Generation Gap:

The Economic Implications of Aging Boomers, Declining Birthrates, and Emerging Millennials

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A significant demographic shift is underway: baby boomers are entering retirement, millennials are reaching their peak earning years, and birth rates are declining. This highlights what French philosopher Auguste Comte asserted centuries ago: “Demography is destiny.”

The following commentary explores how shifting demographics are shaping the economy, addressing related challenges and potential investment opportunities.

Defining the Generations

Silent Generation (born 1928-1945). The Great Depression and World War II suppressed birthrates during the silent generation’s birth years. Despite their name, this generation pioneered rock and roll music, with icons like Mick Jagger, Elvis Presley, and Chuck Berry among the long list of famed silent generation rockers.

Baby Boomers (1946-1964). Millions of GIs returned stateside in 1946 in what became the first year of peace following World War II, and the first year of the baby boom. That summer, three future U.S. Presidents were born: Donald Trump (June 14), George W. Bush (July 6), and Bill Clinton (August 19). In total, 76 million babies were born in the U.S. during the baby boom years.

Generation X (1965-1980). Often overlooked, but culturally influential, Gen X grew up during the rise of MTV and cable television. Rap and grunge music, along with popularizing independent films, are a small sample of Gen X’s many influences.

Millennials (1981-1996). If Gen X was the first generation raised on cable television, millennials were the first to be raised on the internet. This tech-savvy generation is the largest and the most educated generation. Millennials’ economic influence is growing, but their cultural influence is well established with the likes of Taylor Swift, Mark Zuckerberg, Beyonce, and LeBron James.

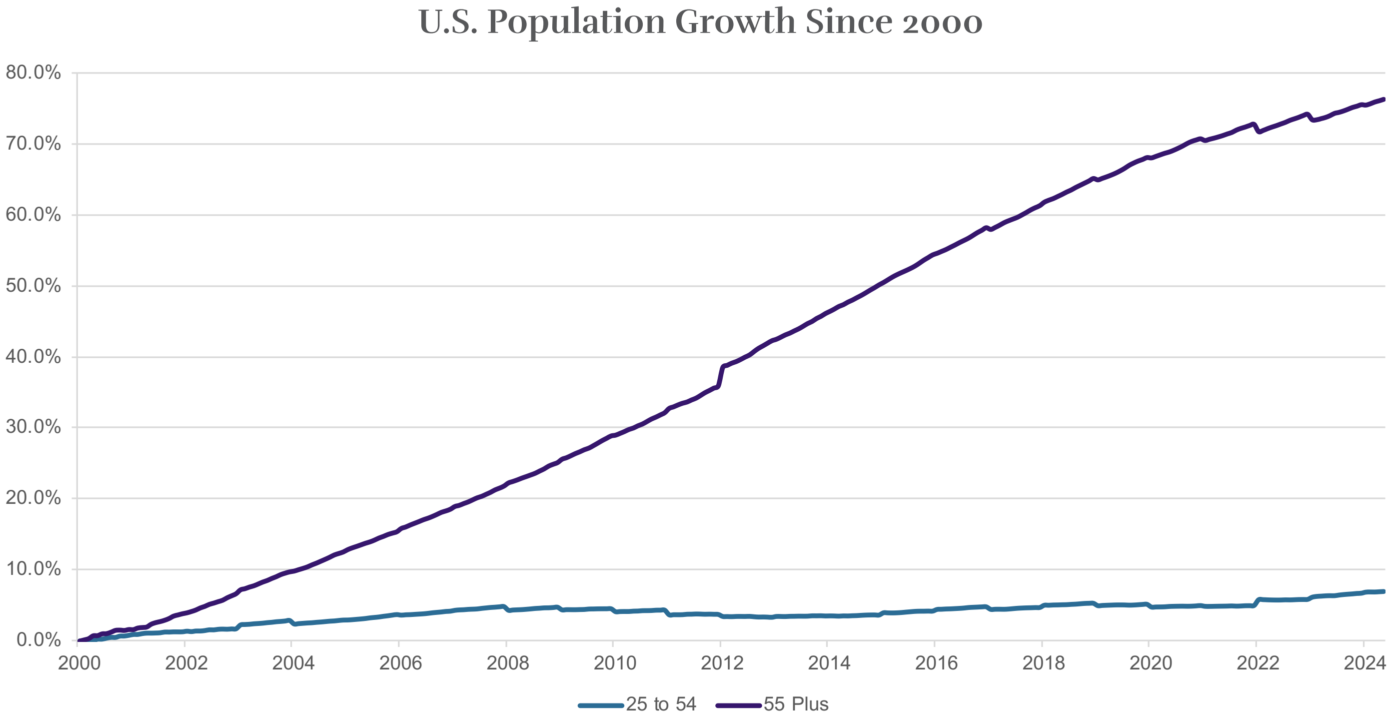
Generation Z (1997-2012). “Zoomers” are coming of age, with the oldest turning 27 this year. Gen Z is the most ethnically diverse generation and the first to be fully “digitalized,” having been exposed to the internet and social media from birth. Billie Eilish, Olivia Rodrigo, Zendaya, and Timothée Chalamet are among the most famous Zoomers.

