

2019-2020 U.S. Macro Demographic Trends Report



HARLEM CAPITAL
PARTNERS

May 2020



Overview

Understanding U.S. macro demographic trends – how the population’s characteristics such as age, ethnicity, gender, marital status, income, education levels, and living status evolve over time – is critical to tracking consumer behavior and identifying new market opportunities

The Harlem Capital team dug deep into macro demographic trends to help inform our perspective on important, upcoming shifts in business and society with the intention to improve our ability to identify, source, screen, and invest in businesses that tap into economic and societal changes

Note: The COVID-19 public health crisis and economic results, unfolding at the time of publication, may impact some of these trends in unknown ways

The ten trends we analyzed include:

1. The new consumer
2. Looming consumer debt crisis
3. Aging population
4. Growing Hispanic population
5. Millennials: the largest generation
6. The gender gap
7. Evolution of American families
8. AI and Automation on the rise
9. Income inequality
10. Urbanization

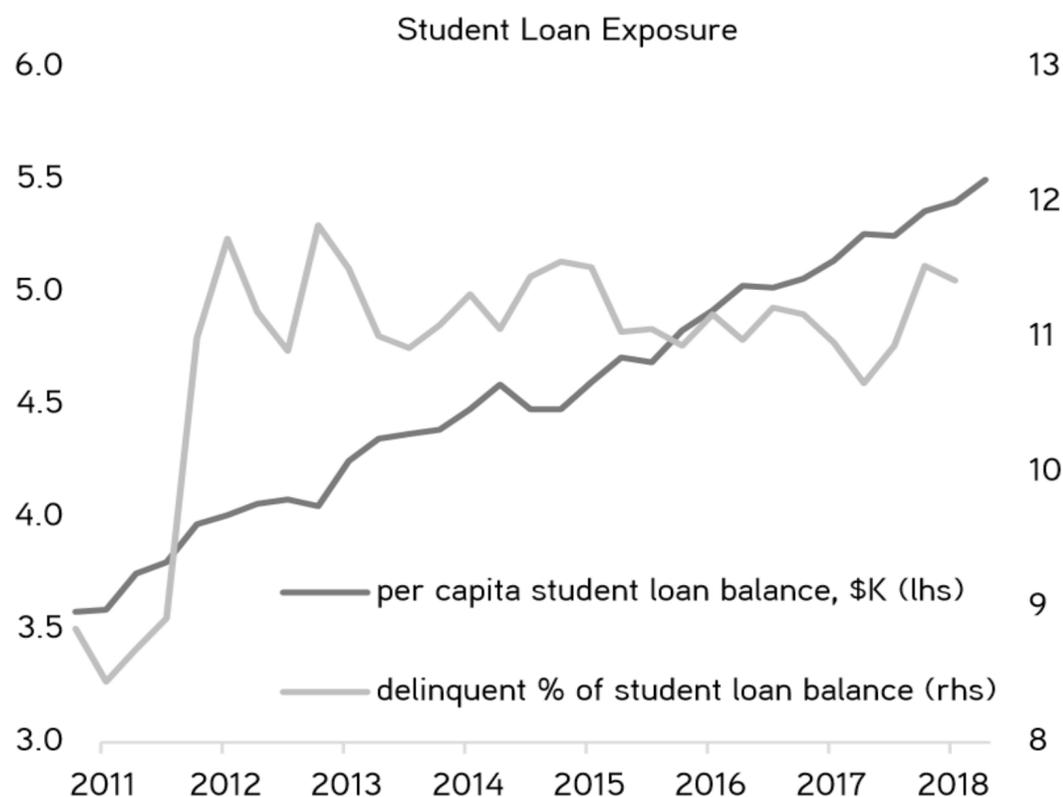


The new consumer is focused on experiences rather than things and is asset light largely due to rising debt; its influence is driven by women and increased minority purchasing power

The U.S. consumer is revolutionizing, and:

- Values experiences over things
- Is generally “asset light” and renting more: households renting vs. owning grew from 30% in 2005 to 36% in 2019, largely due to student debt burdens
- Is embracing the services economy
- Is consuming less in absolute terms
- Has less disposable income for necessities and discretionary purchases
- Is more inclined to make use of luxury assets without owning them

Student Loan Burdens have Prevented Many Millennials from Purchasing Homes



The Multicultural Consumer Dollar

Categories where consumers of color exert outsized influence

Category	Spend by Consumers of Color	Total Spend	Consumer of Color Spend as % of Total
Dry Vegetables & Grains	\$472M	\$941M	50%
Baby Food	\$817M	\$1.9B	43%
Personal Soap & Bath Needs	\$1.3B	\$3.0B	43%
Fresheners & Deodorizers	\$774M	\$2.0B	38%

Source: [Nielsen](#).

Minority spending is growing and women are influential in purchasing:

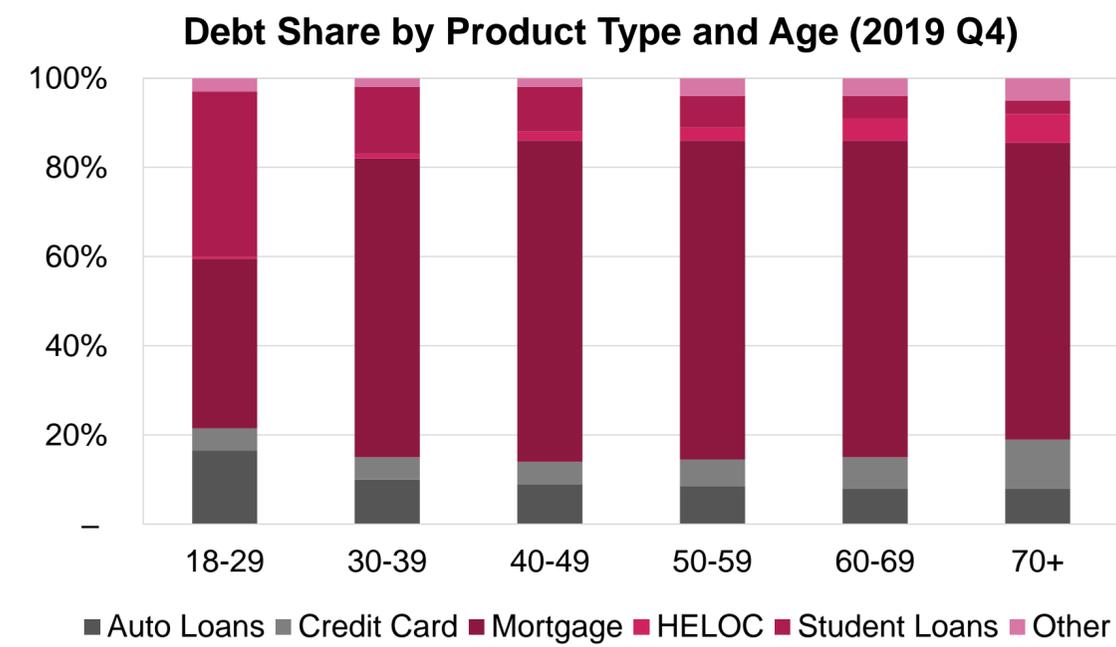
- Black Americans’ buying power grew 114% between 2000 and 2018, compared to an 89% increase in White Americans’ buying power
- Hispanic purchasing power has been growing 70% faster than Americans’ overall since the late 1980s, expected to reach \$1.7T by 2020
- American women drive 85% of all consumer purchasing, and their purchasing power ranges from \$5T to \$15T annually

\$14T of consumer debt now exceeds 2008 peak—\$1.5T of student debt is the largest non-housing balance and has high defaults overall and unequal outcomes by income and race

