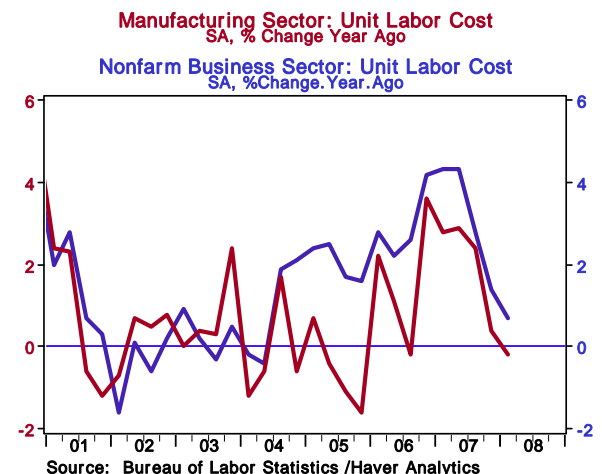
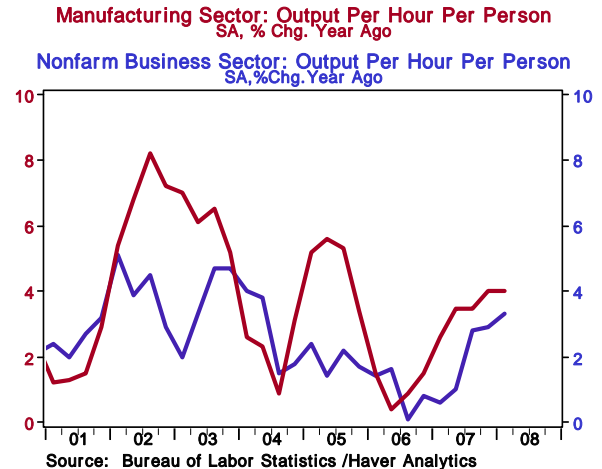


Q1 PRODUCTIVITY (FINAL)

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

- Non-farm productivity (output per hour) increased at a 2.6% annual rate in the first quarter, an upward revision from an original estimate of 2.2%. Non-farm productivity is up 3.3% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 0.6% annual rate in Q1 versus an original estimate of 0.1%. However, real compensation per hour is down 0.1% versus last year. Unit labor costs were up at a 2.2% rate in Q1 and up 0.7% versus a year ago.
- In the manufacturing sector, Q1 growth rates for productivity (3.6%) and real compensation (3.5%) were both higher than for the non-farm sector as a whole.



Implications: The productivity boom that started in the mid-1990s continues to thrive, meaning long term prospects for US economic growth remain strong. Non-farm productivity is up 3.3% versus last year, while manufacturing sector productivity is up 4%. 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 4.9% rate in Q1, but only grew at a 0.6% rate on an inflation-adjusted basis. In other news this morning, the ADP report on national employment suggests private sector payrolls increased 40,000 in May, which was much better than the consensus expected decline of 30,000. All of the strength in the ADP report can be attributed to small firms (those with 1-49 employees) in the service sector. The official Labor Department report on May payrolls will be released Friday morning.

Productivity and Costs <i>(% Change, All Data Seasonally Adjusted)</i>	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	2.6	1.8	6.0	2.7	3.3	0.6
- Output	0.7	0.2	5.6	4.2	2.7	1.5
- Hours	-1.8	-1.6	-0.4	1.5	-0.6	0.9
- Compensation	4.9	6.6	3.3	1.3	4.0	4.9
- Unit Labor Costs	2.2	4.7	-2.5	-1.3	0.7	4.3
Manufacturing Productivity	3.6	4.2	4.5	3.8	4.0	2.6
- Output	-1.2	-0.4	4.3	4.9	1.9	0.4
- Hours	-4.7	-4.4	-0.2	1.0	-2.1	-2.1
- Compensation	7.9	7.4	0.7	-0.4	3.8	5.4
- Unit Labor Costs	4.2	3.1	-3.6	-4.1	-0.2	2.8

Source: US Department of Labor

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