The Washington Region's Changing Population and its Economic Implications

Jeannette Chapman
Deputy Director and Senior Research Associate
The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Schar School of Policy and Government
George Mason University

October 4, 2017

Population Trends in the Washington Region

Baby Boomers came to the Washington region in large numbers as young adults during the 1980-1990 period and have largely stayed in the region. As a result, the population distribution has shifted with them as they have aged. Millennials have come to the Washington region in large numbers, but are somewhat less concentrated than Baby Boomers of the same age were. Additionally, there are early signs indicating that Millennials will not stay in the region to the extent that Baby Boomers did. The impending retirement and increase out-migration of the Baby Boomers combined with the softness of recent Millennial population trends suggest slower population growth, a tighter labor force, a shift to a home buyers' market, and demographically-driven job growth in the near- to medium-term.

1. The Washington Region is Aging.

In both 1980 and 1990, about one-fifth of the residents in the Washington region were between 25 and 34 years old. In 2016, this share was just 15.0 percent. This shift is the result of generational trends and the Washington region remains slightly younger than the nation, overall, albeit less so than in prior decades. The key driver has been the Baby Boomer generation, who came to the Washington region in large numbers and have stayed throughout their working years.

The Baby Boom generation, born between 1946 and 1964, have had a heavy presence in the Washington region ever since they reached adulthood.[1] In 1980, Baby Boomers were about 15-34 years old and just starting to make their presence felt in the Washington region; there were 1.29 million Boomers in the region, accounting for 37.8 percent of all the region's residents in 1980. By 1990, the number of Baby Boomers, then 25-44 years old, had grown to 1.57 million in the Washington region.

Table 1. Baby Boomers in the Washington Region: 1980-2015

Year	Age during period	# of Boomers	% Change from Prior Period
1980	15-34	1.29M	N/A
1990	25-44	1.57M	21.1%
2000	35-54	1.57M	-0.1%
2010	45-64	1.50M	-4.5%
2015	50-69	1.43M	-4.4%

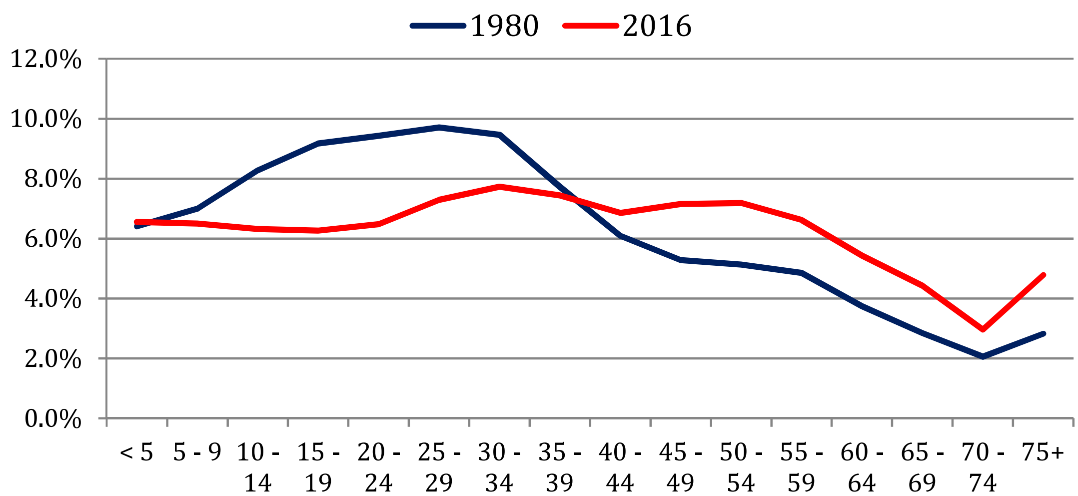
Sources: U.S. Census Bureau (1980, 1990, 2000 and 2010 Decennial Census, v2016 Population Estimates); The Stephen S. Fuller Institute for Research on the Washington Region's Economic Future at the Schar School, GMU

[1] In this analysis, those born between 1965 and 1946 are used as the closest proxy for Baby Boomers. The most recent information on the Washington region's population by age is only available by five year groupings, so 1965 births have been added for consistency.

