

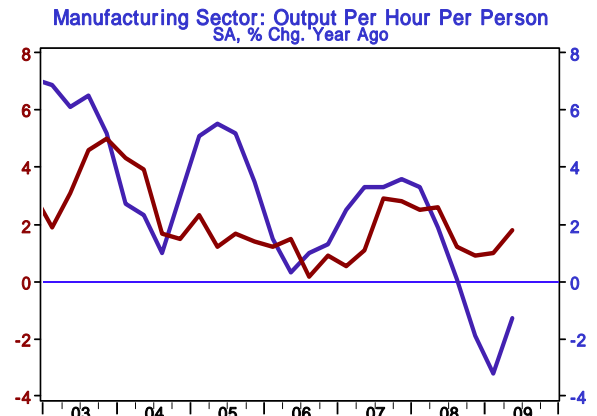
Q2 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) exploded upward at a 6.4% annual rate in the second quarter, beating the consensus expected 5.5% growth rate. Non-farm productivity is up 1.8% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector fell at a 1.1% annual rate in Q2, but is up 2.2% versus last year. Unit labor costs dropped at a 5.8% rate in Q2 and are down 0.6% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (5.3%) was not quite as strong as in the non-farm sector as a whole. The growth rate of real compensation (4.4%) was much stronger than in the overall non-farm sector. As a result, unit labor costs in manufacturing increased in Q2 and are up substantially (7.4%) versus last year.

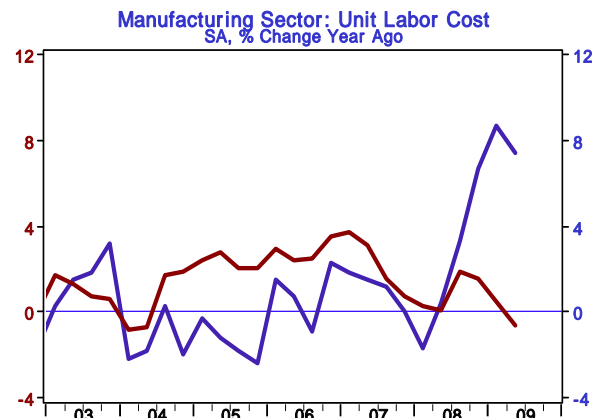
Implications: Productivity – output per hour worked – boomed in the second quarter. Although production declined at a 1.7% annual rate among nonfarm businesses, these companies cut the number of hours worked at a 7.6% rate. In other words, workers used capital equipment to produce more goods and services per hour of work. In the short term, this will bring little solace to the workers whose hours are being reduced. However, greater output per hour not only generates higher corporate profits (justifying higher stock market prices) but also makes it more attractive to hire additional workers, both of which are leading indicators of improved future demand for labor and lower unemployment. It is important to note that big spikes upward in productivity are often associated with the earliest stages of economic recoveries, supporting our view that the US recession is over. As much pain as the economy went through in late 2008 and early 2009, the absence of a major decline in productivity (output per hour) bodes well for our ability to raise our standard of living in the economic expansion that is now underway.

Nonfarm Business 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



Source: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-09	Q1-09	Q4-08	Q3-08	Y to Y % Ch. (Q2-09/Q2-08)	Y to Y % Ch. (Q2-08/Q2-07)
Nonfarm Productivity	6.4	0.3	0.8	-0.1	1.8	2.6
- Output	-1.7	-8.8	-7.6	-4.0	-5.6	1.3
- Hours	-7.6	-9.0	-8.3	-3.9	-7.3	-1.3
- Compensation (Nominal)	0.2	-2.4	2.9	4.5	1.3	2.7
- Unit Labor Costs	-5.8	-2.7	2.0	4.6	-0.6	0.1
Manufacturing Productivity	5.3	-2.6	-4.7	-2.9	-1.3	1.9
- Output	-9.9	-21.8	-18.4	-9.3	-15.0	-0.9
- Hours	-14.4	-19.8	-14.4	-6.5	-13.9	-2.7
- Compensation (Nominal)	5.8	2.2	12.0	4.3	6.0	2.3
- Unit Labor Costs	0.5	4.9	17.5	7.5	7.4	0.4

Source: US Department of Labor