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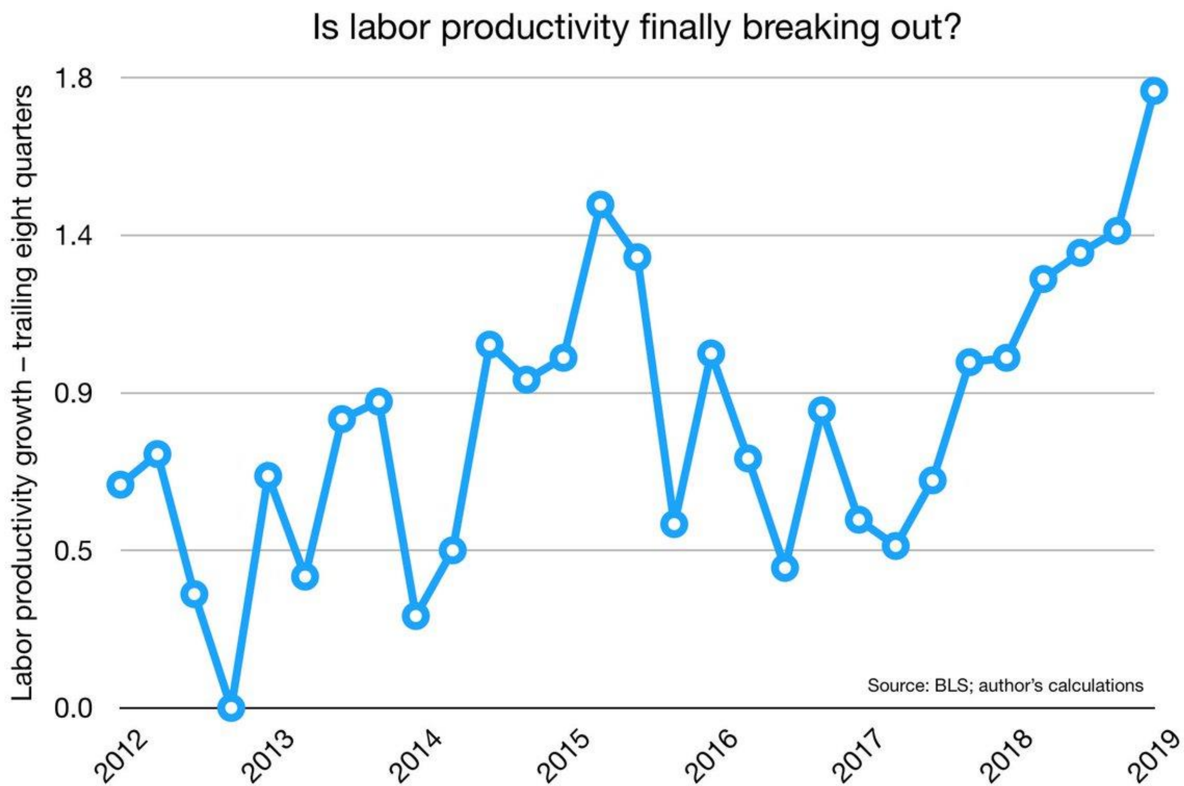
About that great stagnation. …Are we on the leading edge of a productivity revival?

Actual 1Q19 labor productivity = 3.6%, reinforcing our Tuesday take: “Are we on the leading edge of a productivity revival?"



Over the past decade, one of the big economic debates has centered on sluggish productivity, often referred to as “the great stagnation” or even “the demise of US economic growth.” The strongest version of the gloomy view said, roughly, that technological innovation had slowed substantially and that productivity growth — and thus income and wage growth — would fall to a rate perhaps half the historical average and that it would remain depressed permanently or at least for the next 25 years.

Others argued measurement problems masked true innovation and that real productivity and standard-of-living advances just weren't showing up in the data. Still others, with whom I mostly concurred, suggested there had been an overall productivity lull but that future prospects — especially given a new policy direction — were far better than the pessimists warned.

Now, we're starting to see some results of a broad and pronounced shift in policy, and I think they are promising.

As Jon Hilsenrath of The Wall Street Journal writes:

For much of the past year, it looked plausible that a faster-growing U.S. economy was simply running on a sugar high of temporarily elevated demand. Now signs are emerging that the supply side of the economy — the workers and the tools and machines they use to produce goods and services — is becoming energized, improving the chances that faster growth can be sustained.

Is this the leading edge of "the coming productivity boom"? Is the boomlet now a boom, as AEI's Jim Pethokoukis wonders? It's too early to tell. But most of the data are pointing in a happy direction, and we'll know even more later this week.

On Thursday, the Labor Department will report its estimate of the productivity growth of U.S. workers in the first quarter. Given what's already known about how many hours Americans worked and how fast output grew, economists are optimistic. Macroeconomic Advisers, a modeling firm, estimates productivity was up 2.3% in the first quarter from a year earlier. If that proves correct, it would be the largest increase since 2010, when the economy was bouncing back from recession, a time in the business cycle when productivity growth tends to be high. Between 2010 and 2017, productivity growth averaged just 1% a year.

Here's another way to look at recent productivity readings (with all the normal caveats about highly imperfect measurements). Attempting to smooth away quarterly fluctuations, I charted the average of the trailing eight quarters of nonfarm labor productivity growth. The result, which uses the consensus estimate for the first quarter of 2019, shows a distinct upward slant over the past two years. Increased business investment, meanwhile, suggests the productivity and wage trends might continue.

As Brian Wesbury wrote this week:

Output per hour increased at a 0.7% annual rate from early 2010 through early 2017, but likely grew faster than 2.0% in the past year — a clear sign of more rapidly expanding standards of living. And the underlying wage data show that lower income Americans are seeing faster wage growth than the overall average.

By traditional measures, the economic expansion is long in the tooth — historically long, in fact. The probability of recession should be rising. Instead, we seem to have shifted into a higher gear. With luck, over the next few years, we'll witness the demise of the demise of US growth.