



Portfolio Strategy Service

#35 The Economic Consequences Of The Peace

#36 Conference Call With Alan Blinder

#37 New Era Recession?

#38 Fed's Stock Market Model Finds Overvaluation

Topical Study #39

THE BABY BOOM CHART BOOK 1997

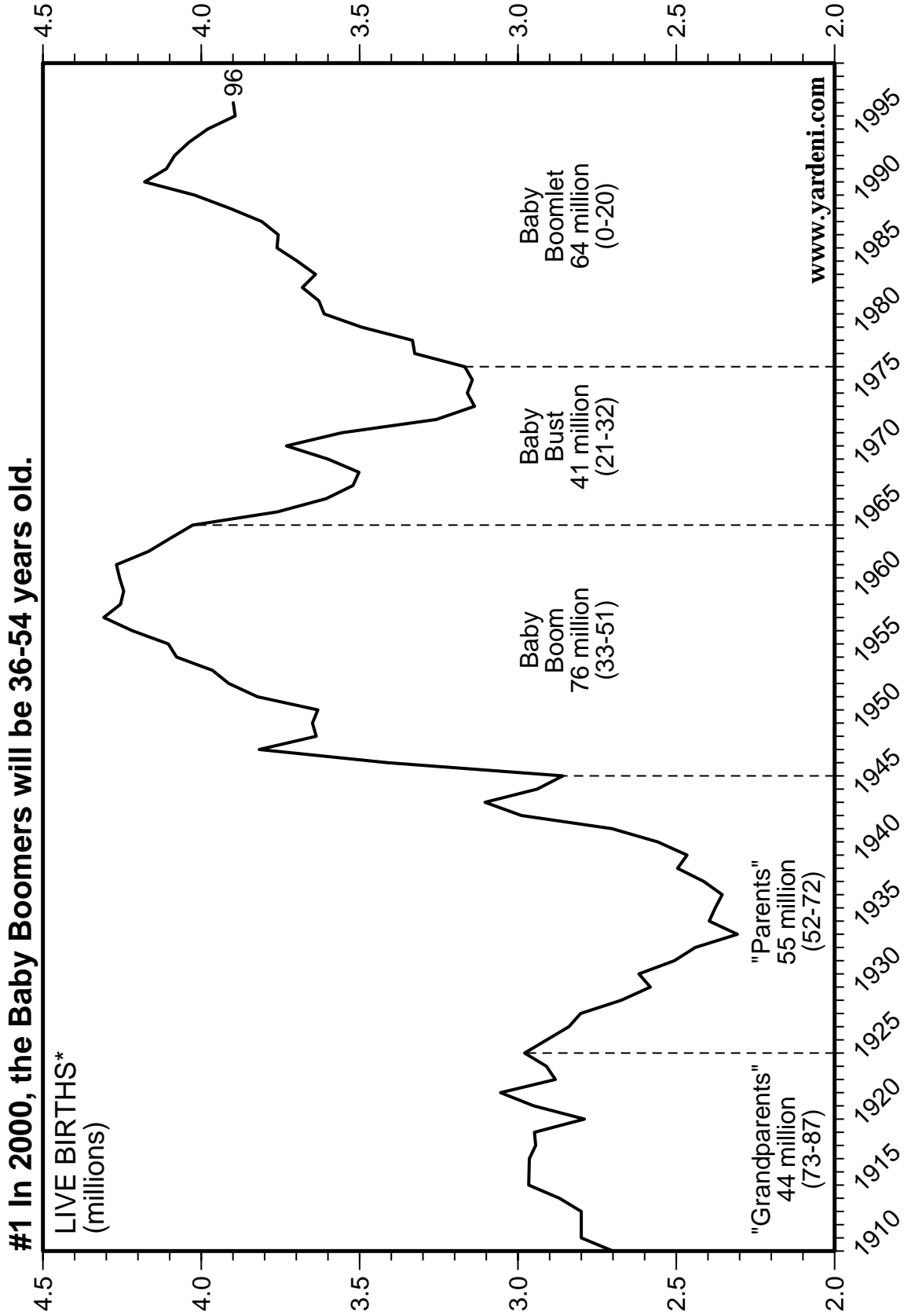
November 11, 1997



Dr. Edward Yardeni
Amalia Quintana

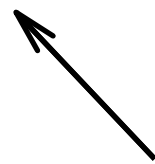
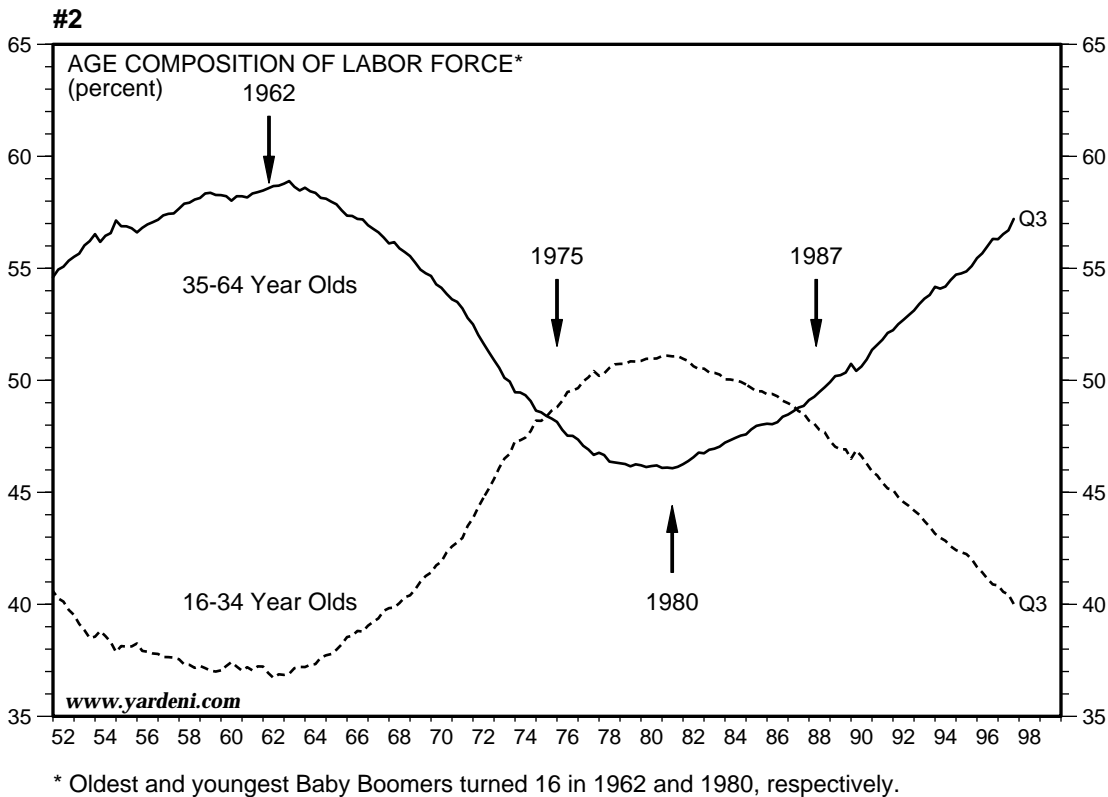
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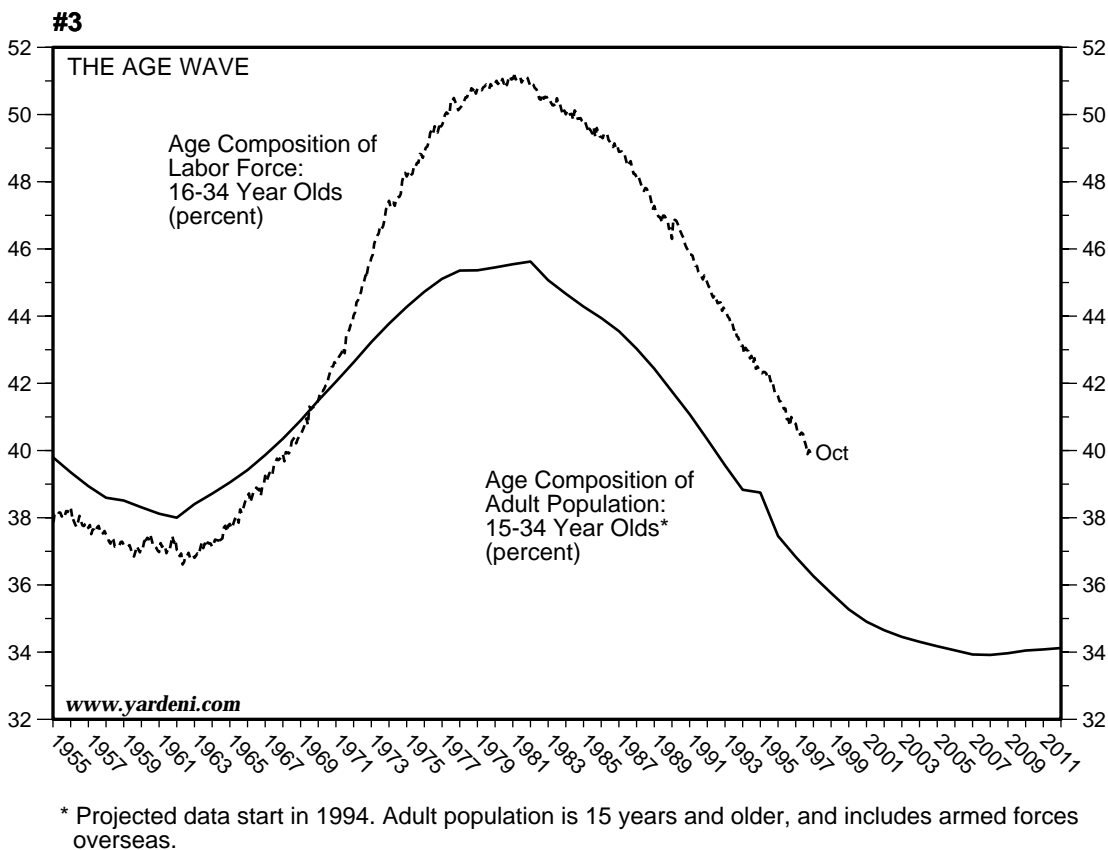
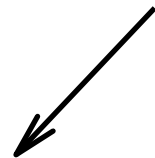


* Figures in parentheses are the youngest and oldest ages of group members during 1997.

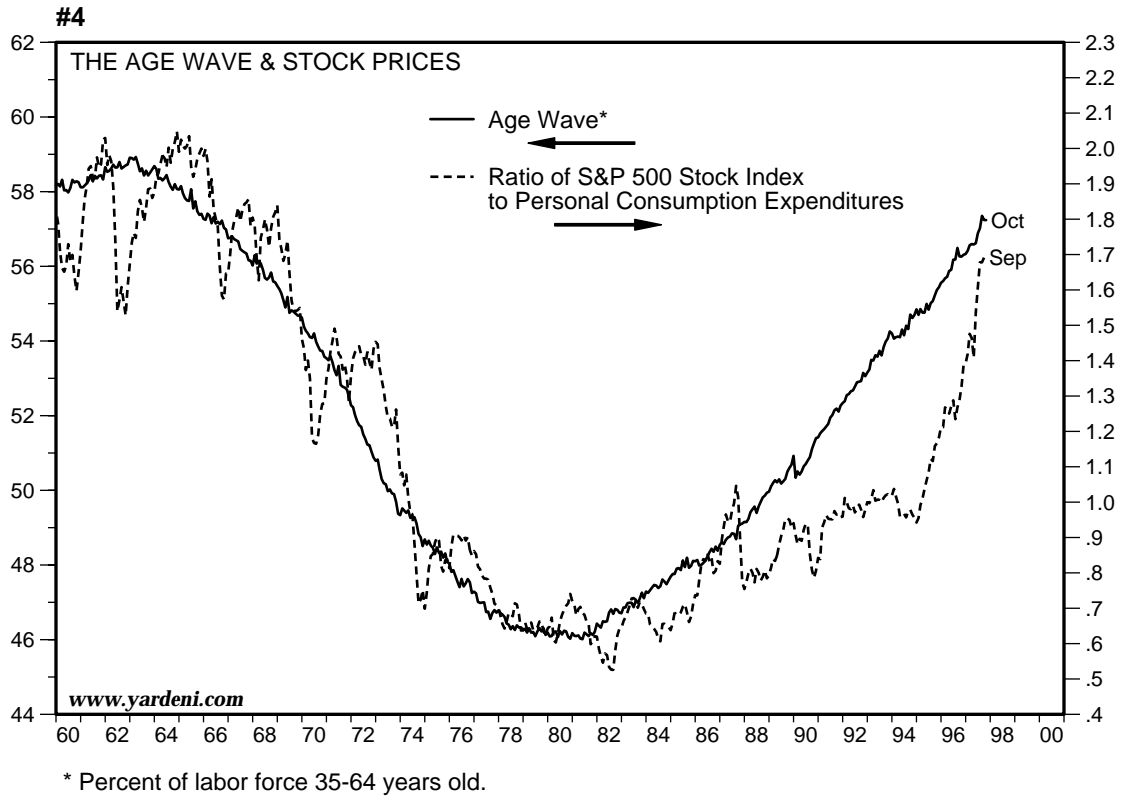
- The Age Wave -



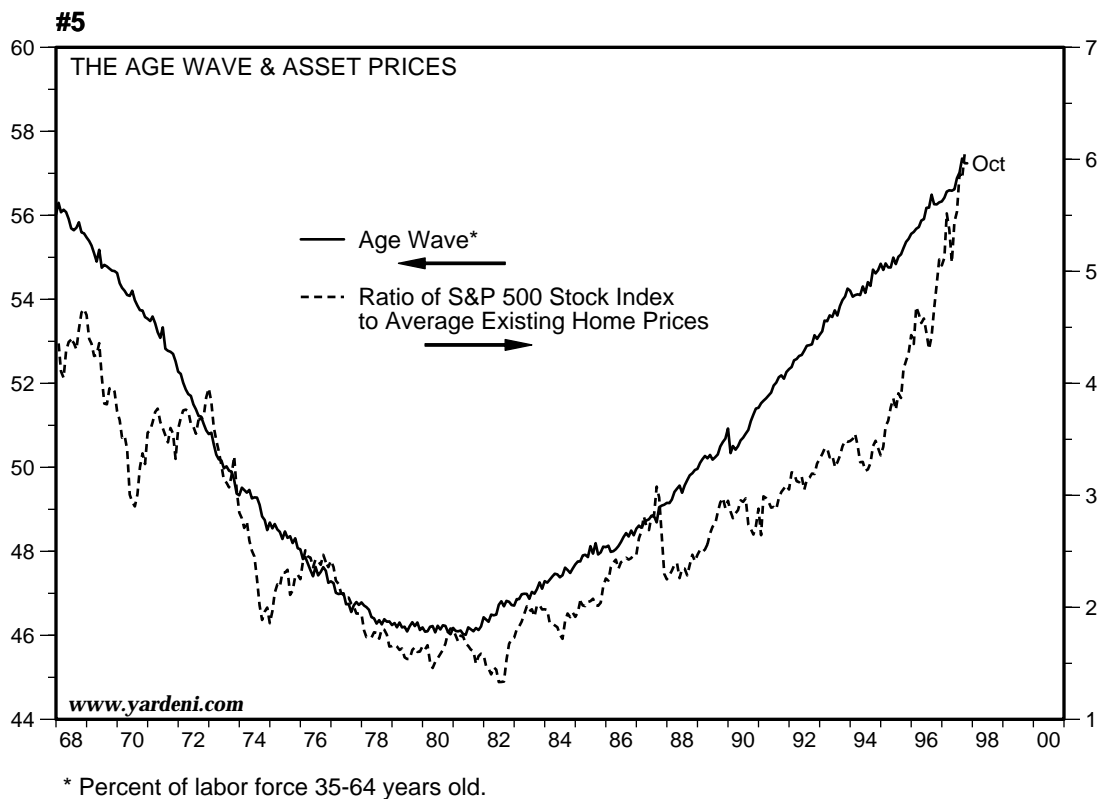
In 1980, the Baby Boomers all turned 16 years or older. Maturity will increase through 2010. The labor force is the most mature since the mid-1960s.



- The Age Wave -

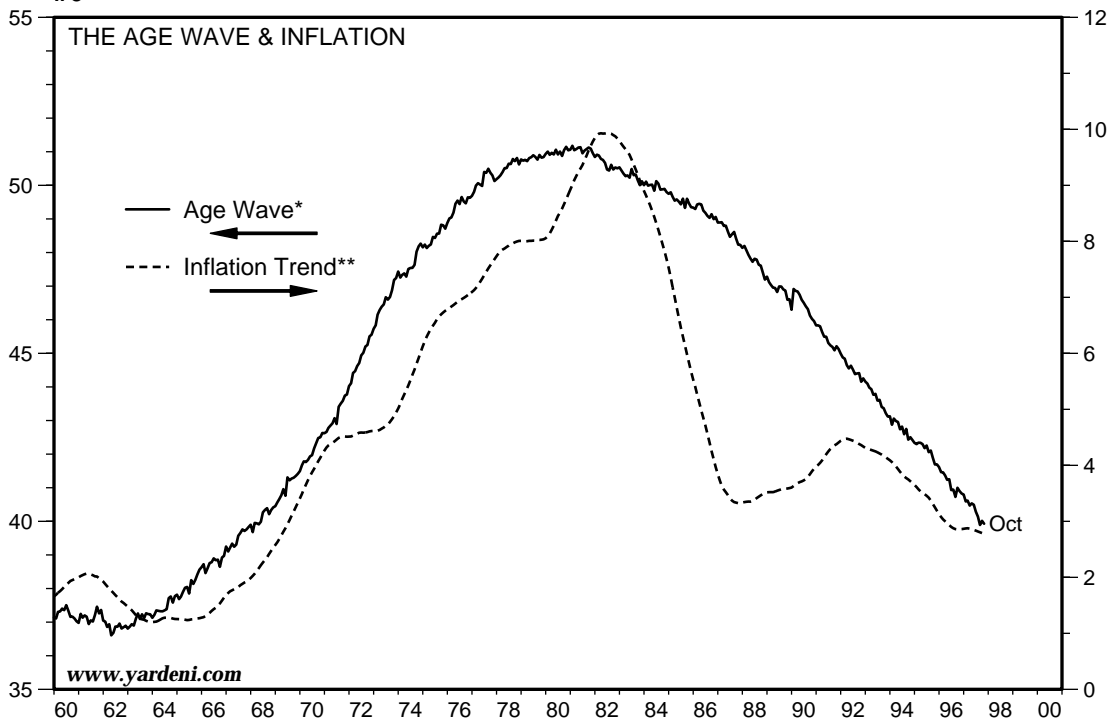


Stock prices have risen faster than consumption and home prices as the Baby Boomers have aged. But the best gains may be over for stocks for a while.

