

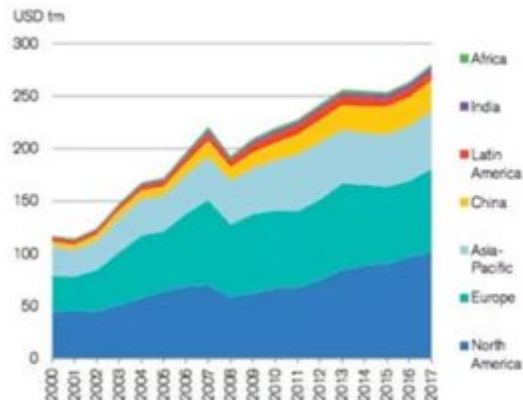
World Debt Is Rising Nearly Three Times As Fast

Some nasty dark clouds are forming on the financial horizon as total world debt is increasing nearly three times as fast as total global wealth. But, that's okay because no one cares about the debt, only the assets matter nowadays. You see, as long as debts are someone else's problem, we can add as much debt as we like... or so the market believes.

Now, you don't have to take my word for it that the market only focuses on the assets, this comes straight from the top echelons of the financial world. According to Credit Suisse Global Wealth Report 2017, total global wealth increased to a new record of \$ 280 trillion in 2017. Here is Credit Suisse's summary of the [*Global Wealth 2017: The Year In Review*](#):

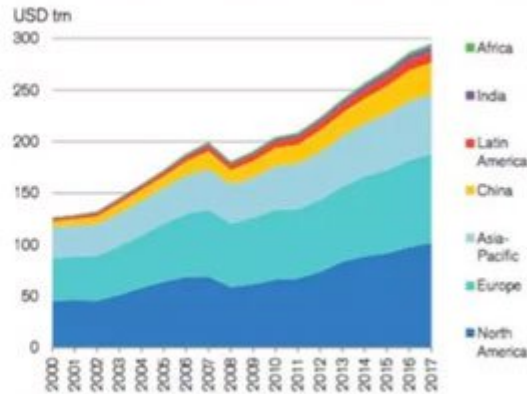
According to the eighth edition of the Global Wealth Report, in the year to mid-2017, **total global wealth rose at a rate of 6.4%, the fastest pace since 2012 and reached USD 280 trillion, a gain of USD 16.7 trillion**. This reflected widespread gains in equity markets matched by similar rises in non-financial assets, which moved above the pre-crisis year 2007's level for the first time this year. **Wealth growth also outpaced population growth**, so that global mean wealth per adult grew by 4.9% and reached a new record high of USD 56,540 per adult.

Figure 1
Total global wealth 2000–2017, current exchange rates



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2017

Figure 2
Total global wealth 2000–2017, constant exchange rates



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2017

This year's report focuses in on Millennials and their wealth accumulation prospects. Overall the data point to a "Millennial disadvantage", comprising among others tighter mortgage rules, growing house prices, increased income inequality and lower income mobility, which holds back wealth accumulation by young workers and savers in many countries. **However, bright spots remain, with a recent upsurge in the number of Forbes billionaires below the age of 30 and a more positive picture in China and other emerging markets.**

There are a few items in the Credit Suisse's summary above that I would like to discuss. **First, how did the world increase its global wealth at a rate of 6.4% in 2017 when world oil demand only increased 1.6%??**

Global Oil Demand (2016-2018)															
million barrels per day ¹															
	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018
Africa	4.4	4.4	4.2	4.3	4.3	4.5	4.3	4.3	4.4	4.4	4.5	4.4	4.3	4.5	4.5
Americas	31.1	31.1	31.7	31.4	31.3	30.9	31.5	31.7	31.7	31.4	31.1	31.6	32.0	31.8	31.6
Asia/Pacific	33.4	32.8	32.2	33.3	32.9	34.2	33.9	33.2	34.4	33.9	35.0	34.5	34.0	35.4	34.7
Europe	14.3	14.7	15.2	14.9	14.8	14.8	15.1	15.5	14.8	15.0	14.6	15.0	15.5	15.1	15.0
FSU	4.6	4.6	4.9	4.9	4.8	4.6	4.7	5.0	4.9	4.8	4.7	4.8	5.1	5.0	4.9
Middle East	7.9	8.4	8.7	8.1	8.3	7.9	8.5	8.7	8.1	8.3	8.1	8.5	8.8	8.2	8.4
World	95.6	95.8	96.9	97.0	96.3	96.7	98.0	98.3	98.3	97.8	98.0	98.8	99.7	100.0	99.1
Annual Chg (%)	2.1	1.3	0.7	1.5	1.4	1.2	2.3	1.5	1.4	1.6	1.3	0.8	1.4	1.8	1.3
Annual Chg (mb/d)	1.9	1.3	0.7	1.5	1.3	1.2	2.2	1.5	1.3	1.5	1.2	0.8	1.4	1.7	1.3
Changes from last OMR (mb/d)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.1	0.2	0.1	0.1	0.3	0.3	0.2

