InvestSense

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The Demographic Shift

Demographics, the statistical study of human populations, holds a profound influence on societies, economies, and policies worldwide. As our global population undergoes a seismic shift towards ageing, understanding the impacts of an ageing population becomes essential. This article delves into the implications of this demographic transformation, discussing both its advantages and challenges. By examining the significance of population growth and the intricate dynamics at play, we can better comprehend the future that lies ahead. This is a critical focal point for asset managers worldwide.

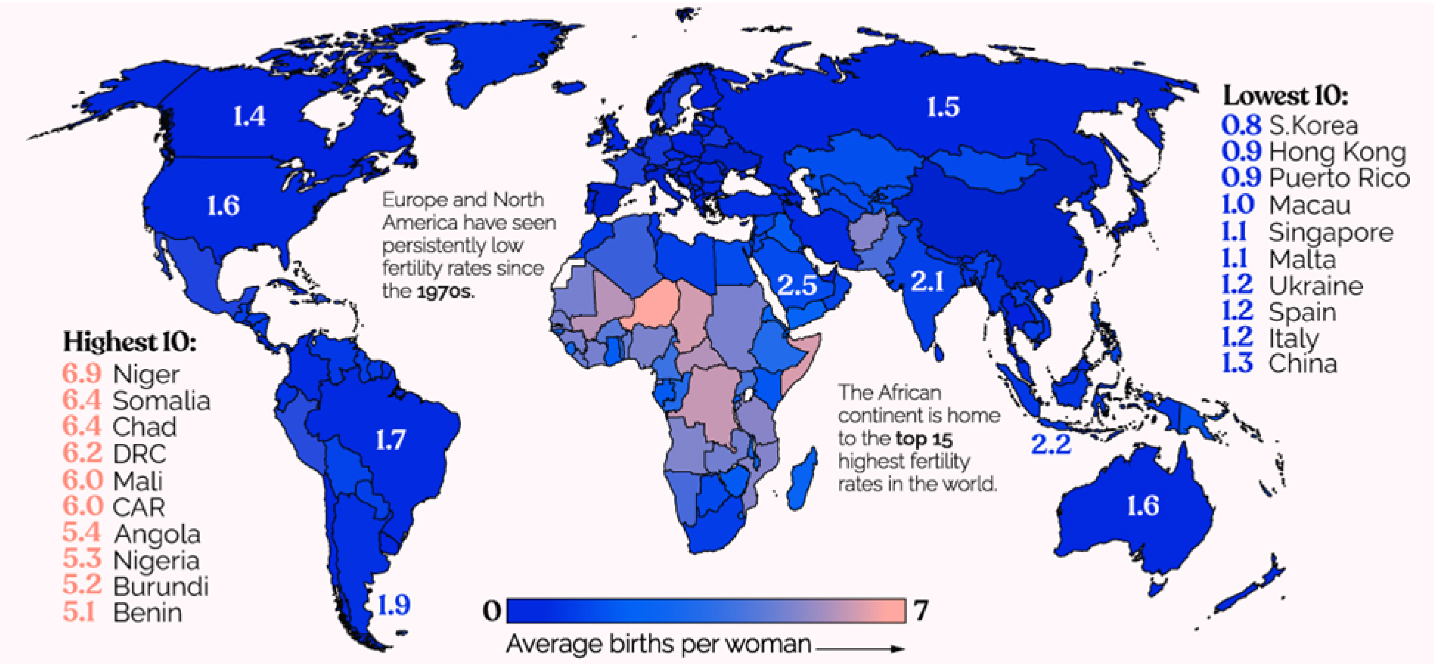
The Ageing Population Phenomenon

The world is experiencing an unprecedented ageing trend. According to the United Nations, the number of people aged 65 years or older worldwide is projected to more than double, rising from 761 million in 2021 (1 in 10 people) to 1.6 billion in 2050 (1 in 6 people). The number of people aged 80 years or older is growing even faster. Several factors contribute to this phenomenon, including declining birth rates and increasing life expectancies. While longer life spans signify progress in healthcare and quality of life, the ripple effects are far-reaching and complex.

