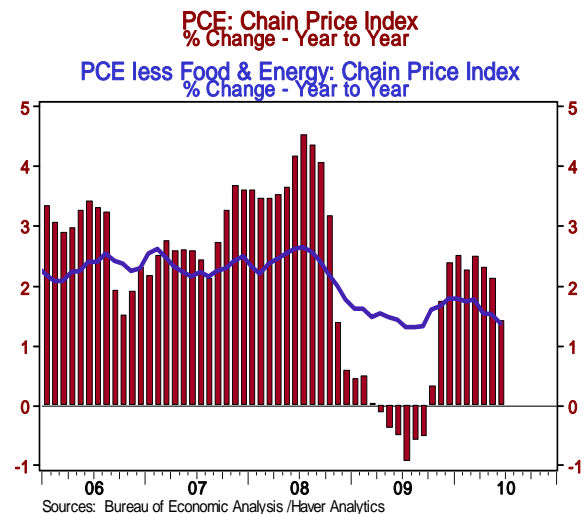
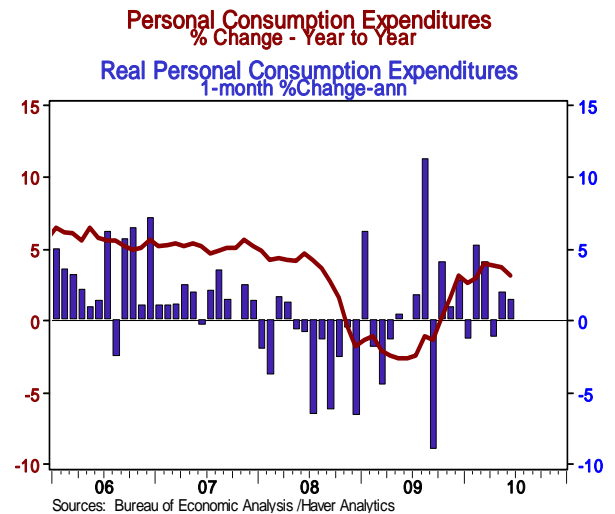


JUNE PERSONAL INCOME AND CONSUMPTION

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

- Personal income and consumption were both unchanged in June, below the consensus expected gains of 0.2% for income and 0.1% for spending. In the last six months, personal income is up at a 3.3% annual rate while spending is up at a 2.1% rate.
- Disposable personal income (income after taxes) was unchanged in June, but is up at a 3.2% annual rate in the past six months.
- The overall PCE deflator (consumer inflation) declined 0.1% in June, the third straight monthly drop, and is up at only a 0.4% annual rate in the past six months. The “core” PCE deflator, which excludes food and energy, was unchanged in June but up at a 1.1% rate in the past six months.
- After adjusting for inflation, “real” consumption was up 0.1% in June and is up at a 1.6% annual rate in the past six months.

Implications: Real (inflation-adjusted) consumer spending continues to grow, increasing in June for the ninth time in the past twelve months. Look for another increase in July as expert forecasts (such as by JD Power and Edmunds.com) suggest autos were sold even faster this July than they were in July 2009, back when the government was passing out checks for \$4,000 per vehicle (automakers release official data later today). This is not some sort of unsustainable trend. After growing 1.7% in the past year, real consumer spending should increase at a faster rate in the year ahead, due to both higher incomes and lower debt levels. In the past three months, real personal income *excluding government transfer payments* (such as unemployment insurance, Social Security, and Medicare) is up at a 4.1% annual rate. Meanwhile, the personal saving rate is now up to 6.4% of after-tax income, similar to the levels of the early 1990s. In addition, given recent upward revisions to income data, our analysis shows that the financial obligations ratio, which measures the share of after-tax income consumers need to make recurring payments (mortgages, rent, car loans/leases, student loans, credit cards,...etc.), is below the average for the past 30 years.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-10	May-10	Apr-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.0%	0.3%	0.4%	3.2%	3.3%	2.6%
Disposal (After-Tax) Income	0.0%	0.3%	0.5%	3.6%	3.2%	2.5%
Personal Consumption Expenditures (PCE)	0.0%	0.1%	-0.1%	-0.2%	2.1%	3.1%
Durables	0.1%	-0.3%	-1.1%	-5.0%	4.5%	6.0%
Nondurable Goods	-0.4%	-0.9%	-0.5%	-6.7%	1.2%	4.0%
Services	0.1%	0.5%	0.2%	2.9%	2.0%	2.4%
PCE Prices	-0.1%	-0.1%	0.0%	-0.9%	0.4%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.1%	0.1%	0.9%	1.1%	1.4%
Real PCE	0.1%	0.2%	-0.1%	0.7%	1.6%	1.7%

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.