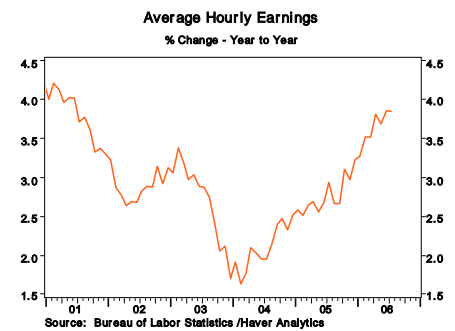
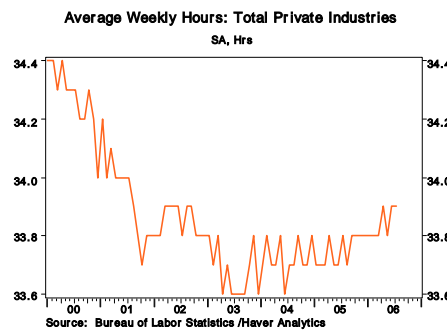
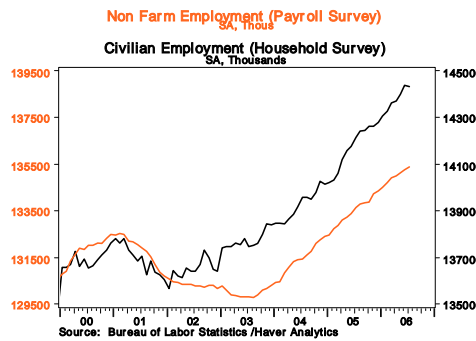


## JULY EMPLOYMENT REPORT

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- Non-farm payrolls increased by a moderately- weaker-than-expected 113,000 in July. Net revisions added 11,000 jobs in the previous two months.
- The household survey declined 34,000 last month and the labor force gained 213,000. As a result, the unemployment rate rose to 4.8% (unrounded = 4.75%) from 4.6% in June.
- Average hourly earnings jumped 0.4% in July and are up 3.8% in the past year and 4.4% at an annual rate in the last six months.



**Implications:** Expectations of a Fed pause increased significantly after the fourth consecutive month of somewhat subdued payroll growth. Adding fuel to the fire, household employment fell 34,000 last month and the unemployment rate rose to 4.8% - although this is a little exaggerated as the unrounded unemployment rate was 4.75%. While we believe the household survey does a much better job than the payroll survey of capturing small business employment and the self employed, it is notoriously volatile. Over the last 6 months, the household survey has added an average 209,000 jobs versus the payroll survey that has averaged 137,000. Not all data pointed to weakness. Average weekly hours remained at a post-recession high of 33.9 and manufacturing weekly hours rose to 41.5, the highest level in five years. In other words, companies appear to be cautious about hiring but continue to boost output. Moreover, average hourly earnings rose 0.4% in July and 3.8% in the past year. Other measures of employment costs are likely to show similar strength as they are revised higher to incorporate the \$71.2 billion upward revision to Personal Income data. This suggests that inflationary pressures are beginning to seep into the job market. Nonetheless, despite rising inflationary pressures, the Fed will focus on a slowing economy and will most likely pause at their meeting on August 8<sup>th</sup>. The increased likelihood of a Fed pause caused gold and commodities prices to rise and the dollar to turn down, indicating that Fed policy has not yet reached neutral. With the Fed still short of neutral, the economy is unlikely to slow significantly and rate hikes are likely to resume in the near future.

Employment Report	Jul-06	Jun-06	May-06	3-month moving avg	6-month moving avg	12-month moving avg
<b>Nonfarm Payrolls (monthly change in thousands)</b>	113	124	100	112	137	145
<b>Goods-Producing Industries</b>						
Mining	-2	23	-12	3	16	25
Construction	8	6	2	5	6	5
Manufacturing	6	-4	-4	-1	7	18
Service-Producing Industries	-15	22	-10	-1	2	1
Retail Trade	115	101	112	109	122	120
Finance, Insurance and Real Estate	0	-4	-35	-13	-13	-7
Government	6	-5	7	3	12	15
Government	0	15	6	7	16	10
<b>Avg. Hourly Earnings: Priv. Nonfarm Payrolls*</b>	0.4%	0.4%	0.1%	3.7%	4.4%	3.8%
<b>Avg. Weekly Hours: Priv. Non-agric</b>	33.9	33.9	33.8	33.9	33.9	33.8
<b>Avg. Weekly Hours: Manufacturing</b>	41.5	41.3	41.2	41.3	41.2	41.0
<b>Index of Aggregate Weekly Hours*</b>	0.1%	0.4%	-0.1%	1.5%	2.3%	2.2%
<b>Unemployment Rate</b>	4.8	4.6	4.6	4.7	4.7	4.8
<b>Labor Force</b>	213	330	180	241	237	161
<b>Civilian Employment</b>	-34	387	288	214	209	185

Source: Bureau of Labor Statistics

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

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