The BakerGroup

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Is the United States Entering a Prolonged Period of Low Unemployment and Rising Wage Inflation?

From 1946 to 1964, a new generation emerged: the Baby Boomers. As soldiers returned home from World War II, a sense of stability and optimism led to the "baby boom." Birth rates surged, peaking in 1957 with roughly 4.3 million births that year. Compare that to the 3.5 million births in the U.S. last year—a stark reminder of demographic shifts. Or said differently, the U.S. birthrate in 1957 was 23.8, compared to just 12.0 last year.[1]

By most estimates, today there are approximately 71 million Baby Boomers in the United States, with an age range of 60 to 78. With 10,000 Boomers reaching retirement age daily, the U.S. workforce is undergoing a long-term shift that could continue to support the Federal Reserve's "maximum employment" mandate for years to come by consistently creating new job openings and enabling workforce mobility.[2]

Maximum Employment – Part 1 of 2 of the Federal Reserve's Dual Mandate

One notable effect of said shift in the workforce is on job availability. Many high-paying, management-level positions are opening up. I believe this turnover is assisting, and will continue to assist, the Federal Reserve to achieve one of its dual mandates, "maximum employment." As Baby Boomers retire, they vacate positions, which allows younger generations to step in, reducing unemployment and creating upward mobility.

Consider the NCUA and FDIC, which are experiencing a large wave of retirements. According to the NCUA's 2023 Annual Report:

> *"The agency also has a large percentage of employees who have reached, or will soon reach, retirement age, including many in senior levels of management. The agency set specific hiring targets for generalist examiners in 2024 to improve vacancy fill rates."*[3]

On the exam front, I believe part of the story for these Federal Agencies is that the "next in line" is not always ready or qualified for the job. So, they either "promote and hope" or look outside their agency to fill the positions. This cycle can trickle down, resulting in newer, less-seasoned employees stepping into complex roles, potentially affecting productivity and quality of exams across the agency.

A Ripple Effect on Job Creation

As Baby Boomers retire, the need for services, particularly in healthcare, is expanding. According to Social Security data, about one million additional people begin receiving benefits each year. In 2010, 37.5 million people were retired and receiving benefits. By the end of last year, that number had grown to 52.7 million.[4]

To accommodate this growing retiree population, industries related to healthcare are expected to grow. The U.S. Bureau of Labor Statistics projects that four of the ten fastest-growing occupations over the next decade will be in healthcare, largely driven by this demographic shift.[5]

Price Stability – Part 2 of 2 of the Federal Reserve's Dual Mandate

The Fed's second mandate is to maintain stable prices, which includes controlling inflation. While inflation remains relatively steady as of 2024, workforce transitions could influence it in the long run. As Boomers retire and jobs are backfilled, wages for replacement workers may rise, potentially increasing wage inflation. Additionally, potential labor shortages, especially in skilled positions, could further elevate wages due to supply constraints.

This wage inflation might contribute to broader inflationary pressures on goods and services, as higher wages can drive up production costs across sectors.

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Whether these dynamics could ultimately impact overall employment and inflation remains uncertain, but I believe the potential is certainly there.

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[1] How the US Birth Rate Has Evolved Over the Past Century - Nch Stats
[2] Baby Boomers are in the workforce later in life than past generations | Pew Research Center
[3] 2023 NCUA Annual Report
[4] Social Security Beneficiary Statistics
[5] growing_occupations.png (1920×1080)