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## PORTFOLIO STRATEGY SERVICE

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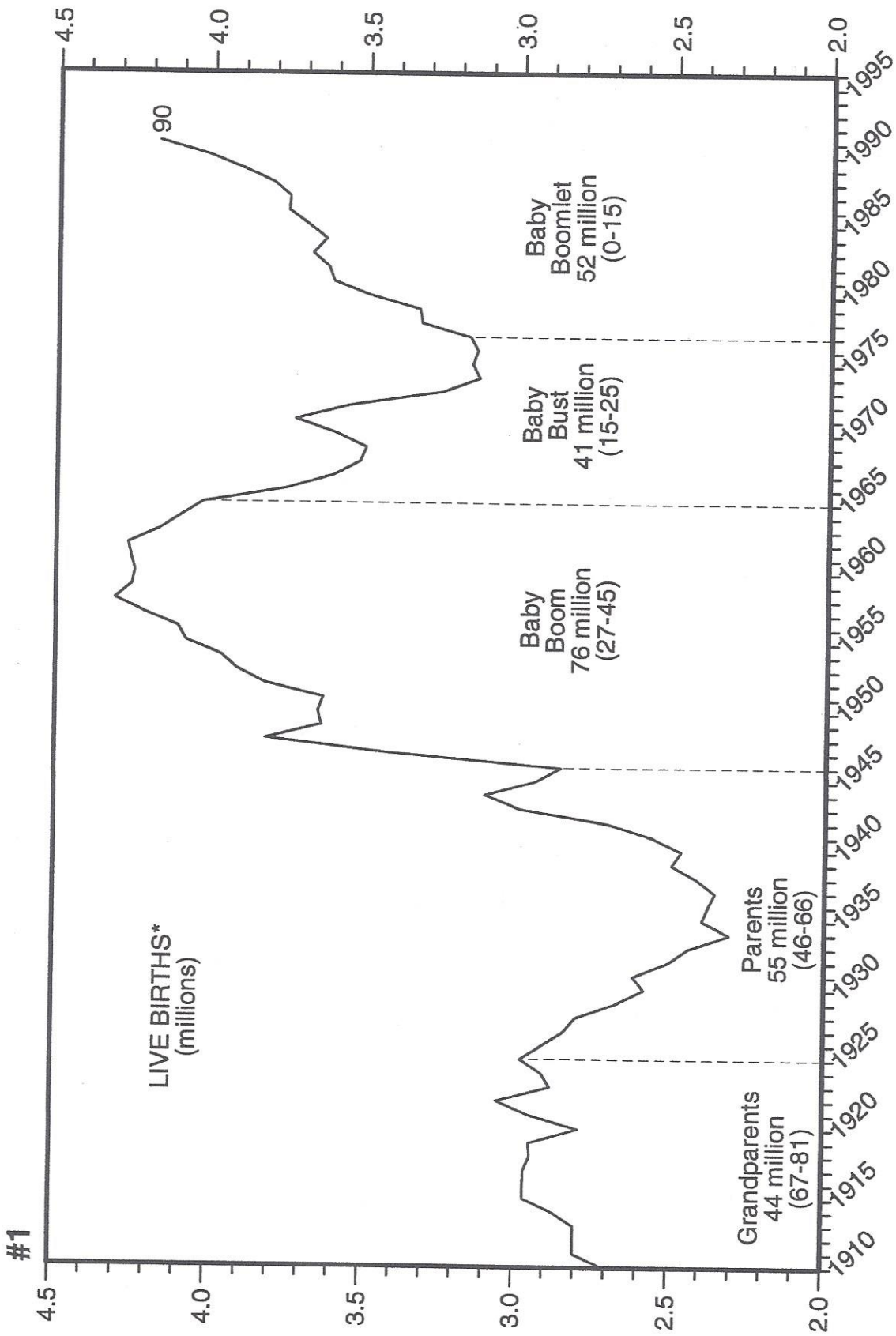
October 9, 1991

**TOPICAL STUDY #21**

**THE BABY BOOM CHART BOOK  
1991**

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Amalia Quintana assisted with the preparation of this study.



\*Figures in parentheses are the youngest and oldest ages of group members during 1991.

## - Population -

**Introduction.** In 1989, we published the first *Baby Boom Chart Book*. We predicted that demographic forces related to the aging of the baby boom generation would be very bullish for both bonds and stocks. We expected that the frenzied pace of borrowing and home buying would subside. We also anticipated a big decline in office construction. So far, so good.

On the other hand, we also predicted that productivity and real incomes would grow at a faster clip. The personal savings rate was supposed to be on a trajectory that would take it up to 10% by 1993. These trends have not materialized—yet. We still expect that they will.

The Social Security surplus has widened as we expected back in 1989, but the Federal deficit has continued to swell. Nevertheless, bond yields have declined. This is partly because nonfederal credit demands have declined faster than the deficit has increased. On balance, the supply of new fixed-income securities has diminished and our "coming-shortage-of-bonds" scenario points to still lower bond yields over the next two years.

**Population Dynamics.** During the baby boom, which spanned the 19 years from 1946-1964, live births totaled 76 million (Exhibit 1). In 1990, the baby boomers represented 47% of the adult population (over 24 years old).

They are currently 27-45 years old. In 1995, they will be 31-49 years old. Half were born during 1946-1955; the other half were born from 1956-1964. So the "median" baby boomers were born during 1955-1956 and are 35-36 years old this year.

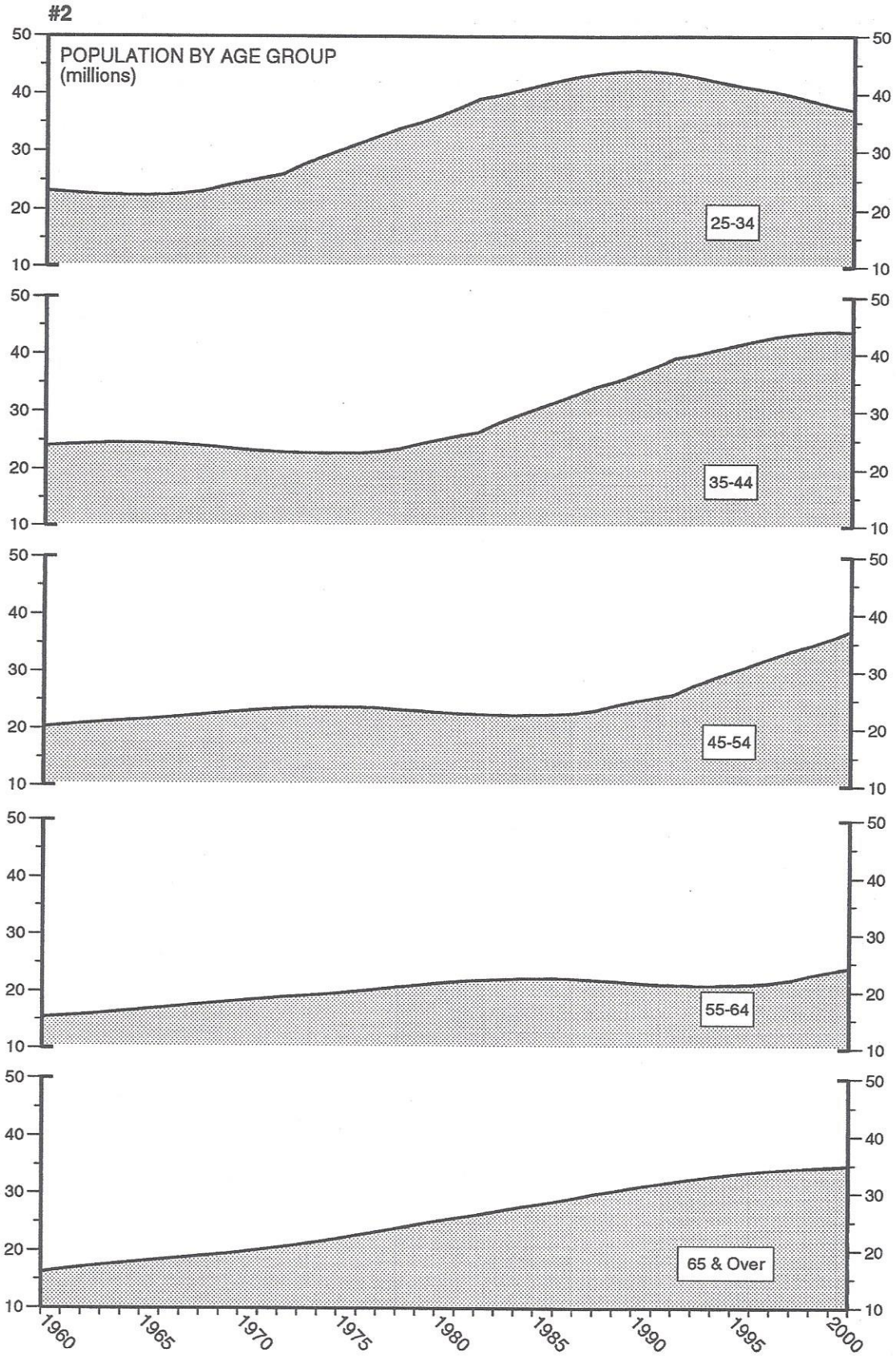
A baby boomlet started in 1977, when the oldest baby boomers turned 31. By 1990, 52 million "echo boom babies" were born (Exhibit 1). Most of these children belong to the baby boomers. Together, the baby boomers and their children account for 51% of the total U.S. population.

In the 1960s, the highest rate of population growth was in the 18-24 age group. In the 1970s, the 25-34 age group had the highest rate of growth. The number in this second group peaked in 1989 at 44 million, after increasing by roughly 20 million since the early 1970s, and will decline by 627,000 per year on average through the year 2000 (Exhibits 2 and 3).

