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MCKINSEY GLOBAL INSTITUTE

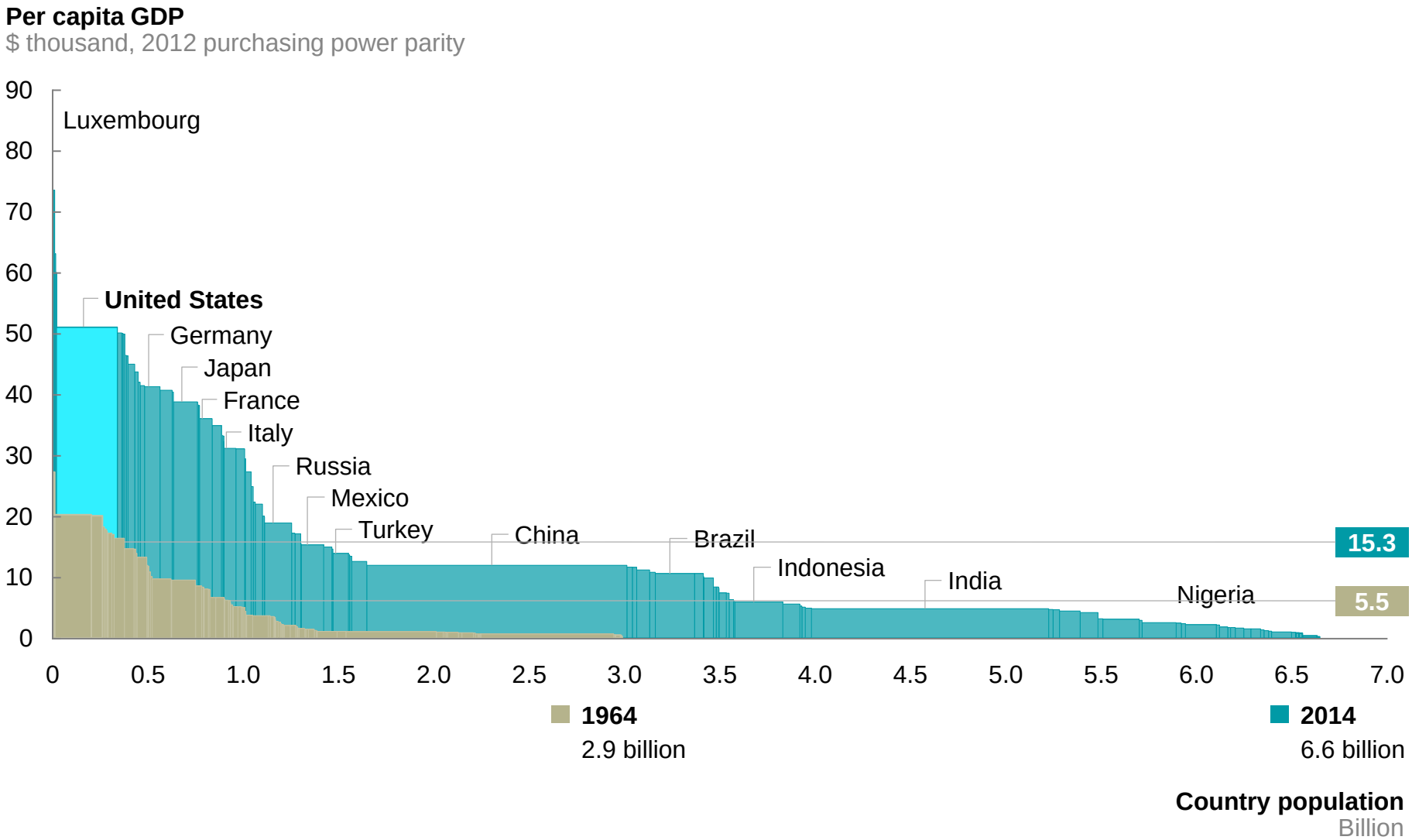
GLOBAL GROWTH: CAN PRODUCTIVITY SAVE THE DAY IN AN AGING WORLD?

ACHIEVING STRONGER GROWTH

BROOKINGS INSTITUTION

APRIL 8, 2015

Global economy has grown six-fold in the past 50 years



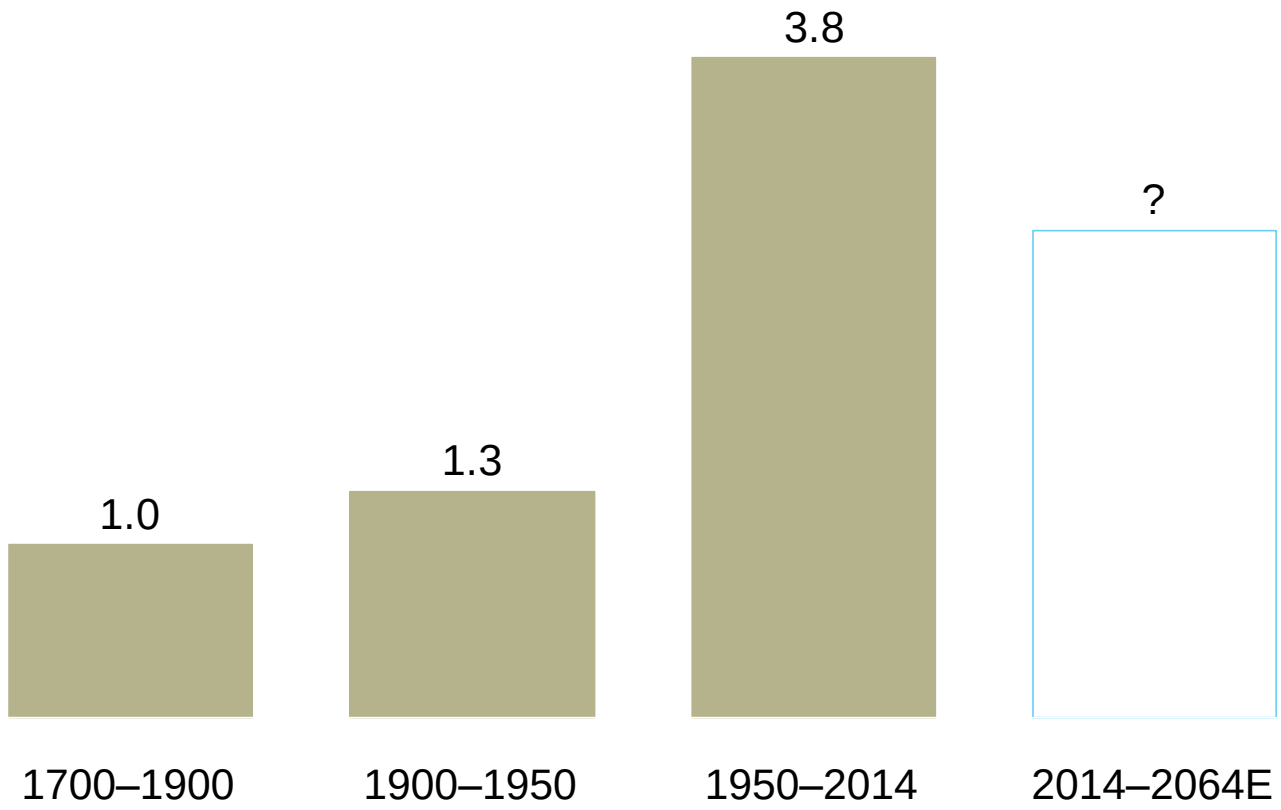
1 Based on data for 99 countries, 1964–2014.

