

# Growth Models and the *Demographic Trap* or “old folks do not buy stuff”

How will this affect your bottom line?

By

D. Sykes Wilford

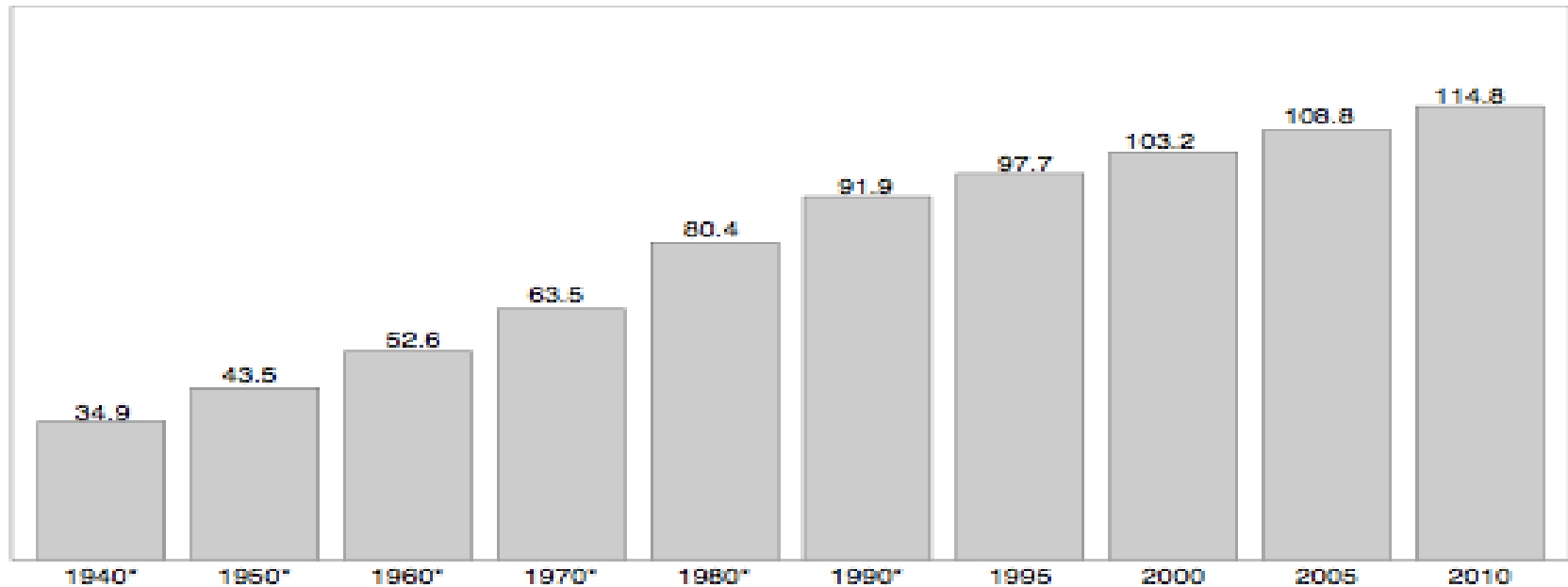
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THE CITADEL

# Begin with Household Formation in The USA

Figure 1.  
Number of Households: 1940 to 2010

(Series 1. In millions)



