



Economics Group

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No, Working from Home Did Not Spark a Surge in Productivity

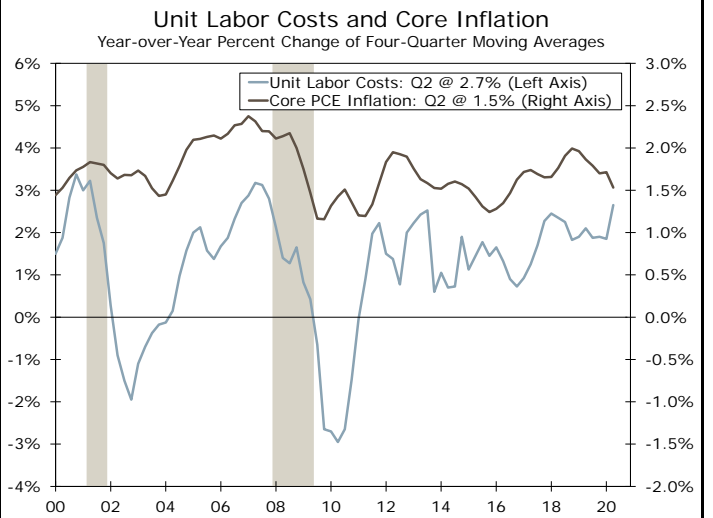
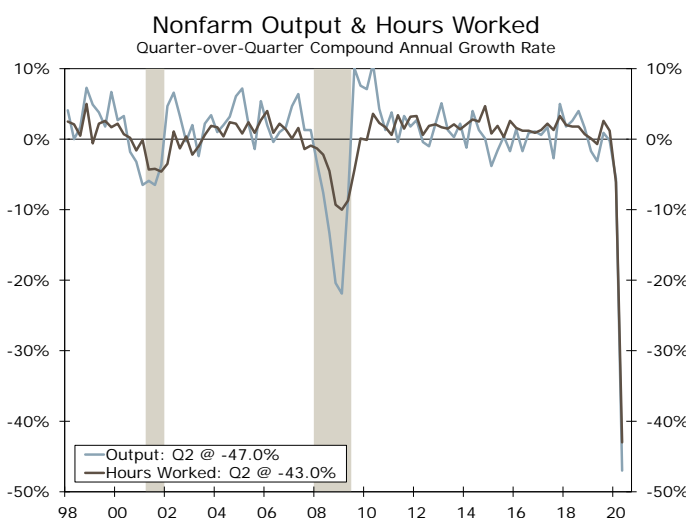
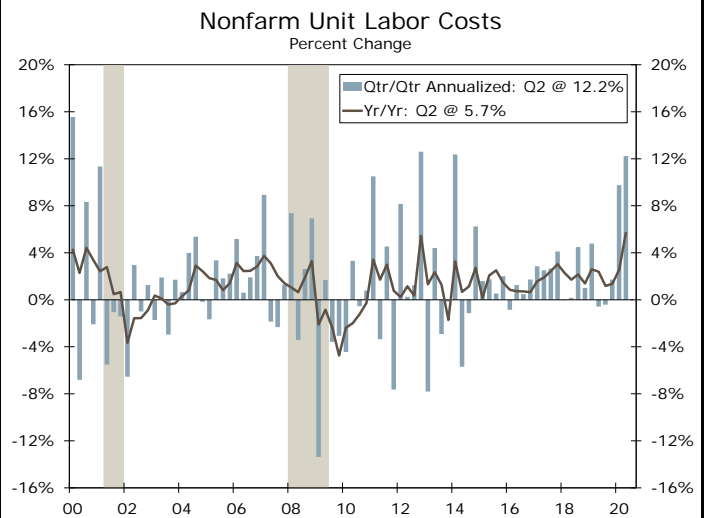
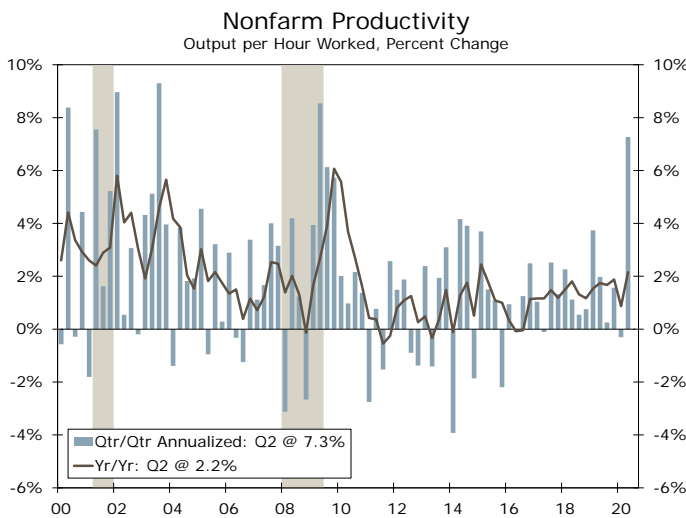
Productivity jumped 7.3% annualized in Q2 as lower-productivity sectors were disproportionately hit by the pandemic. Despite an overstated bounce in Q2, a near-term cyclical boost should keep inflation pressures tame.

Smoke and Mirrors

- The second quarter's surge in productivity is virtually meaningless in the midst of the historic declines in both output and hours worked. Instead, the 7.3% jump underscores the massive compositional shifts in the economy over Q2. The near standstill of the leisure & hospitality sector—which before the pandemic accounted for 4.7% of output but 8.3% of hours worked—meant output shifted in Q2 to more productive sectors.

Don't Read Into Surge in Unit Labor Costs

- Plummeting output sent unit labor costs (ULCs) soaring 12.2% in Q2. After the dust settles over the next few quarters, however, we expect a subdued trend in ULCs. Continued slack in the labor market should slow the pace of wage growth. At the same time, productivity should remain relatively buoyant compared to hours worked, since re-hiring lags output. That should keep a lid on inflation for some time to come.



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

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