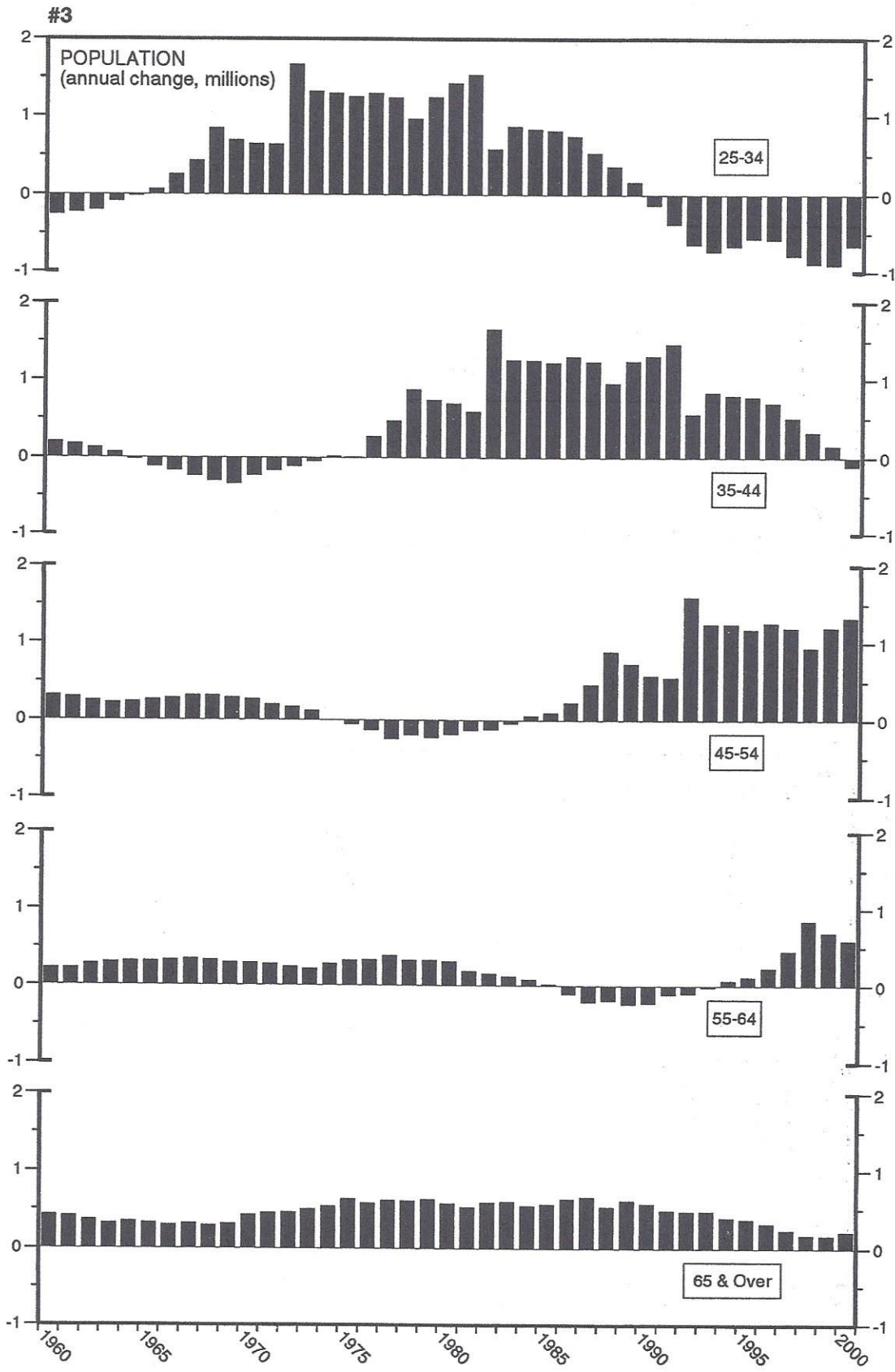
This year, 55.4% of the baby boomers are 35 or older. By 1995, 77.9% will be more than 34 years old. During the 1990s, the 35-54 age group will increase by 1.9 million per year on average.

**Labor Force.** The aging of the baby boomers is depressing the growth rates of the working-age population and the labor force. The labor force expanded rapidly during the past two decades because by 1980 all of the baby boomers were 16 years or older: They were old enough to work and had high labor force participation rates. Last year, the growth of the working-age population fell below 1.0% for the first time since the early 1950s (Exhibit 4). The growth in the labor force was even lower because the labor force participation rate of the working-age population declined recently (Exhibits 5 and 6). Also, the number of young new entrants into the labor force has been declining since 1980 (Exhibit 7).

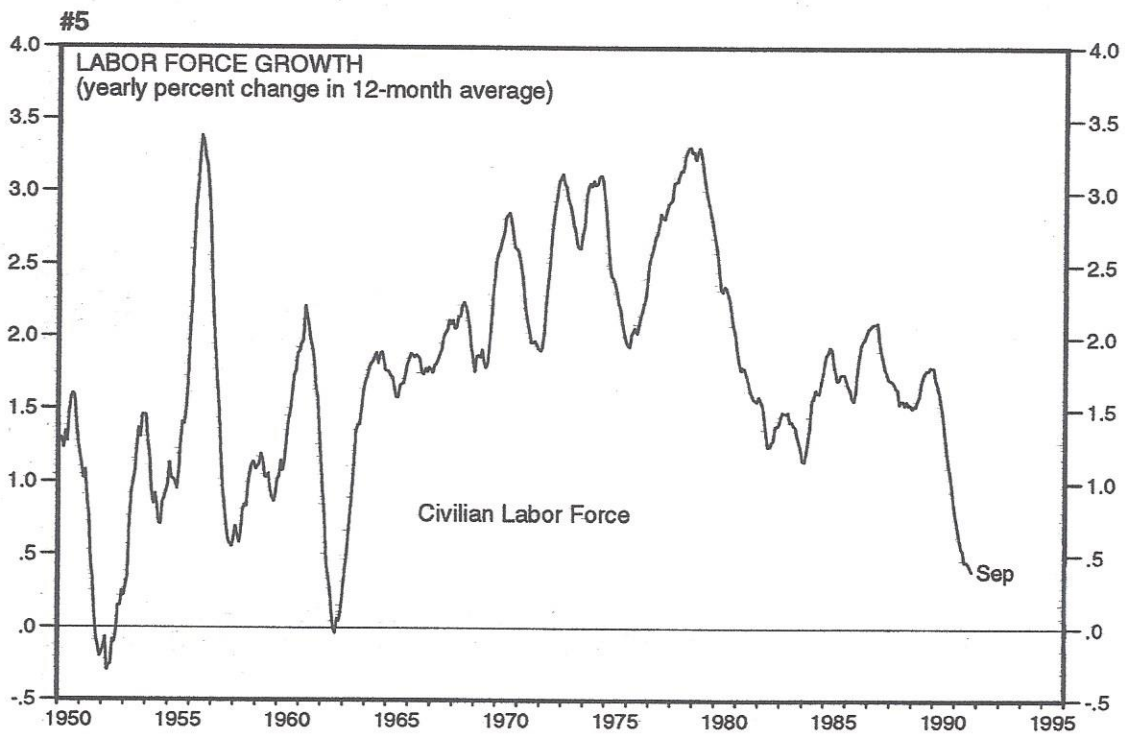
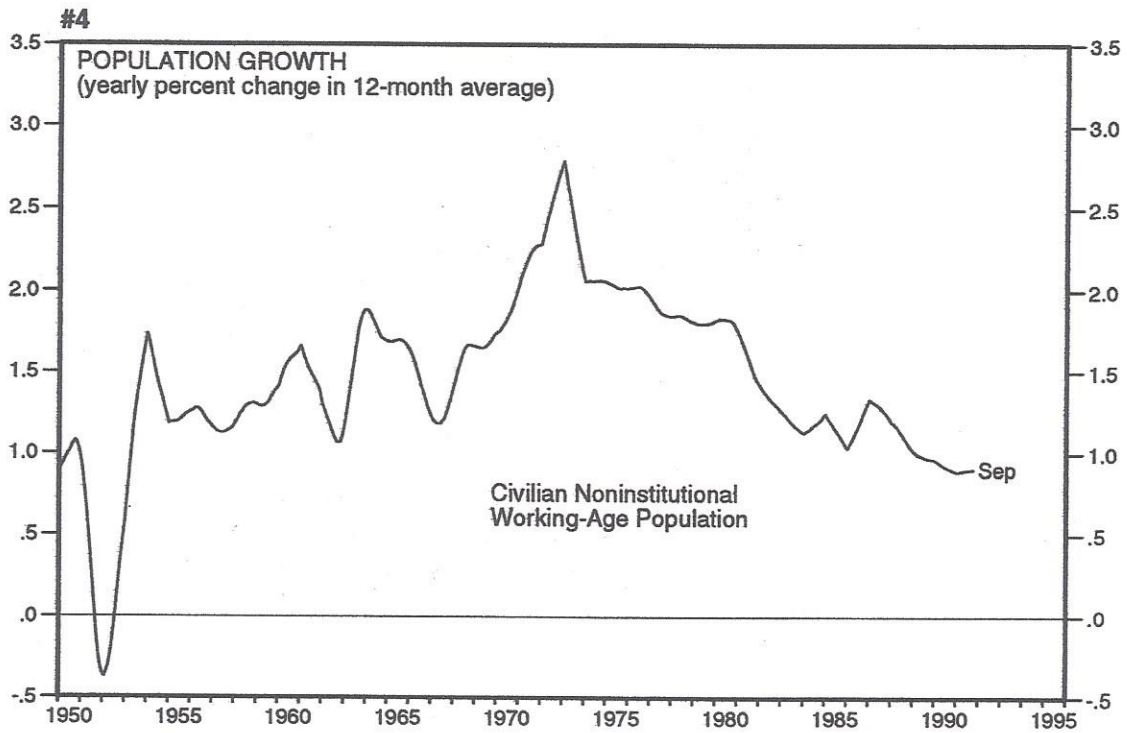
# - Population -



