



# Infomail

November 16, 2015

## It's Never a Crisis Until It Is

One reason to Worry – Rising Debt Levels + Bad Demographics = ???

*“Liberals fostered the subsidies that have converted so many citizens to helplessness. They have made high taxes and big government a way of life. They have corrupted the politicians into believing that in order to be elected to office they must dispense benefits”*

James Cook, Scottish BBC Journalist

For the first time ever.....the number of seniors in Canada outnumber kids under 15. According to the latest population figures issued by Statistics Canada (Sept 29, 2015), seniors now make up 16.1% of Canada's population as of July 1, 2015, compared to 16.0% for Children between the age of 0 and 14.

This only confirms further evidence of a long projected shift in the country's demographic makeup, as predicted for many years by demographers such as “Boom, Bust, Echo” bestselling author David Foot. The numbers also came at a time when debt levels have already exploded (like Ontario and Quebec) and are projected to explode (Alberta, the Federal government).

These two shifts added together do not make for a happy ending.

Consider the following numbers as released recently from the results of a survey conducted by RBC Wealth Management:

- The median age went from 30 in 1981 to 40 in 2009
- The median age went from 40 in 2009 to 41.7 in 2014
- The proportion of seniors (people aged 65+) was 8% of the population in 1960, 14% in 2009, and projected to be 25% by 2036
- Among the 70 years and over crowd, there were 74 men for every 100 women in 2009
- Among the 80 years and over crowd, there were just 58 men for every 100 women in 2009

The figures show a fundamental shift in Canada's composition and are a signal that the time has come to confront looming challenges at hand. Not only Canadian policy makers, but policy makers around the world need to reorganize their societies to cater to the needs of aging populations. Much of Europe's woes can be attributed to bad demographic patterns as populations both shrank and got older in nations like Italy, Spain, Portugal, and yes, Greece.

The problem is, there is no political will to do the right thing, or even to initiate the debates.

Stats Canada said the latest figures were driven by a trend that shifted and took root in 2011 and has accelerated as the huge number of baby boomers, Canadians born between 1946 and 1965, kicked in. The growth rate for Canadians over age 65 was 3.5%, quadrupling the national average of 0.9%.

Baby boomers now account for 30% of the senior demographic.

David Foot says the latest figures represent the early days of a trend that is likely to persist for at least a decade. He also adds the most serious implication is a huge increased toll on Canada's health care system, especially with rapidly growing cases of dementia and the like.

He's been mostly right so far in his calls, so why would one disagree?

Even our own local Western University's social demography professor Donald Kerr has recently commented that the economic implications of an aging population are being powerfully illustrated in countries across Europe and Asia, many of which have significantly higher proportion of senior citizens than Canada currently does. He cited Japan as one with serious issues.

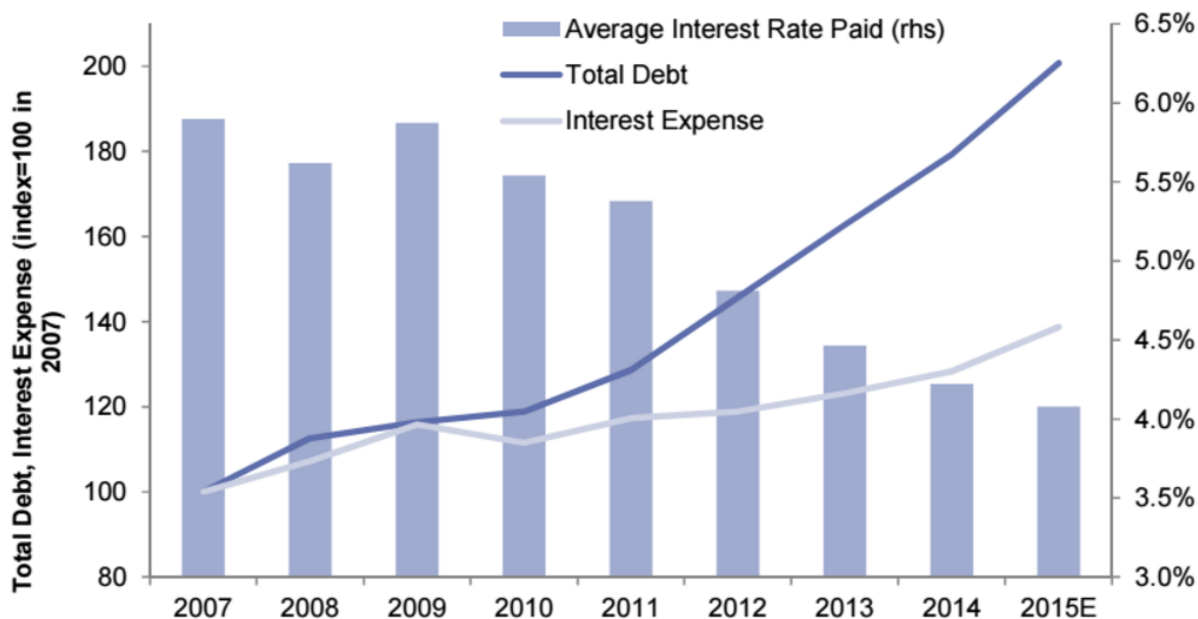
In provinces like Nova Scotia, New Brunswick and Newfoundland, deaths have begun to outpace births. This aligns with the Stats Canada report, which found Atlantic Canada to have the highest proportion of seniors over 65.

