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Productivity Boom Propels Economic Growth in U.S.

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Inflation and the labor market are both cooling, but a subtle force has powered strong U.S. economic growth nonetheless. Americans keep finding ways to get more done at work.

As a result, many businesses have been able to do more with less and up their revenue without passing on higher costs to customers—a process that makes this trend, called productivity growth, a key ingredient for a low-inflation economic boom. Over the past two years, better productivity growth has helped the U.S. power past similar economies such as the European Union's and Canada's.

So far this year, the quarterly productivity of U.S. workers has grown by at least 2% compared with a year earlier. The three months through Sept. 30 were the fifth straight quarter of such growth. Over the past five years, quarterly year-over-year productivity growth has averaged 2.1%, a sharp improvement from growth over the 10 years prior.

Productivity growth has been a critical development that has allowed for strong economic output and declining inflation, even as the labor market cools, Federal Reserve governor Adriana Kugler said in a speech this week.

“This is a hugely important development because it increases the productive capacity of the economy and allows more rapid economic growth without overheating,” Kugler said Tuesday.

Productivity surged in the early stages of the pandemic in 2020, at first mostly because many people in low-productivity jobs such as food service got laid off. As the economy reopened in 2021 and 2022, productivity slumped but still remained above trend. It reaccelerated last year.

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