THE CONFERENCE BOARD

2011 Productivity Brief – Key Findings

The world economy returned to solid productivity growth in 2010 as GDP in most countries recovered strongly from the 2008/09 financial and economic crisis, while employment lagged behind. Advanced regions left recession firmly in the rearview mirror. Emerging economies continue to drive both global growth and global productivity growth. The U.S. economy remained on a higher productivity growth path than Europe in 2010, but their productivity growth rates may converge, at least temporarily, in 2011 as U.S. employment picks up momentum. Global productivity growth will moderate slightly in 2011 as cyclical effects abate.

As cyclical effects abate, productivity gains from 2010 will moderate slightly in 2011

- The world economy returned to solid labor productivity growth (measured as output per person employed) in 2010 at 3.3 percent, up from -1.2 percent in 2009. A 1.5-percent increase in job growth was accompanied by 4.8-percent growth in global output (Gross Domestic Product adjusted for inflation).
- Given that a fair amount of 2010's productivity and employment growth reflects a typical post-recession boom, it is all the more striking that global productivity growth is projected to be only slightly lower, at 2.9 percent, in 2011, resulting from 4.4 percent output growth and 1.5 percent employment growth.

In advanced economies especially, productivity growth will moderate in 2011

- Advanced economies saw solid labor-productivity growth in 2010 as they left recession firmly behind. GDP bounced back strongly (from -3.3 percent in 2009 to 2.9 percent in 2010). The labor market also recovered (employment growth was -2.2 percent in 2009, -0.1 percent in 2010) but lagged behind GDP growth. The combination of these two factors produced an above trend recovery in labor productivity growth, which reached 3.0 percent in 2010.
- In 2011, labor productivity growth in advanced countries is projected to decelerate to 1.6 percent, as the result of a slowdown in output growth to 2.3 percent while employment growth begins to build momentum, growing at 0.7 percent.

Emerging economies continue to drive global productivity growth

- Productivity growth also recovered signficantly in emerging economies in 2010, especially in those regions that suffered most from the global crisis such as developing Asia (excluding China and India), Latin America, Central and Eastern Europe, and Russia and other countries of the Commonwealth of Independent States.
  - China and India are the largest and most dynamic economies in productivity terms, at 8.7 percent and 5.4 percent in 2010, respectively (see below).
  - Turkey's productivity growth jumped to 2.2 percent in 2010 from -5.2 percent in 2009, mostly due to a strong GDP bounce-back; employment also kept growing.
  - Brazil continued to strengthen its productivity performance at 4 percent growth in 2010, outperforming the Latin American region as a whole, which saw an increase of 3.2 percent in 2010.
  - Russia's productivity growth has recovered remarkably from a low of -6 percent in 2009 to 3.1 percent in 2010. But its underlying output and employment performance remains below the average of other large emerging economies.
- In 2011, growth in labor productivity in emerging economies is likely to remain just below 5.0 percent, similar to 2010.

Long-term trend in world labor productivity shows some signs of weakening

- The long-term trend in world labor productivity growth (in terms of output per worker) has increased well beyond 2 percent every year since 2000, but the trend has flattened slightly since the 2008/09 crisis. While cyclical factors have played a large role in determining recent productivity developments, the long-term trend is of particular interest in identifying the potential of economies to sustain growth through technology and innovation.
  - In large emerging economies, notably China, transition effects on productivity growth look set to moderate, as there may be a diminishing productivity boost from the rapid rise of new industries and firms in combination with the disappearance of less productive activities that began in the mid-1990s.
  - Labor productivity growth in advanced countries continues a downward trend that dates back to 1995, approaching one percent by the end of the last decade, as productivity effects from the widespread implementation of information and communication technology have gradually tapered off.

Total Factor Productivity trend continues to weaken in advanced economies

- Total Factor Productivity (TFP) growth, which captures major drivers of efficiency like technological and managerial improvements, has accounted for roughly a quarter of total output growth worldwide in recent years. Factoring in such sources of growth as improvement in labor-force skills and use of newer and more productive equipment, TFP offers a more precise measure of efficiency than labor productivity alone.
- The trend in TFP growth has continuously weakened in advanced countries since the early 1970s, dropping from almost 2 percent in the early 1970s to less than 0.5 percent by the end of the last decade.
- The trend in TFP growth in emerging countries has strengthened a great deal between 1995 and 2005, when it reached up to 2 percent. However, in recent years the trend has begun to reverse as transitional productivity effects appear to abate in some of the major emerging economies. The stabilization of the long-term trend will depend on the balance between new investment and the efficiency with which it is implemented.

