

# Why Is Manufacturing Productivity Growth So Low?

Enghin Atalay

Federal Reserve  
Bank of Philadelphia

Ali Hortaçsu

University of Chicago

Nicole Kimmel

Federal Reserve  
Bank of Philadelphia

Chad Syverson

Chicago Booth  
School of Business

The views expressed in this paper are solely those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Any errors or omissions are the responsibility of the authors.

# Motivation

- Traditional view: Manufacturing is a locus of innovation. In the U.S.:
  - Productivity growth in manufacturing is higher than elsewhere.
  - Manufacturing is 10 percent of employment, but generates  $\frac{2}{3}$  of patents and R&D spending. (Autor, Dorn, Hanson, Pisano, Shu, 2020)

|           | Labor Productivity Growth |         | TFP Growth    |         |
|-----------|---------------------------|---------|---------------|---------|
|           | Manufacturing             | Private | Manufacturing | Private |
| 1987-2009 | 3.4%                      | 2.4%    | 1.2%          | 0.9%    |
|           |                           |         |               |         |

# Motivation and Questions

- Traditional view: Manufacturing is a locus of innovation. In the U.S.:
  - Productivity growth in manufacturing is higher than elsewhere.
  - Manufacturing is 10 percent of employment, but generates  $\frac{2}{3}$  of patents and R&D spending. (Autor, Dorn, Hanson, Pisano, Shu, 2020)
- Since the late 2000s: Manufacturing productivity growth is 0.

|           | Labor Productivity Growth |         | TFP Growth    |         |
|-----------|---------------------------|---------|---------------|---------|
|           | Manufacturing             | Private | Manufacturing | Private |
| 1987-2009 | 3.4%                      | 2.4%    | 1.2%          | 0.9%    |
| 2009-2023 | 0.1%                      | 1.5%    | -0.1%         | 0.8%    |

- Why has manufacturing productivity growth been so low?
  - What industries account for manufacturing sector's measured growth?
  - To what extent is TFP growth mismeasured specifically in manufacturing?

# Questions

- What industries account for manufacturing sector's measured growth?
- To what extent is TFP growth understated specifically in manufacturing?

# Questions and Answers

- What industries account for manufacturing sector's measured growth?
  - Manufacturing productivity growth was previously propped up by outstanding growth within Computer and Electronic Products Manufacturing (NAICS 334).
  - No longer the case.
- To what extent is TFP growth understated specifically in manufacturing?

# Questions and Answers

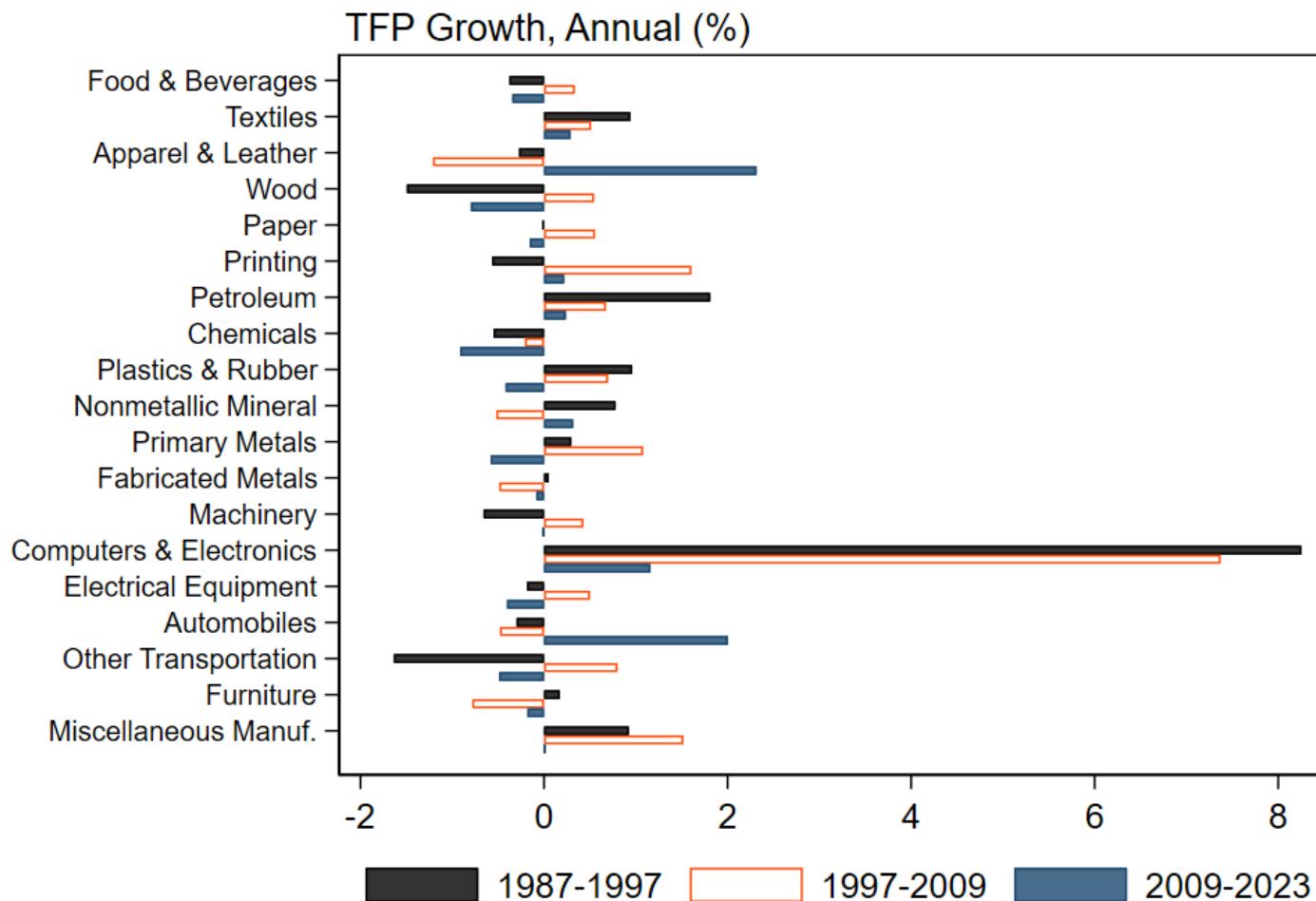
- What industries account for manufacturing sector's measured growth?
- To what extent is TFP growth understated specifically in manufacturing?
  - BLS applies different sets of techniques to account for quality improvements when constructing the CPI, PPI, and Import Price Indices.
    - Posit CPI (and PCE) more comprehensively account for quality improvements
    - BEA (Gross Output) Price Deflators rely primarily on PPI, especially in manufacturing.
    - For goods (especially ICT goods): Gross Output Deflator Growth << PCE Inflation.  
⇒ BEA real output growth is understated.
  - Use Input-Output Framework to estimate how much TFP is understated:
    - 1.4% (per year, '97-'23) in durable manufacturing; 0.3% in nondurables; slightly overstated outside of manufacturing
    - Manufacturing TFP growth *has slowed down, but is still growing, even outside of Computer and Electronic Products*