¹ Including biofuels

table from IEA - International Energy Agency Dec 2017 Oil Market Report

As we can see from the IEA – International Energy Agency's

Global Oil Demand table above, total world oil demand only increased 1.6% over last year. Thus, the rate of increase of global wealth of 6.4% in 2017 was four times higher than the 1.6% increase in world oil demand. I would imagine some readers would stand on their soapbox and emphatically claim that energy has nothing to do with wealth creation. Unfortunately, these individuals somehow lost the ability to reason along the way. And we really can't blame them for making such an absurd remark because they probably believe their food magically appears on the Supermarket shelves.

Second, the financial wizards at Credit Suisse reported that global wealth also outpaced the population growth. What they are suggesting here is that the "Millennials" who (many) are becoming wealthier by sitting in front of a screen and clicking on a mouse than their grandparents (the poor slobs) who were mainly working in the manufacturing industry by producing real things.

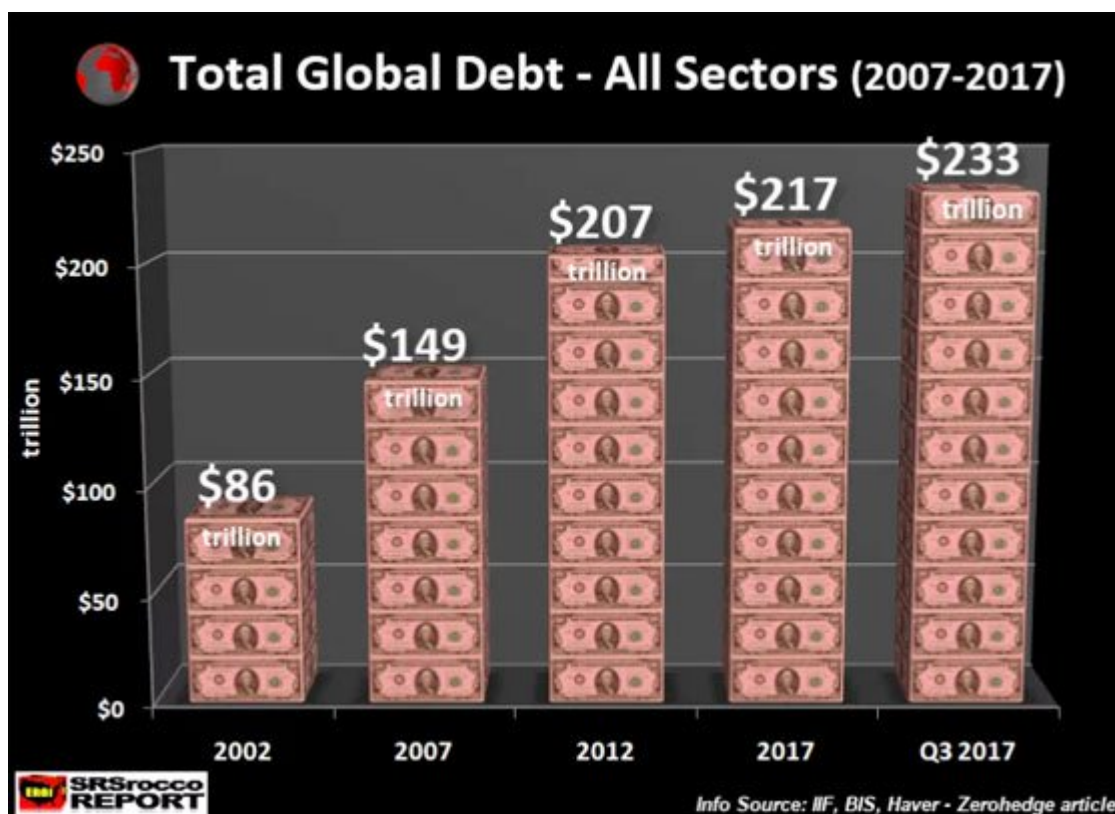
Third, while the Credit Suisse analysts stated that the Millennials were facing some disadvantages, there was a bright spot with a recent surge in the number of Forbes billionaires below the age of 30. Well, ain't that a lovely statistic. **What once took an individual at the ripe old age of 55-70 years to achieve a billionaire status, now can be done right out of college.** It's probably not a good sign for the economy going forward that we are seeing more billionaires below the age of 30.

