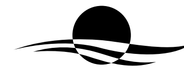
# Growth STRATEGIES



LA JOLLA INSTITUTE
Steve PonTell



Dr. Roger Selbert, Editor & Publisher
E-mail: roger@rogerselbert.com



*Trend Analysis That Builds Business Decisions*



3200 S. Barrington Ave. #4 • Los Angeles, CA 90066
Telephone: (310) 721-6322 • Facsimile: (310) 828-0427


## IN THIS ISSUE: WE SHOPPED TILL WE DROPPED, NOW WE'LL SAVE TO THE GRAVE

Synopsis of remarks by Dr. Roger Selbert to the Stable Value Investment Association

Life is what happens to you while you're busy making other plans. – *John Lennon*

Well, the events of the last year have shown us that life is, in fact, what happens to us while waiting for the next damn catastrophe. What will be the next shoe to drop? There is a long list of candidates, from commercial real estate to residential real estate (47% of US mortgages underwater by 2011, according to Deutsche Bank!) to State insurance guarantee funds.

But the point is, this one's gonna leave a mark. Reverberations from The Great Recession of the late double naughts (or as I call them, the "uh-ohs") are going to be with us for a long time to come.

As someone in the forecasting business who did not foresee the breadth, depth, severity or likelihood of these events, *mea culpa*. My major mistake: I thought the diffusion of financial risk was a safeguard, a strength; it turned out to be a threat and a weakness. I am more modest now, and you don't have to listen to anything I say. On the other hand, the forecasts I will share with you here are based NOT on the simple extrapolation of trends, but on the concept of T.I.N.A.: There is No Alternative, or, what MUST happen, given the inexorable forces of demographics, economics and mathematics. I have four main areas of discussion:

1 – PROSPECTS FOR THE US ECONOMY: GOOD, BAD AND UGLY
2 – THE NEW RETIREMENT REALITY
3 – THE NEW WORKPLACE: EMPLOYEES, JOBS, INDUSTRIES OF THE FUTURE
4 – THE NEW CONSUMER MENTALITY: HIT THE RESET BUTTON

## 1 – PROSPECTS FOR THE US ECONOMY: GOOD, BAD AND UGLY

### THE GOOD:

**The United States will still be the world's largest economy (largest producer and consumer of goods and services), largest exporter, largest importer, largest domestic market.**

**The US will remain among the most competitive economies in the world.**

**The US will remain the most technologically powerful economy in the world.**

**The US will be the only advanced, industrialized country experiencing population and household growth.**

**The US will remain the most innovative in the world.**

**Business investment (and profits) will pick up again after the shakeout.**

### THE BAD:

**Higher taxes**

**Slower growth**

**Higher interest rates**

**Slower productivity growth**

**Higher unemployment**

### THE UGLY:

The economy will not have enough *dynamism* to hide our multitude of sins. Without dynamism (rapid change, adaptation, flexibility, responsiveness), there will be economic, hence social, hence political, *friction*. You may have noticed a bit of it already this year!

## 2 – THE NEW RETIREMENT REALITY

I used to joke that if you wanted a guaranteed way not to outlive your money, use a revolver. But I recently saw a poll of Baby Boomers wherein the majority now say old age begins at 80, three years higher than US life expectancy. Yeah, so 70 is the new 50, and Death is the new Old!

And a good thing, too, because we are going to have to work longer, harder and smarter to get our retirement plans back on track. Are we up to it? According to the HSBC Future of Retirement Study, apparently not!

A "perfect storm" of demographic, individual and financial elements is poised to derail people's retirement plans, says the study: an aging population, falling pension funds values, a drop in state and employer contributions, an economic downturn, a "preparedness gap," and an "advice gap." Some findings:

- people's short-term survival strategies in the midst of recession are creating a serious long-term pensions "downturn deficit"
- there is a continuing lack of pensions planning, even though people are aware that they are likely to live longer
- this is being exacerbated by poor levels of financial understanding, education and access to advice
- people are more concerned with protecting their possessions in the short-term than ensuring they can look forward to a financially secure retirement

What it all means:

### WE WILL WORK LONGER

We will need to work longer, but that's okay. We will also want to work longer, be able to work longer, and be needed in the workforce. Also, by delaying retirement we will be able to save more, reduce the number of years our nest eggs must support us, and qualify for larger benefits when we do start to draw on Social Security.

### RETIREMENT ACCOUNTS WILL CHANGE, AND WE'LL HAVE MORE OF THEM

The most significant change: adding a lifetime-income component. This would be an automatic (though of course voluntary) shift of a portion of retirees' assets into an annuity that generates a fixed monthly income. If that sounds a lot like an old-fashioned defined-benefit pension, the similarity is intentional. This proposal is a long way from implementation, but it is now getting serious attention from the Treasury Department.

As for the proliferation of retirement accounts, in over 25% of families with income over $100,000 the head of household has at least four, according to the Employee Benefit Research Institute. Throw in a few more accounts in the spouse's name and, with the demise of career employment, a lot of retirees could have a dozen or so. Most of us will need some professional help to sort them all out.

## 3 – THE NEW WORKPLACE: EMPLOYEES, JOBS, INDUSTRIES OF THE FUTURE

It is hard to be optimistic about the job market in the coming years. Since the recession began in December 2007, the economy has shed millions of jobs, taking the "real" unemployment rate (unemployed + involuntary part-time wokrers) to around 17%. That's a staggering 23 million people

in need of full-time work. Plus, the economy must create 125,000 jobs a month just to stay even with population growth.

