Personal consumption, business investment, government spending and net exports all contribute to economic growth. Yet it is the labor force that provides fuel for that engine. Take a look at who will be steering this vehicle in the future.

ENSIGN WEALTH MANAGEMENT

DEMOGRAPHIC DRIVERS OF GROWTH

Overview

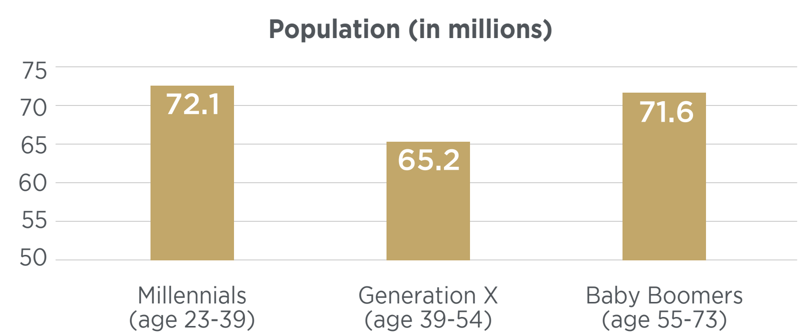
Economists have been cautioning for quite a while that the wind-down of the senior population and the retirement of baby boomers does not bode well for the U.S. economy — or anywhere else in the world, for that matter. The reality is that an aging population coupled with declining birth rates doesn't add much in the way of fuel for future economic growth.[1] This creates a situation in which fewer workers and fewer consumers will be contributing to the country's gross domestic product (GDP).

There are two key determinants for the economy's long-term growth rate: (1) labor force growth and (2) structural productivity growth, which is the combination of workforce plus capital to generate production. This slowdown is not a new story. Not only have American manufacturing jobs been outsourced overseas over the past two decades, but the number of new startups in industries such as technology also have been declining.

There are several contributing factors for this, such as the dramatic economic setbacks the U.S. has experienced. During the Great Recession, workers lost jobs, small businesses closed, people lost their homes and consumer spending dropped. Since then, it has become more expensive to start a new business in the wake of the high cost of real estate and providing health care, flexible benefits and competitive wages in an era of record low unemployment.

And now, a pandemic and the phased closing and reopening of economic centers across the U.S. have put another major strain on the economy. The confluence of all these factors do not present a strong foundation for long-term economic growth. Therefore, we need to look at one of the United States' strongest assets to drive our future prosperity: our people.

America's Current Workforce: By Demographic[2]



"'Demography is destiny' is an oft-cited phrase that suggests the size, growth and structure of a nation's population determines its long-term social, economic and political fabric."[3]

Millennials

The millennial demographic, born between 1981 and 1996, is now the largest generation in the country. In terms of skills and knowledge, they tend to be well-educated, tech-savvy, independent and entrepreneurial. They currently represent roughly half of the U.S. workforce and are projected to account for a full 75% by 2030.[4]

That's a particularly remarkable scenario, considering that most millennials came of age to enter the workforce during the Great Recession when there were few jobs available. As a result, that experience influenced many of their life choices in terms of jobs pursued, demands for earnings and work flexibility, delayed timing for marriage and starting a family, and consumer buying choices — frequently preferring experiences over goods.

Economists now predict that the long-term effects of the millennial "slow start" in the workforce and spending habits may impact the American economy for decades. However, there's another side to that equation that has nothing to do with millennial earning potential. Worldwide, millennials collectively command more than $170 billion in purchasing power[5] and, in North America alone, are poised to inherit more than $30 trillion over the next 30 years.[6]

With so much size and wealth at their disposal, this cohort of young adults is expected to have an immense influence in shaping corporate and government practices to a scale even greater than that of the legendary baby boom generation. Whatever they need, corporate America and governments at every level will move mountains to provide.

Centennials: Generation Z

While baby boomers, Gen Xers and millennials all have had sufficient exposure to the technological revolution that spawned the internet, Wi-Fi and smartphones, there was somewhat of an adaptation and learning curve. Not so with Generation Z. Those born in 1997 and beyond — the majority after the centennial celebration — are a generation with no memory of a time when they couldn't access informational and educational content on demand.

Gen Z has never had to wait for a morning newspaper or television news to learn what happened overnight. They've never known the limited knowledge base of an encyclopedia or been encumbered by a dictionary to learn the meaning of a word. They are connected to each other and up-to-the-minute breaking news 24 hours a day, 365 days a year. The world, with all of its knowledge and bounty, is literally at this generation's fingertips — and has been for as far back as they can remember.