At the same time this demographic shift is happening, debt levels in North America have doubled.....just since 2008.

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**Exhibit 13: Debt Levels have more than doubled vs. pre-crisis levels**

Aggregate for North America coverage (ex-Financials)



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Source: Goldman Sachs Global Investment Research.

And despite seven years of zero interest rates and quantitative easing, interest payments have climbed. And what happens when rates rise?

Let's apply some simple math:

#### Example #1 – Ontario's Debt

Premier Kathleen Wynne tells us Ontario's debt stands around \$300 billion (I believe that figure is much larger, but let's give them the benefit of the doubt):

Total Debt	\$300 billion
Current Debt Servicing Costs ( <a href="http://www.fraserinstitute.org">www.fraserinstitute.org</a> )	\$11 billion
Additional Cost if Interest Rates Rise 1%	\$3 billion
Total Interest Cost with 1% Increase (Conservative estimate)	\$14 billion

2014-2015 Ontario Government Revenues from Taxation ( <a href="http://www.fin.gov.on.ca">www.fin.gov.on.ca</a> )	\$83.4 billion
Debt Payments Percentage of Total Tax Revenue	17%

#### Example #2 – Canadian Federal Government

Canadian federal Debt ( <a href="http://www.debtclock.ca">www.debtclock.ca</a> )	\$613 billion
Current Debt Servicing Costs ( <a href="http://www.fraserinstitute.org">www.fraserinstitute.org</a> )	\$30 billion
Additional Cost if Interest Rates Rise 1%	\$6.2 billion
Total Interest Cost with 1% Increase	\$36.2 billion
Federal Revenues From Taxation ( <a href="http://www.statcan.gc.ca">www.statcan.gc.ca</a> )	\$240 billion
Debt Payments as Percentage of Total Tax Revenues	15%

So even being conservative, with just a 1% rate increase, almost 20% of all government tax collections will be going solely to service interest payments on debts. That doesn't include the 80% or so that already goes to cover education and health care. So that would leave absolutely zero for social programs (pension, welfare, etc.), defense, infrastructure, transportation, public order and safety, agriculture, or anything else. Zero, zip, nada, niente, nullpunkt!

And that's making some very conservative assumptions:

1. The debt levels they tell us are true (I doubt it)
2. Interest rates rise only 1% (over time will be more)
3. Healthcare and Education costs don't rise (Good luck with that)

So what happens now?

Well, to reiterate, probably not much because as I've already stated there is ZERO political will to do the right thing. Why you ask? Because quite simply, a politician trying to do or say the right thing today would never, ever get elected. Reread the quote at the start of this Infomail. And those ringing up the debt checks won't be around when the woes hit and the music stops with no chairs available for anyone.

Speaking of debt clocks, want to see something scary? Take a look at these:

[www.usdebtclock.org](http://www.usdebtclock.org)  
[www.debtclock.ca](http://www.debtclock.ca)  
[www.eudebtclock.org](http://www.eudebtclock.org)

In fact, show your kids and grandkids. It may be too late to get the current generation to change and make some tough choices, but never too early to try to educate the next wave on the facts.

Remember, it's never a crisis until it is.

Just ask Detroit or Greece (where youth unemployment is >50%) what happens when the coffers are empty.

Let's keep our fingers crossed, I'm still hoping we do the right thing, but we are getting to a point of no return.

Stay tuned,

Vito Finucci  
Vice President and Director  
Investment Advisor

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