



# Slowing Population Growth as an Economic Problem

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I recently attended the National Association of Business Economists (NABE) 35th Annual Economic Policy Conference in Washington, DC. The conference touched on thought-provoking topics, such as the current geopolitical outlook, immigration policies, global debt, trade talks, and many more. There was even an appearance by former Chair of the Federal Reserve, Alan Greenspan. It was an interesting gathering of the economic elite.

U.S. demographic challenges was a hot topic - the story has been conveyed for years that slowing population growth will lead to slow economic growth. While political and fiscal implications were discussed at length during the conference, this newsletter will focus on the economic impact by analyzing:

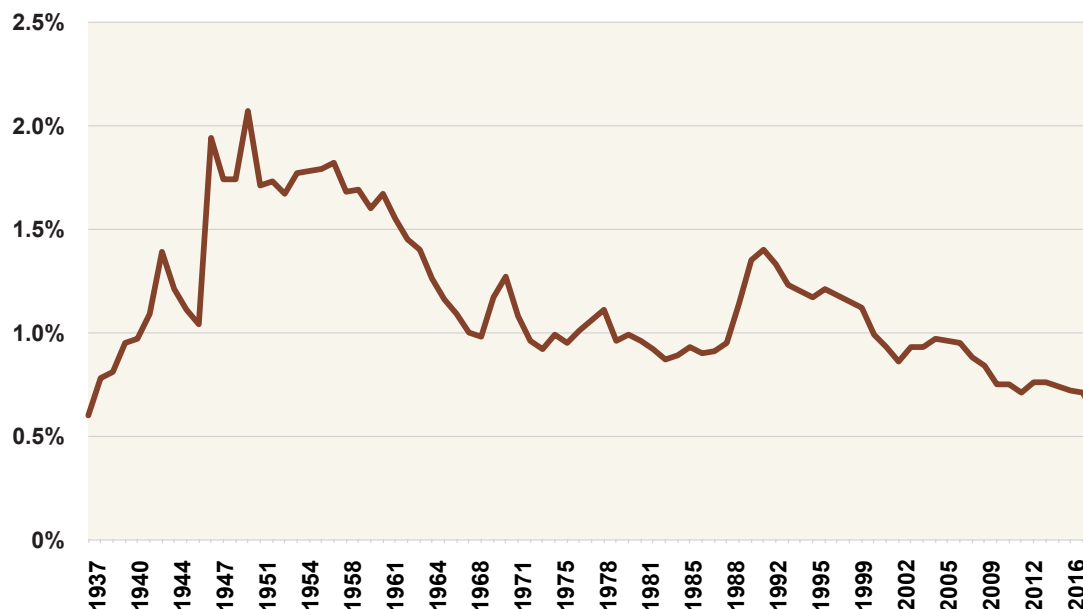
- Slowing U.S. population growth
- Increasing productivity counteracting demographic challenges
- Demographic challenges in other leading economies

## U.S. Population Growth is Slowing, but America is not Shrinking

According to the Census Bureau, the U.S. population grew by a mere 0.60% over the past year. This was the lowest growth rate since 1937 during the Great Depression (**Chart 1**). However, decelerating population growth is not a new trend. The “baby boom” in the 1950s and early 1960s was relative to the subdued birth rates during the Great Depression. During those difficult economic times, couples struggled to start families, and immigration dropped. Following a postwar surge in the U.S. birth rate, population growth has mostly decelerated since 1950.

