



Insights and Observations: Third Quarter 2019

The Harvard Study of Adult Development, started in 1938 and still in progress today, has only one focus: What keeps us happiest as we go through life? The study reached this singular conclusion: Good relationships keep us happier and healthier.

An unexpected, collateral benefit of good relationships is the impact they have on our health. Those in positive relationships had less anxiety and better memory. The study also noted the harmful impact of loneliness. Lonely people experience declines in health and brain functioning, are less happy, and have a shorter life span.

Dan Solin, author/coach – Advisor Perspectives 7/17/19



About 40% of young adults (ages 25-34) were homeowners in 2018, according to data analyzed by Freddie Mac. This is down from 48% in 2001. The median age of a home buyer is currently 46, which is the oldest since the National Association of Realtors began keeping records back in 1981.

Lower homeownership for young adults means lower economic growth. That's it in a nutshell.

Sam Khater, Freddie Mac – WSJ 7/27/19

According to mortgage-data tracker CoreLogic, the average price of “lower-priced homes” rose by 64 percent over the past six years, while the price of “higher-end homes” rose by just 40 percent. Not surprisingly, census data confirms that more adults in their 20s and 30s are living with their parents.

The effects of not buying, or buying late, should become more clear as millennials enter new stages of life. The median family net worth of homeowners is more than \$230,000, according to the Fed, compared with \$5,000 for renters. Without home equity, people are less able to weather job losses or unexpected medical expenses, and less able to start small businesses.

Christina Rexrode – WSJ 7/27/19



Real estate purchases by foreigners are at their lowest level since 2013, when buyers from China and South America first started entering the U.S. market. Over the past year, foreigners purchased about \$78 billion worth of real estate. That is a 36% decline from the \$121 billion of purchases in the previous year.

It's quite striking in terms of the magnitude of the decline.

Lawrence Yun, National Association of Realtors – WSJ 7/17/19

The impact has been felt mostly in coastal cities and the top end of the luxury markets, but it has certainly rippled through to lower-end purchases.

A slowing global economy, a simmering trade dispute with China ... and a stronger dollar have made America a less hospitable place for foreigners to invest ... a fresh blow to the top end of the market in New York City, Miami and cities in California.

Laura Kusisto – WSJ 7/17/19



Based on a study by Johns Hopkins University, China's per-capita income may be as much as 25% lower than official statistics. Another study by the University of Chicago suggests that China's economic growth rate was almost two full percentage points lower than reported from 2010-2016.

China's working age population has stopped growing, as the big shift from rural farms to urban factories has run its course. Overall, China's growth seems to be slowing sooner than the economies it seeks to emulate – Taiwan, South Korea, and Japan. The reasons cited:

1. China has never relinquished its commitment to socialism.
2. Infrastructure and housing represent half of China's total investment, and the return on that investment has fallen sharply.
3. China's reliance on debt has been significant. According to Gavekal Dragonomics, a research service, China's return on capital has plummeted from 19% in 2007 to 8.4% in 2017.

New data showing the toll trade tensions are taking on China's economy are merely a symptom of a more serious malaise: The country's state-led growth model is running out of gas. A recession or crisis may not be imminent, but the long-run implications are just as serious. Absent a change in direction, China may never become rich.

Greg Ip – WSJ 7/17/19



The U.S. budget deficit widened by more than \$1 trillion in the first 11 months of this fiscal year, or 4.4% of gross domestic product (GDP). Compared to the same period a year earlier, government spending increased by 7 percent, while receipts grew by only 3 percent. Annual deficits as a share of GDP are expected to average 4.7% over the next decade ... well above the 2.9% average over the past 50 years.

If you believe that debt and deficits don't matter, I'm sorry, but you are wrong. They may not seem to matter because nothing terrible has happened yet as both debt and deficits have ballooned in recent years. However, just because a person is lucky enough to not blow his brains out in a game of Russian roulette doesn't mean that the game isn't dangerous – potentially fatal.

Michael Arone, CFA, State Street Global Advisors – July 2019

According to the Institute of International Finance, debt owed by governments, businesses and households around the globe, which now stands at \$246.6 trillion, has increased nearly 50% since the Great Recession.

The world is in a delicate equilibrium. The sustainability of debt burdens depends on interest rates remaining low and global trade remaining open.

Mark Carney, Bank of England – WSJ 9/8/19



Women make up 46% of the U.S. workforce. Since 2013, about 49% of college-educated workers were females, and in 2019 females will cross over to become a slight majority. This trend should continue to rise, as women make up a majority of those seeking bachelor's degrees. In fact, for the past twenty years, women have received approximately 57% of all bachelor's degrees.

