Financial Markets This Week

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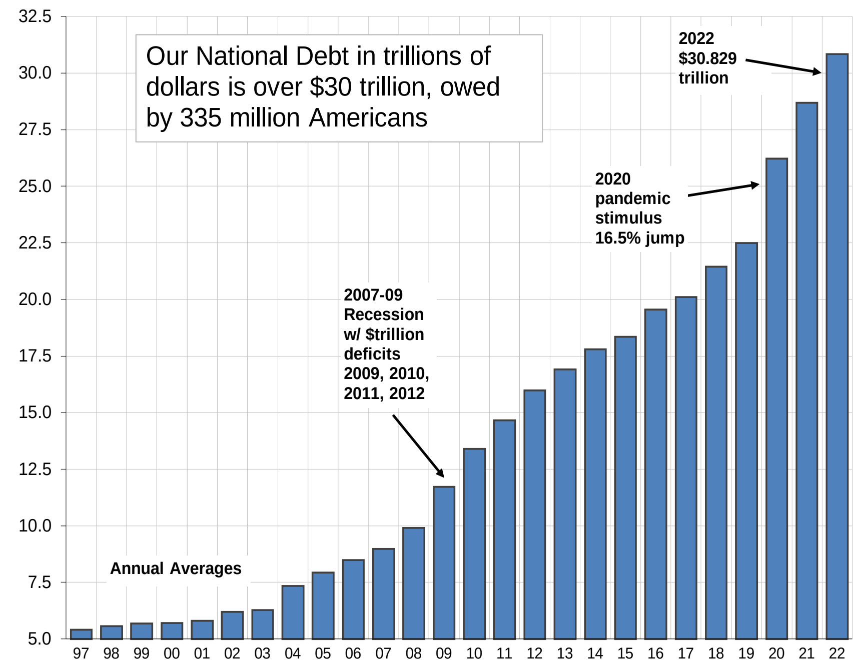
SOCIAL INSECURITY



Get this out of the way first. Social security collects taxes, but is paying out more in benefits than they take in. The difference is made up by auctioning Treasury securities to the public for cash, just like other expenditures the Federal government makes when it does its "deficit spending." There is no real money in the Social Security Trust Fund. The "money" that went in there is an accounting, place-older entry, nonmarketable securities, and the actual cash was used at the time to fund other Federal government spending, like Army tanks, food stamps, border security, etc. It isn't running out of money. There was never any money in the trust fund.

This year's annual report from the trustees of Social Security and Medicare said the Social Security Trust Fund will run out of money in 2033. The baby boom generation born from 1946 to 1964 are 60 to 78 years old in 2024 and will have used up all the money the government saved for them by the time they are 69 to 87 years old in 2033. Ten years years from now. The nation will be bankrupt if we are not already with the national debt over $30 trillion.

Sounds bad. To repeat. We are happy to report, this is not true. We are unsure of the 2033 date. It is our understanding there is no real money in the trust fund right now. Those reserves are nonmarketable debt. When social security needs to pay more to beneficiaries than it is collecting in taxes from workers, it gives the nonmarketable piece of paper to the U.S. Treasury who then gives them cash. Treasury doesn't have any cash so it sells bonds to the public and then gives the proceeds to social security. The trust fund runs out of money in 2033, but the reality is the payment of social security benefits to retirees "boosts" the Federal budget deficit right now.

The table here shows the social security contributions over 45 years of a worker's lifetime. The government takes the money, says it is investing it for us for retirement, even if the tax collections are used to fund current outlays of the Federal government, spending on food stamps, Army tanks, fixing rotten bridges, homeland security. Every so often, a politician wants to allow some privatization of the social security system which would never work as the amounts are too large for everyone to find a place to invest their nest egg. But it is still intriguing to think about what if you had saved all the social security contributions you made for yourself over the years. Would you be better off today if you invested your retirement savings on your own?

