The Demographic Cliff
How to Survive and Prosper During the Great Deflation of 2014-2019

presented by
Harry S. Dent, Jr.

(November 1992)  (January 2014)
Telling the Truth
Babies Are The Key to The Future
Average Annual Family Spending by Age
(5-year age groups)

Data Source: Bureau of Labor Statistics
Immigration-Adjusted Births

Data Source: U.S. Census Bureau
The Spending Wave
Births Lagged for Peak Spending

Dow Adjusted for Inflation

Immigration-adjusted Births Lagged for Peak Spending

Data Source: Dent Research, U.S. Census Bureau, Bloomberg, 2013
Inflation Indicator

INFLATION (CPI)

LABOR FORCE GROWTH
2.5-YR LAG

Forecasting is a Delicate Balance
Who Sees the Truth
# Demographic Cliffs Around the World

<table>
<thead>
<tr>
<th>Country</th>
<th>Peak Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>1989-1996</td>
</tr>
<tr>
<td>United States</td>
<td>2003-2007</td>
</tr>
<tr>
<td>Germany</td>
<td>2010-2013</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2010-2013</td>
</tr>
<tr>
<td>France</td>
<td>2010-2020</td>
</tr>
<tr>
<td>Italy</td>
<td>2013-2018</td>
</tr>
<tr>
<td>South Korea</td>
<td>2010-2018</td>
</tr>
<tr>
<td>Spain</td>
<td>2025</td>
</tr>
<tr>
<td>China</td>
<td>2015-2025</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, United Nations Population Division
Consumer Life Cycle of Spending

Consumer Life Cycle of Spending

Consumer Life Cycle of Spending

The Greatest Debt Bubble In History
Debt vs. GDP Growth
1983-2011

Total U.S. Debt
GDP

Debt = 2.54x GDP
GDP Growth = 304%
Debt Growth = 773%

Data Source: St. Louis Federal Reserve, Treasury Direct, 2013
Debt Ratios Around the World

U.S. Unfunded Entitlements
Private Estimates

$66 Trillion!!!

Unfunded
Medicare

Unfunded
Social Security

$22.8T

$7.9T

Medicaid*

$35.3T

Total U.S. Debt
Public and Private

• Total Government Debt $19.8T
• Total Private Debt $39.4T
• Foreign Debt $2.3T
• Unfunded Entitlements + $66.0T
• Total $127.5T

8.2x GDP!!
The Great Cover Up
Central Bank Balance Sheets
Globally

Blowing Smoke: More Debt to Cure Debt Crisis?
Borrowing Power of a Typical Home Purchaser

- Pre-Tax Income
- Borrowing Power

2.8 times

3.3x in January 2000

9.2x in January 2006

Source: Amherst Securities
The Limits of Stimulus
Debt is Like a Drug
GDP per Dollar of Debt

Data Source: St. Louis Federal Reserve, 2012
Cycles of Inflation and Deflation

Source: Minneapolis Federal Reserve, 2013
What Recovery?
Top 1% and 10% of Net Worth and Income

Sticking it to the Middle Class
Total Consumer Spending

Data Source: U.S. Census Bureau
Key Global Triggers for the Demographic Cliff Ahead
Key Global Triggers

• Japan Coma Economy

• Spain Real Estate Bubble and Southern Europe

• The Great China Disaster
Prices rose 2.6 times in 6 years

Bubbles tend to go back to where they started

Source: Japan Statistics Bureau
# Japan Net Housing Demand

**Peak Buyers (42) minus Di-ers (84)**

Japanese Nikkei Index
1984-2013

Data Source: Bloomberg, 2013
Japan GDP
1982-2012

Japan GDP in Billions of Yen

Data Source: IMF, 2013
Japan Consumer Price Index
1960-2013

Data Source: OECD, 2013
Japan, Spending Wave
1950-2095

Unemployment Rate, PIGS
2007-2013

Data Source: EuroStat, 2013
Greece, Non-Performing Loans

Share of Non-performing loans of total

Source: Price Waterhouse Coopers, 2013
U.S. vs. Spain: House Price Index, 2000-2013

Data Source: St. Louis Federal Reserve, National Statistics Institute, Spain, 2013
U.S. vs. Spain, % of Workforce Involved in Construction

Data Source: Bloomberg, 2012
Spain, Bad Loan Ratio
1962-2013

Data Source: Bloomberg, 2013
Lending in Spain
1995-2013

Spain, Private Loans, YoY Change

Data Source: Bloomberg, 2013
China’s Emerging World Pivot

Percent of China Exports to Emerging World

Data Source: International Trade Centre, 2013
EEM vs. CRB
2003-2013

Data Source: Yahoo Finance, 2013
China’s Global Share of Selected Commodities

Average Home Price to Income Ratio

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Housing Units vs. Household Formation