Source: US Census Data

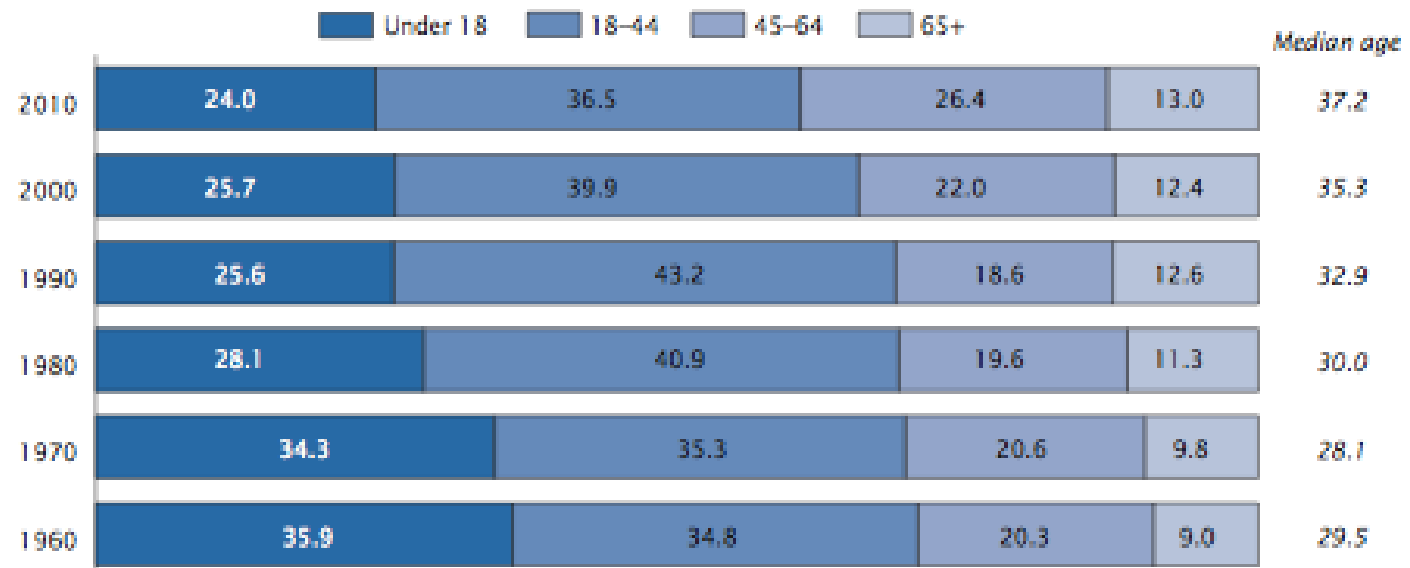
Household formation growth rates have fallen by 50%,  
while Household size has fallen by over 30%

# Age Distribution USA: 1960 -- 2010

Figure 4.

## Age Distribution and Median Age: 1960 to 2010

(In percent. For information on confidentiality protection, nonsampling error, and definitions, see [www.census.gov/prod/cen2010/doc/sf1.pdf](http://www.census.gov/prod/cen2010/doc/sf1.pdf))



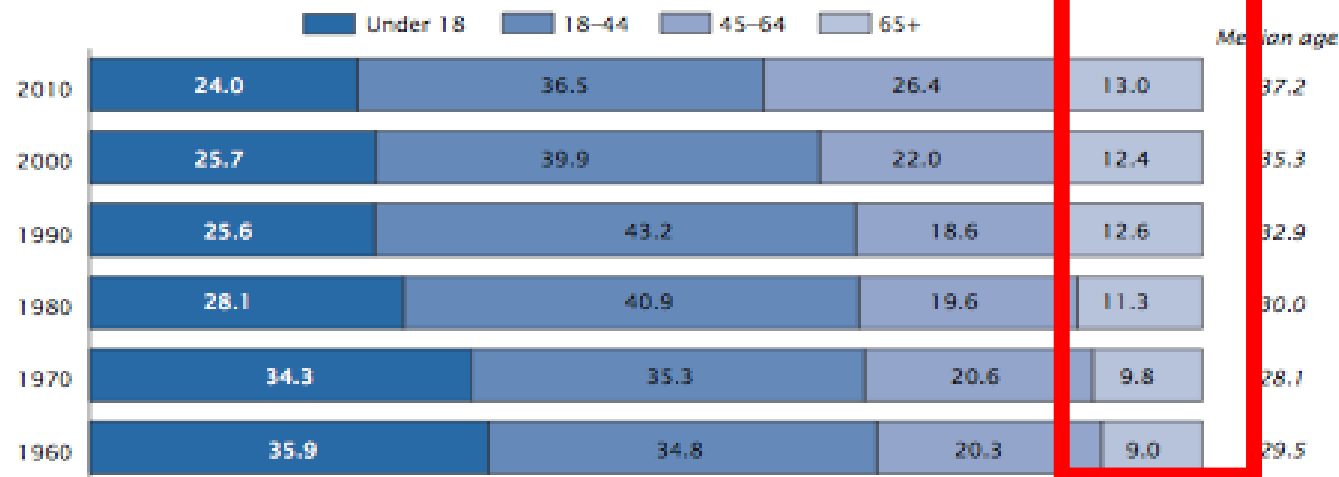
Sources: U.S. Census Bureau, 2010 Census Summary File 1, Census 2000 Summary File 1, 1990 Census Summary File 2C, 1980 Census Summary File 2C, 1970 Census of Population, Vol. 1, Characteristics of the Population, Chapter B, Table 50, and 1960 Census of Population, Vol. 1, Characteristics of the Population, Chapter C, Table 156.