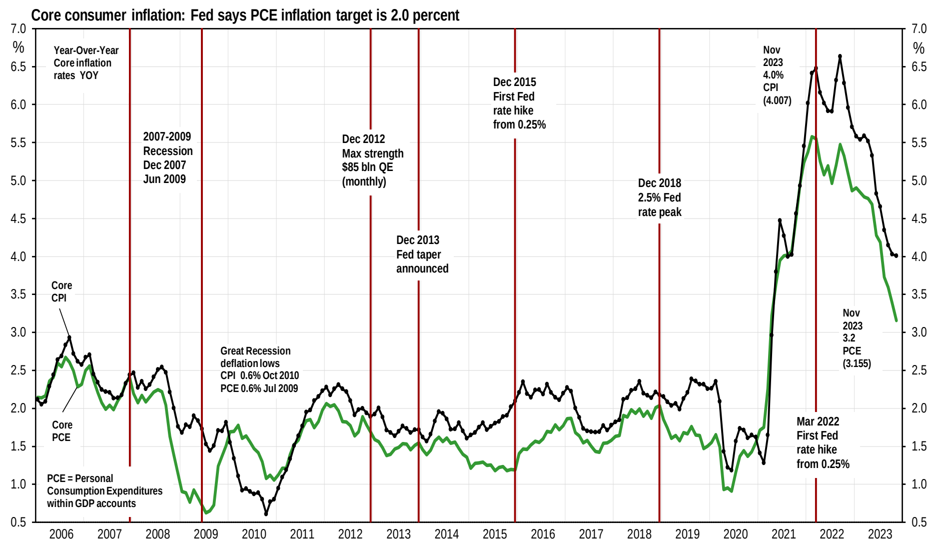
Assuming you made the maximum social security earnings base level of income each year along the way, your first social security tax contribution of 4.52% on your earnings of $25,900 in 1980 was $1,171. Your last contribution 45 years later in 2024 is a 5.3% OASI tax on $168,600 of taxable earnings or $8,936 saved for your retirement. Add up all 45 years and you accumulated $203,011. Double that amount if you had convinced your employer to kick in 5.3% like the Federal government does for you under the current social security plan. You are really saving 10.6% of your income in 2024 up to a maximum of $168,600.

45 YEARS OF SOCIAL SECURITY CONTRIBUTIONS						
WHAT IF YOU INVESTED IT YOURSELF?						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Years On the Job	Year	SS Earnings Base $	OASI Tax Rate %	Max Contri-bution	Future Value at 5%	Future Value at 10%
1	1980	25,900	4.52	1171	21037	170663
2	1981	29,700	4.7	1396	23890	184996
3	1982	32,400	4.575	1482	24161	178588
4	1983	35,700	4.775	1705	26462	186709
5	1984	37,800	5.2	1966	29059	195716
6	1985	39,600	5.2	2059	28993	186396
7	1986	42,000	5.2	2184	29286	179720
8	1987	43,800	5.2	2278	29087	170384
9	1988	45,000	5.53	2489	30267	169238
10	1989	48,000	5.53	2654	30748	164109
11	1990	51,300	5.6	2873	31693	161465
12	1991	53,400	5.6	2990	31419	152796
13	1992	55,500	5.6	3108	31100	144368
14	1993	57,600	5.6	3226	30740	136209
15	1994	60,600	5.26	3188	28931	122366
16	1995	61,200	5.26	3219	27826	112343
17	1996	62,700	5.26	3298	27150	104634
18	1997	65,400	5.35	3499	27432	100915
19	1998	68,400	5.35	3659	27324	95949
20	1999	72,600	5.35	3884	27621	92583
21	2000	76,200	5.3	4039	27352	87514
22	2001	80,400	5.3	4261	27486	83943
23	2002	84,900	5.3	4500	27642	80583
24	2003	87,000	5.3	4611	26977	75070
25	2004	87,900	5.3	4659	25958	68951
26	2005	90,000	5.3	4770	25312	64180
27	2006	94,200	5.3	4993	25232	61069
28	2007	97,500	5.3	5168	24872	57462
29	2008	102,000	5.3	5406	24781	54649
30	2009	106,800	5.3	5660	24712	52019
31	2010	106,800	5.3	5660	23535	47290
32	2011	106,800	5.3	5660	22414	42991
33	2012	110,100	5.3	5835	22007	40290
34	2013	113,700	5.3	6026	21644	37825
35	2014	117,000	5.3	6201	21212	35384
36	2015	118,500	5.3	6281	20461	32580
37	2016	118,500	5.3	6281	19486	29618
38	2017	127,200	5.3	6742	19921	28902
39	2018	128,400	5.3	6805	19151	26523
40	2019	132,900	5.3	7044	18878	24957
41	2020	137,700	5.3	7298	18629	23507
42	2021	142,800	5.3	7568	18399	22162
43	2022	147,000	5.3	7791	18038	20740
44	2023	160,200	5.3	8491	18722	20547
45	2024	168,600	5.3	8936	18765	19659
			Total	$203,011	$1,125,813	$4,148,561

