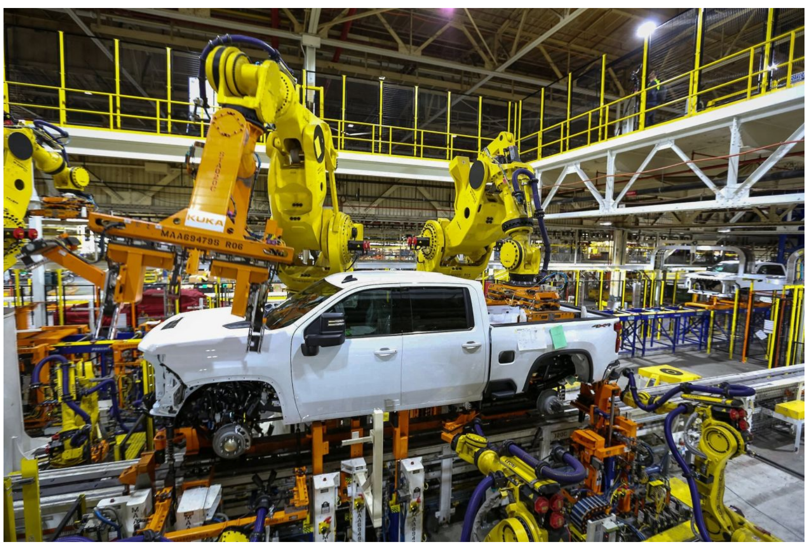
https://www.wsj.com/articles/u-s-productivity-rose-1-9-in-the-fourth-quarter-11551965652

ECONOMIC DATA

Productivity Growth Shows Signs of Long-Awaited Strength

Output per hour of nonfarm business sector workers registered the strongest nine-month stretch of growth between April and December since 2010



Robots swing a cab and bed into place for a new pickup at General Motors's assembly plant in Flint, Mich., in January. PHOTO: JOHN F. MARTIN/CHEVROLET/REUTERS

By Sharon Nunn

Updated March 7, 2019 12:47 p.m. ET

WASHINGTON—U.S. worker productivity, an important driver of wage and output growth, is showing glimmers of recovery after years of subdued increases that held back the economy.

Output per hour of nonfarm business sector workers grew at a 1.9% annual rate in the fourth quarter and registered the strongest nine-month stretch of growth between April and

December since 2010, averaging 2.2% growth during that period last year. It beat the 1.3% average growth registered so far in the expansion and was near a 2.1% post World War II average.

Productivity growth, along with growth in the labor force, are two key components of overall economic activity. A nation can only produce as much as its overall number of workers are capable of turning out on a regular basis. Worker productivity gains also tend to create a backdrop for rising wages, corporate profits, or both, that don't generate substantial inflation.

For those reasons, economists keep close track of productivity trends for clues on the economy's longer-run prospects. Slow productivity growth has led many forecasters to raise doubts about how fast the economy can grow. A nine-month stretch of more robust gains doesn't necessarily mean the long postrecession slump is over, but economists see it as a promising signal.

MORE ON THE ECONOMY

- U.S. Job Openings Ticked Up to 7.58 Million in January March 15, 2019
- U.S. Consumer Sentiment Improved in March March 15, 2019
- U.S. New-Home Sales Fell in January March 14, 2019
- U.S. Jobless Claims Rose Last Week March 14, 2019

"We've had a nice little pickup in productivity, and it helps offset some of the rising wage and input cost pressures that companies are facing now," said Kathy Bostjancic, head U.S. financial market economist at Oxford Economics.

The recent productivity uptick coincides with solid business-investment growth. Companies might be putting capital in place that allows them to produce goods and services more efficiently in the longer run and sustain the recent gains they have registered in output-per-hour. Last year's cuts in corporate tax rates may have played a role in encouraging that investment.

Still, the productivity gains might prove transitory. Personal and corporate tax cuts and government spending increases last year might have encouraged a burst of activity in 2018 that won't be sustained.

The owners of M-D Building Products, an Oklahoma-based manufacturer that makes building material products like weather stripping, expanded the firm's facilities by almost 200,000 square feet and added another metal shaping machine to its fleet because demand was so high. The firm's output grew by about 20% in the last year.

"We added that plant capacity hoping that we would have some extra or even excess capacity to deal with [orders], but we ended up using all of that excess capacity, and now we're in the next phase of capex," said Larry Sanford, executive vice president at the company.

A scarcity of workers has encouraged some businesses to invest in machines that can help increase the output of their existing workforces. This is potentially adding to the productivity uptick too.

The Federal Reserve's "Beige Book" report released this week showed some businesses in the Philadelphia Fed district were looking to automation to fill labor gaps. In another instance, firms in the Atlanta district reported they had "a renewed focus on productivity enhancements using existing and/or new technology and automated systems."

Some analysts were skeptical the recent gains would be sustained.

"Productivity has been temporarily boosted by last year's fiscal loosening, which boosted demand but did not trigger a proportionate rise in hiring, presumably because firms suspected the kick would not last," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients. "We think this will prove the high-water mark" for productivity.

The full fourth-quarter productivity report was published about a month late because of the partial government shutdown, which affected certain agencies from which the Labor Department pulls data.

Write to Sharon Nunn at sharon.nunn@wsj.com