



Retooling America's economic engine: Perspectives on growth, job creation, and innovation

McKinsey Global Institute

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Today's discussion



Challenge of US Growth & Renewal

- **Productivity**
- **Job creation**
- **Innovation**



Solutions: Rising to the Challenge

- High spark
- High skill
- High share
- High speed

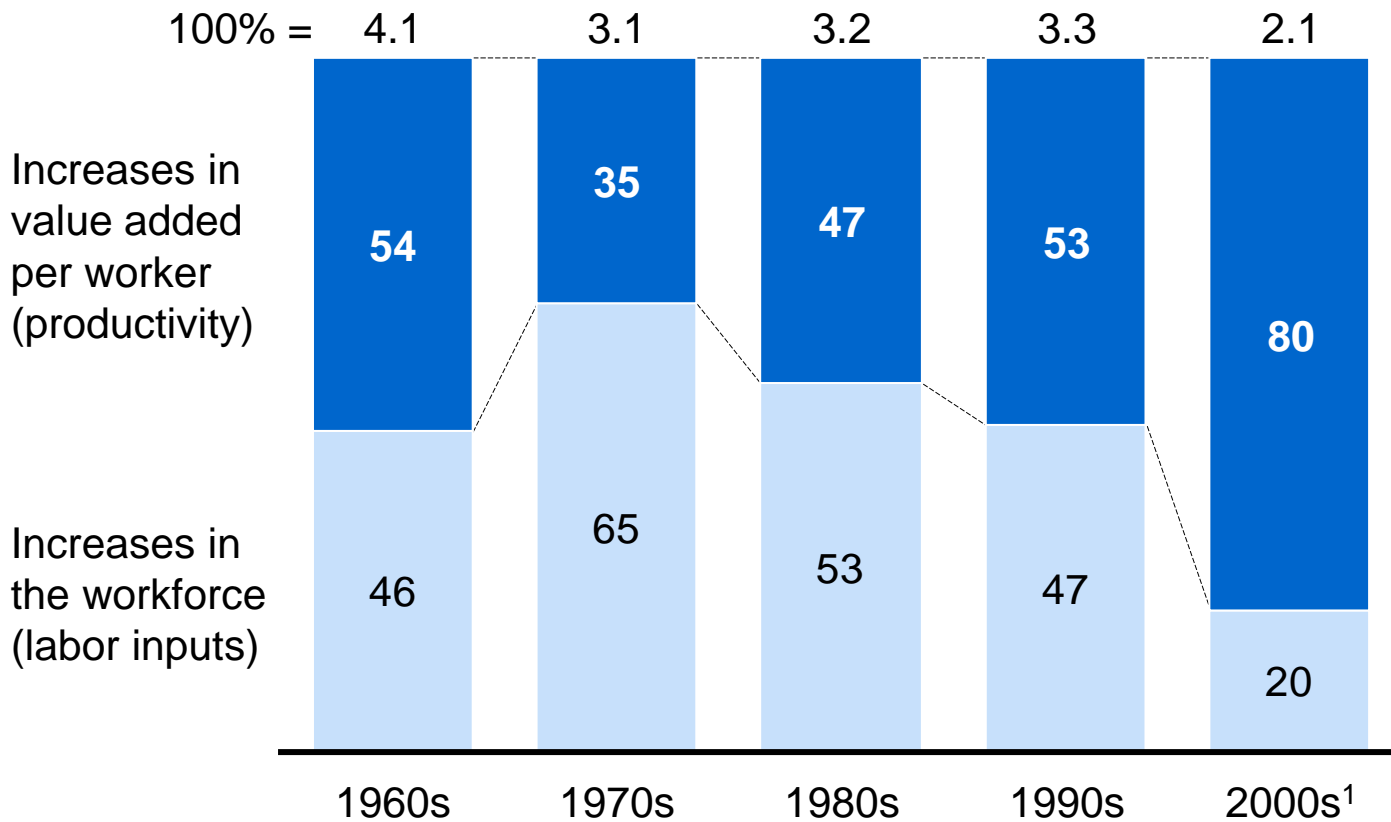


The U.S. now must rely on productivity gains for GDP growth



Contributions to growth in real U.S. GDP, overall economy

Share of compound annual growth rate, 1960-2008, %



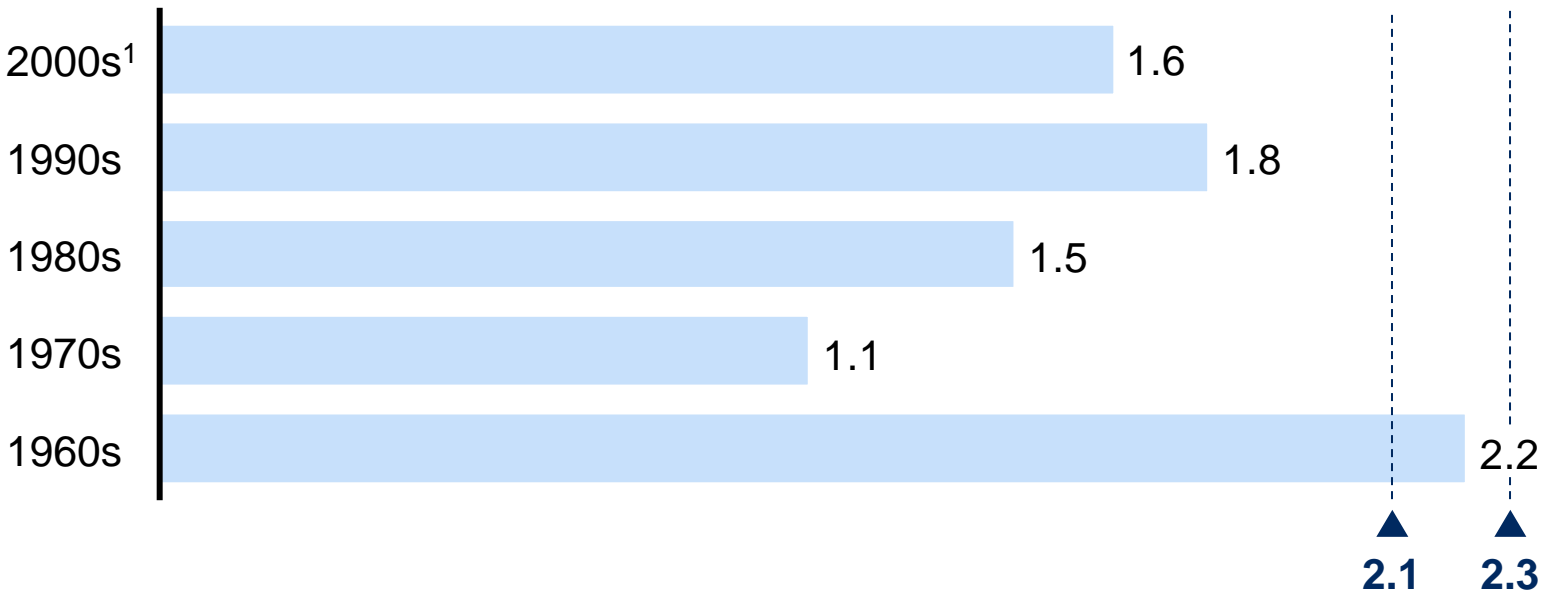
¹ 2000-08 data used for 2000s

The productivity gains needed to sustain historic GDP growth rates are ambitious



Productivity growth rates

Compound annual growth rate, %



Productivity gain required ...

To sustain historical **1.7% GDP per capita growth**, a 31% increase from the '00s

