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US PRODUCTIVITY GROWTH: THE COMPANY AND SECTOR STORY

UNDERSTANDING THE PRODUCTIVITY SLOWDOWN

PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

OCTOBER 16, 2015

MGI approach identifies company and industry level factors behind productivity performance

External factors

- Macroeconomic environment
- Product and land market barriers
- Capital and labor market barriers
- Regulatory environment and enforcement

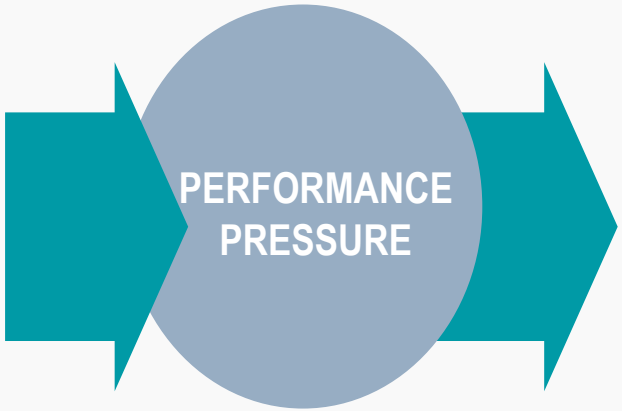
Industry dynamics

- Exposure to global best practice
- Domestic competitive intensity
- Non-level playing field/informality

Company managerial & operational factors

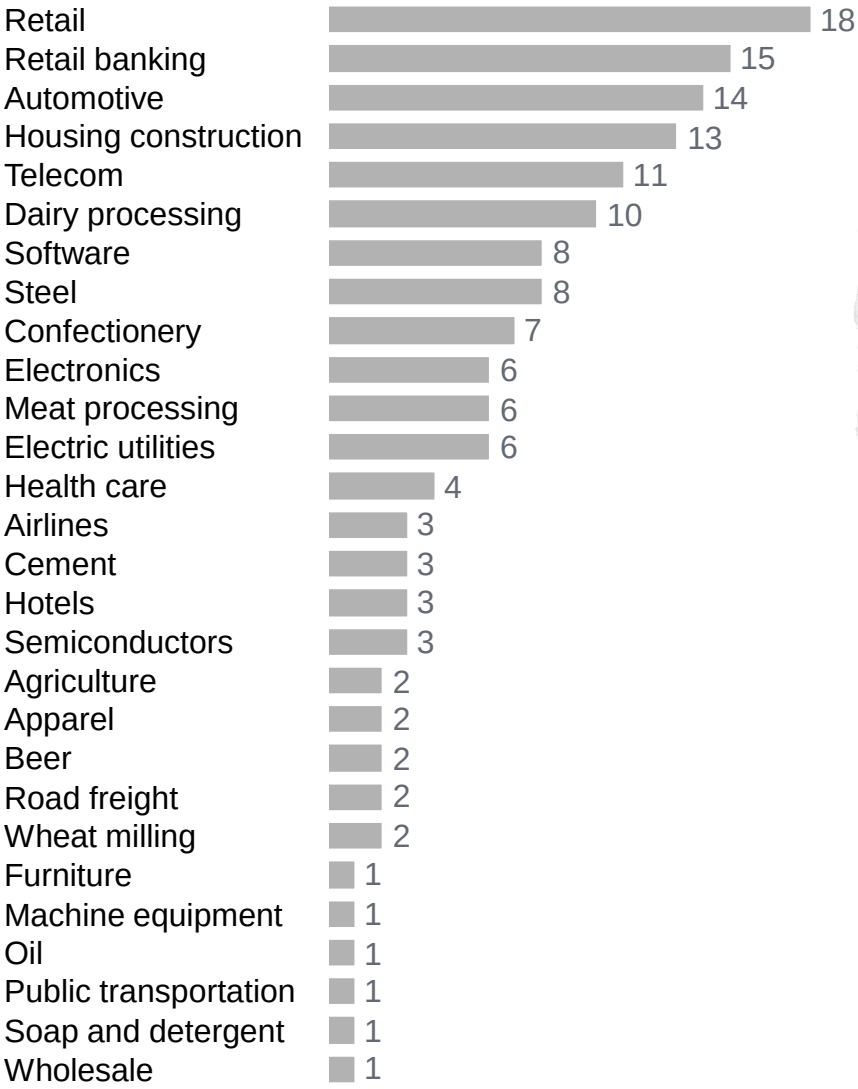
- Product/format mix
- Technology
- Operations (Capacity utilization, supplier management, organization of functions and tasks)

