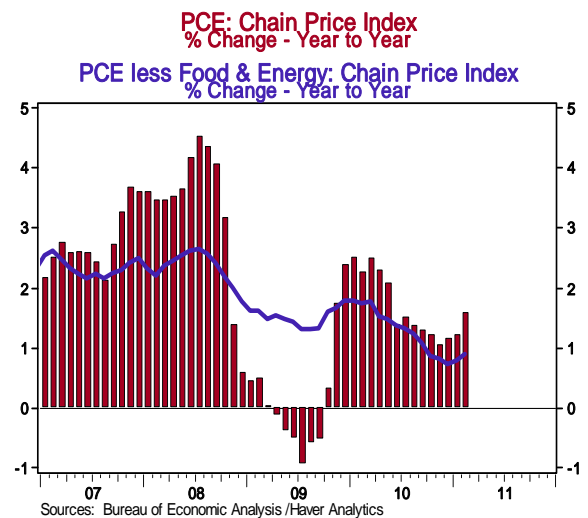
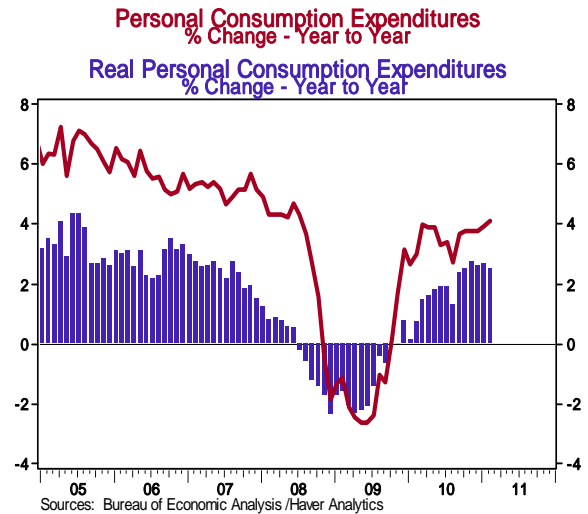


FEBRUARY PERSONAL INCOME AND CONSUMPTION

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

- Personal income increased 0.3% in February (0.5% including upward revisions to prior months). The consensus expected an increase of 0.4%. Personal consumption increased 0.7% in February (0.5% including downward revisions to prior months). The consensus had expected 0.5%. In the past six months, personal income is up at a 5.6% annual rate while spending is up at a 5.4% rate.
- Disposable personal income (income after taxes) was up 0.3% in February (0.5% including revisions to prior months) and is up at a 4.5% annual rate in the past six months. The rise in February was led by private-sector wages and salaries, dividends, and rental income.
- The overall PCE deflator (consumer inflation) increased 0.4% in February and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in February and is up 0.9% since last year.
- After adjusting for inflation, “real” consumption rose 0.3% in February and is up at a 2.7% annual rate in the past six months.

Implications: Consumers continued to flex their growing purchasing power in February. In nominal terms, spending increased 0.7% in February and is up at a 5.4% annual rate in both the past three months and the past six months. We expect this trend to continue. Private-sector wages and salaries plus small business profits are up 5.3% in the past year. Meanwhile, consumer balance sheets are much healthier. Financial obligations – monthly payments like mortgages, rent, car loans/leases, as well as other debt service – are the smallest share of disposable income since 1995. However, the recent acceleration in inflation is eroding some of this purchasing power. Consumption prices (including food and energy) are up at a 4% annual rate in the past three months, the fastest pace since the commodity-price spike of early 2008. As a result, “real” consumer spending, which is up at a healthy 2.7% annual rate in the past six months, is up at only a 1.4% rate in the past three months. We see this as a direct result of an overly loose monetary policy from the Federal Reserve. In other news this morning, pending home sales, which are contracts on existing homes, increased 2.1% in February. This suggests closings on existing homes should rebound in March after the large decline in February.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-11	Jan-11	Dec-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	1.2%	0.5%	7.9%	5.6%	5.1%
Disposal (After-Tax) Income	0.3%	0.8%	0.5%	6.4%	4.5%	4.4%
Personal Consumption Expenditures (PCE)	0.7%	0.3%	0.4%	5.4%	5.4%	4.1%
Durables	1.6%	0.3%	0.8%	11.4%	15.1%	10.3%
Nondurable Goods	1.4%	1.0%	0.6%	12.7%	10.9%	6.1%
Services	0.2%	0.0%	0.3%	2.1%	2.2%	2.5%
PCE Prices	0.4%	0.3%	0.3%	4.0%	2.7%	1.6%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.0%	1.3%	0.9%	0.9%
Real PCE	0.3%	0.0%	0.1%	1.4%	2.7%	2.5%

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.