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Headline: Can Measurement Error Explain Slow Productivity Growth in Construction?

Article Link: https://www.federalreserve.gov/econres/feds/files/2023052pap.pdf

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Tweet: A @FederalReserve working paper argues that the decline in construction productivity is largely a mismeasurement issue and the sector's productivity was "essentially flat" between 1987 and 2019.

Summary: We find that mismeasurement error has biased construction-sector productivity growth downward by 3⁄4pp per year at the very most. This brings an estimate of average productivity growth from 1987 to 2019 up to positive territory, but just barely (from negative 0.5% to positive 0.2%), and still about 1pp below productivity growth of the next-lowest major industries and more than 1 1⁄2pp below the average for the nonfarm business sector. Consequently, we conclude that productivity growth may well have been quite low in the construction industry, even if it has not been as low as implied by the official statistics. While this estimated growth rate is higher than the growth rate of the published data, it does not change the qualitative result that productivity growth in this sector has been quite low. And our estimate of productivity growth in the construction sector remains much lower than in other industries. Related: The Strange and Awful Path of Productivity in the U.S. Construction Sector and Construction Industry Has Work, Needs More Workers

Primary Topic: Investment

Topics: Academic paper, GDP, Housing, Investment, Productivity, Weekly

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