Productivity performance

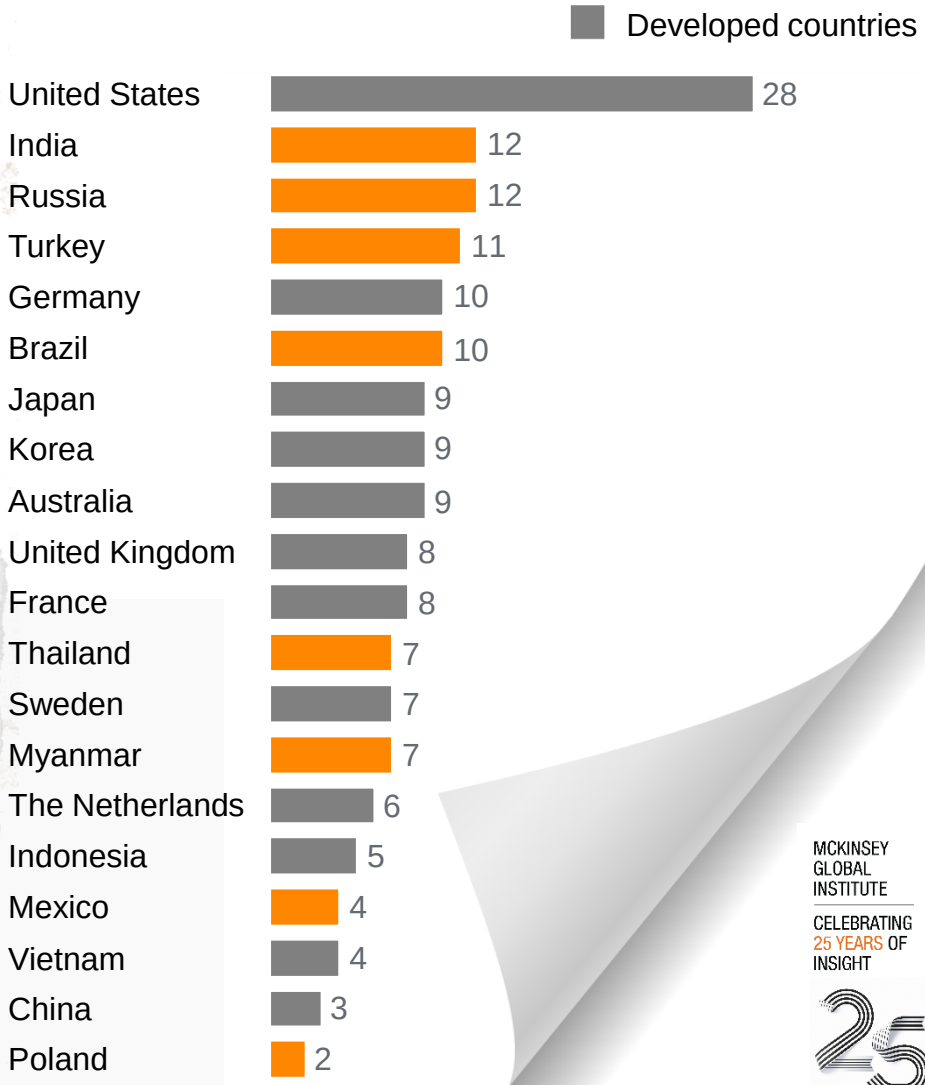


Wealth of accumulated knowledge over 25 years

Number of MGI has studied a sector



Number of sectors studied by country



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CELEBRATING 25 YEARS OF INSIGHT

SOURCE: McKinsey Global Institute

US productivity growth: the company and sector story

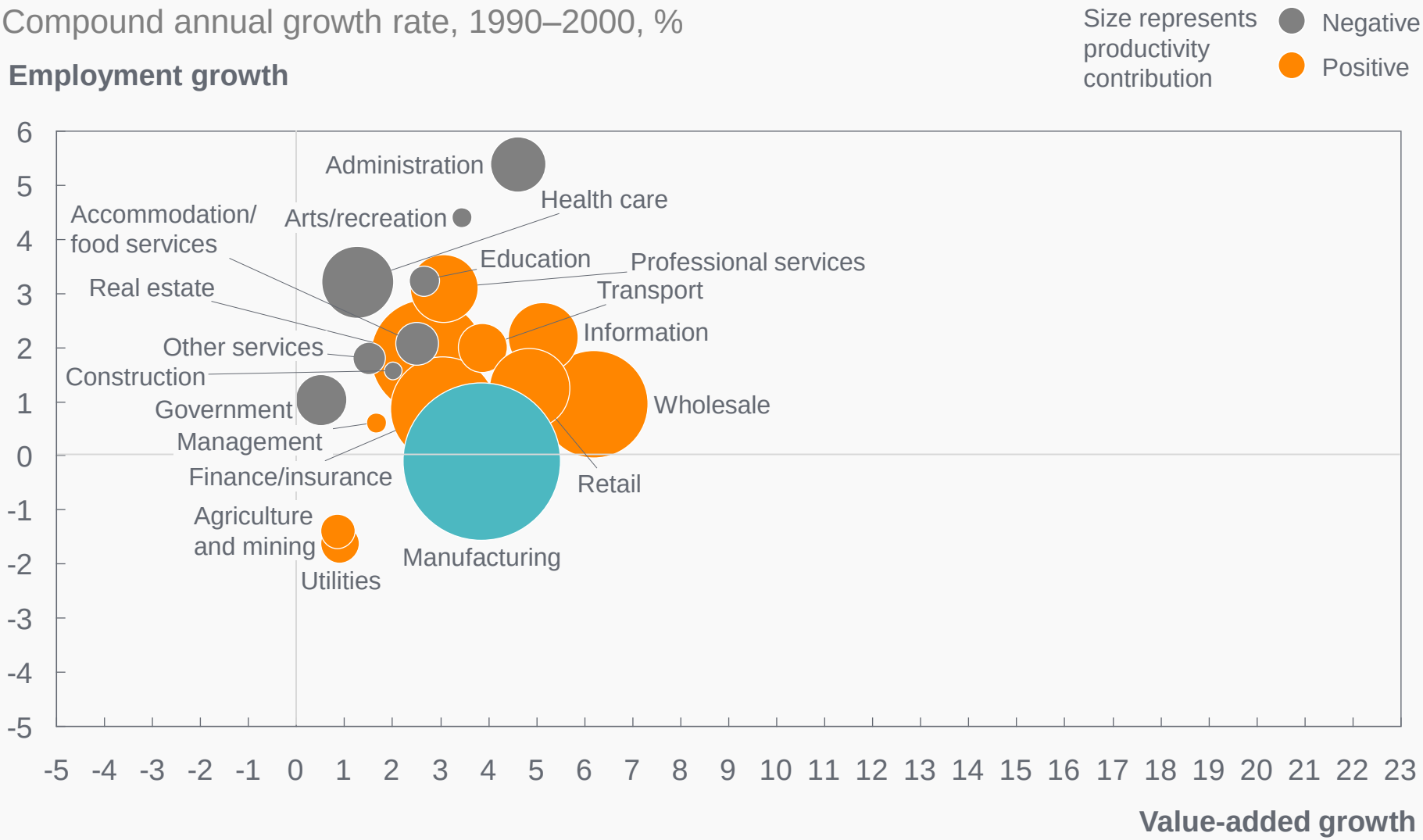
Productivity growth is an evolving sector story