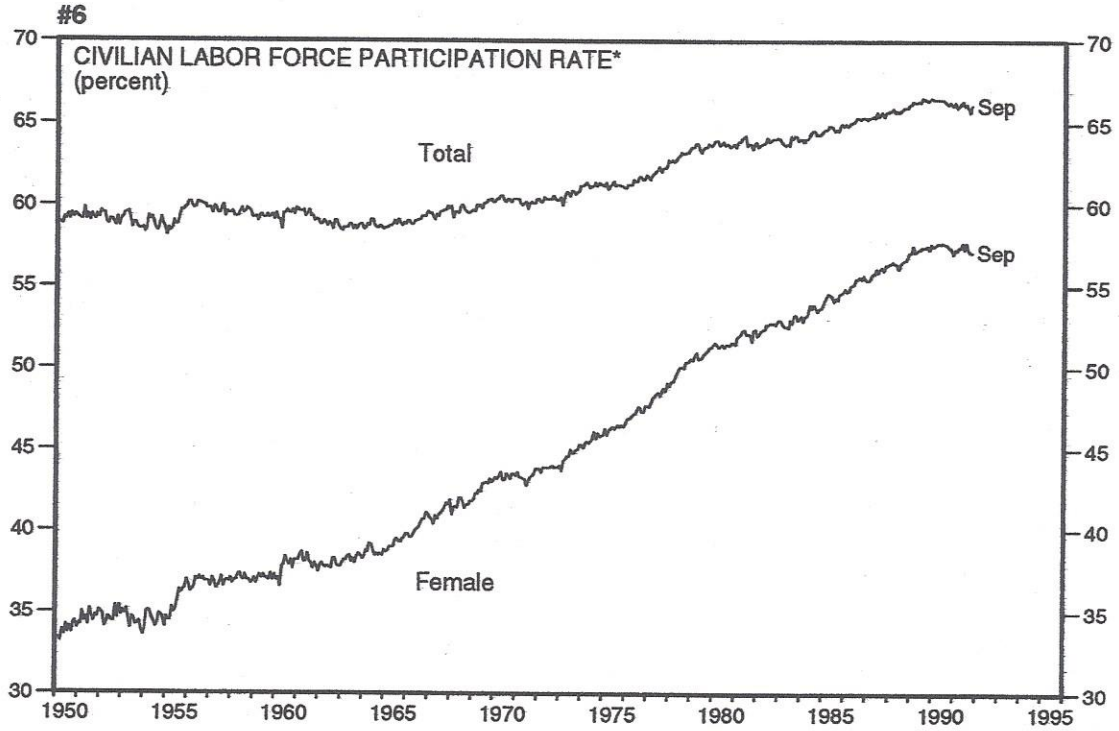
# - Population -



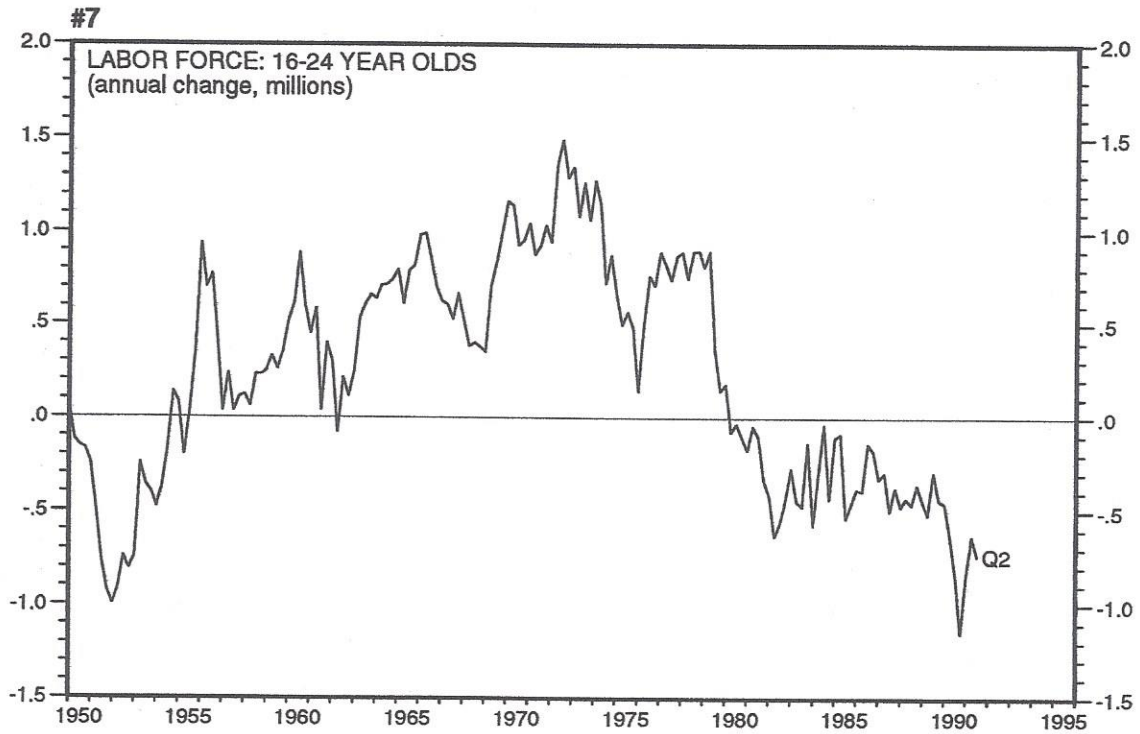
# - Labor Force -



# - Labor Force -



\*Labor force divided by noninstitutional working-age population.



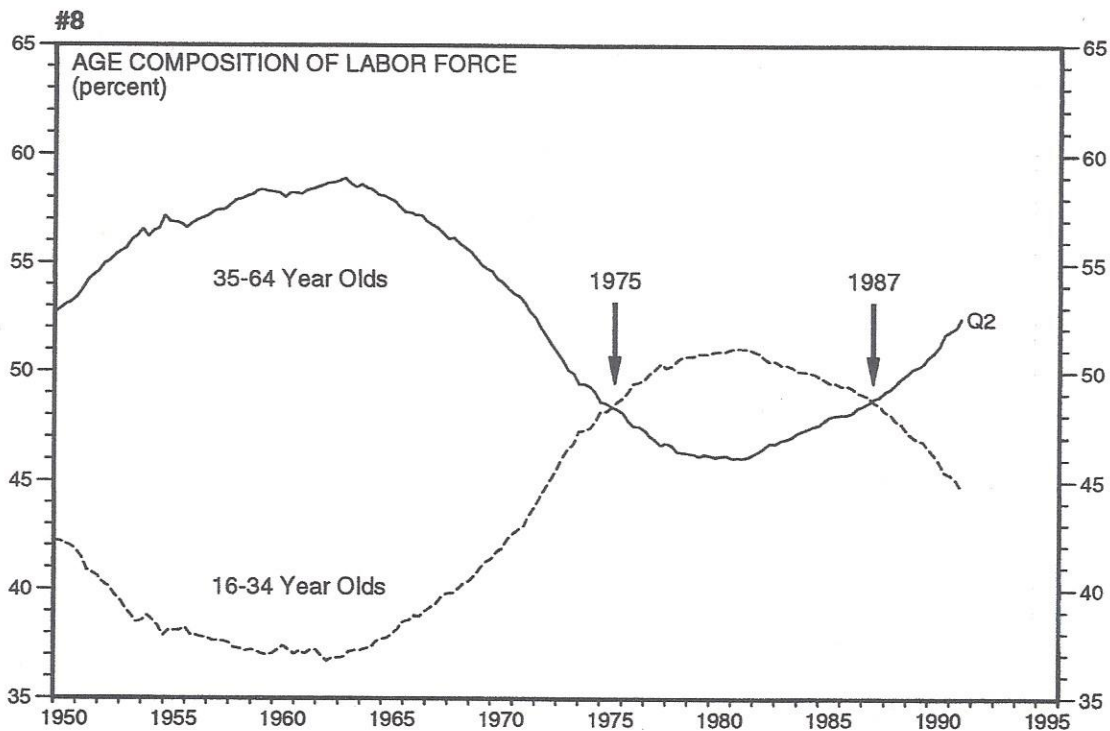
## - Productivity -

Productivity and real incomes stagnated as the baby boomers entered the work force. Now that most of them have been employed for several years, odds are that the standard of living for most families will improve along with productivity.

During the postwar period, there were more older workers than younger ones until 1975 (Exhibit 8). Then younger workers were slightly more numerous until 1987. In the 1990s, older workers will increasingly outnumber younger ones. Assuming that older workers are more experienced and efficient than younger ones, productivity should grow at a faster pace in the years ahead.

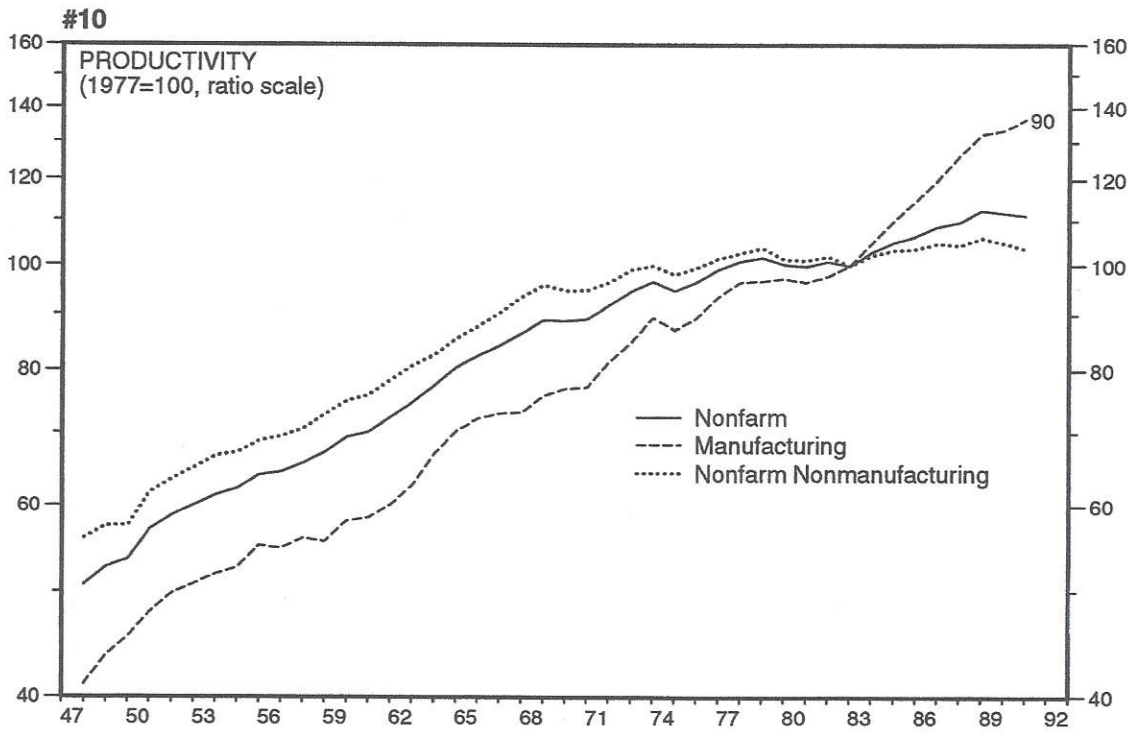
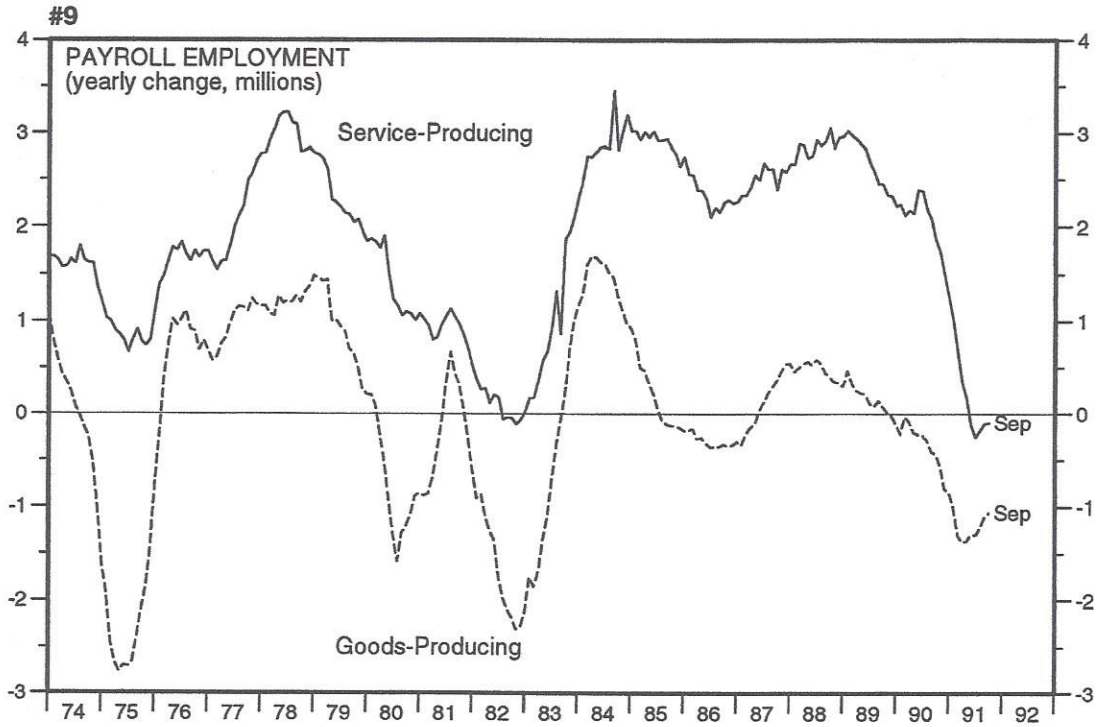
During the 1980s, most of the new jobs were created in the services-producing industries (Exhibit 9). This sector now accounts for 78% of total payroll employment. The decline in the growth of total nonfarm productivity can be blamed entirely on the inefficiency of the services-producing sector of the economy (Exhibit 10). This sector is currently in the midst of widespread restructuring, which should boost productivity.