It's the culmination of a trend that started maybe over 40 years ago. It's going to give women a lot more earning potential. It's going to give them more control over their finances, their own destiny.

Nicole Smith, Georgetown University – WSJ 8/20/19



JP Morgan estimates that China's household debt to GDP will reach 61% by 2020, up from 26% in 2010 ... and higher than the levels in Italy and Greece. The level in the U.S. is around 76%, after falling from 98% in 2006.

China's ratio of household debt to disposable income reached 117% in 2018, up from about 43% in 2008. The ratio in the U.S. peaked at 135% in 2007, but declined to 101% by 2018.

While previous generations were frugal savers – a product of their years growing up in a turbulent economy with a weak social safety net – the more than 330 million people born in China between 1990 and 2009 behave much more like Americans, spending avidly on gadgets, entertainment and travel ... China's slowdown could be exacerbated if young Chinese lose their jobs or see their wages cut, and have to sharply curtail their spending.

Xie/Li/Wernau – WSJ 8/29/19

China's slowing job growth could also become a significant problem. This year, more than 8.3 million students will graduate from college, compared with six million only a decade ago ... and a mere 165,000 back in 1978.



The pace of repairs on U.S. bridges has slowed to the lowest rate in five years, according to the American Road and Transportation Builders Association. At the current pace, it would take over 80 years to make any significant progress.

We're jeopardizing public safety and we're falling behind other countries. We really need to invest. We need to maintain our infrastructure. We need to modernize our infrastructure. In order to do this, we need national leadership and that's also going to require political courage.

Tom Smith, American Society of Civil Engineers – WSJ 9/2/19

Note that the number of public transit safety accidents rose 13% between 2015 and 2018, and the amount of property damage increased 20%, according to an analysis of the National Transit Database. There were also at least 133 rail derailments across the country in 2018.



According to a recent survey by the National Federation of Independent Businesses, a record number of small businesses are having trouble finding qualified workers. Simply put, there aren't as many workers available, with unemployment at a 50-year low and a record 157.9 million Americans employed.

Approximately two year ago, there were 1.9 million more people unemployed than job openings. In July of this year, there were 1.2 million more job openings than people unemployed.

Partly as a result, average monthly job growth as reported by the Bureau of Labor Statistics has slowed ... Some experts have seized on this decline as evidence that the longest economic recovery on record is losing steam. And it's true that a global economic slowdown, the Fed's actions on interest rates, and concerns about the trade war with China have dampened the recovery. But the tight labor market is the elephant in the room.

Andy Puzder – WSJ 9/17/19



According to a Wall Street Journal analysis, large cities continue to lose residents between the ages of 25 to 39. The decline has occurred over the past four years, with cities like New York, Chicago, Houston, San Francisco, Las Vegas, and Washington losing the largest amount of residents in that age group. High housing costs and poor schools are the main reasons people are leaving.

They might prefer to stay in the city for lifestyle reasons, but might end up leaving because of the quality of the public goods. U.S. mayors see a really serious mismatch between what their city's current housing stock is and what their residents need.

Katherine Levine Einstein, Boston University – WSJ 9/26/19



China's Communist Party just celebrated the 70th anniversary of its 1949 revolution. Consider some of the observations and opinions courtesy of the WSJ's Editorial Board published on 9/30/19:

- China is now more powerful, but less free.
- For a time it seemed possible that China might evolve to tolerate more political freedom ... those hopes have been dashed.
- China's export-dependent economic model relies too much on theft and predatory behavior against foreign companies.
- Self-confident regimes don't jail human-rights lawyers, crack down on churches, or create a Great Firewall and employ tens of thousands of censors to control the internet.
- The use of AI and facial recognition to control the public call to mind Orwell's nightmare of state control.
- China attempts to dominate the Asia-Pacific, often by bullying its weaker neighbors.
- China's behavior is producing a global backlash, including a new bipartisan American consensus that their abuses must be confronted.
- The legitimacy of China's ruling Communist Party depends on economic growth that will be harder to sustain as it must innovate to prosper.
- The attempt to craft a hybrid part-market, part-socialist economy has saddled China with rampant corruption, endemic pollution and unsafe food.
- The one child policy, enforced for decades, burdens China with a rapidly aging population.
- No one should assume that the Party's fall is imminent. But we also know from history that authoritarians often seem stronger than they are. The Party's insistence on total political control may be its undoing.