Over the next two decades, the size of the Baby Boomer cohort in the Washington region was nearly unchanged, as the region was able to retain (or replace) Boomers while they advanced in their careers and formed families. In 2000, the region was home to 1.57 million Baby Boomers who were then 35 to 54 years old. In 2010, the region's Boomer cohort decreased modestly to 1.50 million, as the oldest Boomers reached retirement age (Baby Boomers were between 45 and 64 years old in 2010). The somewhat elevated out-migration of the oldest Boomers continued and by 2015 the Boomer cohort had decreased to about 91 percent of its peak in 1990, at 1.43 million residents (aged 50-69).

Between 1980 and the mid-2000s, the age distribution in the Washington region was most influenced by the Baby Boomer generation, shifting as the Boomers aged. In the mid-2000s, the emergence of the Millennial generation resulted in a flatter population distribution with two mild peaks reflecting Baby Boomers and Millennials.

Figure 1. Population Distribution in the Washington Region: 1980 and 2016



Sources: U.S. Census Bureau (1980 Decennial Census, v2016 Population Estimates); The Stephen S. Fuller Institute for Research on the Washington Region's Economic Future at the Schar School, GMU

2. The Region Attracted Millennials But May Not Be Able to Keep Them.

As with the Baby Boomer generation, the Washington region has been attractive to Millennials in early adulthood. The Millennial generation includes those born between 1982 and 2000.[2] The oldest Millennials reached adulthood in the mid-2000s but the youngest will not do so for another decade. In 2016, the Washington region had about 1.70 million Millennials (aged 15-34), or 1.93 percent of all the Millennials in the U.S. The Washington region has historically been more attractive to 25-34 year olds, so this share may grow in the next decade, in keeping with past patterns. However, there are signs that the appeal of the Washington region is diminishing for Millennials, especially when compared to the behavior of Baby Boomers.

[2] While there is no universally accepted definition of Millennials, a common definition includes those born between 1982 and 2000.

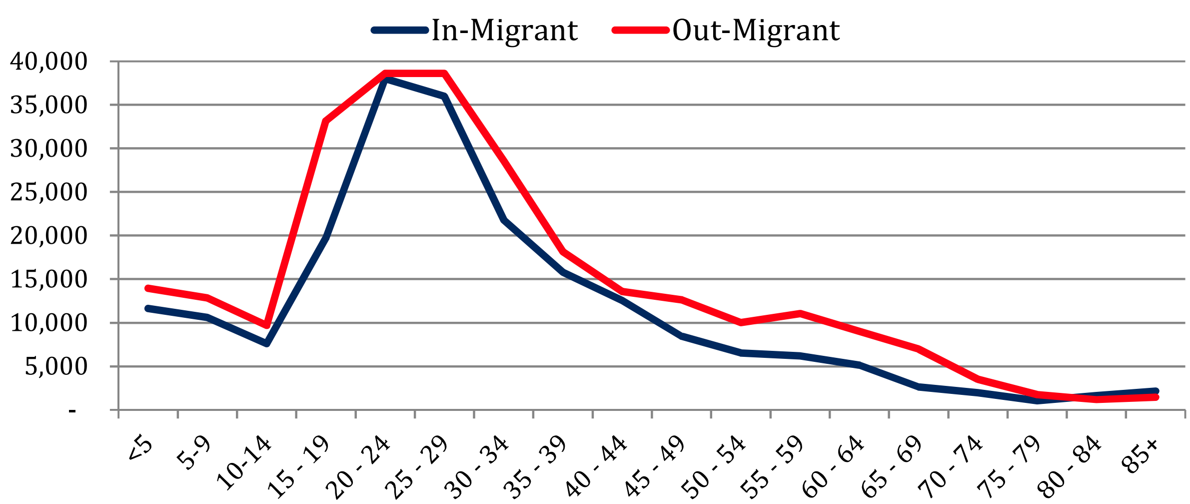
Millennials in 2016 were between 15 and 34 years old, the same age as Baby Boomers were in 1980. In 1980, the Washington region was home to 1.63 percent of the nation's 15-34 year olds (Boomers) but only 1.51 percent of residents of all ages. In other words, 15-34 year olds were 1.08 times as concentrated in the Washington region when compared to the nation, overall. This difference reflects the over-representation of the Baby Boomer generation in the Washington region.

