



Economics Group

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Mirroring the Soft GDP Print, Productivity Declines in Q1

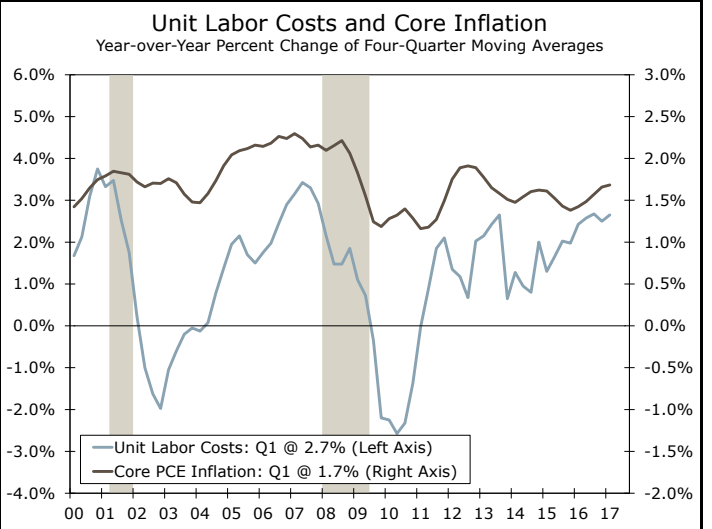
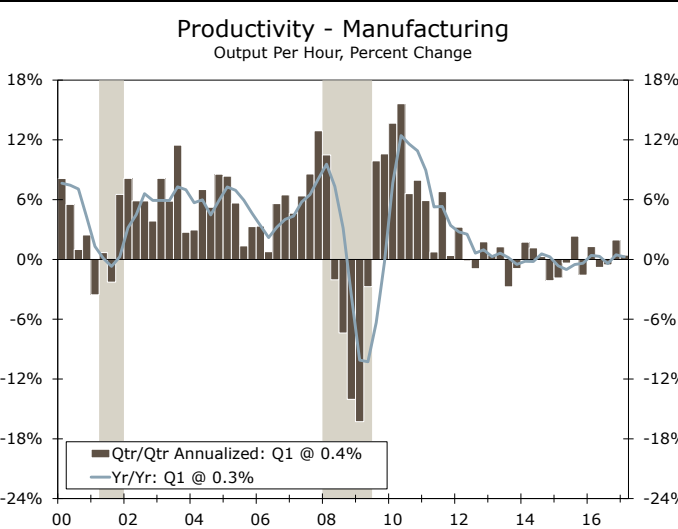
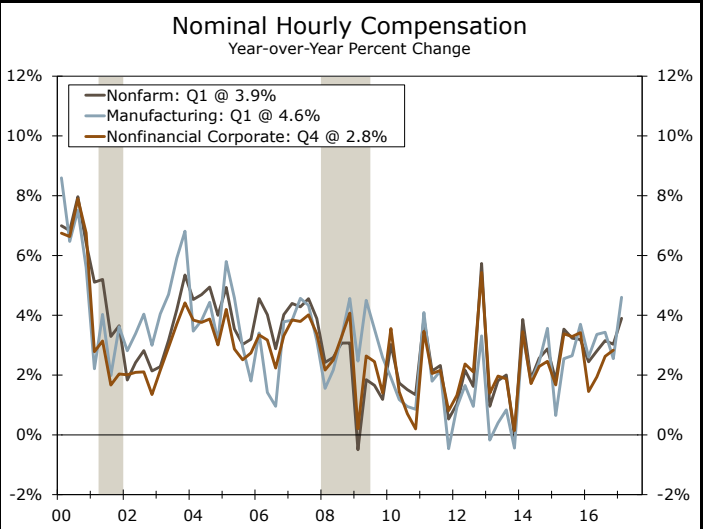
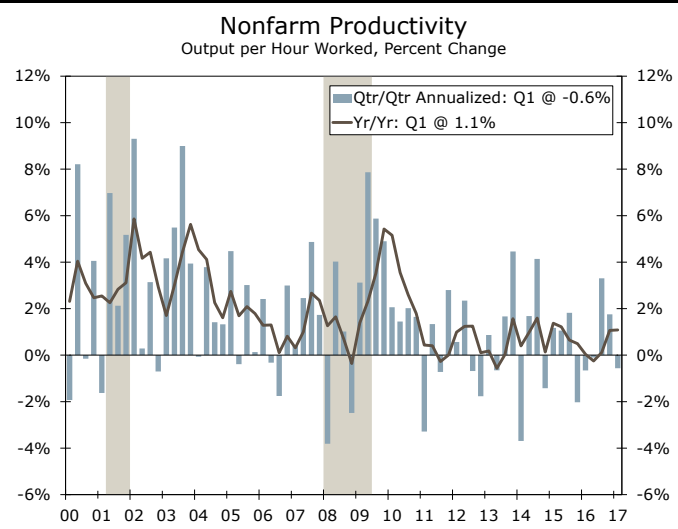
Declining by the most in a year, productivity fell at a 0.6 percent annual rate in Q1 as the gain in hours worked more than offset the gain in output. Unit labor costs accelerated for the third straight quarter.

Productivity Contracts

- Reflecting a 1.6 percent increase in hours worked and a 1.0 percent rise in output, productivity contracted for the first time in a year. On a year ago basis, productivity edged up to a 1.0 percent pace—roughly half of the trend pace set over the past twenty years. Manufacturing productivity was also soft in Q1, as a solid gain in nondurable manufacturing (3.2 percent) was tempered by a decline in durable manufacturing (-1.1 percent).

Unit Labor Costs Accelerating

- The slow pace of productivity growth alongside a tightening labor market has boosted unit labor costs (ULC). ULC increased at a 3.0 percent annual rate in Q1 (2.8 percent year over year).
- With this operating backdrop to likely remain in place, we expect to see ULC to continue to increase in the coming quarters, thereby constraining profit growth and underpinning stronger core inflation.



Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

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