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## Summer reading **Boom Bust & Echo Making demographics pay**

Chuck Chakrapani

A few years ago, I wrote a series of articles in *Imprints* outlining the demographic shifts that have been taking place in Canada and their implications. I was quite surprised by the interest generated by those articles since I had (erroneously as it turned out) assumed that market researchers are only marginally interested in demographics.

Demographic information is not difficult to access. However, much of the fascinating information is buried in Statistics Canada bulletins, computerised tables and fairly dry academic papers.

That is until now. David Foot's new book has changed all that. His *Boom Bust & Echo*, attractively subtitled *How to profit from the coming demographic shift*, is a demographic detective story, written in plain English. With the casual ease of a Sherlock Holmes, Foot shows how easily we could have forecasted the collapse of the real estate market and how easily we can make money in the coming years. Elementary.

Just in case this looks like snake oil salespersonship, let me hasten to add (for the sake of those of who have not yet heard of the peripatetic Dr.Foot) that the author is an Economics Professor at the University of Toronto. Although often described by the media as the 'foremost Canadian demographer' by the media, David Foot says that he is not a demographer but just an economist interested in demographics. That shouldn't bother us market researchers, since hardly any of us have had any formal training in the discipline we call our own.

### **Two-thirds of everything**

How could we have predicted the collapse of real estate in Canada? How can we forecast whether the stock-market will go up or down in the next few years? How can we predict which industries will boom and which will decline?

All such questions can be answered with a fair degree of certainty by simply understanding demographics. Demographics cannot tell us whether the stock market will go up or down next month or next year. But it can tell us where the stock market is headed in the next 10 to 20 years. In fact demographics can explain two-thirds of everything.

To understand why this can be so simple, we need to understand certain basic concepts of demography.

### **We are all 'cohorts'**

We can consider all those born at around the same time as us to be cohorts. Similar events shape the future of each set of cohorts. People of the 20th Century fall into eight such groups (see Table). People within each group share far more with their cohorts and very little with members of the other groups.

## 20th Century Cohorts

<b>Generation</b>	<b>Birth period</b>	<b>Characteristics</b>
Pre-World War I	Prior to 1914	There are 627,000 people belonging to this group. This is a large, growing group. The responsibility for caring for them will fall on their offspring, now in their 50 s or 60s.
World War I	1915-19	Relatively small group. Grew up with little competition for jobs. Even though their lives were interrupted by the Great Depression and WW II, they were better off than their predecessors
The Roaring Twenties	1920-29	Post-war babies who eventually gave rise to the Baby Boom starting in 1947. Although they have done well in general, because theirs is a large group (2 million in 1996), did not do as well as the group that followed them.
The Depression Babies	1930-39	People couldn't afford children, so the few born during this period became the golden group. Although they had a rough start, they lived under better circumstances all their lives, and are enjoying many privileges now.
World War II	1940-46	A smaller group with little competition for jobs when growing up. Post-War economic growth helped them as they were growing up.
The Baby Boom	1947-66	The most distinguishing characteristic of this generation is its size, 9.8 million. Generation-Xers are the tail-end Boomers. The front-end Boomers have done very well for themselves, but blocked opportunities for Gen-Xers.
The Baby Bust	1967-79	The introduction of birth control pills as well as women seeking career advancement resulted in fewer babies being born. There are 5.4 million in this group. They will have better prospects than Gen-Xers.
The Baby Boom Echo	1980-95	Children of the Boomers. Will have reasonable prospects. 6.9 million in number.
The Future	1995 -	The millennium kids. Off-springs of the Bust generation. A small group.

Of particular interest to us is the Baby Boom generation and the generations that follow it: Bust and Echo. The

importance of the Boom generation can be attributed, among other factors, to its size. It forms a third of the Canadian population. We can apply this knowledge for prediction purposes.

### **Predicting the past**

We should first go back to see if past events-such as the collapse of real estate prices and the success of minivans-can be explained using demographics.

#### ***Boomers and the collapse of real estate***

People enter the labour force when they turn 20. Boomers entered the labour market between 1967 and 1986, when they turned 20. A third of the population entered the workforce and the housing market during this period. Hence the boom in the office and housing real estate market during the same period. The Bust generation that followed was only 45% the size of the Boom generation. As the older Boomers retire and move into smaller accommodation, an equal number of younger people are not waiting to take their place. The last of the boomers, the Gen-Xers-those born between 1960 and 1966-are relatively less well off than their predecessors. If we had paid attention to these demographic trends, we could have predicted the real estate collapse some 25 years ago. Yet many people simply extrapolated the trend of the previous 20 or 30 years linearly into the future only to face disastrous consequences, most dramatically illustrated by the problems faced by the then world's largest real estate company Olympia & York. Now with many companies downsizing, the demand for office space is not going to increase any time soon.

