

# American hustle

In this series of data snapshots, it's clear that while America has its challenges, it's still the team to beat in the global marketplace.

The American media would have you believe that the outlook for American global leadership is gloomy, with a recession seemingly inevitable, inflation rampant and the American social fabric strained by political polarization. And while there's certainly some truth to those worries, economic and demographic data reveal that America, while facing many of the same troubles as the rest of the developed world, is generally in far better shape. Below we tell the story in a series of data snapshots.



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## The ace up America's sleeve: Its people

Despite declining birth rates, the US has more than doubled its population, largely through immigration. In fact, the average American is also relatively young compared to many other advanced countries, as shown below:

TABLE 1

	Population Growth	Fertility Rates (births/woman)		Net Migration Rate (per 1,000 population)		Median Population Age	
	1960-2021	1950	2021	1950	2019	1950	2021
<b>United States</b>	<b>129%</b>	<b>2.9</b>	<b>1.7</b>	<b>2.8</b>	<b>3.5</b>	<b>29</b>	<b>38</b>
United Kingdom	35%	2.2	1.6	0.3	3.3	34	40
Europe	36%	2.7	1.5	-1.6	2.3	29	42
Japan	49%	3.7	1.3	-0.7	1.5	21	48
China	164%	5.8	1.2	-0.3	-0.2	22	38

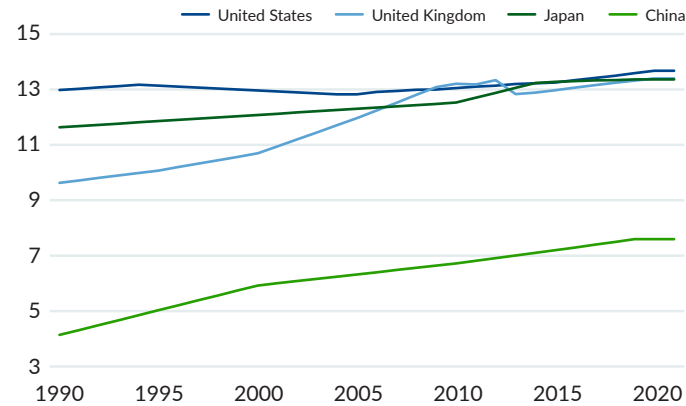
Source: The United Nations as of July 2022, Mesirow

It may be surprising to some, but the US has a more highly educated workforce than many other developed nations, as measured by average years in school shown in Chart 1.

- The U.S. is home to 11 of the top 15 global universities, according to a ranking by the Times Higher Education
- America spends a third more per pupil on education than its average peer nation

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CHART 1: AVERAGE YEARS OF SCHOOLING



Source: Our World in Data

### America’s traditional strength: Competitive businesses

America’s large unified market makes it easy for companies to reach consumers. Public and private enterprises in America consistently outspend on research and development.

- American GDP grew from 40% to 58% of the world’s nominal GDP between 1990 and 2022
- Income per person in America is among the highest in the world
- American firms own 22% of patents registered abroad, more than any other country
- More than 5 million new businesses were created in 2022
- Between the mid-1990s and the mid-2000s, productivity growth in the US topped 3% annually, compared to less than 2% for most European countries

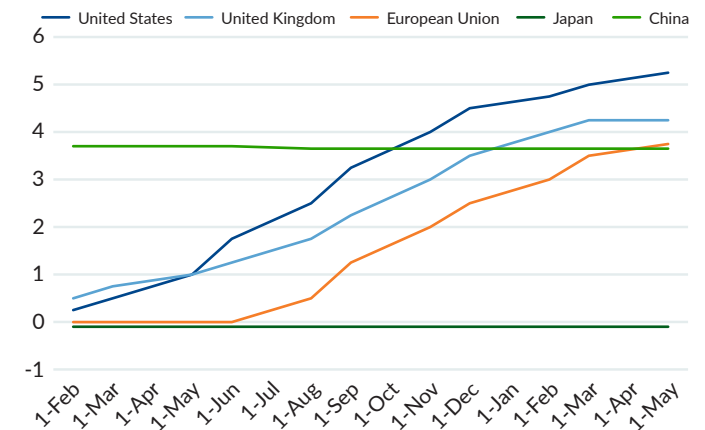
Source: The Economist (April 13th Issue), Forbes, US Census Bureau, Mesirow

With renewable energy sources on the rise, Americans also stand to benefit from the country’s vast (and windy) plains and abundant sun.

### Interest rates and GDP growth: Not great here, but worse elsewhere

During the last couple of years, the US Federal Reserve has raised rates faster and higher than many other developed nations, as you can see in Chart 2. However, while the Fed appears to be nearing the end of the cycle, the UK and the EU remain behind the US with hotter inflation. And despite record-high inflation, Japan’s central bank hasn’t raised rates at all.

