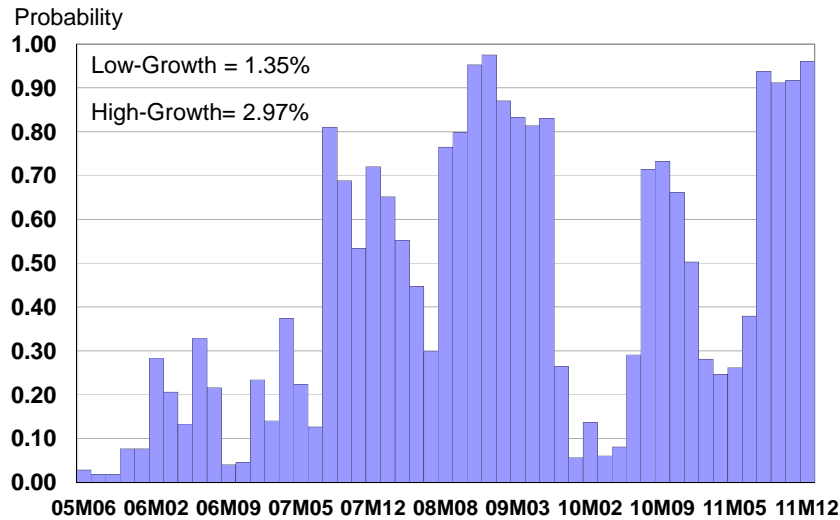


Kahn-Rich Productivity Model Update (December 2011)

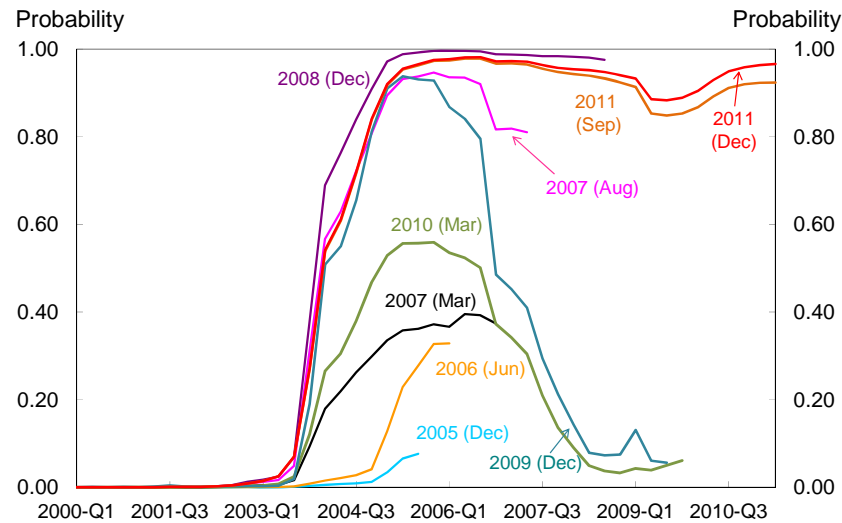
Low-Growth Regime Probabilities (Chart 1)

Real-Time Assessments for the Most Recent Quarter



Low-Growth Regime Probabilities (Chart 3)

Retrospective Assessments in Real Time

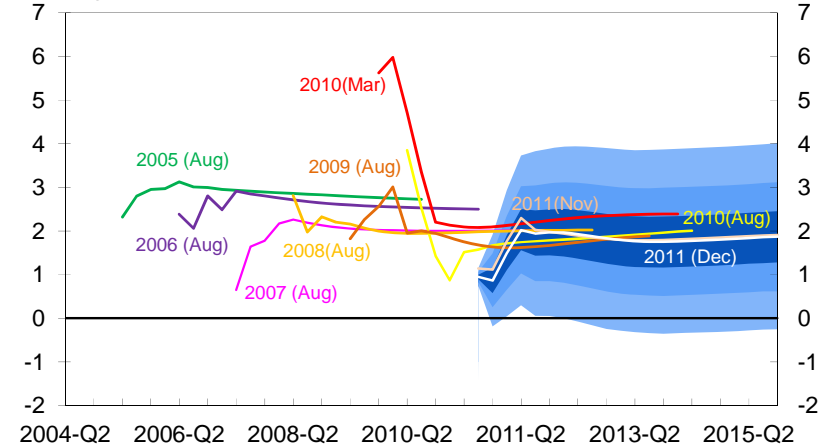


Five-Year Forecasts of Productivity Growth (Chart 2)

4Q moving average

% Change -- Annual Rate

% Change -- Annual Rate



Note: The shading represents the 25, 50, and 75% probability bands around the December 2011 forecast.

Key Points

- Productivity in the nonfarm business sector for 2011Q3 was revised down from 3.1% (annual rate) to 2.3%, largely due to a 0.6% (annual rate) downward revision to output in this sector. There were also significant downward revisions to real compensation (another input to the model), with growth in the second and third quarters revised downward to -0.2% (annual rate) in both quarters from 2.7% and 0.6%, respectively.
- The revised 2011Q3 data release increased the low-growth regime probability from 0.92 in November to 0.96 in December, the highest current quarter reading since December 2008 (Chart 1). While the change in the low-growth regime probability lowered the near-term forecast profile for productivity growth, there was little change over the medium-run (Chart 2).
- The model remains firm in its conclusion that productivity has been in a low growth regime since 2004, and that the strong burst of productivity growth in 2009 was only cyclical and transitory (Chart 3). As previously discussed, this view largely resulted from the sizeable data revisions to the national income and product data in August. Future data releases will remain important to monitor this development.

Please see our [Current Issues](#) for more details on the model

Note: Chart 1 tracks the model's estimate of the low-growth probability as of the latest period for which data are available, which is typically as of one quarter earlier. For example, the latest reading ("09M11") is based on 2009:Q3 data. The reading labeled "08M06" reflects the model's estimate as of last June, reflecting data through 2008:Q1. Chart 3 depicts the evolution of the model's assessment of the probabilities going back to 2000:Q1 given data available at the indicated date.