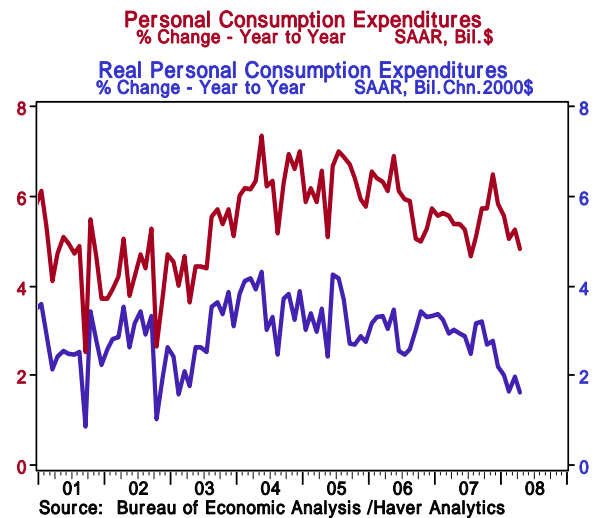


## APRIL PERSONAL INCOME AND CONSUMPTION

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- Personal income and personal consumption both increased 0.2% in April, matching consensus expectations. Both are up 4.8% versus a year ago.
- Disposable personal income (income after taxes) increased 0.2% in April and is up 5.0% versus last year.
- The overall PCE deflator (consumer inflation) rose 0.2% in April and is up 3.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in April and is up 2.1% versus a year ago.
- After adjusting for inflation, real consumption was unchanged in April and is up 1.6% versus a year ago.

**Implications:** With each passing month, it becomes more and more obvious we are not experiencing the consumer-led recession that many economists predicted earlier this year. Real (inflation-adjusted) consumption was unchanged in April and is barely up at all in the past three months. However, if we were in a recession attributable to a slowdown in consumption, real consumption growth would be *persistently* negative. As the top chart on the right shows, nominal spending is still growing at a healthy pace (up 4.8% versus last year). The reason the growth of real spending is slower than last year is that inflation is taking a bigger bite out of each dollar spent. Overall PCE prices are up 3.2% versus a year ago. Although many analysts focus on the relatively benign readings on “core” inflation – up only 2.1% versus last year – these figures are masking the underlying inflation trend by always ignoring food and energy. Another method to show the underlying inflation trend is the 5-year trend in overall PCE inflation (see the bottom chart on the right). This measure has been rising since late 2001 and is now at 2.8%, the highest since 1995.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-08	Mar-08	Feb-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>Personal Income</b>	<b>0.2%</b>	0.4%	0.5%	4.2%	4.4%	4.8%
<b>Disposal (After-Tax) Income</b>	<b>0.2%</b>	0.3%	0.5%	4.3%	4.7%	5.0%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	0.4%	0.1%	2.9%	4.8%	4.8%
<b>Durables</b>	<b>-0.5%</b>	-1.2%	0.3%	-5.7%	-7.4%	-1.6%
<b>Nondurable Goods</b>	<b>0.1%</b>	0.8%	-0.2%	2.9%	6.9%	6.1%
<b>Services</b>	<b>0.4%</b>	0.5%	0.2%	4.4%	6.0%	5.4%
<b>PCE Prices</b>	<b>0.2%</b>	0.3%	0.1%	2.7%	3.8%	3.2%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.2%	0.1%	1.8%	2.0%	2.1%
<b>Real PCE</b>	<b>0.0%</b>	0.1%	-0.1%	0.1%	1.0%	1.6%

Source: Bureau of Economic Analysis

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