



The Daily Dish

Manufacturing Has a Productivity Problem

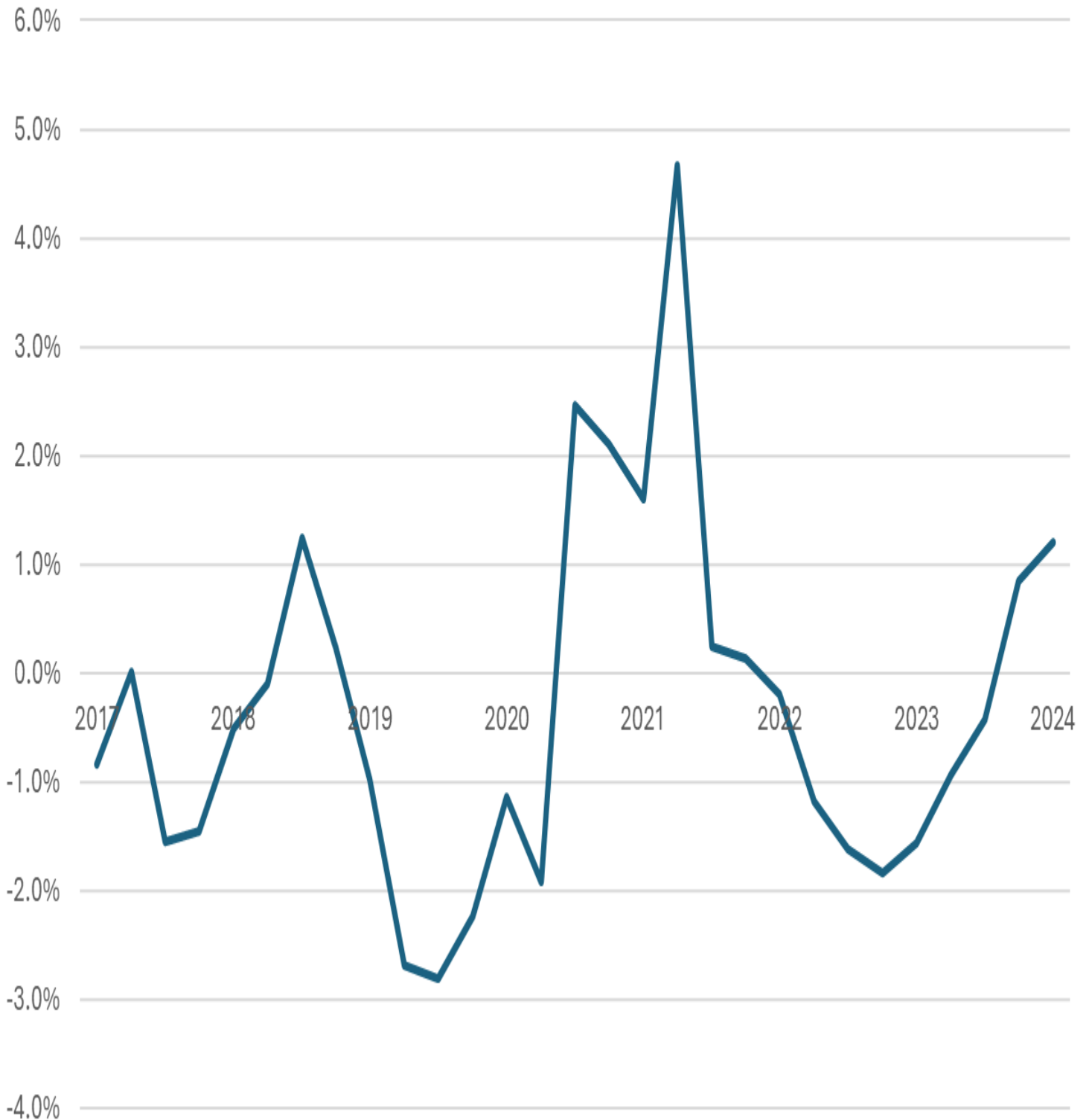
DOUGLAS HOLTZ-EAKIN | JUNE 4, 2024

Yesterday the Institute for Supply Management (ISM) released its May purchasing managers index (PMI) for the manufacturing sector. The PMI dropped from 49.2 in April to 48.7 in May, a sharper rate of contraction, while the employment PMI rose from 48.6 to 51.1 (an expansion).

Now, there are two ways to use the PMI data. One is to provide some information regarding the likely job creation in Friday's employment report from the Bureau of Labor Statistics. AAF's Fred Ashton will weigh in on that front just prior to and after the report is released.

The other is to notice that overall output is declining while employment is rising means that labor productivity is falling, and that is not good news. Indeed, it is no longer even news. The chart below shows year-over-year labor productivity growth in manufacturing since the first quarter of 2017.

Manufacturing Labor Productivity Growth (year-over-year)



Obviously, “sustained, high productivity growth” is not the appropriate summary of the data. Indeed, the average growth rate over this sample is a depressing -0.3 percent (annual rate). Perhaps not as obvious, growth was positive in only 11 of the quarters, or 38 percent of the time.

That's a problem. As regular readers of Eakinomics are well aware, over the near-term rapid productivity growth makes it easier to get control over inflation, although goods inflation is no longer the key problem for the Fed. Over long periods productivity growth is central to the growth of real wages and the standard of living.

The Biden Administration has made manufacturing the centerpiece of Bidenomics. (Remember Bidenomics? The administration used to talk about Bidenomics.) The president wants manufacturing to be a bigger part of the economy. He wants it to be more unionized. He wants it to be greener and produce the equipment for a greener economy. He wants its supply chains secure and its contributions to national security protected.

President Biden wants a lot of things. But he should want the manufacturing sector to be more productive, above all else. It might be time to tone down the industrial policy and let the private sector do its job.