U.S. Worker Productivity Growth Slowed In Q4

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WASHINGTON (AP) — Growth in U.S. worker productivity slowed at the end of last year, while labor costs rose. Fewer gains in worker output suggests employers must add workers if they want to meet higher demand.

The Labor Department said Wednesday that productivity rose at an annual rate of 0.9 percent in the October-December quarter. While that's a slight upward revision from last month's preliminary estimate, it's half the pace from the July-September quarter.

Productivity is the amount of output per hour of work. Worker productivity grew last year at the slowest pace in nearly a quarter of a century.

A slowdown in productivity is bad for corporate profits. But it can be a good sign for future hiring. It may mean that companies are unable to squeeze more work out of their existing work force and must add more workers if they want to grow.

Labor costs increased at a 2.8 percent rate in the fourth quarter. That's lower than the 3.9 percent rise in the third quarter, but much higher than the initial fourth-quarter estimate.

Rising labor costs could push inflation higher if businesses are forced to raise prices. Some economists said that's unlikely to be sustained as long as millions of Americans remain out of work and others are seeing little growth in wages.

Slower gains in worker output may already be prompting some companies to step up hiring.

The economy has added an average of 200,000 net jobs per month from November through January, which has helped lower the unemployment rate to 8.3 percent. And economists are predicting another big month of hiring in February, forecasting the addition of 210,000 net jobs.

The government reports Friday on February job growth.

Adding to that optimism Wednesday was a report from ADP, a payroll provider, that estimated companies added 216,000 workers last month. That survey did not include government agencies, which have been cutting jobs.

"While strong productivity growth is usually good for the economy, there are times when slower productivity gains can also be helpful by contributing to jobs and income gains," Richard DeKaser, an economist with the Parthenon Group.

The revision to productivity in the fourth quarter reflected a revision to total output in the fourth quarter. Last week, the Commerce Department reported that the economy grew at a 3 percent rate in the October-December quarter, slightly stronger than the initial estimate of 2.8 percent growth.

Productivity grew last year just 0.4 percent, the smallest gain since 1987. That was far below the 4 percent growth in 2010, the most in nine years. However, the main reason productivity soared in 2010 was that it followed the worst recession in decades, when employers laid off millions of workers.

Forecasters with the National Association for Business Economics forecast 1.5 percent growth in productivity for 2012.

DeKaser said the pattern seen in productivity during the recession and in the past two years of recovery is very typical. Productivity climbs as businesses lay off workers in the face of falling demand.

When demand picks up, companies are at first hesitant to add workers because they are worried that the rebound may falter. Instead, DeKaser said, companies make do with their existing work force. It is only when they reach the limit of how much work they can squeeze out of existing employees, that they resume hiring.

That return to more normal hiring patterns is good for the economy because it reduces unemployment and provides consumers with more spending power. Consumer spending accounts for 70 percent of economic growth.