If history is any guide, unemployment will continue to rise after the recession bottoms out. But here's the countertrend: Every month millions of workers are laid off, and millions of workers are hired. The process of creative destruction is at work: resources are being reallocated (physical, financial, and human). So what will the new workplace look like?

### THE ASCENDANCY OF WOMEN WILL CONTINUE

Since May 2007, the number of jobs held by men aged 25 to 64 fell by 4.7% a year; for women in the same age group, the loss was 1.7%. Women aged 55 to 64 gained jobs while every other group in the prime working years lost jobs. The unemployment rate for men is about 10%; for women, 7.6%. That 2.4% gap is an all-time high.

### BOOMERS WILL CONTINUE TO DOMINATE

Boomers are now between the ages of 45 and 63, and are still the labor market's largest cohort. The workforce participation rate for 55-to-64-year-olds in May 2009 was 65.6%, a jump of 1.3 million workers over the year before.

### THE STIMULUS WILL LEAVE A BIG FOOTPRINT

Here are four areas that will benefit from the $787 billion stimulus in both the short and long terms:

**Government work:** Teaching, health care, and public works construction projects will get direct infusions of stimulus cash.

**Health care:** Despite the recession, the health care industry has been adding an average of 17,000 jobs per month.

**Natural sciences:** The Stimulus bill provides the National Institutes of Health with $10.4 billion; the National Science Foundation with $3 billion; and National Oceanic and Atmospheric Administration with $830 million.

**Energy and "green-collar" projects:** Well over $50 billion will be pouring into projects as diverse as mass transit, modernizing the electric power grid, and weatherizing government buildings.

### FULL-TIME WORK AT HIGH PAY? NICE WORK IF YOU CAN GET IT

The 3.7 million jump in the number of part-time workers, to 9 million, is the hidden bombshell in the unemployment story. The BLS defines involuntary part-time workers as those who are working less than 35 hours a week. Today the national average workweek for hourly workers is 33.2 hours – the lowest average work hours in 30 years.

This trend has been developing over the past 20 years as employers embraced just-in-time labor management. In retailing, for example, 20 years ago 70% of store clerks were full-time; now it's 30%.

As for wages, flat is the new raise. Wage growth has been pretty much stagnant for the past year. Those who have been laid off in this recession, or who are new to the workforce, might suffer significant and persistent wage losses for years. These unfortunate people could make 20 percent less for 20 years.

## 4 – THE NEW CONSUMER MENTALITY: HIT THE RESET BUTTON

Perhaps you have heard: spending is out, saving is in. But is frugality here to stay? Have we been truly altered by this financial and economic trauma? It is still too early to say. The answer *seems* to be yes: the savings rate hovers around 5%, up from -2.7% in 2005. But statistically, that could mean only

the thinnest top layers of the income scale are saving, while all others scramble just to survive.

Sure we're borrowing less, but that may partly be because easy credit no longer exists. Our overspending has stopped for the moment, and we're trying to stabilize our capsized financial ships. But that's what always happens in crises: people adjust their behavior temporarily, until the threat passes and old habits return. On the other hand, there are factors that suggest this time *will* be different:

- Consumers dug a debt hole over the past decade from which there's no easy way to climb out. Personal debt has doubled over the past decade. As of July, it stood at $13.8 trillion, or about $124,000 per household. It will take years to work down the debt, which will prolong people's thriftiness. Paying it down will be harder because of the layoffs, pay cuts, freezes and furloughs. The population segment that drives spending the most – baby boomers – faces special pressure: Boomers are running out of time.

- Unemployment, now at 9.8%, is still rising and expected to reach double digits before year's end for the first time since 1982. Many who still have jobs are getting paid less, and investments have a long way to go before they return to pre-meltdown levels.

- Personal spending has fallen in four of the last six quarters – the only time that's happened since quarterly records were first compiled in 1947. Spending is down by 34.7% among Boomers, 35.4% in Generation X, and 33.7% in Generation Y, a remarkably widespread decline in spending. A study by research firm AlixPartners concludes that once a new normal sets in after this recession ends, Americans will spend at about 86% of their pre-downturn level.

- The ratio of real wealth to debt has cratered. Until asset values return to previous levels (that may take awhile!), we will need to slash debt to return to any sort of financial, fiscal or psychological equilibrium.

- We may not save a lot more, but we will borrow a lot less, especially to engage in speculation (whether homes or stocks), even if the only reason is that banks won't lend us the money.

- There really is a sea-change in our collective attitude about wealth, what's important and how to live the good life, and it does not necessarily include a flat-screen hi-def TV on every wall in every room.

However, I will interject one powerful caveat: the theory of the wealth effect. Research has confirmed that the impact of changes in wealth on spending is 7%, up or down: in other words, that every dollar gained in wealth increases spending by 7 cents, and every dollar in wealth lost decreases spending by 7 cents. Further, this rule-of-thumb seems to have applied across history to such an extent one may even consider it a constant. Thus, once our perception of wealth returns, so too will our propensity to shop, buy, borrow and spend.

## CLOSING THOUGHT

I opened by quoting a famous Englishman; let me close by quoting another:

Annual income twenty pounds, annual expenditures nineteen six, result happiness. Annual income twenty pounds, annual expenditures twenty pound ought and six, result misery.

Thank you, Charles Dickens. It's all we needed to know.