SOURCE: The Conference Board Total Economy Database; McKinsey Global Institute analysis

Growth since 1950 surpassed the level of previous eras; what can we expect over the next 50 years?

G19 and Nigeria[1] compound annual growth rate, 1700–2014

%



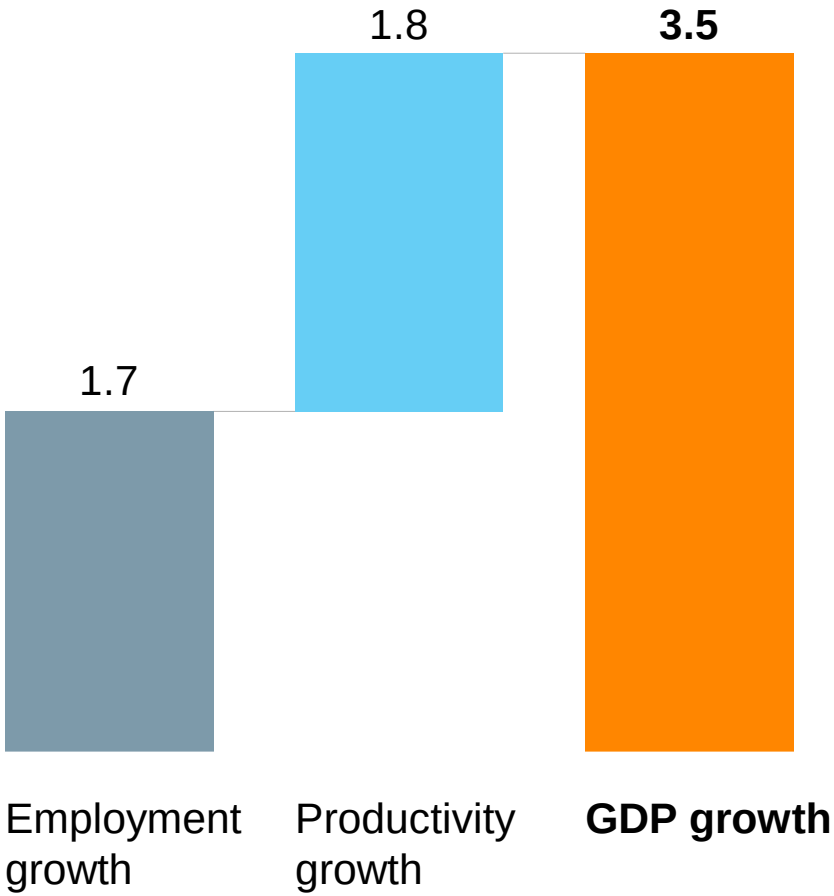
1 Data available for 12 countries in G19+Nigeria from 1900–50, 17 countries from 1950–63, and all 20 since 1964.

SOURCE: Jutta Bolt and Jan Luiten van Zanden, *The first update of the Maddison Project: Re-estimating growth before 1820*, Maddison Project working paper number 4, University of Groningen, January 2013; The Conference Board Total Economy Database; McKinsey Global Institute analysis

Last 50 years of growth has been fueled in equal measure by employment and productivity growth

Compound annual growth rate, 1964-2014

%



NOTE: Numbers may not sum due to rounding.

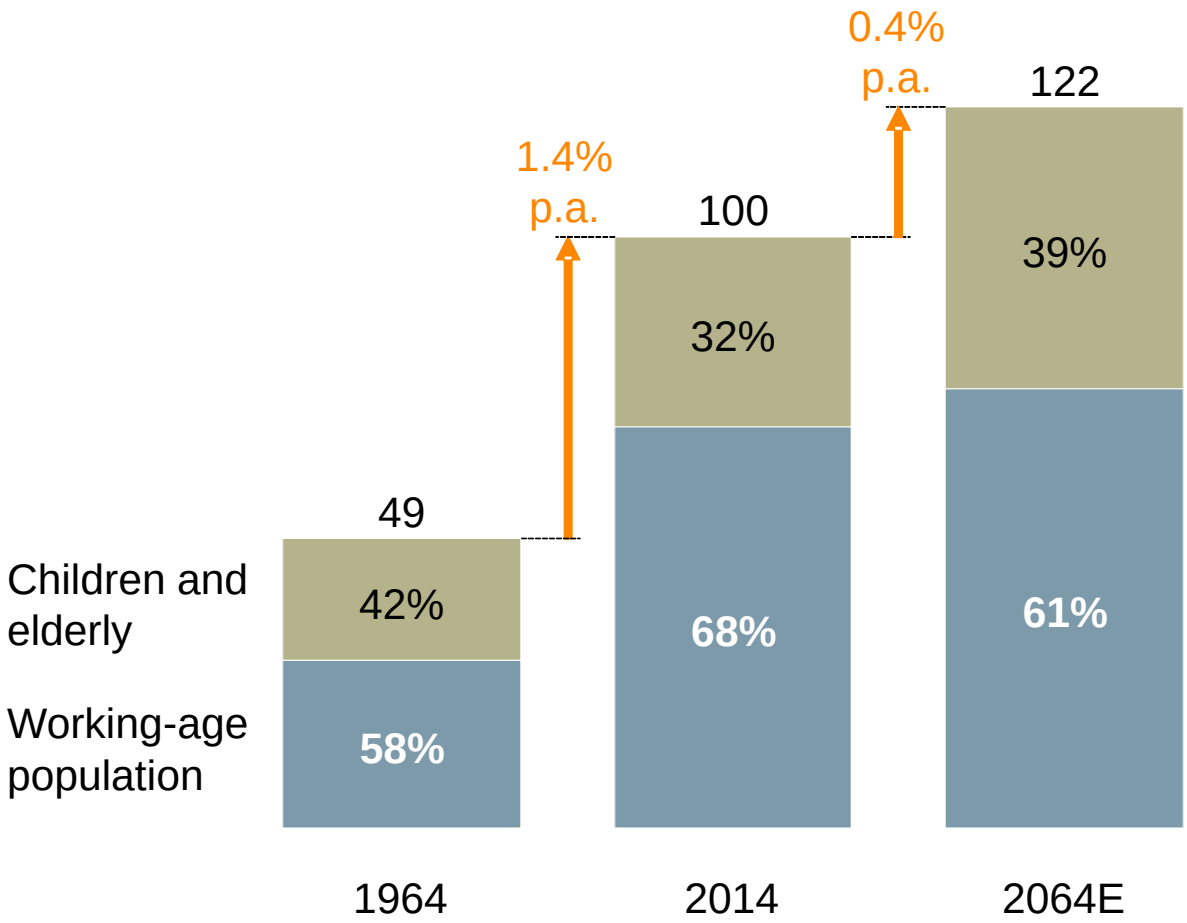
SOURCE: McKinsey Global Institute analysis

