



## Market Commentary: The Slow Aging of America and Its Impact on Future Growth

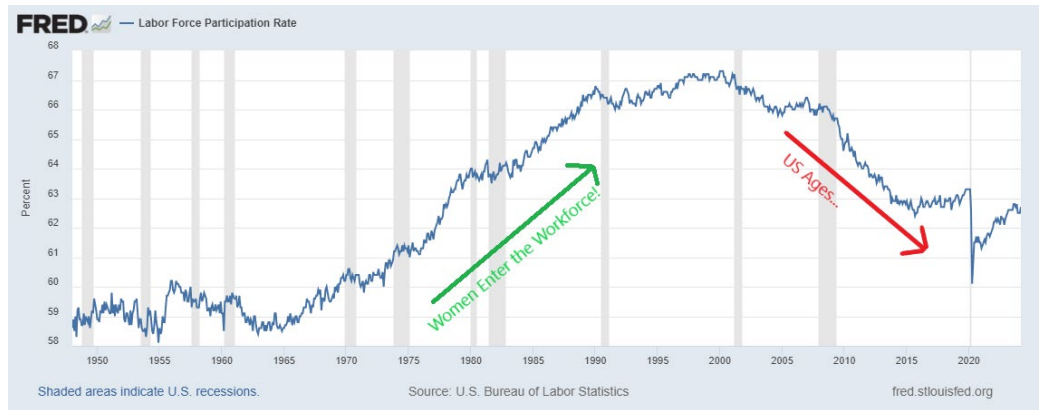
April 2024

Within both our [recent commentaries](#) and [podcasts](#), we have focused quite a bit on the expectation and effects of US onshoring of manufacturing, increasing positive disruption from automation and robotics and monitoring the new interest rates and inflation regime. Demographics, which measure the population based on certain factors such as age and race, will both be affected by and have an effect on these trends. Demographics impact on these trends, and vice versa, raises a number of questions in regard to the future of the US economy. For instance, will an aging US population be able to keep up with strong job demand that may only increase given US onshoring? Or will robots effectively compete, resulting in the need for increased government support of its citizens, for instance a universal basic income?<sup>1</sup>

Demographics are incorporated within the US Labor Force Participation Rate, one of our favored indicators in regard to the health of the job market. The participation rate measures the ratio of (a) the population that is either working or actively looking for work as compared to (b) the entire population.<sup>2</sup> In the below chart, one can see the effect of women entering the workforce in a significant way from the late '60s through the '80s and then the aging of our nation more recently.<sup>3</sup>

One can expect the participation rate to continue to decline given the rather steady participation rate of 82% for prime working age individuals (ages 25 - 54) over the last 20 years coupled with an aging population. As is a relatively consistent theme within our commentaries, despite our aging population, America is young relative to

Stay Tuned for Our Upcoming [Podcast](#) with James Meyer, Principal and Portfolio Strategist with Prudential Group Investment Management (PGIM). We will discuss how changing demographics may affect interest rates and inflation!



<sup>1</sup> While still a fringe view, some politicians, such as Andrew Yang, advocate for a universal basic income where everyone receives a guaranteed minimum income.

<sup>2</sup> As compared to the unemployment rate which seems to be preferred by the media most likely due to its volatility but which only measures those actively seeking a job over the last four weeks that cannot find one.

<sup>3</sup> Woman participation: [Working Women: Data from the Past, Present and Future | U.S. Department of Labor Blog \(dol.gov\)](#); Aging Nation: [How Far Is Labor Force Participation from Its Trend? - San Francisco Fed \(frbsf.org\)](#)





