nielsen

Below The Topline: The United States in 2020
A Very Different Place

By: Doug Anderson, SVP, Research & Development, The Nielsen Company

CI SUMMARY: While the World is struggling with the economic hard times of late, the future poses a new set of challenges that do not stem from arcane financial investments, but from simple demographics. An aging population, a declining birth rate, and growing ethnic diversity will change the face and the spending behavior of consumers in the U.S. Gaining share among population groups that most marketers do not reach today—older and ethnic consumers—will require shifts in focus, tactics, and products.

The recession of 2007–2009 has placed a great deal of strain on marketers and retailers of consumer products. Price and value have become more and more important, challenging marketers to rethink product and distribution. Everyone just wants things to get back to normal, but will they? While discretionary spending will return to moderate levels as markets rebound, the economy of the United States—as well as the rest of the more developed World—is well on the road to longer-term difficult times. The economic hard times to come do not stem from the misuse of arcane investment instruments that can take a degree in calculus to understand, but rather from simple demographics. The emerging marketplace will be very different than today, and filled with wide-ranging challenges.

Economic hard times to come stem from simple demographics...

Tectonic demographic shifts

Since the early 1970s, birth rates in the United States have been at least 40% lower than at the heights of the Baby Boom. When a falling birth rate is combined with a very large generation like the Baby Boom, the effect is a gradual aging of the population. The median age of the population increases as the large group grows older because there aren't enough babies being added to balance them out. For much of the large group's life cycle, they are typically a boon to the economy—especially when they reach their prime economic productivity years (usually from the early 40s into the middle 50s). However, as this large group continues to age, they stop being an economic asset and begin to become a burden—as the Baby Boom generation will become over the next several decades.

Aging populations place stress on an economy in two ways. First, if the generation is sufficiently large, retirement can lower the size of the labor force—particularly its most skilled and most experienced component—lowering overall economic productivity. Starting in the next two years until 2030, the number of persons who reach the retirement age of 66 will increase by over 100,000 each year throughout the Baby Boom retirement years. For many of the early years in that period, the number of persons who reach the age of 19 and enter the labor force will actually decline by more than 40,000 per year for the next decade.

Aging populations place stress on an economy in two ways...

The second impact of an aging population is perhaps larger—the costs incurred by society to care for a large number of retirees. Social Security will begin to run at a deficit in about eight years and will deplete its trust fund by 2041 unless changes are made now. At that point, money coming into the program would only cover about 70% of the money paid out each year. Medicare and Medicaid will deplete their trust funds in only about ten years and will be the largest component of all U.S. government spending by 2030.

Additionally, many private pension plans are currently under-funded, and given the current economic difficulties, may not have time to recover adding more people to the public dole. The Baby Boom generation has suffered a disproportionate share of the $11 trillion in lost market equity and $3 trillion in lost real estate value from the current recession and they will find it near impossible to retire and sustain their current standard of living—particularly the 38% who will be eligible to retire in the next ten years.

Future impacts

Nielsen created a set of long-term demographic and economic projections that model the potential impacts of the aging U.S. population. The projections make use of five groups of households (Struggling, Lower Mid, Upper Mid, Affluent and Wealthy), each accounting for 20% of total, using an income-to-poverty ratio.

Households in the Struggling group have incomes that are no more than 1.5 times the poverty threshold. For a single-person household under the age of 65, this equates to having a yearly income less than $15,732. For a six-person family with four children, this means having a yearly income less than $40,407. All together, the Struggling group has a median income of $12,201.

Five Affluence Groups

Projections using household income-to-poverty ratio

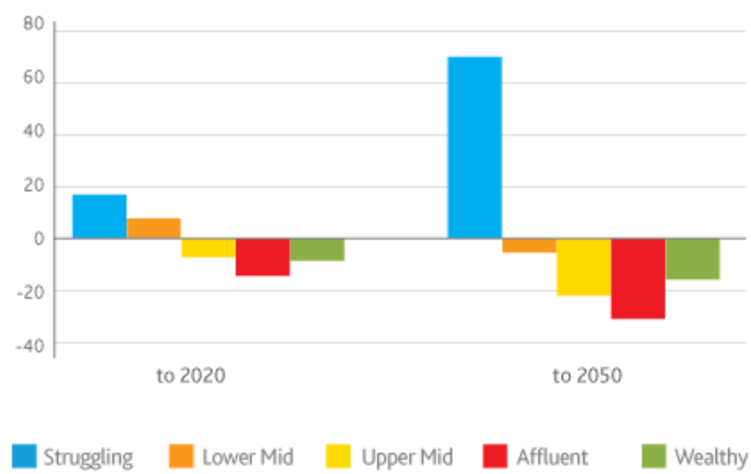
Groups	Struggling	Lower Mid	Upper Mid	Affluent	Wealthy
IPR Ranges–	<1.5	1.50-2.75	2.75-4.00	4.00-6.25	>6.25
Median HHI–	$12,201	$30,402	$48,501	$72,395	$132,487
% of HHs–	19.7%	20.9%	18.4%	20.9%	20.2%

