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Q4 Productivity (Preliminary)

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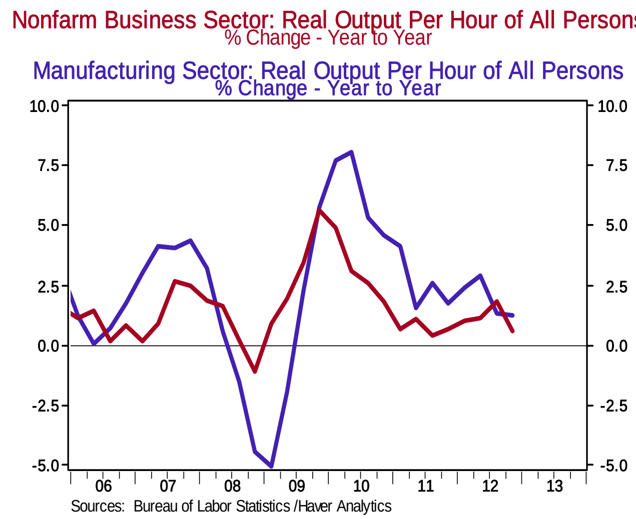
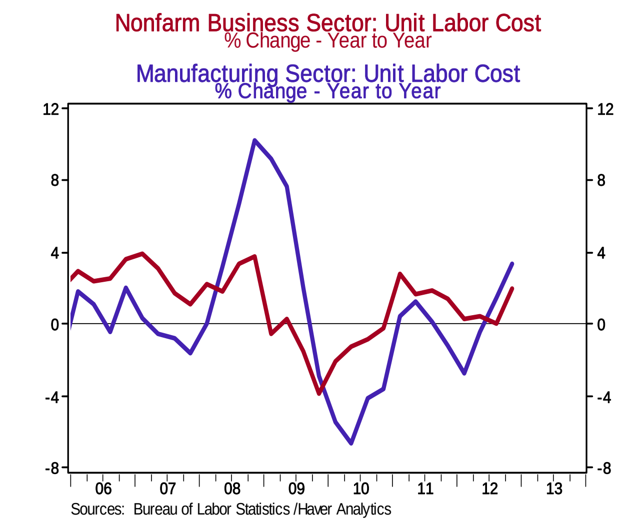
- Nonfarm productivity (output per hour) declined at a 2.0% annual rate in the fourth quarter, coming in below the consensus expected decline of 1.4%. Non-farm productivity is up 0.6% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector rose at a 0.3% annual rate in Q4, and is up 0.7% versus last year. Unit labor costs rose at a 4.5% rate in Q4 and are up 1.9% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity was 0.5% at an annual rate, much faster than among nonfarm businesses as a whole. The rise in productivity was due to output rising faster than hours. Real compensation per hour was down 1.1% in the manufacturing sector, while unit labor costs rose at a 0.4% annual rate.

Implications: Nonfarm productivity fell at 2% annual rate in the fourth quarter. This was not due to falling production; output increased at a 0.1% annual rate. Instead, productivity declined because the number of hours worked increased much faster than output, which means output per hour declined. Productivity was up 0.6% in 2011 and again 0.6% in 2012, so it appears that firms are having trouble squeezing out more production from their existing workforce. As a result, companies should continue to provide more hours for their workers. Another interpretation of the data is that 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 an app that lets you save time picking a restaurant?) Either way, these figures are consistent with a plow horse economy. From 1973 through 1995, productivity growth averaged 1.4% per year. Since then it's averaged 2.3%. Despite slower productivity growth in the past two years, we think the long-term trend in productivity growth is still strong, a result of the technological revolution that began in the 1980s. In the year ahead, we look for faster productivity growth than in the past two years. In other news this morning, new claims for jobless benefits declined 5,000 last week to 366,000. Continuing claims for regular state benefits rose 8,000 to 3.22 million. These figures are consistent with continued improvement in the labor market.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-12	Q3-12	Q2-12	Q1-12	Y to Y % Ch. (Q4-12/Q4-11)	Y to Y % Ch. (Q4-11/Q4-10)
Nonfarm Productivity	**-2.0**	3.2	1.9	-0.5	0.6	0.6
- Output	**0.1**	4.7	2.1	2.7	2.4	2.5
- Hours	**2.2**	1.5	0.2	3.2	1.8	1.9
- Compensation (Real)	**0.3**	-1.5	0.6	3.3	0.7	-1.3
- Unit Labor Costs	**4.5**	-2.3	-0.5	6.4	1.9	1.4
Manufacturing Productivity	**0.5**	-0.9	0.0	5.5	1.3	1.8
- Output	**0.7**	-0.7	1.3	10.2	2.8	4.5
- Hours	**0.1**	0.2	1.3	4.4	1.5	2.7
- Compensation (Real)	**-1.1**	0.0	8.1	4.2	2.7	-2.7
- Unit Labor Costs	**0.4**	3.2	9.0	1.1	3.4	-1.2

Source: US Department of Labor