

Insights & Observations, 3rd Quarter 2016

After decades of poor economic performance, declining pension payments, and a growing number of single family households, more elderly Japanese are living in poverty. According to a 2009 study, less than 20% of Japanese over age 65 were living in poverty. Just five years later (2014), it was estimated that greater than 26% of elderly Japanese were living under the poverty line ... a tremendous increase over such a short time.

Elderly Japanese households now account for more than half of all welfare recipients. Massive government debt and a rapidly aging population continue to exacerbate the situation. Fears of an impoverished old age are driving a prolonged slump in consumer spending that is restraining economic growth.

Anxieties about surviving in old age underscore the challenge Prime Minister Shinzo Abe faces as he seeks to jolt Japan out of nearly two decades of economic stagnation, while fending off a demographic shift that, absent changes, many economists see as dooming Japan to long-term decline.

Alexander Martin – WSJ 8/10/16



The economic and fiscal impacts of immigration were recently reviewed in a study by The National Academies of Sciences, Engineering and Medicine (The National Academies). The study gives a comprehensive review of immigration and features over 20 leading academics. The study did not distinguish between the impacts of documented and undocumented immigrants.

The number of immigrants living in the U.S. increased to just over 42 million in 2014, or about 13% of the population. In 1995, there were less than 25 million immigrants, or about 9% of the population. During that same period, the study estimates the number of unauthorized immigrants doubled to more than 11 million by 2014. Since 2009, it is estimated that about 300,000 to 400,000 new unauthorized immigrants have arrived each year ... with about the same number leaving each year.

Immigration enlarges the economy while leaving the native population slightly better off on average, but the greatest beneficiaries of immigration are the immigrants themselves as they avail themselves of opportunities not available to them in their home countries ... The prospects for long-run economic growth in the United States would be considerably dimmed without the contributions of high-skilled immigrants

... Over a long time horizon, the fiscal impacts are generally positive at the federal level and negative at the state and local levels.

The National Academies Immigration Report – WSJ 9/22/16



The home ownership rate, calculated as the proportion of households that own their own home, declined to 62.9% during the second quarter. That is the lowest rate since 1965. Household formations are on the rise, however, thanks to an increase in renters.

Household formation numbers suggest that if the decline in ownership is real, it is more likely due to a large increase in the number of renter households than any real decline in the number of homeowner households.

Ralph McLaughlin, Trulia Chief Economist – WSJ 7/29/16

An estimated one million new households were formed last year according to the Urban Institute. They also conclude that all new *net* household formations between 2006 and 2014 were renters instead of owners.

According to Census Bureau data, home builders in 2006 produced 40% more single-family homes than the 30-year long-run average. Last year, single-family construction was still 30% below the long-run average.

The pace of new home construction remains at levels typically associated with recession ... The lopsided recovery has shut out millions of aspiring homeowners who have been forced to rent because of damaged credit, swelling student loans, tough credit standards and a dearth of affordable homes.

Laura Kusisto – WSJ 8/10/16



While single-family home construction remains 40% below levels of a decade ago, residential remodeling and repairs are expected to surpass \$300 billion this year. That is more than the record \$285 billion spent in 2007, but still 5% below that peak when adjusting for inflation.

Homes built more than 30 years ago now account for 65% of the U.S. housing stock ... up from 47% in 1995. Further, the number of for-sale listings as a percentage of occupied households has hit a record low this year.

Buying a house is a massive proposition for just about anybody: You have to jump through a lot of hoops and you have to have virtually spotless credit these days. Home renovation has bounced back better than new construction because projects can be done bit-by-bit, in phases.

Brad Hunter, Chief Economist at HomeAdvisor – WSJ 8/21/16

In 2001 there were 1.8 million repeat homebuyers in the market, according to the Urban Institute. Their numbers declined to 700,000 in 2009 during the great recession. By 2015, the number had recovered to 900,000 ... still well off the 2001 pace.



Health-care spending reached 18.2% of GDP this year, up from 13.3% in 2000. Government involvement is on the rise, as an aging population enrolls in Medicare and the Affordable Care Act (ACA) expands Medicaid and provides subsidies to low-income people on state exchanges.

This is a story of three Americas. One group, the rich, can afford health care easily. The poor can access public assistance. But for lower middle- to middle-income Americans, the income struggles and the health-care struggles together are a really potent issue.

