

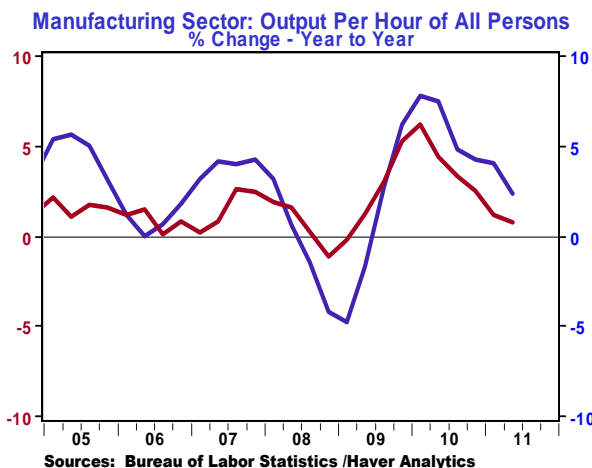
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Q2 Productivity (Final)

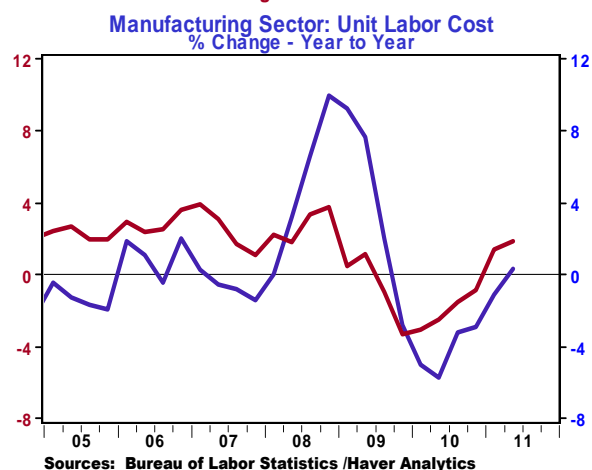
- Nonfarm productivity (output per hour) declined at a 0.7% annual rate in the second quarter, revised down from last month's estimate of -0.3%. Nonfarm productivity is up 0.7% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 1.4% annual rate in Q2 and is down 0.7% versus last year. Unit labor costs rose at a 3.3% rate in Q2 and are up 1.9% versus a year ago.
- In the manufacturing sector, the Q2 growth rate for productivity (-1.5%) was lower than among nonfarm businesses as a whole. The faster pace of decline in productivity was mostly due to faster growth in the number of hours worked. Real compensation per hour was down in the manufacturing sector (-0.9%), but, due to a decline in productivity and higher nominal earnings per hour, unit labor costs rose at a 4.6% annual rate.

Implications: Productivity was revised down slightly for the second quarter, consistent with last week's downward revisions for real GDP growth. Less output and the same number of hours worked means less output *per hour*. Productivity is up only 0.7% in the past year, but was up 4.4% in the year ending in mid-2010. This is typical of economic recoveries, where productivity surges at the very beginning of the recovery and then temporarily slows down as hours worked increase more sharply. The growth rate of productivity over the past two years has been 2.6% annualized, slightly faster than the average 2.3% pace in the past 10 years and the past 20 years. In other news this morning, new claims for initial unemployment benefits declined 12,000 last week to 409,000. Continuing claims for regular state benefits declined 18,000 to 3.74 million. However, continuing claims in the prior week were revised up by 112,000. This is the same week when the Labor Department did its monthly payroll survey. As a result, we are revising down our forecast for private sector payroll growth in August to 105,000. This is still quite respectable given a Verizon strike that temporarily took 46,000 workers off payrolls. In other recent news, the ADP national employment report, a measure of private sector payrolls, increased 91,000 in August.

Nonfarm Business Sector: Output Per Hour of All Persons
 % Change - Year to Year



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



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-11	Q1-11	Q4-10	Q3-10	Y to Y % Ch. (Q2-11/Q2-10)	Y to Y % Ch. (Q2-10/Q2-09)
Nonfarm Productivity	-0.7	-0.6	2.2	2.1	0.7	4.4
- Output	1.3	0.9	3.8	3.5	2.4	4.2
- Hours	2.0	1.5	1.5	1.4	1.6	-0.3
- Compensation (Real)	-1.4	0.3	-2.1	0.4	-0.7	0.1
- Unit Labor Costs	3.3	6.2	-1.6	-0.2	1.9	-2.5
Manufacturing Productivity	-1.5	4.2	4.9	2.1	2.4	7.5
- Output	1.2	7.8	3.8	5.6	4.6	7.7
- Hours	2.7	3.4	-1.0	3.4	2.1	0.2
- Compensation (Real)	-0.9	-1.2	-0.4	0.2	-0.6	-0.4
- Unit Labor Costs	4.6	-0.1	-2.5	-0.5	0.4	-5.7

Source: US Department of Labor