Global Debt Is Destroying Real Wealth

Okay, now that we know the global wealth reached a new record high in 2017, what about the other side of the story? You know... the debt. As I mentioned in my previous article, ECONOMICS 101 states:

NET WEALTH = ASSETS – DEBTS

Now, that equation above is a simple one... kind of like $2 + 2 = 4$. However, the financial industry likes to focus on the assets and not the debts. But, according to a recent article on Zerohedge, [Global Debt Hits Record \\$ 233 Trillion, Up \\$ 16Tn In 9 Months](#), the world added more debt in 2017 than total U.S. GDP:

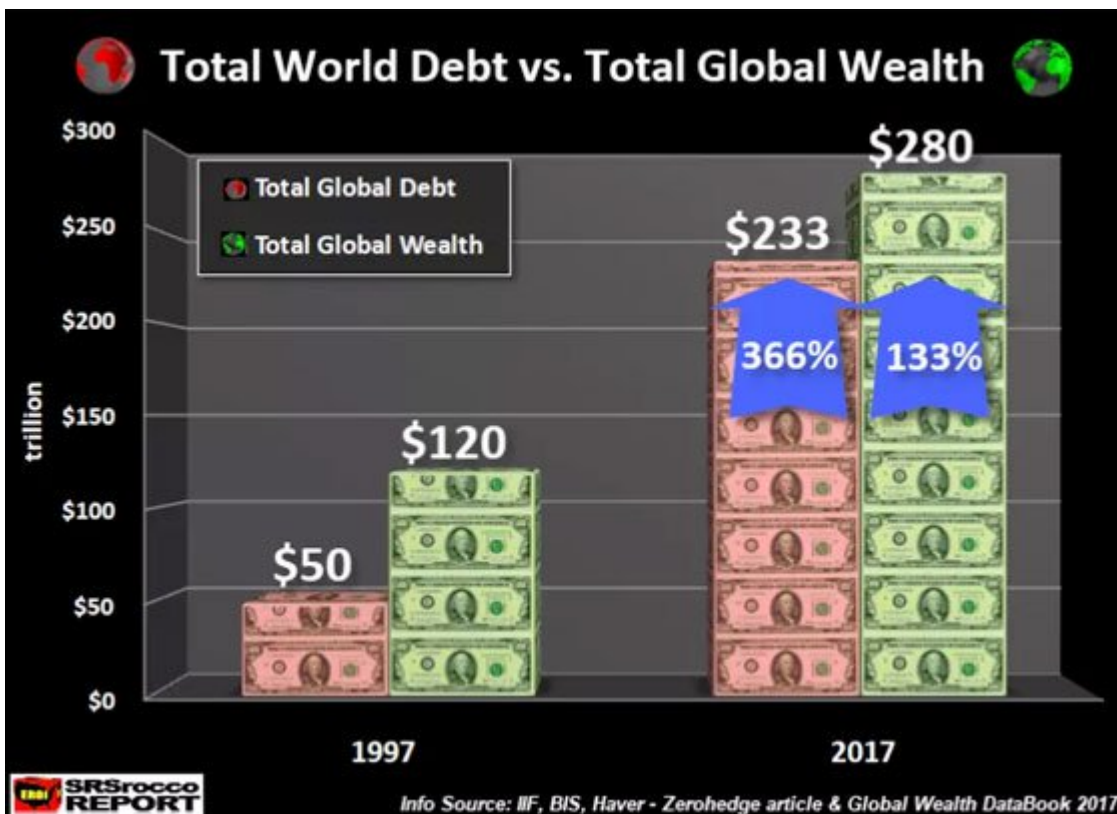


As we can see, total global debt increased from \$ 217 trillion at the beginning of 2017 to \$ 233 trillion in the third quarter of 2017. That is a \$ 16 trillion increase in global debt in just nine months. While U.S. GDP hit \$ 19 trillion in Q3 2017, if we add another quarter for the increase in global debt, it could surpass \$ 20 trillion for the entire year.

