WEEKLY ECONOMIC COMMENTARY

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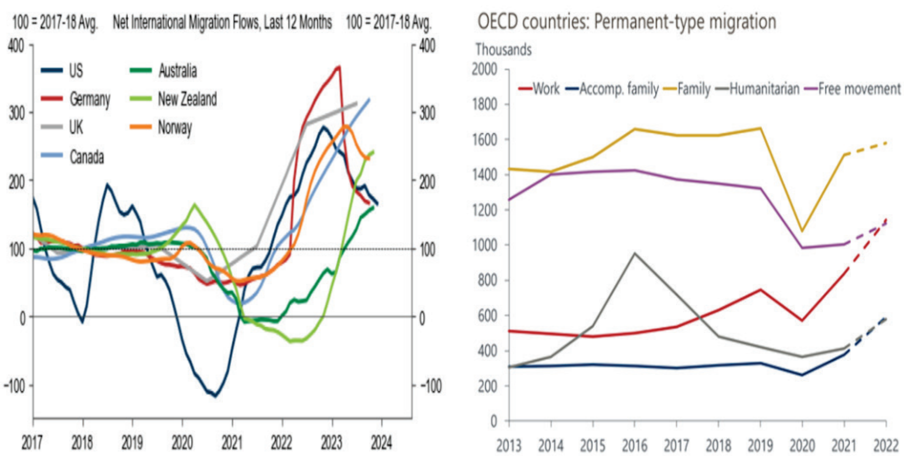
Wall decorations sometimes bear the message that home is where the heart is. But for millions across the globe, home is where the jobs are.

About 281 million people, or 3.6% of the world's population, live outside of their country of birth. The number has increased over the past five decades.

Europe and Asia host the most international immigrants. At the country level, about half of all immigrants reside in just 10 countries. The United States leads the world with the highest number of settlers. Canada and Australia are also among the most sought after immigration destinations. About 30% of Australia's population were born overseas, of which two-thirds are now residents. India is the leading source of the world's expatriates, accounting for 18 million persons living abroad, followed by countries like Mexico, Russia and China.

Cross-border mobility collapsed during the pandemic but has since recovered across major advanced economies. Canada's total population grew by a record 1.05 million in 2022, the largest spike since the post-World War II baby boom. Immigration accounted for 96% of that increase. Compared with the average annual increases in the 2010s, net immigration almost tripled last year to 3.3 million in the U.S. and to 670,000 in the U.K.



Sources: GS, Haver Analytics, OECD International Migration Database, Oxford Economics

Many immigrants are ambitiously seeking better opportunities, but some are also driven to escape wars, climate-related disasters and persecution. The number of people forcibly displaced from their homelands rose to a new high of over 110 million in 2023, up from about 90 million in 2020. As of mid-2023, about five million Ukrainians had fled from the war; Germany, Poland and the U.S. have been their leading destinations.

If managed effectively, immigration can benefit both the newcomers and their newfound homes. Research shows immigration into developed economies boosts output and productivity. Developed markets are aging rapidly and are facing labor shortages which have been aggravated by the consequences of COVID-19. Developing nations, which are going to see their population increase and potentially leave a lot of young people without adequate opportunities, will help fill in this gap. Caring for the elderly is a common job for recent immigrants.

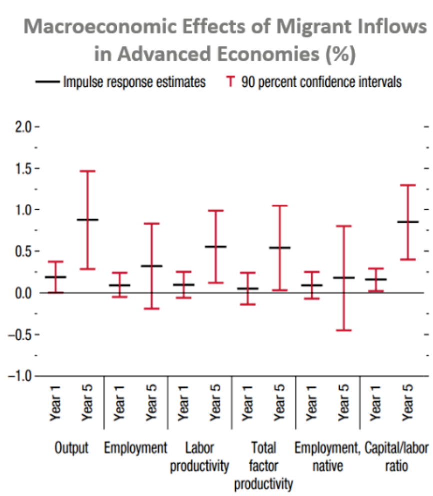
Foreign workers already constitute a sizeable share of the labor force in many markets. Employment of foreign-born employees now outpaces native-born workers in the U.S. The share of employees working in the U.K. who were born in a foreign country has increased over the past two decades from 2.6 million or 9% of the employed workforce in 2004 to 6.2 million or 19%, helping ease labor shortages caused by Brexit and the pandemic.

Immigrants are not only job seekers, but also job creators. According to the National Foundation for American Policy, immigrants are founders of over half of the U.S.-based unicorns (startups that exceed a $1 billion valuation). The American Immigration Council says that immigrants or their children have established 44% of Fortune 500 companies in the United States.

Contrary to suspicions that foreign-born persons are a burden to public coffers, the Organization for Economic Co-operation and Development concludes that immigrants contribute more in taxes than administrations spend on their social security in many countries.

