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Q3 Productivity (Preliminary)

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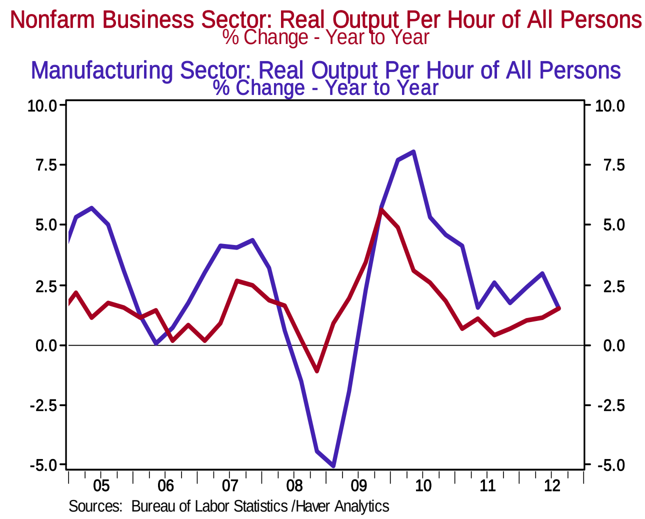
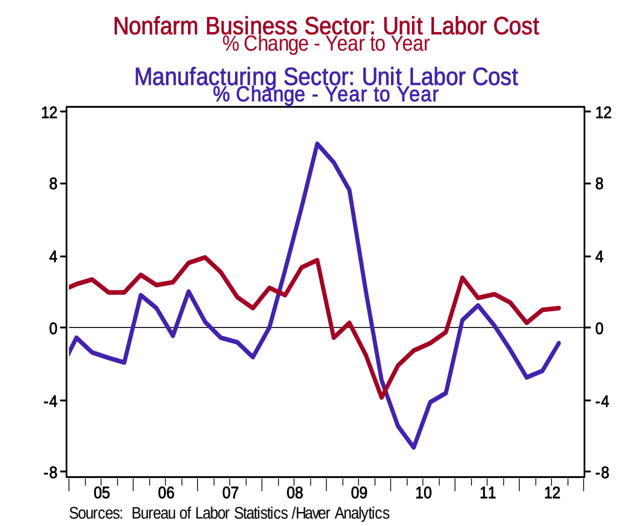
- Nonfarm productivity (output per hour) increased at a 1.9% annual rate in the third quarter, narrowly beating the consensus expected gain of 1.8%. Non-farm productivity is up 1.5% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.4% annual rate in Q3, but is up 0.9% versus last year. Unit labor costs also declined at a 0.1% rate in Q3 but are up 1.1% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity was -0.4% at an annual rate, much slower than among nonfarm businesses as a whole. The decline in productivity was due to output falling faster than hours. Real compensation per hour was down in the manufacturing sector (-1.1%), but due to the decline in productivity growth, unit labor costs rose at a 1.5% annual rate.

Implications: Nonfarm productivity increased at a plow horse like 1.9% annual rate in the third quarter, a result of a faster increase in output than number of hours worked. It's important to remember that when GDP growth picks up (as it did in Q3), usually so does productivity growth. Although productivity is up only 1.5% versus a year ago, this follows a year of 0.4% growth in productivity. This is nothing to write home about, but it is consistent with an economy growing at 2%. On the manufacturing side, productivity fell at a 0.4% annual rate in Q3, the largest decline since Q2 of 2011. This makes sense with what we have been seeing in other reports on the manufacturing sector. There is so much uncertainty right now in the economy with the election and future policy decisions that some companies are waiting to make big decisions until they are more certain. In the meantime, they are slowing down production and hiring. Hours worked in the manufacturing sector fell at a 0.2% annual rate in Q3 while unit labor costs (how much companies have to pay workers per unit of production) rose at a 1.5% rate. Despite Q3 data on the factory sector, we think 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 news this morning, the ADP employment index, which measures private sector payrolls, increased 158,000 in October. New claims for unemployment insurance fell 9,000 last week to 363,000, while continuing claims for regular state benefits rose 4,000 to 3.26 million. Plugging all these figures into our employment models suggests tomorrow's official Labor Department report will show a 120,000 gain in payrolls, both nonfarm and private.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-12	Q2-12	Q1-12	Q4-11	Y to Y % Ch. (Q3-12/Q3-11)	Y to Y % Ch. (Q3-11/Q3-10)
Nonfarm Productivity	**1.9**	1.9	-0.5	2.8	1.5	0.4
- Output	**3.2**	2.1	2.7	5.3	3.3	2.2
- Hours	**1.3**	0.2	3.2	2.4	1.8	1.7
- Compensation (Real)	**-0.4**	2.8	3.3	-1.9	0.9	-1.4
- Unit Labor Costs	**-0.1**	1.7	6.4	-3.3	1.1	1.9
Manufacturing Productivity	**-0.4**	0.2	5.5	0.7	1.5	2.6
- Output	**-0.6**	1.5	10.2	5.5	4.1	3.9
- Hours	**-0.2**	1.3	4.4	4.8	2.6	1.3
- Compensation (Real)	**-1.1**	0.3	4.2	-7.2	-1.1	-1.0
- Unit Labor Costs	**1.5**	0.8	1.1	-6.6	-0.8	0.1

Source: US Department of Labor