There are large opportunities across all industries to raise productivity growth

What can catalyze future productivity growth spurts?

In the 1990s, productivity growth was driven by a virtuous cycle of jobs growth and increasing value added

Compound annual growth rate, 1990–2000, %



1 Productivity contribution calculated using Moody's Economy.com data.

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SOURCE: US Bureau of Economic Analysis; Moody's Economy.com; McKinsey Global Institute Sunrise Productivity Model

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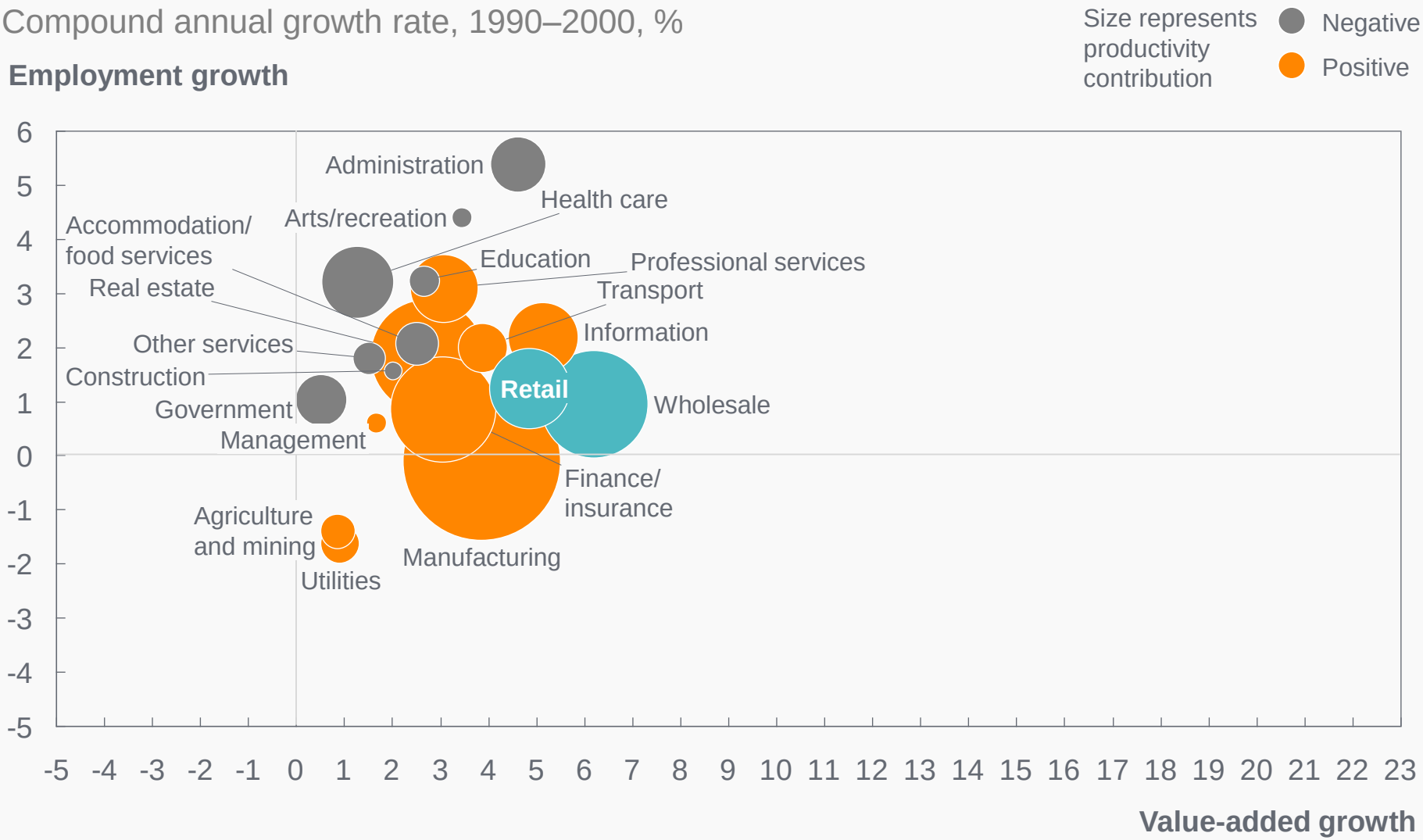

