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Q3 Productivity (Preliminary)

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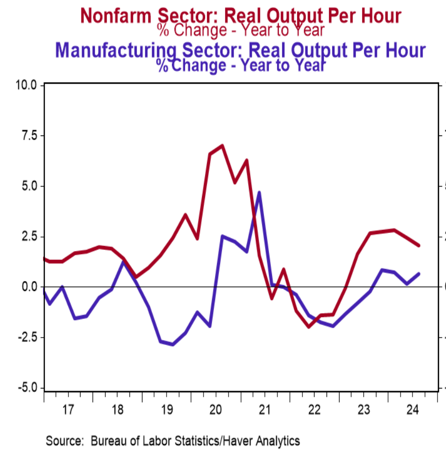
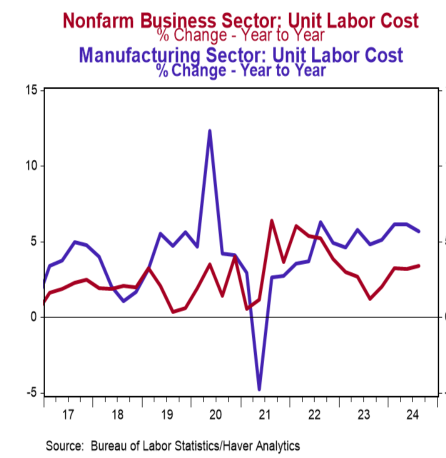
- Nonfarm productivity (output per hour) increased 2.2% at an annual rate in the third quarter, lagging the consensus expected gain of 2.5%. Nonfarm productivity is up 2.0% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 3.0% annual rate in Q3 and is up 2.8% versus a year ago. Unit labor costs rose at a 1.9% annual rate in Q3 and are up 3.4% versus a year ago.
- In the manufacturing sector, productivity rose at a 1.0% annual rate in Q3. Real compensation per hour increased at a 5.1% annual rate in the manufacturing sector, while unit labor costs rose at a 5.3% annual rate.





Implications: While Fed officials are set to lower rates by 25bps at the conclusion of their second day of meetings later this afternoon, today's report on US worker productivity – along with other recent economic data – suggests that risks for inflation are still very much to the upside should they opt for an overly-aggressive path of rate cuts in the months ahead. Looking at the details, nonfarm productivity missed expectations in the third quarter, growing at a 2.2% annualized rate, as both output and hours rose, but output rose at a faster pace (leading to more output per hour). Productivity is up 2.0% in the last year, the lowest year-to-year change since early 2023. Meanwhile, unit labor costs accelerated to a 1.9% annualized pace in the third quarter, while Q2's meager 0.4% gain was revised upward to a 2.4% annualized rate. Unit labor costs are up 3.4% in the past year, higher than the 1.2% gain in the year ending in Q3 2023. The good news for workers is that even though inflation is still elevated, "real" (inflation-adjusted) compensation per hour grew at a 3.0% annualized rate in Q3 and is up 2.8% in the past year. On the manufacturing front, productivity rose at a 1.0% annualized rate in Q3, as both output and hours *fell*, but hours fell at a faster pace. Even with government subsidies, manufacturing productivity is up 0.7% in the past year and fell 0.2% in the year prior. In other words, government direction of resources harms productivity in the longer term. On the labor front this morning, initial jobless claims rose 3,000 last week to 221,000. Meanwhile, continuing claims increased 39,000 to 1.892 million. These figures are consistent with continued job growth in November, but at a slower pace than earlier this year.

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-24	Q2-24	Q1-24	Q4-23	Y to Y % Ch. (Q3-24/Q3-23)	Y to Y % Ch. (Q3-23/Q3-22)
Nonfarm Productivity	**2.2**	2.1	0.7	3.1	2.0	2.7
- Output	**3.5**	3.0	1.3	3.4	2.8	3.4
- Hours	**1.2**	0.9	0.6	0.2	0.7	0.7
- Compensation (Real)	**3.0**	1.7	5.3	1.4	2.8	0.3
- Unit Labor Costs	**1.9**	2.4	8.5	0.9	3.4	1.2
Manufacturing Productivity	**1.0**	0.3	-0.7	2.0	0.7	-0.2
- Output	**-0.2**	1.5	-0.9	-1.3	-0.2	-0.7
- Hours	**-1.2**	1.2	-0.2	-3.3	-0.9	-0.5
- Compensation (Real)	**5.1**	3.3	2.3	3.9	3.6	1.0
- Unit Labor Costs	**5.3**	5.8	7.0	4.6	5.7	4.8

Source: US Department of Labor