

Taking Account...

A Look at Productivity and the Terms of Trade

Since 1995, growth in aggregate labor productivity in the United States has accelerated markedly. From 1973 to 1995, output per worker hour in the nonfarm business sector grew on average 1.40 percent per year, according to the Bureau of Labor Statistics. From 1995 to 2007, however, output per worker hour averaged 2.55 percent per year.

Declining prices of information technology products in the late 1990s are often cited as a major reason for this productivity speedup. A recent paper by Marshall B. Reinsdorf of the Bureau of Economic Analysis (BEA), Robert C. Feenstra of the University of California-Davis, and Matthew J. Slaughter of the Tuck School of Business at Dartmouth University explores another potential reason: international trade, in particular the globalization of the information technology sector.

The actual direct effects of changes in the terms of trade (defined as change in export prices relative to change in import prices) on gross domestic product (GDP) and productivity are negligible. Yet the paper found that *unmeasured* improvements in the terms of trade may be counted as growth in real GDP and productivity. Thus, if reductions in import prices are understated, productivity growth tends to be overstated.

The study found that unmea-

sured terms-of-trade gains can account for close to 0.2 percentage points of the post-1995 increase in productivity growth for the U.S. economy. Comparing that amount to the increase in multifactor productivity, the terms of trade accounts for about 20 percent of the speedup in productivity growth.

BEA Meets with Regional Data User Groups

BEA met with nearly 30 representatives of regional data user groups at a conference last month sponsored by the Metropolitan Policy Project at the Brookings Institution.

The Regional User Roundtable provided an opportunity for BEA to hear from customers and provide an update on improvements, accelerations, and plans. BEA intends to continue meeting with user groups across all program areas.

BEA representatives, including Director Steve Landefeld and Deputy Director Rosemary Marcuss, explained the rationale and implications of recent cuts to BEA budgets.

The recently passed Consolidated Appropriations Act did not provide for full funding for BEA's base programs for fiscal year 2008. In order to align base programs with the budget, BEA will reduce some regional statistical programs.

While BEA does not see any impact on its GDP-by-state or state personal income statistics, other programs will be affected,

including local area personal income, GDP-by-metropolitan area statistics, and RIMS multipliers.

New FAQs Posted on BEA Web Site

Several timely items have been recently posted on the "Frequently Asked Questions" feature on the BEA Web site, including the following:

- Where do government-sponsored enterprises, like Fannie Mae and Freddie Mac, appear in the GDP accounts?
- How do federal financial interventions, such as the Emergency Economic Stabilization Act of 2008, affect the GDP accounts?
- What are the recent changes to the U.S. international services statistics?
- What are the sources of recent growth in U.S. exports of goods?
- Recently there have been differences in the GDP and gross domestic purchases indexes. Which one should you use?

Since the FAQ feature was launched in March 2006, it has become a valuable tool for BEA customers in need of quick answers about BEA's accounts.

It allows users to search for answers by category and keyword. It's also regularly updated with timely new questions. In addition, the feature allows customers to suggest questions for BEA staff to answer. The service is available at www.bea.gov by clicking on FAQ.