

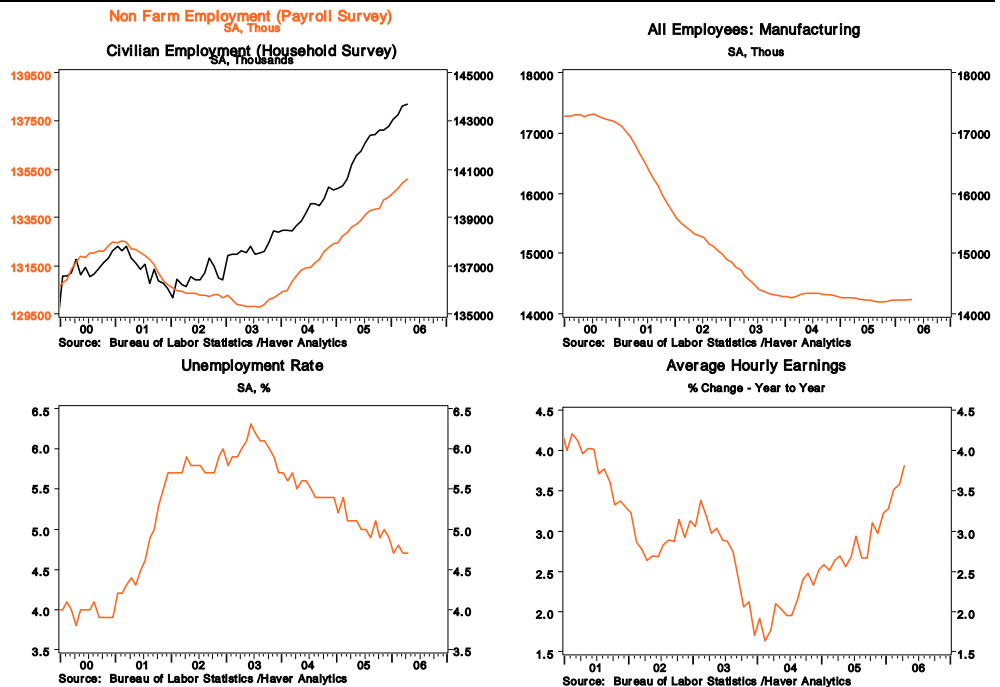
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APRIL EMPLOYMENT REPORT

- Non-farm payrolls increased by 138,000 jobs in April, less than the expectations (consensus +200,000, First Trust Economics +205,000). Payrolls were revised down by a total of 36,000 in February and March. Manufacturing payrolls added 19,000 jobs, the largest gain in nearly two years.
- The household survey reported that employment increased by 47,000 last month, while the labor force increased by 159,000. The unemployment rate held steady at a 4 1/2 -year low of 4.7%
- Average hourly earnings jumped 0.5% in April and 3.8% in the past year. This is the fastest YOY gain since July 2001.

Implications: While the US added fewer jobs than expected in April, we caution reading too much into the headline numbers. Month-to-month changes in employment data are always volatile and subject to potentially large revisions.

Despite the smaller than expected gain in April, monthly non-farm payrolls have averaged 199,000 new jobs over the past six months. With job growth strong and the unemployment rate at 4.7%, underlying signs of a tight labor market are starting to develop. The index of aggregate weekly hours (hours worked x employment) increased 0.5% in April and has increased an annualized 3.6% in the last six months – the fastest six month gain since 1997. In addition, wages have accelerated. Average hourly earnings jumped 0.5% in April, 3.8% in the past year and 4.9% at an annual rate during the first four months of 2006. With the PCE deflator up 2.9% in the past year and 3.7% at an annual rate so far in 2006, wages are rising significantly faster than inflation. The gains in hours worked and wages suggest that employers are having a more difficult time adding employees. In other words, symptoms of a tight labor market are evident in this report. As a result, our view of the economy has not changed: the employment market is strong, inflationary pressures are building and the Fed is likely to lift rates more than the market expects.



Employment Report	Apr-06	Mar-06	Feb-06	3-month moving avg	6-month moving avg	12-month moving avg
Nonfarm Payrolls (monthly change in thousands)	138	200	200	179	199	164
<i>Goods-Producing Industries</i>						
Mining	37	15	38	30	41	26
Construction	7	7	5	6	5	4
Manufacturing	10	6	34	17	27	22
<i>Service-Producing Industries</i>						
Retail Trade	19	1	-1	6	8	-1
Finance, Insurance and Real Estate	101	185	162	149	158	138
Government	-36	23	-11	-8	3	4
Finance, Insurance and Real Estate	26	19	24	23	19	18
Government	7	21	32	20	9	11
Avg. Hourly Earnings: Priv. Nonfarm Payrolls*	0.5%	0.3%	0.4%	5.2%	4.1%	3.8%
Avg. Weekly Hours: Priv. Non-agric	33.9	33.8	33.8	33.8	33.8	33.8
Avg. Weekly Hours: Manufacturing	41.1	41.1	41.0	41.1	41.0	40.8
Index of Aggregate Weekly Hours*	0.5%	0.2%	0.2%	3.5%	3.6%	2.4%
Unemployment Rate	4.7	4.7	4.8	4.7	4.8	4.9
Labor Force	159	203	335	232	128	164
Civilian Employment	47	384	183	205	177	208

Source: Bureau of Labor Statistics

*3, 6 month figures are % change annualized; 12 mo. = year over year % change

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