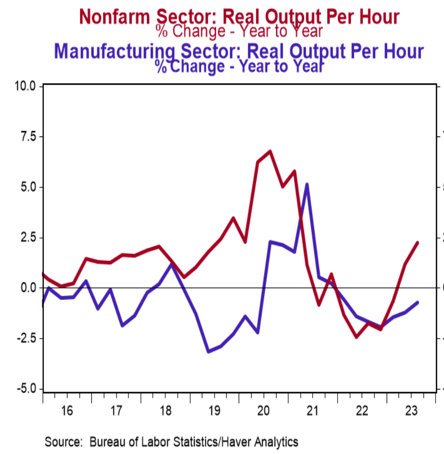
First Trust DATAWATCH

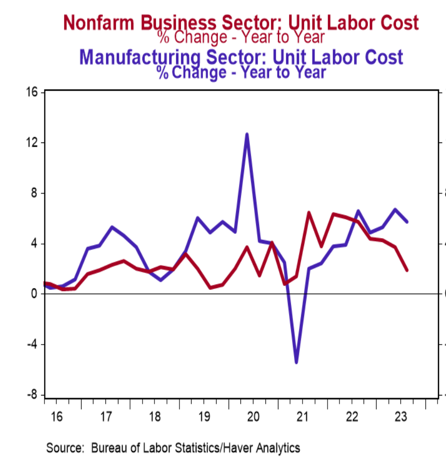
November 2, 2023 • 630.517.7756 • www.ftportfolios.com

# Q3 Productivity (Preliminary)

**Nate Gerze** – Economic Analyst
**Brian S. Wesbury** – Chief Economist
**Robert Stein, CFA** – Dep. Chief Economist

- Nonfarm productivity (output per hour) increased 4.7% at an annual rate in the third quarter, beating the consensus expected gain of 4.3%. Nonfarm productivity is up 2.2% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 0.3% annual rate in Q3 and is up 0.6% versus a year ago. Unit labor costs fell at a 0.8% annual rate in Q3 but are up 1.9% versus a year ago.
- In the manufacturing sector, productivity fell at a 0.7% annual rate in Q3. Real compensation per hour increased at a 2.5% annual rate in the manufacturing sector, while unit labor costs rose at a 7.0% annual rate.




**Implications**: Nonfarm productivity rose at a 4.7% annualized rate in the third quarter, as both output and hours rose, but output rose at a faster pace, leading to more output per hour. Excluding the closing and reopening quarters of the COVID pandemic, that's the largest quarterly increase since 2009 in the midst of the Great Recession. In spite of the large gain in Q3, productivity – output per hour – is up a more modest 2.2% in the past year and up at a similar 1.4% annual rate versus the prior business cycle peak at the end of 2019 (pre-COVID). Even though inflation is still high, "real" (inflation-adjusted) compensation per hour grew – albeit barely – at a 0.3% annualized rate in Q3, following strong quarterly increases in the first and second quarters of this year. Still, inflation remains a key headwind for workers' purchasing power as "real" compensation is up only 0.6% from a year ago. On the manufacturing front, productivity fell at a 0.7% annualized rate as output decreased while hours rose. Most of the manufacturing data we have received over the past year have shown that manufacturing continues to decelerate, except in a few parts where government subsidies have temporarily boosted activity. Expect hours and output in this sector to continue to weaken in the quarters ahead. As for the economy, we continue to believe a recession is on the way. Investors should remain cautious while we navigate these unprecedented times. In other news this morning, on the employment front, initial jobless claims rose 5,000 last week to 217,000. Meanwhile, continuing claims increased 35,000 to 1.818 million. These numbers point to continued gains in jobs in tomorrow's employment report. We're estimating a nonfarm payroll gain of 177,000 with the unemployment rate remaining at 3.8%. Also earlier this week, cars and light trucks were sold at a 15.5 million annual rate in October, down 1.2% from September but up 5.6% from a year ago.

| **Productivity and Costs** (% Change, All Data Seasonally Adjusted) | Q3-23 | Q2-23 | Q1-23 | Q4-22 | Y to Y % Ch. (Q3-23/Q3-22) | Y to Y % Ch. (Q3-22/Q3-21) |
|---|---|---|---|---|---|---|
| ***Nonfarm Productivity*** | **4.7** | 3.6 | -0.8 | 1.6 | 2.2 | -1.7 |
| ***- Output*** | **5.9** | 2.0 | 1.8 | 2.8 | 3.1 | 1.8 |
| ***- Hours*** | **1.1** | -1.5 | 2.6 | 1.3 | 0.8 | 3.6 |
| ***- Compensation (Real)*** | **0.3** | 4.1 | 2.7 | -4.5 | 0.6 | -4.1 |
| ***- Unit Labor Costs*** | **-0.8** | 3.2 | 7.4 | -2.0 | 1.9 | 5.7 |
| ***Manufacturing Productivity*** | **-0.7** | 3.1 | -1.9 | -3.2 | -0.7 | -1.7 |
| ***- Output*** | **-0.1** | 1.0 | -0.4 | -3.6 | -0.8 | 2.8 |
| ***- Hours*** | **0.7** | -2.1 | 1.5 | -0.5 | -0.1 | 4.6 |
| ***- Compensation (Real)*** | **2.5** | 6.8 | 0.8 | -4.1 | 1.4 | -3.2 |
| ***- Unit Labor Costs*** | **7.0** | 6.3 | 6.6 | 3.2 | 5.8 | 6.6 |

*Source: US Department of Labor*