# Household De-formation

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(In percent. For information on confidentiality protection, nonsampling error, and definitions, see [www.census.gov/prod/cen2010/doc/sf1.pdf](http://www.census.gov/prod/cen2010/doc/sf1.pdf))

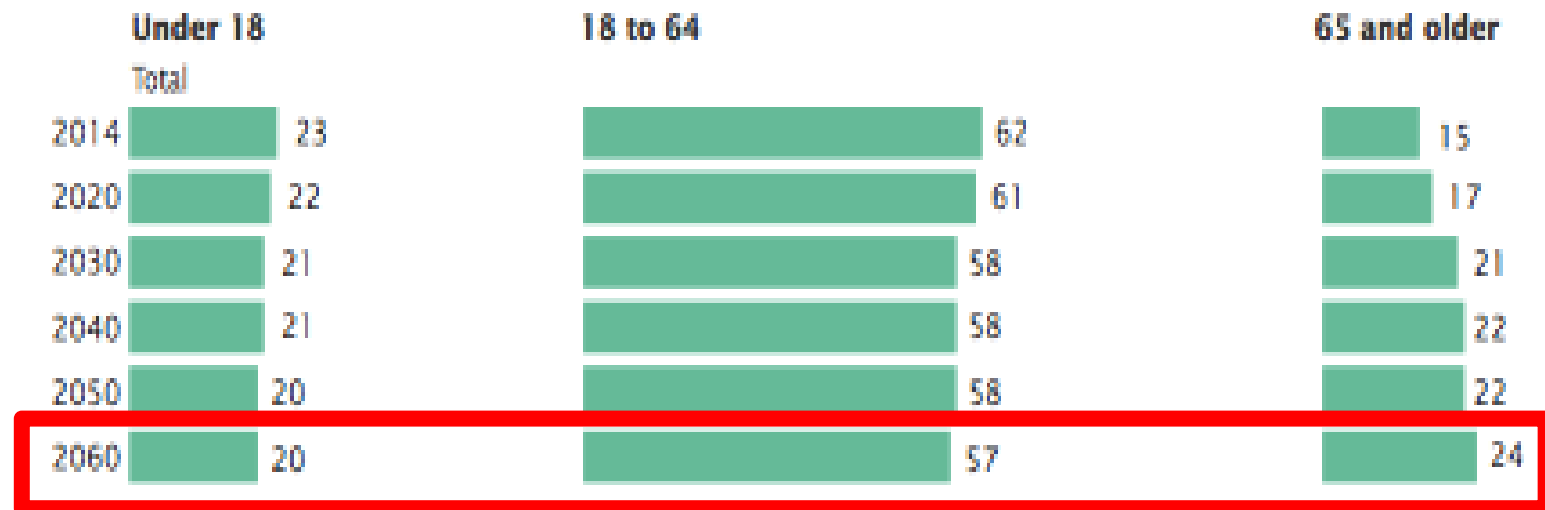


Sources: U.S. Census Bureau, 2010 Census Summary File 1, Census 2000 Summary File 1, 1990 Census Summary File 2C, 1980 Census Summary File 2C, 1970 Census of Population, Vol. 1, Characteristics of the Population, Chapter B, Table 50, and 1960 Census of Population, Vol. 1, Characteristics of the Population, Chapter C, Table 156.

# Household Projected De-formation Problems Grow toward 2060

## Age Distribution of the Population by Nativity: 2014 to 2060

(Percent of group's total population)



Yes, this includes Immigration

# Household formation becomes **De-Formation**

- Household Formation is key to growth in demand for
  - Commodities
  - Stuff – bicycles, helmets, etc. etc.
  - Cars
  - Timber
  - And the list goes on to even big screen TVs
- Old Folks don't buy this stuff --- They are effectively selling it!
- *Focus on Household De-formation*

# The Economist's Dilemma

## *“The Demographic Trap”*

- Keynesian Demand Management
- Monetary Policy Growth Models
- Emerging Markets Export Driven Development
- All of these depend upon Demand Stimulus either by the Government or via external demand but with *no household formation growth we may be in a “demographic trap”*
- In a “demographic trap” these models will likely fail to deliver!

