

# Q3 PRODUCTIVITY (PRELIMINARY)

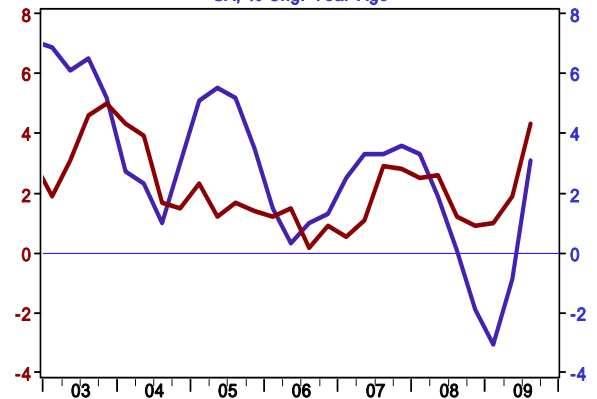
Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- Non-farm productivity (output per hour) exploded upward at a 9.5% annual rate in the third quarter, beating the consensus expected 6.5% growth rate. Non-farm productivity is up 4.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector inched up at a 0.2% annual rate in Q3, but is up 2.1% versus last year. Unit labor costs dropped at a 5.2% rate in Q3 and are down 3.6% versus a year ago.
- In the manufacturing sector, the Q3 growth rates for productivity (13.6%), output (7.7%), and real compensation (1.9%) were all even stronger than in the non-farm sector as a whole. Due to faster productivity growth in manufacturing, the rate of decline in unit labor costs (-7.1%) was greater in that sector than among non-farm businesses.

**Implications:** You have to go back almost 50 years to find two straight quarters where productivity – output per hour worked – has boomed as rapidly as it has in Q2/Q3 of 2009. Nonfarm businesses increased their output at a 4% annual rate in Q3 and they did this while cutting the number of hours worked at a 5% rate. Productivity will not continue to boom quite this rapidly. The recent surge will end not because output growth needs to slow down anytime soon but because rapid productivity growth and falling unit labor costs mean it is getting more and more profitable for companies to expand operations and boost hours worked. In the past year alone, unit labor costs – labor compensation per unit of output – are down 3.6%, the largest drop on record going back to 1948. In turn, this will put upward pressure on labor demand, soon leading to net job creation and a decline in the unemployment rate. Given the decline in labor costs and the depreciation of the dollar versus other currencies the past several years, many multinationals looking to place operations in the advanced world will find the US the cheapest place to invest. In other news this morning, new claims for unemployment insurance fell by 20,000 last week to 512,000, the lowest level since the very beginning of 2009. Meanwhile, continuing claims for regular state benefits fell 68,000 to 5.75 million.

Nonfarm Business Sector: Output Per Hour Per Person  
SA, % Chg. Year Ago

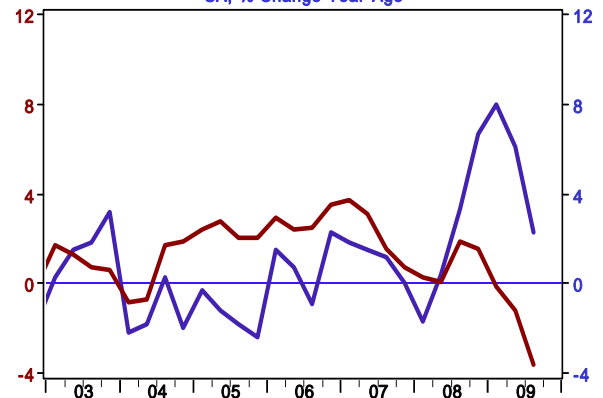
Manufacturing Sector: Output Per Hour Per Person  
SA, % Chg. Year Ago



Source: Bureau of Labor Statistics /Haver Analytics

Nonfarm Business Sector: Unit Labor Cost  
SA, % Change Year Ago

Manufacturing Sector: Unit Labor Cost  
SA, % Change Year Ago



Source: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-09	Q2-09	Q1-09	Q4-08	Y to Y % Ch. (Q3-09/Q3-08)	Y to Y % Ch. (Q3-08/Q3-07)
<b>Nonfarm Productivity</b>	<b>9.5</b>	6.9	0.3	0.8	4.3	1.2
- Output	4.0	-1.1	-8.8	-7.6	-3.5	-0.7
- Hours	-5.0	-7.5	-9.0	-8.3	-7.5	-1.9
- Compensation (Nominal)	3.8	0.3	-4.7	2.9	0.5	3.1
- Unit Labor Costs	-5.2	-6.1	-5.0	2.0	-3.6	1.9
<b>Manufacturing Productivity</b>	<b>13.6</b>	6.8	-2.5	-4.7	3.1	0.1
- Output	7.7	-8.1	-21.7	-18.4	-10.8	-3.9
- Hours	-5.2	-13.9	-19.8	-14.4	-13.5	-4.0
- Compensation (Nominal)	5.5	5.1	-0.4	12.0	5.5	3.4
- Unit Labor Costs	-7.1	-1.6	2.2	17.5	2.3	3.3

Source: US Department of Labor

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.