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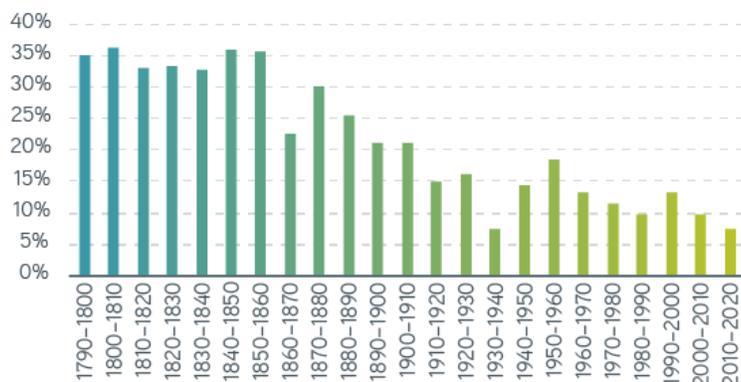
## Markets and Economy

# US census data release reveals population pressures for investors

By: Tom Lee, CFA | June 9, 2021

**Minneapolis** - The first round of U.S. census data was released at the end of April. As of Census Day on April 1, 2020, the U.S. population stood at 331.5 million. This means the just-completed decade yielded the second-lowest population growth rate for the U.S. since the census was first taken in 1790: a mere 7.4%. Only the decade of the Great Depression experienced a lower growth rate than the 2010s.

### US population growth, 1790–2020



Source: US Census Bureau, 4/26/2021

### Two major factors contributed to slowdown

Like many developed nations, the U.S. is seeing a **fertility rate** (the number of children produced by the average American woman) well below the rate needed for a population to sustain itself — that is, not enough children are being born to replace U.S. citizens who die each year.

Just as significant is the indication from preliminary census data that the U.S. experienced a decline in the foreign-born population in the 2010s. Since immigration has historically been a critical contributor to U.S. population growth, this decline further aggravates the weakening in the country's population growth rate.

### Why does slowing population growth matter for financial markets?

The easy answer is that demographics impact almost every aspect of the economy. The age distribution of a country's population directly influences savings rates, housing demand, consumption patterns, demand for specific financial securities and many other critical measures.

Possibly the most critical variable that demographics affect is the available supply of labor to the economy. Changes in labor supply and productivity are key inputs to economic growth. If the labor supply growth slows or stalls, productivity must increase — no easy feat — or economic growth will also slow or stall. Some empirical studies have even suggested that GDP growth slows at a roughly one-for-one rate with a decline in population growth.<sup>1</sup>

This slower economic growth creates a headwind for equities, and also makes it more likely that interest rates remain relatively low. Japan is often used as the example of what happens to a country whose population growth stagnates for an extended period.<sup>2</sup>

### U.S. is getting older

We expect to get the next release of the 2020 census data sometime in August. This round will include more granular details about the makeup of the U.S. population. We can already use preliminary data to trace out one accelerating consequence of this slowdown in population growth: The U.S. is getting older. Longer life expectancy, coupled with a reduced birth rate and decreasing immigration, means that the median age of Americans is rising. Demographers currently project that the U.S. will have more adults over the age of 65 than children under 18 by the year 2035.<sup>3</sup>

The aging population will directly impact financial markets in many ways. An older population will strain public budgets as the demand for direct transfer programs like Social Security and Medicare grow in size. The uptick in demand for these benefits is happening at the same time that the **old-age dependency ratio** (the ratio of older adults to working-age adults) is projected to rise. Assuming benefits aren't materially reduced — a reasonable assumption given how politically challenging it would prove — the only options are deficit spending or higher taxes.

While we can't say with any precision how this trade-off will work out, we can say that because of the stress an aging population puts on public budgets, it would become increasingly difficult to reduce taxes. There could also be constant pressure on politicians to increase deficit spending.

**Bottom line:** A stagnant and aging population presents headwinds for economic growth, while placing a bigger burden on public budgets. We think investors need to be mindful of these longer-term trends when constructing their portfolios that aim to meet their investment needs.

<sup>1</sup> International Monetary Fund, FINANCE & DEVELOPMENT: "Cost of Aging" by Ronald Lee and Andrew Mason, March 2017, Vol. 54, No. 1.

<sup>2</sup> New York Times, The Daily Podcast: "A Shrinking Society in Japan" hosted by Michael Barbaro, May 5, 2021.

<sup>3</sup> United States Census Bureau, "Older People Projected to Outnumber Children for First Time in U.S. History," Release CB18-41, March 13, 2018, revised October 8, 2019.

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"Longer life expectancy, fewer births and decreasing immigration are converging to present a serious demographic challenge for the U.S. economy — and it won't leave investors unscathed."



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