Insights and Observations

According to a new research paper, the share of Americans working in routine jobs has fallen from just over 40% in 1979 to approximately 31% in 2014. Routine jobs are defined as work based on a relatively narrow set of repeated tasks, such as welding-machine operators or bank tellers.

Many of the workers who held such positions ended up either taking lower paying work or simply dropping out of the labor force. Male high school dropouts and men under the age of 50 with high school diplomas are the groups impacted the most.

> These groups who have been caught in the transition are not better off. They're working less and to the extent they're working, they're working in jobs that are lower-paying on average than the jobs they were in before.
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> Henry Siu, co-author "Disappearing Routine Jobs" – WSJ 1/3/17

The share of small businesses with few or no qualified applicants for job openings hit a 17-year high in 2016, according to a National Federation of Independent Business survey. Within the manufacturing sector, firms often sight a lack of vocational training for high school or community college graduates.

Nearly two-thirds of small businesses are now spending more time training workers, according to a survey by the Wall Street Journal and Vistage International. Hopefully, this will give more workers access to skilled manufacturing jobs.

> The biggest challenge confronting firms is their need to expand hiring in an already tight labor market.
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> Richard Curtin, University of Michigan – WSJ 2/2/17

U.S. household net worth hit a record $92.8 trillion in the fourth quarter of 2016. Households lost about $13 trillion during the great recession (2007-2009), but have since rebounded by $38 trillion – thanks to an eight-year stock market advance and a strong recovery in home prices.

> Household net worth is now 6.5 times higher than personal income, a milestone that has now surpassed the previous peak set during the headiest days of the housing bubble. That ratio shows the surge in wealth over the past five years has rapidly outstripped the much more modest gains in most households' income.
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> Josh Zumbrun – WSJ 3/9/17

Stock ownership is concentrated in relatively wealthy households, and the most valuable real estate is located in coastal states. Still, rising home prices help all homeowners and rising stocks prices benefit the 401k balances of middle-class households. However, rising asset values are not producing the same spending increases (the so-called wealth effect) that they used to. Rising income levels ultimately have a greater effect on economic activity, and wage growth has been relatively slow during this recovery.

> Bulging portfolios are nice, but fatter paychecks will be needed to kick the U.S. economy into the next gear.
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> Steven Russolillo – WSJ 3/8/17

According to the Bureau of Labor Statistics, there are 150,000 construction jobs unfilled in the U.S. That is nearly double the number of openings five years ago. A recent survey by the Associated General Contractors of American found that 73% of firms could not find enough qualified workers.

The average age of construction equipment operators and highway maintenance workers is 46 … at a time when most high schools have eliminated vocational training, and more young people enroll in colleges that don't teach technical skills.

Farm labor shortages are becoming a big problem, as tens of millions of dollars of crops end up rotting in the fields. The Western Growers Association estimates that crews are operating with 20% less workers. Even higher wages and benefits have failed to attract more workers.

> Demographic trends coupled with a skills mismatch have resulted in a frustrating economic paradox: Millions of workers are underemployed even as millions of jobs go unfilled. The U.S. workforce is also greying, presenting a challenge for industries that entail manual labor.
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> If President Trump wants employers to produce and build more in America, the U.S. will need to improve education and skills in manufacturing and IT. But the economy will also need more foreign workers, and better guest worker programs to bring them in legally.
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> Review and Outlook – WSJ 3/30/17

Spending on housing, which has accounted for 19% of GDP over the past 60 years, measured only 15.6% of GDP during 2016. Spending associated with new-home construction and remodeling declined to 3.6% of GDP … or just about half the level reached during the prerecession peak in 2005.

If the home-building industry had returned to long-term average construction levels, U.S. GDP would have been increased by about $300 billion.

The home ownership rate ended 2016 at 63.7% according to the U.S. Census Bureau. That rate is down from 69.2% at the peak of the housing boom. Strict lending standards, declining household formation (millennials starting families later in life), and a lack of inventory are the major culprits.

> I'm not suggesting we go back to the maverick days, but I do think that there are a lot of people that could afford to repay their loans but are not buying because they're afraid to go in for the inquisition of trying to get a loan.
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> Ed Brady, Brady Homes – WSJ 3/27/17

The inventory of single family homes is at the lowest level in nearly two decades. Building affordable homes has been a challenge due to worker shortages, regulatory barriers, and the difficulty in finding desirable locations. Home prices are rising faster than wages, something economists warn is not sustainable.

