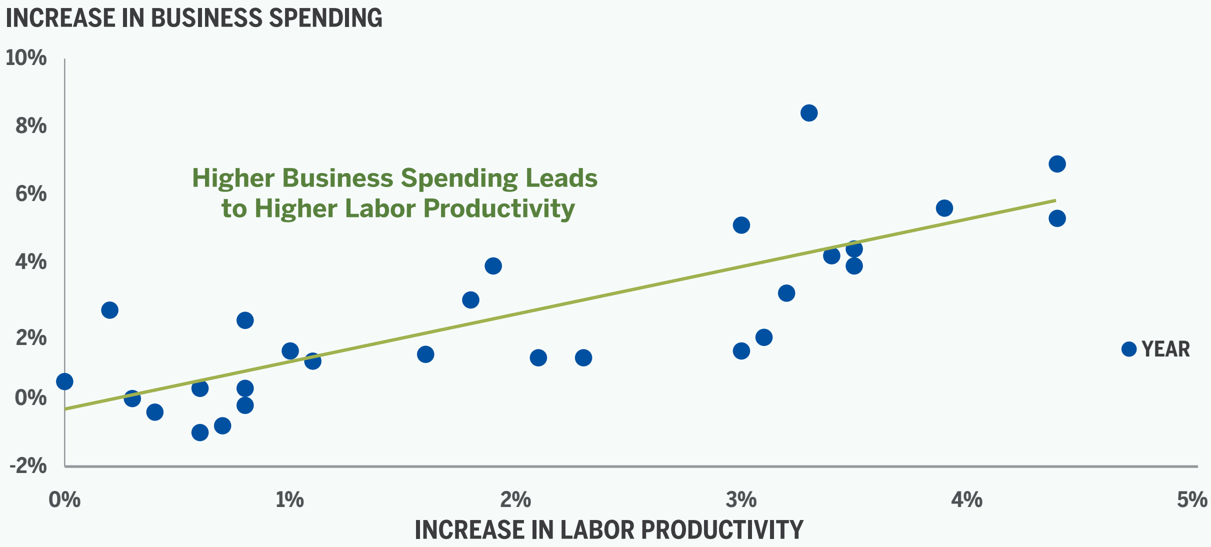
An Expected Driver of Growth

The resurgence in U.S. earnings combined with future potential tax cuts may drive an acceleration in business spending that could outpace the broader U.S. economy. Gains in labor productivity would likely follow, creating an opportunity for investors to reposition themselves for a new wave of growth.

Business Spending Drives Labor Productivity (1988 – 2016)



Source: Bureau of Labor Statistics.
Note: Business spending represents capital intensity, a measure of investment such as equipment and intellectual property, and labor productivity represents a measure of output per labor hour. Each data point captures the previous year's business spending and the next year's productivity. Regression line is indicated in green with R^2 of 0.64.

- There is a strong relationship whereby business spending tends to spur greater labor productivity, as demonstrated by the data above.
- Robust profit growth has historically generated higher business spending and S&P 500 profits are currently growing strongly after a two-year earnings recession.
- Additionally, a Trump administration tax cut would likely favor businesses and thus lift business spending by increasing enterprise cash flow.
- If labor productivity indeed rises on the heels of heavier business spending, we expect that it will boost economic growth. Investors might position their portfolios by allocating to B2B companies that benefit from business spending and facilitate labor productivity, such as software companies, digital media companies, technology equipment makers, and medical equipment manufacturers.

Inspired by Change, Driven by Growth.