

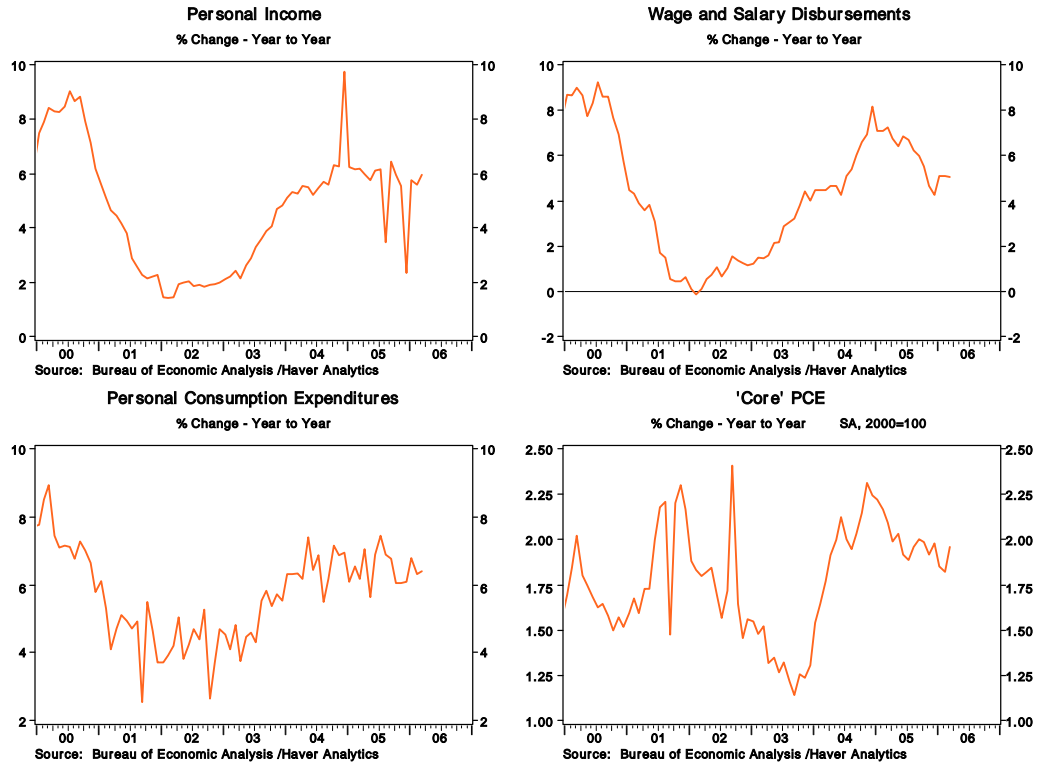
## MARCH PERSONAL INCOME AND CONSUMPTION

**Brian S. Wesbury**  
Chief Economist  
**Bill Mulvihill**  
Senior Economist

- Personal income increased 0.8% in March versus a 0.3% increase in February. Personal income is up an annualized 7.6% in the last three months and 6.0% in the past year. Wages and salaries rose 0.4% last month and an annualized 6.2% in the last three months.
- Personal consumption jumped 0.6% last month after a 0.2% gain in February. Consumption is up 6.4% in the past year.
- The PCE deflator increased 0.4% last month and is up 2.9% in the past year. The “core” PCE deflator increased 0.3% last month and 2.0% in the past year – the upper end of the Fed’s comfort zone.

### Implications:

Personal income increased by a more-than-expected \$88.8 (0.8%) billion in March. Much of this gain can be attributed to a \$48.4 billion (5.3%) increase in transfer payments from the government to individuals in the form of old-age, survivors and health insurance benefits. This surge in benefits is most likely due to the rollout of the new Medicare prescription drug benefit. Wages and salaries increased a modest \$24.7 billion (0.4%) last month. While gains were a little on the light side, they continue to offset rising energy prices. Since the recession ended in November 2001, personal income has climbed \$1.9 trillion and wages and salaries are up \$1.0 trillion. During that same time period, consumption on energy increased by just roughly \$250 billion. This is why consumption remains strong despite rising energy costs. The biggest threat to the health of the consumer does not come from rising energy prices but from the possibility that an overly accommodative Fed will cause “core” inflationary pressures to rise. In the past three months, the “core” PCE has increased an annualized 2.5%. This is the fastest three month gain in nearly two-years and is well above the Fed’s comfort zone. With gold above \$660/ troy oz and the dollar near a 12-month low, signs of inflation are accumulating. If the Fed pauses too soon, rising inflationary pressures could threaten the recovery and equity market. We do not expect the Fed to make this mistake and look for the economy and stock prices to remain robust throughout 2006.



Personal Income & Consumption <i>All data seasonally adjusted</i>	Mar-06	Feb-06	Jan-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.8%	0.3%	0.7%	7.6%	6.6%	6.0%
less Personal Tax and Nontax Payments	0.8%	0.8%	1.8%	14.4%	10.9%	9.3%
equals Disposal Income	0.8%	0.2%	0.5%	6.7%	6.0%	5.5%
Wages and Salaries	0.4%	0.4%	0.7%	6.2%	5.3%	5.0%
Personal Consumption Expenditures (PCE)	0.6%	0.2%	0.9%	6.9%	6.4%	6.4%
Durables	0.5%	-1.9%	1.8%	1.7%	11.2%	1.4%
Nondurable Goods	0.3%	-0.3%	2.0%	7.9%	3.3%	8.1%
Services	0.7%	0.9%	0.1%	7.3%	7.1%	6.6%
PCE Deflator	0.4%	0.1%	0.5%	3.7%	1.4%	2.9%
Savings Rate	-0.3%	-0.6%	-0.6%	-0.5%	-0.3%	0.4%

Source: Bureau of Economic Analysis

\*The 3 and 6 month changes in the Savings Rate are averages, the year-over-year percentage is the year-ago level

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.