**Chart 1**

**U.S. Population Growth %**



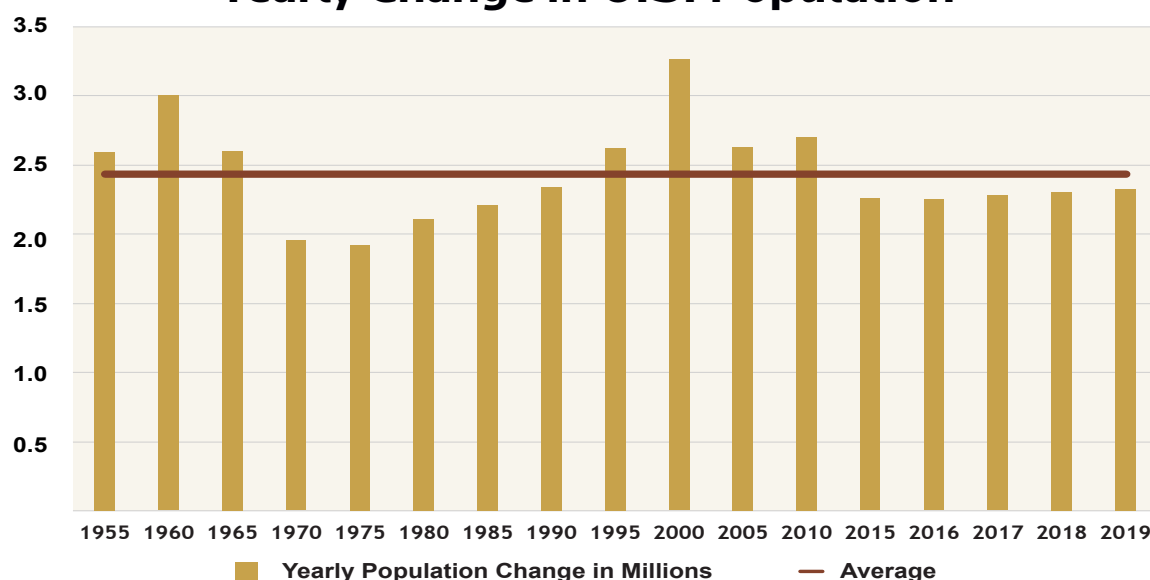
Source: U.S. Census Bureau



Many countries today are showing birthrates below replacement levels, which leads to an absolute decline in population. The U.S is far from this problem. Over the period referenced in **Chart 2** below, the U.S added, on average, 2.4 million people per year since 1955. In 2018, the U.S. added 2.3 million people, up from 2.25 million in 2015. This is not far from the 2.6 million people added in 1955 and above the 1.95 million added in 1970. In other words, although the percentage rate of population growth declined, we are still adding roughly the same number of people each year.

**Chart 2**

### Yearly Change in U.S. Population



Source: Department of Economic and Social Affairs, Population Division

## Slowing Population Growth is Not Hurting the U.S. Economy

The U.S. economy continues to grow, despite slowing population growth (**Chart 3**). During this period, real gross domestic product (GDP) per capita, a measure of a country's economic output adjusted for inflation divided by its total population, continued to increase. Additionally, U.S productivity, a measure of how efficiently inputs such as labor and capital produce a given level of output, also continued to increase. Therefore, even though the population growth rate is decreasing, we are increasing investment and savings in physical capital, new technology and human capital.

## Navigating the Declining Rates

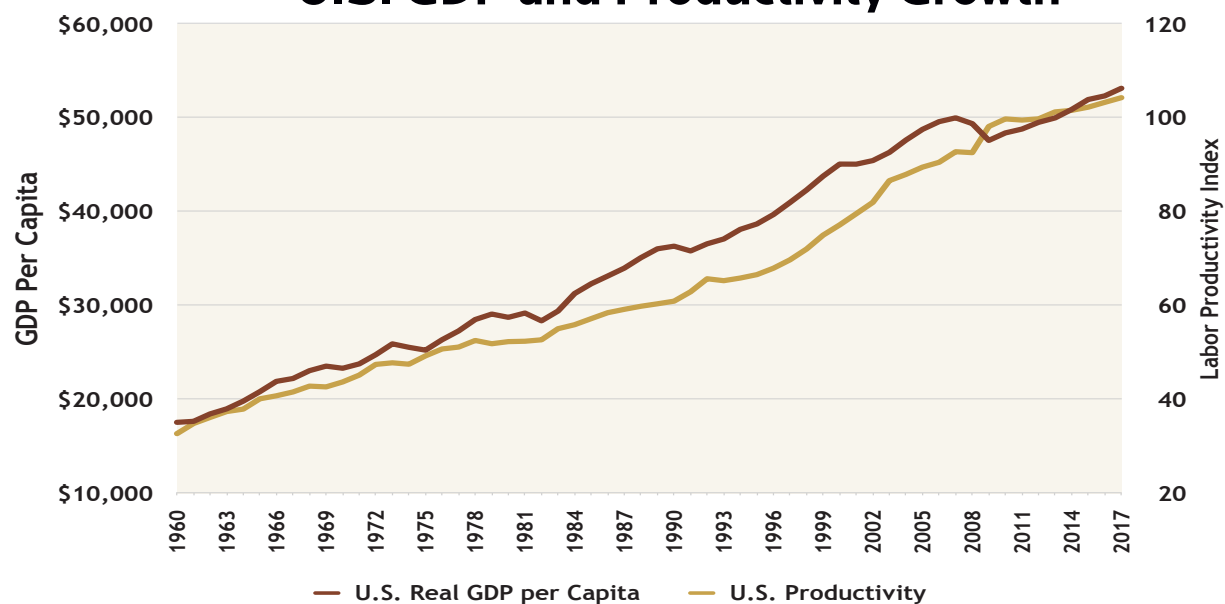
The obvious way to counteract population decline is to have more babies, but that's easier said than done. According to the U.S. Census Bureau, 34% of young people, or 24 million of those aged 18 to 34, lived under their parents' roof in 2015. This is up from 26% in 2005. Astonishingly, more young adults lived with parents than with a spouse in 2016. Without another "baby boom" in sight to support the economy, the U.S. will need to rely on productivity.





