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Q3 Productivity (Preliminary)

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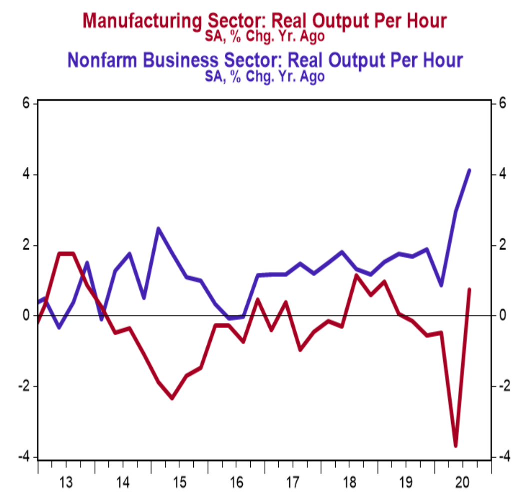
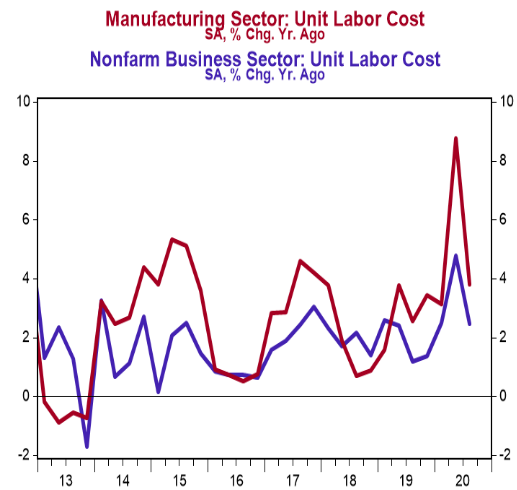
- Nonfarm productivity (output per hour) increased at a 4.9% annual rate in the third quarter, lagging the consensus expected gain of 5.6%. Nonfarm productivity is up 4.1% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 9.1% annual rate in Q3 but is up 5.3% versus a year ago. Unit labor costs fell at an 8.9% annual rate in Q3 but are up 2.5% versus a year ago.
- In the manufacturing sector, productivity increased at a 19.0% annual rate in Q3. Real compensation per hour declined at a 7.4% annual rate in the manufacturing sector, while unit labor costs fell at an 18.2% rate.

Implications: After posting the largest quarterly increase since 1971 in Q2, productivity continued to improve in Q3, rising at a 4.9% annualized rate. The Q3 increase in nonfarm productivity came as output and hours worked both posted the largest gains on record going back to 1947 as the US economy began to reopen following large-scale restrictions on activity in Q2. Looking at the details shows that output in Q3 rose at a faster pace than hours worked pushing *output per hour* higher. This is in stark contrast to Q2 where both hours worked and output recorded the largest declines on record, but hours worked fell faster boosting output per hour. It may sound counterintuitive, but big increases in productivity regularly occur during recessions because businesses tend to let go of their least productive workers as they focus on managing costs and boosting efficiency. Productivity is now up 4.1% from a year ago, the fastest annual increase since 2009 in the midst of the Great Recession. "Real" (inflation-adjusted) compensation per hour fell at a 9.1% annualized rate in Q3. However, don't be fooled by the negative number, this was actually good news. Many lower paid workers were hired back after being furloughed in Q2, which dragged down the average amount paid per hour. It's also why the Q2 surge in "real" compensation can't be taken at face value. Looking at the year-over-year change to cut through some of the volatility from the past few quarters shows "real" compensation is up 5.3%. On the manufacturing front, productivity posted its largest gain on record going back to 1987, rising at a 19.0% annualized pace. The details here were also good as both output and hours jumped, but the gain in output rose faster boosting output per hour. In other news this morning, on the employment front, initial jobless claims fell 7,000 last week to 751,000. Meanwhile, continuing claims for regular benefits fell 538,000 to 7,285 million. These numbers point to continued gains in jobs in tomorrow's employment report. We're estimating a nonfarm payroll gain of 585,000 with the unemployment rate dropping to 7.6%.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q3-20	Q2-20	Q1-20	Q4-19	Y to Y % Ch. (Q3-20/Q3-19)	Y to Y % Ch. (Q3-19/Q3-18)
Nonfarm Productivity	**4.9**	10.6	-0.3	1.6	4.1	1.7
- Output	**43.5**	-36.8	-6.4	2.8	-3.4	2.3
- Hours	**36.8**	-42.9	-6.1	1.2	-7.2	0.6
- Compensation (Real)	**-9.1**	24.4	7.9	0.9	5.3	1.1
- Unit Labor Costs	**-8.9**	8.5	9.6	1.7	2.5	1.2
Manufacturing Productivity	**19.0**	-14.3	1.6	-0.7	0.7	-0.1
- Output	**54.8**	-46.7	-5.5	-0.2	-6.1	-0.6
- Hours	**30.1**	-37.8	-7.0	0.5	-6.8	-0.5
- Compensation (Real)	**-7.4**	14.1	4.7	2.8	3.3	0.6
- Unit Labor Costs	**-18.2**	28.4	4.2	6.0	3.8	2.6

Source: US Department of Labor