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An on-line publication by
The Investment Committee

What is a Business to do?

The strength of the consumer is often a primary focus for market participants due to the fact that spending on personal consumption tends to contribute close to 70% of Gross Domestic Product (GDP). Therefore, coming to an understanding of what is going on with respect to consumption patterns is a natural exercise.

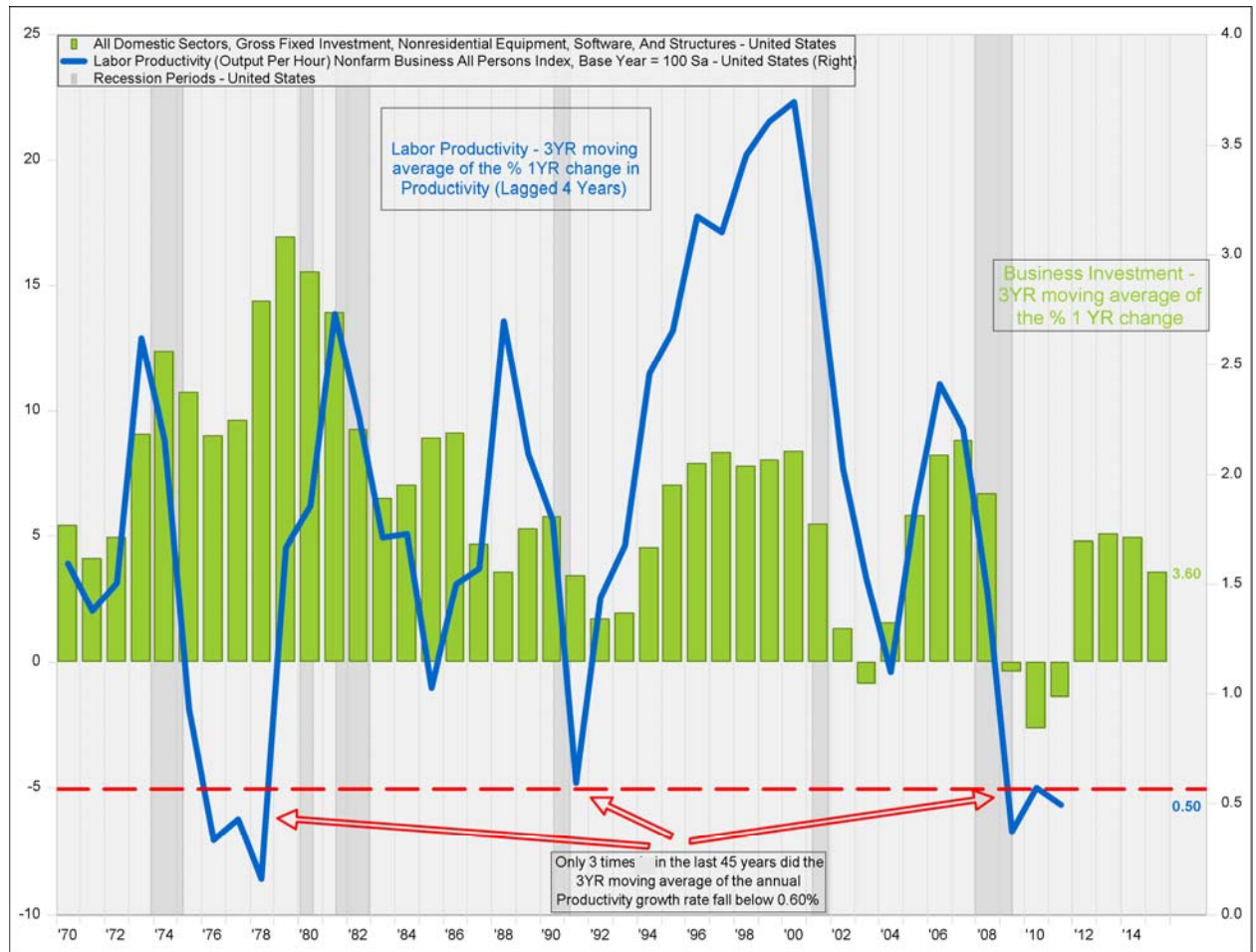
We cannot forget to look at business investment and productivity growth which, over time, can impact the wages employers pay their workers. The logic is simple enough. A business invests in structures, machinery, equipment or software and workers benefit as they are able to produce more of the company's goods or services. In turn, the employer may pay the employees higher wages.

This investment and productivity growth effect can take time to play out. Investments made today may result in productivity growth years later. The chart below plots the three year moving average of the annual growth rate in business investment. A second data set measuring productivity is overlaid and then lagged by four years. The positive correlation over the decades is clearly visible. For example, as investment increased throughout the 1990's, large gains in productivity growth can be seen showing up later in the decade.

Business investment suffered following the global financial crisis of 2007-2008. An oversupply of capacity to produce and the pace of technology disruption are large and complex issues affecting businesses, but this drop could be one factor which reduced the level of productivity growth in the years that followed.

Investment by businesses did start to reach a state of growth again around 2012, so we may be in store for some upticks in worker productivity and wages as firms figure out how best to use the latest innovative technologies and machines. The current environment, however, is still a cautious one. As we have moved into 2016, core business capital spending gauges have shown some contraction over the last year. In specific areas such as transportation, defense and cloud infrastructure, where technological innovations are being applied at faster rates, investments have remained in a state of growth. This bull or bear argument will play out further over the next few years.

Chart 1



Source of Chart: FactSet

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