First Trust DATAWATCH

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Q1 Productivity (Preliminary)

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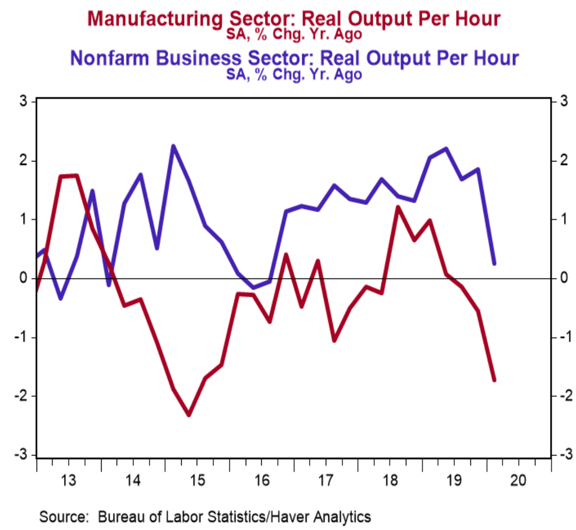
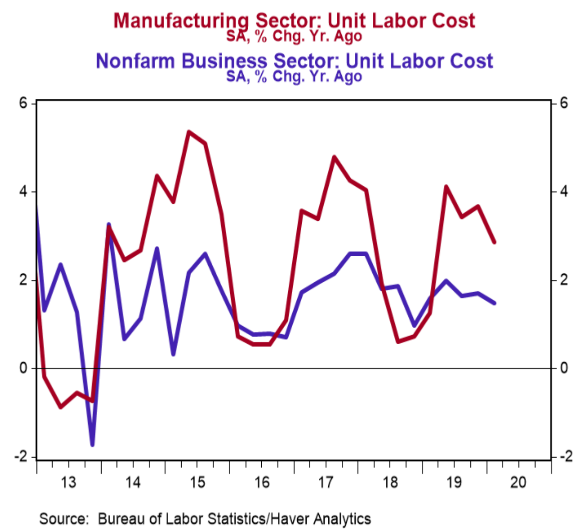
- Nonfarm productivity (output per hour) fell at a 2.5% annual rate in the first quarter, coming in above the consensus expected decline of 5.5%. Nonfarm productivity is up 0.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 0.9% annual rate in Q1 but is down 0.4% versus a year ago. Unit labor costs rose at a 4.8% annual rate in Q1 and are up 1.5% versus a year ago.
- In the manufacturing sector, productivity fell at a 3.3% annual rate in Q1. Real compensation per hour declined at a 1.0% annual rate in the manufacturing sector, while unit labor costs rose at a 3.6% rate.

Implications: Forget about productivity for a minute. Workers filed 3.17 million new claims for unemployment insurance last week, continuing the trend of catastrophically high readings we've seen since government shutdowns of the economy to fight the Coronavirus began a little over a month ago. However, the weekly increase in claims continues to slow. After peaking at 6.87 million in the last full week of March, we have seen five consecutive weeks during which layoffs have been less than the week before. Continuing claims, data which lags initial claims by one week, hit a record high of 22.65 million and are likely to rise again in next week's report. Plugging these figures into our models suggests the unemployment rate for April will be in the vicinity of 16.4%, with nonfarm payroll losses around 22 million. All this echo's yesterday's ADP employment report which showed 22.6 million private-sector jobs lost in April. Now back to productivity, which declined at a 2.5% annual rate in the first quarter, falling at the fastest pace since late 2015. The decline in nonfarm productivity came as output and hours worked both fell, but output falling at a faster pace pushing *output per hour* lower. Productivity is still up 0.3% from a year ago but don't expect this to last. Productivity should temporarily fall further in Q2 as the fallout from the coronavirus and the government's actions to close business to "flatten the curve" lead to further significant drops in output. "Real" (inflation-adjusted) compensation continued to rise, in Q1, up at a 0.9% annualized pace. On the manufacturing front, productivity fell at a faster 3.3% annualized pace in Q1 as output fell much faster than hours. Once the economy starts recovering in the second half of the year, productivity should revive, as well.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-20	Q4-19	Q3-19	Q2-19	Y to Y % Ch. (Q1-20/Q1-19)	Y to Y % Ch. (Q1-19/Q1-18)
Nonfarm Productivity	**-2.5**	1.2	-0.3	2.7	0.3	2.0
- Output	**-6.2**	2.4	2.3	1.9	0.1	3.2
- Hours	**-3.8**	1.2	2.6	-0.7	-0.2	1.1
- Compensation (Real)	**0.9**	-0.3	-1.8	-0.3	-0.4	2.0
- Unit Labor Costs	**4.8**	0.9	0.2	0.1	1.5	1.6
Manufacturing Productivity	**-3.3**	-0.7	-0.5	-2.3	-1.7	1.0
- Output	**-7.1**	-0.2	0.9	-3.1	-2.4	1.6
- Hours	**-3.9**	0.5	1.4	-0.9	-0.7	0.6
- Compensation (Real)	**-1.0**	0.3	-3.0	-0.3	-1.0	0.6
- Unit Labor Costs	**3.6**	3.5	-0.7	5.2	2.9	1.3

Source: US Department of Labor

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