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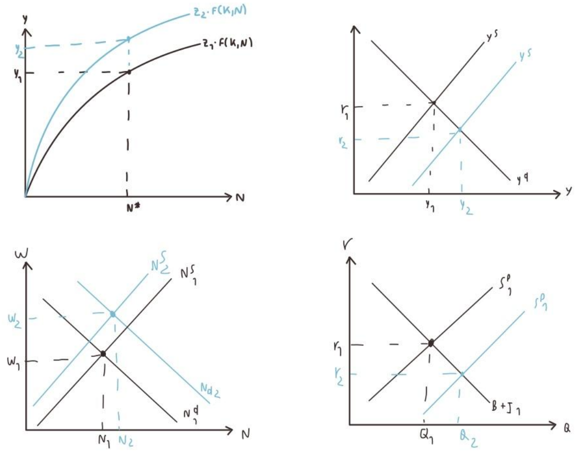
U.S. productivity increases solidly in third-quarter

The labor department said nonfarm productivity, which measures hourly output per worker, increased at a 4.9% annualized rate last quarter. Data for the second quarter was revised up to show productivity increasing at a 10.6% rate instead of a 10.1%pace as previously reported. Economists forecast productivity increasing at a 5.6% rate in the third quarter. Robust productivity growth was flagged by data last week showing the economy expanded at a historic 33.1% annualized rate in the July-September quarter, thanks to more than $3 trillion in government pandemic relief for businesses and workers. According to the information, which tells us that hourly output per worker increased 4.9%, leads to a positive change in production function (productivity of labor).



The positive change in productivity (an increase in hourly output per worker = z) increases the production function and the marginal product of labor(MPN), which causes the production function to shift right. Making firms want to hire more labor, labor demand (Nd) will shift to the right, also an output supply (Ys). Because if firms hire more labor, they will produce more output causing interest rate decreases from r1 to r2.
After interest rate decreases, labor supply will shift to the left causing wage to increase from w1 to w2. After consumer's consumption increases making them want to save more (Sp increase from Sp1 to Sp2). Therefore, the real interest rate decreases from r1 to r2.