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RESEARCH NOTE

Where Will Job Markets Be Tightest?

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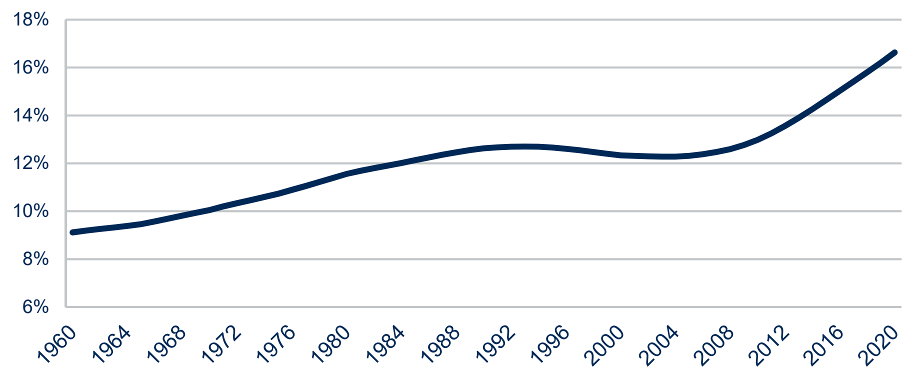
The demographic headwinds that keep the current labor market tight look unlikely to dissipate soon, and they will continue to fuel wage pressures in key sectors where the shortages are most acute and where neither immigration nor technology look likely to help. While we might see some pick up in the supply of labor in the near-term, a portion of the decline is due to an aging population and rise in retirements, which will likely prevent the labor force participation rate from fully rebounding *and* keep it trending lower over the decade ahead. The U.S. Bureau of Labor Statistics (BLS) projects that, between 2020 and 2030, **employment will increase by 11.9 million jobs, while the labor force will only rise by 8.9 million.**[1] This will likely have a differing impact on labor supply across sectors, suggesting that some companies may continue to face tight labor markets and higher wage bills beyond the COVID disruptions. In fact, the **transportation, health care, and manufacturing sectors are among those that should be most adversely impacted by demographic trends.** Moreover, those sectors less able to offset this with automation and immigration—health care in particular—are more likely to face higher wage bills. Meanwhile, **retail trade, couriers and messengers, warehousing and storage, software developers, and data and mathematical science occupations should be the most isolated from the impact of the aging population on the labor force.**

The U.S. population is aging as the share of people 65 and older has risen from just 9% in 1960 to over 16% in 2020. This percentage is expected to increase given greater life expectancy (which has trended upward for decades despite a recent COVID-related dip), falling fertility rates, and weaker immigration trends.

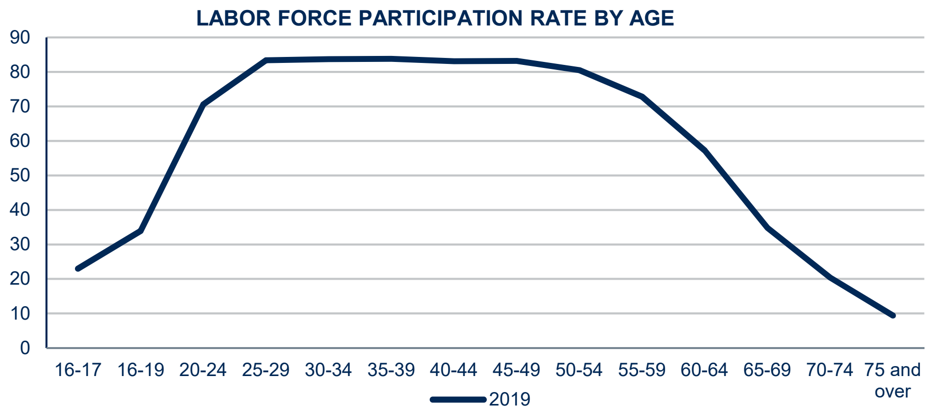
U.S. POPULATION, AGES 65 AND ABOVE (% OF TOTAL POPULATION)



Source: World Bank. As of August 2022.

