Q4 Productivity (Preliminary)

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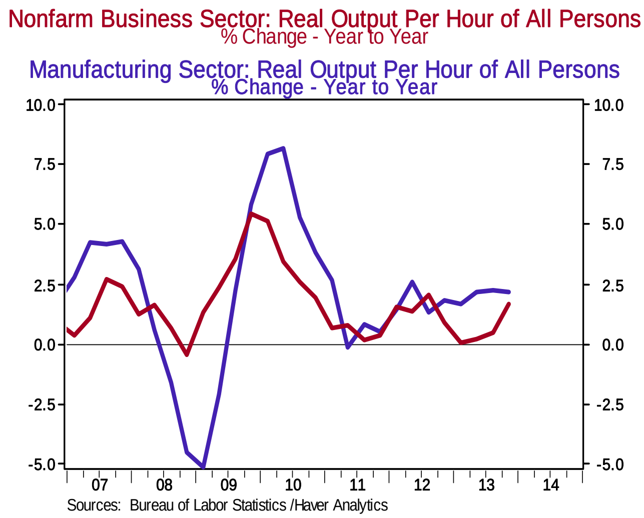
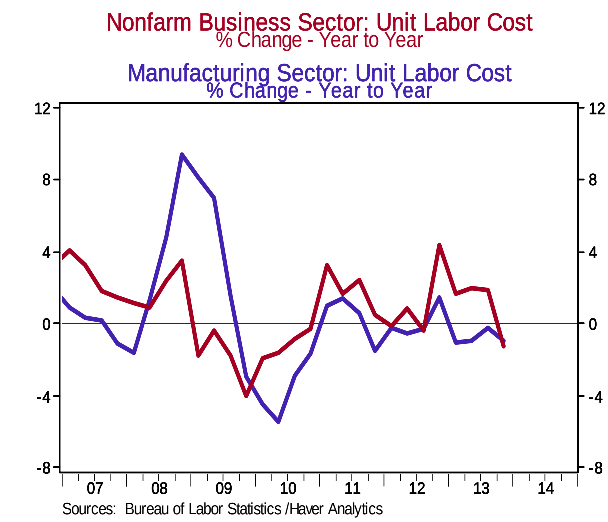
- Nonfarm productivity (output per hour) increased at a 3.2% annual rate in the fourth quarter, versus a consensus expected gain of 2.8%. Nonfarm productivity is up 1.7% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector was up at a 0.6% annual rate in Q4 but is down 0.9% versus last year. Unit labor costs declined at a 1.6% rate in Q4 and are down 1.3% versus a year ago.
- In the manufacturing sector, productivity was up at a 2.0% annual rate in Q4, slower than among nonfarm businesses as a whole. The slower gain in manufacturing productivity was mainly due faster growth in hours. Real compensation per hour was up at a 0.2% annual rate in the manufacturing sector, while unit labor costs fell at a 1.0% rate.

Implications: Nonfarm productivity increased at a 3.2% annual rate in Q4, with hours continuing to increase at a healthy clip and output climbing even faster. Productivity is up 3.4% over the past two quarters at an annualized rate, the fastest growth since the second half of 2009 when productivity surged rapidly as it often does very late in a recession and early in a recovery. Although nonfarm productivity is up only 1.3% at an annualized rate in the past two years, we think the recent acceleration signals an end to a multi-year period of lackluster productivity growth. We also suspect the government is underestimating output in the increasingly important service sector, which means growth data and productivity 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 2.0% annual rate in the past two years. From 1973 through 1995, overall productivity growth averaged 1.5% per year. In spite of these problems with measurement, we anticipate faster productivity growth over the next few years as new technology increases output in all areas of the economy. The declining unemployment rate, decline in labor force participation, 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. In other news this morning, initial claims for unemployment insurance declined 20,000 last week to 331,000. Continuing claims increased by 15,000 to 2.96 million. Plugging these figures into our payroll models suggests January gains of 156,000 for both nonfarm and private.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-13	Q3-13	Q2-13	Q1-13	Y to Y % Ch. (Q4-13/Q4-12)	Y to Y % Ch. (Q4-12/Q4-11)
Nonfarm Productivity	**3.2**	3.6	1.8	-1.7	1.7	0.9
- Output	**4.9**	5.4	3.3	-0.3	3.3	2.8
- Hours	**1.7**	1.7	1.4	1.5	1.6	1.9
- Compensation (Real)	**0.6**	-1.0	3.9	-6.6	-0.9	3.3
- Unit Labor Costs	**-1.6**	-2.0	2.0	-3.5	-1.3	4.4
Manufacturing Productivity	**2.0**	-0.1	2.8	3.8	2.1	1.8
- Output	**6.6**	1.3	0.2	5.4	3.3	3.3
- Hours	**4.4**	1.3	-2.5	1.6	1.2	1.4
- Compensation (Real)	**0.2**	-1.4	3.3	-2.1	0.0	1.4
- Unit Labor Costs	**-1.0**	1.2	0.4	-4.3	-0.9	1.5

Source: US Department of Labor