

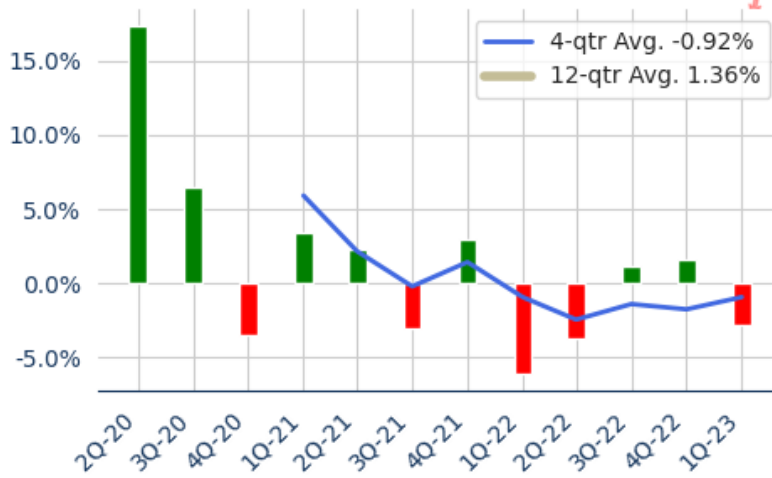
04.May.2023

Productivity: Signs of Troughing Cycle

Bottom Line: The Bureau of Labor Statistics reported even lower than expected productivity for the 1st Quarter as output gained just 0.15%, but hours worked increased nearly 3% in the quarter. Unit labor costs continued to increase as hourly compensation rose and productivity fell. Unit labor costs have increased 5.8% in the last four quarters as wage growth remained historically robust but growth cooled. Labor productivity trends move at a glacial pace, jumping sharply after recessions as businesses do more with a smaller workforce. But then productivity fades sharply as businesses hire and wage pressures build. **The economy is still in the late stages of the typical productivity trough, but we expect slower hours worked in the quarters ahead with still modestly positive growth. That should allow productivity growth to near its pre-pandemic trend rate of 1-1.5%.**

Labor productivity (output per hour)

