

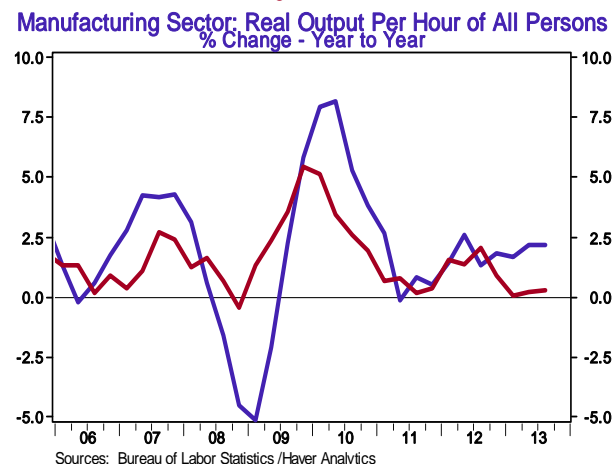
## Q3 Productivity (Final)

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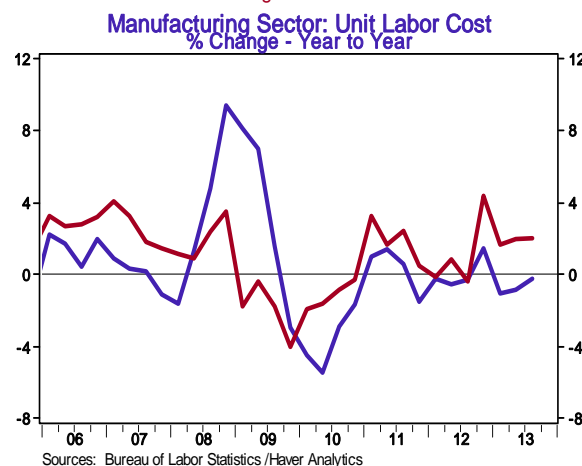
- Nonfarm productivity (output per hour) rose at a 3.0% annual rate in the third quarter, revised up from last month's estimate of 1.9%. Nonfarm productivity is up 0.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector fell at a 1.0% annual rate in Q3 but is up 0.8% versus last year. Unit labor costs declined at a 1.4% rate in Q3 but are up 2.1% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (-0.1%) was substantially lower than among nonfarm businesses as a whole. The slower pace in productivity growth was due to hours growing quicker than output. Real compensation per hour was down in the manufacturing sector (1.3%), and unit labor costs rose at a 1.3% annual rate.

**Implications:** Productivity was revised up substantially for the third quarter, consistent with the upward revision for real GDP growth. Output was revised up while the number of hours worked stayed the same, which means more output per hour. Productivity is up only 0.3% in the past year, versus an average annual growth rate of about 2% over the past couple of decades. However, we do not think this means the productivity revolution has come to an end. It is not unusual for productivity to surge at the very beginning of a recovery and then temporarily slow down as hours worked increase more sharply. We believe the long-term trend in productivity growth will remain strong, due to a technological revolution centered in computer and communications advances. In fact, Q3 productivity rose at the fastest rate since Q4 2009. It's nothing to write home about, but it's consistent with a plow horse economy. In other news this morning, the Empire State index, a measure of factory sentiment in New York, rose to +1.0 in December from -2.2 in November.

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)	Q3-13	Q2-13	Q1-13	Q4-12	Y to Y % Ch. (Q3-13/Q3-12)	Y to Y % Ch. (Q3-12/Q3-11)
<b>Nonfarm Productivity</b>	<b>3.0</b>	1.8	-1.7	-1.7	0.3	2.0
- Output	4.7	3.3	-0.3	0.7	2.1	4.1
- Hours	1.7	1.4	1.5	2.4	1.8	2.1
- Compensation (Real)	-1.0	3.9	-6.6	7.5	0.8	0.0
- Unit Labor Costs	-1.4	2.0	-3.5	11.8	2.1	-0.4
<b>Manufacturing Productivity</b>	<b>-0.1</b>	2.8	3.8	2.3	2.2	1.3
- Output	1.1	0.2	5.4	2.7	2.3	3.9
- Hours	1.2	-2.5	1.6	0.4	0.1	2.6
- Compensation (Real)	-1.3	3.3	-2.1	1.9	0.4	-0.7
- Unit Labor Costs	1.3	0.5	-4.3	1.8	-0.2	-0.3

Source: US Department of Labor