So, even if global wealth surged in 2017, so did world debt. **According to the data, global wealth increased by \$ 16.7 trillion in 2017 while global debt expanded \$ 16 trillion... nearly one to one.** However, this is only part of the story.

If we look at the increase in total world debt and total

global wealth over the past 20 years, we can see a troubling sign, indeed:



Since 1997, total global debt increased from \$ 50 trillion to \$ 233 trillion compared to the rise in global wealth from \$ 120 trillion to \$ 280 trillion. There are two disturbing trends shown in the chart above:

1. Global Debt has increased 366% vs. 133% for Global Wealth since 1997
2. Net Wealth was \$ 70 trillion in 1997 versus \$ 47 trillion in 2017

If we compared the percentage increase in global debt versus global wealth, global debt is rising at nearly three times the rate of global wealth. **Furthermore, doing simple arithmetic by subtracting DEBTS from ASSETS, global net worth fell from \$ 70 trillion in 1997 to \$ 47 trillion in 2017.**

By putting the numbers together, right in front of our eyes, we can clearly see that the world is going broke by adding debt. Basically, we erased \$ 23 trillion in Global Net Wealth

in the past 20 years. However, I believe the situation is much worse than the figures shown above. For example, I came across an article several months ago on Zerohedge that also reported the increase in global debt, stated it did not include FX Swaps, etc. According to their data, Foreign Exchange Swaps likely exceeded \$ 13 trillion. FX Swaps are more short-term debt instruments, but they are still debt instruments.

Moreover, we have no idea what other nasty debts or obligations are hidden out of sight of the public. Regardless, if we were just to include the FX swaps worth \$ 13 trillion, the estimated net worth of Global Wealth would only be \$ 34 trillion ($\$ 280 - [\$ 233 + \$ 13] = \$ 34$).

The Percentage Of World Gold Investment To Global World Assets Is Much Higher Than We Realize

Now, here's how the financial situation gets really interesting. If we go by NET WEALTH, then the value of global gold investment as a percentage of world assets, IS MUCH HIGHER. According to the typical financial asset allocations, precious metals comprise approximately 1% of total global assets. The following chart shows that total global gold investment is valued at \$ 3 trillion and silver at \$ 51 billion (based on \$ 20 silver, last year):



Thus, \$ 3 trillion in the value of world gold and silver investment equals a little bit more than 1% of the \$ 280 trillion in global wealth. However, if we are clever and remove the debts, the real NET WEALTH is closer to \$ 34 trillion. **Thus, total world gold and silver investment comprises nearly 10% of GLOBAL NET WEALTH, or ten times higher than it is currently valued.**

Furthermore, we must remember, physical gold and silver, purchased and held in one's hand has no debt attached to it. Of course, this assumes that an individual didn't take a loan out against their precious metals holdings. Thus, the precious metals have always been the highest quality stores of wealth for 2,000+ years... even though the Millenials forgot about them for the promise of millions of Crypto profits.

Unfortunately, the situation is much worse than what the figures in the charts above reveal. Why? Because, the only way that debts can be paid down is if we have another \$ 233 trillion worth of profits from economic activity, correct? Now, I am not talking about \$ 233 trillion in costs; I am

talking about PROFITS. Big difference.

To pay back \$ 233 trillion in debts, we have to burn one hell of a lot of energy... don't we? That's correct; we have to burn energy to create economic activity. And not just plain ole economic activity, PROFITABLE economic activity. **Well, we are in BIG TROUBLE because we have been burning one hell of a lot of oil (95+ million barrels per day), but global debts are increasing faster than global wealth.**

So, it's just a matter of time before GRAND FACADE comes crashing down.

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