

Q1 PRODUCTIVITY (FINAL)

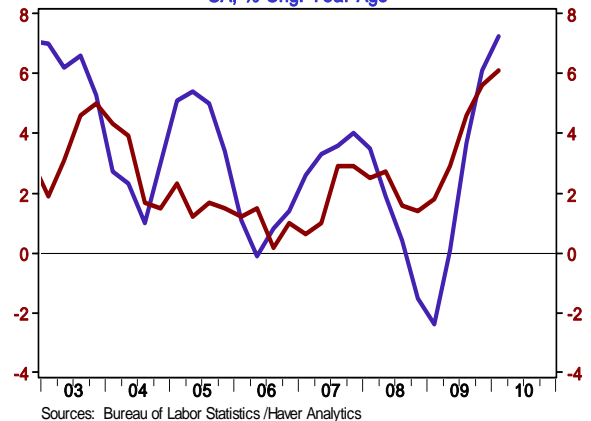
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- Non-farm productivity (output per hour) increased at a 2.8% annual rate in the first quarter, coming in below the original estimate of 3.6%. Non-farm productivity is up 6.1% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector was unchanged in Q1 but is down 0.7% versus last year. Unit labor costs were down at a 1.3% rate in Q1 and down 4.2% versus a year ago.
- In the manufacturing sector, Q1 measures of production (output and hours) were stronger than then non-farm business sector while measures of labor compensation were lower.

Implications: Despite the downward revision for Q1, the US productivity boom continues. Output per hour is up 6.1% versus a year ago, the fastest increase in almost 50 years. The gain reflects equal doses of more output (+3%) and fewer hours (-3%). However, in the past six months, companies have increased the number of hours worked while still generating productivity gains. One of the key side-effects of higher productivity is lower unit labor costs (how much a company has to pay workers in order to generate a fixed amount of output). Unit labor costs are down 4.2% in the past year, nearly a record drop. With labor now so inexpensive, we expect much more substantial gains in hours worked, including job creation, in the quarters ahead. In other news this morning, the ADP Employment index, a measure of private-sector payrolls, increased 55,000 in May, the fourth straight monthly gain. However, in recent months, the index has substantially underestimated private-sector gains in the official Labor Department report. In addition, the index does not include Census-related hiring. As a result, we forecast that total payrolls increased 625,000 in May (reported tomorrow morning). Also in other news, new claims for unemployment insurance fell 10,000 last week to 453,000. Continuing claims for regular state benefits increased 31,000 to 4.67 million. Yesterday, automakers reported that autos/trucks were sold at an 11.6 million annual rate in May, 3.8% higher than in April and 18% higher than a year ago. Look for more gains in the months ahead as auto sales gradually move back to a long-term trend of more than 15 million per year.

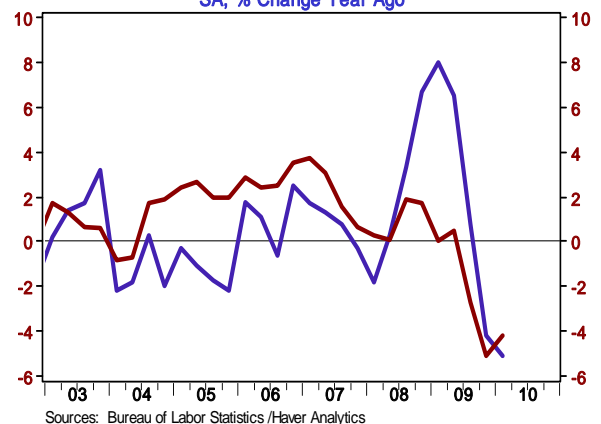
Nonfarm Business Sector: Output Per Hour Per Person
SA, % Chg. Year Ago

Manufacturing Sector: Output Per Hour Per Person
SA, % Chg. Year Ago



Nonfarm Business Sector: Unit Labor Cost
SA, % Change Year Ago

Manufacturing Sector: Unit Labor Cost
SA, % Change Year Ago



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-10	Q4-09	Q3-09	Q2-09	Y to Y % Ch. (Q1-10/Q1-09)	Y to Y % Ch. (Q1-09/Q1-08)
Nonfarm Productivity	2.8	6.3	7.8	7.6	6.1	1.8
- Output	4.0	7.0	2.2	-1.1	3.0	-4.8
- Hours	1.1	0.7	-5.3	-8.1	-3.0	-6.5
- Compensation (Real)	0.0	-4.5	-3.9	5.8	-0.7	1.9
- Unit Labor Costs	-1.3	-7.8	-7.6	0.1	-4.2	0.0
Manufacturing Productivity	1.5	6.5	14.8	6.6	7.2	-2.4
- Output	7.2	5.6	9.0	-8.1	3.2	-13.9
- Hours	5.6	-0.8	-5.1	-13.8	-3.8	-11.7
- Compensation (Real)	-1.5	-0.7	-4.5	4.5	-0.6	5.5
- Unit Labor Costs	-1.5	-4.2	-13.7	-0.3	-5.1	8.0

Source: US Department of Labor

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