> There are a far larger number of buyers chasing after fewer inventories. Prices are easily outpacing people's income growth, which is causing consternation for renters who are trying to get into the homeownership market.
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> Lawrence Yun, Nat'l Association of Realtors – WSJ 3/28/17

The following is summarized from recent articles by John Mauldin, of Mauldin Economics, and his review of Nicholas Eberstadt's book, Men Without Work: America's Invisible Crisis.

Male participation in the U.S. workforce has been steadily dropping for sixty years. Some economists expect that by the middle of this century, nearly a quarter of all men between the ages of 25 – 55 will be voluntarily jobless. The trend is being exacerbated by trade and technological progress that has snuffed out opportunities for low-skilled workers.

Between 2000 and 2015, the total hours of work by all American workers increased by 4 percent. During that same period, the adult civilian population grew nearly 18 percent.

So, how can the "headline" unemployment rate be under 5 percent? It's because the statistics only include those people who are working or looking for a job. If you are not looking for a job, you are not being included in the data.

For every unemployed American male between the ages of 25 – 55, there are three more who are neither working nor looking for work. According to the Census Bureau (2013), over 21% of all civilian men between 25 – 55 years of age were Medicaid beneficiaries. The troubles posed by this male flight from work are economic, social, and debatably moral. From an economic standpoint, it can only result in lower living standards, greater economic disparities, and slower economic growth.

> The collapse of work for America's men is arguably a crisis for our nation – but it is a largely invisible crisis. It is almost never discussed in the public square. Somehow, we as a nation have managed to ignore this problem for decades, even as it has steadily worsened. There is perhaps no other instance in the modern American experience of a social change of such consequence receiving so little consideration by concerned citizens, intellectuals, business leaders, and policymakers.
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> Nicholas Eberstadt: Men Without Work: America's Invisible Crisis

Germany recorded a world-record current account surplus last year of $297 billion, which is 8.5% of its overall economy (GDP). China recorded a surplus of $245 billion, which is approximately 3% of GDP. Germany's household savings rate is about 10% of GDP, much higher than the 3% U.S. savings rate. Germany's large trade surplus and high savings rate is the mirror image of the U.S.'s trade deficits and low savings rate.

The weak euro gives German exports a pricing edge against American goods in international markets. Nine of Germany's top-10 export categories are the same as the U.S.'s top-10 exports, according to the Peterson Institute of International Economics.

> China bears the brunt of U.S. anger over unfair trade, but Germany's foreign surpluses are now far larger and may be more consequential for America's economy and the rest of the world. Low-wage Chinese workers have put downward pressure on U.S. manufacturing wages for years, but Germany's industries compete more directly with U.S. industries.
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> Tom Fairless – WSJ 3/5/17

The Society of Civil Engineers recently gave U.S. infrastructure a below-standard grade of "D+" for the past four years. Their Infrastructure Report Card, issued every four years, forecasts it would cost about $4.59 trillion over the next decade to bring our roads, bridges, ports and schools up to a functioning (and safe) level. The association calls for infrastructure investing to increase from a current level of 2.5% of GDP to 3.5% by 2025.

We all understand how to count, but big numbers can be very confusing. Hundreds and thousands are one thing … but millions, billions and trillions?

> Big numbers befuddle us, and our lack of comprehension compromises our ability to judge information about government budgets, scientific findings, the economy and other topics that convey meaning with abstract figures, like millions, billions and trillions.
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> Jo Craven McGinty – WSJ 3/31/17

Draw a line with endpoints 0 and 1 billion. Then place a mark on the line where you estimate 1 million should be located. Studies show that most people will place the mark close to the middle, where 500 million is located.

> About 40% to 50% of the people tested get it terribly wrong, and when they get it terribly wrong, they get it terribly wrong pretty much all of the time. Inside millions, you're pretty comfortable. But if it's 500 million vs. 2 billion, it crosses scales. Suddenly, you have to calculate.
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> David Landy, Indiana University – WSJ 3/31/17