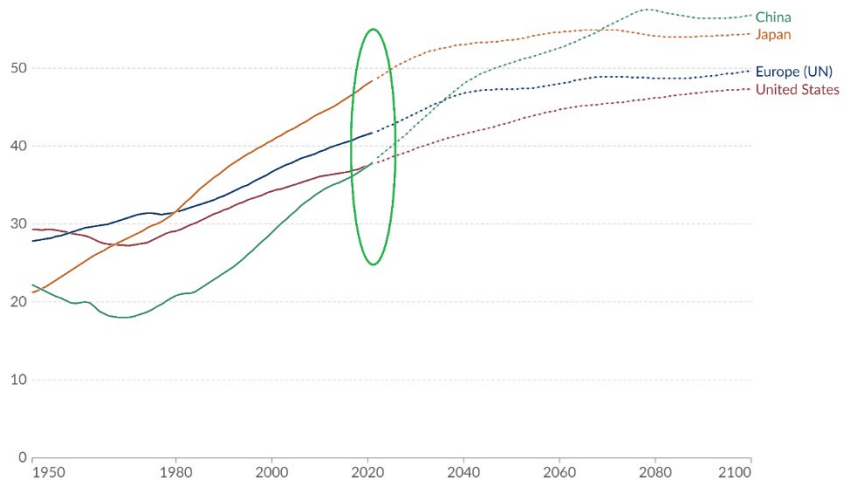
most developed countries and as compared to China, which is aging rapidly. While the median age in America is approaching 39 years of age, Europe is approaching 45 and Japan 50! China is roughly our age but is aging at a much fast pace than us.<sup>4</sup>

Due to great advances in medicine, people are living longer and, thankfully, aging healthier, resulting in a larger portion of developed countries being of advanced age. Interestingly, Japan's participation rate has increased over the last decade from the high 50's to a rate similar to the US despite an older median age and a significantly larger cohort as a % of the population above 65 years of age. This discrepancy is due to the fact that there is a larger portion of the over 65-year-old cohort participating in the workforce. The trend of an increasing % of older people participating in the workforce is happening here in the US as well, albeit more slowly. Our intuition is that this is a function of a healthier (positive) population but also one that requires work in order to survive given lackluster savings (negative).<sup>5</sup>

## Median age

The median age splits the population into two equal groups, with as many people older than it as people younger than it. Future projections are based on the UN medium-fertility scenario<sup>1</sup>.

Our World  
in Data



Data source: United Nations, World Population Prospects (2022)

OurWorldInData.org/age-structure | CC BY

1. UN projection scenarios: The UN's World Population Prospects provides a range of projected scenarios of population change. These rely on different assumptions in fertility, mortality and/or migration patterns to explore different demographic futures. [Read more: Definition of Projection Scenarios \(UN\)](#)

We do not mean to be agist here, but most of the research we see points to a decline in economic growth as the population ages, primarily due to a decrease in the supply of labor and somewhat due to a reduction in productivity growth<sup>6</sup>. Ultimately, prime age workers earn more than they consume, while the young and elderly spend more than is earned. As the participation rate declines, logically, the burden of workers supporting all consumers, whether directly or via taxes, increases.

It is interesting to consider if developed market populations are both declining and aging at the exact right time given the advent of AI, robotics and other technologies promising to make many jobs defunct?

<sup>4</sup> It is a funny and counterintuitive thought. Don't we all age at the same rate? It is a function of birthrates and immigration.

<sup>5</sup> The US and Japan annoyingly, use different age levels in providing data so it is a touch hard to compare. Directionally, 60.4% of men between the age of 65 - 69 work in Japan, up from 48.6% two decades ago and 25.6% of those 70 and above as compared to 24.8% two decades ago (though it dropped under 20% a decade ago). Meanwhile, 31.4% of men aged 65 - 74 work in America, up from 25.5% two decades ago and 11.1% of men 75+ as compared to 7.6% two decades ago. [Why Does the Older Population in Japan Work So Much?. Japan Labor Issues Volume 6 Number 39, October, 2022 \(jil.go.jp\)](#); [Civilian labor force participation rate by age, sex, race, and ethnicity : U.S. Bureau of Labor Statistics \(bls.gov\)](#)