# Related Literature

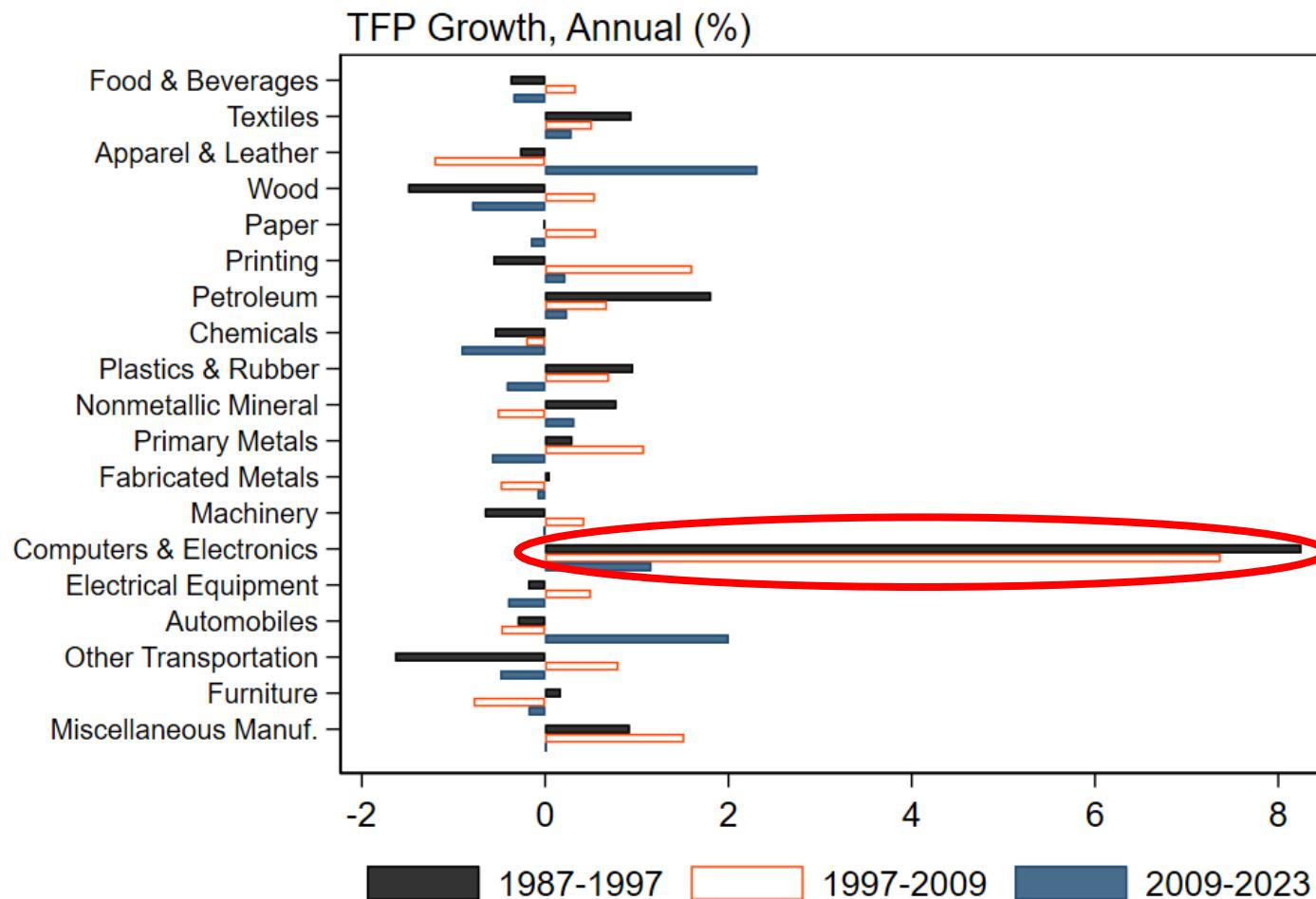
- Why has manufacturing productivity slowed down?
  - Computers play an important role in manufacturing sector's recent trajectory: Syverson (2016), Houseman (2012, 2018), Sprague (2021).
  - Lashkari and Pearce (2024, 2025) argue that the decline in manufacturing TFP growth is more broad-based.
- To what extent do official price indices account for quality improvements?
  - Consumer price indices may miss key quality improvements (or more generally welfare gains): Byrne, Fernald, Reinsdorf (2016); Brynjolfsson, Collis, Diewert, Fox (2025)
  - Components of PPI may underestimate quality growth: Gordon (1990); Byrne (2015; IT Storage Equipment); Byrne and Corrado (2015; Communications Equipment); Byrne, Oliner, Sichel (2018; Semiconductors).

What industries account for manufacturing sector's measured growth?

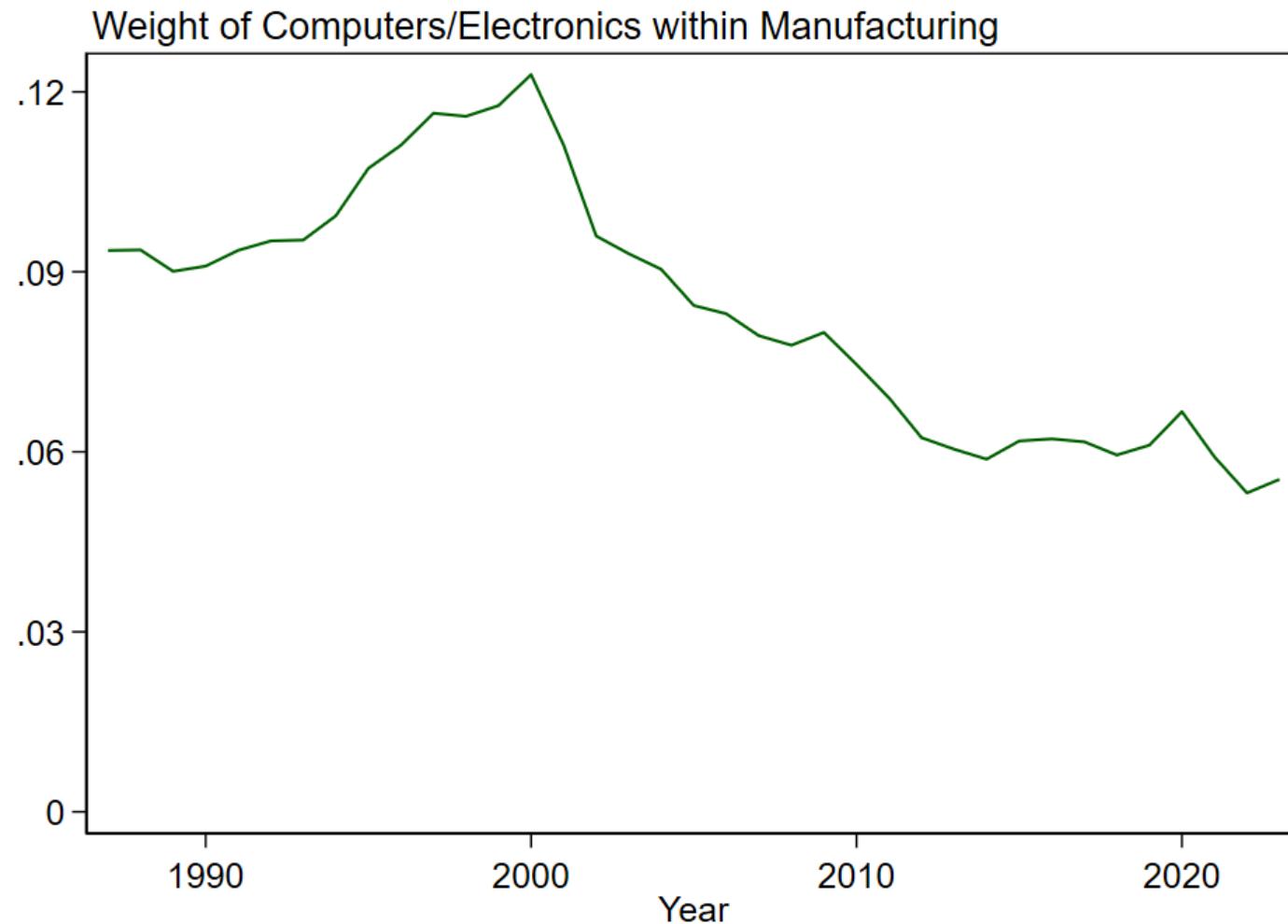
# Computer and Electronic Products Manufacturing TFP is Exceptionally High up to the Late 2000s