**Chart 3**

## U.S. GDP and Productivity Growth



Source: Bloomberg and U.S. Census Bureau

Even with decelerating population growth, U.S demographics look more manageable compared to other major economies. **Chart 4** shows Japan and Germany have a much larger percentage of retirement-aged citizens compared to the U.S. Their populations are now in decline, with Germany's situation moderated by somewhat more liberal immigration policies relative to Japan's very restrictive attitude toward immigrants. This could drag down economic potential, since fewer young people translates into a shrinking labor force.

### The U.S. Will Continue to Thrive

Perhaps the Great Recession exacerbated the secular trend toward slowing population growth. The spike in young adults living with their parents should reverse as the job market continues to tighten and recapitalized banks extend more mortgage credit. Despite current political rhetoric, more immigration will likely be necessary to fill the void left by our aging population. Nonetheless, it is striking that the numerical growth of the U.S. population remained within a relatively tight range over the past 70 years.

From a purely economic perspective, our standard of living can continue its rise if we continue to invest in capital, technological innovation and education. Our demographic fears, however, revolve around our ability to finance government liabilities, such as Social Security and Medicare. Absent these obligations, slowing population growth is not necessarily an economic problem. Maybe it is a cold comfort, but the economy can support rising living standards, even if our social insurance system must be reengineered to reflect changing demographic realities.

