What will U.S. consumer spending patterns look like in 2020 and 2025?

By Sherry L. Jarrell, Garst Reese, and Gary L. Shoesmith

“Find a comfortable couch, lie back, and close your eyes. . . . Let your mind wander toward the future. Move, slowly, to the year 2030. Now open your eyes. What do you see? You see a country whose collective population is older than that in Florida today. You see a country where walkers outnumber strollers.”

Laurence J. Kotlikoff and Scott Burns in
The Coming Generational Storm
(The MIT Press, 2004)
There has been much speculation regarding the effects of the aging population on the U.S. economy. By the year 2025, more than 18% of the U.S. population is projected to be age 65 or older, greater than the percentage in Florida today. This has led some to describe the future of the United States as “a nation of Floridas.” Furthermore, the aging of the United States is not expected to pass with the demographic bulge produced by baby boomers (those born between 1946 and 1964). The U.S. population also is aging because of increased life expectancy and decreased numbers of offspring. As a result, current research projects that the U.S. age profile soon will transform from the current pyramid shape, with older groups at the top, to more of a barrel shape, with roughly 40% of the population divided fairly evenly between the youngest (under age 15) and oldest (over age 65) groups. This new profile will persist for decades.

Although much has been said about aging baby boomers leading to potential crises in Social Security and Medicare, we are more interested in the economic prospects of their retirement as they relate to consumer spending: in particular, whether they have saved enough to maintain their standards of living in retirement. In this regard, the Congressional Budget Office (CBO) reviewed studies from the past decade on the retirement prospects of aging Americans, and found evidence that varied with the standard used to define “enough.” Some studies defined it as the level that maintained the retiree’s working-age standard of living, whereas others defined it as the level that made the retiree as well-off as his or her parents at the same age.

The picture that emerges from the CBO study is that baby boomers, relative to their parents at the same age, have higher real incomes, are preparing for retirement at the same pace, and have accumulated more private wealth. Furthermore, the savings behavior of baby boomers and other future retirees is dependent on their views of the health and stability of government benefit programs. If they believe that they will receive all of the government benefits they have earned, then they will tend to work and save less. If they believe that these programs are in trouble, then they might increase savings and postpone retirement.

Barbara Butrica and Cori Uccello (in their March 2004 AARP Public Policy Institute Issue Paper, “How Will Boomers Fare in Retirement?”) find that at retirement, baby boomers will accumulate more wealth and real income than previous generations. Low replacement rates, however, lead late baby boomers to accumulate less wealth and receive no greater income than early baby boomers. (Replacement rates are the ratio of per capita household income—including earnings and Social Security benefits—at age 67 to average per capita household earnings between ages 50 and 54.) Although early baby boomers will achieve median replacement rates of 88%, similar to those of today’s retirees at 87%, baby boomers overall are expected to face replacement rates of only 80%. At the same time, poverty rates are expected to decline. Baby boomers probably will not experience significant reductions in postretirement resources or overall standards of living.

Our research into future spending patterns confirms previous findings from industry and academia. A 2003 Packaged Facts survey (posted on marketresearch.com) of “mature” consumers, ages 55 and older, offers the most detailed information related to future spending habits. Therefore, we draw numerous comparisons between the results. Our findings also reinforce research by Nancy Miller, Soyoung Kim, and Sherry Schofield-Tomschin (from their 1998 article, “The Effects of Activity and Aging on Rural Community Living and Consuming,” *The Journal of Consumer Affairs*). They discovered that individuals 65 and older have a considerably higher level of reported “inshopping” behavior—having stronger intentions to shop with local retailers—than those in the late middle-aged group, ages 50 to 64. They also found that the more socially active the person, regardless of age, the more likely he or she is to shop locally. Thus, in our future cities, we expect to uncover higher numbers of retailers serving product categories that appeal to older buyers, even if the categories attract fewer total dollars spent.

What impact will changing age demographics have on future spending patterns? We obtain a more complete picture of future spending by observing aggregate spending patterns in local economies that resemble the future now: those cities where “walkers outnumber strollers” today. This novel research approach is not based on speculation or long-term statistical forecasts, which are notorious for inaccuracy, but on actual observed data.

### Identification of Metropolitan Statistical Areas

We began with U.S. Bureau of Census data on the percent of the total U.S. population expected to fall within five age
groups through 2025 (see Exhibit 1). The share of the U.S. population attributed to people age 65 and older is expected to increase from 12.4% in 2005 to 16.3% in 2020 and 18.2% in 2025. By 2025, nearly one out of every four drivers will be age 65 or older, compared with 15.6% in 2005.

