

Aug 21, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-23 / 9:00 am	Jul Existing Home Sales	6.55M	6.50M		6.62M
8-24 / 7:30 am	Jul Durable Goods	-0.5%	-0.2%		+2.9%
	Initial Unemployment Claims	315K	310K		312K
9:00 am	Jul New Home Sales	1.10M	1.10M		1.13M

Real Wages, the Economy, and Politics

Real average hourly earnings fell 0.1% in July, adding some weight to the pessimistic view of the economy. On a year-over-year basis, real earnings were down 0.5% in July, the third consecutive year of declines. Theories abound about the causes and consequences of this decline.

Some argue that falling real average hourly earnings can be blamed on increasing global competition and out-sourcing. They say that because capital can move freely around the world, wages are dragged down in the US. The real pessimists argue that real wages in the US will keep falling until some sort of equilibrium is reached.

With after-tax corporate profits at a record share of GDP, the decline in real average hourly earnings is perfect political fodder. So, in addition to being proof that the economy is in bad shape, the decline is also being held up as a reason to “throw the bums out.”

But all of this drama is based on a very faulty set of economic data. According to the Bureau of Labor Statistics, real average hourly earnings peaked in the early 1970s, and during the past 33 years they have fallen 9.7% - an annual average decline of 0.3% per year.

This is hard to fathom – a 9.7% drop in average standards of living for working people in the past 33 years? The only way to really believe this is to never go outside. Real retail sales have climbed by 82% in the past 33 years. More people own cars, homes, cell-phones, color TVs, etc., etc., than ever before.

Average hourly earnings do not include tips, bonuses or commissions. They are a very narrow measure of earnings. In an age that is experiencing rapid growth in small business, self-employment,

Week of August 28, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-30 / 7:30 am	Q2 Real GDP: Preliminary	+3.0%	+2.9%		+2.5%
	Q2 GDP Price Index: Preliminary	+3.3%	+3.3%		+3.3%
8-31 / 7:30 am	Jul Personal Income	+0.8%	+0.7%		+0.6%
	Jul Personal Consumption	+0.8%	+1.0%		+0.4%
9:00 am	Aug Chicago PMI	57.0	57.0		57.9
	Jul Factory Orders	+0.3%	+0.5%		+1.2%
9-1 / 7:30 am	Aug Non-Farm Payrolls	+130K	+145K		+113K
	Aug Manufacturing Payrolls	-1K	+5K		-15K
	Aug Unemployment Rate	4.7%	4.7%		4.8%
	Aug Average Hourly Earnings	+0.3%	+0.4%		+0.4%
	Aug Weekly Hours	33.9	33.9		33.9
9:00 am	Aug ISM Manufacturing Index	55.0	55.5		54.7
Sometime During	Domestic Auto Sales	5.5M	5.6M		5.6M
the Day	Domestic Light Truck Sales	7.4M	7.3M		7.5M

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Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.