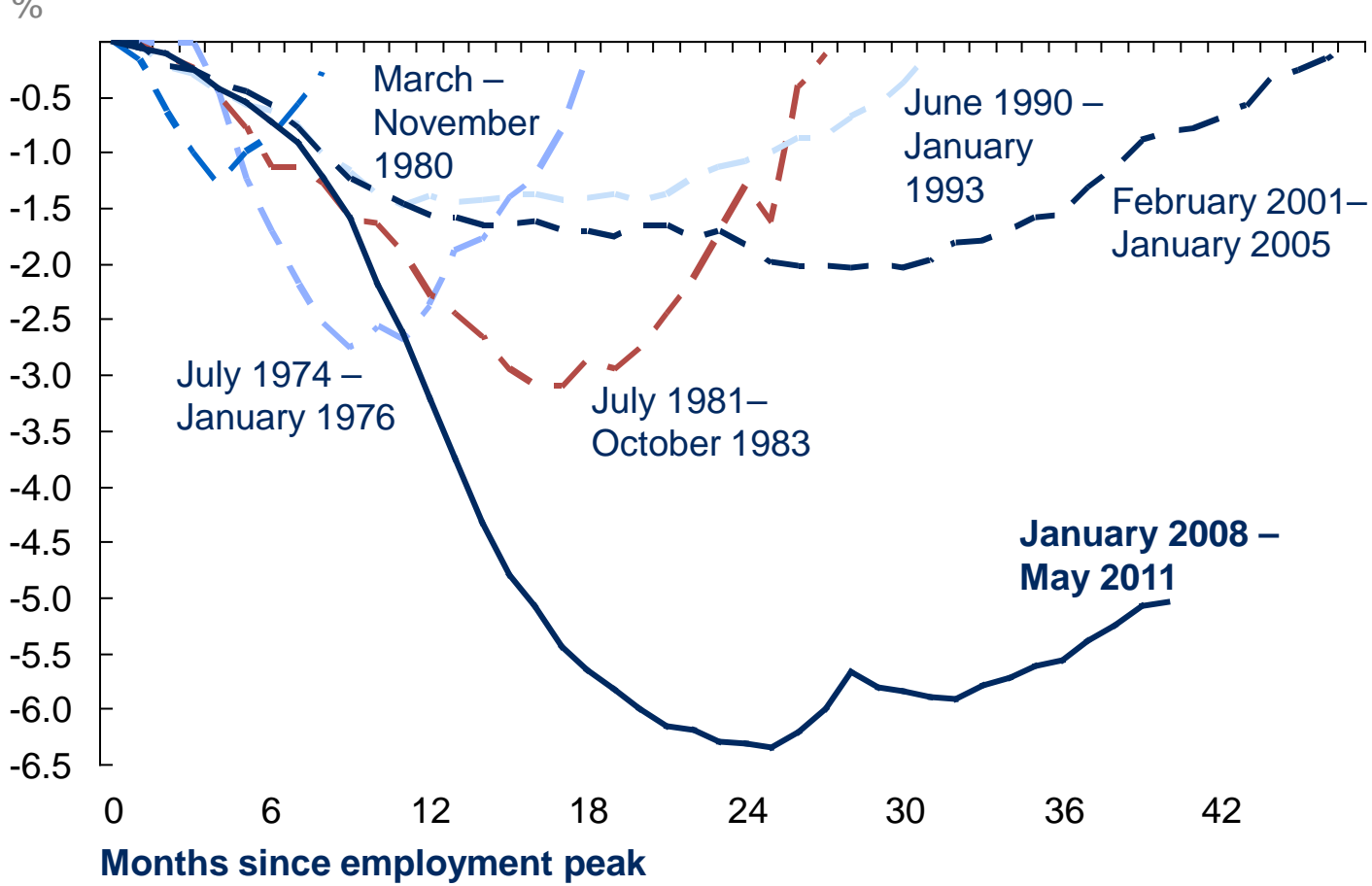
To sustain historical **2.8% GDP growth**, a 44% increase from the '00s

¹ Includes 2000-08

The US employment decline in this recession was more than twice as large as in previous postwar recessions



