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Q1 Productivity (Final)

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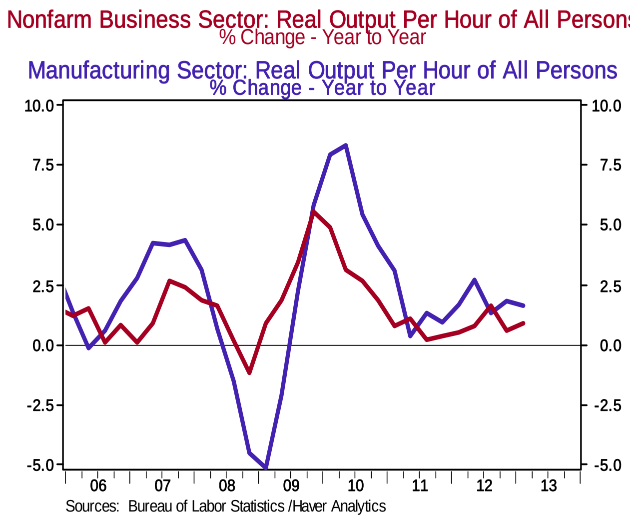
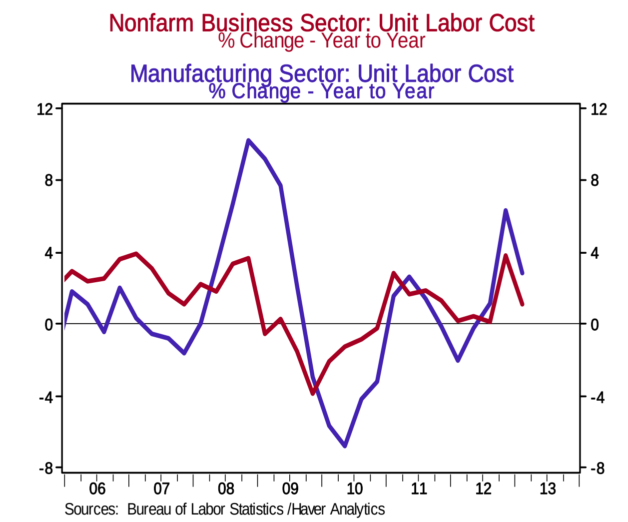
- Nonfarm productivity (output per hour) increased at a 0.5% annual rate in the first quarter, revised down from last month's estimate of 0.7%. Nonfarm productivity is up 0.9% versus last year.

- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 5.2% annual rate in Q1 but is up 0.3% versus last year. Unit labor costs fell at a 4.3% rate in Q1 but are up 1.1% versus a year ago.

- In the manufacturing sector, the Q1 growth rate for productivity (3.5%) was substantially better than among nonfarm businesses as a whole. The faster pace in productivity growth was due to more rapid growth in output than in the nonfarm sector as a whole. Real compensation per hour was down in the manufacturing sector (-8.3%), and due to the rise in output, unit labor costs fell at a 10.0% annual rate.

Implications: Productivity rose at a Plow Horse like 0.5% annual rate in the first quarter, coming in slightly lower than the 0.7% estimate from last month. A slight downward revision in productivity was not a surprise; it reflects the slight downward revision to real GDP growth from last week. In the past three years, productivity is up at only a 0.7% annual rate, noticeably slower than the average gain of 2.3% since 1996. However, we do not think the productivity revolution has come to an end. It is not unusual for productivity to surge at the very beginning of a recovery and then (temporarily) slow down as hours worked increase more rapidly. This is exactly what we have seen. Since the end of 2008, productivity is up at a 2% annual rate, not too much different than the longer term trend. We would have to see productivity stagnate for at least another couple of years before being able to reach any conclusions about a structural downshift in its growth rate. For now, the long-term trend in productivity growth should remain healthy due to a technological revolution centered in computer, communications, and engineering advances. Manufacturing productivity, which is easier to measure than overall productivity, is still up at a 2.2% annual rate in the past three years. In other news this morning, the ADP employment report, a measure of private-sector payrolls, increased 135,000 in May. Our models for the official Labor Department report (to be released Friday morning) are now tracking an increase of 153,000 for nonfarm payrolls and 160,000 private. This forecast may change slightly tomorrow morning based on new data for unemployment claims. A different model suggests the jobless rate remains at 7.5%. More Plow Horse.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q1-13	Q4-12	Q3-12	Q2-12	Y to Y % Ch. (Q1-13/Q1-12)	Y to Y % Ch. (Q1-12/Q1-11)
Nonfarm Productivity	**0.5**	-1.7	3.1	1.7	0.9	0.5
- Output	**2.1**	0.7	4.7	2.1	2.4	3.2
- Hours	**1.6**	2.4	1.6	0.4	1.5	2.7
- Compensation (Real)	**-5.2**	7.5	-0.9	0.2	0.3	-2.1
- Unit Labor Costs	**-4.3**	11.8	-1.9	-0.5	1.1	0.2
Manufacturing Productivity	**3.5**	2.4	-0.3	1.0	1.6	1.7
- Output	**5.3**	2.7	0.1	2.1	2.5	4.6
- Hours	**1.8**	0.4	0.4	1.1	0.9	2.8
- Compensation (Real)	**-8.3**	14.2	-1.5	8.1	2.8	-3.1
- Unit Labor Costs	**-10.0**	14.0	0.8	8.1	2.8	-2.0

Source: US Department of Labor