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Data Watch

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Q1 Productivity (Preliminary)

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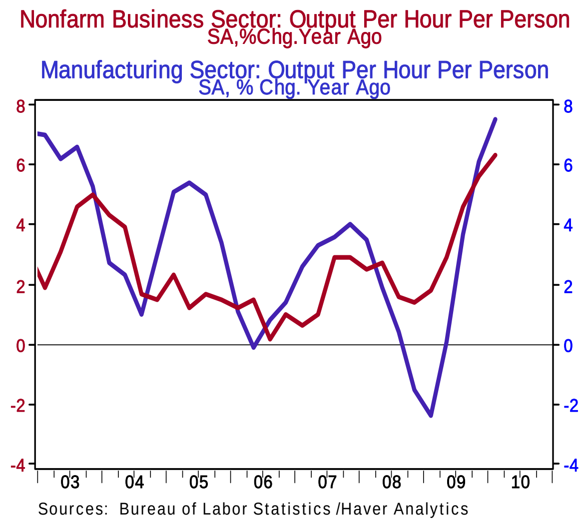
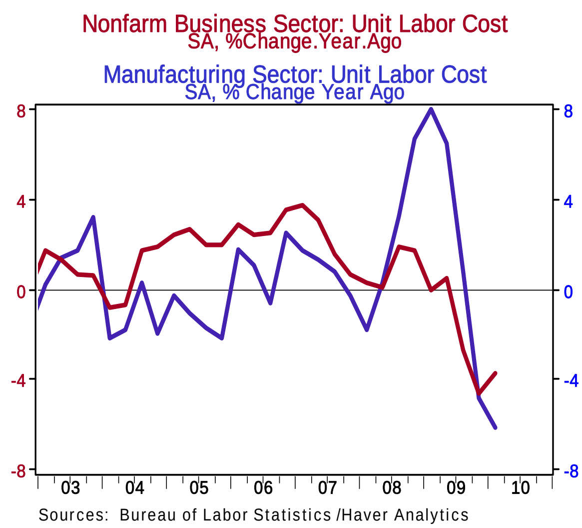
- Non-farm productivity (output per hour) rose at a 3.6% annual rate in the first quarter, beating the consensus expected 2.6% growth rate. Non-farm productivity is up 6.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector increased at a 0.4% annual rate in Q1, but is down 0.1% versus last year. Unit labor costs declined at a 1.6% rate in Q1 and are down 3.7% versus a year ago.
- In the manufacturing sector, the Q1 growth rate for productivity (2.5%) was lower than among non-farm businesses as a whole. Output grew faster in manufacturing, but so did the number of hours worked. Real compensation (-2.7%) and unit labor costs (-3.7%) were also softer in manufacturing than among all non-farm businesses.

Implications: In the past year, productivity – output per hour – is up at a 6.3% annual rate, the fastest pace in almost 50 years. This gain was about evenly split between increases in total output and reductions in the number of hours worked. Some may see this fact as a sign that productivity gains will not persist. However, hours worked have increased in each of the past two quarters, while productivity has still grown at an incredible 4.9% annual rate. In other words, we don't think recent productivity gains are purely an artifact of businesses cutting their workforces; instead, much of the gains have staying power even as the nascent labor market recovery continues. As a result of rapid productivity growth, unit labor costs – how much companies have to pay workers per unit of production – are down 3.7% in the past year and have fallen to levels first reached in 2006. This means it is getting more profitable for companies to expand operations and boost hours worked. Notice that in Q1, hours worked and "real" (inflation-adjusted) compensation both increased. As a result, *total* real compensation for workers in the non-farm business sector increased at a 1.2% annual rate. Look for these gains to accelerate in the year ahead. In other news this morning, new claims for unemployment insurance fell 7,000 last week to 444,000. Continuing claims for regular state benefits fell 59,000 to 4.59 million.



Sources: Bureau of Labor Statistics /Haver Analytics



Sources: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-10	Q4-09	Q3-09	Q2-09	Y to Y % Ch. (Q4-09/Q4-08)	Y to Y % Ch. (Q4-08/Q4-07)
Nonfarm Productivity	**3.6**	6.3	7.8	7.6	6.3	1.8
- Output	**4.4**	7.0	2.2	-1.1	3.1	-4.8
- Hours	**0.8**	0.7	-5.3	-8.1	-3.0	-6.5
- Compensation (Real)	**0.4**	-2.3	-3.9	5.8	-0.1	1.9
- Unit Labor Costs	**-1.6**	-5.6	-7.6	0.1	-3.7	0.0
Manufacturing Productivity	**2.5**	6.5	14.8	6.6	7.5	-2.4
- Output	**7.5**	5.6	9.0	-8.1	3.3	-13.9
- Hours	**4.9**	-0.8	-5.1	-13.8	-3.9	-11.7
- Compensation (Real)	**-2.7**	-3.0	-4.5	4.5	-1.5	5.5
- Unit Labor Costs	**-3.7**	-6.4	-13.7	-0.3	-6.1	8.0

Source: US Department of Labor