Dent Basics 1: *The Overview*

It's So Easy, Even a Third Grader Gets It

Our fundamental research is built on something so simple that even elementary school kids understand it, which probably is why so many economists and PhDs never do. Consumers buy predictable things as they age. If you can identify what people buy at different ages and estimate how many people are at each age cohort in an economy, then you can combine the data to create what we call Spending Waves, for everything from breakfast cereal and camping gear to the overall economy.

That's it.

As for inflation, the cost to parents and society of raising children and developing them into productive citizens is very high. When children make up a large percentage of the population, like the Boomers when they were young, we experience inflation, because the necessary spending doesn't result in immediate economic growth.

Here's the key insight:

It is the aging of a population that is most critical to economic growth and progress. Young people cost everything and produce very little. Young people are the greatest driver of inflation in modern societies. In developed countries, people in their late 40s are the most productive and also spend the most; hence, they drive productivity, growth, and the economy.

The simplest principle is that new generations move up predictably in family earning, spending, and productivity cycles as they age, leading to extended boom periods, like 1942–1968 (the Bob Hope generation) and, more recently, 1983–2009 (the massive Baby Boom generation). After the people in a generation peak in spending and begin to near and enter retirement, they start saving more and spending less. The booms do not peak as these people retire; the peaks happen when their kids leave the nest, which allows them to live well even as they spend less or the same amount.

In modern times, these generational cycles occur about every 40 years, which breaks down to about 26 years of boom times, as a generation of young adults matures from young parents in their early 20s into parents of teens, by their late 40s, followed by 14 years of slower economic growth, as members of this aging group save for retirement and don't have to spend as much on their kids. Once large numbers of the next generation start forming families and having kids, the cycle begins anew.

It's all about people.

Of course, the devil is in the details. Recognizing that waves of people follow predictable spending patterns can give us great insights into how the economy works, but it doesn't stop investor psychology from swinging between paranoia and euphoria, and it doesn't stop the government (including the Federal Reserve) from trying to micromanage the economy through ill-advised bailouts and massive money printing. Such efforts create economic distortions, but they don't change the underlying trends. That's why the Fed could print trillions of dollars during the early 2010s and still get underwhelming economic growth. The central bank was fighting the demographic tide as the Boomers passed their peak spending years.

We've created several installments of Dent Basics that explain predictable consumer spending patterns, demographic trends, Spending Waves, and inflation. Next up is Dent Basics 2: People Drive Everything. Once you've read these brief explanations or watched the videos, you'll be armed with enough information to forecast economic growth decades in the future!

Got a question or comment? You can reach us at info@hsdent.com. Want great financial research? **Sign up here** for *The HS Dent Forecast* and *The Rodney Johnson Report*.