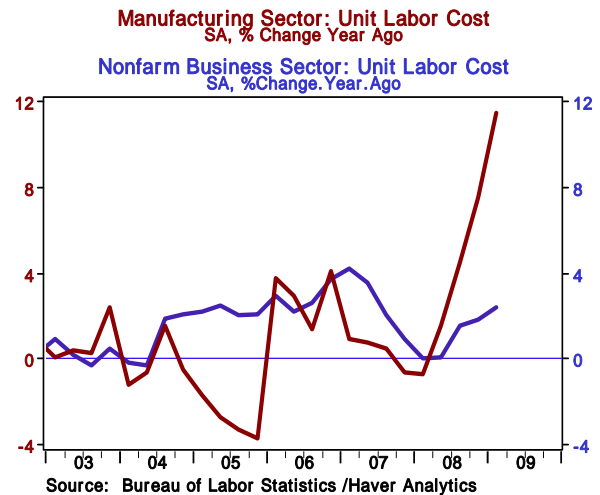
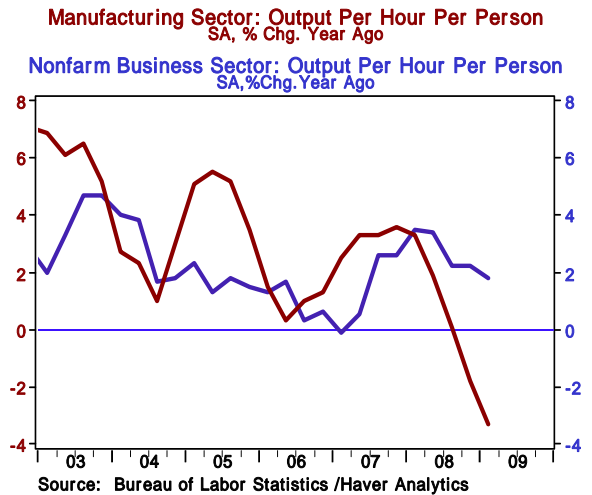


# Q1 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) increased at a 0.8% annual rate in the first quarter, very close to the consensus expected 0.6%. Non-farm productivity is up 1.8% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 6.6% annual rate in Q1 and is up 4.4% versus last year. Unit labor costs were up at a 3.3% rate in Q1 and are up 2.4% versus a year ago.
- In the manufacturing sector, the Q1 growth rate for productivity (-3.4%) was weaker than in the non-farm sector as a whole. The growth rate of real compensation (15.5%) was much stronger than in the overall non-farm sector.

**Implications:** As much pain as the economy went through in late 2008 and early 2009, the absence of a major decline in productivity (output per hour) bodes well for our long-term prospects. Although output declined at an 8.2% annual rate in Q1, all the drop was due to fewer hours worked. On a per hour basis, workers were producing more than ever before. Due to all the liquidity the Federal Reserve has poured into the economy as well as the natural ability of markets to heal themselves, the US is in the nascent stages of an economic recovery. Eventually, higher productivity will make it appealing for companies to re-hire workers. Meanwhile, gains in real compensation – up 4.4% in the past year – are generating consumer purchasing power for future quarters. In other news this morning, initial claims for unemployment insurance fell 34,000 last week to 601,000, the lowest level since late January. The 4-week moving average of claims is 624,000 versus 659,000 only a month ago. Meanwhile, continuing claims increased 56,000 to 6.351 million. As usual, shifts in continuing claims will lag initial claims by several weeks.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-09	Q4-08	Q3-08	Q2-08	Y to Y % Ch. (Q1-09/Q1-08)	Y to Y % Ch. (Q1-08/Q1-07)
<b>Nonfarm Productivity</b>	<b>0.8</b>	-0.6	2.2	4.7	1.8	3.5
- Output	-8.2	-8.8	-1.9	2.8	-4.1	2.8
- Hours	-9.0	-8.3	-3.9	-1.7	-5.8	-0.6
- Compensation (Nominal)	4.1	5.2	5.7	1.7	4.2	3.5
- Unit Labor Costs	3.3	5.7	3.5	-2.8	2.4	0.0
<b>Manufacturing Productivity</b>	<b>-3.4</b>	-4.2	-2.9	-2.5	-3.3	3.3
- Output	-22.4	-18.0	-9.3	-5.2	-14.0	1.3
- Hours	-19.7	-14.4	-6.5	-2.7	-11.1	-2.0
- Compensation (Nominal)	12.8	10.1	5.4	3.5	7.9	2.6
- Unit Labor Costs	16.7	15.0	8.6	6.2	11.5	-0.7

Source: US Department of Labor

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