Source: The Nielsen Company, U.S. Census Bureau

From now until 2020, the projections show that the Struggling and Lower Mid groups will be the only ones to gain share, with the Struggling group growing by over 10%. The lower affluence groups will grow at the expense of all other groups. By 2050, the projections show that the Struggling group will have grown in size by nearly 70%, pulling households from all other affluence groups—particularly those in the middle.

How Affluent Groups Will Change in the Future

Moderate Growth Economic Scenario



Source: The Nielsen Company, U.S. Census Bureau

For families with children, the growth in Struggling households will be even stronger. By 2050, nearly one-third of all families are expected to fall within the Struggling group. In the same timeframe, nearly 40% of all households whose household head is over the age of 65 are expected to fall into the Struggling group.

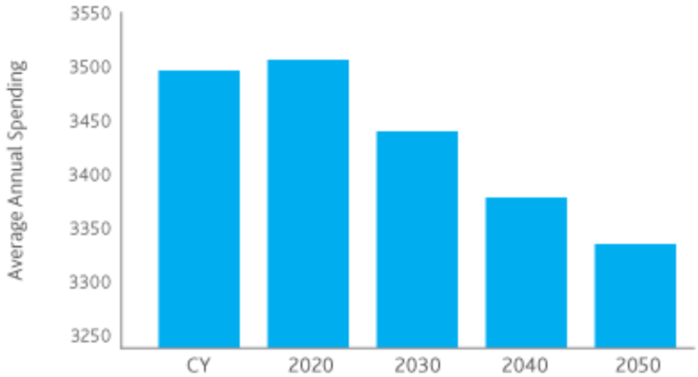
A shrinking pie

As the Baby Boom ages, and birth rates remain low, household sizes will decrease. Many aging Boomers will live alone or with one other person. The number of children per family will get smaller. Add in growth in the most economically-disadvantaged market segments, and pressures on per capita spending will be like nothing the U.S. has experienced in modern times. Between now and 2020, the U.S. will experience very minor growth in per household spending. But after that, spending on consumer products is expected to fall—and will continue to fall throughout the projection period in constant dollars.

The U.S. will experience very minor growth in per household spending...

Estimated Future Household Spending

Across 100+ CPG Categories



Source: The Nielsen Company

Marketers in the U.S. and throughout the World are not accustomed to a shrinking pie, but rather are used to thriving marketplaces with robust spending growth. Broad marketplace growth enabled brands and categories to grow organically without increasing penetration or buying rate. In the near future— and for decades to come—this growth gravy train will be off the tracks. Growth will only come from increasing share against competition. The new consumer marketplace of the U.S. will bring new relevance to the phrase “share wars”.

Opportunity knocks

Over the next four decades, the old U.S. consumer mass marketplace will continue to split into distinct groups with very different product needs. By 2037, nearly one in three households will be headed by a person over the age of 65. Of these households, nearly three-quarters will be non-Hispanic white, nearly half will be single persons, and the majority of persons in the 65+ age range will be women. Despite their economic woes, the Baby Boom will still be a strong consumer market and will provide substantial opportunity for marketers willing to design and market products to an older consumer franchise.

On the other side of the divide will be America’s new families. Because birth rates are low, these new families will be smaller on average than those who have come before. However, their most distinguishing characteristic will be their ethnic and racial makeup. In only a few short years, by at least 2025, over half of all families with children will be multi-cultural. Less than half will be native born non-Hispanic white. Within this multicultural marketplace, Hispanics will be the largest group, but Asians, African and Caribbean blacks, and others will make up significant shares. Though also beset by economic woes, this group will provide substantial opportunity, but only for marketers who can navigate diverse cultures, tastes, and languages.

By 2025, over half of all families with children will be multi-cultural...

The future of the U.S. is a challenging one for marketers and retailers of consumer products. Gaining share among population groups that most marketers do not reach today will require shifts in focus, tactics, and products. Successfully reaching new markets like multi-cultural families offers a new set of opportunities. The breakdown of the mass market and the mass media that once served it, combined with certain economic difficulties, will make for challenging new times ahead.

Contact us to learn more.