

U.S. Data Review

- Productivity: surprisingly slow in Q3; doubts about pickup

Michael Moran

Daiwa Capital Markets America
 212-612-6392
michael.moran@us.daiwacm.com

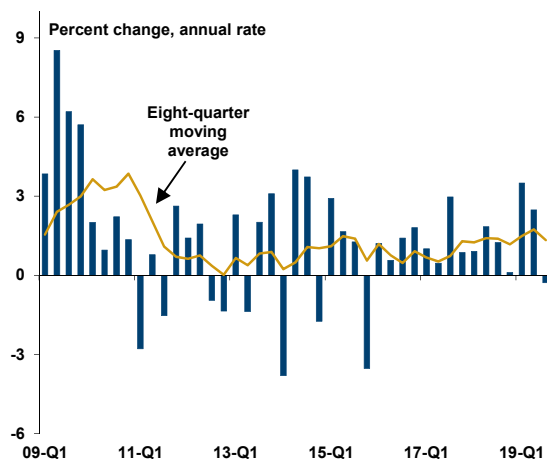
Productivity

Productivity in the nonfarm business sector (output per hour of labor input) fell 0.3 percent in the third quarter, notably weaker than the expected increase of 0.9 percent. The measure of output used in this report exactly matched expectations (2.1 percent, available in the GDP report), but hours worked provided a surprise. Figures on employment and the length of the workweek from the monthly employment report suggested growth in labor hours of approximately 1.2 percent, but the official statistics showed growth of 2.4 percent.

In one sense, the slow results in Q3 are not shocking, as productivity growth often fluctuates widely from quarter to quarter. For example, growth of only 0.1 percent in the fourth quarter of last year was followed by jumps of 3.5 percent and 2.5 percent in Q1 and Q2. The series is best monitored with some long-term moving average (at least four quarters, eight is probably better). Before today's report, trend growth seemed to be accelerating, with the eight quarter average totaling 1.7 percent as of Q2, up from readings of approximately one percent in preceding years (chart, left). The slow results in Q3 pushed the eight quarter average to 1.3 percent, raising doubts about a meaningful pickup in productivity growth.

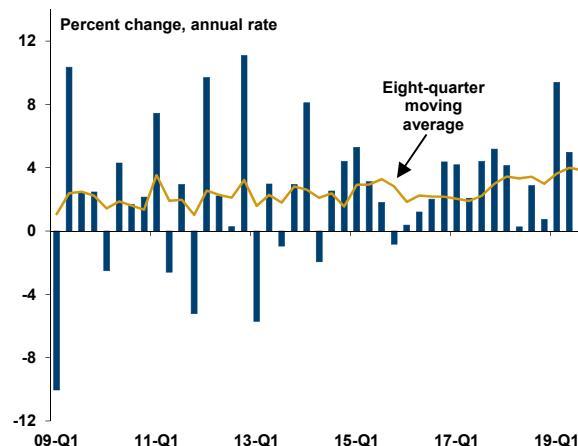
The productivity report also includes a measure of labor compensation, which is useful to monitor for additional information on the effects of labor market tightness. Results in Q3 were favorable, with growth of 3.3 percent after an average advance of more than seven percent in the prior two quarters. This series also is noisy, and thus moving averages provide a better view of trend. Here too, results are favorable, with the eight-quarter average showing growth of 3.9 percent, a pickup from the pace earlier in the expansion (chart, right).

Nonfarm Productivity



Source: Bureau of Labor Statistics via Haver Analytics

Compensation Per Hour



Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.