<sup>6</sup> Examples include: [The Effect of Population Aging on Economic Growth | Stanford Institute for Economic Policy Research \(SIEPR\)](#), [Cost of Aging -- Finance & Development, March 2017 \(imf.org\)](#). In regards savings, the data is quite nuanced but higher earning families generally have retirement accounts (~90%+ for top two deciles of income) and the bottom generally have none (13.4% for the bottom two deciles) which leads to general reports of financial insecurity affecting 40% of retirees believable. [The Fed - Chart: Survey of Consumer Finances, 1989 - 2022 \(federalreserve.gov\)](#)





## Deep Thought: Happiness and Well Being

GDP, population statistics and job characteristics may provide some indications reflecting the happiness and well-being of a country's population, but it does not tell a full story. I am not sure "happiness" is a pure goal, perhaps measuring life "satisfaction" would be a more meaningful measure. However, there is a bit more of a ring to the "World Happiness Report" that has just been issued. The 10 most happy countries are a composite of smaller northern European countries with the outlier of Israel ( the happiest by far of the middle eastern countries and sporting the 2<sup>nd</sup> happiest youth in the world) and Australia. The 10 least happy countries are a bit easier to guess with Afghanistan ranked as the least happy country in the world, with a composite of war torn, desperately poor and/or problematic governance materially negatively affecting populations. I included Yemen as #11 least happy given they have been in the news as of late.

Happiest 😊 + America 😞

**Table 2.2: Ranking of life evaluations by age group, 2021- 2023**

Country	All Ages	The Young	Lower Middle	Upper Middle	The Old	Happiest	Least Happy
Finland	1	7	1	1	2	Old	Young
Denmark	2	5	3	4	1	Old	Young
Iceland	3	4	4	2	5	Young	LowerMiddle
Sweden	4	18	8	3	4	Old	Young
Israel	5	2	2	7	18	Young	Old
Netherlands	6	9	5	5	7	Old	Young
Norway	7	20	6	6	3	Old	Young
Luxembourg	8	6	11	8	12	Young	LowerMiddle
Switzerland	9	13	9	11	14	Young	UpperMiddle
Australia	10	19	14	10	9	Old	LowerMiddle
United States	23	62	42	17	10	Old	LowerMiddle

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Saddest 😞

Country	All Ages	The Young	Lower Middle	Upper Middle	The Old	Happiest	Least Happy
Yemen	133	135	135	136	129	Young	UpperMiddle
Zambia	134	136	131	138	142	Young	Old
Eswatini	135	134	134	137	136	Young	UpperMiddle
Malawi	136	137	140	135	132	Young	LowerMiddle
Botswana	137	133	133	140	140	Young	Old
Zimbabwe	138	139	138	139	137	Young	UpperMiddle
Congo (Kinshasa)	139	140	137	134	139	Young	Old
Sierra Leone	140	141	136	132	133	Old	LowerMiddle
Lesotho	141	138	141	142	138	Young	UpperMiddle
Lebanon	142	142	142	141	141	Young	Old
Afghanistan	143	143	143	143	143	Young	Old

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<sup>7</sup> [Read the Reports | The World Happiness Report](#)

<sup>8</sup> [Read the Reports | The World Happiness Report](#)

