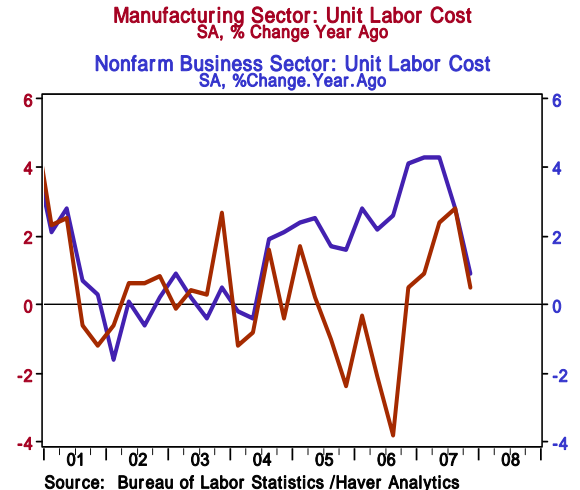
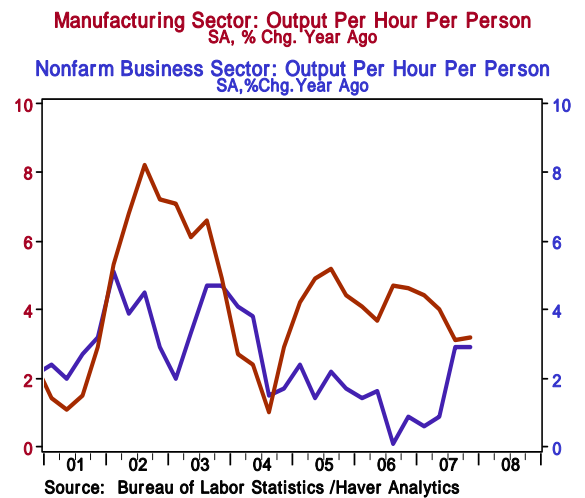


Q4 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) increased at a 1.9% annual rate in Q4 versus a consensus expected gain of 1.8%. Non-farm productivity is up 2.9% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.5% annual rate in Q4 and is unchanged versus a year ago. Unit labor costs were up at a 2.6% rate in Q4 and up 0.9% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity (2.3%) was slightly higher than in the non-farm sector as a whole while the rate of decline in real compensation (-0.6%) was slightly larger.

Implications: Today's report on productivity shows that long-term prospects for US economic growth remain strong. Businesses are not experiencing the imbalances seen prior to most recessions, but inflation is eroding workers' paychecks. Output per hour is up 2.9% versus last year, 3.2% in the manufacturing sector. This undermines the theory that the productivity boom that started in the 1990s is coming to an end. Meanwhile, unit labor costs are up only 0.9% versus a year ago, signaling that businesses do not have a surplus of labor they need to pare. No recession since World War II has started at such a low level of unit labor cost growth. In our view the main economic problem is inflation. Labor compensation grew a respectable 3.9% in 2007, but was down 0.5% when adjusted for inflation. Inflation is also eroding the real value of recent consumption. It's not that workers are holding back their spending; they're just getting less for the dollars they spend.



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	1.9	6.3	2.6	1.0	2.9	0.9
- Output	0.3	5.6	4.2	0.3	2.6	2.8
- Hours	-1.6	-0.6	1.6	-0.6	-0.3	1.9
- Compensation	4.6	3.4	1.3	6.4	3.9	5.0
- Unit Labor Costs	2.6	-2.7	-1.3	5.4	0.9	4.1
Manufacturing Productivity	2.3	4.1	3.4	3.0	3.2	4.6
- Output	-1.7	3.9	4.4	0.9	1.9	3.6
- Hours	-3.9	-0.2	1.0	-2.0	-1.3	-1.0
- Compensation	4.4	0.7	-0.4	10.3	3.7	5.1
- Unit Labor Costs	2.1	-3.3	-3.6	7.1	0.5	0.5

Source: US Department of Labor