

Q2 Productivity (Final)

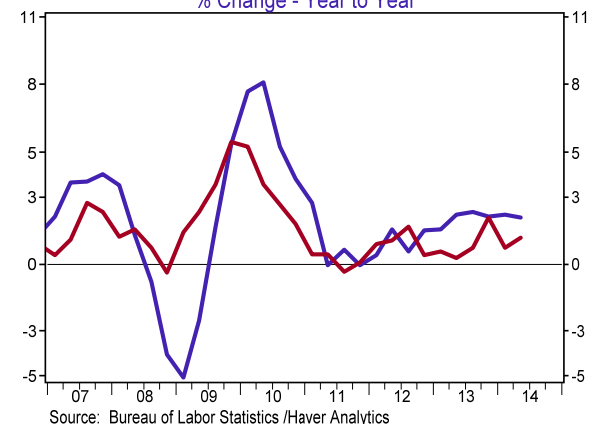
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- Nonfarm productivity (output per hour) increased at a 2.3% annual rate in the second quarter, revised down slightly from last month's estimate of 2.5%. Nonfarm productivity is up 1.1% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 0.7% annual rate in Q2 but is up 0.8% versus last year. Unit labor costs declined 0.1% in Q2 but are up 1.7% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (3.3%) was faster than among nonfarm businesses as a whole. The faster pace in productivity growth was due to a faster increase in output in that sector. Real compensation per hour was down in the manufacturing sector (-1.4%), and also due to the rise in output, unit labor costs declined at a 1.6% annual rate.

Implications: Productivity growth in the second quarter was revised slightly lower to a still healthy 2.3% annualized pace. Despite the slightly weaker Q2 number, productivity has been increasing, up 1.1% from a year ago compared to only 0.2% growth in the prior year. Still, in the past three years, productivity is up at only a 0.8% annual rate, noticeably slower than the average gain of 2.3% since 1996. However, we do not think the productivity revolution has come to an end. More importantly, we think actual productivity growth is much stronger than what the government reports. Think of developments in the service sector, the value of which is hard to measure. Drivers used to buy devices like Garmins to help them navigate; now they download free apps that are more accurate and provide optimal routes through real-time traffic patterns. Travelers used to guess, hit-or-miss, where to go for a meal. Now they can use free services to tell them what restaurants are close and provide reviews. The figures from the government miss the value of these improvements, which means our standard of living is improving faster than the official reports show. Sectors of the economy that are easier to measure show more rapid productivity growth. On the manufacturing side, productivity rose at a 3.3% annual rate in Q2, the best reading in a year, and is up a respectable 2.1% from a year ago. Manufacturers, due to new technologies, are still able to increase output faster than hours. Overall, for the rest of the year and into 2015-16, we look for faster productivity growth than in the past two years.

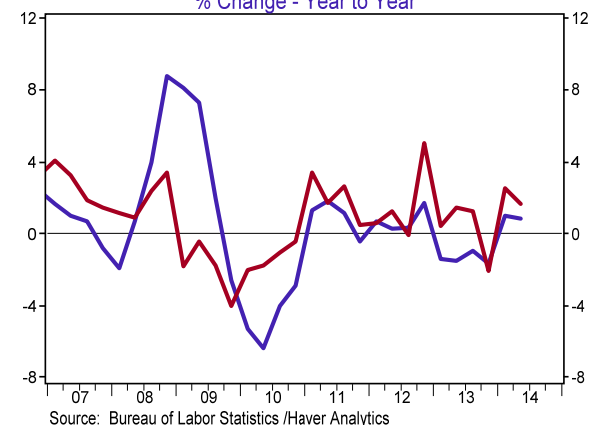
Nonfarm Business Sector: Real Output Per Hour of ...
 % Change - Year to Year

Manufacturing Sector: Real Output Per Hour of All ...
 % 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 (% Change, All Data Seasonally Adjusted)	Q2-14	Q1-14	Q4-13	Q3-13	Y to Y % Ch. (Q2-14/Q2-13)	Y to Y % Ch. (Q2-13/Q2-12)
Nonfarm Productivity	2.3	-4.5	3.3	3.6	1.1	0.2
- Output	5.0	-2.4	4.7	5.6	3.2	2.0
- Hours	2.6	2.1	1.4	1.9	2.0	1.8
- Compensation (Real)	-0.7	4.6	0.7	-1.4	0.8	0.3
- Unit Labor Costs	-0.1	11.6	-1.3	-2.9	1.7	1.5
Manufacturing Productivity	3.3	3.2	1.3	0.5	2.1	2.2
- Output	6.9	1.6	4.7	1.7	3.7	2.4
- Hours	3.5	-1.6	3.4	1.1	1.6	0.3
- Compensation (Real)	-1.4	6.9	-0.4	-1.4	0.9	-0.8
- Unit Labor Costs	-1.6	5.5	-0.5	0.0	0.8	-1.5

Source: US Department of Labor