US employment decline from peak¹



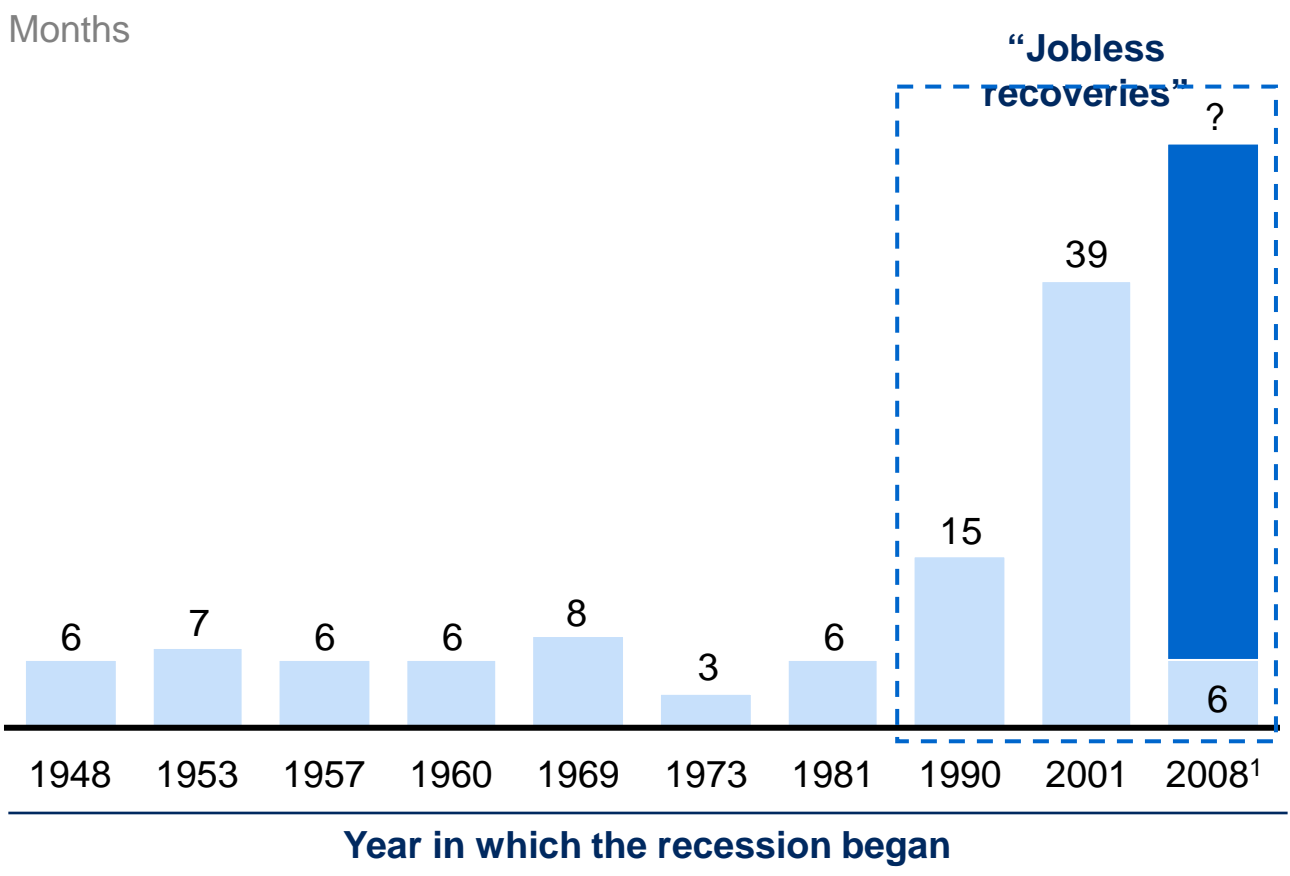
- Lost 8.3 MM jobs during the recession
- Remains 7.2 MM jobs below pre-recession peak
- US must create 200k jobs a month to regain levels

¹ Total nonfarm employment, seasonally adjusted.

