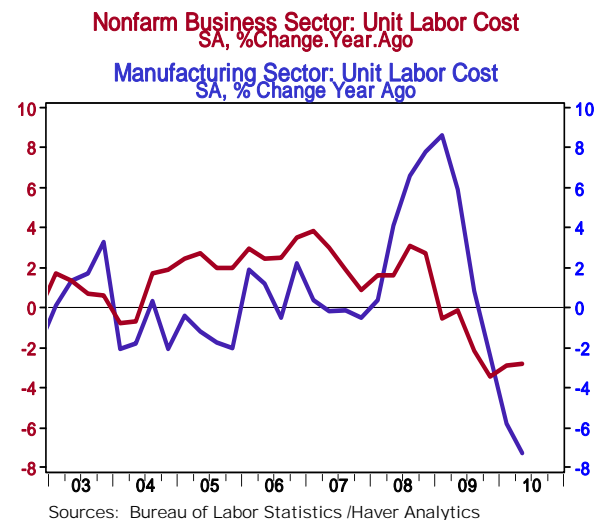
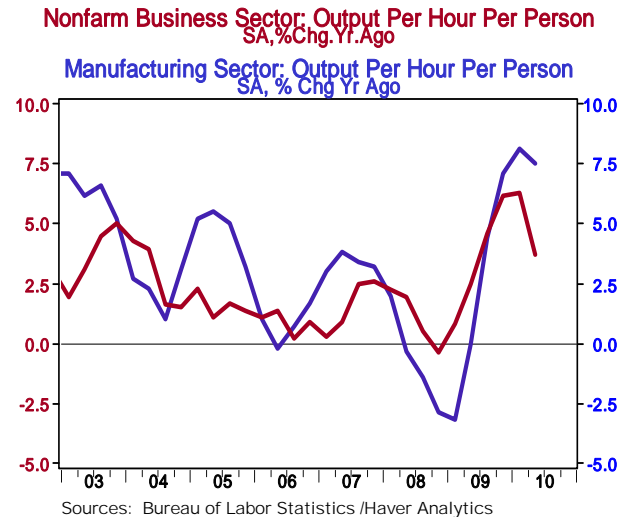


Q2 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) fell at a 1.8% annual rate in the second quarter but is up 3.7% versus last year.
- Real (inflation-adjusted) compensation per hour was unchanged in Q2 and is down 1.0% versus last year. Unit labor costs increased at a 1.1% rate in Q2 but are down 2.8% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (4.1%) was much higher than among non-farm businesses as a whole. Output grew faster in manufacturing and the growth of hours worked was higher in manufacturing as well. Real compensation (-1.3%) and unit labor costs (-5.9%) were softer in manufacturing. The large drop in manufacturing unit labor costs was largely due to very rapid productivity growth in that sector.

Implications: As expected, the revision to Q2 productivity showed a bigger drop than previously reported. This is a natural consequence of the downward revision to real GDP growth that came out last week. Less output means less output per hour. While some pessimists may worry that productivity has stalled, we look at it as a temporary pause in an upward trend. In the past three quarters, productivity has grown at a 2.6% annual rate despite the fact that hours worked have increased in each of those quarters. Even as output rebounds, technology will continue to boom and push productivity higher, allowing workers to do more. Productivity in the past year has accelerated to a 3.7% annual rate from a 2.5% rate the year before. Unit labor costs – how much companies have to pay workers per unit of production – are down 2.8% in the past year, which means it is more profitable for companies to expand operations and boost hours worked. In the manufacturing sector, productivity grew 4.1% at an annual rate in Q2 while durable manufacturing productivity rose at an astounding 9.9% rate. In other news this morning, new claims for unemployment insurance declined 6,000 last week to 472,000. Not seasonally adjusted, claims fell to 379,000, the lowest since before the collapse of Lehman Brothers in September 2008. Continuing claims for regular state benefits declined 23,000 to 4.46 million. Cars and light trucks were sold at an 11.5 million annual rate in August, unchanged from July and matching consensus expectations.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-10	Q1-10	Q4-09	Q3-09	Y to Y % Ch. (Q2-10/Q2-09)	Y to Y % Ch. (Q2-09/Q2-08)
Nonfarm Productivity	-1.8	3.9	6.0	7.0	3.7	2.5
- Output	1.6	5.0	6.7	1.4	3.7	-5.6
- Hours	3.5	1.1	0.7	-5.2	0.0	-8.0
- Compensation (Real)	0.0	-2.4	-1.1	-0.3	-1.0	3.4
- Unit Labor Costs	1.1	-4.6	-4.2	-3.3	-2.8	-0.1
Manufacturing Productivity	4.1	1.6	8.1	16.9	7.5	0.0
- Output	8.4	7.0	7.2	10.9	8.4	-14.7
- Hours	4.1	5.3	-0.8	-5.1	0.8	-14.7
- Compensation (Real)	-1.3	-7.9	1.6	-0.4	-2.1	7.0
- Unit Labor Costs	-5.9	-8.0	-3.5	-11.6	-7.3	5.9

Source: US Department of Labor