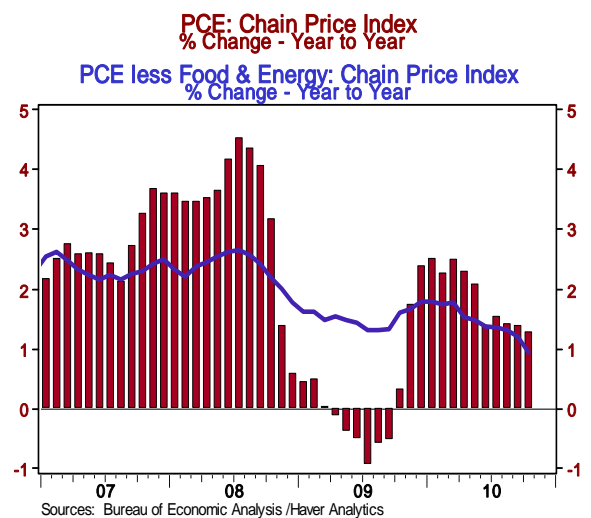
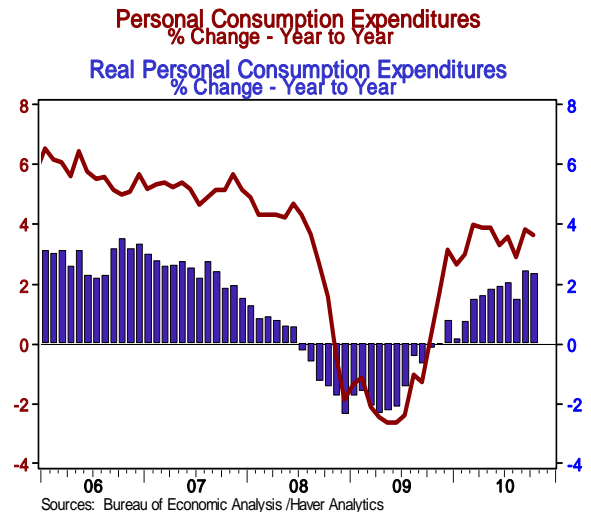


OCTOBER PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in October versus a consensus expected gain of 0.4%. Personal consumption increased 0.4% versus a consensus expected gain of 0.5%. In the last six months, personal income is up at a 3.2% annual rate while spending is up at a 3.7% rate.
- Disposable personal income (income after taxes) was up 0.4% in October and is up at a 2.6% annual rate in the past six months. The rise in October was largely due to private-sector wages and salaries. Small business income (particularly for farmers) also increased more than usual.
- The overall PCE deflator (consumer inflation) increased 0.2% in October and is up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in October and is up 0.9% since last year.
- After adjusting for inflation, “real” consumption was up 0.3% in October (0.4% including upward revisions to prior months) and is up at a 2.8% annual rate in the past six months.



Implications: Great news on the labor market today, with jobless claims plummeting and incomes rising sharply. New claims for unemployment insurance fell 34,000 last week to 407,000, the lowest level since July 2008. Meanwhile, continuing claims for regular state benefits fell 142,000 to 4.18 million, the lowest in two years. These figures, as well as the recent upward trend in payrolls, suggest private-sector payrolls are increasing in the 175,000 to 200,000 range in November. More jobs and more hours are translating into higher total pay. Personal income increased 0.5% in October. However, including upward revisions to prior months, incomes were up 1%. This is not just a function of government transfers. In the past year, “real” (inflation-adjusted) income *excluding government transfer payments* (like unemployment insurance, Social Security, and Medicare) is up 2.1%. In the past six months, real private-sector wages and salaries are up at a 3% annual rate. As a result of rising earnings, consumer spending has not only continued to increase but has accelerated in recent months. Real consumer spending is up 2.3% versus a year ago and up at a 3.1% annual rate in the past three months. On the inflation front, consumption prices are up only 1.3% versus a year ago, 0.9% if we exclude food and energy. The latter measure – “core” inflation – is the excuse the Federal Reserve is using to implement quantitative easing.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-10	Sep-10	Aug-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.0%	0.5%	3.8%	3.2%	4.1%
Disposal (After-Tax) Income	0.4%	-0.1%	0.5%	3.3%	2.6%	3.8%
Personal Consumption Expenditures (PCE)	0.4%	0.3%	0.5%	4.9%	3.7%	3.6%
Durables	1.9%	1.6%	0.0%	15.0%	7.9%	8.5%
Nondurable Goods	0.8%	0.0%	1.5%	9.8%	3.5%	4.5%
Services	0.1%	0.1%	0.3%	1.9%	3.1%	2.6%
PCE Prices	0.2%	0.1%	0.2%	1.8%	0.9%	1.3%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.0%	0.1%	0.4%	0.7%	0.9%
Real PCE	0.3%	0.2%	0.3%	3.1%	2.8%	2.3%

Source: Bureau of Economic Analysis

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