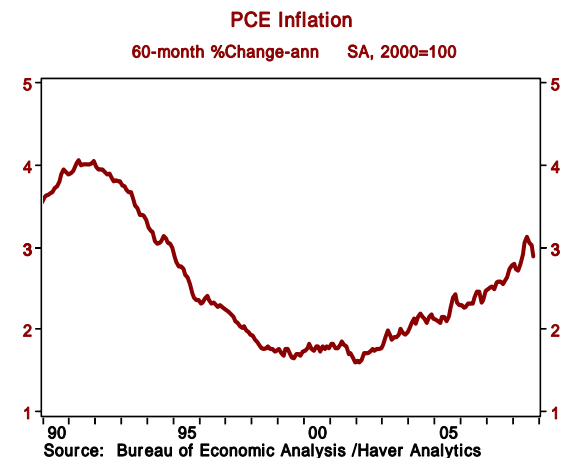
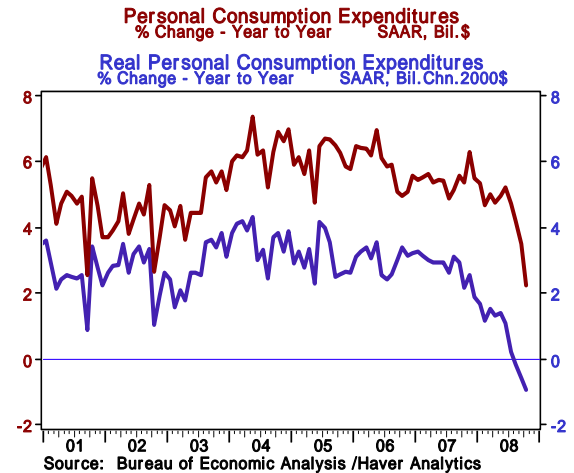


OCTOBER PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.3% in October versus a consensus expected 0.1% gain. Personal consumption declined 1.0%, matching consensus expectations. Personal income is up 3.3% in the past year while personal consumption is up 2.3%.
- Disposable personal income (income after taxes) increased 0.4% in October and is up 3.8% versus last year. Pre-tax wages and salaries were up 0.1% in October.
- The overall PCE deflator (consumer inflation) was down 0.6% in October but is up 3.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, declined 0.1% in October but is up 2.1% versus a year ago.
- After adjusting for inflation, real consumption was down 0.5% in October, down 0.9% versus last year, and down at a 4.0% annual rate in the past three months.

Implications: Real (inflation-adjusted) consumption continued to fall in October, reflecting both a tightening of lending standards (particularly at auto dealers) and a panic-induced restraint among consumers. As most people would expect, sales of consumer durables, like autos and furniture, were very weak. However, October sales of nondurables, like food and clothing, declined at the fastest one-month rate on record (going back to the late 1950s). Income growth was stronger than the consensus expected, but the strength was largely due to Hurricane Ike, which made the September data look artificially low by comparison. Meanwhile, inflation is in temporary hibernation, with overall PCE prices down 0.6% in October and down at a 1.8% annual rate in the past three months. “Core” prices (excluding food and energy) fell 0.1% in October and are up at only a 1.3% rate in the past three months. Given the decline in energy prices and slowdown in monetary velocity – the speed at which money moves through the economy – we expect prices to continue to decline in November. However, once the current risk aversion hysteria eases, loose monetary policy will lead to a resurgence in inflation.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Oct-08 | Sep-08 | Aug-08 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|---|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.3% | 0.1% | 0.3% | 2.7% | 3.6% | 3.3% |
| Disposal (After-Tax) Income | 0.4% | 0.1% | -1.1% | -2.3% | 4.3% | 3.8% |
| Personal Consumption Expenditures (PCE) | -1.0% | -0.3% | -0.1% | -5.7% | -0.7% | 2.3% |
| Durables | -4.0% | -3.8% | 1.7% | -22.4% | -19.4% | -12.5% |
| Nondurable Goods | -2.5% | -0.4% | -0.9% | -14.3% | -2.5% | 3.2% |
| Services | 0.2% | 0.3% | -0.1% | 1.9% | 3.8% | 4.6% |
| PCE Prices | -0.6% | 0.1% | 0.0% | -1.8% | 2.7% | 3.2% |
| "Core" PCE Prices (Ex Food and Energy) | -0.1% | 0.2% | 0.2% | 1.3% | 2.1% | 2.1% |
| Real PCE | -0.5% | -0.4% | -0.1% | -4.0% | -3.3% | -0.9% |

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.