There is a very strong correlation between productivity and incomes (Exhibit 11). As productivity growth rebounds so should real incomes. Because older workers are more productive than younger ones, they earn more than do younger workers (Exhibit 12).

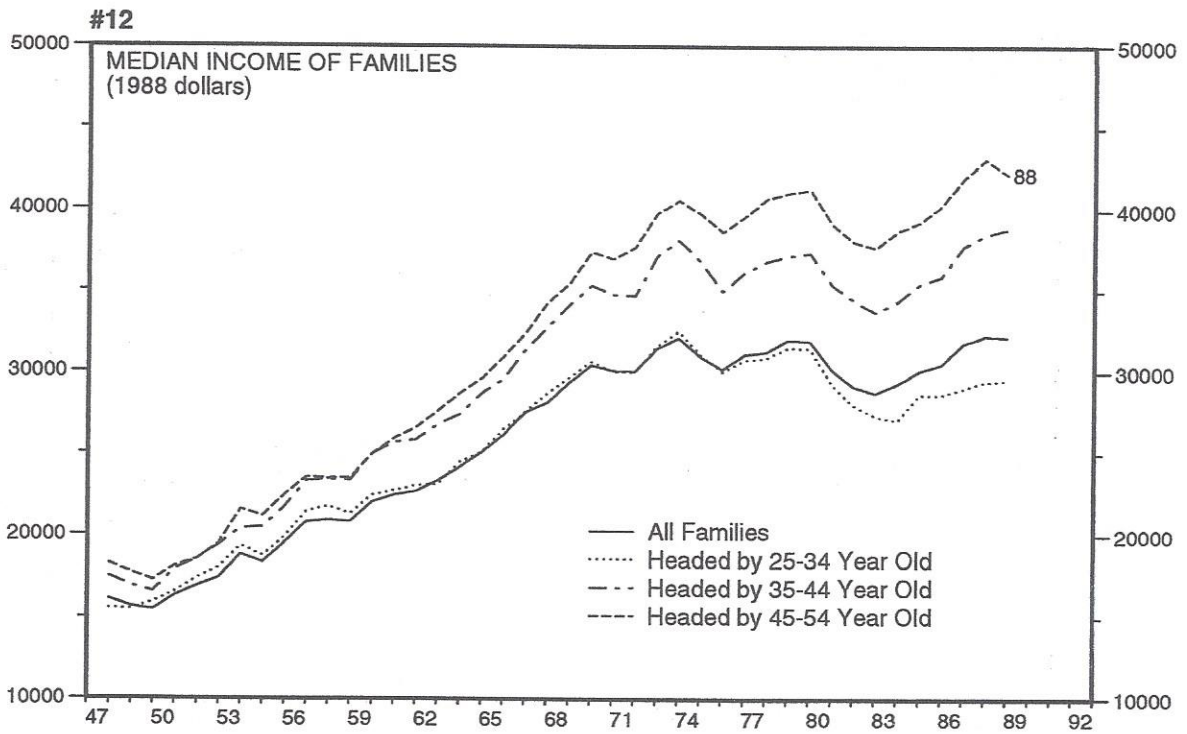
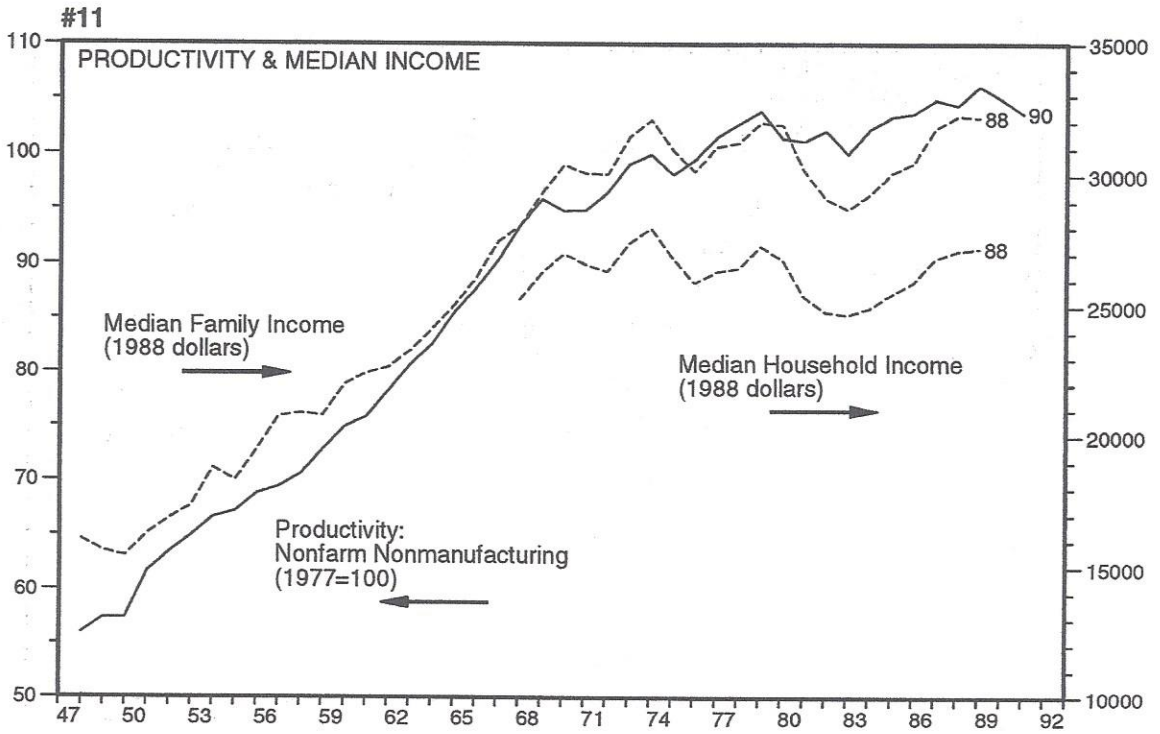




# - Productivity -



# - Income -



Source: Bureau of the Census, Income Statistics Branch, unpublished data.

## - Savings Rate -

**A 10% Rate Is Still Likely.** The personal savings rate started to fall at the beginning of the 1970s, at about the same time as productivity and real incomes began to stagnate. The baby boomers overwhelmed the labor markets and depressed both productivity and real income growth, so they simply didn't earn enough to save! Now as they are maturing, they should earn more and have the means to save if they choose to do so.

Why hasn't this process started to work already, as we anticipated back in 1989? The recent recession has hit incomes hard. Many baby boomers who expected to be earning more as they became more experienced are instead worrying about their job security. Furthermore, the recession has probably been one of the worst for upper-income families, who typically account for most of personal savings activity.

As the economy recovers, so should incomes. Then the savings rate should start moving higher again. This rate fell from a high of 9.4% during 1973 to a low of 2.9% in 1987 (Exhibit 13). It rose to 4.6% in 1990, but fell below 4% recently. It is very unlikely that the savings rate can rise to 10% by 1993, but it could do so by 1995.

**The "Truly Personal" Savings Rate.** Personal savings include employer contributions to private pension funds and imputed interest received from private noninsured pension plans and from life insurance carriers (Exhibit 14). These components of personal income never show up in paychecks, so they are automatically saved.

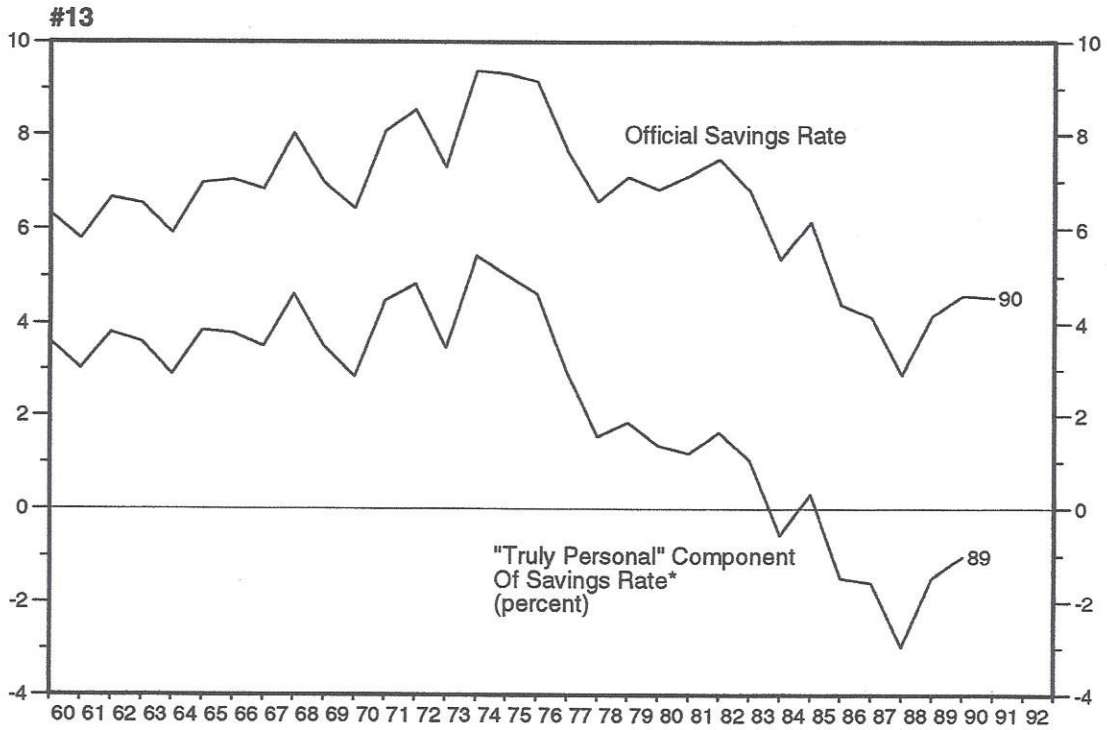
To see the "truly personal" savings rate, we subtract the two "impersonal" components of personal savings. This rate, which reflects discretionary savings behavior, peaked at 5.4% in 1973. It actually turned *negative* during 1983, and hit a low of minus 3.0% in 1987. It rose to minus 1.0% in 1989 (Exhibit 13). We expect that the truly personal savings rate component of the official rate will turn positive again over the next few years.

