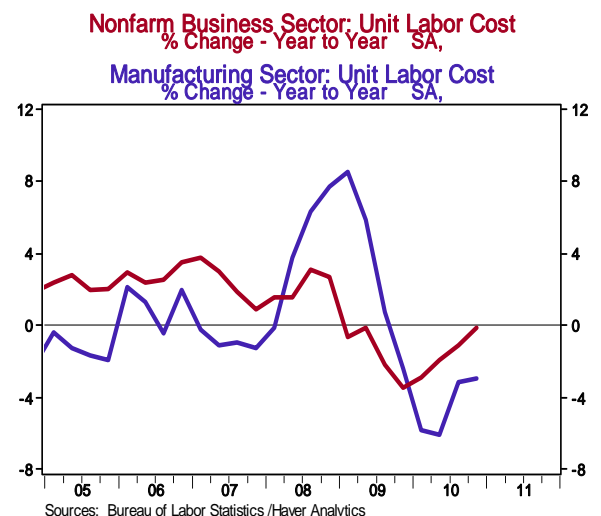
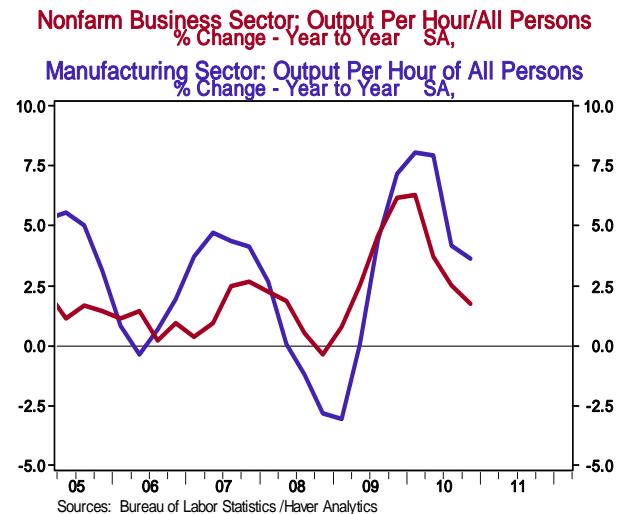


# Q4 PRODUCTIVITY (PRELIMINARY)

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- Non-farm productivity (output per hour) rose at a 2.6% annual rate in the fourth quarter. Non-farm productivity is up 1.7% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.6% annual rate in Q4, but is up 0.3% versus last year. Unit labor costs declined at a 0.6% rate in Q4 and are down 0.2% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity (5.8%) was much higher than among non-farm businesses as a whole. The faster pace of productivity growth was due to declining hours. Real compensation per hour was up in the manufacturing sector (+0.2%), but, due to rapid productivity growth, unit labor costs declined at a 2.9% annual rate.

**Implications:** Productivity beat consensus expectations in the fourth quarter, rising at a 2.6% annual rate, equaling the robust average pace of the past ten years. What’s impressive about the fourth quarter is that the gains in productivity came at the same time that the number of hours worked increased at a healthy 1.8% rate. Oftentimes, once a recovery gets to the point where firms are vigorously increasing hours, the pace of productivity growth slows down. Although that happened in the first half of 2010, in the latter half of the year companies found a way to generate efficiencies while still demanding more hours. Not only are hours up but compensation *per hour* is up as well. Despite this, productivity is pushing down unit labor costs – how much companies have to pay workers per unit of production. In other words, productivity growth has been rapid enough to both generate pay increases and, at the same time, make it worth more for companies to hire. As a result, we expect private sector hiring to accelerate in 2011. In other news this morning, new claims for unemployment insurance declined 42,000 last week to 415,000. Continuing claims for regular state benefits fell 84,000 to 3.93 million. In other recent news on the job market, the ADP Employment index, a measure of private-sector payrolls, increased 187,000 in January. This is consistent with our forecast that the official Labor Department report, released tomorrow morning, will show an increase of 195,000 in private payrolls.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-10	Q3-10	Q2-10	Q1-10	Y to Y % Ch. (Q4-10/Q4-09)	Y to Y % Ch. (Q4-09/Q4-08)
<b>Nonfarm Productivity</b>	2.6	2.4	-1.8	3.9	1.7	6.2
- Output	4.5	3.8	1.6	5.0	3.7	0.3
- Hours	1.8	1.4	3.5	1.1	2.0	-5.6
- Compensation (Real)	-0.6	0.8	3.7	-2.4	0.3	1.0
- Unit Labor Costs	-0.6	-0.1	4.9	-4.6	-0.2	-3.5
<b>Manufacturing Productivity</b>	5.8	1.4	5.7	1.7	3.6	7.1
- Output	3.7	5.0	9.9	7.1	6.4	-3.7
- Hours	-2.0	3.6	4.0	5.3	2.7	-10.1
- Compensation (Real)	0.2	0.0	5.5	-7.9	-0.7	3.0
- Unit Labor Costs	-2.9	0.1	-0.8	-8.1	-3.0	-2.4

Source: US Department of Labor