LIBERTY ASSET MANAGEMENT, INC.

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Concerning Income Mobility

According to a recent study led by Stanford economist Raj Chetty, approximately half of Americans born in 1984 earned more at age 30 than their parents did, when adjusted for inflation, at the same age. This represents a stark decline from earlier generations, as Americans born in 1940 had a 90 percent chance of earning more than their parents. For many, the “American Dream” means climbing the economic ladder and making a better life for themselves and their families. However, over the past 30 years, this goal is becoming increasingly difficult to achieve. Though the Stanford study does not directly investigate reasons behind the decline in wage growth, here are a few factors that may shed some light on this alarming trend.

Reasons for the decline

Wage growth in the United States has slowed over the past few decades, and the wage growth that our economy has experienced is not being evenly distributed between classes. Approximately 30 years ago, the median net worth of an upper-income family was about 350 percent larger than that of an average middle-income family. However, in 2013, this disparity nearly doubled to 660 percent. Based on these findings, it seems that wage growth is primarily benefitting the 21 percent of Americans in the upper-income class, as opposed to the 50 percent of those in the middle-income class. Since wage growth isn’t aiding middle-income families proportionately, there is a correlating decrease in the likelihood of a 30-year-old out-earning his or her parents. Children whose parents are in the top 10 percentile of income have a 70 percent chance of out-earning their parents, while those whose parents fall in the top 50 percentile have just a 45 percent chance.

Regions impacted the most

Though the percentage of Americans earning more than their parents has been steadily declining nationwide, particular areas of the country are being negatively affected more than others. Of all the regions in the United States, the Midwest has experienced the most concentrated decline in income mobility.

Half of a century ago, the Midwest was known for its prominence of manufacturing job opportunities. But since the manufacturing sector reached its job total peak in the late 1970s, the amount of nonfarm manufacturing jobs in the U.S. has fallen by nearly 40 percent. Sixty years ago, about one in four Americans held a manufacturing job; now, just about one in eight Americans work in manufacturing. When considering these figures, there appears to be a strong correlation between manufacturing opportunities and income mobility. The likelihood of a child earning more than their parents was at an all-time high throughout the 1970s.

However, when manufacturing jobs started to decrease, the likelihood of upward income mobility declined at a rate that was nearly equal. In fact, when manufacturing jobs slightly increased in the mid-to-late 1990s, the likelihood of upward income mobility for children born in the late 60s and early 70s experienced its steadiest growth in nearly 30 years. One can then deduce that income mobility in the Midwest has been similarly impacted by the loss of manufacturing jobs, mainly due to the emphasis of importing goods, as well as the automation of domestic manufacturing jobs.

What the future holds

Though the picture looks bleak, there may be brighter days ahead for the middle class. The U.S. Census Bureau recently reported that last year marked the largest single-year gain for middle-class earnings in a half-century. Additionally, joblessness is among its lowest in decades, coming in well under the historical average. Even though the middle and lower classes may be struggling to out-earn their parents, they are able to find work and make a living for themselves— even if it may not be the idealistic version of the American Dream.