# Long Run Macro Economic Implications of *“the Demographic Trap”*

- Keynesian demand may not work if household deformation
  - Multiplier models do not multiply. They may Divide!
- Demand models: past data are not useful for prediction given the demographic changes
  - Following demand management policies may simply lead to more spending with NO EFFECT except a wealth transfer, but not real growth.
- ZIRP policy. What does it imply? Using past data ignores the implications from demographics and changing consumption patterns
- **World-wide ZIRP:** “Doing whatever it takes” means what!?



# The Economist's Dilemma

## *"The Demographic Trap"*

- Emerging Markets are Clearly Vulnerable

# The Emerging Market Dilemma

## “Wealthy Country Household De-Formation”

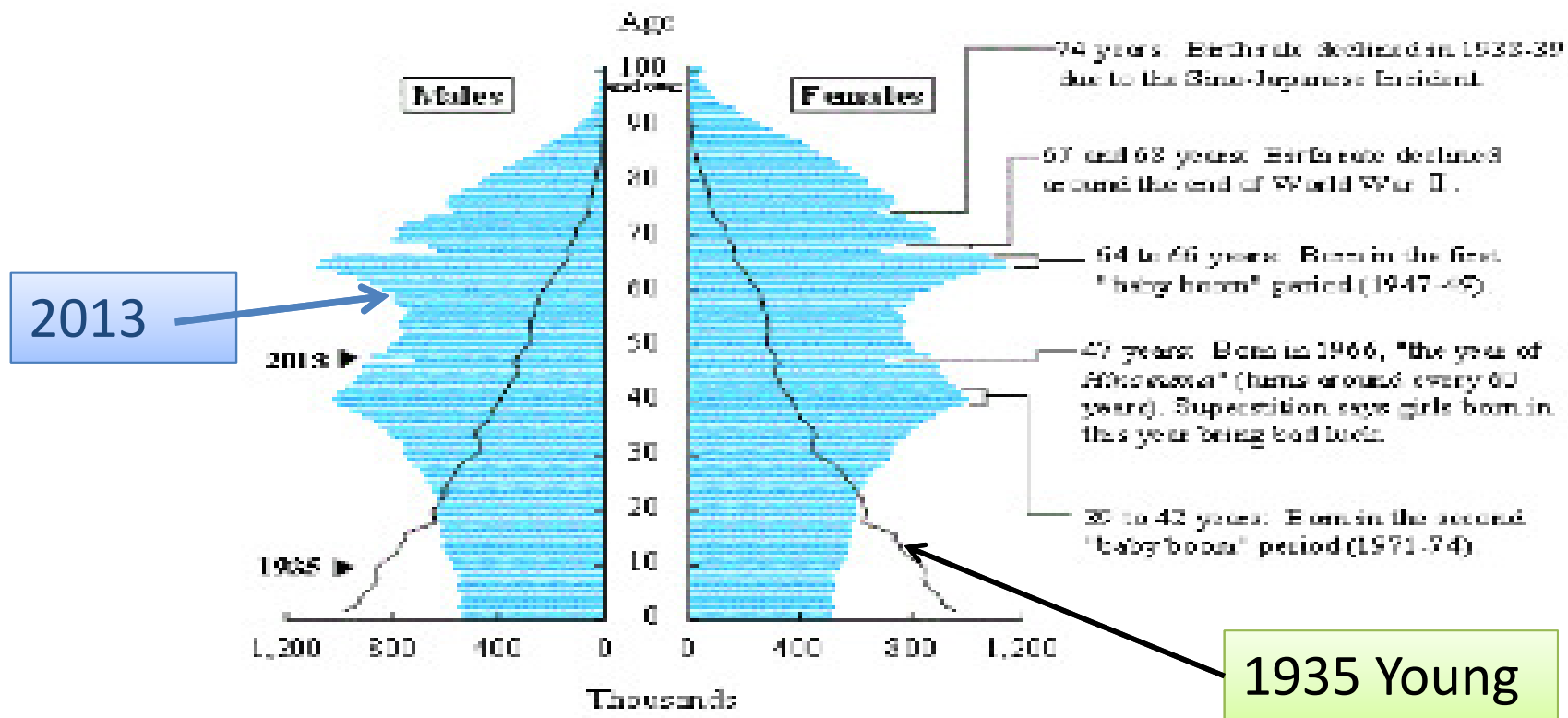
- For **State Directed** export led growth used by Japan, Korea, and China to be successful *demand* from the wealthy countries must *first exist*.
- For that to occur the *wealthy countries* need to form households, **not lose households**
- and the *terms of trade need to favor the exporters*.
- **Other growth models do not work**
  - IMPORT SUBSTITUTION -- Argentina
  - SOVIET MODEL – Soviet Union
  - RED CHINA MODEL – Great Leap Forward

