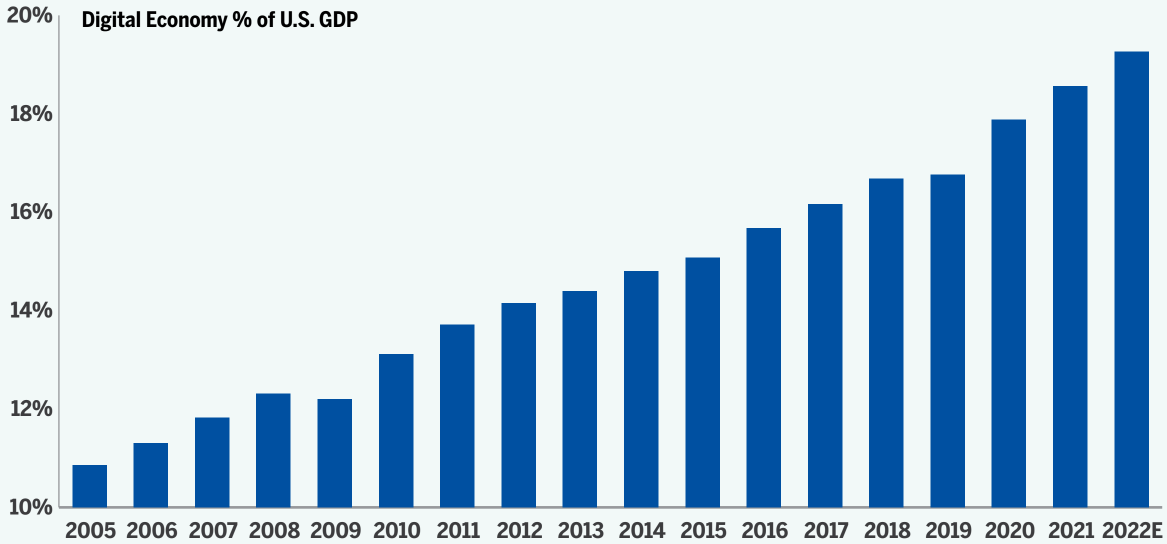
ALGER

Alger On the Money

Digital Growth Spurt

For more than a decade, the digital economy has become a known driver of U.S. economic growth thanks to innovations within software, cloud computing and e-commerce. How might long-term investors stand to benefit going forward?

Digital Has Become a Larger Proportion of the U.S. Economy



Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce, as of 2022. 2022 estimate derived from Alger utilizing, in part, BEA data. Data within the chart is inflation adjusted, which is a way to measure the value of money, goods or services over time, taking into account the impact of inflation.

- The digital economy consists of infrastructure (e.g., hardware and software), e-commerce, and digital services (e.g., cloud services, internet and data and telecommunications), according to the Bureau of Economic Analysis (BEA). The share of the digital economy relative to U.S. GDP has increased from 11% in 2005 to an estimated 19% in 2022, as illustrated in the chart above. During this period, the compounded annual growth rate of the digital economy was approximately 300 basis points greater than that of U.S. GDP growth.[1]
- We believe the digital economy's increasing proportion relative to the overall economy can be attributed to the high scalability of innovations like cloud computing, where digital products and services can be replicated and distributed without the need for expensive physical infrastructure. This has enabled digital companies to reach a large total addressable market quickly and cost-effectively.
- Companies that gain market share in the economy have the potential to gain share in the stock market, in our view. We believe those corporations enabling digital activity in areas such as cloud infrastructure and applications as well as e-commerce are well positioned for the continued digital evolution of the economy.

[1] From 2005 through 2022, the inflation adjusted compounded annual growth rate for the digital economy and U.S. GDP was approximately 4.90% and 1.65%, respectively. Data for this calculation was taken from Alger 2022 estimates, as stated above, the BEA, and the U.S. Department of Commerce.

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Alger estimates for the 2022 percentage of U.S. GDP for the digital economy took the nominal 2022 growth rate for each segment (i.e., infrastructure, e-commerce, and digital services) and adjusted for inflation by utilizing data from the BEA.

Data from 2005–2021 include real, current dollar, and price data for digital economy value added and gross output by activity and by industry, as well as digital economy compensation and employment by industry. The industries are defined according to the 2012 North American Industry Classification System (NAICS). These statistics were prepared by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

The Bureau of Economic Analysis (BEA) of the United States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units—states, cities/towns/townships/villages/counties, and metropolitan areas.

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