

## Economics Group

Sam Bullard, Senior Economist  
[sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com) • (704) 410-3280  
 Sarah House, Economist  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282

### Productivity Slump Persists in Q1

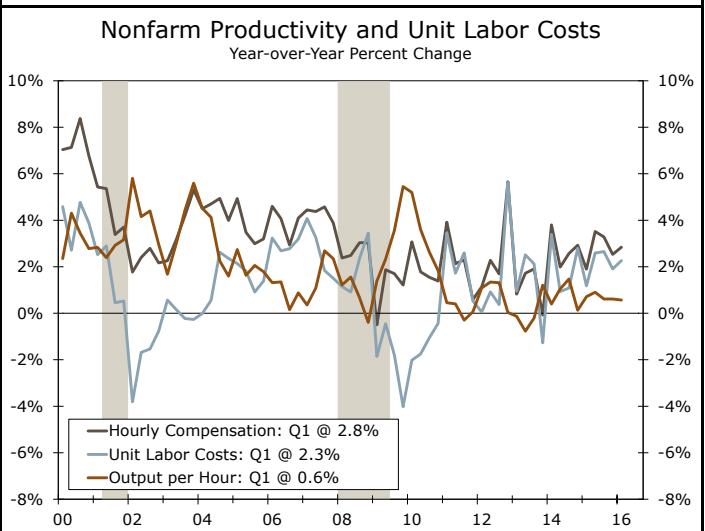
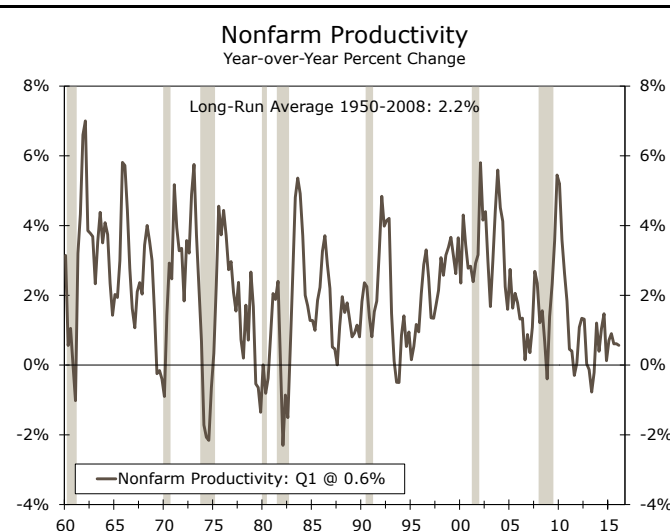
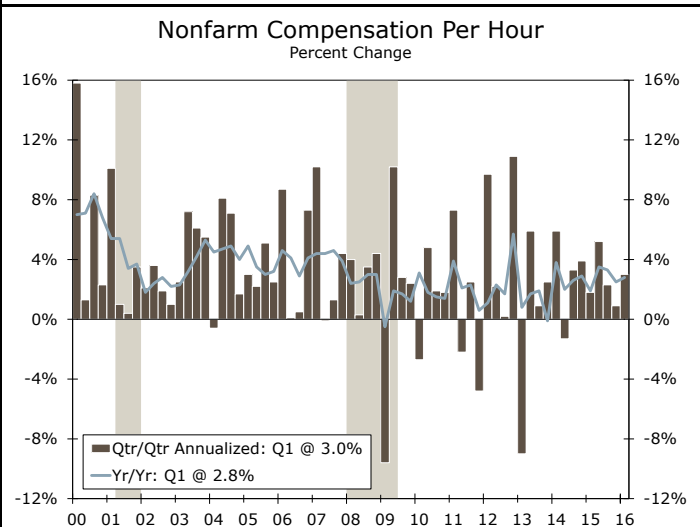
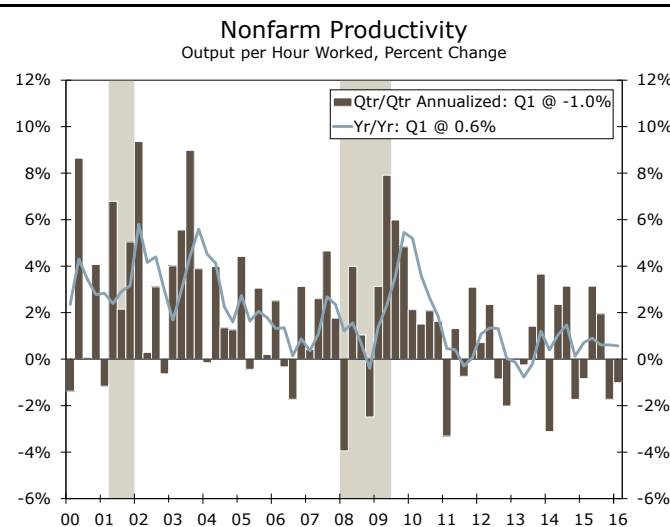
*Productivity declined 1.0 percent in Q1 and has risen only 0.6 percent over the past year. Unit labor costs continue to rise, indicating greater pressure on corporate margins if costs are not passed on via higher prices.*

#### No Letup in the Sluggish Trend in Productivity

- Nonfarm productivity fell at a 1.0 percent annualized pace in the first quarter as output slowed to just 0.4 percent and hours worked pressed ahead at a 1.5 percent pace.
- While quarterly figures can be exaggerated by volatility in GDP, the trend in productivity remains weak. Over the past year, nonfarm labor productivity is up just 0.6 percent, little better than its 0.4 percent average since 2011.

#### Weak Productivity Generates Potential for Inflation

- The slower pace of productivity gains in recent years suggests the economy's potential rate of growth has fallen. Therefore, even with growth of around only 2 percent for the remainder of the year, inflation is likely to rise if corporations aim to maintain margins. Tightening in the labor market continues to push hourly compensation higher, leading unit labor costs to increase 2.3 percent over the past year.



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

## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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