

Q3 PRODUCTIVITY (FINAL)

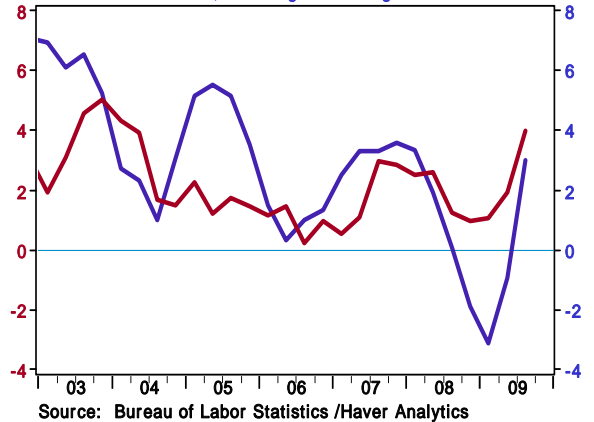
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- Non-farm productivity (output per hour) increased at an 8.1% annual rate in the third quarter, a very strong pace but a downward revision from the original estimate of 9.5%. Non-farm productivity is up 4.0% versus a year ago.
- Compensation per hour in the non-farm sector increased at a 5.4% annual rate in Q3 and is up 2.5% versus last year. Real (inflation-adjusted) compensation was up at a 1.8% annual rate in Q3 and is up 4.1% versus last year. Unit labor costs were down at a 2.5% rate in Q3 and down 1.4% versus a year ago.
- In the manufacturing sector, Q3 measures of production (output and hours) as well as measures of labor compensation both performed better than in the non-farm business sector as a whole.

Implications: Despite a downward revision, productivity – output per hour worked – still soared in Q3. This helps explain how the economy has started to grow again even as jobs have continued to decline. Companies are getting lean and mean, squeezing every bit of production they can from the workforce. But companies have also boosted pay for the workers they have kept. In the past year, productivity is up 4% while “real” (inflation-adjusted) compensation is up 4.1%. As much pain as the economy went through in late 2008 and early 2009, the absence of a major decline in productivity bodes well for our ability to raise the American standard of living in the economic expansion that is now underway. In other recent news, auto and light truck sales grew again in November to a 10.9 million annual rate, beating the consensus expected pace of 10.5 million. What’s remarkable about a 10.9 million pace is that the fastest sales rate in the first half of this year – before “cash for clunkers” in July/August – was 9.9 million. So during a period when sales should be slow because of a “clunkers hangover,” sales are faster than they were before the “clunkers surge.” Had it not been for “clunkers,” sales would be even higher right now. We expect the recovery in auto sales to continue, eventually reaching an annual pace of almost 16 million in 2011.

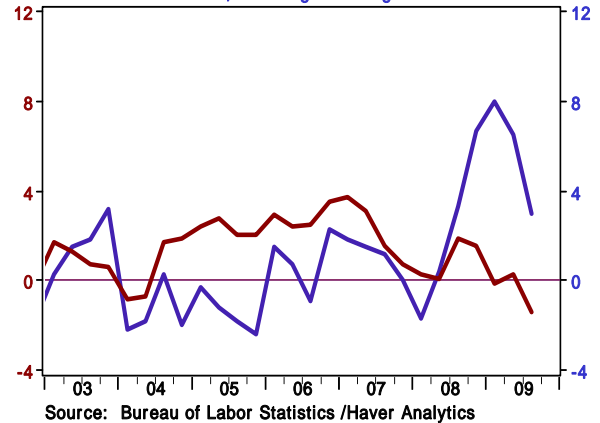
Nonfarm Business Sector: Output Per Hour of All Persons
SA, % Change - Year Ago

Manufacturing Sector: Output Per Hour of All Persons
SA, % Change - Year Ago



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

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



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)
Nonfarm Productivity	8.1	6.9	0.3	0.8	4.0	1.2
- Output	2.9	-1.1	-8.8	-7.6	-3.7	-0.7
- Hours	-4.8	-7.5	-9.0	-8.3	-7.4	-1.9
- Compensation (Nominal)	5.4	6.9	-4.7	2.9	2.5	3.1
- Unit Labor Costs	-2.5	0.0	-5.0	2.0	-1.4	1.9
Manufacturing Productivity	13.4	6.8	-2.5	-4.7	3.0	0.1
- Output	8.4	-8.1	-21.7	-18.4	-10.7	-3.9
- Hours	-4.4	-13.9	-19.8	-14.4	-13.3	-4.0
- Compensation (Nominal)	6.5	6.5	-0.4	12.0	6.1	3.4
- Unit Labor Costs	-6.1	-0.3	2.2	17.5	3.0	3.3

Source: US Department of Labor