NEW POPULATION REALITIES

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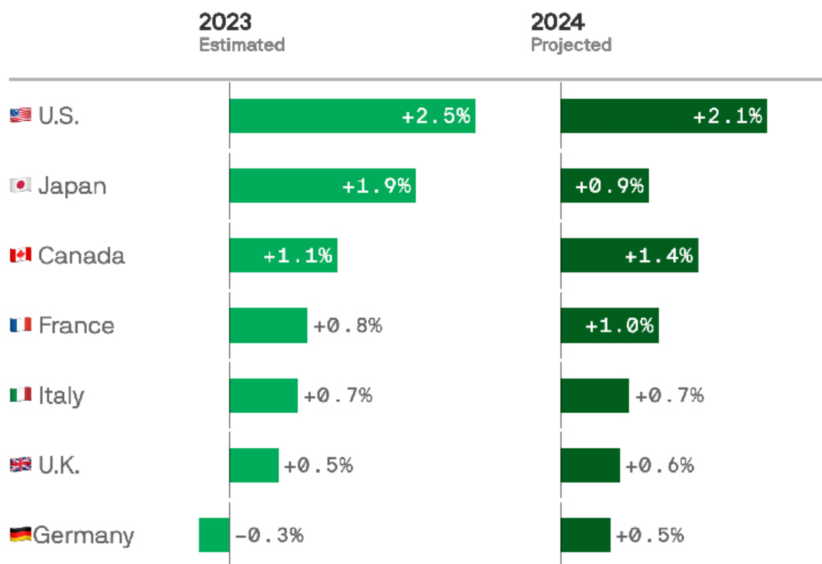
The United Nations Department of Economic & Social Affairs has released its World Population Prospects 2024 report, and a close read shows some interesting and sometimes alarming statistics. The report says that there are currently 8.2 billion people sharing our spaceship Earth, and that is projected, based on recent trends, to go up to around 10.3 billion sometime in the mid-2080s, at which point our overall population will start gradually declining.

This population decline will be experienced very differently in different countries. The report notes that 24 countries have already seen a peak population level, and will experience fewer citizens in the future than they have now. The list, unsurprisingly, includes China and Japan, but also South Korea, Spain, Italy, Germany, Greece, Portugal, Hungary, Austria and Poland. China, for example, is projected to lose more than half of its current population by 2100. The Japanese population is projected to drop from roughly 125 million today to somewhere close to 80 million by the end of the century.

Another 48 countries, representing 10% of the world's current population, will experience population peaks sometime between now and 2054. The countries that are projected to continue growing their population includes the United States, India, Indonesia, Nigeria and Pakistan.

The report also says that the world is aging. Sometime in the late 2070s, the number of persons age 65 or older globally will be higher than the number of children under age 18. The report cites declining birthrates and increasing lifespans overall, and notes that the current global fertility rate is 2.25 live births per woman, incrementally above the 2.1 level that would essentially lead to a static population. Meanwhile, average longevity is currently 73.3 years across the world, and is projected to reach 77.4 years by 2054.



Once again, there are dramatic differences. Korea, Italy and Spain are experiencing fewer than 1.4 births per female citizen; in Korea, that figure is now down to 0.75. China's average and projected lifespan is roughly comparable with the world's, while Koreans are living, on average, well into their 80s.

All of this points to a very different world than we see today. One of the biggest drivers of economic growth in a country (and the world) is population growth: the growing number of workers and consumers. In the future, we may have to give up the idea that our individual and global economies have to grow for us to be prosperous. And when over-65 citizens outnumber working-age citizens, there will be more pressure on the workers to somehow economically support a growing number of (potentially) non-contributors to the economy.

The report talks about encouraging more women to give birth, more people of advanced age to continue working, and social programs that address aging demographics. But the truth is that the world is sailing into uncharted territory, as our population declines for the first time since people emerged from the caves. Nobody really know how that will play out.