CHART 2: CENTRAL BANK INTEREST RATES



Source: Global-Rates.com

You will also see in Table 2 the following GDP growth trends:

- Between 1950 and 2023, US GDP growth averaged 3% per year
- GDP growth in the UK is estimated to be negative for 2023
- Japan experienced deflation for many years before the pandemic, and is seeing significant inflation coupled with a decline in GDP growth
- China’s explosive GDP growth came to a halt in 2022, but a rebound is expected

TABLE 2

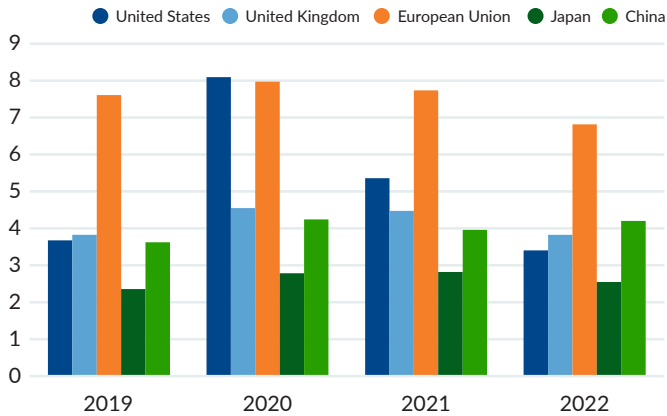
	GDP Growth (Annual)			CPI Index (YoY)*
	2021	2022 (Est)	2023 (Projection)	
United States	5.9	2.0	1.4	4.9
United Kingdom	7.6	4.1	-0.6	10.4
European Union	5.3	3.5	0.7	8.5
Japan	2.1	1.4	1.8	4.3
China	8.4	3.0	5.2	1.0

\*Measures inflation | Sources: CPI data from Charles Schwab and WSJ, GDP data from the IMF

## Low unemployment: There and back again

Part of the reason the Fed is having a hard time reducing inflation is the strong labor market. The US was an outlier during the pandemic as unemployment spiked, but unemployment quickly dropped to historic lows as shown below:

CHART 3: UNEMPLOYMENT RATES



Source: The IMF

## Housing: Again, not great here but more challenging elsewhere

Mortgage rates in the US remain above 6% but inventory is low. Nearly all US mortgages are fixed rate (90% by most estimates), and most were refinanced or originated before rates spiked. Home sales are slowing, and March home prices were down 9% from a high last June. Compare this to other developed markets in Table 3, which highlights the following:

- In Sweden, 75% of home loans have either a variable rate or a fixed rate that expires in less than a year
- In the Eurozone, that number is around 25%

TABLE 3

	Housing Price Change	YoY Date
Sweden	-13.7	Dec-22
New Zealand	-13.3	Jan-23
Australia	-7.2	Jan-23
Germany	2.1	Dec-22
<b>United States</b>	<b>4.4</b>	<b>Feb-23</b>
Spain	7.2	Dec-22

Source: The Guardian: How low will house prices go? Lessons from UK, US, Europe and elsewhere. Publish date Feb 25, 2023.

## Challenges still to overcome, of course

While America is faring better than most of its peers from an economic and demographic standpoint, it still has several challenges to overcome to maintain its primacy, particularly if the dollar weakens.

- Productivity growth is slowing: From the mid-2000s to today, productivity growth slowed from 3% to 1.5% annually
- Inflation may remain historically high: Near-shoring will add pressure to already inflated prices
- Certain segments of the US population are increasingly left behind, reflected in a declining share of prime age working men

## WEAKENING DOLLAR

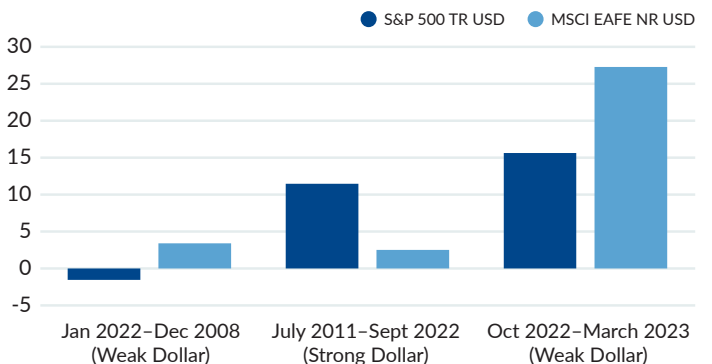
The US dollar is weakening after a decades-long ascent, which will have implications for future returns in the US stock market represented in Charts 4 and 5.

CHART 4: NOMINAL US DOLLAR INDEX



Source: St. Louis Federal Reserve

CHART 5: INDEX RETURNS AND USD STRENGTH



Source: AB, Morningstar

## America: The good, the bad and the ugly... but mostly the good

There are plenty of reasons for Americans to be confident in the ability of their country to maintain a leadership role in the global economy. The equity market in the US remains optimistic. Bond yields are high relative to the last two decades. Compared to peer nations, the US doesn't look so bad.

That said, the market expects the Fed to cut rates by the end of the year, and the consequences may be dire if the Fed fails to meet those expectations. The US dollar is weakening. And regardless of whether it's justified or not, market sentiment is currently negative with businesses already bracing for a recession of unknown depth and duration.

Taken as a whole, however, traditional American hustle looks to keep the US in an enviable position compared to its global peers.

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Benchmark descriptions: MSCI EAFE-measures the performance of non-U.S. stocks from several developed markets. Standard & Poor's 500- market-capitalization-weighted index that measures the performance of the 500 largest U.S. publicly traded companies. Standard & Poor's Equal Weighted 500- equal-weighted index that measures the performance of the 500 largest U.S. publicly traded companies.

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