Labor Productivity

A three-year surge in productivity growth underlies the current robust state of the U.S. economy. Some commentators have cited the recent strength of productivity numbers as evidence that the U.S. has entered a “new economy.” If one looks at labor productivity (typically measured as real, nonfarm output per hour of work) across a longer span, however, the current data—while strong—do not appear exceptional.

Quarterly productivity growth figures are extremely variable, even on a year-over-year basis. Only now, with the string of strong productivity numbers lengthening to 14 quarters, does the higher level become statistically significant.

While the current numbers are high compared to recent expansions, U.S. productivity growth averaged 2.9% per year prior to the 1974 productivity slowdown. After 1974, it averaged only 1.2%. Productivity growth has averaged 2.0% since 1996, but only 1.5% for the current recovery. Is the three-year surge in productivity growth well above average? The answer depends on whether one includes data prior to the 1974 slowdown, a phenomenon that remains largely unexplained.

A final weakness of productivity data is the inherent difficulty of quantifying output in many industries (legal services and health care are prime examples). Throughout the current recovery, alternative productivity measures have tended to be substantially higher than the headline number. In manufacturing, where measurement is easiest, productivity growth has been consistently higher.