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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

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The Labor Market Will Weather the Mortgage Storm

Despite a low unemployment rate of 4.6%, headlines about layoffs at mortgage lenders have increased concerns about prospects for the U.S. labor market.

Our view is that while job creation may experience a temporary slowdown, and recent market turmoil will be partly to blame, the real issue is a lagged impact from the slow 1.5% real GDP growth during the year ended in the first quarter. Given that real GDP growth revived to a 4% annual growth rate in Q2 (revision due on Thursday) and should remain robust in the current quarter and beyond, the slowdown in job creation will be brief.

It is important to put recent layoff announcements in context. Even when the economy is doing well, every week around 300,000 workers file new claims for jobless benefits. This means roughly 1.3 million workers per month are out of work because of an employer decision. Many others voluntarily leave their jobs to retire or take another position.

The churn in the U.S. job market is always enormous. The monthly numbers we see on job creation are *net* figures that mask the huge *gross* job gains and losses that occur regardless of whether the economy is strong or weak.

That said, the past year has seen strong net gains, with the establishment survey and the household survey saying the same thing. According to the payroll survey, the economy has generated an average monthly gain of 156,000 jobs in the past twelve months. Meanwhile, the household survey, which is volatile over shorter periods of time, shows average monthly gains over the past year of 150,000.

This level of job growth may be slower than the 230,000+ per month at the same point in the 1990s, but this must be put in context. The unemployment rate peaked at 7.8% in 1992 versus a peak of only 6.3% in 2003, so there was more pent-up demand for labor in the 1990s than in the 2000s. Also, the Baby Boom generation was younger in the 1990s, with fewer early-retirees. And last, people age 16-24 are more likely to be in school now than in the 1990s and students today are less likely to be working than students a decade ago.

Not only have jobs been expanding but in the past year wages have been moving up, including for workers in the middle and lower parts of the income spectrum. The Labor Department tracks what it calls "usual weekly earnings," which excludes bonuses and other "unusual" compensation. This data set shows that workers in the middle and lower part of the income distribution have started to make healthy gains in income.

In the past year usual weekly earnings for workers at the 10th percentile of earners (where 90% of workers earn more than they) rose 1.1% faster than CPI inflation. Workers at the 25th percentile enjoyed wage gains of 2.3% above inflation, the fastest increase for any point along the income distribution, even faster than for those at the 75th percentile and 90th percentile.

We expect gains in worker income to continue. Total labor compensation remains a relatively small share of GDP, the flip-side of strong corporate profits. This gives businesses a reason to continue to hire workers and a willingness to bid up wages. Any lull in the labor market is likely to be short-lived.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-27 / 9:00 am	Existing Home Sales - Jul	5.700 Mil	**5.756 Mil**	***5.750 Mil***	5.760 Mil
8-28 / 9:00 am	Consumer Confidence - Aug	105.0	**107.6**		112.6
8-30 / 7:30 am	Q2 GDP Preliminary	4.1%	**4.0%**		3.4%
7:30 am	Q2 GDP Chain Price Index	2.7%	**2.8%**		2.7%
7:30 am	Initial Claims - Aug 25	320K	**320K**		322K
8-31 / 7:30 am	Personal Income - Jul	+0.3%	**+0.3%**		+0.4%
7:30 am	Personal Spending - Jul	+0.3%	**+0.4%**		+0.1%
8:45 am	Chicago PMI - Aug	53.0	**56.0**		53.4
9:00 am	Factory Orders - Jul	+3.1%	**+3.3%**		+0.6%
9:00 am	U. Mich. Consumer Sentiment	83.1	**83.2**		83.3

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.