

Nonfarm Business Sector Labor Productivity Slides In Q1; Unit Labor Costs Surge

- Nonfarm business sector labor productivity slipped 0.8% annualized in the first quarter of this year as output dropped 0.3% and hours worked increased 0.6%
- From a year ago, productivity is up 1.4% in the first quarter, down from 2.1% in the fourth quarter of 2024.
- Unit labor costs surged 5.7% annualized in the first quarter – the sharpest gain since the first quarter of 2024 – as hourly compensation rose 4.8% and productivity dropped 0.8%.
- Unit labor costs are just 1.3% higher than a year ago, well below the Fed's 2% inflation objective.

Nonfarm business sector labor productivity, or output per hour, decreased 0.8% at an annualized rate in the first quarter of 2025, the U.S. Bureau of Labor Statistics reported today. Output decreased 0.3% and hours worked increased 0.6%. This is the first decline in nonfarm business sector labor productivity since the second quarter of 2022. From the same quarter a year ago, nonfarm business sector labor productivity increased 1.4%, down from 2.1% in the fourth quarter. Moreover, annual gains in productivity have decelerated since the first quarter of 2024 when growth registered 3.3% – the fastest pace of growth since the first quarter of 2021.

Manufacturing sector labor productivity increased 4.5% annualized in the first quarter of 2025, as output rose 5.1% and hours worked increased 0.5%. The increase in productivity is the sharpest since the second quarter of 2021 (5.3%). Durable manufacturing sector productivity increased 7.1% while nondurable manufacturing sector productivity rose 2.2%.

Unit labor costs, or how much a business pays its workers to produce one unit of output, surged 5.7% annualized in the first quarter of 2025, reflecting a 4.8% increase in hourly compensation and a 0.8% decrease in productivity. That marks the strongest increase in unit labor costs since the first quarter of 2024 (8.3%). On a year-on-year basis, unit labor costs are up 1.3%, the slowest pace of growth since the third quarter of 2023 and well below the Fed's 2% inflation target. Moreover, annual growth in unit labor costs has slowed since the first quarter of 2024 amid weaker job growth. Real hourly compensation, adjusted for inflation, climbed 1.0% in the first quarter following a downwardly revised 0.6% increase in the fourth quarter.

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