Insights and Observations

According to Census Bureau data, the U.S. population grew at 0.7% for the year ended July 1. The increase, to 323.1 million people, was the smallest on record since 1936-1937. The slowdown was attributed to an increase in deaths, declining births, and a slight drop in immigration.

Americans continue to leave the North for Western states. Approximately 593,000 people left the Northeast and Midwest to move to the South and West. Utah was the fastest growing state with a 2% gain.

> **There is a new economy being created out of the carnage of the Great Recession, and in a lot of those new growth areas, Utah seems to be at the forefront. You roll back 40 years ago, and we were pretty isolated and much more parochial here.**
>
> **Pamela Perlich, University of Utah – WSJ 12/20/16**

Manufacturing output is near prerecession levels, but 20% of the jobs lost during the downturn (1.5 million positions) haven't been replaced. Well-trained positions are in demand, with the number of open manufacturing spots at a 15-year high. It is the low-skilled positions that have been lost to technology and automation.

> **We have two economies, and the other won't ignite no matter how much gasoline you throw on it.**
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> **Pippa Malmgren, Founder: H Robotics – WSJ 12/18/16**

According to the Federal Reserve, U.S. factory utilization was at 75% in November. The average utilization has been 79% over the past four decades.

According to the Harvard Joint Center for Housing Studies, the number of adults under age 30 has increased by 5 million over the past decade, but the number of households for that age group increased by only 200,000 over the same period.

About 40% of young Americans were living with their parents in 2015, according to real estate tracker Trulia. Before the Great Recession, it was estimated that about 1 out of 3 were living with family members. In 1940, just after the depression, 40.9% of young Americans lived with parents. That rate fell to 24.1% by 1960. The rate has ranged from 31% to 33% over the past 25 years.

Census data show younger Americans are getting married and having kids late in life. Household formation is also correlated to housing affordability and income. Rising rents and tough mortgage-lending standards have apparently exacerbated the situation. Regardless, the millennial generation (the largest in U.S. history) has far less demand for housing than would ordinarily be expected.

> **I don't think those are challenges that are going to keep young households permanently out of the housing market, but it may keep their homeownership rate near historic lows for likely the indefinite future.**
>
> **Ralph McLaughlin, Chief Economist: Trulia – WSJ 12/21/16**

In a related study, there was a significant decline in the percentage of 30-year-olds who earn more than their parents. In 1970, 92% of 30-year-old Americans earned more than their parents did at a similar age. As of 2014, that measure declined to 51% … with only 41% of 30-year-old males earning more than their fathers at a similar age.

> **Wages have stagnated in the middle class. When you're in that situation, it becomes very hard for children to do better than their parents.**
>
> **Raj Chetty, Stanford University – WSJ 12/8/16**

Google's Alphabet Inc. and Facebook, Inc. together employ about 75,000 people. They have a combined market value twice the size of Microsoft, but they employ about one-third fewer workers in total.

The five largest domestic technology companies (Apple, Alphabet, Microsoft, Facebook and Oracle) are worth a combined $1.8 trillion … 80% more than the five largest tech companies in 2000 (Cisco, Intel, IBM, Oracle and Microsoft). Today's top five, however, employ 22% less workers than their predecessors.

> **The tech-powered disappointment is subtler than the anger caused by the crushing impact of China's import invasion and the perceived failures of government institutions … Americans expected larger economic gains from these amazing new machines and the companies that created them, not a widening between the haves and have-nots.**
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> **Hilsenrath & Davis, The Great Unraveling – WSJ 10/12/16**

Consultants McKinsey & Co. estimate as much as $2 trillion of human economic activity could be automated away, using existing technologies, in the coming years.

> **Robots don't complain. There's no pension. And there's no workers' comp.**
>
> **Stacy Stephens, Knightscope co-founder – WSJ 10/12/16**

Mark Zandi, Chief Economist at Moody's, believes the biggest problem for the U.S. economy is a *lack of labor*. He warns that five years from now, labor growth will be zero without a change in immigration policy.