The gap between GDP and employment recovery is growing



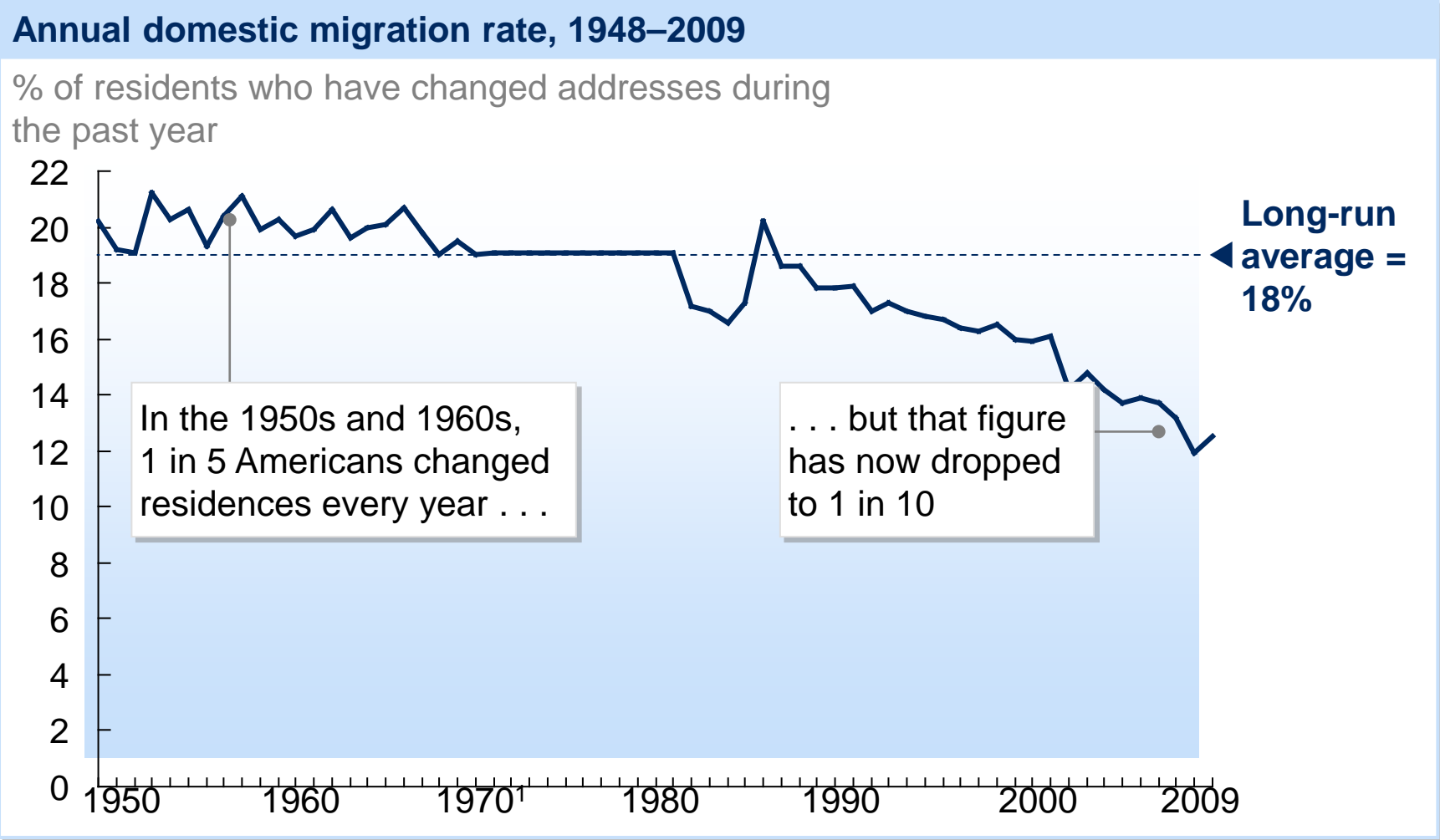
Gap between GDP returning to pre-recession peak and employment returning to pre-recession peak



- Changing competitive dynamics of economy (e.g., workers carrying almost the entire burden of recession)
- Growing mismatch between
 - Location
 - Skills
 - Industries
- Fewer new companies coming along to create jobs in the first place

