



Investment Perspectives

U.S. Labor Shortage

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Steven A. Doorn, CFA
Director of Portfolio Management

Key Takeaways

- Labor shortages have been a hallmark of the post-pandemic recovery and are being felt in a wide range of economic sectors
- Government stimulus, while distortive, is a recent phenomenon and doesn't address longer-term trends
- Baby boomers are retiring and population growth has been falling for the past two decades
- American ingenuity, including innovative adaptation of technology, will continue to be key moving forward

The shortage of labor in the U.S. is being felt throughout the economy as we continue to recover from the pandemic. While government stimulus has been receiving much of the blame, long-term demographic shifts have been the key driver. American businesses and policymakers will have to adapt to address this challenge.



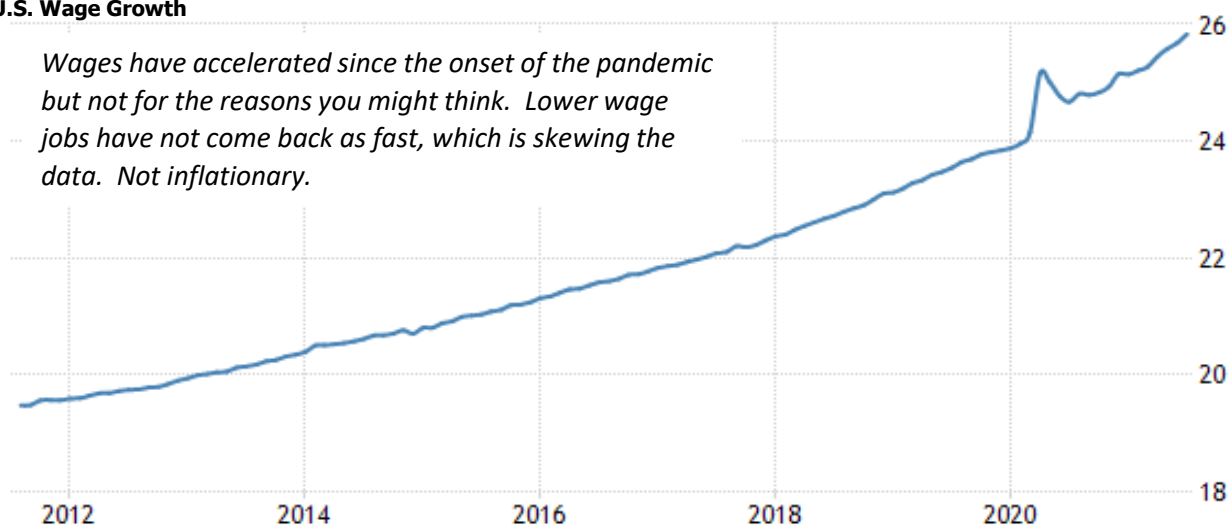
Demographics, not stimulus, is the key to the U.S. labor shortage.

Everywhere you go these days it is hard not to see the effects of the current labor shortage. “Now Hiring” signs are seemingly more prevalent than campaign signs are during an election year. Companies are offering incentives, including signing bonuses, for even the most unskilled labor. Businesses are operating at reduced capacity due to staffing levels. Have you tried to dine in at a restaurant after 9pm during the week? Good luck finding one.

In economics, price is set at the intersection of supply and demand. The same can be said for labor. Wages are the simply the price at which workers are willing to supply their services. When demand for workers rises, and/or the supply of labor falls, wages will begin to rise to entice more workers to come into the workforce. But what happens when the supply of labor becomes permanently impaired?

U.S. Wage Growth

Wages have accelerated since the onset of the pandemic but not for the reasons you might think. Lower wage jobs have not come back as fast, which is skewing the data. Not inflationary.



