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# Q3 Productivity (Final)

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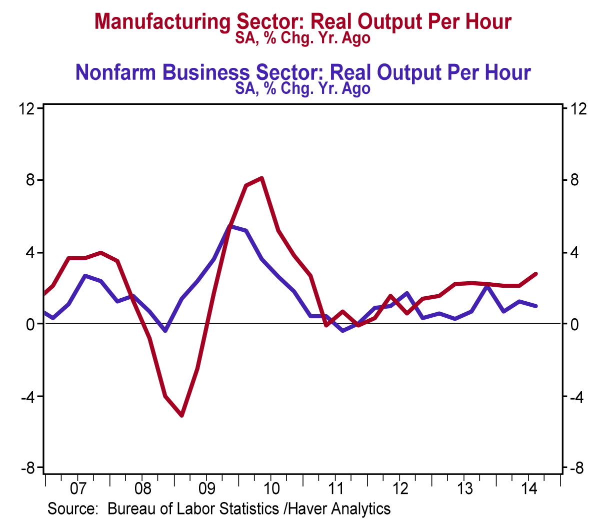
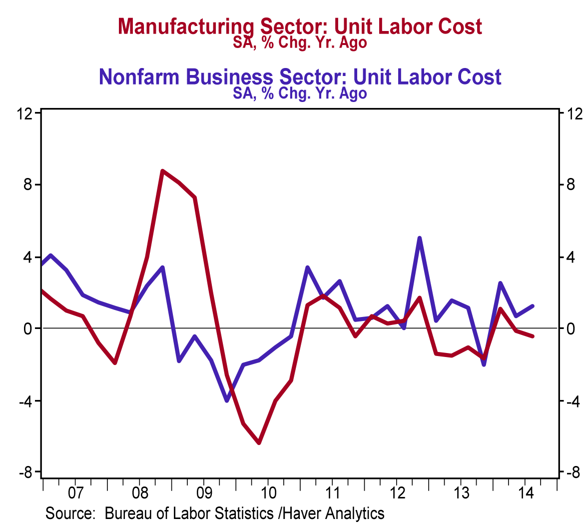
- Nonfarm productivity (output per hour) increased at a 2.3% annual rate in the third quarter, revised up from last month's estimate of 2.0%. Nonfarm productivity is up 1.0% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector increased at a 0.2% annual rate in Q3 and is up 0.4% versus last year. Unit labor costs declined 1.0% in Q3 but are up 1.2% versus a year ago.
- In the manufacturing sector, the Q3 growth rate for productivity (2.9%) was faster than among nonfarm businesses as a whole. The faster pace in productivity growth was due to a slower increase in hours in that sector. Real compensation per hour was up in the manufacturing sector (+0.5%), and unit labor costs declined at a 1.3% annual rate.




**Implications:** Already signaled by last week's upward revision in the growth rate for Q3 real GDP, today's data show that productivity growth was also revised from a modest 2% annualized growth to a more respectable 2.3%. We say respectable, because productivity has been relatively weak - up just 1% from a year ago following an anemic 0.7% gain the year before. So, while the most recent quarter was in line with history, the past few years have seen productivity improvements noticeably slower than the average gain of 2.3% since 1996. There are three points to make about this. First, there are measurable improvements in productivity. Second, one must remember that productivity is an "aggregate" number - it includes all output, from new-tech, high productivity 3D printing, and, the wasted time spent on filling out complicated tax and regulatory paperwork. In other words, don't blame the private sector for slow growth, blame government. And, third, productivity is probably underestimated in the high-tech arena, especially for services, because we don't know how to account for things like GPS road guidance, for example. Sectors of the economy that are easier to measure show more rapid productivity growth. On the manufacturing side, productivity rose at a 2.9% annual rate in Q3, and is up a more healthy 2.7% from a year ago. Manufacturers, due to new technologies, are still able to increase output faster than hours. Overall, for the rest of the year and into 2015-16, we look for faster productivity growth than in the past two years. In other news this morning, the ADP index, which measures private-sector payrolls, showed a gain of 208,000 in November. Our models now forecast a nonfarm gain of 219,000, with 210,000 in the private sector, although the forecast may change slightly tomorrow based on new data for unemployment claims.

| Productivity and Costs<br>(% Change, All Data Seasonally Adjusted) | Q3-14 | Q2-14 | Q1-14 | Q4-13 | Y to Y % Ch.<br>(Q3-14/Q3-13) | Y to Y % Ch.<br>(Q3-13/Q3-12) |
|---|---|---|---|---|---|---|
| ***Nonfarm Productivity*** | **2.3** | 2.9 | -4.5 | 3.3 | 1.0 | 0.7 |
| ***- Output*** | **4.9** | 5.5 | -2.4 | 4.7 | 3.1 | 2.5 |
| ***- Hours*** | **2.5** | 2.5 | 2.1 | 1.4 | 2.1 | 1.8 |
| ***- Compensation (Real)*** | **0.2** | -3.8 | 4.6 | 0.7 | 0.4 | 0.4 |
| ***- Unit Labor Costs*** | **-1.0** | -3.7 | 11.6 | -1.3 | 1.2 | 1.2 |
| ***Manufacturing Productivity*** | **2.9** | 3.6 | 3.2 | 1.3 | 2.7 | 2.3 |
| ***- Output*** | **4.2** | 7.2 | 1.6 | 4.7 | 4.4 | 2.6 |
| ***- Hours*** | **1.3** | 3.4 | -1.6 | 3.4 | 1.6 | 0.3 |
| ***- Compensation (Real)*** | **0.5** | -4.8 | 6.9 | -0.4 | 0.4 | -0.2 |
| ***- Unit Labor Costs*** | **-1.3** | -5.4 | 5.5 | -0.5 | -0.5 | -1.0 |

*Source: US Department of Labor*