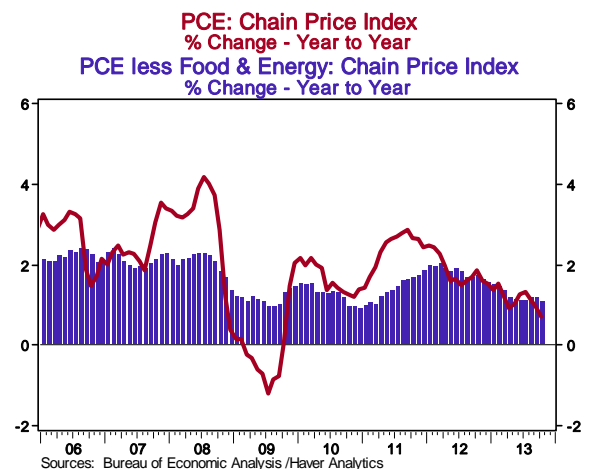
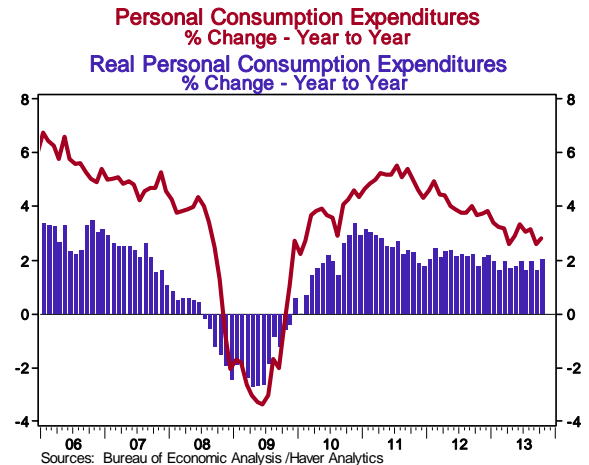


October Personal Income and Consumption

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- Personal income declined 0.1% in October, coming in below the consensus expected 0.3% gain. Personal consumption rose 0.3%, beating the consensus 0.2% gain. In the past year, personal income is up 3.4% while spending is up 2.8%.
- Disposable personal income (income after taxes) declined 0.2% in October but is up 2.6% from a year ago. The decline in income in October was driven by a drop in farm income and personal dividend income.
- The overall PCE deflator (consumer prices) was unchanged in October but is up 0.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in October and is up 1.1% in the past year.
- After adjusting for inflation, “real” consumption was up 0.3% in October and is up 2.1% from a year ago.

Implications: Another Plow Horse report on income and spending in October shows the consumer is doing just fine. This report is one more nail in the coffin for the supposed concerns about the partial government shutdown in October affecting consumer spending for the month. Spending rose 0.3% overall, absolutely unaffected from the drama out of Washington. Although income fell 0.1% in October, this comes after eight consecutive months of gains, and most of the decline was due to farm income which has been very volatile. Wages and salaries continued to grow and are up 3.2% from a year ago. Income growth has accelerated over the past three months, growing at a 3.7% annual rate versus a 3.4% gain the past year. Despite all the hand-wringing by pundits at the beginning of the year, there is still no evidence that the end of the payroll tax cut or federal spending sequester hurt consumers. We expect further gains in both income and spending over the remainder of the year and into 2014. Job growth will continue and, as the jobless rate gradually declines, employers will be offering higher wages. Meanwhile, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was unchanged in October. Core consumption prices were up 0.1%. Overall consumption prices and core prices, which exclude food and energy, are up 0.7% and 1.1% respectively in the past year. Both are well below the Fed’s 2% target. However, we think these price measures will move higher over the next year. QE was a mistake. The sooner the Fed starts to taper, the better.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Oct-13 | Sep-13 | Aug-13 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | -0.1% | 0.5% | 0.5% | 3.7% | 3.7% | 3.4% |
| Disposable (After-Tax) Income | -0.2% | 0.5% | 0.6% | 3.7% | 3.8% | 2.6% |
| Personal Consumption Expenditures (PCE) | 0.3% | 0.2% | 0.3% | 3.2% | 3.4% | 2.8% |
| Durables | 0.6% | -1.4% | 1.4% | 2.4% | 4.0% | 5.2% |
| Nondurable Goods | 0.3% | 0.6% | -0.2% | 3.0% | 6.1% | 1.5% |
| Services | 0.2% | 0.4% | 0.3% | 3.4% | 2.3% | 2.9% |
| PCE Prices | 0.0% | 0.1% | 0.1% | 0.8% | 1.5% | 0.7% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.1% | 0.1% | 1.1% | 1.3% | 1.1% |
| Real PCE | 0.3% | 0.1% | 0.2% | 2.4% | 1.8% | 2.1% |

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.