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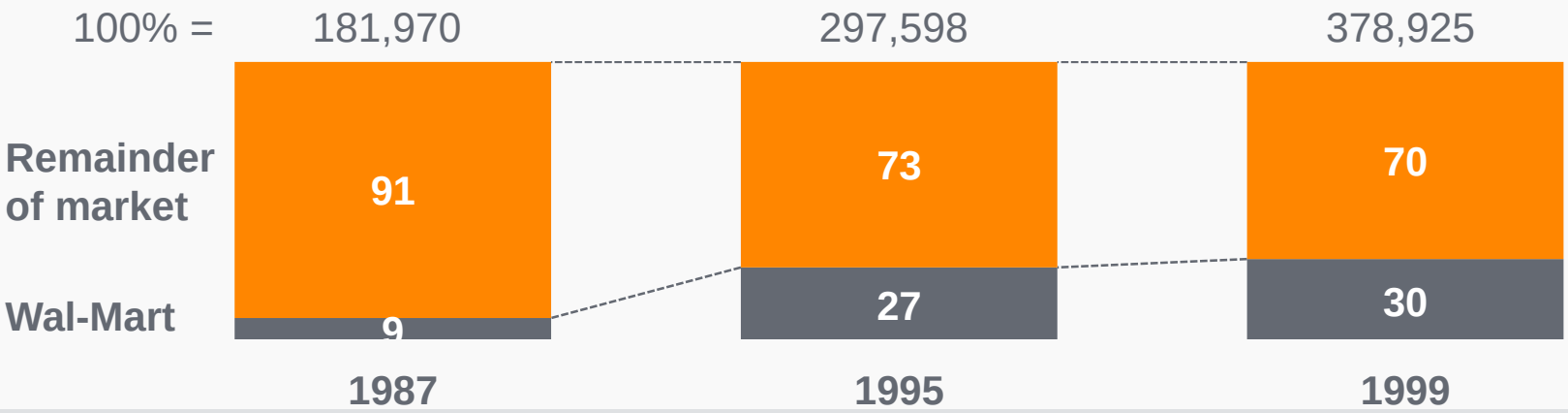
SOURCE: US Bureau of Economic Analysis; Moody's Economy.com; McKinsey Global Institute Sunrise Productivity Model

