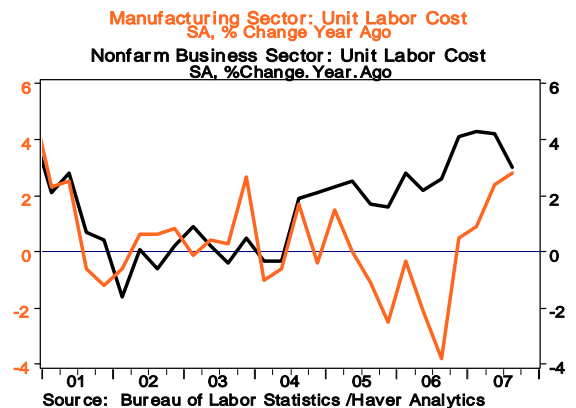
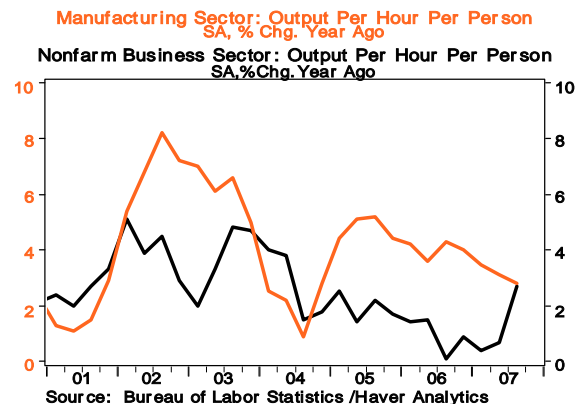


## Q3 PRODUCTIVITY (FINAL)

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- Growth in non-farm productivity (output per hour) was revised to a 6.3% annual rate in the third quarter, up from an originally reported 4.9%. This was above the consensus expected 5.8%. Non-farm productivity is up 2.7% versus a year ago, the fastest one-year growth since 2003-04.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 2.3% annual rate in Q3 and is up 3.3% versus a year ago. Non-farm unit labor costs declined at a 2.0% rate in Q3 but are up 3.0% versus a year ago.
- Manufacturing productivity increased at a 5.0% annual rate in Q3 and is up 2.8% versus a year ago.



**Implications:** Given last week's upward revisions to Q3 GDP growth, everyone knew productivity was going to be revised up from an originally reported 4.9%. But today's report was even stronger than almost all economists expected, supporting our view that the underlying trend in productivity growth remains robust. Productivity grew at a 6.3% annual rate in Q3, the fastest increase since 2003 and is up 2.7% versus a year ago, the best in more than three years. Real compensation, which includes wages and salaries plus fringe benefits, increased at a 2.3% rate in Q3 and is up 3.3% versus last year, the fastest growth since 2000. For comparison, in the past 20 years real compensation has risen at an average annual rate of 1.3%. Worker pay grew relatively slowly in the early stages of the current expansion as profits surged. Now workers are catching up and the purchasing power of their wages and benefits are growing faster than the overall economy, supporting consumption even as average home prices fall. In other news this morning, the ADP employment report suggests an increase of 189,000 private sector jobs in November plus revisions upward for October, buoying confidence that the labor market remains strong.

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-07	Q2-07	Q1-07	Q4-06	Y to Y % Ch. (Q3-07/Q3-06)	Y to Y % Ch. (Q3-06/Q3-05)
<b>Nonfarm Productivity</b>	<b>6.3</b>	2.2	0.7	1.8	2.7	0.1
- Output	5.7	4.2	0.3	2.6	3.2	2.4
- Hours	-0.6	2.0	-0.3	0.8	0.5	2.4
- Compensation	4.2	1.0	5.9	12.2	5.8	2.7
- Unit Labor Costs	-2.0	-1.1	5.2	10.3	3.0	2.6
<b>Manufacturing Productivity</b>	<b>5.0</b>	2.4	1.7	2.0	2.8	4.3
- Output	4.5	4.4	0.9	-2.1	1.9	6.1
- Hours	-0.5	2.0	-0.8	-4.0	-0.8	1.7
- Compensation	1.5	-1.4	8.9	14.2	5.6	0.3
- Unit Labor Costs	-3.3	-3.7	7.0	12.0	2.8	-3.8
<b>Durable Goods Productivity</b>	<b>6.1</b>	5.2	1.6	2.7	3.9	6.9
<b>Nondurable Goods Productivity</b>	<b>4.3</b>	-0.8	1.2	1.0	1.4	1.4

Source: US Department of Labor