[1] Kevin S. Dubina et al. "Projections overview and highlights, 2020–30." *Monthly Labor Review*, U.S. Bureau of Labor Statistics. October 2021. https://doi.org/10.21916/mlr.2021.20

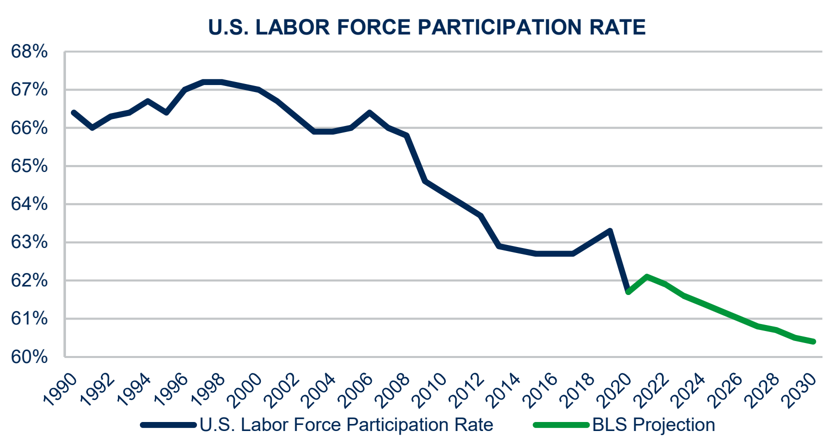
As people age and enter retirement, their participation in the labor force naturally declines. **This means that as the population gets older and more enter the age groups where labor force participation is lower, there will be a smaller pool of workers in the U.S. from which firms can draw**. In fact, this graying of the population is one reason for the downward trend in the labor force participation rate (LFPR) over the past two decades.



Source: Bloomberg. As of August 2022.

While COVID has accelerated this shift, with a meaningful rebound in the 55+ labor force still failing to take shape, it's a trend that was occurring even before the pandemic hit. This, combined with many other factors such as weaker immigration trends, health concerns, the need for child and elderly care, and changing preferences, has resulted in widespread worker shortages. Given that this downward trend in the LFPR is set to continue even if and as COVID disruptions begin to correct, worker shortages in some sectors are likely here to stay longer-term. The retirement age may rise over the next decade along with life expectancy, but this is unlikely to fully offset the demographic drive behind a falling LFPR.

Looking ahead, the **BLS projects that the LFPR will "continue to trend down, declining from 61.7% in 2020 to 60.4% in 2030**,"[2] due largely to these demographic factors.



Source: Bloomberg and BLS. As of August 2022.

[2] Ibid.

Which sectors will feel the greatest impact?

To gauge the impact an aging population will have on the labor market by nonfarm sector, examine which industries have the highest concentration of older workers—who are more likely to retire or otherwise leave the labor market over the next decade—and vice versa. Then, using the BLS projections, delve into which sectors are set to see the greatest rise in demand—in terms of both projected employment and output growth. Those sectors that have the greatest share of older workers and the fastest rise in demand are likely to be hurt most by the demographic trends, which could lead to continued or more-severe labor shortages and higher wage bills for companies. Meanwhile, sectors with a greater share of younger workers and faster growth in demand should be better-shielded from the impact of an aging population. **Those sectors where the aging population is more likely to exacerbate labor shortages include transportation, health care, and manufacturing.**

The **transportation** sector is set to be among the most-impacted sectors, due in part to the much greater-than-average share of employees 55 and over. For instance, 36% of transit and ground passenger transportation workers are 55 and over, compared with just 24% for the overall labor market. The trucking sector has been acutely impacted over the past two years as demand for drivers soared during COVID and the resulting jump in e-commerce and consumption; moreover, the longer-term trend toward e-commerce should continue to support demand for these workers over the next decade. However, without sufficient replacement of older workers by younger cohorts or the widespread introduction of autonomous vehicles, wage pressures may be here to stay.

The **health care** sector is also bracing for a very tight labor market, given demographic trends. On the labor supply side, the health care industry has a relatively older workforce as well, which means the sector will likely lose relatively more workers as they reach traditional retirement age, without a sufficient replacement of younger workers. Some research even suggests that a shortage of nursing professors may also be limiting the number of younger entrants into the health care workforce.[3] On the demand side, the aging population itself and longer life expectancies should boost demand for health care services and workers. According to projections by the U.S. Census Bureau, "the number of people 85 years and older is expected to nearly double by 2035 and nearly triple by 2060."[4] This population, which is set to grow much more quickly than younger cohorts, demands significantly more health services. The BLS projects an additional 3.3 million health care and social assistance jobs through 2030, and a study in the American Journal of Medical Quality estimated that there will be a shortage of more than half a million registered nurses by 2030.[5] In addition, many health care jobs are harder to automate than in other sectors, such as retail trade and manufacturing. A shortage of care workers and higher costs **also poses knock-on effects to the labor market. If families cannot find affordable care, this could in turn weigh on prime-age labor force participation, as many people—particularly women—are forced to either exit the labor force altogether or reduce working hours to care for children, elderly parents, or both**.

