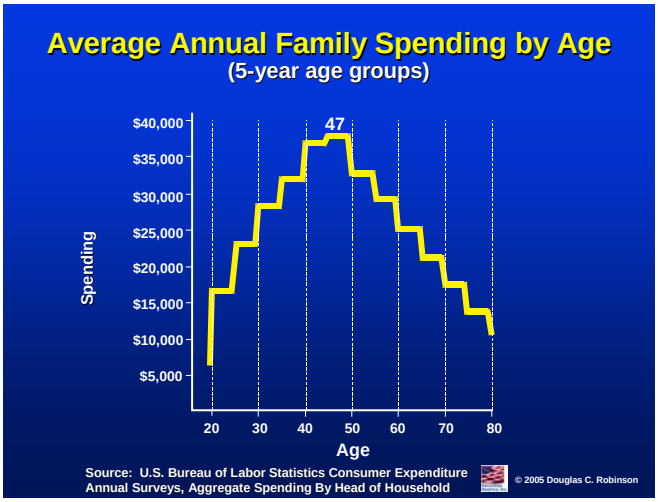
Spend and be Merry

In the spring of 2010, Joe and Jane Boomer hope to celebrate a milestone event, the college graduation of the youngest of their two children. Born at the peak of the Baby Boom generation, Joe (1958) and Jane (1961) look forward to the day of the successful and final launch of their last child into the world. But, they also look forward with great relief and excitement to their own future, a financial future that promises fewer expenses and more savings. After surviving their last twenty-five years of a steady increase of unavoidable consumption, and mounting debt to raise their family, they will reach a point in their lives where they can finally begin to stem the tide……pay down debt, save and invest.

Like millions of other Baby Boomers, Joe and Jane are merely evolving through a very predictable earning, spending, and saving cycle. The continued economic rebound of the past several years reflects these needs. According to the Bureau of Labor Statistics, Consumer Expenditure Survey, the average age of the head of household spends the most amount of money in their entire life time at the age of 47 (this has been advancing about 1 year every decade). With the peak of the Baby Boom generation entering their highest consumption years (present to 2010), and a massive population 4.5x the size of their parents' generation, it is not difficult to image the effects all this necessary family spending can have on the economy. Even through a war, terrorist attacks, a tightening Fed policy, oil spikes, and high gas prices, the US consumer marches on and therefore, the economy. After all, personal consumption (consumer spending) is currently $8.7 trillion or 74 % of the total $11.7 trillion US GDP. Clearly the Boomers are booming.

But what happens when the peak of this generation moves past their high consumption years and begins to spend less and save more? The conventional wisdom is that this increase in savings and investment will provide cheap capital for companies to use in growing their businesses. The only problem is that a crucial element is being reduced – the customers. When Boomers move en masse from spending to saving, it might provide lower-cost capital to businesses but if there are no clients for those businesses it couldn't matter less. This has been exactly the case in Japan for the last fifteen years – lots of capital, an incredibly high savings rate, and falling consumer spending. The result in Japan has been a declining stock market, falling real-estate prices and true deflation, not to mention lower tax payments from businesses just as more retirees become more dependent on the government. When might these same conditions come to pass in the US? If historical spending patterns remain intact, we should see Joe and Jane and millions of Boomers just like them, make this transition some time around 2010, just five short years from now.



--Douglas C. Robinson