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COMMENTARY

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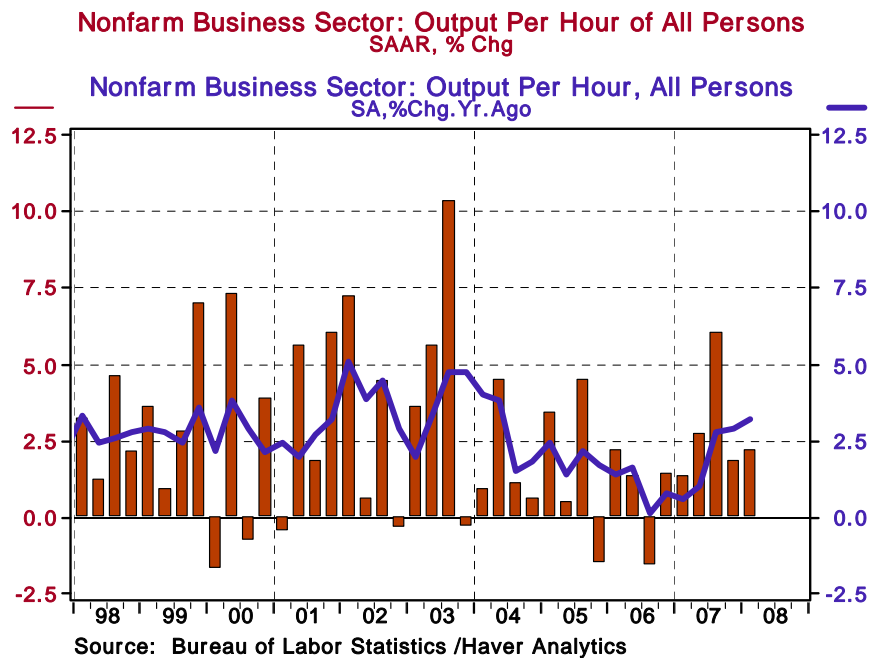
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Productivity Advances in Q1, Partly Due to Decline in Hours Worked

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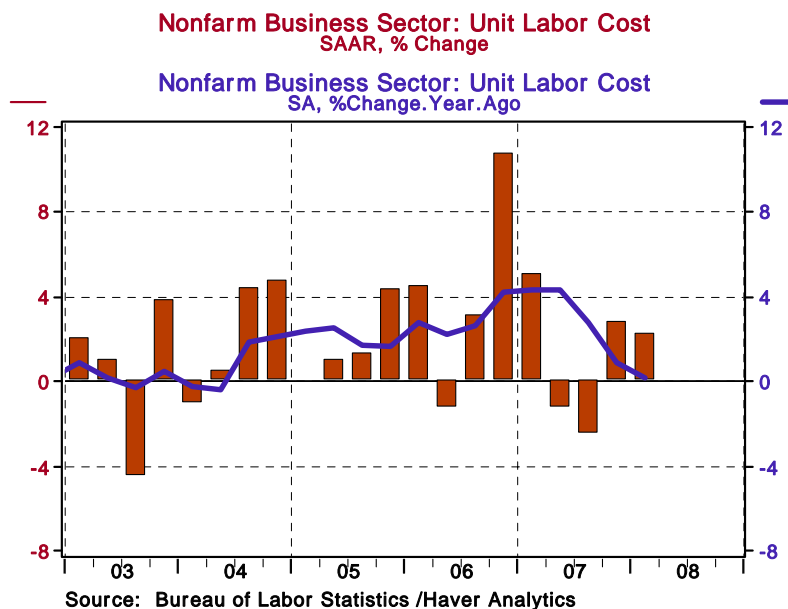
Productivity (output per hour) rose at an annual rate of 2.2% in the first quarter, slightly higher-than-expected because the decline in hours worked was larger than the estimate in the employment report. Hours worked fell at an annual rate of 1.1% in the first quarter according to the employment report, whereas, the hours worked declined 1.8% in the productivity report. The decline in hours worked combined with a 0.4% increase in output yields a 2.2% increase in productivity.

