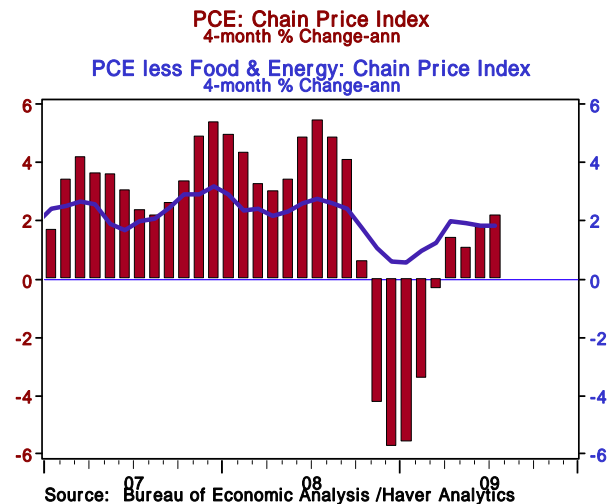
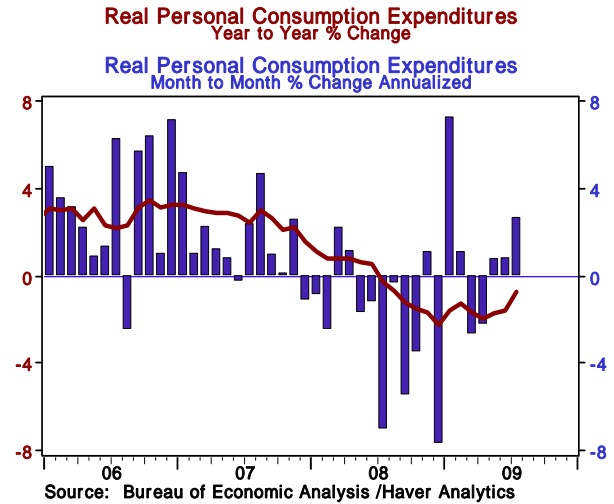


# JULY PERSONAL INCOME AND CONSUMPTION

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- Personal income was unchanged in July versus a consensus expected increase of 0.1%. Personal consumption increased 0.2%, as the consensus expected. Revisions to May and June added an extra 0.3% to income and 0.2% to consumption.
- Disposable personal income (income after taxes) was unchanged in July and is down 0.3% versus last year. For July, wages and salaries, small business earnings, and rents all increased, but these gains were offset by falling dividends and higher tax payments.
- The overall PCE deflator (consumer inflation) was unchanged in July, but is down 0.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in July and is up 1.4% versus a year ago.
- After adjusting for inflation, real consumption increased 0.2% in July and was revised up by 0.2% for June.

**Implications:** You can't understand today's report on income and spending without looking at the upward revisions for prior months as well as the details on income, both of which are very good news. Although income growth was slightly less than expected in July, incomes grew 0.4% including revisions to May and June. The same goes for cash spending, where growth in July itself was as the consensus expected, but a higher and healthy 0.5% including revisions to prior months. “Real” (inflation-adjusted) spending is now up three months in a row and the gain in July was the strongest in six months. Moreover, the details on income suggest conditions in the labor market are starting to get better. Private-sector wages and salaries increased 0.1% in July, the first gain since August 2008 (pre-Lehman Brothers' collapse). And remember, that gain is not per person; it reflects the fact that fewer people were working in July. Meanwhile, non-farm proprietors' income (small businesses) increased 0.8%, the most since 2006. Firms might not be quite ready to hire more workers than they let go, but better pay and more labor demand suggests that time is coming soon. Expect blowout consumption numbers next month, in large part due to “cash for clunkers.” Some of these sales will borrow from future months, but with cars and light trucks (pick-ups and SUVs) being scrapped at a 13+ million annual rate, we expect auto sales to grow strongly over the next couple of years, with or without government incentive programs.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-09	Jun-09	May-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>Personal Income</b>	<b>0.0%</b>	-1.1%	1.4%	1.3%	-1.3%	-2.4%
<i>Disposable (After-Tax) Income</i>	<b>0.0%</b>	-1.1%	1.7%	2.0%	1.0%	-0.3%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	0.6%	0.1%	4.0%	1.9%	-1.6%
<i>Durables</i>	<b>1.3%</b>	0.8%	1.1%	13.9%	0.5%	-5.1%
<i>Nondurable Goods</i>	<b>-0.3%</b>	1.8%	0.1%	6.5%	4.6%	-7.7%
<i>Services</i>	<b>0.3%</b>	0.2%	0.0%	1.8%	1.2%	1.1%
<b>PCE Prices</b>	<b>0.0%</b>	0.5%	0.1%	2.6%	1.8%	-0.8%
<i>"Core" PCE Prices (Ex Food and Energy)</i>	<b>0.1%</b>	0.2%	0.1%	1.4%	1.8%	1.4%
<b>Real PCE</b>	<b>0.2%</b>	0.1%	0.1%	1.4%	0.0%	-0.8%

Source: Bureau of Economic Analysis

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