

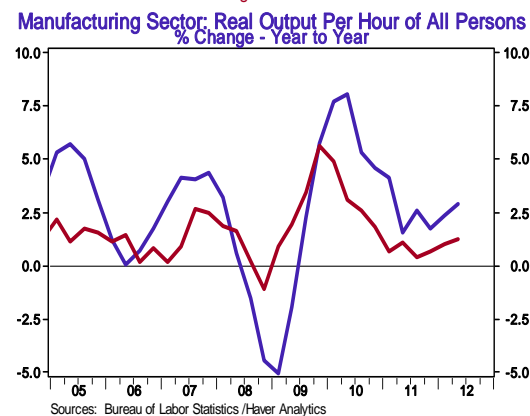
Q2 Productivity (Final)

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- Nonfarm productivity (output per hour) rose at a 2.2% annual rate in the second quarter, revised up from last month's estimate of 1.6%. Nonfarm productivity is up 1.2% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 2.9% annual rate in Q2 and is up 0.3% versus last year. Unit labor costs rose at a 1.5% rate in Q2 and are up 0.9% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (0.1%) was substantially lower than among nonfarm businesses as a whole. The slower pace in productivity growth was due to hours rising almost as fast as output. Real compensation per hour was up in the manufacturing sector (0.2%), and due to the increase in hours, unit labor costs rose at a 0.8% annual rate.

Implications: Productivity was revised up for the second quarter, consistent with last week's slight upward revision for real GDP growth. Output was revised up while the number of hours worked were revised down, which means more output per hour. Productivity is up only 1.2% in the past year, versus an average annual growth rate of about 2% over the past couple of decades. However, we do not think this means the productivity revolution has come to an end. It is not unusual for productivity to surge at the very beginning of a recovery and then temporarily slow down as hours worked increase more sharply. We believe the long-term trend in productivity growth will remain strong, due to a technological revolution centered in computer and communications advances. In other recent news, automakers reported strong sales growth in August. Cars and light trucks were sold at a 14.5 million annual rate, easily beating the consensus expected pace of 14.2 million. Auto sales were up 3.1% from July, up 16.6% from a year ago, and – with the exception of cash for clunkers, when the government was handing out \$4,000 checks to buy a car – the fastest pace since April 2008. Sales are being supported by job growth, wage growth, and low financial obligations among consumers. We continue to look for more sales gains in the year ahead.

Nonfarm Business Sector: Real Output Per Hour of All Persons
 % Change - Year to Year



Nonfarm Business Sector: Unit Labor Cost
 % Change - Year to Year



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-12	Q1-12	Q4-11	Q3-11	Y to Y % Ch. (Q2-12/Q2-11)	Y to Y % Ch. (Q2-11/Q2-10)
Nonfarm Productivity	2.2	-0.5	2.8	0.6	1.2	1.1
- Output	2.4	2.7	5.3	1.6	3.0	3.0
- Hours	0.1	3.2	2.4	1.0	1.7	1.9
- Compensation (Real)	2.9	3.3	-1.9	-3.1	0.3	-0.6
- Unit Labor Costs	1.5	6.4	-3.3	-0.6	0.9	1.6
Manufacturing Productivity	0.1	5.5	0.7	5.5	2.9	1.6
- Output	1.5	10.1	5.5	5.2	5.5	4.0
- Hours	1.4	4.4	4.8	-0.3	2.6	2.4
- Compensation (Real)	0.2	4.2	-7.2	-2.6	-1.4	-0.4
- Unit Labor Costs	0.8	1.2	-6.6	-4.8	-2.4	1.3

Source: US Department of Labor