Wal-Mart directly and indirectly raised retail productivity growth

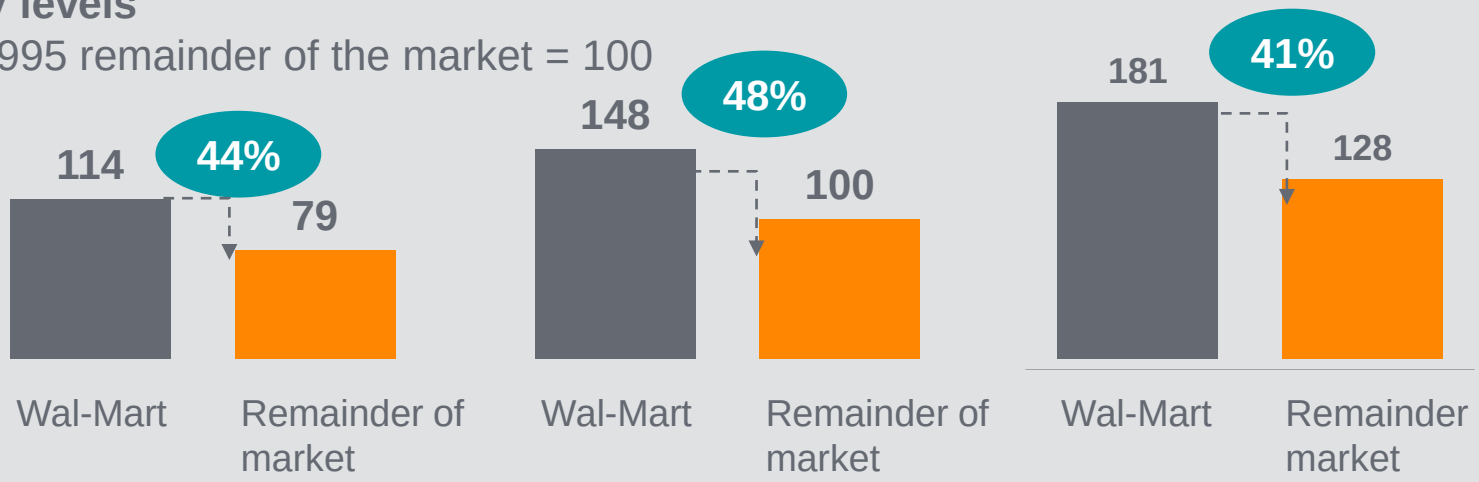
Sales share

Nominal $ Millions, percent



Productivity levels

Indexed to 1995 remainder of the market = 100



Source: BEA; U.S. Census; 10Ks; annual reports; MGI analysis

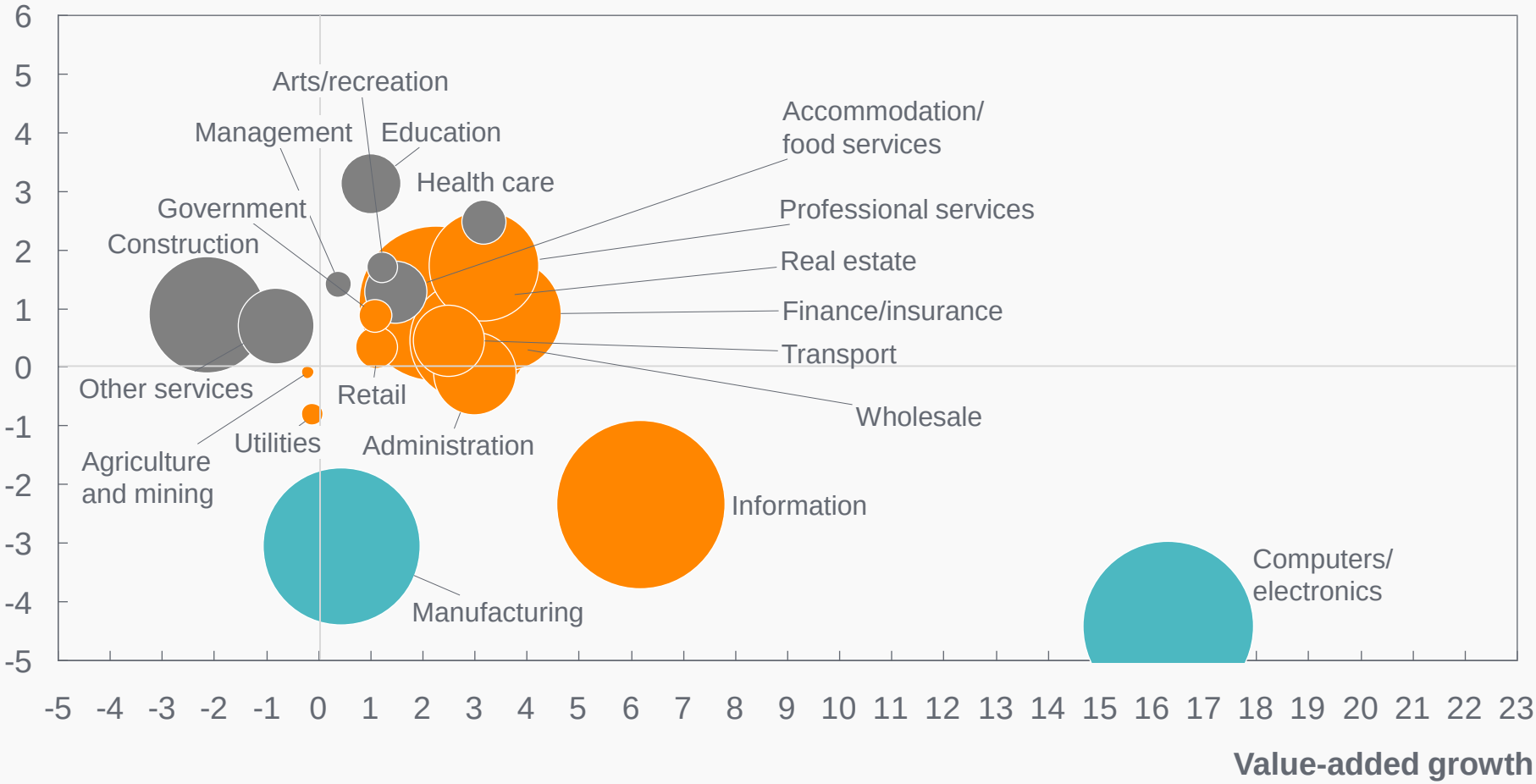
Between 2000-2008, large productivity improvements came from efficiency gains that often were accompanied by job losses

Compound annual growth rate, 2000–08, %

Size represents productivity contribution

Negative

Positive



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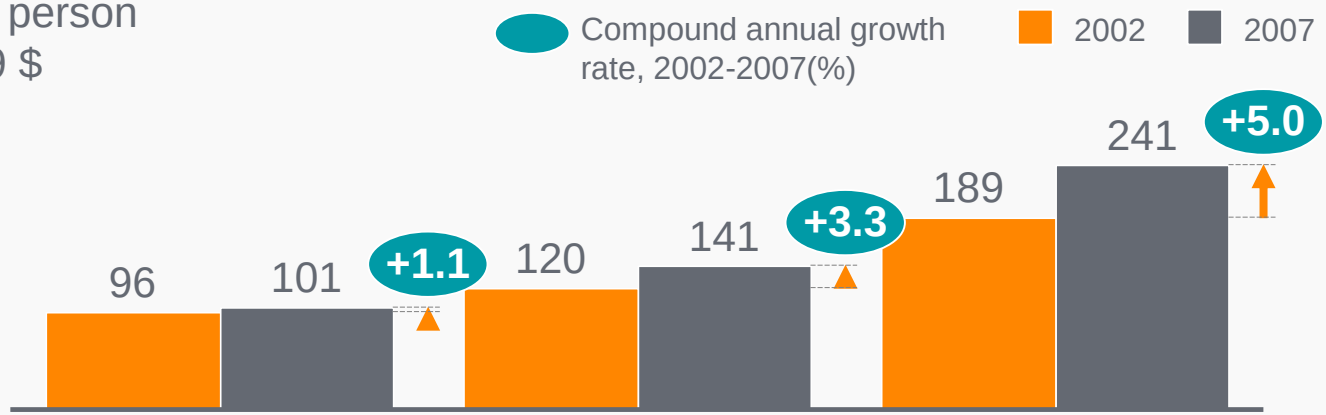
SOURCE: US Bureau of Economic Analysis; Moody's Economy.com; McKinsey Global Institute Sunrise Productivity Model

Restructuring in large establishments led manufacturing productivity gains in the early 2000s

United States, Manufacturing (total)

