(What's Left of) Our Economy: New Report Suggests Historic Problems with Manufacturing Productivity

For several months at least, major economists – though not major politicians – have worried about slumping American productivity growth, and with good reason: As I've written many times in covering the subject, improvements in this measure of economic performance represent the nation's best hope for boosting living standards in a sustainable way, as opposed to relying on financial and similar gimmicks as during the previous bubble decade.

So it's big news that this morning's Labor Department report on multi-factor productivity in U.S. manufacturing provides the latest validation of these fears. It shows both that, by this broadest measure, America's industrial efficiency fell in 2014 for the third time in four years and for the the fourth time during the current economic recovery, and that overall, manufacturing productivity change between 2011 and 2013 was much worse than previously reported. Further, the new report suggests that manufacturing is losing its position as the U.S. economy's productivity leader.

The exact numbers: Multi-factor manufacturing productivity – which measures the sector's use of a variety of inputs – fell in 2014 by one percent. (These data come out with a longer time lag than those for labor productivity, which measures only one input.) It's true that 2013's figure was revised up, from a 0.7 percent decline to a 0.1 percent gain. But for 2012, multi-factor manufacturing productivity is now judged to have fallen by 2.8 percent, not 0.8 percent. That's the biggest annual drop-off on record by a wide margin. (The data, though, only go back to 1987.)

Also making clear that manufacturing's productivity struggles are no passing fancy are the numbers during the last few economic recoveries – the methodology that yields the best apples-to-apples results. Since the manufacturing multi-factor statistics are only published on an annual basis, and recoveries don't respect the calendar much, these numbers won't be perfect. But they'll certainly be close enough.

During the 1990s economic expansion – which lasted from early 1991 to early 2001 – manufacturing multi-factor productivity increased by a total of 14.91 percent. The bubble decade expansion was shorter (late-2001 to late 2007), but manufacturing's total multi-factor productivity growth was only a little slower – 14.73 percent. Through 2014, the current recovery had been even shorter – just five years. But so far, manufacturing's multi-factor productivity has fallen by 1.29 percent.

Here, moreover, is a trend at least as disturbing: During the 1990s and 2000s expansion, manufacturing multi-factor productivity grew faster than overall non-farm business multi-factor productivity (which rose by 11.50 and 9.51 percent, respectively). But during the first five years of the current recovery, as manufacturing multi-factor productivity fell, non-farm business productivity kept rising – albeit by a slower 4.66 percent.

Subsequent figures could show these trends reversing themselves. But if they don't, manufacturing will not only seem to be suffering serious productivity woes in its own right. It will start looking like a productivity laggard in an economy whose overall efficiency performance is faltering.