

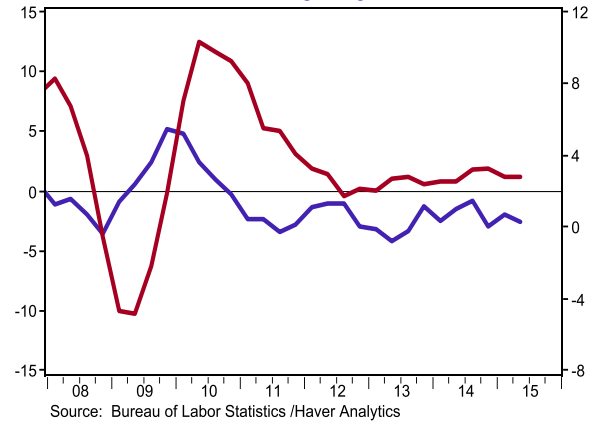
Q2 Productivity (Preliminary)

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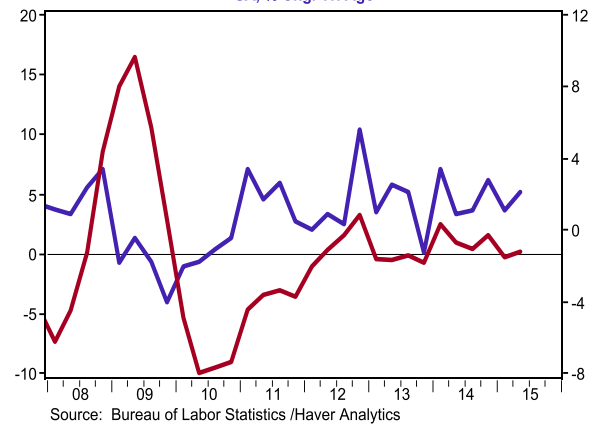
- Nonfarm productivity (output per hour) increased at a 1.3% annual rate in the second quarter versus a consensus expected gain of 1.6%. Nonfarm productivity is up 0.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 1.1% annual rate in Q2 but is up 2.3% versus last year. Unit labor costs increased at a 0.5% annual rate in Q2 and are up 2.1% versus a year ago.
- In the manufacturing sector, productivity was up at a 2.5% annual rate in Q2, much better than among nonfarm businesses as a whole. The faster gain in manufacturing productivity was due to a decline in hours. Real compensation per hour declined at a 2.7% annual rate in the manufacturing sector, while unit labor costs fell at a 2.3% rate.

Implications: After declining for the past two quarters, nonfarm productivity grew at a 1.3% annual rate in Q2. Hours continued to increase at a healthy clip and output climbed even faster so output *per hour* increased. Productivity is only up 0.3% from a year ago, 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. (For example, do the data fully capture the value of new technologies like smartphone apps, the tablet, the cloud,...etc.?) Traveling for work? You can book your flight, car, hotel, Uber, and learn from Siri or Google when to leave home so as not to miss your flight, while getting turn by turn instructions, all from a device that fits in your pocket, or on your wrist! The benefits to consumers and businesses have been huge, but the figures from the government miss the value of these improvements, because most 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 not included in productivity either. 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 1.1% in the past year. This is 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. In spite of the 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. Overall, for 2015-16, we look for faster productivity growth than in the past five years.

Manufacturing Sector: Real Output Per Hour
 SA, % Chg. Yr. Ago
 Nonfarm Business Sector: Real Output Per Hour
 SA, % Chg. Yr. Ago



Manufacturing Sector: Unit Labor Cost
 SA, % Chg. Yr. Ago
 Nonfarm Business Sector: Unit Labor Cost
 SA, % Chg. Yr. Ago



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-15	Q1-15	Q4-14	Q3-14	Y to Y % Ch. (Q2-15/Q2-14)	Y to Y % Ch. (Q2-14/Q2-13)
Nonfarm Productivity	1.3	-1.1	-2.2	3.1	0.3	1.0
- Output	2.8	0.5	2.6	5.5	2.8	3.2
- Hours	1.5	1.6	4.9	2.3	2.6	2.2
- Compensation (Real)	-1.1	4.2	4.2	2.0	2.3	-0.1
- Unit Labor Costs	0.5	2.3	5.7	0.1	2.1	0.9
Manufacturing Productivity	2.5	-0.6	-0.4	2.9	1.1	0.8
- Output	1.5	-0.5	4.0	4.4	2.3	2.8
- Hours	-1.0	0.1	4.4	1.4	1.2	2.0
- Compensation (Real)	-2.7	1.3	5.1	1.5	1.3	-0.2
- Unit Labor Costs	-2.3	-1.1	4.7	-0.2	0.2	1.0

Source: US Department of Labor