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Q3 Productivity (Preliminary)

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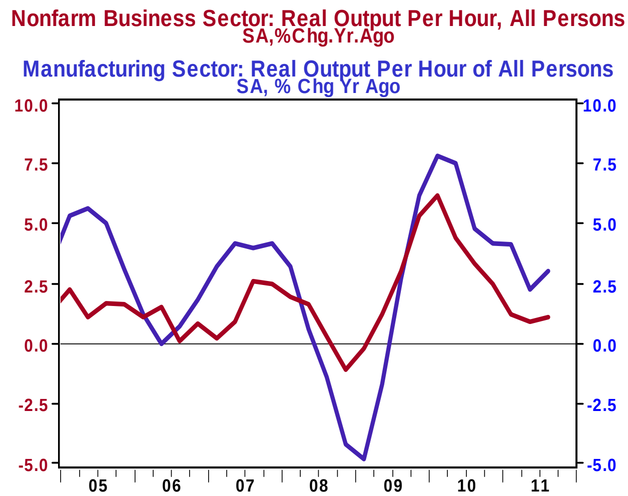
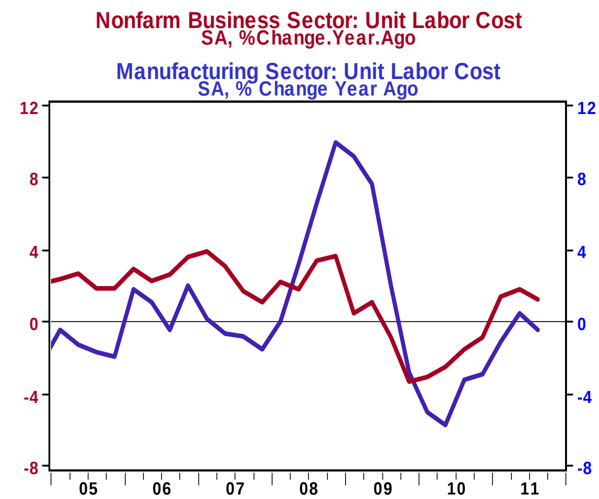
- Nonfarm productivity (output per hour) increased at a 3.1% annual rate in the third quarter, narrowly beating the consensus expected gain of 3.0%. Non-farm productivity is up 1.1% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 2.4% annual rate in Q3, and is down 1.4% versus last year. Unit labor costs also declined at a 2.4% rate in Q3 but are up 1.2% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (5.4%) was much higher than among nonfarm businesses as a whole. The rise in productivity growth was due to both rising output and falling hours. Real compensation per hour was down in the manufacturing sector (-2.4%), and due to the increase in productivity growth, unit labor costs fell at a 4.6% annual rate.



Sources: Bureau of Labor Statistics /Haver Analytics



Sources: Bureau of Labor Statistics /Haver Analytics

Implications: Nonfarm productivity increased at a solid 3.1% annual rate in the third quarter, a result of a robust acceleration in output while the number of hours worked rose modestly. It's important to remember that when GDP growth picks up (as it did in Q3), so does productivity growth. Although productivity is up only 1.1% versus a year ago, this follows a year of 3.3% growth in productivity. It is not unusual for productivity growth to slow temporarily after the initial stages of an economic recovery, as firms start to hire more workers and give their workers more hours. On the manufacturing side, productivity grew at an even faster 5.4% annual rate in Q3, the fastest pace since the second half of 2009, when the economy was in the earliest stage of its recovery. Some of these manufacturing gains can be attributed to manufacturers playing catch-up now that the affects of the Japanese tsunami/earthquake have subsided. Manufacturing firms are producing more with fewer workers. Hours worked in the manufacturing sector fell at a 0.8% annual rate in Q3. Unit labor costs (how much companies have to pay workers per unit of production) fell at a 4.6% annual rate in the manufacturing sector. We believe the long-term trend in productivity growth will remain strong, part of the technological revolution since the early-1980s. The result will be higher living standards. In other recent news, autos and light trucks were sold at a 13.3 million annual rate in October, 1.2% higher than in September and 8.9% higher than a year ago. Consumers may say they lack confidence, but their actions show that isn't the case.

Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	Q3-11	Q2-11	Q1-11	Q4-10	Y to Y % Ch. *(Q3-11/Q3-10)*	Y to Y % Ch. *(Q3-10/Q3-09)*
Nonfarm Productivity	**3.1**	-0.1	-0.6	2.2	1.1	3.3
- Output	**3.8**	1.8	0.9	3.8	2.5	4.7
- Hours	**0.6**	2.0	1.5	1.5	1.4	1.3
- Compensation (Real)	**-2.4**	-1.3	0.3	-2.1	-1.4	0.5
- Unit Labor Costs	**-2.4**	2.8	6.2	-1.6	1.2	-1.5
Manufacturing Productivity	**5.4**	-2.3	4.2	4.9	3.0	4.8
- Output	**4.7**	0.4	7.8	3.8	4.1	7.3
- Hours	**-0.8**	2.7	3.4	-1.0	1.1	2.3
- Compensation (Real)	**-2.4**	-1.0	-1.2	-0.4	-1.2	0.2
- Unit Labor Costs	**-4.6**	5.5	-0.2	-2.5	-0.5	-3.2

Source: US Department of Labor