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Q3 Productivity (Preliminary)

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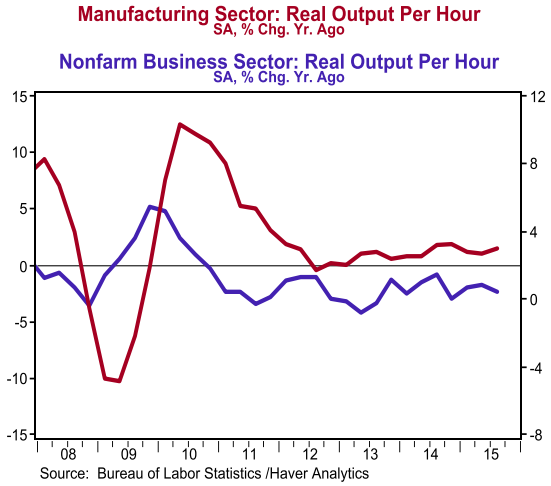
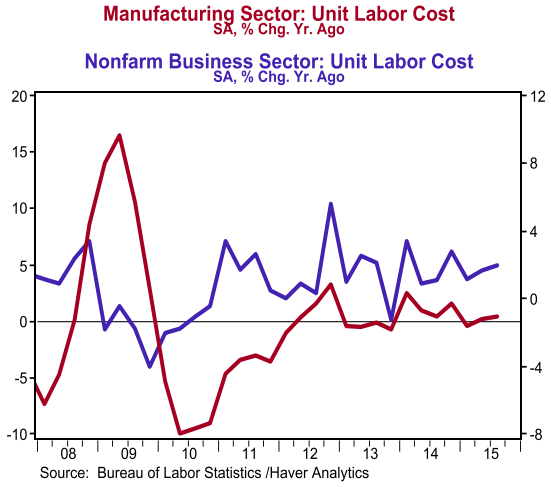
- Nonfarm productivity (output per hour) increased at a 1.6% annual rate in the third quarter, versus a consensus expected decline of 0.3%. Non-farm productivity is up 0.4% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 1.4% annual rate in Q3 and is up 2.2% versus last year. Unit labor costs rose at a 1.4% rate in Q3 and are up 2.0% versus a year ago.
- In the manufacturing sector, productivity gained at a 4.9% annual rate in Q3, much faster than among nonfarm businesses as a whole. The faster gain in manufacturing productivity was due to both faster growth in output and a larger decline in hours. Real compensation per hour rose at a 4.2% annual rate in the manufacturing sector, while unit labor costs increased at a 0.9% rate.





Implications: Nonfarm productivity surprised to the upside for the third quarter, growing at a 1.6% annual rate versus a consensus expected decline at a 0.3% rate. Output continued to rise while hours slipped, so output per hour increased. Despite the gain, productivity is only up 0.4% versus a year ago and at a 0.9% annual rate in the past two years. But we think government statistics underestimate actual productivity growth. There are many examples, in every area of the economy, but the service sector is particularly hard to measure. Want to talk face to face with someone in Europe? You no longer need to get on a flight, just Facetime them, for free! Need to get somewhere quick and don't want to go through the hassle of hailing a cab or scheduling a limo? Use UBER. The software is completely free and with a click of a button a car will be waiting for you anywhere you want. The benefits to consumers and businesses have been huge, but the figures from the government miss much of the value of these improvements, because many of these amazing productivity boosting technologies are free, and anything free, no matter how much it improves everyday life, isn't included in output, which means it's much harder to measure productivity. This means our standard of living is improving faster than the official reports show. Still, even on the manufacturing side, where it's easier to measure output per hour, productivity is up only 1.5% in the past year, consistent with overall productivity growth of 1.5% on average per year from 1973 through 1995. However it's slower than the 2.1% average per year since 1995. Despite slower productivity growth in the past few years, we think the long-term trend is still strong, a result of the technological revolution that began in the 1980s. We anticipate an acceleration in productivity growth over the next two years. The declining unemployment rate 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 unemployment claims rose 16,000 last week to 276,000, the 35th straight week below 300,000. Meanwhile, continuing claims rose 17,000 to a still very low 2.16 million. Plugging these figures into our models suggests a nonfarm payroll gain of 220,000 in October, well higher than the consensus expected 182,000.

Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	**Q3-15**	**Q2-15**	**Q1-15**	**Q4-14**	**Y to Y % Ch. *(Q3-15/Q3-14)***	**Y to Y % Ch. *(Q3-14/Q3-13)***
Nonfarm Productivity	**1.6**	3.5	-1.1	-2.2	0.4	1.4
- Output	**1.2**	5.1	0.5	2.6	2.3	3.7
- Hours	**-0.5**	1.5	1.6	4.9	1.9	2.2
- Compensation (Real)	**1.4**	-1.2	4.6	4.2	2.2	0.7
- Unit Labor Costs	**1.4**	-1.8	2.6	5.7	2.0	1.1
Manufacturing Productivity	**4.9**	2.1	-0.6	-0.4	1.5	1.8
- Output	**2.7**	1.2	-0.5	4.0	1.8	3.7
- Hours	**-2.1**	-0.8	0.1	4.4	0.4	1.9
- Compensation (Real)	**4.2**	-2.9	0.8	5.1	1.8	0.5
- Unit Labor Costs	**0.9**	-2.0	-1.6	4.7	0.5	0.4

Source: US Department of Labor