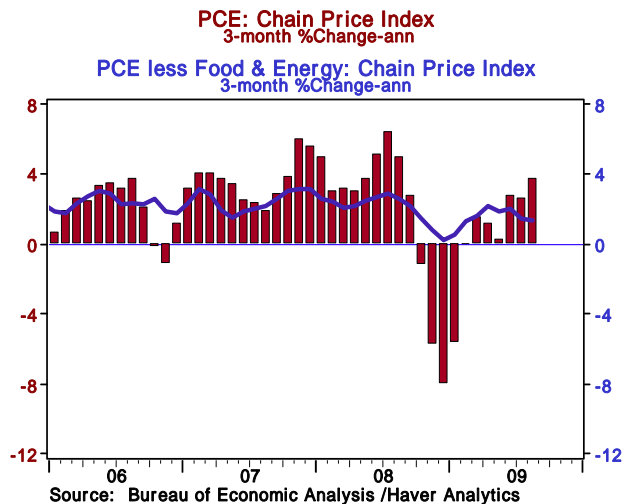
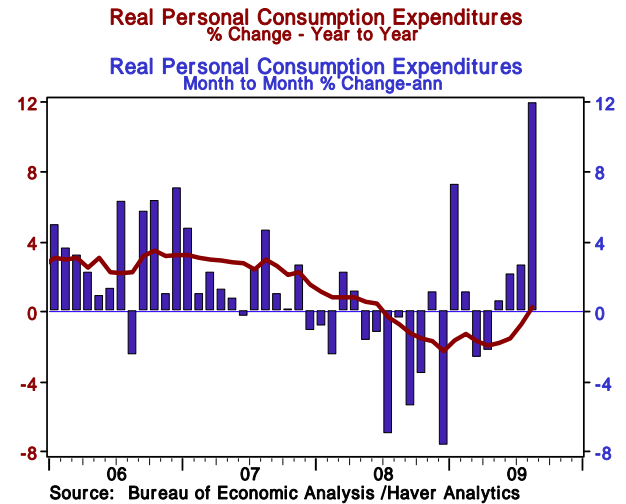


# AUGUST PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.2% in August, versus a consensus expected increase of 0.1%. Personal consumption increased 1.3%, versus a consensus expected gain of 1.1%. Revisions to June and July added an extra 0.2% to income and 0.1% to consumption.
- Disposable personal income (income after taxes) increased 0.1% in August and is up 0.8% versus last year. The rise in disposable income in August was largely due to a 0.2% increase in private-sector wages and salaries, the second straight monthly gain. Small business earnings rose 0.7% and are up at a 7.6% annual rate in the past three months.
- The overall PCE deflator (consumer inflation) was up 0.3% in August, but is down 0.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in August and is up 1.3% versus a year ago.
- After adjusting for inflation, real consumption increased 0.9% in August and was revised up by 0.1% in June/July.

**Implications:** Consumers opened up their wallets and pocketbooks in August and not because of “cash for clunkers.” Including autos, overall consumer spending was up 1.3% in August. However, autos are “durable goods” and spending on non-durables plus services was up 0.8%, the most since November 2007. A recent increase in worker incomes is probably having an appropriate impact on the willingness to spend. Private-sector wages and salaries climbed for the second month in a row and non-farm proprietor income (small businesses) increased for the third month in a row. Although inflation still looks subdued when we compare prices to last year (down 0.3%), overall consumer prices are up at a 3.7% annual rate in the past three months. This figure is more indicative of the inflation we will be experiencing over the next 12-18 months, with even higher inflation beyond that period if the Federal Reserve dawdles in raising the federal funds rate. In other news this morning, new claims for unemployment insurance increased 17,000 last week to 551,000. The four-week moving average of claims fell to 548,000, the lowest since January. Continuing claims for regular state benefits fell 70,000 to 6.09 million, the lowest since April. Meanwhile, Challenger, Gray, & Christmas, a Chicago-based placement firm, announced that layoffs announced in September were down 30.2% versus last year. We expect unemployment to be falling and jobs to be rising by late this year.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-09	Jul-09	Jun-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>Personal Income</b>	<b>0.2%</b>	0.2%	-1.1%	-3.2%	0.6%	-2.6%
<b>Disposal (After-Tax) Income</b>	<b>0.1%</b>	0.0%	-1.1%	-3.8%	2.8%	0.8%
<b>Personal Consumption Expenditures (PCE)</b>	<b>1.3%</b>	0.3%	0.7%	9.4%	3.9%	-0.3%
<b>Durables</b>	<b>5.3%</b>	1.3%	1.1%	35.3%	12.1%	-1.3%
<b>Nondurable Goods</b>	<b>2.3%</b>	-0.3%	2.1%	17.0%	6.1%	-5.3%
<b>Services</b>	<b>0.4%</b>	0.3%	0.2%	3.6%	2.0%	1.7%
<b>PCE Prices</b>	<b>0.3%</b>	0.0%	0.5%	3.7%	1.9%	-0.5%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.1%	0.1%	1.4%	1.6%	1.3%
<b>Real PCE</b>	<b>0.9%</b>	0.2%	0.2%	5.4%	1.9%	0.3%

Source: Bureau of Economic Analysis

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