

Volume #2: Shifting Demographics Overview

Key Findings:

- Millennials make up 27.2%¹ of the U.S. population, the largest cohort the country has ever seen.
- The U.S. will become increasingly diverse, with whites shrinking from 61.8% of the population in 2015 to 46.6% in 2050².
- Hispanic citizens will increase by 93.8% from 2015 to 2050 and will account for nearly 1 out of every 3 U.S. citizens³.
- By 2025, the population of U.S. immigrants is expected to surpass the historic peaks seen in 1890 and 1910⁴.
- The elderly (aged 65+) population will increase by 75% to 83.7 million people by 2050⁵.
- Job automation and early career unemployment will contribute to an 11% decrease in median household income by 2050⁶.
- Increasing income polarization will contribute to shrinking U.S. from 10% to 4% of global middle class⁷.
- Women will make up 45.5% of the American workforce by 2025⁸.

Defining the Demographic Cohorts:

As discussed in our first report, shifting demographics is a major factor of influence that we feel is essential to understand when evaluating investment opportunities in the future. As we know, life always adheres to the evolving nature of time. As we move forward into the next decade, the aging of these generational cohorts in the United States will result in shifting economic trends.

The generational cohorts in the United States that are currently impactful to current economic conditions are illustrated below:

Cohort ⁹	Pop (M)	% of Pop.	Ages	Economic Impact
Silent Generation	20.5	6.2%	75+	Decreased consumption - significant increase in healthcare spending
Baby Boomers	68.3	21.0%	55-74	Shifting out of peak spending years - increased healthcare and leisure spending
Generation X	84.5	26.0%	35-54	Peak spending - buying decisions will be impacted by offspring
Millennials	88.4	27.2%	15-34	Differentiated spending - specific consumer goods and services
Post-Millennials	63.1	19.4%	0-18	Paid for by Generation X - large education cost burden

Beyond the difference in size of each cohort, we have found that each cohort also has its own distinctive set of traits and attributes which are likely to drive their spending habits in the future. The *Silent Generation* is defined by the experiences growing up during the Great Depression and World War II. Too young to serve during the War, but shaped by the uncertainty around them in their formative years made them grave and fatalistic, inclined to work very hard and to be risk adverse. As they enter into the twilight of life, their spending habits are likely to diminish, but what expenditures they do make will be driven by the desire for security and life extension. *Baby Boomers*, were born post-WWII during a significant upswing in birth rates. Among their defining experiences were the first space flight, the assassination of John F. Kennedy, the Civil Rights movement, the Vietnam War, and

Watergate. The *Baby Boomers* were influenced by the counter-culture movement. Boomers were known for their tendencies towards freedom and experimentation that, over time, grew into a sense of disillusionment and distrust for the establishment. Ironically, as the *Baby Boomers* enter into their golden years, they are the generation most identified as the one in power during some of the greatest wealth accumulation periods and economic busts in American economic history. While some Boomers will retire comfortably, a large percentage of this cohort will be forced to work well past the typical retirement age. While some part of the generation will have their spending patterns shift towards more life-prolonging and life-enhancing expenditures, many will be forced to downsize due to inadequate retirement savings.

Generation X grew up in the political climate of the aftermath of the Vietnam War, during a series of economic booms and busts, the AIDs epidemic, and the end of the Cold War. This cohort is known to be highly independent, and values autonomy and freedom at their jobs. They are more socially liberal than Boomers and are the first generation to fully embrace the Internet. They are also more family-oriented and have been the most prolific generation on a births per capita basis of any generation before them. Gen Xers are either at the top of many organizations or will continue to grow within organizations as Boomers retire.

Millennials grew up during times of great economic prosperity, then entered the workforce during a period of anemic economic growth. They have been surrounded by rapid advances in technology. While their values are similar to the generation before them, their attitudes towards work differs as they expect quick advancement and don't stay at one organization for very long. This legacy was built on living through the *Global Financial Crisis* and dealing with a challenging employment environment. Beyond the challenges of finding employment, the costs for a college degree has increased dramatically over the last 20 years. Many recent graduates can't find a job outside of retail and hospitality, let alone in their current major. Laden with high student debt, this generation will rely on what will likely be the greatest transfer of wealth in the history of the United States as *Millennials* inherit the wealth of the Boomers.

The Rise of Millennials¹⁰:

Millennials are the largest age group the U.S. has ever seen, already outpacing *Baby Boomers*. Their influence will continue to grow, making it increasingly important for businesses to understand and appeal to this group. As *Millennials* age into management roles and political positions, they will wield significant influence in shaping American society, business and government.

