Figures point to pressure for new US jobs
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US productivity grew at its slowest pace for nearly four years in the last quarter of 2004, raising hopes that companies will have to hire more workers but also suggesting that pressures on inflation may intensify.

The Bureau of Labor Statistics figures, which measure output divided by hours worked, showed productivity climbing at an annualised rate of just 0.8 per cent in the fourth quarter. Although productivity rose by an impressive 4.1 per cent for 2004 on average, the rate of increase slowed sharply over the year.

Unit labour costs rose at an annualised 2.3 per cent over the quarter and were up 1 per cent over the year. In 2002 and 2003, unit labour costs actually fell by 1.1 per cent and 0.4 per cent respectively and the recent pick-up may be an early warning sign of building inflationary pressures.

“Unit labour costs at the moment are probably at the upper end of what the Federal Reserve feels comfortable with,” said Ian Morris, US economist at HSBC. However, there were still signs of slack in the labour market. The increase in hourly compensation including wages and benefits fell back to 3.1 per cent in the fourth quarter from 3.5 per cent.

Federal Reserve policymakers face uncertainty over whether the recent slowdown in inflation reflects a normal cyclical ebb or a drop in the rate of underlying productivity growth. But with unit labour costs also rising, there is less confidence in the Fed about forecasting inflation prospects than a year ago. Then, strong productivity growth and falling unit labour costs meant the Fed could be confident the spring rise in core inflation was only a blip.

Alan Greenspan, Fed chairman, is expected to stress this uncertain outlook on inflation when he gives testimony before Congress later this month.

Some Fed-watchers expect the bank will soon drop its guidance that rates are likely to rise at a “measured” pace repeated this week when it nudged the federal funds rate up another quarter point to 2.5 per cent.

Nigel Gault, director of US research at consultancy Global Insight, said recent data suggested that the great spurt in productivity since 2001 might be drawing to a close. Between 1973 and 1995, annual productivity growth averaged just 1.4 per cent. It then accelerated to 2.5 per cent between 1995 and 2001. Since then it has averaged 4.3 per cent a year.

Many economists believe this acceleration reflected the delayed effects of the jump in high-technology investments at the end of the 1990s, which took a while to assimilate into businesses.

Research published by the New York Fed suggests productivity is likely to grow at a trend rate of about 2.6 per cent
over the next decade.

Strong productivity growth in recent years has been a double-edged sword. It has helped power strong non-
inflationary growth and boosted living standards. But companies have also been able to boost output without adding
to the workforce, which helped to explain weak job growth after the 2001 recession.

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