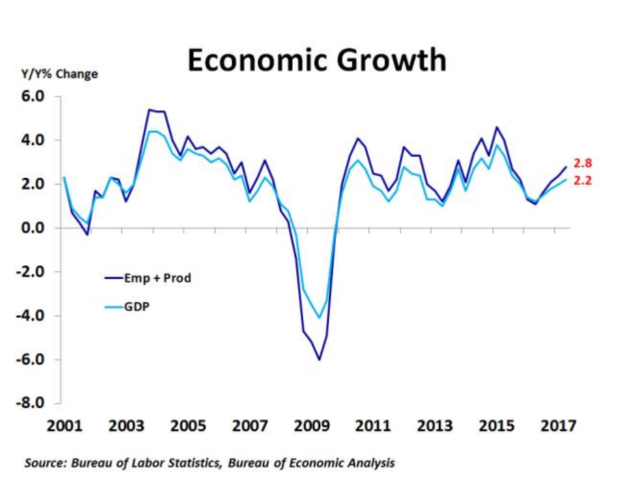
Ed's Eye on the Economy

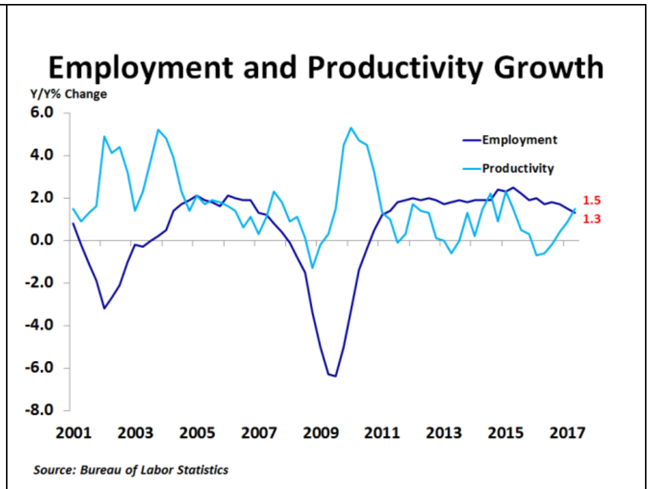
September 7, 2017

Second Quarter Productivity and Costs

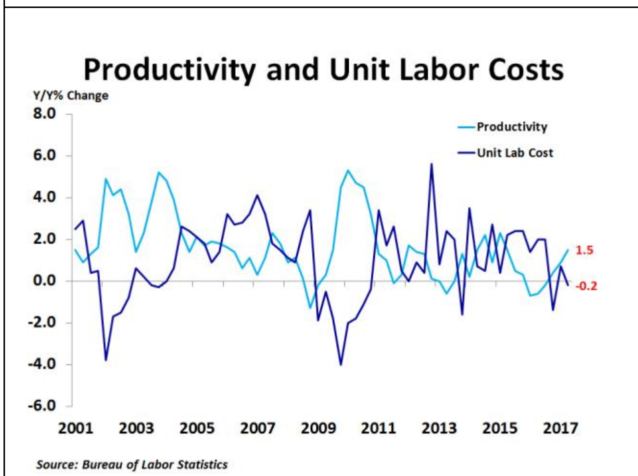
Improving productivity helps to support second quarter GDP growth



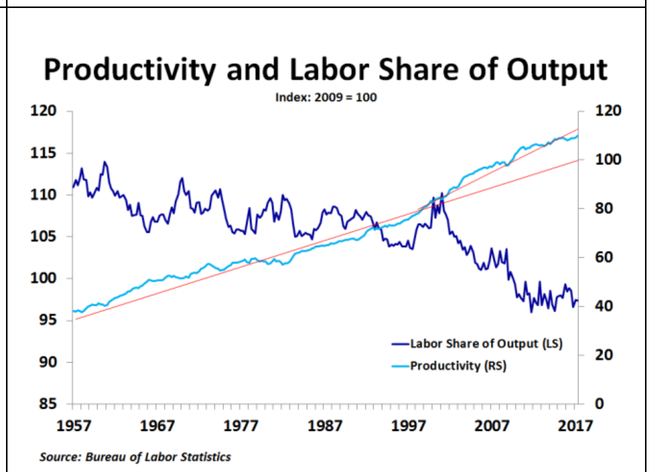
Real GDP grew 2.2% y/y in the second quarter, a slight improvement over the first quarter. GDP growth can be approximated by the sum of employment growth and productivity growth.



While job growth has slowed, productivity growth (output per job) has improved over the last several quarters. Thus, it was improved productivity, not job growth, that lifted output growth in Q217.



With the improvement in productivity growth came a decline in unit labor costs in the second quarter. Further improvements in productivity should help to contain unit labor costs and inflation, but it is not a direct correlation.



Even though workers have become vastly more productive over the last several decades, the share of output going to workers has steadily dwindled. Automation has likely played a large part in this. Recently, it has finally started to rebound a bit.

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