FIRST Trust ADVISORS L.P.

Data Watch

May 3, 2007 • 630.322.7756 • http://www.ftportfolios.com

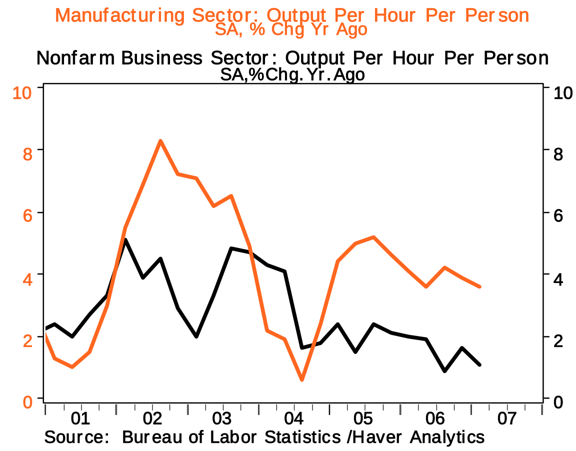
Q1 PRODUCTIVITY

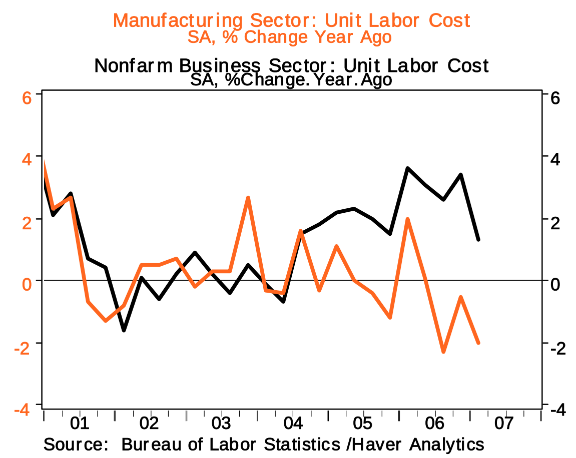
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA
Economic Research Analyst – Trevor D. Scott

- Non-farm productivity (output per hour) increased at a 1.7% annual rate in the first quarter, versus a consensus expectation of 0.7%. Non-farm productivity in the fourth quarter was revised up to 2.1% from 1.7% and is up 1.1% from a year ago.

- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.5% annual rate in the first quarter, a combination of a nominal gain of 2.3% and a 3.8% annualized increase in the consumer price index (CPI). Unit labor costs – the gap between compensation and output – increased at a 0.6% rate in Q1, much less than the consensus expected gain of 3.8%.

- In the manufacturing sector, first quarter growth rates for productivity (2.7%), compensation (5.5%), and unit labor costs (2.7%) were all higher than for the non-farm sector as a whole.





Implications: Compared to the consensus forecast, non-farm productivity was stronger and unit labor costs (ULCs) were weaker. Both of these were due to statistical issues. The measure of hours used to calculate productivity was much weaker than the hours figures from the monthly employment reports. As a result, output *per hour* was higher than expected. ULC growth came in below expectations because most forecasters do not know that ULCs are calculated using compensation *paid* not compensation *received*. Bonuses are counted as paid at the time they're announced, not when employees receive them. So ULCs went up a rapid 6.2% in the fourth quarter and the slower pace in Q1 is understandable. Productivity growth has decelerated from the rapid growth earlier this decade but we believe this is temporary. During every expansion there are periods when the labor market is stronger than suggested by real GDP growth. We have been in this phase for the past year. Eventually, however, as the labor market tightens further, firms will re-accelerate their pace of efficiency gains.

Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	Q1-07	Q4-06	Q3-06	Q2-06	Y to Y % Ch. *(Q1-07/Q1-06)*	Y to Y % Ch. *(Q1-06/Q1-05)*
Nonfarm Productivity	**1.7**	2.1	-0.5	1.2	1.1	2.0
- Output	**1.4**	2.9	1.9	2.7	2.2	4.4
- Hours	**-0.3**	0.8	2.4	1.5	1.1	2.3
- Compensation	**2.3**	8.5	0.6	-1.4	2.4	5.7
- Unit Labor Costs	**0.6**	6.2	1.1	-2.5	1.3	3.6
Manufacturing Productivity	**2.7**	1.9	5.9	3.8	3.6	4.1
- Output	**1.5**	-2.1	4.8	5.7	2.4	4.9
- Hours	**-1.1**	-3.9	-1.1	1.9	-1.1	0.7
- Compensation	**5.5**	6.6	-0.2	-5.4	1.5	6.1
- Unit Labor Costs	**2.7**	4.6	-5.8	-8.8	-2.0	2.0
Durable Goods Productivity	**2.7**	3.0	8.1	5.9	4.9	6.4
Nondurable Goods Productivity	**2.0**	0.3	2.7	2.2	1.8	1.9

Source: US Department of Labor