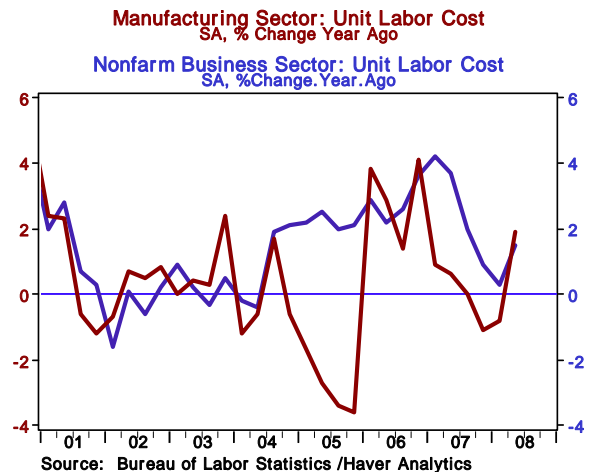
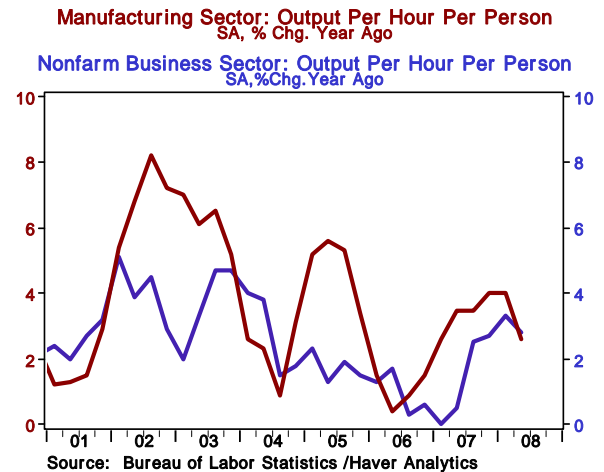


Q2 PRODUCTIVITY (PRELIMINARY)

Chief Economist – Brian S. Wesbury
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- Non-farm productivity (output per hour) increased at a 2.2% annual rate in the second quarter versus a consensus expected gain of 2.5%. Non-farm productivity is up 2.8% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.4% annual rate in Q2 but is up 0.1% versus last year. Unit labor costs were up at a 1.3% rate in Q2 and are up 1.5% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (-1.4%) was slower than in the non-farm sector as a whole. The growth rate of real compensation (-0.4%) was higher than for the non-farm sector.

Implications: Economic growth has been sluggish in recent quarters but productivity growth has remained healthy. This signals that the long-term fundamentals of the US economy remain solid. In the past year, non-farm productivity (output per hour worked in the non-farm business sector) was up 2.8%. Last year, when productivity growth had fallen to 0.5%, many economists thought the productivity revolution was coming to an end. The re-acceleration of productivity growth undermines this theory. Today's data show how an economy can continue to grow (and stay out of recession) despite a soft labor market. Hours worked fell for the fourth straight quarter and are down 1% versus a year ago. However, output is up 1.8% in the same timeframe as workers have produced increasing amounts per hour worked. Today's data also demonstrate how inflation is eroding the value of workers' paychecks. Labor compensation is up a respectable 4.3% versus last year but up a meager 0.1% after adjusting for inflation. Tighter monetary policy would quickly bring down commodity prices, including oil, and almost immediately add to the value of workers' earnings.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-08	Q1-08	Q4-07	Q3-07	Y to Y % Ch. (Q2-08/Q2-07)	Y to Y % Ch. (Q2-07/Q2-06)
Nonfarm Productivity	2.2	2.6	0.8	5.8	2.8	0.5
- Output	1.7	0.9	-0.7	5.5	1.8	1.6
- Hours	-0.5	-1.6	-1.6	-0.3	-1.0	1.1
- Compensation	3.6	5.2	5.4	3.3	4.3	4.2
- Unit Labor Costs	1.3	2.5	4.5	-2.4	1.5	3.7
Manufacturing Productivity	-1.4	3.4	4.2	4.5	2.6	3.5
- Output	-3.5	-0.8	-0.4	4.3	-0.1	1.5
- Hours	-2.0	-4.0	-4.4	-0.2	-2.7	-1.9
- Compensation	4.6	6.2	7.8	-0.1	4.6	4.1
- Unit Labor Costs	6.1	2.8	3.4	-4.4	1.9	0.6

Source: US Department of Labor

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