

## DAILY GLOBAL COMMENTARY

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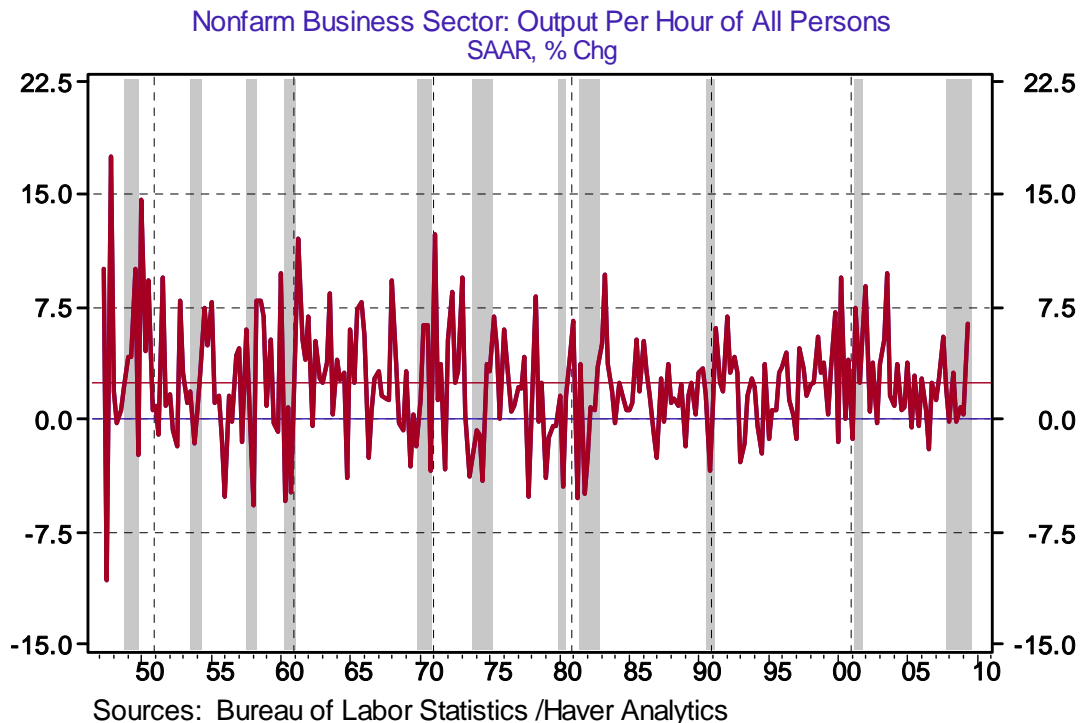
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### Q2 Productivity Surge is Temporary August 11, 2009

Productivity of the U.S. economy rose 6.4% in the second quarter after a 0.3% increase in the prior quarter. Although output declined, hours worked fell more sharply and led to an increase in productivity. Productivity gains toward the end of a recession and the beginning of recovery are typical (see chart 1) and they reflect cost cutting strategies of firms. The surge in productivity registered in the second quarter is not representative of the long-term trend; the long-term productivity of the U.S. economy is roughly 2.5%.

The sharp increase in productivity and a mild gain in compensation (+0.2%) translated to a 5.8% drop in unit labor costs. The decline in unit labor costs is a big positive because it implies the absence of inflationary pressures.

Chart 1



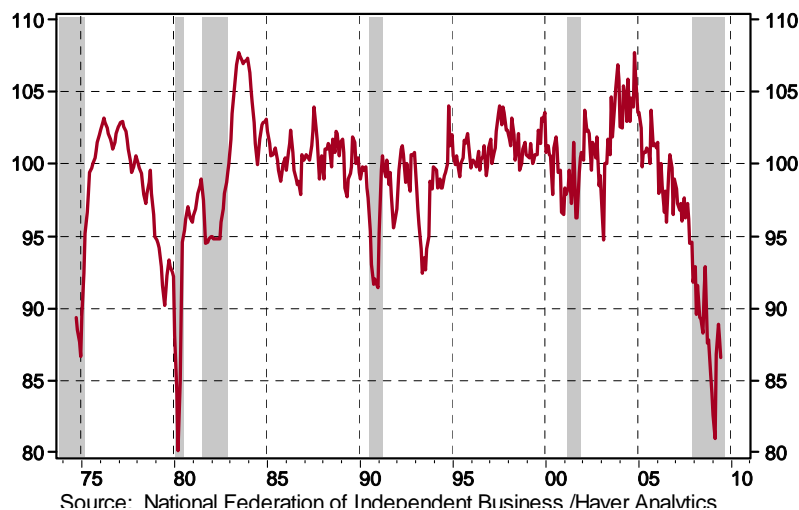
## Productivity and Costs

	percent change from previous quarter at annual rate				
	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2
<b>Productivity</b>	3.1	-0.1	0.8	0.3	6.4
<b>Output</b>	1.3	-4.0	-7.6	-8.8	-1.7
<b>Hours</b>	-1.7	-3.9	-8.3	-9.0	-7.6
<b>Unit labor costs</b>	-1.8	4.6	2.0	-2.7	-5.8
<b>Hourly Compensation</b>	1.3	4.5	2.9	-2.4	0.2
<b>Real hourly compensation</b>	-3.0	-1.6	12.3	-0.1	-1.1
<b>Implicit Price Deflator</b>	1.6	4.6	-0.2	2.7	-0.2
	percent change from corresponding quarter of previous year				
	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2
<b>Productivity</b>	2.6	1.2	0.9	1.0	1.8
<b>Output</b>	1.3	-0.7	-3.0	-4.8	-5.6
<b>Hours</b>	-1.3	-1.9	-4.0	-5.8	-7.3
<b>Unit labor costs</b>	0.1	1.9	1.6	0.5	-0.6
<b>Hourly Compensation</b>	2.7	3.1	2.6	1.5	1.3
<b>Real hourly compensation</b>	-1.5	-2.0	1.0	1.7	2.2
<b>Implicit Price Deflator</b>	1.1	2.0	1.6	2.2	1.7

## Small Business Optimism Dips Slightly in July

The Small Business Optimism Index fell 1.3 points to 86.5 in July. The index is largely a coincident indicator (see chart 2). Therefore, a significant improvement of the index is necessary to conclude that the recession has ended.

Chart 2  
NFIB: Small Business Optimism Index  
SA, 1986=100 (I)



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