

AUGUST EMPLOYMENT REPORT

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- Non-farm payrolls declined 4,000 in August and revisions to June and July subtracted 81,000. The consensus expected a gain of 100,000.
- Government jobs unexpectedly fell 28,000 in August. Excluding government, private sector payrolls increased 24,000, but were revised lower by 36,000 in June and July. Manufacturing payrolls fell 46,000 (the biggest loss since 2003), information fell 7,000, transportation and warehousing jobs declined 4,000. Financial jobs were unchanged. Healthcare added 49,000 to payrolls, while retail trade added 13,000.
- The unemployment rate remained at 4.6% (4.642% un-rounded).
- Average hourly earnings increased 0.3% and are up 3.9% versus a year ago – a level of wage growth similar to that of the late 1990s.



Implications: We have written repeatedly in the past several weeks that job growth lags economic growth and investors should expect a temporary slowdown in job creation due to the slower economic growth in late 2006 and early 2007. As a result we are taking today's report of a 4,000 drop in payrolls in stride. Overreaction by financial journalists and some investors is the real news. *First*, despite today's negative revisions to June and July, the vast majority of revisions to payrolls have been positive. For example, the initially reported 35,000 drop in payrolls for September 2005, the month affected by Hurricane Katrina, was later revised to a gain of 105,000. Last year, for August 2006, payrolls were revised from an original +128K to +230K two months later. *Second*, some unusual negative numbers are coming from the government sector. In August, private (or non-governmental) jobs increased. Moreover, government jobs accounted for most of the downward revisions to June/July. *Third*, although civilian employment fell 316,000, the civilian employment figure adjusted for the payroll concept (so it excludes farm workers, the self-employed, and workers on unpaid absences) increased 117,000. Farm jobs fell 237,000, paid private household workers fell 37,000 and non-ag-self-employment fell 121,000. These categories catch the impact of a crackdown on hiring "illegals" and weakness in homebuilding. *Fourth*, according to diffusion indices, 51.3% of industries added workers in August – a sign that weakness in employment is not as widespread as many believe. *Fifth*, in May 1995, during a similar period of slower economic growth, non-farm payrolls contracted by 9,000, but rebounded strongly in the following months. *Last*, note that average hourly earnings are still strong and the total number of hours worked so far in the Q3 are up 0.8% at an annual rate over Q2 – a positive sign. Labor markets respond to the economy with a lag. We expect job gains to rebound to higher levels given that real GDP growth has already re-accelerated.

Employment Report All Data Seasonally Adjusted	Aug-07	Jul-07	Jun-07	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.6	4.6	4.5	4.6	4.5	4.5
Civilian Employment (monthly change in thousands)	117	-23	52	49	94	126
Nonfarm Payrolls (monthly change in thousands)	-4	68	69	44	103	133
Construction	-22	-14	6	-10	-2	-8
Manufacturing	-46	-1	-19	-22	-18	-18
Retail Trade	13	5	-11	2	6	9
Finance, Insurance and Real Estate	0	24	-4	7	6	9
Professional and Business Services	6	25	-7	8	13	25
Education and Health Services	63	50	71	61	57	49
Leisure and Hospitality	12	6	17	12	25	32
Government	-28	-52	-2	-27	-3	11
Avg. Hourly Earnings: Total Private*	0.3%	0.3%	0.5%	4.2%	4.0%	3.9%
Avg. Weekly Hours: Total Private	33.8	33.8	33.9	33.8	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	0.0	-0.1	0.4	1.1	2.3	1.6

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

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