Demographic tailwinds turn into headwinds

Global employment growth is dropping dramatically in the next 50 years

G19 and Nigeria population, 1964–2064E

Index: 100 = 2014



Global employment growth is set to decline from 1.7% per annum to 0.3%—a drop to less than one-fifth

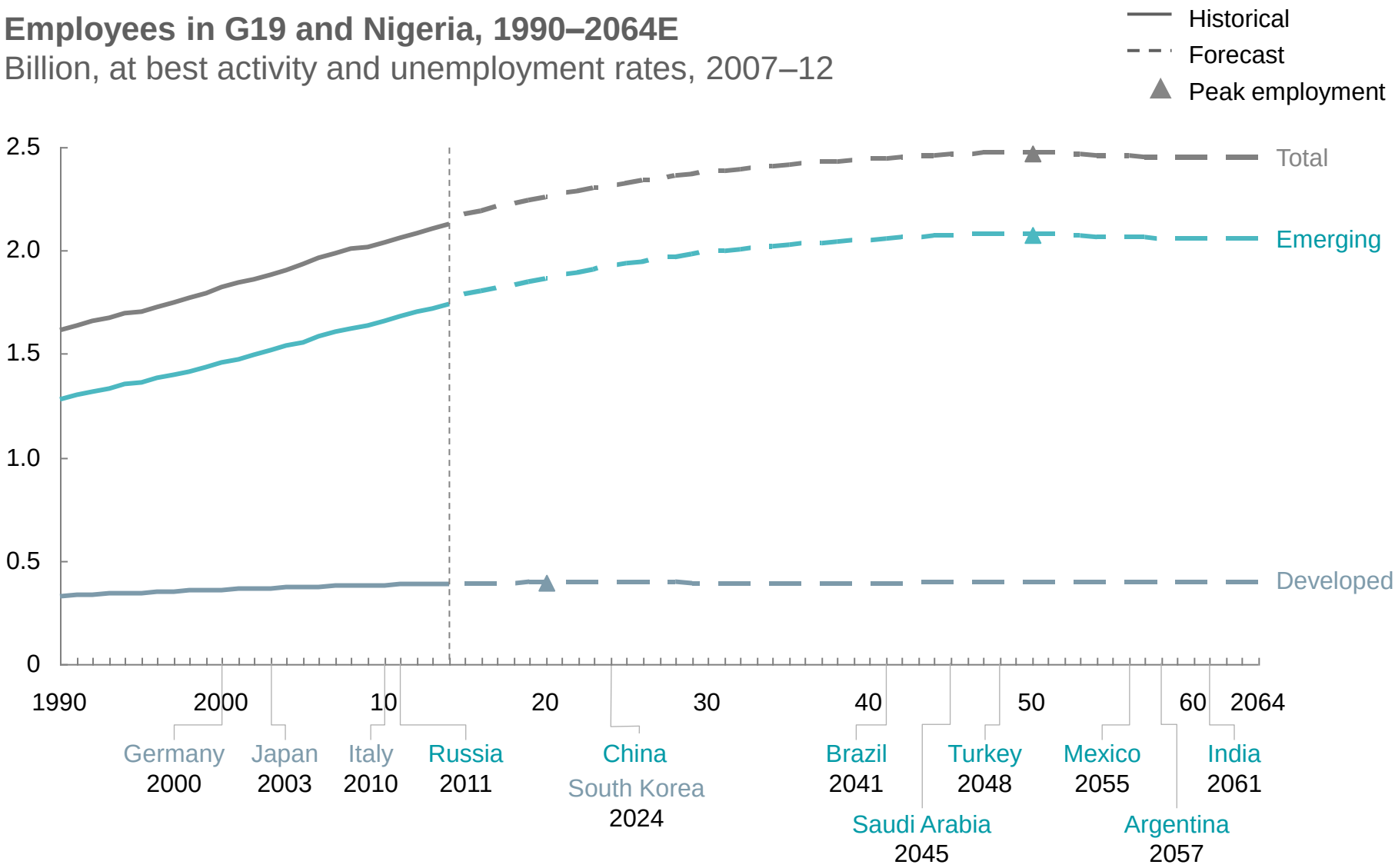
NOTE: Numbers may not sum due to rounding.

