

Keep Your Eye on the Bigger Picture



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Perhaps like you, I've been so busy this summer and fall that I've had a tough time keeping up on my reading. Nevertheless, I keep plugging away because I realize I need a broader perspective on the world (in general) and the U.S. economy (in particular).

I'll admit to being caught off guard by the housing collapse and the resulting 2009 recession. I attribute part of that to not paying attention, being so focused on the day-to-day that I ignored the broader picture of the economy. To that end, I now spend what time I can tracking and reading about our economy. I suspect many of you do the same as your time allows.

I try to keep an open mind and read books and articles reflecting the opinions of economists and other "experts" with widely varying views of where the economy is headed, and how to prepare for it.

One of my favorite sources, at least in terms of style and wit, is Harry S. Dent Jr., author of "The Great Crash Ahead". I'm not saying I'm buying into everything he writes, but I find his musings entertaining and thoughtful.

In a recent newsletter, Dent writes that deflation rather than inflation is the more likely direction the economy is headed. I found the newsletter compelling because it's contrary to much of what I've read from most of the other so-called experts, and the direction that I lean.

Dent bases this prediction on a triple-legged stool of demographics, historical precedent and the predictability of human nature. For the sake of brevity, I'll just touch on his demographic argument that seems logical, if not entirely convincing.

He says that the nation's 76 million baby boomers, now a decade or more past their peak spending years, are not buying houses, they're downsizing and they're saving more.

In fact, it will be a long time -almost a decade, he predicts – before the housing sector recovers. The U.S. economy, at least until then, will resemble the Japanese economy of the past 15 or 20 years-flat.

"At the top of the housing boom in recent years, we had the typical upper-middle-class family living in a 4,000-square-foot McMansion. About 10 years from now, what will they do? They'll downsize to a 2,000-square-foot townhouse," he writes in a recent newsletter. "What do they need all those bedrooms for? The kids are gone. They don't visit anymore. Ten years after that, where are they? They're in a 200-square-foot nursing home. Ten years later, where are they? They're in a 20-square-foot grave plot."

He says the approaching Echo Boom generation, the first generation in U.S. history to be smaller than the previous generation, will not be able to drive the economy as did its predecessor. As consumer spending comprises two-thirds of the U.S. gross domestic product, this is significant.

Whether we'll experience inflation, deflation (Dent's prediction) or we continue the slow, painful climb back to economic recovery is anybody's guess right now.

Again, I don't pretend to be an economist, but I'm attempting to keep my mind open for whatever may be coming next in terms of our economy and to, at least, have considered my options to make the best of it. That would seem to be the prudent thing to do.