Consumer Debt by Age

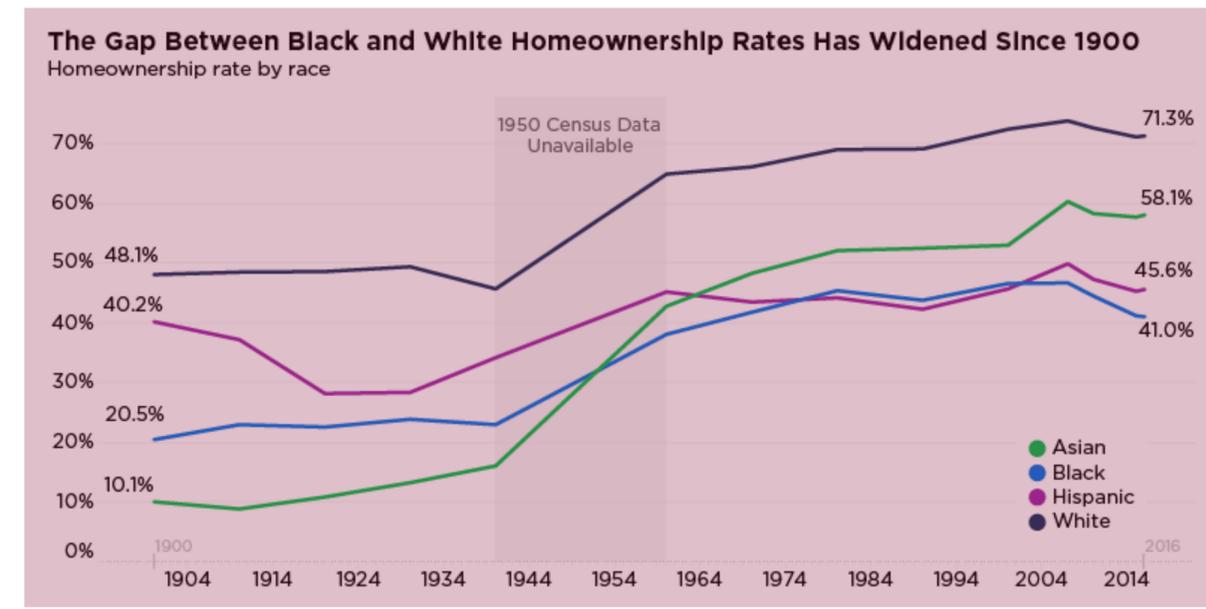
Consumer debt has ballooned, and young and minority borrowers are most heavily burdened:

- Consumer debt growth is nearly double household income growth
- As of 4Q19, 68% of the balance is housing debt, 11% is student loans, 9% is auto loans and 6% is credit card debt. Student debt and credit cards have highest default/delinquency rates at 11% and 8%
- Low-income households have the highest debt-to-income -- student debt is the largest portion of overall debt and mortgages are the lowest
- **For borrowers 18-29, ~35% of debt is student loans and another ~35% is mortgage debt, while borrowers a decade older have ~15% student loans and ~67% mortgage debt**



Younger borrowers are far more burdened by unsecured debt relative to older cohorts

The Homeownership Gap



Source: [Zillow](#) (Urban Institute analysis, Census Bureau data).

The 2008-2009 financial crisis hurt home ownership overall and Black and Hispanic households saw the sharpest decline

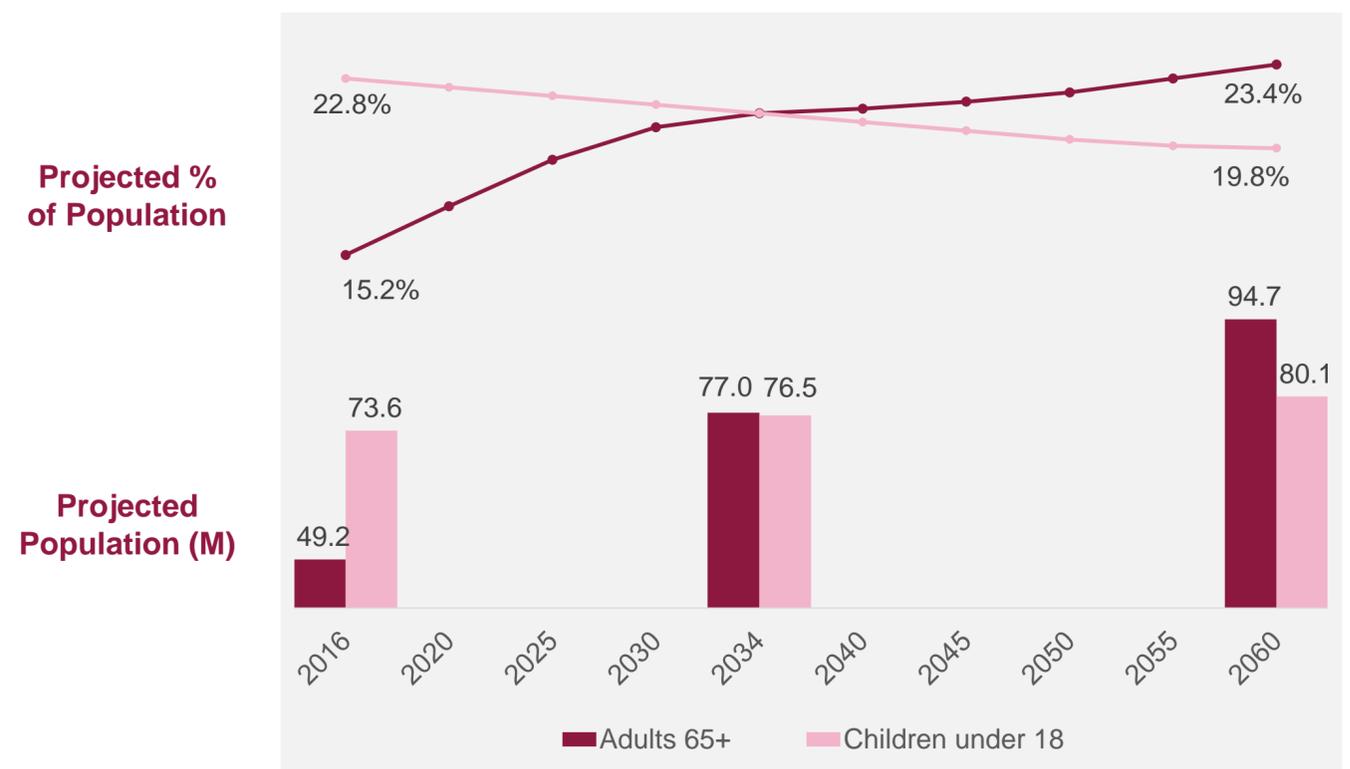
- People of color tend to hold a greater proportion of unsecured consumer debt, and Black and Hispanic consumers continue to have home ownership rates far lower than White peers, while Asian households fall in the middle
- White borrowers have the lowest proportion of student debt as a percent of total debt at 44%, while Black borrowers have the highest, at 64%
- Student loan borrowing and default rates are far higher for Black students than their peers, and default rates for students is highest among those who attended private for-profit schools

Adults 65+ will outnumber children by 2034, and the Baby Boomer population will wield purchasing power longer than prior generations, today spending \$400B on consumer goods alone

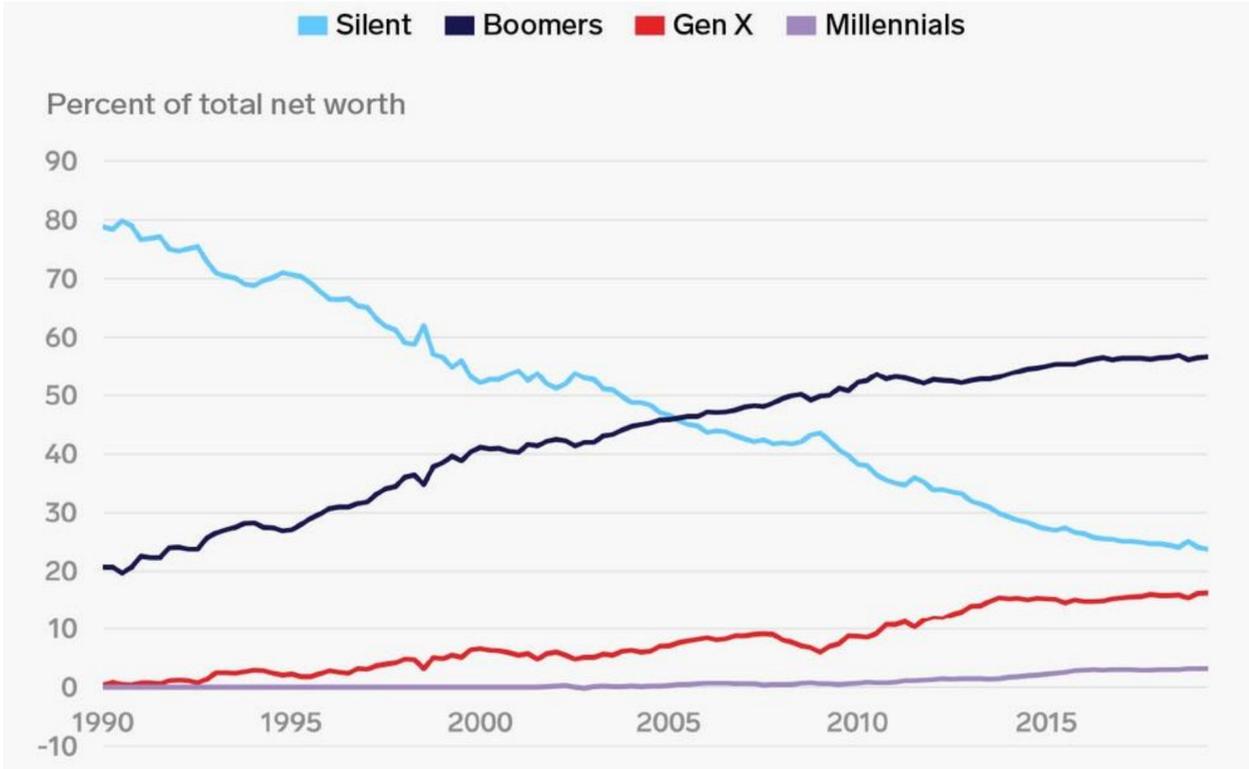
The aging population presents new opportunity for economic growth:

