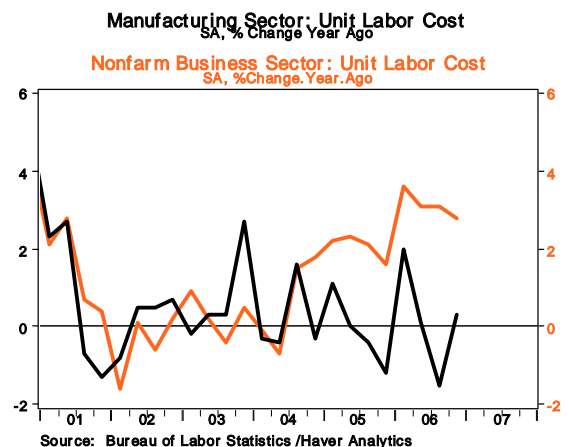
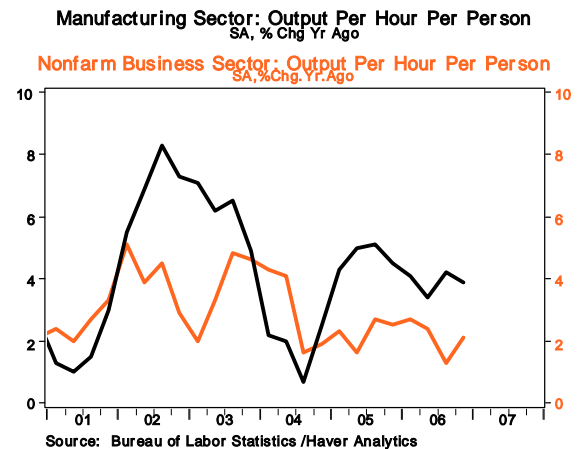


Q4 PRODUCTIVITY

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- Non-farm productivity (output per hour) increased at a 3.0% annual rate in the fourth quarter, better than a consensus expected gain of 2.0%. Non-farm productivity increased 2.1% in 2006 (Q4/Q4).
- Real (inflation-adjusted) compensation per hour increased at a 7.1% annual rate, a combination of a nominal gain of 4.8% and falling energy prices that made inflation negative for the quarter. Unit labor costs – the gap between increases in compensation and output – increased at a 1.7% rate.
- In the manufacturing sector, productivity growth was slightly slower and compensation growth was much stronger, resulting in much more rapid growth in unit labor costs. Productivity grew at a 2.2% rate while compensation grew at a 7.3% rate (9.8% after adjusting for inflation). Unit labor costs grew at a 5.0% rate.

Implications: Early in an economic expansion output growth tends to outstrip employment growth by a wide margin as firms worry that demand growth might not last and are therefore reluctant to hire, even as their business activity picks up. The result is a boom in productivity: lots more production with not that many more hours worked. In the current phase of the business cycle, it is normal for productivity growth to slow down as firms become more confident the expansion will last and hire workers at a more rapid pace. Non-farm Productivity grew at a 3.8% rate in 2002-03 and has slowed to a 2.3% rate in 2005-06. However, in the same phases of the expansion in the 1990s, productivity growth was 1.5% and 1%, respectively. In other words, so far in the current expansion, productivity has been consistently higher than at similar points in the 1990s. We expect this trend to continue, resulting in an acceleration in productivity growth in the years ahead, generating higher profits for companies and consistently rising living standards for American workers.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-06	Q3-06	Q2-06	Q1-06	Y to Y % Ch. (Q4-06/Q4-05)	Y to Y % Ch. (Q4-05/Q4-04)
Nonfarm Productivity	3.0	-0.1	1.2	4.3	2.1	2.5
- Output	4.2	1.9	2.7	6.7	3.9	3.8
- Hours	1.2	2.0	1.5	2.3	1.8	1.2
- Compensation	4.8	3.1	-1.2	13.7	4.9	4.1
- Unit Labor Costs	1.7	3.2	-2.4	9.0	2.8	1.6
Manufacturing Productivity	2.2	6.3	3.3	3.9	3.9	4.5
- Output	-1.6	4.8	5.7	6.0	3.7	4.6
- Hours	-3.7	-1.5	2.3	2.0	-0.2	0.1
- Compensation	7.3	3.3	-5.8	13.3	4.3	3.2
- Unit Labor Costs	5.0	-2.9	-8.8	9.0	0.3	-1.2
Durable Goods Productivity	3.3	8.6	5.5	4.1	5.3	6.9
Nondurable Goods Productivity	0.9	3.0	1.8	3.4	2.3	2.3

Source: US Department of Labor