Labor costs fall as productivity increases

Businesses in the United States squeezed more out of their workers this spring, as productivity surged by the most in six years, the government reported on Tuesday.

Overall output slid in the second quarter as businesses scaled back production and curtailed their growth plans to cut their budgets and survive the recession. But the number of hours worked fell even farther, meaning that workers effectively did more with less.

Productivity rose at an annual rate of 6.4 percent at non-farm businesses from the first quarter, the Labor Department reported, the largest increase since the third quarter of 2003. Overall output fell 1.7 percent, and hours worked fell by 7.6 percent.

As workers became more efficient, the cost of labor for each unit of output fell 5.8 percent. After several quarters of heavy losses, many businesses were able to turn profits this spring by slashing their labor costs and capital investments.

The report also showed that wages are stagnating and people's purchasing power is falling.

Although hourly pay inched up 0.2 percent in the second quarter, an increase in consumer prices actually outpaced any growth in wages. Real hourly compensation, which takes price changes into account, dropped 1.1 percent, highlighting concerns that weakened consumers are not likely to drive the economic recovery. .

Economists said the figures showed that despite record government deficits, inflation is still not an imminent concern.

"It is very clear that deflation remains a significantly greater risk than inflation over the near several quarters," the Morgan Stanley economists, David Greenlaw and Ted Wieseman, wrote in a research note.

The recession has left millions out of work and struggling to pay their bills, but it has also made workers in the United States more productive. Worker productivity increased 1.8 percent over the last year, even amid a tumultuous business climate marked by uncertainty about whether employers would be cutting jobs or shutting down altogether.

Another economic report showed that businesses continued to cut their inventories in June — and by almost twice the amount economists had expected — as sales rebounded. Wholesale inventories fell by 1.7 percent after a 1.2 percent decline in May, and many economists believe that companies will soon begin rebuilding their depleted stockpiles as production revives, providing a shot of economic growth.

Sales of wholesalers rose by 0.4 percent from May.

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