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## James Overstreet: As always, baby boomers' life stage affects nation's economy



By James Overstreet

Posted January 17, 2010 at 12:02 a.m.

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Potato chip demand is at its highest among 42-year-olds. But that's not to suggest this group is the prime consumer of chips.

In fact, the average age of the children of 42-year-olds is 14 -- and that age group does have an insatiable hunger for the snack food.

Why is this important? Because personal consumption accounts for 70 percent of the gross domestic product -- the total value of goods and services produced annually.

How consumers spend money is the largest influence on the nation's economic health. As consumers age and spend more, the economy grows. As consumers near retirement, they save more and the economy contracts.

And this is how Rodney Johnson, president of economic research and forecasting company HS Dent, is able to identify long-term trends that dictate how the economy performs.

Johnson, in Memphis Thursday to give a presentation to clients of Atkins Capital Management, said demographics suggest the economic crisis is not over. "We are half way through a pretty difficult storm," he said. "We've had the first leg down, which scared everybody to death. As the economy has stabilized, it doesn't mean it can't go sideways or down. It just means the first jolt is over."

While many factors contributed to the economic crisis, Johnson says the overall economic downturn was easily predicted by demographics -- namely the fact that the

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youngest members of the largest generation in history passed their peak spending age in 2008.

"You can follow people from being young and having no kids to young and married, kind of spending a little more, to creating a family and ramping up spending to incredible levels," he says. "We spend the most from our early 30s to our late 40s as our kids get older at home."

As people age, they earn and spend more. They enter the workforce at 18 to 22; they get married and start a family between 22 to 30; they buy their first home from about 31 to 42 -- the stage at which they incur the most debt; their spending increases until about 47, when their teenage kids still live in the household. As people reach 50 and their kids leave home, they spend less, pay down debts and focus on saving.

So the 90 million-strong baby boom generation, born from 1942 to 1961, is now 49 to 68 and "staring down that bad set of facts: they didn't save enough, their largest asset just lost a significant amount of value and their window of opportunity for making more money and putting it away is closing."

Baby boomers moved through the stages of life like a pig through a python, expanding everything from grade schools to colleges to the workforce to consumer spending.

And now they are done. In fact, now this huge group is turning its attention to retirement. Which explains why the conversation in America is turning toward socialism.

"I don't like that term because it implies a lot of things that we don't have, but the tone is right, meaning more paternal, taking care of society rather than letting them succeed or fail on their own," Johnson says. "If your largest generation is now from its youngest 50 to its oldest 67 or 68, and moving older, then by necessity they are going to demand more services of government as a group. And that's where we are."

"So now we have the largest generation in the economy moving into that stage of life when they realize they can't get it all done," he says. "They can't save enough for retirement. They can't save enough for medical care."

"They are looking around and saying, 'Somebody is going to have to pay for this,' " he says. "And that somebody is Uncle Sam. The problem is that we end up with that epiphany of we've seen the enemy and it is us. At the end of the day, we are the government."

Next week in this space, read Johnson's economic forecast (more optimistic than you might think).

"People tell me I am really happy for delivering such a terrible message," Johnson says. "It's because I don't see this lasting forever. I see the world in curves not straight lines."

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- National Civil Rights Museum  
Martin Luther King Jr. Holiday Celebration  
National Civil Rights Museum 8 a.m.
- Martin Luther King Jr. Birthday Party at The Children's Museum of Memphis  
The Children's Museum of Memphis 10 a.m.
- Memphis Martyrs to Murder Prayer Service and Memorial  
The Caritas Village 1 p.m.

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