

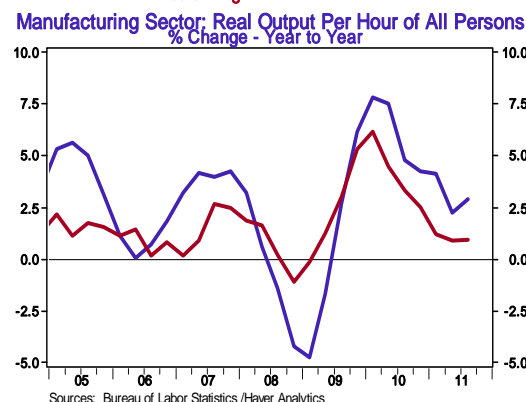
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Q3 Productivity (Final)

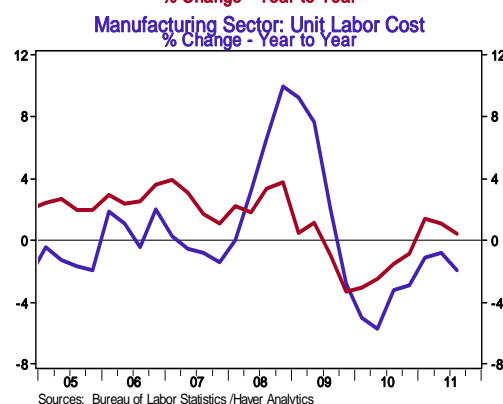
- Nonfarm productivity (output per hour) rose at a 2.3% annual rate in the third quarter, revised down from last month's estimate of 3.1%. Nonfarm productivity is up 0.9% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 3.2% annual rate in Q3 and is also down 2.3% versus last year. Unit labor costs fell at a 2.5% rate in Q3 but are up 0.4% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (5.0%) was higher than among nonfarm businesses as a whole. The faster pace in productivity growth was due to both rising output and (slightly) falling hours. Real compensation per hour was down in the manufacturing sector (-3.4%), and due to the increase in productivity growth, unit labor costs fell at a 5.1% annual rate.

Implications: Forget about productivity for a moment. The big economic news this morning was the ADP employment index, a measure of private-sector payrolls, which increased 206,000 in November, easily beating consensus expectations and the largest gain in almost a year. The gain among small businesses was the best in five years. Other timely indicators continue to show growth. The Chicago PMI, which measures manufacturing activity in that region, increased to 62.6 in November from 58.4 in October. The November reading is the highest since April. In addition, pending home sales, which are contracts on existing homes, soared 10.4% in October, the third largest monthly gain on record (dating back to 2001). This suggests a solid gain to existing home sales (counted at closing) in November. Last week, chain store sales were up 4% from a year ago according to the International Council of Shopping Centers and 5.4% according to Redbook Research. (These figures do not include sales at stores open for less than a year.) The news on home prices was mixed. The Case-Shiller index shows a 0.6% decline in September, while the FHFA index shows a 0.9% increase. Case-Shiller measures home prices in the 20 largest metro areas around the country, while FHFA looks nationwide but only at homes financed with conforming mortgages. The conforming loan limit was reduced in some of the highest priced areas of the country on October 1. This may have cut the price sellers of some expensive homes were willing to accept in the months leading up to the change. The news on productivity was close to consensus expectations. Productivity (output per hour) was revised down for the third quarter, consistent with last week's downward revisions for real GDP growth. Hours worked were revised upward slightly, also putting some downward pressure on output *per hour*. Productivity is up a tepid 0.9% in the past year, but was up 3.3% in the year ending in Q3 2010. It is normal in recoveries for productivity to surge early on and then temporarily slow down as firms start to give their workers more hours. Long-term, we expect strong growth in productivity as the technological revolution continues.

Nonfarm Business Sector: Real Output Per Hour of All Persons
 % Change - Year to Year



Nonfarm Business Sector: Unit Labor Cost
 % Change - Year to Year



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	2.3	-0.1	-0.6	2.2	0.9	3.3
- Output	3.2	1.8	0.9	3.8	2.4	4.7
- Hours	0.8	2.0	1.5	1.5	1.4	1.3
- Compensation (Real)	-3.2	-4.1	0.3	-2.1	-2.3	0.5
- Unit Labor Costs	-2.5	-0.1	6.2	-1.6	0.4	-1.5
Manufacturing Productivity	5.0	-2.2	4.2	4.9	2.9	4.8
- Output	4.6	0.4	7.8	3.8	4.1	7.3
- Hours	-0.4	2.7	3.4	-1.0	1.2	2.3
- Compensation (Real)	-3.4	-6.0	-1.2	-0.4	-2.7	0.2
- Unit Labor Costs	-5.1	0.1	-0.2	-2.5	-1.9	-3.2

Source: US Department of Labor