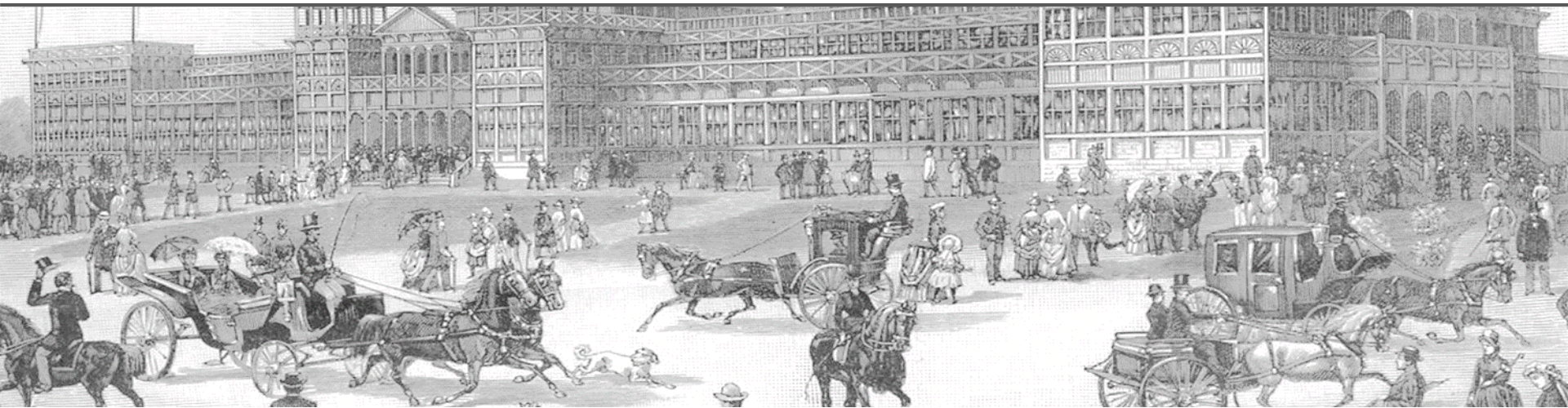


Consumer Update: The Long Distance Relay



It's Been Fun

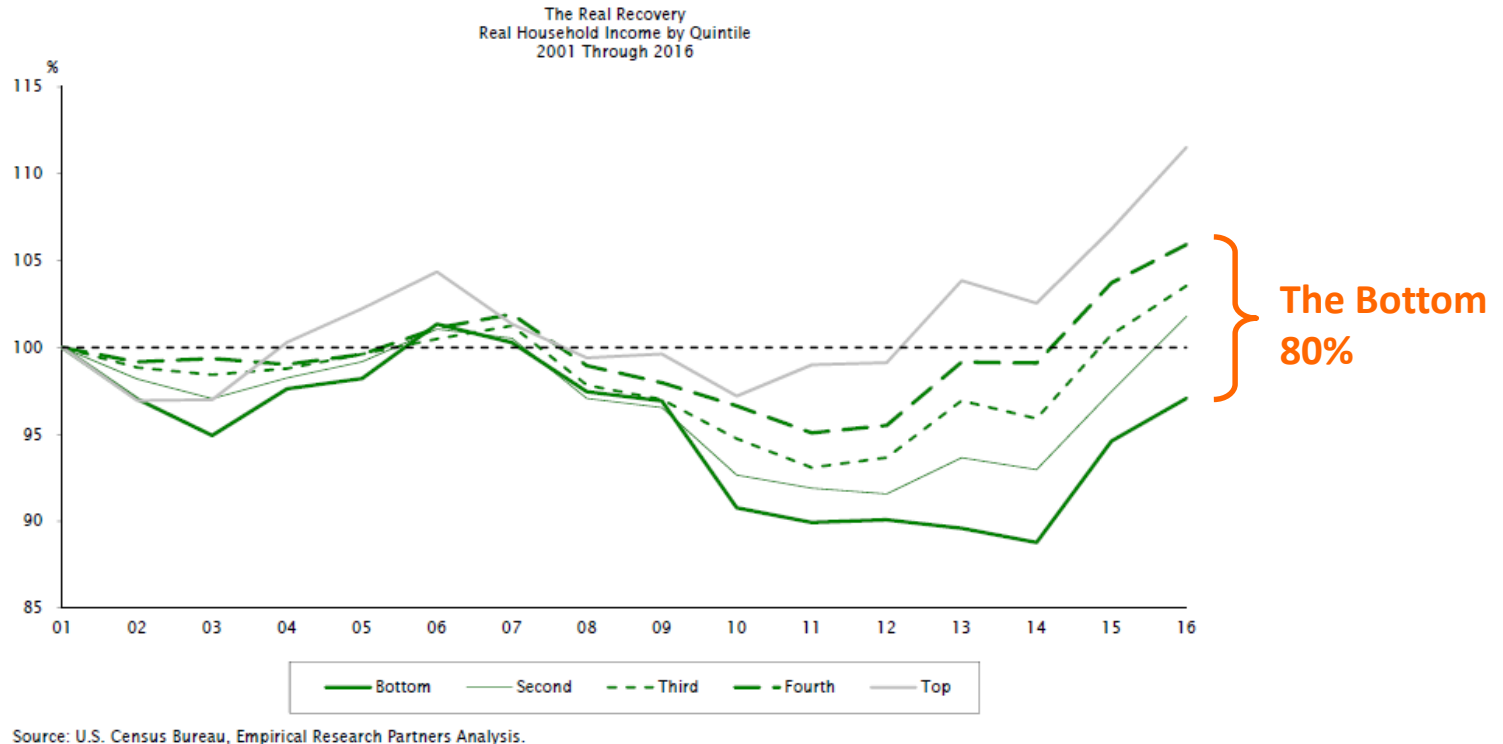
- Receding from the abyss
 - Economic growth - third-longest expansion in the last 100+ year period
 - Housing, credit markets – functioning normally
 - Consumer – employed and confident
