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U.S. PRODUCTIVITY ROSE AT 0.9 PERCENT RATE IN SECOND QUARTER

Nonfarm business-sector productivity increased at a 0.9 percent seasonally adjusted annual rate

By Ben Leubsdorf
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U.S. worker productivity picked up modestly in the second quarter but showed little sign of breaking out of the sluggish trend that has prevailed for more than a decade, holding back economic growth and living standards.

The lethargic pace of productivity growth seen in recent years could have a critical effect on the future trajectory of wages, prices, overall economic output and government budget balances.

Rapid productivity gains, as seen during the information technology-fueled boom of the late 1990s and early 2000s, can boost household incomes, economic growth and government tax receipts. But sluggish productivity gains can slow economic growth and prevent wages from rising much.

Following an "unusually bad" stretch in 2016, "we're pretty much on track with where we've been," said economist Martin Baily, a senior fellow at the Brookings Institution in Washington.

Nonfarm business-sector productivity, a measure of the goods and services produced per hour worked by individuals, rose at a 0.9 percent seasonally adjusted annual rate in the second quarter compared with the first three months of 2017, up from a 0.1 percent growth pace in the first quarter.

Compared with a year earlier, which is how economists often look at the longer-term trend, productivity was up 1.2 percent in the second quarter. That was a pickup from last year, when productivity posted its first calendar-year decline since 1982. It also matched the average pace since 2007, but remained well below the post-World War II average of 2.1 percent annual growth.

"That's a very slow rate of growth, and something that I think all of us would like to see going faster," Mr. Baily said.

In the U.S., productivity growth was slowing before the recession began in December 2007 and has been historically weak throughout the recovery that began in mid-2009. That likely restrained wage growth and overall growth in economic activity.

"If labor productivity grows an average of 2 percent per year, average living standards for our children's generation will be twice what we experienced," Federal Reserve Vice Chairman Stanley Fischer said in a July speech. "If labor productivity grows an average of 1 percent per year, the difference is dramatic: Living standards will take two generations to double."

Some forecasters think continued modest productivity gains will help keep overall economic growth from exceeding its recent pace of roughly 2 percent a year.

President Donald Trump has said he wants to boost U.S. economic growth above 3 percent a year.

"If we can't get productivity up, it's just not going to happen," said Glenn Hubbard, dean of Columbia Business School and a former top White House economist under President George W. Bush.

Mr. Hubbard said the government can help to boost productivity growth by overhauling business taxes, rolling back regulations and supporting basic research. Such steps could increase business investment and the know-how that helps to fuel growth.

"Those would be the ingredients," he said. "I would start with tax reform, and I hope that's coming."

Mr. Baily, who was chairman of the White House Council of Economic Advisers under President Bill Clinton, said a corporate-tax overhaul, deregulation and other actions by the Trump administration could help improve the productivity outlook, but likely not enough to generate sustained 3 percent growth in gross domestic product.

"Assuming they're able to do what they say they're going to do…I could imagine this could add perhaps a half percentage point to productivity growth," he said.

"That would be an achievement," he added, though "it's not going to give this administration the GDP growth rates that they're looking for."

Mr. Fischer, the U.S. central bank's No. 2 official, said in his speech last month that "reasonable people can disagree about the right way forward, but if we as a society are to succeed, we need to follow policies that will support and advance productivity growth."

He also said that "government policy works best when it can address a need that the private sector neglects, including investment in basic research, infrastructure, early childhood education, schooling and public health."

Productivity data tend to be volatile from quarter to quarter, and the Labor Department in Wednesday's report released revisions going back several years. The productivity trend was slightly stronger than earlier estimated in 2014 and 2015, and slightly weaker than initially thought in 2016. Productivity fell 0.1 percent last year, the first calendar-year decline since 1982.

Unit labor costs at nonfarm businesses rose at a 0.6 percent rate in the second quarter, less than economists had expected. From a year earlier, unit labor costs fell 0.2 percent.