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Q3 Productivity (Final)

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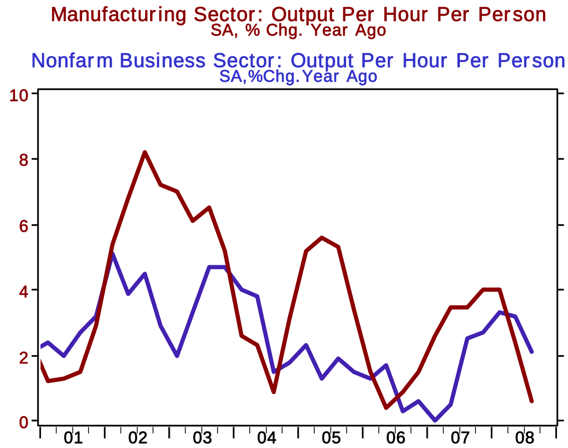
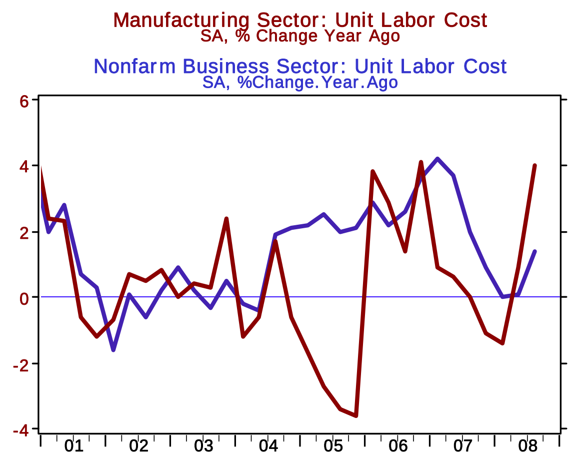
- Non-farm productivity (output per hour) increased at a 1.3% annual rate in the third quarter, an upward revision from an original estimate of 1.1%. Non-farm productivity is up 2.1% versus a year ago.
- Compensation per hour in the non-farm sector increased at a 4.1% annual rate in Q3 and is up 3.5% versus last year. However, with high inflation through Q3, real (inflation-adjusted) compensation was down at a 2.4% annual rate in Q3 and is down 1.6% versus last year. Unit labor costs were up at a 2.8% rate in Q3 and up 1.4% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (-2.7%) was much lower than for the non-farm sector as a whole, while compensation (+4.7%) increased more quickly. As a result, unit labor costs in the manufacturing sector grew at a rapid 7.6% rate in Q3.



Source: Bureau of Labor Statistics /Haver Analytics



Source: Bureau of Labor Statistics /Haver Analytics

Implications: Despite the recession, economy-wide productivity (output per hour) continues to rise. Productivity is increasing because businesses are becoming more efficient, reducing the number of hours worked faster than they are reducing production. This helps explain why the unemployment rate has been moving up so rapidly, even faster than what would normally be expected given the economic weakness. However, the efficiencies that firms are generating now will ultimately elevate the growth potential of the US economy. As a result, with non-farm productivity up 2.1% versus last year, the long-term prospects for US economic growth remain strong. In other news, late yesterday, Autodata reported that light vehicles (cars and light trucks) sold at a 10.2 million annual rate in November, the slowest pace since 1982. On a per capita basis, vehicle sales have not been lower for many decades. This is likely the worst month of the recession for vehicle sales. At the November pace, it would take about 24 years to replace the current stock of motor vehicles on America's roads, almost twice as long as normal.

Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	Q3-08	Q2-08	Q1-08	Q4-07	Y to Y % Ch. (Q3-08/Q3-07)	Y to Y % Ch. (Q3-07/Q3-06)
Nonfarm Productivity	**1.3**	3.6	2.6	0.8	2.1	2.5
- Output	**-1.9**	2.8	0.9	-0.7	0.3	2.9
- Hours	**-3.1**	-0.8	-1.7	-1.6	-1.8	0.4
- Compensation (Nominal)	**4.1**	0.9	3.8	5.3	3.5	4.5
- Unit Labor Costs	**2.8**	-2.6	1.2	4.5	1.4	2.0
Manufacturing Productivity	**-2.7**	-2.2	3.3	4.2	0.6	3.5
- Output	**-7.8**	-3.7	-0.8	-0.4	-3.2	2.1
- Hours	**-5.3**	-1.5	-4.0	-4.4	-3.8	-1.3
- Compensation (Nominal)	**4.7**	2.2	3.8	7.8	4.6	3.6
- Unit Labor Costs	**7.6**	4.5	0.5	3.4	4.0	0.0

Source: US Department of Labor