**Another Adjustment, Pushes The Rate Up Over 7% Today.** William C. Melton, the chief economist at IDS, has noted that since 1984, benefits paid out by pension funds and profit sharing plans have increasingly exceeded employer contributions (Exhibit 15). In 1989, benefits paid totaled \$154.3 billion, while employer contributions were \$47.8 billion.

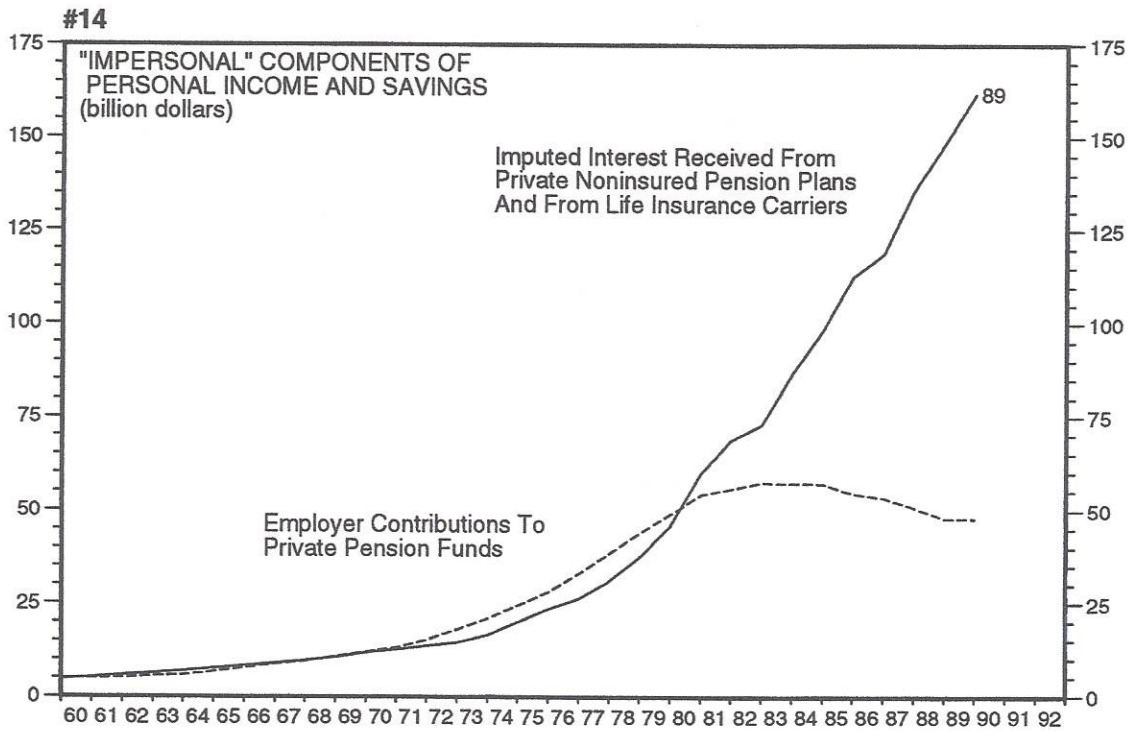
If benefits paid are substituted for employer contributions, then the savings rate in 1989 was 7.5%, well above the 4.6% official rate (Exhibit 16). This approach may exaggerate the strength of personal savings because recipients pay taxes on the benefits. On the other hand, the official savings rate may exaggerate the weakness in personal savings.

**The Key Is Income.** Recently, several economists have argued that the baby boomers have had very little impact on the savings rate. So they don't expect the savings rate will rise as the baby boomers age. The skeptics say that the stagnation in income growth explains the drop in the savings rate much better than demographic variables. The problem with this argument is that it fails to recognize the powerful impact that demographic forces related to the aging of the baby boomers have had on incomes! If we are right, then incomes will rise at a faster clip in the 1990s and the personal savings rate should move up to 10% by the middle of the decade.

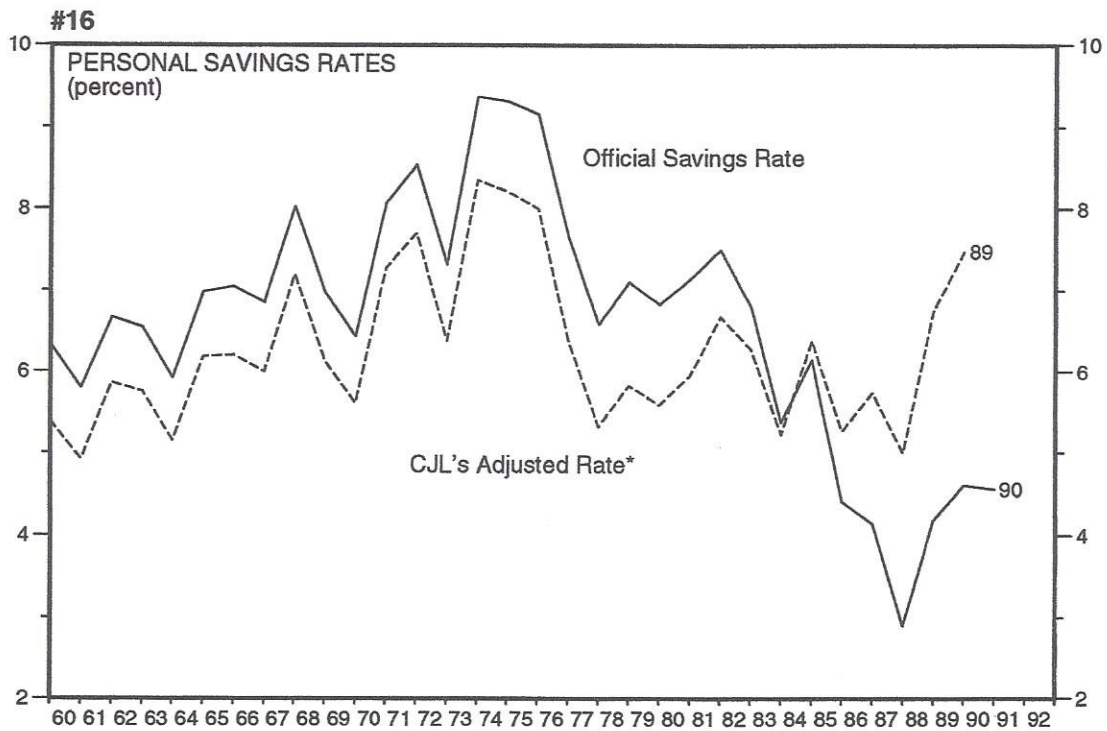
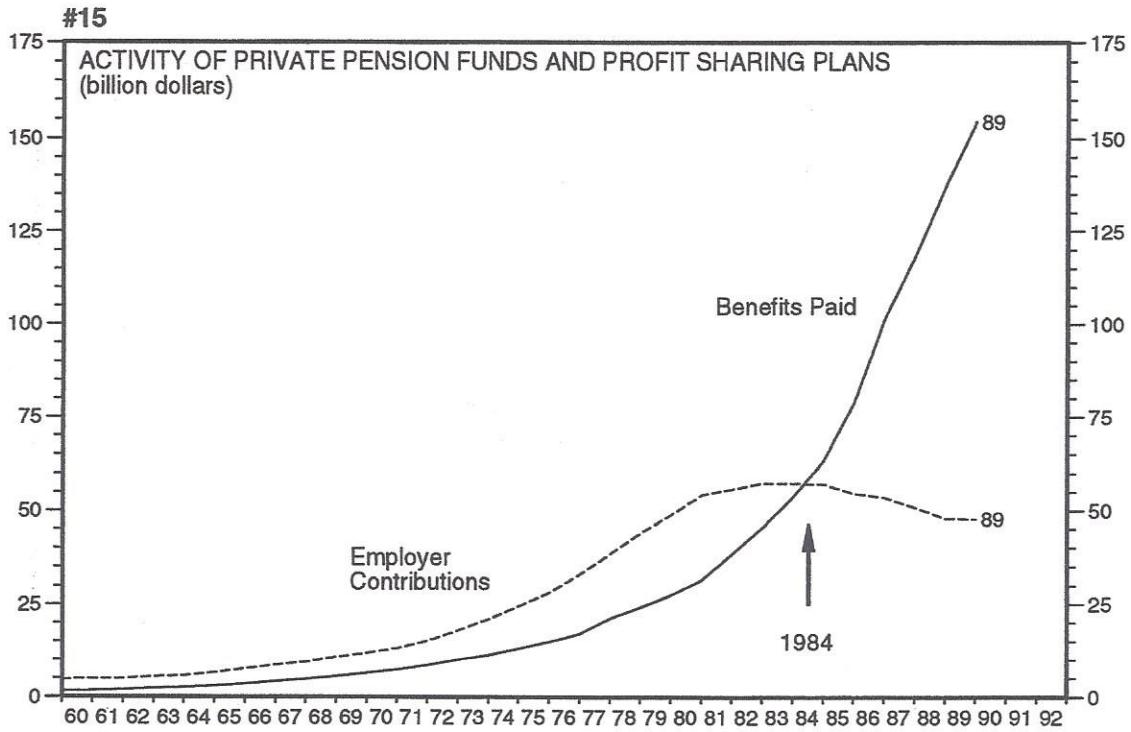
# - Savings Rate -



\* Excludes imputed interest income and employer contributions to pension funds.



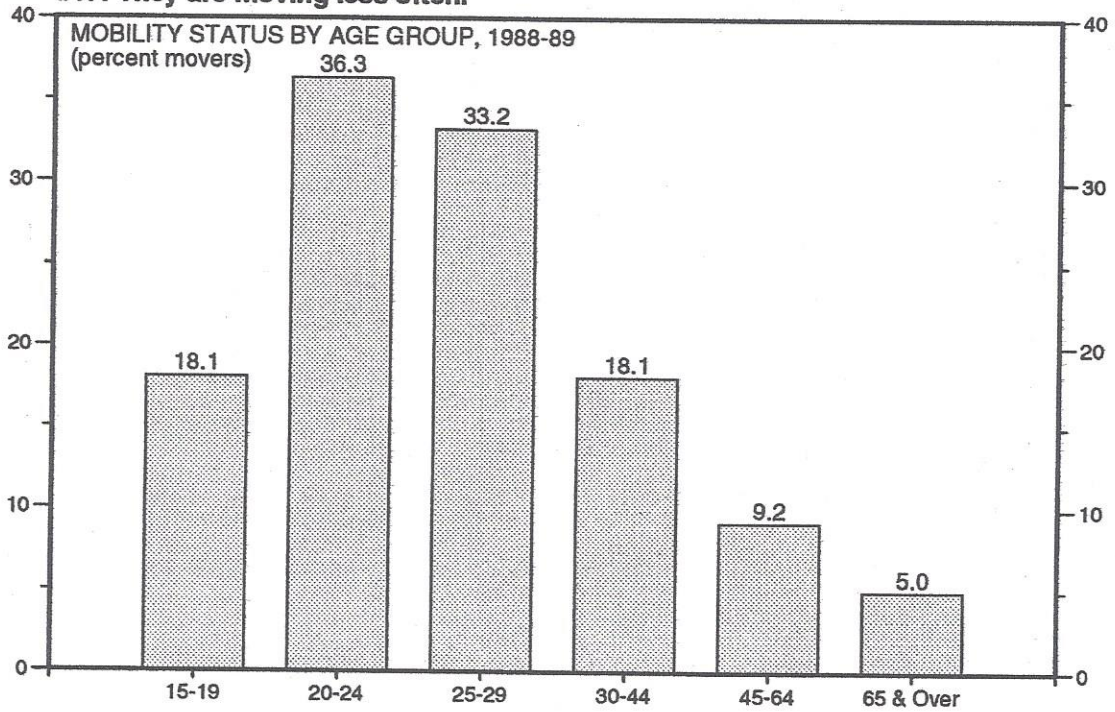
# - Savings Rate -



\* Instead of employer contributions to pensions and profit sharing plans, benefits paid are included.

