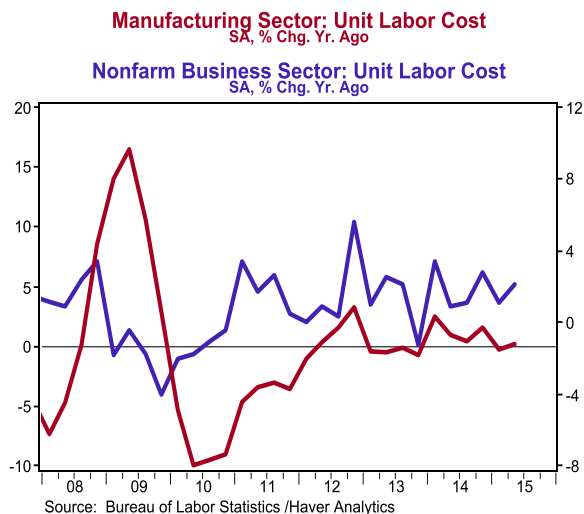
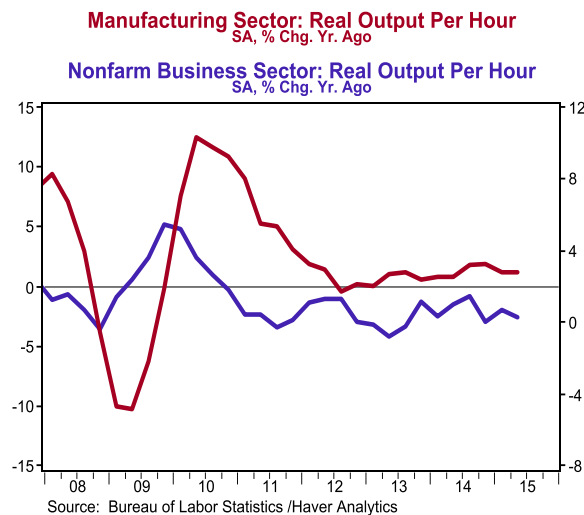


## Q2 Productivity (Final)

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- Nonfarm productivity (output per hour) increased at a 3.3% annual rate in the second quarter, revised higher from last month's estimate of 1.3%. Nonfarm productivity is up 0.7% 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 2.4% versus last year. Unit labor costs declined 1.4% in Q2 but are up 1.7% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (2.3%) was slower than among nonfarm businesses as a whole. The slower pace in productivity growth was due to a slower increase in output in that sector. Real compensation per hour was down in the manufacturing sector (-2.8%), and unit labor costs declined at a 2.2% annual rate.

**Implications:** Already signaled by last week's large upward revision in the growth rate for Q2 real GDP, today's data show that productivity growth was also revised from a modest 1.3% annualized growth to a much more respectable 3.3%. We say respectable, because productivity has been relatively weak - up just 0.7% from a year ago following a tepid 1% gain the year before. So, while the most recent quarter was solid, the past few years have seen productivity improvements 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. (For example, do the data fully capture the value of new technologies like smartphone apps, the tablet, the cloud,...etc.?) The benefits to consumers and businesses have been huge, but the figures from the government miss the value of these improvements. 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 they aren't included in productivity either. This means our standard of living is improving faster than the official reports show. On the manufacturing side, productivity rose at a 2.3% annual rate in Q2 and is up 1.0% from a year ago. Overall, for the rest of the year and into 2016-17, we look for faster productivity growth than in the past two years. In other recent news, Americans bought cars and light trucks at a 17.8 million annual rate in August, up 1.5% from last month, 2.8% from a year ago, and the fastest pace since 2005. As a result, it now looks like auto sales will come close to hitting 17.5 million in 2015, which would be the most for any year on record. So much for the theory that consumers aren't spending. In other news today, the ADP report said private payrolls were up 190,000 in August. Plugging this into our models suggests nonfarm payrolls will be up about 187,000 for the month. (The official release arrives Friday morning and our forecast may change based on tomorrow's report on unemployment claims.)



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)
<b>Nonfarm Productivity</b>	<b>3.3</b>	-1.1	-2.2	3.1	0.7	1.0
- Output	4.7	0.5	2.6	5.5	3.3	3.2
- Hours	1.4	1.6	4.9	2.3	2.6	2.2
- Compensation (Real)	-1.1	4.6	4.2	2.0	2.4	-0.1
- Unit Labor Costs	-1.4	2.6	5.7	0.1	1.7	0.9
<b>Manufacturing Productivity</b>	<b>2.3</b>	-0.6	-0.4	2.9	1.0	0.8
- Output	1.3	-0.5	4.0	4.4	2.3	2.8
- Hours	-0.9	0.1	4.4	1.4	1.2	2.0
- Compensation (Real)	-2.8	0.8	5.1	1.5	1.1	-0.2
- Unit Labor Costs	-2.2	-1.6	4.7	-0.2	0.2	1.0

Source: US Department of Labor