Worker Productivity Rises, Labor Costs Fall

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WASHINGTON (AP) — U.S. workers increased their productivity this summer by the largest amount in a year and half, and they cost their employers less. The trend is good for corporate profits but not necessarily for job growth.

The Labor Department says productivity rose at an annual rate of 3.1 percent in the July-September quarter after two straight quarterly declines. Labor costs dropped at an annual rate of 2.4 percent in the third quarter, the first decline since late 2010.

Productivity is the amount of output per hour of work. The big jump in productivity in the third quarter reflected the fact that economy had its best quarterly growth in a year while hours worked were little changed.

Higher productivity is generally a good thing because it can raise standards of living by enabling companies to pay workers more without raising their prices and increasing inflation.

Rising labor costs reduce corporate profits. When workers are less productive and cost more, companies are less likely to add jobs -- until demand picks up.

Worker productivity fell during the first six months of the year, while labor costs increased. That was largely because consumers cut back on spending in the face of higher food and gas prices, which slowed overall economic growth.

Over the summer, consumers increased their spending at triple the rate from the spring. That helped the economy expand at an annual rate of 2.5 percent in the July-September quarter, which likely boosted worker productivity.

When demand rises and productivity is low, it's usually a sign that businesses have reached the limit on the amount of work they can squeeze out of their work forces. That often leads some to hire more workers, if they want to grow.

But economists worry that the demand from this summer won't be sustained. The growth was fueled by Americans who spent more while earning less and by businesses that invested in machines and computers, not workers.

Without more jobs and higher wages, consumers are likely to pare spending next year.

Economists expect productivity to slow over the next couple of years while labor costs rise. Forecasters with the National Association for Business Economics predict that productivity growth will slow to 1 percent this year compared to growth of 4.1 percent in 2010.

However, analysts said that the slowdown in productivity growth has played a role in the modest gains seen this year in employment.