- High level of maintained labor force participation
- Increased levels of consumption
- **America's 65+ population is expected to double by 2060 (to 95M) owing to healthcare advancements**
- **Americans 55+ drive 42% of consumer spending, almost double the next-largest spending group (ages 45-54)**
- The 60+ category will contribute >40% of consumption growth in housing, transportation, entertainment, and healthcare in particular, driving spending of >\$6T by 2027 (19% of GDP)
- At the same time, inadequate retirement savings and rising costs for many have driven up workforce participation for those 65+, which is projected to reach >26% and >18% for men and women respectively by 2026

Adults 65+ vs. Children as % of Population



Wealth by Generation



Baby Boomers hold over 50% of U.S. wealth, and wealth passed to young generations is projected to be ~\$30T

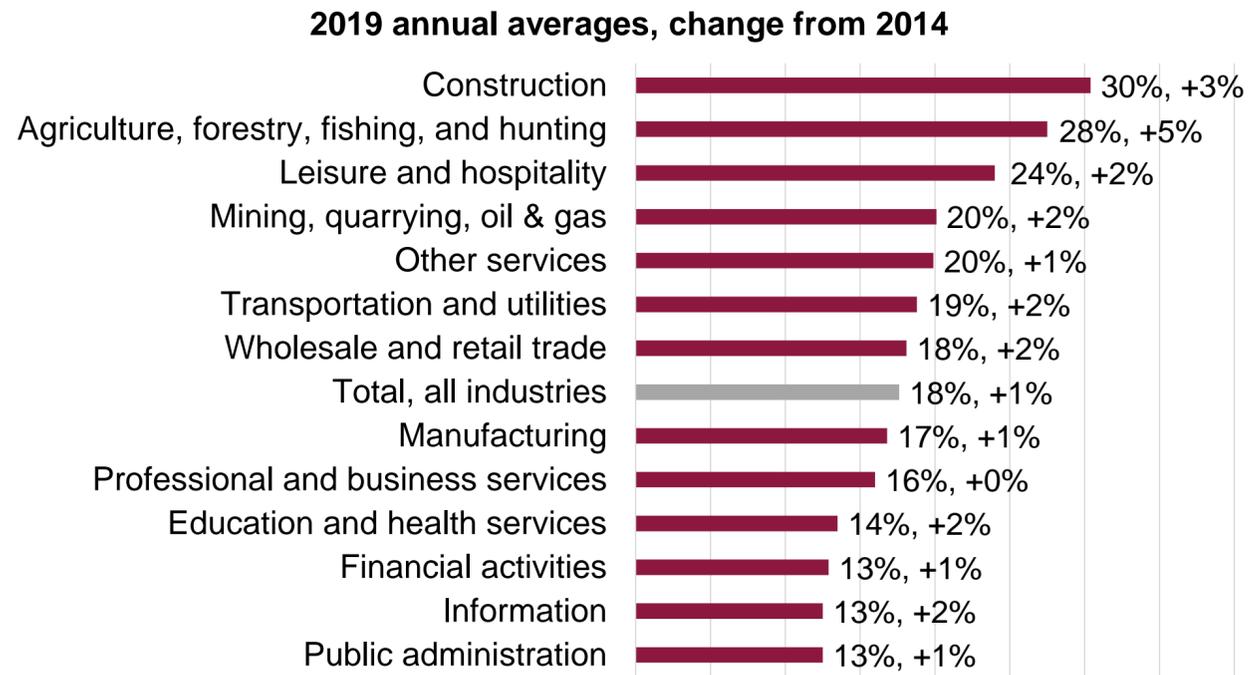
Source: [Business Insider](#) (Federal Reserve data).

Hispanics are projected to be the largest racial or ethnic minority group in the U.S. by 2020, and are the most economically influential group since the Baby Boomers

The growing Hispanic population and their high rates of labor force participation and entrepreneurship will be major drivers in America's future economic growth:

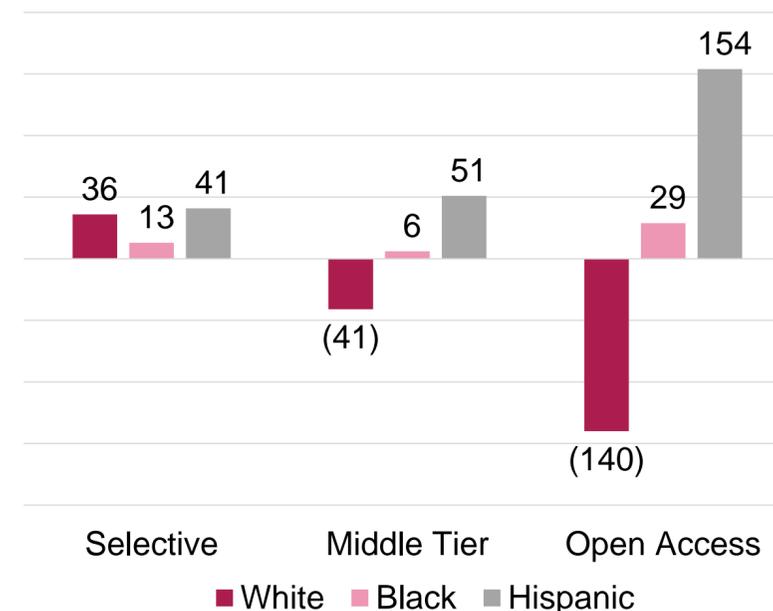
- Only account for 18% of our country's population, but have made up to 70% of the recent growth in the labor force
- In 2017, the Hispanic population generated \$2.3T in GDP compared to \$1.7T in 2010, with consumption growing 42% during that same time period
- 4.4M Hispanic-owned U.S. businesses contribute over \$700B to the American economy
- Hispanic-owned companies have grown 32% since 2012, more than double the growth rate of all businesses across America
- Account for 60% of cumulative increase in home ownership from 2010-2016
- Education is a driver: College enrollment doubling from 2000-2015 and expected to increase 26% from 2015-2026
- The Hispanic population skews younger than any other racial group in the U.S., helping to counterbalance the aging Baby Boomer population

Hispanic % of Industry Employment



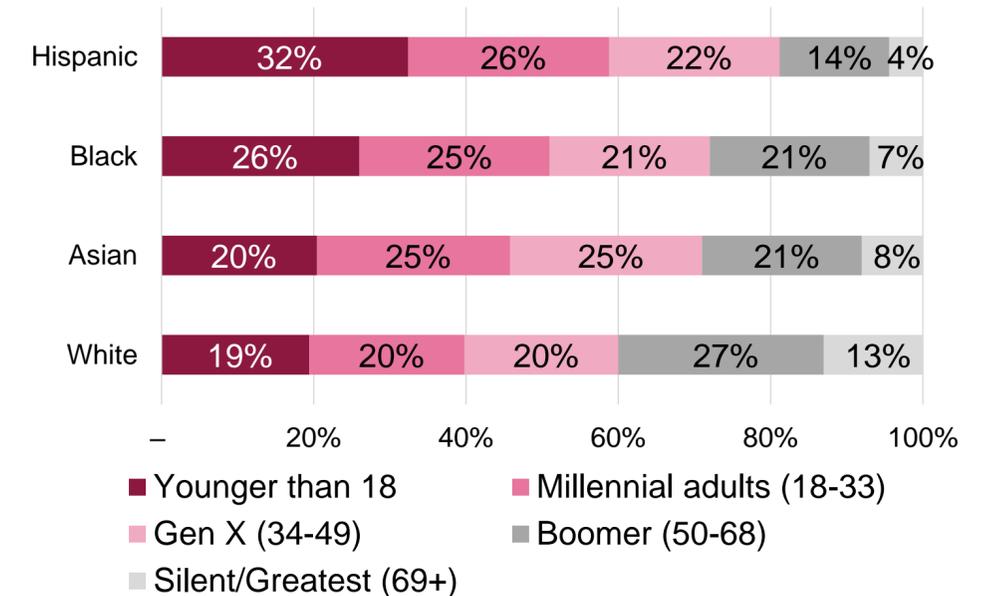
Construction has been the top employment industry for Hispanics over the last 5 years, but growth in agriculture was higher