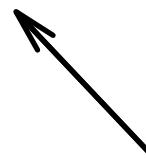


- The Age Wave -

#6

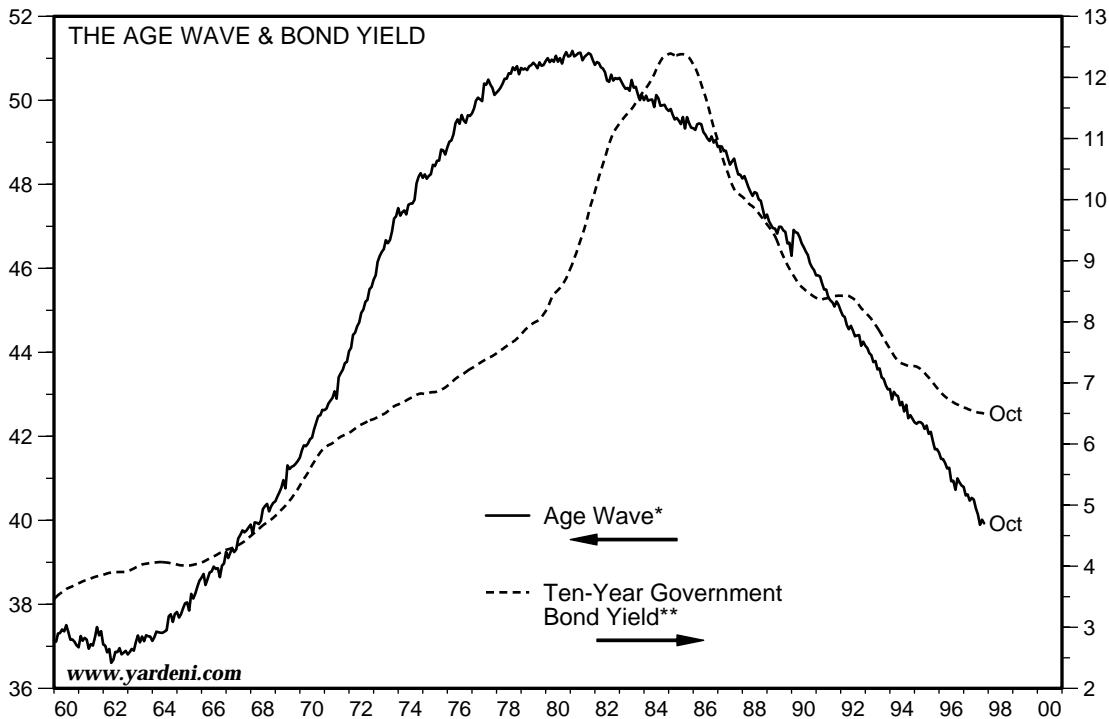


* Percent of labor force 16-34 years old.
 ** Five-year moving average of yearly percent change in CPI.

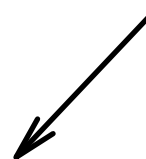


Age Wave is a big influence on inflation trend and suggests inflation will remain subdued at least through end of the century. The Baby Boomers will be 36-54 years old by the year 2000. That's bullish for bonds. We expect the government bond yield to fall to 4% in 2000.

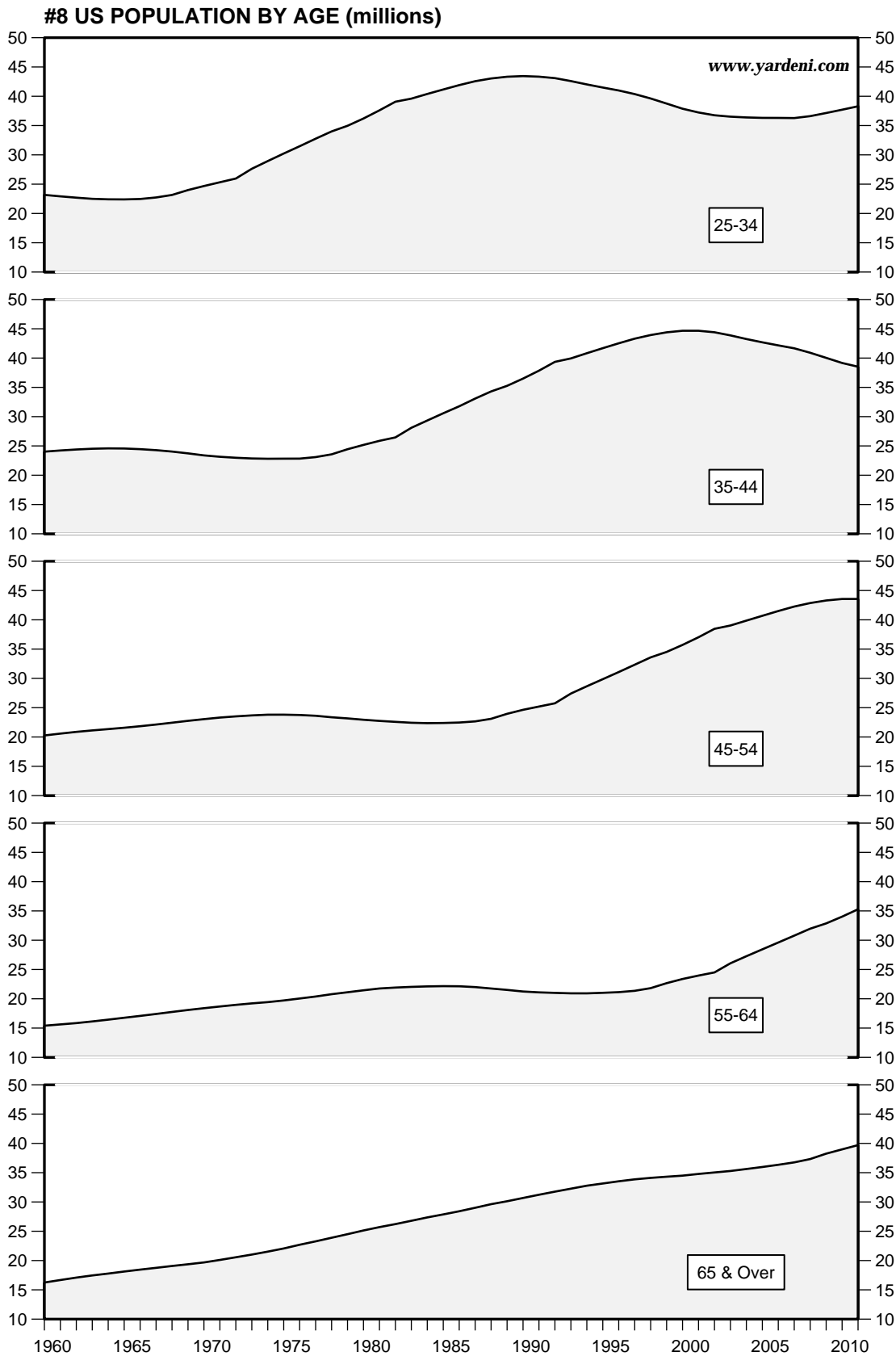
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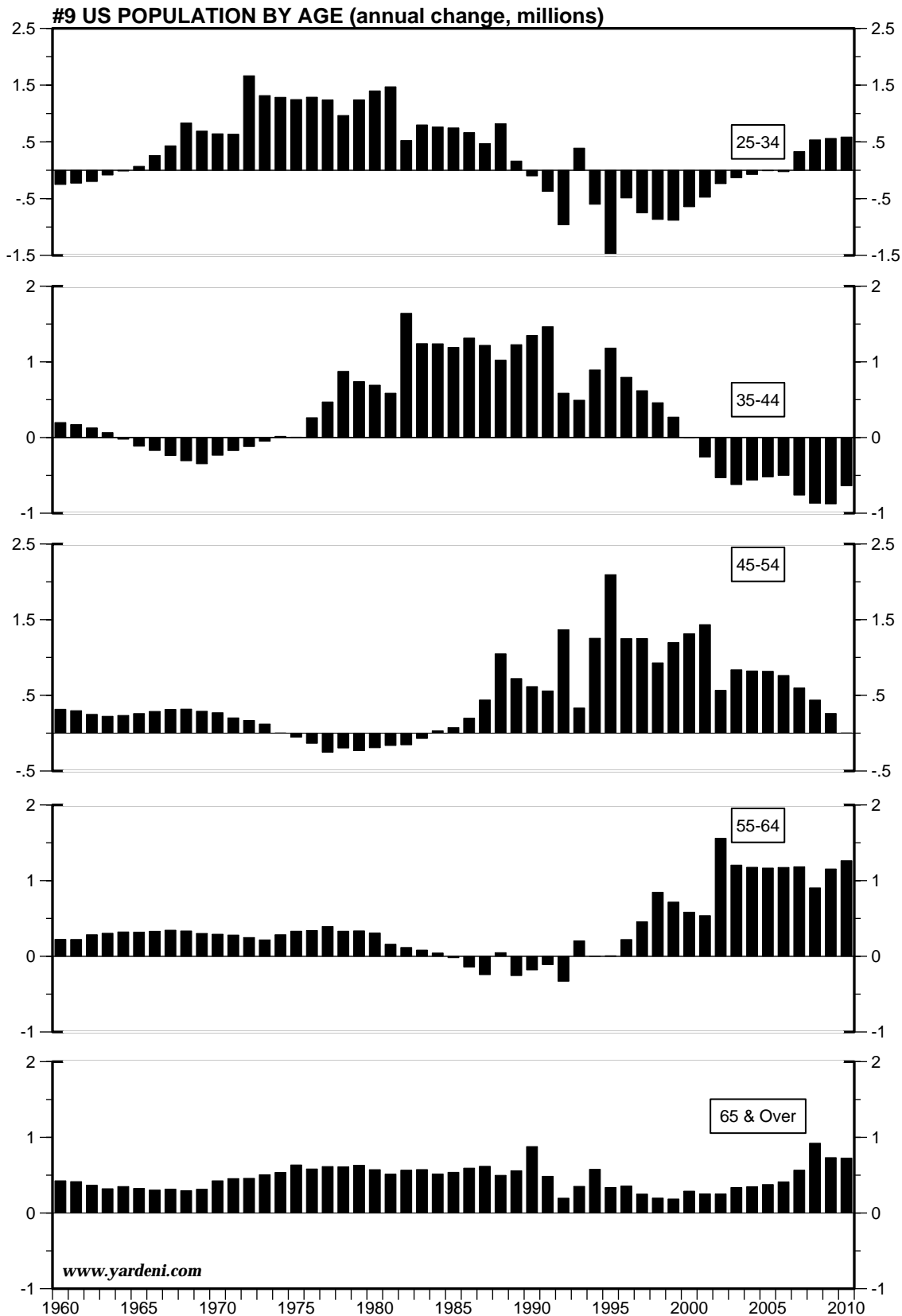
* Percent of labor force 16-34 years old.
 ** Five-year moving average of ten-year government bond yield.