# Just How Bad is the Demographic Trap?

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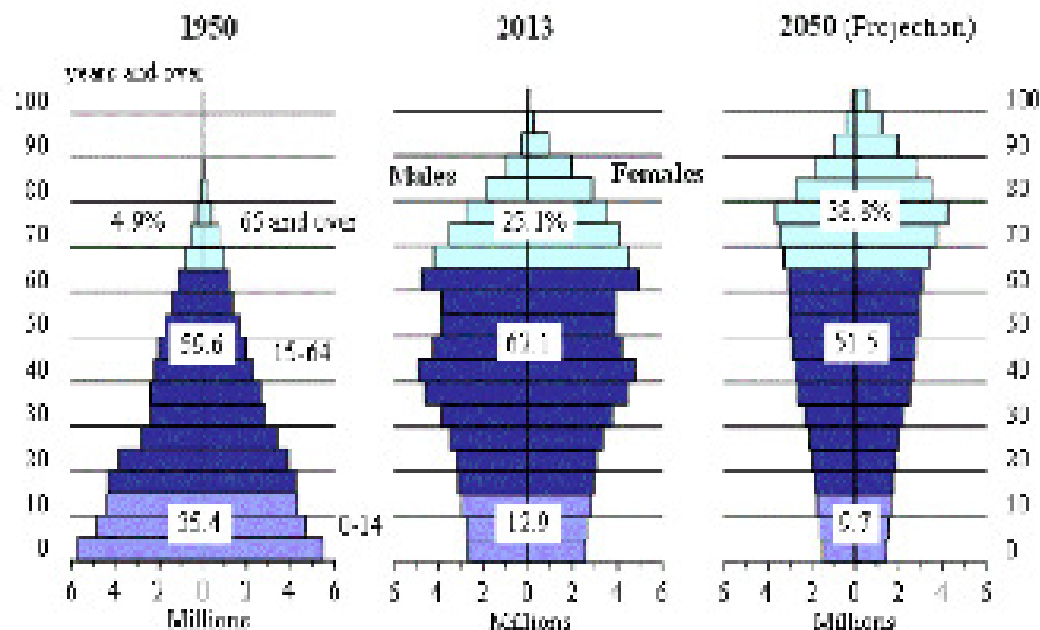
- Using Data Provided by the Counties Themselves.....
- Start with the Oldest -- Japan