Silver Tsunami

Like most of the developed world, the U.S. population is aging. In 1900, only 4% of Americans were over 65.[1] Thanks to medical advancements, safety improvements, and a significant reduction in childhood mortality, the percentage has risen to 17% as more people live longer. Individuals 65 and older are expected to reach 20% of the population by the end of this decade and nearly a quarter by 2050.[2] Many developed countries already have much older populations than the U.S. For example, the percentage of the population ages 65 and above is 30% in Japan, 24% in Italy, 23% in Greece, 23% in Finland, and 22% in Germany, just to name a few.[3]

With more people aging into retirement than ever, one of the biggest challenges businesses face is finding workers. While a recession could change this dynamic in the short run, the labor market faces a long-term structural challenge. More than 4 million baby boomers will reach 65 each year through 2027, or roughly 11,000 per day.[4] The oldest baby boomers, born in 1946, reached 65 in 2011, and the youngest, born in 1964, will reach 65 in 2029. Meanwhile, our core labor force is growing at a snail's pace. The prime-age workforce, individuals 25-54, is a focal point of economists because it excludes individuals typically out of the labor market for education or training (under 25) and those more likely to be retired or disabled (55 and over). Since 2000, the population of 25-54-year-olds has grown by only 7%. For context, in the 30 years prior (1970-1999), this age cohort increased by 49 million, or 71%. Meanwhile, the 55 and older population increased by 76% since 2000.

Figure 1: Aging Population



Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics. Data as of 5/31/2024.

Baby boomers flooded the labor market in the 1970s and 1980s, providing an enormous supply of labor, but they are now exiting in droves, creating a challenging situation for employers. There are more job openings than unemployed job seekers, a trend already in place before the pandemic. Complicating matters, the prime-age labor force participation rate is already at historically elevated levels, reaching a 22-year high in May.

Baby Bust

It will become increasingly difficult to meaningfully grow the size of our labor force. Labor force participation for our core workforce is already at high levels and birthrates have trended lower for decades. Last year, the U.S. birthrate dropped to the lowest since at least the 1930s when the government started tracking fertility, and is less than half the rate during the peak of the baby boom in the 1950s. Roughly 3.6 million babies were born in the U.S. last year, the fewest since 1979.[5] Immigration and higher productivity are the only real solutions to our structural labor shortage if birthrates remain low. While there has been a recent rise in immigrant employment, the sustainability of this trend is uncertain. Productivity is also improving, and the promises of artificial intelligence and robotics could be the long-term solution to offset weaker population growth in the years ahead.

Economic growth is a function of population growth and productivity growth. How the economy manages slower population growth and an aging population will be a monumental challenge. The government will face higher obligations for medical and social security costs as our population ages. There will be fewer workers relative to the number of retirees because of a decades-long decline in birthrates, making it more difficult to support government programs without tax increases, benefit cuts, or growing debt. The healthcare system also needs to address rising demand for age-related services. In the short- to intermediate-term, however, things don't look as bleak, as we'll explain in the next few sections.

The Economy's Golden Goose

The wealthiest generation in our country's history is entering their golden years with a massive nest egg. Baby boomers are the economy's golden goose, so to speak. Spending down that nest egg could provide one last economic boom for the baby boom generation. With an astounding $79 trillion in net wealth, baby boomers account for more than half of the total wealth in this country.[6] A key reason why they are the wealthiest generation is their large numbers and the longer period over which their assets have compounded. They were also early in their careers when employers began shifting from defined benefit plans (pensions) to defined contribution plans (401(k)s), giving them more control over their assets.

Baby boomers are a major reason why services spending is robust, ranging from the growth in cruise line passengers to record air travel and elevated spending at restaurants. Moreover, baby boomers haven't been as affected as younger generations by higher interest rates. More than half of baby boomers who own their homes own them outright without any mortgage obligations.[7] Furthermore, of the baby boomers who do have a mortgage, many are locked into low mortgage rates for homes purchased when prices were much lower. Roughly 40% of baby boomers have lived in their homes for 20 years or more.[7]