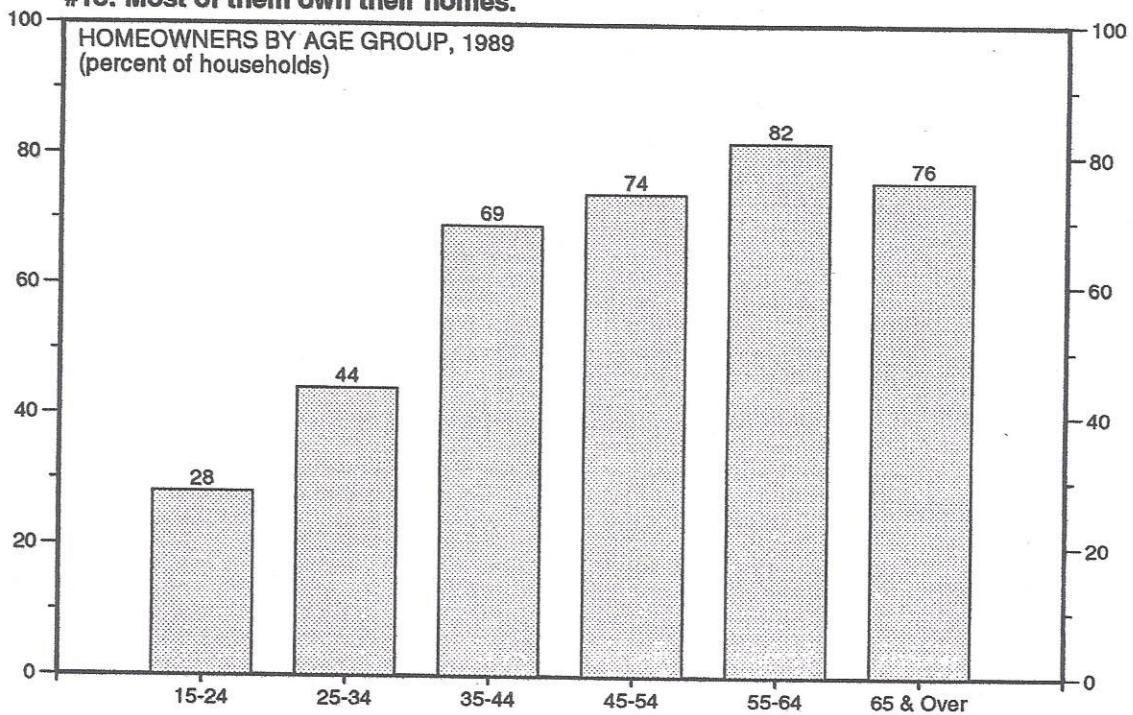
# - Appendix -

## #17: They are moving less often.



Source: Bureau of the Census, Geographical Mobility: March 1988 to March 1989, Current Population Reports, Series P-20, No. 425.

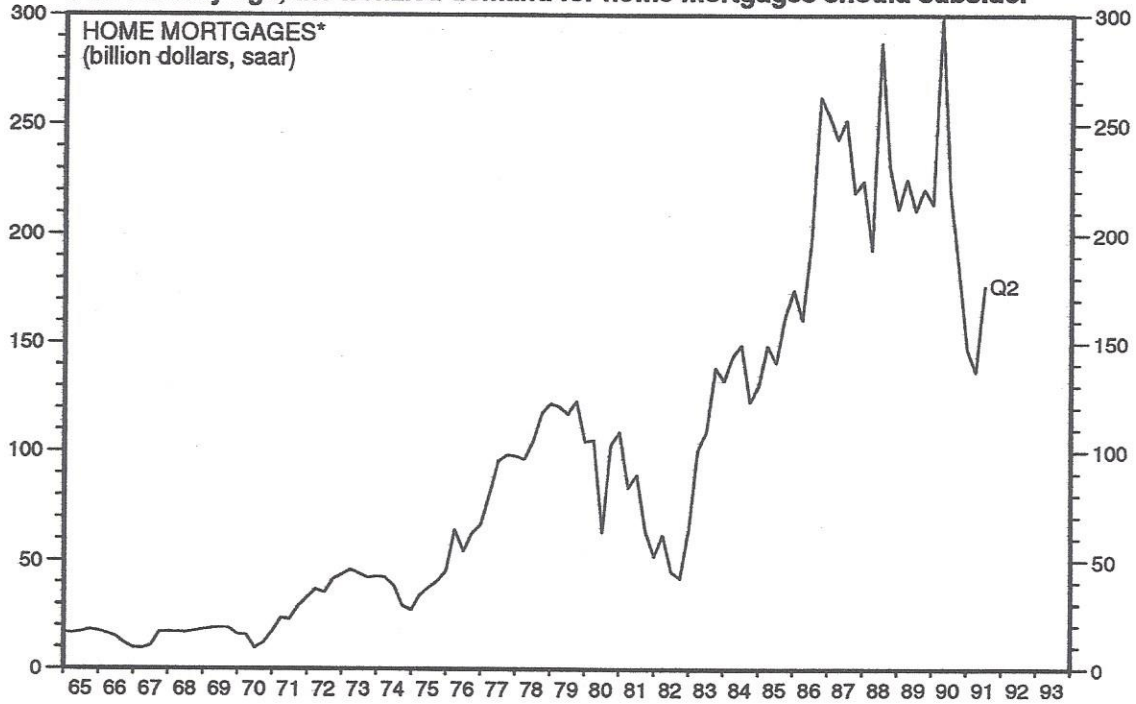
## #18: Most of them own their homes.



Source: Consumer Expenditure Survey.

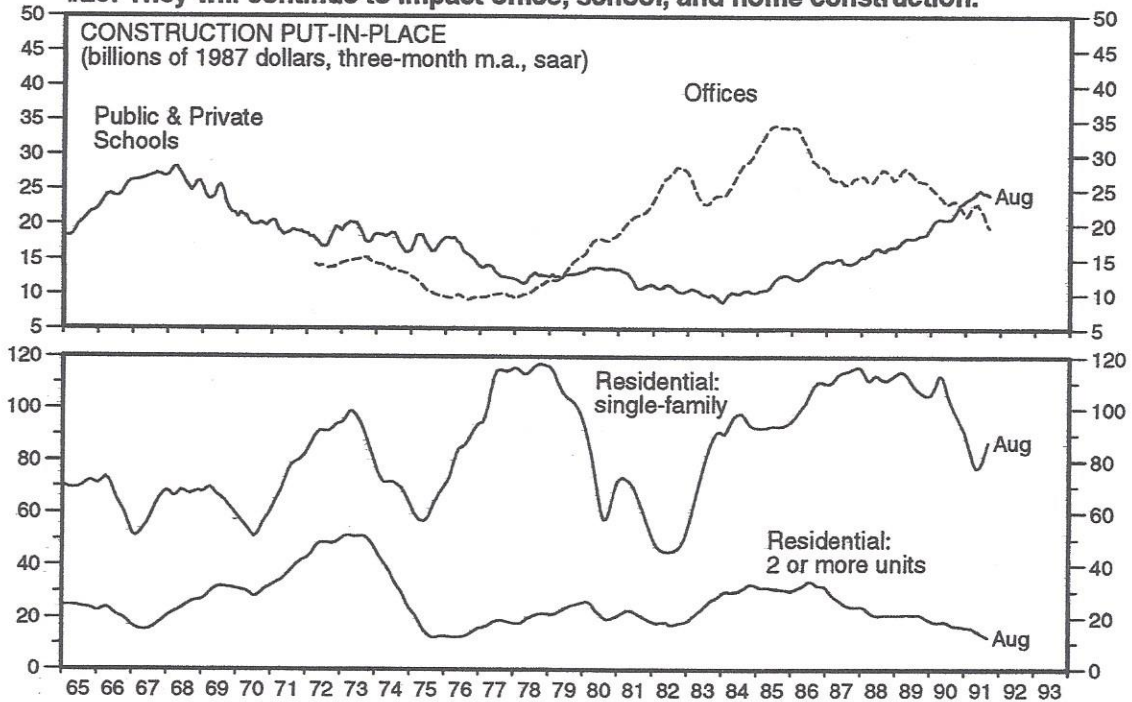
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**#19: As they age, the frenzied demand for home mortgages should subside.**



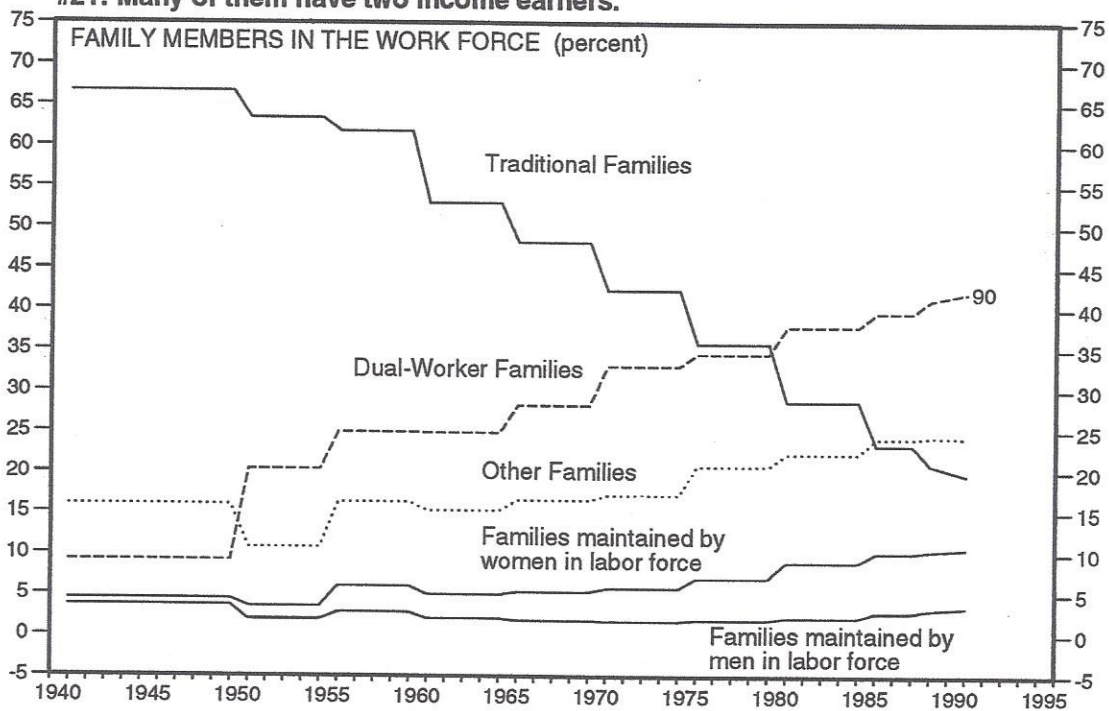
\* 1-4 family mortgages.