By comparison, the Washington region had 1.93 percent of the nation's 15-34 year olds (Millennials) in 2016. However, the Washington region was home to 1.90 percent of all U.S. residents in 2016. As a result, the relative concentration of 15-34 year olds was just 1.02, or barely above average. The decline from 1980 suggests that the Washington region was relatively more attractive to young Baby Boomers than it has been for young Millennials.

The concentration of Millennials inside the Beltway and their absolute numbers (they are a larger generation than the Boomers) has obscured the fact that the Washington region, overall, looks more like the nation than it has in the past 35 years. Furthermore, recent trends suggest that the region is not retaining older Millennials, in particular, to the degree that it retained Boomers.

In both 2015 and 2016, the number of 25-34 year olds in the Washington region decreased despite increasing nationally. This likely reflects increased rates of domestic out-migration among the older Millennials.[3] In recent years, the Washington region lost residents in nearly every age group to net domestic out-migration, including 25-34 year olds. This recent trend may be temporary but comes at a critical time for the region.

Figure 2. Domestic Migration by Age Group
Greater Washington Region, 2013-2015 Average



Source: American Community Survey (2013, 2014 and 2015 microdata, average); The Stephen S. Fuller Institute at the Schar School, GMU

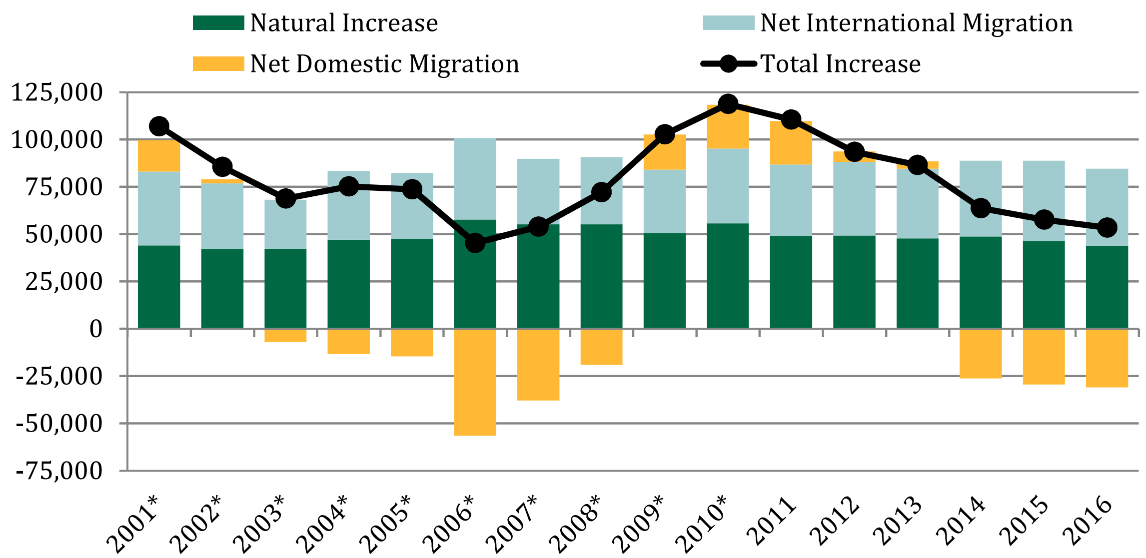
[3] There is little reason to think that the death rates of this age group differ from the nation or that differences in the size single-year age group drove the decline.

Since 1980, the region's growth has been supported by Baby Boomers, who came to the region in large numbers in their 20s and stayed through their working years. Millennials are in the region at somewhat diminished rates as the region continues to become more like the nation in terms of age distribution. Since 2014, the region has been less able to attract and retain Millennials, indicating that the same level of gains may not be possible going forward.

3. Population Growth is Slowing.

Recent population growth in the Washington region peaked in 2010 and has been slowing ever since. This slowdown is tied to net domestic migration trends and the natural increase (births minus deaths) and net foreign migration has resulted in steady gains.

