

Q3 Productivity (Preliminary)

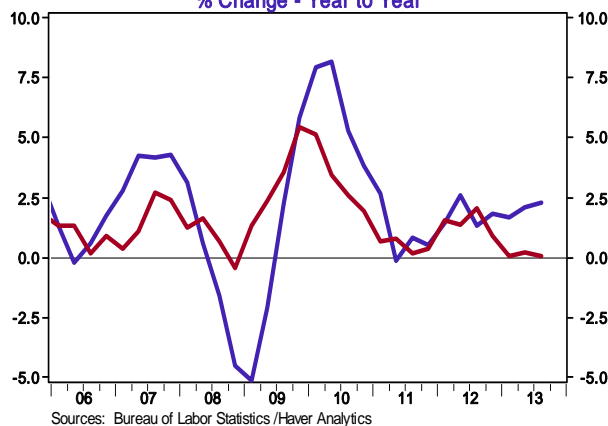
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- Nonfarm productivity (output per hour) increased at a 1.9% annual rate in the third quarter, versus a consensus expected gain of 2.2%. Non-farm productivity is unchanged versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 1.3% annual rate in Q3 but is up 0.3% versus last year. Unit labor costs declined at a 0.6% rate in Q3 but are up 1.9% versus a year ago.
- In the manufacturing sector, productivity was up at a 0.4% annual rate in Q3, slower than among nonfarm businesses as a whole. The slower gain in manufacturing productivity was mainly due slower growth in output. Real compensation per hour was down at a 0.9% annual rate in the manufacturing sector, while unit labor costs increased at a 1.3% rate.

Implications: Nonfarm productivity increased at a Plow Horse-like 1.9% annual rate in Q3, with hours continuing to increase at a healthy clip and output climbing even faster. However, productivity is unchanged versus a year ago and up at only a 1% annual rate in the past two years. At this point, we still don't think the recent slow growth in productivity is anything to get concerned about. Productivity surged rapidly in 2009 as it often does very late in a recession and early in a recovery. Including that surge and the slow growth in productivity since then, it's grown at a respectable 1.9% annual rate. In addition, we suspect the government is having a hard time measuring production in the increasingly important service sector, which means both output growth and productivity growth are higher than the official data show. (For example, do the data fully capture the value of smartphone apps, the tablet, the cloud,...etc.?) Note that on the manufacturing side, where it's easier to measure output per hour, productivity is up at a 1.8% annual rate in the past two years. From 1973 through 1995, overall productivity growth averaged 1.5% per year. Since then it's averaged 2.3%. Despite slower productivity growth in the past few years, we think the long-term trend is still strong, a result of the technological revolution that began in the 1980s. We anticipate an acceleration in productivity growth over the next two years. The declining unemployment rate and faster growth in wages should create more pressure for efficiency gains, while the technological revolution continues to provide the inventions that make those gains possible.

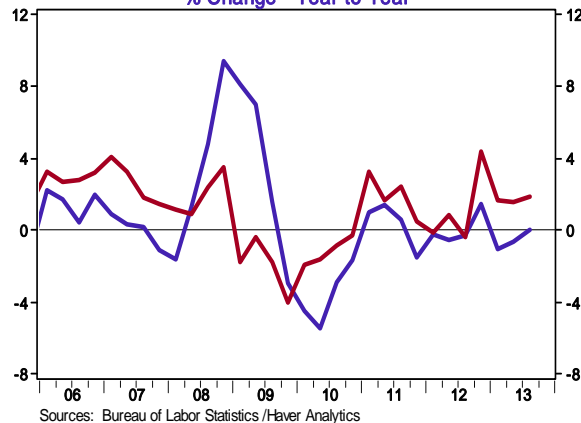
Nonfarm Business Sector: Real Output Per Hour of All Persons
 % Change - Year to Year

Manufacturing Sector: Real 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 (% Change, All Data Seasonally Adjusted)	Q3-13	Q2-13	Q1-13	Q4-12	Y to Y % Ch. (Q3-13/Q3-12)	Y to Y % Ch. (Q3-12/Q3-11)
Nonfarm Productivity	1.9	1.8	-1.7	-1.7	0.0	2.0
- Output	3.7	3.3	-0.3	0.7	1.8	4.1
- Hours	1.7	1.4	1.5	2.4	1.8	2.1
- Compensation (Real)	-1.3	2.3	-6.6	7.5	0.3	0.0
- Unit Labor Costs	-0.6	0.5	-3.5	11.8	1.9	-0.4
Manufacturing Productivity	0.4	2.7	3.8	2.3	2.3	1.3
- Output	1.3	0.1	5.4	2.7	2.3	3.9
- Hours	0.8	-2.5	1.6	0.4	0.1	2.6
- Compensation (Real)	-0.9	4.3	-2.1	1.9	0.7	-0.7
- Unit Labor Costs	1.3	1.5	-4.3	1.8	0.0	-0.3

Source: US Department of Labor