Economic Productivity Growth: It Is Not Just About More Resources

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The article examines multi-factor productivity factors.

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https://lplresearch.com/2017/06/09/economic-productivity-growth-its-not-just-about-more-resources/

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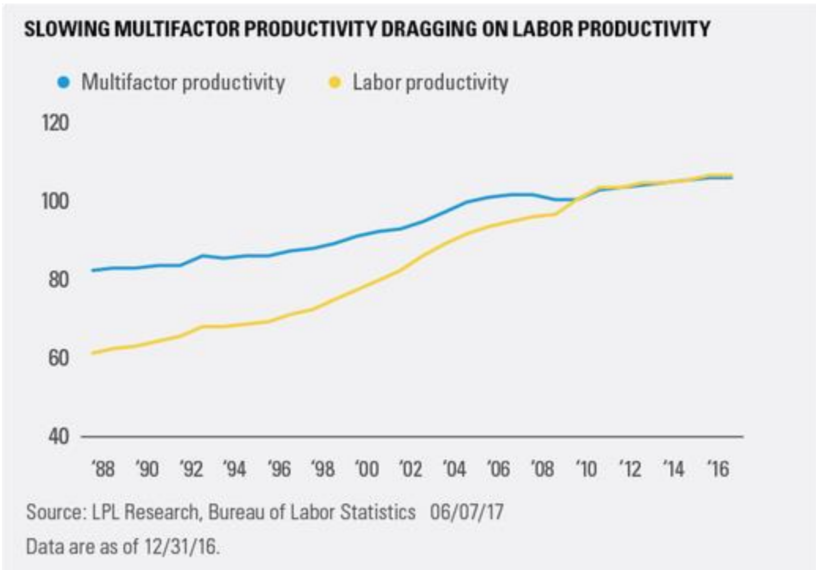
Posted by lplresearch

In business we often hear the adage, "Do more with less," and we try to rise to this challenge. When workers can succeed in using their resources more effectively (in addition to just adding new resources), it helps drive economic growth. Economists call this side of productivity, "multifactor productivity," and it is measured by comparing economic output to the inputs required to produce it. In other words, it looks at how effectively existing machinery, equipment, and other capital inputs (in addition to labor) are being used to produce goods and services. Multifactor productivity is driven by things like technological improvement, the education and skills of the labor force, and efficiency in using resources.

Both multifactor productivity and overall productivity have increased more slowly in the current business cycle than in prior cycles, suggesting that the recent uptick in firms' capital spending (discussed previously) may indeed continue. But this is not only about just more resources. Capital spending also often includes updating equipment and technology and committing to worker training to ensure that the new technologies can be used effectively. That, in turn, should lead to increases in profitability, worker compensation, and government revenues—thus boosting economic growth.

As the chart below illustrates, multifactor productivity has been anemic since the Great Recession, consequently stifling labor productivity, as firms have opted to spend more cash on stock buybacks and dividend payments versus reinvesting in their businesses via capital expenditures. The Great Recession also contributed to a potential decline in skills following the largest disruption to labor markets since the Great Depression. The productivity slowdown indicates that stimulating productivity gains is challenging in the absence of workers' access to resources that enable them to produce goods and services more efficiently.



From an investment perspective, analyzing the underlying factors of productivity may be another way to help better forecast which market sectors and industries are better positioned to benefit from a pickup in business spending.

IMPORTANT DISCLOSURES

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