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Q1 Productivity (Preliminary)

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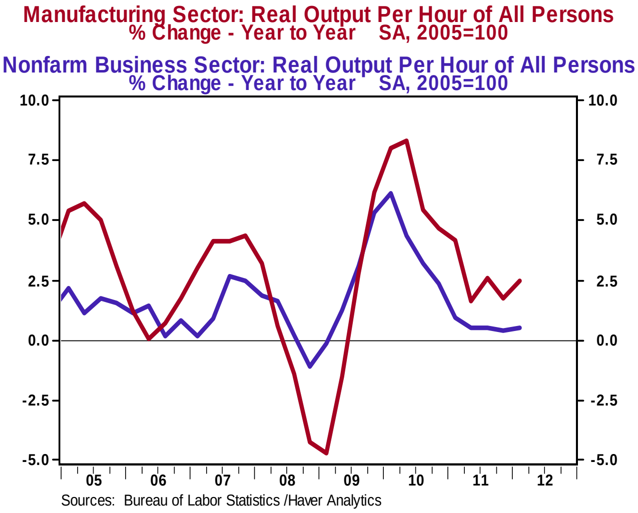
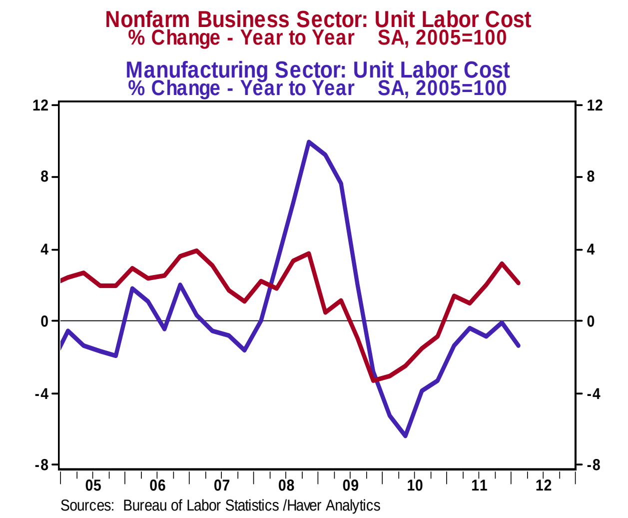
- Nonfarm productivity (output per hour) declined at a 0.5% annual rate in the first quarter, almost exactly the 0.6% dip the consensus expected. Non-farm productivity is up 0.5% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector fell at a 0.9% annual rate in Q1 and is down 0.2% versus last year. Unit labor costs rose at a 2.0% rate in Q1 and are up 2.1% versus a year ago.
- In the manufacturing sector, productivity rose at a 5.9% annual rate in Q1. Output and hours both increased, but output rose much faster. Real compensation per hour was down in the manufacturing sector (1.0%), and due to the gain in productivity growth, unit labor costs fell at a 4.2% annual rate.

Implications: Nonfarm productivity declined at a 0.5% annual rate in the first quarter. This wasn't due to falling production; output increased at a 2.7% annual rate. Instead, productivity declined because the number of hours worked increased even faster than output, which means *output per hour* declined. As we have mentioned before, it is not unusual for productivity growth to slow temporarily after the initial stages of an economic recovery, as firms hire more workers and give their workers more hours. However, on the manufacturing side, where output is measured more accurately, productivity absolutely boomed in Q1 rising at a 5.9% annual rate. Output rose at a 10.8% annual rate, the second fastest quarterly increase since 1987. Over the past few years, manufacturers have gotten very lean, being able to produce more with fewer workers. Now hours are rising consistently as well, up at a 4.6% annual rate in Q1 after climbing at a 4.8% rate in Q4. While "real" (inflation-adjusted) compensation per hour declined among both manufacturing workers and in the nonfarm sector as a whole, it's important to recognize that this does not mean workers are earning less or have less money to spend. Because of the increase in the number of hours worked, workers are earning more than before, they're just earning slightly less *per hour*. We believe the long-term upward trend in productivity growth will ultimately re-assert itself, reflecting the technological revolution we have been experiencing since the early-1980s. In other recent news, Americans bought cars and light trucks at a 14.4 million annual rate in April, exactly as the consensus expected. That's up 0.4% from March and up 9.4% from a year ago. Looks like retail sales were up again in April, for the 21st time in the past 22 months. Given improving sales and low dealer inventories, expect more gains in auto production ahead.



Sources: Bureau of Labor Statistics /Haver Analytics



Sources: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-12	Q4-11	Q3-11	Q2-11	Y to Y % Ch. (Q1-12/Q1-11)	Y to Y % Ch. (Q1-11/Q1-10)
Nonfarm Productivity	**-0.5**	1.2	1.8	-0.3	0.5	0.9
- Output	**2.7**	3.7	2.8	1.8	2.8	3.2
- Hours	**3.2**	2.4	1.0	2.2	2.2	2.2
- Compensation (Real)	**-0.9**	2.6	2.5	-4.7	-0.2	0.2
- Unit Labor Costs	**2.0**	2.7	3.9	-0.1	2.1	1.4
Manufacturing Productivity	**5.9**	0.6	5.5	-1.9	2.5	4.2
- Output	**10.8**	5.4	5.2	0.7	5.5	6.8
- Hours	**4.6**	4.8	-0.3	2.7	2.9	2.5
- Compensation (Real)	**-1.0**	0.6	0.1	-6.2	-1.7	0.6
- Unit Labor Costs	**-4.2**	1.3	-2.2	-0.1	-1.3	-1.3

Source: US Department of Labor