**#20: They will continue to impact office, school, and home construction.**

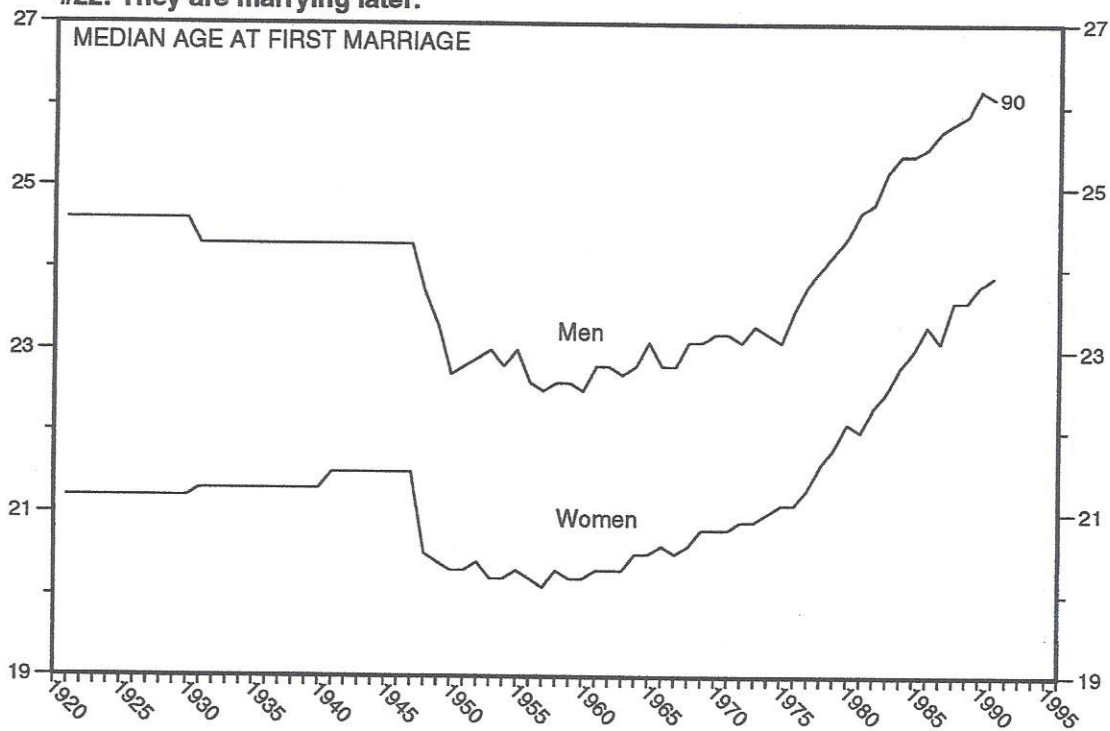


# - Appendix -

**#21: Many of them have two income earners.**



**#22: They are marrying later.**

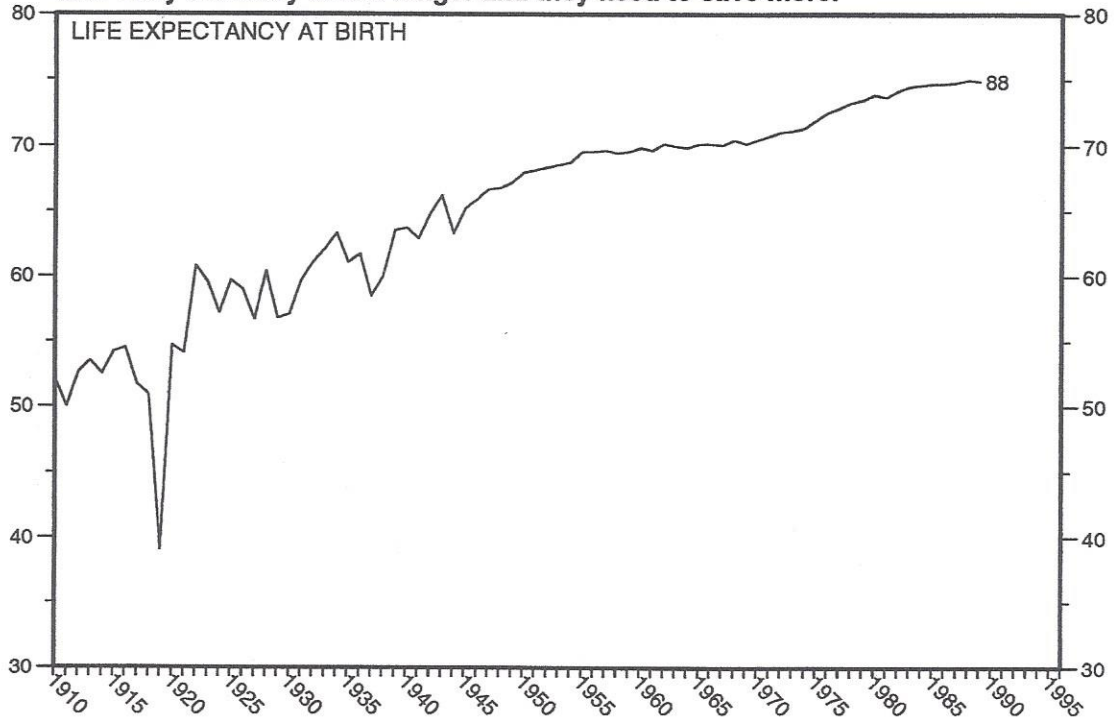


Source: Current Population Reports



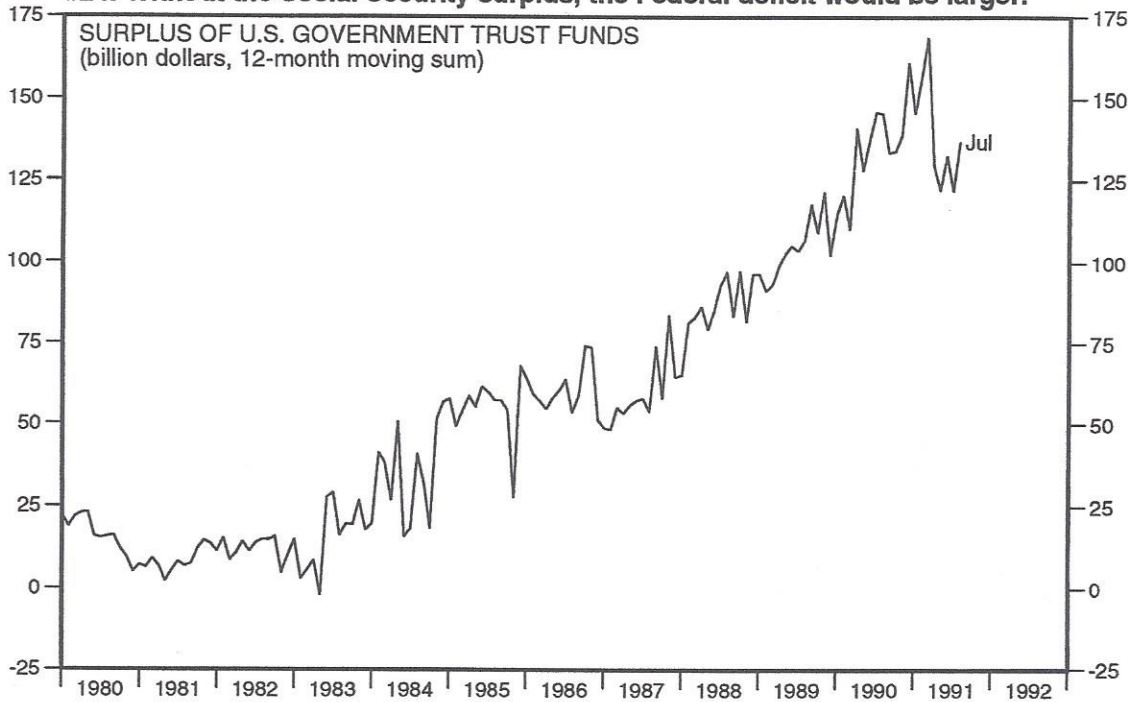
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**#23: They are likely to live longer and they need to save more.**



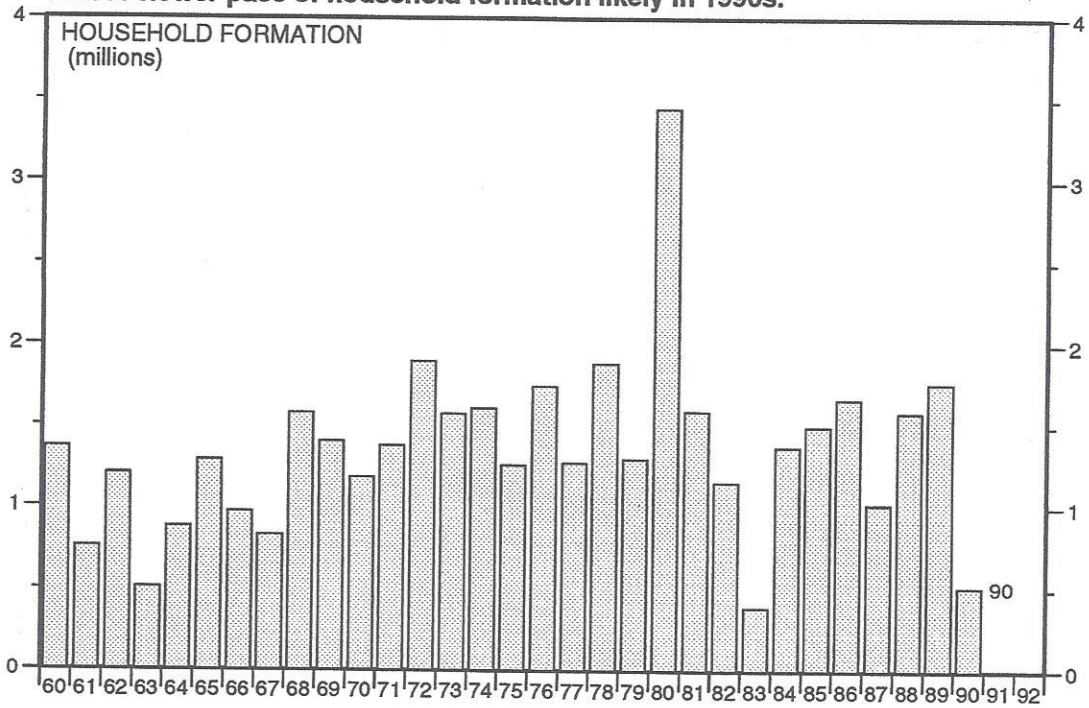
Source: U.S. National Center for Health Statistics, Vital Statistics of the United States.

