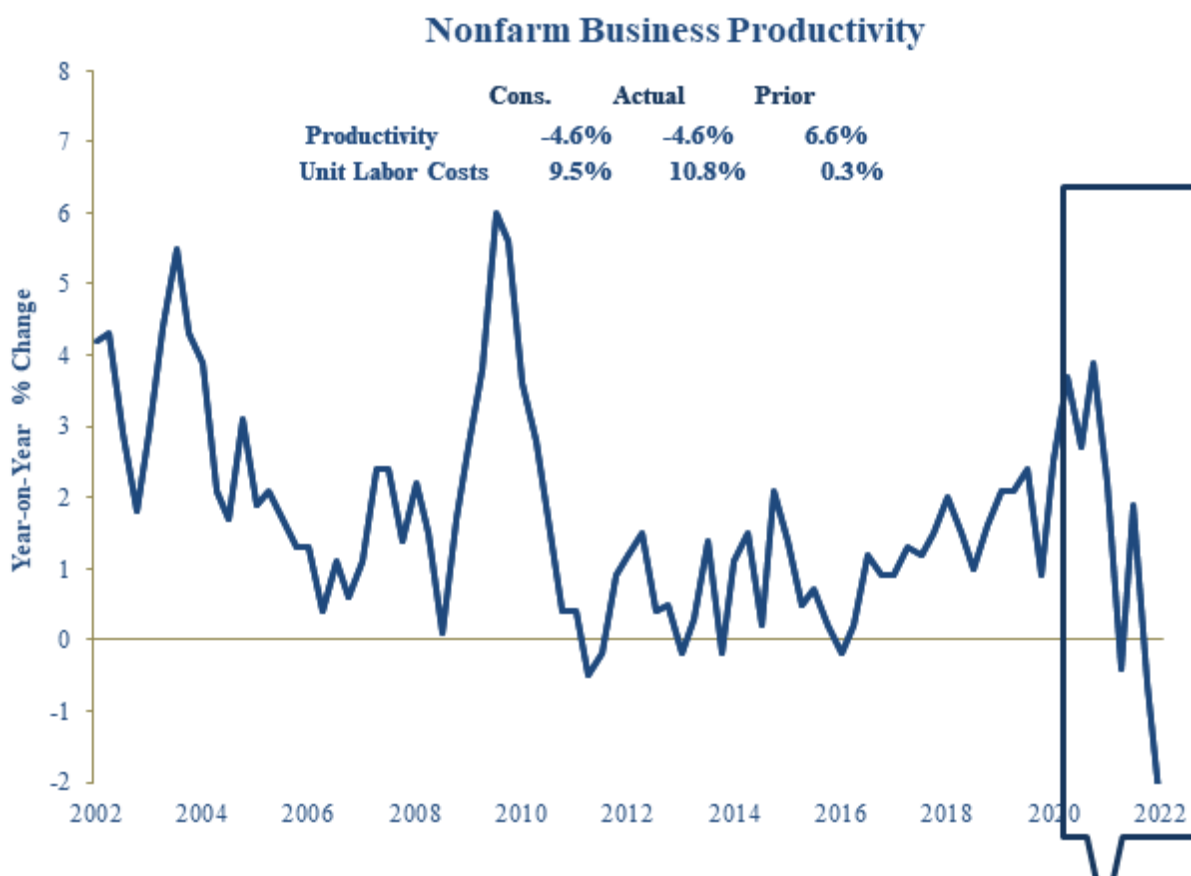
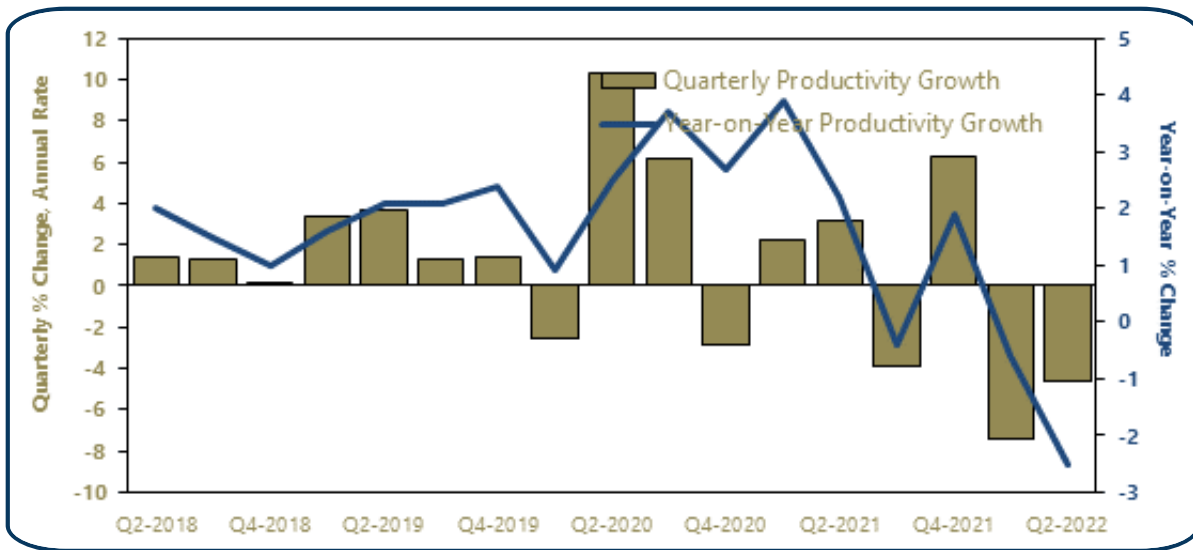


