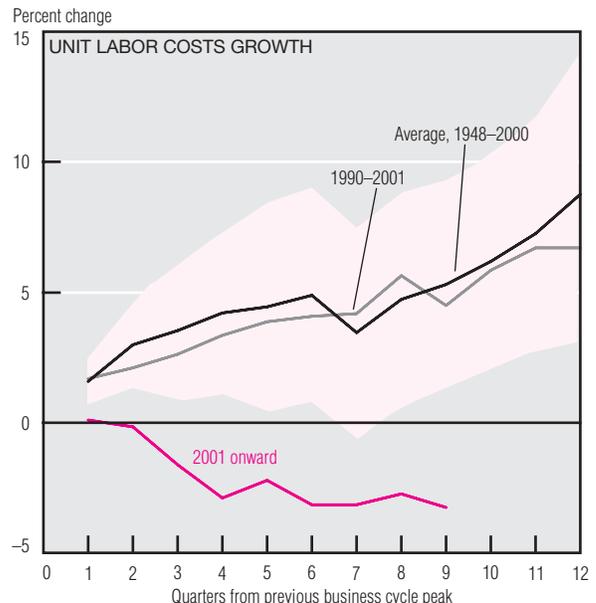
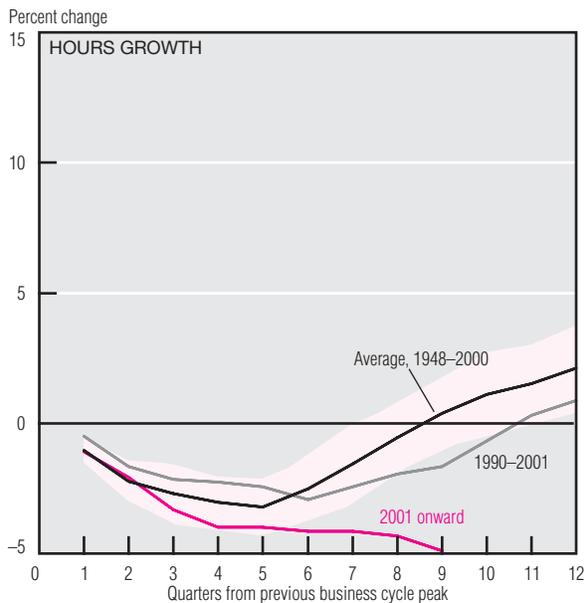
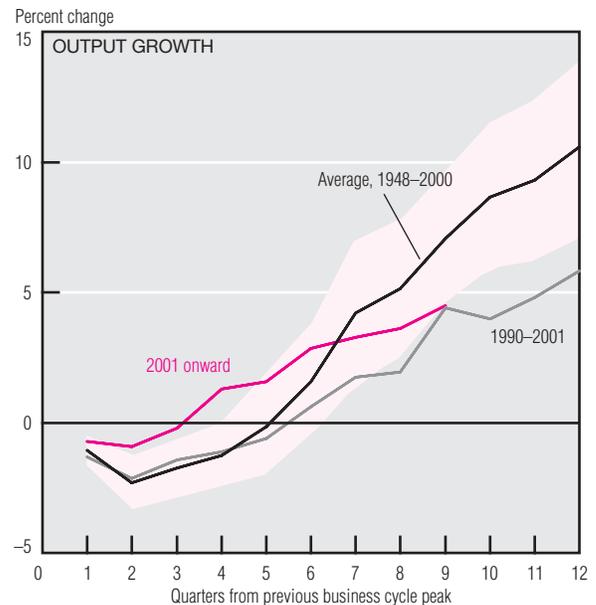
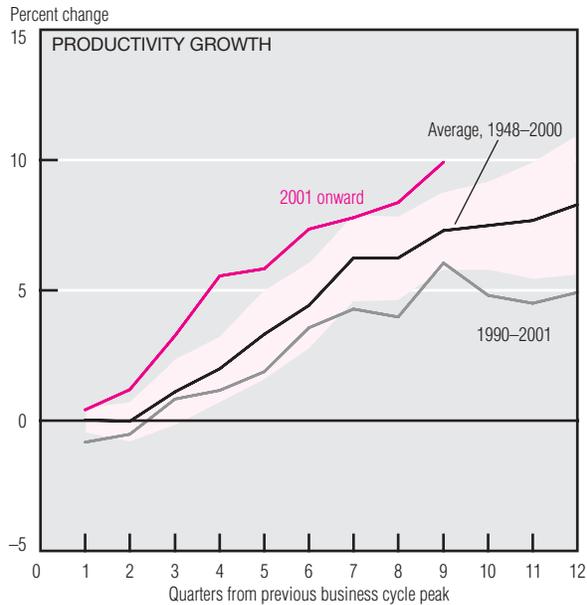


