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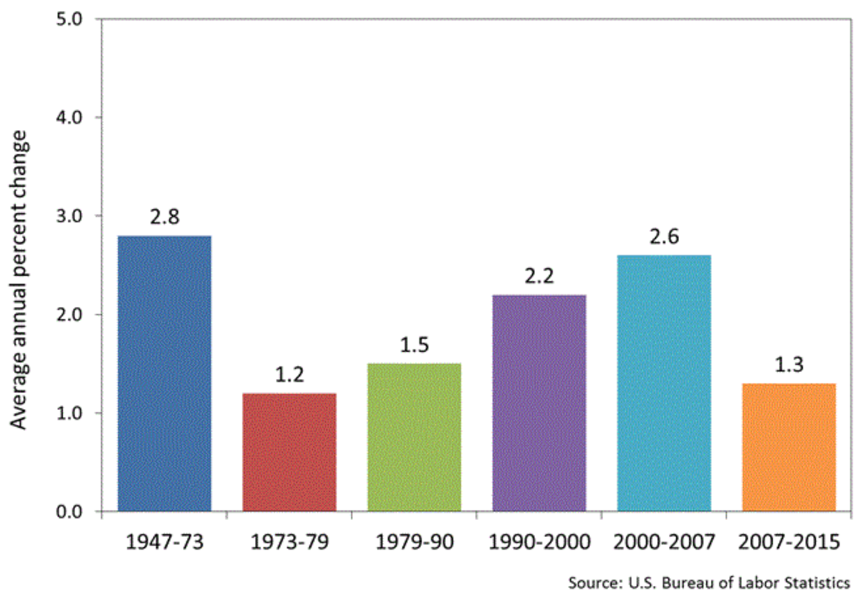
Where in the World is Productivity?

Declining worker productivity in the United States has many concerned about the future growth prospects of the United States. Indeed, this declining productivity, in addition to increasing U.S. public debt levels, decelerating personal income growth, tepid real personal spending growth, and demographic challenges threaten the way forward for the growth prospects of the United States and the value of most asset classes including equities, bonds, and alternative investments. In spite of these daunting challenges, there are green shoots of productivity that inspire one to look in unexpected places.

Productivity change in the nonfarm business sector, 1947-2015



Recent studies by McKinsey & Company indicate that consumer behavior is changing in ways that enable personal productivity improvement, which we define as consumer's overall life enhancement (output) per dollar input, in response to the income challenges. According to the March 2016 McKinsey & Company global survey "Saving, Scrimping, and …Splurging? New Insights into Consumer Behavior ", the economic downturn has become a persistent everyday reality for many people around the world. Global consumers, not just U.S. consumers, have responded to today's challenges by: 1) proactively searching for savings, 2) remaining brand loyal as long as the price is right, 3) in some cases trading down to lower cost substitutes with enduring satisfaction 4) selectively splurging and 5) shopping across channels.

Technology is the key disruptive force driving this personal "consumption productivity". Rather than moving "downstream" from businesses to individuals, productivity is moving "upstream" as the "best in class" companies with financial flexibility invest to both survive and take market share in a constrained world that will likely not change before the weak companies succumb. Opportunities exist in the financial markets for solid long-term investments. This may mean, however, that value creation is in steady companies that take the long view and provide positive returns, albeit at slower growth rates.