# Lets Look at Japan: HOW OLD IS OLD!?



# Follow Japan {OLD}

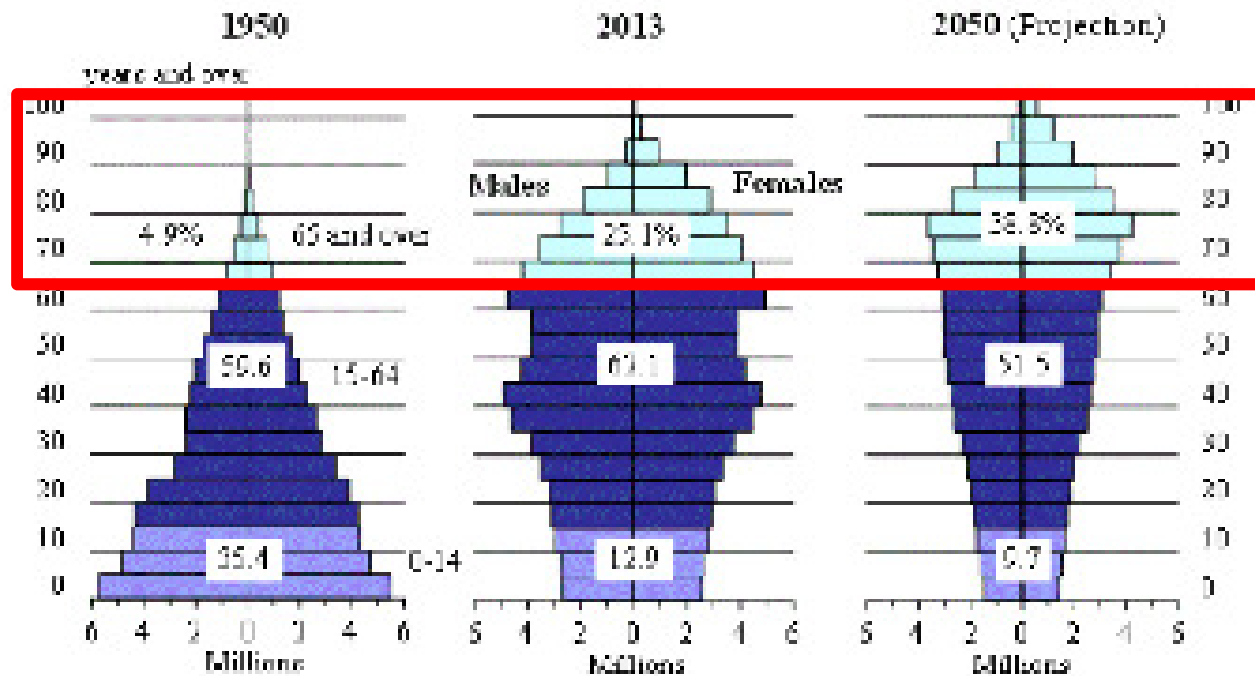
**Figure 2.4**  
**Changes in the Population Pyramid**



Source: Statistics Bureau, MITO, Ministry of Health, Labour and Welfare.

# Let's Project Japan: Household De-formation

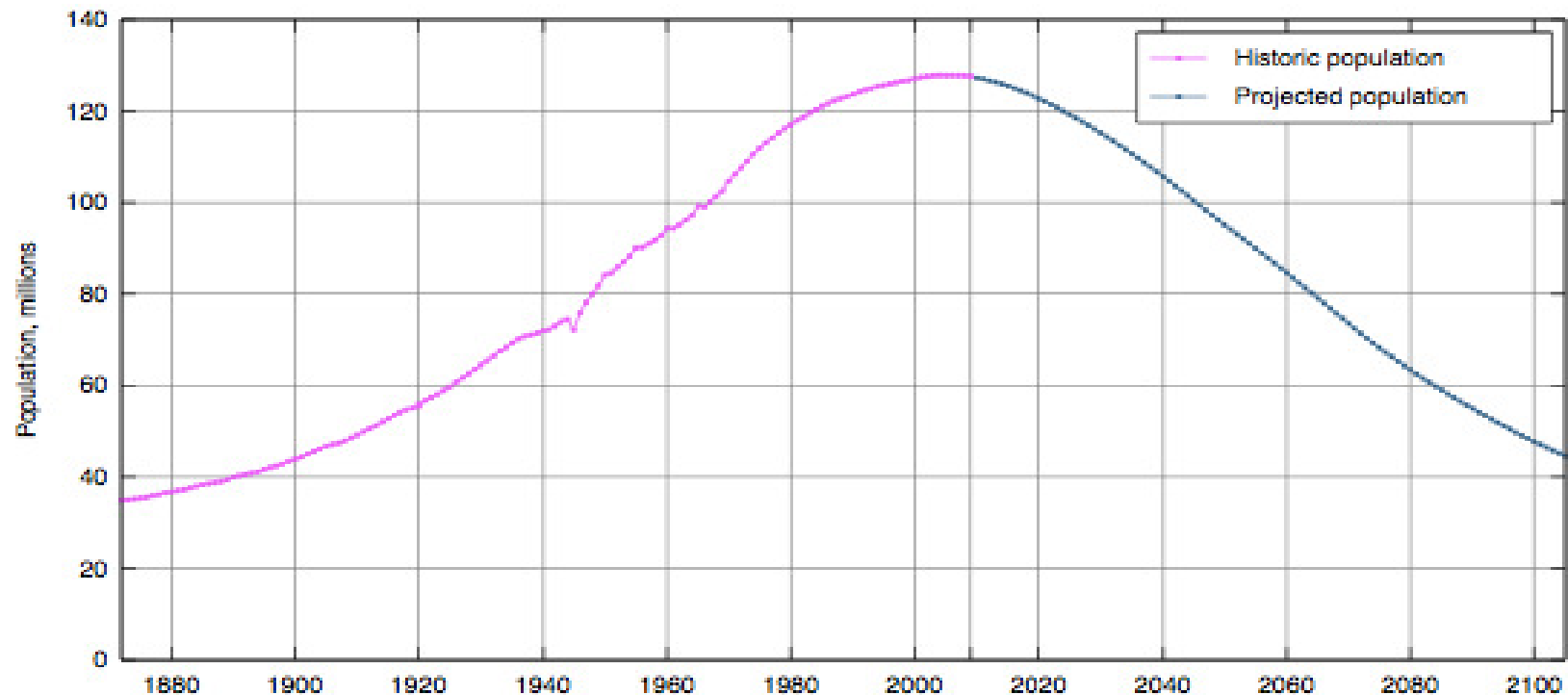
**Figure 2.4**  
**Changes in the Population Pyramid**



