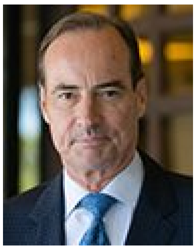
# [Is Stimulus Responsible for the Recent Improved Trends in the U.S. and Japan?]



Maybe.

Since central banks began their B.S. back in 2001, when the Bank of Japan first began Quantitative Easing efforts, I've warned that it wouldn't be enough… that none of them would be able to commit to the vast sums of money they'd ultimately need to prevent the Economic Winter Season – and its accompanying deflation – from rolling over us.

Demographics and numerous other cycles, in my studied opinion, would ultimately overwhelm central bank efforts.

Well, $ 12 trillion later – after the U.S. and Europe jumped on the QE bandwagon in early 2009 – I have to admit I didn't expect that level of QE…

And here we are, at the start of 2018, with the Dow above 25,000 and flying like a kite on the Trump rally that we called in November 2016!

With U.S. markets not suffering losses more than 5% all throughout 2017!

With the U.S. economy seemingly gathering steam, especially in 2017, and the Japanese economy improving steadily since 2014.

So, was I wrong?

Are such high levels of artificial stimulus more important than demographic trends in spending, workforce growth, and productivity, which clearly dominated in the real economy before QE? Is global stimulus finally taking hold and are we on the verge of 3% to 4% growth again?

Or is there something else going on here?

Yes! Central banks have taken over the markets and economy. They've put us on an endless stream of crack and stimulus to keep us going. And now nothing else "seems" to matter as much – not even the most fundamental demographic trends in spending.

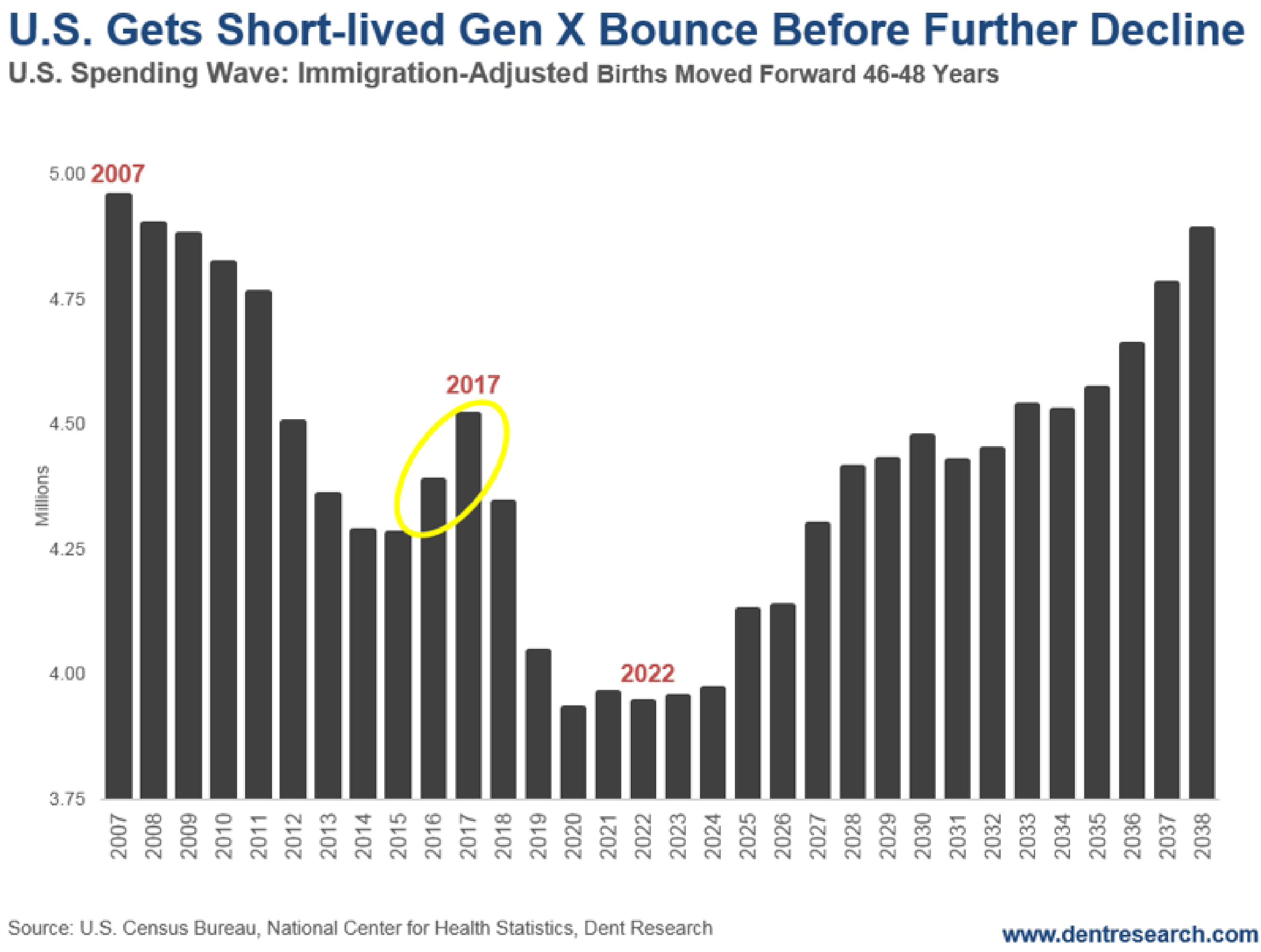
As long as the markets see low rates and almost-free money, and companies just buy back their stocks instead of investing in real growth, everything seems to keep chugging along all sunshine and roses.

