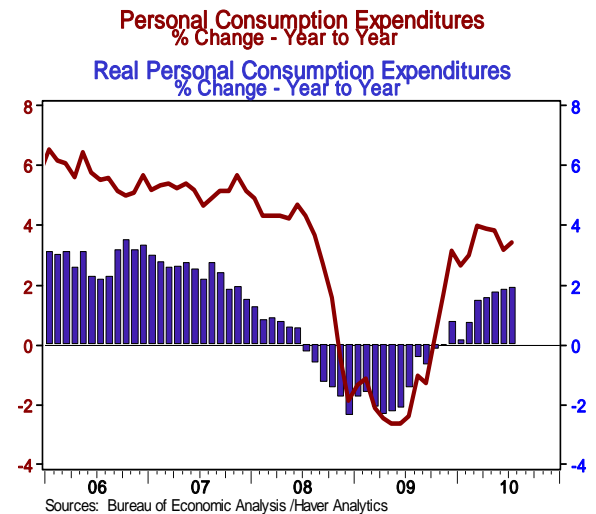


JULY PERSONAL INCOME AND CONSUMPTION

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

- Personal income increased 0.2% in July while personal consumption increased 0.4%. The consensus had expected gains of 0.3% each. In the last six months, personal income is up at a 3.1% annual rate while spending is up at a 2.8% rate.
- Disposable personal income (income after taxes) was up 0.2% in July and is up at a 3.1% annual rate in the past six months.
- The overall PCE deflator (consumer inflation) increased 0.2% in July and is up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, gained 0.1% in July and is up 1.4% since last year.
- After adjusting for inflation, “real” consumption was up 0.2% in July (0.3% including upward revisions to prior months) and is up at a 2.5% annual rate in the past six months.

Implications: Real (inflation-adjusted) consumer spending grew for the third month in a row in July and the fifth month of the last six. This is not the kind of data we would see in a double-dip recession. Meanwhile, in the past six months, the personal saving rate has increased slightly and remains near 6% of after-tax income. In the year ahead, we expect continued (and likely faster) gains in consumer spending even as workers accumulate more savings. Real (inflation-adjusted) wages and salaries in the private sector have increased in each of the past five months and are up at a 3.1% annual rate in the past three months. Meanwhile, consumer debt is down \$156 billion in the past two years and interest rates are lower, meaning less of our incomes are needed to service debt. 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. On the inflation front, consumption prices increased for the first time in four months and are up only 1.5% versus a year ago. This measure of inflation should remain relatively low (on a year-ago comparison basis) through the end of 2010 but should start rising noticeably in 2011.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-10	Jun-10	May-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.0%	0.3%	2.1%	3.1%	3.0%
Disposal (After-Tax) Income	0.2%	0.0%	0.3%	1.8%	3.1%	3.0%
Personal Consumption Expenditures (PCE)	0.4%	0.0%	0.1%	2.1%	2.8%	3.4%
Durables	1.0%	-0.4%	-0.3%	0.7%	7.7%	4.9%
Nondurable Goods	0.3%	-0.3%	-0.8%	-3.0%	-0.4%	4.5%
Services	0.4%	0.1%	0.5%	4.1%	3.2%	2.9%
PCE Prices	0.2%	-0.1%	-0.1%	0.0%	0.4%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.1%	1.0%	1.1%	1.4%
Real PCE	0.2%	0.1%	0.2%	2.1%	2.5%	1.9%

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.