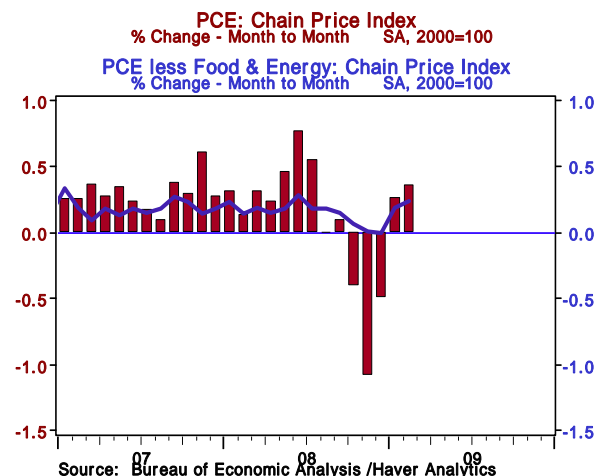
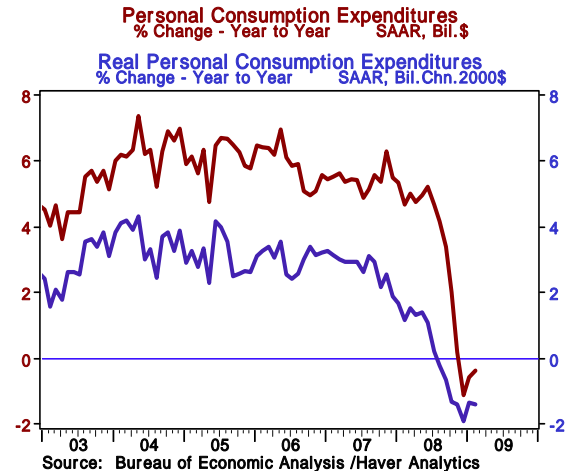


FEBRUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income declined by 0.2% in February versus a consensus expected decline of 0.1%. Personal consumption increased 0.2%, matching consensus expectations. Personal income is up 1.0% in the past year while personal consumption is down 0.4%.
- Disposable personal income (income after taxes) declined 0.1% in February but is up 3.2% versus last year. Pre-tax wages and salaries in the private sector were down 0.6% in February while dividend and interest income was down 1.3%. Government transfer payments, such as Social Security and unemployment insurance, were up 0.8% in February.
- The overall PCE deflator (consumer inflation) increased 0.3% in February and is up 1.0% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in February and is up 1.8% versus a year ago.
- After adjusting for inflation, real consumption was down 0.2% in February and down 1.4% versus last year.

Implications: The key to understanding today’s report on spending is to look at the upward revisions for January. Given these changes, the report corroborates other recent data signaling that monetary velocity has turned a corner and is heading back up. Although personal spending was up a modest 0.2% in February, as the consensus expected, the gain in spending was a robust 0.5% if you include upward revisions for previous months. Meanwhile, on the inflation front, overall consumption prices increased 0.3% in February (the most since July) and rose 0.4% including revisions to December/January. Although “real” (inflation-adjusted) consumption fell 0.2% in February, it was up 0.1% including revisions (meaning that real spending in February was 0.1% higher than *last month’s* report on January spending). As we said last month, consumption is not about to explode upward, but the worst is over for personal spending. Based on data through February, we expect real consumption to be up at a 1%+ annual rate in Q1, a remarkable turnaround from the 4.1% rate of decline in the second half of 2008. Look for consistent gains in auto sales starting this month, helping drive further increases in consumer spending.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-09	Jan-09	Dec-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	-0.2%	0.2%	-0.3%	-1.6%	-1.7%	1.0%
Disposal (After-Tax) Income	-0.1%	1.6%	-0.3%	4.6%	1.9%	3.2%
Personal Consumption Expenditures (PCE)	0.2%	1.0%	-1.1%	0.1%	-4.4%	-0.4%
Durables	-1.3%	3.1%	-0.8%	3.7%	-13.9%	-10.8%
Nondurable Goods	0.8%	1.8%	-3.7%	-4.2%	-14.5%	-4.2%
Services	0.1%	0.3%	0.1%	1.6%	2.5%	3.3%
PCE Prices	0.3%	0.3%	-0.5%	0.4%	-2.6%	1.0%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.0%	1.7%	1.3%	1.8%
Real PCE	-0.2%	0.7%	-0.6%	-0.3%	-1.9%	-1.4%

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.