Flash Economics

N° 10
January 31st, 2025

The fragility of the US economy

The growth of the American economy and the innovation drive in the United States have been impressive in recent times. But this strong economic performance should not blind us to the weaknesses of the US economy:

- A low-skilled workforce and massive dependence on skilled immigration;
- De-industrialisation and external deficit, high public debt, which means dependence on external debt and financing from other countries;
- The risk of a downward correction in stock market indices, particularly technology stocks, if artificial intelligence does not fulfil all of its promises;
- Low employment rates, partly linked to health problems;
- Concentration of wealth in the hands of a small minority, with very high inequalities in income and wealth;
- Poor infrastructure.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Known strengths of the US economy

We know that GDP growth, labour productivity (Charts 1A/B) and the innovation effort (Chart 2) in the United States are higher than in Europe in particular; the United States also spends more on research and development than China (Chart 2).

Chart 1A
Real GDP (2002.T1 = 100)

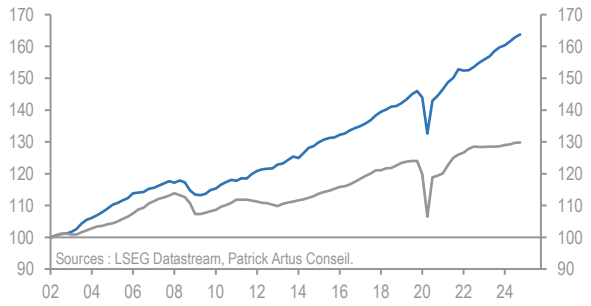


Chart 1B
Productivity per head (1999.Q1 = 100)

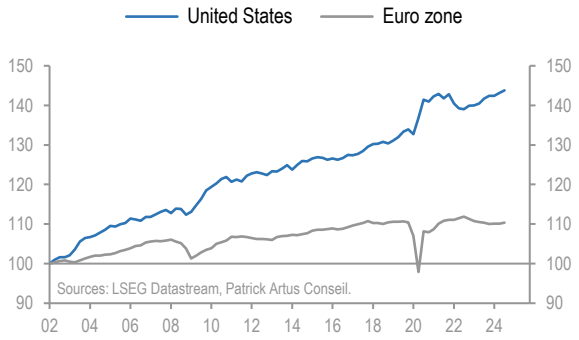
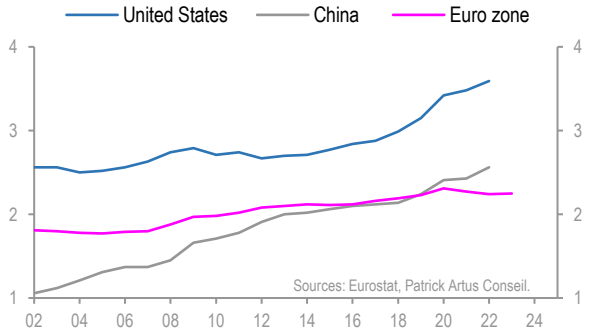
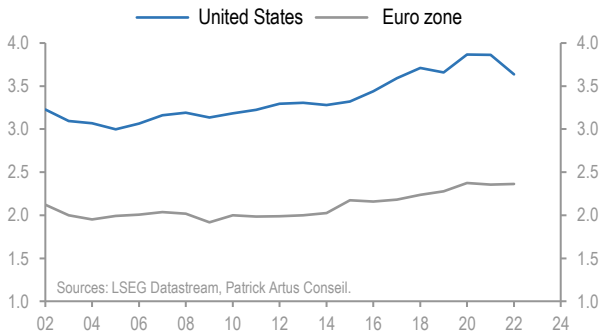


Chart 2
Total R&D spending (as % of nominal GDP)



The venture capital funds available are larger in the United States than in Europe or China (in 2024, venture capital funds raised reached $250 billion in the United States, $110 billion in China and $22 billion in Europe), which will help the United States to achieve a high level of investment in new technologies.

Chart 3
ICT investment including software
(in value terms, as % of nominal GDP)



But we must not forget the weaknesses of the American economy:

- A low-skilled workforce and dependence on immigration;
- De-industrialisation, high foreign debt and public debt;
- Risk of correction of stock market overvaluation;
- Low employment rate;
- Concentration of wealth, very high inequalities ;
- Poor infrastructure.

Six major weaknesses in the US economy

1. Low-skilled workforce, need for immigration

Table 1 shows the results of the 2023 PIAAC survey of adult skills, the results of which were published at the end of 2024.

Table 1: Results of the OECD PIAAC survey (2023, by decreasing score)

Country	Score
Finland	289
Japan	285
Sweden	281
Netherlands	276
Germany	267
France	253
United States	251
Korea	246
Spain	246
Italy	240

Source: OECD

As we can see, the skills of Americans are in short supply, which makes it necessary to have a high level of immigration (Chart 4), both of skilled people and of low-skilled people (Table 2).

