What can revive stagnant worker productivity?

- **Global worker productivity has stagnated since peaking in the Covid pandemic**
- **US productivity growth in the current business cycle is at a historic low**
- **Technological advances and innovations are principal drivers of improved productivity**

Productivity levels have stagnated across the world since peaking in the pandemic new figures show, with developed economies particularly affected.

Yet with the fight against inflation and economic recovery closely linked to productivity growth, what could help spur higher productivity?

Worker productivity, which is the output per hour worked, tends to rise over time. Improvements are largely driven by technological advances, but other factors help too, such as more efficient working practices, innovations, investment, skills development and competition. The benefits of higher productivity include better wages for workers, higher returns for shareholders, lower prices for consumers and higher tax revenues for governments.

However, global productivity growth has stagnated since it peaked at a 40-year high in 2020* during the Covid pandemic. It had risen steadily in the decade beforehand and the peak was due to generally less productive service industries being removed from the calculations during lockdowns. The peak was short-lived as the less productive, labour-intensive sectors reopened in 2021 and 2022. Global GDP rebounded quickly, to around 6.3% in 2021 and 3.2% in 2022, but this had more to do with the surge in people returning to work than productivity growth.

In 2023, global worker productivity per hour worked is expected to rebound modestly to 1.2% from 0.0% in 2022, according to the think-tank The Conference Board.* Labour productivity is a more acute problem in mature economies – in contrast, over the past decade a disproportionate portion of productivity growth has been driven by emerging economies in Asia. Much of the productivity weakness in 2022 and 2023 has been in economies such as the US and France that have booming demand for labour.

Of the developed economies, the UK has a particular problem with productivity. Latest figures from the Office of National Statistics showed that worker productivity in Q4 2022 was just 2.1% above its average in 2019. The Bank of England has warned that Covid could depress productivity for some years by denying companies the chance to invest or innovate and workers who lost or moved jobs would be less well-placed to make the most of their skills.

Latest figures illustrate the problem in the US, too. For example, data from the US Bureau of Labor Statistics showed that non-farm business sector labour productivity decreased by -2.7% on a seasonally-adjusted rate in the first quarter of 2023 and was -0.9% lower versus the same quarter last year. In the current business cycle, starting in the fourth quarter of 2019, worker productivity has grown at an annual rate of 1.1%. The Bureau noted that: “The 1.1% rate of productivity growth in the current business cycle thus far is a historically low productivity growth rate; no other previous business cycle had lower productivity growth, except for the brief six-quarter cycle from 1980 Q1 to 1981 Q3, which exhibited 1.0% growth.”

This decline in productivity exacerbates the problem the Federal Reserve has in fighting inflation. Increases in productivity tend to reduce unit labour costs, but the Bureau figures also showed that non-farm business sector labour costs were up an annualised 6.3% in Q1, showing how wage rises are contributing to a stubbornly high level of core inflation.

Some economists have suggested that the pandemic could ultimately boost productivity by eliminating weaker businesses and forcing those remaining to adopt better technology and business practices more swiftly than they might have done. The adoption of technology by companies to enable their staff to work from home accelerated during the pandemic, for example.

The absence of a sustained rise in productivity, combined with a constrained labour supply given aging populations in many countries, will restrict economic growth globally. It is no coincidence that Japan, which is widely noted for its aging population, is a world leader in robotics – it appreciates the need for automated workers. But robots are not necessarily a replacement for workers, as they can also enhance workers' productivity by working alongside them.

Going forwards, worker productivity growth globally is expected to improve to just below +2% per annum over the next decade*. It is expected that technological advances, especially in relation to automation and artificial intelligence (AI), will play a significant role in this being achieved.

This does raise other issues of course, such as the impact on unemployment, but technological advances and innovations do remain a key driver of productivity growth. Much will depend, however, on effective deployment of these new technologies.

***Source: Global Productivity Brief 2023, The Conference Board, 17 May 2023**

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