SOURCE: The Conference Board Total Economy Database; United Nations Population Division; International Labour Organisation; McKinsey Global Institute analysis

The global number of employees is likely to peak around 2050

Employees in G19 and Nigeria, 1990–2064E

Billion, at best activity and unemployment rates, 2007–12

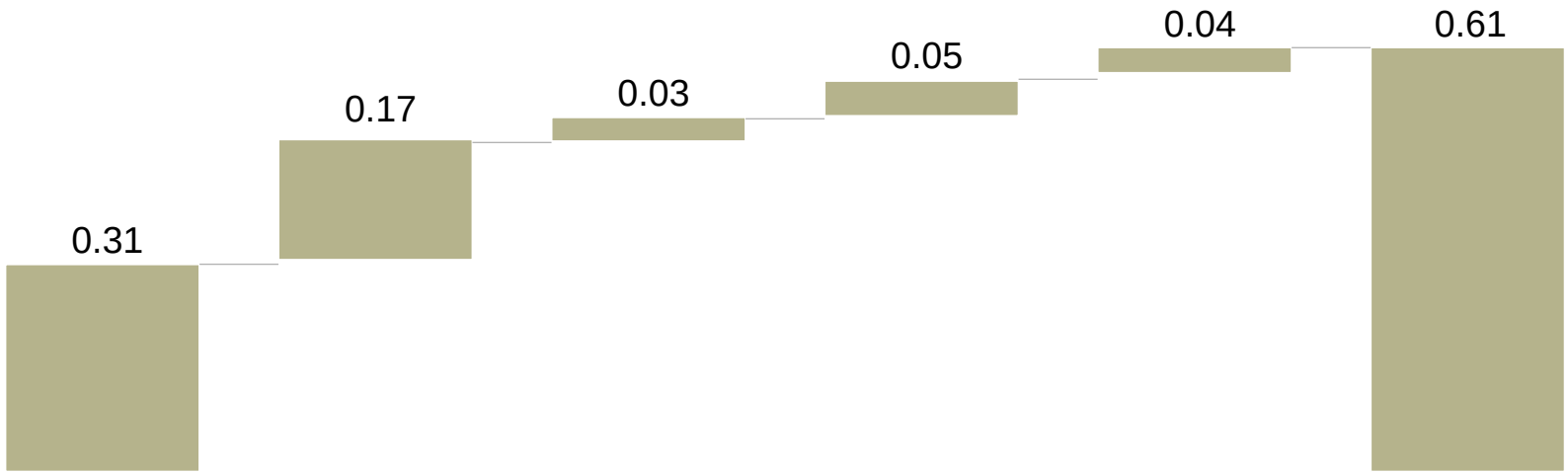


SOURCE: The Conference Board Total Economy Database; United Nations Population Division; World Bank; International Labour Organisation; McKinsey Global Institute analysis

Boosting participation among women, young people, and those aged 65-plus can only partially mitigate slowing of growth in the labor pool

Impact of increased participation and employment on total employment projection, G19 and Nigeria, 2014–64E

Compound annual growth rate, %



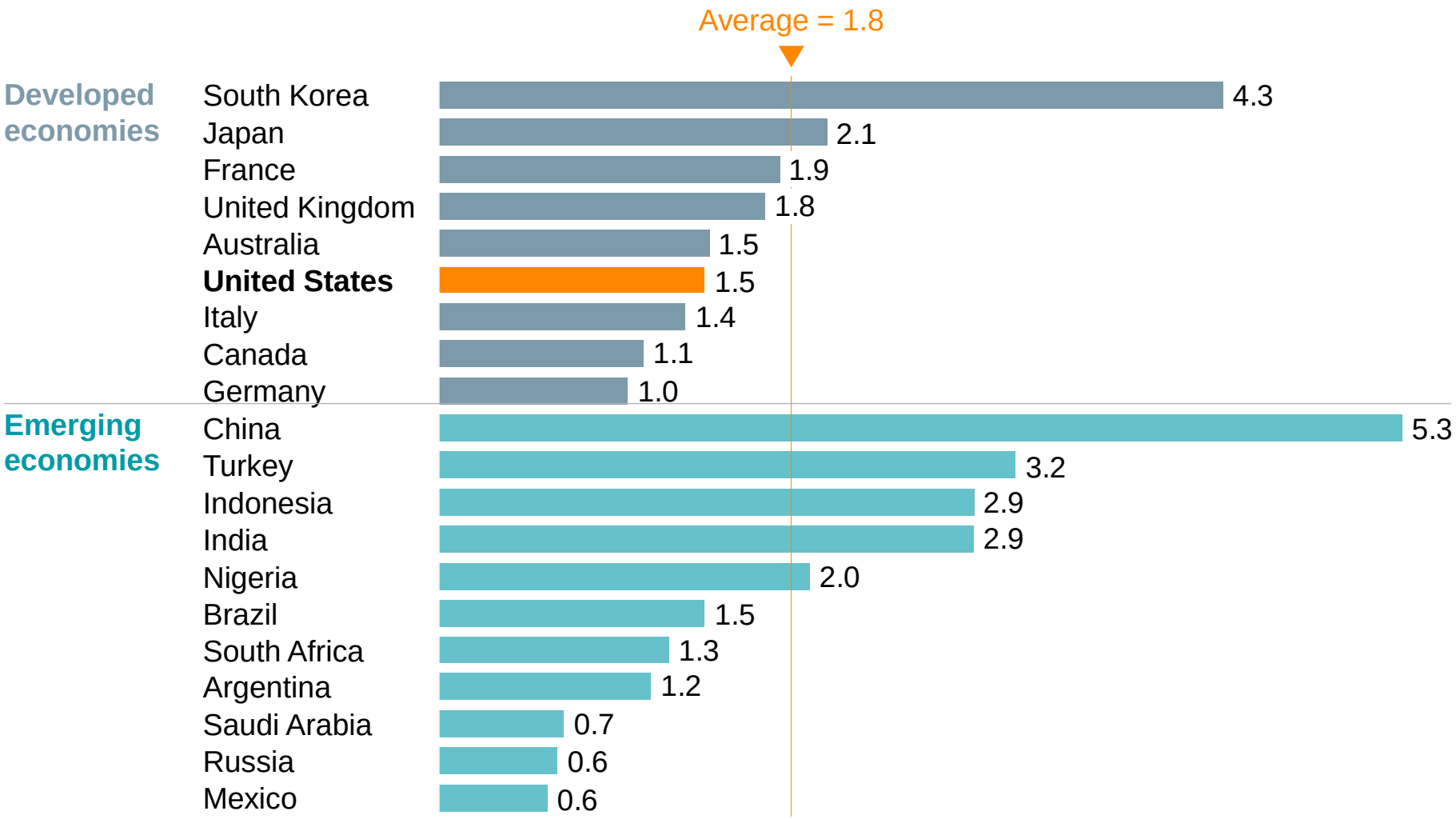
	Baseline projection	Women 25–64	Men 25–64	Youth 15–24	Older 65+	Potential best-case scenario
Developed economies	0.10	0.04	0.04	0.03	0.08	0.30
Emerging economies	0.40	0.19	0.03	0.05	0.03	0.70

NOTE: In the best-case scenario, we assume a participation rate of at least 75% for women and an unemployment rate of less than 5%. For men, we assume at least 90% participation and unemployment of 5% at most. For youth, the participation rate is at least 55% and the unemployment rate less than 10%. Among those aged 65 and older, participation is more than 25% and unemployment less than 10%. Numbers may not sum due to rounding.