Whether it is $203,011 or double that, $406,022, which includes your employer contribution, it isn't enough to match the maximum benefit social security will pay you at full retirement age in 2024 which is [$3,822 per month]… for life. (Normal retirement age is 67 years for those born in 1960 or later.) Social security would pay you $45,864 per year and if you had to pay that out of your own savings here, you would have exhausted that retirement money after 10 years. If you had been able to invest the money you contributed yourself, the table above shows a big difference between investment returns averaging 5% per year or 10% per year. With a 5% return in the table above (assumes 5.3% contributed by you and 5.3% from your employer), you would have $1,125,813 after 45 years, and $4,148,561 if you had investment returns of 10%. It is intriguing to think whether social security could be privatized, but doing so would distort private markets, and take away money the Federal government is using to pay current expenses. And investing prudently with a mix of bonds and stocks, it will be more difficult to achieve a 5% average annual rate of return on your investment than it was the past 45 years. Actually, we are not confident what the next 45 years will hold. And it depends partly on how low Fed Chair Powell will lower rates in the next few years. The FOMC forecasts for a 3.0% Fed funds rate at the end of 2026 will take a lot of risk free return money out of the pockets of the elderly with savings in the bank, or rather, savings stashed in money market funds.

OTHER ECONOMIC NEWS OVER THE HOLIDAYS

Inflation fizzles out (Friday, December 22, 2023)



Breaking economy news. Personal income report for November, if you have any. All of a sudden it looks like inflation is not quite vanishing, but it sure has returned to target in recent months. Core PCE inflation is now 3.2% on a year-year basis in November where it had been 3.5% in October before a downward revision to 3.2% today. Heck, the Fed forecast in Q4 2024 is 2.4%, and inflation is moving their way. The slowdown in price increases is more dramatic on a monthly percent change basis where before today's report, there was just one 0.1% increase this year in August. Now there are 0.1% monthly changes in July, August, October, November… Jackpot! Inflation is vanishing before our very eyes. It makes the worries over the 0.3% core CPI number in November look positively silly.

Meanwhile, the consumer is not taking as many trips to the mall ahead of the holidays with real consumer spending revised down to 3.1% in Q3 2023 from 3.6% before in yesterday's GDP report. Spending in the fourth quarter had been about 1.6% and now with November data in hand, it is running 1.9% or about the same. Real spending is slowing, matching the dramatic slowdown in price pressures.