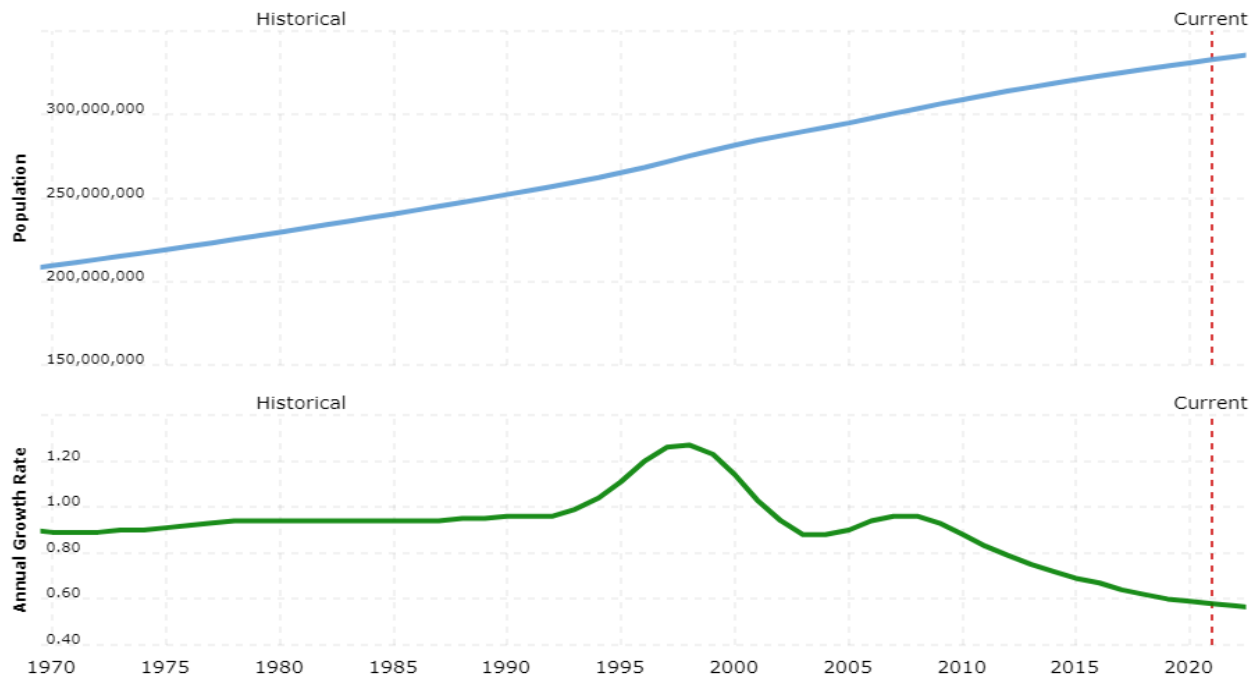
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

There's been a lot of debate recently about how government stimulus is distorting the normal function of supply and demand in the labor markets. Enhanced unemployment benefits are clearly having an impact on low and moderate wage hiring. Tight labor markets are also making it easier for workers to quit their jobs and find new ones. However, that is only a recent phenomenon. Of greater concern is the shrinking size of the overall labor pool – a demographic trend that has been building for decades.

In 2020 there were an estimated 331.5 million people in the United States. In the post baby boom era, between 1970 and 2010, the U.S. population grew at a steady rate of around 0.90% annually, with a brief period in the late 90's (Gen Z) of above trend growth. Around 2010 however, the growth rate had begun to steadily decline, recently dropping below 0.60% annually. According to the recent census, the 7.4% population growth between 2010 and 2020 was the lowest since the 1930s, a period when birthrates were negatively affected by the Great Depression. The result is 10 million fewer people entering the workforce.



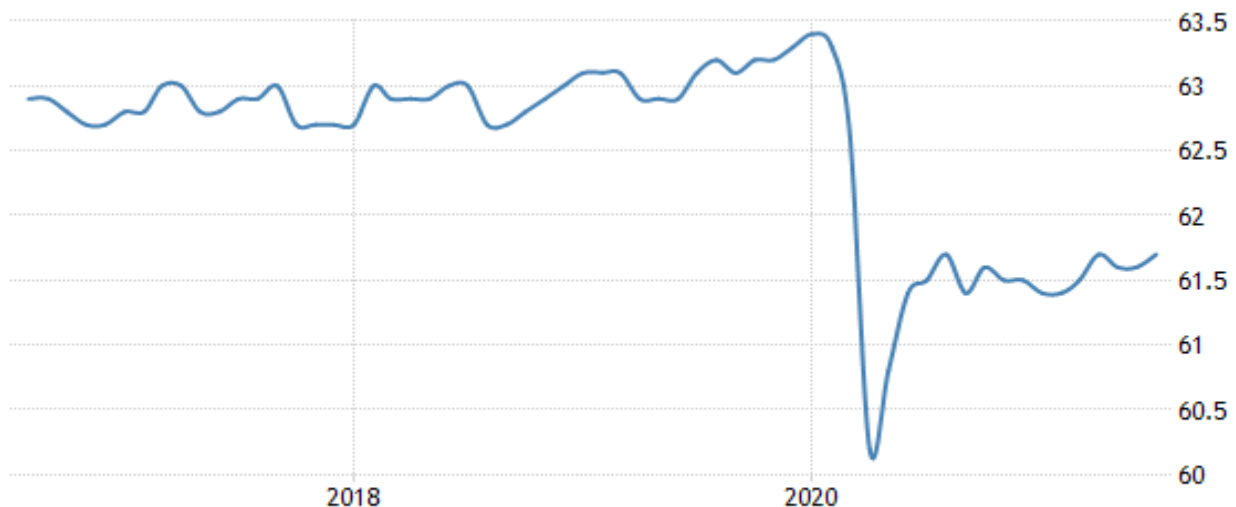
U.S. Population Growth



Source: <https://www.macrotrends.net/countries/USA/united-states/population-growth-rate>>U.S. Population Growth Rate 1950-2021. www.macrotrends.net. Retrieved 2021-08-25.

Unfortunately, lower population growth is not the only problem. America is getting older. In 2000, the number of Americans ages 65 years or older was 34.8 million. By 2010, that number had grown to 40.4 million. According to the latest census, there are now nearly 55 million people at or near retirement age. Over the last decade, Baby Boomers have been retiring at a rate of about 2 million per year. The pandemic has only accelerated that trend. In the 12 months ending in March, 2.7 million people had chosen to retire, with many simply choosing not to return to work.

