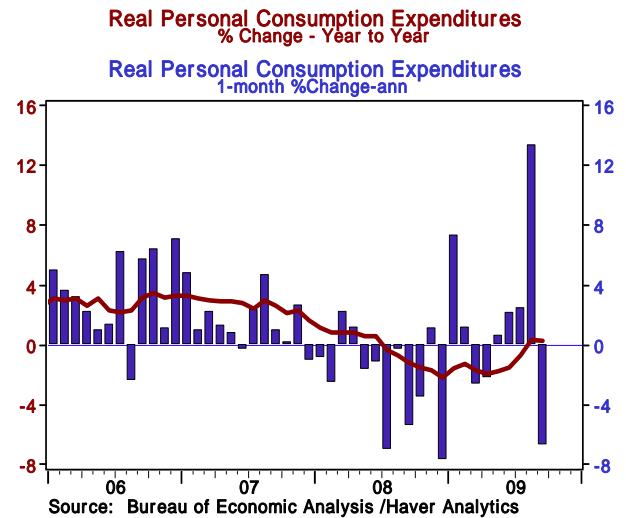


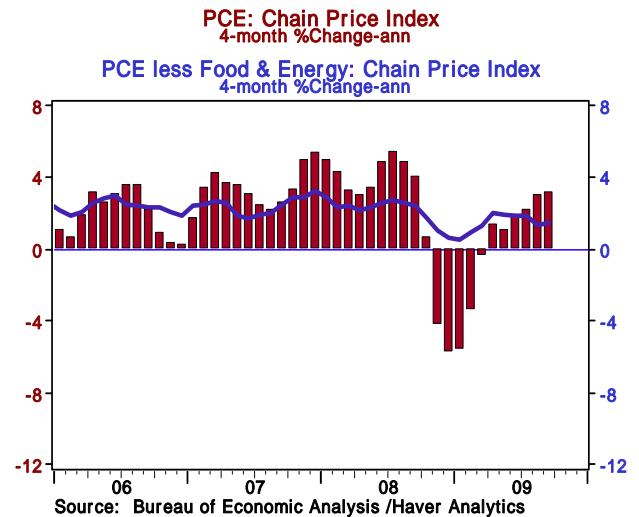
SEPTEMBER PERSONAL INCOME AND CONSUMPTION

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- Personal income was unchanged in September while personal consumption declined 0.5%, both exactly as the consensus expected.
- Disposable personal income (income after taxes) was unchanged in September but is up 0.5% versus last year. After two consecutive monthly gains, private-sector wages and salaries declined in September. This decline was offset by an increase in government transfer payments.
- The overall PCE deflator (consumer inflation) was up 0.1% in September and is up at a 2.4% annual rate in the past six months. The “core” PCE deflator, which excludes food and energy, was also up 0.1% in September and is up at a 1.7% rate in the past six months.
- After adjusting for inflation, “real” consumption declined 0.6% in September. This follows four consecutive gains and was largely due to the end of cash-for-clunkers.



Implications: Cash-for-clunkers contributed to a surge in consumer spending in July and August, followed by a drop in September. Rather than getting caught up in this artificial fluctuation in spending, it’s important to recognize the underlying trend. Comparing September this year to December last year, real (inflation-adjusted) consumer spending is up at a 1.5% annual rate. With the economy now gaining strength, which will eventually translate into income gains for workers, we see this 1.5% rate of increase as a floor for the upward trend in consumer spending growth. Note also that these gains have been stronger for “cash” spending, which is spending excluding the “rent” the government imputes to homeowners. On the inflation front, overall consumer prices are still down versus a year ago. However, prices are up at a 2.1% annual rate so far this year and up at a 3.2% rate in the past four months. Given all the liquidity the Federal Reserve is pouring into the economy, year-ago price comparisons will turn positive late this year and then head higher in 2010. In other news this morning, the Chicago Purchasing Managers Index, a measure of manufacturing in the Midwest region, increased to 54.2 in October from 46.1 in September. That’s the highest level in more than a year. The measures for production and new orders were both above 60, signaling rapid expansion.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-09	Aug-09	Jul-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.0%	0.1%	0.1%	0.9%	1.3%	-2.8%
Disposal (After-Tax) Income	0.0%	0.1%	-0.1%	0.2%	3.0%	0.5%
Personal Consumption Expenditures (PCE)	-0.5%	1.4%	0.2%	4.7%	3.8%	-0.3%
Durables	-7.0%	6.1%	1.6%	1.2%	2.2%	-4.2%
Nondurable Goods	0.7%	2.2%	-0.3%	10.9%	8.9%	-3.7%
Services	0.2%	0.4%	0.2%	3.2%	2.4%	1.5%
PCE Prices	0.1%	0.3%	0.0%	2.0%	2.4%	-0.5%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.3%	1.7%	1.3%
Real PCE	-0.6%	1.0%	0.2%	2.6%	1.4%	0.3%

Source: Bureau of Economic Analysis

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