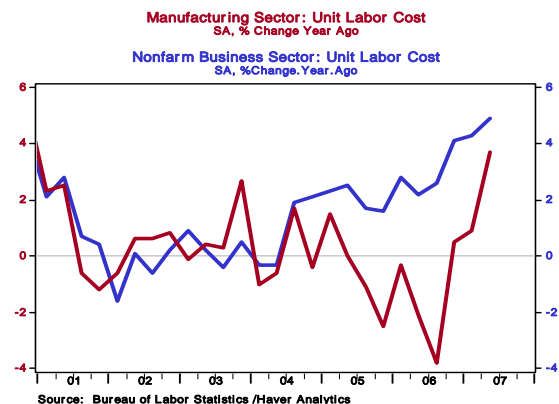
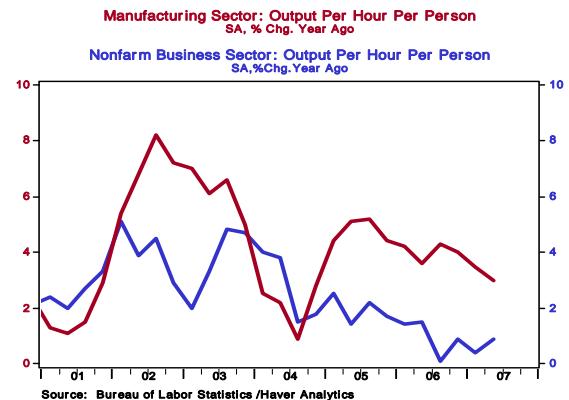


Q2 PRODUCTIVITY (REVISED)

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- Growth in non-farm productivity (output per hour) was revised to a 2.6% annual rate in the second quarter, up from an originally reported 1.8%. This was above the consensus expected 2.4%. Non-farm productivity is up 0.9% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.8% annual rate in the second quarter but is up 3.0% versus a year ago. Non-farm unit labor costs increased at a 1.4% rate in the second quarter and are up 4.9% versus a year ago.
- The productivity growth rate in the manufacturing sector in Q2 (1.8%) was slower than for the non-farm sector as a whole. However, versus a year ago, the manufacturing sector is still beating the non-farm business sector (3.0% versus 0.9%).



Implications: Given last week's upward revisions to real GDP growth, the revisions to productivity growth were largely as expected. More output means more output per hour. Although productivity among non-farm businesses is only up 0.9% versus a year ago, we still believe underlying productivity growth remains robust. A similar slowdown occurred in the mid-1990s. Every expansion has periods when job growth lags output growth (like 2002-2003) and offsetting periods when job growth is strong relative to output growth (2006-07). Productivity in the non-financial corporate sector (probably the most useful part of the report) was up at a 3.5% rate in the Q2 (the fastest since 2004) and is up 2.1% versus a year ago. In other news this morning, initial claims for unemployment insurance fell 19,000 last week to 318,000, the lowest level in four weeks. The initial claims data suggests any contagion from recent credit market turmoil into Main Street has been limited. However, continuing claims increased to 2.598 million, the highest since February. This suggests tomorrow's employment report will be a mediocre one, as the labor market slows down temporarily in response to the transient slowdown in economic growth that occurred in the year ending in Q1.

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-07	Q1-07	Q4-06	Q3-06	Y to Y % Ch. (Q2-07/Q2-06)	Y to Y % Ch. (Q2-06/Q2-05)
Nonfarm Productivity	2.6	0.7	1.8	-1.6	0.9	1.5
- Output	5.0	0.3	2.6	0.8	2.1	3.6
- Hours	2.3	-0.3	0.8	2.4	1.3	2.0
- Compensation	4.1	5.9	12.2	1.3	5.8	3.8
- Unit Labor Costs	1.4	5.2	10.3	2.9	4.9	2.2
Manufacturing Productivity	1.8	1.7	2.0	6.5	3.0	3.6
- Output	4.0	0.9	-2.1	4.8	1.9	5.4
- Hours	2.1	-0.8	-4.0	-1.6	-1.1	1.8
- Compensation	3.4	8.9	14.2	1.4	6.8	1.3
- Unit Labor Costs	1.6	7.0	12.0	-4.8	3.7	-2.1
Durable Goods Productivity	4.7	1.6	2.7	9.3	4.5	6.3
Nondurable Goods Productivity	-1.4	1.2	1.0	2.4	0.8	1.1

Source: US Department of Labor

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