LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"It is very difficult to make predictions, particularly when it involves the future!"
–Mark Twain

As we have said in the past, we have a healthy skepticism of anyone's ability to predict the economic future much less the course of the financial markets. We are, nevertheless, in a business which, while dealing with the present, must make some fundamental judgments about the future. Toward this end we tend to place more emphasis on longer-term or secular changes than on short-term or cyclical events. A study of demographic developments can be helpful as shifting age patterns have relatively predictable effects and last a long time.

For the purpose of this report we will concentrate on the "bulge" in the population commonly known as the members of the postwar baby boom. This is the population born in the two decades following World War II. As recently reported in *Business Week*, economist Aubrey H. Zaffuto of IBJ Schroder Bank & Trust Company, notes that the dramatic increase in the number of Americans between the ages of 25 and 44 has had a significant impact on consumer spending for consumer durables and housing since 1970. She states that "Now the demographic trade winds are shifting again. With the front ranks of the baby boom generation approaching middle age, the 25-to-44 age group has begun to level off. After expanding by 2.7% in 1986, 2.2% last year and a projected 1.6% this year, it is expected to post only a 0.8% growth rate from 1987 to 1995. Meanwhile, growth of the 45-to-54 age group, which tends to spend less and save more, will accelerate."

As people reach their mid 40's, some major expenses such as raising and educating children and acquiring and furnishing a home are behind them. These same people are then reaching their most productive earning years. These factors and others, including an awareness that retirement is not too far off, stimulate saving while borrowing declines.

The shifting demographic pattern will also have an impact on the efficiency of the work force. Productivity or output per worker slowed dramatically as huge numbers of inexperienced, first-time-job-holders entered the labor market during the 1960's and 1970's. These workers are now entering their most productive years and will have an increasingly positive influence on productivity for the balance of the century.

The quote from Mark Twain reminds us to be wary of any forecast. When attempting to peer into the future, it is important that we not lock ourselves into any one position but observe and evaluate as we go along. We do believe that a population that is more productive and saves more while borrowing less will have a significant impact on the economy and the capital markets. The net result of these developments should include more capital for investment, lower interest rates, and downward pressure on inflation. While there may well be counter forces, such as unwise economic policies, which overwhelm the positive influence of this demographic shift, any forward looking investment program must consider these demographic forces.

April 1988

450 Regency Parkway, Suite 410 | Omaha, Nebraska 68114-3701 | *tel* 402.392.2606 | *fax* 402.392.2597 | www.lawsonkroeker.com