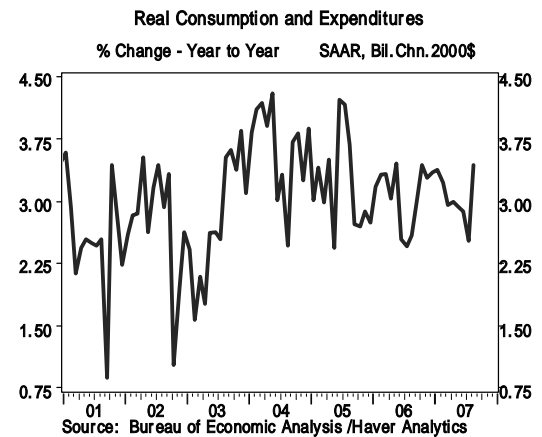


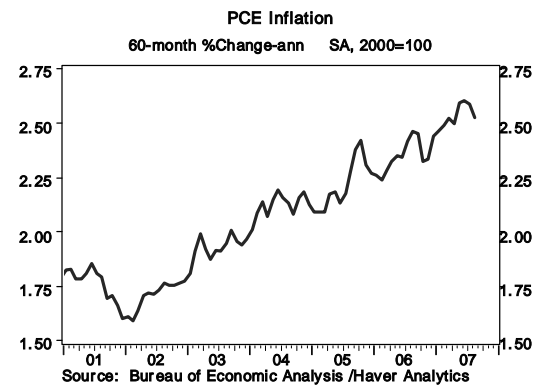
## AUGUST PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.3% in August while personal consumption increased 0.6%. The consensus expected gain for each was 0.4%.
- Disposable personal income (income after taxes) increased 0.4% in August and was up 6.2% versus a year ago.
- The overall PCE deflator (consumer price inflation) declined 0.1% in August. The “core” PCE deflator, which excludes food and energy, rose 0.1%. Both deflators were up 1.8% versus last year.
- After adjusting for inflation, real consumption was up 0.6% in August and up 3.4% versus a year ago.



**Implications:** Today’s report on personal income and spending shows credit market turmoil and declining home prices are having little to no impact on consumers. Real (inflation-adjusted) spending was up at an 8% annual rate in August, the fastest in two years. Data available so far suggests real consumption will grow in the 3-3.5% annual rate range in Q3, a major acceleration from the 1.4% rate in Q2. While most economists have been forecasting a real GDP growth rate of about 2% in Q3, we have consistently made the lonely forecast that the economy would grow at a 3% rate. Today’s report makes us much more confident in our forecast, to the point where we think there is more risk to the upside than the downside for our 3% call. Unlike most other economists we fear inflation, not slow growth, despite today’s seemingly benign 1.8% year-to-year increases in both the overall and “core” PCE price indexes. Due to a large (and un-sustained) drop in commodity prices last September/October, the year-to-year measures of inflation are artificially low. In the last ten months, overall PCE prices are up at a 2.8% annual rate. That same 2.8% rate has prevailed in the past six months, too. In this environment, the last thing the economy needs from the Fed is another rate cut.



<b>Personal Income and Spending</b> <i>All Data Seasonally Adjusted</i>	<b>Aug-07</b>	<b>Jul-07</b>	<b>Jun-07</b>	<b>3-mo % ch.</b> <b>annualized</b>	<b>6-mo % ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Personal Income</b>	<b>0.3%</b>	0.5%	0.5%	5.4%	5.4%	6.8%
<b>Disposal (After-Tax) Income</b>	<b>0.4%</b>	0.6%	0.4%	5.7%	5.3%	6.2%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.6%</b>	0.4%	0.2%	4.8%	5.2%	5.2%
<b>Durables</b>	<b>2.4%</b>	-0.4%	-1.7%	1.3%	3.3%	4.3%
<b>Nondurable Goods</b>	<b>-0.5%</b>	0.6%	-0.1%	0.1%	6.5%	3.3%
<b>Services</b>	<b>0.7%</b>	0.4%	0.7%	7.8%	5.0%	6.4%
<b>PCE Prices</b>	<b>-0.1%</b>	0.1%	0.1%	0.6%	2.8%	1.8%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.1%	0.1%	1.5%	1.3%	1.8%
<b>Real PCE</b>	<b>0.6%</b>	0.3%	0.1%	4.1%	2.4%	3.4%

Source: Bureau of Economic Analysis

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