

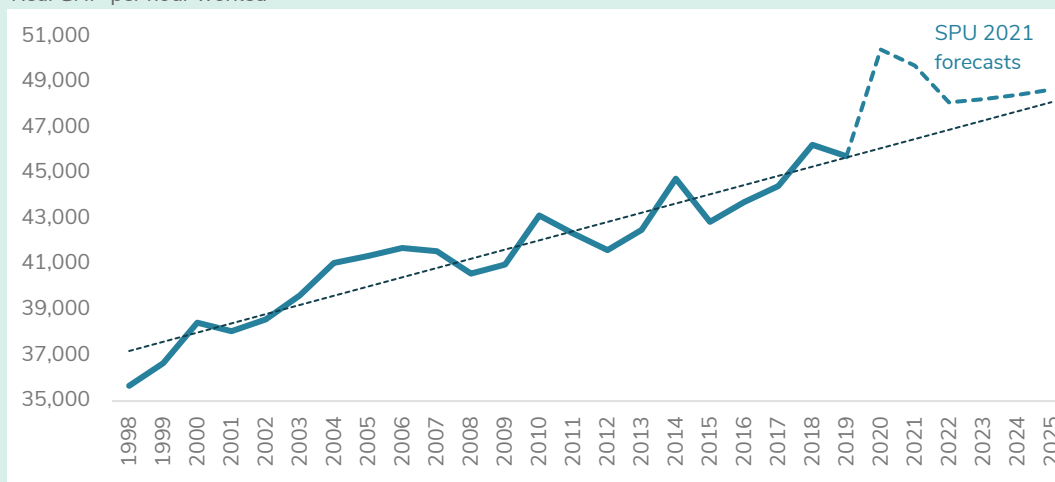
Box B: Higher productivity is an artefact of the pandemic

One of the interesting aspects of the pandemic and its effects on the economy is that overall productivity has risen; something that is expected to persist. This box explores some of the reasons for this and the outlook for productivity in Ireland.

A standard measure of productivity is output per hour worked. Figure B1 shows the recent performance for the Irish economy and the official SPU 2021 forecasts on this basis. It shows that productivity levels are expected to be significantly higher for a time following the pandemic.

Figure B1: Productivity is expected to be on a higher path post-Covid

Real GNI* per hour worked



Sources: CSO; Department of Finance (SPU 2021) forecasts; and Fiscal Council workings.

Notes: The linear trend shown is for the period 1998–2019. [Get the data](#).

The overall effects of Covid-19 on productivity mask some large and offsetting forces. There are two key reasons why productivity levels have increased.

First, the compositional nature of the shock has played a major role. Relatively low productivity sectors, such as construction, have seen employment plummet, whereas higher productivity sectors, such as the manufacturing of pharmaceuticals, have been less effected. This phenomenon could be temporary: as lower productivity sectors recover, this should reduce overall productivity levels. Yet with more severe scarring forecast for lower productivity sectors, it is possible that the economy will end up on a somewhat higher path with overall productivity higher than pre-crisis trends would have suggested. Exploring evidence for UK firms, Bloom et al. (2021) find similar effects using survey data for a large panel of UK firms. In this case, they find the increased share of work being done in higher productivity sectors partly offsets productivity losses elsewhere caused by higher costs associated with Covid containment measures.

Second, sectors that have been able to continue work throughout the pandemic relatively unperturbed have seen a rise in output per worker. This could be due to the positive aspects of work-from-home practises. For instance, Barrero et al. (2020) expect a 1 per cent productivity boost in conventional productivity measures post-pandemic for individuals engaged in work-from-home practises. The authors use a large survey of 30,000 US individuals over multiple waves and find most respondents adopting work-from-home practices report higher productivity than pre-pandemic expectations.

There are risks to this outlook. If firms reduce research and development or investment spending to cover costs associated with containment measures or losses made during the pandemic, this could hamper medium-term growth. There is also a risk that the natural destruction of inefficient firms—so-called “zombies”—is halted due to emergency supports introduced during the pandemic, which could arrest productivity growth.