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# Japan's Projected Population

## Household De-formation on Steroids



These folks still alive are really old



# Ok, Japan is Extremely Old but what about the Rest of the World: 2010

Age Structure of Population by Country

Country	2010			2050 (projection)		
	0-14 years	15-64	65 and over	0-14 years	15-64	65 and over
Japan .....	13.2	63.8	23.0	9.7	51.5	38.8
Korea, Rep. of .....	16.2	72.7	11.1	12.0	53.1	34.9
Italy .....	14.0	65.7	20.3	13.9	53.1	33.0
Germany .....	13.4	65.8	20.8	12.6	54.7	32.7
France .....	18.4	64.8	16.8	17.0	57.6	25.5
U.K. ....	17.6	65.9	16.6	16.6	58.7	24.7
Canada .....	16.5	69.4	14.2	16.5	58.8	24.7
China .....	18.1	73.5	8.4	14.7	61.3	23.9
Sweden .....	16.5	65.3	18.2	18.0	59.2	22.8
Brazil .....	25.5	67.6	6.9	15.3	62.2	22.5
U.S.A. ....	19.8	67.1	13.1	18.2	60.4	21.4
Russia .....	14.9	72.0	13.1	17.1	62.4	20.5
India .....	30.2	64.8	5.1	19.5	67.8	12.7

Source: Statistics Bureau, MIC, Ministry of Health, Labour and Welfare; United Nations.

Ok, Japan is Extremely Old now but are the other **Wealthy** Countries in 2050?

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They are old too!

Ok, Japan is Extremely Old but what about the **Wealthy** Countries?

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Source: Statistics Bureau, MIC, Ministry of Health, Labour and Welfare; United Nations.

