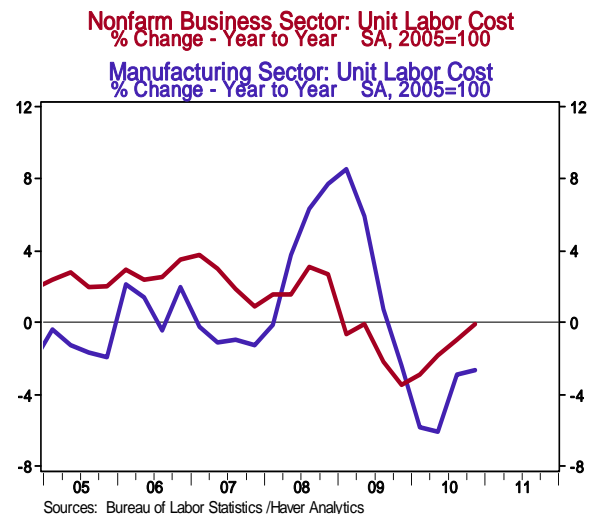
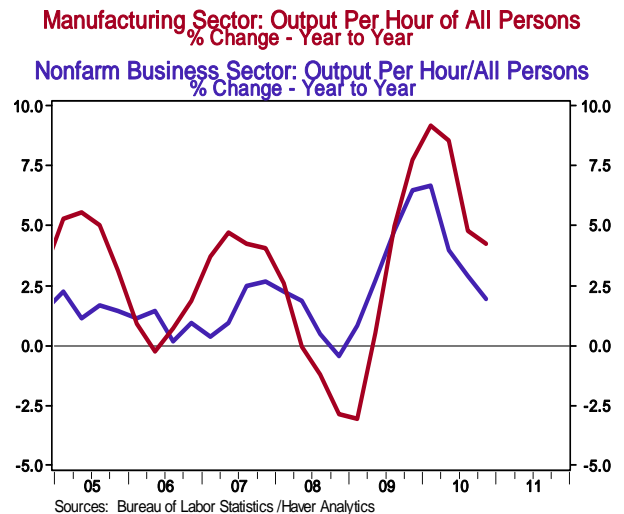


Q4 PRODUCTIVITY (FINAL)

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- Non-farm productivity (output per hour) rose at a 2.6% annual rate in the fourth quarter, unrevised from last month's estimate, and is up 1.9% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector declined at a 0.6% annual rate in Q4 but is up 0.6% versus last year. Unit labor costs fell at a 0.6% rate in Q4 and are down 0.1% versus a year ago.
- In the manufacturing sector, the Q4 growth rate for productivity (5.9%) was much higher than among non-farm businesses as a whole. The faster pace of productivity growth was largely due to declining hours. Real compensation per hour was up in the manufacturing sector (+0.5%), but, due to rapid productivity growth, unit labor costs declined at a 2.7% annual rate.

Implications: Productivity beat consensus expectations, rising at a 2.6% annual rate in the fourth quarter. It was unrevised from last month's estimate as output and hours were both revised down slightly. Productivity has increased in eight of the last nine quarters and we believe that trend will continue. What's impressive about the fourth quarter is that gains in productivity came at the same time that the number of hours worked still increased at a healthy 1.4% annual rate. Companies are finding ways to generate efficiencies while still demanding more hours. As a result, unit labor costs – how much companies have to pay workers per unit of production – continue to fall. We expect private sector hiring to accelerate in 2011 as gains in productivity remain robust enough to both generate pay increases and, at the same time, make it worth more for companies to hire. In other recent news, sales of new cars and light trucks hit a 13.4 million annual rate in February, well higher than the 12.6 million pace in January. Auto sales are up 27.5% versus a year ago and, with the exception of the "cash for clunkers" period, are now at the fastest pace since the financial panic started in late 2008. However, there is more growth ahead: auto sales still remain below the roughly 15.5 million pace needed to offset auto scrappage and the growth of the driving-age population.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q4-10	Q3-10	Q2-10	Q1-10	Y to Y % Ch. (Q4-10/Q4-09)	Y to Y % Ch. (Q4-09/Q4-08)
Nonfarm Productivity	2.6	2.3	-1.7	4.6	1.9	6.5
- Output	4.0	3.8	1.6	5.0	3.6	0.3
- Hours	1.4	1.4	3.3	0.4	1.6	-5.8
- Compensation (Real)	-0.6	1.0	3.8	-1.6	0.6	1.3
- Unit Labor Costs	-0.6	0.1	4.9	-4.6	-0.1	-3.5
Manufacturing Productivity	5.9	1.3	5.8	4.0	4.2	7.8
- Output	4.4	4.7	9.9	7.1	6.5	-3.7
- Hours	-1.4	3.4	3.8	3.0	2.2	-10.6
- Compensation (Real)	0.5	1.0	5.7	-5.8	0.3	3.6
- Unit Labor Costs	-2.7	1.1	-0.9	-8.0	-2.7	-2.4

Source: US Department of Labor