

# Economics Group

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## Productivity Growth on the Mend

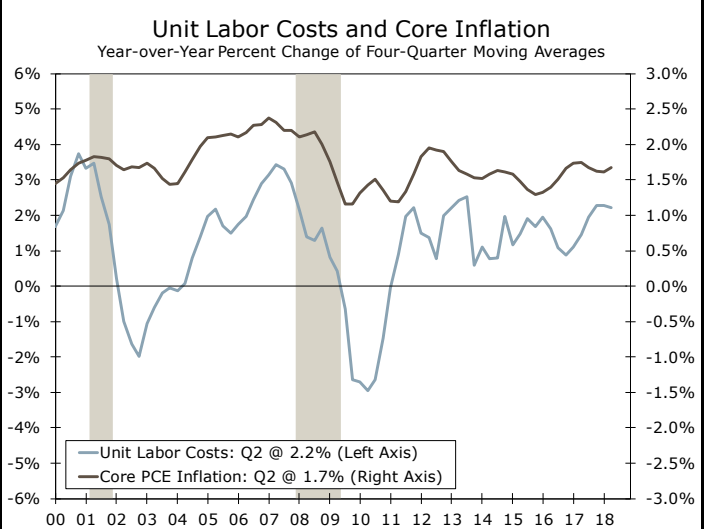
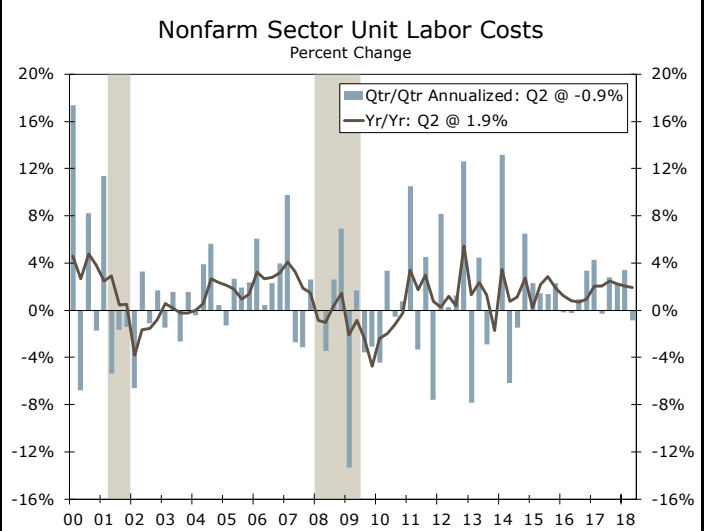
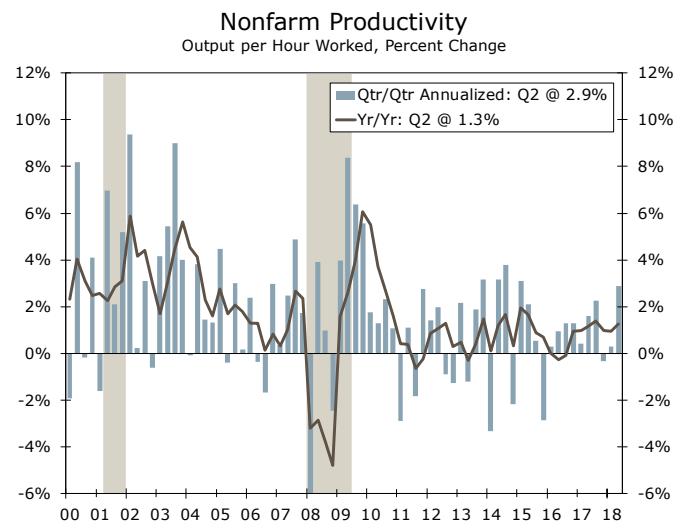
*Productivity improved to a 2.9 percent annualized pace in Q2. Although that overstates the recent trend, productivity has picked up since the early years of the expansion—but not enough to mute rising cost pressures.*

### Q2 Overstates, but Productivity Trend Improving

- Consistent with output growing at one of the fastest rates this expansion, nonfarm productivity picked up sharply in Q2, rising at a 2.9 percent annualized pace. That overstates the recent trend in productivity growth, which is up 1.3 percent over the past year. Nevertheless, productivity growth over the past year has improved meaningfully from the prior few years, when productivity averaged 0.6 percent from 2011-2016.

### Productivity Gains Not Enough to Mute Cost Pressures

- Unit labor costs fell in Q2, but are up nearly 2 percent over the past year. Along with a 3.5 percent yr/yr rise in unit non-labor costs, cost pressures suggest no looming slowdown in inflation.
- Employers are increasingly turning to capital investment as a means to grow their business given the tight state of the labor market. That should keep productivity growth running ahead of the anemic pace set earlier in this expansion.



Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

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