¹ GDP returned to its pre-recession peak in December 2010

US mobility has been declining since 1990 and is at a 50-year low



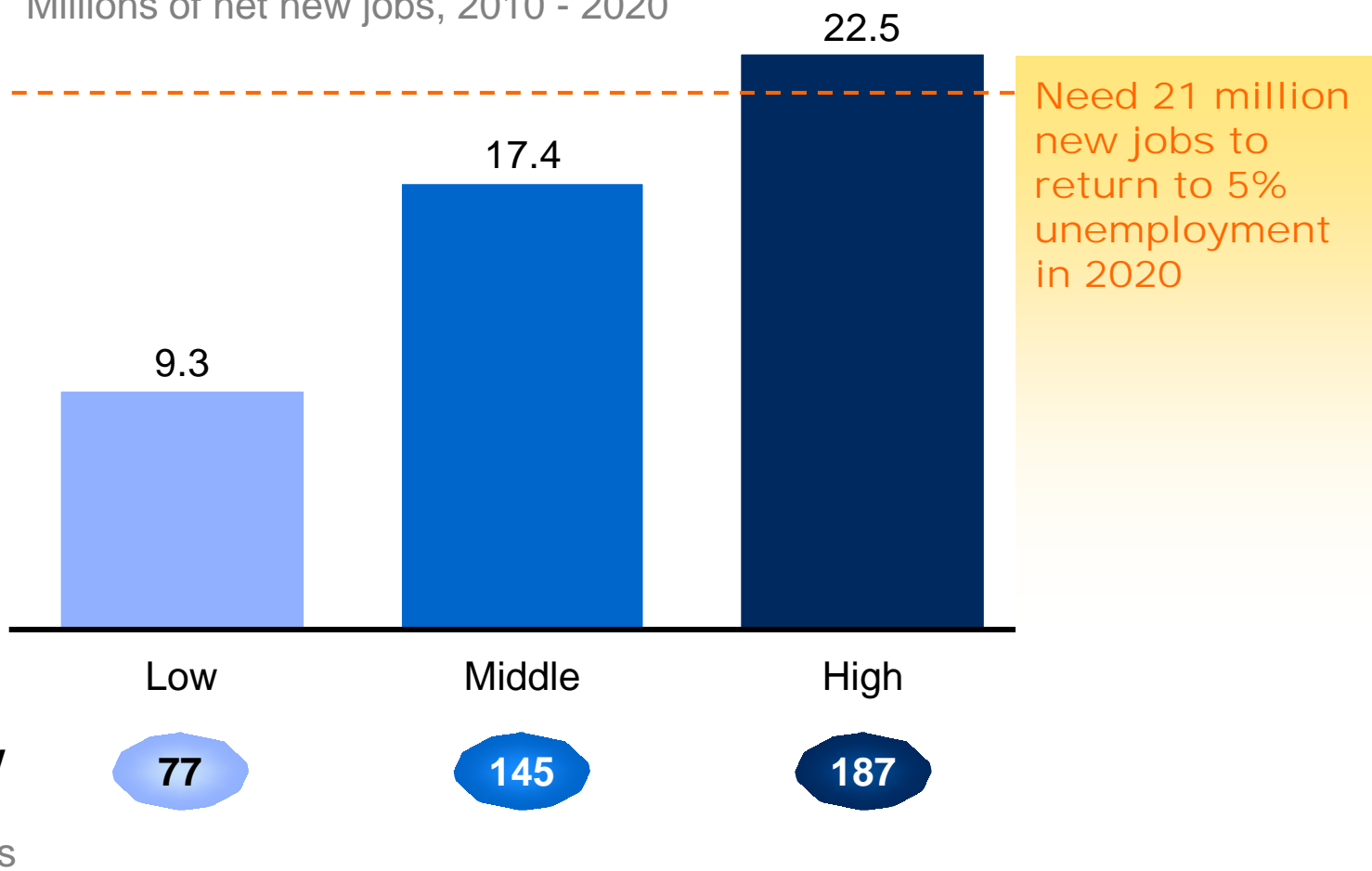
1 Data from 1970–1981 are interpolated due to data constraints.

The high job-growth scenario is the only one that returns the United States to 5 percent unemployment by 2020