09.Aug.2022

Productivity: Another Decline As Labor Costs Jump

Bottom Line: The preliminary reading of productivity and costs for the 2nd Quarter showed a second consecutive quarter of sharp productivity declines as output fell and hours worked increased, resulting in unit labor costs rising 10+%. As we saw in the 1st Quarter, the negative output calculation, primarily due to lower inventories, skews the productivity artificially lower. Real final domestic demand fell only slightly in the 2nd Quarter, and businesses continued to hire and increase hours. **Overall, slower economic activity has hurt productivity, but businesses are uncertain about the outlook and reluctant to reduce payrolls or cut hours coming off a very tight labor market.**





Nonfarm Business Productivity FELL by 4.6% in 2022 Q2, compared with market expectations for a decrease of 4.6%.

Productivity is now 2.5% BELOW its year-ago level.

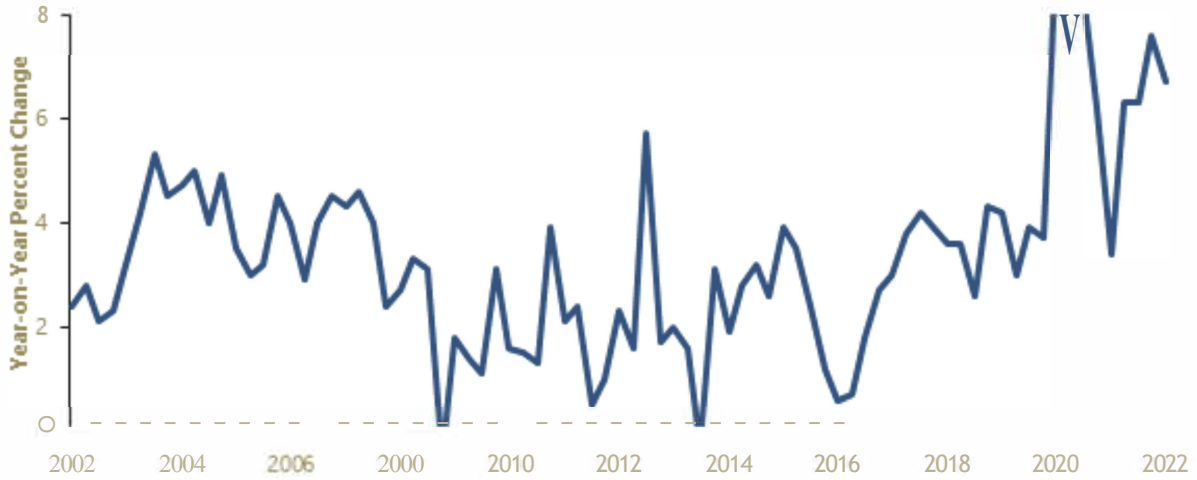
Output FELL by 2.1%, in line with the Q2 increase in nonfarm business GDP. With its recent losses, output is now 1.5% ABOVE its year ago level.

Hours Worked ROSE by 2.6% because of the solid gains in private employment and a steady workweek. Hours worked are now 4.1% ABOVE their year ago level.

Compensation ROSE by 5.7% and is now 6.7% ABOVE its year ago level. Quarterly compensation has been quite volatile in recent years but the trend turned higher in 2017.

Unit Labor Costs ROSE by 10.8%, compared with market expectations for an increase of 9.5%. Unit labor costs are now 9.5% ABOVE their year ago level.

Compensation



Unit Labor Costs



	% Change at Annual Rate					Year-on-Year % Change				
	Q2-2022 Prelim.	Q1-2022	Q4-2021	Q1-2021	Q2-2021	Q2-2022	Q1-2022	Q4-2021	Five Years	Ten Years
Nonfarm Business										
Productivity	-4.6	-7.4	6.3	-3.9	3.2	-2.5	-0.6	1.9	0.5	1.4
Output	-2.1	-2.5	9.0	2.0	8.5	1.5	4.1	6.9	2.6	1.7
Hours Worked	2.6	5.3	2.5	6.2	5.1	4.1	4.8	4.9	2.1	0.4
Compensation	5.7	4.4	10.5	6.3	9.2	6.7	7.6	6.3	2.3	2.5
Real Compensation	-4.4	-4.4	2.4	-0.4	1.1	-1.7	-0.4	-0.4	0.6	0.6
Unit Labor Costs	10.8	12.7	3.9	10.6	5.8	9.5	8.2	4.3	1.8	1.1
Non-labor Costs	7.3	2.1	13.7	-0.4	6.6	5.5	5.3	8.9	1.1	1.9
Implicit Deflator	9.4	8.3	7.8	6.0	6.1	7.8	7.0	6.1	1.5	1.4

Source: Bureau of Labor Statistic, Department of Labor via Bloomberg. Our calculations.