- What could possibly remain yet to improve?
 - Are there any **batons** we can make use of to keep us running in the race?

Two **Batons** to Consider:

1. **Income** - The Rise of the 80%
2. **Demographics** - It's Millennial Time

Income: The Rising

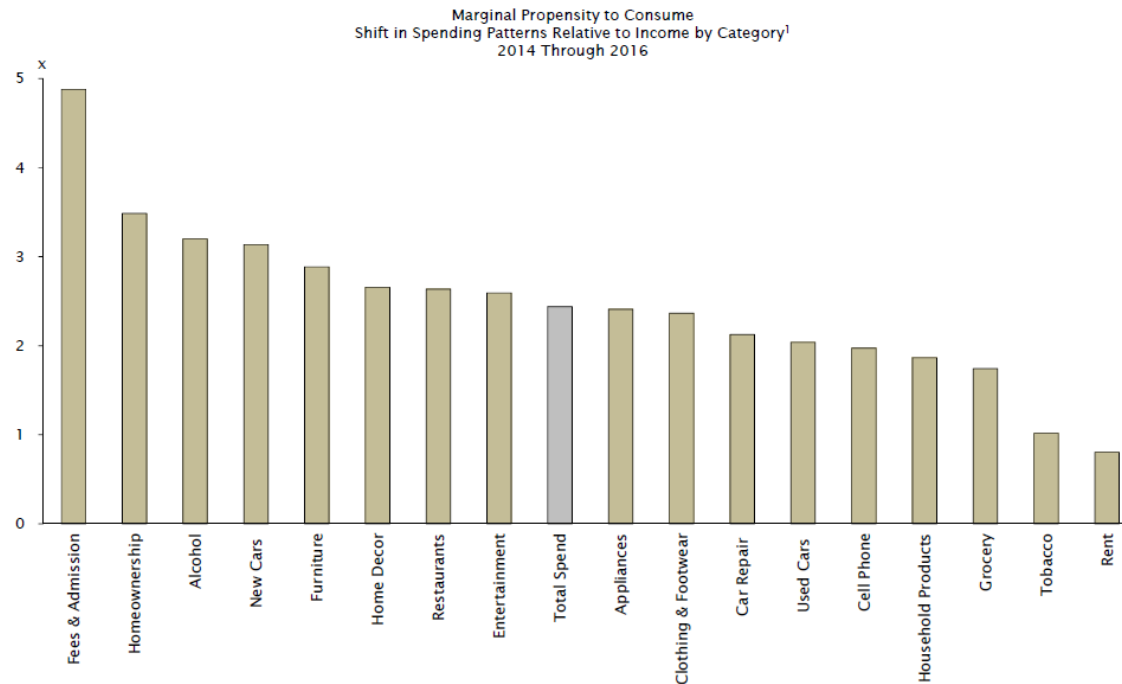
Top 20% income earning households have seen strong gains since 2012...



