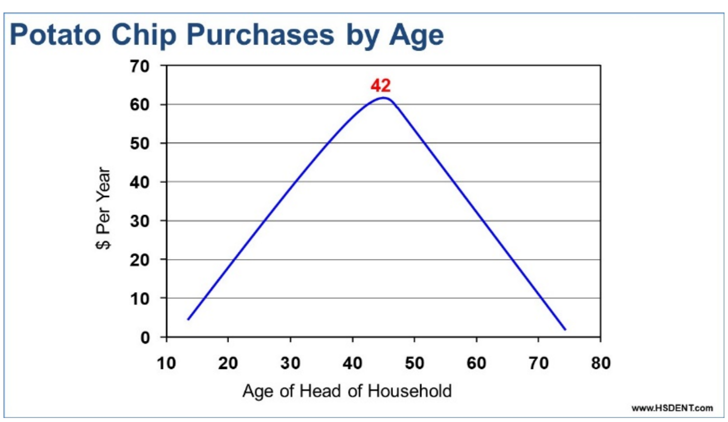
Dent Basics 3:
Predictable Consumer Spending

We're All Predictable

Companies spend millions of dollars to target specific groups with their advertising so that their most likely buyers see their ads. Life insurance companies run ads during reruns of feel-good shows in the daytime hours, whereas breakfast cereal companies run ads during kids' shows. This is Marketing 101: get in front of your most likely and most profitable clients. To do that, you have to know who buys your stuff. Some things are obvious, like enticing children to ask for certain cereals, but others aren't as clear, which is why companies run focus groups and surveys. We don't have to do this, because the U.S. government does it for us.

Every year since 1984, the U.S. government has conducted the Consumer Expenditure Survey (CEX). The survey covers about 5,000 people and asks all sorts of questions about how much they spend on hundreds of products. The survey also asks demographic questions about age, education, and income. We combine the age and spending information to develop Spending Waves for hundreds of products that show us how demand changes over our lifetimes. The information reveals something quite compelling: Children drive the economy in developed nations.



We can illustrate the point with something as simple as a potato chip.

The average family spends the most money on potato chips when the head of household is age 42. Why? The average kid is born when the parents are 28 years old, and the kid eats the most at age 14. Fourteen years after the kid is born, the 42-year-old parents are spending tons of money on food, as the teenager eats everything in sight, including potato chips! It's not like 42-year-olds are standing in the snack aisle at the grocery store trying to decide if they should have sour cream–and-onion or salt-and-vinegar potato chips for dinner, they're buying snacks for their kids (mostly).

Now think of all of the things we do as consumers as we age. We enter the workforce between ages 20 and 21 on average, and then start to earn money and contribute to the economy in our 20s and beyond. In the process, we morph from being an expense to our parents and society to contributing to GDP.

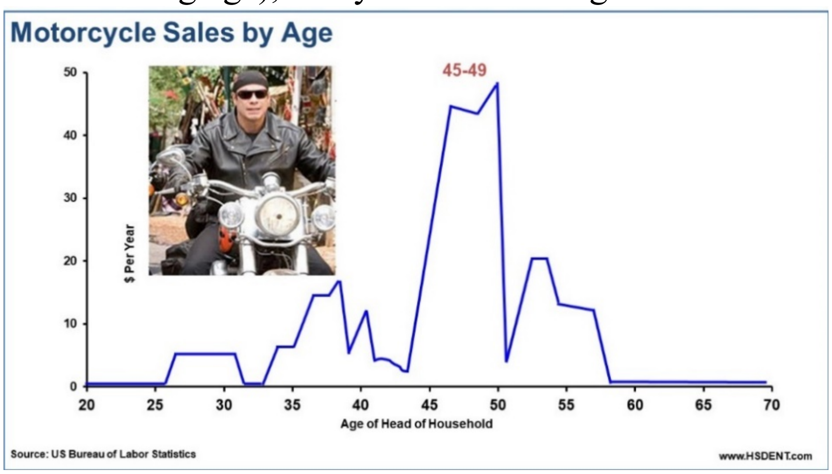
We get married around age 26 on average, an age that has been increasing as more women work and focus on their careers in their 20s. Marriage is a strong motivator for building households and becoming major new consumers. Hence, shopping malls and new retail development peak around this marriage cycle, as occurred in roughly 1986, twenty-five years after the peak in Baby Boomer births (1961 + 25 = 1986).

We have kids on average around age 28, and then, of course, we want to buy a home and become even more motivated as workers and consumers to raise our families. The greatest acceleration in household spending comes in the 25- to 29-year age range, as does the greatest likelihood of moving to a different region for economic and job prospects. Starter-home purchases peak around age 31 and rentals peak around age 26, just as people get married. These numbers are averages. Those in more-educated households tend to marry and peak in such cycles later than those with less education, who tend to marry and have children earlier.

As our incomes grow and our kids grow up, we need larger homes. Trade-up home purchases peak when consumers are between ages 37 and 42. The highest mortgage debt occurs when consumers are in their early 40s, and then typically declines for the rest of their lives, much like potato chip purchases!

