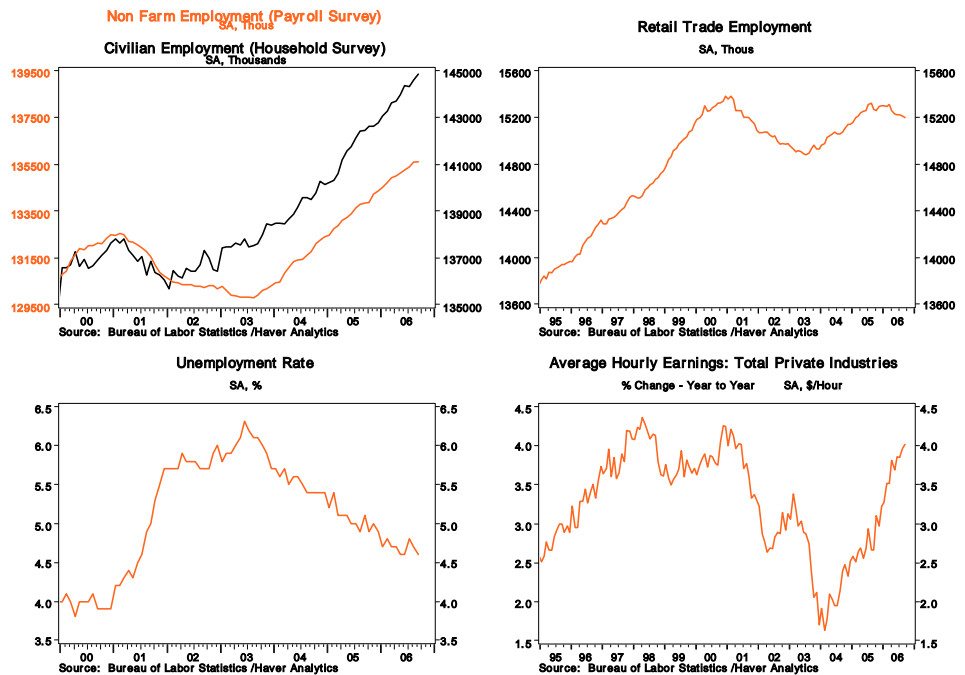


SEPTEMBER EMPLOYMENT REPORT

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- Non-farm payrolls rose a less-than-expected 51,000 in September. Revisions added 62,000 net jobs in the previous two months.
- The household survey showed 271,000 new jobs last month after adding 250,000 in August. The unemployment rate fell to 4.6% (unrounded 4.58%): lowest level in 5 years.
- Average hourly earnings increased 0.2% in September after an upwardly revised 0.2% in August (originally +0.1%). Average hourly earnings are up 4.0% in the past year, well above the 25-year average of 3.3%.
- The BLS estimated that it had underestimated the total level of payroll employment growth by 810,000 during the year ending in March 2006 – an average of 67,000 per month. This is one of the largest annual revisions to employment ever and suggests that household survey has been a much better measure of employment than the payroll survey.



Implications: The disappointing 51,000 increase in payroll employment during September is a misleading indicator of economic activity. As we have stated for years, the payroll survey misses small business job growth, independent contractors and the self-employed. The Household Survey reported a huge 271,000 gain in jobs during September, after a 250,000 gain in August, and 2.54 million total new jobs in the past year. The unemployment rate fell to 4.58% - the lowest point in this recovery. Every year, the BLS goes back and re-estimates job growth over the previous year in an attempt to capture the jobs that it missed. And today, it said that it had underestimated job growth by 810,000 during the year ending in March 2006. This is an incredibly large miss and suggests that our focus on the Household survey as the true measure of job growth has been correct. In September, residential housing related employment fell by 15,600. However, non-residential employment offset this decline and increased by 15,800. We continue to believe that the slowdown in housing will not impact the economy in a significant way. All in all, the employment report puts a dagger in those who expected a Fed rate cut anytime soon.

Employment Report	Sep-06	Aug-06	Jul-06	3-month moving avg	6-month moving avg	12-month moving avg
Nonfarm Payrolls (monthly change in thousands)	51	188	123	121	118	148
<i>Goods-Producing Industries</i>						
Mining	-11	18	-15	-3	8	24
Construction	1	3	4	3	4	4
Manufacturing	8	23	5	12	7	18
<i>Service-Producing Industries</i>						
Retail Trade	-19	-7	-23	-16	-3	2
Finance, Insurance and Real Estate	62	170	138	123	110	124
Government	-12	-14	1	-8	-18	-6
Government	16	10	6	11	11	15
Government	-8	26	19	12	15	11
Avg. Hourly Earnings: Priv. Nonfarm Payrolls*	0.2%	0.2%	0.4%	3.6%	4.0%	4.0%
Avg. Weekly Hours: Priv. Non-agric	33.8	33.8	33.9	33.8	33.9	33.8
Avg. Weekly Hours: Manufacturing	41.1	41.3	41.4	41.3	41.3	41.1
Index of Aggregate Weekly Hours*	-0.1%	-0.1%	0.1%	-0.4%	1.2%	1.8%
Unemployment Rate	4.6	4.7	4.8	4.7	4.7	4.8
Labor Force	101	164	213	159	191	143
Civilian Employment	271	250	-34	162	202	201

Source: Bureau of Labor Statistics

*3, 6 month figures are % change annualized; 12 mo. = year over year % change

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