First Trust Data Watch

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July Personal Income and Consumption

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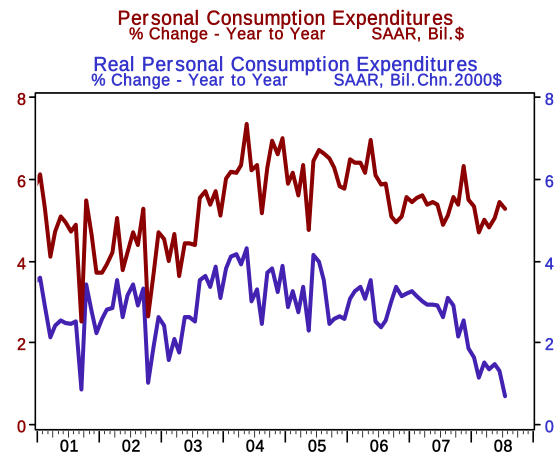
- Personal income declined 0.7% in July versus a consensus expectation of -0.2%. Personal consumption increased 0.2%, matching consensus expectations. Personal income is up 4.2% versus last year; personal consumption is up 5.3% versus last year.

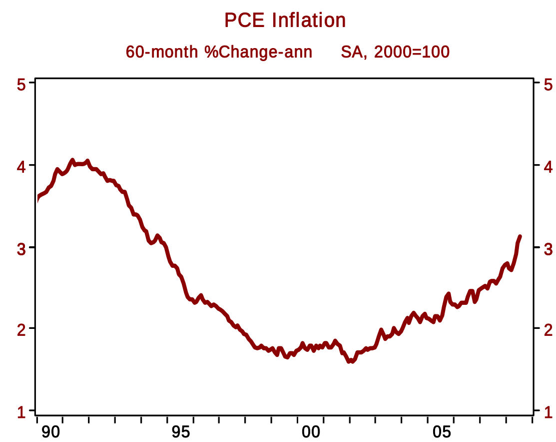
- Disposable personal income (income after taxes) declined 1.1% in July but is up 5.8% versus last year.

- The overall PCE deflator (consumer inflation) rose 0.6% in July, is up at a 7.5% annual rate in the past three months, and is up 4.5% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.3% in July and is up 2.4% versus a year ago.

- After adjusting for inflation, real consumption was down 0.4% in July. Including upward revisions to June, real consumption is up only 0.7% versus a year ago.



Source: Bureau of Economic Analysis /Haver Analytics



Source: Bureau of Economic Analysis /Haver Analytics

Implications: Today's data show beyond a doubt that the primary problem with the US economy is inflation. Consumption prices are up 4.5% versus a year ago, the most since 1991. In the past three months these prices are up at a 7.5% annual rate, the most since 1982 (except the immediate aftermath of Hurricanes Katrina/Rita). Even "core" inflation (excluding food and energy) is accelerating, up 0.3% in each of the past two months and up at an annual rate of 2.8% in the past three months. High inflation, not the "credit crunch," is the reason "real" (inflation-adjusted) spending looks weak. As the upper right chart shows, nominal consumer spending is up a healthy 5.3% versus last year. But after adjusting for inflation, real consumer spending is up only 0.7%. In other words, without Fed-induced inflation, real consumer spending would be growing substantially faster. Although the 0.7% decline in personal income will grab some headlines, this was driven by the end of the federal tax rebates. Wages and salaries increased a respectable 0.3%. In other news this morning, the Chicago PMI, a measure of manufacturing in the Chicago region, increased to 57.9 in August from 50.8 in July. The production and new orders indexes soared. The overall index is now at the highest level in 14 months.

Personal Income and Spending *All Data Seasonally Adjusted*	Jul-08	Jun-08	May-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**-0.7%**	0.1%	1.8%	4.6%	3.9%	4.2%
Disposal (After-Tax) Income	**-1.1%**	-1.9%	5.7%	10.8%	7.2%	5.8%
Personal Consumption Expenditures (PCE)	**0.2%**	0.6%	0.8%	6.8%	5.3%	5.3%
Durables	**-1.5%**	-1.3%	0.3%	-9.7%	-6.7%	-3.6%
Nondurable Goods	**0.3%**	1.5%	1.2%	12.5%	9.3%	7.9%
Services	**0.5%**	0.6%	0.6%	7.1%	5.5%	5.6%
PCE Prices	**0.6%**	0.7%	0.4%	7.5%	5.1%	4.5%
"Core" PCE Prices (Ex Food and Energy)	**0.3%**	0.3%	0.2%	2.8%	2.4%	2.4%
Real PCE	**-0.4%**	-0.1%	0.3%	-0.7%	0.1%	0.7%

Source: Bureau of Economic Analysis

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