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Q2 Productivity (Preliminary)

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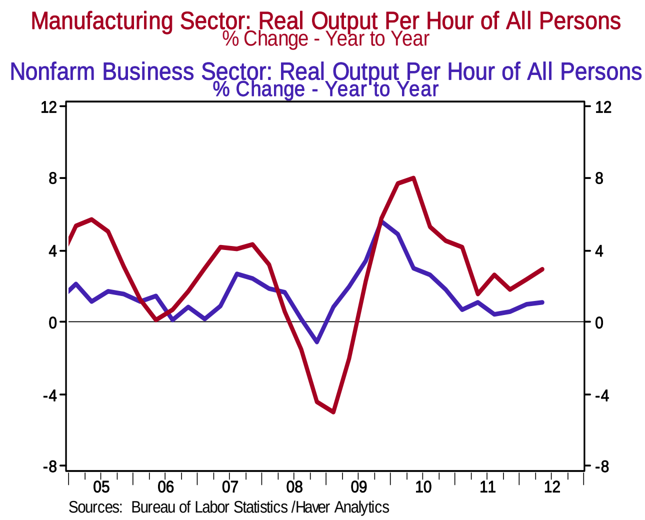
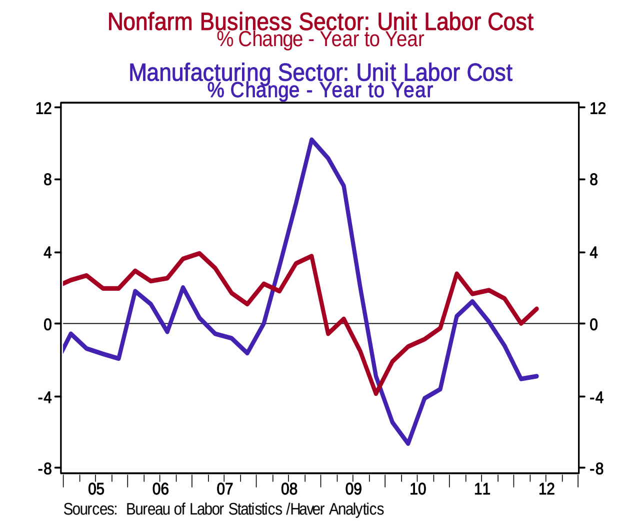
- Nonfarm productivity (output per hour) rose at a 1.6% annual rate in the second quarter, beating the consensus expected 1.4% gain. Non-farm productivity is up 1.1% versus last year.
- Real (inflation-adjusted) compensation per hour in the non-farm sector rose at a 2.6% annual rate in Q2 and is flat versus last year. Unit labor costs rose at a 1.7% rate in Q2 and are up 0.8% versus a year ago.
- In the manufacturing sector, productivity rose at a 0.2% annual rate in Q2. Output and hours both increased, but output rose slightly faster. Real compensation per hour was down in the manufacturing sector (0.3%), but unit labor costs rose at a 0.3% annual rate.

Implications: Nonfarm productivity bounced back in Q2 rising 1.6% at an annual rate. Productivity rose because output increased faster than the number of hours worked, which means *output per hour* rose. Productivity is by no means booming, but it is consistent with other data showing that the plow horse economy is continuing to move forward. As we have mentioned before, it is not unusual for productivity growth to slow temporarily after the initial stages of an economic recovery, as firms hire more workers and give their workers more hours. On the manufacturing side, where output is measured more accurately, productivity rose 0.2% at an annual rate after absolutely booming in Q1. Over the past few years, manufacturers have gotten very lean, being able to produce more with fewer workers. Now hours are rising consistently as well, up at a 1.4% annual rate in Q2 after climbing at a 4.4% rate in Q1. While "real" (inflation-adjusted) compensation per hour declined among manufacturing workers, it's important to recognize that this does not mean workers are earning less or have less money to spend. Because of the increase in the number of hours worked, workers are earning more than before, they're just earning slightly less *per hour*. In the nonfarm sector, workers saw stronger hours and real compensation: a good sign. We believe the long-term upward trend in productivity growth will ultimately re-assert itself, reflecting the technological revolution we have been experiencing since the early-1980s.





Productivity and Costs *(% Change, All Data Seasonally Adjusted)*	**Q2-12**	**Q1-12**	**Q4-11**	**Q3-11**	**Y to Y % Ch.** *(Q2-12/Q2-11)*	**Y to Y % Ch.** *(Q2-11/Q2-10)*
Nonfarm Productivity	**1.6**	-0.5	2.8	0.6	1.1	1.1
- Output	**2.0**	2.7	5.3	1.6	2.9	3.0
- Hours	**0.4**	3.2	2.4	1.0	1.8	1.9
- Compensation (Real)	**2.6**	2.6	-1.9	-3.1	0.0	-0.6
- Unit Labor Costs	**1.7**	5.6	-3.3	-0.6	0.8	1.6
Manufacturing Productivity	**0.2**	5.5	0.7	5.5	2.9	1.6
- Output	**1.7**	10.1	5.5	5.2	5.6	4.0
- Hours	**1.4**	4.4	4.8	-0.3	2.6	2.4
- Compensation (Real)	**-0.3**	2.6	-7.2	-2.6	-1.9	-0.4
- Unit Labor Costs	**0.3**	-0.4	-6.6	-4.8	-2.9	1.3

Source: US Department of Labor