The macroeconomic effects of immigration are largely positive.

Immigration has also caught the attention of central bankers, as it eases labor shortages and slows inflation. At their December meetings, both Fed Chair Jerome Powell and Bank of Canada Deputy Governor Toni Gravelle cited the pickup in immigration as a driver of improved labor supply. The U.S. Congressional Budget Office estimates immigration will boost the nation's overall gross domestic product by 2% in the decade ahead.



Sources: Oxford Economics, IMF

While importing workers can be a silver bullet for aging advanced economies, curbing immigration has become a top priority for many governments across the globe. Heavy migrant flows add to short-term strains on infrastructure, public services and housing. Immigration can also depress wages in the recipient country as businesses gain access to a larger and a relatively inexpensive labor pool. Balanced discussion of immigration's costs and benefits is complicated by visceral feelings of being crowded out of one's own country.

Countries known for their permissive immigration policies are moving to curb inflows of immigrants to ease their housing crunch. Australia is aiming to halve its annual arrivals to 250,000 within two years, from a record 510,000 people in 2023. Canada has announced a two-year cap on international student visas, following backlash over surging rents. The U.K. launched a five-point plan to cut its net immigrant intake by 300,000 (from 672,000 in 2023). Some Irish politicians are seeking a national referendum on the government's relatively open immigration stance.

Immigration is the clearest answer to growing demographic challenges.

But not all major economies are acting against immigration. In June 2023, the German government approved the Skilled Immigration Act, which makes it easier for skilled non-European workers to take jobs in Germany amid labor shortages. Berlin alone took over a million Ukrainian refugees and has proposed steps like easing German language requirements to integrate displaced Ukrainians into its labor market. Similarly, Japan, the world's most aged nation, is also making efforts to boost immigration to cope with its shrinking population.

Despite the benefits, immigration is likely to be one of the hotly contested topics in this busy year of elections. Immigration should be seen as a tool of sustainable development, and not a crisis to be solved. Only then nations will have an immigration policy with their heads and their hearts in the right place.

The House Always Wins

Owning a home has many virtues: it creates stability for a family, supports longer-lasting connections in a community and is a store of wealth for the home owner. For these reasons, home purchases have been both a personal aspiration and a policy priority for generations.

Today, these preferences have led to a fundamental imbalance. Potential buyers are finding a paucity of homes available for purchase.

The stock of homes for sale in the U.S. has fallen to levels last seen in the mid-1990s. Data provider Redfin observes the inventory of homes on the market holding in a range consistently more than a third lower than its pre-pandemic norms. Housing stock has not kept pace with population growth in many parts of the country. Higher interest rates were expected to cool the market, but with supply so constrained, house prices have continued to climb.

We can now look back on the pre-pandemic economic cycle and say that housing was under-built. After a housing bubble ignited a global financial crisis, caution from home builders was understandable. Residential investors were once bitten, twice shy. However, the steady recovery has equipped more consumers to step into home ownership; Millennials are ready to buy.

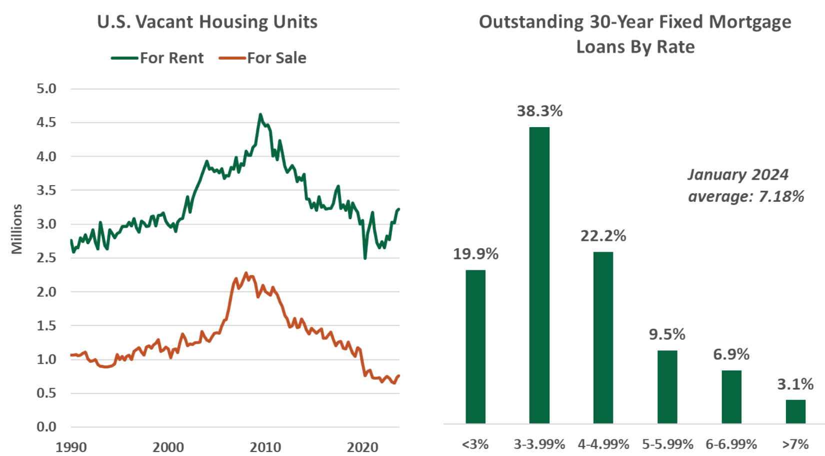
And then the stay-at-home urgency of the pandemic further distorted housing markets. The need for home office space prompted a rush to purchase homes and/or relocate in 2020 and 2021, leaving inventories depleted.

Supplies got tighter from there. Those who still carried mortgage debt were able to refinance into new loans at very low rates. But as mortgage costs rose in 2022 and 2023, yesterday's bargain became today's albatross. Trading up to a new property entails not only paying a large sticker price, but a reset to a substantially higher mortgage interest rate. Some homeowners are therefore opting to stay put as long as possible.

