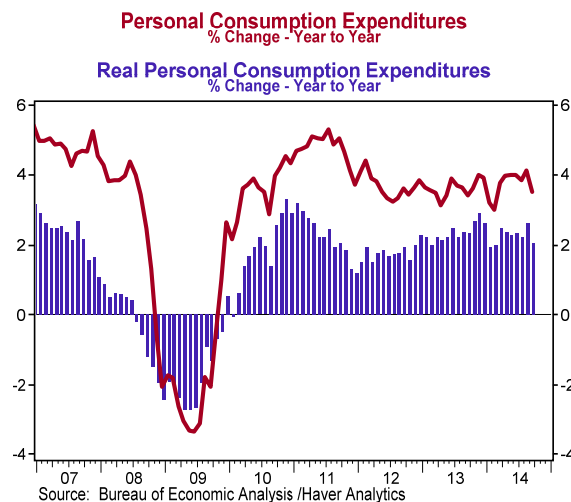


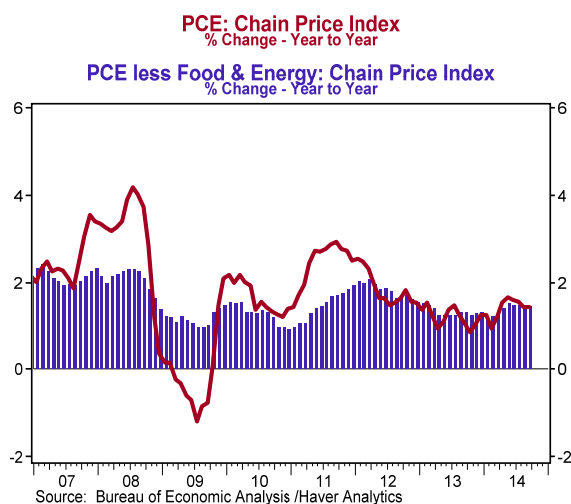
September Personal Income and Consumption

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- Personal income increased 0.2% in September versus a consensus expected 0.3%. Personal consumption declined 0.2% in September (-0.1% including revisions to prior months), falling short of the consensus expected gain of 0.1%. Personal income is up 4.1% in the past year, while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.2% in September and is up 3.9% from a year ago. The gain in September was led by wages & salaries in the private service sector and non-farm small businesses, which offset declines for farmers and interest income.
- The overall PCE deflator (consumer prices) increased 0.1% in September and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in September but is up a slightly higher 1.5% in the past year.
- After adjusting for inflation, “real” consumption declined 0.2% in September but is up 2.1% from a year ago.



Implications: Consumers have been fickle the past four months. Spending surged 0.5% in June, was unchanged in July, surged 0.5% again in August and now slipped 0.2% in September. So don't read too much into the slippage in consumer spending in September; it's not a new downward trend. Consumer purchasing power continued to grow in September and we expect that trend to continue. Payrolls are up 2.6 million in the past year and the number of hours per worker are up as well. As a result, private-sector wages & salaries are up a robust 5.9% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.2% in September and is up 4.1% in the past year, which is faster than the 3.5% gain in consumer spending. In other words, higher incomes alone are enough to push spending up. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.6%, largely driven by Obamacare. Medicaid spending is up 15.6% versus a year ago. However, outside Medicaid, government transfers are up only 3.2% in the past year and unemployment compensation is at the lowest level since 2007. Taken all together, government transfer payments – like Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – don't seem to be falling back to where they were prior to the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they are down to 17% but not falling any further. Redistribution hurts growth because it reallocates resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy. On the inflation front, the Federal Reserve's favorite measure, the personal consumption price index, was up 0.1% in September and is up only 1.4% from a year ago. Given loose monetary policy, we expect that figure to rise in the year ahead. But, given tight bank lending standards and the energy production boom, the increase in inflation is going to be gradual.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-14	Aug-14	Jul-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.3%	0.3%	3.1%	4.4%	4.1%
Disposable (After-Tax) Income	0.1%	0.3%	0.2%	2.6%	4.5%	3.9%
Personal Consumption Expenditures (PCE)	-0.2%	0.5%	0.0%	1.5%	2.7%	3.5%
Durables	-2.0%	2.1%	-0.2%	-0.3%	1.7%	4.7%
Nondurable Goods	-0.3%	-0.4%	0.2%	-2.1%	2.8%	1.8%
Services	0.2%	0.5%	0.0%	3.0%	2.9%	3.9%
PCE Prices	0.1%	-0.1%	0.1%	0.4%	1.6%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.2%	1.6%	1.5%
Real PCE	-0.2%	0.5%	0.0%	1.0%	1.1%	2.1%

Source: Bureau of Economic Analysis

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