SOURCE: United Nations Population Division; McKinsey Global Institute analysis

Productivity will need to fuel global growth - and past 50 years show widely varying performance across countries

Productivity growth rate, past 50 years (compound annual growth rate, %)



SOURCE: The Conference Board Total Economy Database; United Nations Population Division; International Labour Organisation; McKinsey Global Institute analysis

Global growth outlook

Productivity-growth scenarios show a decline in the GDP-growth rate; growth in per capita GDP declines in all but the most optimistic case

G19 and Nigeria

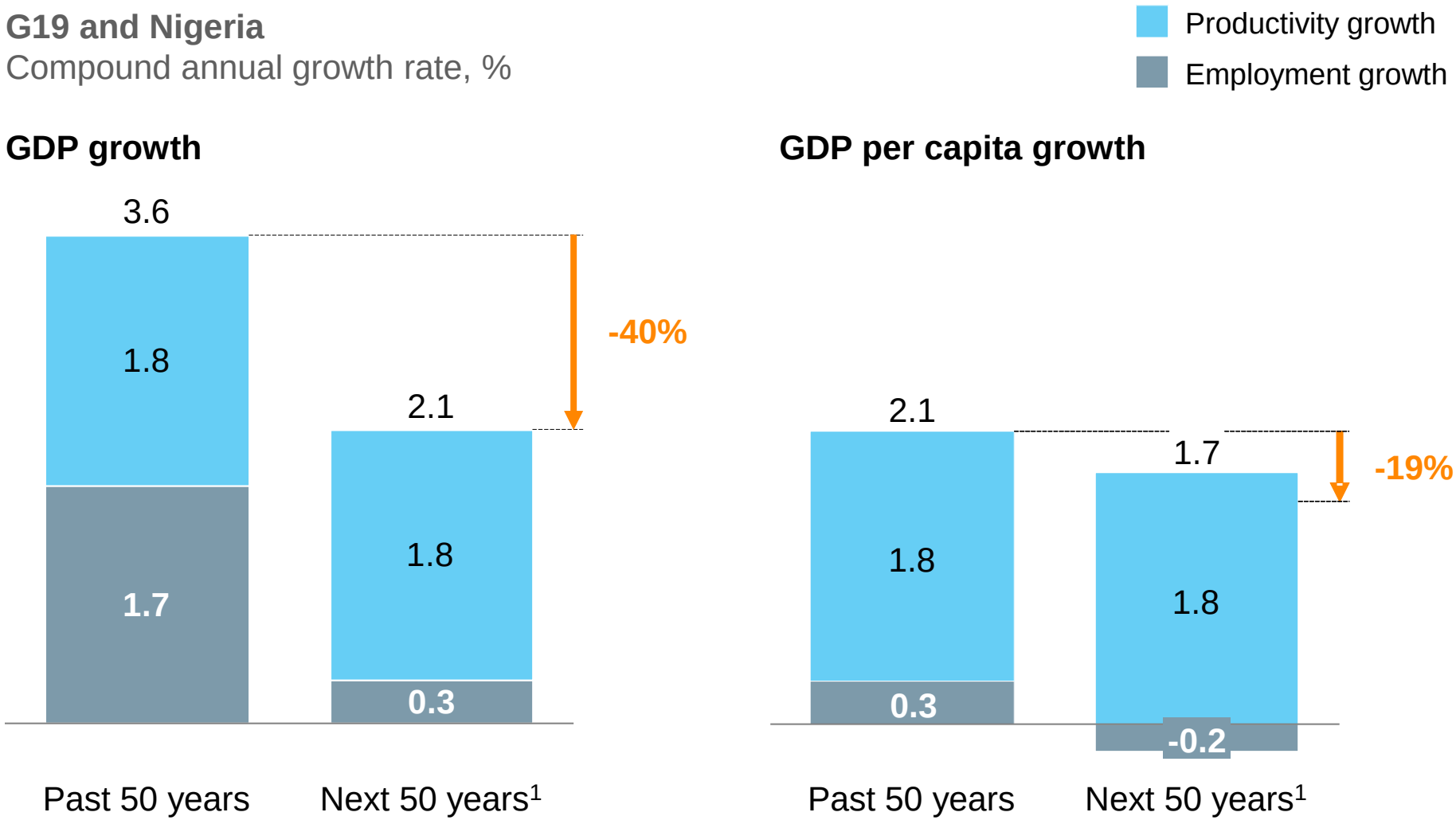
	Productivity-growth scenarios for the next 50 years		
	1.2% per annum[1]	1.8% per annum[2]	2.5% per annum[3]
Change in GDP growth	-57%	-40%	-21%
from 3.6% per annum[4]	to 1.5% per annum	to 2.1% per annum	to 2.8% per annum
Change in per capita GDP growth	-47%	-19%	+16%
from 2.1% per annum[4]	to 1.1% per annum	to 1.7% per annum	to 2.4% per annum

1 Productivity growth from 1914 to 1964 derived by assuming same ratio of productivity growth to per capita GDP growth for 1914 to 1964 as in the period from 1964 to 2014.
2 Assuming sustained average global productivity growth rate from 1964 to 2014.
3 Assuming sustained average global productivity growth rate from 2004 to 2014 (decade with the highest productivity growth in the past 50 years).
4 Compound annual growth rate of the past 50 years.

SOURCE: The Conference Board Total Economy Database; Jutta Bolt and Jan Luiten van Zanden, *The first update of the Maddison Project: Re-estimating growth before 1820*, Maddison Project working paper number 4, University of Groningen, January 2013; United Nations Population Division; McKinsey Global Institute analysis

At past global rates of productivity growth, overall and per capita GDP growth would slow down significantly

