

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.

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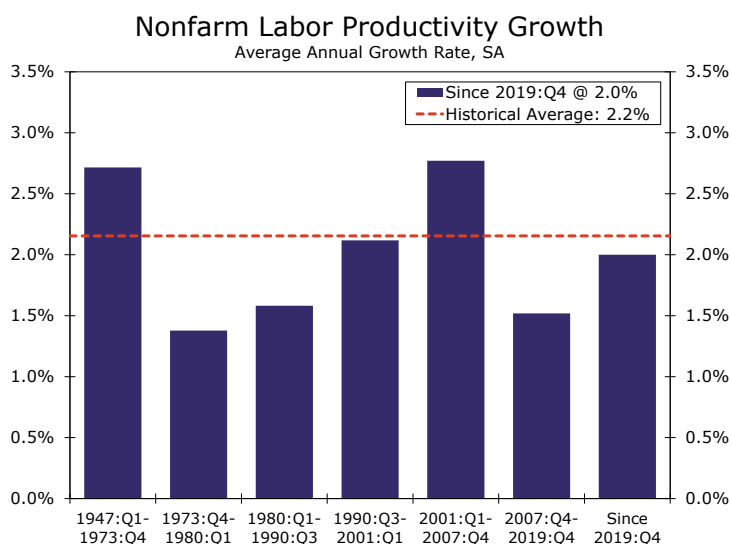
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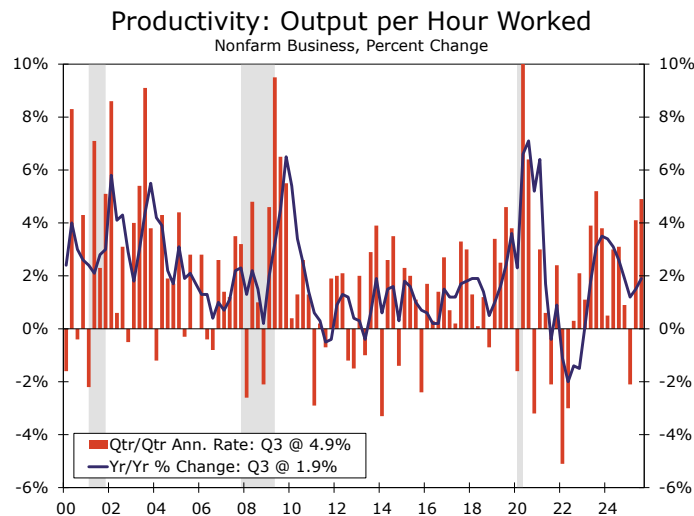


Source: U.S. Department of Labor and Wells Fargo Economics

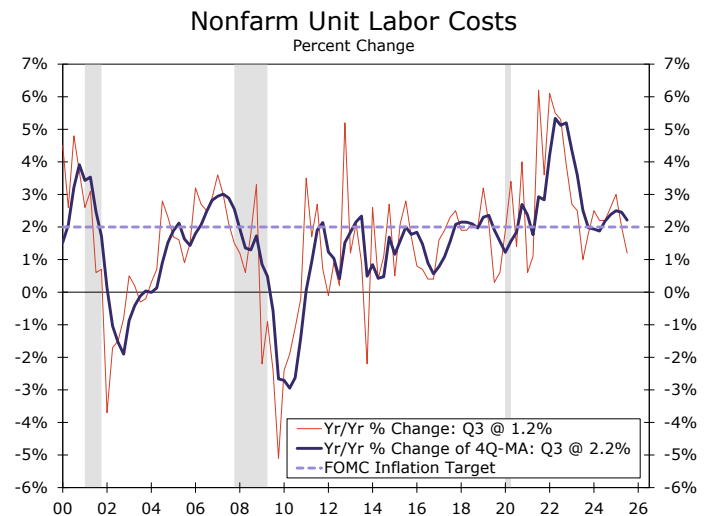
Picture of Firmer Productivity Trend Reemerging

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



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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.

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