Figure 3. Population Growth by Component, Washington Region, 2000 to 2016



Source: U.S. Census (Vintage 2009, Intercensal, and Vintage 2016 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU *Estimate

The number of residents coming to the Washington region from elsewhere in the U.S. (inflows) has been relatively stable. By contrast, the number of residents leaving for other parts of the U.S. (outflows) has accelerated in recent years. This trend seems to be fueled by both economic and demographic changes.

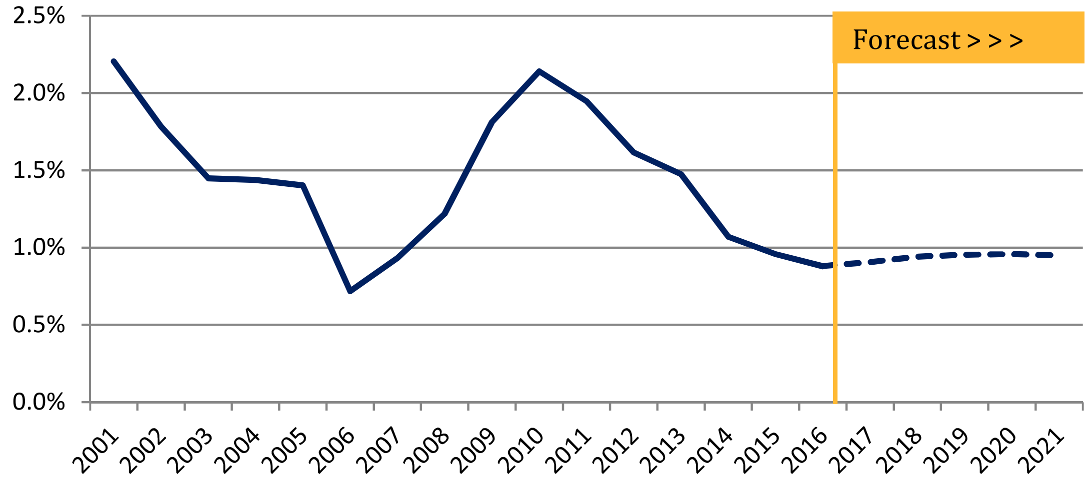
The Washington region was better able to retain its existing residents during the recession, but has had difficulties retaining residents during periods of national economic growth. In recent years, the U.S. economy has gained strength while the regional economy has underperformed, exacerbating regional net out-migration. Additionally, Baby Boomers have entered retirement age, the age typically associated with the highest out-migration rates.

Implications of Population Trends in the Washington Region

1. Continuing Out-Migration and Subdued Population Growth

Economic growth and demographic patterns suggest subdued population growth in the near-term in the Washington region. Increased net domestic out-migration, driven by the retirement of the Baby Boomers, is unlikely to be counterbalanced by higher in-migration rates of younger Millennials. Since 2000, neither economic conditions nor changes in the size of generations has resulted in significantly increased domestic inflows to the Washington region. Instead, variations in domestic outflows have been most responsive, accelerating during periods of national economic strength. Near-term economic forecasts suggest that the recent net out-migration trends will continue.

