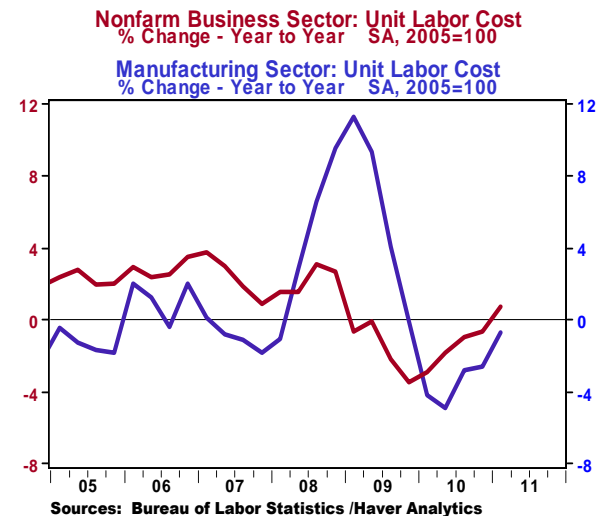


Q1 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) rose at a 1.8% annual rate in the first quarter, revised up from last month's estimate of 1.6%, and is up 1.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 2.6% annual rate in Q1 and is down 0.2% versus last year. Unit labor costs rose at a 0.7% rate in Q1 and are up 0.7% versus a year ago.
- In the manufacturing sector, the Q1 growth rate for productivity (4.2%) was much higher than among non-farm businesses as a whole. The faster pace of productivity growth was largely due to rising output. Real compensation per hour was also down in the manufacturing sector (-2.4%), and because of this, unit labor costs declined at a 1.4% annual rate.

Implications: Productivity beat consensus expectations, rising at a 1.8% annual rate in the first quarter. This was revised higher from last month's estimate as output was revised slightly higher but hours remained unchanged. Productivity has increased in nine of the last ten quarters and we believe that trend will continue. What's impressive about the first quarter is that gains in productivity came at the same time that the number of hours worked still increased at a healthy 1.4% annual rate. Companies today are able to find ways to be more efficient while still demanding more hours. Despite rampant pessimism about the outlook of the economy, these gains in productivity are robust enough to both generate pay increases and make it necessary for companies to hire more workers going forward. We expect private sector hiring to remain strong in 2011. In other news this morning, new claims for unemployment insurance fell 6,000 last week to 422,000. Continuing claims for regular state benefits declined 1,000 to 3.71 million. In other recent news, cars and light trucks were sold at an 11.8 million annual rate in May, down 10.5% from April but still up 1.3% versus a year ago. The disaster in Japan has hurt the auto sector the most. Inventories have plummeted and manufacturers and dealers have responded by drastically reducing incentives. This will reverse over the next few months as auto production rebounds.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-11	Q4-10	Q3-10	Q2-10	Y to Y % Ch.	Y to Y % Ch.
					(Q1-11/Q1-10)	(Q1-10/Q1-09)
Nonfarm Productivity	1.8	2.9	2.3	-1.7	1.3	6.7
- Output	3.2	4.4	3.8	1.6	3.2	3.2
- Hours	1.4	1.5	1.4	3.3	1.9	-3.2
- Compensation (Real)	-2.6	-2.6	1.0	3.7	-0.2	1.2
- Unit Labor Costs	0.7	-2.8	0.1	4.9	0.7	-2.9
Manufacturing Productivity	4.2	4.9	2.1	5.2	4.1	7.3
- Output	7.7	3.9	5.6	9.2	6.6	2.2
- Hours	3.3	-1.0	3.4	3.8	2.4	-4.8
- Compensation (Real)	-2.4	0.6	1.0	5.5	1.1	0.4
- Unit Labor Costs	-1.4	-1.6	0.3	-0.2	-0.7	-4.2

Source: US Department of Labor

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