

## Can productivity improvements help our economic growth?

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Right? You can either have more people, which we argued isn't going to happen globally, or we can be better at our jobs, that's productivity growth.

Now, unfortunately, not doing so great on that one either right now. Productivity growth in the United States, I could've used the U.S. as well, I just have a better data series for the U.S., has also been very weak. It actually peaked right after the Internet, around 2003, where we saw some big productivity booms, and since then, we have not seen productivity reaccelerate. A little mild improvement lately, why is that? What are some of the reasons that productivity might be low in North America?

One of them is probably regulation. So, imagine you had to make, I don't know, a hamburger, and then fill out 10 pages of paperwork about making the hamburger. Probably slow you down, right? So when Donald Trump came in as president of the United States and he had this deregulation platform, we know that that deregulation contributed to a lot of people saying, "That's going to improve my productivity. Now I can make a hamburger and only fill out five pages of paperwork about it." That's great news for us, right?

So, what I believe we're seeing in the markets right now is a pricing in of the second term of Trump, and what that would mean for deregulation. If we get more deregulation, we get productivity higher. You get productivity higher, you get more GDP. You know the reason that I have to forecast GDP? It's not because anyone really cares about what GDP is, it's because our GDP estimates are best long-term proxy for earnings growth over time. That's why we calculate GDP. So better productivity, deregulation type of activities, and that leads to higher earnings growth over time. That's the transmission mechanism of why we pay attention to these things.

Now, many of you may be looking at this and saying, "But Uber, and AirBnB, and all the ways that I pay parking on my phone now, doesn't that improve my productivity?" Probably. Are we measuring it properly? Probably not.

Governor Poloz from the Bank of Canada has been talking about how he believes that we're in the middle of a fourth industrial revolution, but our data is not capturing this yet. And he may very well have a point. It took 18 years for us to incorporate the ATM, from banks, into our GDP data. Is it possible we're lagging on productivity statistics? Absolutely. What about AI? We spend a lot of time thinking about AI. AI starts to become impactful in productivity statistics around 2035. That's when we start to see the real impact on productivity growth. Until then, we're still in the research and development phase.

So, don't panic, I put a formula up. I did it for a reason, okay? So, this is a formula that you may have learned in textbooks, but it's also very similar to how central banks calculate where the interest rate should be in an economy. And if you look at this, what you'll see is that the real rate of interest is a function of a few things, but the two largest issues in the numerator of this equation are the rate of employment growth, which we've already discussed is probably going to be low, and the rate of productivity growth, which is also low, whether it's measured properly or not.

So, when I talk about employment growth and productivity growth, and I always spend some time talking about this in my presentations, it's to give you a sense of why we're in a low-growth and low-interest rate world. It's not because, you know, necessarily we have trade wars going on, the digitalization of the economy - though those are very important - the two fundamental drivers of the way we have to look at the world are people working and how good are they at their jobs?

That is why we are stuck in a low-interest environment, and that's why we're likely to stay stuck in a low-interest rate, low environment.

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