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Q4 Productivity (Preliminary)

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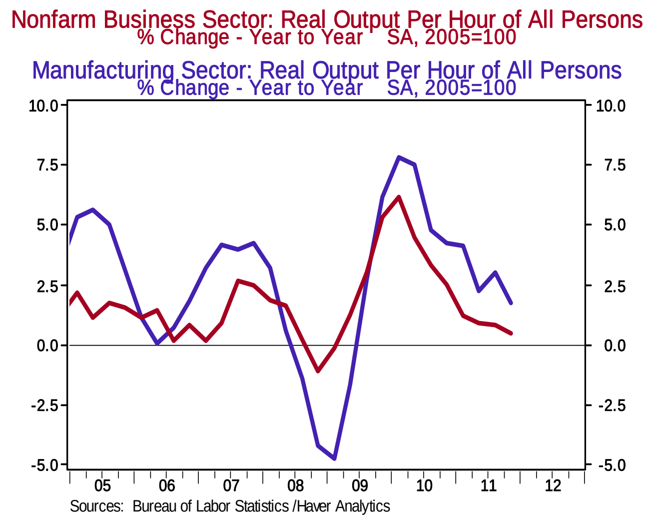
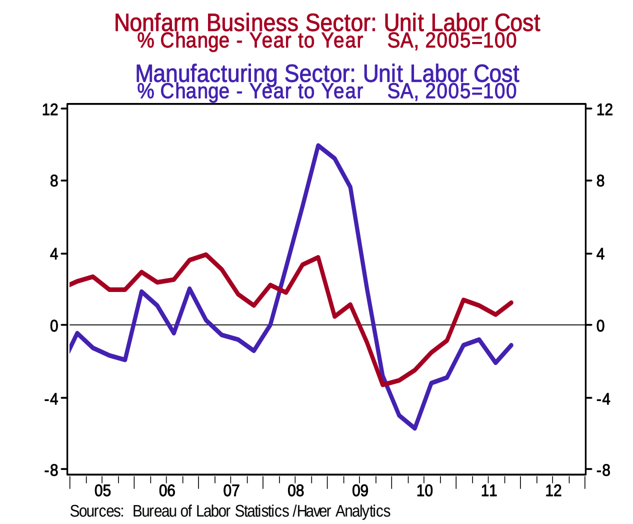
- Nonfarm productivity (output per hour) increased at a 0.7% annual rate in the fourth quarter, narrowly missing the consensus expected gain of 0.8%. Non-farm productivity is up 0.5% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector rose at a 1.0% annual rate in Q4, but is down 1.5% versus last year. Unit labor costs also rose at a 1.2% rate in Q4 and are up 1.3% versus a year ago.
- In the manufacturing sector, productivity fell 0.4% at an annual rate in the fourth quarter. The decline in productivity growth was due to hours rising more rapidly than output. Real compensation per hour was up in the manufacturing sector (0.3%), and due to the fall in productivity growth, unit labor costs rose at a 1.6% annual rate.





Implications: Forget about productivity for a moment. Automakers reported January sales yesterday and they blew away consensus expectations. Autos and light trucks were sold at a 14.2 million annual rate, versus a consensus expected pace of 13.5 million. Sales were 4.6% higher than December and up 11.7% from a year ago. In fact, sales were the strongest since early 2008, even beating the temporary surge in sales in August 2009 due to cash for clunkers. Consumers don't buy big ticket items like this when they see the economy getting worse. Also, in other news today, initial claims for unemployment insurance fell 12,000 last week to 367,000. Continuing claims for regular state benefits declined 130,000 to 3.44 million, the lowest level since late 2008. The employment picture is definitely improving and can also be seen in the report on productivity for Q4. It is not unusual for productivity growth to slow temporarily after the initial stages of an economic recovery, as firms start to hire more workers and give their workers more hours. Nonfarm productivity increased at a 0.7% annual rate in the fourth quarter. Output continues to accelerate, but the number of hours worked is catching up. On the manufacturing side, productivity fell 0.4% at an annual rate as the number of hours worked rose faster than output. Over the past few years, manufacturers have gotten very lean, being able to produce more with fewer workers. Now hours are starting to come back and output will continue to move higher as more workers are hired. Unit labor costs (how much companies have to pay workers per unit of production) rose at a 1.6% annual rate in the manufacturing sector. We believe the long-term trend in productivity growth will remain strong, part of the technological revolution since the early-1980s. The result will be higher living standards.

Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	Q4-11	Q3-11	Q2-11	Q1-11	Y to Y % Ch. *(Q4-11/Q4-10)*	Y to Y % Ch. *(Q4-10/Q4-09)*
Nonfarm Productivity	**0.7**	1.9	-0.1	-0.6	0.5	2.5
- Output	**3.6**	2.8	1.8	0.9	2.3	4.3
- Hours	**2.9**	0.9	2.0	1.5	1.8	1.7
- Compensation (Real)	**1.0**	-3.2	-4.1	0.3	-1.5	0.4
- Unit Labor Costs	**1.2**	-2.1	-0.1	6.2	1.3	-0.9
Manufacturing Productivity	**-0.4**	5.3	-2.1	4.2	1.7	4.2
- Output	**3.8**	5.0	0.6	7.8	4.3	6.6
- Hours	**4.2**	-0.3	2.7	3.4	2.5	2.3
- Compensation (Real)	**0.3**	-3.5	-6.0	-1.2	-2.6	0.0
- Unit Labor Costs	**1.6**	-5.6	0.0	-0.2	-1.1	-2.9

Source: US Department of Labor