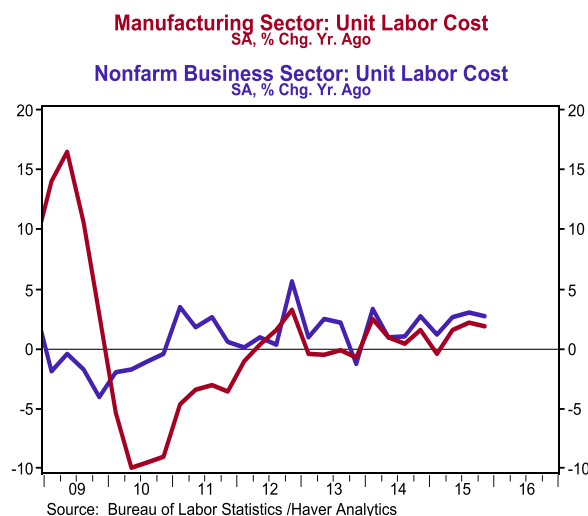
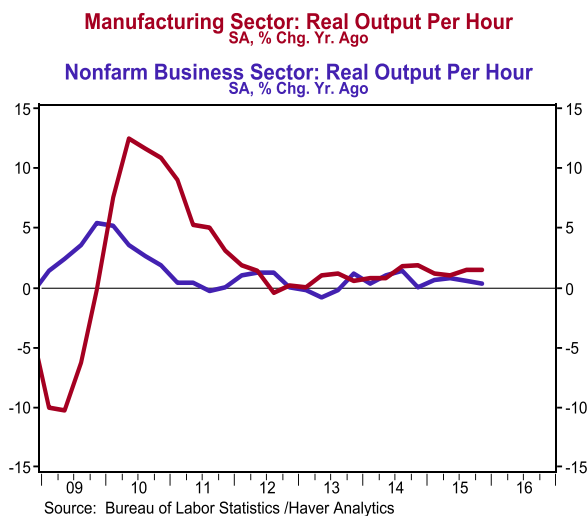


# Q4 Productivity (Preliminary)

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- Nonfarm productivity (output per hour) declined at a 3.0% annual rate in the fourth quarter, versus a consensus expected decline of 2.0%. Nonfarm productivity is up 0.3% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector was up at a 1.1% annual rate in Q4 and is up 2.7% versus a year ago. Unit labor costs rose at a 4.5% annual rate in Q4 and are up 2.8% versus a year ago.
- In the manufacturing sector, productivity declined at a 0.4% annual rate in Q4. The much smaller decline in manufacturing productivity was due to faster growth in output along with slower growth in hours. Real compensation per hour was up at a 3.0% annual rate in the manufacturing sector, while unit labor costs increased at a 3.6% rate.

**Implications:** Taken at face value, today's productivity numbers were not good, with output per hour falling at a 3% annual rate in the fourth quarter and up only 0.3% from a year ago. The meager gain of 0.3% in 2015 was no different than the average for the past five years, which is the weakest 5-year period since the late-1970s and early 1980s. However, we think it's important to take the government's productivity numbers with a huge grain of salt. We don't think the official productivity figures are capturing the dynamism of the US economy. We strongly suspect the government is underestimating output in the increasingly important service sector, which means growth and productivity are higher than the official data show. As the economy becomes more and more friction-free due to new apps and technologies, productivity rises, but it does not get fully picked up in statistics because many of these benefits are free for consumers. The figures from the government miss much of the value of these improvements, which means our standard of living is improving faster than the official reports show. Note that on the manufacturing side, where it's easier to measure output per hour, productivity is up 1.5% in the past year and up at a 1.4% annual rate in the past five years. In spite of the problems with measurement, we anticipate faster productivity growth over the next few years as new technology increases output in all areas of the economy. The declining unemployment rate, decline in labor force participation, and faster growth in wages should generate more pressure for efficiency gains, while the technological revolution continues to provide the inventions that make those gains possible. In other news this morning, new claims for unemployment insurance increased 8,000 last week to 285,000. Continuing claims for regular state benefits declined 18,000 to 2.26 million. Plugging these figures into our models makes our final forecast for tomorrow a nonfarm payroll gain of 190,000 with the unemployment rate remaining at 5.0%. More Plow Horse growth.



<b>Productivity and Costs</b> (% Change, All Data Seasonally Adjusted)	<b>Q4-15</b>	<b>Q3-15</b>	<b>Q2-15</b>	<b>Q1-15</b>	<b>Y to Y % Ch.</b> (Q4-15/Q4-14)	<b>Y to Y % Ch.</b> (Q4-14/Q4-13)
<b>Nonfarm Productivity</b>	<b>-3.0</b>	2.1	3.5	-1.1	0.3	0.0
- Output	<b>0.1</b>	1.8	5.1	0.5	1.9	3.0
- Hours	<b>3.3</b>	-0.3	1.5	1.6	1.5	3.0
- Compensation (Real)	<b>1.1</b>	2.5	2.5	4.6	2.7	1.6
- Unit Labor Costs	<b>4.5</b>	1.9	2.0	2.6	2.8	2.8
<b>Manufacturing Productivity</b>	<b>-0.4</b>	5.0	2.2	-0.6	1.5	1.8
- Output	<b>0.5</b>	3.2	1.3	-0.5	1.1	3.9
- Hours	<b>0.9</b>	-1.7	-0.8	0.1	-0.4	2.0
- Compensation (Real)	<b>3.0</b>	5.7	2.4	0.8	3.0	2.2
- Unit Labor Costs	<b>3.6</b>	2.3	3.2	-1.6	1.9	1.5

Source: US Department of Labor