

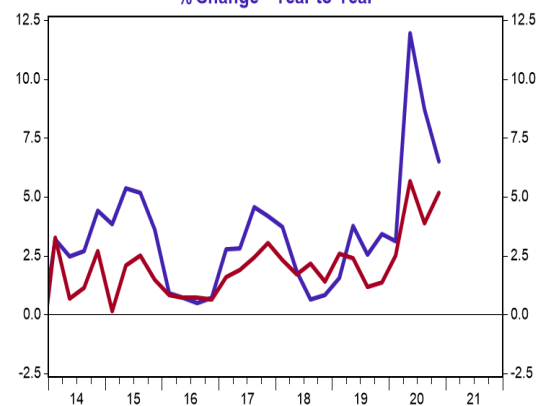
**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist  
**Andrew Opdyke** – Senior Economist

## Q4 Productivity (Preliminary)

- Nonfarm productivity (output per hour) declined at a 4.8% annual rate in the fourth quarter, lagging the consensus expected drop of 3.0%. Nonfarm productivity is up 2.5% versus a year ago.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector declined at a 0.6% annual rate in Q4 but is up 6.5% versus a year ago. Unit labor costs rose at an 6.8% annual rate in Q4 and are up 5.2% versus a year ago.
- In the manufacturing sector, productivity increased at a 3.0% annual rate in Q4. Real compensation per hour declined at a 1.7% annual rate in the manufacturing sector, while unit labor costs fell at a 2.4% rate.

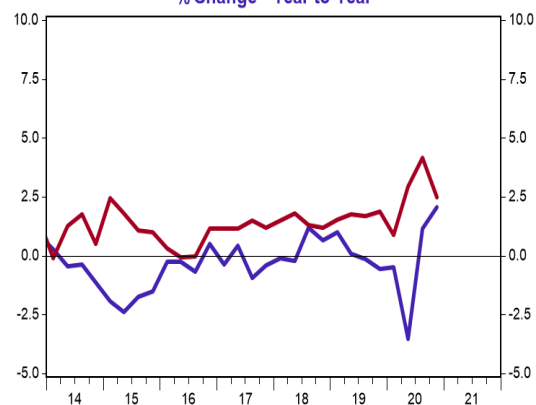
**Implications:** After posting the largest ever two-quarter increase in Q2 and Q3, productivity fell in the fourth quarter, declining at a 4.8% annualized rate. Even with the decline in productivity in Q4, productivity rose 2.6% in 2020, the fastest growth since 2010. The Q4 decline in nonfarm productivity came as output and hours worked both grew rapidly, but hours worked in Q4 rose at a faster pace than output pushing *output per hour* lower. 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 large increases in productivity regularly occur during recessions because when businesses shrink operations, they tend to keep their most productive employees while managing costs and boosting efficiency. Productivity is now up 2.5% from a year ago. “Real” (inflation-adjusted) compensation per hour fell at a 0.6% annualized rate in Q4. However, don’t be fooled by the negative number, this was actually good news. Many lower paid workers were hired back after being furloughed earlier in the year, which dragged down the average amount paid per hour. Looking at the year-over-year change to cut through some of the volatility from the past few quarters shows “real” compensation is up 6.5%. On the manufacturing front, productivity continued to grow rising at a 3.0% annualized pace on the back of a 20.2% annualized gain in Q3. 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, initial jobless claims fell 33,000 last week to 779,000. Meanwhile, continuing claims for regular benefits fell 193,000 to 4.592 million. These numbers point to continued gains in jobs in tomorrow’s employment report. We’re estimating a nonfarm payroll gain of 105,000 with the unemployment rate holding steady at 6.7%.

**Nonfarm Business Sector: Unit Labor Cost**  
 % Change - Year to Year  
**Manufacturing Sector: Unit Labor Cost**  
 % Change - Year to Year



Source: Bureau of Labor Statistics/Haver Analytics

**Nonfarm Sector: Real Output Per Hour**  
 % Change - Year to Year  
**Manufacturing Sector: Real Output Per Hour**  
 % Change - Year to Year



Source: Bureau of Labor Statistics/Haver Analytics

<b>Productivity and Costs</b> <i>(% Change, All Data Seasonally Adjusted)</i>	<b>Q4-20</b>	<b>Q3-20</b>	<b>Q2-20</b>	<b>Q1-20</b>	<b>Y to Y % Ch.</b> <b>(Q4-20/Q4-19)</b>	<b>Y to Y % Ch.</b> <b>(Q4-19/Q4-18)</b>
<b>Nonfarm Productivity</b>	<b>-4.8</b>	5.1	10.6	-0.3	2.5	1.9
- Output	<b>5.3</b>	44.1	-36.8	-6.4	-2.7	2.7
- Hours	<b>10.7</b>	37.1	-42.9	-6.1	-5.0	0.8
- Compensation (Real)	<b>-0.6</b>	-7.0	28.8	7.9	6.5	1.2
- Unit Labor Costs	<b>6.8</b>	-7.0	12.3	9.6	5.2	1.4
<b>Manufacturing Productivity</b>	<b>3.0</b>	20.2	-13.7	1.6	2.1	-0.6
- Output	<b>11.2</b>	56.7	-46.4	-5.5	-3.0	-1.1
- Hours	<b>8.0</b>	30.4	-37.8	-7.0	-5.0	-0.5
- Compensation (Real)	<b>-1.7</b>	0.2	29.0	4.7	7.4	0.8
- Unit Labor Costs	<b>-2.4</b>	-12.4	44.3	4.3	6.5	3.4

Source: US Department of Labor