

Productivity Growth Stronger than First Reported

Nonfarm productivity growth rose 1.6 percent during the first quarter, which is twice the initial estimate. Hours worked were reduced at a 9.0 percent annual rate, while output was cut at just a 7.6 percent pace. Hourly compensation costs did not improve, however, and unit labor costs rose at a 3.0 percent annual rate.

Productivity Still Looks Reasonably Solid

- Businesses are doing a reasonably good job of aligning production and employment with weaker economic conditions. The better nonfarm productivity numbers mean employers have less need to reduce employment.
- Hourly compensation in the nonfarm sector rose at a 4.6 percent annual rate, which means unit costs increased at a 3.0 percent pace. The rise will continue to pressure profit margins.

Nonfinancial Productivity Looks a Little Less Impressive

- The revised productivity data provide our first look at nonfinancial productivity, a preferred measure. The data are less encouraging, showing productivity declining at a 2.1 percent pace. Output dropped at the fastest rate since the series began in 1958. Hours worked plunged at a 10.4 percent pace.
- Productivity growth appears to be settling into a 1.5 to 2.0 percent range, well below what was seen in recent years.