Sources:

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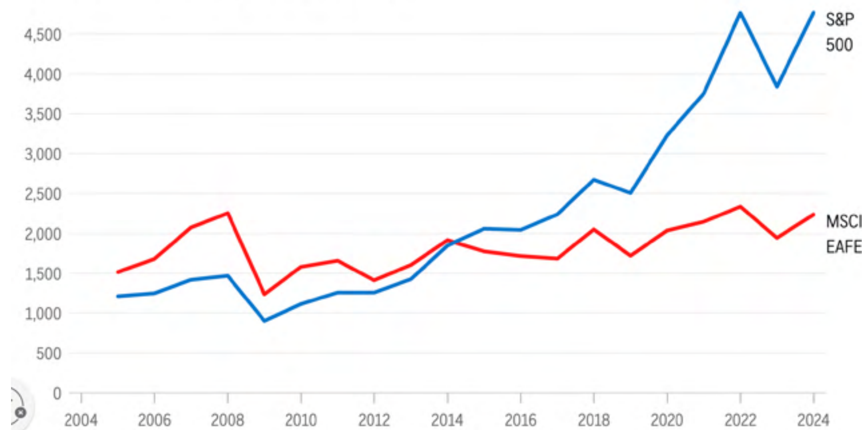
THE EXCEPTIONAL AMERICAN ECONOMY

Remember the good old days when the U.S. economy was growing at a 2.5% clip, and when it accounted for 80% of the global economy's growth? When jobs were plentiful because the unemployment rate was below 5%, and prices were relatively stable because the inflation rate was down below 3% a year? When manufacturing output in America was routinely experiencing 1-3 percent growth, and the average manufacturing worker was living comfortably on the equivalent (in today's dollars) of $98,846, including pay and benefits.

Remember when the United States was routinely posting the greatest economic growth rate in the world—by a wide margin? Remember when American stock market performance was outpacing all other markets—by a wide margin—and the dollar was strong against all other currencies?

You don't have to have a long memory to recall this golden age of American prosperity, because those statistics are all from today, right now, the world you are living in. U.S. economic growth is running at 2.5%, well ahead of the Japanese, Canadian, French, Italian, English and German growth rates (see chart). Meanwhile, since 2019, the S&P 500 index of the largest American companies has delivered 48% market gains, compared to just 10% for developed markets outside the U.S. (the MSCI EAFE index.)

The International Monetary Fund's latest report notes that all countries have been dealing with the same challenges of post-pandemic inflation, but a combination of strong growth in the U.S. labor force and strong productivity growth fueled by an innovative corporate sector has once again driven America to the head of the economic pack. The Peterson Foundation economists actually found that, ju jitsu-like, the American economy was able to turn the pandemic to its advantage, moving millions of lower-income workers to better jobs providing more income security.



It's a curious fact about human nature that we can't see the good times in real time, at the moment; we only recognize and appreciate them (and wish they were back) when we're looking in the rear view mirror after the passing of a decade or more. That means that sometime in the late 2030s, people will look back at today's American economy and marvel at how good we had it—without knowing that most of us never realized this at the time.

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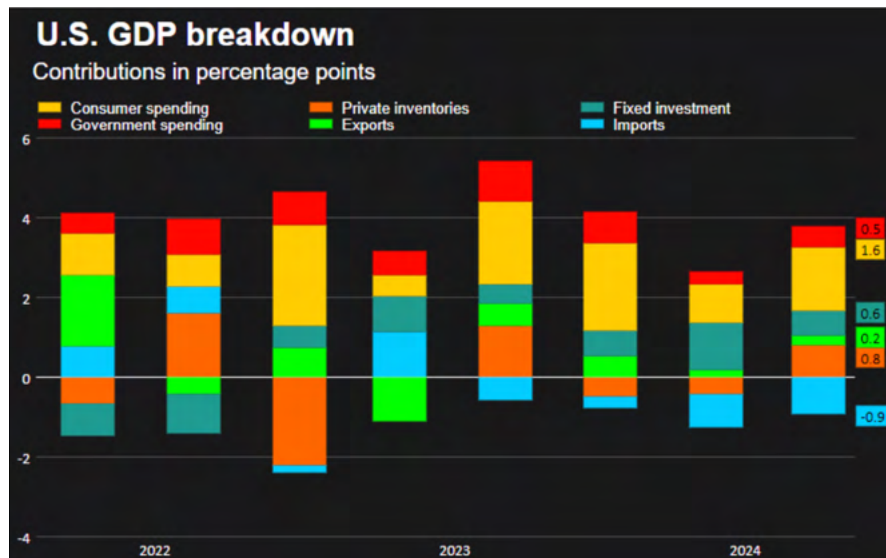
GROWTH NUMBERS

The headline news this week is that the U.S. economy grew at a 2.8% annualized pace in the second quarter, which is basically a continuation of two years of solid, if up-and-down, growth. Consumer spending was (surprisingly) strong (up 2.3% year over year), and business investments rose at an 11.6% rate. But behind the robust numbers is a more sobering picture: the size of the gains in some of the economic areas are slowing down (see graph), and economists are calling this an economic cooling-off period.