# Computer and Electronic Products Manufacturing TFP is Exceptionally High up to the Late 2000s



## Computer and Electronic Products Manufacturing Comprises a Smaller Share of Manufacturing Output



# How to Compute the Contribution of Computer and Electronic Products Industry to Manufacturing TFP?

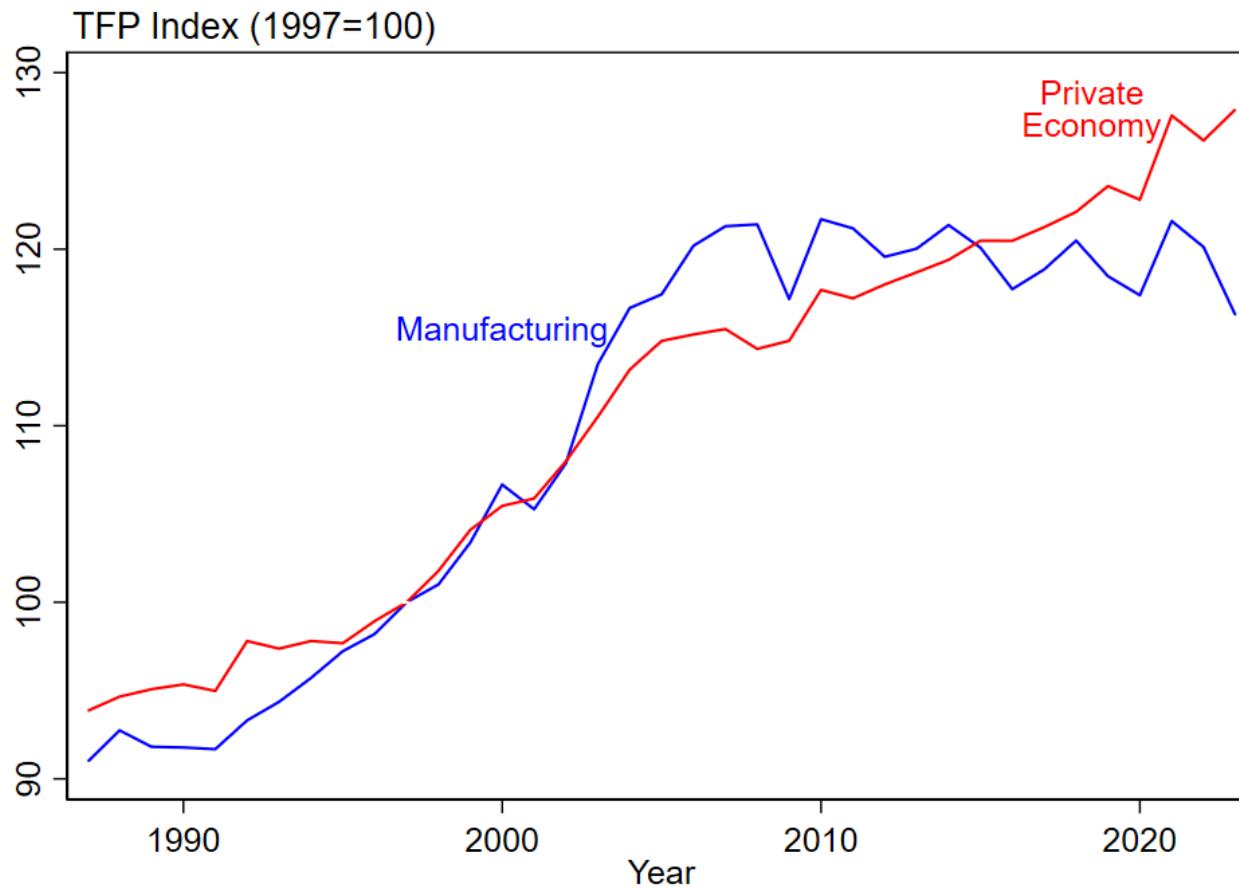
- Manufacturing TFP growth is a weighted average TFP growth rates of its constituent industries:

$$\Delta \log A_{t,M} = \sum_{j \in \text{Manufacturing}} \omega_{tj} \Delta \log A_{t,j}$$