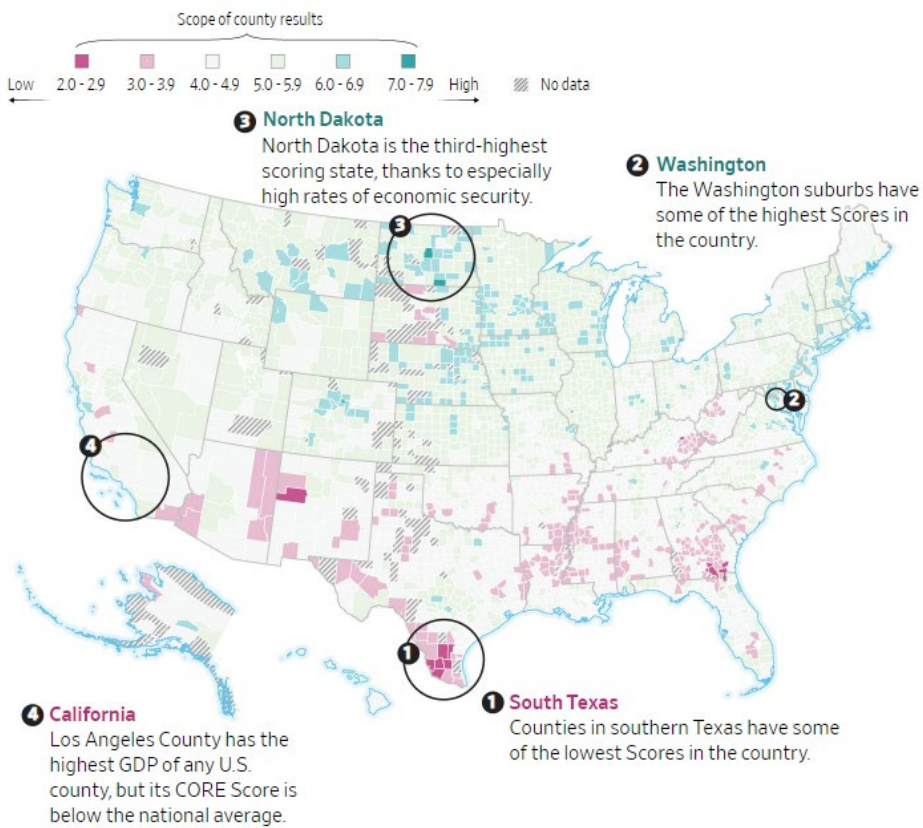


Of concern, is that the US, despite all of its natural as well as developed global advantages, has a youth that is ranked roughly middle of the pack in happiness. Our youth is ranked 62 out of 143 countries in happiness, a spot behind the Dominican Republic and 6 spots ahead of Russia. This makes me sad. What is going on with our youth?

## How are Americans Doing?

The CORE Score is a new measurement of American well-being and an alternative to traditional economic indicators such as GDP.

### County-level CORE Score<sup>9</sup> in 2021



The Wall Street Journal has created a CORE score that measures America well-being. It measures economic security, opportunity, health, and political voice. It shows wide disparities of CORE scores across America, with the Northeast and Mid-West having relatively high scores, while the south lags with South Texas having some of the lowest scores in the country. Can increasing health costs with minimal social umbrella, aging politicians (note presidential race), and relatively expensive housing be affecting our nations youth's happiness? Or can we just blame all our issues on others and claim it's Tik-Tok?

<sup>9</sup> [Do the GDP and Dow Reflect American Well-Being? - WSJ](#)



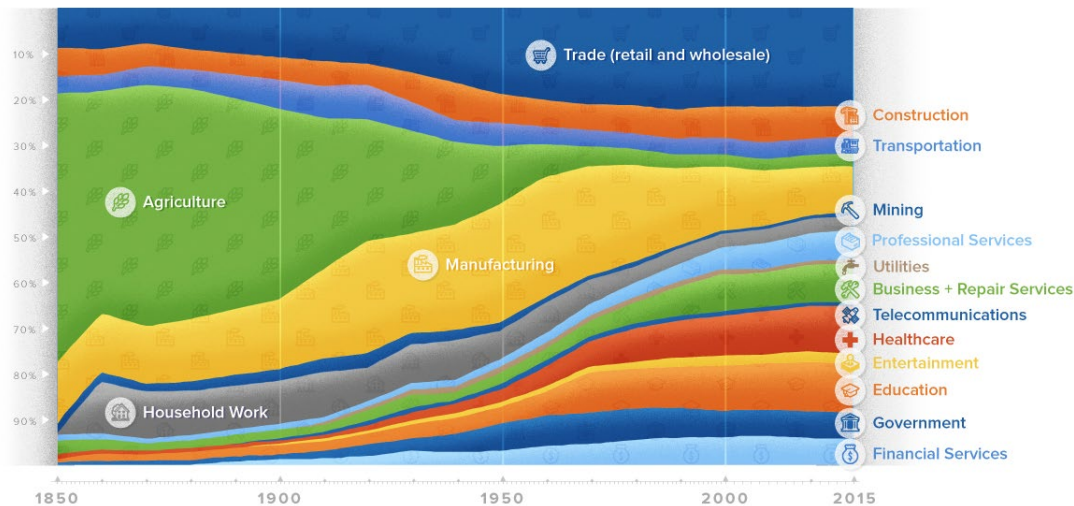
## Will Jobs Disappear?

