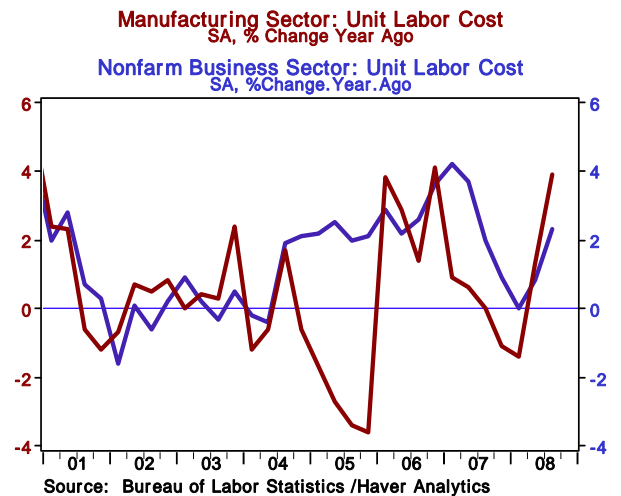
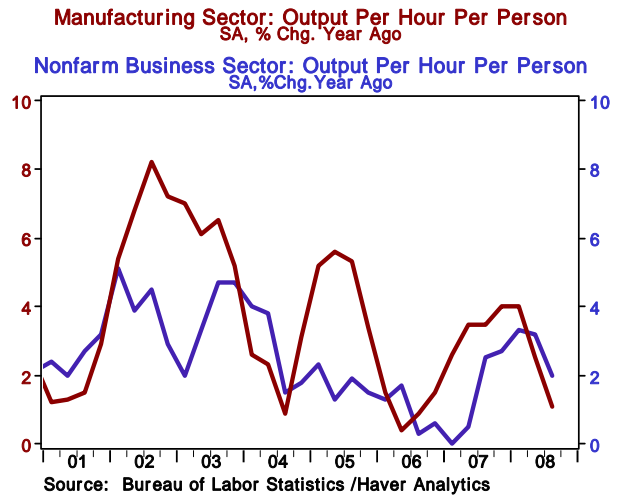


## Q3 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) increased at a 1.1% annual rate in the third quarter versus a consensus expected gain of 0.7%. Non-farm productivity is up 2.0% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.9% annual rate in Q3 and is down 0.9% versus last year. Unit labor costs were up at a 3.6% rate in Q3 and are up 2.3% versus a year ago. Unit labor costs are up much more than real compensation because inflation has been high.
- In the manufacturing sector, the Q3 growth rate for productivity (-1.0%) was weaker than in the non-farm sector as a whole. The growth rate of real compensation (-1.6%) was roughly the same as in the non-farm sector.

**Implications:** The economy is hurting right now, but the continued rise in productivity (output per hour) bodes well for our long-term prospects. Tomorrow's employment report will likely show a significant loss in payrolls, roughly 200,000. However, higher productivity will eventually make it appealing for companies to re-hire workers and bid up real wages/benefits. Although productivity in the manufacturing sector fell at a 1% annual rate in Q3, all the decline was due to a steep drop in the output of nondurable goods, such as food and clothing. We expect manufacturing productivity to revive in the fourth quarter. In other news this morning, new claims for unemployment benefits declined 4,000 last week to 481,000. Continuing claims increased 122,000 to 3.843 million. As a raw number, that's the highest level since 1983, but as a share of the labor force is still below the recent highs hit in 2002-03.



<b>Productivity and Costs</b> (% Change, All Data Seasonally Adjusted)	<b>Q3-08</b>	<b>Q2-08</b>	<b>Q1-08</b>	<b>Q4-07</b>	<b>Y to Y % Ch.</b> (Q3-08/Q3-07)	<b>Y to Y % Ch.</b> (Q3-07/Q3-06)
<b>Nonfarm Productivity</b>	1.1	3.6	2.6	0.8	2.0	2.5
- Output	-1.7	2.8	0.9	-0.7	0.3	2.9
- Hours	-2.7	-0.8	-1.7	-1.6	-1.7	0.4
- Compensation (Nominal)	4.7	3.5	3.8	5.3	4.3	4.5
- Unit Labor Costs	3.6	-0.1	1.2	4.5	2.3	2.0
<b>Manufacturing Productivity</b>	-1.0	-1.9	3.3	4.2	1.1	3.5
- Output	-5.8	-3.4	-0.8	-0.4	-2.6	2.1
- Hours	-4.9	-1.5	-4.0	-4.4	-3.7	-1.3
- Compensation (Nominal)	5.0	3.8	3.8	7.8	5.1	3.6
- Unit Labor Costs	6.1	5.8	0.5	3.4	3.9	0.0

Source: US Department of Labor