Sample Current Events Article

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Productivity falls in fourth quarter; pace lags for year

Some economists believe slowdown is temporary

By Barbara Hagenbaugh
USA TODAY

WASHINGTON — Worker productivity fell in the fourth quarter for the first time in nearly five years and grew in 2005 at the slowest annual pace in four years, the government said Thursday in a report that heightened some concerns that inflation might be brewing.

The economy

But many economists, such as those at Bear Stearns, Moody's Economy.com and PNC Financial Services, say the slowing in productivity, or worker output per hour, was likely temporary.

"It's worrisome if it were to persist, but we have every reason to believe that productivity is going to bounce back in the first quarter," says Christopher Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi.

Productivity outside the farming sector fell 0.6% at an annual rate in the October-December quarter following a 4.5% gain in the third quarter. It was the first decline since the first quarter of 2001, when the U.S. economy dipped into recession and posted the largest drop since the third quarter of 2000.

For the year, productivity rose 2.7%, the smallest gain since 2001.

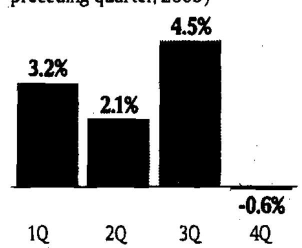
Productivity is a key part of the U.S. economy. When productivity rises, companies are able to increase output without adding workers. That helps boost profit margins, leading to bigger returns to investors. It also gives firms the ability to increase wages and other benefits without hurting the bottom line and is considered a key factor in standards of living.

But when productivity slows, it costs companies more to make each item or service they sell. That can lead them to increase prices to cover higher costs, which could cause the inflation rate to rise.

Unit labor costs, or how much it costs companies to produce a single unit, rose 3.5% at an annual rate in the fourth quarter, the biggest increase in a year.

Productivity declines in the fourth quarter

Non-farm business sector output per hour: (Percentage change from preceding quarter, 2005)



Source: Bureau of Labor Statistics

By Alejandro Gonzalez, USA TODAY

But the slowdown in productivity and the rise in unit labor costs might prove temporary. Economic output, half of the productivity equation, rose 1.1% in the fourth quarter, the slowest pace in three years. But those numbers were skewed by several factors, including the hurricanes, which led to a slowdown in economic activity in some regions. Economists estimate the economy is bouncing back, meaning productivity should also gain. That would ease inflation worries.

"The trend is still for healthy productivity growth between 2% and 2.5%, and unit labor costs are expected to only slowly rise over the coming year," says Daniel Jester, an economist at Moody's Economy.com.

Economists surveyed by USA TODAY last month estimated the economy was growing 3.7% this quarter.

PNC Financial Services Group chief economist Stuart Hoffman says recent data on job creation, consumer spending and other indicators are hopeful. "Monthly data tell us the economy was gaining strength" late in the fourth quarter and continues to be healthy, he says.

The report came two days after the Federal Reserve raised interest rates by a quarter-percentage point for the 14th-consecutive meeting in an effort to ward off inflation. Fed officials brought their target for short-term interest rates, which influence borrowing costs economywide, to 4.5%, the highest since April 2001.

Notes:

* possible terms have been highlighted.

* After looking for terms, narrow it down to the best 5 choices.

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