ECONOMY

Productivity Growth Was Strong in Third Quarter

WASHINGTON -- Worker productivity in the third quarter registered the strongest showing since early 2002, and jobless claims plunged last week to the lowest level in more than two years, adding to evidence the economic recovery is gaining traction.

Nonfarm business productivity grew at a seasonally adjusted annual rate of 8.1% from July through September. The pace, reported Thursday by the Labor Department, was the fastest since the first quarter of 2002 and an acceleration from an already-robust 7% clip in the second quarter of this year.

The faster growth reflected an 8.8% increase in output. But the surge wasn't merely the result of employers squeezing more effort out of fewer workers: In a possible bright sign for the labor market, workers' hours increased 0.7% -- the first gain in three and a half years.

In a separate report the Labor Department said the number of workers filing first-time applications for unemployment benefits fell by 43,000 to 348,000 in the week ended Saturday. The level was the lowest since the week President Bush took office. The four-week average, which smooths out weekly fluctuations, dropped by 10,000 to 380,000, the lowest level since March 2001.

Economists surveyed by Dow Jones and CNBC had expected a decline of just 6,000 in the one-week figure, partially skewed by a surge in claims the prior week related to labor strikes in California.

The four-week moving average of new claims, which smooths out weekly fluctuations, dropped to 380,000 last week, the best showing since the week ending March 10, 2001.

The jobless figures offered a hopeful sign that the battered job market may be turning a corner. But a more important indicator of the labor market's health will be Friday's employment report for October. Some economists believe the economy added around 65,000 jobs last month, helping to hold the nation's unemployment rate at 6.1%. Job growth, however, will need to be much stronger than that each month to push the overall unemployment rate down and bring about sustained improvements.
As strong as the productivity report was, it fell shy of the 9% growth rate predicted by economists.

Over the long run, productivity growth increases prosperity by allowing businesses to raise wages without fanning inflation. During the past few years, however, the increasing efficiency of U.S. workers has proved to be a hazard to their own job security.

From February through August, businesses cut more than half a million jobs, including 41,000 in the third quarter despite accelerating economic growth.

As a result, the unemployment has remained above 6% for six months in a row. Most economists don't expect it to decline much over the next year. "I expect that the unemployment rate will come down only gradually over the next year or so," Federal Reserve Vice Chairman Roger Ferguson told lawmakers last month.

Many Fed policy makers nevertheless expect employers to ratchet up the pace of recruitment over the next few months. The government last week said the economy grew at a 7.2% annual rate in the third quarter and early economic reports for October have appeared strong.

Fed Chairman Alan Greenspan on Thursday said there have been signs "the labor market may be stabilizing" after two years of exceptional weakness (see related article1).

But the strong third-quarter economic growth was made possible by firms boosting output per worker without hiring more, he said in a speech to the Securities Industry Association. "Unless hiring picks up and layoffs ease, assuaging the latent job-security fears of many of those currently employed," consumers could spend less and save more of their income, which would "hamper the vigor of the expansion," he said. Mr. Greenspan added that the astonishing recent productivity performance may have been the result both of one-time only factors, such as exploiting inefficiencies left over from the 1990s, and a permanent step-up in productivity growth.

Some analysts, however, said the increase in workers' hours amounted to tentative evidence that employers have reached that turning point.

Bill Sharp, an economist with J.P. Morgan in New York, said much of the increase may have been the result of an increase in the hours of self-employed workers. Still, he called the increase "an early sign that the labor markets are improving."

The Labor Department attributed the increased hours to a 0.3% gain in employment and a 0.4% increase in average weekly hours at work.

The surge in productivity caused unit labor costs to drop 4.6%, the biggest decline in 18 months, validating the Fed's view that faster economic growth isn't likely to generate dangerous inflation rates any time soon. Mr. Greenspan reiterated Thursday that the central bank is in no rush to raise rates to fend off inflation.

Durable-goods manufacturers recorded the biggest productivity gains in the third quarter, with an increase of 14.7%. That followed a 3.1% gain recorded in the second quarter. The overall manufacturing sector registered an 8.6% gain, its fastest growth rate since the first quarter of 2002.

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