

U.S. Data Review

- Productivity: weak again

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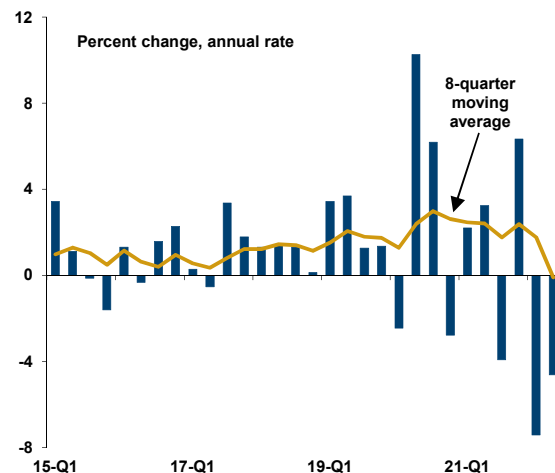
Productivity

Productivity in the nonfarm business sector fell 4.6 percent (annual rate) in the second quarter, nearly identical to the expected drop of 4.7 percent. The decline was well expected because output fell in the second quarter at the same time that employment and hours worked rose. More labor input and less output translates to a decline in productivity. The output measure used in this report fell 2.1 percent while hours worked rose 2.6 percent.

Q2 marked the second consecutive decline in productivity and the third in the past four quarters. The drop in the first quarter was especially sharp (-7.4 percent), and Q2 was pronounced as well. In fact, the average retreats in the past two and four quarters were the sharpest on record. We monitor an eight-quarter moving average to smooth the random movements that often occur in this report, and the latest reading of -0.1 is not a record low, but it represents a rare reading (comparable or softer results last seen in 1994 and in two other episodes influenced by recessions).

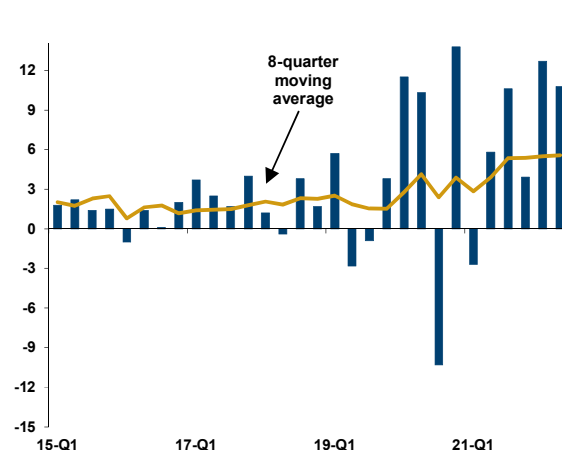
Productivity is an important factor in the inflation outlook, as it provides a cushion against rising wages. With wages now rising briskly, the soft productivity performance enhances rather than cushions the pressure on businesses to raise prices. This report also includes a wage measure (labor compensation per hour), and it rose 5.7 percent in Q2. Unit labor costs (compensation per hour adjusted by productivity) jumped 10.8 percent in Q2 after a surge of 12.7 percent in Q1 (chart, right).

Productivity: Nonfarm Business Sector



Source: Bureau of Labor Statistics via Haver Analytics

Unit Labor Costs



Source: Bureau of Labor Statistics via Haver Analytics

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