VAN LIEW TRUST COMPANY

as we see it

Spring 2016

THOUGHTS FROM OUR CHAIRMAN

In our Winter issue of As We See It, Joseph Healy wrote an article called “Where’s the Beef” in which he discussed consumer reluctance to spend the savings they have gained from lower oil and gas prices. In this Spring issue Sam Hallowell explores another consumer issue entitled “Where Have All the Workers Gone?” Both articles highlight different causes for this span of weak consumer spending and GDP growth we have experienced for the last several years.

In the investment arena there is hope that corporate earnings will improve in the latter half of 2017. If they do it might lead to a wave of capital investment and business expansion which would make consumers happier and ultimately lead them to spend some of their accumulated savings. We hope that is the case.

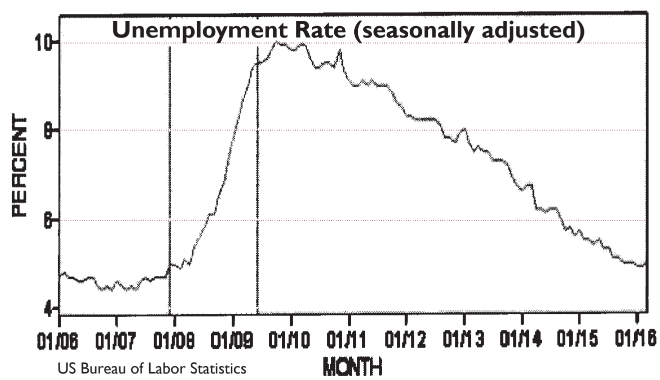
Alfred B. Van Liew

Where Have All the Workers Gone?

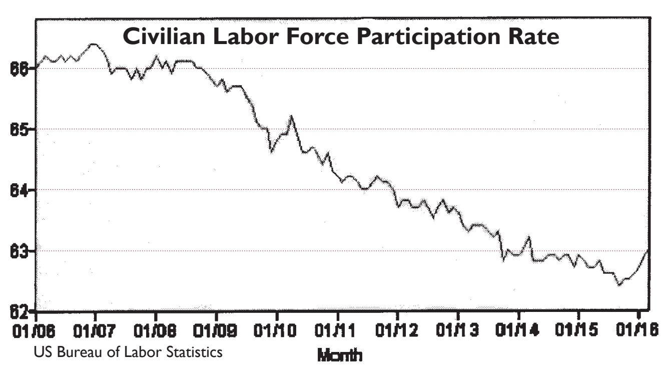
Samuel H. Hallowell, Jr.

Two of the major gauges of a healthy economic expansion are a falling unemployment rate and a rising GDP (Gross Domestic Product) number. In November 2009, roughly six months after the official end of the last recession, the U.S. unemployment rate topped out at 10%. Seven years later it is hovering at 5%. You would think that such significant improvement, combined with falling commodity prices and interest rates, would lead to a meaningful increase in GDP (consumer spending is 70% of GDP). That has not been the case. Although GDP growth averaged 3.21% annually from 1948 to 2016, in the last 7 years the rate of growth slowed to 1.77%. What happened?

These two graphs from the U.S. Bureau of Labor Statistics illustrate the issue. To begin, the Bureau estimates the total possible civilian working population 16 years old and above, non-institutionalized and non-military, is roughly 253 million people. The graphs both show civilian employment, but their focus is different. The top graph depicts the National Unemployment Rate. It is the percentage number regularly touted in the media that is calculated by dividing the number of individuals unemployed but actively searching for a job (about 7.9m) by the total number of currently employed (about 156m). The bottom graph charts a series known as the Civilian Labor Force Participation Rate. It reflects a calculation of the number of people listed



US Bureau of Labor Statistics



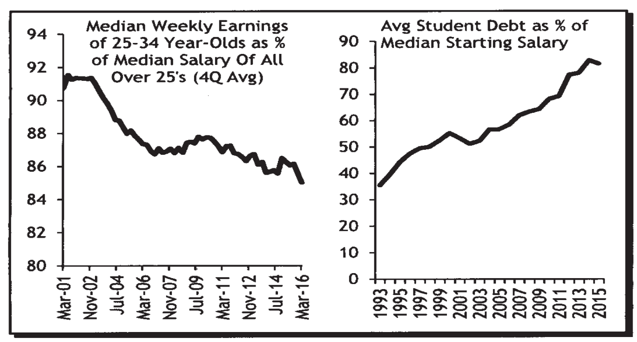
US Bureau of Labor Statistics

above (156 + 7.9 = 163.9m) as a percentage of the total potential labor force (253m). Taken together the charts show that although the unemployment rate has fallen by 50% over the last 7 years the actual number of people working or actively looking for jobs as a percentage of the potential working population has fallen. Put another way although 15 million people gained employment since the last recession the labor participation rate dropped from 64.9% to 62.6%. To make matters worse, that number has been dropping steadily since 2000, and accelerated with the last recession.

Research done by the Labor Department indicates, as you might have guessed, that much of the falling participation number is the result of the accelerating rate of retirement in the Baby Boomer generation. However, millennials are spending more time in school, fewer women are entering the workforce than was the case a decade ago and there has been significant growth in the number of middle-aged people who lack the degrees or necessary job skills to gain employment. The sad part is that this has all been occurring at a time when job postings have been rising and are at their highest in years. The number of Americans aged 16 years and older who are not working now amounts to roughly 94 million individuals, 29% of the total U.S. population. That is a significant number of consumers making little or no income.

Certainly there are many other factors affecting GDP growth such as political decisions, weather influences, currency fluctuations and globalization. What these two charts illustrate is that anemic GDP growth may also be the result of a significant systemic problem in the growth of our potential labor pool. Despite an improving unemployment picture the size of our available workforce has been a shrinking part of our population.

T R E N D L I N E S



Source: BLS, Wall Street Journal, NY Fed, CIBC

Proportionally, Millennials earn less than in prior years and are strapped with more debt. The total number of Millennials, as a group, now surpass Baby Boomers. With such economic headwinds can we expect Millennials to be as avid a consumer as earlier generations? How will that affect US GDP and Corporate earnings so dependent on consumer spending?

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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