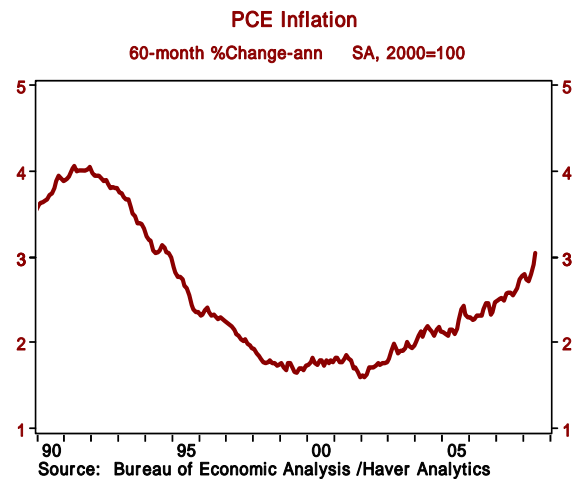
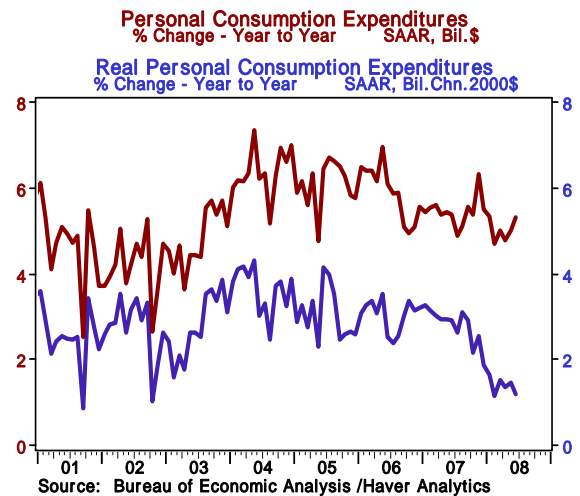


JUNE PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.1% in June, beating the consensus expected decline of 0.2%. Personal consumption increased 0.6%, beating the consensus expected gain of 0.4%. Personal income is up 5.7% versus last year; personal consumption is up 5.3% versus last year.
- Disposable personal income (income after taxes) declined 1.9% in June but is up 7.6% versus last year.
- The overall PCE deflator (consumer inflation) rose 0.8% in June and is up 4.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.3% in June and is up 2.3% versus a year ago.
- After adjusting for inflation, real consumption was down 0.2% in June, was revised down slightly for both April and May, and is up only 1.2% versus a year ago.

Implications: Consumers continue to spend but inflation keeps stealing a larger chunk of the value they get for their money. As the top chart on the right shows, nominal consumer spending is up a healthy 5.3% versus last year. However, with PCE prices up 4.1% in the past year, inflation-adjusted consumer spending is up only 1.2%. Translation: without the inflation generated by the Federal Reserve’s overly loose monetary policy, real consumer spending would be growing faster, not slower. The 0.8% increase in PCE prices in June was the biggest gain for any month since 1981 (excepting the month of Hurricanes Katrina/Rita). Meanwhile the small 0.1% increase in personal income in June comes off May’s gain of 1.8%, with both months affected by the “outlay” portion of recent federal tax rebates (the amounts of the rebates that exceed each taxpayer’s income tax liability). If the Fed were to start raising rates sooner rather than later this year, commodity prices would drop, bringing down inflation. As a result, inflation-adjusted consumption would also quickly return to a faster rate of growth.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-08	May-08	Apr-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.1%	1.8%	0.2%	8.7%	5.9%	5.7%
Disposal (After-Tax) Income	-1.9%	5.7%	0.3%	17.0%	9.7%	7.6%
Personal Consumption Expenditures (PCE)	0.6%	0.8%	0.3%	6.9%	5.4%	5.3%
Durables	-1.5%	0.2%	-0.2%	-6.1%	-4.6%	-2.9%
Nondurable Goods	1.3%	1.2%	0.7%	13.6%	9.2%	8.1%
Services	0.5%	0.7%	0.3%	6.0%	5.4%	5.5%
PCE Prices	0.8%	0.5%	0.2%	5.9%	4.5%	4.1%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.2%	0.1%	2.3%	2.3%	2.3%
Real PCE	-0.2%	0.3%	0.1%	0.9%	0.9%	1.2%

Source: Bureau of Economic Analysis

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