



# Investment Watch

4th Quarter 2003

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For the last three years our stockings were filled with coal. But, this year, when **Santa** made his list and checked it twice, he filled our stockings with a lot of green (\$\$\$) cheer. Who better to receive those glad tidings than the **Nice**, hard-working participants in America's retirement plans. Thank you, Santa!

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On top of the **Nice** side of Santa's list this year was **Productivity**. "Not the Productivity lecture again this quarter", you say. But after the stratospheric upward revisions, you must give me just one line to gloat about my predictions. Being right isn't all it's cracked up to be. A lot of pressure. I'm not a fortune teller. But, the writing's on the wall, all we have to do is *learn the language*.

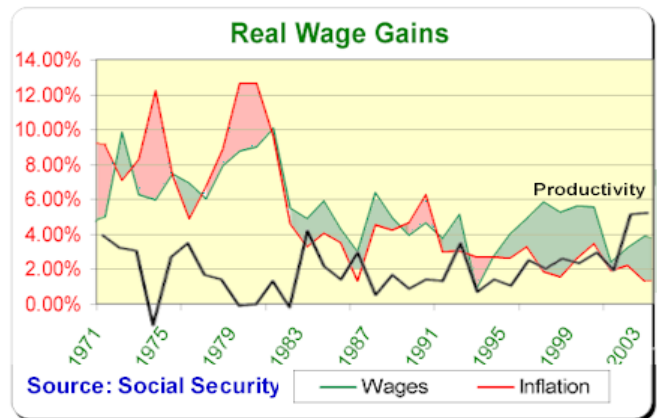
Yes! the **Nicest** economic news on Santa's list for this year and this decade is the dramatic surge in Productivity and this story deserves another look. **Productivity** is not just a statistic. It allows for greater Gross Domestic Product (GDP) growth without fueling inflation and, most importantly, results in a higher standard of living for all of us.

Now, let's *learn the language*. **Productivity** advances deliver more goods at the same or lower cost. The more goods, the more there is to share. The American pie is getting larger and larger at an almost **alarming** annual rate of 8.2% GDP growth and an **amazing** 9.4% Productivity increase. Both revised impressively upward after the end of last quarter—feels too good to be true.

Let's follow the dollars -

1. **Productivity** gains fall right to the bottom line - soaring corporate profits. Higher profits drive higher stock prices.
2. Soaring corporate profits allow price stability and low inflation. Low inflation's payoff - our paychecks go farther.
3. Corporate profits will trickle down and flow into wages - paychecks get bigger.

Do you think that I'm just merely recounting the same old Productivity dollars three times. I may be, but isn't it fun? *'tis the season to be jolly!*



As shown above, the **Nicest** consequence of the 2%-3% Productivity growth (the black line) since the mid '90s is that **real** wages have grown dramatically, as indicated by the green shaded area. 3% productivity gains would result in a *doubling* of our living standard *every 24 years*, about every generation! Productivity in the last two years has skyrocketed at an **almost scary** rate of 5.5%. Since 1996, Productivity and real wages have increased 28% and 20%, respectively.

Looking to the **future** potential of protracted high Productivity gains feels unconscionable, but I can't control my excitement. "Just a

## "Naughty or Nice" (cont'd)

pie-eyed optimist", you say. Maybe, but I'm still grounded enough not to expect the 5.5% gains of the last two years; however, I do see prolonged **Productivity** gains. These gains will make corporate profits swell (30% last quarter) and fuel GDP growth. How **Nice**, a bigger slice of pie for all. I may be all wet, but let's read the *writing on the wall* and form our own conclusions.

- U.S. unit labor costs dropped faster than any quarter in the last 20 years (Bureau of Labor Statistics)
- Productivity increases will permeate all Global economies
- Globalization will permit developed coun-

ties to reap the rewards of higher output levels at lower labor costs

- Growth due to enhanced productivity won't trigger inflation
- The Global ceiling being raised will nurture growth both in the US and abroad
- We will be able to grow faster and longer without inflation constraints. Greenspan and the Fed will remain our friend
- Corporations will capitalize on low interest rates and easy money to profit from the new Global economy

Is this just my "wish list" for Christmas? Maybe, but as these productivity gains work their way through the system, I believe they will deliver the goods. The American and Global pie is growing. The pieces are getting larger. More to share.

**Santa Clause is coming to town!**