[3] Xiaoming Zhang, PhD., et al. "United States Registered Nurse Workforce Report Card and Shortage Forecast: A Revisit." *American Journal of Medical Quality.* Vol. 33, issue 3, pages 229-236. May 1, 2018. https://doi.org/10.1177/1062860617738328

[4] Jonathan Vespa, Lauren Medina, and David M. Armstrong. "Demographic Turning Points for the United States: Population Projections for 2020 to 2060." *Current Population Reports*, pages 25-1144. U.S. Census Bureau, Washington, D.C. 2020. https://www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1144.pdf

[5] Zhang. "United States Registered Nurse Workforce Report Card and Shortage Forecast: A Revisit."

The **manufacturing** sector is among the oldest and fastest-aging workforces in the U.S., and the median age of manufacturing workers rose from 40.5 in 2000 to 44.1 in 2018, compared with the U.S. averages of 39.3 and 42.2, respectively.[6] The aging workforce was challenging the industry even prior to the pandemic, as a 2017 survey by the National Association of Manufacturers noted that "attracting and retaining a quality workforce constitutes one of the top challenges facing the manufacturing industry."[7] Social stigmas have also weighed on the supply of labor in the manufacturing industry, particularly among younger generations, given greater emphasis on higher education and white-collar jobs. Moreover, if a larger share of spending in the U.S. shifts to goods or there is a rise in on-shoring, this would further boost the demand outlook and exacerbate the labor shortages in the industry. Automation may provide some reprieve to worker shortages and wage pressures in this sector, but even despite the ways technology will reduce human involvement in processes, the BLS projects demand for manufacturing workers will rise over the coming decade.

Given the demographic trends, it is increasingly likely transportation, health care, and manufacturing sectors will face growing workforce challenges unless technology and immigration trends improve materially. These issues are likely to play an important part in some sectors—but not all of them. For example, immigration won't be able to solve the shortage of health care workers alone. This means companies in these sectors will likely face higher wage bills and require alternative methods, such as technological advancements and unconventional work arrangements, to help meet demand. The extent to which this will translate to higher wages depends also on the ease and willingness of workers to move from lower-paying sectors to these higher-paying ones. There is a limit to how voluntary these changes can be, though, as a specialized blue-collar worker cannot become a nurse in just a couple of months. They may not want to, either. Therefore, industries facing the greatest aging workforce headwinds that are also less able to adapt through automation—such as health care—should see the most pressure from labor and wages.

So, which sectors are most shielded from the impact of an aging population?
Contrary to the above three sectors, there are many areas that are better-suited to endure these demographic headwinds, **including retail trade, couriers and messengers, warehousing and storage, software developers, and data and mathematical science occupations**.

Retail trade is better positioned to weather labor shortages thanks to a much younger workforce, a projected decline in demand for workers, and still-strong output growth. The BLS expects retail trade employment will fall by 586,000 jobs through 2030, given the shift from brick-and-mortar to e-commerce as well as automation, such as checkout positions. The Bureau noted that "about half of all sales occupations are held by retail salespersons and cashiers,"[8] though it also projects retail trade will have among the strongest growth in output over the same period—a 3% compounded annual rate of change in output over the next decade, compared with the overall economy's 2.2% growth. This means that wage pressures should soften in this sector longer-term. But it also means investors should take into account longer-term changes in consumption patterns.

While the shift to e-commerce might come at the expensive of retail trade jobs, online shopping is also projected to boost demand for **warehousing and storage and couriers and messengers** employment and output. Demand for these workers should increase, though the demographic headwinds shouldn't be as severe because these sectors have among the youngest workforces of all sectors in the U.S.

[6] "The Aging of the Manufacturing Workforce: Challenges and Best Practices." *Manufacturing Institute*. July 2019. https://www.themanufacturinginstitute.org/wp-content/uploads/2020/03/MI-Sloan-Aging-in-the-MFG-Workforce-Report.pdf
[7] Ibid.
[8] Dubina. "Projections overview and highlights, 2020–30."

Finally, **software developers and data and mathematical science occupations should also be well positioned over the decade ahead.** These occupations fall under professional and business services and information industry classifications by the BLS. Not only should demand for these sectors remain robust given longer-term trends in technology, but the workforce is skewed much younger and is attractive to generations born in a digital world.

These sectors should therefore feel less strain on their workforces due to the population aging that will exert downward pressure on labor force participation.

Conclusion

The U.S. population is graying, which will result in a continued downward trend in the labor force participation rate over the decade ahead. **Sectors with a greater share of older workers and strong growth in labor demand, such as transportation, health care, and manufacturing, are therefore most likely to continue to face challenges finding and retaining workers longer-term due to shifting demographics.** Those unable to offset this trend with automation and immigration are likely to face higher wages. Meanwhile, retail trade, couriers and messengers, warehousing and storage, software developers, and data and mathematical science occupations won't face the same wage pressures, given younger workers entering these sectors.

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