Given these national projections, we examined 178 metropolitan statistical areas (MSAs) to identify cities with age demographics in 2002 that were most similar to those projected for the U.S. economy in 2005, 2020, and 2025. We selected two MSAs for each year to verify that differences in buying patterns across cities are because of differing age distributions, not peculiarities in the cities. The York (Penn.) and Springfield (Mass.) MSAs best represent 2005. The Youngstown/Warren (Ohio) and Utica/Rome (N.Y.) MSAs best represent 2020, and the Lakeland/Winter Haven (Fla.) and Scranton/Wilkes-Barre/Hazelton (Penn.) MSAs best represent 2025. These MSAs symbolize present-day laboratories for investigating future spending and living habits.

### Income and Spending Patterns

We observed differences in retail spending patterns across the three pairs of MSAs, and compared these results to existing research on the spending habits of mature adults. In observing the retail sales data, we expected to find patterns that were consistent with previous research on older consumers. Given the relative dearth of comprehensive academic studies related to their buying and living habits, we largely relied on conclusions posted on marketresearch.com.

The research showed that, although many mature adults are highly mobile, most stay put; this results in the Northeast and Midwest remaining key mature markets. Our results support these findings: Three of our four 2020 and 2025 MSAs are in Ohio, New York, and Pennsylvania. Older consumers also:

- spend more of their income.
- continue to depend on their cars and prefer them to taxis or mass transit.
- spend increasingly larger shares of their income on healthcare.
- make TV a key element of their lifestyles.
- remain in their homes and avoid nursing facilities.
- are politically conservative.
- are civically active and wield growing influence.
- are joiners.
- spend heavily on housekeeping supplies, household furnishings and equipment, new vehicles, entertainment, computers, healthcare products, vitamins, healthier foods, and reading materials.
- spend less on apparel, cosmetics, and fast food.

Our results are consistent with nearly all of these conclusions, except that they are observed within the context of entire aggregate economies.

### Spending by Store Group

We used two types of data to observe changes in spending patterns across the pairs of MSAs. First, we took national and MSA-level retail sales data from *Demographics USA 2002: County Edition* (Trade Dimensions, 2002) to observe trends in retail spending by store group. Exhibit 2 on page 30 shows—

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The per capita EBI and retail sales figures result in a retail-sales-to-EBI ratio of .68 for the nation in 2002, which is roughly the same as the .67 ratio we obtained for the 2005 MSAs. However, that ratio increases to .76 for the 2020 MSAs and .77 for the 2025 MSAs. This is consistent with the findings on marketresearch.com that older consumers spend more of their income, and with other studies’ findings that older Americans spend at about the average of the population at large—but because their postretirement income falls, this spending represents larger fractions of their income.

Because per capita EBI (and therefore discretionary spending) is lower in all six MSAs compared with the nation, it’s not surprising that the percent of retail spending on necessities—such as products at food and beverage stores and the subcategory of grocery stores—is generally higher in all six MSAs, compared with the nation. The same is true for the general merchandise stores category, which includes discount stores. For the same reason, it’s not surprising to observe generally lower spending shares relative to the nation in the more discretionary categories of clothing and accessories stores, furniture and home furnishings stores, electronics and appliance stores, building materials stores, and garden equipment stores.

The more important observations from Exhibit 2 relate to spending patterns across the three pairs of MSAs. Looking at food and beverage stores, spending as a share of total retail sales declines across the three pairs of MSAs with increasingly older populations. Beginning with an average of 17.2% in the 2005 MSAs, spending at food and beverage stores drops to 14.8% in the 2020 MSAs and 14.1% in the 2025 MSAs. Similarly, the subcategory of grocery stores falls from an average of 15.1% in the 2005 MSAs to 13.2% in the 2025 MSAs. Note that the approximately 3% declines in these categories are in spending relative to total retail sales, and that within the categories, the decreases in spending are nearly 20%. For example, for every $1,000 in retail spending in the 2005 MSAs, approximately $151 is spent at grocery stores. That compares with $132 in the 2020 MSAs and $122 in the 2025 MSAs. Thus, although spending shares at food and beverage stores are higher than the national average in all six MSAs because of below-average per capita EBI, the spending shares fall across the three pairs of MSAs as their populations become increasingly older.