G19 and Nigeria
Compound annual growth rate, %



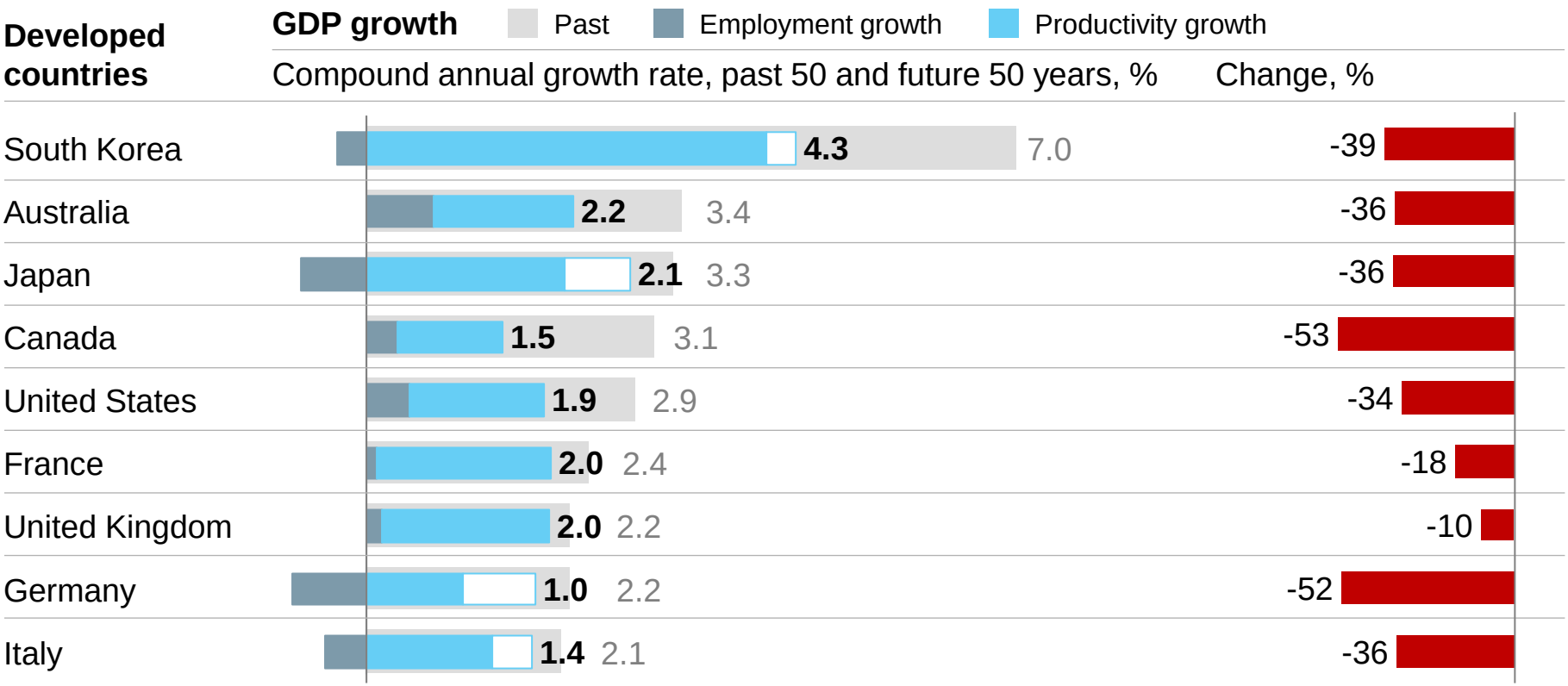
1 At past 50-year productivity growth rate.
NOTE: Numbers may not sum due to rounding.

SOURCE: The Conference Board Total Economy Database; United Nations Population Division; McKinsey Global Institute analysis

At historical productivity-growth rates, GDP growth rates are set to slow across the developed nations

Employment, productivity, and growth

Medium UN population scenario, best activity and unemployment rates, 2007–12



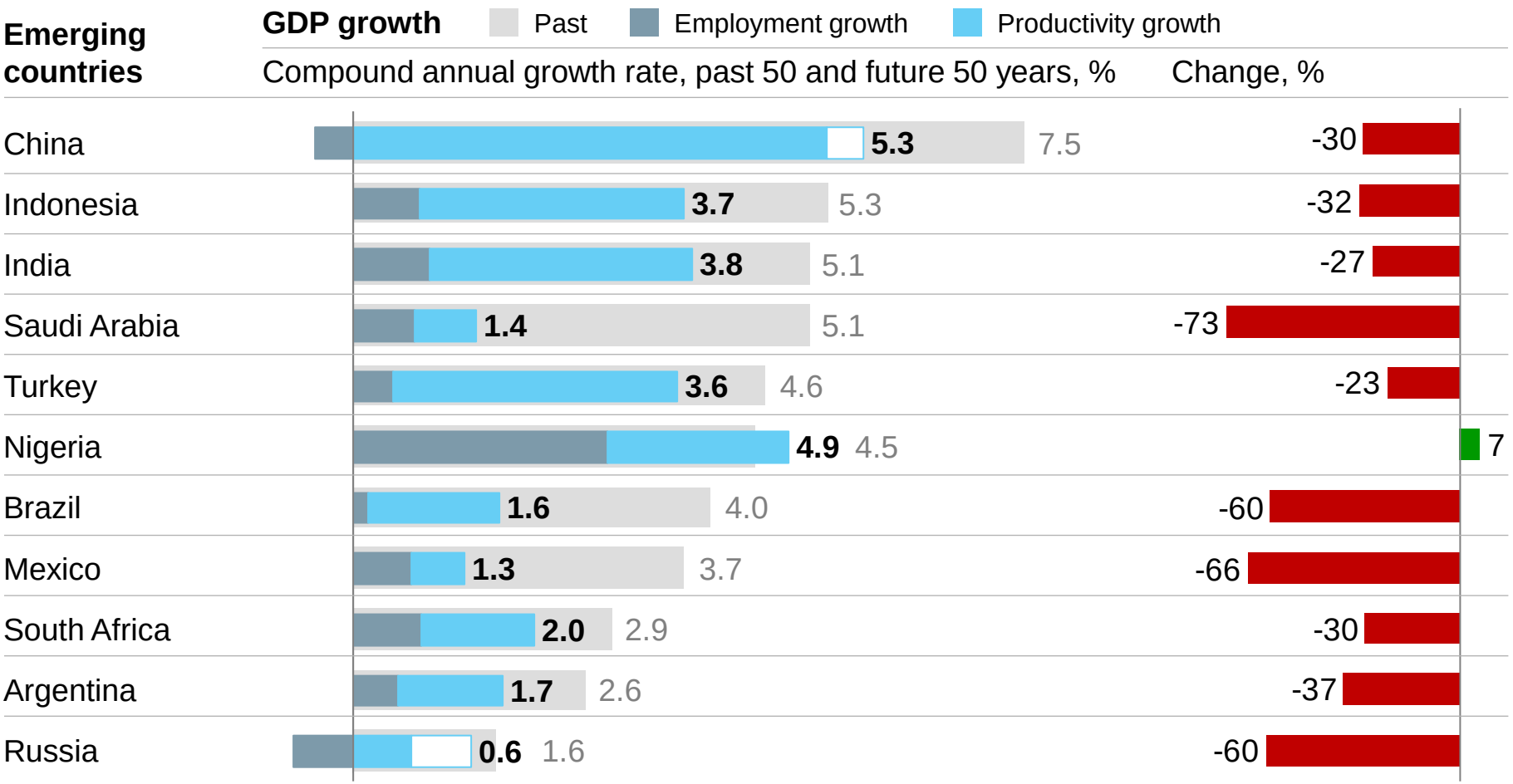
NOTE: Future 50 years assumes past productivity growth. Numbers may not sum due to rounding. Not to scale.

