

Q2 Productivity (Preliminary)

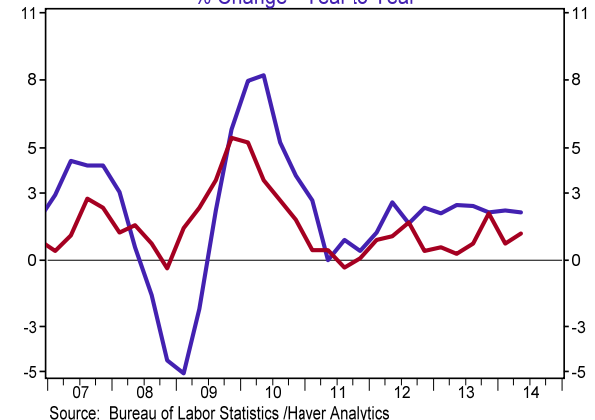
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- Nonfarm productivity (output per hour) increased at a 2.5% annual rate in the second quarter versus a consensus expected gain of 1.6%. Nonfarm productivity is up 1.2% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector was up at a 0.1% annual rate in Q2 and is up 1.0% versus last year. Unit labor costs increased at a 0.6% rate in Q2 and are up 1.9% versus a year ago.
- In the manufacturing sector, productivity was up at a 3.6% annual rate in Q2, much better than among nonfarm businesses as a whole. The faster gain in manufacturing productivity was due to faster growth in output. Real compensation per hour declined at a 0.8% annual rate in the manufacturing sector, while unit labor costs fell at a 1.3% rate.

Implications: After a large drop in productivity in Q1, nonfarm productivity grew at a 2.5% annual rate in Q2. Hours continued to increase at a healthy clip and output climbed even faster so output *per hour* increased. Productivity is only up 1.2% from a year ago, but we think government statistics underestimate actual productivity growth. There are many examples, in every area of the economy, but the service sector is particularly hard to measure. Drivers used to buy road atlases, and then GPS devices to help them navigate; now they download free apps that are more accurate and provide optimal routes through real-time traffic patterns. Travelers used to guess, hit-or-miss, where to go for a meal. Now they can use free services to tell them what restaurants are close and provide reviews. The figures from the government miss the value of these improvements, which means our standard of living is improving faster than the official reports show. Sectors of the economy that are easier to measure show more rapid productivity growth. In manufacturing, productivity surged at a 3.6% annual rate in Q2 and is up 2.1% from a year ago. The surge in Q2 was due to output growing much faster than hours. In spite of the overall problems with measurement, we anticipate faster productivity growth over the next few years as new technology increases output growth in all areas of the economy. In other news, yesterday new claims for unemployment insurance declined 14,000 to 289,000. The four week moving average at 293,500 is now the lowest since February 2006. Continuing claims for jobless benefits declined 24,000 to 2.52 million.

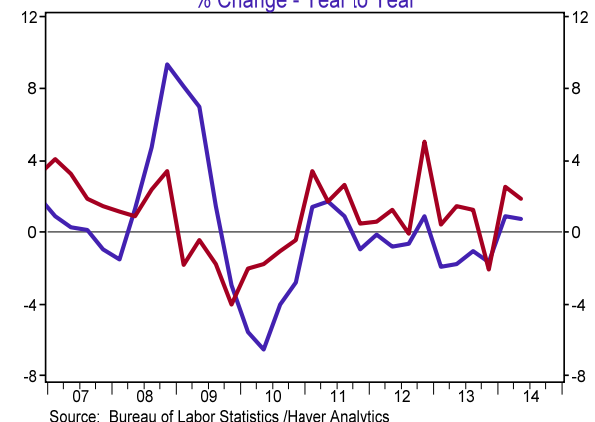
Nonfarm Business Sector: Real Output Per Hour of ...
% Change - Year to Year

Manufacturing Sector: Real Output Per Hour of All ...
% Change - Year to Year



Nonfarm Business Sector: Unit Labor Cost
% Change - Year to Year

Manufacturing Sector: Unit Labor Cost
% Change - Year to Year



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-14	Q1-14	Q4-13	Q3-13	Y to Y % Ch. (Q2-14/Q2-13)	Y to Y % Ch. (Q2-13/Q2-12)
Nonfarm Productivity	2.5	-4.5	3.3	3.6	1.2	0.2
- Output	5.2	-2.4	4.7	5.6	3.2	2.0
- Hours	2.7	2.1	1.4	1.9	2.0	1.8
- Compensation (Real)	0.1	4.8	0.7	-1.4	1.0	0.3
- Unit Labor Costs	0.6	11.8	-1.3	-2.9	1.9	1.5
Manufacturing Productivity	3.6	3.2	1.3	0.5	2.1	2.5
- Output	7.0	1.5	4.7	1.7	3.7	2.7
- Hours	3.2	-1.6	3.4	1.1	1.5	0.3
- Compensation (Real)	-0.8	6.2	-0.4	-1.4	0.9	-0.8
- Unit Labor Costs	-1.3	5.0	-0.5	0.0	0.8	-1.8

Source: US Department of Labor