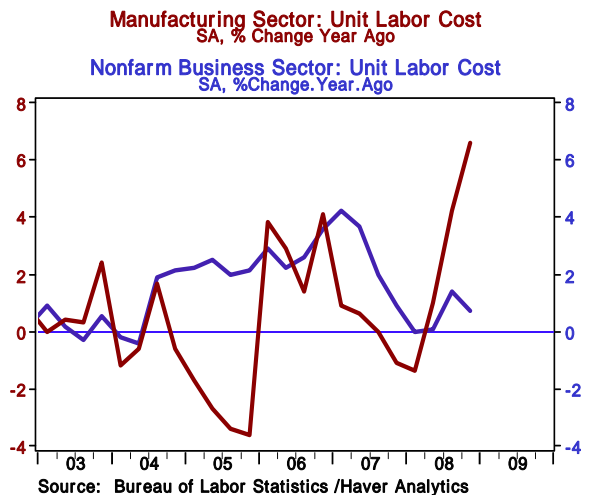
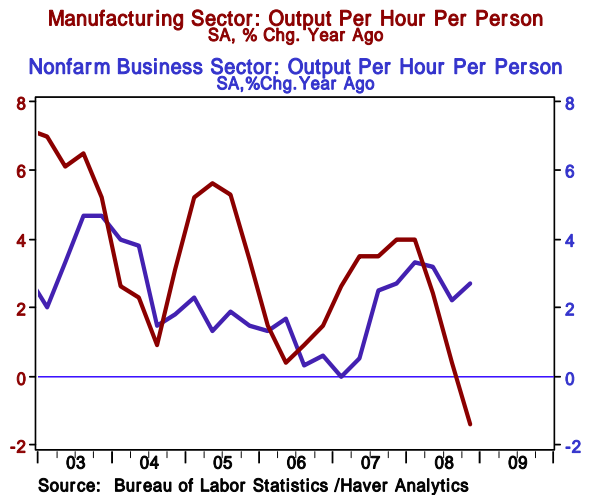


Q4 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) increased at a 3.2% annual rate in the fourth quarter, beating the consensus expected gain of 1.6%. Non-farm productivity is up 2.7% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 15.6% annual rate in Q4 and is up 1.9% versus last year. Unit labor costs were up at a 1.8% rate in Q4 and are up 0.7% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity (-3.0%) was much weaker than in the non-farm sector as a whole. The growth rate of real compensation (20.9%) was stronger than in the non-farm sector.

Implications: As much as the economy is hurting right now, the continued rise in productivity (output per hour) bodes well for our long-term prospects. Despite the recession, productivity was up 2.7% in 2008, slightly better than the average pace of productivity gains over the past ten years (2.6%). Businesses have achieved recent productivity gains by cutting hours worked (-3.6%) faster than the decline in production (-1%). Tomorrow's employment report will likely show a significant loss in payrolls, roughly 525,000. However, higher productivity will eventually make it appealing for companies to re-hire workers and bid up real wages/benefits. Meanwhile, gains in real compensation (due to lower energy prices) are building purchasing power for future quarters. By contrast, if payrolls were declining and productivity was falling too, much greater long-term pain would be in the pipeline. This kind of pain may be evident in the durable goods portion of the manufacturing sector (autos, furniture, business equipment, large appliances,...etc.), where productivity is down 3.6% in the past year. In other news, initial claims for unemployment benefits increased 35,000 last week to 626,000, the highest so far this recession. Continuing claims increased 20,000 to 4.788 million, or 3.6% of workers covered by the unemployment insurance system, the most since 1983.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-08	Q3-08	Q2-08	Q1-08	Y to Y % Ch. (Q4-08/Q4-07)	Y to Y % Ch. (Q4-07/Q4-06)
Nonfarm Productivity	3.2	1.5	3.6	2.6	2.7	2.7
- Output	-5.5	-1.9	2.8	0.9	-1.0	2.4
- Hours	-8.4	-3.4	-0.8	-1.7	-3.6	-0.3
- Compensation (Nominal)	5.0	4.2	0.9	3.8	3.5	3.6
- Unit Labor Costs	1.8	2.6	-2.6	1.2	0.7	0.9
Manufacturing Productivity	-3.0	-3.3	-2.3	3.3	-1.4	4.0
- Output	-16.7	-8.8	-3.8	-0.8	-7.7	2.5
- Hours	-14.1	-5.7	-1.5	-4.0	-6.5	-1.5
- Compensation (Nominal)	9.8	4.9	2.2	3.8	5.1	2.9
- Unit Labor Costs	13.3	8.4	4.6	0.5	6.6	-1.1

Source: US Department of Labor
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