David Cutler, Harvard health-care economist – WSJ 8/25/16

It is estimated that middle-income households spend 25% more on health care now than they did before the financial crisis. Spending on discretionary categories, such as dining out and clothing, have declined ... as you would expect. While employers still pay about 80% of individual health-care premiums, patient cost-sharing has risen 77% between 2004 and 2014 according to The Kaiser Family Foundation.

Meanwhile, the four biggest U.S. health insurers (UnitedHealth, Aetna, Anthem, and Humana) are losing money on the ACA exchanges. They are pulling out of many of the exchanges, with consumers now facing fewer options and escalating premiums.

The exchanges are a mess as they exist today. They are losing a lot of money for a lot of people.

Mark Bertolini, Aetna CEO – BloombergBusinessweek 8/17/16

The Medicaid program costs about \$500 billion today, with costs expected to reach \$890 billion by 2024, according to the Centers for Medicare and Medicaid Services. Low-income minorities represent 57% of Medicaid beneficiaries.

According to a 2014 report by Merritt Hawkins, 55% of doctors in metropolitan areas refuse to take on Medicaid patients. The Department of Health and Human Services also reported in 2014 that 56% of Medicaid primary doctors and 43% of specialists weren't available to new patients.



China's debt-to-GDP ratio has increased from 150% to more than 260% over the past decade. This expansion of debt is considered to be larger than the combined monetary expansion efforts of the U.S., Eurozone, U.K. and Japan combined.

I sometimes joke that we're in financial Star Trek. We've left the solar system behind.

Rodney Jones, Wigram Capital (Beijing) – WSJ 9/13/16

Required adjustments to get debt under control, such as slower growth and worker layoffs, would create severe social risks. Some, however, still believe that debt concerns are overblown, since most borrowers and lenders are owned by the government.

China's first notes were called "flying money" because, unlike coins, they could flutter away in a breeze. That's an appropriate metaphor for Chinese financial policy, now wafting in an orbit of its own. One way or another, it will have to come back down to earth.

Andrew Browne – WSJ 9/13/16

More credit is producing less output. Overcapacity is at the heart of China's economic problems, and it is symbolized by big money-losing *zombie* employers. Closing down these industrial relics will be more of a political challenge than an economic one. Some believe the Chinese government is ramping up an assault on dissidents to get ahead of this challenge. More than 300 legal professionals and activists were briefly detained or interrogated last year, and several were formally held.

Warning signs are flashing.

David Lipton, International Monetary Fund – WSJ 8/23/16



With U.S. stated unemployment at a relatively low 5% rate, the labor market appears to be leveling off. Still, work force participation is stuck at a near 40-year low. The labor market is apparently giving off mixed signals.

But averages hide lots of problems. A lot of low-skilled and blue-collar workers have been left behind. They might have a job, but it pays less than the job they had before the recession.

Nariman Behraves, IHS Markit Chief Economist – WSJ 9/25/16

The number of open manufacturing jobs has been rising since 2009 and is now at the highest level in 15 years, according to Labor Department data. Job openings for manufacturing jobs have averaged 353,000 per month this year, up from 122,000 in 2009.

Technology, globalization, and recession eliminated many lower-skilled jobs. Today's advanced machinery requires a new set of skills. Colleges and high schools have reduced their focus on technical education, expanding the *skills gap*. In 2000, 53% of manufacturing workers had no education past high school. That percentage is only 9% today, while the share of college or graduate degrees saw an 8% increase.

The “upskilling” in the manufacturing sector mirrors a broader bias in the economy toward more educated workers.

Anna Louie Sussman – WSJ 9/1/16

The U.S. economy is considered by many to be at full employment. But the 84.4% work rate for American males age 25 to 54 is less than the 86.4% work rate measured at the tail end of the Great Depression. That's because there used to be only two categories of measure – either holding a job or unemployed. Today there is an additional category – neither working nor seeking employment.

Unlike in the past, the U.S. is now evidently rich enough to carry them, after a fashion. The paradox is that Americans – those who do have jobs – are still among the rich world's hardest-working people. No other developed society puts in such long hours, and at the same time supports such a large share of younger men neither holding jobs nor seeking them.

Nicholas Eberstadt, author Men Without Work: America's Invisible Crisis – WSJ 9/1/16