But I maintain that you cannot live indefinitely off such something-for-nothing policies?

Fundamentals should *still* mean something in our economy…

And my Generational Spending Wave (immigration-adjusted births on a 46-year lag), which predicted the unprecedented boom from 1983 to 2007, as well as Japan's longer-term crash of the 1990s forward, does point to improving trends in 2016 and 2017 assuming the peak spending has edged to 47 up for the Gen-Xers.

The declining births of the Gen-X generation (1962 – 1975) caused the slowdown in growth from 2008 forward after the Baby Boom peaked in late 2007, right on cue. *But* there was a brief, sharp surge in Gen-X births in 1969 and 1970. Forty-seven years later, there was a bump… right in 2016/17.




Or, was it this two-year blip in demographics?

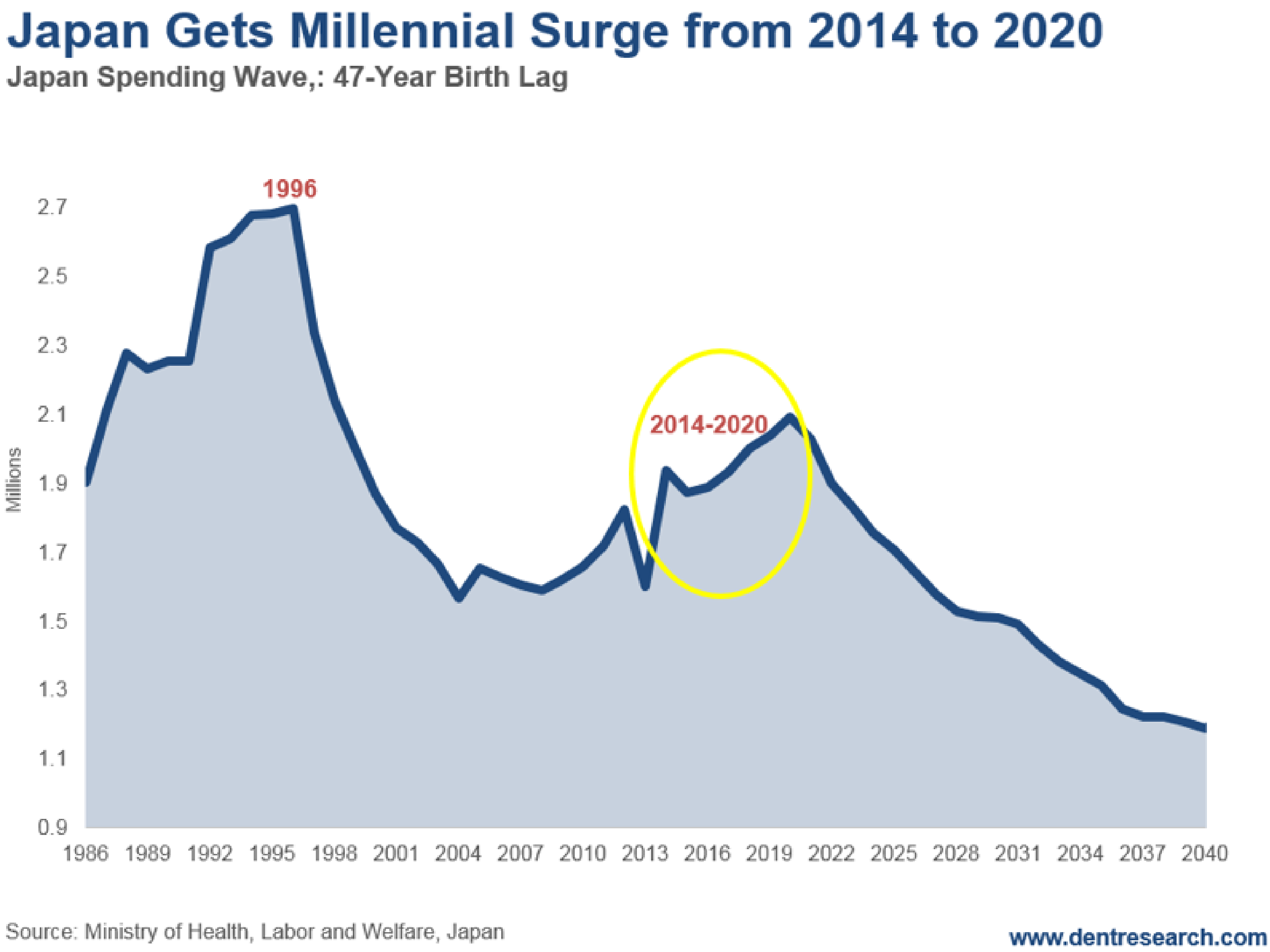
My research would suggest it's more the latter.

After all the economy and stock markets were stalling in 2014 and 2015, despite all the massive stimulus – and those were at the bottom of the first demographic wave down in spending.

The next wave down bottoms between 2020 and 2022 and doesn't turn up strongly until 2025. The worst year of demographic decline should be 2019.

Japan has had a similar, albeit larger, surge in demographics against a longer-term downtrend.

Its Millennial generation brought an end to its demographic decline in spending in 2003. But the trends didn't turn up more strongly until 2014, and now that they have, it'll only last through 2020 before turning down dramatically again for decades.

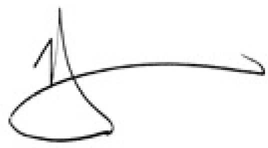



Prime Minister Abe is being credited with turning around Japan with his extreme acceleration in QE and his "three arrows" back in 2013. All that certainly would have an impact, but I don't believe that's what is most responsible for the improving trends. Rather, demographics is the key here as well, and this blip Japan is enjoying won't last for more than three years! And this Millennial bounce should have been stronger for Japan.

If demographics does still matter more, we should start to feel the power of demographics in the U.S. as we move into 2018.

If our economy starts to weaken for no obvious reason, and despite the new tax reform free lunch, then we will know that demographics still matter… and that central bank stimulus isn’t all it’s cracked up to be.

And it’s clear that the stock market is expecting Trump’s 3% – 4% growth rates. That’s why it is flying so high. What happens if this just doesn’t happen?



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