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Data Watch

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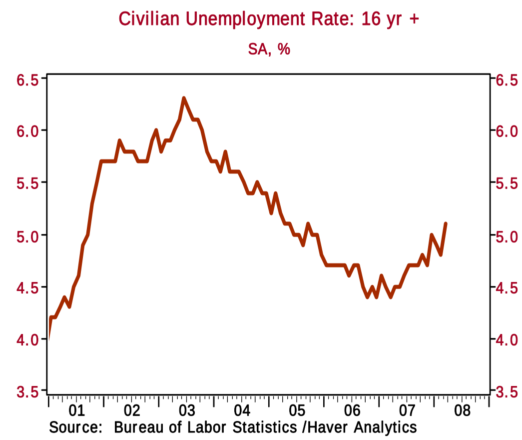
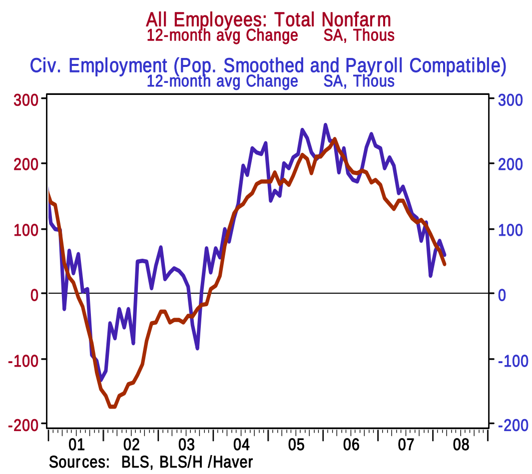
MARCH EMPLOYMENT REPORT

Chief Economist – Brian S. Wesbury
Senior Economist – Robert S. Stein, CFA

- Non-farm payrolls declined 80,000 in March while revisions to January and February subtracted 67,000. The consensus expected a loss of 50,000.
- Private (non-gov't) payrolls declined 98,000 in March and were revised down for January and February. The weakest sectors were construction (down 51,000) and manufacturing (down 48,000). Solid sectors include education and health care (up 42,000), leisure/hospitality (up 18,000), and government (up 18,000).
- The jobless rate increased to 5.1% versus a consensus expected 5.0%.
- Average hourly earnings rose 0.3% and are up 3.6% versus a year ago.





Implications: The headline data from today's employment report was dismal. Payrolls declined 80,000 in March and fell 147,000 including revisions to January/February. Meanwhile, the unemployment rate bounced to 5.1%, after last month's drop to 4.8%. The jobless rate is now 0.7 points higher than a year ago, which has never occurred in the past except in recessions. However, there are important silver linings across the report and these suggest we are *not* in recession. First, hours worked rose in March. The average workweek rose to 33.8 hours from 33.7. This may seem small but it is the equivalent of adding about 120,000 jobs. Total hours worked increased 0.2% in March, which is unusual when the economy is in recession. Second, civilian employment (adjusted for the payroll measure) *increased* 153,000. Third, according to the BLS, weather suppressed jobs by 55,000 compared to the average March. How can we say there's no recession when payrolls are declining? Because it has happened in the recent past. In the first half of 2003 payrolls declined by 57,000 per month while real GDP grew at a 2.3% annual rate. This may be occurring today. Hours worked declined at a 1.2% annual rate in Q1 (versus the Q4 average). But with productivity growth (output per hour) at a recent trend of about 3% we can still get a real GDP growth rate of about 2%. And although the jobless rate is up 0.7 points in the past year, it has done so more gradually than during those recession periods. It is important to note that this is the first business cycle when Baby Boomers have started to retire. Negative payrolls in the 1980s and 1990s would have been a very bad sign given trend growth of 200,000+ per month. In a world with trend payroll growth near 100,000, payroll declines are less indicative of recession. In a sense, getting a decline of 80,000 in today's economy is like getting a flat jobs report in the 1980s-1990s. Not good, but not consistent with recession.

Employment Report *All Data Seasonally Adjusted*	**Mar-08**	**Feb-08**	**Jan-08**	**3-month moving avg**	**6-month moving avg**	**12-month moving avg**
Unemployment Rate	**5.1**	4.8	4.9	4.9	4.9	4.8
Civilian Employment (monthly change in thousands)	**153**	-126	539	189	33	59
Nonfarm Payrolls (monthly change in thousands)	**-80**	-76	-76	-77	2	45
Construction	**-51**	-37	-39	-42	-42	-30
Manufacturing	**-48**	-46	-35	-43	-30	-26
Retail Trade	**-12**	-47	-16	-25	-12	-9
Finance, Insurance and Real Estate	**-5**	-11	-8	-8	-11	-9
Professional and Business Services	**-35**	-30	-30	-32	6	13
Education and Health Services	**42**	40	49	44	41	46
Liesure and Hospitality	**18**	20	9	16	22	28
Government	**18**	33	3	18	27	20
Avg. Hourly Earnings: Total Private*	**0.3%**	0.3%	0.3%	3.7%	3.3%	3.6%
Avg. Weekly Hours: Total Private	**33.8**	33.7	33.7	33.7	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	**0.2**	-0.1	-0.4	-1.1	-0.2	0.4

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