Figure 4. Population Growth, Washington Region, 2001 to 2021



Sources: IHS Economics; The Stephen S. Fuller Institute at the Schar School, GMU

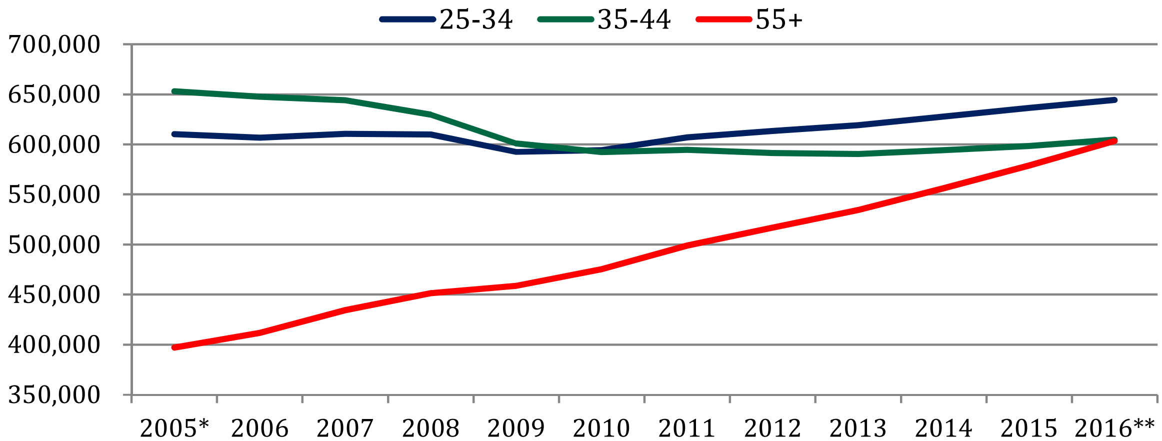
As a result, population growth in the Washington region will be driven by the natural increase and net foreign migration. Without net domestic out-migration, these components typically increase the region's population between +1.4 percent and +1.9 percent each year. Including net domestic migration will likely reduce growth by between one-half and one percentage point, leading to an average annual increase of almost 1.0 percent per year in the upcoming years.

2. A Tightening Labor Force

Between 2005 and 2016, private sector job growth was driven entirely by job-holders over 55 years old, rising by about 200,000 jobs/job-holders. Similarly, the share of jobs held by older workers has risen dramatically. In 2016, over one-fifth (21.8 percent) of private sector jobs were held by a worker over 55 years old. In 2005, this share was just 15.4 percent.

The impending retirement of these workers will have a significant effect on the regional workforce, both in terms of volume and lost expertise. While Generation X will be instrumental in making up for lost expertise, it is smaller so the region will need to have increased gains in working-age population from residents who may not currently be in the region.

Figure 5. Private Sector Job-Holders by Select Age Group
Washington Region, 2005-2016



Source: Quarterly Workforce Indicators; The Stephen S. Fuller Institute at the Schar School, GMU
*3Q & 4Q 2005 **through 3Q 2016

Net domestic migration has resulted in decreases in civilian employees in the Washington region in recent years, with the losses dispersed across most industries. While net foreign migration has resulted in steady and significant gains, in-migrants from abroad are far less likely to be attached to the labor force. Combined, these trends indicate that labor force in the Washington region will become increasingly tight.

3. A Shift to a Buyer's Market?

In 2015, nearly one-quarter (23.3 percent) of all occupied single-family homes in the Washington region had been purchased prior to 1995. The share of single-family homes that had been owned for 20+ years has increased since 2000, as a result of both the Baby Boomers and improvements in health and housing that allow older residents to age-in-place. Now that housing prices in the region have nearly recovered, Baby Boomers may put their homes on the market as they either downsize or leave the region. For the past few years, inventory has been stubbornly low (except during the post-Sequester slowdown in sales). The potential influx of new inventory would reverse that trend, shifting the market to one that favors buyers.

The question remains, though, who these buyers will be. Home ownership rates of Generation Xers remain subdued and renters in this Generation may be financially well positioned to become owners. Generation X also hit prime home ownership age during the housing bust, possibly lessening the demand for ownership among this generation.

Millennials, who aspire to ownership, have historically high levels of student debt which may be a major impediment to ownership going forward.

4. Changing Drivers of Job Growth

Post-Sequester job growth has been disproportionately driven by resident-serving employment. This reflects both the weakness in the export-based industries and the changing needs of the residential base. In particular, the Health Care & Social Assistance and Food Service & Drinking Places (restaurants) industries have accounted for 31.4 percent of the employment gains since 2012, despite being only 15.8 percent of the jobs base in 2012.

The aging of the Baby Boomers has increased the demand for Health Care & Social Assistance employment, as healthcare needs increase with age. Older Baby Boomers may also be partially driving higher demand for restaurants (Food Service & Drinking Places), as empty-nesters are somewhat more likely to eat out. The arrival of the Millennials has also contributed to increased demand for restaurants, both because of their age and potentially because of shifts in preferences. Jobs in these sectors are more likely to be part-time and generally have a smaller effect on the region's Gross Regional Product. So these gains are responding to the needs of the Washington region's residents, re-circulating dollars already in the economy instead of adding to the higher value-add non-local serving business growth.