- Population: Numbers -

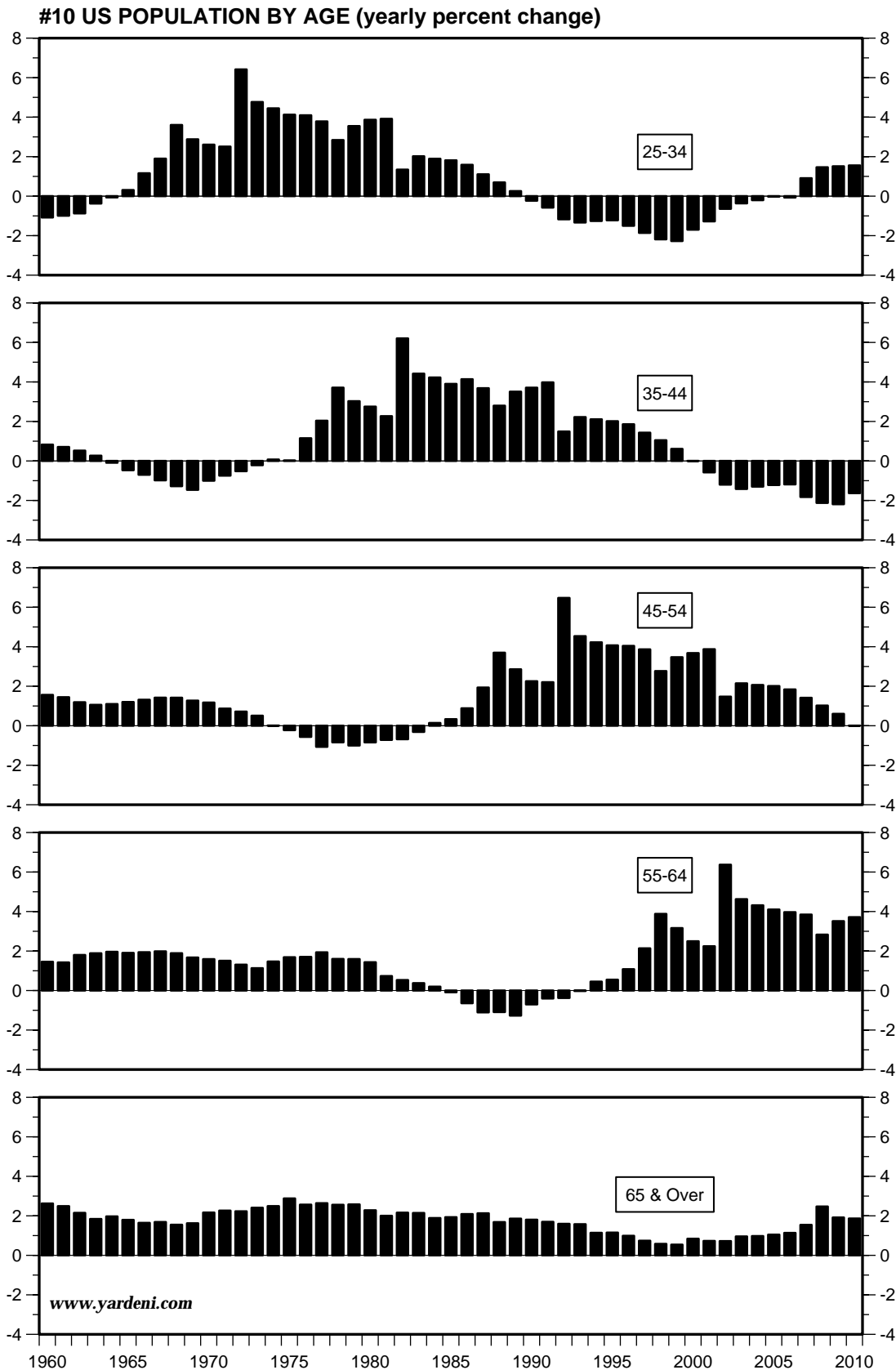


- Population: Numbers -



Source: Bureau of the Census, U.S. Department of Commerce

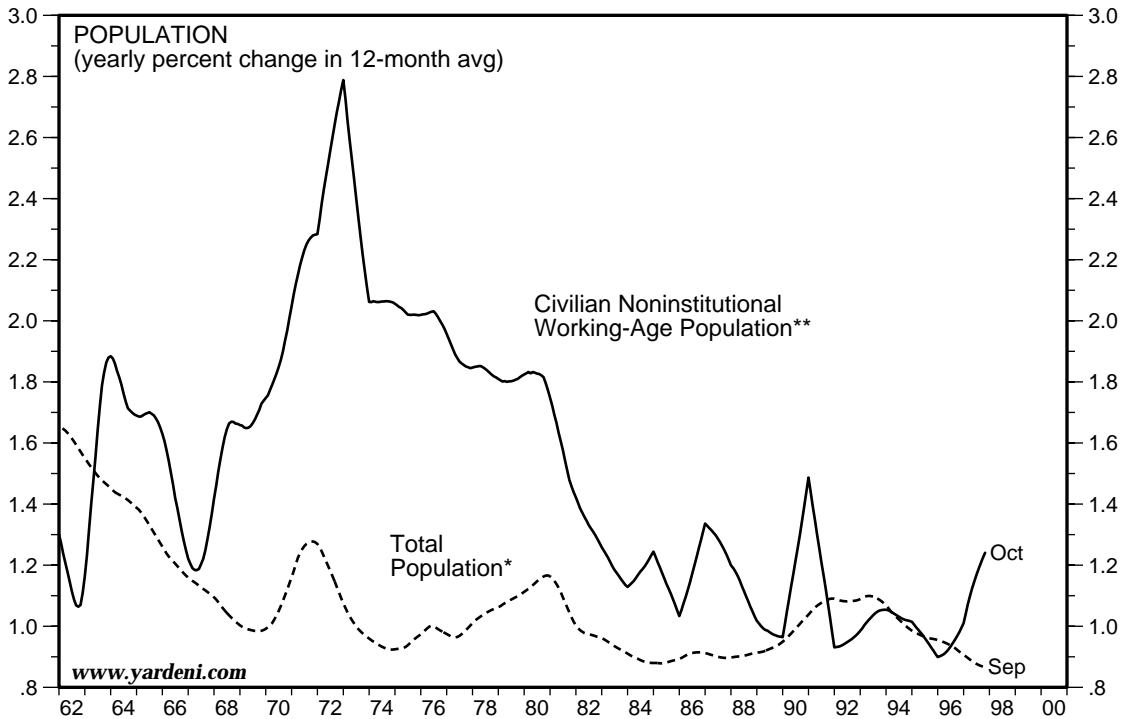
- Population: Numbers -



Source: Bureau of the Census, U.S. Department of Commerce

- Population: Numbers -

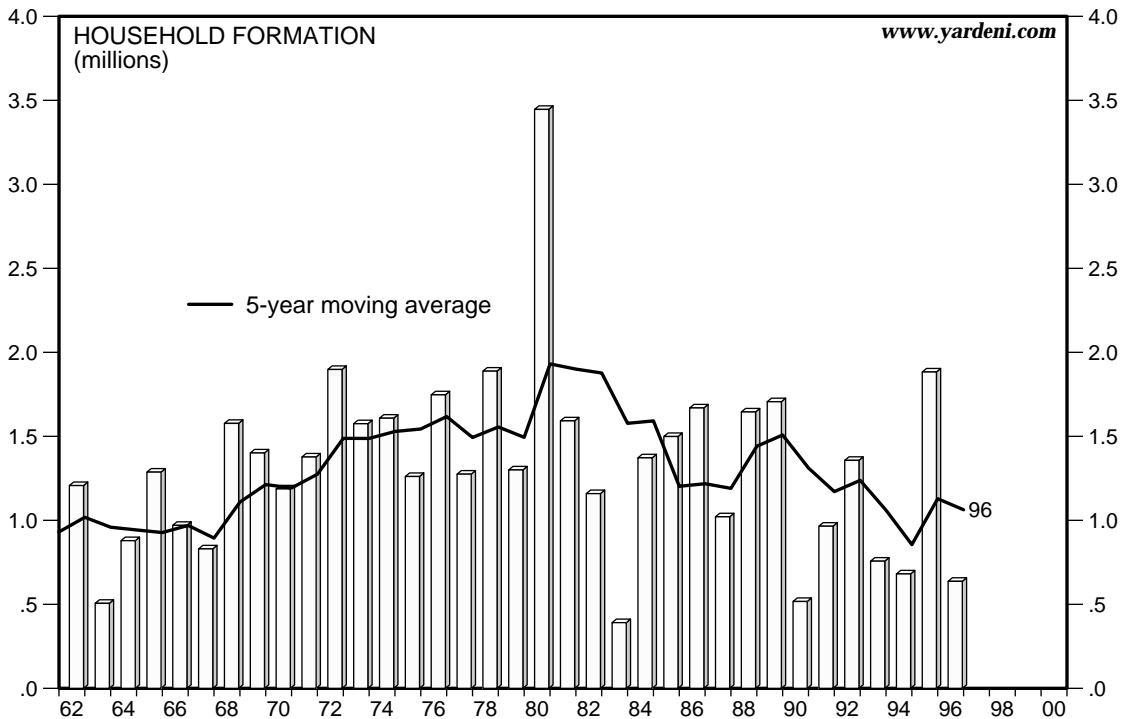
#11



The working-age population grew much faster than the total population during the late 1960s and 1970s as the Baby Boomers flooded into the labor markets. The growth rate has been at record lows through most of the 1990s.

* Population used to calculate per capita income. Includes military in US.
Source: Census Bureau.
** Source: US Department of Labor, Bureau of Economic Analysis.

#12

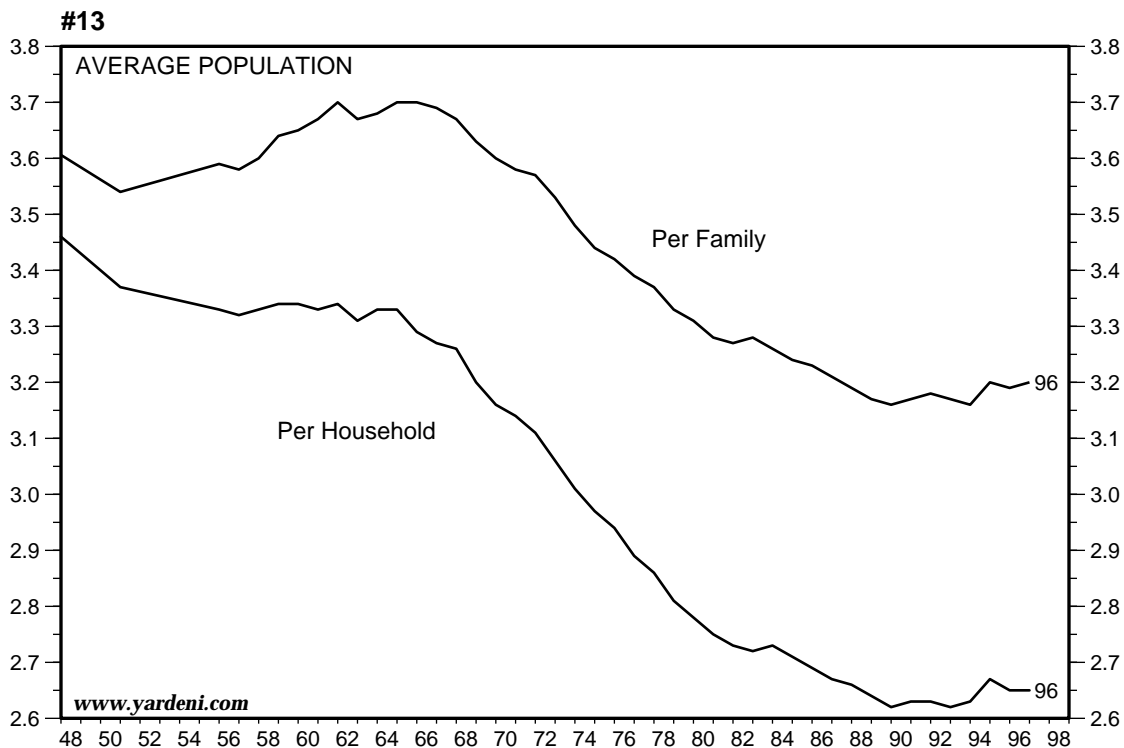


The Baby Boomers are no longer young adults. As a result, household formation has declined sharply from 1.6 million per year, on average, during the 1980s to 1.0 million per year from 1990 to 1996.

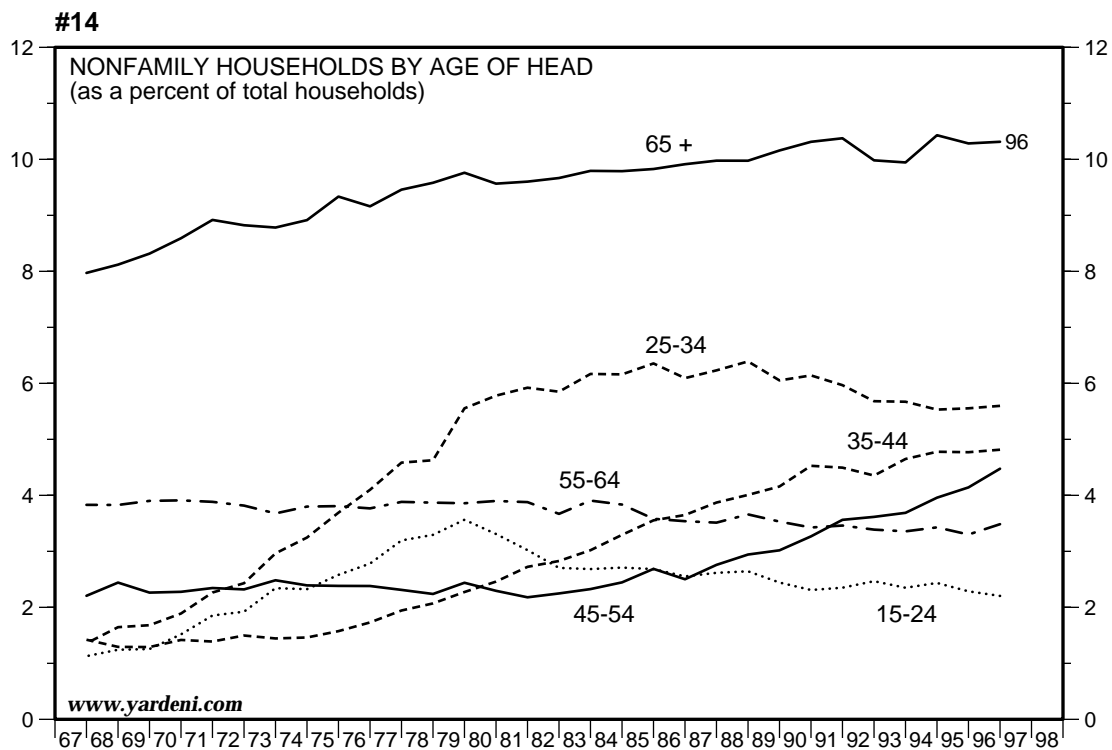
Source: US Department of Commerce, Bureau of the Census, Series P-20.

- Population: Characteristics -

Since the mid-1960s there has been a significant downtrend in the average number of people in both family and household living units. However, both have flattened in recent years. Households are smaller than families, on average, because there are many single-person households: People are marrying later, getting divorced, and living longer.

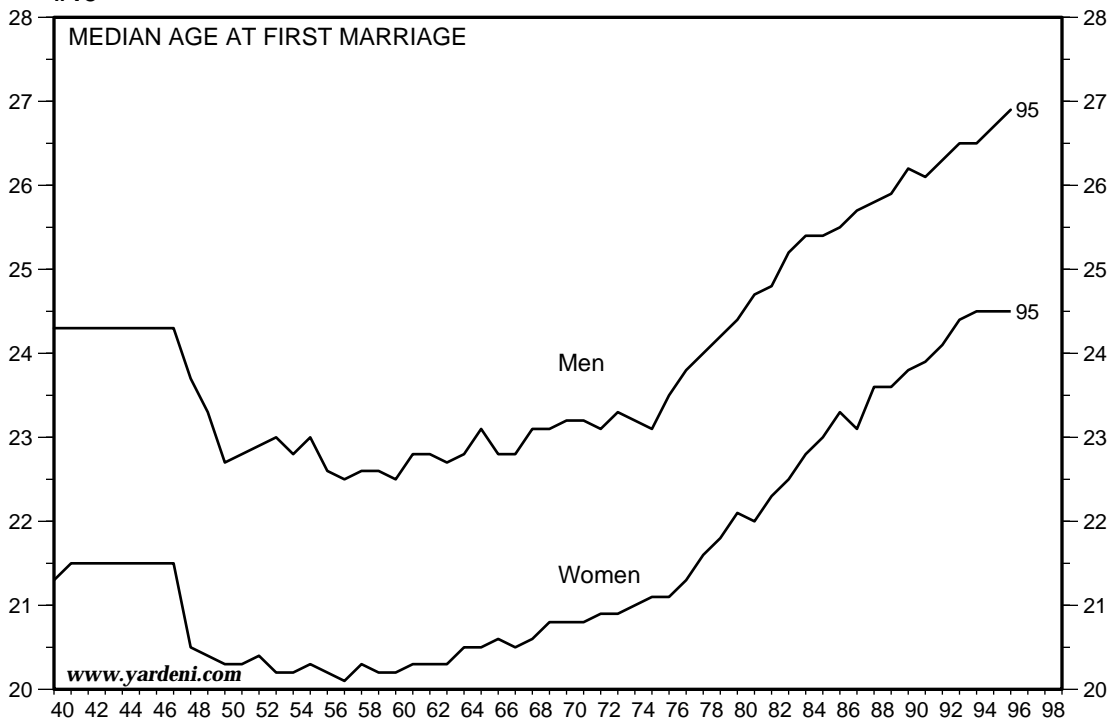


In 1996, 30% of all households were not families, up from 18% in 1967. One-third of the nonfamily households are senior citizens.



- Population: Characteristics -

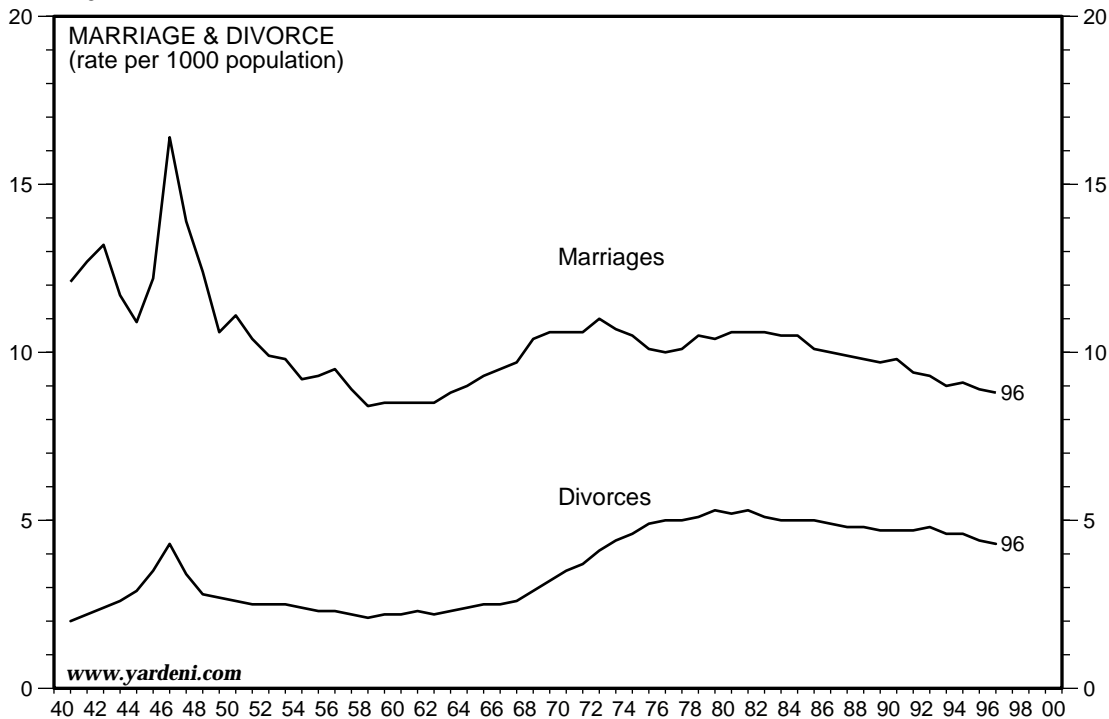
#15



Source: Current Population Reports

People are getting married for the first time at a later age. The medium age for men is up to 27 from about 23 twenty years ago. Women are waiting until their mid-twenties to marry. During the 1950s and 1960s, they tended to marry in their early twenties.

#16



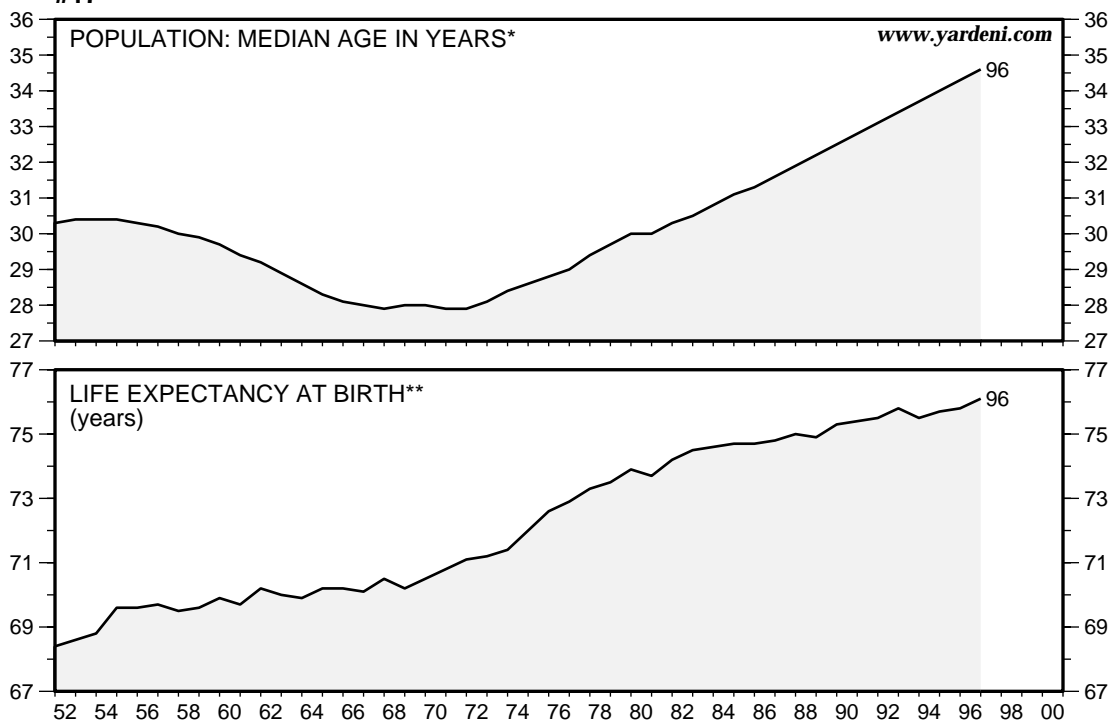
Source: US National Center for Health Statistics, Vital Statistics of the United States.

The marriage rate has been moving lower in recent years, while the divorce rate has been relatively steady.