U.S. Labor Force Participation Rate (%)

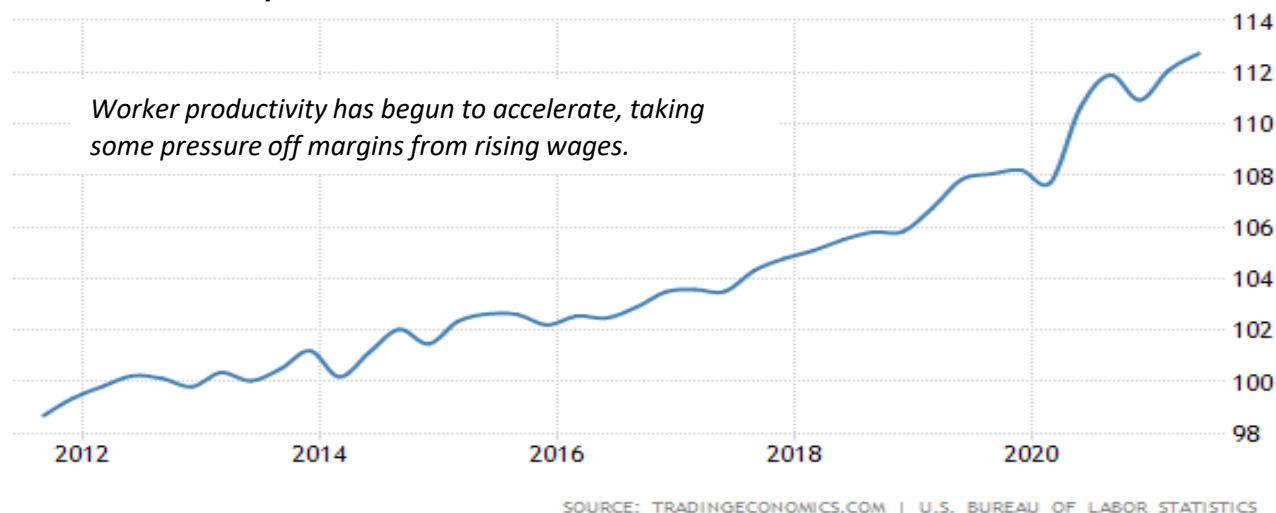


SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS



As the U.S. economy continues its recovery from the pandemic-induced recession, businesses of all stripes are faced with a litany of supply constraints, labor included. There are no quick fixes to the problem. Fortunately, American businesses can be counted on to come up with solutions when it comes to profitability. An obvious one is greater use of technology. Think automation. More efficient service models like e-commerce for retail or order online for restaurant and grocery pick-up/delivery. We have already seen a major uptick in worker productivity.

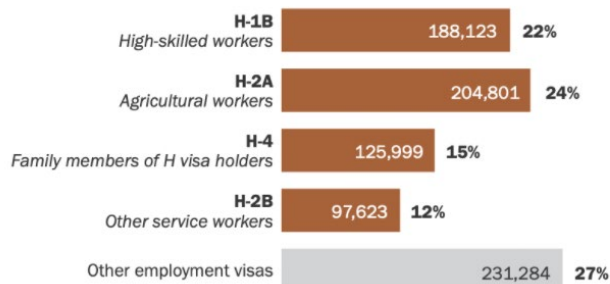
U.S. Worker Productivity



Two other key sources of labor are immigration and temporary work visas. While highly politicized, immigration and foreign-born workers have always been a key part of the labor pool. Despite what you may hear or read, the American Dream is still alive. Increasing the number of available workers through these channels can provide a pathway to future economic growth.

H-1B visas accounted for about one-in-five temporary employment visas issued in 2019

Temporary employment visas issued, fiscal year 2019

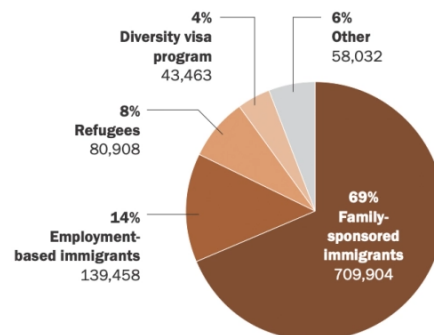


Note: "Other employment visas" includes H-1B1, H-3, L, O, P and Q visas. For H-4 visas, eligible family members include only spouses and unmarried children under 21.
Source: U.S. Department of State.

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Most immigrants receive green cards because of family ties in the United States

Admission categories for U.S. lawful permanent residents, fiscal 2019



Note: "Other" includes parolees and asylees.
Source: U.S. Department of Homeland Security.

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American ingenuity will overcome this problem like it has countless others. Some assistance from Congress in the form of a smart and consistent immigration policy would only speed the process along. The most successful companies of the next decade will be those that harness technology not to replace workers, but to make them more productive.