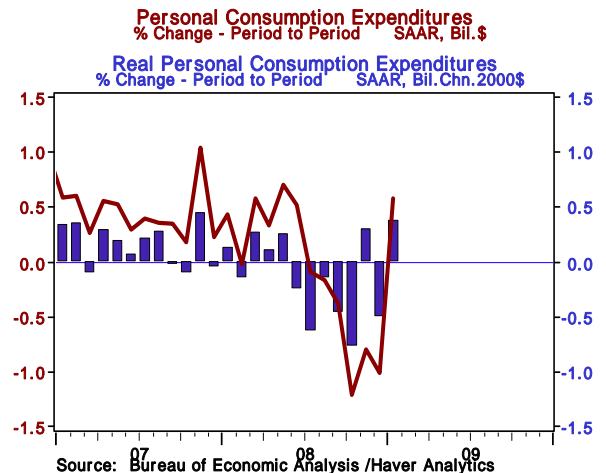
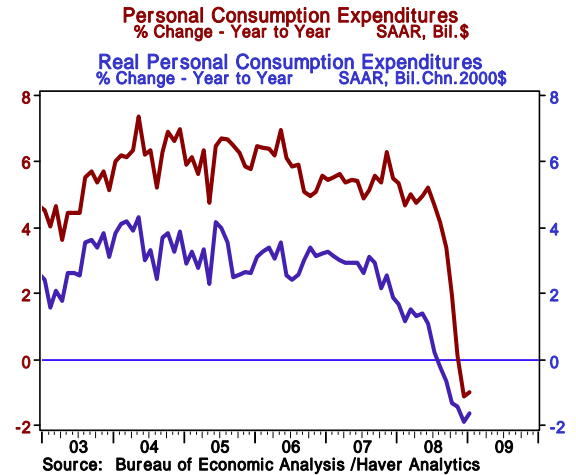


JANUARY PERSONAL INCOME AND CONSUMPTION

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Personal income increased 0.4% in January versus consensus expectations that it would decline 0.2%. Personal consumption increased 0.6%, beating the consensus expected gain of 0.4%. Personal income is up 1.9% in the past year while personal consumption is down 1.0%.
- Disposable personal income (income after taxes) spiked 1.7% in January and is up 4.0% versus last year. Pre-tax wages and salaries in the private sector were down 0.5% in January, but pay for government workers was up 1.1% and transfer payments such as Social Security and unemployment insurance were up 3.5%.
- The overall PCE deflator (consumer inflation) increased 0.2% in January and is up 0.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in January and is up 1.6% versus a year ago.
- After adjusting for inflation, real consumption was up 0.4% in January but down 1.6% versus last year.

Implications: For the first time since June, consumers increased their spending in January on both a nominal (cash) basis *and* an inflation-adjusted basis. Although we do not think consumption is about to explode upward, this signals that the worst is over for personal spending. The personal saving rate (the share of after-tax income that is not spent) increased to 5% in January, the highest level since 1995. To put this in perspective, a year ago the saving rate was 0.1%. In the months ahead, recent “stimulus” legislation will likely push the saving rate even higher. In turn, higher saving will eventually translate into faster growth for consumer spending. Meanwhile, today’s data on income was worse than suggested by the headline increase of 0.4%. The headline increase was artificially inflated by annual pay increases for federal workers as well as adjustments for social security and unemployment benefits. Private sector wages and salaries fell 0.5%, the same as last month. On the inflation front, overall consumption prices rose 0.2% in January, the largest increase in six months, and “core” prices ticked up 0.1%, the largest increase in four months. Moderately higher prices signal that monetary policy is not a drag on the economy right now.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Jan-09 | Dec-08 | Nov-08 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|---|-------------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.4% | -0.2% | -0.4% | -1.0% | 0.3% | 1.9% |
| Disposal (After-Tax) Income | 1.7% | -0.2% | -0.3% | 5.1% | 0.8% | 4.0% |
| Personal Consumption Expenditures (PCE) | 0.6% | -1.0% | -0.8% | -4.9% | -5.8% | -1.0% |
| Durables | 0.1% | -0.9% | 0.5% | -0.8% | -13.9% | -12.0% |
| Nondurable Goods | 1.3% | -3.7% | -3.1% | -19.8% | -18.1% | -5.8% |
| Services | 0.3% | 0.2% | 0.1% | 2.3% | 2.1% | 3.4% |
| PCE Prices | 0.2% | -0.5% | -1.1% | -5.5% | -3.5% | 0.7% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.0% | 0.0% | 0.4% | 0.9% | 1.6% |
| Real PCE | 0.4% | -0.5% | 0.3% | 0.7% | -2.4% | -1.6% |

Source: Bureau of Economic Analysis

This report was prepared by First Trust Advisors L. P. and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.