U.S. economy remains on higher productivity growth path than Europe

- The United States continued to show positive productivity growth despite the recession. Labor productivity growth (measured as output per hour) was only 0.8 percent in 2008, but accelerated to 2.4 percent in 2009 and hit 2.8 percent in 2010. A dramatic loss in total working hours of -5.1 percent in 2009 abated to flat growth in the labor force in 2010 over 2009, on an annual basis.
- Labor productivity (output per hour) in Europe grew 1.6 percent in 2010, after having fallen 0.2 percent in 2008 and 0.8 percent in 2009. Total hours worked remained virtually constant in 2010 over 2009, but that was an improvement over 2009's loss relative to 2008 (-3.3 percent).
- Relative aggressiveness in cutting jobs and hours in response to output declines explains some of the disparities among countries' productivity growth during the recession. For example, the United States and Spain cut more jobs (and saw faster productivity growth) than did Germany.

In 2011 U.S. productivity growth may slow to match Euro Area performance

- U.S. productivity growth will slow substantially in 2011 and could even fall below the rate in the Euro Area.

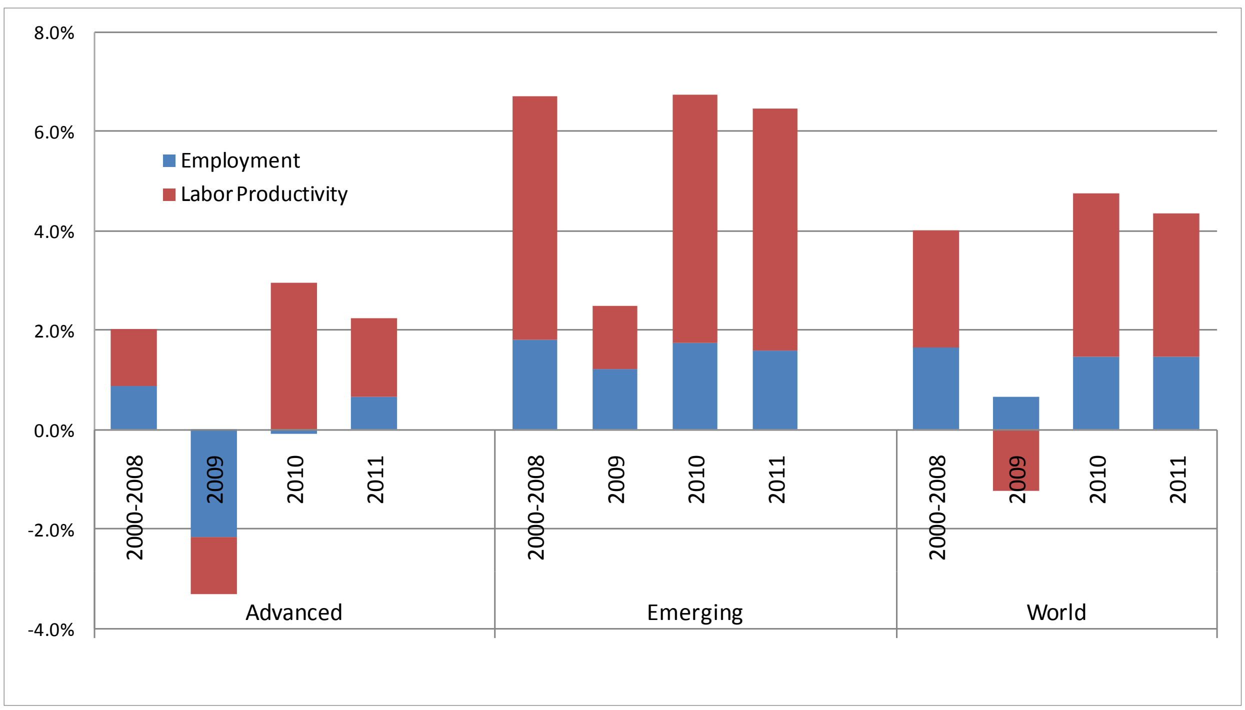
- The Conference Board forecasts that, following its 2010 recovery, the U.S. economy will remain on a relatively slow growth path, at 2.5 percent GDP growth in 2011. As the labor market continues its gradually recovery, with an expected growth in hours worked of 1.4 percent in 2011, labor productivity growth will rise at 1.1 percent, below its long-term trend of about 1.5 percent.
- Euro Area GDP growth will be below that of the United States in 2011. With no significant recovery forecast in the Euro Area labor market, productivity growth at 1.3 percent in 2011 would still be above the region's trend, which had fallen well below 1 percent.
- Following the labor market recovery in 2011, the labor productivity trend in the United States may ultimately strengthen beyond 1.5 percent under the influence of a greater potential to innovate and compete globally. In Europe there are no signs of a return to significant positive growth rates in Total Factor Productivity growth, underlining the urgency for faster technological change and innovation in combination with continued reforms in labor and product markets.