15. Excess housing expanding from 2003

Source: National Bureau of Statistics, Pivot

Source: Pivot Capital Management, 2010
Oversupply of Housing

Housing Supply is Outpacing Demand By 3.3:1

Housing Starts in 2011: 19 mm
Incremental Annual Demand: 5.8 mm

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Home Ownership Rates in China

China Rural: 92.6%
China Overall: 89.7%
China Urban: 85.4%
United States: 65%
World Average: 63%
Japan: 60%

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Saving Rate of the Rich Chinese

| Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013 |
Total Asset Share of the Top 10% in China

### Household Assets
- Top 10%: 84.6%
- Bottom 90%: 15.4%

### Financial Assets
- Top 10%: 61.0%
- Bottom 90%: 39.0%

### Non-Financial Assets
- Top 10%: 88.7%
- Bottom 90%: 11.3%

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Loan to Income Ratios by Income Percentile

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
China Can Sustain a Drop of 40% in Home Prices

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Shanghai Real Estate Prices

Data Source: Global Property Guide, 2013
China, Workforce Growth
1950-2100

Source: United Nations Population Division, In Thousands
China, Urbanization Rate vs. GDP per Capita

2025 Target: 72% Urban, $12,500 GDP per Capita

$14,000

$9,100 in 2012 Int’l Dollars

Source: Angus Maddison and World Bank
Disaster Scenario: 221m at Risk

712 Million at 53% Urbanization Rate

421 Million are Registered Urban Citizens at 69% of Urban

The Remaining 221 million at 31% of Urban are highly vulnerable

Data Source: “Findings from China Household Finance Survey,” Texas A&M University and Southwestern University of Finance and Economics, Li Gan, 2013
Long-Term S&P and Geopolitical Cycle

Data Source: Bloomberg, 2013
Key Macro Economic Cycles

39-Year Generation Cycle
36-Year Geopolitical Cycle
30-Year Commodity Cycle

Source: Dent Research
10-year Sunspot Cycle
1900-2013

Data Source: NASA.gov, 2013
10-year Sunspot Cycle
1997-2019

Data Source: NASA.gov, 2013
Four-Year Presidential Cycle

Source: Ned Davis Research, www.ndr.com
Quarterly U.S. Real GDP Growth
2009-2012

Real GDP, Annualized Growth Rate

Data Source: Bureau of Economic Analysis, 2013
The Great Bubble is About to Burst Again
What is This?
Masters and Johnson Sexual Response Cycle

Orgasm

Excitement & Plateau (Arousal)

Desire (Appetitive)
Bubbles Are Like Orgasms
Masters and Johnson Sexual Response Cycle

Source: Japan Statistics Bureau, Masters and Johnson
Bubble After Bubble
1984-2015

Dow Megaphone Pattern
1995-2015

Data Source: Yahoo! Finance, 2013
Dow Channel
2011-2014

Data Source: Yahoo! Finance, 2013
10-Year Treasury Bond Channel
1989-2015

Data Source: Yahoo! Finance, 2013
The Great Real Estate Bubble and Outlook

Looks Like Real Estate is Getting Ready to Fall Again
U.S., Net Housing Demand
41-year-olds minus 79-year-olds

Real Home Prices, left
U.S. Net Housing Demand (41 minus 79), right

Data Source: US Census Bureau, Dallas Federal Reserve, 2013
Case-Shiller, 10-City Index
1996-2012

S&P Case-Shiller 10-City Home Price Index, Index January 2000 = 100

Data Source: Standard & Poor’s Case-Shiller US 10-City Home Price Index, 2013
Action Steps for Investors

1) Sell Stocks by mid-January 2014
2) Sell Real Estate and Second Homes by early 2014
3) Talk Kids Out of Buying First Home – Wait to 2015+
4) If Looking to Downsize Home, Do So by Year-end
5) If Looking to Sell Business, Do So by early 2014
6) Sell Bonds at 2.5% 10-year Treasury, Buy near 3.8% after further spike likely ahead
7) Wait for Major or Minor Crash into Early 2015+ to Re-Invest, especially near Dow 6,000
8) Buy India, Mexico, Southeast Asia, Health Care, Starter Homes and Vacation Homes
Action Steps for Businesses

1) Focus on Product Lines/Businesses You Can Dominate – Sell Others to Raise War Chest
2) Sell Non-Strategic Real Estate and Rent/Lease
3) Analyze and Cut Overheads and Fixed Costs
4) Cut Variable Costs Where Possible
5) Only Make Short Term Investments that Increase Sales or Cut Costs
6) Defer Major Capital Expenditures Until Later When Will Be Cheaper and Your Competitors Are Failing
7) Target Now Which Competitors and What Assets Are Likely to Become Available – Be Ready to Pounce
Attention Investors and Small Business Owners

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- Business Strategies for the Winter Season