Economic Analysis

Productivity declines for second straight quarter

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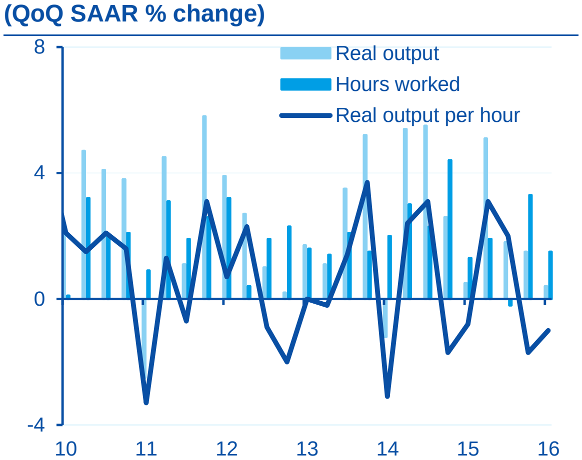
- **Real output per hour decreased 1.0% QoQ SAAR following a 1.7% decline in 4Q15**
- **Hours worked increased 1.5% QoQ SAAR while output rose 0.4%**
- **Productivity growth will remain below pre-crisis rates as GDP growth remains modest**

Nonfarm productivity growth for 1Q16 declined 1.0% QoQ SAAR following a 1.7% decline in the previous quarter, driven by output growing at a slower rate than hours worked. As expected, real output slowed significantly, up only 0.4% following a 1.5% boost in the fourth quarter, falling in line with the BEA's advance GDP report. Hours worked, on the other hand, increased 1.5%. One thing that likely contributed to the decline in overall productivity is the fact that most of the employment generation recently has been in service industries, which over the last ten years have posted lower productivity levels (and productivity growth) than manufacturing and mining.[1] Manufacturing productivity growth, which has generally been higher than the overall figure, increased 1.9%, propelled by an increase in productivity in nondurable goods manufacturing, which jumped 4.4%, the most in 21 quarters. The relatively strong performance of the labor market has led to a solid increase in unit labor costs in 1Q16, up 4.1% SAAR following 2.7% in 4Q15, which is positive news for wage growth and inflation, and could facilitate further interest rate increases.

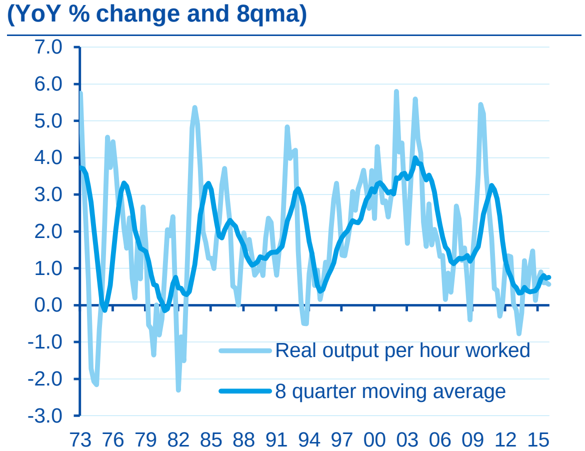
While quarterly productivity figures can be quite volatile like GDP (it might also exhibit residual seasonality), the trend in productivity remains weak. On a YoY basis, nonfarm labor productivity in 1Q16 was up just 0.6%, significantly less than the 1.0% post-recession average, which itself has never quite gained significant traction towards pre-recession growth rates. The post-crisis annual average is far from the 2000-2007 average of 2.7%. With both structural and cyclical factors in play, it is likely that productivity will remain low for the foreseeable future, fitting into this "new normal" economic environment of low growth over the next few years.

Chart 1
Real output and hours worked (QoQ SAAR % change)



Source: BLS & BBVA Research

Chart 2
Real output per hour worked (YoY % change and 8qma)



Source: BLS & BBVA Research

[1] Van Zandweghe, W. (2016). The Drag of Energy and Manufacturing on Productivity Growth. Kansas City Fed. https://goo.gl/2jkFrp

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