

03.Aug.2023

### **Productivity: Sharp Increase As Cycle Troughs**

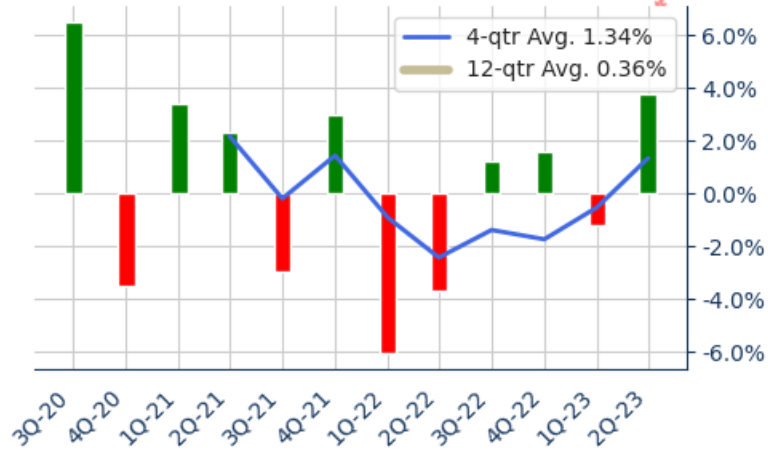
**Bottom Line:** The Bureau of Labor Statistics reported an even stronger-than-expected rebound in productivity, the first increase yearly increase since 4Q21, as output increased 2.4% and hours worked decreased 1.3% annualized in the 2nd Quarter. The decline in hours worked was the first decline since the second quarter of 2020 and was the result of a 1.3% decline in average weekly hours while employment was steady. Overall, continued growth in output with notably lower wage pressures has increased productivity and turned the trend modestly higher. **The economy is coming through the late stages of the typical productivity trough -- 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)

