

Over the last three decades, the U.S. economy has experienced low real GDP growth and low real interest rates. Much of the decline in economic activity can be attributed to demographic factors. According to researchers at the Federal Reserve, the permanent declines in real growth and real interest rates, estimated at a 1.25% decline, are due to changes in population, family composition, life expectancy, and labor market activity. These factors are also contributing to significant deflationary forces globally.

### Age Dependency

In most major countries, aging populations are expected to continue to overwhelm low birth rates, especially in developing countries. These jumps are enhanced by the declining labor force participation rates, notably in the U.S. and China. The post-war babies, those born between 1946 and 1964, are now 57 to 75 years old and are significant drivers of the aging population. Many boomers were notoriously poor savers. Today, a 65-year-old male has a life expectancy of 83 years and a female - 86 years. These trends were reinforced by the deep 2007-9 Great Recession and the subsequent muted recovery, the slowest in the post-WW2 era. Many post-war babies have had no choice but to continue working. In contrast to younger age groups, the labor participation rate of those over 65 is rising rapidly, as are their numbers.

### Robust Savers

U.S. post-war babies are robust savers even from their curtailed income. The household savings rate was 12% in the 1970s and early 1980s when the demographic forces were the worst for saving. The numerous post-war babies were in their 20s and 30s, the weakest savings ages, as people spend heavily on establishing households and raising families. As a result, many have negative savings rates as they borrowed to fill the gaps between income and spending. In contrast, the big savers at the time, those in their 50s and 60s, were the sparse depression-era babies who were in peak earnings years and who had left homes taking tuition payments with them. Now the situation is reversed, with many post-war babies still in their high-earnings years and those who followed proportionally few in numbers. So U.S. household savings has had a strong tailwind.

### Marriage Rates

Before the Pandemic in 2018, the U.S. marriage rate plunged 16%, the latest data, with only 6.5 new unions per year performed for every 1,000 people. That's the lowest rate since the Federal Government began keeping data in 1867. Growing acceptance of unmarried cohabitation has also been significant; however, rising housing, childcare, and healthcare cost will prevent any substantial change in family formation. Marriages and childbearing were postponed or forsaken by many millennials. The lingering disruption from the Pandemic will no doubt have similar effects.

### Low Birth Rates

Not unrelated, the U.S. birth rate hit a record low in 2019, which pushed total births down to 3.75 million, the lowest number in 35 years and down 1% from 2018. The fertility rate also fell 2% to 58.2 births per 1,000 women aged 15 to 44. That pushed the total fertility rate down 1%, a slight decline from 2018 and a record low. It's been below the 2.1 needed to keep the population steady in most years since 1971. The coronavirus will no doubt drive marriage and birth rates down further.

## Childcare

Another major deterrent to participation in the workforce is the lack of childcare. Many parents are forced to stay out of the labor markets because childcare is either unaffordable, unavailable, or both. The roughly nine million daycare slots that were available pre-pandemic were already too few to meet demand in the U.S. As of mid-2020, half of the childcare facilities nationwide closed entirely. Only 17% remained open and only for children of essential workers. For many single parents, the situation is particularly bleak, forcing many to either work at home if available or go on government assistance.

## No More Substitutes for Savings

The great bull market that started in 1982 made investors more inclined to spend and borrow than save. Despite a few recessions since 2000, asset and real estate inflation followed, making it even easier for homeowners and investors to save less and spend more. The tailwind from both of these trends took the savings rate from 12% in the early 1980s to just 2% in 2005.

The flip-side of saving less is borrowing more. The decline in interest rates from the high in June 2006 of 5.2% on 10YR UST to the August 2020 low of 0.57% heavily influenced consumption and borrowing. The lower the rate, the more households borrowed, albeit at a lower cost of debt servicing. Over the last 15 years, since 2006, total household debt increased by 30%, then the Pandemic hit. In 2020, total household debt increased by another 5% as unanticipated life events can quickly turn indebtedness into over-indebtedness. According to a 2019 Federal Reserve report, 4 out of 5 Americans would be unable to pay an unexpected \$400 bill out of their savings.

While the Pandemic has wiped out millions of jobs, it has had an unexpected increase in Americans' savings rates. Before the Pandemic, the savings rate was holding at 13.7%. It spiked to 33% in April 2020 and again in January 2021, to 20.5%, after the government sent massive amounts of COVID relief funds. Forecasts are for a rapid acceleration in household spending in 2021, leaving open the fundamental question: whether the record savings rate will boost consumption in the United States, where consumer spending historically is the driver of the economy.

## Concluding Statements

The Pandemic has amplified the downside risks associated with changing consumer behaviors and the unavoidable growing demographic trends of aging, a lower growth rate of the working-age population, and the pressures related to reflating the economy. Monetary and fiscal policy will be facing deflationary headwinds as a rising share of the voter population will continue to age, birth rates will continue to fall, and population growth will weaken overall. This secular decline in population growth is also evident in the decline in growth of the working-age population as more people decide to leave the workforce and retire or are forced to retire. Over the last decade, the growth of the non-working-age (dependent) population – those aged 0 to 14 and 65 and older – has outpaced the growth of the working-age population. The non-working-age population grew by 13.1 million, a 12.9% increase, while the working-age population increased by a modest 6.4 million or 3.1%. These significant irreversible changes in demographics will continue to weigh on future consumption and GDP trend growth.