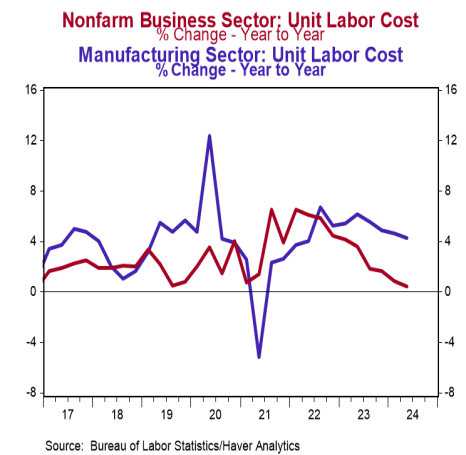
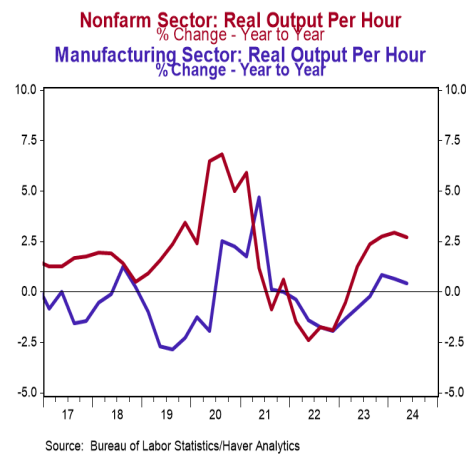


## Q2 Productivity (Preliminary)

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- Nonfarm productivity (output per hour) increased 2.3% at an annual rate in the second quarter, beating the consensus expected gain of 1.8%. Nonfarm productivity is up 2.7% versus last year.
- Real (inflation-adjusted) compensation per hour in the nonfarm sector rose at a 0.4% annual rate in Q2 and is flat versus a year ago. Unit labor costs rose at a 0.9% annual rate in Q2 and are up 0.5% versus a year ago.
- In the manufacturing sector, productivity rose at a 1.8% annual rate in Q2. Real compensation per hour increased at a 2.2% annual rate in the manufacturing sector, while unit labor costs rose at a 3.2% annual rate.

**Implications:** Better than expected productivity growth, along with slower growth in labor costs will give the Fed further confidence in their disinflationary outlook as they look to start cutting rates in September. Nonfarm productivity rose at a 2.3% annualized rate in the second quarter, as both output and hours rose, but output rose at a faster pace, leading to more output per hour. Unit labor costs slowed to a 0.9% annualized pace in Q2 from a downwardly revised 3.8% annualized pace in Q1. Unit labor costs are up only 0.5% in the past year, the smallest gain since before the pandemic. Even though inflation is still elevated, “real” (inflation-adjusted) compensation per hour grew at a 0.4% annualized rate in Q2 but is unchanged in the past year. On the manufacturing front, productivity rose at a 1.8% annualized rate in Q2, as both output and hours rose as well, but output rose at a faster pace. Even with government subsidies, manufacturing productivity is up only 0.4% in the past year and fell 0.8% in the year prior. In other words, the Q2 acceleration appears to be an anomaly. Government direction of resources harms productivity in the longer term. In other news this morning, on the employment front, initial jobless claims rose 14,000 last week to 249,000. Meanwhile, continuing claims increased 33,000 to 1.877 million. Also on the labor front, ADP’s measure of private payrolls increased 122,000 in July versus a consensus expected 150,000. We’re estimating tomorrow’s government report will show a nonfarm payroll gain of 197,000 with the unemployment rate remaining at 4.1%.



Productivity and Costs (% Change, All Data Seasonally Adjusted)	Q2-24	Q1-24	Q4-23	Q3-23	Y to Y % Ch. (Q2-24/Q2-23)	Y to Y % Ch. (Q2-23/Q2-22)
<b>Nonfarm Productivity</b>	2.3	0.4	3.5	4.6	2.7	1.3
- Output	3.3	1.0	3.8	5.8	3.4	2.4
- Hours	1.0	0.6	0.2	1.1	0.7	1.1
- Compensation (Real)	0.4	0.4	-2.0	1.1	0.0	0.8
- Unit Labor Costs	0.9	3.8	-2.8	0.1	0.5	3.6
<b>Manufacturing Productivity</b>	1.8	-1.1	2.0	-1.0	0.4	-0.8
- Output	3.4	-1.3	-1.3	-0.4	0.1	-0.6
- Hours	1.6	-0.2	-3.3	0.6	-0.3	0.3
- Compensation (Real)	2.2	-0.6	0.4	3.9	1.5	1.2
- Unit Labor Costs	3.2	4.3	1.0	8.6	4.3	6.2

Source: US Department of Labor