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Q4 Productivity (Final)

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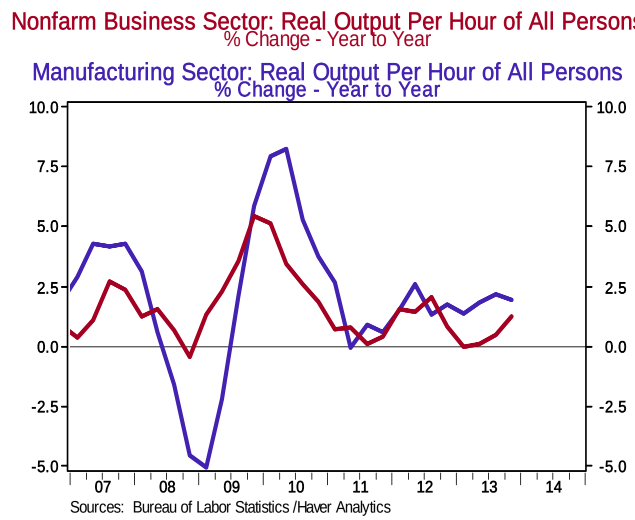
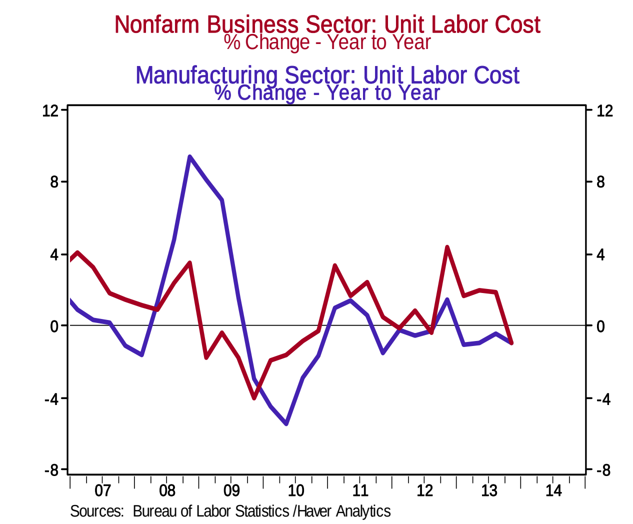
- Nonfarm productivity (output per hour) increased at a 1.8% annual rate in the fourth quarter, revised lower from last month's estimate of 3.2%. Nonfarm productivity is up 1.3% versus last year.

- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 0.8% annual rate in Q4 but is down 0.9% versus last year. Unit labor costs declined at a 0.1% rate in Q4 and are down 0.9% versus a year ago.

- In the manufacturing sector, the Q4 growth rate for productivity (1.3%) was slower than among nonfarm businesses as a whole. The slower pace in productivity growth was due to faster growth in hours than in the nonfarm sector as a whole. Real compensation per hour was up in the manufacturing sector (0.4%) but unit labor costs fell at a 0.1% annual rate.





Implications: Productivity growth in the fourth quarter was revised lower to a 1.8% annualized pace, consistent with last week's downward revision to real GDP. Despite the weaker Q4 number, productivity has been increasing, up 1.3% from a year ago compared to only 0.8% in 2012. Still, the recent slower gains in productivity are noticeably smaller than the 2.3% annual average since 1996. However, we do not think the productivity revolution has come to an end. Since the end of 2008, productivity is up at a 2.0% annual rate, not much different than the longer term trend. Our best guess is that as the unemployment rate continues to decline, companies will orient themselves more toward increasing production by finding ways to increase efficiency. We would have to see productivity stagnate for at least another couple of years before being able to reach any conclusions about a structural downshift in its growth rate. For now, the long-term trend in productivity growth should remain healthy, due to a technological revolution centered in computer and communications advances. Manufacturing productivity, which is easier to measure than overall productivity, is still up at a 2.7% annual rate in the past five years. We expect further gains as manufacturing will continue to be a bright spot in the US economy for years to come. In other news this morning, new claims for unemployment insurance declined 26,000 last week to 323,000. Continuing claims for regular state benefits dropped 8,000 to 2.91 million. Plugging all these figures into our payroll models, our final forecast for February is a gain of 164,000 nonfarm and 163,000 for the private sector. The official Labor Department report will be released tomorrow morning and our projections are slightly above the consensus of 147,000 nonfarm and 150,000 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	**1.8**	3.5	1.8	-1.8	1.3	0.8
- Output	**3.4**	5.4	3.3	-0.3	2.9	2.8
- Hours	**1.6**	1.9	1.5	1.6	1.7	2.0
- Compensation (Real)	**0.8**	-1.2	3.8	-6.7	-0.9	3.3
- Unit Labor Costs	**-0.1**	-2.1	2.0	-3.5	-0.9	4.4
Manufacturing Productivity	**1.3**	0.2	2.5	3.6	1.9	1.8
- Output	**5.0**	1.4	0.2	5.4	3.0	3.3
- Hours	**3.6**	1.1	-2.2	1.7	1.1	1.5
- Compensation (Real)	**0.4**	-2.1	2.9	-2.3	-0.3	1.3
- Unit Labor Costs	**-0.1**	0.2	0.4	-4.3	-1.0	1.5

Source: US Department of Labor