Employment demand scenarios

Millions of net new jobs, 2010 - 2020



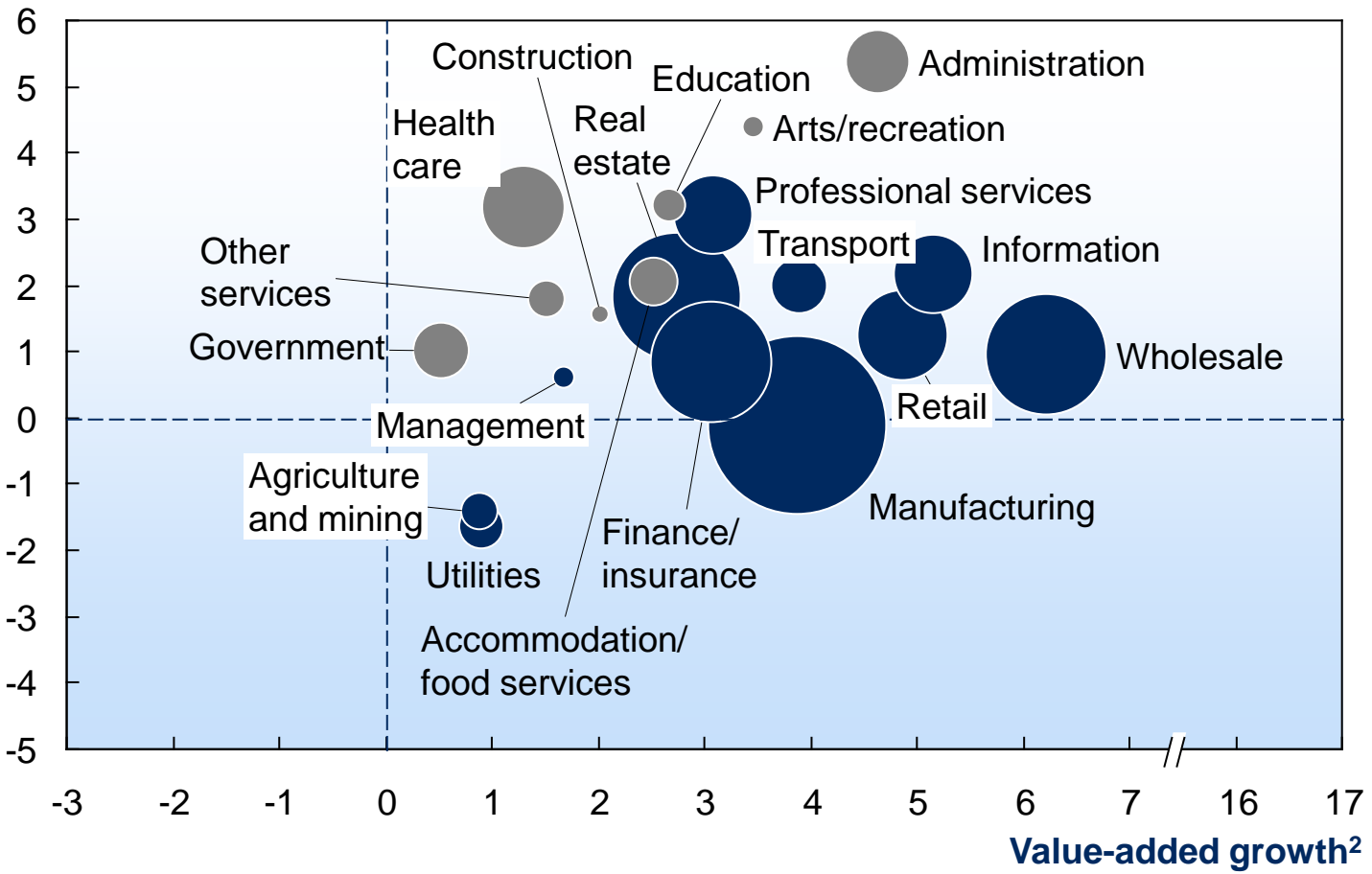
Average net new jobs per month
Thousands of jobs

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



Compound annual growth rate, 1990-2000, %

Employment growth



Size represents productivity contribution¹

- Negative
- Positive