...Thanks to a tighter labor market, the lower rungs of the ladder have begun to see an upturn in household income.

Income: Where Does the Money Go

When consumers earn more?



Source: Bureau of Labor Statistics, Empirical Research Partners Analysis.

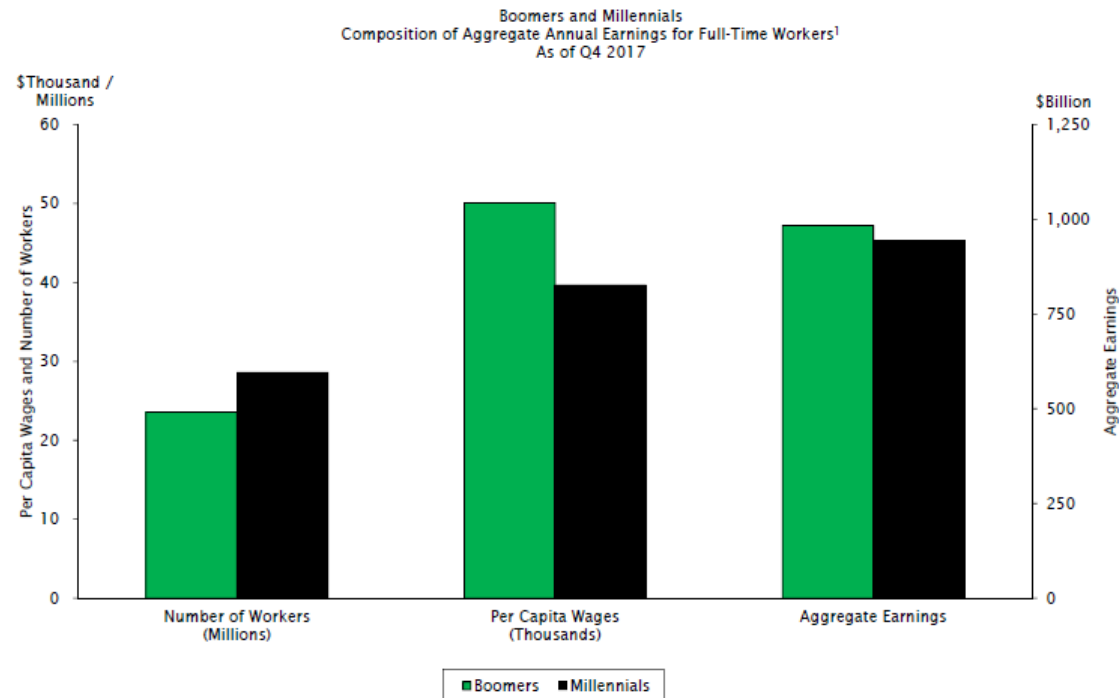
¹ Captures the shift in spending from bottom 60% of earners as they move into the top 40%.

Example: The top 40% spend 2x the average household on fees & admission; the bottom 60% spend 0.4x the average. A shift would yield a score of 5x.

When consumers climb the income ladder, more new-found dollars go toward discretionary categories.

Demographics: The Handoff Is Now

The shift is on as demographics weigh in.