Change in Enrollment 2004-2014 ('000s)



Hispanic enrollment led White and Black enrollment at all selectivity tiers from 2004-2014

Percent of Population by Generation, 2014



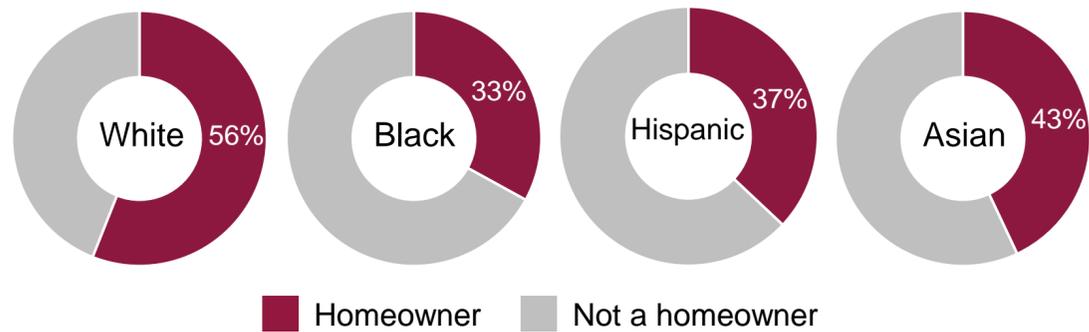
As of 2014, nearly 60% of the U.S. Hispanic population was Millennials and younger

Millennials are now the largest adult generation in the U.S., and consumption and investment habits are diverse and distinct from prior generations

Millennials are positioned to shape the U.S. for the coming decades:

- The Millennial population (ages 23-38) exceeds Baby Boomers (55 to 73) at 73M in 2019
- Millennials’ racial diversity meaningfully outpaces prior generations: 43% are non-White, and immigration has been a material contributor
- Millennials are better-educated and more progressive than prior generations, playing an important role in how they shape the American workforce, consumer habits and politics
- **Middle-class status is harder to achieve—Millennials’ average net worth is below \$8,000, far worse than prior generations, largely due to student loans, rising rents and home prices, and higher healthcare costs**

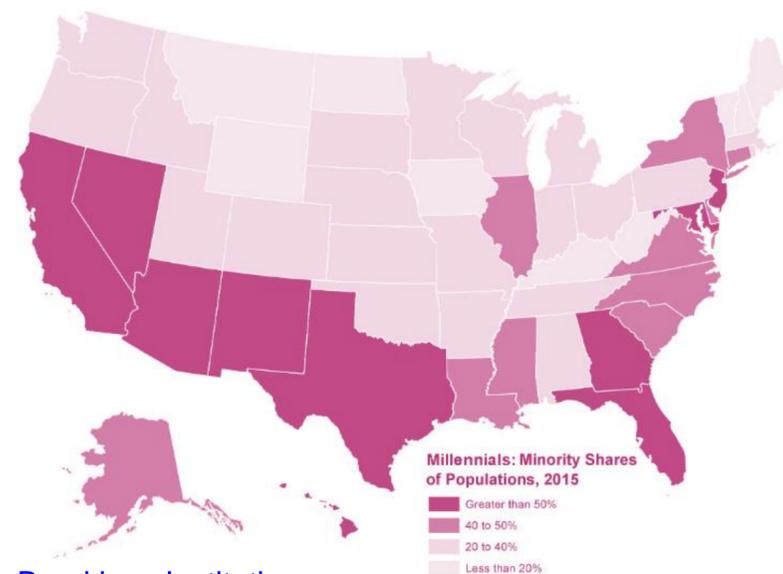
Homeownership % of Millennials ages 25-34, 2015



Source: [The Brookings Institution](#).

While Millennials are more educated, progressive and diverse than prior generations, major socioeconomic gaps persist between White and minority populations

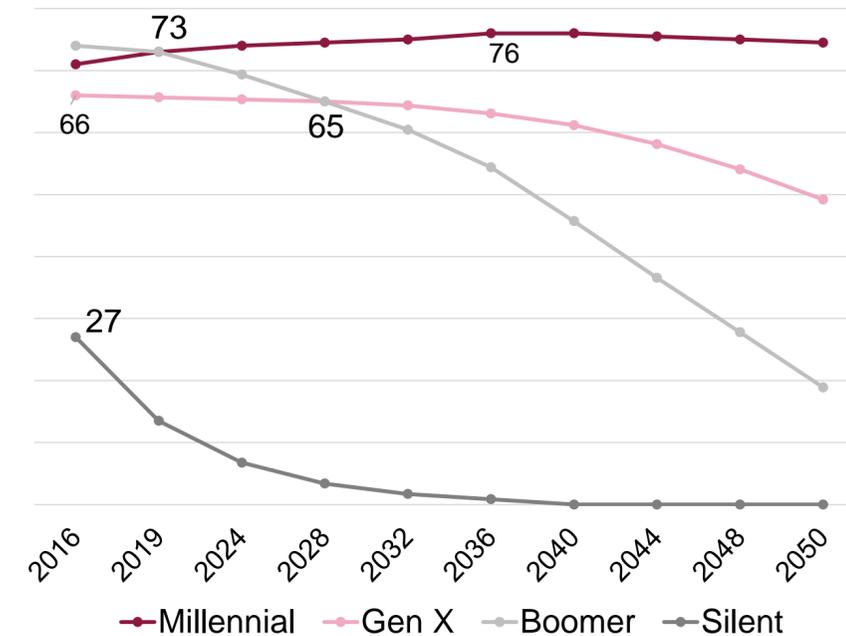
Demographics by Region



Source: [The Brookings Institution](#).

- *Nearly 20% of the 100 largest metro areas have Millennial populations that are less than 60% White (e.g. Seattle, Charlotte, Tampa, Philadelphia) and 30 metros are “minority White,” including Miami, Houston, Los Angeles, New York, Atlanta and Chicago*
- *Racial and ethnic minorities account for over 50% of the Millennial population in 10 states and over 40% in another 10 states*

Projected Population by Generation (M)



Source: [Pew Research Center](#).

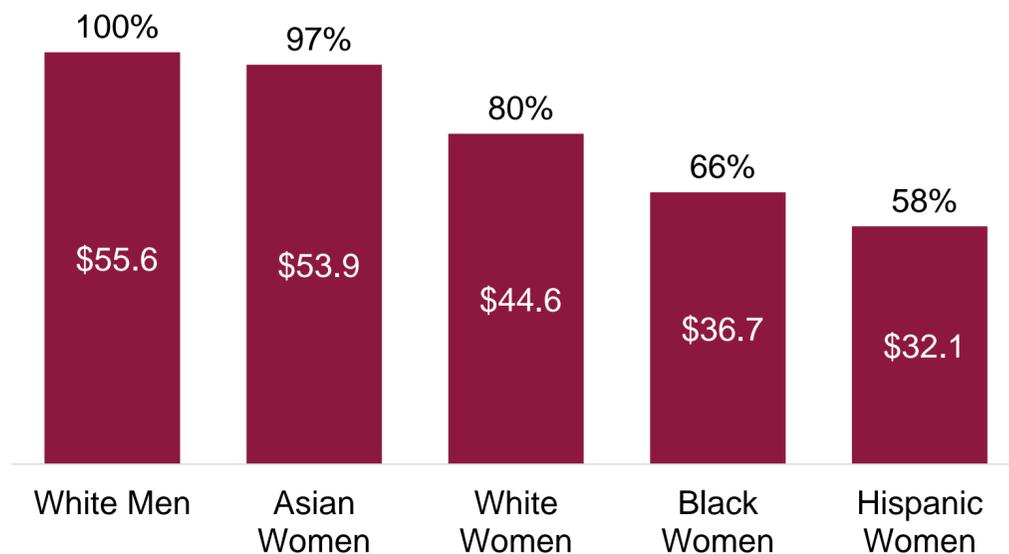
The Millennial population outnumbered Baby Boomers for the first time in 2019

