U.S. Worker Productivity Rates On The Rise

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U.S. workers were more productive from April through June than previously estimated, while labor costs were unchanged. Productivity grew at an annual rate of 2.3 percent in the April-June quarter, up from an initial estimate of 0.9 percent growth, the Labor Department said Thursday. Unit labor costs were flat in the second quarter, less than the 1.4 percent rise the government had initially estimated.

The combination of stronger productivity and less of an increase in wages should provide assurances to the Federal Reserve that inflation is not a threat. The revised productivity number reflected the fact that economic output had been revised higher for the second quarter to a growth rate of 2.5 percent. Productivity is the amount of output per hour work. The 2.5 percent economic growth rate was much stronger than the 1.7 percent annual rate estimated a month earlier for the gross domestic product, the economy's total output of goods and services.

Still, even with the increase, productivity growth has been weaker than during the recession and early stages of the recovery. It rose just 1.5 percent in 2012 and 0.5 percent in 2011. In 2010 and 2011, productivity increased at annual rates above three percent. That reflected the fact that millions of Americans were laid off as companies struggled to cope with a deep downturn. While output was down as well, the number of workers fell more, thus productivity increased. In records dating back to 1947, productivity has been growing by about two percent per year.

Since the recession ended, the economy hasn't been growing fast enough to fuel stronger hiring. Economists expect growth in the second half of the year will average between two and 2.5 percent. The economy has added an average of 192,000 jobs per month so far this year, a modest improvement on last year's average of 183,000 jobs a month. For now, the modest rise in labor costs means wages aren't growing fast enough to raise worries about inflation. The Fed monitors productivity and labor costs for any signs that inflation could pick up. Mild inflation has allowed the Fed to keep short-term interest rates at record lows and to buy bonds to try to keep long-term interest rates down.

Some economists say the economy is strong enough for the Fed to begin slowing its bond purchases at its September meeting. Others say the Fed may hold off at that meeting because they want to see more data. The $85 billion a month in purchases of Treasury and mortgage bonds have kept long-term interest rates low.

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