



Global  
Business Leadership

# SHAKING THE GLOBE NEWSLETTER

Courageous  
Decision-making in  
a Changing World



## Three Clues to the Economy

Volume 2, issue 2

Clues about our priorities abound. Lately, I've been reflecting about my first visit to EPCOT at Disney World. Many of the countries exhibit their natural beauty. France highlights its food and music in the presentations. China shows "Land of Beauty, Land of Time" in a 360° Circle-Vision film featuring footage of China including the Great Wall, the Forbidden City of Beijing, the Gobi Desert, Inner Mongolia, the Yangtze River, and the tropical rain forests of Hainan Island. The United Kingdom has no specific attraction, but provides humorous improvisational skits and pubs. The American adventure employs 35 Audio-animatronic figures used in scenes depicting the Boston Tea Party, George Washington at Valley Forge, the Civil War and the invention of the telephone. It struck me then that the U.S. highlights technology and its prowess in military victories. It still does. Countries choose to showcase their priorities. Similarly, as I read economists ranging from Paul Krugman to Robert Shiller to Paola Sapienza, each highlight different explanations for today's economic situation in the U.S. and what is shaking the globe. Three clues that I analyze to understand a country's priorities for the economy are its Confidence Index, GDP Growth, and Savings Rate.

*He who will not economize  
will have to agonize.*

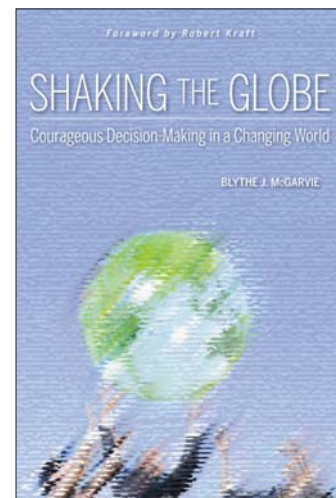
— Confucius  
(551 B.C. - 479 B.C.)

### Confidence Index shows spending

I first started tracking the University of Michigan's Consumer Confidence Index in the early 1990s when I worked closely with retailers and various markets. Different groups produce different consumer confidence indices, but each provides clues to determine at what rate consumers will spend. I look at all of them and then review the CEO Confidence index, an index that suggests the direction of capital investments and likelihood for employment levels for the future. Recently, I discovered a new index. In 2009, Paola Sapienza and Luigi Zingales launched the Chicago Booth/Kellogg School Financial Trust Index, a measure of confidence Americans have in the private institutions in which they can invest their money. It is calculated quarterly on a sample of 1,000 American adults. This index was created as a means to study the changes in trust in the financial industry and its impact on investors' decisions. The researchers found that from March to June 2009, the Financial Trust Index has increased slightly from 19 percent to 21 percent. Most notably, the researchers report a jump in trust toward banks and bankers, from 29 percent in March 2009 to 34 percent in June 2009. This is one signal that shows we are emerging from the credit and liquidity crisis.



McGarvie with American Accounting Association President **Nancy Bagranoff** and NPR personality **Cathy Lewis** discussing accounting.



Blythe McGarvie's *Shaking the Globe*, with a foreword by Robert Kraft, was published by John Wiley & Sons in February 2009. Purchase it at these or other fine book sellers:



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## GDP Growth shows production

The Bureau of Economic Analysis released U.S. GDP figures last week. Real gross domestic product—the output of goods and services produced by labor and property located in the United States—decreased at an annual rate of 1.0 percent in the second quarter of 2009. In the first quarter, real GDP decreased 6.4 percent. The decrease in real GDP in the second quarter primarily reflected negative contributions from private inventory investment, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and exports that were partly offset by positive contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

China's GDP growth shows a faster trajectory, even if the estimates may not be precise. The CIA (Central Intelligence Agency) Factbook is a reliable source; it calculates China's 2008 GDP Growth at 9%, ranking China 16th in the world. The Chinese National Bureau of Statistics indicates that GDP grew 6.1% in the first quarter and 7.9% in the second quarter in 2009. While countries in the Western world are hoping to recover, China continues to grow and respond to its government stimulus.

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*A billion here, a billion there,  
pretty soon it adds up to real money.*

— Senator Everett Dirksen  
(1896-1969)

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## Savings Rate shows attitudes for the future

One reason for China's GDP Growth is its savings rate. According to economist Robert Shiller, in standard growth accounting, the contribution of savings to GDP growth would be the product of the "share of capital" and the rate of growth of the capital stock. With Chinese gross savings (combination of savings by individuals, companies, and government in the form of surplus of taxes over expenditures), savings in recent years approached half of GDP. Overall, the Chinese individuals save about 20% of GDP as compared to Americans' negative or zero savings rate.

Research shows many reasons for this disparity. Part of the reason is that Chinese suffered major trauma from the disastrous economic results of the Great Leap Forward (1958-61) and the Cultural Revolution (1966-1979) and forego spending today to avoid recurrence. Part of the reason for Americans' dearth of savings is their perspective and framing of the saving decision. For example, Congress allowed employers to automatically enroll employees in 401(k) savings plans in 1998 that



Kellogg Centennial celebrants **Pete Henderson, McGarvie, Don Haider, and Ed Wilson** supporting management education.

workers could override. With automatic enrollment, plan participation rates skyrocketed to 85% and 95% for many companies. Apparently, it's easier to be forced to save than to choose to save. Perhaps there is a clue here for the great American Health Care debate that would also have a beneficial impact on our economic well-being. Or, maybe a visit to EPCOT will do more for our mental health during these changing times!



## Global Perspective: Items of Note

**Cathy Higgins** releases volume 6, issue 3, of the *Straight Talk Coach: **A3 for Effective Teams***.

**Laura Martin**, CEO of **Capital Knowledge LLC** and LIF affiliate, publishes media research reports on **CBS** and **Hulu's Economic Impact on DIS, NWS & GE**.

The *Shaking the Globe Newsletter* is written for decision-makers who recognize the critical importance of our interconnected world for financial stability and growth. Blythe has been called the "antidote to Lou Dobbs" because she shows how to strengthen, rather than weaken, our global community.

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