Women continue to drive decision making and degree attainment, but remain underrepresented in the workplace, earnings, and wealth accumulation

- Women remain behind in earnings, leadership positions, and wealth accumulation despite earning a higher percentage of undergraduate degrees than men and comprising 51% of college-educated workers
- On average, women earn ~\$0.82 for every \$1 earned by men and own only \$0.32 for every \$1 of wealth owned by men, with major differences by race
- Women are having children later in life and increasing numbers of children are born to single mothers
- While women are the primary breadwinner in 40% of families, they still spend ~2x caregiving time vs. men

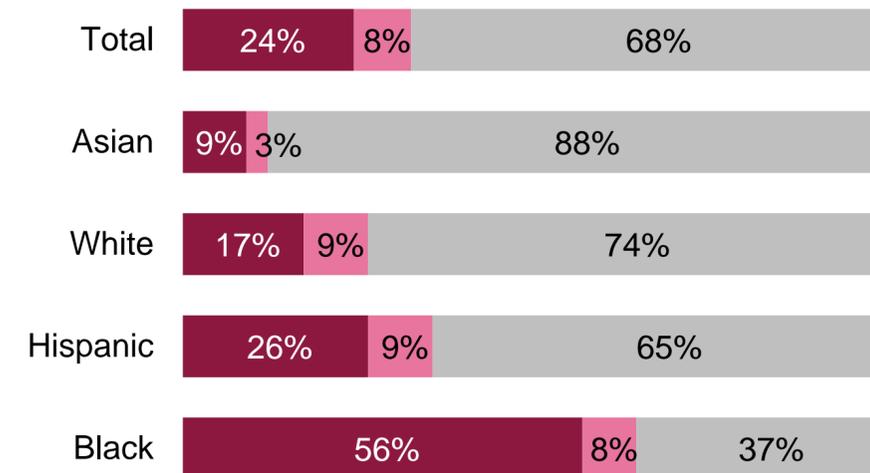
Notably, the U.S. is the only developed nation without a federal paid family and medical leave policy, with studies indicating companies that adopt extended leave see a 50% drop in new mother attrition rates

Women's Annual Earnings vs. Men's, 2018 (\$'000s)



Source: [Business Insider](#) (Census Bureau data).

Marital Status of Mothers Living with Children



Source: [Pew Research Center](#). ■ Solo ■ Cohabiting ■ Married

- *Across all industries, women are dramatically underrepresented in senior roles relative to junior roles; some of the sharpest drop-offs are in pharmaceuticals, finance and manufacturing*
- *Women of color represented 4% of C-Level roles in 2018, well below White men (68%) and White women (19%)*

- *The covid-19 outbreak is likely to magnify existing gender inequalities in caregiving, income and stability as more women are faced with a sudden increase in the need to care for children, older relatives and sick family members at home, and experience higher rates of domestic violence*
- *Single mothers are in a particularly difficult position to weather the pandemic, and the impacts of losing income and in many cases healthcare coverage will have long-term implications*

From children at home, to communal living, to growing rates of single parenthood, the American family is changing – such trends will continue to have vast economic implications

The American family is evolving in a myriad ways, from increased communal living to treating pets like children:

- 32% of the 2017 adult population lived in [a shared household](#) (living with adult who is not: household head, spouse, unmarried partner, or 18-24 y/o student), and 1 in 5 Americans live in a household with more than one generation
- Median age at 1st marriage has increased to 29 for men and 27 for women; 15% of new marriages are among people of different races (up 2x since 1980)
- 69% of children younger than 18 are living with two parents, down from 87% in 1960
- 62% of parents with infants or preschool-age children and ~40% of parents with school-aged children say it's hard to find affordable, high quality childcare
- **Pets are increasingly seen as members of the family; there are now more households with dogs than there are with children, 43M vs. 33M**
- 60% of dads say they spend too little time with their kids, and 62% cite work obligations as the cause
- 24% of dads do not work outside the home because they are taking care of the home/family (up from 4% in 1989)

Parental Concerns Across Ethnic Groups

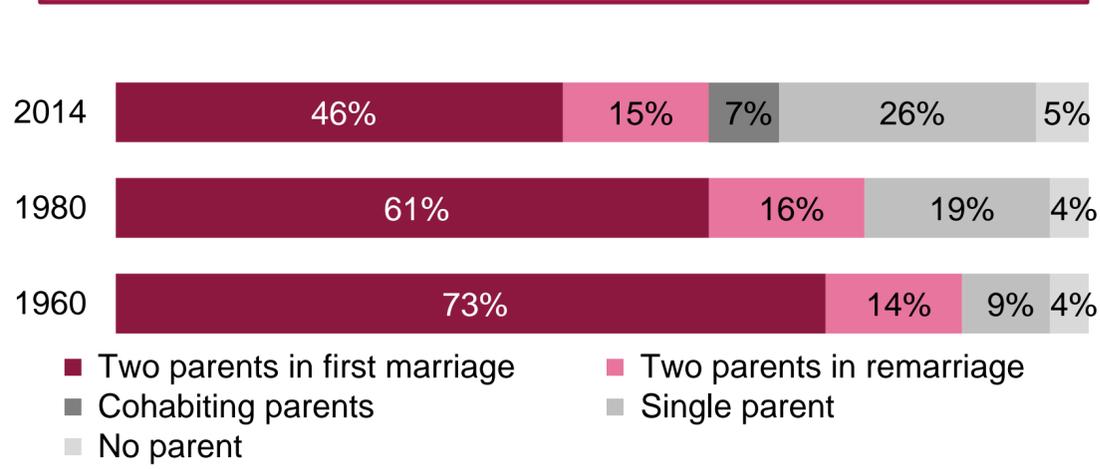
Percent of parents who worry one of these will happen at some point

	Black %	Hispanic %	White %
Be bullied	50	71	59
Struggle with anxiety or depression	35	61	58
Be kidnapped	48	71	44
Get beat up or attacked	45	67	38
Get pregnant/get a girl pregnant as a teenager	37	63	38
Have problems with drugs or alcohol	23	58	40
Get shot	39	59	22
Get in trouble with the law	27	52	21

Source: [Pew Research Center](#).

Bullying is a top concern for parents of all races, though other concerns differ. Finding high-quality affordable childcare is another consistent concern cited across racial groups and income levels.

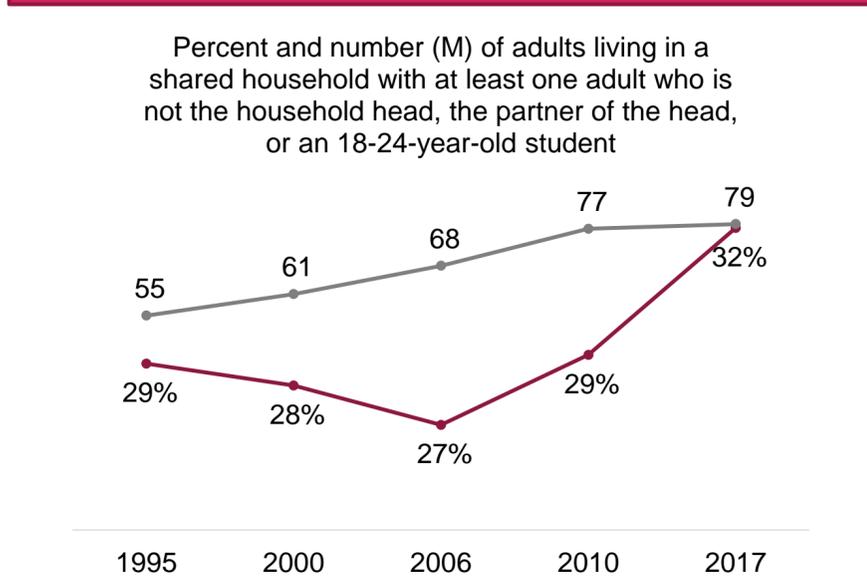
Percent of Children in Living Arrangement



Source: [Pew Research Center](#).

The diversity of family living arrangements has increased significantly since the 1960s

Adults in Shared Households



Source: [Pew Research Center](#).