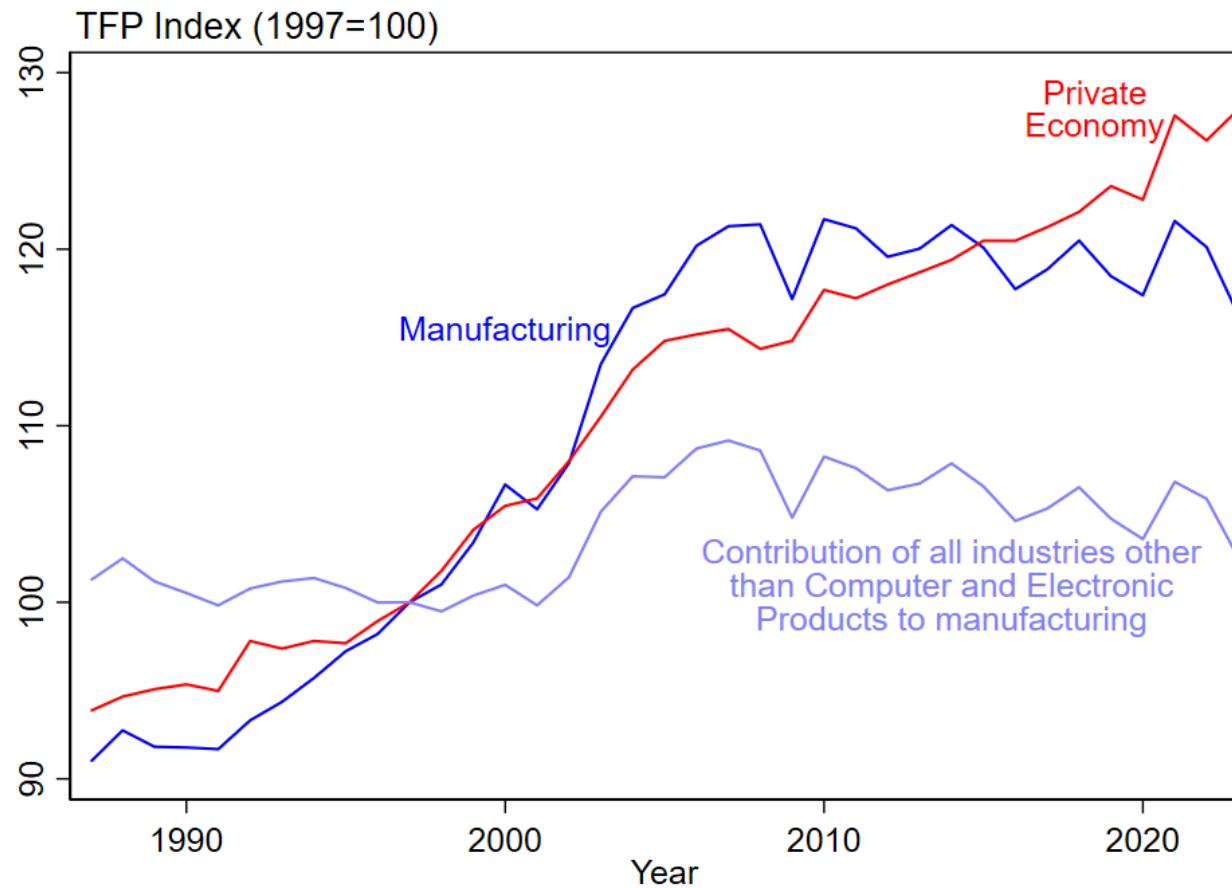
- In the next slide, we compute:

$$\Delta \log A_{t,M}^C = \sum_{j \in \text{Manufacturing} \setminus \text{Computers and Electronics}} \omega_{tj} \Delta \log A_{t,j}$$

Manufacturing Measured TFP Growth: 1.2% ('87-'09) → -0.1% ('09-'23)  
Private TFP Growth: 0.9% → 0.8%



# Computer and Electronic Products Manufacturing Accounts for Nearly All of (Measured) Manufacturing TFP Growth



To what extent is TFP growth mismeasured specifically in manufacturing?

# We Compare Components of PCE to BEA Industry Gross Output Deflators to Infer Missing Quality Growth in Real Output Measures

- For both output deflators (e.g., PPI→BEA Gross Output Deflators) and consumer price indices (e.g., CPI→PCE) statistical agencies attempt to control for quality improvement.
- But extent of these adjustments differ across series.
  - PPI applies hedonic quality adjustment only for computers, microprocessors (beginning in 2016), and broadband internet access (beginning in 2018).
  - Hedonic quality adjustment in PPI is “solely to capture changes in production costs directly connected to specific inputs” not those that raise the user value of the good. (Byrne, Fernald, Reinsdorf, 2016)
  - Output deflators may be understating quality improvements of high-tech products.
- If output deflators miss quality growth for a set of industries, TFP growth will be understated.
  - Need Input-Output Tables to account for the possibility that similar quality mismeasurement would apply to intermediate input prices.

# Gross Output Deflators and the PCE Price Index Attempt to Measure Different Things.

- Gross Output Deflator (from BEA GDP by Industry data):
  - Prices paid to producing industries.
  - Excludes costs of distribution.
  - Includes commodities that are produced domestically.
  - Rely primarily on PPI, especially in manufacturing industries.
- PCE Price Index:
  - Prices paid by consumers.
  - Includes wholesale, retail, and transport margins.
  - Includes domestically sourced and imported commodities.
  - Rely primarily on CPI, especially in goods categories.

## We Use the PCE Bridge to Compare Gross Output Deflators and Import Prices to PCE Inflation

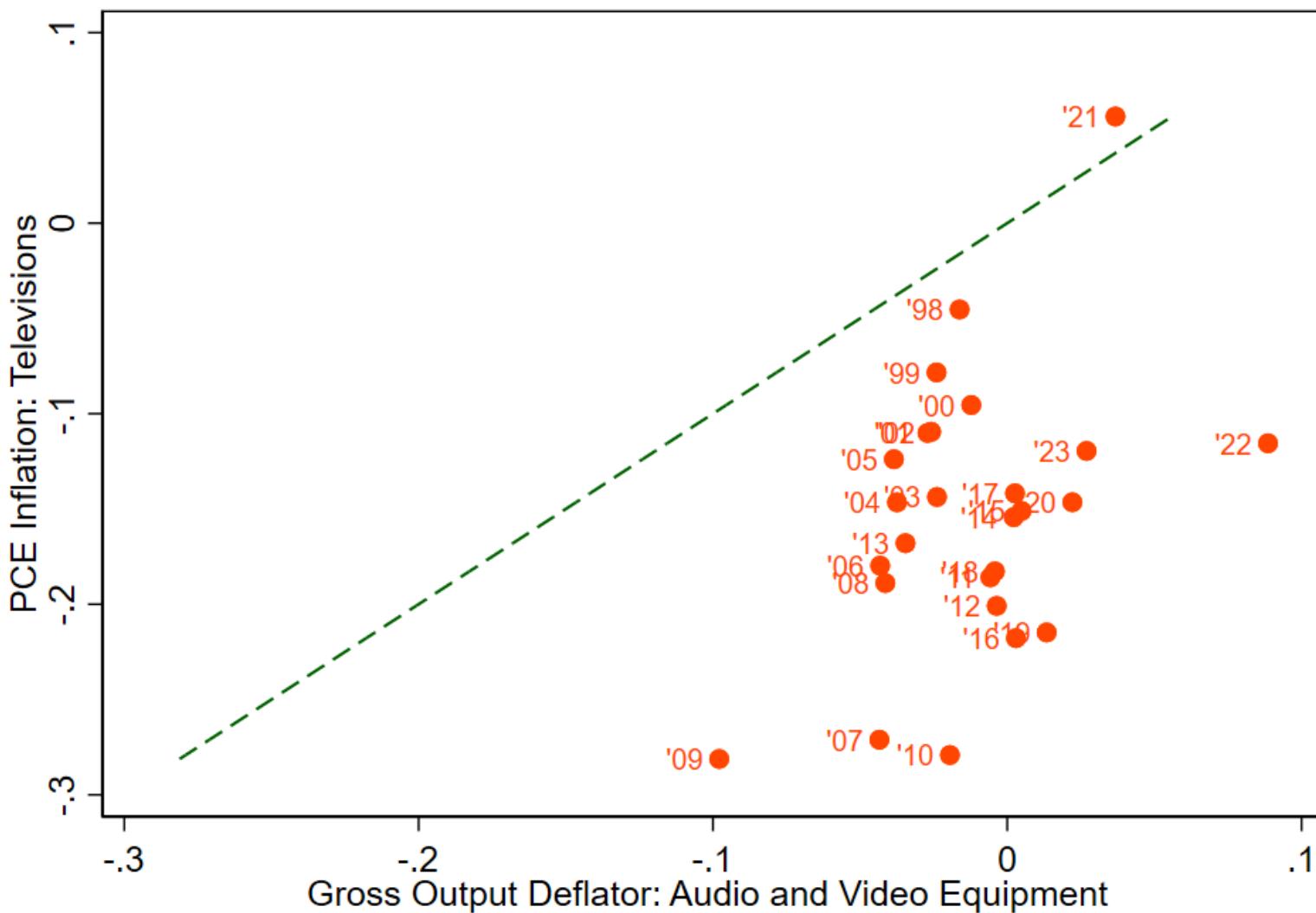
Compute an analogue of PCE inflation in a category,  $c$ , but using gross output deflators and import price indices:

