

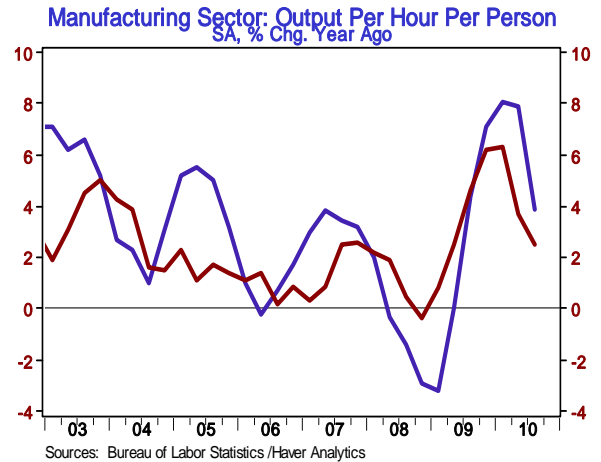
Q3 PRODUCTIVITY (PRELIMINARY)

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

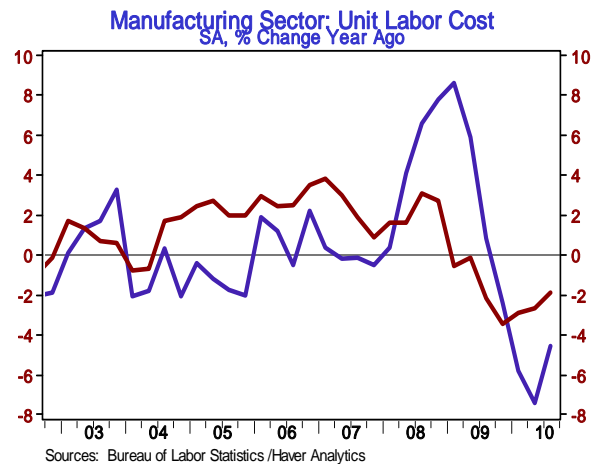
- Non-farm productivity (output per hour) rose at a 1.9% annual rate in the third quarter. Non-farm productivity is up 2.5% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 0.4% annual rate in Q3, but is down 0.8% versus last year. Unit labor costs declined at a 0.1% rate in Q3 and are down 1.9% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (0.4%) was lower than among non-farm businesses as a whole. Output grew faster in manufacturing, but so did the number of hours worked. Real compensation (-1.4%) and unit labor costs (-0.3%) were softer in manufacturing than in the overall non-farm sector.

Implications: Productivity beat consensus expectations, bouncing back in the third quarter after falling unexpectedly in the second. Total non-farm output rose in the third quarter, along with the number of hours worked. Hours worked have now increased in each of the past four quarters, yet productivity – output per hour - has still grown 2.5% from a year ago. Technology is continuing to work its magic, allowing each and every worker to accomplish more. We anticipate continued increases in productivity because of the ongoing technological revolution. Unit labor costs – how much companies have to pay workers per unit of production – are down 1.9% in the past year. This means it is more profitable for companies to expand operations and boost hours worked. Notice that in Q3, hours worked and “real” (inflation-adjusted) compensation both increased. As a result, *total* real compensation for workers in the non-farm business sector increased at a 1.5% annual rate. In other news this morning, new claims for unemployment insurance rose 20,000 last week to 457,000. Continuing claims for regular state benefits fell 42,000 to 4.34 million. In other recent news, autos and light trucks were sold at a 12.3 million annual rate in October, a 4.2% increase from September and up 17.5% versus a year ago. Despite this gain, vehicles are still being sold well below the roughly 15.4 million annual pace needed to accommodate scrappage and the growth of the driving-age population. In turn, this suggests large gains in auto sales over the next year or two.

Nonfarm Business Sector: Output Per Hour Per Person
SA, % Chg. Year Ago



Nonfarm Business Sector: Unit Labor Cost
SA, % Change Year Ago



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-10	Q2-10	Q1-10	Q4-09	Y to Y % Ch. (Q3-10/Q3-09)	Y to Y % Ch. (Q3-09/Q3-08)
Nonfarm Productivity	1.9	-1.8	3.9	6.0	2.5	4.6
- Output	3.0	1.6	5.0	6.7	4.1	-3.8
- Hours	1.1	3.5	1.1	0.7	1.6	-8.0
- Compensation (Real)	0.4	0.1	-2.4	-1.1	-0.8	4.0
- Unit Labor Costs	-0.1	1.3	-4.6	-4.2	-1.9	-2.2
Manufacturing Productivity	0.4	5.4	1.7	8.1	3.9	4.4
- Output	4.0	9.6	7.1	7.2	7.0	-10.0
- Hours	3.6	4.0	5.3	-0.8	3.0	-13.8
- Compensation (Real)	-1.4	-0.6	-7.9	1.6	-2.1	6.9
- Unit Labor Costs	-0.3	-6.4	-8.1	-3.5	-4.6	0.8

Source: US Department of Labor