- Population: Characteristics -

#17

The medium age of the population is 35, up from 29 twenty years ago, and it will continue to rise over the rest of the decade because the Baby Boomers are aging and senior citizens are living longer. Life expectancy is up over 76 years compared to about 70 years during the late 1960s.

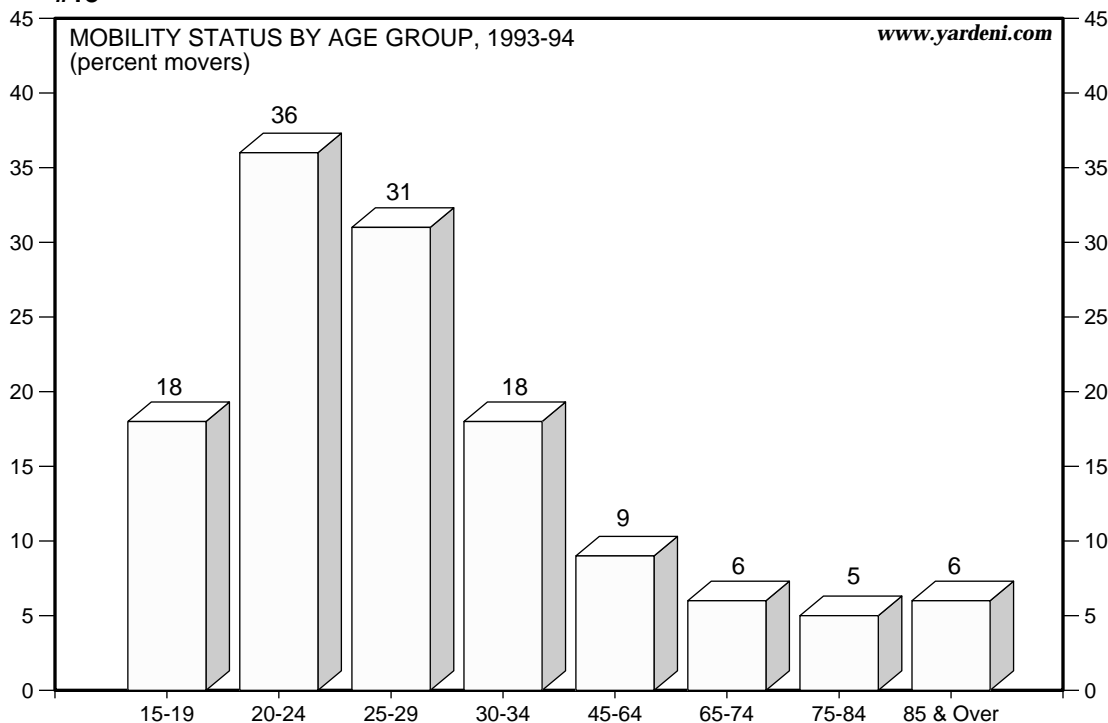


* Source: US Bureau of the Census, Population Division, release PPL-57, United States Population Estimates by Age, Sex, Race and Hispanic Origin.

** Source: US National Center for Health Statistics, Vital Statistics of the United States.

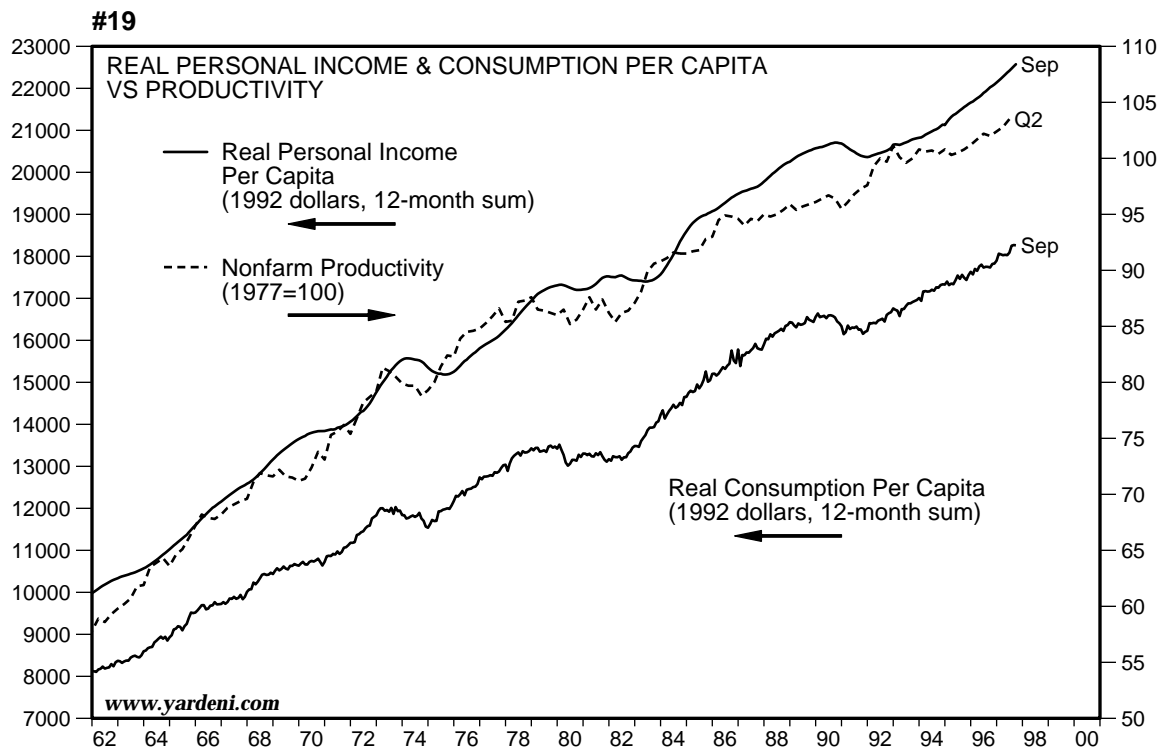
#18

Older people tend to move less than younger ones.

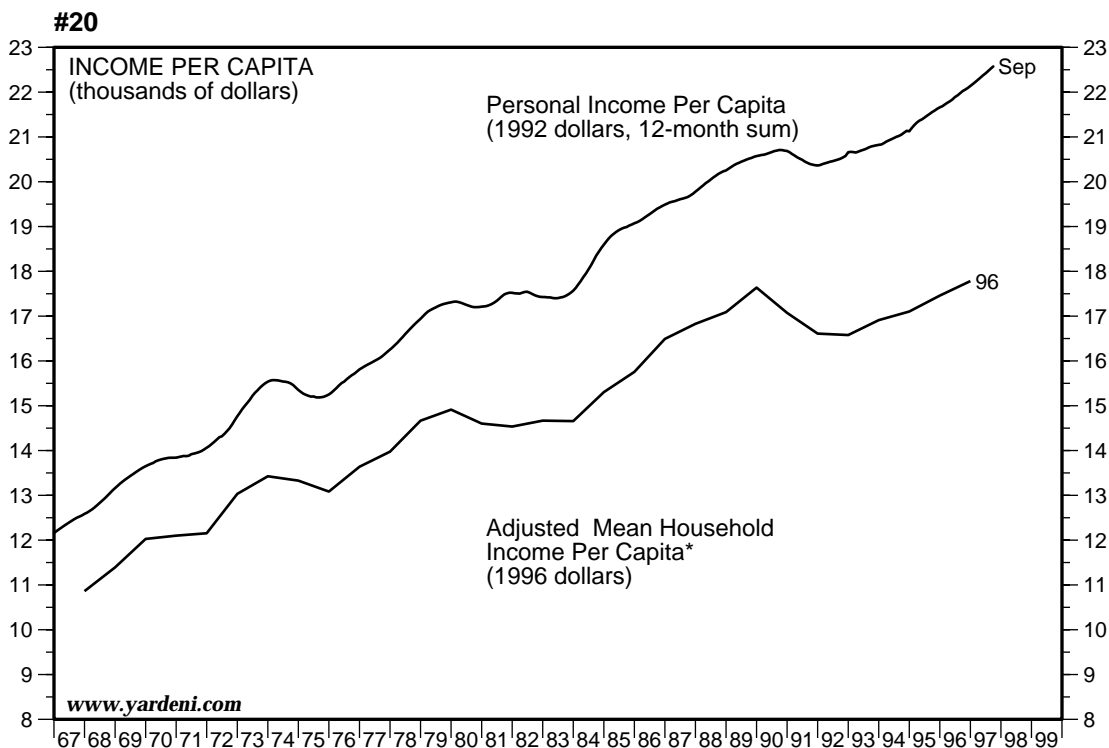


Source: Bureau of the Census, Geographical Mobility: March 1992 to March 1993, Current Population Reports, Series P-20.

- Income & Spending -



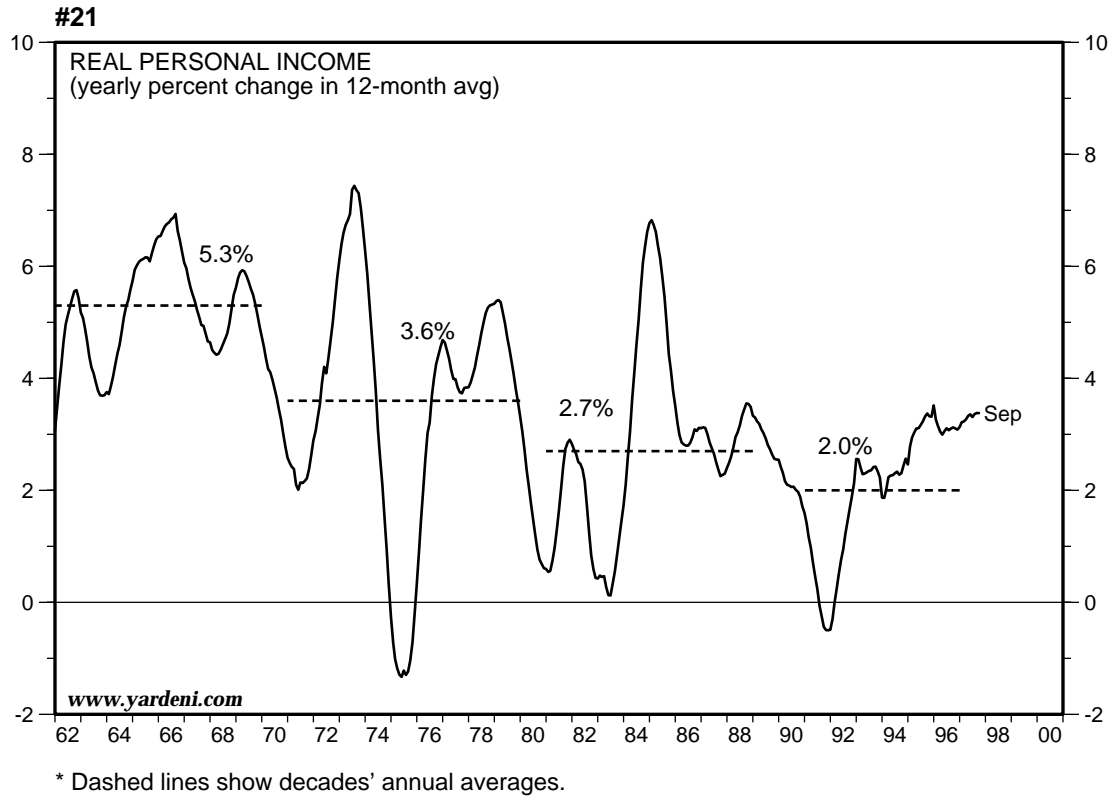
Per capita real personal income and consumption are at record highs. Productivity is the main determinant of these three measures of the standard of living and it is also at a record.



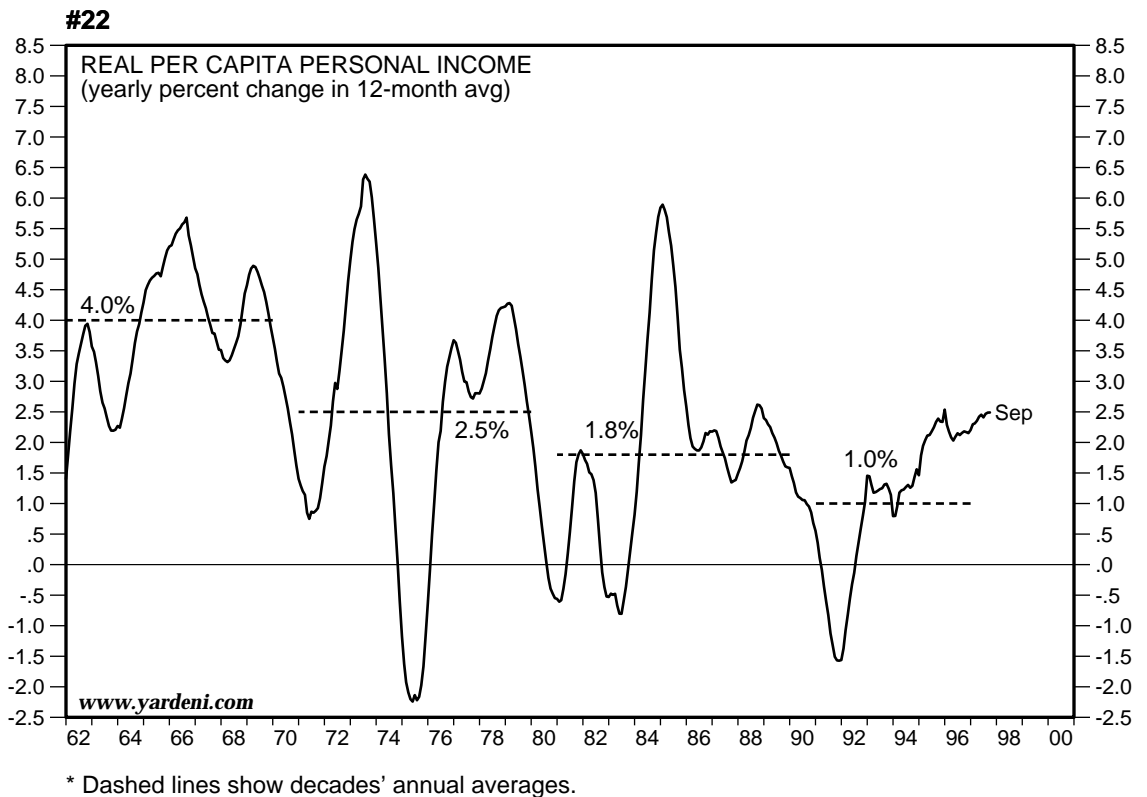
Both median and mean family household income data show virtually no growth over the past 25 years. Both measures need to be divided by the average size of the household unit, which has been falling. Adjusted this way, mean household income per capita has been growing in line with personal income per capita!

* Mean income of households divided by average population per household.

- Income & Spending -

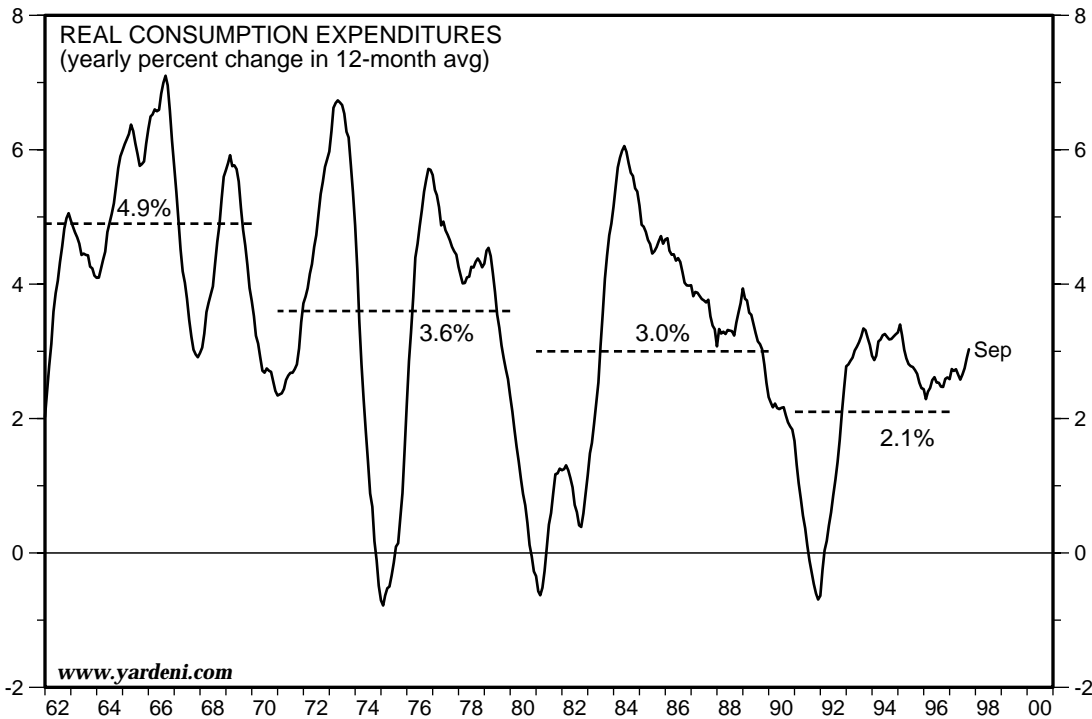


Real personal income growth was on a downtrend over the past three decades as growth in productivity stagnated. This long-term trend is already getting reversed in the current decade.