The trend also is downward over time for food service and drinking places, from an average of 9.7% in the 2005 MSAs to 7.8% in the 2020 MSAs and 7.5% in the 2025 MSAs. Similarly, the subcategory of grocery stores falls from an average of 15.1% in the 2005 MSAs to 12.2% in the 2025 MSAs. Note that the approximately 3% declines in these categories are in spending relative to total retail sales, and that within the categories, the decreases in spending are nearly 20%. For example, for every $1,000 in retail spending in the 2005 MSAs, approximately $151 is spent at grocery stores. That compares with $132 in the 2020 MSAs and $122 in the 2025 MSAs. Thus, although spending shares at food and beverage stores are higher than the national average in all six MSAs because of below-average per capita EBI, the spending shares fall across the three pairs of MSAs as their populations become increasingly older.

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Per capita spending at clothing and accessories stores
decreases from an average of 4% of total retail sales in the two 2005 MSAs to 3.1% in the 2020 MSAs and 3.2% in the 2025 MSAs. As before, although the 1% drop appears small, it represents an approximately 20% reduction in per capita dollars spent on clothing and accessories. This result is consistent with the findings on marketresearch.com that mature consumers spend less on apparel. However, in a July 1997 American Demographics article (“The Ungraying of America: Older Americans are the Biggest Spenders, and Their Importance to the Consumer Marketplace is Growing”), author Cheryl Russell projects that, based on the then-current spending of householders ages 55 to 64, women’s clothing will be a big seller to that age group. Although the issue remains a bit unclear, the conflicting results might reflect differences in gender-based spending and/or type of store. For example, although spending shares decrease across our pairs of MSAs for clothing and accessories stores, shares of retail spending at department stores don’t decline as decidedly, and remain almost 2% above the national average in our 2025 MSAs.

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Therefore, although our findings and those on marketresearch.com point to reduced per capita spending on clothing in the future, this result might not apply to women’s clothing sold in department stores.

What types of stores benefit from older populations? Our results indicate increased spending on furniture, automobiles, and homes. Looking at the per capita shares of total retail spending for furniture, home furnishings, and electronics and appliances, spending shares rise from an average of 2% in the 2003 MSAs to 3.9% in the 2020 MSAs and 4.2% in the 2025 MSAs. This suggests a doubling of per capita spending at furniture and related stores. There are similar patterns for the subcategories of furniture and home furnishings stores, and electronics and appliance stores. These results also are consistent with those found on marketresearch.com.

Spending also generally rises at building materials and garden equipment stores. Upward trends across the six MSAs additionally are shown for motor vehicles and parts, and healthcare and personal care, although the patterns aren’t as consistently upward as in other categories.

### Spending by Category

We examined a second source of retail spending data for each of the six MSAs: a count of the number of establishments per business category listed on yellowpagecity.com, adjusted proportionately to represent a population of 500,000. For example, for the York MSA (population 381,194), each count is increased by a factor of 1.31 (500,000/381,194). The data offer greater detail than the “number of establishments” figures from the Bureau of Labor Statistics (BLS), including self-employed enterprises and payroll firms that report to the BLS. This became important in using an accurate count of the number of business establishments in categories ranging from florists to used-car dealers.

Although the Yellow Pages data don’t capture the differing scales of the businesses, many age-related trends became apparent with respect to the number and types of businesses serving the six MSAs. For example, the population-adjusted numbers of funeral facilities plus crematories in the 2005 MSAs are York 46 and Springfield 61, for an average of 54. Similar figures for the 2025 MSAs are Lakeland 119 and Scranton 173, for an average of 146. Although it is logical to expect more funeral facilities and crematories in 2025, the Yellow Pages data are more specific: They suggest that the number might double or even triple.

We took the Yellow Pages data and organized it into seven groups: death services, healthcare, real estate and living arrangements, activities, finance, products, and services.

**Death services.** Again, the data suggest that the number of funeral facilities and crematories per 500,000 residents might double or even triple by 2025. The same applies to the number of cemeteries and companies that provide monuments. Thus, although the strain on the healthcare system has received much attention in relation to aging in the United States, the next logical step—death—is rarely mentioned, although it certainly represents many business and professional opportunities.

**Healthcare.** Along with roughly 30% more doctors listed for 2025, the data suggest that a range of medical services and products will be in greater demand as well. Nearly all of them relate to age. Consistent with the expectation that mental and self-care disabilities increase with age, listings also jump considerably for alcoholism information and treatment, and counseling services. This trend doesn’t occur, however, for mental health services.

