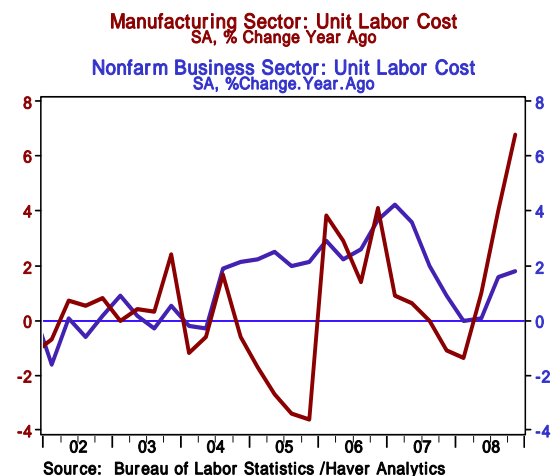
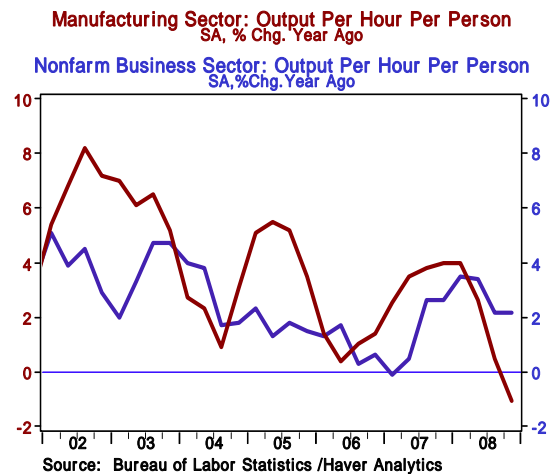


Q4 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) declined at a -0.4% annual rate in the fourth quarter, a large downward revision from an original estimate of +3.2%. Non-farm productivity is up 2.2% versus a year ago.
- Compensation per hour in the non-farm sector increased at a 5.3% annual rate in Q4 and is up 4.1% versus last year. However, due to the energy-related drop in consumer prices in Q4, real (inflation-adjusted) compensation was up at a 15.9% annual rate in Q4 and is up 2.5% versus last year. Unit labor costs were up at a 5.7% rate in Q4 and up 1.8% versus a year ago.
- In the manufacturing sector, Q4 measures of production were slower than in non-farm business sector as a whole, while measures of labor costs were higher. Manufacturing productivity fell at a 4.0% annual rate while output and hours were down at a 17.7% rate and a 14.2% rate, respectively. Manufacturing sector labor compensation rose at a 10.1% rate (21.2%, inflation-adjusted) and unit labor costs increased at a 14.7% annual rate.

Implications: Productivity (output per hour) was revised lower in Q4, due largely to the recent downward revision in real GDP growth (less output means less output per hour). Nonetheless, we believe the long-term trend of strong productivity growth is still intact. While Q4 productivity was revised lower, productivity in previous quarters was revised up, and there appears to be problems with seasonal adjustments – it is not just a coincidence that this is the seventh year in a row in which productivity has either dropped or been unchanged in the fourth quarter. So we look at annual changes which show productivity is up 2.2% in the past year, a surprisingly strong increase given the overall economic contraction. The productivity increase helps explain why the jobless rate has shot up so rapidly. Businesses are becoming more efficient, reducing the number of hours worked faster than they cut production. Despite near-term pain, these increases in productivity will ultimately elevate the growth potential of the US economy. In other news this morning, new claims for unemployment insurance fell 31,000 last week to 639,000, while continuing claims fell 14,000 to 5.106 million.



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	-0.4	2.2	4.7	2.6	2.2	2.6
- Output	-8.7	-1.9	2.8	0.9	-1.8	2.4
- Hours	-8.3	-3.9	-1.7	-1.7	-4.0	-0.3
- Compensation (Nominal)	5.3	5.7	1.7	3.7	4.1	3.6
- Unit Labor Costs	5.7	3.5	-2.8	1.1	1.8	0.9
Manufacturing Productivity	-4.0	-2.2	-1.1	2.9	-1.1	4.0
- Output	-17.7	-8.6	-3.8	-0.8	-8.0	2.5
- Hours	-14.2	-6.5	-2.7	-3.7	-6.9	-1.5
- Compensation (Nominal)	10.1	5.4	3.5	3.4	5.6	2.9
- Unit Labor Costs	14.7	7.8	4.7	0.5	6.8	-1.1

Source: US Department of Labor

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