Chart 1



Unit labor costs (cost of producing one unit of output) increased 2.2% in first quarter, which puts the year-to-year change at 0.2%. Essentially, productivity is advancing and labor costs are declining – the perfect combination for an inflation fighting Fed. The good news is that labor costs are contained and present no inflationary threat.

Chart 2



Productivity and Costs – 2008:Q1

	percent change from previous quarter at annual rate				
	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1
Productivity	1.3	2.7	6.0	1.8	2.2
Output	0.3	4.2	5.6	0.2	0.4
Hours	-0.9	1.5	-0.4	-1.6	-1.8
Unit labor costs	5.0	-1.3	-2.5	2.8	2.2
Hourly Compensation	6.4	1.3	3.3	4.6	4.4
Real hourly compensation	2.7	-3.2	0.6	-0.4	0.1
Implicit Price Deflator	3.6	2.1	0.1	1.6	2.2

	percent change from corresponding quarter of previous year				
	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1
Productivity	0.6	1.0	2.8	2.9	3.2
Output	1.5	2.0	3.2	2.6	2.6
Hours	0.9	1.0	0.3	-0.4	-0.6
Unit labor costs	4.3	4.3	2.8	0.9	0.2
Hourly Compensation	4.9	5.3	5.8	3.9	3.4
Real hourly compensation	2.4	2.5	3.3	-0.1	-0.7
Implicit Price Deflator	2.3	1.9	1.5	1.8	1.5

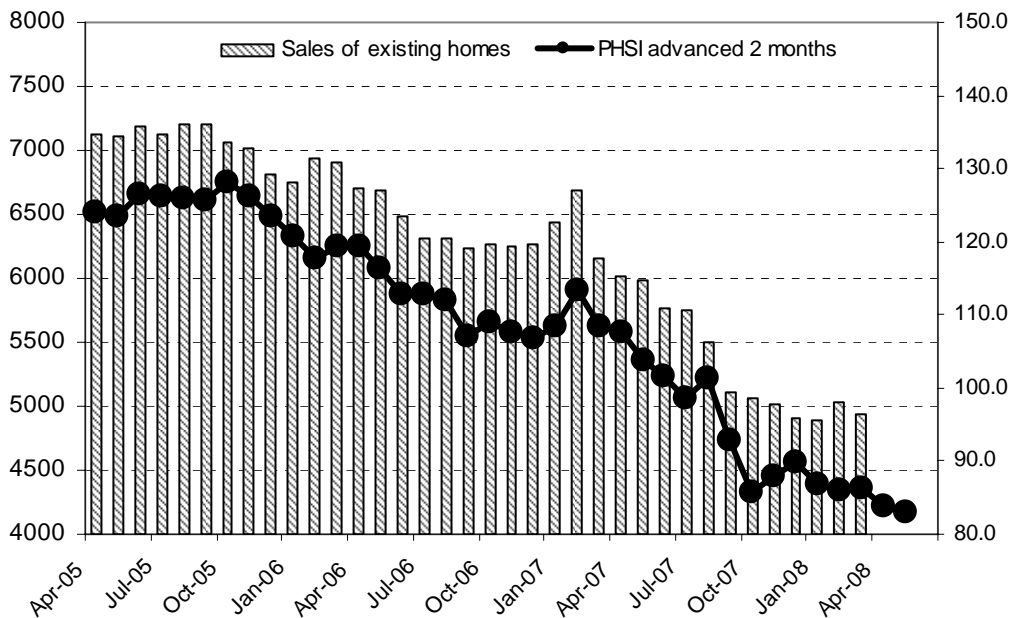
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Gloom in the Housing Market Persists

The Pending Home Sales Index (PHSI) for March 2008 dropped to 83.0, the lowest on record, from a revised 83.8 reading in the prior month (previously estimated as 84.6). During the twelve months ended March, the PHSI has dropped 20.1%. According to the National Association of Realtors, the PHSI leads homes sales by about two months. The decline in the PHSI in February and March bodes poorly for sales in the near term. Sales of existing home fell 2.0% in March.

Chart 3

Sales of Existing Homes vs. PHSI



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