1Q-23: -2.7%, consensus: -2.0%

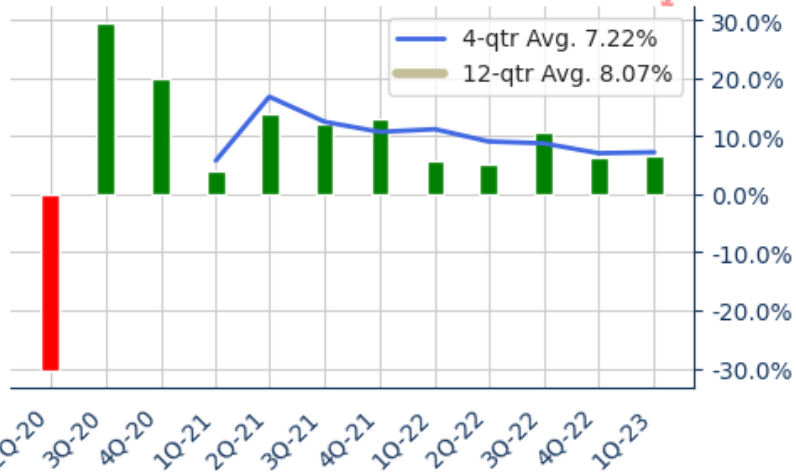


Contingent Macro Advisors 2023 source: US BLS

Compensation

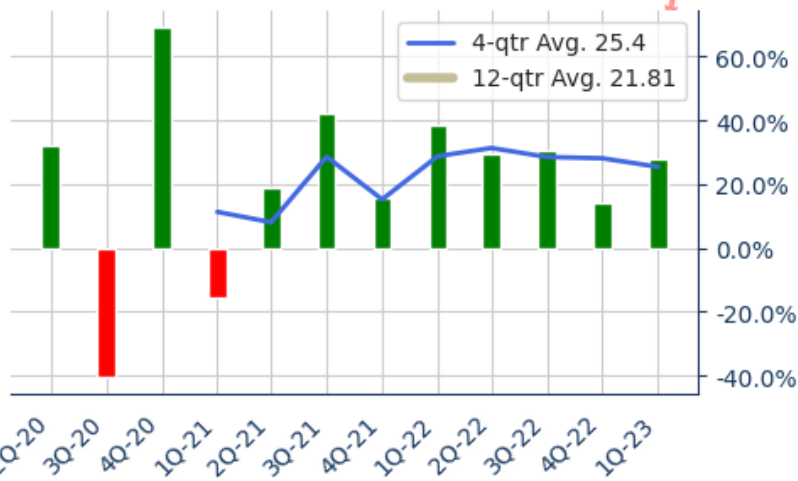
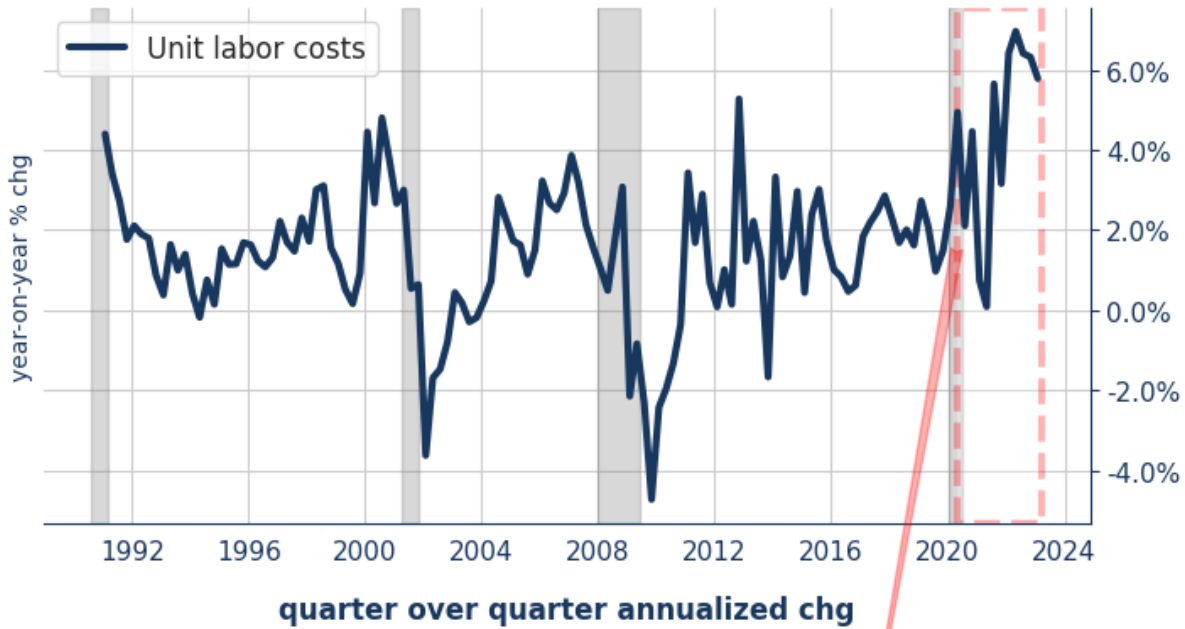


quarter over quarter annualized change



Contingent Macro Advisors 2023 source: US BLS

Unit labor costs



Contingent Macro Advisors 2023 source: US BLS

Productivity = Output/Hrs. Worked	1Q23qoq ann.	4Q22	3Q22	2Q22	1Q23 yoy	4Q22 yoy	3y Avg.	5y Avg.
Labor productivity (output per hour)	-2.75%	1.59%	1.19%	-3.72%	-0.69%	-1.80%	1.36%	1.42%
Output	0.15%	2.89%	3.64%	-1.24%	0.04%	0.67%	4.14%	2.37%
Hours worked	2.98%	1.28%	2.42%	2.57%	0.74%	2.51%	3.25%	1.06%

Labor productivity, or output per hour, is calculated by dividing an index of real output by an index of hours worked by all persons, including employees, proprietors, and unpaid family workers.

Unit Labor Costs = Comp/Output	1Q23qoq ann.	4Q22	3Q22	2Q22	1Q23 yoy	4Q22 yoy	3y Avg.	5y Avg.
Unit labor costs	6.34%	3.30%	6.91%	6.62%	1.55%	6.31%	4.49%	1.95%
Compensation	6.51%	6.28%	10.80%	5.29%	1.59%	7.03%	8.07%	4.18%

Output	0.15%	2.89%	3.64%	-1.24%	0.04%	0.67%	4.14%	2.37%
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The BLS calculates unit labor costs as the ratio of hourly compensation to labor productivity. Increases in hourly compensation tend to increase unit labor costs and increases in productivity tend to reduce them. Real hourly compensation takes into account consumer prices.

Output and Cost Details	1Q23qoq ann.	4Q22	3Q22	2Q22	1Q23 yoy	4Q22 yoy	3y Avg.	5y Avg.
Employment	3.09%	2.22%	2.63%	3.74%	0.76%	3.31%	2.80%	1.09%
Avg weekly hours worked	-0.10%	-0.92%	-0.20%	-1.12%	-0.03%	-0.77%	0.07%	-0.11%
Hours worked	2.98%	1.28%	2.42%	2.57%	0.74%	2.51%	3.25%	1.06%
Current dollar output	4.66%	6.28%	7.56%	8.34%	1.14%	6.77%	9.36%	4.57%
Nonlabor payments	2.21%	6.27%	3.38%	12.53%	0.55%	6.43%	12.36%	5.68%
Hourly compensation	3.42%	4.94%	8.19%	2.65%	0.84%	4.40%	5.76%	3.31%
Unit nonlabor payments	2.05%	3.29%	-0.25%	13.94%	0.51%	5.72%	6.16%	2.81%
Implicit price deflator	4.50%	3.30%	3.78%	9.70%	1.11%	6.06%	4.77%	2.08%
Real hourly compensation	-0.33%	0.71%	2.47%	-6.48%	-0.08%	-2.60%	0.65%	0.96%
Output per job	-2.85%	0.65%	0.99%	-4.80%	-0.72%	-2.55%	1.39%	1.29%
Labor share	1.77%	0.00%	3.02%	-2.81%	0.44%	0.24%	-0.14%	-0.09%

source = Bureau of Labor Statistics