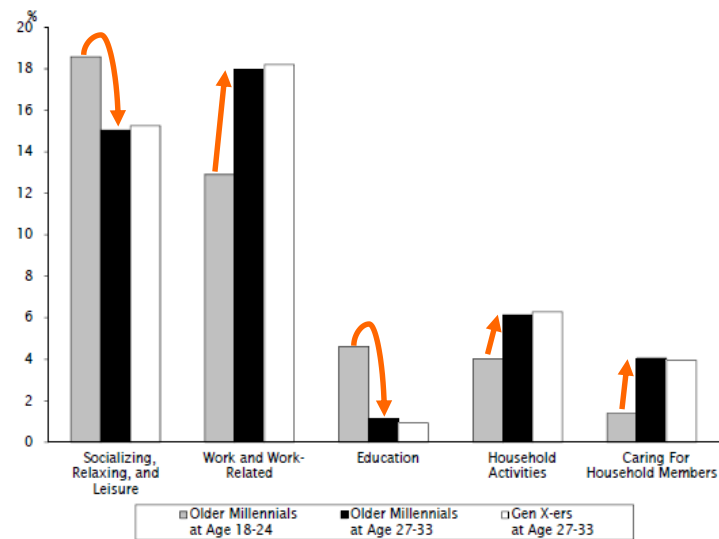


Wages for 25-34 year olds may be lower than those for workers 55+, but they make up for it in volume.

Demographics: Do I Know You?

Growing Up and Pitching In

Exhibit 33: Millennials and Generation X
Share of Time Spent By Cohort at Various Ages
2003 Through 2013

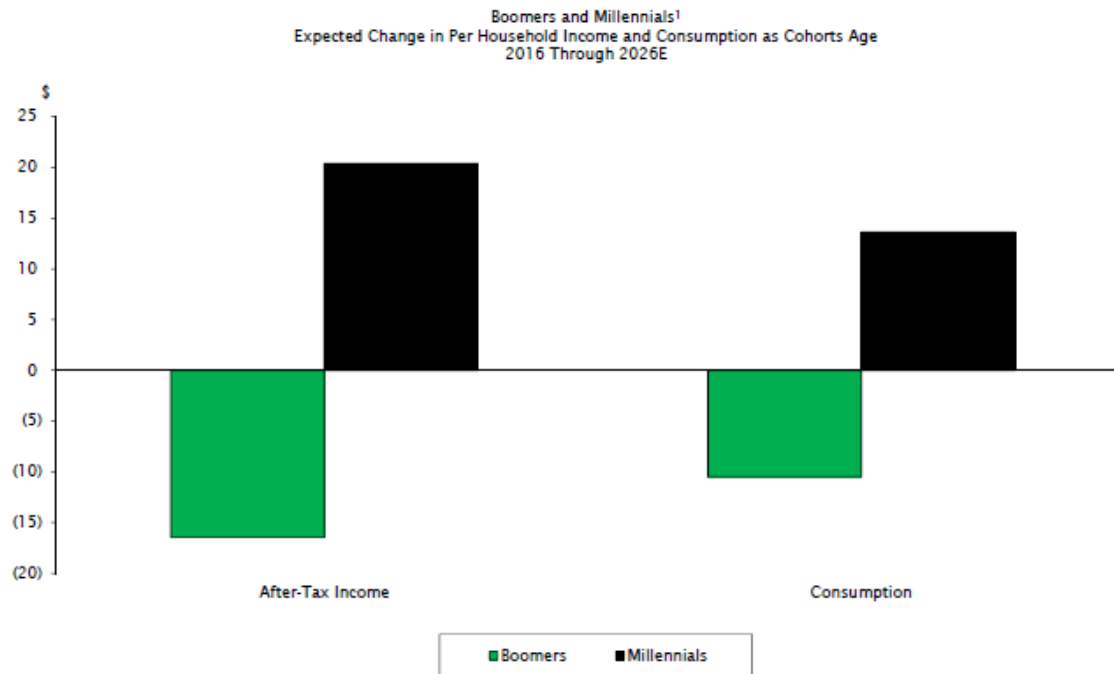


Source: Garikapati, V., Pendyala, R., Morris, E., Mokhtarian, P., and Noreen McDonald, 2016. "Activity Patterns, Time Use, and Travel of Millennials: A Generation in Transition", American Time Use Survey, Bureau of Labor Statistics, Empirical Research Partners Analysis.