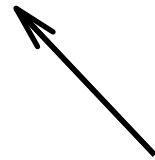


- Income & Spending -

#23

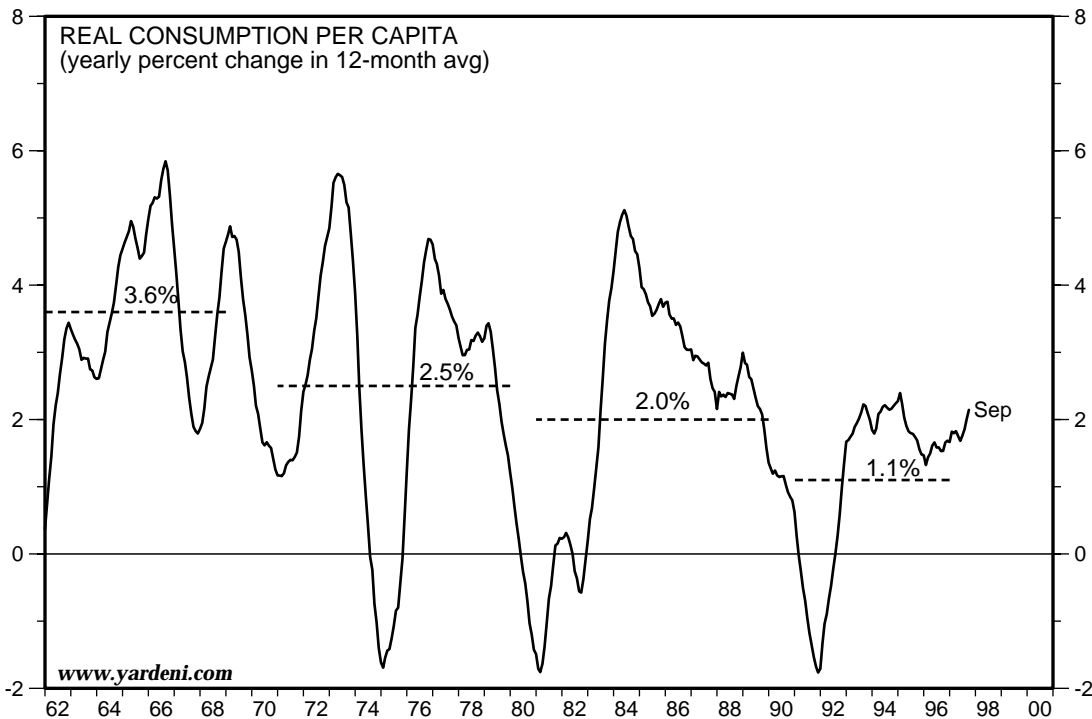


* Dashed lines show decades' annual averages.

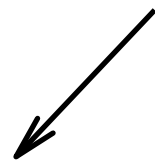


Consumer spending growth has been on a downtrend for quite some time because income growth has been on a downtrend. Income growth is improving. Consumption growth should follow unless Baby Boomers decide to save more.

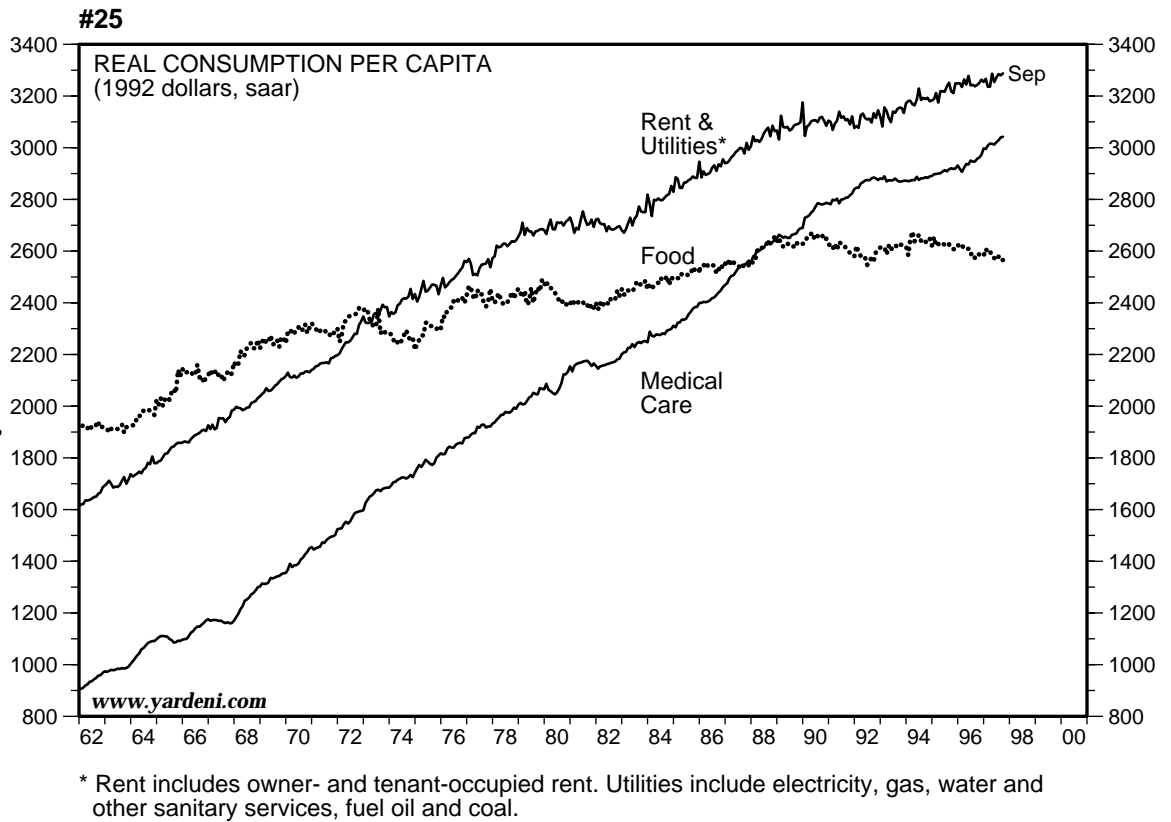
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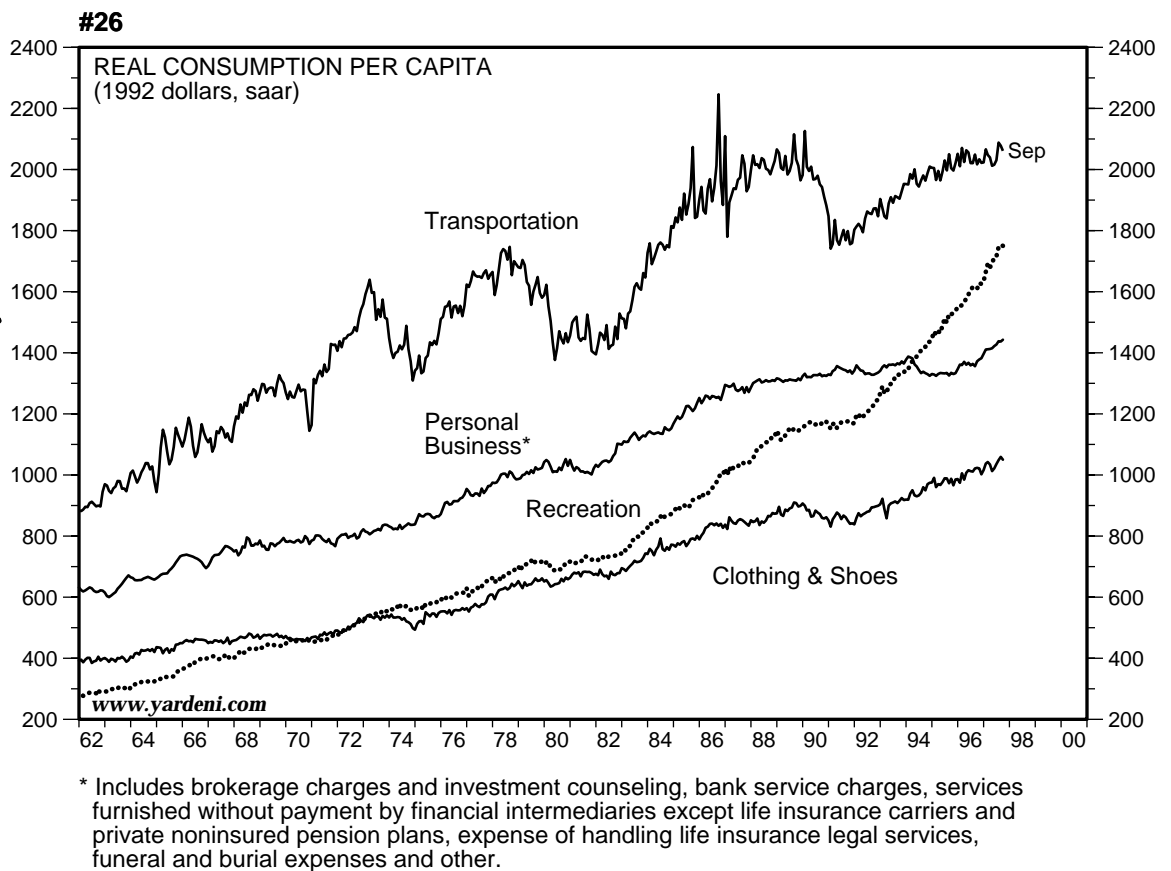
* Dashed lines show decades' annual averages.



- Income & Spending -

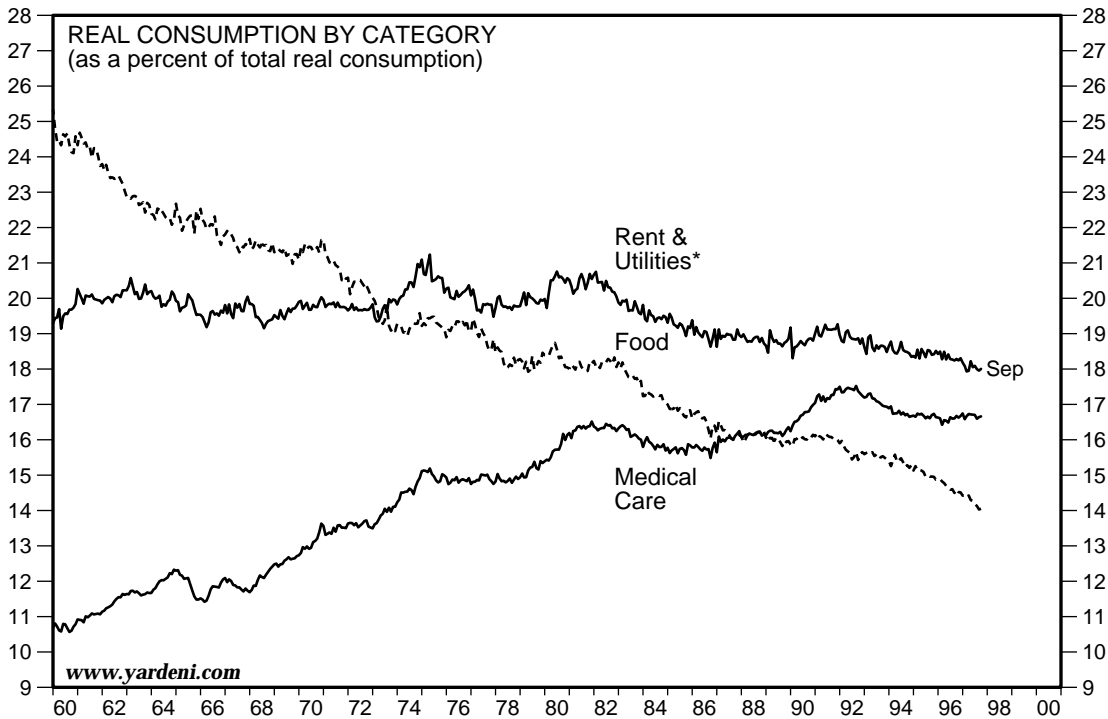


On a per capita basis, the fastest growing categories of real consumption are medical care and recreation. The other major categories are showing relatively little growth per capita.



- Income & Spending -

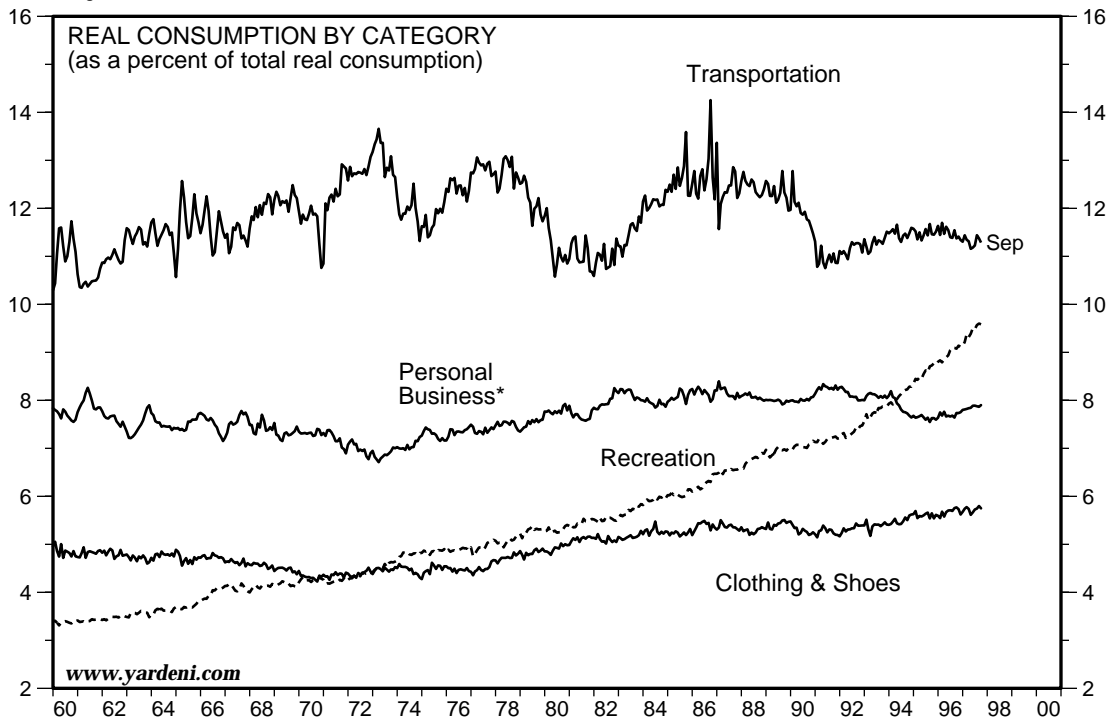
#27



* Rent includes owner- and tenant-occupied rent. Utilities include electricity, gas, water and other sanitary services, fuel oil and coal.

For the first time ever, consumers are spending more of their budgets on medical care than on food. The proportion of total consumption spent on food has been declining for a long time, as consumers spend relatively more on medical care and recreation.

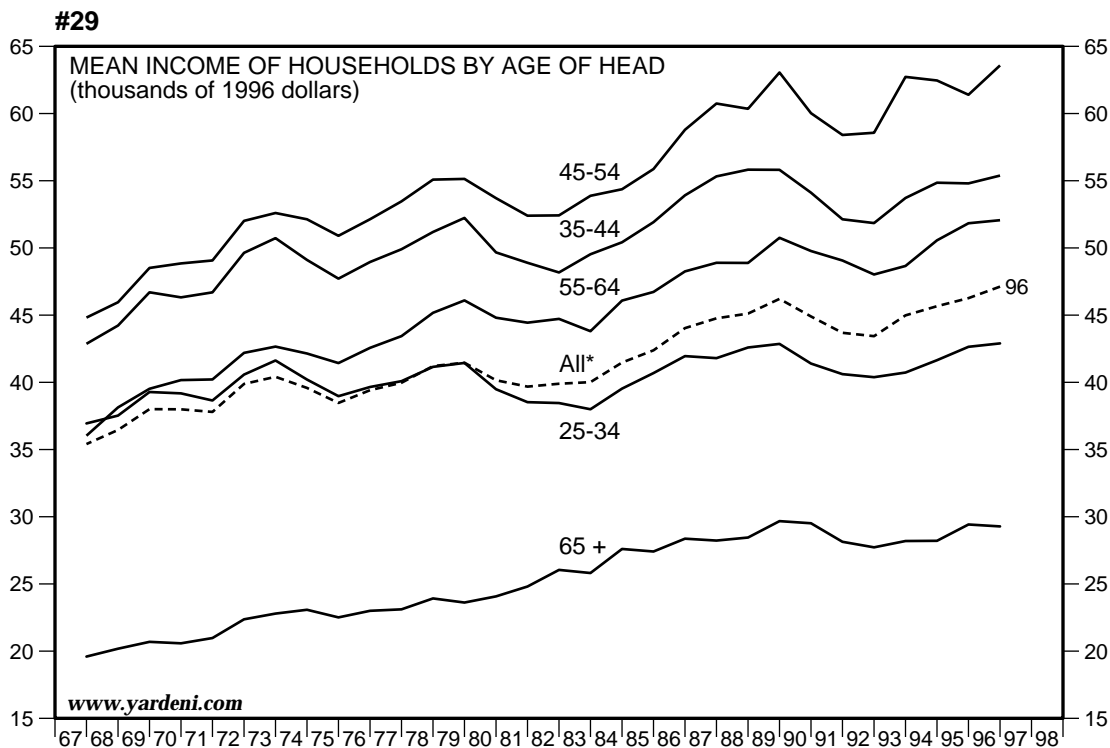
#28



* Includes brokerage charges and investment counseling, bank service charges, services furnished without payment by financial intermediaries except life insurance carriers and private noninsured pension plans, expense of handling life insurance legal services, funeral and burial expenses and other.

