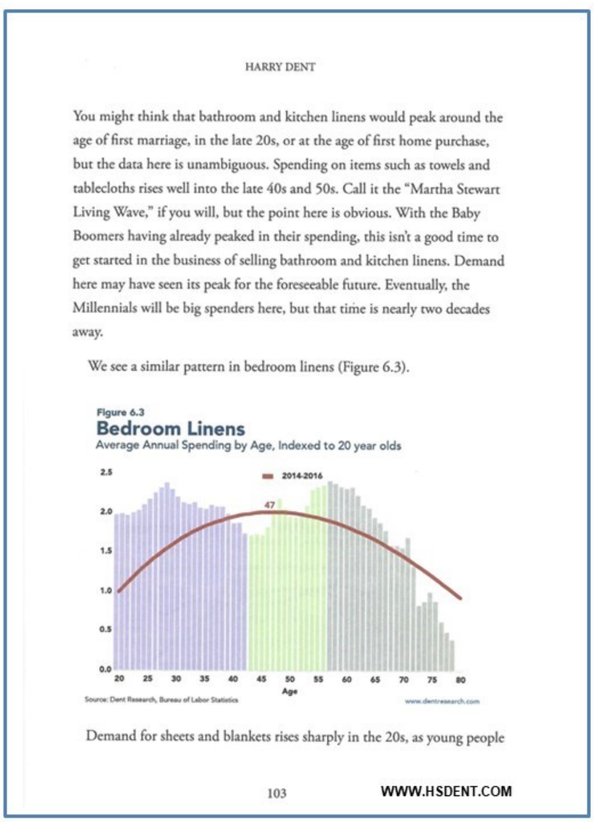
Dent Basics 4: *Combining Spending Patterns and Births To Forecast the Economic Future*

Beyond the Birth Index

Armed with the Birth Index and predictable consumer spending patterns, we can now forecast demand for any product that shows predictability by age. All we have to do is move the Birth Index chart data forward the right number of years for the peak in spending for the product in question, and *voilà*, we've created a demand forecast.

Let's use the category of bed linens as an example. We can see on page 103 of Harry Dent's book *Spending Waves* that peak spending on this item is among people 47 years old. Because the bulk of the Millennial generation is now about 25 to 30 years old, spending in this category should increase for the next 20 years as these young people form households, have children, and buy homes. It's that simple!


HARRY DENT

You might think that bathroom and kitchen linens would peak around the age of first marriage, in the late 20s, or at the age of first home purchase, but the data here is unambiguous. Spending on items such as towels and tablecloths rises well into the late 40s and 50s. Call it the "Martha Stewart Living Wave," if you will, but the point here is obvious. With the Baby Boomers having already peaked in their spending, this isn't a good time to get started in the business of selling bathroom and kitchen linens. Demand here may have seen its peak for the foreseeable future. Eventually, the Millennials will be big spenders here, but that time is nearly two decades away.

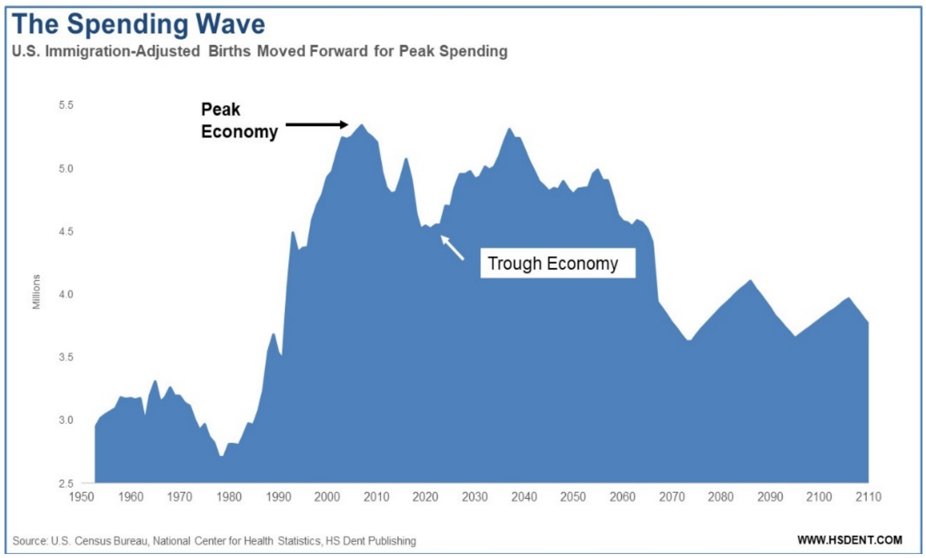
We see a similar pattern in bedroom linens (Figure 6.3).

Demand for sheets and blankets rises sharply in the 20s, as young people

103 WWW.HSDENT.COM

We can do the same thing with overall spending to create an economic growth chart for the nation.

As new generations move into their peak earning, spending, and productivity years, the economy booms on roughly a 48-year lag to births. All we have to do is move the Immigration-Adjusted Birth Index forward 48 years to see when the economy should be growing and when it should be suffering or even declining. This creates the greatest economic indicator in history—the Spending Wave—which projects economic booms and busts five decades into the future.



For more than 20 years, we've used the Spending Wave to estimate how the equity markets would grow and contract. Harry first developed the Spending Wave in the late 1980s and used it to call for a downturn between 2006 and 2010. He later refined his research in the early 1990s in his breakthrough book, *The Great Boom Ahead* (1993), in which he forecast that the markets would fall in 2008–2010. That's a pretty good forecast, given that he made it nearly two decades before it happened!

The Spending Wave called for weak growth in the 14 years between 2009 and 2023, which is exactly what has occurred. To fight this, the Federal Reserve printed trillions of dollars after 2009, and now it is doing so again. There's no question that money printing by the Fed kept the economy and financial markets stronger than they would have been given the demographic tide, but at what cost? We have unsustainable bubbles everywhere, and savers can't earn enough income to survive!

Before 2009, no one thought a central bank could print trillions of dollars without creating runaway inflation. However, the Fed and other central banks couldn't even generate 2% inflation! Again, they were fighting a demographic tide, but this time it was all about young workers (or the lack thereof), which we will explain next, in Dent Basics 5: Inflation.

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