Millennials are still in the race, only they have opted to stagger their start times.

Demographics: You Can't Fence Time

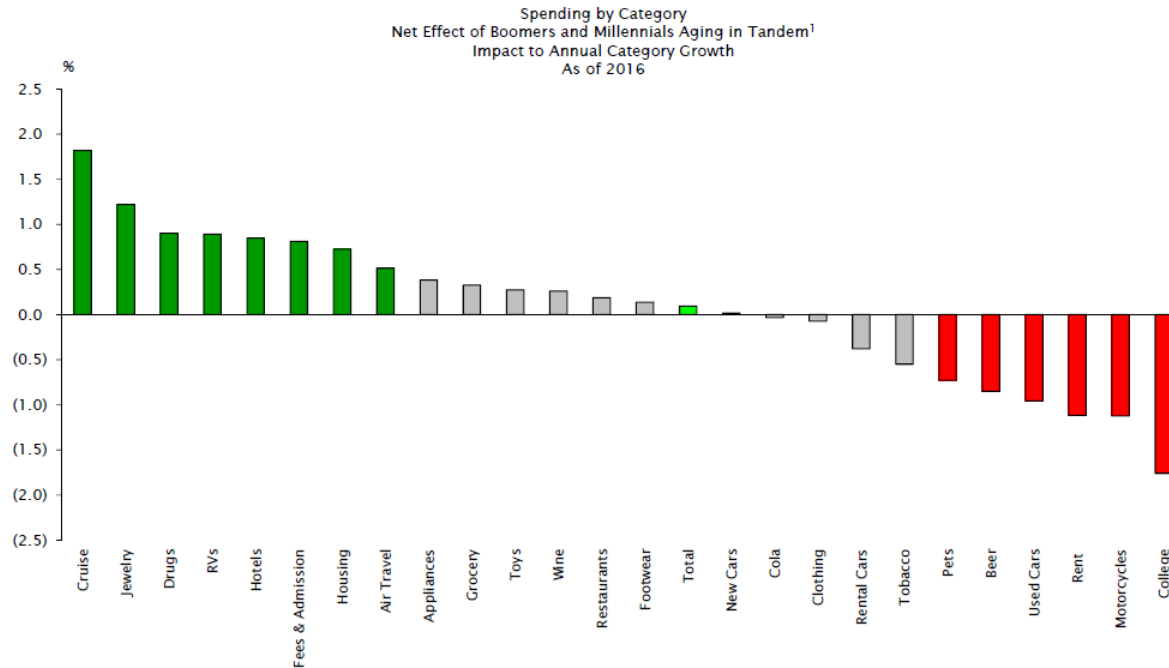
Says a net \$5,000 increase in household spending.



Increases in after-tax income and consumption by maturing Millennials outstrip the rate of decline in both categories for Boomers.

Intersection of **Age** and **Income** Shifts

Where does history suggest the money will go?



Source: Bureau of Labor Statistics, Empirical Research Partners Analysis and Estimates.

¹ Expected impact on annual category growth due to the combined effect of Boomers aging from 55-64 to 65-74 and Millennials aging from 25-34 to 35-44.

The combined effect of income and age in coming years should bode well for entertainment, home ownership and personal services.

Conclusion

The current economic cycle has fresh tailwinds...

- **Income:** The Rise of the Bottom 80%
 - High income earners bounced back quickly from The Great Unpleasantness.
 - The Bottom 80% is finally gaining economic traction through a tighter labor market.
- **Demographics:** It's Millennial Time
 - Your glacier is arriving now on track number 9 $\frac{3}{4}$.
 - As both groups age ten years, the resulting shifts in income and consumption patterns should net positive to consumer spending.

Questions?