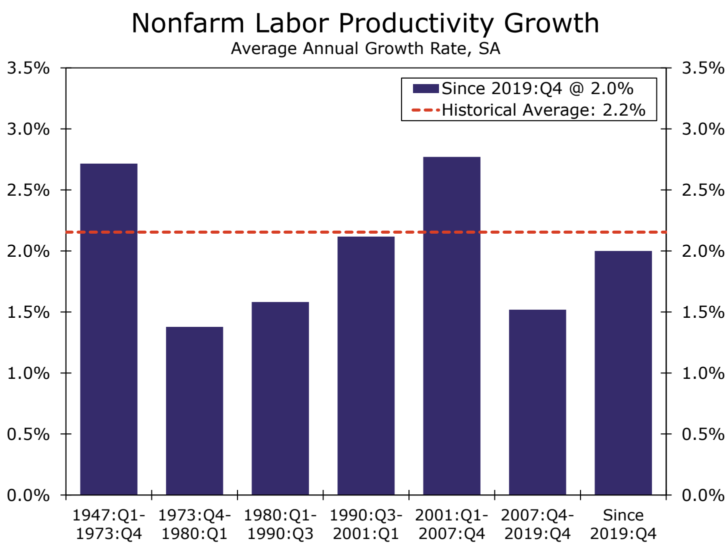
Economics

Economic Indicator — January 8, 2026

Stronger Productivity Trend Becoming More Evident

Summary

As presaged by the better-than-expected GDP report, nonfarm labor productivity expanded at a robust 4.9% annualized pace in the third quarter as output growth far exceeded the rise in hours worked. The solid outturn reinforces that the underlying trend in productivity remains stronger than the prior cycle (2.0% since the end of 2019 versus 1.5% from 2007-2019) and should help to allay concerns over the current state of inflation.



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

Economist(s)

Sarah House
Senior Economist | Wells Fargo Economics
Sarah.House@wellsfargo.com | 704-410-3282

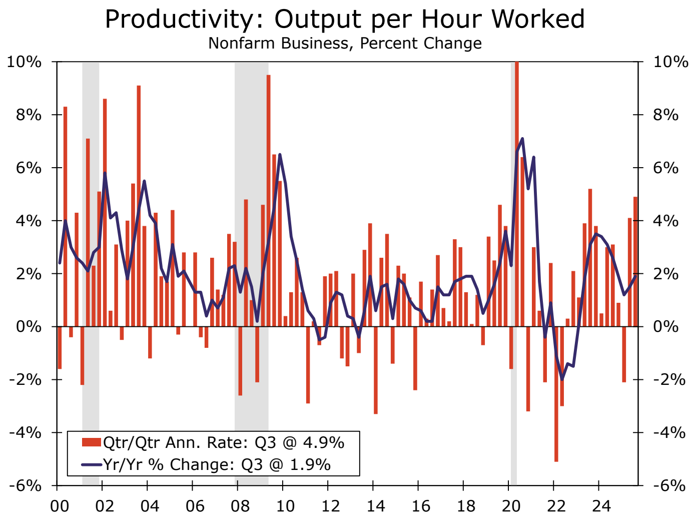
Michael Pugliese
Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Nicole Cervi
Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

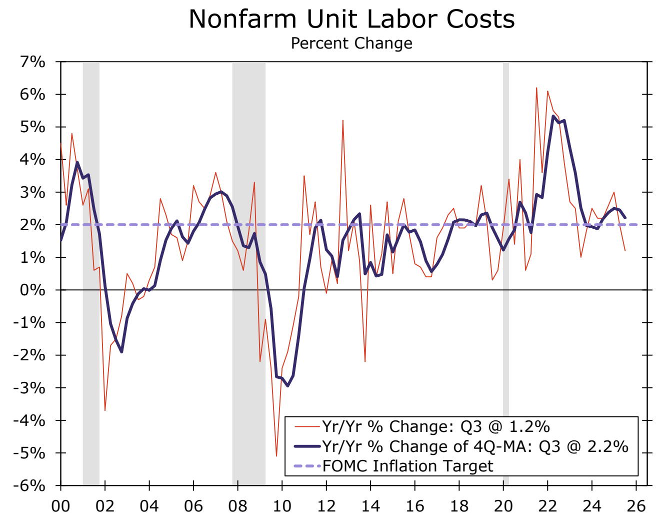
Picture of Firmer Productivity Trend Reemerging

Nonfarm labor productivity, or output per hour worked, rose at a 4.9% annualized rate in the third quarter. The solid outturn came as output in the nonfarm business sector expanded at a robust 5.4% pace, outpacing the scant 0.5% rise in hours worked. On a year-over-year basis, productivity was up 1.9% in the third quarter.

Quarterly productivity was especially volatile last year as firms focused on defensive maneuvers amid the whipsawing in trade policy. With less time allocated to growth-enhancing activities, nonfarm labor productivity was essentially flat through the first half of 2025. The third quarter's strengthening helps to confirm that the underlying trend in productivity growth remains stronger than the prior cycle (2.0% since Q4-2019 versus 1.5% from 2007-2019). When workers are more productive, firms tend to enjoy increased profitability, which can provide them flexibility to absorb higher costs, reinvest in the business or lower selling prices. The current cycle's pace thus should help to allay concerns over inflation's recent persistence.



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



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

Hourly compensation rose at a 2.9% annualized rate in the third quarter, leading the year-over-year change to moderate to 3.2%, or the softest pace since early 2023. The moderation in nominal compensation follows the significant cooling in job creation and, when pieced together with the solid trend in productivity, suggests the inflationary impulse from the labor market has meaningfully quelled. Unit labor costs, which can be thought of as the productivity-adjusted cost of labor, *declined* at a 1.9% annualized pace in the third quarter and were up just 1.2% year-over-year.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Tom Porcelli	Chief Economist	212-214-6422	Tom.Porcelli@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com

Required Disclosures