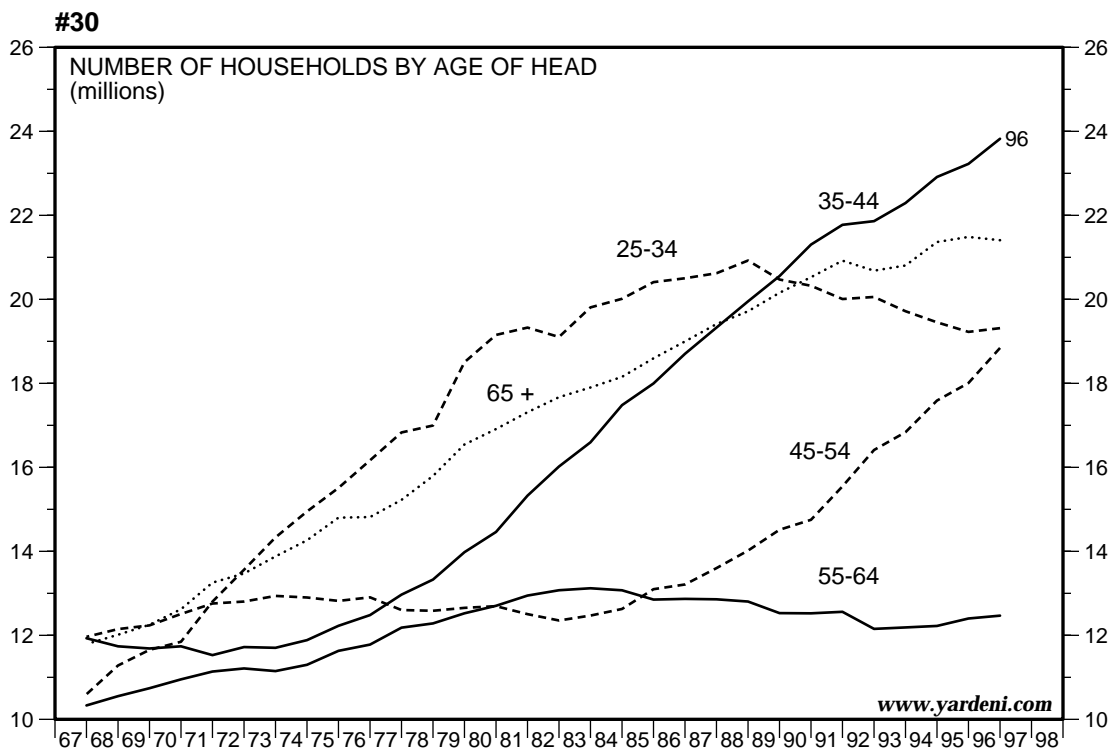
- Income & Spending -

Older workers tend to earn more than younger ones, presumably because they are more experienced, productive, and committed to their jobs. By the year 2000, the Baby Boomers will be 36-54 years old. So there will be more households earning more money than ever before.



* Includes 15-24 year olds. Source: Bureau of the Census, Income Statistics Branch, unpublished data.

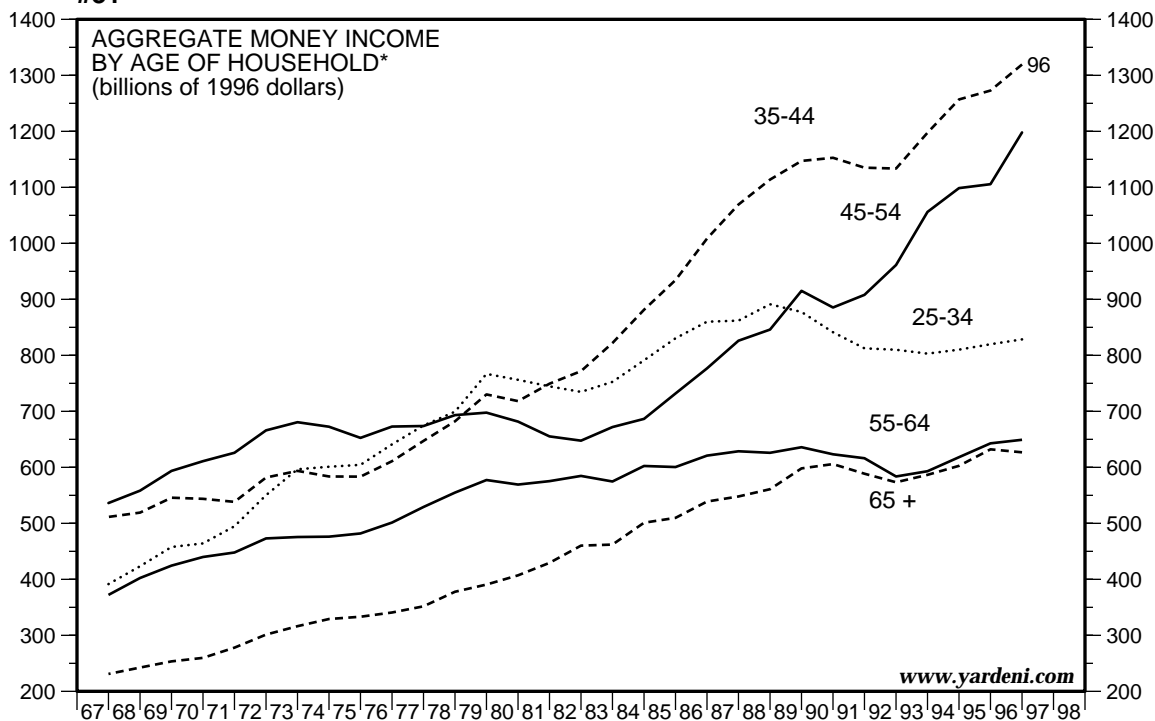
During the 1980s, all household age groups shown here increased in numbers except the 55-64 group. During the 1990s, only the 35-44 and 45-54 year olds are growing.



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

- Income & Spending -

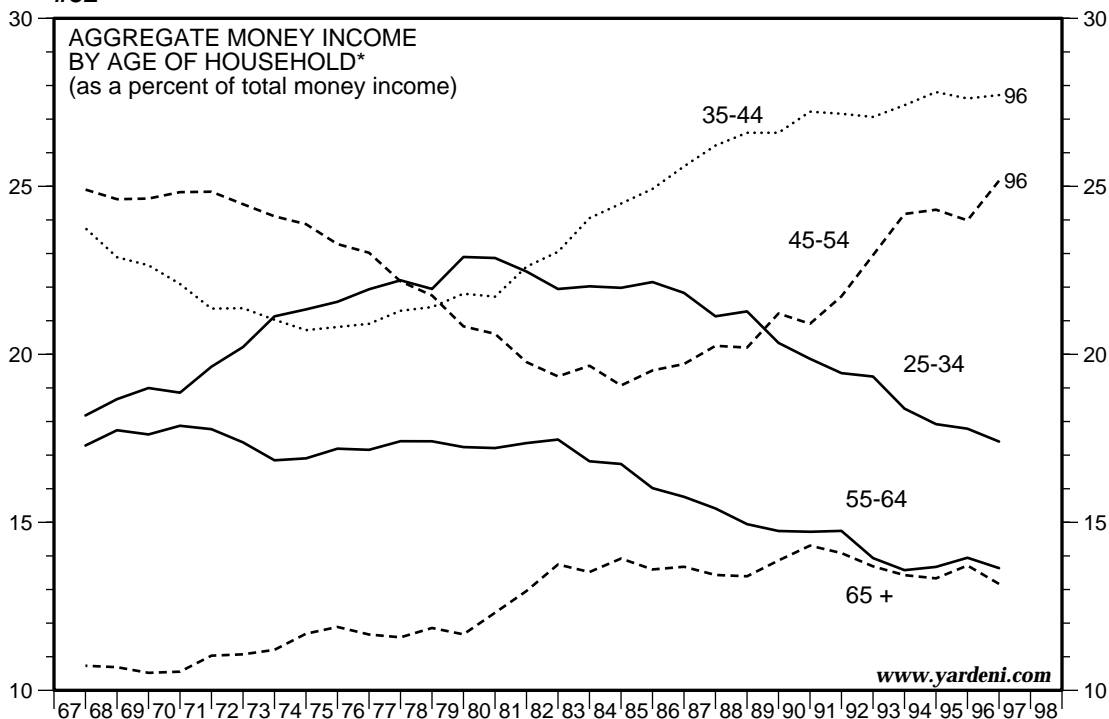
#31



During the 1990s, the only age groups showing significant gains in total group money income are people 35-44 and 45-54.

* Mean income times number of households.

#32

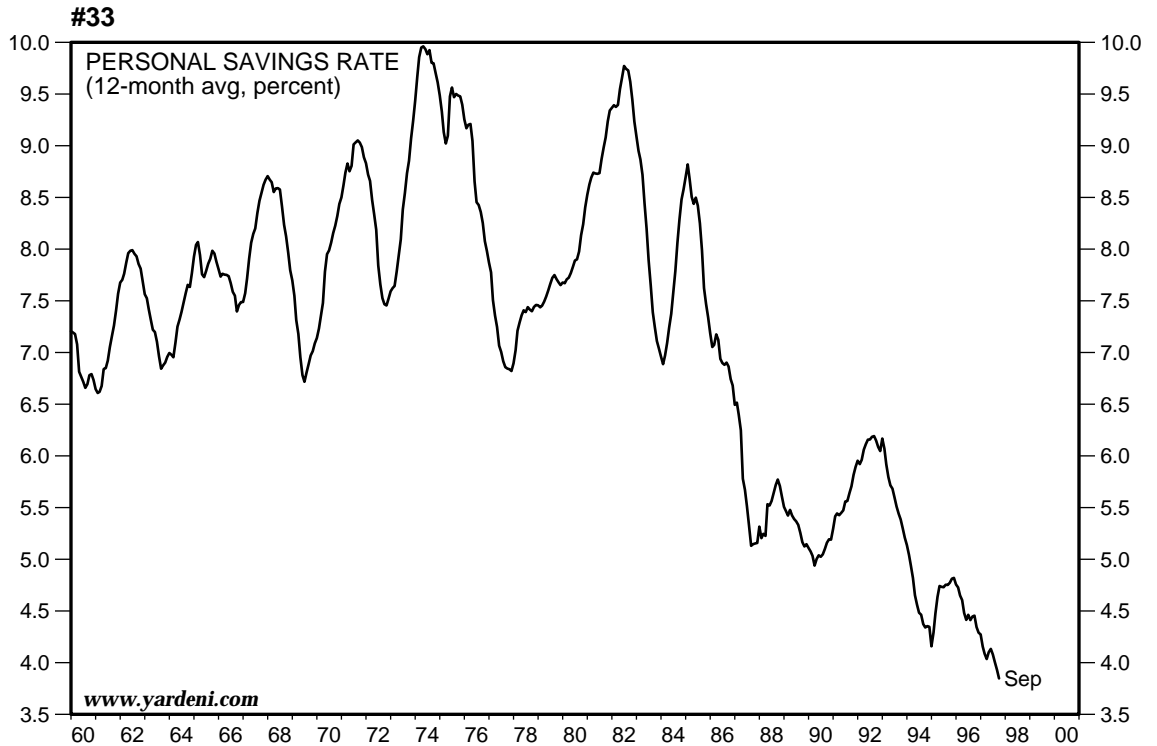


By the year 2000, 35-54 year olds will probably account for 65% of personal income, up from over 53% currently.

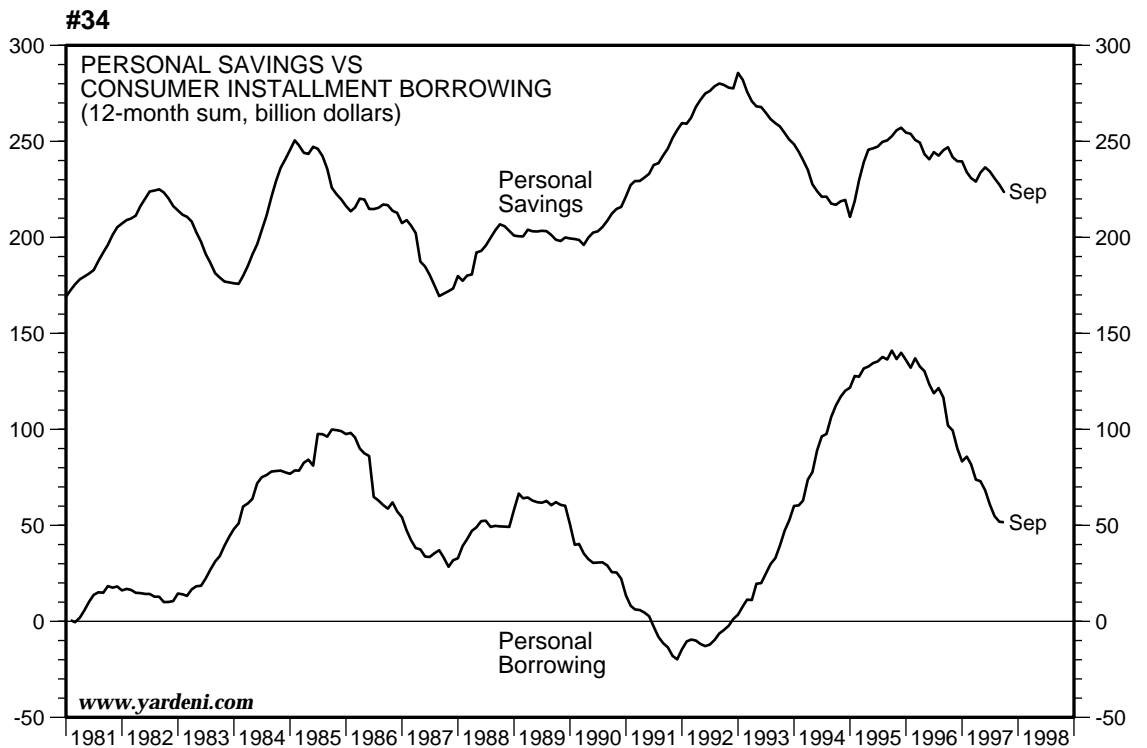
* Mean income in 1996 dollars times number of households.

- Personal Savings -

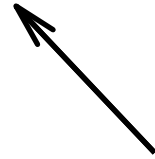
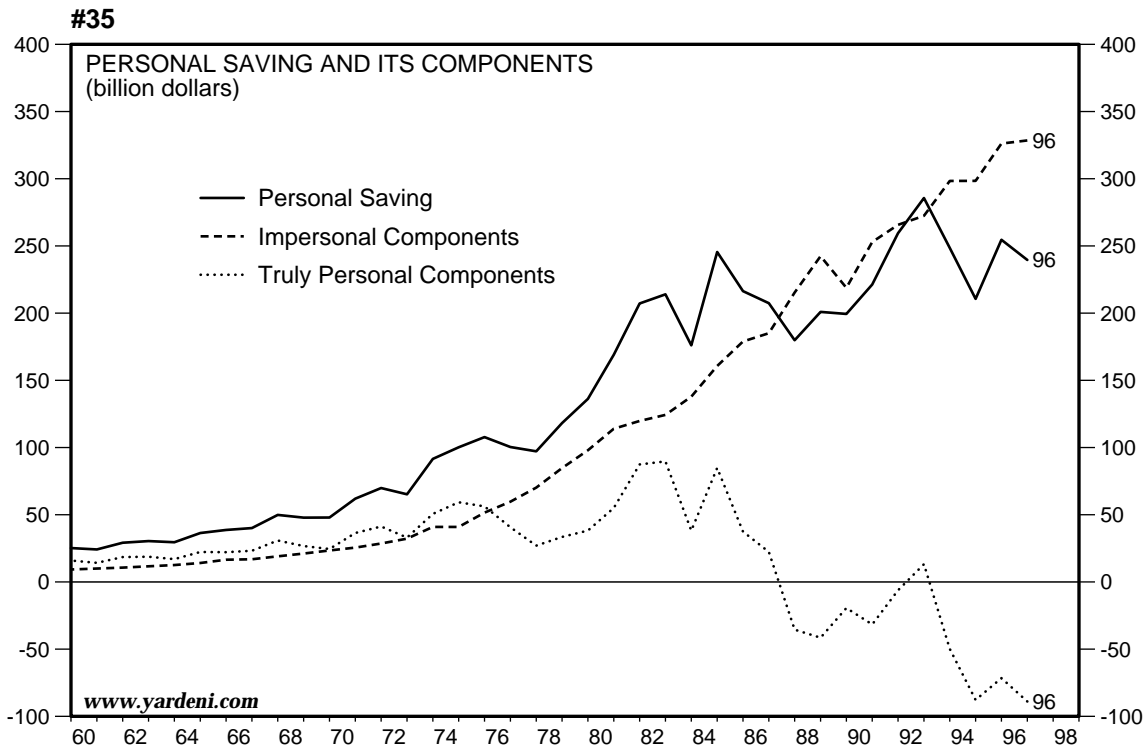
So far the aging of the Baby Boomers hasn't boosted the personal savings rate. Instead, it is still falling.