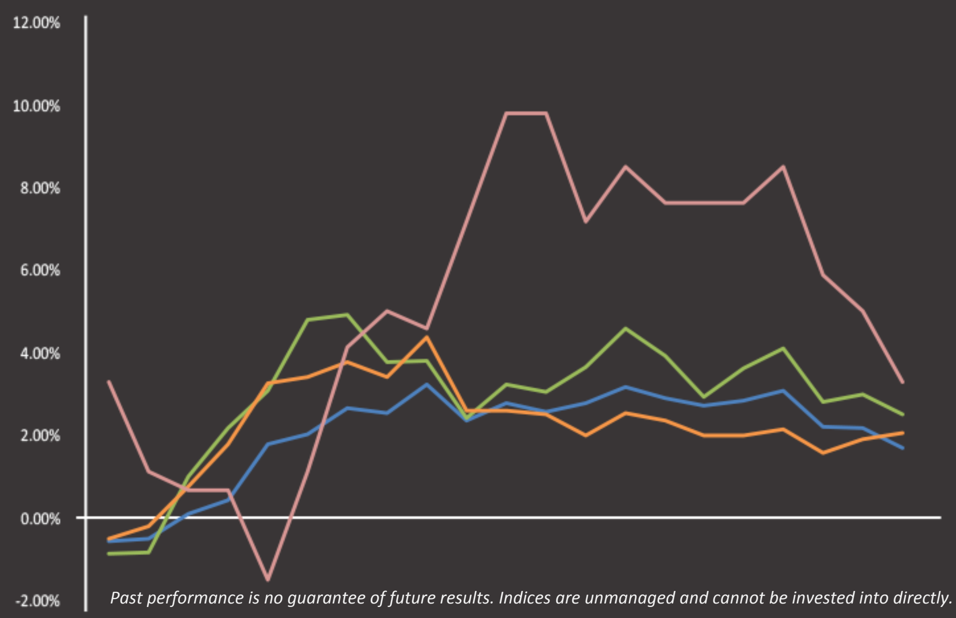
the market at a glance
DECEMBER

U.S. Large Cap
(S&P 500)
2,238.83 (1.82%) ▲

U.S. Mid/Small
(Russell 2000)
1,1357.13 (2.63%) ▲

International Large
(NYSE International 100)
4,857.09 (2.18%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
2.45 (3.38%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- Following months of speculation, the Fed increased the target interest rate for only the second time since 2009. Janet Yellen, chairwoman of the Fed, noted nationwide progress towards “maximum employment and price stability” as justification for the hike.
- The US trade deficit grew to $42.5 billion in October, representing an 18 percent increase from the previous month. This marked the steepest one-month increase since March 2015.
- Gross Product Income increased 3.2% in the third quarter, which marked the largest single-quarter gain since Q3 of 2014.
- The FTSE 100 index, which tracks major stocks in the UK, had its best single-year performance since 2013 and closed at an all-time high on the final trading day of the year.
- The US unemployment rate fell to 4.6 percent in November, its lowest since August of 2007. However, a significant increase in the amount of Americans who exited the workforce dampened the optimism of the news.
- A recent report from JUST Capital indicates that only 15 percent of American retail workers make a living wage. The study cites “living wage” as the amount needed to cover all expenses for a working couple with one child.
- Venezuelan president Nicolás Maduro announced that the country will replace the bolívar dollar with higher-denomination bills. This decision comes as a result of the rampant hyperinflation Venezuela has endured recently.
- Following the worldwide success of Pokémon Go, Nintendo releases Super Mario Run for iPhone. Initial revenue reports were underwhelming, which led to share prices falling approximately 16 percent in the weeks following the release.
- Allstate Financial services was fined $1 million by FINRA for not meeting standards regarding client communication, recordkeeping and supervision of transactions. Allstate announced that many of these issues were self-reported to FINRA.
- Peter Pan, a subsidiary of ConAgra, reached an $11.2 million settlement for contaminated peanut butter that caused illness in hundreds of Americans nearly a decade ago.

Improving Finances in the New Year

For many of us, a New Year's resolution is a great way to simplify what we want out of the coming year. Each year, many people set financial goals like "be smarter with money" or "save more of my income."

However, making the resolution to save money is easy; the difficulty comes from deciding how to save that money in the first place. Fortunately, improving your financial situation can be a pleasant side effect of making other positive changes in your life.

Learn how some popular New Year's resolutions, as well as financial goals, can save you money.

Losing Weight

Losing weight and increasing overall health nearly always tops the list of most common resolutions, but a healthier lifestyle is more than just the physical and mental benefits. On average, obese adults spend 42 percent more on health care costs than adults with a healthy weight. Good health can provide you with more than just a higher quality of life, including a sizeable financial benefit over the course of your life. Additionally, health-focused commuting options (like walking or biking) can provide additional savings to your budget.

Eat Less Fast Food

According to the Bureau of Labor Statistics, the average household spent $7,023 on food in 2015. From this, money spent on food away from home accounted for over $3,000. Aside from the financial impact, a 2014 study from Public Health Nutrition indicates that those who ate out consumed about 200 more calories per day than those who ate at home. Though grabbing a bite to eat is a fun, relaxing and communal experience, it leaves a heavy dent in the checkbook and could add a notch or two to your belt.

Giving Up Smoking

Smoking, in addition to the well-known physical effects, is a financial lose-lose. It's an expensive habit upfront and can lead to myriad health problems later on in life. Buying a pack per day at $6.28 will cost you $2,300 each year—over $80,000 in 20 years with inflation—and can generate thousands of additional dollars in medical costs. That money could be in a bank account instead of vanishing in a puff of smoke. The good news: when a person quits smoking, the physical and financial benefits start to become noticeable within less than a month.

Reading More

Many people make a resolution to read more in the coming year but end their efforts when they can't fit the expense of new books into their budget. Fortunately, if you go about it carefully, reading can actually be used to lower your monthly expenses. Libraries and thrift stores can make access to reading materials cheap or free. By turning these books into a primary source of entertainment, you can cut back on, or eliminate, the costliest types of media, like movies or cable subscriptions.

Paying off a Major Loan

Aside from health-related resolutions, the new year is an opportunity to start implementing new financial habits. Learning to live with extra payments towards loans may be a difficult adjustment at first, but by paying off a loan early, you save money that would have otherwise been lost to accumulating interest. When the loan is completed, you will have funds available that you've already learned to live without, providing you with a great opportunity to save more for your next goal.

Adjust Savings Percentage

The new year may come with a bonus or a raise. If your salary increases, consider putting some of that new money towards your savings. Increasing contributions to a company-sponsored retirement plan, no matter how small, can aid your retirement plan while not compromising your current standard of living.

LIBERTY
ASSET MANAGEMENT, INC.

6725 Kingery Hwy Willowbrook, IL 60527 Tel: 630.789.9653 | Fax: 630.734.1471
www.libertyassetmgt.com

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