Chart 4
United States: foreign-born population
(as % of the total population)



Table 2: United States: Structure of population aged 25 and over by origin and level of education (as %, 2023)

Educational Attainment	Resident population	Immigrant population*
Not a high school graduate	8.6	13.5
High school graduate	28.2	18.9
Some college/associate's degree	24.9	16.1
Bachelor's degree	23.5	25.6
Advanced degree	14.8	25.8

* Population that immigrated in 2023
Sources: US Census Bureau, calculations Patrick Artus Advisor

2. De-industrialisation, high external deficit, external debt and public debt

The United States is on a de-industrialisation trajectory (Chart 5), which explains the size of the trade deficit in goods (Chart 6) and the high level of external debt (Chart 7).

Chart 5
United States: Real value added in manufacturing
(as % of real GDP)



Chart 6
United States: Trade balance in goods and services
(monthly data, EUR bn)

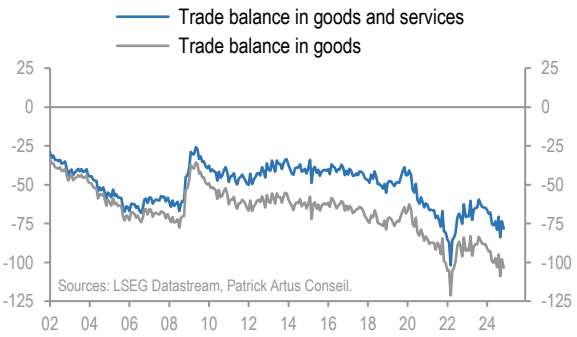
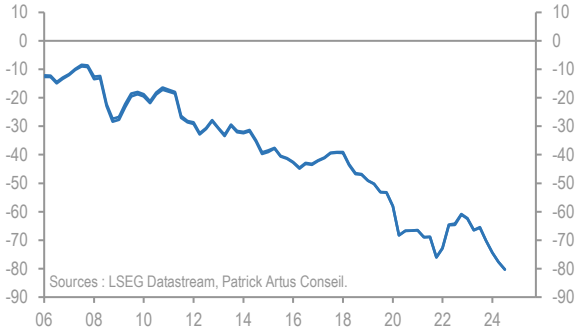
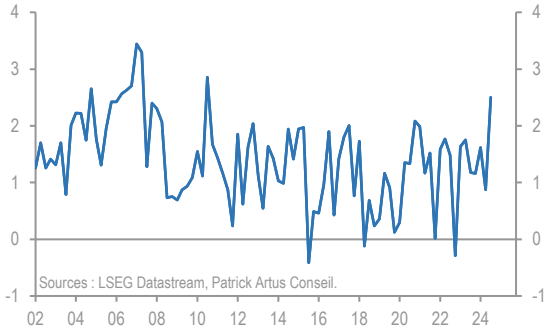


Chart 7
United States: Net external debt
(as % of nominal GDP)



The fact that there is a trade deficit and a public deficit implies that **the United States needs to attract long-term capital from the rest of the world, which is the case** (**Chart 8**).

Chart 8
United States: Direct and portfolio investment inflows
(as % of nominal GDP)



(*) Direct and portfolio investment inflows are capital inflows leading to an increase in liabilities (in this case for the United States) and therefore have a positive sign.

If the United States were to become less attractive, or if there were a conflict (trade, etc..) between the United States and other countries, the financing of the United States' foreign and public debt would be compromised.

3. Risk of a stock market crisis

Stock market indices in the United States have risen very rapidly in recent times (**Chart 9**), which is linked to both the rise in share valuations (**Chart 10**) and the high level of corporate profitability (**Chart 11**).

Chart 9
Stock market indices (01.01.2002 = 100)

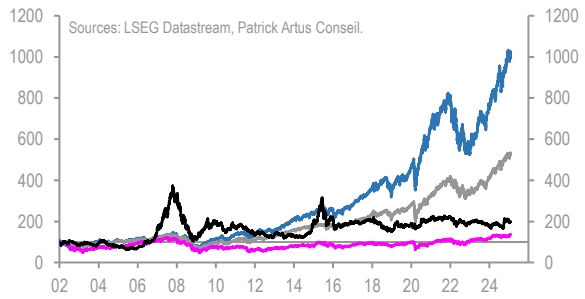
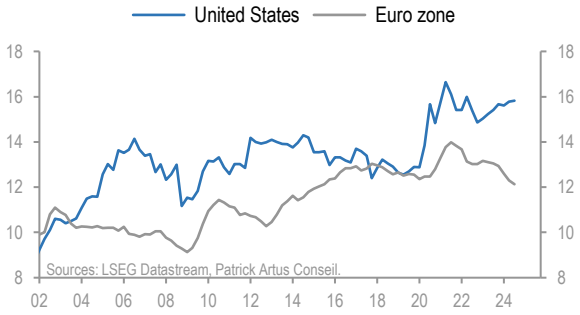


