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Q1 Productivity (Preliminary)

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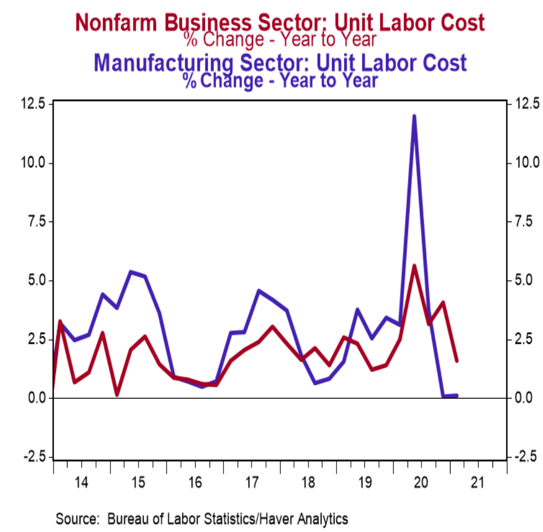
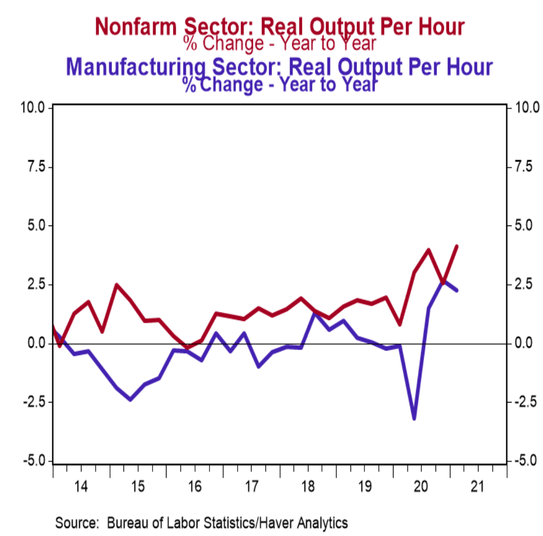
- Nonfarm productivity (output per hour) increased 5.4% at an annual rate in the first quarter, beating the consensus expected annualized gain of 4.3%. Nonfarm productivity is up 4.1% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 1.3% annual rate in Q1 and is up 3.8% versus a year ago. Unit labor costs fell at a 0.3% annual rate in Q1 but are up 1.6% versus a year ago.
- In the manufacturing sector, productivity increased at a 0.1% annual rate in Q1. Real compensation per hour increased at a 0.9% annual rate in the manufacturing sector, while unit labor costs rose at a 4.6% annual rate.

Implications: After declining in the fourth quarter, productivity bounced back in Q1 rising at a 5.4% annualized rate. The Q1 increase in nonfarm productivity came as output and hours worked both rose. Looking at the details shows that output in Q1 rose at a faster pace than hours worked pushing output per hour higher. The 2.9% annualized increase in the hours worked index still leaves this measure 4.3% lower than it was in the Q4 of 2019, the last quarter not affected by the COVID-19 pandemic. Output, however, with the 8.4% annualized increase in the Q1, is now only 0.6% below the level in the fourth quarter of 2019. Productivity is up 4.1% from a year ago, the fastest four-quarter increase since 2010. "Real" (inflation-adjusted) compensation per hour rose at a 1.3% annualized rate in Q1. This is good news as it's still most likely being artificially held down by many lower-paid workers finally getting hired back after being furloughed in early 2020. That process of rehiring lower-paid workers has put downward pressure on the average amount paid per hour. Looking at the year-over-year change to cut through some of the volatility from the past few quarters shows "real" compensation is up 3.8%. On the manufacturing front, productivity grew at a 0.1% annualized rate as output rose slightly faster than hours. Problems with supply-chain management are holding down output growth in the manufacturing sector. It may sound counterintuitive, but big increases in productivity regularly occur during recessions because businesses tend to let go of their least productive workers as they focus on managing costs and boosting efficiency. We are now well into a recovery but expect these efficiencies to continue to play out over the coming quarters. In other news this morning, initial jobless claims fell 92,000 last week to 498,000, a new pandemic low. Meanwhile, continuing claims for regular benefits rose 37,000 to 3.690 million. These numbers are consistent with our forecast that nonfarm payrolls rose 990,000 in April with the unemployment rate falling to 5.8%.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-21	Q4-20	Q3-20	Q2-20	Y to Y % Ch. (Q1-21/Q1-20)	Y to Y % Ch. (Q1-20/Q1-19)
Nonfarm Productivity	**5.4**	-3.8	4.2	11.2	4.1	0.8
- Output	**8.4**	5.8	44.1	-36.8	1.1	0.1
- Hours	**2.9**	10.0	38.2	-43.2	-2.9	-0.7
- Compensation (Real)	**1.3**	-0.8	-10.0	28.4	3.8	1.2
- Unit Labor Costs	**-0.3**	5.6	-9.6	11.9	1.6	2.5
Manufacturing Productivity	**0.1**	4.5	20.7	-13.4	2.2	-0.1
- Output	**2.4**	12.4	57.9	-46.4	-0.6	-2.0
- Hours	**2.3**	7.6	30.8	-38.1	-2.8	-1.9
- Compensation (Real)	**0.9**	-6.4	-16.3	29.0	0.5	0.9
- Unit Labor Costs	**4.6**	-8.2	-27.4	44.3	0.1	3.1

Source: US Department of Labor