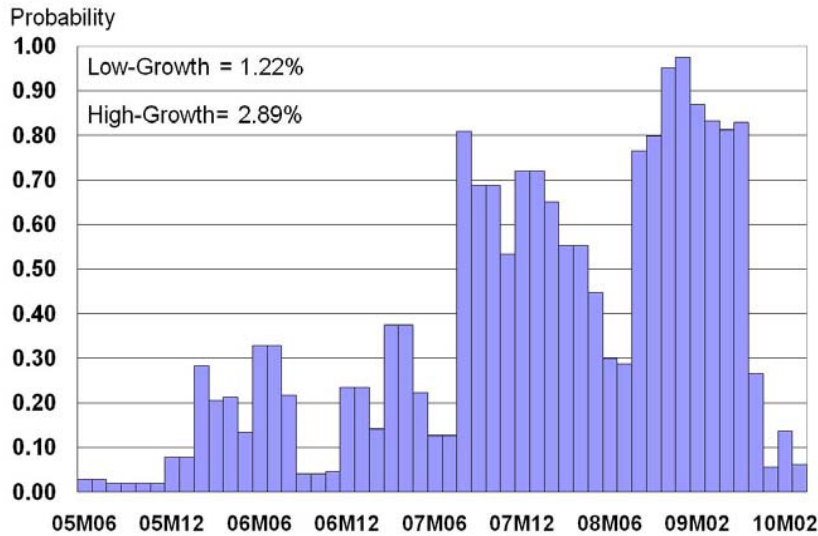


# Kahn-Rich Productivity Model Update (March 2010)

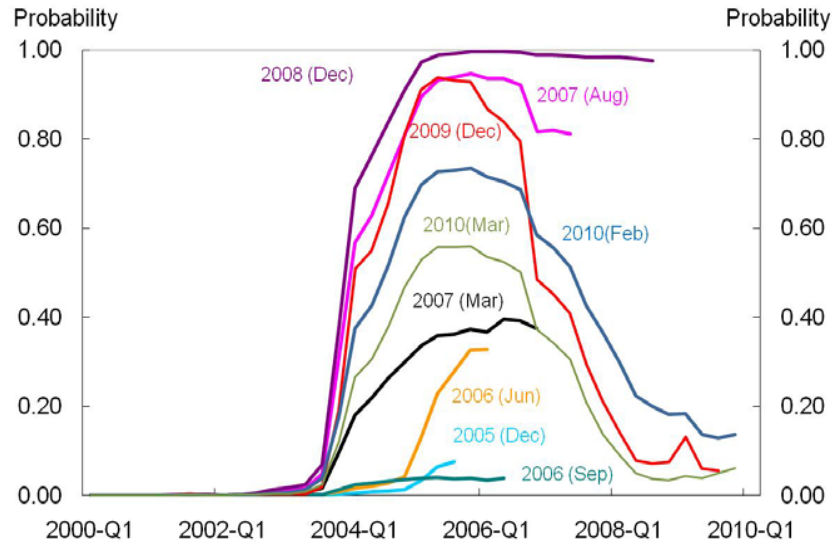
## Low-Growth Regime Probabilities (Chart 1)

Real-Time Assessments for the Most Recent Quarter



## Low-Growth Regime Probabilities (Chart 3)

Retrospective Assessments in Real Time

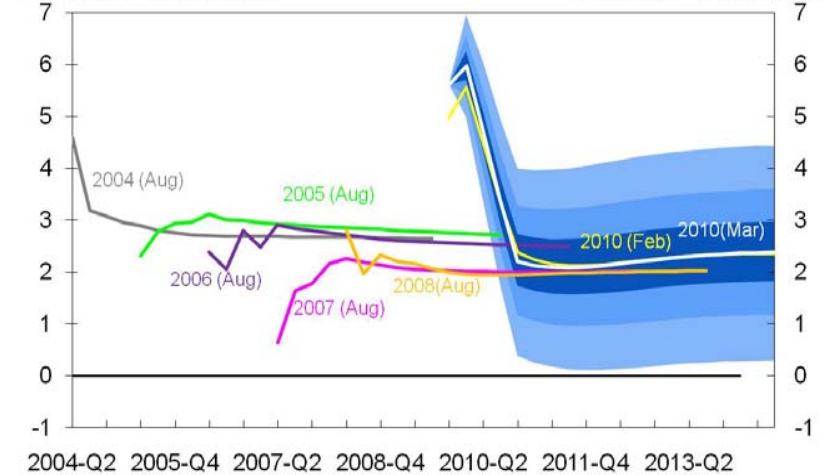


## Five-Year Forecasts of Productivity Growth (Chart 2)

4Q moving average

% Change -- Annual Rate

% Change -- Annual Rate



Note: The shading represents the 25,50, and 75% probability bands around the March 2010 forecast.

## Key Points

- Nonfarm productivity growth for Q4 was revised up to 6.9% (annual rate) from the preliminary estimate of 6.2%. There were, however, significant downward revisions to the growth in nominal compensation per hour: for Q4, it was lowered to 0.6% from 1.5% (annual rate); and for Q3, it was lowered from 5.5% to -0.4%. Hours worked rose at a 0.7% annual rate in Q4, representing the first increase in the series since 2007Q2.
- As a consequence of the data revisions, the low-growth regime probability declined from 0.14 in February 2010 to 0.06 in March (Chart 1). There was, however, little change in the forecast profile for productivity growth in March compared to February (Chart 2).
- The Q4 data revisions provide ongoing support for the change in the productivity growth outlook that was initially identified at the end of 2009. The evidence now indicates that the slowdown that began in 2004 was more transitory than it had appeared through most of 2009, with a likely shift back to the high growth regime around the middle of 2007. This view, however, still need to be tempered due to the effects of temporary fiscal measures and the sharp decline in hours worked on some of the model inputs.

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.