

## Q4 Productivity (Final)

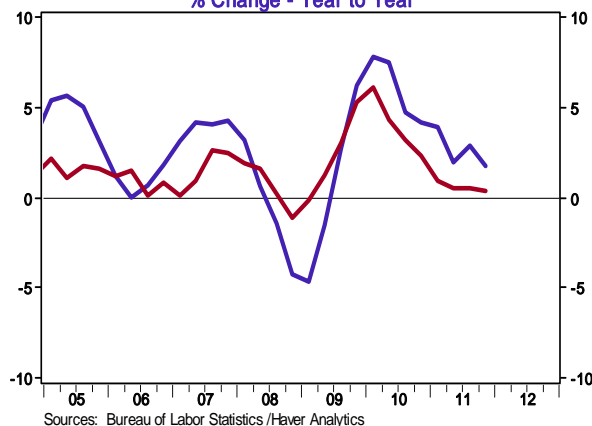
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- Nonfarm productivity (output per hour) rose at a 0.9% annual rate in the fourth quarter, revised up from last month's estimate of 0.7%. Nonfarm productivity is up 0.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 2.8% annual rate in Q4 and is up 0.2% versus last year. Unit labor costs rose at a 2.8% rate in Q4 and are up 3.1% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity (-0.1%) was lower than among nonfarm businesses as a whole. The faster pace of decline in productivity was all due to faster growth in the number of hours worked. Real compensation per hour was up at a 1.0% rate in the manufacturing sector, but, due to a decline in productivity and higher nominal earnings per hour, unit labor costs rose at a 2.0% annual rate.

**Implications:** Productivity was revised up slightly for the fourth quarter, consistent with last week's upward revisions for real GDP growth. More output and a lower number of hours worked means more output per hour. Productivity is up only 0.3% in the past year, but was up 2.3% in the year ending in 2010 and 5.3% in 2009. It is not unusual to have productivity surge at the very beginning of a recovery and then temporarily slow down as hours worked increase more sharply. Output in the manufacturing sector was revised up from the original estimate, showing the factory sector continues to be a bright spot for the recovery. We believe the long-term trend in productivity growth will remain strong, due to a technological revolution centered in computer and communications advances. In other news this morning, the ADP Employment index, a measure of private sector payrolls, increased 216,000 in February, almost exactly as the consensus expected. In the past three months, the report has shown an average monthly gain of 219,000. Based on the ADP data, as well as falling unemployment claims and other improving economic news, we think the official Labor Department report (to be released Friday morning) will show a private sector gain of 245,000. Including a continued decline in government jobs, total nonfarm payrolls should increase about 230,000. No sign of a "double dip" anywhere in these numbers.

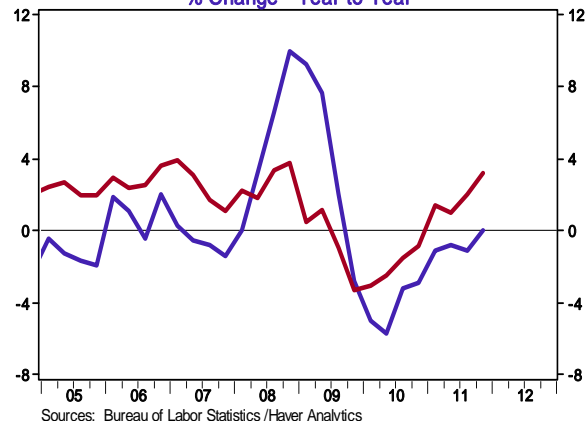
Nonfarm Business Sector: Output Per Hour of All Persons  
% Change - Year to Year

Manufacturing Sector: Output Per Hour of All Persons  
% Change - Year to Year



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

Manufacturing Sector: Unit Labor Cost  
% Change - Year to Year



| Productivity and Costs<br>(% Change, All Data Seasonally Adjusted) | Q4-11       | Q3-11 | Q2-11 | Q1-11 | Y to Y % Ch.<br>(Q4-11/Q4-10) | Y to Y % Ch.<br>(Q4-10/Q4-09) |
|--|-------------|-------|-------|-------|-------------------------------|-------------------------------|
| <b>Nonfarm Productivity</b>  | <b>0.9</b>  | 1.8   | -0.3  | -1.0  | 0.3                           | 2.3                           |
| - Output   | 3.7         | 2.8   | 1.8   | 0.9   | 2.3                           | 4.3                           |
| - Hours  | 2.7         | 1.0   | 2.2   | 1.9   | 1.9                           | 1.9                           |
| - Compensation (Real)  | 2.8         | 2.6   | -4.4  | -0.2  | 0.2                           | 0.2                           |
| - Unit Labor Costs   | 2.8         | 3.9   | -0.1  | 6.2   | 3.1                           | -0.9                          |
| <b>Manufacturing Productivity</b>                                  | <b>-0.1</b> | 5.2   | -2.0  | 4.0   | 1.7                           | 4.2                           |
| - Output   | 4.8         | 4.9   | 0.6   | 7.8   | 4.5                           | 6.6                           |
| - Hours  | 4.9         | -0.3  | 2.7   | 3.7   | 2.7                           | 2.3                           |
| - Compensation (Real)  | 1.0         | 0.2   | -5.9  | -1.4  | -1.6                          | 0.0                           |
| - Unit Labor Costs   | 2.0         | -1.9  | 0.0   | -0.2  | 0.0                           | -2.9                          |

Source: US Department of Labor