There appear to be pros and cons of growing up in an "always on" technological environment. The ability to learn, judge and develop opinions is no longer controlled by parents and schools; today's children can find out anything they want to know as soon as they learn to read. This worldly exposure has led to dramatic shifts in the attitudes, behaviors and lifestyles of today's youth.[7]

Generation Z is also the most racially and ethnically diverse generation, with non-Caucasians accounting for nearly half (48%) of this demographic. According to projections by the U.S. Census Bureau, today's 6- to 21-year-olds are expected to become a nonwhite majority within just six years.[8] By the time the eldest cohort of this generation is closing in on age 30, they will be thoroughly immersed in the U.S. workforce and a significant influence on government policy.

Like previous generations, Gen Z workers will gravitate to where the jobs are. For the foreseeable future, that means working in the health care, technology, financial services and education sectors.[9]

As an interesting side note, researchers believe that the post-millennial generation will continue the recent trend of declining birth rates. They say that Gen Z women are more likely to be well-educated and engaged in the workforce and, therefore, more likely to remain childless than earlier generations.[10] Given that our economic future is challenged by a reduced labor market, this trend could handicap the economy even further down the road.

Immigrants

In 2017, the U.S. foreign-born population reached 44.4 million, and today — even with the reduction of immigrants allowed to enter the U.S. in recent years — represents about 13.6% of the nation's population. Among them, more than three-quarters (77%) are in the country legally and make up the majority of the immigrant workforce, at 21.2 million. An additional 7.6 million immigrants are unauthorized workers.[11]

Economists claim that immigrants, both legal and undocumented, are necessary to help shore up economic losses expected due to the labor shortage and aging population draining government entitlement programs. They do this in several ways. For example, immigrants pay a great deal into the government funding system via federal and state income, Social Security, Medicare, property and local sales taxes. Consequently, the net contribution immigrants make to the economy and government resources is far greater than their net benefit. In short, they are helping programs like Social Security and Medicare remain viable.

On the other side of the coin, a net reduction of immigrants would negatively impact many U.S. industries. First of all, according to the U.S. Census, nearly half of all immigrants who entered the country between 2013 and 2018 were college graduates.[12] This suggests they helped backfill many of the professional jobs left vacant by educated, retiring baby boomers.

However, it's immigrant willingness to take low-paying, no-benefit jobs Americans do not want that perhaps contributes most to the economy. Without undocumented workers, industries that rely on this population — including agriculture, construction, leisure and hospitality — would likely shrink due to the labor shortage.[13]

The final factor is the additional spending power immigrants contribute to the economy as consumers. Unlike higher-earning demographics, much of immigrant income goes back into the economy through the purchase of goods and services, which, in turn, helps create more jobs.

Labor Market and the Economy

Economists have studied not just how numbers of various demographics may impact the economy but the age of workers as well. Because older workers tend to remain with the same employer longer than today's young adults, they develop a deeper level of knowledge and experience, which is a positive factor for overall job growth. However, older workers who choose to remain at jobs for which they may be unsuited is considered an offsetting negative factor for overall job growth.

In fact, longitudinal studies have demonstrated that optimum labor force productivity is achieved through a hump-shaped work cycle; in other words, the typical career in which a young adult enters the workforce with little experience, gains skills and knowledge mid-career, and then tapers off new learning toward the end of his or her career. Research also shows that individual productivity and the capacity for innovation peaks between the ages of 30 and 40. Interestingly, that age profile has shifted older as life expectancy has increased.

Regardless, the takeaway is that older people in the American workforce reduces the pool of high productivity expansion and, therefore, could have a dampening impact on economic growth over the long haul. In fact, economists project that future growth rates will run consistently lower than the 3% to 3.5% rate the U.S. witnessed during the 1980s and 1990s — barring some type of counterbalance policy response by the government.

Clearly, a reduced labor force will lead to lower consumption, which historically has been a leading driver of economic growth. However, other factors contribute to lower consumption as well. For example, without significant reform, the cost of health care will continue to rise, further shrinking worker discretionary funds. With increased longevity, workers will need to save and invest a larger portion of their income to provide for their retirement years. A higher population of aging seniors also will shrink the available housing market. In short, the country's altered composite of age distribution could significantly reduce output and disrupt the traditional business cycle.[14]

Final Thoughts

While demographics have always played a role in economic growth, and will continue to do so, there are ways to strengthen other drivers of growth to compensate for labor shortages going forward. Despite the fear that advanced technology such as artificial intelligence robots will eliminate jobs, there is also the opportunity to use tech to replace low-paying, rote production jobs that few people want, while providing more higher education and training opportunities to fill knowledge-based jobs. This would allow all working demographics to earn more, save more and still have plenty of discretionary income to put back into the economy.

Ultimately, demographics are not the end-all and be-all that determine the fate of U.S. economic growth. One of our greatest strengths is the ability to adapt to changes brought forth by innovation and population growth, so it stands to reason that the country will be able to adapt to a smaller workforce. A positive takeaway is that the demographics poised to contribute the most to the economy's growth potential already have a tremendous head start when it comes to higher education aspirations and exposure to rapidly changing technology.

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