Output and productivity growth in China and India held relatively steady through recession and expansion

- Productivity growth in China and in India was largely the same in 2010 as in 2009, around 8.5 percent and 5.5 percent, respectively. These economies did not decline as much as the rest of the world during the recession and, as a consequence, did not recover as much during the expansion.
- China and India account for a third and a tenth, respectively, of all output produced by emerging and developing economies, and thus heavily influence the global productivity trend.
- China's labor-productivity growth has been among the highest in the world since the mid-1990s, due largely to a combination of extraordinarily rapid output growth and slow employment growth.
- China is seeing some slowdown in productivity growth as its economy shifts to rely more on mature and consumer-oriented industries with slower growth rates.
- India's productivity growth is likely to continue to pick up, from averaging 4 percent in 1995-2005 to almost 6 percent since 2005, because of its comparatively greater potential to create new and more productive industries and firms.
- TFP growth followed a similar pattern in China and India during 1995-2005 but has diverged in recent years (4.1 percent and 2.3 percent, respectively, in average annual growth 2005-08). Thanks in part to government stimulus, China has seen continuously strong output growth since 2005, while India's transition to a higher growth path has been more resource-consuming and more constrained by a continuing need for reforms.

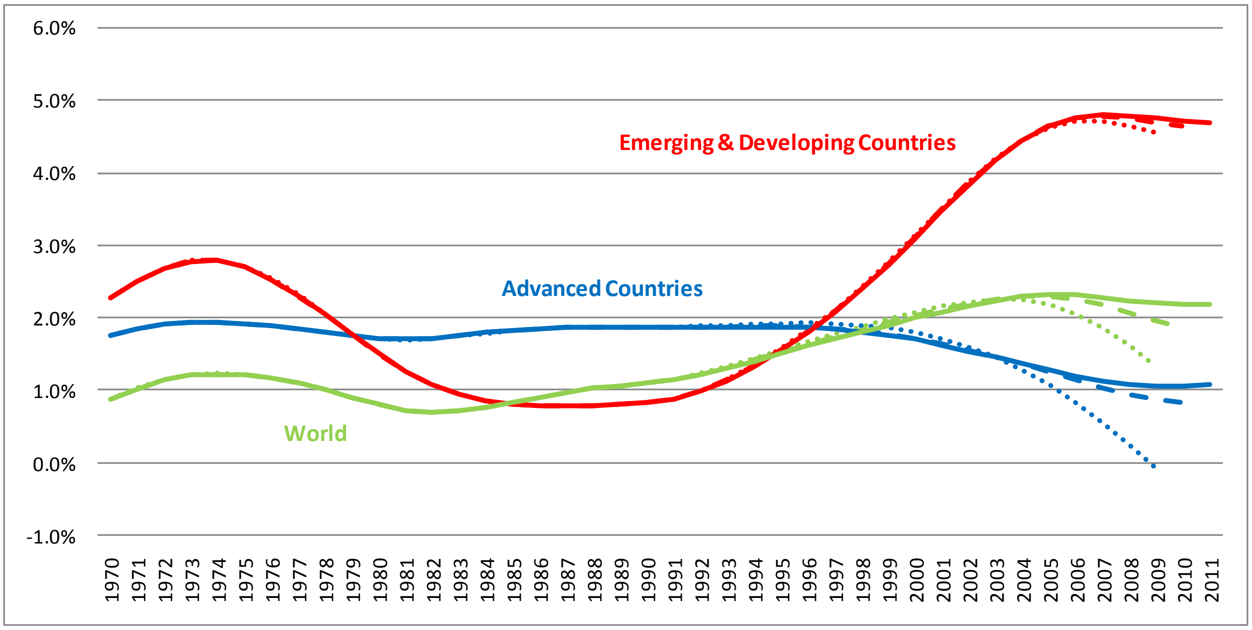
This data is drawn from **[The Conference Board Total Economy Database]**, which provides a comprehensive overview of growth rates of productivity, GDP, and employment for 123 economies representing 97 percent of the world's population and 99 percent of global output. Widely watched and utilized by analysts, the database is updated in The Conference Board Productivity Brief in January and in more in-depth reports later in the year. The Conference Board Total Economy Database is the only comprehensive source on productivity in both emerging and advanced economies that is available to the public free of charge.

