Productivity Remains in Near Decade-Long Growth Slump (March 2014)

Note: Chart 1 tracks the model’s estimate of the low-growth probability as of the latest period for which data are available, which is typically as of one quarter earlier. For example, the latest reading (“15M03”) is based on 2014:Q4 data. The reading labeled “14M06” reflects the model’s estimate as of last June, reflecting data through 2014:Q1. Chart 3 depicts the evolution of the model’s assessment of the probabilities going back to 2000:Q1 given data available at the indicated date.

Key Points

- Using revised data for 2014Q4, the model finds that productivity remains, with probability 0.98, in a low growth (1.4% annual rate) regime (Chart 1). Compared to productivity and cost data released in February, there was essentially no change in the forecast profile for productivity growth. The model continues to indicate a near-term bounce-back from the large 2014Q4 decline (forecasts are shown as a 4-quarter moving average), but with a 5-year trend slightly below 2% (Chart 2).
- Productivity fell 2.2% (annual rate) in 2014Q4, a downward revision from its preliminary reading of -1.2%. With regard to other model inputs, there was an upward revision to real compensation growth in Q4 and Q3, while revisions to growth in real consumption (relative to hours worked) were minor.
- This data release continues to support the model’s conclusion that productivity has been in a low growth regime since late 2004 to early 2005, and that the burst of strong productivity growth in 2009 was cyclical and transitory in nature (Chart 3). As a reminder, this latter view resulted from a sizable August 2011 NIPA data revisions and the supportive nature of subsequent data releases (including the comprehensive NIPA data revisions released in July 2013). We will continue to monitor future data releases to guide our assessment of trend productivity growth.

Please see our Current Issues for more details on the model.