> **No single policy matters more to lift U.S. growth on a sustained basis than immigration reform. It is vitally important to our economic future. If we don't get this right, we won't get 4% growth; we will get 1% growth.**
>
> **Mark Zandi – Advisor Perspectives 10/18/16**

Over the next 3 to 5 years, Zandi predicts a surge in Millennials forming households, having kids, and purchasing homes. He sees a spike in single-family home construction that will help bolster the U.S. economy.

China's economic stability is assumed to be a requirement for the global economy to prosper. Still, their debt related problems continue to dominate the financial news. Consider the following:

- China's debt to GDP ratio has reached about 300% … the ratio was at 150% before the financial crisis of 2008.
- In fact, debt equal to 30% of GDP has been added in the past 18 months alone.
- Much of this debt was used for infrastructure projects, which have shown little or no return on investment.
- As much at 22% of total debt is nonperforming ($6.6 trillion), with eventual losses estimated at or around $4 trillion.
- China's foreign reserves declined 21% (to just over $3 trillion) in the past two years.
- China's currency (the yuan) has dropped 9% against the dollar over the past 18 months.

> **It's scary that China seems to be continuing its debt binge to achieve its unrealistic output growth targets. To me, the China economy is like a ping-pong ball falling down a steep staircase, bouncing upward temporarily when a credit stimulus is added before continuing its relentless downward path.**
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> **Ruchir Sharma, Morgan Stanley Investments – Barron's 11/7/16**

With all this taking place, the bubble of all bubbles is apparently the housing market. According to the National Bureau of Statistics of China, housing prices in Shenzhen, Shanghai & Beijing have soared approximately 30% in just the past year alone.

> **Recognizing the source of crisis is one thing; identifying the timing of its onset is a more difficult exercise, especially in such a policy-driven economy with notoriously unreliable data.**
>
> **Mark Richards, J.P. Morgan Asset Management – 11/28/16**

Social Security expenditures represent about 25% of total federal spending. Under the current benefit structure, program costs will account for 33% of federal spending by 2026 … and ultimately reach 42% of the federal budget by 2046.

Social Security is funded by payroll taxes (96%) and taxes on social security benefits (4%). Total receipts in fiscal 2016 were $859 billion. However, program costs were $905 billion, and this shortfall of $46 billion was effectively covered by the social security trust funds. (These funds, which are basically government IOUs, represent surpluses from prior years.)

The Congressional Budget Office recently warned that in 2029 the social security trust funds will be fully depleted. At that time, any shortfall (program costs in excess of revenues) could not be covered by the Social Security Administration. With future outlays limited to annual revenues, benefits would need to be reduced by a whopping 29% in 2030.

Pension plan liabilities continue to mount. After years of underfunding, benefit expansion, two recessions, and declining interest rates, many plans currently have substantial net liabilities.

Moody's Investors Services recently reported that net pension liabilities for the 50 largest local governments totaled $367 billion in fiscal 2015 … an increase of 192% from 2005. The 50 local governments contributed a total of $17.6 billion to their pension plans in 2015, up from $7.4 billion in 2005. Only 24 of the 50 entities contributed enough money to offset the growth of unfunded pension liabilities. **(Pension & Investments – 11/4/16)**

> **Pension officials and government leaders are left with vexing choices. As investors, they have to stash away more than they did before or pile into riskier bets in hedge funds, private equity or commodities. Countries, states and cities must decide whether to reduce benefits for existing workers, cut back public services or raise taxes to pay for bulging obligations.**
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> **Martin/Kantchev/Narioka – WSJ 11/13/16**

Since 1990, the number of people who live in extreme poverty has been reduced by more than 1.25 billion. During that time frame, world population grew by more than $2 billion.

> **Did you hear the news? Yesterday, 138,000 people rose out of extreme poverty. Another 138,000 rose out of extreme poverty the day before. And the day before that, too. Of course you didn't, because a plane crash or a terrorist attack is news, but slow and steady progress is not. Even 50 million people rising out of poverty in a single year is not news.**
>
> **Johan Norberg – WSJ 1/4/17**

The number of people living in extreme poverty in 1820 was around 1 billion. Today that figure is about 700 million. Put another way, in 1820 approximately 60 million people *did not* live in extreme poverty. Today, 6.5 billion people *do not* live in extreme poverty. Therefore, the risk of living in extreme poverty was 94% in 1820 … but it has declined to 10% today.