- Total productivity growth 1990-2000 was 1.8 percent
- Productivity gains were driven by sectors that experienced positive employment growth and increasing value added growth

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

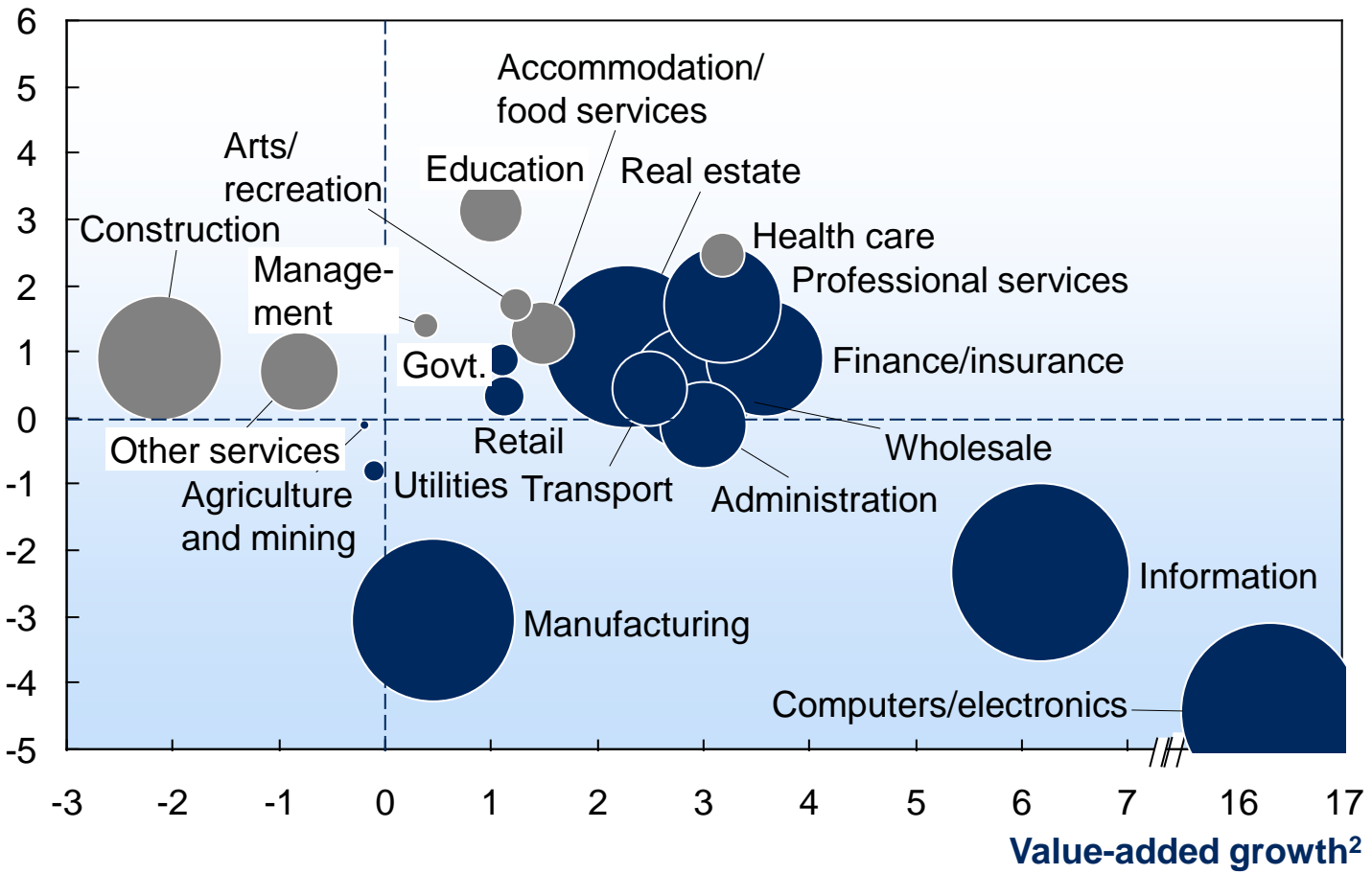
2 Valued-added growth is the contribution of each sector to total GDP growth



