Dent Basics 6:
Stages (Seasons) of the Economy

Generations Affect Everything

Economic growth in developed nations follows an 80-year, four-generation cycle. Each generation has unique characteristics. The 80-year cycle includes two large and two smaller generations. We can track them through four stages ("seasons") of the economy, marked by 26-year booms and 14-year busts.

In the **Innovation Stage,** inflation rises but generational spending falls. Think of the U.S. economy from 1969 to 1982: rising inflation, rising recessions and unemployment, low productivity, major innovations in technologies, and many new start-up companies that ended up being major growth companies decades later. Why did inflation rise? The older, maturing industries and technologies were large and many even still seemed strong, but their growth was slowing and they were losing their luster.

The many new companies created on the basis of the latest innovations and technologies were still young and not yet large enough to counterbalance the negative effects on the economy on a large scale, even with high productivity. The new companies still needed high levels of investment to get off the ground. But the most critical factor was that the massive Baby Boom generation was entering the workforce and did not yet have the skills to be fully productive.

During this period, the smaller Bob Hope generation was peaking, and its members were spending less than those in the Henry Ford generation that came before.

This was what we call the **summer season** in the economic cycle: sluggish, miserable, and the last flowering of a smaller generation. But the U.S. was on the verge of a huge change, as those in the huge Baby Boom generation became productive members of the economy, driving it to new heights!

Stephen Wozniak and Steve Jobs of Apple, Inc., 1976. Attributed to Javier Yesid Molina Castillo. Source: Wikimedia Commons.

The second stage in the economy is the **Growth Boom**, or **fall season**, like 1982–2009 in the U.S. In this stage, the new, individualistic generation has fully entered the workforce and their rising productivity and rising spending drive an extended economic boom. During this boom, the new generation increasingly adopts the very technologies that they created and grew in the Innovation Stage.

Think of the Apple personal computer, first developed by Jobs and Wozniak in the late 70s but not adopted on a mass scale until the late 1980s and 1990s. The same is true of the Internet. It was first conceived of in the 1970s but didn't gain traction until the 1990s, when it created huge disruptions and disintermediation that dramatically increased productivity.

Growth Booms are where technology bubbles always emerge, especially in the last half of the boom—like 1858–1872, 1914–1929, and 1994–2008. In these periods, we see a booming economy, rising productivity, falling or low inflation rates, the emergence of new, radical companies and technologies into the mainstream, and large-cap stocks increasingly outperforming small-cap stocks. But such bubblelike growth creates unsustainable asset and stock valuations and excess expansion and capacity. Just as these trends hit their extremes, the economy becomes saturated with the new technologies and the members of this individualistic generation peak in their spending, which leads to the worst stage.

The **Shake-out Stage,** or **winter season,** follows the Growth Boom.

In the 1930s, the U.S. went through the worst depression in its history. But that terrible time set the stage for launching into the mainstream during the 1940s, 1950s, and 1960s the new technologies that had arrived in the late 1920s. The setbacks of the Great Depression led to progress not only for the rich and innovative, but also for the lower classes. Economists constantly tell us that we should prevent bubbles and that they are bad for the economy, but that's not true! Bubble booms like 1994–2009 allow entrepreneurs to experiment with many new products, services, and business models. The more experimentation, the better! Bubbles in assets create temporary capital with which to work. Only a small fraction of the new companies will survive, but the wide array of experimentation augments the chances of finding better applications and business models for the new technologies.

Unemployed Dock Workers, NY, 1934. Attributed to Lewis Hines. Source: public domain via [Wikimedia Commons.]

But the bubble boom necessarily will create both excess asset valuations and generate a lot of products and business models that will not work, which is what gets flushed out during a depression—like a junkie coming off of a big high. The economy finally slows, because the new technologies have saturated their markets. Those in that innovative, young generation age past their peak spending years (in their late 40s) and spending slows, which forces asset prices, including real estate, stocks, and commodities, to deflate in price and banks to have to write off bad business and real estate loans from the bubble.

The economy is narrowed down to the strongest and most viable technologies and business models during the winter season, and as the next generation moves up its own spending wave, then we move on to the next phase: **the Maturity Boom,** or **spring season**.

The most-revered and beloved of times tend to come in the Maturity Boom stage; think 1942–1968. During this period, a crescendo of technological progress moves fully into the mainstream economy, benefiting everyday people and workers much more than the rich and innovative. The economy is less volatile and the world is more likely to be at peace, because the greatest benefits actually emerge from the ashes of the Shake-out Stage or depression.

The larger businesses that survive the shakeout, those with economies of scale, were forced to innovate to survive. That not only leads to lower prices for the new technologies, but also spurs the mainstream application of broader new organizational models. New technologies create rising productivity in the Growth Boom, but organizational innovations and new infrastructures from the government in the Shake-out Stage create the basis for extended productivity in the Maturity Boom.

We've been in the winter season since 2008, just as Harry predicted in the early 1990s in his book, *The Great Boom Ahead*. We were headed toward another long, deflationary period that would boil the economy down to the most resilient business models and companies until the Federal Reserve, and now the federal government, stepped in with massive spending programs to keep us afloat. If anyone had said in 2008 that we would print trillions of dollars and yet inflation and GDP growth would just stumble along below 2%, we'd have thought they were crazy!

Now, we're are on the cusp of entering the Maturity Boom, or the economic spring season.

The Echo Boom or Millennial generation will be driving our economy upward and buying larger houses again from the early 2020s into the early 2040s. After a slowdown into the mid- to late 2040s, that generation will go through their final surge in spending, into the mid-2050s or so. But global demographic trends and the Commodity and Geopolitical cycles will shape the world economy increasingly beyond the generational cycles in the U.S. and North America, as we become even more global in the Maturity Boom ahead.

The next U.S. and global boom is not likely to be as dynamic as the Great Bubble Boom from 1983 to 2009. Even though major emerging nations with their larger populations will continue to emerge and although technologies will continue to advance exponentially, the most prosperous nations of the world will slow in both innovation and spending growth as they inevitably age in the coming decades—especially after 2035 for major regions like Europe, Russia, and East Asia.

Now that you've completed the Dent Basics, you understand how consumers drive economies in developed nations (the same isn't true of developing nations, where urbanization is the key factor). As we said at the beginning, the concepts aren't difficult once you understand the premise. It's the same as companies using target marketing to reach their best clients. If we combine different industries with different target markets by age, we can get a picture of the overall economy. We can see the individual trees and then pan out to see the entire forest!

We'll continue sending you our e-letters each week, as well as Harry's biweekly video rant. If you'd like to read more of our research, subscribe to our monthly newsletters, *the HS Dent Forecast* and *The Rodney Johnson Report*. Harry Dent publishes on the first of the month, and Rodney Johnson publishes around the 15th. For just $249, you'll get both newsletters, or 24 publications per year.

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