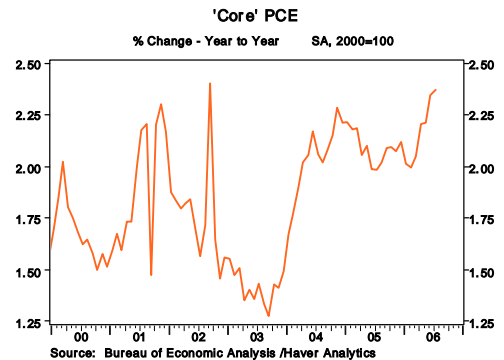
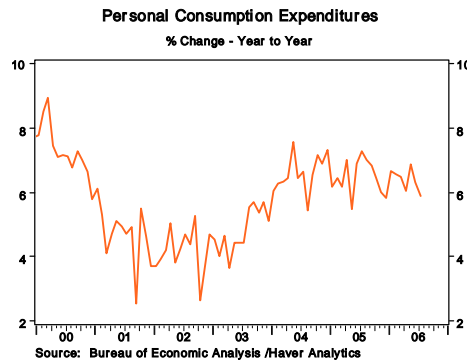
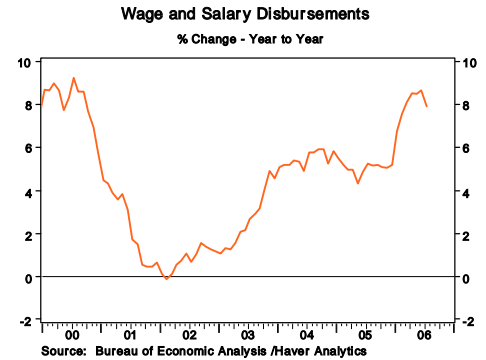
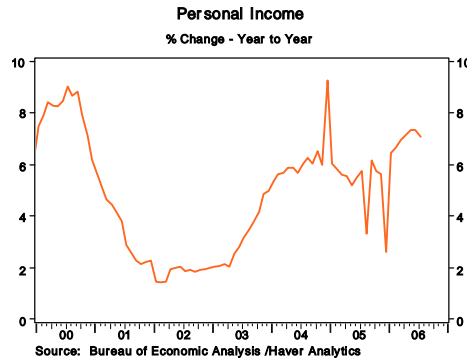


JULY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in July, after a 0.6% gain in June. Personal income is up 7.1% in the past year. Wages and salaries increased 0.6% last month, and are 7.9% higher than a year ago.
- Personal consumption expenditures (PCE) increased 0.8% last month and 5.9% in the past 12 months.
- The PCE deflator increased 0.3% last month and is up 3.4% in the past year. The “core” PCE deflator rose 0.1% in June and is up 2.4% in the past year – well above the Fed’s comfort zone.

Implications: Personal income grew 0.5% in June, with broad-based gains across most components. Personal income, which is a good proxy for nominal GDP, increased 7.1% in the last 12 months and is yet another sign that the Fed remains accommodative. Speaking of the Fed, the pause in rate hikes is based on the assumption that a slowing housing market and high energy prices will reduce consumer spending, which will in turn cause inflationary pressures to ease. Unfortunately for the Fed’s Phillips Curve disciples (but fortunately for everyone else), the consumer is not going along with this plan. Consumption increased 0.8% in July and 0.5% on an inflation adjusted basis. Real consumption is on pace to grow an annualized 4.3% in Q3, which should put real GDP in the 3.5%–4.0% range. And while it is still too early to cheer, oil prices have declined by \$7/bbl. in the last 20 days. While the savings rate was negative for the 15th consecutive month in July, we caution reading anything into this data. This measure of savings has many problems. A much better gauge of consumer balance sheets is the Fed’s measure of US household’s net worth, which reached a record \$53.9 trillion in Q1, 10.5% higher than a year ago. With incomes and employment growing at a steady pace, we expect consumer spending to remain robust. The biggest threat to the consumer is the steady buildup of inflationary pressures. The “core” PCE deflator rose 2.4% in the past year – the 29th consecutive month at or above 2%. Rising incomes, a resilient consumer, and elevated inflation should push the Fed to hike rates again before the end of the year.



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Personal Income & Consumption <i>All data seasonally adjusted</i>	Jul-06	Jun-06	May-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.5%	0.6%	0.4%	6.1%	6.7%	7.1%
less Personal Tax and Nontax Payments	-0.3%	0.9%	0.5%	4.6%	10.8%	14.9%
<i>equals</i> Disposal Income	0.7%	0.5%	0.4%	6.4%	6.1%	6.0%
Wages and Salaries	0.6%	0.6%	0.0%	5.1%	7.7%	7.9%
Personal Consumption Expenditures (PCE)	0.8%	0.4%	0.7%	7.9%	7.2%	5.9%
Durables	1.6%	0.7%	-0.5%	7.5%	2.6%	-2.8%
Nondurable Goods	1.0%	0.2%	0.9%	8.9%	8.2%	8.7%
Services	0.6%	0.4%	0.8%	7.5%	7.6%	6.3%
PCE Deflator	0.3%	0.1%	0.4%	3.4%	3.5%	3.4%
Savings Rate	-0.9%	-0.7%	-0.8%	-0.8%	-0.6%	-0.9%

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.