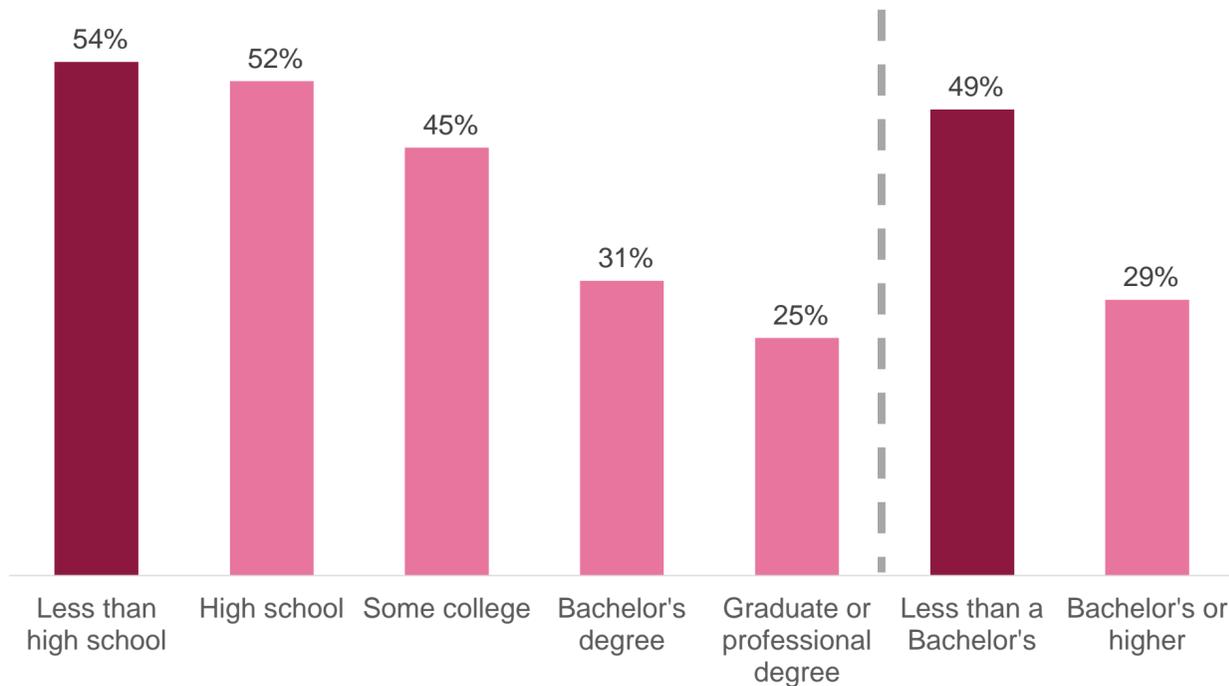
The number of U.S. adults in shared households increased by 23.5M from 1995-2017

Artificial Intelligence (“AI”) will create more jobs than it will destroy, but its near-term implications for menial tasks and under-skilled American workers are troubling

Low-skilled / repetitive roles in the American economy are highly susceptible to displacement by AI:

- Potential AI-related workforce displacement by 2030 is estimated to be as follows: Hispanic (26%), African American (23%), Asian (22%), White (22%).
- Jobs for young and old workers are being eliminated due to the repetitive nature of the jobs
- AI will create more jobs than it eliminates, though such roles will require increased education and technology-based skills
 - This negatively impacts many Latino and Black populations which represent 7% and 9% of the STEM workforce, respectively
- **60% of the job growth by 2030 will be concentrated among 25 major cities**
- Services such as food preparation and manufacturing are expected to be the most automated while careers in software development will be the least

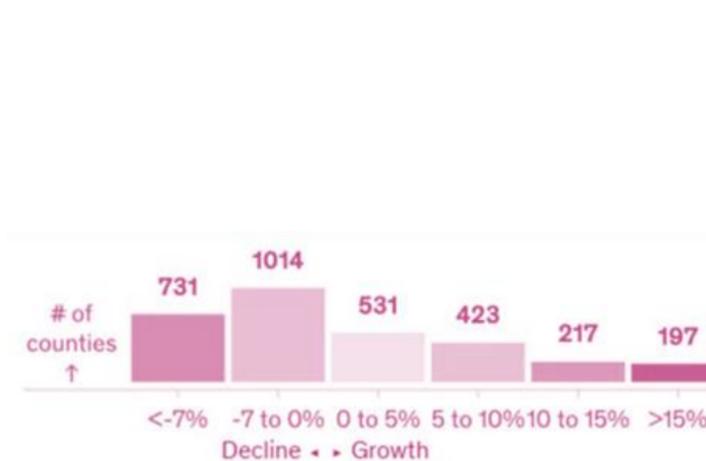
Automation Potential % by Worker Education



Source: [The Brookings Institute](#).

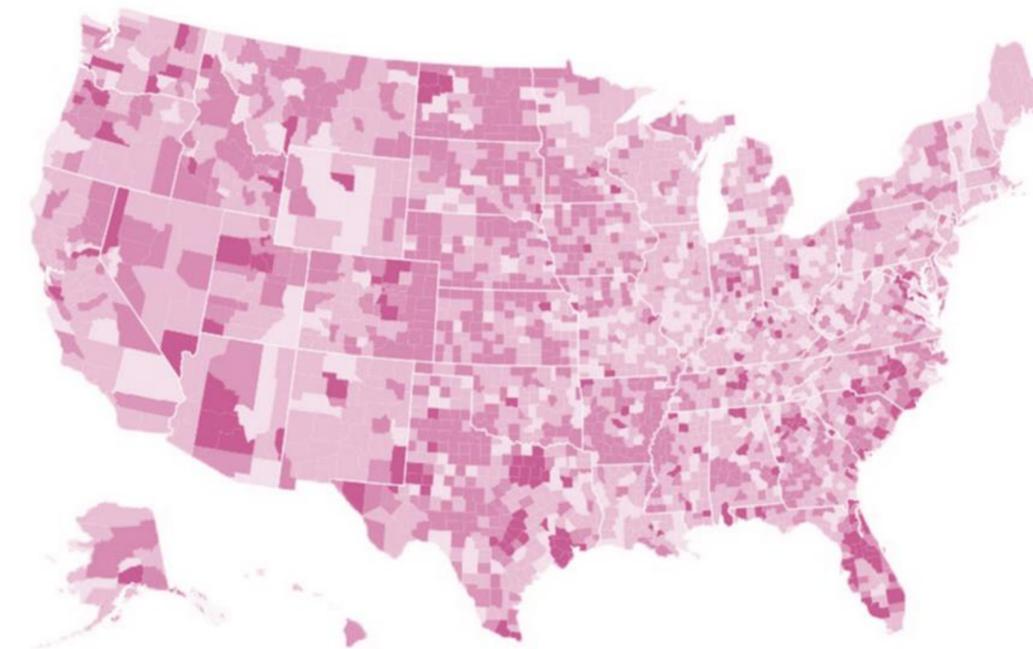
Many jobs with the highest anticipated displacement rates are currently disproportionately filled by women, minorities, younger workers and workers without a Bachelor's degree. These include food preparation, stock clerks, bookkeeping/accounting, office clerks and waitstaff

Projected Net Job Growth, 2017-2030



Source: [McKinsey](#).

Rural and urban cities will undergo drastically different experiences from the effects of AI/automation. By 2030, 60% of U.S. job growth will be concentrated among 25 major cities, leaving behind a substantial part of the rural population

