

## Strong Worker Productivity adds to Bond Rally

Nonfarm productivity rose at a +4.7% annualized pace in the third quarter according to the U.S. Labor Department. The increase in *hourly output per worker* was the fastest in three years and followed a solid +3.6% gain in Q2. This measure is preliminary, subject to revision and is notoriously volatile, but the best solution to the ongoing labor shortage will be increased productivity through the use of technology, and this morning's numbers appear to be an encouraging step in that direction.

On a closely related note, third quarter unit labor costs unexpectedly fell at a -0.8% pace in the third quarter after rising +3.2% in the second quarter. This *cost of labor per unit of output* is now up a more comfortable +1.9% year-over-year.

It's not yet clear that the strong productivity gains over the past two quarters will continue, especially when GDP growth is expected to slow, but from the Fed's perspective, the combination of higher productivity and lower labor costs support an extended pause. *This morning, the bond market agreed.* Yields are lower across the curve in early trading as investors sense the FOMC has finished hiking rates.

In other news, initial jobless claims climbed to a seven-week high of +217k during the last full week of October, although the number of Americans applying for first-time unemployment benefits remains historically low. Employers are still reluctant to lay-off workers when labor supply is so lean.

Continuing claims climbed above 1.8 million for the week ending October 20 for the first time since late April, implying that it's taking unemployed Americans longer to find new jobs.

### Market Indications as of 9:23 A.M. Central Time

DOW	Up 275 to 33,549 (HIGH: 36,800)
NASDAQ	Up 140 to 13,201 (HIGH: 16,057)
S&P 500	Up 46 to 4,284 (HIGH: 4,797)
1-Yr T-bill	current yield 5.37%; opening yield 5.35%
2-Yr T-note	current yield 4.95%; opening yield 4.93%
3-Yr T-note	current yield 4.74%; opening yield 4.74%
5-Yr T-note	current yield 4.60%; opening yield 4.63%
10-Yr T-note	current yield 4.65%; opening yield 4.72%
30-Yr T-bond	current yield 4.82%; opening yield 4.91%

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