Is this good or bad news? It depends on who you ask. Faster growth would bring the danger that the economy will overheat and trigger a recession, and it would probably cause the Fed to reconsider its plan to lower interest rates. Slower growth suggests that the economy might be heading into a ditch somewhere in the near future.

Perhaps the best indicator that the U.S. economy is on a sustainable, long-term path to growth is the rise in investment in manufacturing facilities. As you can see from the graph created by the St. Louis Fed, the level of investments is very nearly off the charts compared with the average since 2008. Whenever they're completed, those new facilities will be filled with workers, and will add to manufacturing output overall. The historically low 4.1% unemployment rate could come down and bring the American economy closer to full employment—which probably also means higher wages as more companies have to bid for workers.



And it's helpful to remember that when we talk about a slowdown in growth, the 2.8% figure is compared with America's recent past. If we compare America's economic picture with other countries, the picture looks a lot brighter. The European Union countries experienced just 0.5% GDP growth last year, and the OECD average was 1.7%.

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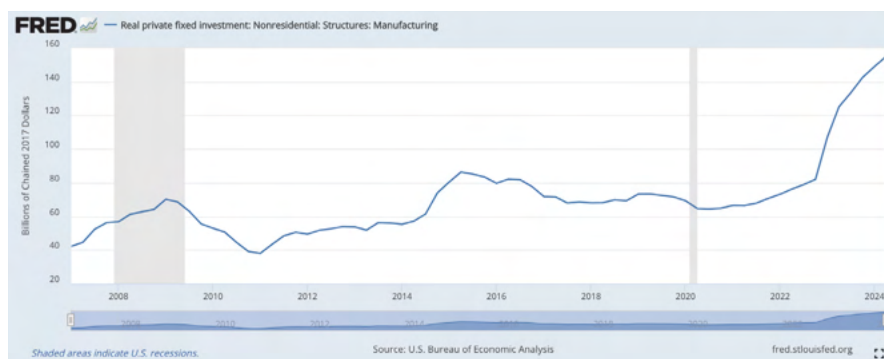
INHERITED IRA DISTRIBUTION RULES

There was a time, back before 2020, when the rules covering people who inherited traditional IRA accounts were simple. Before the SECURE Act was passed, people could spread out their distributions from these inherited retirement accounts over their lifetime, using a simple mortality table. (No, not totally simple, but…) These were the famous 'stretch' provisions, which made it possible to reduce the annual tax bite on the amount received.

Then SECURE forced the IRA inheritors to take all the money out within 10 years, but under the original rules, they could wait until the day before the 10 years expired to take a full distribution. That might not be optimal from a tax standpoint (bunching all the distributions in a single year would put you in a higher tax bracket) but at least it was uncomplicated.

Then came IRS interpretations, and the IRS has finally issued finalized rules, which have made the lives of some IRA inheritors weirdly complicated.

Under the rules, if a person inherits an IRA from someone who died before he/she was taking required minimum distributions, then that person has the flexibility to take the money out at any time during the 10-year period—probably taking some amount each year to smooth out the taxes. The requirement is that all the money has to come out within ten years.



But if the deceased IRA owner had been taking required minimum distributions, then the beneficiary would fall under an 'at least as rapidly" (ALAR) rule, which means that the beneficiaries would have to continue taking annual required minimum distributions at least as high as what the previous owner had been taking. At the end of the 10th year, any remaining assets would have to be distributed in full.

As before, the distributions are calculated as a percentage of the value of the IRA as of December 31 of the year preceding the calendar year for which distributions are required, and must be made by April 1 of the following year.

The IRS conceded that the rules were muddled prior to the new finalized roles, and agreed to waive all penalties for not taking these distributions during the 2021-2024 period—which essentially waived the requirement to take them at all. People who did not take those distributions may do so, but that is optional--and the decision should probably be made in light of tax considerations.

As they weigh their options, they will probably wish that the account owner had converted their traditional IRA to a Roth IRA. The Roth accounts don't require distributions up to the 10th year, and there are no taxes on those distributions.

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