$$\Delta \log \hat{P}_{t,c} = \sum_j s_{j \rightarrow c} \left[ (1 - m_{t,j}) \Delta \log P_{t,j}^{GO} + m_{t,j} \Delta \log P_{t,j}^{\text{Import}} \right]$$

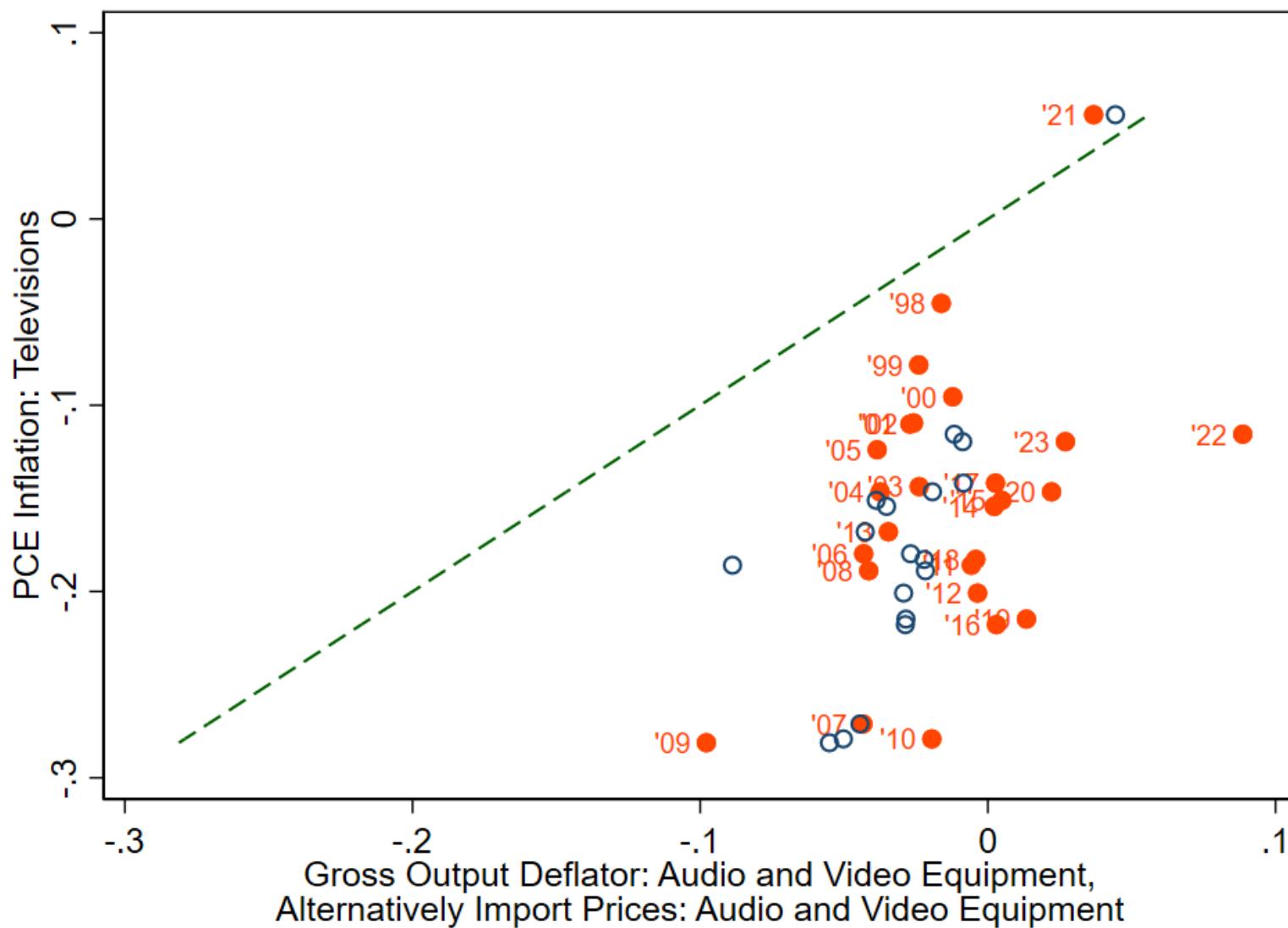
- $s_{j \rightarrow c}$ : Share of PCE category  $c$  that comes from commodity  $j$ .
  - Measured using “PCE Bridge Table”
- $m_{t,j}$ : Share of consumption of commodity  $j$  that is imported.
- $\Delta \log P_{t,j}^{\text{Import}}$ : Price growth of imports of  $j$ .
- $\Delta \log P_{t,j}^{GO}$ : Price growth of output of  $j$ .