#### ***The secret behind Chrysler's success***

Remember the days, not too long ago, when Chrysler shares were languishing at around \$2 and the company was close to bankruptcy? Well, Chrysler is trading at around the \$50 mark now. What made the difference? In 1983, Chrysler was the first to introduce the minivan -MagicWagon-the wheels of the Baby Boom generation. The right type of vehicle at the right time, when Boomers were having kids and were looking for spacious vehicles.

### **Predicting the future**

It is too late for us to make money buying real estate in the early eighties and getting out of it in the mid-eighties or to invest in Chrysler in 1983. No matter. Here are Dr. Foot's fearless prescriptions for future investing.

#### ***The stock market***

If you missed making money in real estate in the eighties, here is your opportunity to make it big-the stock market. What the real estate market was to the 1980's, the stock market is to the next couple of decades. The reason? People under 40 spend almost all their income in raising their families and paying mortgages. As they get older, their discretionary income increases. This means that Boomers have money to invest. They almost have to since it is no longer certain that government pension plans will be able to sustain them in the future. Real estate is not the place to be because there is hardly any demand for it and it is not going to get better in the near future. GICs and other fixed income investments are not the place to be either because interest rates will remain low for years to come. (As Baby Boomers become savers as opposed to borrowers, there will be little demand for money and hence a low interest rate for years to come.) So the stock market is the most logical place for investors seeking a decent return on their investment. With so much money chasing so few good stocks, the stock market will soar in the next few years. The rise in the stock market is not likely to be a steady annual increase. The stock market is more likely to take off at some point and remain at high levels for many years to come - just as real estate did when Boomers started buying it in the 1980s and just as the Japanese stock market did in the 1970s and the 1980s.

#### ***Mutual funds***

Those who do not have the expertise or inclination to do their own investing will of course choose equity mutual funds. The stock market boom will be reflected in a mutual funds boom.

#### ***Specific stocks to buy***

Although the stock market as a whole will go up, some sectors will grow much faster than others. Other sectors will actually decline. People who do their own investing can benefit by concentrating on high growth sectors.

**Financial services.** Except for the Gen-Xers, all Baby Boomers will be over 40 (the asset building years) by the year 2000. They are also likely to inherit money from their parents around this time. The financial services industry will have a huge customer base. Financial services will be a growth industry in the next few years and is a good sector to invest in.

**Health care industries.** As people get older, their bodies begin to wear out. As Boomers get be 50 or older, they will need greater medical care. This will be another area of big growth. The growth is likely to keep increasing in the next few years as more and more Boomers get older.

**Leisure and recreation.** As Boomers move towards a more leisurely lifestyle, they will provide the fuel for the growth of leisure and recreation industries. These industries would include recreational and professional gambling, gardening, upmarket travelling and home fitness.

**Retailing.** Growth in the retail sector is not likely to be based on price but on service and quality. People who are older are likely to place emphasis on the quality of service and of product. This is a growth area.

**Funerals and cemeteries.** Needs no explanation!

**Collectibles.** Discretionary income is also likely to lead to investments in a wide range of collectibles such as postage stamps and vintage cars. Another growth area.

### **Other implications of demographic shifts**

Demographic shifts have implications for almost every aspect of our lives. I will just state the main points made by David Foot without elaborating on them:

***Organizations will move from vertical to horizontal structures.*** There will be fewer levels in the hierarchy of organizations.

***Education and the changing corporation.*** Changes in organizations will pose a challenge as well as provide an opportunity for the educational system.

***Jobs.*** Because the Baby Bust generation is much smaller compared to the Boom generation, it will have reasonable job prospects.

***Retailing.*** As people grow older they will eat less and better. They tend to consume less tobacco and alcohol. However, as the Echo generation moves towards the beer drinking age, the beer industry will grow into the next decade. Boomers will opt for quality wines. They will buy less but better clothing. Small specialty stores will once again be in vogue.

***Cars.*** The era of minivans is coming to an end. Luxury sedans and sports utility vehicles will take their place.

***Canadian cities.*** There will be more riders in the transit system, more people in the clubs and bars, and more renters for apartments.

***Schools.*** Many elementary schools will be under-used by the next decade. We will have a rising high school enrolment until the year 2006, after which there will be a decline. There will be a greater need for continuing education.

While there have been other books on the subject such as *Generations* by Strauss and Howe, *Decade Matrix* by Gollub, *The Great Boom Ahead* by Dent, Foot's book is unique in that it is Canadian, highly readable and thought-provoking. Both serious and casual readers will benefit by reading this book.

**Boom Bust & Echo** by David K. Foot. Published by Macfarlane Walter & Ross, 1996. pp. 245. \$29.95 Hardcover.

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