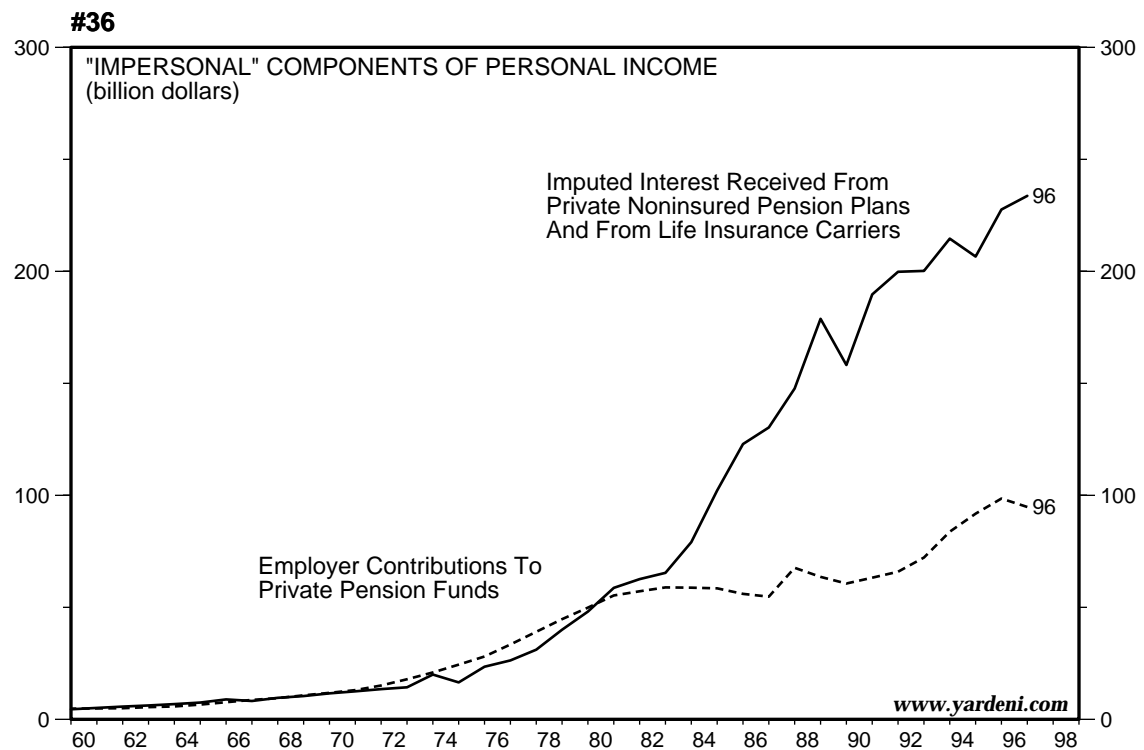
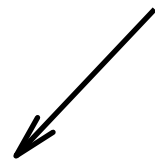
Borrowing pace is in cyclical decline. Personal savings still below peak of early 1990s.



- Personal Savings -

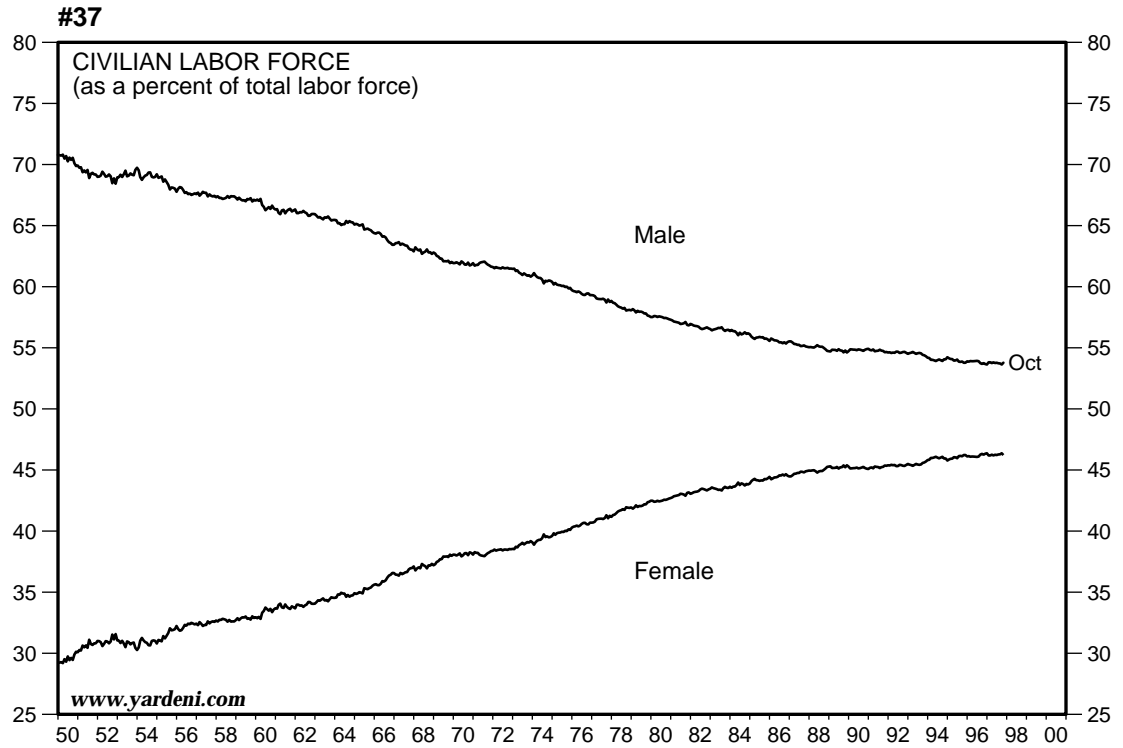


Personal savings includes two big "impersonal" sources of income which are not taxed and can only be saved. They exceed \$300 billion and currently exceed total personal savings. Indeed, excluding these two, "truly" personal savings has been mostly negative since 1987.

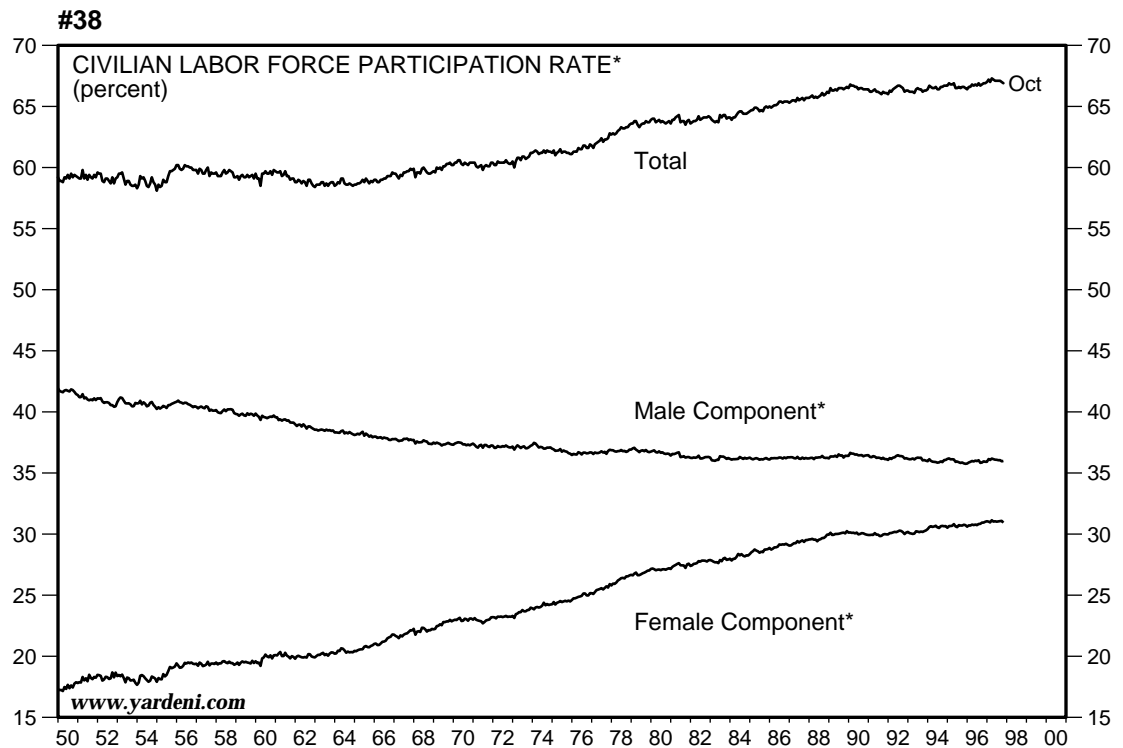


- Labor Force -

Males now account for less than 55% of the labor force, down from 70% in the early 1950s. Females account for 46%, up from 29% in the early 1950s.



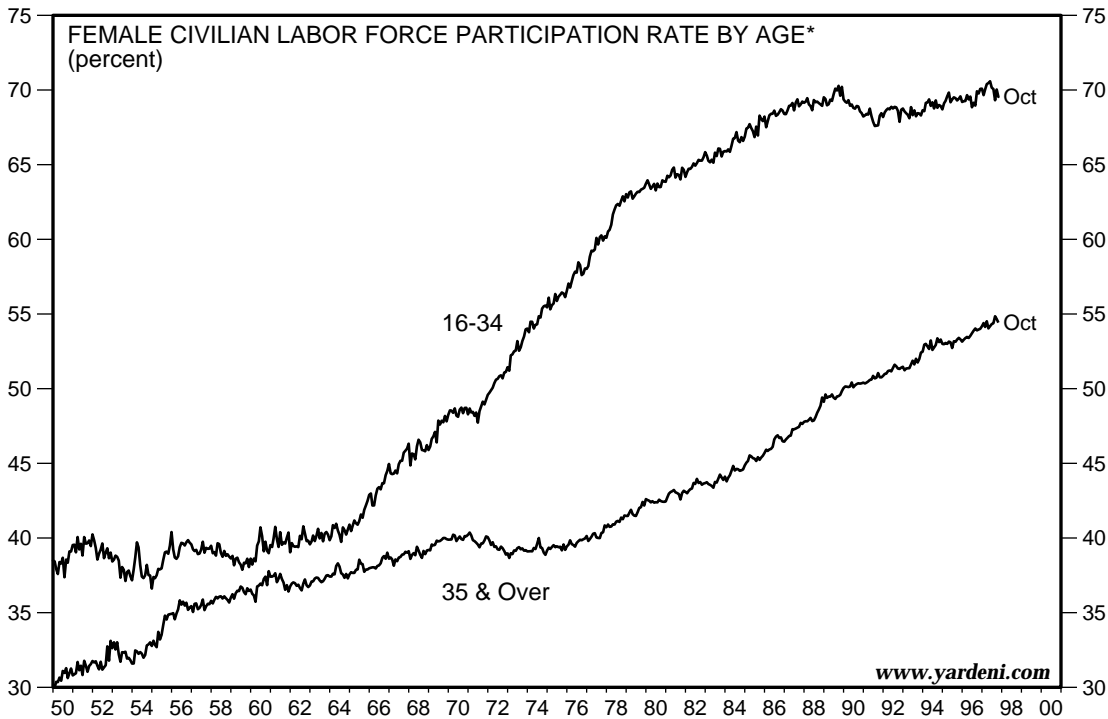
The labor force participation rate is hovering around 67%. Since the 1950s, the decline in the male component of the labor force participation rate has been more than offset by females.



* Labor force divided by noninstitutional working-age population. Male and female components are persons that are 16 years and older.

- Labor Force -

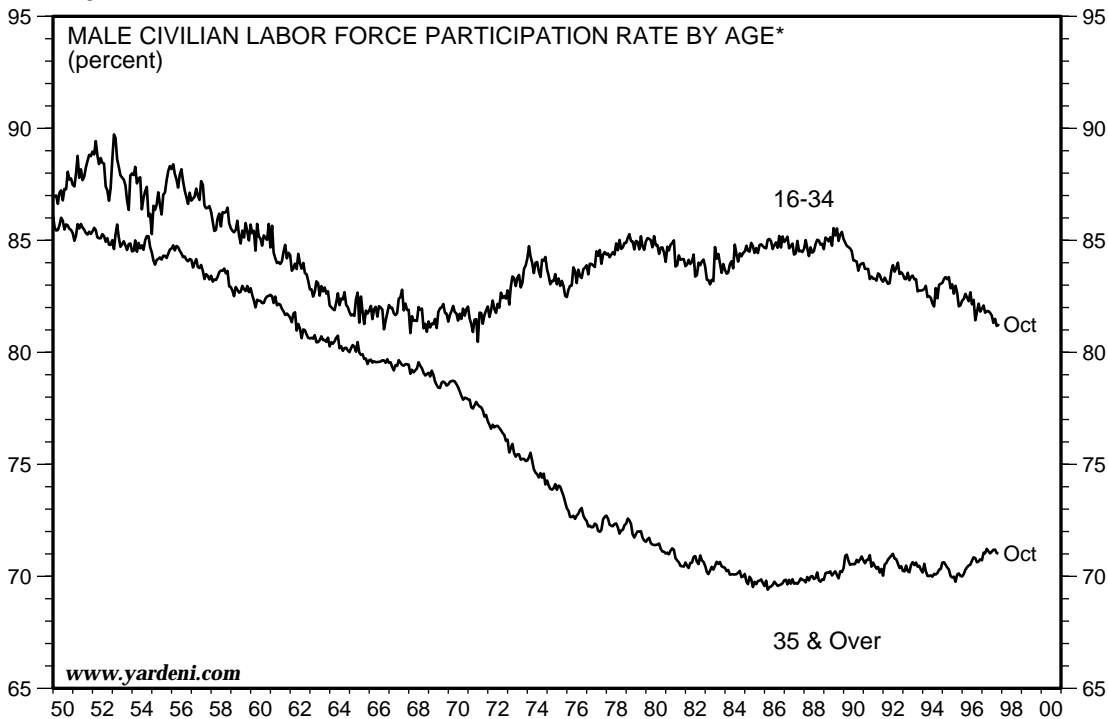
#39



A record 55% of all women who are 35 years or older are in the labor force. The labor force participation rate of younger women has stabilized around 70% in recent years.

* Female labor force divided by female noninstitutional working-age population.

#40



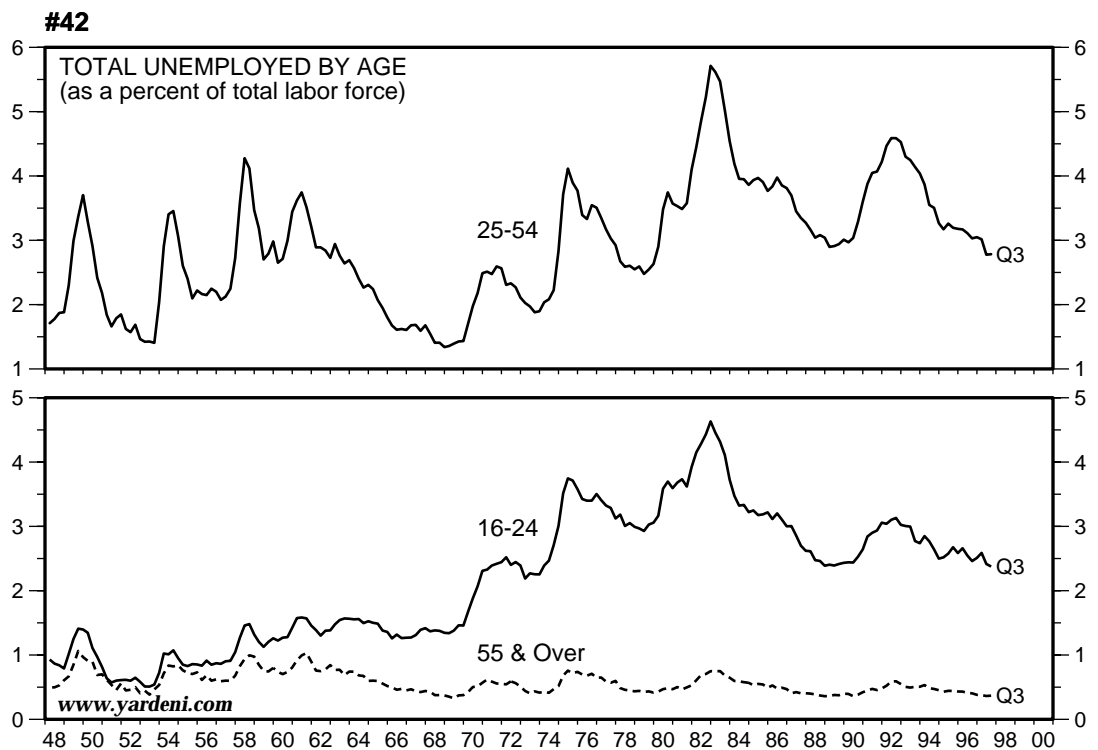
The percent of older males participating in the labor force is hovering around 70%, while the younger ones' participation rate is heading toward 80%.

* Male labor force divided by male noninstitutional working-age population.

- Unemployment -

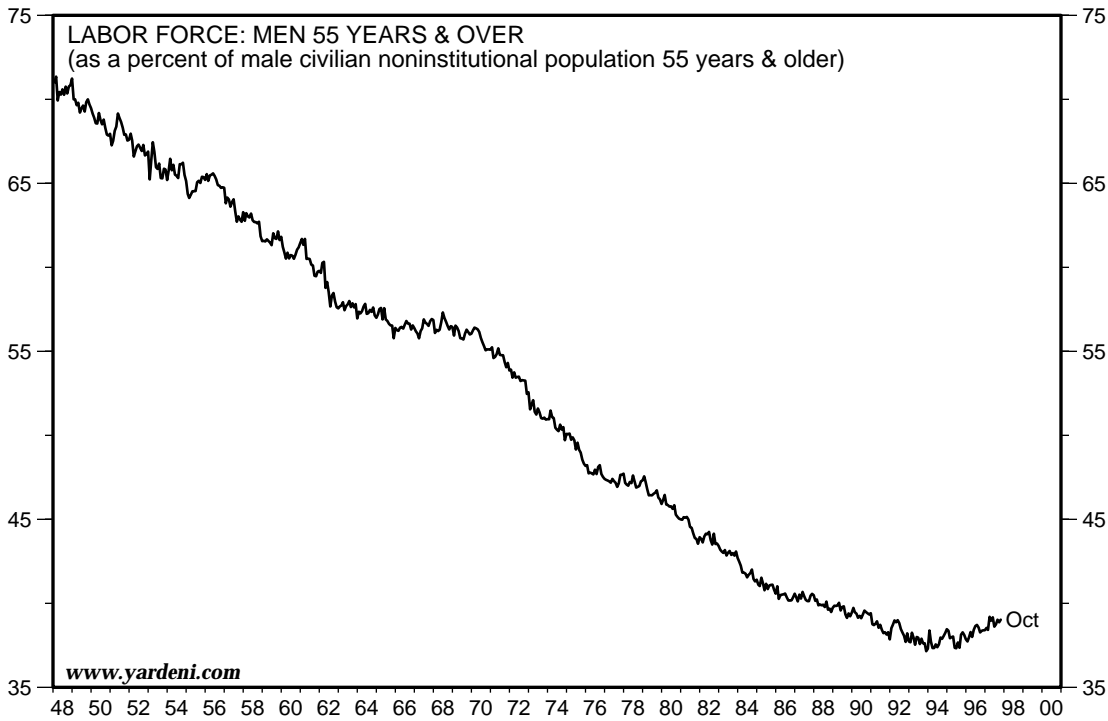


The unemployment rate shifted upward during the 1970s and early 1980s relative to inflation because there was a high influx of young workers who tend to have higher unemployment rates than older ones. Since the early 1980s, the unemployment rate has been shifting back down. Currently, it is at a 24-year low.