# USA Is Different – less old -- and so is Russia!

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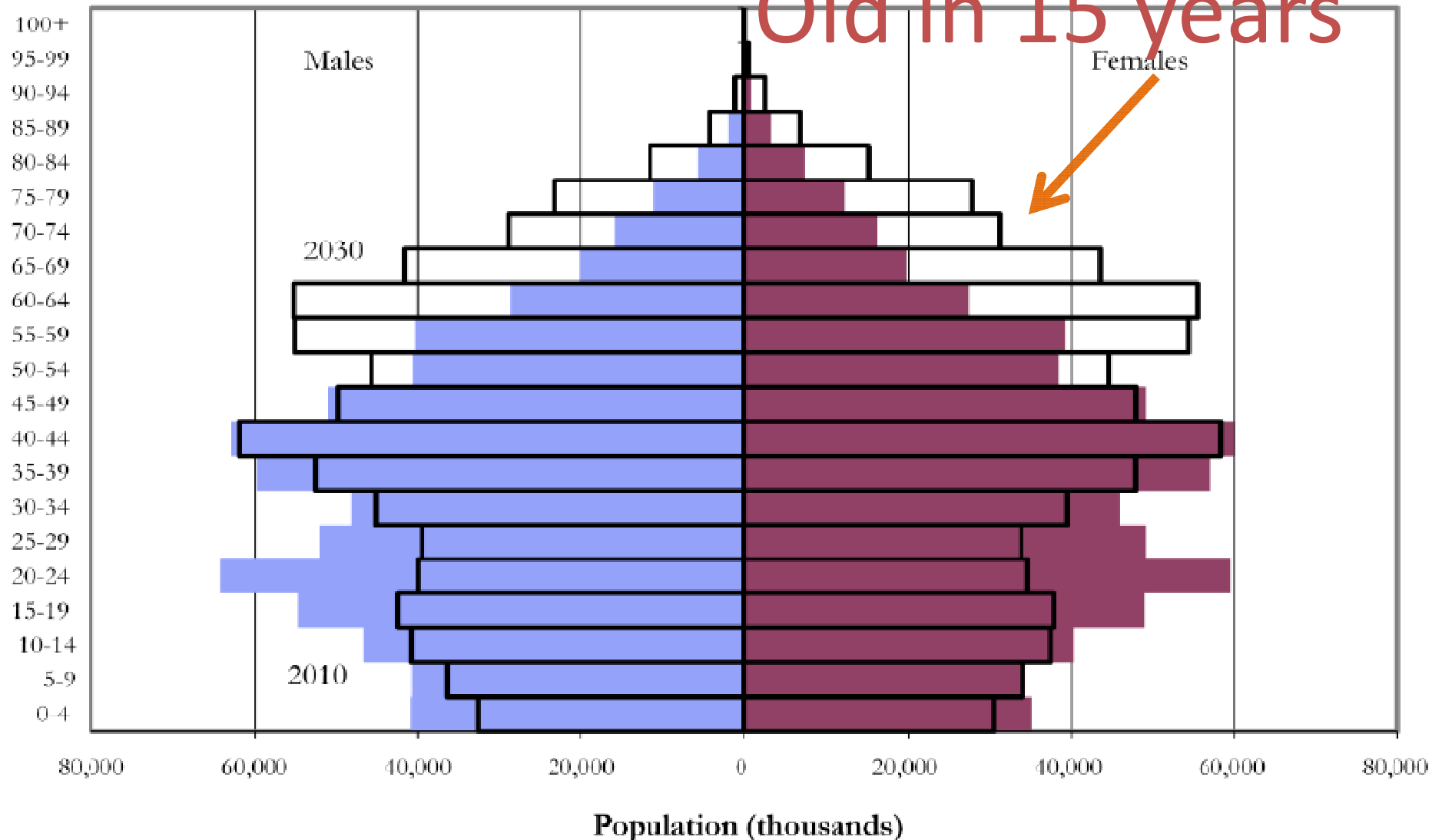
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They are different for very different reasons

# Focus on China: De-formation before there is Formation!

Old in 15 years



# Investment Decisions Implications of Household **De-formation**

- Little or no *goods* price inflation, maybe *goods price deflation* in Rich countries – “loose” monetary policy does not stimulate demand.
- *Relative* demand shifts to non-traded goods
- Pricing power shifts to domestic service providers.
- Government stimulus programs will have less impact on real growth but will affect “*relative prices*”
- *Rent Seeking* behavior becomes even more profitable!
  - Get your lobbyist!
- As exporters compete in the slowing rich countries calls for **protectionism** may re-emerge a la Smoot-Hawley legislation in the 30s --

# Investment Decisions Implications of Household De-formation

- World trade could slow.
  - Shipping market implications
- Avoid EM investments dependent on exports, typical state enterprises and manufacturing – seek EM investments that serve local populations not external demand.
- Expect more “Crony capitalism” in developing economies as State enterprises become are used for policy ends, as the export driven model fails.
- Concern for viability of State Enterprises

# Implications for Investment Decisions

- Populations will not be happy with low growth
  - Search for safety will dominate investment decisions
  - Imagine China, Brazil, India .....Africa – populations without export markets
- Capital fleeing to safety becomes increasingly likely
  - Switzerland
  - London Real Estate
  - Capital re-allocation to safer property rights markets
  - China's portfolio diversification should help US equities markets for example
- Focus on PRICING POWER in asset allocations
  - Old rules will not be good guides



# Is there a Way to Optimistically Spin these facts?

- Yes.....
- I'm still thinking!
- The western markets (especially the USA) could be benefactors the Global Capital Flows
- Especially if the Western Rich counties choose
- *a radical idea such as freer markets with better protection of individual property rights with a greater incentive to invest and innovate.*
- *I have HOPE!*