

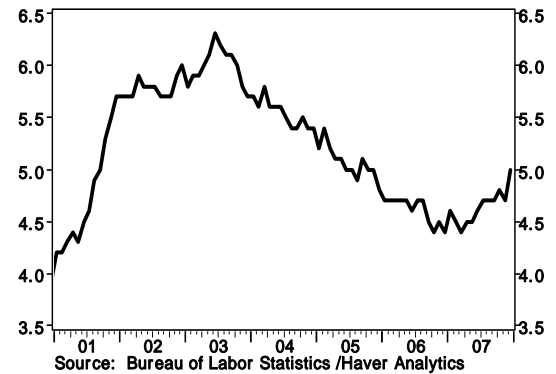
DECEMBER EMPLOYMENT REPORT

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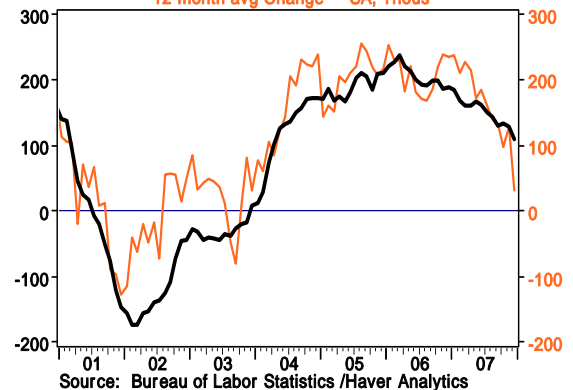
- Non-farm payrolls increased 18,000 in December while revisions to October and November added 10,000. The consensus expected a gain of 70,000.
- Private sector payrolls declined 13,000 in December. The weakest sectors were construction (down 49,000, of which 29,000 were in residential building), manufacturing (down 31,000), retail trade (down 24,000), and information (down 13,000, mostly due to striking screenwriters). Healthy sectors included education and health (up 44,000), professional and business services (up 43,000), and leisure/hospitality (think bars and restaurants, up 22,000).
- The unemployment rate jumped to 5.0% (4.975% un-rounded) versus a consensus expected increase to 4.8%.
- Average hourly earnings increased 0.4% and are up 3.7% versus a year ago.

Implications: Today's employment report was weak. Even with positive revisions to previous months, the net gain in payrolls was 28,000 while private sector payrolls contracted by a net 12,000. The weakness in December was concentrated in housing and manufacturing (which can be housing related), with residential building down 29,000 and manufacturing down 31,000. The report suggests the Federal Reserve will cut rates again at the end of January with the only issue being whether it moves by 25 or 50 basis points. However, we do not believe today's report signals the onset of a recession. First, revisions matter and have been significant in the past year. The initial August 2007 payroll data showed a decline of 4,000, but after all revisions, payrolls actually grew by 93,000 that month. And, with both the ADP report and the ISM-Services employment index positive for December, we suspect that revisions will push this month's data higher, too. Second, payrolls increased an average of 97,000 in Q4 versus 77,000 in Q3, so the slim payroll growth in December may simply be an offset to strong data in October and November. Third, the median duration of unemployment fell to 8.4 weeks from 8.7 last month. Last, wages grew 0.4% in December. We still believe real GDP grew at a 2.5% rate in Q4 and will grow at about a 3% rate in the first half of 2008.

Civilian Unemployment Rate: 16 yr +
SA, %



All Employees: Total Nonfarm
12-month avg Change SA, Thous
Civ. Employment (Pop. Smoothed and Payroll Compatible)
12-month avg Change SA, Thous



Employment Report <i>All Data Seasonally Adjusted</i>	Dec-07	Nov-07	Oct-07	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	5.0	4.7	4.8	4.8	4.8	4.6
Civilian Employment (monthly change in thousands)	-1,019	669	-35	-128	-12	31
Nonfarm Payrolls (monthly change in thousands)	18	115	159	97	87	111
Construction	-49	-37	-20	-35	-29	-16
Manufacturing	-31	-13	-23	-22	-22	-18
Retail Trade	-24	32	-20	-4	-2	4
Finance, Insurance and Real Estate	-4	-16	-2	-7	-7	-2
Professional and Business Services	43	39	70	51	37	26
Education and Health Services	44	29	49	41	44	47
Leisure and Hospitality	22	35	47	35	30	30
Government	31	28	49	36	26	23
Avg. Hourly Earnings: Total Private*	0.4%	0.4%	0.2%	3.9%	3.6%	3.7%
Avg. Weekly Hours: Total Private	33.8	33.8	33.8	33.8	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	0.0	0.1	0.1	0.7	0.6	1.0

*3, 6 and 12 month figures are % change annualized

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.