



Economics Group

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Productivity Growth Surged During the Third Quarter

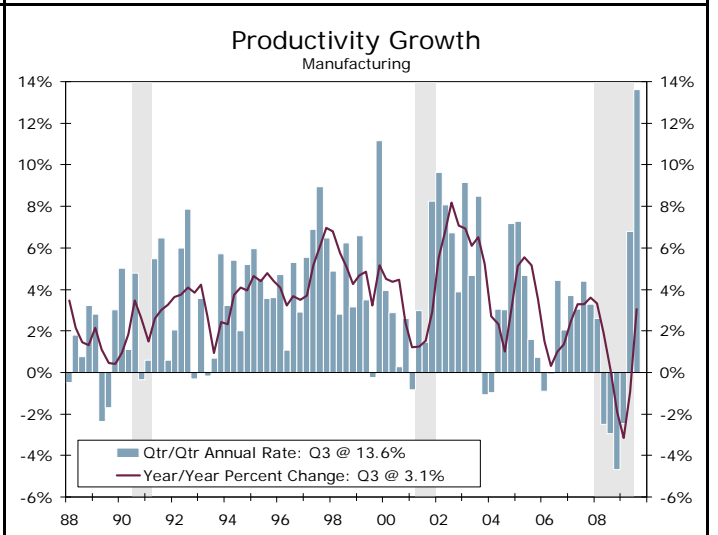
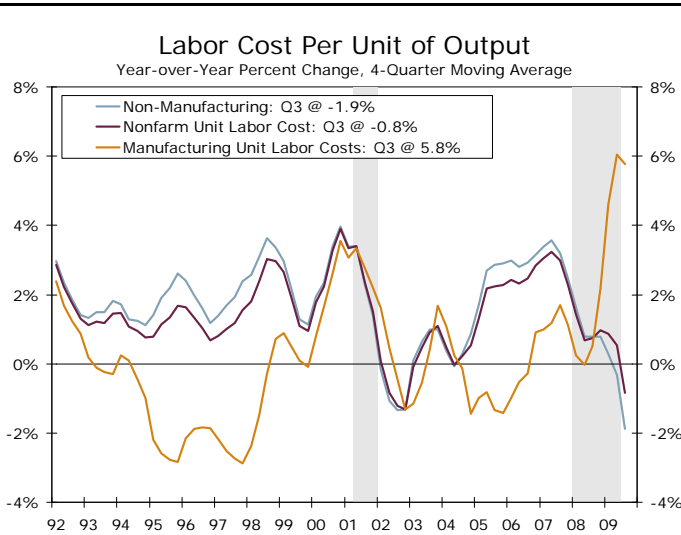
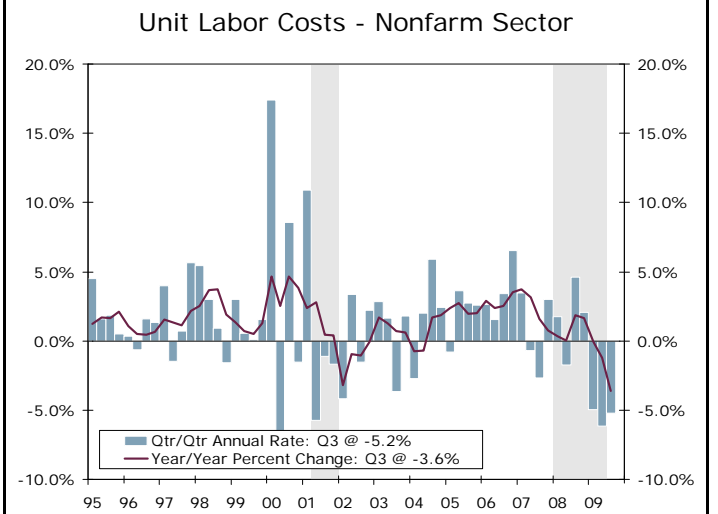
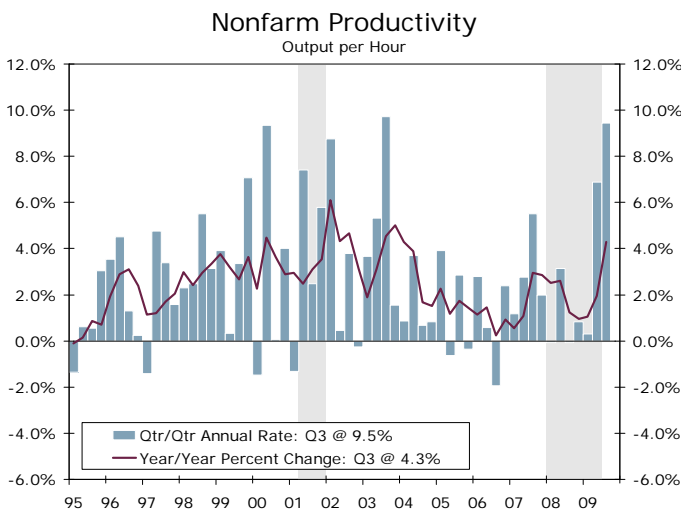
Nonfarm productivity growth surged 9.5 percent during the third quarter as output rose 4.0 percent and hours worked declined 5.0 percent. Unit labor costs fell 5.2 percent, which will help keep inflation contained.

Extraordinary Cost Cutting Helped Drive Productivity

- Nonfarm businesses continued to get lean and mean, finding ways to squeeze more output out of fewer workers. Total hours worked fell more than output increased, with hours falling 5.0 percent and output rising 4.0 percent.
- The third quarter's blowout productivity gain pushed year-to-year growth to 4.3 percent. Hours worked are down a stunning 7.5 percent, while output is down 3.5 percent.

Gains are Welcome but not Sustainable

- Productivity gains that result more from cost cutting rather than capital investment and training are unsustainable. They are equivalent to boosting a class's GPA by kicking out its C and D students. A far better strategy would be to find better ways to teach those C and D students so they could earn A's and B's.
- Stronger productivity growth is a sign that cost cutting is working and means job growth is not too far off.



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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