Since 2000, the largest contributions to productivity gains were driven by declining employment

Compound annual growth rate, 2000-2010, %

Employment growth



Size represents productivity contribution¹

● Negative
● Positive

- Total productivity growth 2000-2008 was 1.6 percent
- Large share of productivity gains came from tradable sectors with large efficiency gains and job losses

1 Manufacturing sector excluding Computers/electronics and Other transportation equipment sectors

2 Valued-added growth is the contribution of each sector to total GDP growth

Opportunities exist for leaders and laggards to contribute to productivity growth & innovation



■ Top quartile
 ■ 25th–50th quartile
 ■ Bottom quartile

Contribution to productivity growth, %		1990-2000 ¹	2000-08
Goods	Manufacturing	36.7	19.2
	Construction	-0.5	-11.0
	Natural resources	1.6	0.2
	Computer and electronic products	n/a	22.5
	Real estate and rental and leasing	19.8	18.4
	Wholesale trade	17.5	11.2
	Information	7.4	21.6
Services	Transportation and warehousing	3.8	3.9
	Retail trade	9.8	1.5
	Administrative and other services	-4.7	5.6
	Accommodation and food services	-2.8	-3.2
	Other services (except public admin.)	-1.7	-4.8
	Arts, entertainment, and recreation	-0.7	-0.8
	Finance and insurance	16.9	9.9
	Professional, scientific, technical services	7.3	9.7
Regulated and public	Management of companies	0.7	-0.6
	Government	-4.1	1.0
	Health care and social assistance	-8.1	-1.7
	Educational services	-1.5	-3.1
	Utilities	2.5	0.5

Aerospace can further improve productivity by continuing to set the bar for innovation while making use of standard lean principles

Retail can continue to drive productivity growth through greater integration of online and offline channels, and innovations in responding to and engaging customers

Healthcare can increase productivity through greater use of available technology (e.g., e-mail, electronic record keeping) and broader adoption of established lean principles

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

US Growth and Renewal: rising to the challenge



High spark

- Encourage innovation, new company creation, and the scaling up of new industries in the U.S.



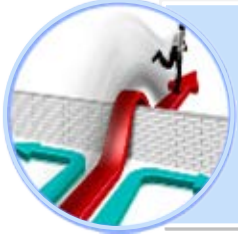
High skill

- Ensure Americans acquire the skills that match employer needs



High share

- Harness globalization to create more U.S. jobs



High speed

- Remove impediments to investment and job creation





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