2Q-23: +3.7%, consensus: +2.2%

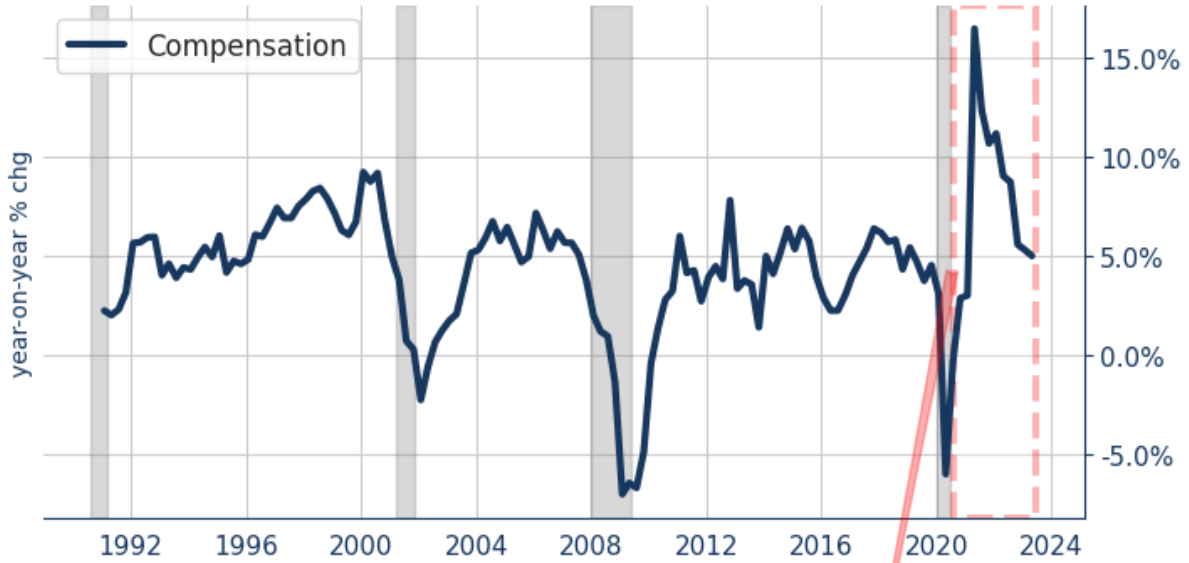


## quarter over quarter annualized change

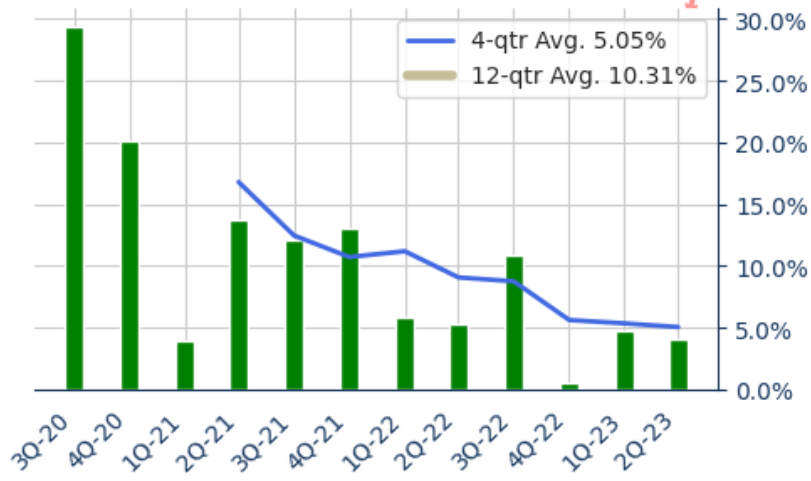


Contingent Macro Advisors 2023 source: US BLS

# Compensation

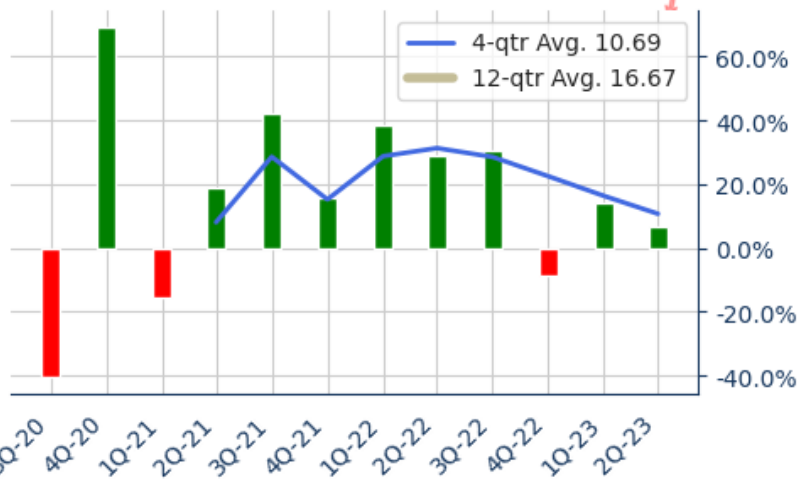
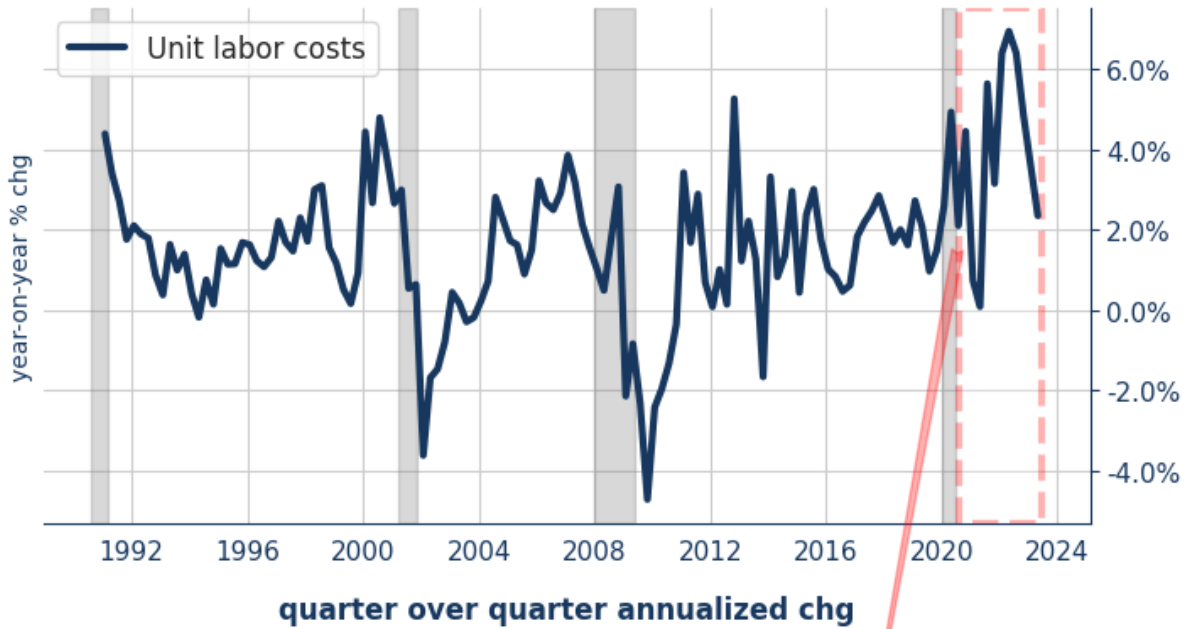