SOURCE: The Conference Board Total Economy Database; United Nations Population Division; International Labour Organisation; McKinsey Global Institute analysis

…but also in the vast majority of emerging ones

Employment, productivity, and growth

Medium UN population scenario, best activity and unemployment rates, 2007–12

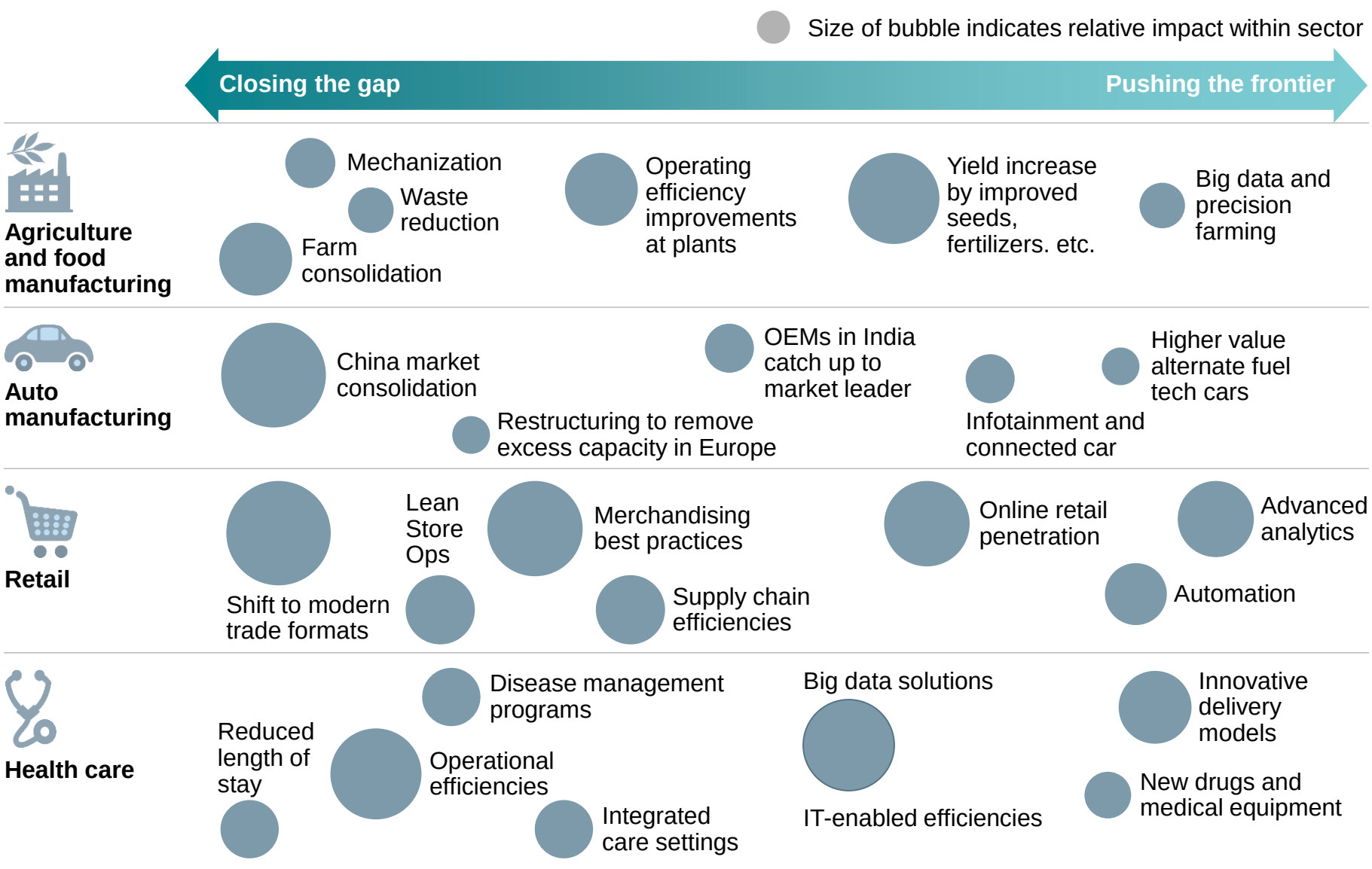


NOTE: Future 50 years assumes past productivity growth. Numbers may not sum due to rounding. Not to scale.

SOURCE: The Conference Board Total Economy Database; United Nations Population Division; International Labour Organisation; McKinsey Global Institute analysis

Onus is on productivity to sustain economic growth

Several opportunities to accelerate productivity growth across all deep-dive sectors

