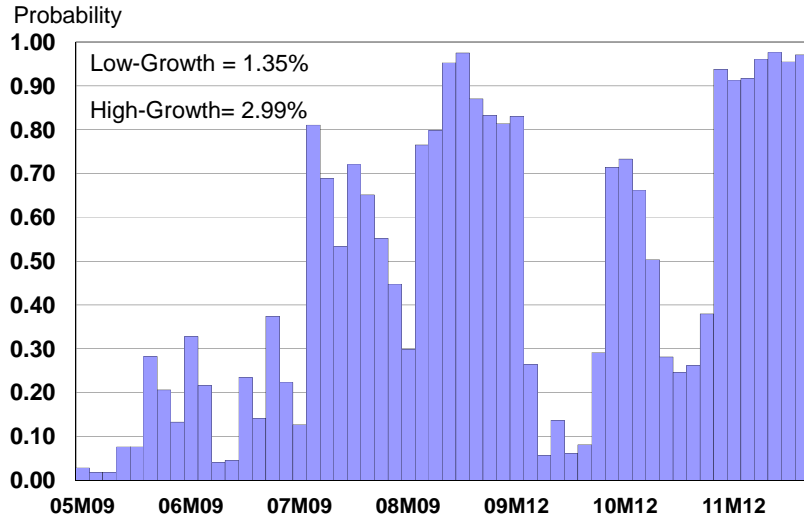


Kahn-Rich Productivity Model Update (May 2012)

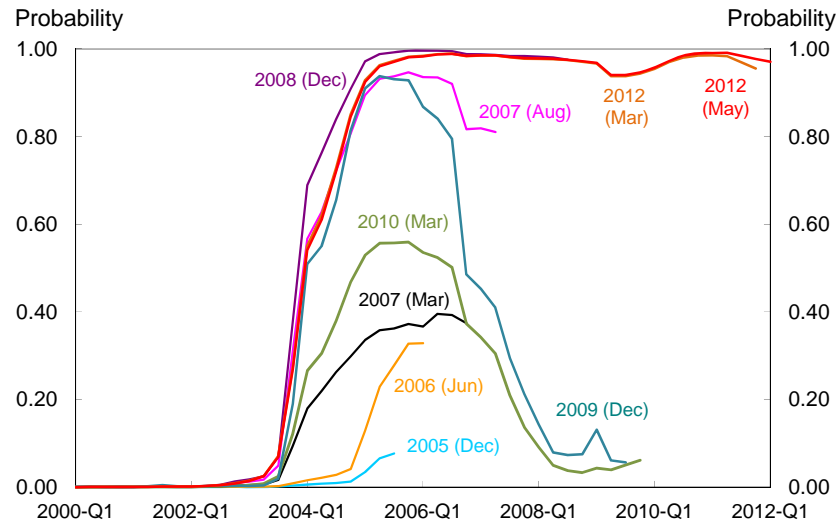
Low-Growth Regime Probabilities (Chart 1)

Real-Time Assessments for the Most Recent Quarter



Low-Growth Regime Probabilities (Chart 3)

Retrospective Assessments in Real Time

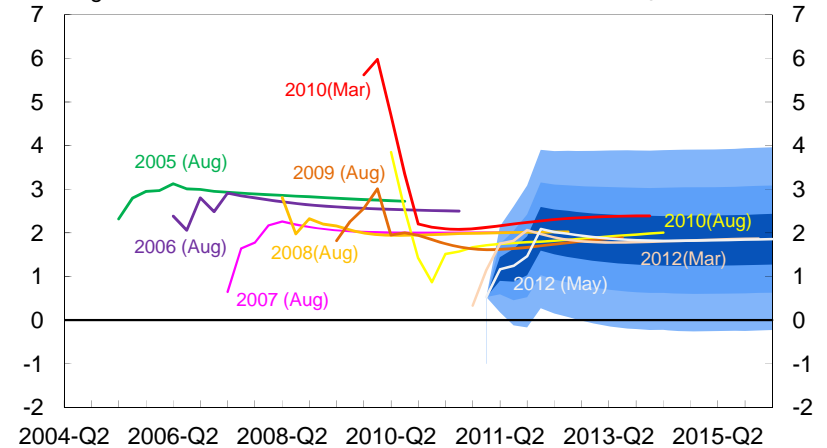


Five-Year Forecasts of Productivity Growth (Chart 2)

4Q moving average

% Change -- Annual Rate

% Change -- Annual Rate



Note: The shading represents the 25, 50, and 75% probability bands around the May 2012 forecast.

Key Points

- Preliminary estimates indicate that productivity growth in the nonfarm business sector fell 0.5% (annual rate) in 2012Q1, with productivity growth in 2011Q4 revised up from 0.9% to 1.2%. With regard to other model inputs, real consumption (relative to hours worked) was flat and real compensation declined during 2012Q1, and the series showed only minor revisions in 2011Q4.
- The preliminary 2012Q1 data release slightly increased the low-growth regime probability from 0.96 in 2011Q4 to 0.97 in 2012Q1 (Chart 1). While the forecast profiles for productivity growth from 2011Q4 to 2012Q1 shows a decline over the near-term, there was little change over the medium-term (Chart 2). Compared to the forecast profile generated two years ago, productivity growth is now expected to run almost 0.5 percentage point lower starting in 2013.
- Recent data releases continue to support the model's firm conclusion that productivity has been in a low growth regime since 2004, and that the burst of strong productivity growth in 2009 was only cyclical and transitory (Chart 3). As we have discussed, this view largely resulted from the sizeable data revisions to the national income and product data in August 2011. 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.