U.S. Worker Productivity Falls

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WASHINGTON (AP) -- U.S. workers were less productive in the spring for the second quarter in a row, a trend that doesn't bode well for future hiring.

The Labor Department says productivity dropped 0.3 percent in the April-June quarter, following a decline of 0.6 percent in the first three months of the year. It was the first back-to-back decline in productivity since the second half of 2008.

The drop in productivity helped push unit labor costs up 2.2 percent. That follows a 4.8 percent rise in labor costs in the first three months of this year, the biggest increase since the last three months of 2008.

When workers are less productive and cost more, companies are less likely to add jobs.

Productivity measures the amount of output per hour worked. Higher productivity is generally a good thing because it can raise standards of living by enabling companies to pay workers more without raising their prices and increasing inflation.

Still, productivity gains can be painful in the short run if they are a result of job cuts. That's what happened in the recession, when productivity rose sharply as companies laid off millions of workers and figured out how to do more with less. Employees worked harder and companies invested in labor-saving technology and machinery.

A slowdown in productivity growth is bad for the economy if it persists for a long period. It can be good in the short term when unemployment is high, if it means companies are reaching the limits on how much extra output they can get from their existing work forces.

But economists say a drop in productivity when economic growth has declined is a troubling sign. That likely means companies hired too many workers earlier this year, based on the assumption that growth was picking up. The result: weaker output from a larger work force.

Recent government data show the economy expanded at a much weaker rate than most analysts expected. Growth slowed to a 0.8 percent annual rate in the first six months of the year, the government said late last month. That's the weakest pace since the recession ended two years ago.

Consumers have cut back on spending in the face of stagnant wages, high unemployment and high gas prices. Supply disruptions stemming from Japan's March 11 earthquake also reduced output, primarily in the auto sector.

Employers responded by cutting back on hiring. They added an average of only 72,000 jobs per month from May through July. That's far fewer than the average of 215,000 per month added in February through April.

Growing fears that the country could be on the verge of another recession, concerns about the European debt crisis and the first-ever downgrade of U.S. debt have caused the stock market to plummet by about 15 percent in the past 2 ½ weeks.

The Dow Jones industrial average plunged more than 600 points on Monday, the first trading day after Standard & Poor's downgraded long-term U.S. debt from AAA to AA+.

The Federal Reserve, which is meeting on Tuesday, watches productivity and unit labor costs carefully. Since increases in productivity allow companies to pay workers more without raising the prices of their products, productivity gains can help keep inflation at bay.