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Non-Farm Productivity, second quarter 2009



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The U.S. Bureau of Labor Statistics reported today that non-farm productivity had risen sharply, and more than forecast, in the second quarter. Combined with little change in hourly compensation, the productivity increase meant that unit labor costs either fell or were unchanged in most industries. For 2000-2008 as a whole, non-farm productivity grew at a 2.5% annual rate, broadly suggesting that potential growth of U.S. GDP is in excess of 3.0%.

- Non-farm business productivity grew at a 6.4% annual rate in the June quarter, faster than the 5.5% mean forecast. Individual forecasts ranged from 2.9% to 7.0%. The gain in productivity resulted from a 1.7% decline in non-farm output and a 7.6% decline in hours worked. Hourly compensation in non-farm business rose 0.2%, so that unit labor costs fell at a 5.8% rate. Compared with the June quarter of 2008, non-farm productivity rose 1.8% as output fell 5.6% and hours worked declined 7.3%. Unit labor costs were 0.6% lower than a year earlier. Productivity growth for the first quarter, however, was revised down from a 1.6% annual rate to 0.3% as the decline in non-farm output in the second quarter was greater than previously reported, while hours worked were little changed. Nevertheless, a large downward revision to compensation (from a +7.1% rate to -0.1%) meant that unit labor costs went from rising in the first quarter to falling at a 3.0% rate; the originally reported +16.6% annualized increase in manufacturing unit labor costs for the first quarter was revised down to +5%.
- Manufacturing productivity rose 5.3% in the second quarter following four consecutive quarters of decline. Manufacturing output continued to fall (declining at a nearly 10% annual rate, slower than the 20% rate seen in the previous two quarters) but hours worked fell more, -14.4%. In previous quarters, the output decline had been so rapid that manufacturers could not reduce labor quickly enough. Productivity rose 3.9% in durable goods manufacturing and 2.0% in non-durable goods manufacturing. Unit labor costs rose 0.5% in manufacturing, largely due to an increase in hourly compensation in durable goods industries.
- Revisions to earlier years data show that productivity growth was less than previously believed in 2008 (+1.8% vs. an earlier +2.8%), slightly higher in 2007 (+1.8% vs. +1.4%) and little changed in 2006 (at +0.9%). For the whole 2000-08 period, however, non-farm productivity rose at a 2.5% annual rate. Roughly speaking, this suggests that the potential growth rate of U.S. GDP should be a bit over 3.0%, higher than the 2.0–3.0% rate assumed by the consensus.

Source: U.S. Department of Labor

This report adds to the evidence from 2Q09 company earnings reports that cost cutting was severe in the first half of this year. These cost reductions suggest significant operating advantage, and thus potential margin improvement, for U.S. companies as demand revives in the United States and globally in the second half of this year, and thus supports an optimistic view of earnings prospects. At the same time, the decline in unit labor costs highlights the absence of any short-term upward pressure on core inflation. ■

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