Labor Productivity



NOTES: All data are for nonfarm businesses and are seasonally adjusted. Shaded bands indicate a 95% confidence interval for the 1948–2000 average.
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

Growth in labor productivity (nonfarm business output per hour) has been phenomenal in this business cycle so far, much faster than in the 1990–2001 cycle. Cumulative growth in productivity is up 10% from the last peak, about three percentage points higher than the postwar average for this point in the cycle. The postwar average includes the “golden age of productivity growth,” which boosted incomes in the 1950s and 1960s, as well as the period of slower growth

that followed the 1970s oil crisis. To judge just how well labor productivity has performed, consider that the current cycle’s productivity growth would be at the high end of the range that typified the golden age from 1948 to 1973. What accounts for this strong performance?

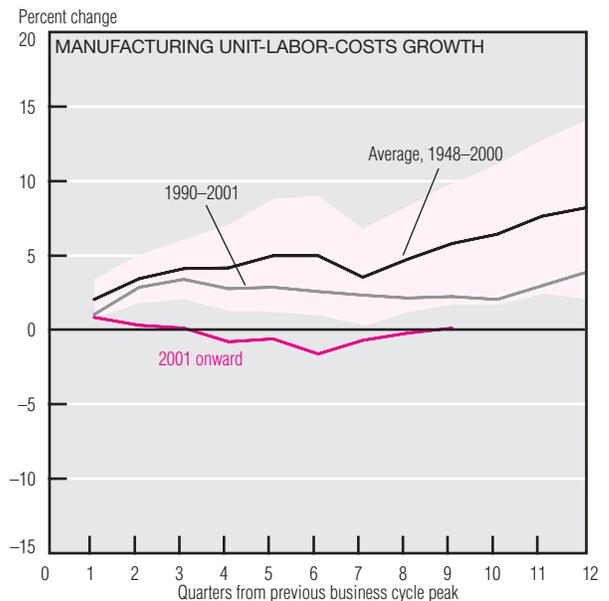
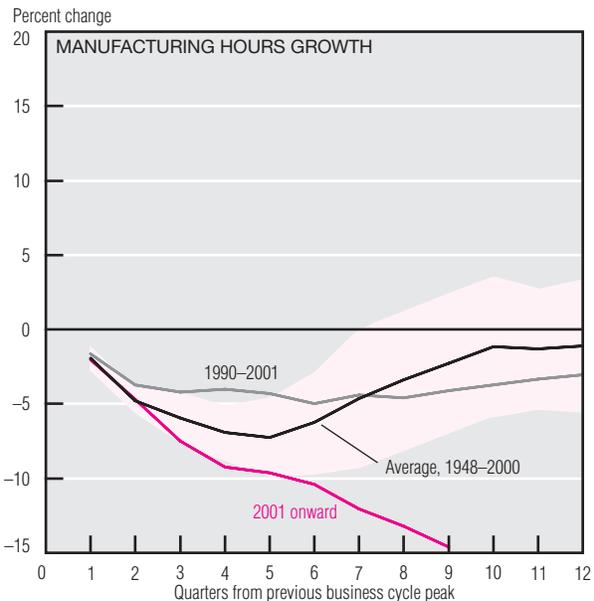
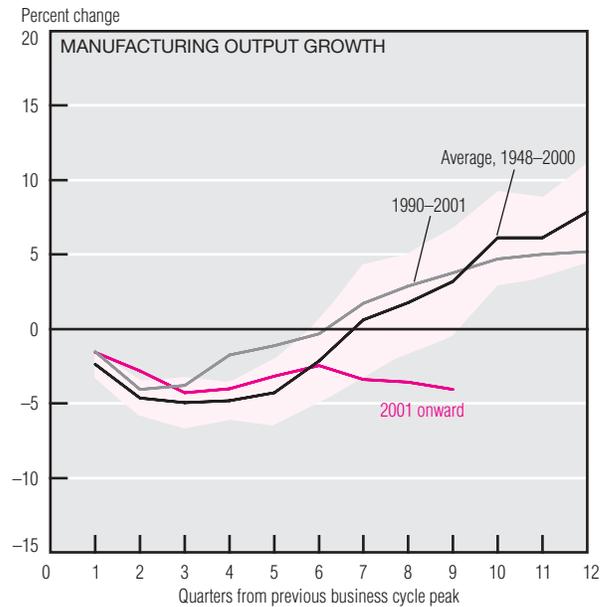
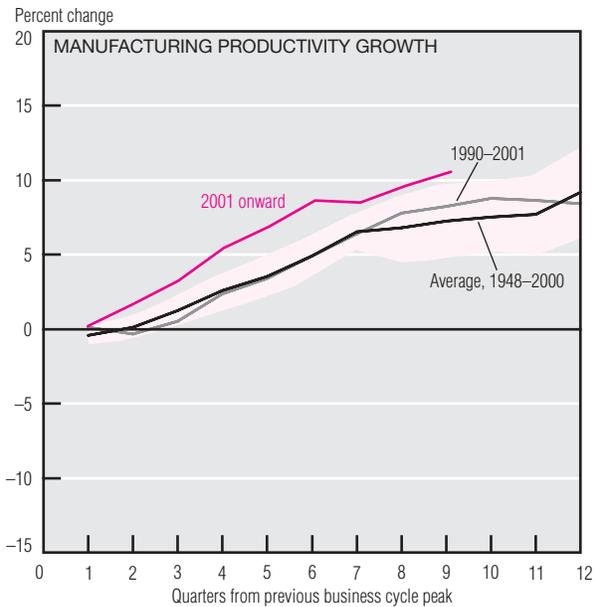
This time around, nonfarm business output initially held up better than in the average postwar cycle, growing almost 5% from the last peak, but its performance over the