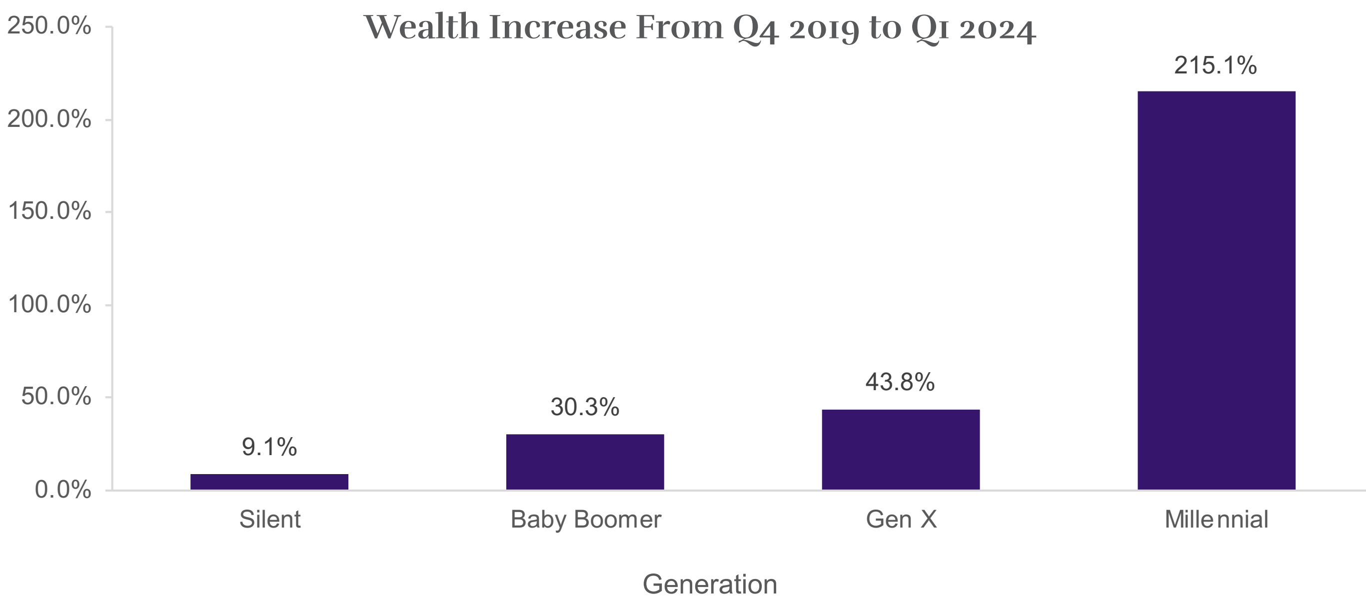
With age comes age-related health issues, and the healthcare industry is another area of rising spending for baby boomers, adding to economic growth. Healthcare is expensive and represents a significant and growing portion of U.S. economic activity, accounting for 17% of U.S. GDP.[8] Approximately 31% of all new private sector jobs created over the last 18 months (as of May) were in healthcare. This sector likely has a lot more growth to meet the changing needs of our aging population.

It should be noted that millions of retirees are living on stringent fixed incomes, unable to travel, spend their days golfing, or frequent restaurants. This is a major reason why 19% of people 65 and over are still employed. By comparison, only 11% of this age cohort were still employed in 1987.[9] There are various reasons why senior citizens remain in the labor force, including slower transitions into retirement while working part-time, but many still work to stay afloat financially. That said, baby boomers collectively have a vast amount of wealth, supporting consumption in the economy and eventually the consumption of their heirs.

The Rise of Millennials

Baby boomers are the wealthiest generation, but millennials are the largest generation, and their economic impact is growing fast. Millennials have shed stereotypes of the past decade like forgoing savings in favor of pricey avocado toast brunches. Since the end of the previous decade, millennials' net worth has more than tripled, rising from $4.5 trillion to $14.2 trillion,[6] marking the fastest growth in wealth among all generations.

