

# Q1 Productivity (Preliminary)

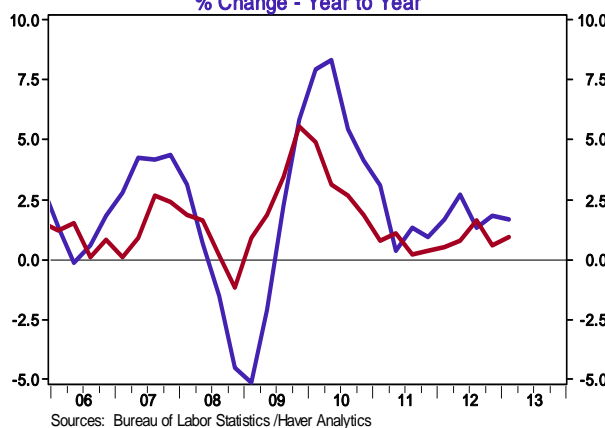
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- Nonfarm productivity (output per hour) rose at a 0.7% annual rate in the first quarter, coming in slightly below the consensus expected gain of 1.0%. Non-farm productivity is up 0.9% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.3% annual rate in Q1, and is down 0.1% versus last year. Unit labor costs rose at a 0.5% rate in Q1 and are up 0.6% versus a year ago.
- In the manufacturing sector, productivity was up at a 3.8% annual rate in Q1, much faster than among nonfarm businesses as a whole. The gain in productivity was due to output growing much faster than hours. Real compensation per hour was up 1.8% in the manufacturing sector, while unit labor costs fell at a 0.5% annual rate.

**Implications:** Put aside the productivity data for a moment and focus on initial claims. They fell 18,000 last week to 324,000, the lowest level since January 2008; continuing claims for regular state benefits rose 12,000 to 3.02 million. Plugging these figures into our payroll models suggests tomorrow’s employment report will show a gain of 180,000 in nonfarm payrolls, 190,000 private. By contrast, the consensus expects a gain of 140,000 and 155,000, respectively. On the productivity front, nonfarm productivity increased at a plow horse-like 0.7% annual rate in Q1, a result of a faster increase in output than hours. After surging rapidly in 2009, productivity grew at a moderate pace in 2010 and since then has kept growing but more slowly as firms have added workers and expanded hours per worker. 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 the smartphone, the tablet, the cloud,...etc.?) 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 few years, we think the long-term trend in productivity growth is still strong, a result of the technological revolution that began in the 1980s. On the manufacturing side, where it’s easier to measure output per hour, productivity rose at a 3.8% annual rate in Q1, the best reading in a year. Manufacturers, due to new technologies, are still able to increase output faster than hours. Overall, for the rest of the year, we look for faster productivity growth than in the past two years.

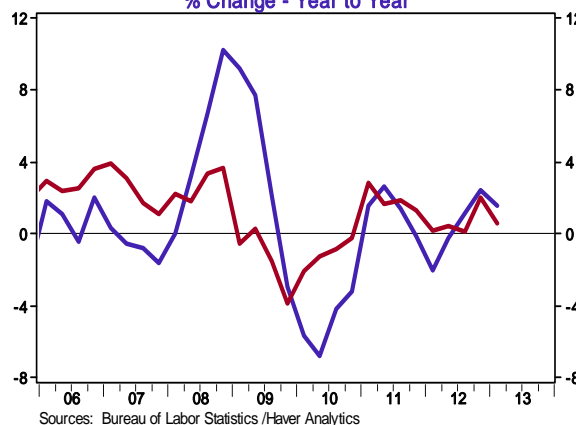
Nonfarm Business Sector: Real Output Per Hour of All Persons  
 % Change - Year to Year

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<br>(% Change, All Data Seasonally Adjusted) | Q1-13      | Q4-12 | Q3-12 | Q2-12 | Y to Y % Ch.<br>(Q1-13/Q1-12) | Y to Y % Ch.<br>(Q1-12/Q1-11) |
|--------------------------------------------------------------------|------------|-------|-------|-------|-------------------------------|-------------------------------|
| <b>Nonfarm Productivity</b>                                        | <b>0.7</b> | -1.7  | 3.1   | 1.7   | 0.9                           | 0.5                           |
| - Output                                                           | 2.5        | 0.7   | 4.7   | 2.1   | 2.5                           | 3.2                           |
| - Hours                                                            | 1.8        | 2.4   | 1.6   | 0.4   | 1.5                           | 2.7                           |
| - Compensation (Real)                                              | -0.3       | 0.4   | -0.9  | 0.2   | -0.1                          | -2.1                          |
| - Unit Labor Costs                                                 | 0.5        | 4.4   | -1.9  | -0.5  | 0.6                           | 0.2                           |
| <b>Manufacturing Productivity</b>                                  | <b>3.8</b> | 2.2   | -0.3  | 1.0   | 1.7                           | 1.7                           |
| - Output                                                           | 5.6        | 2.6   | 0.1   | 2.1   | 2.6                           | 4.6                           |
| - Hours                                                            | 1.7        | 0.4   | 0.4   | 1.1   | 0.9                           | 2.8                           |
| - Compensation (Real)                                              | 1.8        | -1.8  | -1.5  | 8.1   | 1.6                           | -3.1                          |
| - Unit Labor Costs                                                 | -0.5       | -1.8  | 0.8   | 8.1   | 1.6                           | -2.0                          |

Source: US Department of Labor