Boomer Decumulation May Depress Asset Prices

By Editor Test *Wed, Aug 11, 2010*

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Asset sales by decumulating Boomers will depress equity and housing prices over the next four decades, but the sales won't necessarily trigger an asset price "meltdown," according to an analysis by the Bank of International Settlements.

"Combining global ageing forecasts and the model coefficients suggests that financial assets prices would face around a full percentage point per annum demographic headwinds over the next forty years," wrote economist Elod Takats, in a paper called "Ageing and Asset Prices."

"The estimated aging impact is relatively mild in the United States with around 80 basis points per annum headwind. The drag is estimated to be much larger in most of continental Europe and in Japan," Takats estimated.

"[T]he United States stock market has averaged an annual real return of 6.8 percent between 1802 and 2006. Shaving off around one percentage point from this return would be substantial, but does not seem to have catastrophic implications," the paper said.

The problem is that the demographic group that is selling homes and investments—the postwar BabyBoom generation—will be larger than the group that will be buying the assets. In the U.S., that effect will reduce U.S. housing prices by about 30% over the next 40 years, relative to what they would be in a neutral situation.

The trajectory of home prices and investment prices will be somewhat different. Most people buy homes earlier and sell them later than they buy and sell investments. Also, home ownership is much broader than investment ownership, and high net worth investors have discretion over when to sell. Finally, home prices are determined by local markets and investment prices are determined in globalized markets.