As we see it

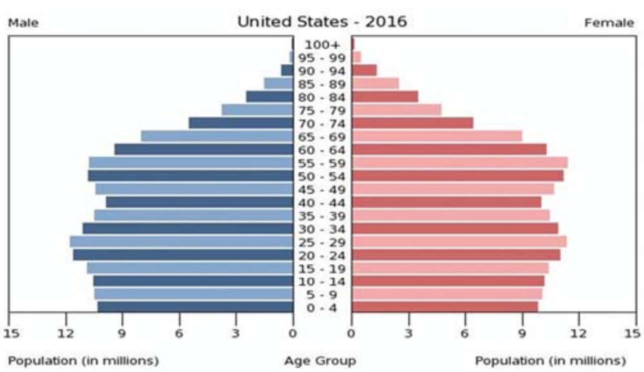
May 2019

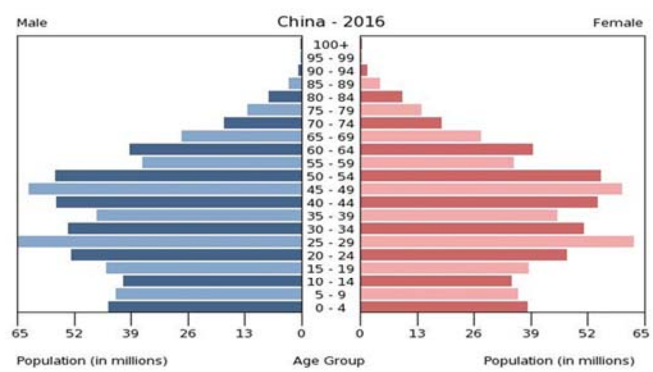
"Demographics is Destiny"
- Jeff Kemp, author

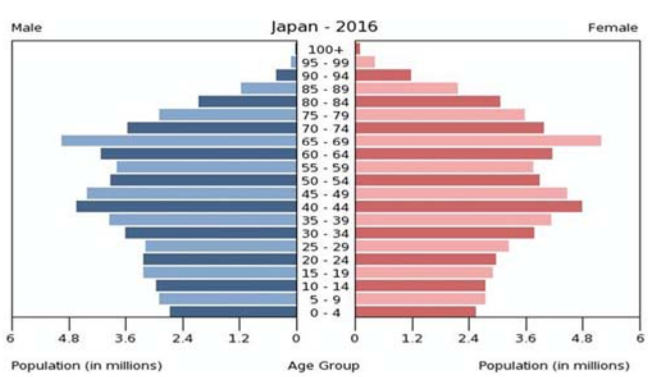
As we look ahead at the economic prospects of the United States relative to other markets, demographics are one of our advantages. There is no doubt that the United States has plentiful natural resources and financial capital. Human capital is the third key ingredient that must also be abundant for the economy to grow.

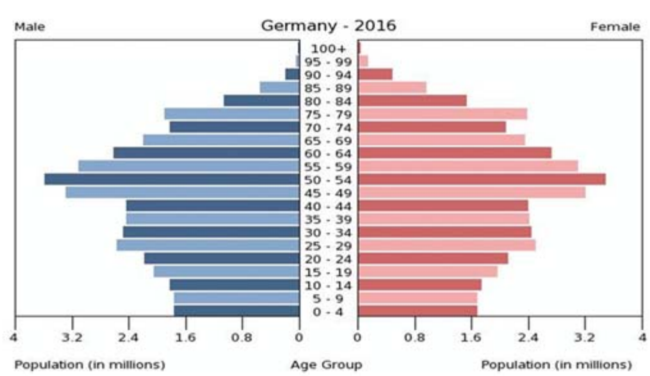
Demographics influence economic growth because it has implications for the labor force, savings, investment, and public sector spending. All these relate to economic productivity which increases due to accumulation of capital, combined with organizational and technological change. Human capital shifts based on demographics over time, and the current trend for the United States appears favorable relative to other large economies.

Historically, the age dispersion of the U.S. was shaped like a pyramid—similar to other economies—where the largest percentage of the population was among the youngest. Longer life expectancy and lower overall birth rates have shifted the pyramid into a rectangle for the United States. This change is still far better than the inverted pyramid we see in many of the larger foreign economies. Among global peers, the U.S. has held one of the higher birth rates among the largest economies.









In the prior century, China's population growth was staggering and drove its economy due to its large and growing workforce. After the population growth of the 20th century, China instituted policies that limited births below the natural replacement rate. As a result, China's population is aging and lacks the backfill of younger generations which could slow the economic growth delivered in recent decades. As the population ages, heavier social costs will be necessary which will shift capital away from potentially more productive sources. Relaxed birth policies and different family planning would help correct the current situation, but it will still require time to impact entrants to the workforce.

Moving west, the European Union (EU) currently has a larger population than the United States but is facing its own *baby crisis*. Germany, the largest nation and economy in Europe, has one of the more dire fertility rates at 1.36 children born per female—well below the 2.1 child replacement rate considered necessary to stabilize the population. Increasing immigration in the EU may help lower the average age, but current immigration rates have yet to significantly alter the overall population trends. Across the continent only Turkey has a younger median age of citizens and higher birth rates than EU member nations, but it remains a candidate—not yet a member—of the European Union.

A benefit of the changing demographics in the United States is the average age of the workforce is decreasing. Currently, Millennials (ages 19-38) are the largest adult generation in the United States and outnumber even the Baby Boomers. On average, Millennials pursue higher levels of education and young adult households are earning more than most older Americans did at the same age. Following the Millennials, Generation Z (ages 1 to 18) are about to enter the workforce and are projected to be better educated than Millennials. The outlook for the U.S. labor force looks favorable for at least the next few decades. While the outlook for economic growth is never certain, the United States appears to have all three sources of capital entrenched for the years ahead.

United States Demographics				
Generation	**Born**	**Age (in 2019)**	**Census**	**% of Population**
The Greatest Generation	1901-1926	93+	1,437,411	0.5%
The Silent Generation	1927-1945	74-92	22,402,866	7.3%
Baby Boomers	1946-1964	55-73	61,582,789	19.9%
Generation X	1965-1980	39-54	69,646,448	22.6%
Millenials	1981-2000	19-38	83,889,852	27.2%
Generation Z	2001-2019	1-18	69,786,172	22.6%