Letters to the Editor

Baby boomers' spending decline has hit demand and inflation

From Paul Hodges, Chairman, International eChem, London N7, UK

4 HOURS AGO

Sir, It was surprising to read that the US Federal Reserve is still puzzled by today's persistently low levels of inflation, given that the impact of the ageing baby boomers on the economy is now becoming well understood ("An inflation enigma", Big Read, September 19).

As the article notes, factors such as globalisation and technological advances have all helped to moderate price increases for more than two decades. But the real paradigm shift began in 2001, when the oldest boomers began to join the lower-spending, lower-earning over-55 generation. As the excellent Consumer Expenditure Survey from the Bureau of Labor Statistics (BLS) confirms, Americans' household spending is dominated by people in the wealth creating 25-54 age cohort. Spending then begins to decline quite dramatically, with latest data showing a near 50 per cent fall from peak levels after the age of 74.

This decline was less important when the boomers were all in the younger cohort. BLS data show it contained 65m households in 2000, with only 36m in the older cohort. But today, lower fertility rates have effectively capped the younger generation at 66m, while the size of the boomer generation, combined with their increased life expectancy, means there are now 56m older households.

Consumer spending is around 70 per cent of the US economy. Thus the post-2001 period has inevitably seen a major shift in supply/demand balances and therefore the inflation outlook. So

it is disappointing that the Fed has failed to go up the learning curve in this area. Demographics are not the only factor driving today's New Normal economy, but central bankers should surely have led the way in recognising their impact.

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