Harry's Take

January 11, 2022

NOTE: *In the Harry's Subscriber Update yesterday, I noted that the second sign of a top in place would be a clear break of 4,600 on the S&P 500, and it was hitting 4,586 as I was writing. That was only 0.4% below the target and it bounced from there; hence, that did not end up being a clear enough break to trigger that topping sign. The markets bounced from there and closed near where they started. A clear break of that level ahead will still be such a signal, let's say now at a new low just below yesterday's low of 4,582, at 4,572.*

Labor Force Participation Has Come Back About as Far as It Can: We're Aging

Recently, I heard someone on CNBC commenting on how labor force participation just isn't coming back to the levels we saw prior to COVID, even though the economy seems to be bouncing back. This chart shows how tepid the bounce has been.

Labor Force Participation Won't Get Back to Past Levels, Due to Aging

Source: U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CIVPART, January 10, 2022
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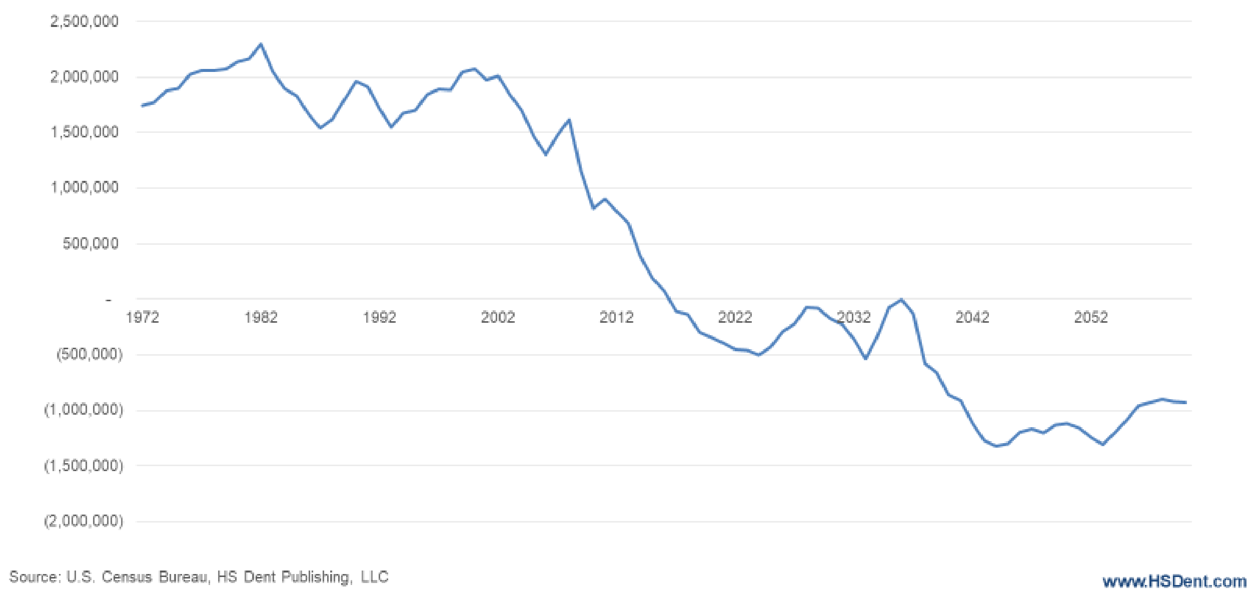
This shouldn't take a genius to figure out. The largest generation (Boomers) is aging. Their peak spending years were into 2007, as I forecast two decades before that peak. Ever since, we've been living off of printed money and short-term, something-for-nothing stimulus. But that won't change what's going to happen with an aging population.

I've been using this next chart (on a 2.5-year lag) to forecast inflation, as workforce growth is the only thing that correlates with inflation over time in modern, developed economies like ours.

20-Year-Olds Minus 63-Year-Olds: Workforce Growth Flat, Then Slower



This chart just adds the entry of people into the workforce, on average at 20 years old, and subtracts retirees, who leave the workforce on average at age 63. After falling for decades, this line now projects flatter, which should continue into 2036. Then, it ultimately will fall further into 2052. But note that since 2016, the workforce actually has been shrinking and will continue to shrink.

This not only explains why inflation has been falling since 1980 and why it will continue to fall in the future, it also explains why labor force participation has kept falling since its peak in 2001. Older people who leave the workforce generally don't come back—and not enough young people are coming in to replace them.

The other thing that just happened is that a lot of people were laid off or stayed home during COVID. Okay, that's to be expected. But what no one is considering is that a good number of those people were aging Boomers, who are now close enough to retirement to just decide, "The hell with it, it's not worth the trouble of coming back when I'm close to retiring anyway." Some people (not me) got that time off and liked it.

And guess when the peak number of Boomers is expected to retire, at the normal, average age of 63: into 2024!

So, some of these aging Boomers left the workplace during COVID and aren't coming back whether the economy gets stronger or not… which means that this recovery likely has seen its best days already! That's what the Fed does not see coming.

Harry

Got a question or comment? You can reach us at info@hsdent.com.