Figure 2: Generational Wealth

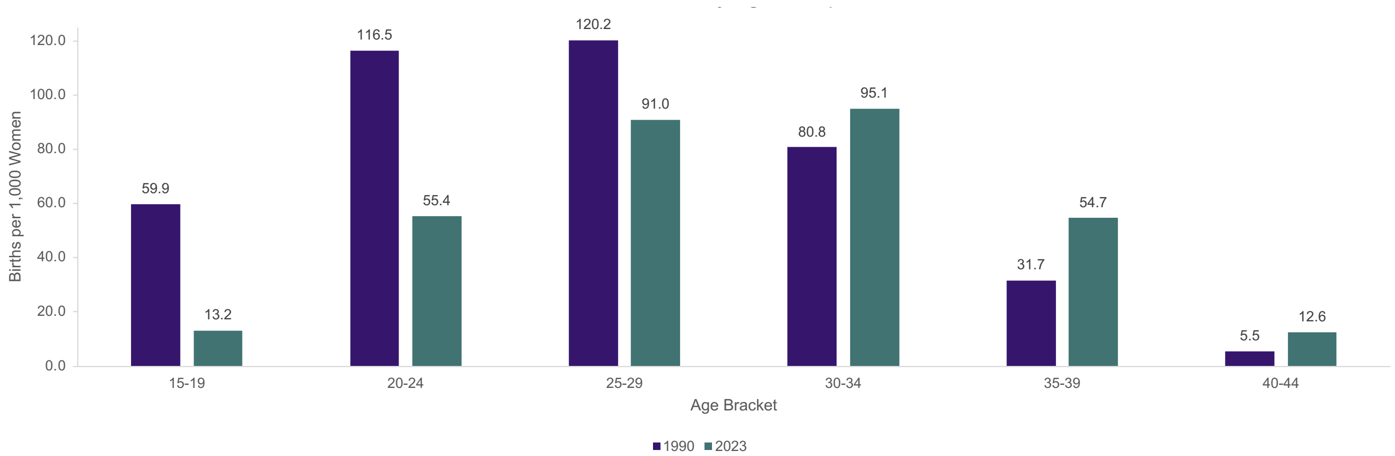


Source: Cetera Investment Management, U.S. Federal Reserve. Data as of 3/31/2024.

The oldest millennials turn 43 this year and their median age is 35. They are in their peak household formation years, and the eldest are entering their peak earnings years. With an estimated 73 million millennials, their economic impact will only continue to grow.

Millennials are following in the footsteps of past generations, but with a lag. They have delayed marriage, having children, and home ownership until later in life. For example, birthrates for women aged 35-39 were up 73% in 2023 compared to 1990, and up 129% over the same period for women aged 40-44.[5] Birthrates are down substantially for women under 30.

Figure 3: U.S. Birthrates by Age Group



Source: Cetera Investment Management, Wall Street Journal, Centers for Disease Control and Prevention (CDC).

As millennial families grow, the need for more space and larger homes also grows. Millennials have a lower homeownership rate than baby boomers and Gen X when they were the same age.[10] Housing inventory has been historically low since the pandemic, with many homeowners locked into ultra-low mortgage rates, disincentivized to sell. Too few homes were built for more than a decade after the 2008 financial crisis. High interest rates and prices are stifling housing activity near-term, but homebuilders will need to increase output to meet pent-up millennial housing demand in the years ahead. Younger millennials are still searching for their ticket to homeownership, while older and more established millennials are looking for trade-up homes with more space.

We've been here before. The baby boom generation reached a median age of 35 in 1990. There is no way to say if millennials will have the same economic and financial market impact as baby boomers in the 1990s, but their influence will be outsized in the coming years due to their sheer size, rising wealth, and current life stage.

Don't Forget About Us

Gen X is often overlooked but shouldn't be ignored. They are sandwiched between millennials and baby boomers. While comparatively smaller by population, Gen X has amassed $39 trillion in net wealth. With a median age of 51, they have substantial home equity and benefit from favorable stock market returns during their peak earnings years over the past 15 years. As the oldest Gen Xers turn 60 next year, retirement preparation is becoming a greater focus. We can't forget about Gen Z either. This generation is relatively new to the labor force, with the oldest turning 27 this year. Gen Z represents the next emerging market for housing demand in the coming years.

Closing the Gap

The United States turns 250 years old in two years. We are a relatively young country, but our population is older than ever. This dynamic presents unique challenges and opportunities. We can't foresee the future, but the U.S. has a long history of rising to the occasion when facing challenges. The likely path forward involves new productivity-boosting innovations to close our growing demographic gap. Younger generations bring new ideas and new solutions, building upon a strong foundation built by prior generations. Legal immigration into the United States is the highest since 2017,[11] including a sharp increase in employment-based visas.[12] More immigration could help replace the aging workforce, but productivity enhancements through automation will still be needed. In the short- to intermediate-term, baby boomers' large nest eggs and millennials' growing economic influence could provide a strong tailwind for the economy.

Long-term investment opportunities around an aging population could focus more on high-quality bonds, as they would likely increase demand for fixed income and thus drive yields downward. When yields fall, bond prices rise.

Additionally, there will be more demand for health care and pharmaceuticals. The long-term impact to housing is less certain as many baby boomers are aging in place, but eventually they will likely move into smaller homes and senior living facilities. This could eventually free up housing inventories for younger generations, who will likely spend money on renovating these older homes and purchase more durable goods such as appliances. As mentioned, artificial intelligence and robotics will be needed to make up for the labor shortages, so investing around these themes could be a long-term opportunity. While these themes will likely develop, stock valuations could rise further, so one must be mindful of that when investing. Your financial advisor can help you create a diversified portfolio to suit your individual needs.

A byproduct of our aging population is that more people are retiring than ever. This means financial advice and estate planning have never been more needed. Your Cetera financial professional is here to provide sound financial advice and help set a path so you can live your golden years to the fullest.

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