Productivity's Contribution to Global Growth



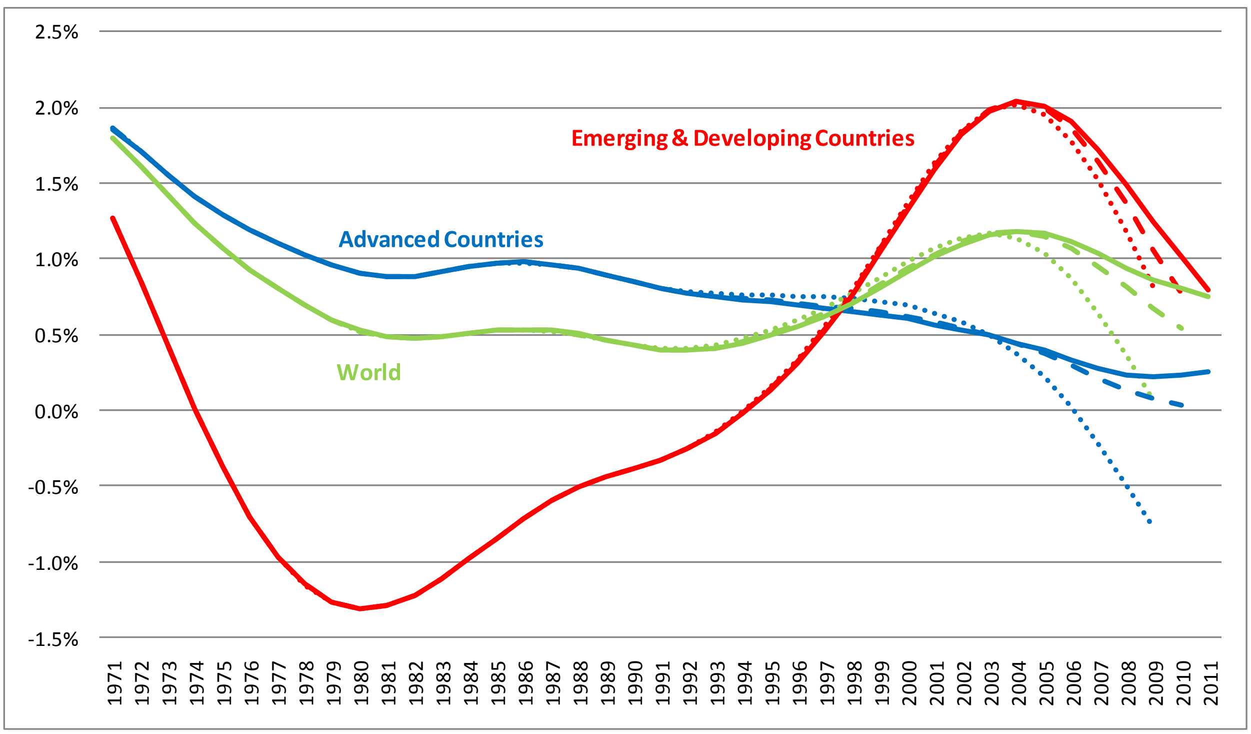
Source: The Conference Board Total Economy Database, January 2011

Emerging economies increasingly drive global labor-productivity trend



Source: The Conference Board Total Economy Database, January 2011

Greater efficiency in emerging economies has boosted global trend in Total Factor Productivity



Source: The Conference Board Total Economy Database, January 2011

Note: The solid trend line is based on HP filters, including projections of productivity for 2010 and 2011. Dotted lines have 2009 as end-year and dashed lines have 2010 as end-year, but these two years are outliers as they were strongly impacted by the global crisis.