Next few slides:  $\Delta \log \hat{P}_{t,c}$  (and  $\Delta \log P_{t,j}^{GO}$ )  $> \Delta \log P_{t,c}^{\text{PCE}}$

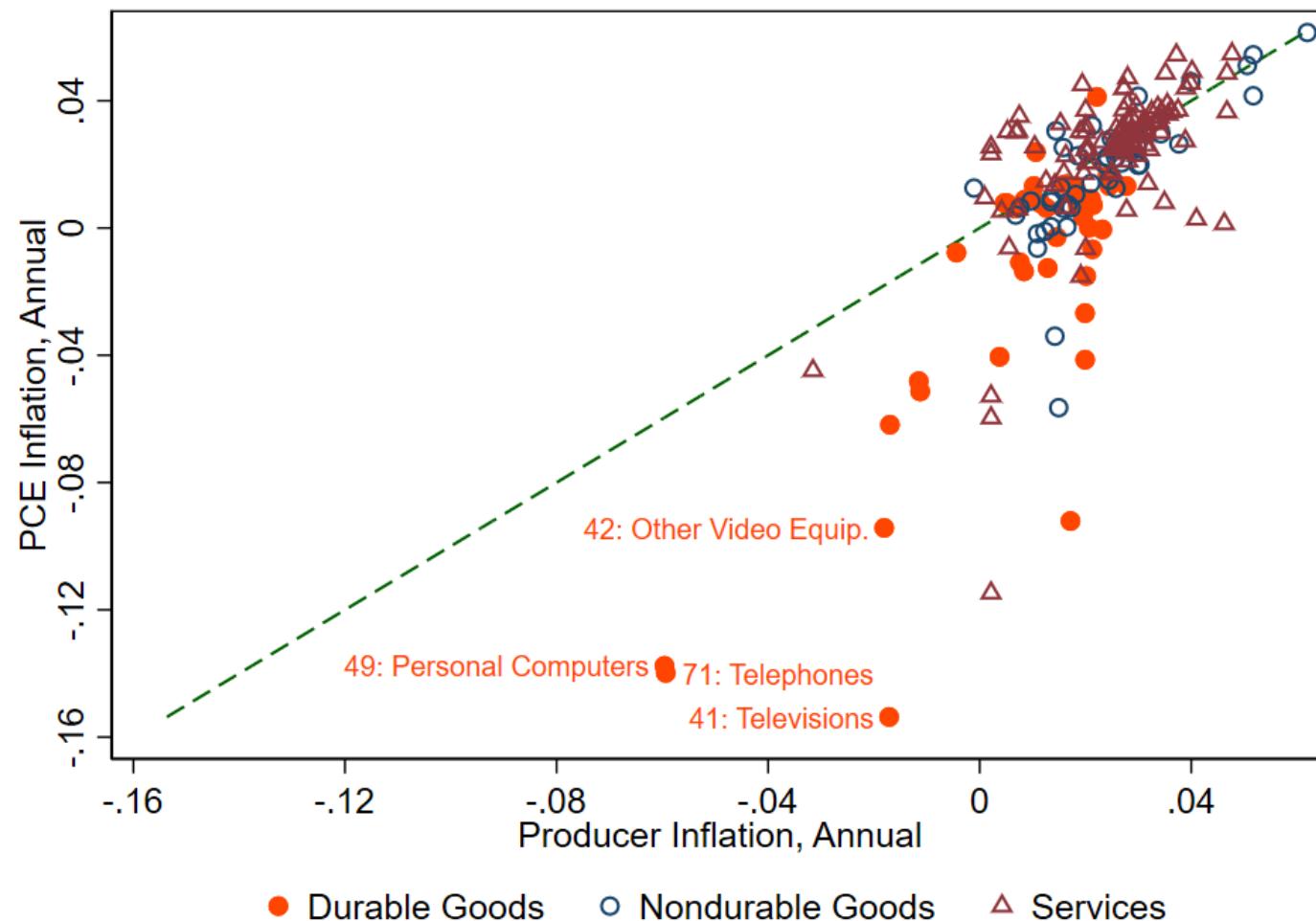
## For Televisions: PCE Inflation << Output Price Growth



For Televisions: PCE Inflation << Output Price / Import Inflation



## For Many Durable Goods: PCE Inflation << Output Price / Import Inflation



Gap: 2.6 p.p. for durable goods; 1.1 p.p. for nondurable goods; -0.1 p.p. for services

## To Compute Industries' TFP Mismeasurement, we Compare Output Price and Input Price Mismeasurement

- Output price is a function of TFP and Input Prices:

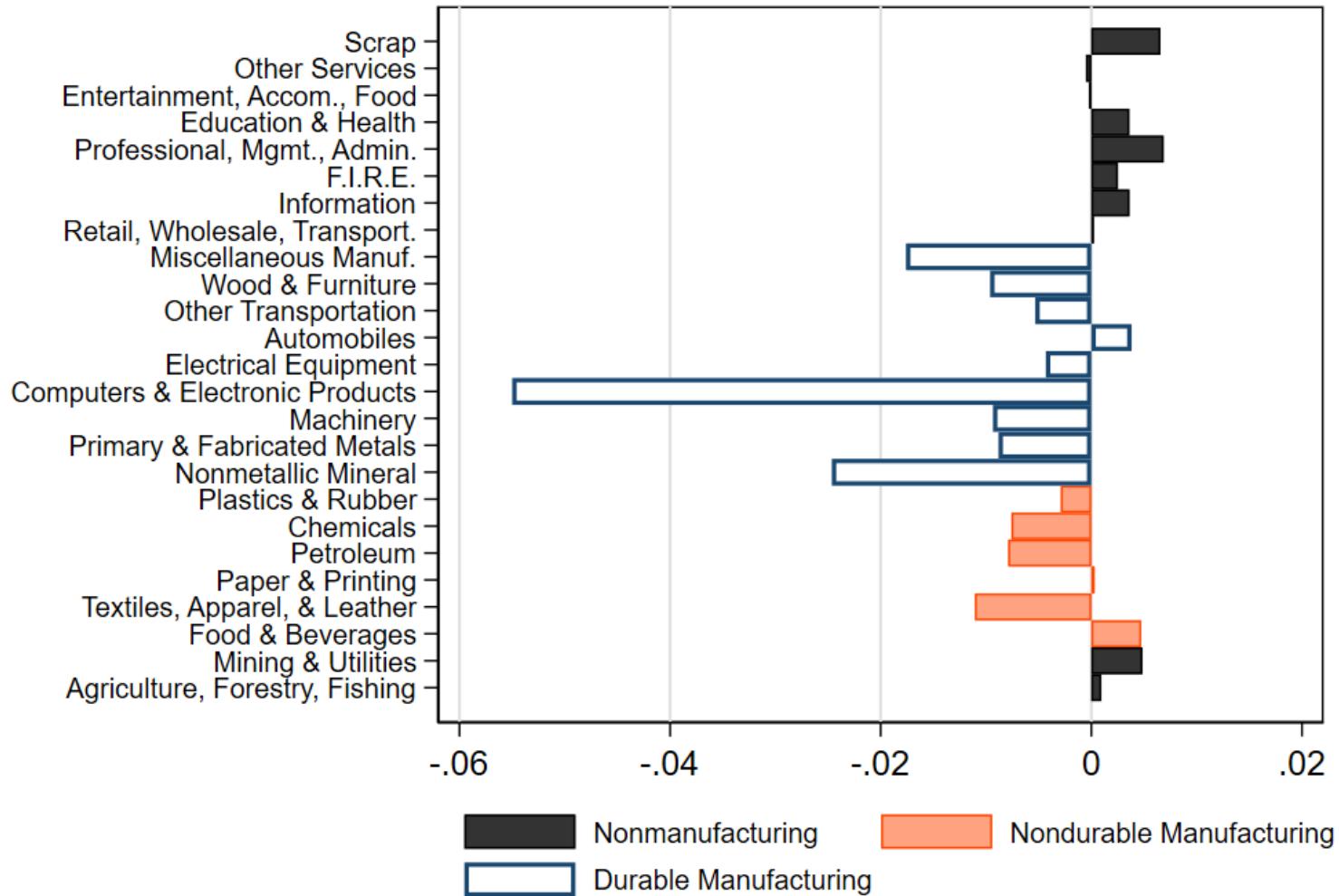
$$\Delta \log P_{tj}^{\text{GO}} = \Delta \log A_{tj} + \Delta \log P_{tj}^{\text{Input}}$$

- Mismeasurement in TFP is a function of mismeasurement in output and input prices.

