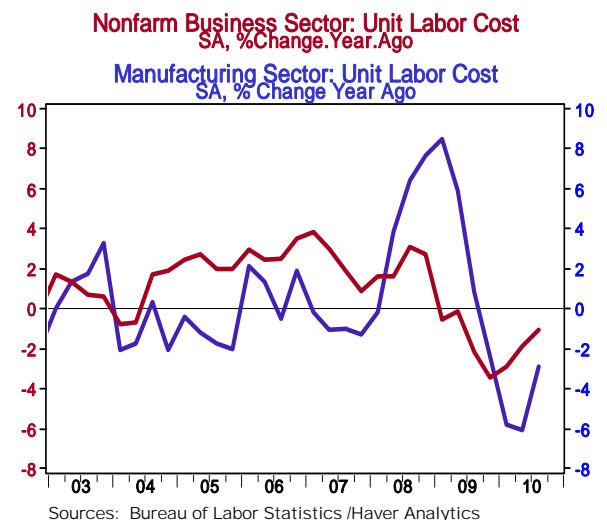
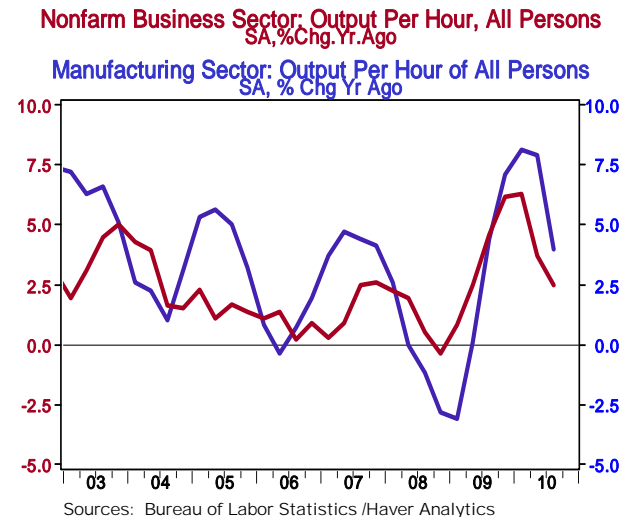


# Q3 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) rose at a 2.3% annual rate in the third quarter and is up 2.5% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 0.8% annual rate in Q3 and is up 0.2% versus last year. Unit labor costs declined at a 0.1% rate in Q3 and are down 1.1% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (0.6%) was much lower than among non-farm businesses as a whole. Output grew faster in manufacturing but the growth of hours worked was higher as well, resulting in slower growth in output *per hour*. Real compensation (0.1%) was softer in manufacturing but unit labor costs (1.0%) were stronger than in the non-farm business sector, a function of slower productivity growth.

**Implications:** Productivity growth was revised up for Q3, exactly as the consensus expected. This is a solid rebound from its decline in Q2, which had some analysts worried. Productivity has increased in six of the last seven quarters and we believe the trend will continue. In the past year, productivity has grown at a 2.5% annual rate despite the fact that hours worked have increased in each of those quarters as well. Even as output rebounds, technology will continue to increase efficiency, allowing workers to do more per hour. In other news this morning, the ADP Employment index, a measure of private-sector payrolls, increased 93,000 in November, the largest gain so far in the recovery. In the past six months, on average, the ADP index has underestimated growth in the official Labor Department measure of private payrolls by 55,000. It has a long way to go, but the recovery in the labor market is well underway. In other recent news, the Case-Shiller index, a measure of home prices in the 20 largest metro areas around the country, declined 0.8% in September (seasonally-adjusted), the third straight monthly decline. However, smoothing out the upswing and downswing related to the homebuyer credit, national average prices are still up 0.6% versus a year ago. Prices are still 3.2% above the bottom in May 2009 and we do not anticipate going below that level.



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)
<b>Nonfarm Productivity</b>	<b>2.3</b>	-1.8	3.9	6.0	2.5	4.6
- Output	3.7	1.6	5.0	6.7	4.3	-3.8
- Hours	1.4	3.5	1.1	0.7	1.7	-8.0
- Compensation (Real)	0.8	3.7	-2.4	-1.1	0.2	4.0
- Unit Labor Costs	-0.1	4.9	-4.6	-4.2	-1.1	-2.2
<b>Manufacturing Productivity</b>	<b>0.6</b>	5.6	1.7	8.1	4.0	4.4
- Output	4.2	9.8	7.1	7.2	7.1	-10.0
- Hours	3.6	4.0	5.3	-0.8	3.0	-13.8
- Compensation (Real)	0.1	5.5	-7.9	1.6	-0.3	6.9
- Unit Labor Costs	1.0	-0.7	-8.1	-3.5	-2.9	0.8

Source: US Department of Labor