

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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WHY HAVE THE DYNAMICS OF LABOR PRODUCTIVITY CHANGED?

Until the mid-1980s, productivity growth rose and fell with output growth, but since then, the relationship between the two factors has weakened. Understanding this shift is essential for gauging the prospects for productivity, jobs and output in the current recovery.

In the article, “Why Have the Dynamics of Labor Productivity Changed?” economist Willem Van Zandweghe of the Federal Reserve Bank of Kansas City examines the shift in the business cycle behavior of labor productivity since the mid-1980s and discusses the implications for the current economic recovery. The article is available in the third quarter edition of the Bank’s *Economic Review*.

Van Zandweghe analyzes the role of supply shocks and structural changes in the labor market in causing the shift and finds it is likely due to structural changes. Such changes may have made worker effort less responsive to economic conditions in recent decades. Looking ahead, productivity growth should slow as the economic expansion proceeds, and the expansion of output will be driven mainly by gains in employment and hours per worker, Van Zandweghe writes.

The article is available on the Bank’s website at www.KansasCityFed.org.

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