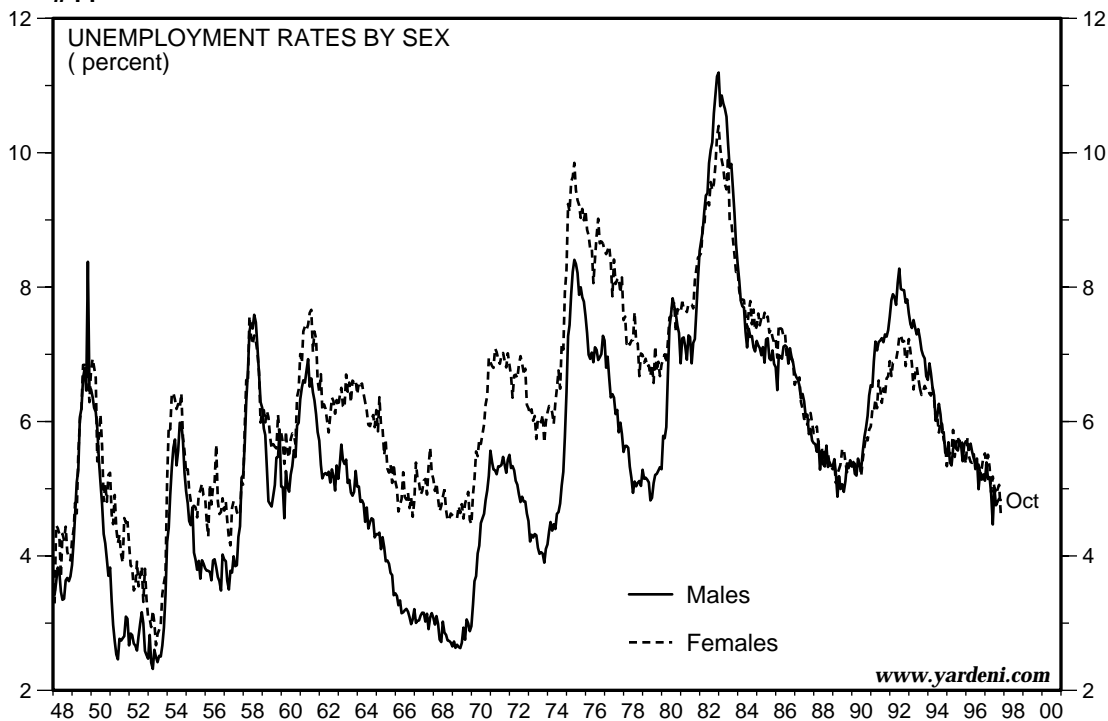
- Unemployment -

#43



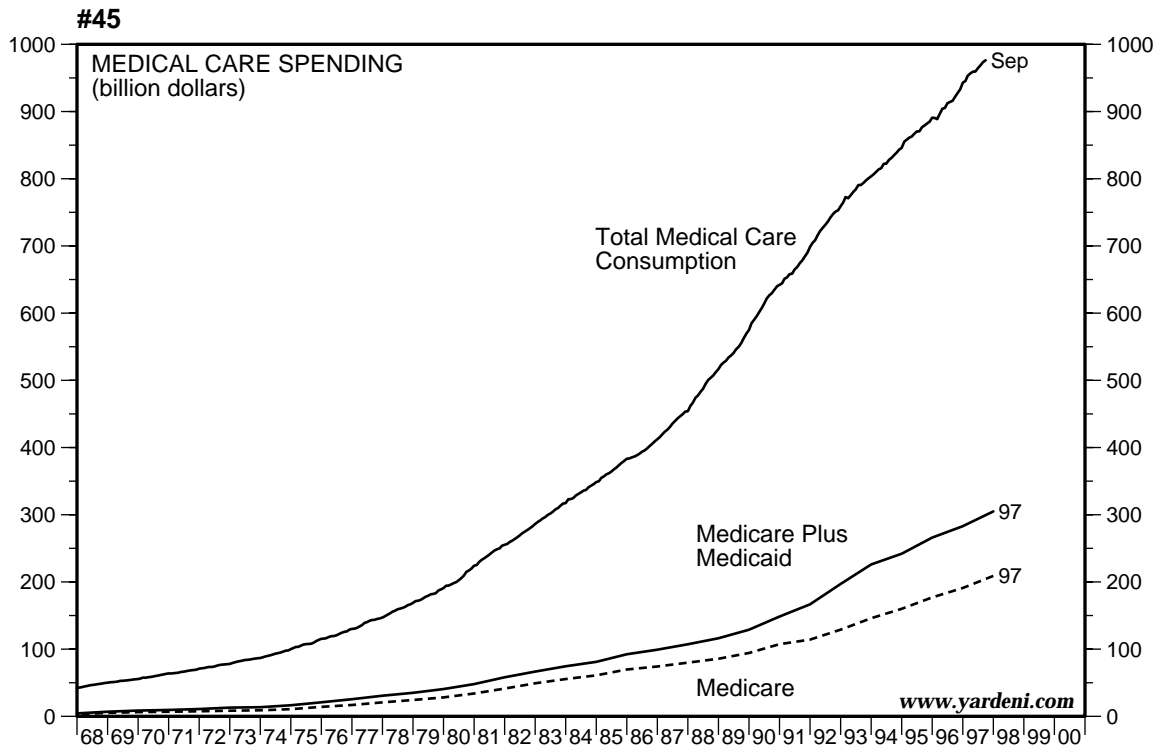
There was a dramatic long-term downward trend in the labor force participation rate of older men since the late 1940s until flattening out in the 1990s.

#44

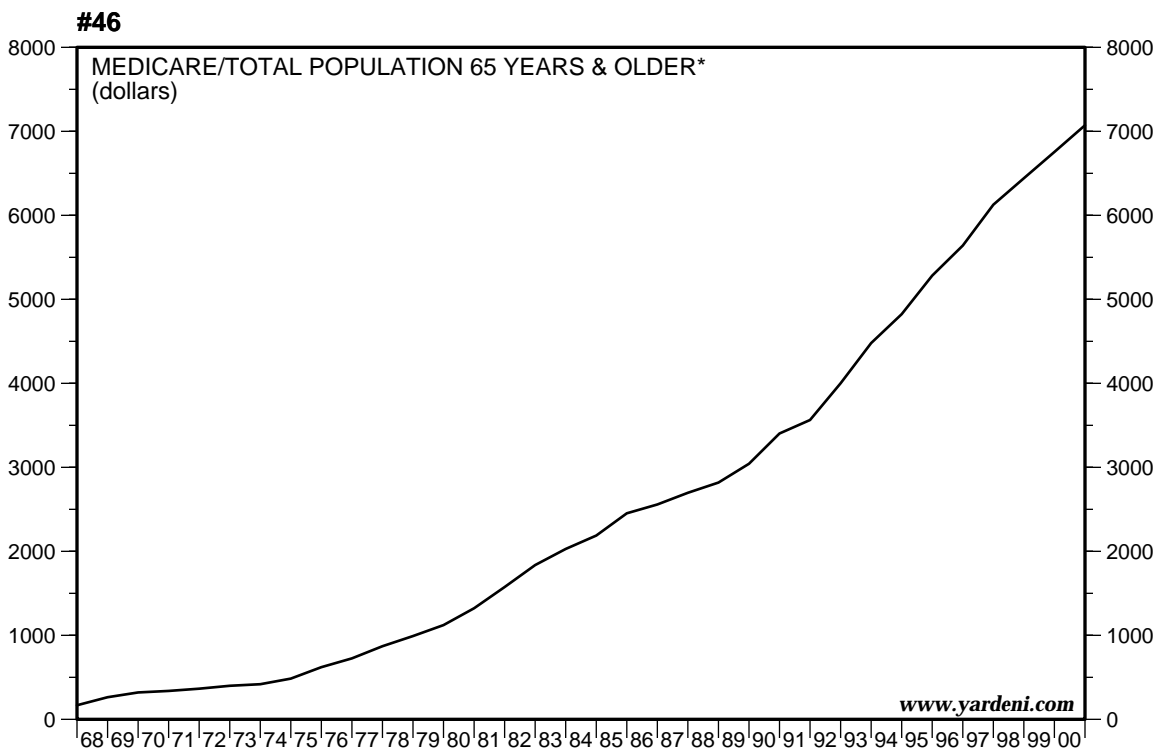


During the 1950s, 1960s, and 1970s, the female unemployment rate usually exceeded the male rate. Since the 1980s, the two rates have been nearly identical. Both are down to about 4.5%.

- Health Care -



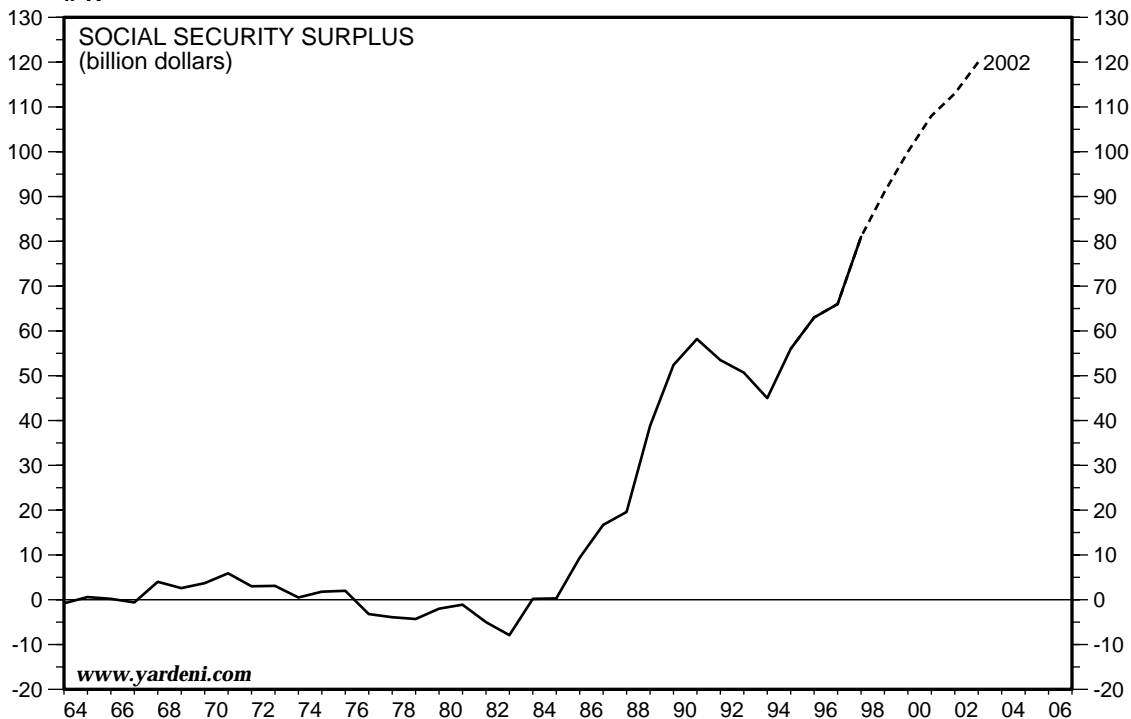
Spending on health care will continue to rise rapidly as Baby Boomers age.



* Projections begin in 1994.

- Social Security -

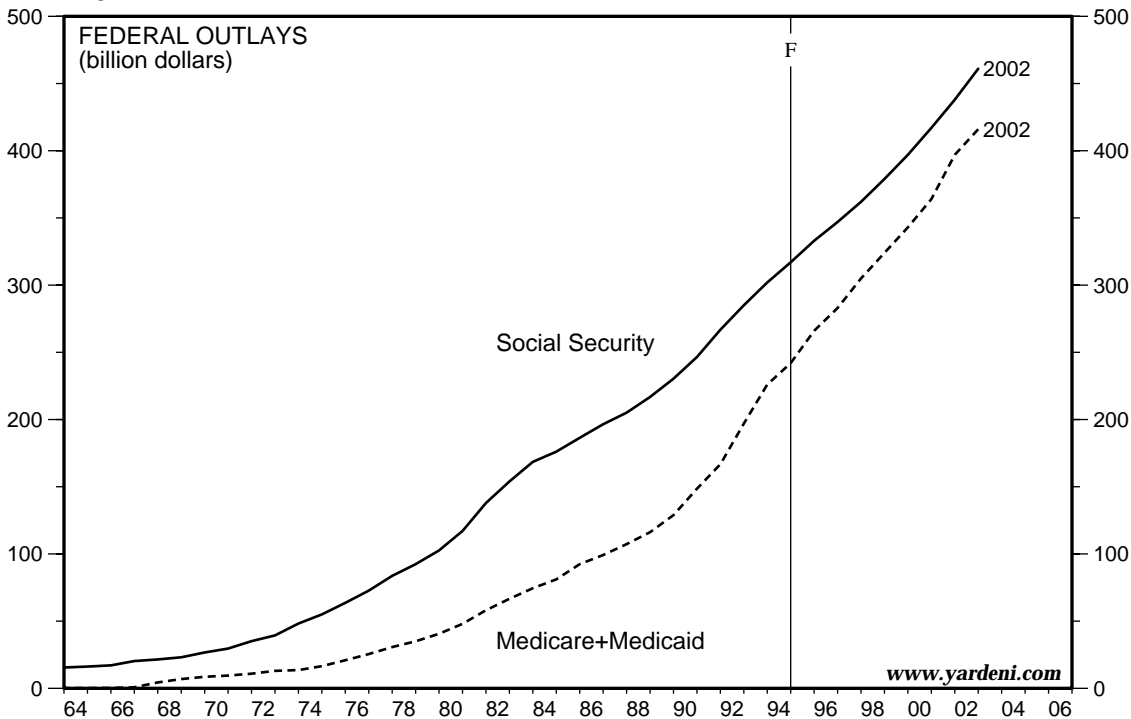
#47



Dashed line is Congressional Budget Office's baseline projection.

Social security will remain in surplus for the next 15 years. Big deficits will start when the Baby Boomers start to retire after 2010.

#48



F = Forecast line. Source: Congressional Budget Office.

Social security and health care outlays will rise rapidly as the Baby Boomers age.

TOPICAL STUDIES

Topical Studies #19 and higher are available on <http://www.yardeni.com/yardeni/topical.html>

- #38 Dr. Edward Yardeni, *Fed's Stock Market Model Finds Overvaluation*, August 25, 1997
- #37 Dr. Edward Yardeni, *New Era Recession? Deflation, Irrational Exuberance, & Y2K*, July 14, 1997
- #36 Dr. Edward Yardeni, *Conference Call With Alan Blinder*, June 2, 1997
- #35 Dr. Edward Yardeni, *The Economic Consequences Of The Peace*, May 7, 1997
- #34 Dr. Edward Yardeni, *Populist Capitalism And Other Wildly Bullish Themes*, February 25, 1997
- #33 Dr. Edward Yardeni, *Productivity Must Be Booming*, January 20, 1997
- #32 Dr. Edward Yardeni, *The Undefeated Forces Of Deflation*, October 28, 1996
- #31 Dr. Edward Yardeni, *Economic Consequences Of The Internet*, October 22, 1996
- #30 Dr. Edward Yardeni, *Backlash: Workers Vs. Bonds*, May 8, 1996
- #29 Dr. Edward Yardeni with Amalia Quintana, *The Baby Boom Chart Book 1996*, March 28, 1996
- #28 Dr. Edward Yardeni, *Liquidity Story Is Wildly Bullish*, February 12, 1996
- #27 Dr. Edward Yardeni, *10,000 In 2000*, November 6, 1995
- #26 Dr. Edward Yardeni, *The US Economy's Mega-Trends*, July 10, 1995
- #25 Dr. Edward Yardeni, *The High-Tech Revolution In The US of @*, March 20, 1995
- #24 Dr. Edward Yardeni, *Hard Or Soft Landing?*, February 6, 1995
- #23 Dr. Edward Yardeni, *The End Of The Cold War Is Bullish*, September 10, 1993
- #22 Dr. Edward Yardeni, *Apocalypse Now! (NOT!)*, May 8, 1992
- #21 Dr. Edward Yardeni with Amalia Quintana, *The Baby Boom Chart Book 1991*, October 9, 1991
- #20 Dr. Edward Yardeni, *The Collapse Of Communism Is Bullish*, September 4, 1991
- #19 Dr. Edward Yardeni and David Moss, *The Triumph Of Adam Smith*, July 17, 1990
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- #17 Dr. Edward Yardeni, *The Triumph Of Capitalism*, August 1, 1989
- #16 Dr. Edward Yardeni with Amalia Quintana, *The Baby Boom Chart Book*, January 25, 1989
- #15 Dr. Edward Yardeni and David Moss, *The New Wave Manifesto*, October 5, 1988
- #14 Dr. Edward Yardeni, *Could Real Estate Prices Fall? And What If They Do?*, August 24, 1988
- #13 Dr. Edward Yardeni, *The Coming Shortage Of Bonds*, June 20, 1988
- #12 Dr. Edward Yardeni, *How The Baby Boomers Are Changing The Economy*, April 6, 1988
- #11 Dr. Edward Yardeni and Deborah Johnson, *The Restructuring Of Corporate America Is Bullish*, December 9, 1987

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