It is estimated that roughly 80% of the US workforce worked in Agriculture in 1800, in the midst of the industrial revolution.<sup>10</sup> Conducting analysis in confirming this estimate, one is struck at what a different world it was back then as data needed to be collected, documented, and analyzed by hand. Further, the footnoted reference highlights discrepancies the author found in the working population of “Free Males” between the age of 10 to 14, which the author estimated had a 20% participation rate. Additionally, it is noted how many “Slaves” were rural and therefore used in agricultural jobs. A world with slaves, and 1 out of every 5 children aged 10 – 14 working, seems unimaginable.

If one was to imagine at that time that the industrial revolution would result in a future America with over 300 million people, yet only necessitated ~3% to work in agriculture, they would be hard pressed to imagine a world with full employment. Yet here we are.

## **VISUALIZING 150 YEARS OF U.S. EMPLOYMENT HISTORY**

How sector shares of jobs have changed over time



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Indeed, an American worldwide employment site for job listings, has a rather funny list of 51 jobs that do not exist anymore.<sup>12</sup> From Wheelwright, Town Crier and Log Driver to Switchboard Operator, VHS Repairman and Elevator Operator. Yet, given the increased complexity and wealth of the world, for every job that disappears, multitudes seem to crop up.

<sup>10</sup> [Revised Estimates of the United States Workforce, 1800-1860 \(nber.org\)](#) - There are a number of sources which highlights the lack of comprehensive data from the time period. This source seems rather rigorous and sheds light on the complicating factors in establishing a number as well as some of the characteristics of the workforce at the time as referenced further in the opening paragraph.

<sup>11</sup> Visual Capitalist: [Chart: Visualizing 150 Years of U.S. Employment History \(visualcapitalist.com\)](#)

<sup>12</sup> [51 Jobs That Don't Exist Anymore \(And What To Do About It\) | Indeed.com](#)



In summary, it is hard for us to imagine a world that does not find new uses for us simple humans to be productive, grow and make a buck doing an honest day's work. Which means that America most likely needs an increase in able workers, despite material gains made in robotics and other technologies that may eliminate elements of today's jobs.

## Immigrants to the Rescue

The US is known as a country of immigrants. And, given our world class universities, open business environment and general greatness<sup>13</sup>, we attract people the world over. Not only do immigrants keep us young but it keeps us hungry while introducing a diversity of ideas. It is yet another advantage America has, especially in a world where developed markets are struggling to maintain reasonable demographics. Over 50 million immigrants live in America, representing 15% of our population while only 3 million Americans have emigrated. Meanwhile, China has 1 million immigrants and 10.5 million emigrants.

## Summary

In summary, we can envision America being an outlier compared to other developed nations and China, where both job demand increases longer term but is satiated by reasonable demographics supplanted by a ready immigrant population. Yet, we can still see aging demographics placing pressure on elements of today's economy, notably debt level and therefore yields (which we will tackle further on our upcoming podcast episode).

***IMPORTANT DISCLOSURE:*** *The information contained in this report is informational and intended solely to provide educational content that we find relevant and interesting to clients of Fountainhead. All shared thoughts represent our opinions and is based on sources we believe to be reliable. Therefore, nothing in this letter should be construed as investment advice; we provide advice on an individualized basis only after understanding your circumstances and needs.*

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<sup>13</sup> This is a qualitative view that we believe we have supported enough in our commentary over time.

