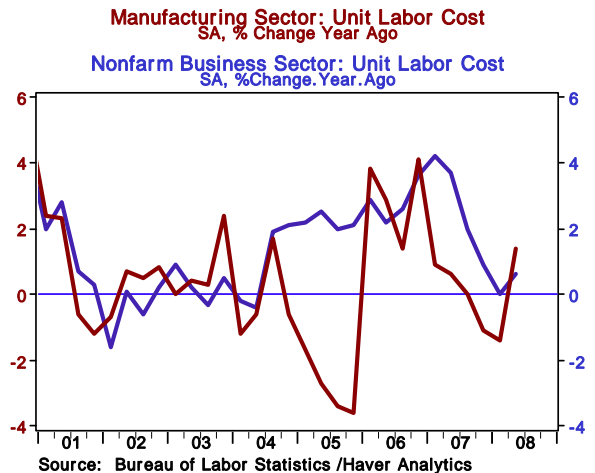
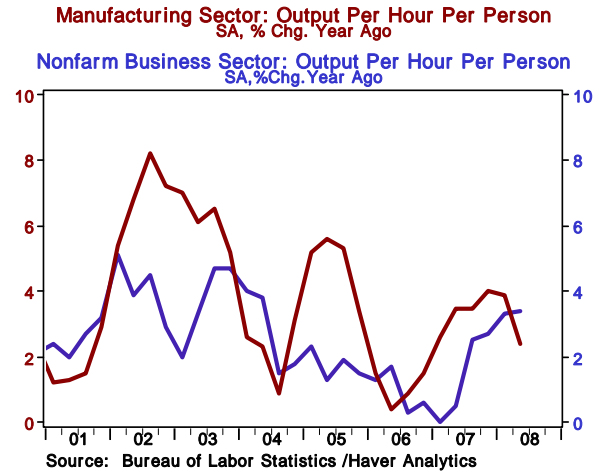


Q2 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) increased at a 4.3% annual rate in the second quarter, an upward revision from an original estimate of 2.2%. Non-farm productivity is up 3.4% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.3% annual rate in Q2 versus an original estimate of -1.4%. Real compensation per hour is down 0.2% versus last year. Unit labor costs were down at a 0.5% rate in Q2 but up 0.6% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (-2.2%) was much lower than for the non-farm sector as a whole. As a result, unit labor costs in the manufacturing sector grew at a rapid 6.2% rate.

Implications: The productivity boom continues, keeping the economy growing at a healthy pace even as businesses trim payrolls. As a result, the long-term prospects for US economic growth remain strong. Non-farm productivity is up 3.4% versus last year. As Baby Boomers gradually age into retirement – and growth in the labor force declines – firms will still be able to raise output by investing in new equipment and software. Meanwhile, rising inflation continues to erode the value of workers’ paychecks. Labor compensation is up a respectable 4.0% versus last year but down -0.2% after inflation. In other recent news, the ADP report on national employment suggests private sector payrolls declined 33,000 in August, roughly as the consensus expected. We anticipate a decline of 75,000 in total payrolls in the official government report to be released tomorrow morning. Meanwhile, new claims for unemployment insurance increased 15,000 last week to 444,000 while continuing unemployment claims increased 6,000 to 3.435 million. On a positive note, total light vehicles (autos and trucks) were sold at a 13.7 million annual rate in August, down 15.8% versus last year but up 9.3% versus July and well above the consensus expected level of 13.0 million.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-08	Q1-08	Q4-07	Q3-07	Y to Y % Ch. (Q2-08/Q2-07)	Y to Y % Ch. (Q2-07/Q2-06)
Nonfarm Productivity	4.3	2.6	0.8	5.8	3.4	0.5
- Output	3.4	0.9	-0.7	5.5	2.2	1.6
- Hours	-0.8	-1.7	-1.6	-0.3	-1.1	1.1
- Compensation	3.7	3.8	5.3	3.3	4.0	4.2
- Unit Labor Costs	-0.5	1.2	4.5	-2.4	0.6	3.7
Manufacturing Productivity	-2.2	3.3	4.2	4.5	2.4	3.5
- Output	-3.7	-0.9	-0.4	4.3	-0.2	1.5
- Hours	-1.5	-4.0	-4.4	-0.2	-2.5	-1.9
- Compensation	3.9	3.8	7.8	-0.1	3.8	4.1
- Unit Labor Costs	6.2	0.5	3.4	-4.4	1.4	0.6

Source: US Department of Labor