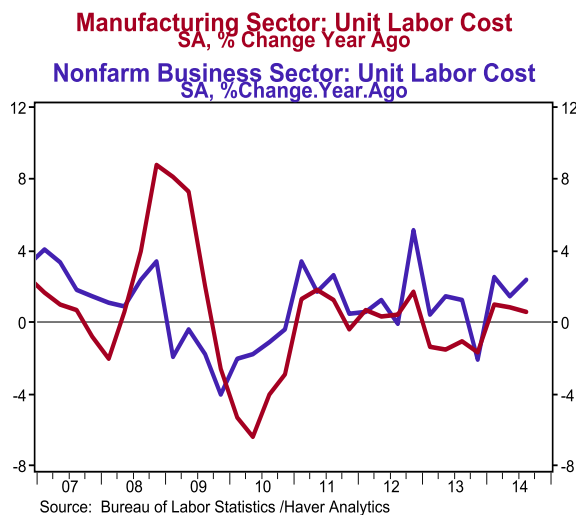
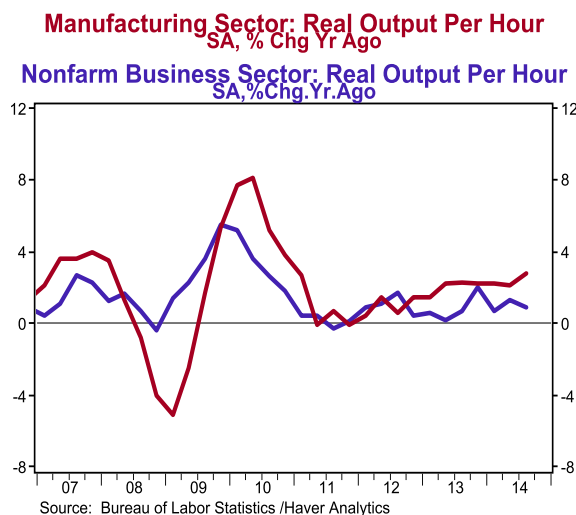


Q3 Productivity (Preliminary)

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- Nonfarm productivity (output per hour) increased at a 2.0 % annual rate in the third quarter versus a consensus expected gain of 1.5%. Nonfarm productivity is up 0.9% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector was up at a 1.2% annual rate in Q3 and is up 1.4% versus last year. Unit labor costs increased at a 0.3% rate in Q3 and are up 2.4% versus a year ago.
- In the manufacturing sector, productivity was up at a 3.2% annual rate in Q3, much better than among nonfarm businesses as a whole. The faster gain in manufacturing productivity was due to slower growth in hours. Real compensation per hour increased at a 1.4% annual rate in the manufacturing sector, while unit labor costs fell at a 0.7% rate.

Implications: Hold off on productivity for a moment. New claims for unemployment insurance declined 10,000 last week to 278,000. The four-week moving average, at 279,000, is now the lowest since April 2000. Continuing claims for jobless benefits declined 39,000 to 2.35 million, the lowest level since December 2000. Plugging these figures into our payroll models suggests an increase of 245,000 nonfarm and 238,000 private in October, a little above consensus expectations for tomorrow's report. Now back to productivity, which grew at a solid 2% annual rate in Q3 on top of an upwardly revised 2.9% growth rate in Q2. Hours continued to increase at a healthy clip and output climbed even faster so output per hour increased. Productivity is only up 0.9% from a year ago, but we think government statistics underestimate actual productivity growth. The service sector is particularly hard to measure. Drivers used to buy road atlases, and then GPS devices to help them navigate; now they download free apps that are more accurate and provide optimal routes through real-time traffic patterns. Travelers used to guess, hit-or-miss, where to go for a meal. Now they can use free services to tell them what restaurants are close and provide reviews. The figures from the government miss the value of these improvements, which means our standard of living is improving faster than the official reports show. Sectors of the economy that are easier to measure show more rapid productivity growth. In manufacturing, productivity surged at a 3.2% annual rate in Q3 and is up 2.8% from a year ago. The surge in Q3 was due to output growing much faster than hours. In spite of the overall problems with measurement, we anticipate faster productivity growth over the next few years as new technology increases output growth in all areas of the economy.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-14	Q2-14	Q1-14	Q4-13	Y to Y % Ch. (Q3-14/Q3-13)	Y to Y % Ch. (Q3-13/Q3-12)
Nonfarm Productivity	2.0	2.9	-4.5	3.3	0.9	0.7
- Output	4.4	5.5	-2.4	4.7	3.0	2.5
- Hours	2.3	2.5	2.1	1.4	2.1	1.8
- Compensation (Real)	1.2	-0.7	4.6	0.7	1.4	0.4
- Unit Labor Costs	0.3	-0.5	11.6	-1.3	2.4	1.2
Manufacturing Productivity	3.2	3.5	3.2	1.3	2.8	2.3
- Output	4.1	7.1	1.6	4.7	4.4	2.6
- Hours	0.8	3.4	-1.6	3.4	1.5	0.3
- Compensation (Real)	1.4	-1.4	6.9	-0.4	1.6	-0.2
- Unit Labor Costs	-0.7	-1.8	5.5	-0.5	0.6	-1.0

Source: US Department of Labor