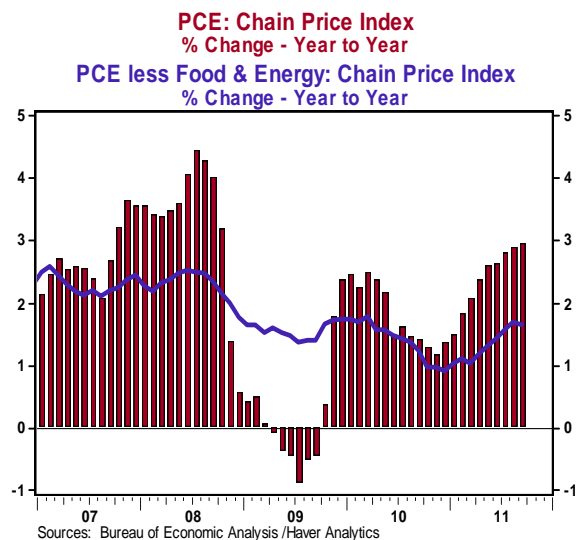
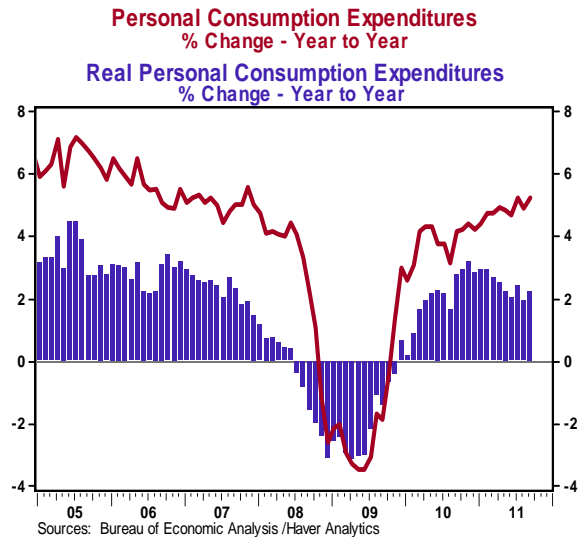


## September Personal Income and Consumption

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Senior Economist  
**Andrew Hull** – Economic Analyst  
**Strider Elass** – Economic Analyst

- Personal income increased 0.1% in September (0.0% including revisions to prior months), versus a consensus expected gain of 0.3%. Personal consumption rose 0.6% in September, matching consensus expectations. Consumption was up 0.8% including revisions to prior months. In the past year, personal income is up 4.4% while spending is up 5.3%.
- Disposable personal income (income after taxes) was up 0.1% in September, but down 0.1% including revisions to prior months. Disposable income is up 3.2% from a year ago. Private sector wages and salaries, up 0.3%, accounted for all the income gains in September and are up 4.4% in the past year.
- The overall PCE deflator (consumer inflation) increased 0.2% in September and is up 2.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in September and is up 1.6% since last year.
- After adjusting for inflation, “real” consumption was up 0.5% in September (+0.6% including revisions to prior months) and up 2.2% from a year ago.

**Implications:** There’s no sign of any slowdown in consumer spending. “Real” (inflation-adjusted) personal consumption is up 2.2% from a year ago and up at a 3.9% annual rate in the past three months. This trend is continuing into October, with some auto analysts projecting sales at the strongest pace since late 2008 (excluding cash for clunkers, when the government was subsidizing car and truck purchases). Some may focus on the recent slowdown in personal income, which is up at only a 0.3% annual rate in the past three months. However, government transfer payments are down (these payments count as income to the people who get benefits), government workers’ wages & salaries are down slightly, and interest income is way down (thanks to low interest rates from the Fed). Private-sector wages and salaries plus small business income is up at a 2.9% annual rate during the past three months. In addition, consumer spending is being supported by the large reduction in households’ financial obligations the past few years. Recurring payments like mortgages, rent, car loans/leases, as well as other debt service, are now the smallest share of after-tax income since 1993. On the inflation front, overall consumption prices are up 2.9% in the past year and up at a 3.3% annual rate in the past three months. However, the Federal Reserve is focused on “core” inflation, which excludes food and energy. These prices were unchanged in September and are up at a 1.5% annual rate in the past three months. Given loose monetary policy, we expect inflation to get worse in the year ahead, both overall and for the core.



<b>Personal Income and Spending</b> <i>All Data Seasonally Adjusted</i>	Sep-11	Aug-11	Jul-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.1%</b>	-0.1%	0.1%	0.3%	1.9%	4.4%
<b>Disposal (After-Tax) Income</b>	<b>0.1%</b>	-0.1%	0.0%	0.1%	1.4%	3.2%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.6%</b>	0.2%	0.9%	7.3%	4.1%	5.3%
<b>Durables</b>	<b>2.2%</b>	-1.1%	2.2%	13.7%	0.9%	6.1%
<b>Nondurable Goods</b>	<b>1.1%</b>	0.6%	0.9%	10.9%	5.3%	9.1%
<b>Services</b>	<b>0.2%</b>	0.3%	0.7%	5.0%	4.3%	3.8%
<b>PCE Prices</b>	<b>0.2%</b>	0.3%	0.4%	3.3%	2.4%	2.9%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.0%</b>	0.2%	0.2%	1.5%	2.0%	1.6%
<b>Real PCE</b>	<b>0.5%</b>	0.0%	0.5%	3.9%	1.7%	2.2%

Source: Bureau of Economic Analysis

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