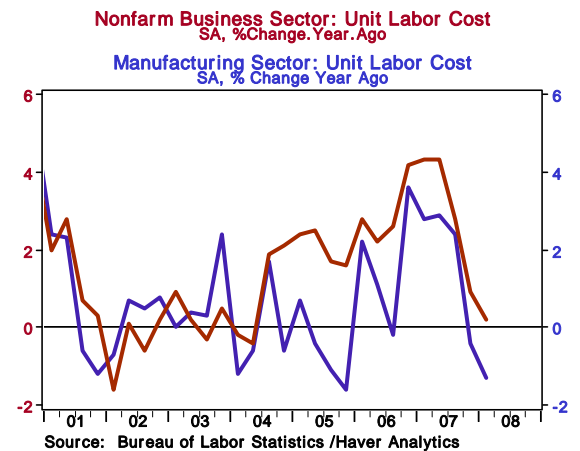
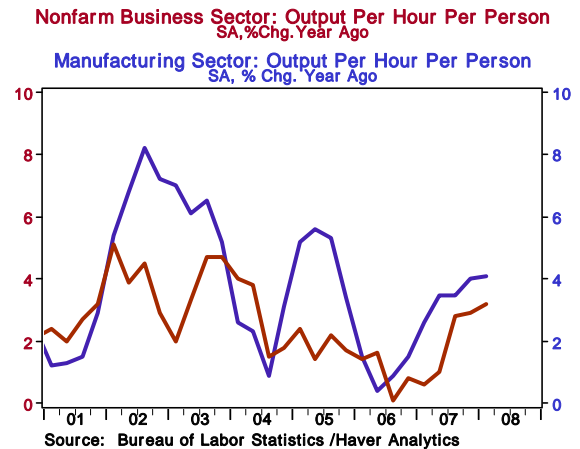


Q1 PRODUCTIVITY (PRELIMINARY)

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Non-farm productivity (output per hour) increased at a 2.2% annual rate in the first quarter versus a consensus expected gain of 1.5%. Non-farm productivity is up 3.2% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 0.1% annual rate in Q1 but is down 0.7% versus last year. Unit labor costs were up at a 2.2% rate in Q1 and up 0.2% versus a year ago.
- In the manufacturing sector, Q1 growth rates for productivity (4.1%) and real compensation (2.3%) were both higher than for the non-farm sector as a whole.

Implications: Despite recent sluggishness in real GDP growth, long term prospects for US economic growth remain strong. Non-farm productivity is up 3.2% versus last year, while manufacturing sector productivity is up 4.1%. In mid-2007, after a year and a half of relatively weak productivity growth, some economists were concerned the productivity boom that started in the mid-1990s was coming to an end. But productivity growth has re-accelerated since then, undermining the pessimistic argument and supporting the case that the boom continues. One implication of this is that as Baby Boomers gradually age into retirement – and growth in the labor force declines – firms will still be able to raise output by adding capital equipment and generating efficiencies in the way they operate. Meanwhile, rising inflation continues to erode the value of workers' paychecks. Labor compensation grew at a healthy 4.4% rate in Q1, but only grew at a 0.1% rate on an inflation-adjusted basis.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-08	Q4-07	Q3-07	Q2-07	Y to Y % Ch. (Q1-08/Q1-07)	Y to Y % Ch. (Q1-07/Q1-06)
Nonfarm Productivity	2.2	1.8	6.0	2.7	3.2	0.6
- Output	0.4	0.2	5.6	4.2	2.6	1.5
- Hours	-1.8	-1.6	-0.4	1.5	-0.6	0.9
- Compensation	4.4	4.6	3.3	1.3	3.4	4.9
- Unit Labor Costs	2.2	2.8	-2.5	-1.3	0.2	4.3
Manufacturing Productivity	4.1	4.2	4.5	3.8	4.1	2.6
- Output	-0.3	-0.4	4.3	4.9	2.1	0.4
- Hours	-4.2	-4.4	-0.2	1.0	-2.0	-2.1
- Compensation	6.7	4.3	0.7	-0.4	2.8	5.4
- Unit Labor Costs	2.5	0.2	-3.6	-4.1	-1.3	2.8

Source: US Department of Labor

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