

Economics Group

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Nonfarm Productivity Rose In-Line with Expectations

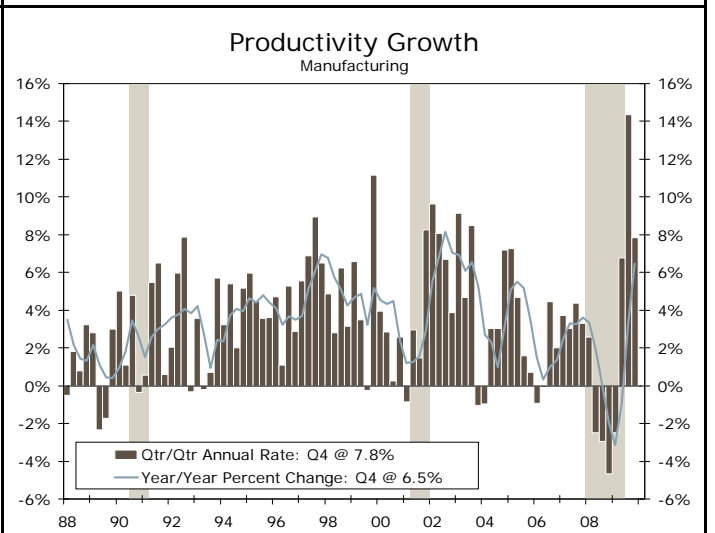
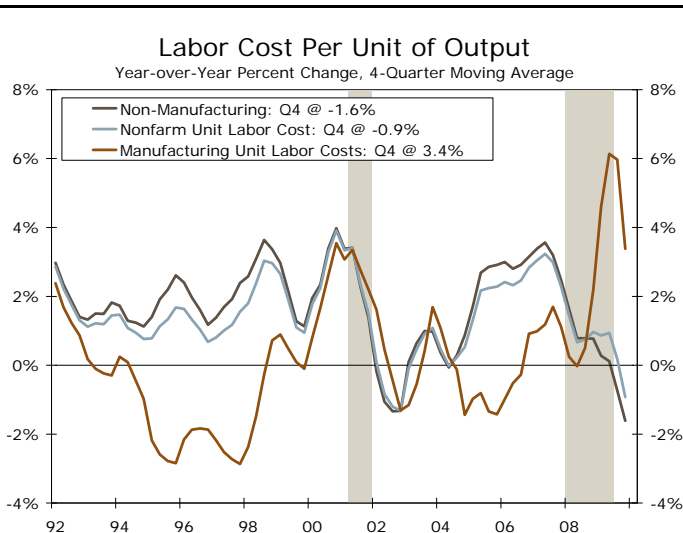
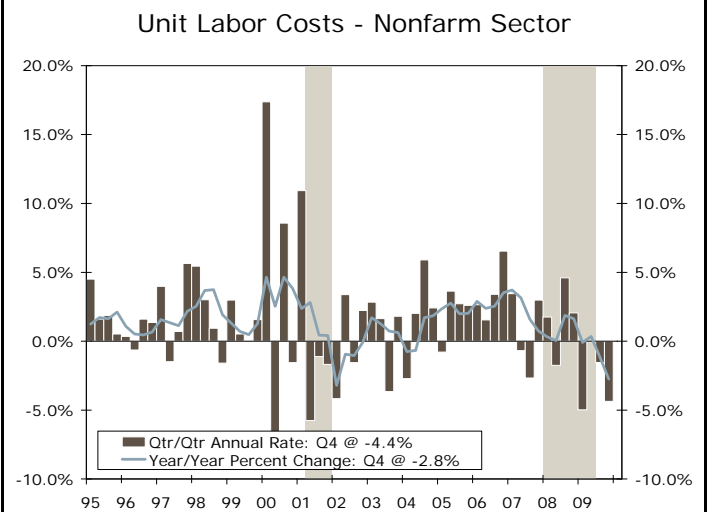
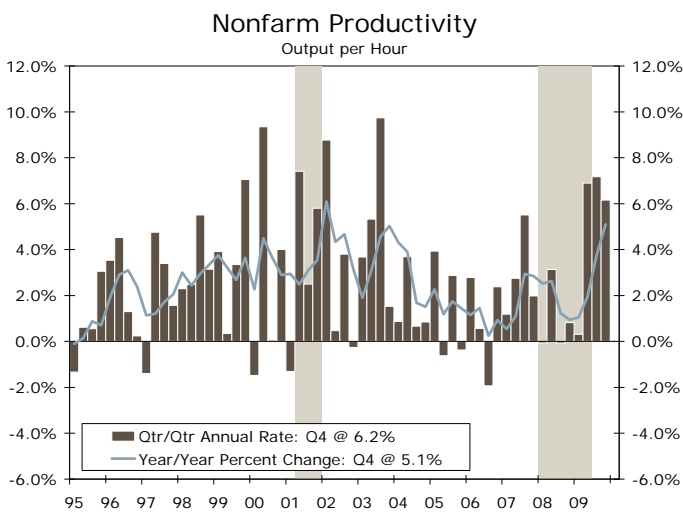
Nonfarm productivity rose at a 6.2 percent annual pace in the fourth quarter as output rose 7.2 percent and hours worked rose 1.0 percent. Unit labor costs fell 4.4 percent, which will help keep inflation contained.

Businesses Continue Cost-Cutting Measures

- Nonfarm productivity growth rose at a 6.2 percent annual pace in the fourth quarter. The third quarter was downwardly revised. The increase, however, continues to suggest that businesses are finding ways to squeeze more output out of fewer workers. We expect productivity growth to remain solid in the coming quarters as it typically peaks early in the recovery and remains elevated well into the second year.

Labor Cost Inflation Not an Issue for the Fed

- The combination of strong output and low compensation growth helped pull unit labor costs down. Unit labor costs fell at a 4.4 percent annual pace, the second consecutive quarterly decline. The downward trend in labor costs should continue to help boost corporate earnings and keep inflation contained. Consequently, the Fed will continue to have the flexibility to keep short term interest rates "exceptionally low...for an extended period."



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