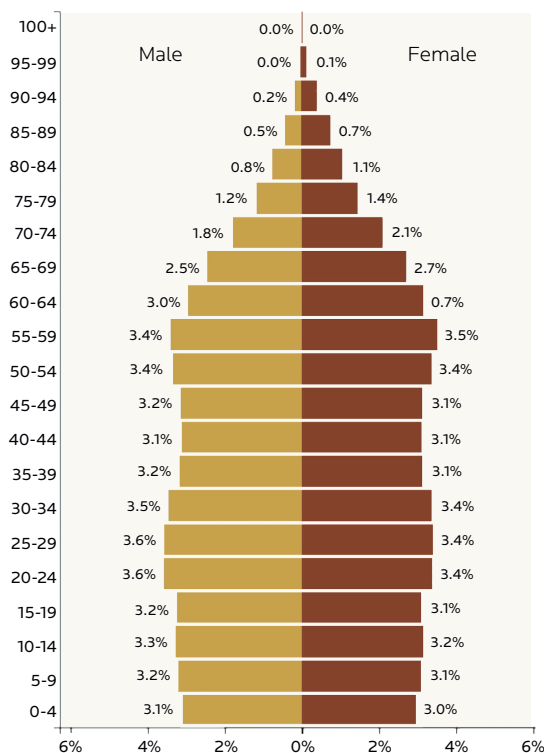


## Chart 4

## Population Pyramids of Major Developed Economies

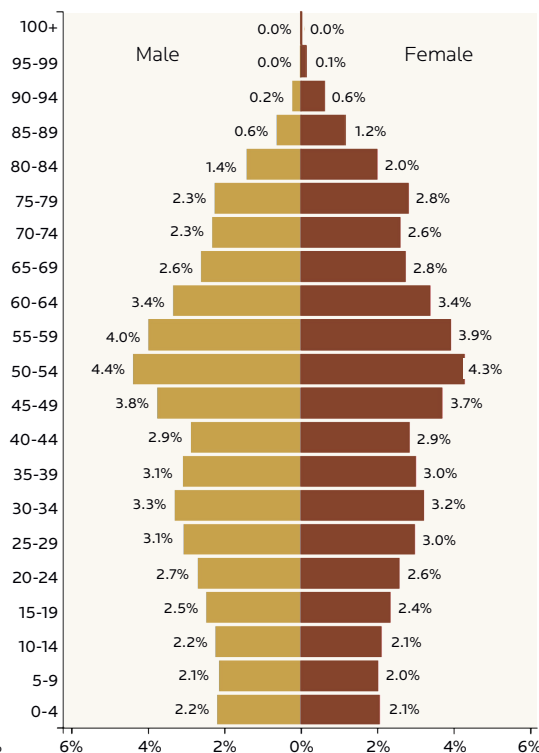
### United States of America – 2017

Population 326,474,013



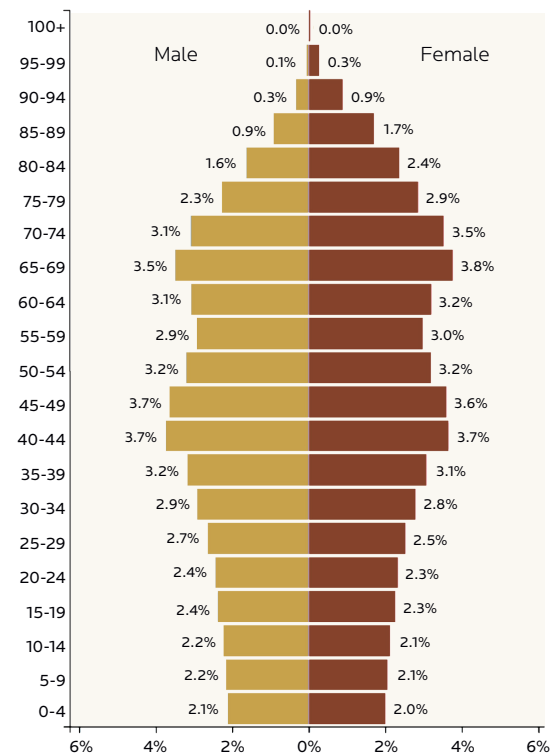
### Germany – 2017

Population 80,636,124



### Japan – 2017

Population 126,045,211



Source: U.S. Census Bureau



# Market Summary



## The GHPIA Equity Valuation Dashboard

Asset Class	Price/ Earnings 2019:Q1	P/E Benchmark	Over/ Under Valuation	Price/Book Value 2019:Q1	P/BV Benchmark	Over/ Under Valuation	Price/ Cash Flow 2019:Q1	P/CF Benchmark	Over/ Under Valuation
Large-Cap Growth Stocks	24.6	27.0	-9.0%	5.6	5.7	-1.4%	16.2	17.5	-7.3%
Large-Cap Value Stocks	14.7	20.2	-27.3%	2.3	2.5	-8.1%	9.6	13.1	-26.9%
Mid-Cap Growth Stocks	25.2	24.8	1.7%	3.4	4.5	-23.4%	13.7	16.1	-14.6%
Mid-Cap Value Stocks	14.9	19.1	-22.0%	1.7	2.2	-24.2%	8.4	12.4	-32.4%
Small-Cap Growth Stocks	26.1	23.2	12.4%	2.8	3.5	-20.7%	14.0	15.0	-6.7%
Small-Cap Value Stocks	17.6	18.2	-3.2%	1.5	2.1	-28.1%	11.9	11.8	0.7%

GHP Investment Advisors, Inc. benchmarks are based on proprietary models. P/E, P/BV and P/CF data are provided by Bloomberg L.P. as of 4/01/2019.

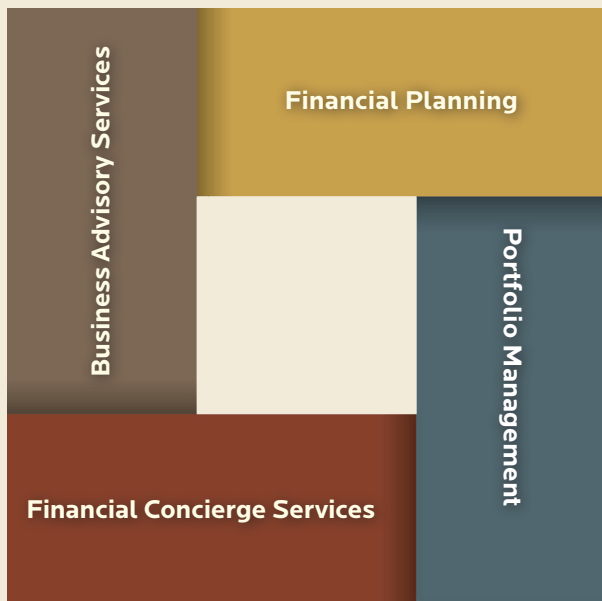
## Returns by Index

Index	2019:Q1
DJIA Total Return*	11.81%
S&P 500 Total Return*	13.65%
S&P 500/Growth	14.50%
S&P 500/Value	11.47%
S&P MidCap 400/Growth	14.55%
S&P MidCap 400/Value	13.49%
S&P SmallCap 600/Growth	10.49%
S&P SmallCap 600/Value	11.92%
MSCI EAFE	9.04%

Source: Bloomberg L.P. as of 03/31/2019.

\*Dividends Reinvested.





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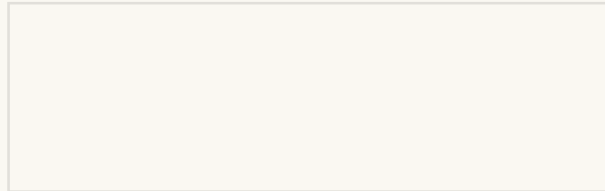
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