last three quarters has been less impressive. Output growth is now at the low end of the typical postwar range for this series, so it cannot be the driving force behind the strong productivity numbers.

In the calculation, this leaves hours, whose dramatic drop seems to be the main cause of the vigorous productivity numbers. Although the current business cycle started out in a fairly typical way, hours have continued to drift down. By comparison,

(continued on next page)

Labor Productivity (cont.)



NOTES: All data are seasonally adjusted. Shaded bands indicate a 95% confidence interval for the 1948-2000 average.
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

total hours growth in the so-called jobless recovery of the early 1990s looks positively robust.

Productivity growth has an impact on firms' cost structures. Unit labor costs combine compensation figures with productivity data to measure how much a typical firm spends to produce its output. Unit labor costs have also performed atypically, falling about 3.25% instead of rising the usual 5% at this point in the cycle. All else equal, this should boost firms' profits.

Labor productivity growth, up 12.4%, has been even stronger in manufacturing, where it is well above the range for a representative recovery. On the other hand, manufacturing output growth has been disappointing. The current cycle began fairly typically, but output growth has stalled over the past three quarters.

With output flat, the only way to achieve strong productivity growth is a drop in hours, and this is what has occurred. Manufacturing hours have declined about 15% since the last

business cycle peak, far more than the average postwar decline of about 4% for this point in the cycle.

Unlike overall nonfarm business, manufacturing's unit labor costs have hardly changed over this cycle, which implies that compensation growth has largely kept up with productivity growth. Nonetheless, manufacturing's unit labor costs are running below typical levels for this point in the business cycle.