

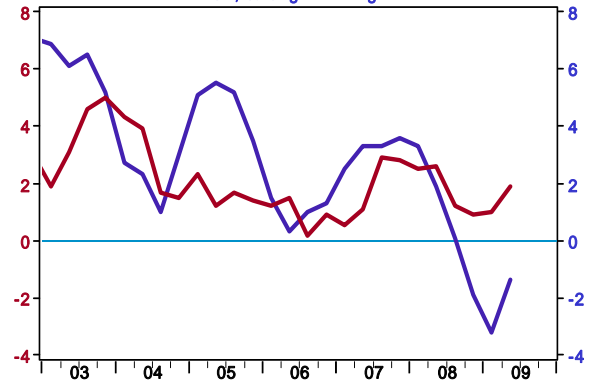
Q2 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) increased at a 6.6% annual rate in the second quarter, a small upward revision from the original estimate of 6.4%. Non-farm productivity is up 1.9% versus a year ago.
- Compensation per hour in the non-farm sector increased at a 0.3% annual rate in Q2 and is up 0.7% versus last year. Real (inflation-adjusted) compensation was down at a 1.0% annual rate in Q2 but is up 1.6% versus last year. Unit labor costs were down at a 5.9% rate in Q2 and down 1.2% versus a year ago.
- In the manufacturing sector, Q2 measures of production were slower than in the non-farm business sector as a whole, while measures of labor costs grew more quickly.

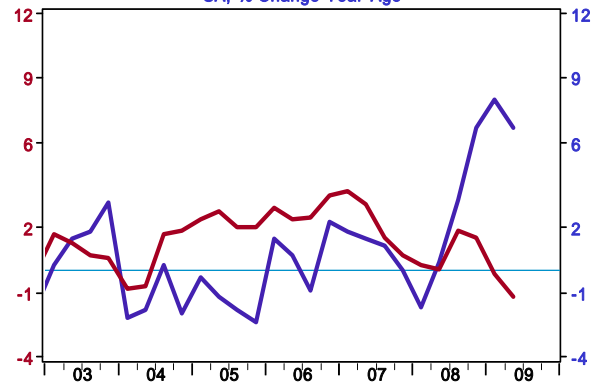
Implications: Productivity – output per hour worked – soared in Q2, which is something that normally happens in the earliest stages of economic recoveries. Although production declined at a 1.5% annual rate among nonfarm businesses, these companies cut the number of hours worked at a 7.6% rate. In other words, workers used capital equipment to produce more goods and services per hour of work. In the short term, this will bring little solace to the workers whose hours are being reduced. However, greater output per hour not only generates higher corporate profits but also makes it more attractive to hire additional workers, both of which are leading indicators of improved future demand for labor and lower unemployment. 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 ability to raise our standard of living in the economic expansion that is now underway. In other recent news, auto and light truck sales boomed in August, increasing 25% versus July to a 14.1 million annual rate, the highest since May 2008. Sales will fall next month due to the end of “cash for clunkers,” but we expect sales will begin a major recovery later this year without government aid. Two reports today suggest less bad news in the labor market. The ADP employment report shows private-sector payrolls declined 298,000 in August, the smallest drop since September 2008. Meanwhile, Challenger, Gray & Christmas, a Chicago-based job placement firm, says job cuts are down 13.8% versus last year. On Friday, the Labor Department will release the Employment Report for August. We are revising our payroll forecast to a decline of 165,000 and expect some modest payroll increases starting sometime in the fourth quarter. The downward risk to these job forecasts are that the minimum wage hike implemented in late July has a bigger impact than we now assume.

Nonfarm Business Sector: Output Per Hour Per Person
SA, %Chg. Year Ago
Manufacturing Sector: Output Per Hour Per Person
SA, % Chg. Year Ago



Source: Bureau of Labor Statistics /Haver Analytics

Nonfarm Business Sector: Unit Labor Cost
SA, %Change. Year Ago
Manufacturing Sector: Unit Labor Cost
SA, % Change Year Ago



Source: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-09	Q1-09	Q4-08	Q3-08	Y to Y % Ch. (Q2-09/Q2-08)	Y to Y % Ch. (Q2-08/Q2-07)
Nonfarm Productivity	6.6	0.3	0.8	-0.1	1.9	2.6
- Output	-1.5	-8.8	-7.6	-4.0	-5.5	1.3
- Hours	-7.6	-9.0	-8.3	-3.9	-7.2	-1.3
- Compensation (Nominal)	0.3	-4.7	2.9	4.5	0.7	2.7
- Unit Labor Costs	-5.9	-5.0	2.0	4.6	-1.2	0.1
Manufacturing Productivity	4.9	-2.6	-4.7	-2.9	-1.4	1.9
- Output	-9.8	-21.9	-18.4	-9.3	-15.0	-0.9
- Hours	-14.0	-19.8	-14.4	-6.5	-13.8	-2.7
- Compensation (Nominal)	5.1	-0.4	12.0	4.3	5.2	2.3
- Unit Labor Costs	0.2	2.3	17.5	7.5	6.7	0.4

Source: US Department of Labor

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