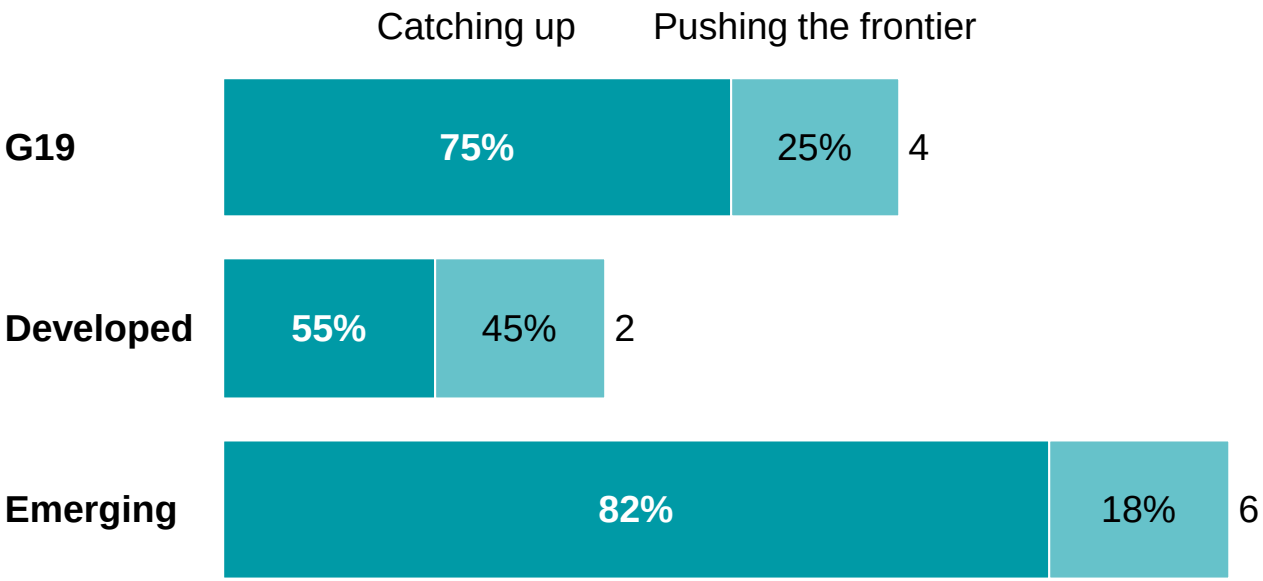


SOURCE: McKinsey Global Institute analysis

On aggregate, there is plenty of potential to accelerate productivity growth —and three-quarters comes from catching up

Potential productivity growth rate per annum

%



Based on MGI's sector assessment, lack of productivity opportunities is not the constraint on growth

SOURCE: McKinsey Global Institute analysis

We identified 10 key enablers across four themes to unlock future growth

Enable catch-up by creating transparency and competition

Remove **barriers to competition** in service sectors

Focus on **public and regulated sector efficiency**

Invest in physical and digital **infrastructure**

Help to push the frontier by incentivizing innovation

Foster **R&D** demand and investment

Capitalize on **transformational technologies**

Craft regulatory environment **incentivizing productivity and innovation**

Harness the **power of new actors** through digital platforms and open data

Mobilize labor to counter the waning of demographic tailwinds

Boost labor force participation among **women, youth, and elderly**

Improve **education,** skill matching, and **labor market flexibility**

Promote cross-border economic flows

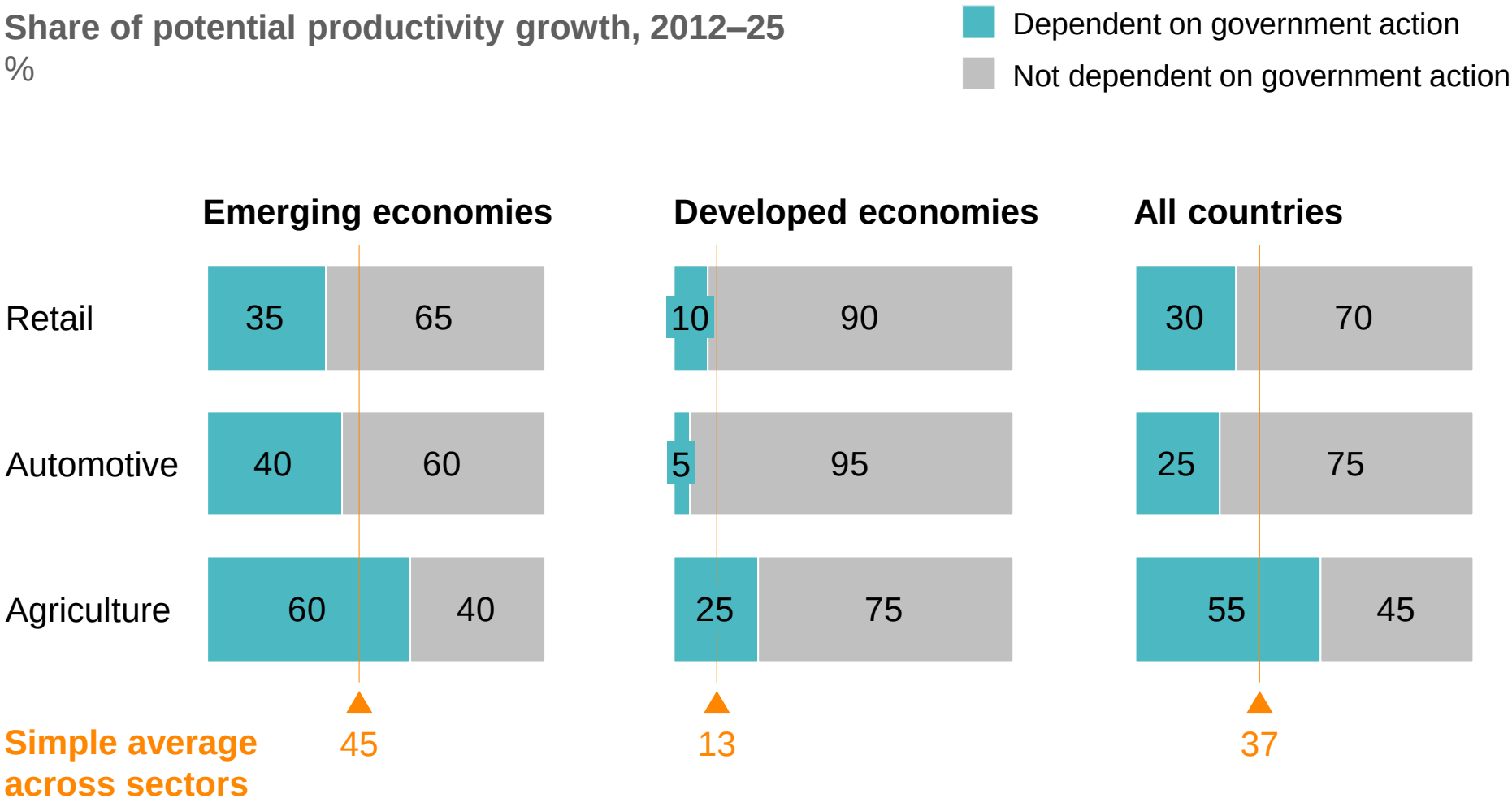
Further **open up and integrate** world economy

SOURCE: McKinsey Global Institute analysis

About one-third of the productivity potential depends on changes in government policy or action

Share of potential productivity growth, 2012–25

%



SOURCE: McKinsey Global Institute analysis

Need a new conversation about long-term growth

How much is enough?

Is it sustainable?

Can it be equitable?

How should it be measured?

SOURCE: McKinsey Global Institute analysis

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