

## Q3 Productivity (Final)

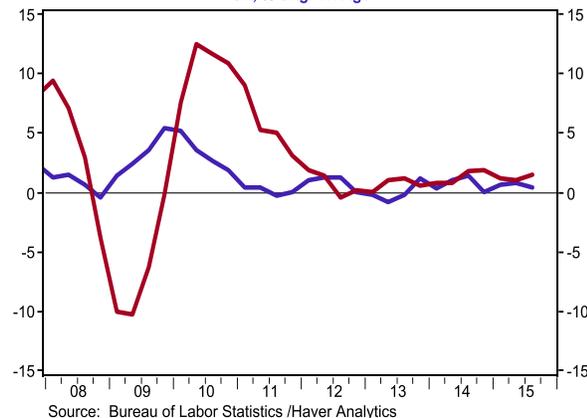
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- Nonfarm productivity (output per hour) increased at a 2.2% annual rate in the third quarter, revised up from last month's estimate of 1.6%. Nonfarm productivity is up 0.6% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector increased at a 2.4% annual rate in Q3 and is up 3.4% versus last year. Unit labor costs rose at a 1.8% annual rate in Q3 and are up 3.0% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (5.1%) was much faster than among nonfarm businesses as a whole. The faster pace in productivity growth was due to faster growth in output and a larger decline in hours in that sector. Real compensation per hour was up in the manufacturing sector (+5.8%) and unit labor costs increased at a 2.3% annual rate.

**Implications:** Following last week's upward revision to real GDP growth for Q3, productivity growth was revised up to a more respectable 2.2% annualized growth rate from a previous estimate of 1.6%. We say respectable, because it's essentially the same as the average productivity growth rate of 2.1% since 1996. It's also an improvement from the relatively weak productivity growth of the past several years. The good news is that the trend in measured productivity growth may finally be picking back up. Productivity is up at a 1% annual rate in the past two years versus an average of 0.5% in the prior two years. Also, remember that productivity is an "aggregate" number – it reflects the increased output from new-tech like high-productivity 3D printing, as well as all of the lost output from time spent complying with complicated regulations and tax rules. In other words, don't blame the private sector for slow growth, blame government. In spite of all this, productivity is probably underestimated in the high-tech arena, especially for services. Have you used Google Maps lately? It will find the fastest route to your destination in real-time taking into account current traffic, weather, etc. And it's all free! But anything free, no matter how much it improves everyday life, isn't directly included in output – which means they aren't directly included in productivity either. In turn, this means our standard of living is improving faster than the official reports show. On the manufacturing side, productivity rose at a 5.1% annual rate in Q3, and is up 1.5% from a year ago. Manufacturers, aided by new technologies, are still able to increase output faster than hours. Expect more acceleration in productivity in the next couple of years. In other news this morning, the ADP report, which measures private payrolls, showed a gain of 217,000 in November. Plugging this into our models suggests Friday's official report will show a gain of 180,000 in nonfarm payrolls. (We'll finalize our forecast after tomorrow's report on unemployment claims.) Yesterday, automakers reported sales of cars and light trucks at an 18.2 million annual rate, up 6.2% from a year ago and the first time ever that sales have beat an 18 million rate for three straight months. While some investors may be concerned that weaker credit standards are driving sales, the median credit score for auto buyers who borrow rose in the most recent quarter (as sales picked up), and the median score of 692.5 over the past year stands slightly higher than the average since 1999.

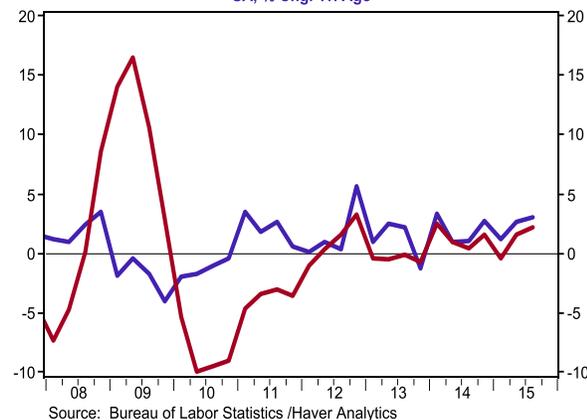
Manufacturing Sector: Real Output Per Hour  
 SA, % Chg. Yr. Ago

Nonfarm Business Sector: Real Output Per Hour  
 SA, % Chg. Yr. Ago



Manufacturing Sector: Unit Labor Cost  
 SA, % Chg. Yr. Ago

Nonfarm Business Sector: Unit Labor Cost  
 SA, % Chg. Yr. Ago



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-15	Q2-15	Q1-15	Q4-14	Y to Y % Ch. (Q3-15/Q3-14)	Y to Y % Ch. (Q3-14/Q3-13)
<b>Nonfarm Productivity</b>	2.2	3.5	-1.1	-2.2	0.6	1.4
- Output	1.8	5.1	0.5	2.6	2.5	3.7
- Hours	-0.3	1.5	1.6	4.9	1.9	2.2
- Compensation (Real)	2.4	2.5	4.6	4.2	3.4	0.7
- Unit Labor Costs	1.8	2.0	2.6	5.7	3.0	1.1
<b>Manufacturing Productivity</b>	5.1	2.2	-0.6	-0.4	1.5	1.8
- Output	3.2	1.3	-0.5	4.0	2.0	3.7
- Hours	-1.8	-0.8	0.1	4.4	0.4	1.9
- Compensation (Real)	5.8	2.4	0.8	5.1	3.5	0.5
- Unit Labor Costs	2.3	3.3	-1.6	4.7	2.1	0.4

Source: US Department of Labor