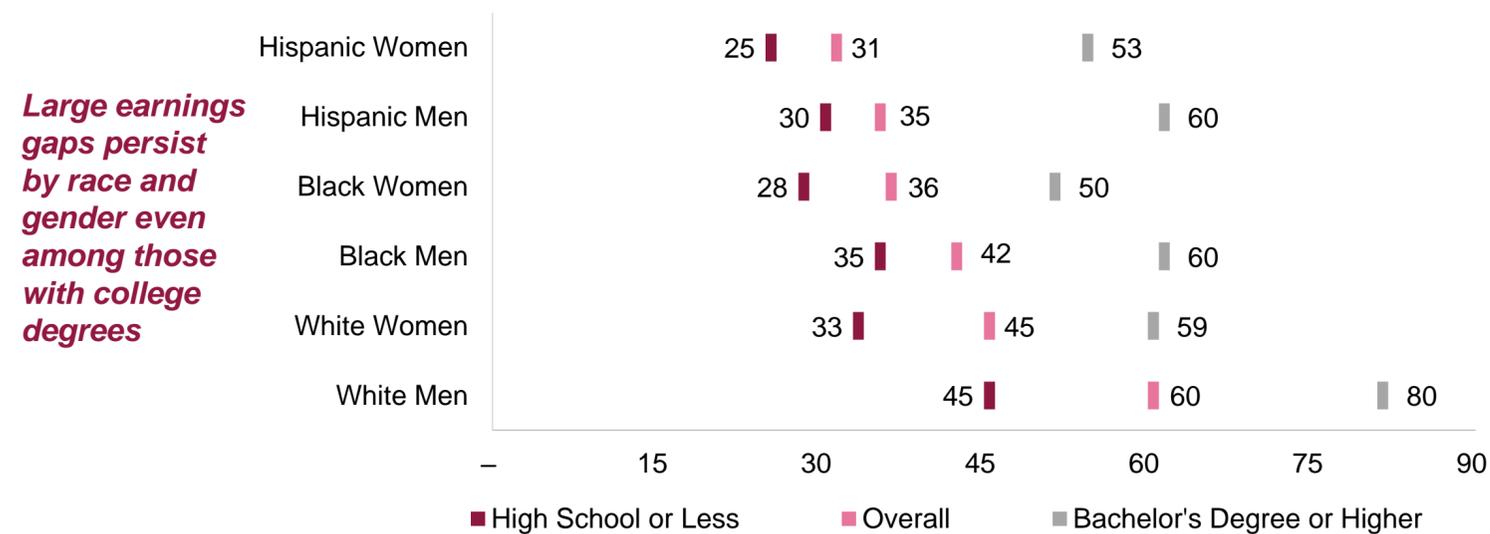


Income inequality has long been an appropriate focal point, but the gap between those at the top and the average American worker has widened dramatically in recent decades

Economic inequality in the U.S. has been steadily rising for over 50 years:

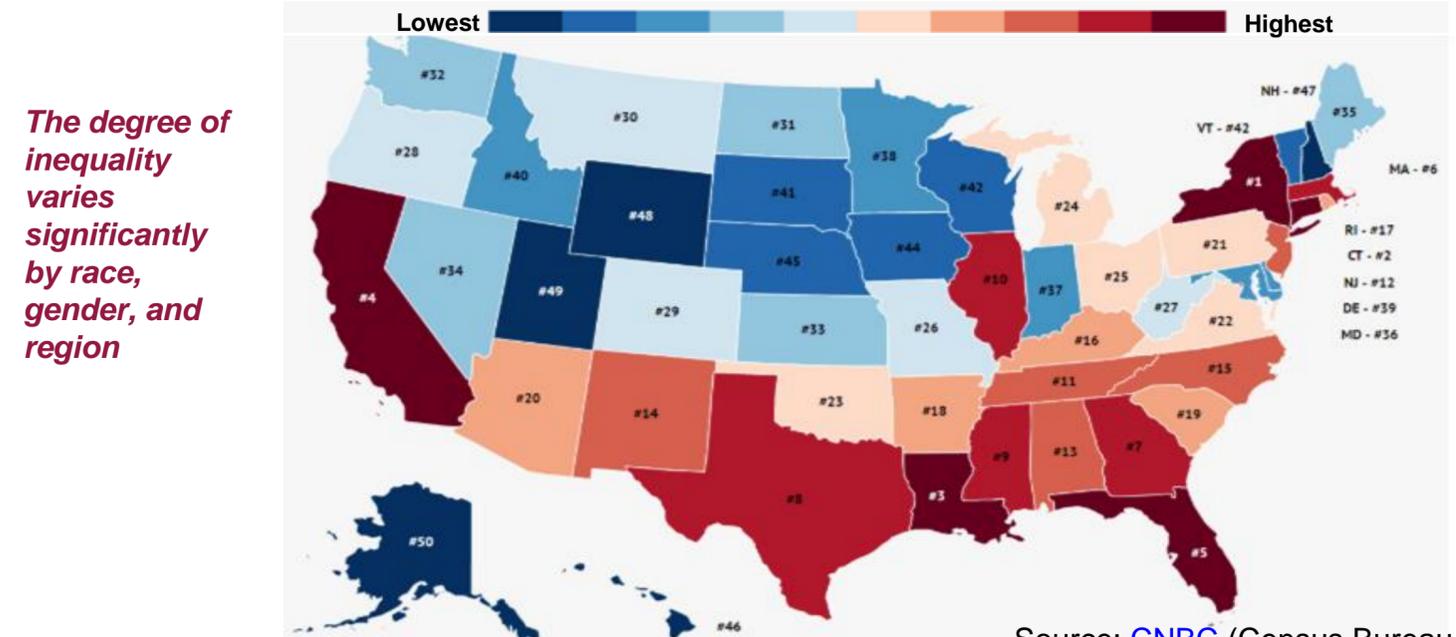
- The gap between American’s wealthiest and poorest families more than doubled in less than 30 years
- In 2018, households in the top 20% of earners (incomes >\$130,001 per year) represented 52% of all U.S. income – up 9% since 1968
- **CEO compensation grew by 1,008% from 1978-2018, compared to 12% for the average worker; CEOs now make 278x the average employee**
- The shift toward defined contribution plans has increased the disparity in retirement savings between high- and low-income workers, with the top quintile of earners owning 74% of all retirement savings and only ~10% of low-income families having a retirement account
- Income inequality among G7 nations (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) is highest in the U.S.
- Middle-class incomes are growing at a slower pace than the incomes of upper-tier households
- In 2018, the median Black household income was 61% of median White household income
- Although minorities are closing the education gap with their White counterparts, the income gap has not narrowed: when comparing the adjusted household income of college-educated Black and White homeowners, Black men earned \$82k vs. \$106k their White counterparts earned
- Despite the rise of minorities in the workforce, executive positions are dominated by White men, who make up 68% of C-suite positions

Median Annual Earnings, 2015 (\$'000s)



Large earnings gaps persist by race and gender even among those with college degrees

States with The Highest Levels of Income Inequality



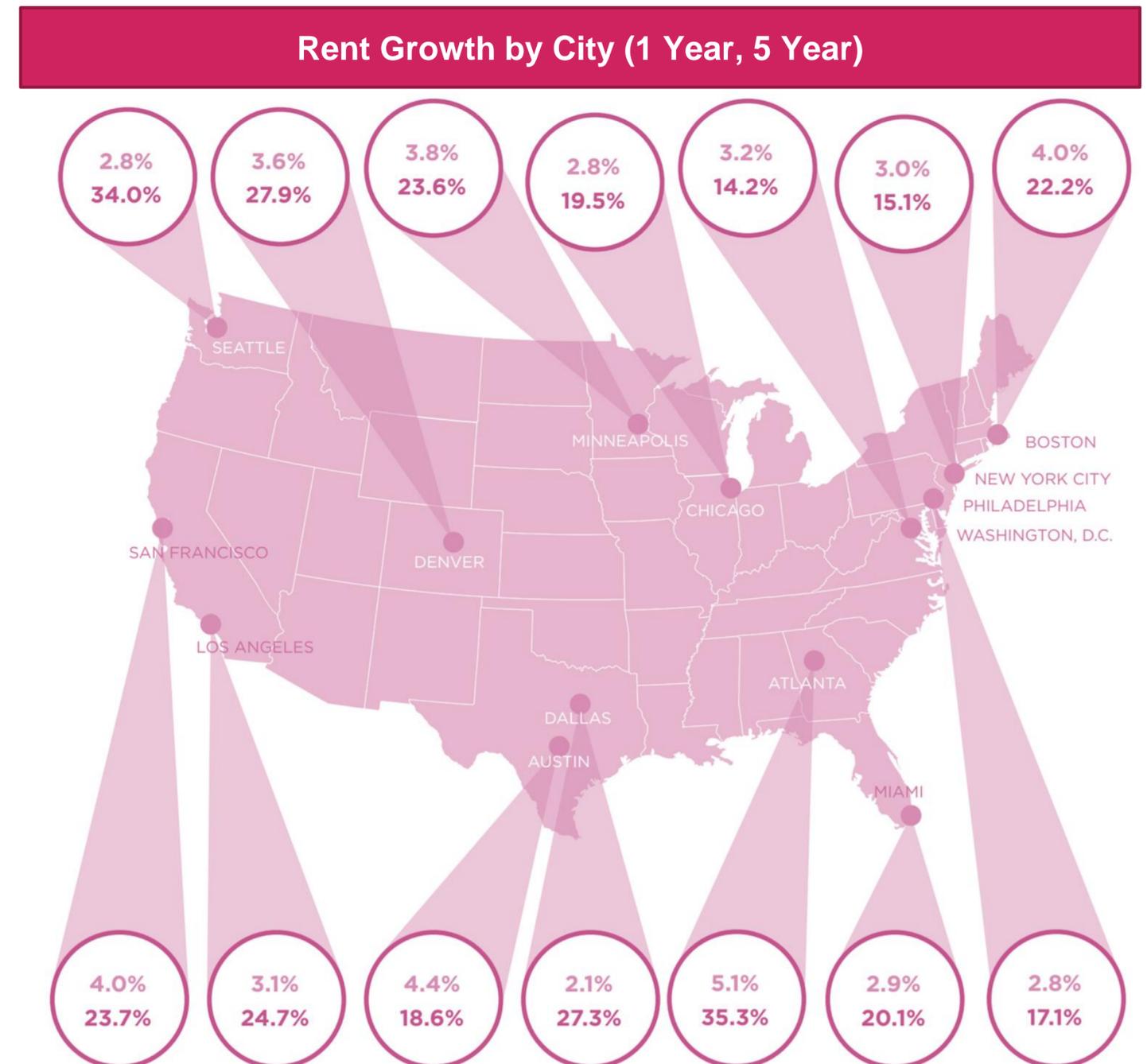
Source: [Georgetown University](https://www.georgetown.edu).

