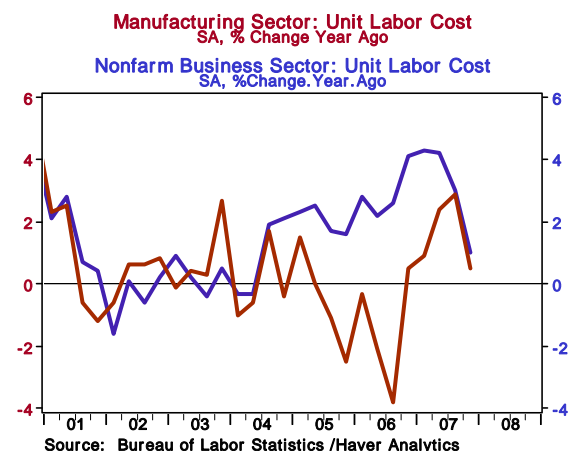
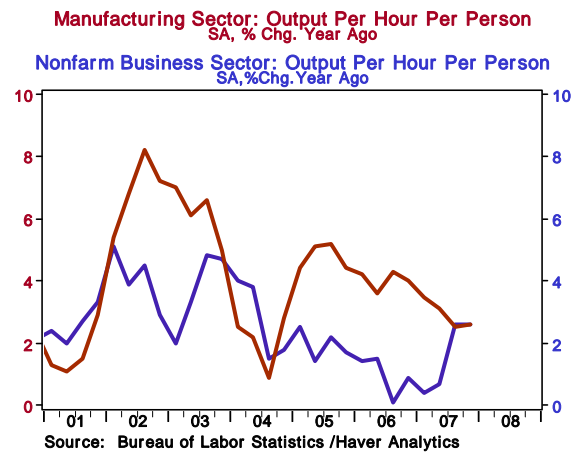


Q4 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) increased at a 1.8% annual rate in the fourth quarter versus a consensus expected gain of 0.5%. Non-farm productivity is up 2.6% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.3% annual rate in Q4 and is also down 0.3% versus last year. Unit labor costs were up at a 2.1% rate in Q4 and up 1.0% versus a year ago.
- In the manufacturing sector, Q4 growth rates for productivity (2.5%) and real compensation (-0.1%) were both higher than for the non-farm sector as a whole.

Implications: Today's report on productivity supports the view that long-term prospects for US economic growth remain strong. Output per hour is up 2.6 versus last year, among both non-farm businesses as a whole and in the manufacturing sector. What this means is that the entire increase in output among non-farm businesses in 2007 was due to more output per hour rather than more hours worked. In turn, this suggests that as Baby Boomers gradually age into retirement – and growth in the labor force declines – firms will still be able to raise output by adding capital equipment and generating efficiencies in the way they operate. Meanwhile, rising inflation is already eroding workers paychecks. Labor compensation grew a respectable 3.7% in 2007, but was down 0.3% when adjusted for inflation. Continued inflation is likely to make workers more aggressive about seeking increases in pay in the years ahead.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-07	Q3-07	Q2-07	Q1-07	Y to Y % Ch. (Q4-07/Q4-06)	Y to Y % Ch. (Q4-06/Q4-05)
Nonfarm Productivity	1.8	6.0	2.2	0.7	2.6	0.9
- Output	0.4	5.6	4.2	0.3	2.6	2.8
- Hours	-1.5	-0.3	2.0	-0.3	0.0	2.0
- Compensation	3.9	4.0	1.0	5.9	3.7	5.0
- Unit Labor Costs	2.1	-1.9	-1.1	5.2	1.0	4.1
Manufacturing Productivity	2.5	4.0	2.4	1.7	2.6	4.0
- Output	-1.9	3.9	4.4	0.9	1.8	3.6
- Hours	-4.3	-0.1	2.0	-0.8	-0.8	-0.5
- Compensation	4.2	1.0	-1.4	8.9	3.1	4.5
- Unit Labor Costs	1.7	-2.9	-3.7	7.0	0.5	0.5
Durable Goods Productivity	4.6	5.2	5.2	1.6	4.1	5.4
Nondurable Goods Productivity	-0.9	3.3	-0.8	1.2	0.7	2.4

Source: US Department of Labor

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