Value added per occupied person
$ thousand, constant 2009 $

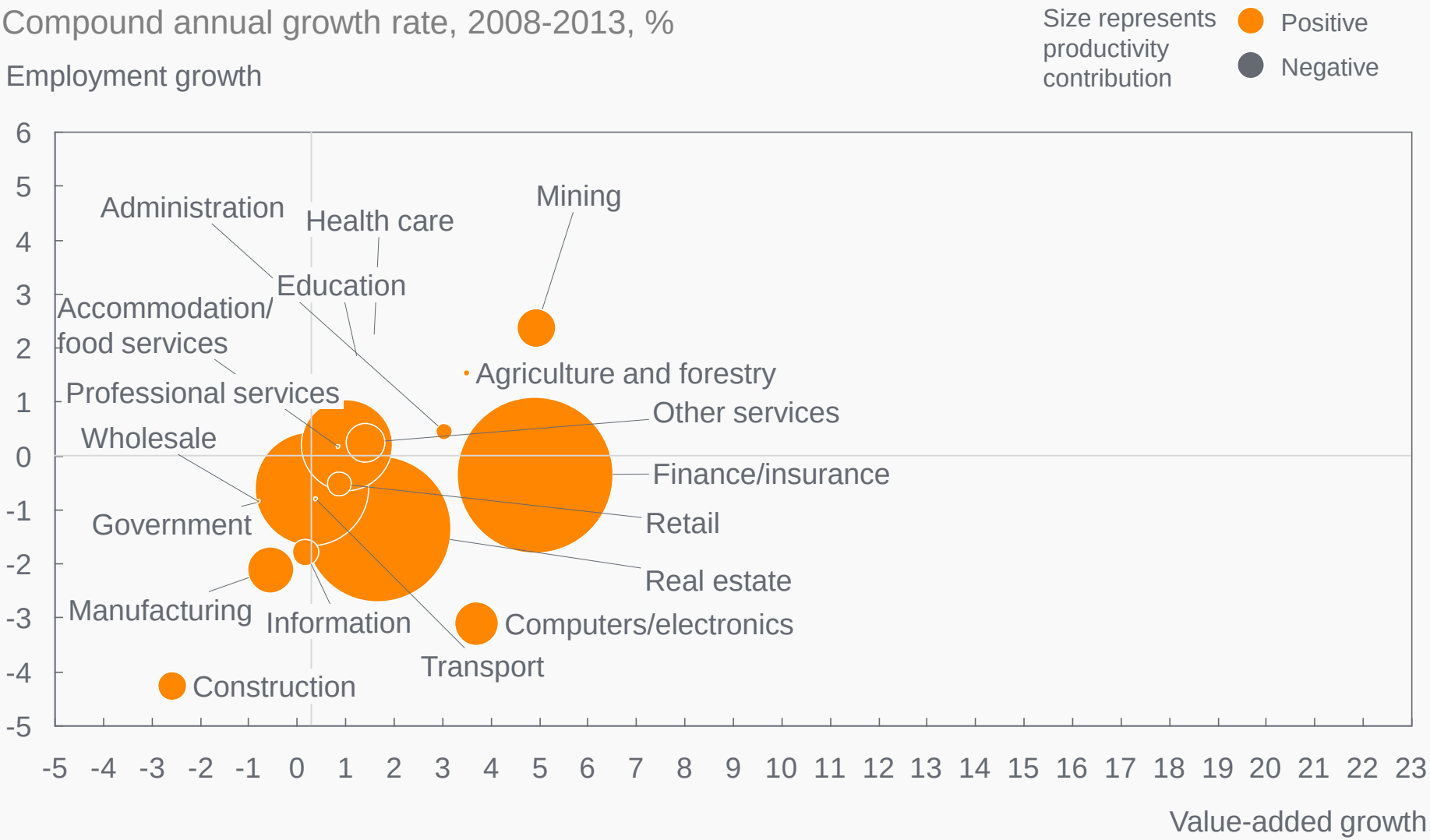


Number of employees	<10	10-249	250+
Share of employment, 2007 (%)	4.8	51.5	43.7
Share of employment, 2002 (%)	4.2	49.4	46.4
Δ value added, CAGR 2002-07	2.1	2.2	1.8
Δ employment CAGR 2002-07	1.0	-1.0	-3.0

SOURCE: US Census, Statistics of U.S. Businesses (SUSB)

Most sectors contributed positively to productivity after the recession, while employment contracted in most industries

