Multifactor productivity (MFP) reflects output changes that are not accounted for by changes in capital and labor. It represents the effects on output growth of many factors, including new technologies, economies of scale, managerial skill, and changes in the organization of production. As such, MFP, also known as the Solow residual, is often considered a measure of technological progress.

Labor productivity, that is, output per unit of labor, is affected by capital deepening (increases in the ratio of capital to labor), labor composition, and MFP. In fact, over the past decade, MFP has often accounted for a major part of labor productivity growth. Both labor productivity and MFP have risen substantially over the past 50 years or so. Capital deepening (or capital intensity), which boosts labor productivity by providing more and better capital for workers, accounted for over a third of labor productivity growth in 2000–04. Labor composition improvements, such as work experience and increased educational attainment, accounted for nearly 15% of labor productivity growth over the same period, while MFP accounted for more than 50%. The slowdown in labor productivity growth in 2003–04 reflects deceleration in capital deepening (in capital services other than information processing equipment and software) and a slower rate of growth in labor quality, which more than offset the acceleration in MFP that occurred over the period.