More Impressive Financial Milestones

***e*Research Corporation** is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis shows that the average U.S. citizen is way better off financially than at any time in history.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: **More impressive financial milestones**

You can also visit Scott Grannis' Home Page for his Blog at the link below: http://scottgrannis.blogspot.ca/

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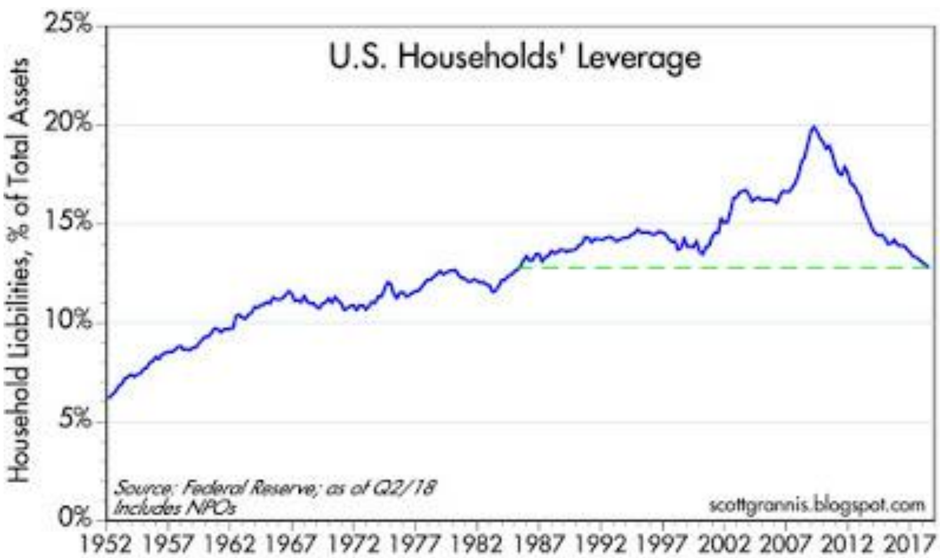
The Fed last week released its Q2/18 estimates for Household Net Worth and related measures of prosperity. Of note, households' leverage (liabilities as a % of total assets) fell to a 33-year low, and households' net worth hit a new all-time high in nominal, real, and per capita terms. Total household net worth is now almost $107 trillion, up over 50% from pre-2008 highs, whereas liabilities are up only 7% from their Great Recession highs. Housing values have increased by about 15% since their 2006 bubble highs, but are still about 6% lower in real terms. Households have been busy deleveraging, saving, and investing, and the housing market is back on its feet and healthy. Major trends are all virtuous and consistent with past experience.

Chart #1

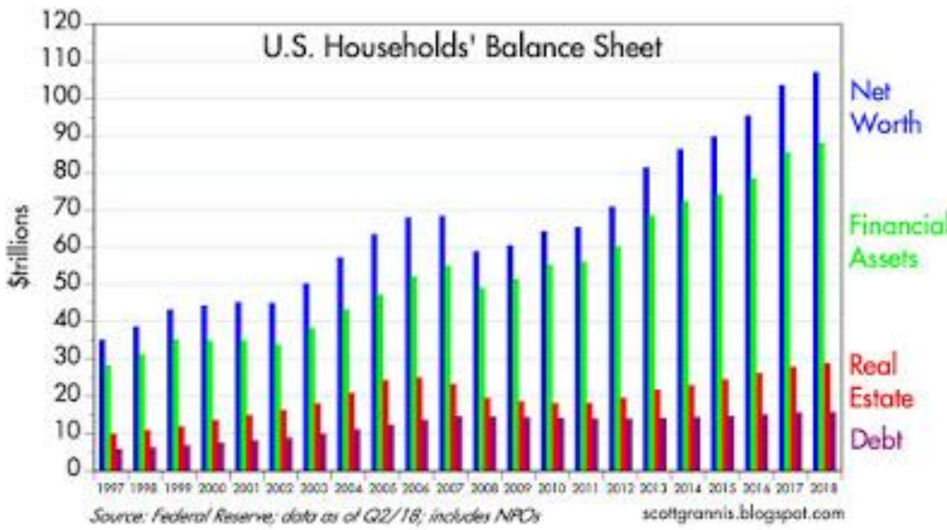


As Chart #1 above shows, private sector (households and non-profit organizations) leverage (liabilities as a percent of total assets) has now fallen 36% from its early 2009 high, and has returned to levels last seen in early 1985, when the economy was in full bloom.

Our federal government, in contrast and very unfortunately, has borrowed with abandon, raising the burden of federal debt (federal debt owed to the public, as a percent of GDP) from 37% to 83% over the same 33-year period. If our government was run with the same discipline as households have displayed, that might be termed nirvana. We are as well off as we are today *despite* the ministrations of our government.

Chart #2

Chart #2 below summarizes the evolution of aggregate household balance sheets.



Note the very modest increase in liabilities over the past decade, the gradual recovery of the real estate market, and the strong gains in financial assets, driven by increased savings and rising equity prices.

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Chart #3

Chart #3 below shows the long-term trend of real net worth, which has risen on average by about 3.5% per year over the past 66 years.

Note that recent levels of real net worth do not appear to have diverged appreciably from this long-term trend. That was not the case in 2000 or 2007, however, when stocks were in what we now know was a valuation "bubble."

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Chart #4

Chart #4 shows real net worth per capita. The average person in the U.S.A. today is worth about $327K, and that figure has been increasing by about 2.2% per year, adjusted for inflation, for the past 67 years. (Note: the difference in the trends of Chart #3 and #4, 1.3%, is the average rate of population growth over this period.)

To be sure, there are lots of mega-billionaires these days who are skewing the statistics upward, but that does not imply that the average person's living standards have declined. Virtually all of the wealth of the mega-rich is held in the form of equity or real property investment, and all of that is available to everyone on a daily basis.

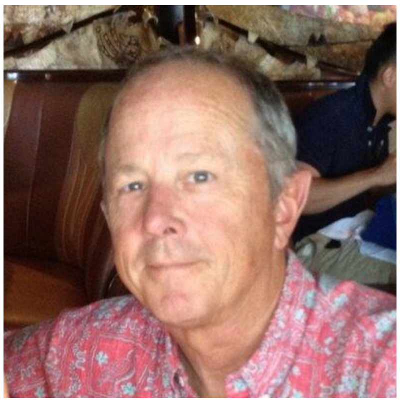
A person making an average income in the USA enjoys all the advantages that our nation's net worth has created. Regardless of who owns the country's wealth, everyone benefits from the infrastructure, the equipment, the computers, the offices, the homes, the factories, the research facilities, the workers, the teachers, the families, the software, and the brains that sit in homes and offices all over the country and arrange the affairs of the nation so as to produce over $20 trillion of income per year.

Would the average wage-earner (or, for that matter, the average billionaire) in the USA enjoy the same quality of life if he or she earned the same amount while living in a poor country?

I seriously doubt it.

BW: See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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