**Real estate and living arrangements.** Real estate listings significantly increase across the six MSAs, along with a particularly substantial growth in land surveyors. The number of listings for nursing and convalescent homes moves from an average of 30 for the 2005 MSAs to 50 for the 2020 and 2025 MSAs. There’s an even larger average rise in the number of retirement communities and homes.

Perhaps the most surprising pattern, at least initially, is the dramatic increase in the number of listings for mobile home dealers and mobile home parks and communities. Insurance studies have shown, however, that the percent of manufactured (mobile) home owners who are age 65 and older has risen from 26% in 1990 to 30% in 2002. Similar percentages are cited for owners who are retired. In addition, over the...
same period, the amount of owners age 80 and older has changed from 3% to 7%. Therefore, the future might be replete with mobile homes. The data might reflect the strategy of retirees selling larger homes to extract the equity, which is used to help fund retirement and buy a less-expensive manufactured home.

Activities. The data show a marked increase in the number of associations, clubs, churches, and fraternal organizations. This supports the description of mature adults as “joiners.” Bingo games are more popular in the 2020 and 2025 MSAs. Perhaps most noticeably, more golf is played in the 2020 and 2025 MSAs, requiring many more golf courses and golf-related products and services—not just in Florida, but also in Youngstown, Utica, and Scranton. Residents in the 2020 and 2025 MSAs also spend more time at libraries, at recreation centers, at parks, and reading newspapers.

Finance. Of the categories that show an overall rise in listings between the 2005 and 2025 MSAs, the most obvious patterns occur in the categories of credit and debt counseling services, insurance, loans, mutual funds, and stock and bond brokers—probably because retirees will seek assistance in managing their retirement assets. The other categories show more erratic patterns across the MSAs. Credit and debt counseling services, insurance, and loans hold the most promise.

Products. The data again support the survey based descriptions of mature consumers and the retail sales data shown in Exhibit 2. For example, the number of listings for new and used automobile dealers increases between the 2005 and 2025 MSAs, as do listings for new and used furniture dealers, health and diet foods, hardware, lawn and garden equipment and supplies, service stations, TV and radio equipment sales and service, and vitamins. But the data also reveal many other rising trends that are likely age-related, such as antique dealers, arts and crafts, ceramic equipment and supplies,embroidery, gift shops, giftwares, jewelers, and the three security related categories. A notable growth also is shown for groceries; however, closer examination revealed that the primary reason for this pattern is that more convenience stores are listed in the 2025 MSAs compared with the 2005 MSAs. Despite the jump in the number of grocery stores, the retail sales data in Exhibit 2 indicate reduced overall spending at grocery stores. The substantial increase in listings for florists is probably related to the number of hospitals, funeral facilities, and crematories in the MSAs.

Services. The Yellow Pages listings indicate many more business, employment, and investment opportunities in the future. Several categories relate to home improvement, such as contractors for remodeling, landscaping, and swimming pools. Home maintenance also is in greater demand in MSAs with older populations. Similarly, listings related to servicing and repairing automobiles, furniture, and jewelry rise across the three pairs of MSAs—along with beauty salons and massage. Pets apparently deserve no less, as pet washing and grooming services are in greater demand in MSAs with older populations. Listings for restaurants also increase, which seems consistent with the service preferences revealed in other categories. But it conflicts with the retail sales data in Exhibit 2, which show a decline in dollars spent at food service and drinking places. This might be attributable to fewer dollars spent at drinking places.

Research Implications

This innovative methodology for studying various aspects of the future reveals that many of the detailed trends across the three pairs of MSAs have significant implications, with respect to new-product development and marketing. For example, marketers need to begin partnering with development and land use officials to anticipate future growth in demand for golfing facilities, churches, parks, libraries, cemeteries, and mobile home parks. And medical services providers must be prepared to meet the demands for home health services and many other healthcare preferences of older adults in an increasingly competitive environment.

Although it’s true that many factors other than age will shape future spending patterns, such as changing tastes among mature buyers, new technology, and various economic aspects, many of these trends are almost entirely age-related. Therefore, it’s unlikely the future will look that different from Lakeland today, where the share of the population age 65 and older is identical to that projected for the nation in 2025. The United States will not be a nation of Floridas; it will be a nation of Lakelands.

Additional Reading


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