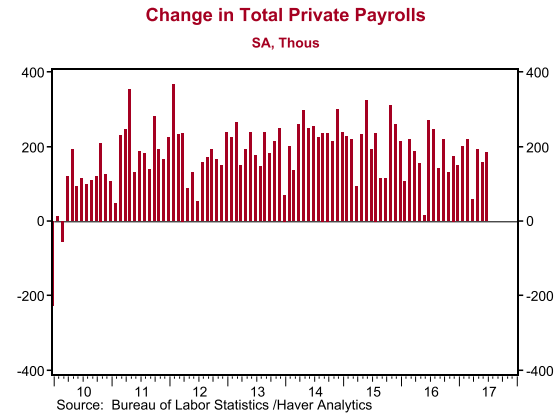


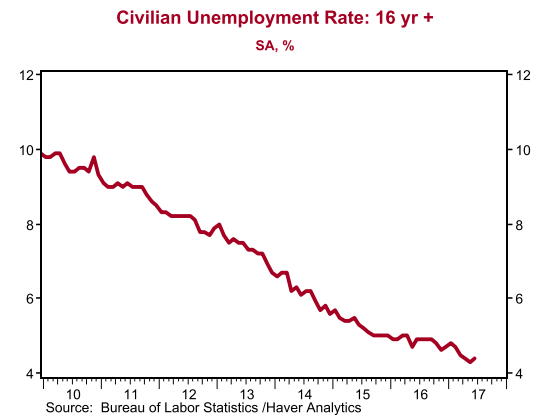
June Employment Report

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- Nonfarm payrolls increased 222,000 in June, beating the consensus expected 178,000. Including revisions to April/May, nonfarm payrolls were up 269,000.
- Private sector payrolls increased 187,000 in June and revisions to prior months added 33,000. The largest gains were for health care & social assistance (+59,000), professional & business services (+35,000, including temps), and restaurants & bars (+29,000). Manufacturing increased 1,000 while government rose 35,000.
- The unemployment rate ticked up to 4.4% (4.357% unrounded) in June from 4.3% (4.294% unrounded) in May.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in June and are up 2.5% versus a year ago.



Implications: What a difference a month makes! Five weeks ago, when the May jobs report showed payrolls rising much less than expected, the pessimists were popping champagne. But today’s report shows how important it is to focus on the trend. Nonfarm payrolls increased 222,000 in June and were revised up 47,000 for April and May. We think measured job growth in May was held down by a calendar quirk, which resulted in that report missing some college students getting summer jobs. That quirk unwound in June, causing a sharp rebound. Taking May and June together, payrolls increased an average of 187,000 per month. To put this in perspective, monthly average payroll growth has been 180,000 so far this year, 187,000 in the past twelve months, and 189,000 in the past seven years. In other words, little has changed and job growth remains consistent. Civilian employment, an alternative measure of jobs that includes small business start-ups, increased 245,000 in June and is up 211,000 per month in the past year. Although the unemployment rate ticked up to 4.4% in June, the rise was due to a 361,000 increase in the labor force, which is good news. In the past year, the labor force is up 1.7 million while the jobless rate has dropped half a percentage point. At 62.8%, the participation rate remains low by the standards of the last 40 years, but the 12-month moving average has been gradually rising since early 2016. As always, we like to measure the effect of job reports on consumer purchasing power. Average hourly earnings rose 0.2% in June and are up 2.5% in the past year. Meanwhile, the total number of hours worked increased 0.5% in June and is up 2% in the past year. Multiplying the number of hours worked by wages per hour, total earnings are up 4.5% from a year ago. In an environment where consumer inflation is running at about 2%, that gain in total earnings plus low debt service ratios for households leaves plenty of room for more purchasing power. Another positive detail in today’s report is that the median duration for unemployment fell to 9.6 weeks in June, the lowest since mid-2008. Recent news from the Fed suggests it will announce the start of balance-sheet renormalization in September, but hold off on another rate hike until December. We agree with an announcement about the balance sheet in September but think investors are underestimating the possibility of a September rate hike. The bottom line is that the US economy continues to grow and the labor market keeps getting better.



| Employment Report <i>All Data Seasonally Adjusted</i> | Jun-17 | May-17 | Apr-17 | 3-month moving avg | 6-month moving avg | 12-month moving avg |
|--|-------------|--------|--------|-----------------------|-----------------------|------------------------|
| Unemployment Rate | 4.4 | 4.3 | 4.4 | 4.4 | 4.5 | 4.7 |
| Civilian Employment (monthly change in thousands) | 245 | -233 | 156 | 56 | 258 | 211 |
| Nonfarm Payrolls (monthly change in thousands) | 222 | 152 | 207 | 194 | 180 | 187 |
| Construction | 16 | 9 | 0 | 8 | 19 | 17 |
| Manufacturing | 1 | -2 | 9 | 3 | 9 | 4 |
| Retail Trade | 8 | -7 | -4 | -1 | -6 | 2 |
| Finance, Insurance and Real Estate | 17 | 13 | 16 | 15 | 14 | 14 |
| Professional and Business Services | 35 | 56 | 46 | 46 | 48 | 52 |
| Education and Health Services | 45 | 35 | 45 | 42 | 38 | 41 |
| Leisure and Hospitality | 36 | 25 | 60 | 40 | 30 | 26 |
| Government | 35 | -7 | 13 | 14 | 9 | 12 |
| Avg. Hourly Earnings: Total Private* | 0.2% | 0.1% | 0.2% | 1.8% | 2.1% | 2.5% |
| Avg. Weekly Hours: Total Private | 34.5 | 34.4 | 34.5 | 34.5 | 34.4 | 34.4 |
| Index of Aggregate Weekly Hours: Total Private* | 0.5% | -0.2% | 0.8% | 4.2% | 2.3% | 2.0% |

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized

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