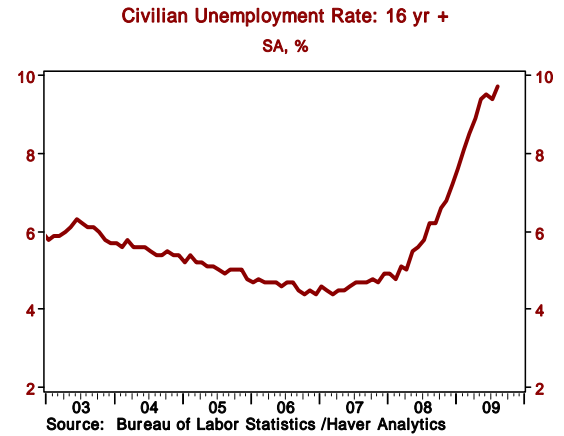


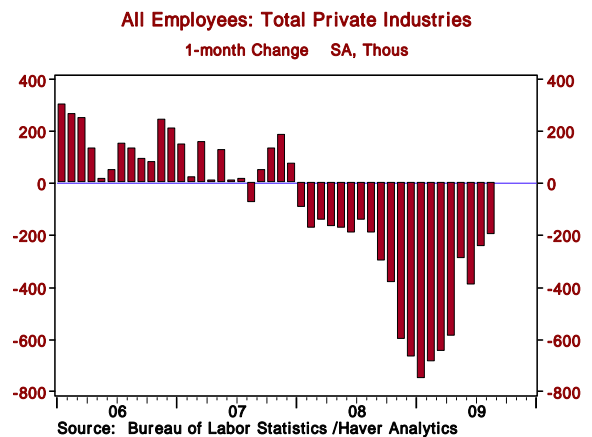
# AUGUST EMPLOYMENT REPORT

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- Non-farm payrolls fell 216,000 in August, narrowly beating the consensus expected loss of 230,000. Revisions to June and July subtracted 49,000 from payrolls, but all of this was due to government jobs. Revisions to private-sector payrolls added 10,000.
- Payrolls continued to fall in most major sectors. The largest payroll losses were in construction (-65,000) and manufacturing (-63,000). As usual, health and education was the strongest sector (+52,000).
- The unemployment rate increased to 9.7% in August (9.657% unrounded) from 9.4% in July. The consensus had expected an increase to 9.5%.
- Average hourly earnings were up 0.3% in August, easily beating the consensus expected gain of 0.1%. Earnings were revised up for June and July, bringing gains versus last year to 2.6%.



**Implications:** No one likes it when the unemployment rate hits a new high, which it did in August. But the details of the employment report are much better than the rise in the jobless rate suggests. Private-sector payrolls declined 198,000 in August, which is the smallest drop in a year. In addition, private payrolls were revised up slightly in June/July. What makes this even more remarkable is that the federal government increased the minimum wage in late July, so August was the first month that reflected job losses related to this forced wage hike. Right on cue, employment among teenagers fell 150,000 in August (seasonally-adjusted). These figures suggest private-sector payroll losses among workers age 20+ might have been as low as -48,000 in August. The second good sign for the labor market is that broad measures of wages seem to be rising again. Average hourly earnings went up 0.3% for the second straight month, the largest gains so far this year. The economy is in a V-shaped recovery. Given the deepness of the recession and the fact that employment tends to be a lagging indicator, it will take time for the economic recovery to translate into job gains, but we believe payrolls will start expanding by the end of this year and that the unemployment rate will not be going to 10%+ as the consensus expects. Corporate profits were up at a 24% annual rate in the first half of 2009, suggesting businesses have re-built the ability to expand payrolls.



Employment Report <i>All Data Seasonally Adjusted</i>	Aug-09	Jul-09	Jun-09	3-month moving avg	6-month moving avg	12-month moving avg
<b>Unemployment Rate</b>	9.7	9.4	9.5	9.5	9.2	8.2
<b>Civilian Employment (monthly change in thousands)</b>	-155	-155	-374	-228	-310	-416
<b>Nonfarm Payrolls (monthly change in thousands)</b>	-216	-276	-463	-318	-405	-486
<b>Construction</b>	-65	-73	-79	-72	-83	-90
<b>Manufacturing</b>	-63	-43	-123	-76	-116	-135
<b>Retail Trade</b>	-10	-43	-20	-24	-33	-50
<b>Finance, Insurance and Real Estate</b>	-28	-17	-33	-26	-32	-36
<b>Professional and Business Services</b>	-22	-33	-101	-52	-72	-94
<b>Education and Health Services</b>	52	21	33	35	31	31
<b>Leisure and Hospitality</b>	-21	1	-19	-13	-13	-25
<b>Government</b>	-18	-28	-72	-39	-10	-6
<b>Avg. Hourly Earnings: Total Private*</b>	0.3%	0.3%	0.1%	2.6%	2.1%	2.6%
<b>Avg. Weekly Hours: Total Private</b>	33.1	33.1	33.0	33.1	33.1	33.2
<b>Index of Aggregate Weekly Hours: Total Private*</b>	-0.3	0.1	-0.7	-3.6	-5.8	-7.0

\*3, 6 and 12 month figures are % change annualized

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