



Economics Group

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Productivity Contracts in the Fourth Quarter

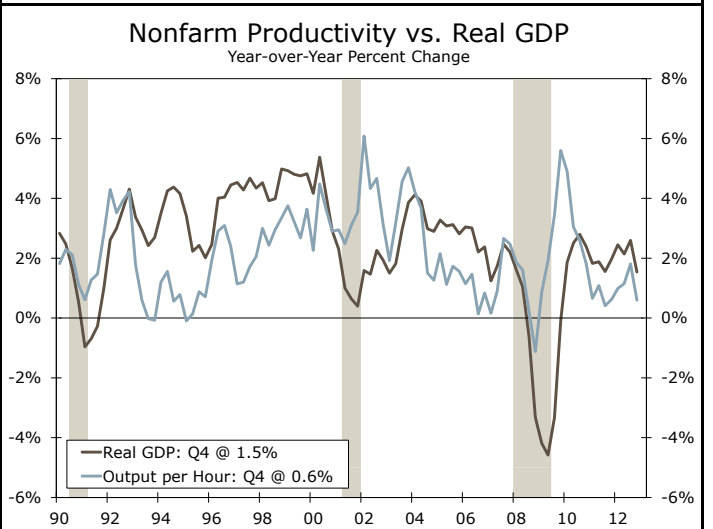
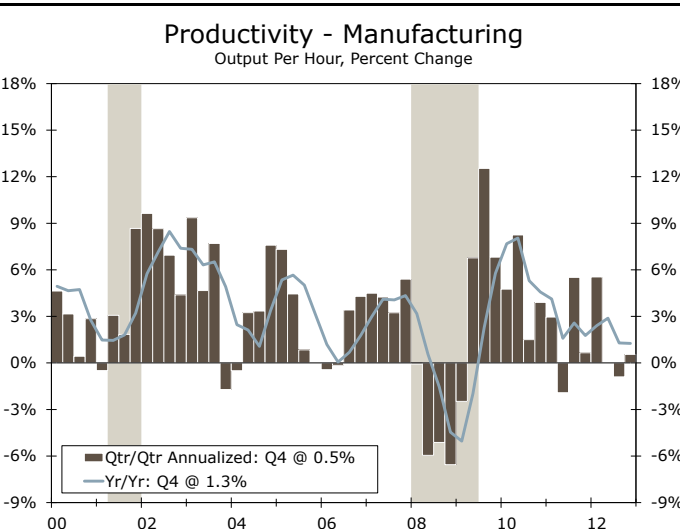
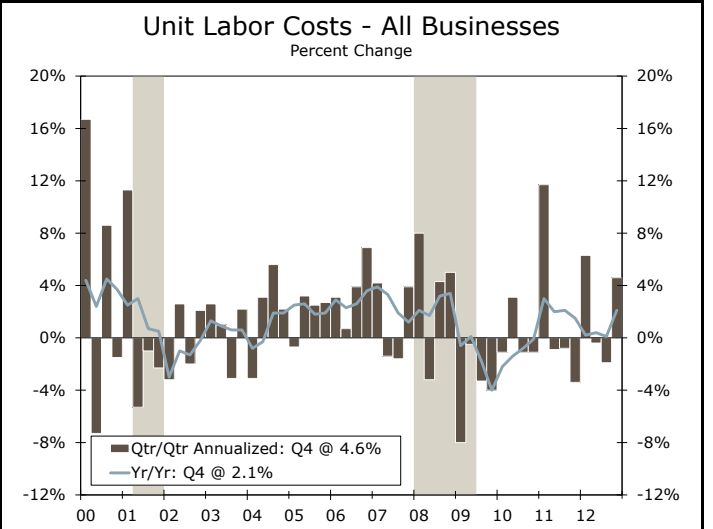
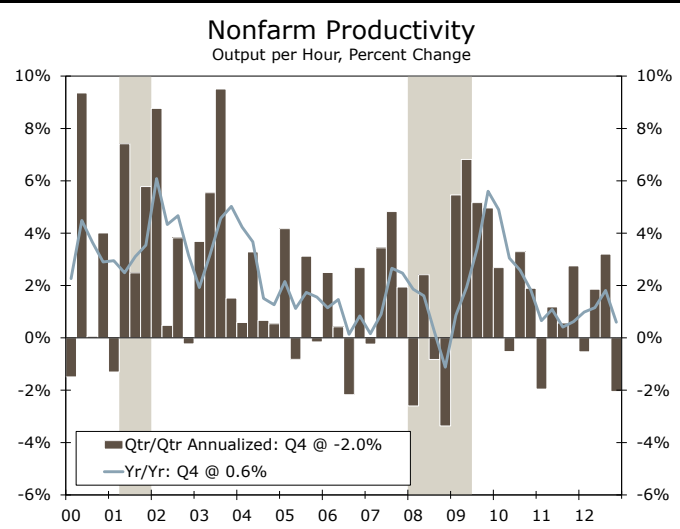
Reflecting soft output and an increase in hours worked, nonfarm productivity declined at a 2.0 percent annualized rate in Q4. Higher compensation costs helped unit labor costs grow at a 4.5 percent rate in Q4.

Productivity Edges Higher in 2012

- Following a 3.2 percent gain in Q3, nonfarm productivity fell more than expected in Q4. Output edged up 0.1 percent, while hours worked jumped 2.2 percent on the quarter. In 2012, productivity increased 1.0 percent, slightly higher than the 0.7 percent gain registered in 2011 but below the prior five-year average of 1.76 percent.
- Manufacturing productivity increased 0.5 percent in Q4.

Despite Recent Surge, ULC Still Fed Friendly

- After falling 2.3 percent in Q3, unit labor costs increased at a 4.5 percent annual rate in Q4. For the year, unit labor costs increased 0.7 percent, down from the 2.0 percent gain in 2011—a trend consistent with stable low inflation.
- Looking ahead, slowing productivity growth should place downward pressure on overall economic growth and corporate profit margins.



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

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