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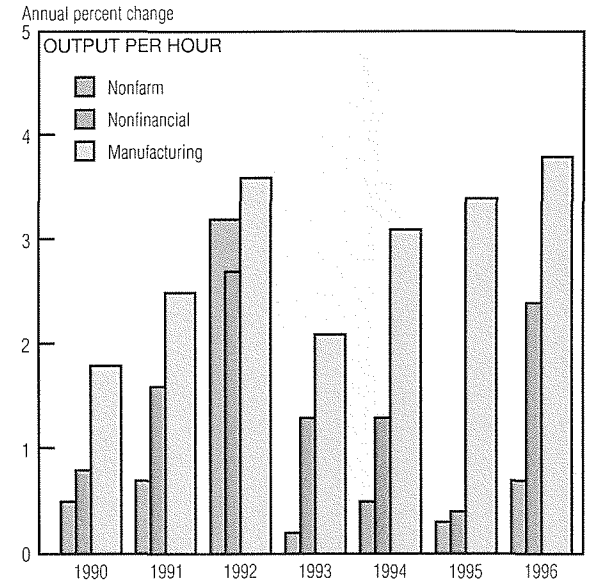
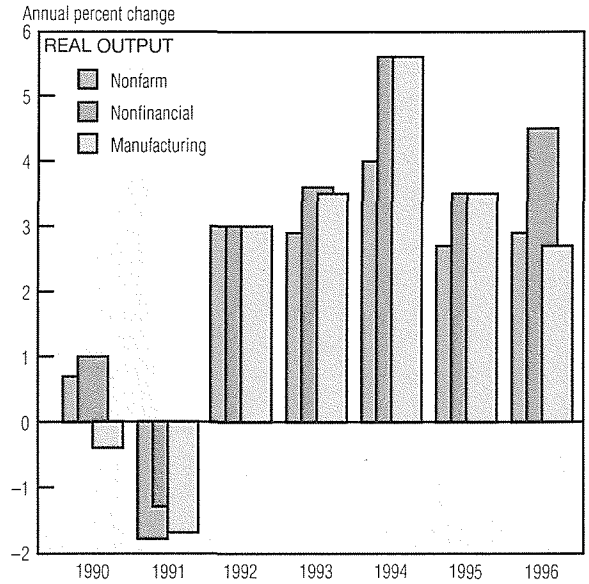
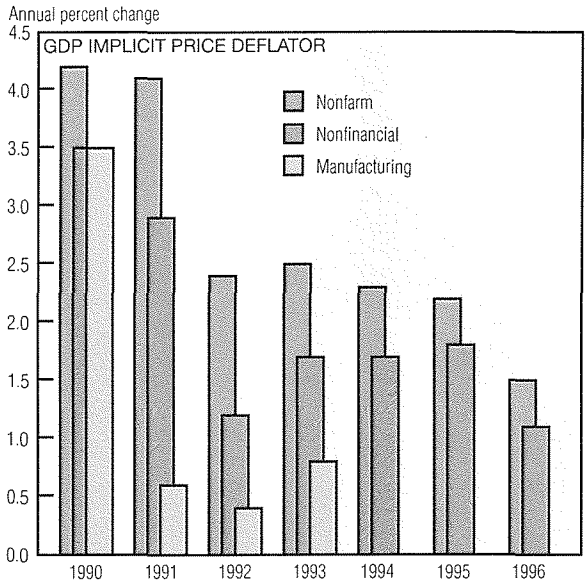
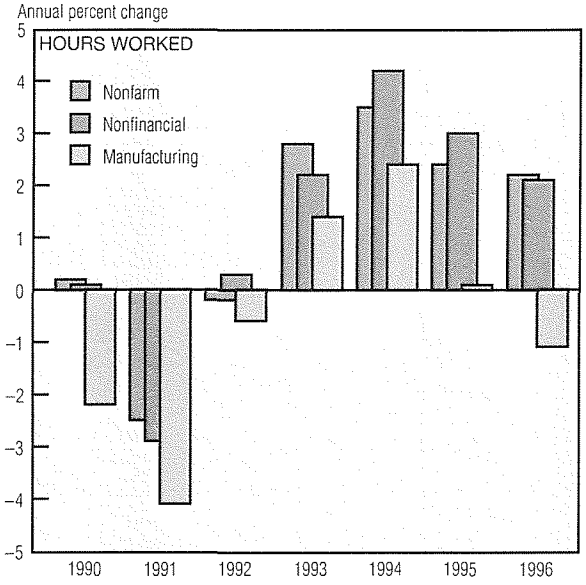
Labor Productivity









SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

Growth in labor productivity (typically measured as real output per hour of work) is critical to economic health because it is the primary source of real wage growth. Unusually strong output (GDP) in the first quarter of 1997 led to a 2% increase in nonfarm business productivity, the largest of the last three years. Nonfarm business productivity has inspired some controversy because, unlike less closely followed measures, it has shown little annual growth throughout this recovery.

The nonfinancial business productivity series differs from the nonfarm series primarily because it is based on the income rather than the output side of the National Income and Product Accounts. Such differences are unexpected: In theory, the two sides of the account should balance.

Nonfinancial productivity growth has led nonfarm business productivity growth because the numerator of the former—measured real income growth—has exceeded the numerator of the latter—measured real output growth. When the income-based measure is used, a substantial fraction of the higher income results from lower implied inflation rates.

Manufacturing, where productivity is easier to measure, has shown consistently stronger growth, supported mostly by slower increases in labor input, which enters as the denominator. The implied inflation rate for manufacturing, available only through 1993, has also been persistently lower than that of the economy as a whole.