Compound annual growth rate, 2008-2013, %



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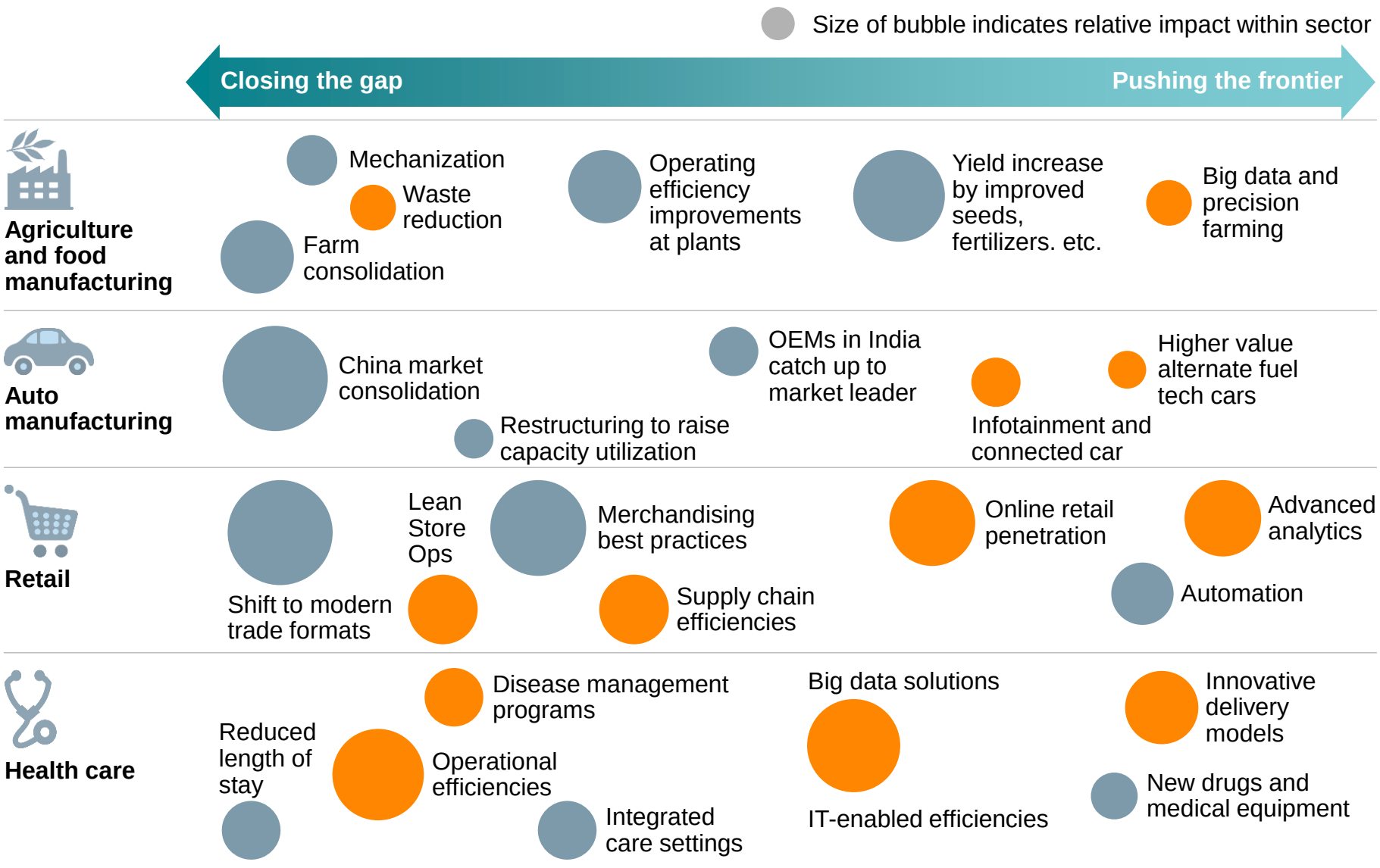
There are large opportunities across all industries to raise productivity growth

What can catalyze future productivity growth spurts?

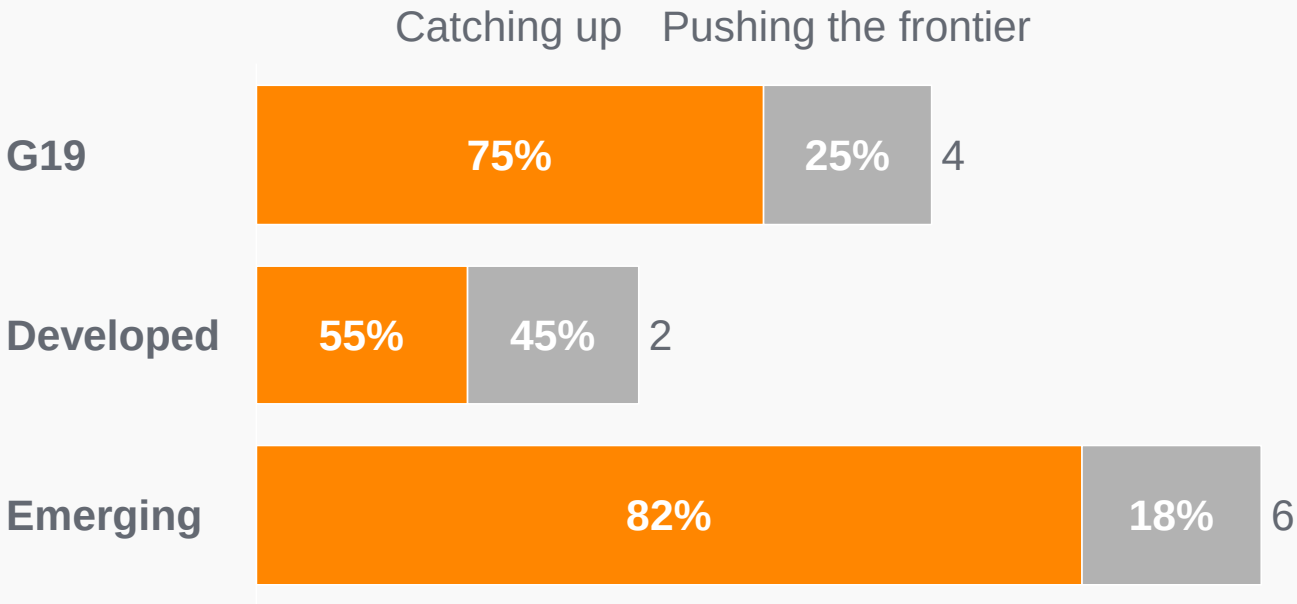
Several opportunities to accelerate productivity growth across all deep-dive sectors



SOURCE: McKinsey Global Institute analysis

On aggregate, there is plenty of potential to accelerate productivity growth—and more than half in developed countries comes from catching up

Potential productivity growth rate per annum
Percent



Based on MGI's sector assessment, lack of productivity opportunities is not the constraint on growth

SOURCE: McKinsey Global Institute analysis

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What can catalyze future productivity growth spurts?

