Growth STRATEGIES

Trend Analysis That Builds Business Decisions

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1 –STRUCTURAL CHANGE OR CYCLICAL TRENDS?

This month marks 30 years that I have been writing this newsletter. At the time I started it was called *FutureScan*, a 3-page mimeographed weekly distributed internally at Security Pacific National Bank in Los Angeles (before PCs, the Internet – hell, before faxes). The Futures Research Division and *FutureScan* had been started by Hank Koehn in 1977; the idea was to alert management of trends in the "external environment" that had the potential of changing the competitive landscape. Whether you are a new or long-time reader, thanks for being along for the ride.

The changes we have all seen over the last three decades have been immense, but it has also been my approach to try to identify the constants as well (for they would be the only certain things you could say about the future). Ergo, it has been my career's work to try to determine what is truly new, unique and unprecedented, and what is "old wine in new bottles" (in other words, to identify cyclical from structural change).

For example, consider the list below of the headwinds the US economy is facing (taken from my current file of "things to worry about"). Do they represent structural changes or cyclical trends? The answer is profoundly important, for if they are structural they portend a different America in the future from the one we have known in the past:

The wageless recovery

The jobless recovery

The dependence economy

The education bubble

Long-term unemployment

The declining state of Black America

The plight of the working class

House prices in free fall

Incomes are still being propped up by massive (deficit financed) government spending, purchasing power is declining, real salaries are declining or flat, unemployment is far above the historical trend, good paying jobs are scarce, debts and deficits are at all-time highs. www.weeklystandard.com

Fastest rise in food prices in a generation

The granddaddy of all bubbles

Here comes inflation

One shock away from crisis

The post-employee economy

More Americans work for the government than in manufacturing, farming, fishing, forestry, mining and utilities combined. online.wsj.com

For first time since the Great Depression, tax receipts from households total less than the government paid out in unemployment, Social Security and other programs. money.msn.com

America's ever-expanding welfare empire

Economic trends identified by the Center for American Progress:

- Increasing income inequality
- Rising productivity but stagnant wages
- A growing wealth gap
- Truncated economic mobility
- More and deeper poverty
- Persistent racial disparities

www.enewspf.com/

67% of men had jobs in 2010 – a new low; overall percentage of working Americans is down to 45.4%. www.usatoday.com

Oil-price shock is hitting American consumers

What is my assessment – do these represent structural changes or do they reflect cyclical trends? Well, being that I am a short-term pessimist but a long-term optimist, I want to say mostly cyclical. But man, we face a difficult short term. And if some of these situational snapshots are indeed unprecedented, then how can we count on the cycle of events to restore equilibrium? What has me most worried is that we may have undercut the crucial national characteristics that have helped us overcome crises in the past: our resiliency, our dynamism, and our social/cultural cohesion.

DECLINING RESILIENCY

Our economy and society are both based on the ability, proven time and again, of being able to overcome hardships and bounce back from misfortune. Resiliency turns out to be a better approach to economic and social well-being than trying to avoid all risks. But that ethic is declining. We are prevented from practicing it by legislators, regulators, lawyers, environmentalists, activists – the entire edifice of nanny state America.

DECLINING DYNAMISM

Historically, the nation's dynamism – its ability and proclivity to innovate – has brought economic inclusion by creating numerous jobs. It has also brought real prosperity – engaging, challenging jobs and careers of self-realization and self-discovery. But dynamism has been in decline for a decade. So write Edmund Phelps and Leo Tilman in the *Harvard Business Review*.

There are several culprits for this decline: a stifling patent system; a focus among public companies on quarterly results, rather than long-term value creation; and a financial system that for a generation has focused its talent and resources not on funding business innovation but on proprietary trading, regulatory arbitrage and arcane financial engineering.

DECLINING SOCIAL COHESION

Everyone knows the movie *Caddyshack*. Indeed, for millions of us guys between the ages of 30 to 75, it's considered a classic. *Caddyshack* was filmed in 1979, and released in 1980. Why did it resonate, and why does it still? Because we all know the feeling that was expressed in the film's marketing tag: "Some people just don't belong." And we have all worked lousy, low-paying jobs in which we had to suck up to people who had money. I caddied every summer of my high school years in the 1960s. It was not unusual in those days, just as it is unheard of now, for teenagers to have such jobs. (I also, at one time or another, delivered papers, drove a delivery truck, distributed telephone directories, painted outdoors, worked on a farm, worked on a factory line, and had other jobs I can't even remember.) But here's the thing: we did not resent, envy or hate the rich people – hell, we hoped to be rich some day ourselves. Instead, we actually found great founts of absurd humor in the American condition. Of course we didn't belong among the privileged – yet – but we resolved to act differently when and if we got there!