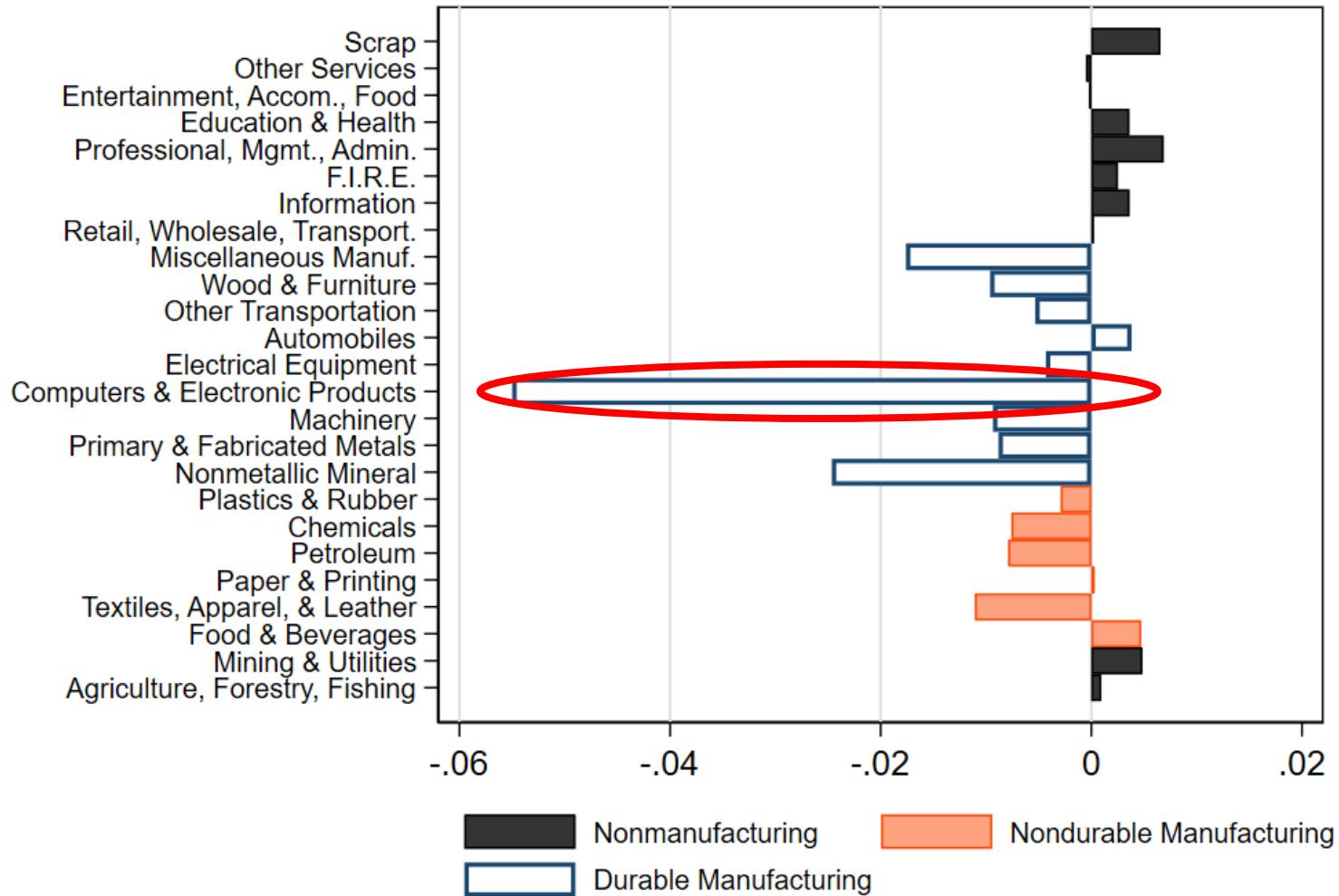
$$\begin{aligned} \Delta \log \tilde{A}_{tj} &= - \underbrace{\frac{\Delta \log \tilde{P}_{tj}^{\text{GO}}}{\substack{\text{output price} \\ \text{mismeasurement}}}}_{\text{mismeasurement}} + \underbrace{\sum_i (\gamma_{t,i \rightarrow j} + \gamma_{t,i \rightarrow j}^K) [(1 - m_{ti}) \Delta \log \tilde{P}_{ti}^{\text{GO}} + m_{ti} \Delta \log \tilde{P}_{ti}^{\text{Import}}]}_{\text{mismeasurement of intermediate input and capital rent prices}} \end{aligned}$$

- Use the gaps from the previous slide to infer  $\Delta \log \tilde{P}_{ti}^{\text{GO}}$  and  $\Delta \log \tilde{P}_{ti}^{\text{Import}}$