## quarter over quarter annualized change



Contingent Macro Advisors 2023 source: US BLS

## Unit labor costs



Contingent Macro Advisors 2023 source: US BLS

Productivity = Output/Hrs. Worked	2Q23qoq ann.	1Q23	4Q22	3Q22	2Q23 yoy	1Q23 yoy	3y Avg.	5y Avg.
<b>Labor productivity (output per hour)</b>	<b>3.74%</b>	<b>-1.18%</b>	<b>1.59%</b>	<b>1.19%</b>	<b>0.62%</b>	<b>-1.80%</b>	<b>0.36%</b>	<b>1.44%</b>
Output	2.40%	1.37%	2.89%	3.64%	0.94%	0.67%	7.35%	2.39%
Hours worked	-1.30%	2.57%	1.28%	2.42%	0.31%	2.51%	6.82%	1.07%

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	2Q23qoq ann.	1Q23	4Q22	3Q22	2Q23 yoy	1Q23 yoy	3y Avg.	5y Avg.
<b>Unit labor costs</b>	<b>1.65%</b>	<b>3.31%</b>	<b>-2.24%</b>	<b>6.93%</b>	<b>1.23%</b>	<b>4.86%</b>	<b>3.32%</b>	<b>1.89%</b>

Compensation	4.08%	4.72%	0.58%	10.83%	2.18%	5.56%	10.31%	4.15%
Output	2.40%	1.37%	2.89%	3.64%	0.94%	0.67%	7.35%	2.39%

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	2Q23qoq ann.	1Q23	4Q22	3Q22	2Q23 yoy	1Q23 yoy	3y Avg.	5y Avg.
Employment	0.03%	2.87%	2.22%	2.63%	0.72%	3.31%	6.21%	1.11%
Avg weekly hours worked	-1.33%	-0.29%	-0.92%	-0.20%	-0.41%	-0.77%	0.44%	-0.13%
Hours worked	-1.30%	2.57%	1.28%	2.42%	0.31%	2.51%	6.82%	1.07%
Current dollar output	4.54%	5.96%	6.28%	7.56%	2.59%	6.77%	12.97%	4.60%
Nonlabor payments	5.12%	7.59%	14.31%	3.36%	3.13%	8.39%	17.80%	5.78%
Hourly compensation	5.45%	2.10%	-0.69%	8.21%	1.86%	2.98%	3.49%	3.28%
Unit nonlabor payments	2.67%	6.14%	11.11%	-0.28%	2.17%	7.67%	8.88%	2.88%
Implicit price deflator	2.09%	4.53%	3.30%	3.78%	1.64%	6.06%	5.28%	2.08%
Real hourly compensation	2.67%	-1.60%	-4.69%	2.50%	0.25%	-3.93%	-2.20%	0.97%
Output per job	2.36%	-1.46%	0.65%	0.99%	0.22%	-2.55%	0.83%	1.29%
Labor share	-0.43%	-1.16%	-5.36%	3.04%	-0.40%	-1.13%	-1.83%	-0.15%

source = Bureau of Labor Statistics