Here's another thing: we rubbed shoulders with the rich and privileged all the time everywhere: in school (yeah, the public schools), in town, at the playground for pick-up games (!), at the frozen pond, at Little League games, at places of worship, at the shops, stores and markets, at the movies, etc. It was natural (and by the way, we would walk, run, or ride our beat-up bicycles). We used to consider ourselves as different parts of one American society. We respected the authority of adults, whatever their station. There were many points I could have gone wrong in life when young, but there was always a responsible adult standing in the way, and pointing in the other direction: a parent, teacher, coach, cop, rabbi, priest, neighbor. They weren't afraid to get involved, unlike today, where the fear of lawsuits or of being seen as judgmental has stunted this wholly voluntary communal behavior.

But we have now undergone "The Big Sort" (the title of 2008 book by Bill Bishop whose subtitle is "Why the Clustering of Like-Minded America Is Tearing Us Apart"). We now self-segregate, and have lost that sense of "we're in this together, like it or not."

Are there countervailing factors? Sure. Perhaps the biggest is that we have overcome threats to social cohesion before. But if our current situation is truly unprecedented, then as the warning goes, past performance is no guarantee of future success.

Where might these trends go? I think we may be separating into two economies, societies, and cultures: one that is highly productive and functional, and one that is less so.

I'll keep you posted.

2 – PRODUCTIVITY IS FUNDAMENTAL

Martin Feldstein on America's challenge:

The key to our standard of living is productivity – that is, the quantity of goods and services produced per hour of employee work. The faster the growth of productivity, the faster will be the rise in real income and in our standard of living.

The growth of productivity depends on the quality of our workforce, the growth of our capital stock, the effectiveness of management, and the introduction of new technology and new products. Each of these can be influenced by government policies – by taxes, regulation, government programs, and fiscal deficits.

But while government policies cannot produce the creative drive that generates exciting new products – products that make American ingenuity the envy of the world – bad government policies can stifle that creativity and make it more difficult to convert new ideas into real products at prices that millions of people around the world can enjoy.

You may have noticed that I have not said anything about "competitiveness" – our national ability to export and to compete with imports from China and other countries. That wasn't an oversight. Our nation's ability to export and to replace imports with American-made goods and services does not raise our standard of living unless it is the result of higher productivity. Productivity is fundamental, not competitiveness.

Our productivity growth also reflects the way that government policies, especially tax policies, influence what students do when they leave school and join the workforce. High tax rates affect the occupations they choose, the effort that they make on the job, their desire for promotion, their decisions to change jobs and to move in pursuit of better employment, and their willingness to take risks in pursuit of a good idea. The entrepreneurial drive is strong in America but it can be suppressed by high tax rates and complex regulations.

We will have only ourselves to blame if the decades ahead do not experience the same rising standard of living that Americans have enjoyed during our lifetimes.

3 — US DEMOGRAPHICS: LARGER, OLDER, MORE HISPANIC, MORE DIVERSE

Americans 45 and older now make up a majority of the voting-age population. According to an Associated Press analysis of recently released Census Bureau data, there are currently about 119 million people 45 and older who make up 51% of the voting-age population, with Americans 55 and older representing a large bulk of that group. The new majority share is up from 46% in 2000 and 42% in 1990.

Broken down by subgroups, older boomers ages 55-64 were the fastest-growing group since 2000, jumping 43% to approximately 35 million. They were followed by seniors 85 and older, who increased 33% to more than 5.5 million. The number of people ages 45-54 also rose sharply, up 18% to 45 million.

Based on actual election turnout, which is higher for older Americans, Census data show that baby boomers and seniors ages 45 and older represent about 60% of voters in national races, judging by the 2008 presidential race. Nearly 1 out of 2 voters is 50 or older.

Nationally, the median age climbed to about 36.8 from 35.3 in 2000.

The number of married couples with children dropped about 5.7% to 23.4 million, or roughly 20% of US households. That's down from a share of 23.5% in 2000 and 43% in 1960.

In contrast, non-family households made up of single people such as seniors living alone, or opposite-sex or same-sex partners without children, jumped 13% to roughly 38 million. Married couples with no kids, which include younger couples and older empty-nesters, rose 9% to more than 32 million.

Preliminary census numbers show that unmarried partners made up 6.5 million, or nearly 6% of U.S. households. Those figures include roughly 581,300, or a half-percent of households, composed of same-sex unmarried couples.

OTHER FINDINGS:

—Married couples with children dropped since 2000 to an all-time low of roughly 1 in 5 households, surpassed by empty-nesters, childless couples, singles and unmarried partners.

—After a decades-long decline, average household size ticked higher to 2.63 from 2.59 in 2000. That's due mostly to the growth of the Hispanic population, which tends to have larger families, as well as some recent "doubling up" of adult children moving back in with parents during the recession.

—Mexicans increased by roughly 50% over the last decade to roughly 32 million and now make up close to 66% of all Hispanics.

—Based on total population, people 45 and older represent 39% of U.S. residents, up from 34% in 2000. People 65 and older now make up roughly 13% and seniors 85 and older about 2%. The 65-plus age group will make up nearly 1 in 5 Americans by 2030, after the youngest boomers turn 65.