The profile of a typical *Millennial* is quite different than the profiles of the generations that have come before them. For example, *Millennials* are marrying later - 21% are married, compared to 42% of *Baby Boomers* married at the same age (a 50% decrease). Many gravitate toward urban areas and prefer to rent, while previous generations desired to become property owners and helped to propagate the suburban migration of the past 50 years. This may be due to the smaller paychecks that *Millennials* are earning. *Millennials* currently earn less real income than the older cohorts, which has forced as much as 13% of this cohort to live with their parents as adults. Because of employment challenges and lower wages, *Millennials* are savvy shoppers and are less likely to own a car or be in the market for durable goods. Most of this cohort is politically liberal. Even those that identify as Republican are considerably less conservative.

Millennials view on work is also quite different as this generation is most focused on corporate social responsibility. 63% say that benefit packages are the most important factors regarding tenure with

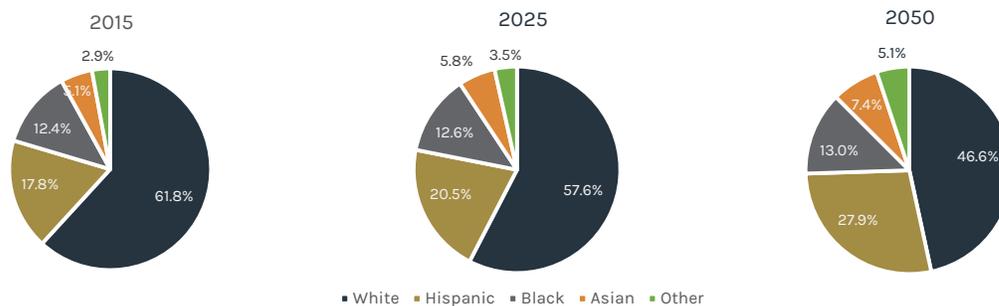
an employer. Not surprisingly given the employment environment they are facing, *Millennials* are more likely to start their own business compared to other generations. 29% of all entrepreneurs in 2011 were *Millennials*.

Millennials attitudes are different too. They are generally more open to preferential treatment of those considered subject to discrimination. 45% agree that preferential treatment will support upward mobility. Many are concerned about their financial future. Almost half feel that they will be worse off than their parents; however, minorities have a more positive outlook. They have a deep sense of fairness and see the benefits of sharing, which makes them less likely to believe that the U.S. is the best country on Earth and are less positive about capitalism and more favorable of socialism.

They are also very technologically savvy. They are generally unconcerned about letting software guide daily decisions and embrace the opportunities that technology offers. *Millennials* are also always accessible, with over 80% that sleep with their cell phones next to their bed; most spend 1.8 hours a day on social media sites. They value their self-expression, with 75% having a social network profile and 20% having posted a video of themselves online. Lastly and maybe most importantly, they expect customization, demanding products and services that are personalized offerings and can be available on demand.

A Trend towards a More Diverse Racial Composition²:

Whites continue to be the largest racial group within the U.S., but the country is becoming increasingly diverse as minority groups – particularly Hispanics – grow at increasing rates.



While Hispanics have distinctive characteristics, these attitudes and behaviors become less distinguishable from the broader American population with increases in native-born generations, education and income levels. By 2025, 11% of the Hispanic population will be 1st generation American, 50% will be 2nd generation and 39% will be 3rd generation or older. 1st generation Hispanics generally are more attached to their native identity and have lower wages and education levels than the broader population. By the 2nd generation, a higher proportion of Hispanics are enrolled in college (49% vs. 47%) than whites. This generation is more liberal than the general U.S. public and more likely to prefer bigger government and vote Democratic. They are also twice as likely to purchase products from shared content, food and culture. By the time they become 3rd generation American, they have become less religious and have more broadly achieved higher education and income levels.

The U.S. immigrant population will grow beyond Hispanic lines. Total immigrant populations are expected to top 18% of total population by 2050 versus 13% in 2015, accounting for 60-80% of the projected population growth. More immigration is expected to improve the dependency ratio of the elderly and children on the working population by driving growth of the working age population. Possible dramatic immigrant growth is likely to impact U.S. resources, increasing demand for both

energy and food.

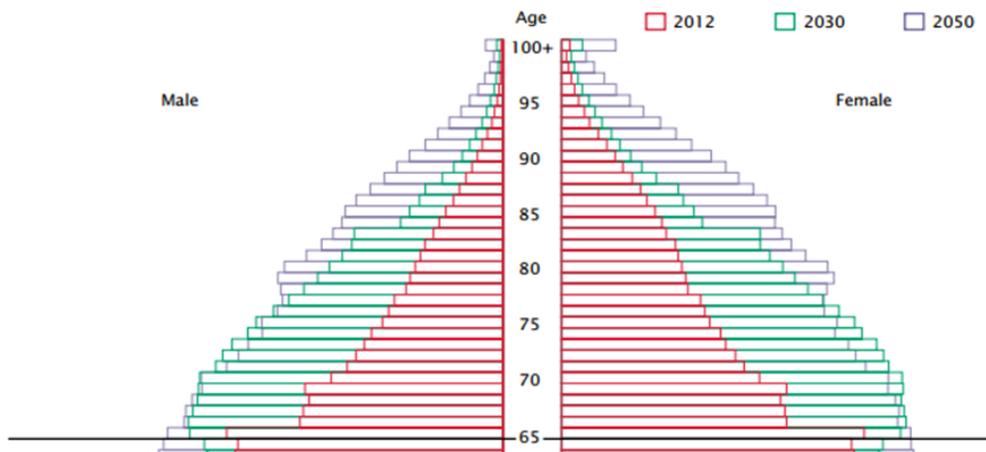
The She-conomy⁸:

