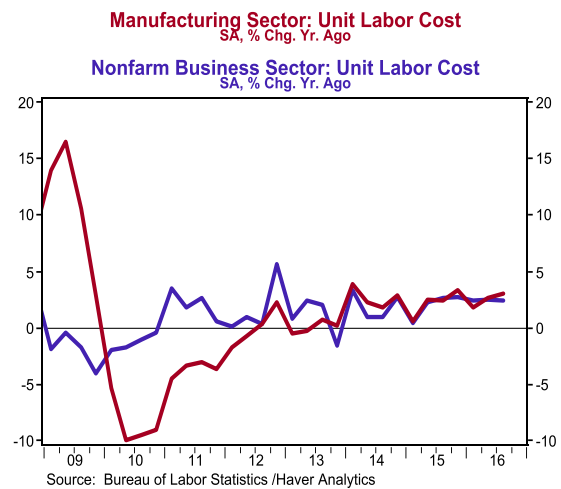
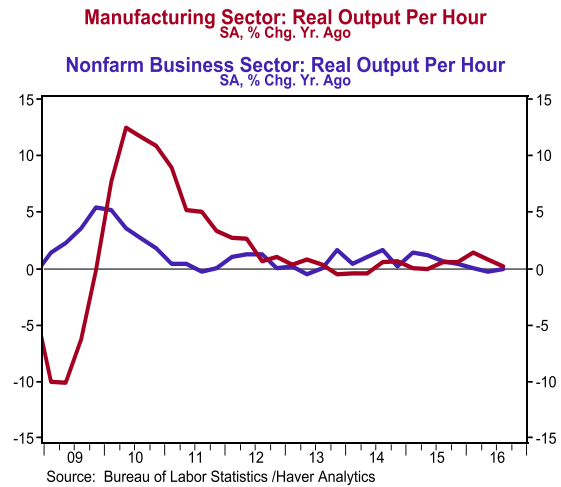


Q3 Productivity (Preliminary)

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- Nonfarm productivity (output per hour) increased at a 3.1% annual rate in the third quarter, much faster than consensus expected gain of 2.1%. Non-farm productivity is unchanged versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 1.7% annual rate in Q3 and is up 1.1% versus last year. Unit labor costs rose at a 0.3% rate in Q3 and are up 2.3% versus a year ago.
- In the manufacturing sector, productivity rose at a 1.0% annual rate in Q3, slower than among nonfarm businesses as a whole. The smaller gain in manufacturing productivity was due to slower growth in output. Real compensation per hour increased at a 1.6% annual rate in the manufacturing sector, while unit labor costs rose at a 2.2% annual rate.

Implications: Two streaks have been broken. The Cubs won the World Series in dramatic fashion last night, breaking their 108 year curse, and nonfarm productivity surprised to the upside for the third quarter, growing at a 3.1% annual rate, breaking the longest consecutive string of declines since 1979 and growing at the fastest pace in two years. Output rose much quicker than hours, so output per hour increased. Despite the nice gain, productivity is unchanged versus a year ago and up at a 0.3% 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 technologies are free, and anything free, no matter how much it improves everyday life, isn't directly 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 0.2% in the past year. 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, new claims for unemployment insurance rose 7,000 last week to 265,000, the 87th week in a row below 300,000. Continuing claims fell 14,000 to 2.026 million. In other recent employment news, the ADP report said private payrolls were up 147,000 in October. Plugging these figures into our models suggests nonfarm payrolls grew about 177,000 in October, more than enough to keep the Fed on track to raise rates in December. On the autos front, automakers reported selling cars and light trucks at an 18 million annual rate in October. That's down 0.9% from the torrid pace in October 2015 but up 1.5% from September and the fastest pace so far in 2016.



Productivity and Costs <i>(% Change, All Data Seasonally Adjusted)</i>	Q3-16	Q2-16	Q1-16	Q4-15	Y to Y % Ch. (Q3-16/Q3-15)	Y to Y % Ch. (Q3-15/Q3-14)
Nonfarm Productivity	3.1	-0.2	-0.6	-2.4	0.0	0.7
- Output	3.4	1.6	0.7	0.8	1.6	2.5
- Hours	0.3	1.7	1.4	3.3	1.7	1.8
- Compensation (Real)	1.7	1.2	-0.6	2.3	1.1	3.1
- Unit Labor Costs	0.3	3.9	-0.3	5.7	2.3	2.6
Manufacturing Productivity	1.0	-0.5	1.4	-1.1	0.2	0.6
- Output	1.1	-1.1	0.6	-0.5	0.0	1.0
- Hours	0.1	-0.5	-0.8	0.6	-0.1	0.4
- Compensation (Real)	1.6	3.6	-4.5	7.4	1.9	2.7
- Unit Labor Costs	2.2	6.8	-6.1	9.5	2.9	2.3

Source: US Department of Labor