The Daily Dish

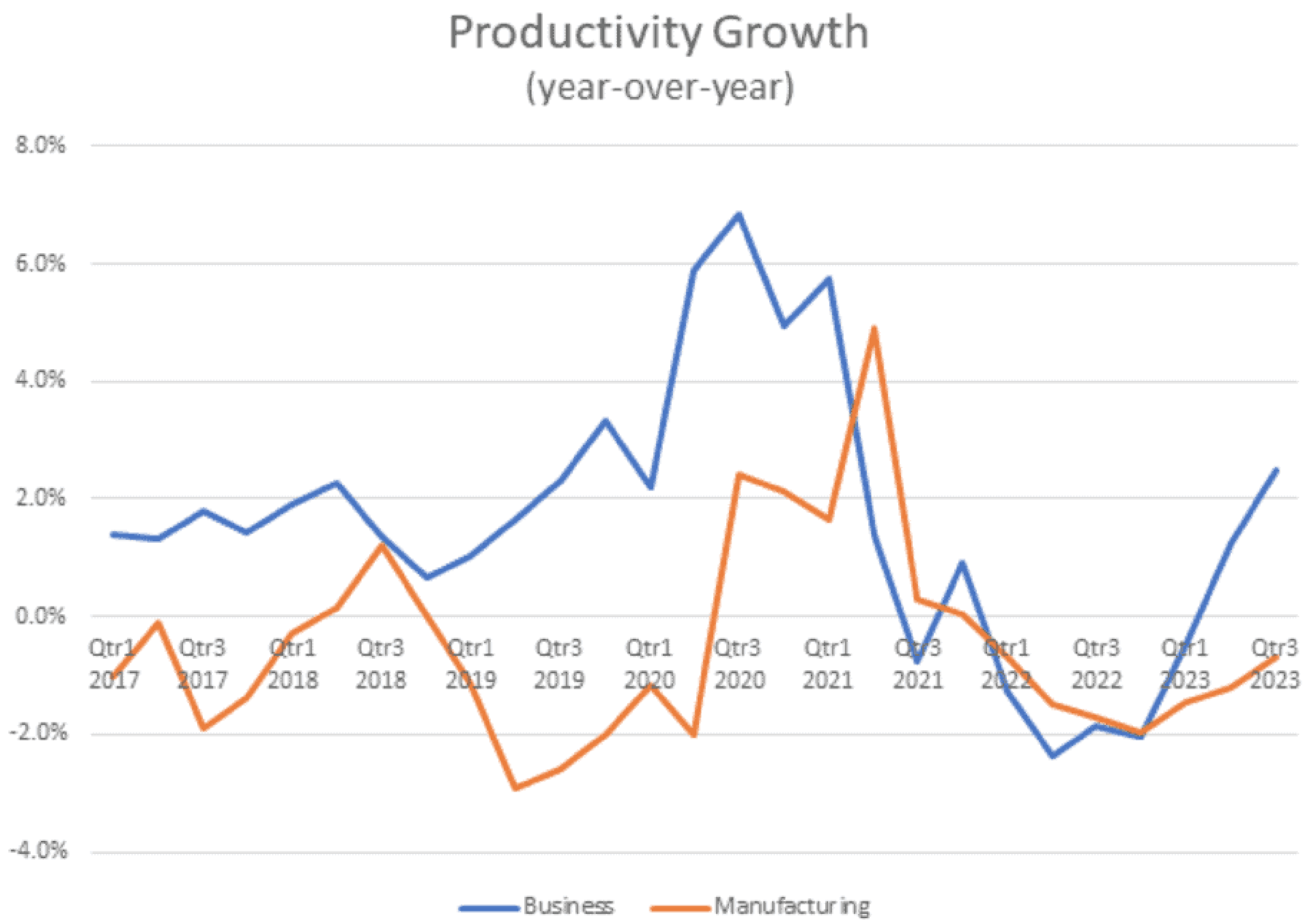
Q3 Productivity Growth

DOUGLAS HOLTZ-EAKIN | DECEMBER 7, 2023

Yesterday the Bureau of Labor Statistics (BLS) released its report on productivity growth in the third quarter of 2023. Recall that productivity growth figures into the economic outlook in two important ways. In the short-run, productivity growth – other things being the same – lowers unit labor costs and reduces inflation pressures. Over long periods of time sustained high productivity growth allows for higher wages, and without high inflation this translates into higher real wages and an enhanced standard of living.

On the former, the report was outstanding. “Nonfarm business sector labor productivity increased 5.2 percent in the third quarter of 2023.” This is the highest rate since the third quarter (Q3) of 2020 and translated into a decrease of unit labor costs of 1.2 percent. (All growth calculated at an annual rate.)

For the business sector, year-over-year productivity growth is back in positive territory for the 2nd consecutive quarter (see below), which helps to explain the moderation in all measures of year-over-year inflation. The manufacturing sector (orange line), unfortunately, continues to be a laggard in productivity growth.



The great unknown is how much this productivity spike will persist. Recall that the 5.2 percent growth rate in Q3 gross domestic product (GDP) was inflated by a run-up in inventories (likely transitory) and strong federal spending (which can't continue). Growth private demand was a much-more-modest 2.9 percent and consisted nearly entirely of household spending. Non-farm fixed investment is nearly dead in the water. That suggests a moderation of growth in the final quarter of 2023 and early 2024 that translates into a productivity slowdown.

Advocates of Bidenomics like to argue that the productivity growth is the result of supply-side investments like the bipartisan infrastructure bill and the CHIPs legislation. The former is $500 billion of new infrastructure spending over 10 years, while the latter is a $50 billion one-time handout to the semiconductor industry. Neither is big enough to make a discernible difference in the quarterly productivity measures in a $25 trillion economy.

Eakinomics' fingers are crossed that strong productivity growth continues. But don't bet the ranch on it.