Source: [CNBC](https://www.cnbc.com) (Census Bureau data).

Long a focus of international emerging economies, urbanization is an American phenomenon as well, putting pressure on minorities in low-income neighborhoods

The urbanization shift continues and is growing:

- **Metro economies account for 91% of U.S. GDP and 88% of jobs**; this fact paired with few rural opportunities are driving population migrations toward metro areas
- 90% of U.S. population will be concentrated in urban areas by 2050
- **Currently, only 20% of Americans live in rural areas which accounts for 97% of our nation's landmass**
- Average rent prices increased by 23% across major cities (2014 to 2019), constraining urban migrants predominantly to low income neighborhoods and simultaneously pushing existing residents further outward
- Between 2000-2013, 111k Black households were displaced from gentrifying areas in U.S. cities. Washington, D.C., saw 20,000 Black residents displaced during this time period, and Portland, OR, saw 13% of the Black community displaced
- These trends and cost-conscious consumers in major cities have paved the way for a rise in co-living spaces
- Certain cities have experienced exponential growth in a short timeframe, resulting in increased infrastructure strain and need for significant investment in transportation, streets, bridges, etc.
- Public transportation ridership is up 21% since 1997, higher than the 19% increase in the U.S. population, but 45% of Americans lack access to public transportation



Source: [Cushman and Wakefield](#).

Trend Implications

Trend Implications Summary

Macro demographic trends are only a snapshot of select attitudes and behaviors among a population, but they present interesting implications, challenges and opportunities for the future

At Harlem Capital we strive to understand macro societal trends to place informed bets on businesses primed to meet society's evolving needs

What follows are hypotheses about the implications of such macro trends; yet, we are also aware that unforeseeable circumstances – such as the COVID-19 pandemic, unfolding as of this publication – can meaningfully alter the trajectory and implications of many trends for better or for worse. We thus provide a point-in-time view that is subject to much adaptation as these unprecedented times unfold



Future of...



WORK Highlights:

Childcare workforce needs spike
Demand for STEM professionals ↑
Appetite for remote work explodes

- Start-up ecosystems & wealth creation will arise in new hubs amid an expanding gig economy
- More Non-White Millennial entrepreneurs will create products and services built for them
- Both childcare workforce demands and employer-sponsored childcare benefits will surge
- “Upskilling” traditional blue collar jobs will not be a real option for many. As such, misalignment between expanding AI & automation may drive meaningful societal tension
- Simultaneously, need for STEM professionals will spike. Black and Hispanic groups, currently underrepresented in STEM, will provide outsized support to meet this new demand
- Remote work & co-working will spike for three reasons: the fluidity of certain business operations during COVID-19, cost savings, and top talent acquisition



CONSUMER FINANCIAL WELL-BEING Highlights:

Unsecured debt burdens society, driving renting & sharing consumers
Children are viewed as a luxury
FinTech and Services demand ↑

- Wealth accumulation and financial stability is threatened by continued unsecured debt (e.g., student loans and credit cards) obligations that continue for large swaths of American society. Resulting slowdowns in home ownership are paralleled by a growing generation of renting and sharing consumers with assets unable to support traditional large-scale investments
- Children are seen as a luxury amid decreased inherited wealth (older generations’ improved longevity) and aforementioned personal financial strain: expect fewer births and older first-time parents throughout the Millennial generation
- The private sector will respond: more businesses in fintech and services businesses will support personal financial management

Future of...



CONSUMPTION Highlights:

Businesses are more nimble in adapting to generational nuances
Co-living and sharing models foster unique consumption patterns

- Millennial consumption will decrease, shifting spending to healthcare, savings, & debt reduction
- Businesses will adapt to generational spending nuances faster, incorporate greater social awareness and inclusivity in branding, and optimize for sustainability, design and convenience
- Co-living and multi-generational households will grow giving rise to hard-to-predict household consumption patterns
- Sharing and rentership models will continue to rise, reducing fixed asset investments and straining those industries' demand
- Women continue to drive consumption, with businesses competing on convenience and efficiency for target consumers



EDUCATION Highlights:

Revitalized education system reliant on public / private partnerships
STEM student demand spikes

- Education will evolve to address the widening inequality gap driven by AI and automation, relying on public-private partnerships focusing twofold:
 - Democratizing access to quality instructors through technology; and
 - Meeting demands for upskilling provided by employers
- Increased AI and automation demand drives a spike in students in these fields with a similar increase in technically proficient educators

Future of...



HEALTHCARE Highlights:

Regulations become more agile across acute diseases and mental health
Infectious disease professionals spike

- Healthcare systems and regulations will become more agile to keep up with generational healthcare dynamism, particularly for dramatic increases in mental health and elderly care demands
- While a distinct circumstance, the agility required is no more evident than during COVID-19 pandemic, which will also spur a rise in public-private partnerships that will ensure public health and safety
- Demand for healthcare professionals will increase along serving three key demand categories: mental health and wellness; a growing elderly population amid Baby Boomer old age, and infectious disease remediation



POLITICS Highlights:

Rise of progressive political engagement
Legislative reforms focused on income inequality, loan forgiveness and UBI
Urbanization exacerbates ideological divides

- Political engagement will increase as more progressive generations address societal issues: inequality, climate change, wage stagnation and entitlement reform
- Increasing diversity in political representation and progressivism in mainstream politics in states that have historically leaned conservatively, particularly where Millennials comprise >50% of the population (e.g., NV, NM, AZ, TX, GA and FL)
- Political pressure to address challenges of rising consumer debt and income inequality will increase, raising legislation focused on loan forgiveness / support and UBI
- History suggests political unrest is expected should wealth inequality trends persist
- Urbanization trends and related voter redistribution may exacerbate ideological divides between rural and urban voters

Future of...



INFRASTRUCTURE Highlights:

Premium to be placed on smaller cities
Commercial innovation in service delivery in high-density metropolitan areas
Infrastructure investment grows

- Smaller cities & towns become more attractive, particularly for those under financial pressure
- Sustained urbanization increases pressure on urban infrastructure, and drives new tech & business models. Focus: efficiently & sustainably accommodating urban population growth
- Urbanization trends sustain gentrification's negative impacts, pushing low-income residents into less-desirable areas with poorer healthcare, education and environmental conditions.
The result: rising demand for low-income housing developments, improved distribution of healthcare & educational services, innovation to protect environmentally vulnerable regions
- Old industrial structures (e.g., warehouses and factories) will continue to be repurposed toward working and recreation spaces, retail, and housing
- Central deployment of technology, particularly IoT (e.g., sensors monitoring air quality, vehicle and foot traffic), to collect data & inform decisions will rise to make cities safer and healthier



COVID-19 Considerations:

“Never Again” policies
Education & workforce shift
Pandemic accelerates examination of infrastructure, other threat remediation

- Policies will be enacted to ensure pandemic impacts –societal and economic– will “never again” occur as they have under COVID-19
- The Corona Virus crisis will accelerate:
 - The implementation of remote work and learning
 - Demand for highly skilled STEM and healthcare workers
 - Threats to consumer financial stability and the need for UBI
 - Healthcare regulation revisions (from insurance to FDA approval timelines)
 - Rise in mental healthcare issues among younger generations
 - A reduction in consumer spending due to unprecedented unemployment
 - Co-living and suburban dwellers
 - Improvements in infrastructure – from public health facilities to IoT