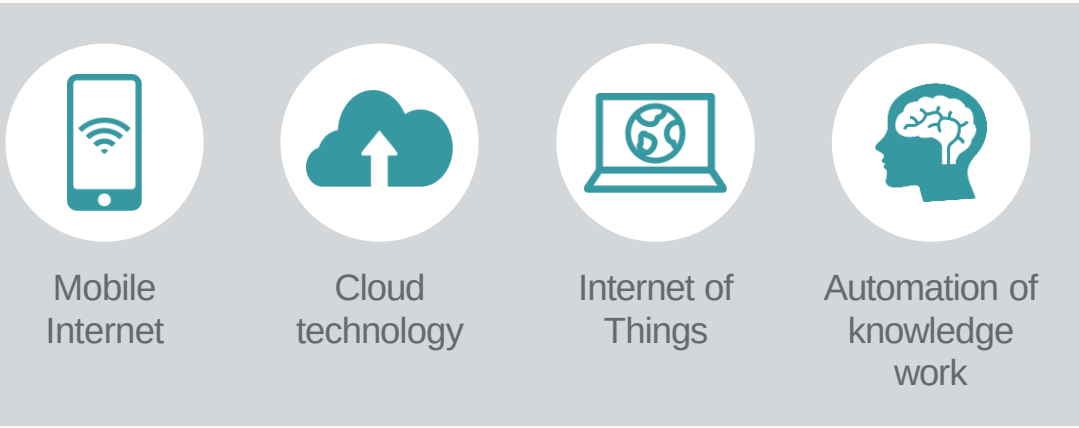
Potential catalysts for productivity growth spurts

- Regulatory changes
- Technology-enabled productivity growth
- Increased competition
- Other?

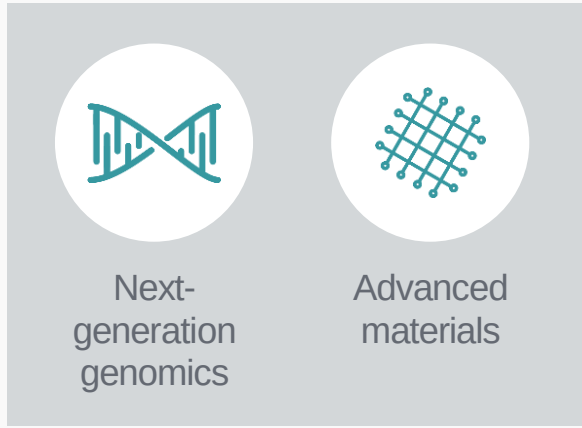
Twelve technologies have significant potential to disrupt

Disruptive Dozen

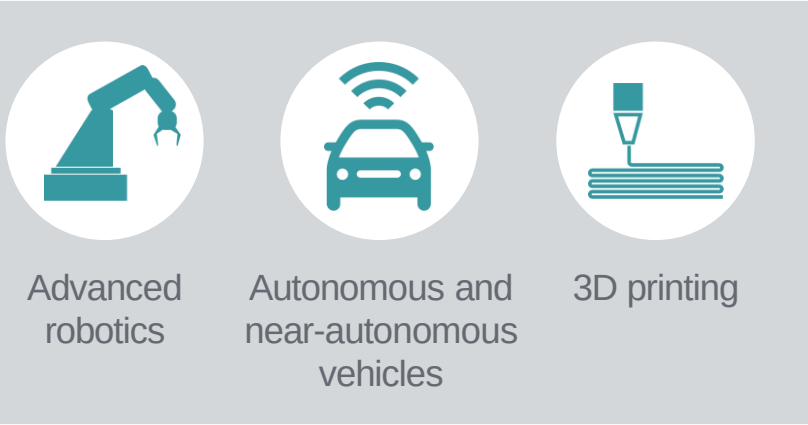
IT and how we use it



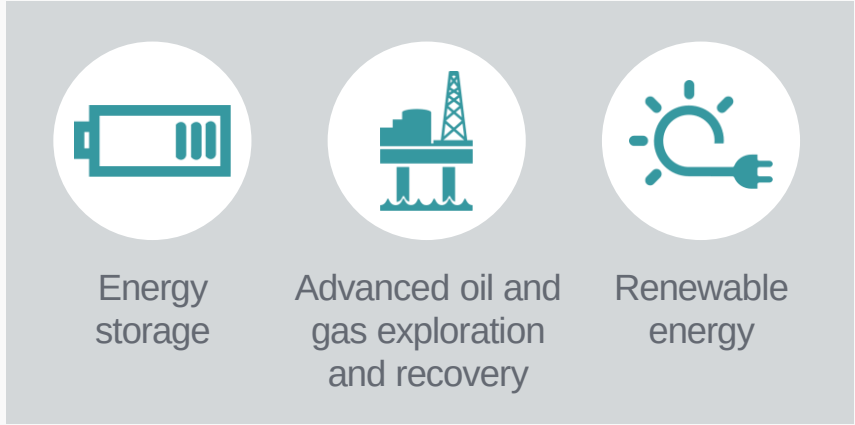
Changing the building blocks of everything



Machines working for us



Rethinking energy comes of age



SOURCE: McKinsey Global Institute analysis

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