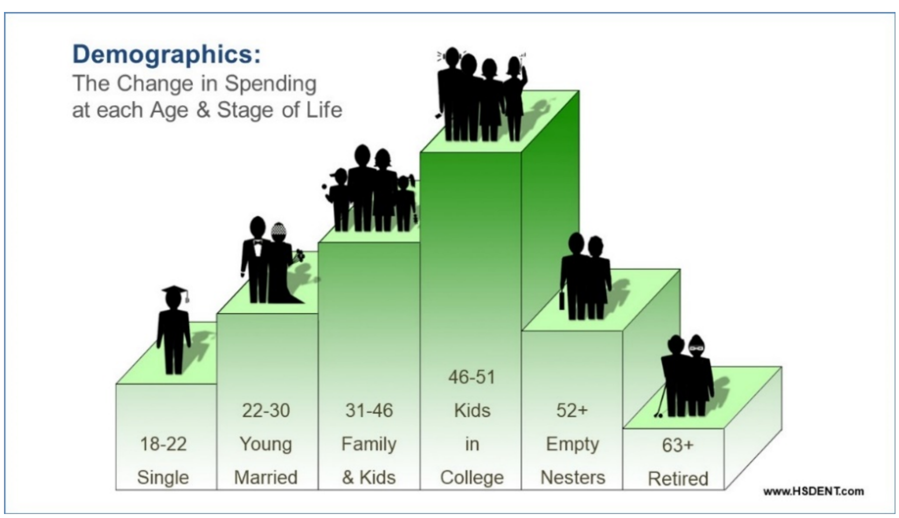
It's all about kids for most of us.

Our peak in spending comes years after our largest home purchase. We improve our homes with furnishings and pools, we buy more cars (as kids reach driving age), many of us work to get our kids into college and support them there, and so on. We even buy sports cars and motorcycles when we have a mid-life crisis between ages 45 and 49, as the chart for motorcycles shows.



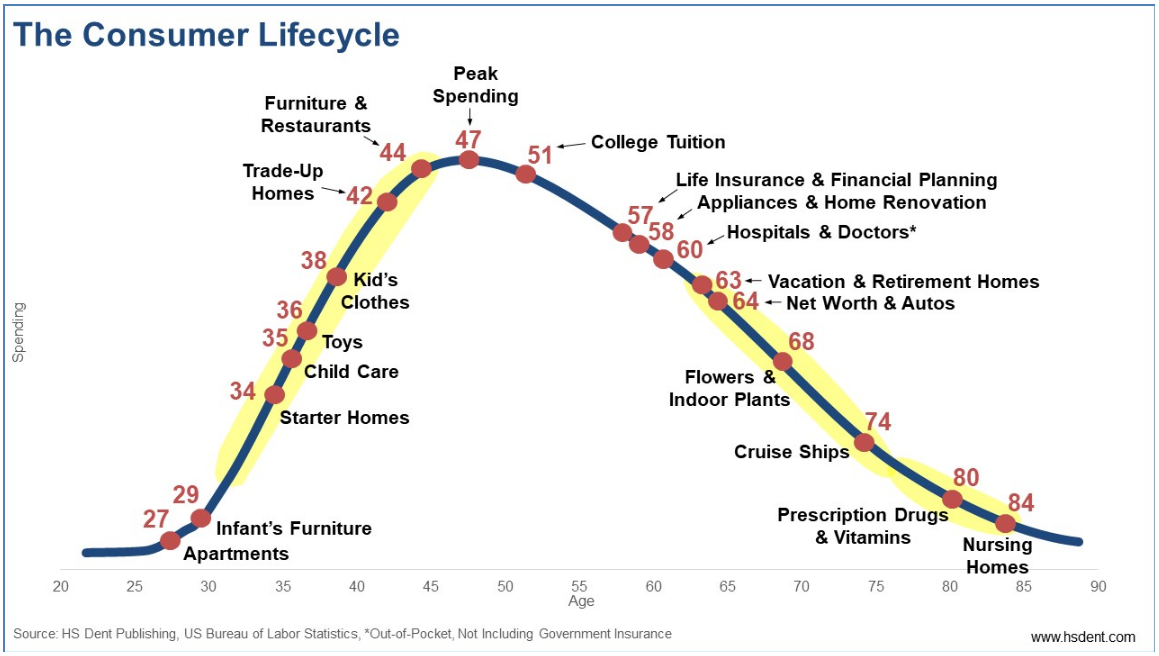
The peak in spending for the average family occurs when the head of household is between ages 46 and 50, just as the kids leave home. For the top 1% of households, the peak in income and spending comes later, between ages 55 and 59, and peaks for the top 10% of households by income occur between ages 50 and 54.

The key turning point in household spending comes after our late 40s, when we begin to spend less. This trend continues for the rest of our lives for most but not all of us and



again, on average. It's not that we live less well, we just don't need a bigger house, we don't need to support the kids and all of their food and car insurance, and we don't drive our cars as much now that we don't have to cart the kids around to school and soccer practice. Remember that spending includes both earned income and borrowed money, so while we might still spend a lot, we often pay down debt during our 50s and 60s, which reduces economic growth and is part of the normal consumer cycle.

By plotting many milestones for the average consumer by age, we developed the consumer lifecycle.



We've shown charts on spending by age for a few items, but we have this information for hundreds of different categories, including camping, hair care, and winter sports equipment. We have compiled the data into a book, *Spending Waves*, which is available on our website at https://hsdent.com/product/spending-wave/.

Armed with this information, all we need to know is how many people are in our economy at each age, and then we can build predictive charts to show how overall spending in each category and even for the nation as a whole will change in the years to come! This is exactly what we will do in Dent Basics 4: Combining Spending Patterns and Births To Forecast the Economic 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*.