The logjam is not solely caused by mortgagors. Those who own their property free and clear have strong incentives to keep them. While cashing out a home's elevated equity is tempting, the rent or purchase price of a new property would consume much of the gains from sale. And the cost of living would creep higher; properties sold long ago usually benefit from relatively low property taxes in many locations.

Homeowners without mortgages skew older, and a growing share of this cohort is choosing to age in place. A 2021 survey by the American Advisors Group (AAG) found more than 80% of seniors intend to spend the remainder of their lives in their current homes.

High demand for housing is a good economic sign, but low supply is limiting sales.



Sources: Census Bureau, Haver Analytics, Fannie Mae

Residential property is the most valuable asset of most households. Older homeowners desire to protect that nest egg for their children, or value the security of being able to borrow against it in an emergency. The limited building activity in recent cycles has constrained the inventory of smaller residences, like condominiums and townhomes, that may be better for empty nesters.

Emotionally, occupants grow attached to familiar surroundings, even if that means staying in a mostly empty residence. The AAG survey found clear majorities of respondents not only regard their homes as the best financial decision they ever made, but as very safe space.

The choice to stay in a home that is too large for an individual's needs may be individually defensible, but it adds to the distorted supply in the market. The best remedy we can see is to build more housing, for younger and older buyers alike—but this may require difficult reforms to restrictive local land use and preservation policies. Multi-generational living arrangements are on the rise, with financial issues representing the top reason for adults to combine households, followed by caregiving.

Stepping into homeownership is an important investment and milestone. Some additional supply will help give more families an opportunity to achieve the American dream.

Bargaining

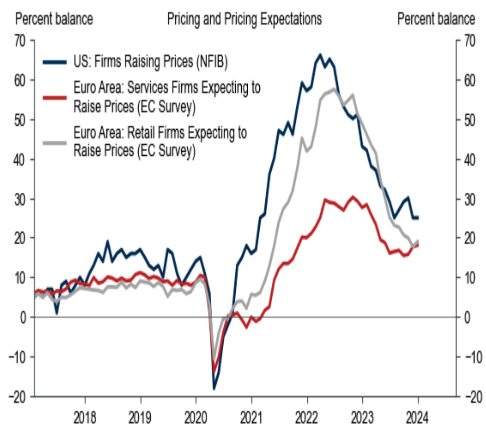
I shudder when my car comes up for routine maintenance. Every time we take it in, the mechanics find something so serious that they wouldn't recommend I drive any further without fixing it. The average tab is several thousand dollars.

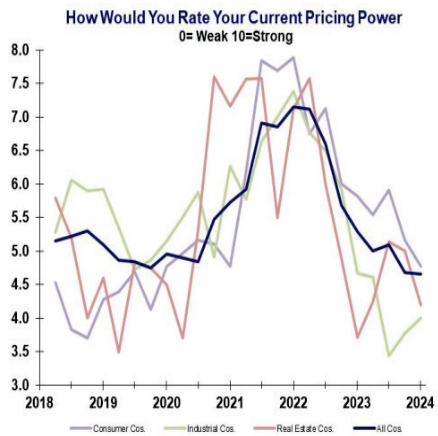
Because my car is very old, the repair estimates are approaching the value of the vehicle itself. So my wife suggested that we consider trading it in for a new one. We looked, but the dealer showed little interest in bargaining with us. Low inventory levels give him lots of pricing power.

The ability of merchants to increase prices is a subtle ingredient in the development of inflation. When costs go up, sellers will seek to pass them along to preserve their margins. During the pandemic era, stimulus-fueled demand intersected with supply limitations to bring pricing power to a zenith. Profit margins expanded, as did equity market valuations.

Slowly, but surely, leverage has been returning to consumers. Supply chains have healed, and the supply of labor has improved. Many households have exhausted the excess savings amassed during the pandemic, and wage increases have struggled to keep up with inflation. A renewed frugality has set in, and surveys of pricing power reflect it.

Diminished pricing power will be good for inflation, but bad for profit margins.





Sources: Haver Analytics, Goldman Sachs, Evercore ISI

There are still pockets of resistance. We typically see them where there is scarcity: residential real estate markets are a prime example, as the number of homes for sale is very low. Care giving falls into this category as well, with more need than providers.

Overall, however, the decline in pricing power will be welcomed by both consumers and central bankers seeking to bring inflation back down to targeted levels. For companies and their owners, the return to normalcy will intensify the search for productivity gains. Investments in the latest generation of artificial intelligence (AI) are one of several angles of pursuit.

The economic data suggests that the prices of new cars are falling, and industry experts report that dealer concessions are increasing. But we apparently focused on a model and a dealership that hasn't read those headlines. I expect to be driving the old jalopy for a long while.

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