DENTON/NEELY & CO., LLC
Management Consultants

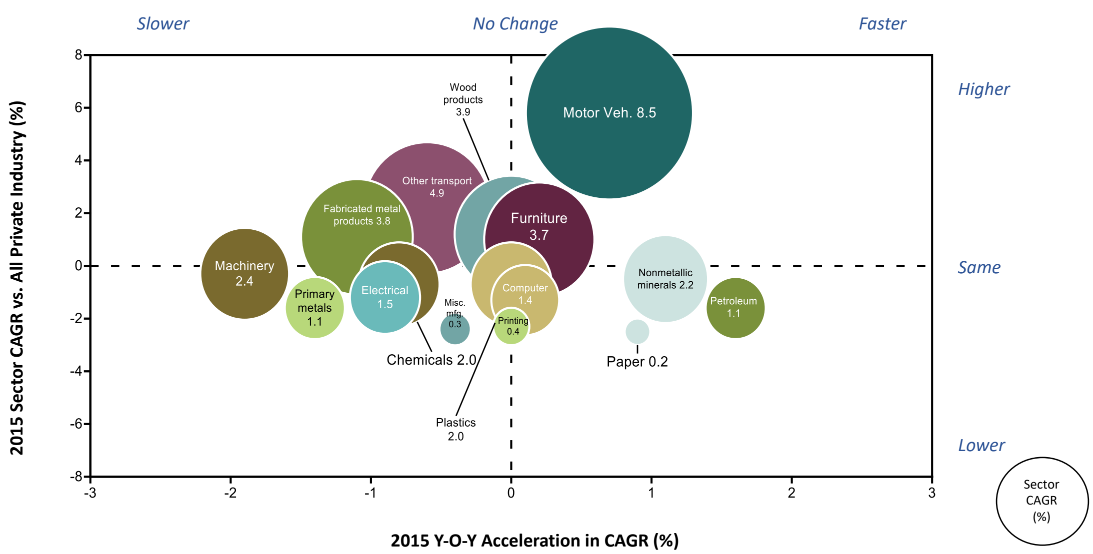
What Prominent Economists are Saying About U.S. Growth Prospects - Implications for You

Speakers at this year's Economic Policy Conference hosted by the National Association for Business Economics (NABE) tended to be skeptical of the growth expectations reflected in current stock market valuations. Estimates of the impact from enacting prominent fiscal and monetary policy options are positive, but few of these economists expect U.S. GDP to achieve 3% annual growth, let alone surpass it. They expect structural drags from fiscal deficits, low productivity and emerging labor tightness to impede progress. Concern is also high with respect to potential setbacks to global trade. So, while animal spirits have been lifted by the new administration, meaningful growth acceleration is not a given. Business leaders need to stay focused on driving revenue growth, the backbone of enterprise value.

Last year we asserted that the next directional leg for energy, labor, and capital costs was likely to be higher. This is proving to be the case, and with only moderate cycle growth on the horizon companies without robust strategies to deliver value and innovation could face a cost - price squeeze.

When looking at the growth trajectory of 16 manufacturing sectors and their sub-sectors with another full year's worth of output data (2015), we see a mixed picture. Figure 1 shows that growth slowed or stagnated in about 70% of the sectors.

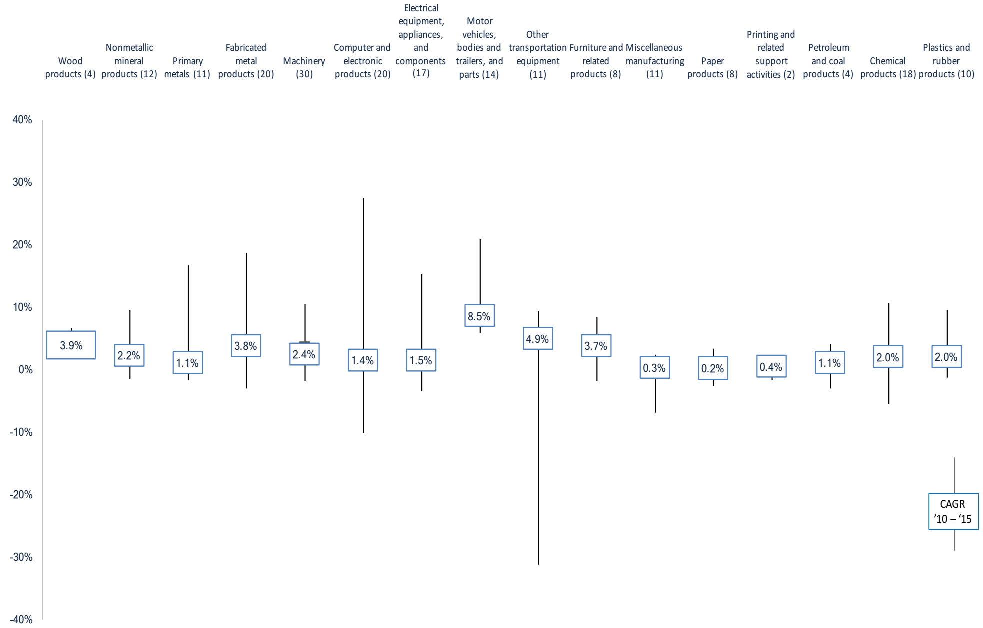
Figure 1. Manufacturing Industry Sectors – Trends in Real Gross Output 2010 – 2015
(Note: bubble size indicates each sector's compound annual growth rate from 2010 – 2015)



Source: Bureau of Economic Analysis

Figure 2 shows wide divergences existing across sub-sectors. The gaps between those with the highest and lowest rates of growth have narrowed year-over-year, with deceleration at the top end a frequent contributor.

Figure 2. Dispersion of Subsector Growth Rates
(Note: number of subsectors is shown in parentheses by sector name)



Source: Bureau of Economic Analysis

Full year data is not yet available for 2016. An examination of third quarter 2016 suggests further slowing; the output for durable and nondurable goods grew by only 0.5% and 1.7% y-o-y, respectively.

While the current expansion phase of the U.S. economy shows every possibility of continuing, now is the time for executives to reinvigorate strategic growth programs. Things only get harder in a downturn. While regulatory burdens may be easing, foreign companies continue to battle for market share, and recent years have demonstrated that market paradigms and/or longstanding customer relationships can be upended by disruptive innovations.

Business leaders should be continuously preparing for such risks and ensuring they have a clear vision for how their company will succeed as its industry and competitive context evolves. Check-list questions are:

- Does the firm have strong top-to-bottom organizational alignment to its strategy and a superior business model for carrying it out?
- How agile is the organization when responding to market challenges? Does it have clear line-of-sight to demand and an understanding of opportunities or threats in adjacent markets?
- Are the non-price drivers of customer purchase decisions understood and served adequately?
- Do internal systems, skills and organizational dynamics between Sales, Marketing and Manufacturing provide a competitive edge for maximizing tactical and strategic opportunities?

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DENTON/NEELY & CO., LLC is a management consultancy helping companies grow and differentiate through market insight, strategy development and organizational alignment for follow-through. We welcome your inquiries. Please contact us. info@dento-neely.com Tel. (412) 304 - 7021 www.Denton-Neely.com