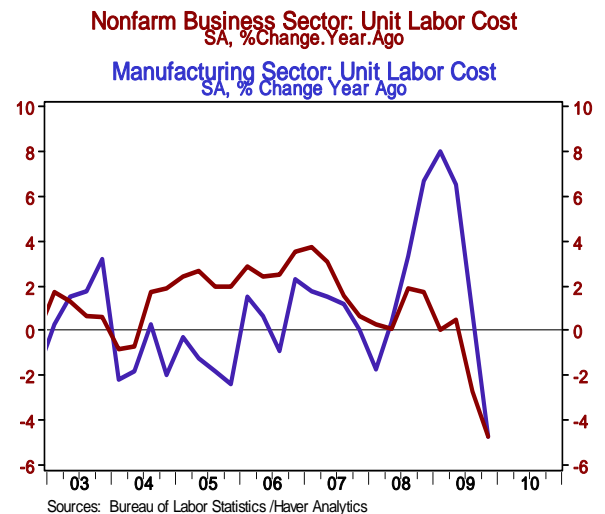
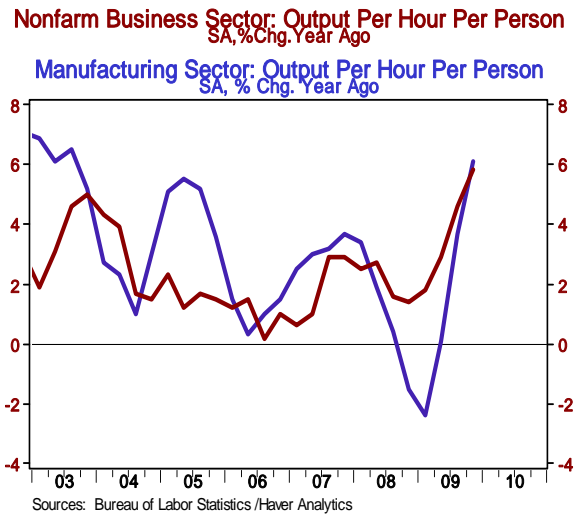


Q4 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) increased at a 6.9% annual rate in the fourth quarter, a very strong pace and an upward revision from the original estimate of 6.2%. Non-farm productivity is up 5.8% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 2.8% annual rate in Q4 and is down 0.6% versus last year. Unit labor costs were down at a 5.9% rate in Q4 and down 4.7% versus a year ago.
- In the manufacturing sector, Q4 measures of production (output and hours) as well as measures of labor compensation were both slower than in the non-farm business sector as a whole.

Implications: The US productivity boom isn't just continuing; it's accelerating. The report today included changes to productivity data back to 2005 and showed productivity growth was stronger than previously estimated in every year covered by the revisions, but particularly 2008 and 2009. In the last three quarters of 2009, productivity – output per hour worked – soared at a 7.4% annual rate, the fastest increase in almost 50 years. This helps explain how, despite continued job losses, the economy started a V-shaped recovery in mid-2009. Companies are getting lean and mean, squeezing every bit of production they can from the workforce. However, one of the key side-effects of higher productivity is lower unit labor costs (how much a company has to pay workers in order to generate a fixed amount of production). Unit labor costs are down 4.7% in the past year, the largest drop on record (since 1947). In Q4, lower labor costs started translating into more demand for labor, with total hours worked rising at a 0.6% annual rate. With labor now so inexpensive, we expect much more substantial gains in hours worked, including job creation, in the quarters ahead. 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 our standard of living in the current economic expansion. In other news this morning, new claims for jobless benefits declined 29,000 last week to 469,000. Continuing claims for regular state benefits fell 134,000 to 4.50 million.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-09	Q3-09	Q2-09	Q1-09	Y to Y % Ch. (Q4-09/Q4-08)	Y to Y % Ch. (Q4-08/Q4-07)
Nonfarm Productivity	6.9	7.8	7.6	0.9	5.8	1.4
- Output	7.6	2.2	-1.1	-8.8	-0.2	-3.0
- Hours	0.6	-5.3	-8.1	-9.6	-5.7	-4.4
- Compensation (Real)	-2.8	-3.8	6.3	-1.9	-0.6	1.6
- Unit Labor Costs	-5.9	-7.6	0.1	-5.0	-4.7	1.7
Manufacturing Productivity	6.6	14.8	6.6	-2.9	6.1	-1.5
- Output	5.5	9.0	-8.1	-21.7	-4.6	-8.7
- Hours	-1.0	-5.1	-13.8	-19.4	-10.1	-7.3
- Compensation (Real)	-3.5	-4.4	4.9	1.6	-0.4	3.5
- Unit Labor Costs	-6.3	-13.7	-0.2	2.1	-4.7	6.7

Source: US Department of Labor