U.S. women will continue to be a growth force in America’s workforce, pushed by gains in educational attainment that will ultimately translate into increased purchasing power. By 2022, more women will earn college degrees than men. Top fields of study include business, health professionals and education. While there is noticeable wage discrepancy between women and men, women in the Millennials cohort are closing the gap (women ages 25-34 make on average 93% as much as men versus 84% for all workers of all ages).

Aging Americans will Form an Important Demographic⁵:

At the end of 2015, there were approximately 48 million Americans 65 or older. By 2025, that number is expected to be almost 66 million, a 36.5% increase. While recent census data shows that people over 65 years old spend 41% less than in peak spending years, there are growth areas resulting from the increase in the elderly population, including healthcare and wellness spending where we see an increase of 33% compared to people ages 34-64. Increased spending on living solutions, like home health aides, senior community-based housing and informal caregivers are likely areas requiring more study. Major sub segments of the healthcare industry such as pharmaceuticals, health supplements and healthcare equipment will continue their growth accent as there is more focus on life-extension and quality of life. Lastly, leisure activities for such a large contingency of the population will revolve around, shopping, reading and non-business related travel, all areas where retirees spend a larger percentage of their time than the general population.

Age and Sex Structure of the Population for the United States: 2012, 2030, and 2050



While some areas of the market are primed for growth due to the aging population, the overall economy may be negatively impacted by this major shift in the workforce and spending habits. 39% of U.S. households are at or nearing retirement with no formal retirement plan. 48% of adults nearing retirement believe that they will not have enough money to live on if they stop working and the median middle class retirement savings is only \$20,000. Americans inability to save for retirement is due to high fixed costs and stagnant wages for more than the past decade, which has led to more Americans over 65 in the workforce than ever before. For those that don’t work, many younger Americans’ tax dollars will be required to finance the elderly benefits of those who have little or no disposable income. The decreasing U.S. working population as a proportion of those who must be supported will lead to less disposable income in aggregate for all Americans. Compounding the negative effect is the high

unemployment rates from American youths, which may have a lasting impact on their earning power and ability to support others. Currently, unemployment rates for young Americans has been twice as high as those of older workers and as much as one in six people in their 20s and 30s live with their parents.

Job automation provides an additional threat to parts of the working population. In the next 20 years it is estimated that 47% of all American jobs are at risk of being automated. Machine learning and mobile robotics are driving job automation. This may serve to exacerbate the U.S. income divide by concentrating financial gain with the creators of automation technology, while eliminating certain labor categories. As lower income earners working in routine jobs are replaced by automation, the increased demand for caregiving could potentially lead to a significant opportunity for displaced workers seeking employment. However, the majority of the population is expected to earn less in 2025 relative to 2015, with greater wealth concentration in the top 20%.

With income polarization comes new economic drivers and opportunities. To succeed in a polarized marketplace businesses will need to make strategic plans that are cohesive with this new reality. For instance, companies focused in personalized healthcare, wellness, and leisure transportation will need to focus almost exclusively on the highest income groups to drive growth, while companies in the food and education segments can still focus on the lower income groups to maintain growth due to the inelasticity of their demand.

So what does this all mean for 3 Rivers Capital Investors? Acquisition opportunities in the health and wellness market will be given a greater focus (aging Boomers). Opportunities could arise in many forms, however, especially in areas of the market that we have expertise. While consumption patterns may change (shift of the Boomers), there will be some areas of the market that will remain strong, especially ones where demand is more inelastic and or where women drive consumption. There also has been significant changes in the food industry (Millennials tastes) where opportunities abound and where 3RC will be focusing more research in the future. We will follow up on these topics early next year as we delve further into the manifestations of these demographic trends that will drive our sourcing efforts.

Next month we will delve into the second major factor of influence shaping our sourcing and management efforts, Escalating Conflict Globally.

SOURCES:

- 1- Frost & Sullivan - Future of the United States 2015
- 2- U.S. Census; UN-ESA (2014);
- 3- Pew Research Center; Experian; National Center for Educational Statistics
- 4- U.S. Department of Commerce; U.S. Census
- 5- ILO; Congressional budget office; U.S. News "How Retirees spend their time"
- 6- "The future of employment" Oxford Martin School
- 7- U.S. Census; Yahoo Finance "Why Incomes Could Fall for the next 30 Years"
- 8- National Center for Education Statistics; Scientific American; Pew School Trends; Forbes
- 9- UN-ESA; ILO
- 10- Brookings Institute; Nielsen