**#24: Without the Social Security surplus, the Federal deficit would be larger.**

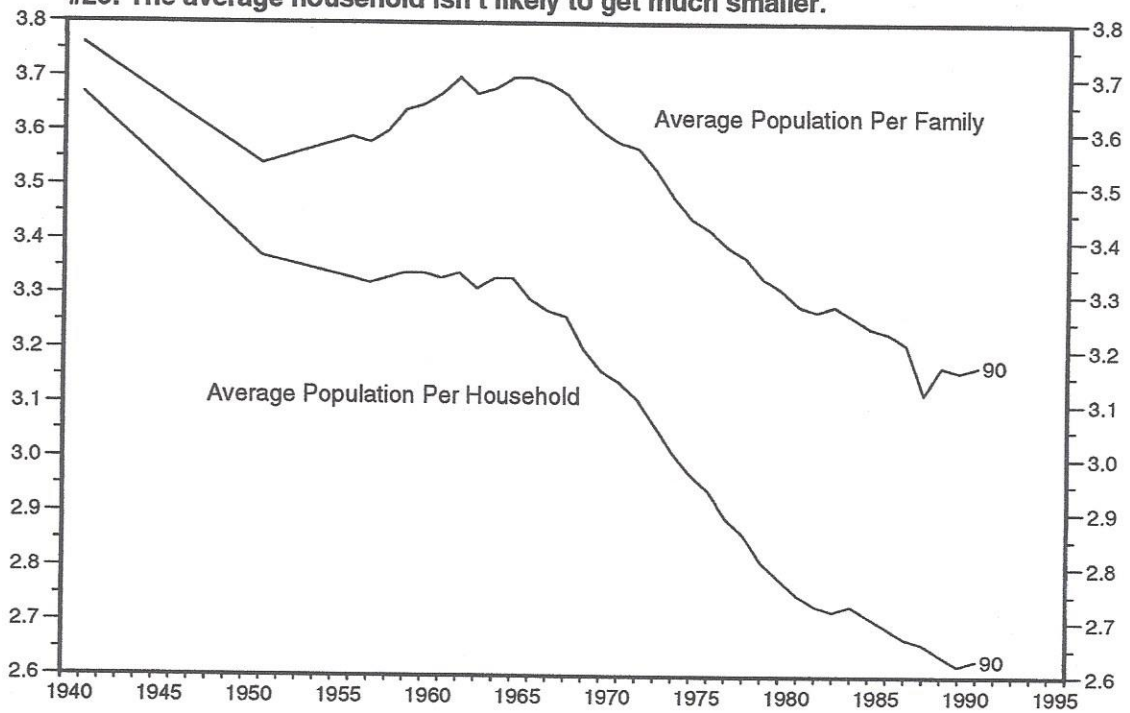


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**#25: A slower pace of household formation likely in 1990s.**

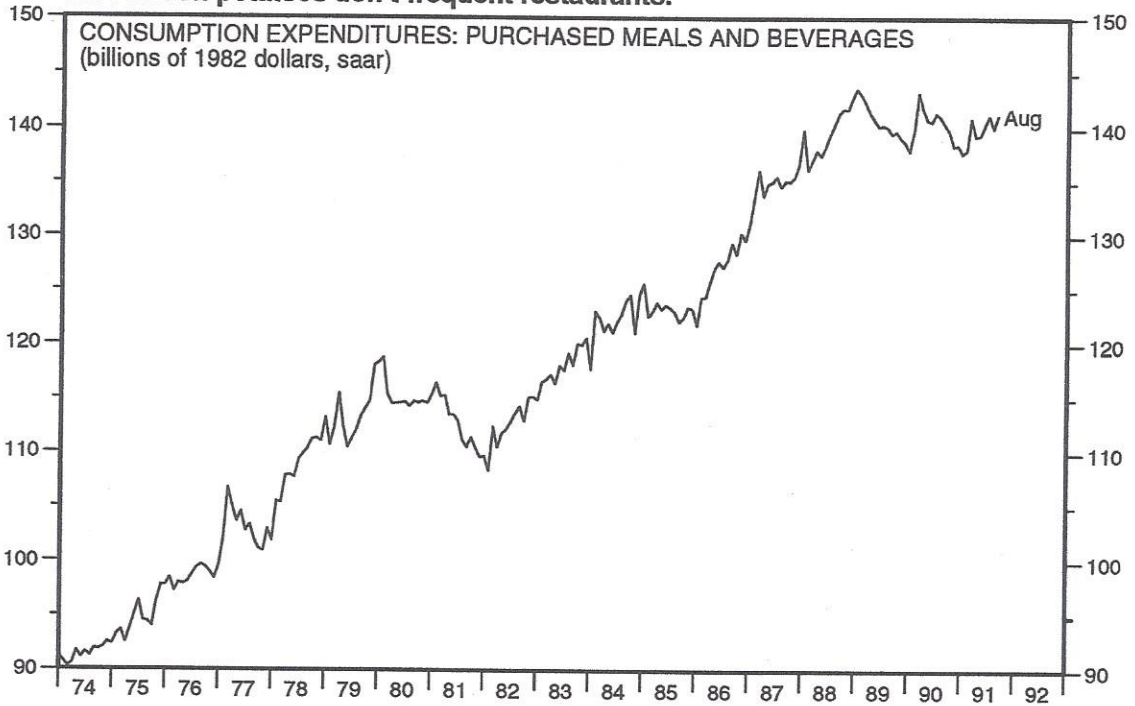


**#26: The average household isn't likely to get much smaller.**

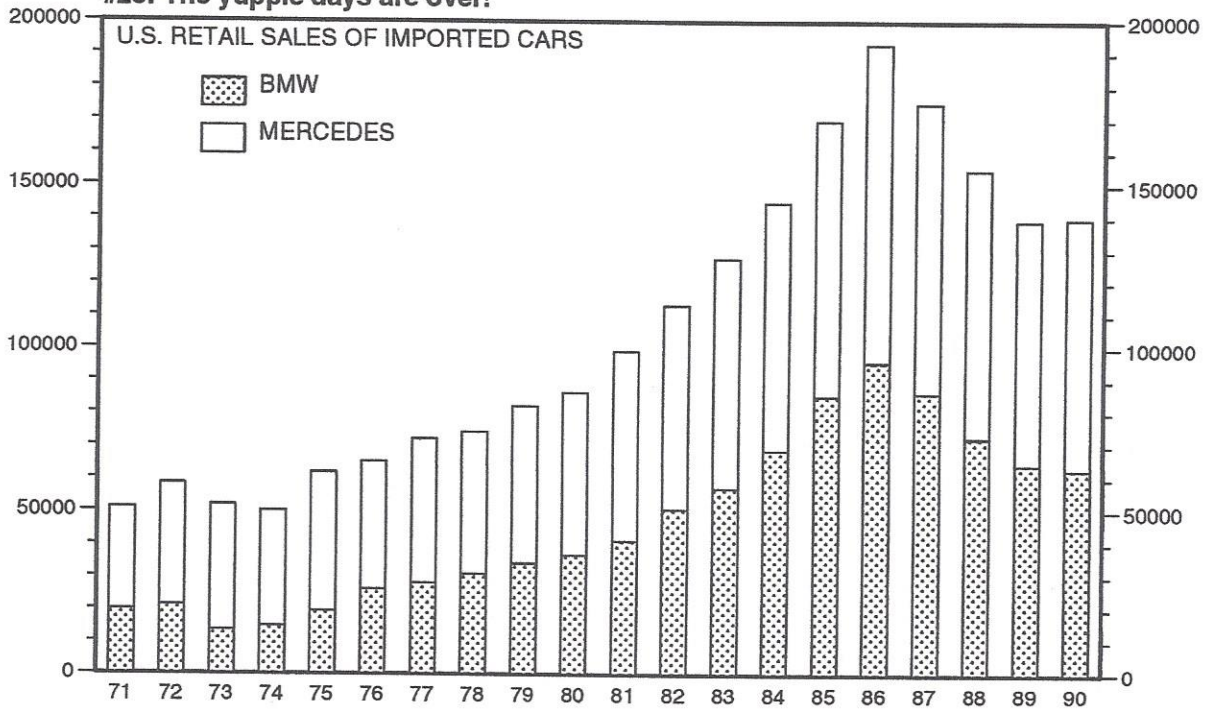


# - Appendix -

**#27: Couch potatoes don't frequent restaurants.**



**#28: The yuppie days are over!**



Source: Ward's Automotive Yearbook.

## TOPICAL STUDIES

- #1 Dr. Edward Yardeni, *Exports Should Weaken U.S. Recovery*, March 22, 1983 \*
- #2 Dr. Edward Yardeni, *The Ten Pillars Of Faith*, April 6, 1984 \*
- #3 Deborah Johnson, *Behind The Corporate Borrowing Binge*, June 13, 1984 \*
- #4 Dr. Edward Yardeni, *Why Has The Leading Index Of Inflation Failed So Badly?*, October 24, 1984 \*
- #5 Dr. Edward Yardeni, *The Case For Lower Oil Prices*, December 12, 1984 \*
- #6 Dr. Edward Yardeni, *The True Story Behind The Mighty Dollar*, January 9, 1985 \*
- #7 Dr. Edward Yardeni, *Plenty Of Cash Around To Fuel Additional Stock And Bond Gains*, January 30, 1985 \*
- #8 Dr. Edward Yardeni, *No Shortage Of Gluts*, July 10, 1985 \*
- #9 Dr. Edward Yardeni, *The Protectionist Road To Depression*, September 9, 1985
- #10 Dr. Edward Yardeni, *The U.S. Becomes The World's Largest Debtor, So What?*, July 14, 1987
- #11 Dr. Edward Yardeni and Deborah Johnson, *The Restructuring Of Corporate America Is Bullish*, December 9, 1987
- #12 Dr. Edward Yardeni, *How The Baby Boomers Are Changing The Economy*, April 6, 1988
- #13 Dr. Edward Yardeni, *The Coming Shortage Of Bonds*, June 20, 1988
- #14 Dr. Edward Yardeni, *Could Real Estate Prices Fall? And What If They Do?* August 24, 1988
- #15 Dr. Edward Yardeni and David Moss, *The New Wave Manifesto*, October 5, 1988
- #16 Dr. Edward Yardeni with Amalia Quintana, *The Baby Boom Chart Book*, January 25, 1989
- #17 Dr. Edward Yardeni, *The Triumph Of Capitalism*, August 1, 1989
- #18 Dr. Edward Yardeni and Deborah Johnson, *Dow 5000*, May 9, 1990
- #19 Dr. Edward Yardeni and David Moss, *The Triumph Of Adam Smith*, July 17, 1990
- #20 Dr. Edward Yardeni, *The Collapse Of Communism Is Bullish*, September 4, 1991

\* Out of print.