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Q3 Productivity (Final)

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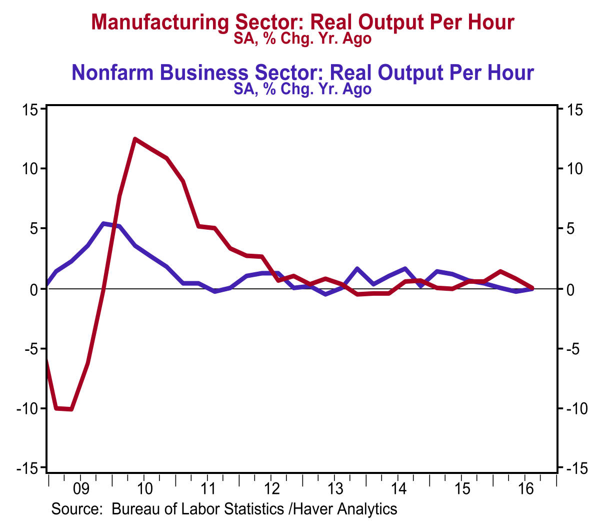
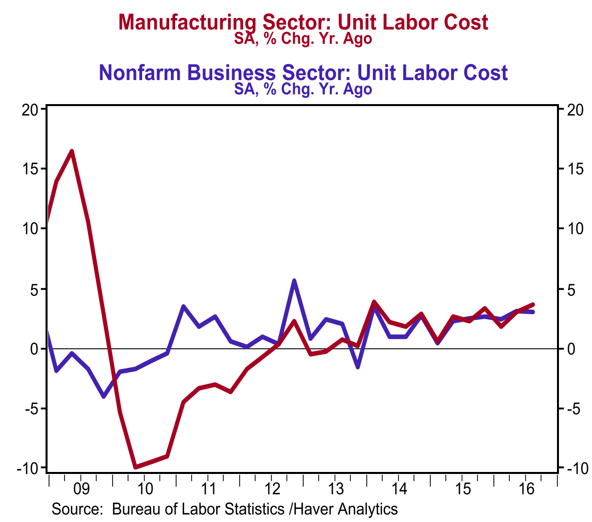
- Nonfarm productivity (output per hour) increased at a 3.1% annual rate in the third quarter, unchanged from last month's preliminary report. Nonfarm productivity is unchanged versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector increased at a 2.2% annual rate in Q3 and is up 1.8% versus last year. Unit labor costs rose at a 0.7% annual rate in Q3 and are up 3.0% versus a year ago.
- In the manufacturing sector, productivity rose at a 0.4% annual rate in Q3, slower than among nonfarm businesses as a whole. The smaller gain in manufacturing productivity was due to slower growth in output. Real compensation per hour increased at a 2.0% annual rate in the manufacturing sector, while unit labor costs rose at a 3.3% annual rate.

Implications: Nonfarm productivity growth was unrevised at a 3.1% annual rate in the third quarter. That may seem odd given the upward revisions to real GDP growth for Q3, but the number of hours worked were revised up as well, leaving output growth per hour unchanged. Still, that 3.1% annualized gain in productivity for the third quarter represents the fastest gain in two years, a break from the trend in declining productivity readings over the prior three quarters, and a clear improvement from the 2% annualized pace of productivity growth seen over the past twenty years. But despite the healthy rise in Q3, productivity remains unchanged from a year ago. We believe government statistics underestimate actual productivity growth. Have you ever had to call a cab or a limo to come pick you up on short notice? Now, with the press of a button, UBER sends a car directly to your door. And it's faster, easier, and often cheaper than ever before. Meanwhile Yelp gives you instant restaurant reviews and Facetime lets you talk face-to-face with people thousands of miles away. The benefits from these technologies have been immense. But because many of these incredible new technologies are free, they aren't directly included in output measures, making their impact on productivity difficult to measure. So while our quality of life continues to rise, it's not completely showing up in the government statistics. As the tax and regulatory environment improves, expect productivity growth to pick up in the next couple of years. In particular, a lower tax rate on corporate America will encourage greater efficiency. In addition, continued employment gains are pushing down the unemployment rate and putting rising pressure on wages, which give companies a greater incentive to take advantage of the efficiency-enhancing technology that entrepreneurs have been inventing in troves.





Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-16	Q2-16	Q1-16	Q4-15	Y to Y % Ch. (Q3-16/Q3-15)	Y to Y % Ch. (Q3-15/Q3-14)
Nonfarm Productivity	**3.1**	-0.2	-0.6	-2.4	0.0	0.7
- Output	**3.6**	1.6	0.7	0.8	1.7	2.5
- Hours	**0.5**	1.7	1.4	3.3	1.7	1.8
- Compensation (Real)	**2.2**	3.4	-0.6	2.3	1.8	3.1
- Unit Labor Costs	**0.7**	6.2	-0.3	5.7	3.0	2.6
Manufacturing Productivity	**0.4**	-0.5	1.4	-1.1	0.0	0.6
- Output	**0.6**	-1.0	0.6	-0.5	-0.1	1.0
- Hours	**0.3**	-0.5	-0.8	0.6	-0.1	0.4
- Compensation (Real)	**2.0**	5.4	-4.5	7.4	2.5	2.7
- Unit Labor Costs	**3.3**	8.5	-6.1	9.5	3.6	2.3

Source: US Department of Labor