		Year-Year % Change				Monthly % changes			
Dec 2022 Weight		Dec 2020	Dec 2021	Dec 2022	Nov 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023
1.000	PCE inflation	1.4	6.2	5.4	2.6	0.4	0.4	0.0	-0.1
0.080	Food at home	3.9	5.7	11.1	1.8	0.3	0.3	0.2	-0.1
0.025	Energy goods (gas)	-14.6	47.3	1.6	-9.9	10.2	2.4	-4.6	-5.6
0.019	Electricity/Gas	2.6	10.2	15.7	-0.1	0.2	0.6	0.5	1.7
0.876	Core PCE	1.6	5.2	4.9	3.2	0.1	0.3	0.1	0.1
	Durable goods								
0.021	New vehicles	1.8	11.5	7.0	1.4	0.3	0.3	-0.1	-0.1
0.013	Used vehicles	10.3	37.0	-8.1	-3.7	-1.2	-2.5	-0.8	1.6
0.026	Furnishings	3.6	8.5	4.9	-2.8	0.2	-0.4	-0.2	-1.2
0.036	Recreational	-1.2	1.1	-1.5	-4.1	-0.8	1.2	-0.4	-1.2
	Nondurable goods								
0.028	Clothing	-4.4	5.6	2.9	1.1	0.3	-0.6	0.0	-1.4
0.027	Prescription drugs	-2.4	0.0	1.8	3.8	0.4	-0.7	0.8	0.5
0.010	Personal care	-0.3	0.4	8.1	4.6	0.3	0.4	0.3	-0.5
0.229	Goods x-foodenergy	0.1	6.2	3.1	0.1	0.0	-0.1	0.0	-0.4
0.647	Services ex-energy	2.1	4.9	5.5	4.3	0.1	0.5	0.2	0.2
0.034	Rents	2.3	3.3	8.3	6.9	0.5	0.5	0.5	0.5
0.116	Home prices	2.2	3.8	7.5	6.7	0.4	0.6	0.4	0.5
0.160	Health care	2.6	2.7	2.6	2.4	0.1	0.0	0.4	0.1
0.033	Transportation	-2.9	8.8	12.4	6.1	-0.6	1.4	0.5	1.1
0.038	Recreation	1.6	4.3	5.8	4.4	0.2	0.6	0.2	0.2
0.061	Food services	4.3	6.7	7.6	5.2	0.2	0.4	0.4	0.4
0.011	Hotels/Motels	-8.1	20.0	2.5	1.1	-2.7	3.4	-2.3	-0.8
0.072	Financial/Insurance	2.7	7.1	3.8	2.8	0.4	0.5	-0.3	-0.2
0.083	Other services	1.5	2.8	3.9	3.0	0.1	0.1	0.1	0.0
0.030	Nonprofits	2.2	13.3	8.7	5.3	0.0	1.9	-0.7	-0.3

Year-year is Dec/Dec Percent Change

Net, net, inflation is fizzling out faster than expected, and this coupled with the dramatic slowdown in real consumer spending, could bring Fed rate cuts in the New Year more quickly than markets anticipate. Fed officials said they had not discussed rate cuts at the December meeting, but they sure are going to be on the front burner of discussions when it comes to the meetings in 2024. Inflation is no longer hot to the touch and this report is the best holiday present Fed officials will get this year. They aren't talking rate cuts now, but they sure will be in the New Year. Bet on it.

P.S. Keep your eye on the ball. Big increases in monthly core PCE inflation will drop out of the year-year calculation from December 2023 to May 2024. Happy New Year. If monthly changes ahead for this period are 0.2% per month, the year-on-year-rate for core PCE inflation in May 2024 drops to 2.1%. Wow. Ahead of schedule. FOMC forecasts for 2024 are 2.4% core PCE and a 4.75% Fed funds rate. FOMC forecasts for 2025 are 2.2% core PCE inflation and a 3.75% Fed funds rate. What's a poor policymaker to do? Ask the economic research staff before cutting interest rates. Stay tuned.

Next up: December PCE inflation report Thursday, January 11

Monthly	2023										2023	2022			2022
% Changes	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
Core CPI inflation	0.3	0.2	0.3	0.3	0.2	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.6
Core PCE inflation	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.5
Core PCE YOY	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.3	5.5
Core CPI YOY	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3	6.6

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