Chart 10
PER



Chart 11
Profits after tax and interest of non-financial corporations (as % of nominal GDP)

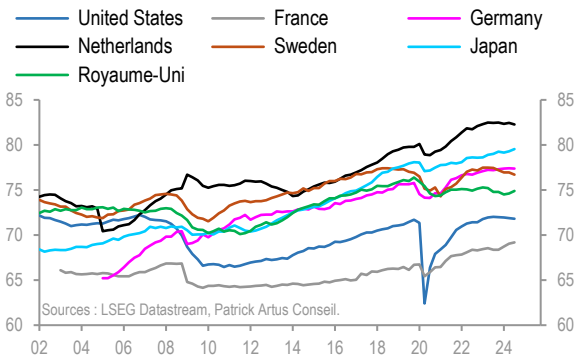


This creates a financial risk if there is disappointment about the supposed positive effects of artificial intelligence on labour productivity and therefore on company results.

4. Low employment rate

The employment rate of the population aged 15 to 64 is low in the US compared with Germany, Japan, Sweden, the Netherlands and the UK (**Chart 12**).

Chart 12
Employment rate of population aged 15 to 64 (as %)



This is the result of the low average qualifications of employees and the health problems of many Americans (14% of Americans are 'disabled', unfit for work, 29% of American adults have some form of disability). This is linked to the fact that 25% of Americans do not have a regular doctor, as well as the fact that 25% of Americans have not seen a doctor for more than a year because of the cost of healthcare.

5. Concentration of wealth and inequality

The concentration of wealth is high and growing in the United States (**Chart 13**), which means that decision-making power is confiscated by a small minority of people. Income inequality is also high and growing (**Chart 14**), with many Americans living below the poverty line (**Chart 15**).

Chart 13
United States: Share of national wealth held by the 1% of individuals with the highest wealth (as %)

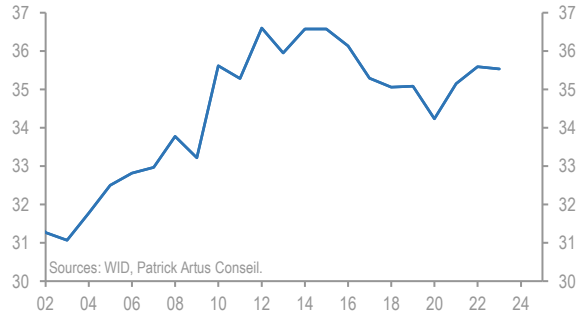


Chart 14
Gini index of income inequalities (after redistribution)

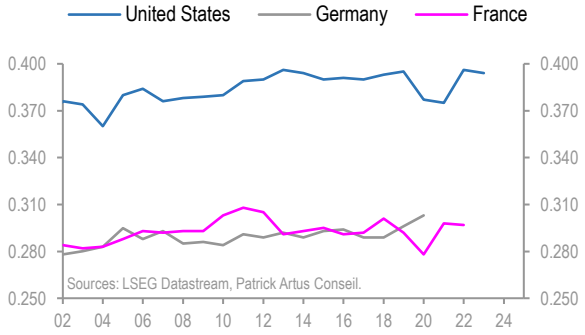
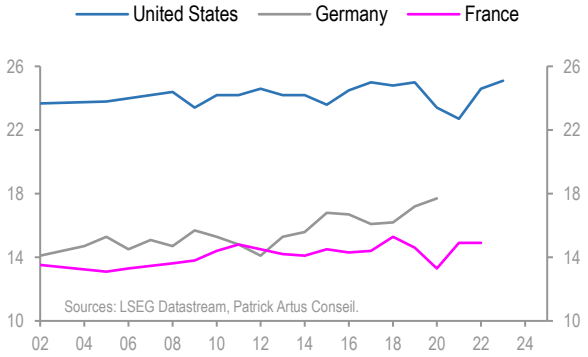


Chart 15
Poverty rate*



(*) Poverty rate based on disposable income, 60% of the national median disposable income

6. Poor state of infrastructure

Infrastructure (including transport infrastructure, electricity, water supply and school buildings) are in a poor state in the United States, which is why the Infrastructure Investment and Jobs Act of 2021 was introduced. For example, 45,000 bridges and 20% of roads are badly deteriorated, and 17% of Americans have no access to the Internet.

Summary: strengths and weaknesses of the US economy

The strengths of the US economy are well known: the drive to innovate and the abundant funding for innovation.
But its weaknesses are just as numerous: a low-skilled workforce, de-industrialisation, dependence on external debt, the risk of a stock market correction, low employment rates and health problems for many Americans, concentration of wealth and high levels of inequality, and poor infrastructure.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.