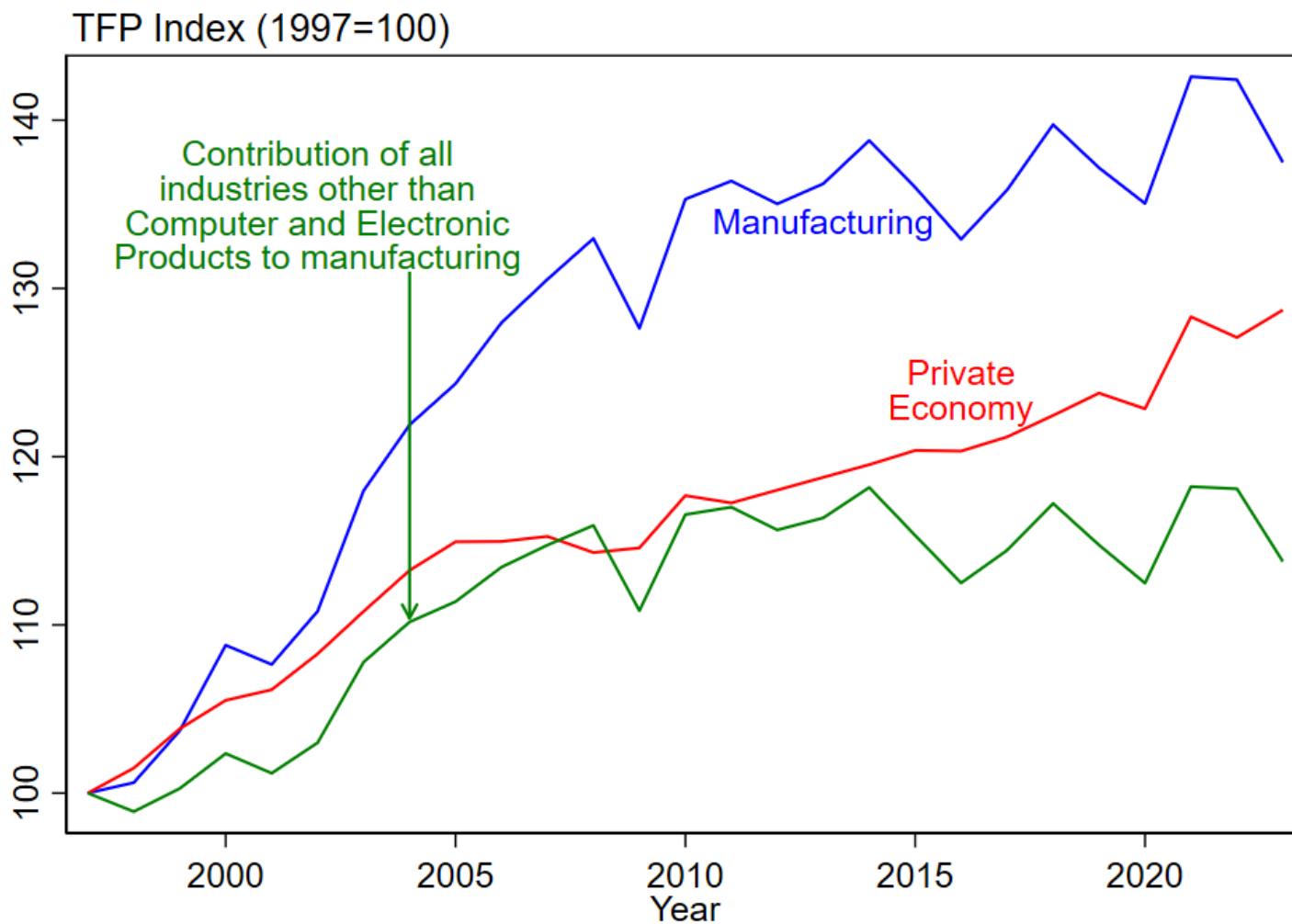
# Manufacturing TFP Growth Is Understated by 0.7 p.p.: 1.4 p.p. in Durables, 0.3 p.p. in Nondurables



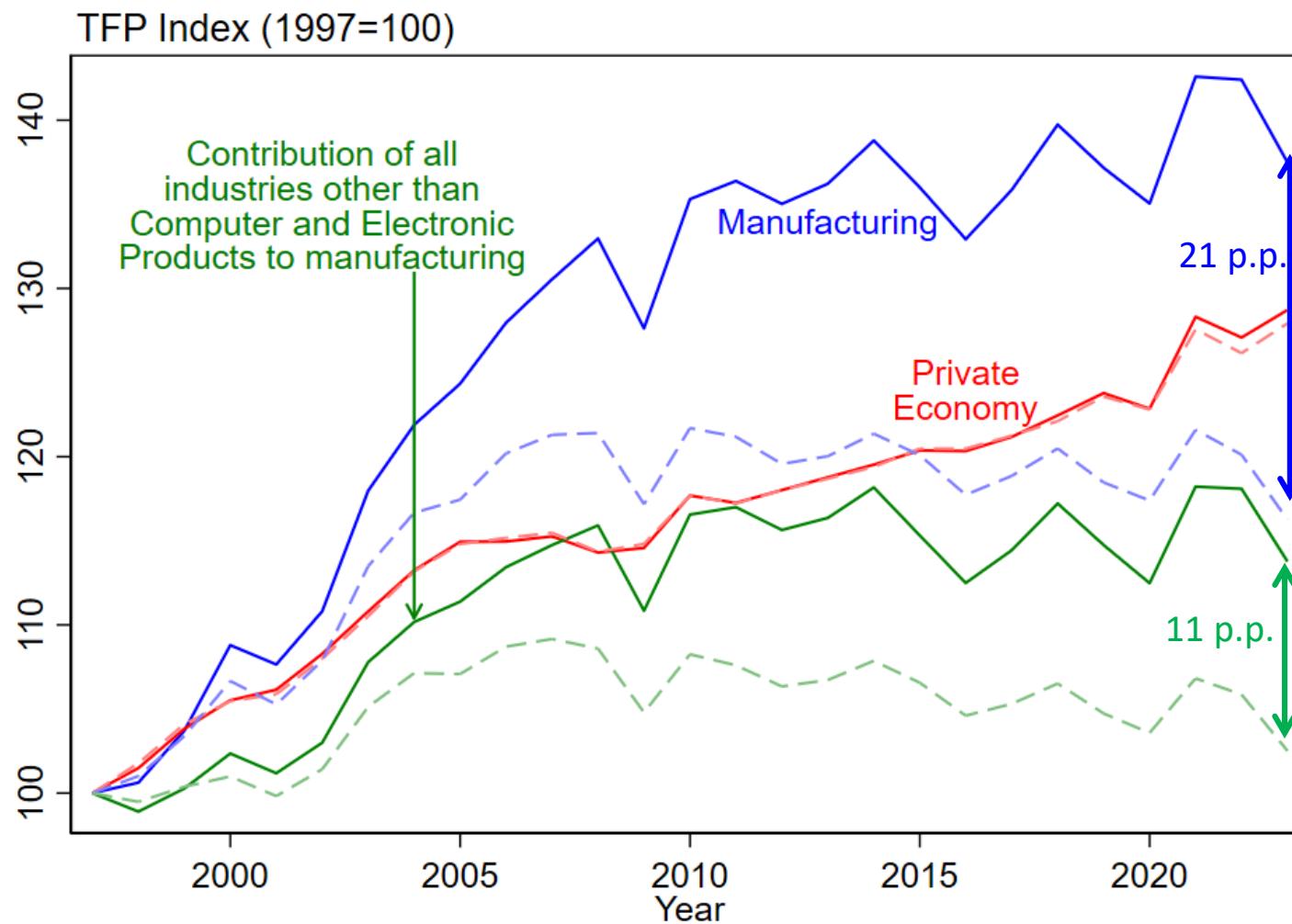
# Manufacturing TFP Growth Is Understated by 0.7 p.p.: 1.4 p.p. in Durables, 0.3 p.p. in Nondurables



# Corrected TFP Growth in Manufacturing is Stronger, Less Concentrated in Computers and Electronics.



1997 to 2023 TFP Growth is Faster in Manufacturing by 21 p.p., almost no difference in overall Private Economy



# Conclusion

- Background
  - Manufacturing sector's measured TFP growth has collapsed, fallen behind that in the rest of the economy.
- Results
  - Manufacturing measured TFP growth since the late 1980s has been driven by a single industry: Computer & Electronic Products.
  - Correcting for mis-measurement:
    - Implies manufacturing TFP growth is still growing (at about 0.5 p.p. since 2009);
    - But has slowed down relative to before 2009; and
    - Is not so concentrated in Computer and Electronic Products manufacturing.