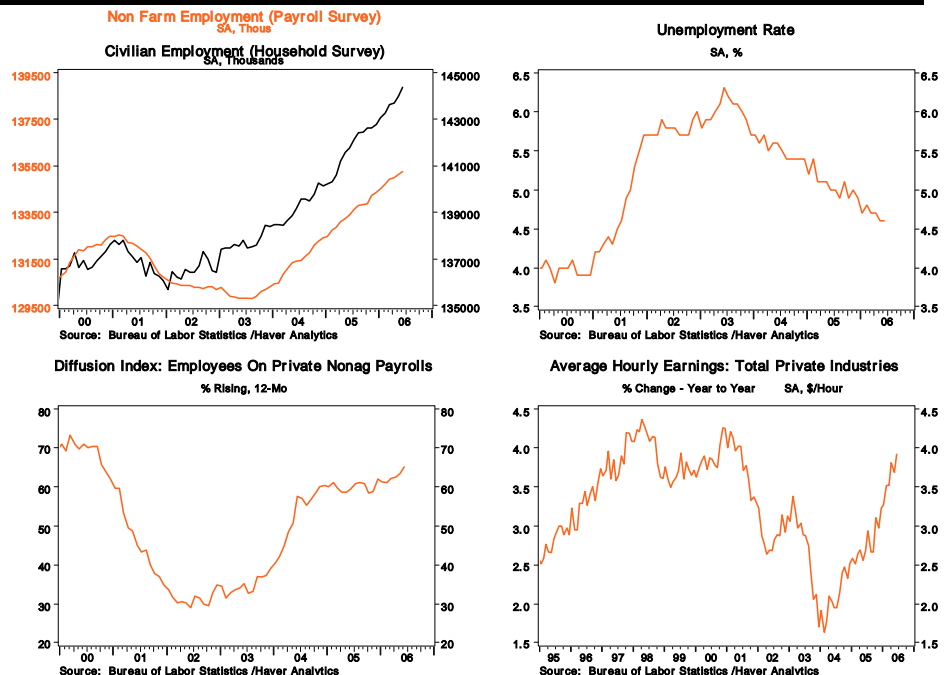


JUNE EMPLOYMENT REPORT

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- Non-farm payrolls increased by 121,000 jobs in June, less than consensus expectations of 175,000. Net payrolls revisions added just 3,000 jobs in the previous two months.
- Once again, the household survey reported much stronger job growth, increasing by 387,000 last month. The labor force gained 330,000. As a result, the unemployment rate fell below 4.6% (4.598%), a low for this cycle.
- Average hourly earnings jumped 0.5% in June and are up 3.9% in the past year and 4.3% at an annual rate in the last six months.

Implications: Non-farm payrolls disappointed the consensus again in June. Job gains were subdued in most categories, with retail jobs falling by 7,000 and construction employment down by 4,000. This weakness has added fuel to fears of a consumer-led slowdown for the US. But buying into this pessimistic outlook would be a mistake. Manufacturing jobs increased by 15,000 in June, the sixth positive month out of the past nine. Average hourly earnings increased by 0.5% in June, and are up 3.9% in the past year. This is the strongest YOY growth in earnings so far in this recovery. Moreover, the household survey continues to show much stronger job growth than the payroll survey. Civilian employment (from the household survey) jumped 387,000 in June, after a 288,000 gain in May. In the past three months, civilian employment has averaged 241,000 new jobs, while the non-farm payrolls are up just 108,000. The household survey does a much better job of capturing small business employment and the self employed. In another sign of a robust labor market, the labor force grew by 330,000 in June (223,000 average in past three months). Despite resurgence in the labor force, the unemployment rate fell below 4.6% for the first time in this business cycle, to 4.598%. While optimists and pessimists can both find something to grab in the June employment report, the essence of its message is that the economy remains resilient in the face of Fed tightening and high energy prices. With unemployment down, wages up and employment expanding, there is no reason to suspect that the consumer is tapped-out or the Fed will pause. We remain confident in our second half forecast of 4% real GDP growth.



Employment Report	Jun-06	May-06	Apr-06	3-month moving avg	6-month moving avg	12-month moving avg
Nonfarm Payrolls (monthly change in thousands)	121	92	112	108	142	155
<i>Goods-Producing Industries</i>						
Mining	15	-3	38	17	25	25
Construction	6	1	9	5	5	4
Manufacturing	-4	4	10	3	15	19
<i>Service-Producing Industries</i>						
Retail Trade	15	-8	19	9	5	2
Finance, Insurance and Real Estate	106	95	74	92	118	130
Government	-7	-33	-46	-29	-13	-3
	3	9	26	13	16	17
	31	18	19	23	15	15
Avg. Hourly Earnings: Priv. Nonfarm Payrolls*	0.5%	0.1%	0.6%	4.7%	4.3%	3.9%
Avg. Weekly Hours: Priv. Non-agric	33.9	33.8	33.9	33.9	33.8	33.8
Avg. Weekly Hours: Manufacturing	41.3	41.2	41.2	41.2	41.1	40.9
Index of Aggregate Weekly Hours*	0.4%	-0.2%	0.4%	2.3%	2.5%	2.5%
Unemployment Rate	4.6	4.6	4.7	4.6	4.7	4.8
Labor Force	330	180	159	223	195	173
Civilian Employment	387	288	47	241	264	218

Source: Bureau of Labor Statistics

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

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