

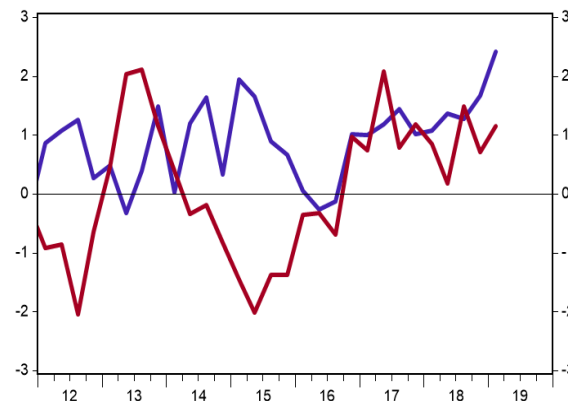
Q1 Productivity (Preliminary)

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- Nonfarm productivity (output per hour) rose at a 3.6% annual rate in the first quarter, coming in well above the consensus expected increase of 2.2%. Nonfarm productivity is up 2.4% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 1.7% annual rate in Q1 and is up 0.8% versus a year ago. Unit labor costs declined at a 0.9% annual rate in Q1 but are up 0.1% versus a year ago.
- In the manufacturing sector, productivity rose at a 1.7% annual rate in Q1. Real compensation per hour was up at a 1.5% annual rate in the manufacturing sector, while unit labor costs rose at a 0.8% rate.

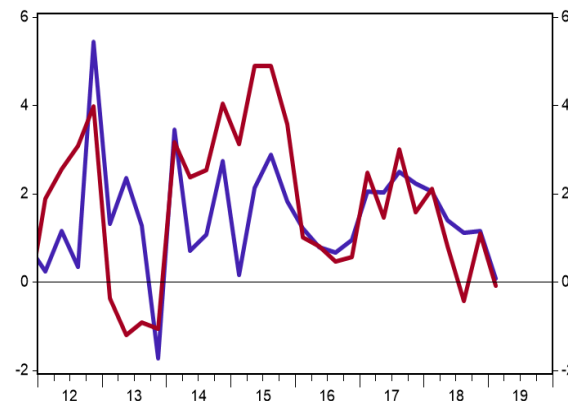
Implications: Productivity growth surprised to the upside in Q1, rising at the fastest pace since late 2014 and notching the second-best reading for a quarter since 2009. The rise in nonfarm productivity came as output and hours worked both rose, but output grew at a faster pace pushing *output per hour* higher. Productivity has been steadily rising over the past three years, and the 2.4% increase over the past four quarters marks the fastest one-year gain in productivity since 2010. It's normal for productivity growth to surge early in an economic recovery as firms are reluctant to add hours even as output turns higher. The recent gain, however, comes deep in an economic recovery, which suggests tax cuts and deregulation are the key drivers. We expect productivity will remain elevated in 2019, as the investments in machinery and R&D continue to come online, generating more output per hour. Meanwhile, the tight labor market will encourage firms to keep looking for more efficient ways to produce. Real (inflation adjusted) compensation continues to rise, pushing up wages – and consumer spending power – and providing further incentive for companies to seek innovation. That said, and even with the large jump in Q1, we think government statistics still underestimate actual productivity growth. The figures from the government miss the full value of technological advances, such as all those free smartphone apps so many people carry around in their pockets. Items that are free, no matter how much they improve everyday life, aren't directly included in output, which means they're not included in productivity either. This means our standard of living is improving faster than the official reports show. In employment news this morning, initial jobless claims were unchanged last week at 230,000, while continuing claims rose 17,000 to 1.671 million. Plugging these figures into our models suggests tomorrow's official report will show nonfarm payroll gains of 195,000. In other recent news, automakers yesterday reported selling cars and light trucks at a 16.4 million annual rate in April, falling short of the consensus expected pace of 17.0 million. Sales were down 5.8% from March and 4.5% from a year ago. We anticipate slower sales in the years ahead as consumers shift their spending to other sectors.

Manufacturing Sector: Real Output Per Hour
 SA, % Chg. Yr. Ago
 Nonfarm Business Sector: Real Output Per Hour
 SA, % Chg. Yr. Ago



Source: Bureau of Labor Statistics/Haver Analytics

Manufacturing Sector: Unit Labor Cost
 SA, % Chg. Yr. Ago
 Nonfarm Business Sector: Unit Labor Cost
 SA, % Chg. Yr. Ago



Source: Bureau of Labor Statistics/Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-19	Q4-18	Q3-18	Q2-18	Y to Y % Ch. (Q1-19/Q1-18)	Y to Y % Ch. (Q1-18/Q1-17)
Nonfarm Productivity	3.6	1.3	1.9	2.9	2.4	1.1
- Output	4.1	2.6	4.0	5.0	3.9	3.2
- Hours	0.5	1.3	2.1	2.1	1.5	2.2
- Compensation (Real)	1.7	2.3	1.5	-2.2	0.8	0.9
- Unit Labor Costs	-0.9	2.5	1.6	-2.8	0.1	2.1
Manufacturing Productivity	1.7	1.1	0.6	1.2	1.2	0.8
- Output	-1.0	1.7	4.0	2.7	1.8	2.4
- Hours	-2.6	0.6	3.4	1.4	0.7	1.5
- Compensation (Real)	1.5	2.7	0.8	-7.0	-0.6	0.7
- Unit Labor Costs	0.8	3.2	2.1	-6.2	-0.1	2.1

Source: US Department of Labor

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