The single most important factor in population growth is the total fertility rate (TFR). If, on average, women give birth to 2.1 children and these children survive to the age of 15, any given woman will have replaced herself and her partner upon death. A TFR of 2.1 is known as the replacement rate. This replacement rate is the critical threshold that allows one generation to completely replace itself.

In 2020, the global fertility rate reached 2.3, representing a significant decline from the 4.7 rate recorded in the 1960s. Additionally, it's worth highlighting that as of 2020, nearly two-thirds of the world's population resided in regions where the fertility rate fell below the critical threshold of 2.1. Below, Chart 1 examines global fertility rates, with areas shaded in dark blue indicating the lowest rates.

Chart 1: A Global snapshot of fertility rates in 2020



Source: The World Bank - Visual Capitalist

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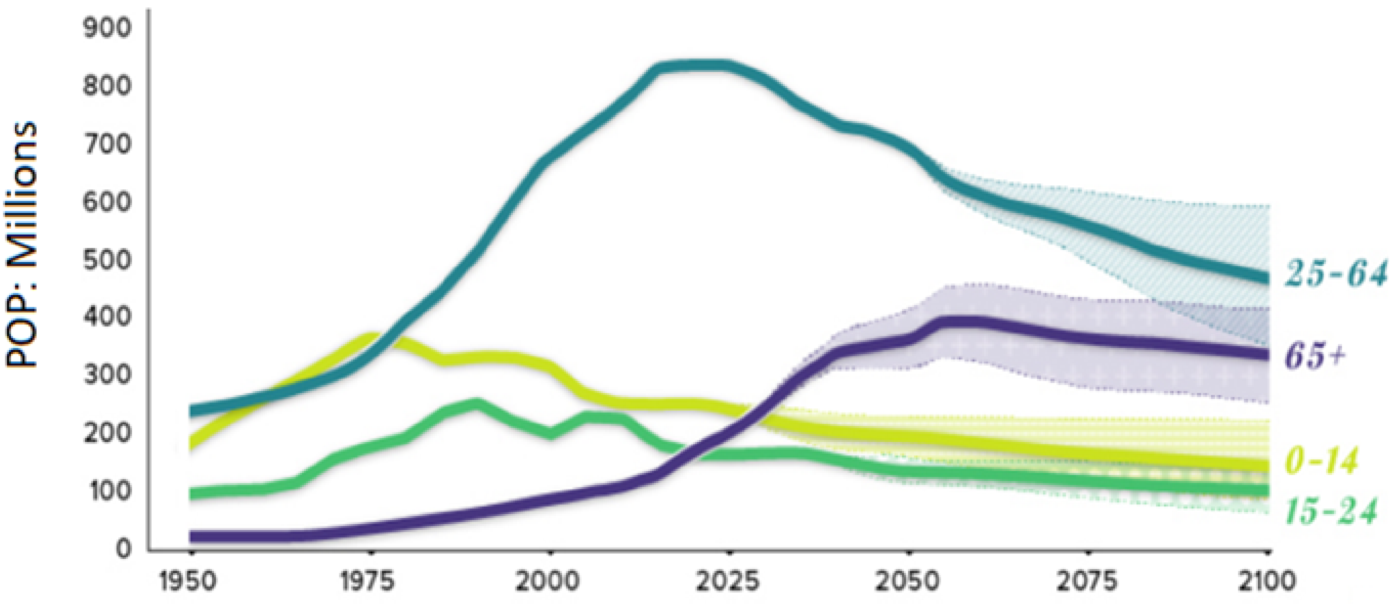
In Africa, Niger holds the distinction of having the highest fertility rate at 6.9, signifying that, on average, a woman in Niger will give birth to seven children in her lifetime. Conversely, South Korea boasts the lowest fertility rate, standing at 0.8. Meanwhile, China's fertility rate currently registers at 1.3. Their highest recorded fertility rate was approximately 5.8 children per woman, which occurred in the early 1950s.

The below chart places a closer lens on China which has been one of the key drivers for population growth over the last 30 years. Between China and India, they account for almost a third of the current global population of almost 8 billion. The trajectory however paints a very different picture as we see China currently peaking with a forecast of a working population which is rapidly reducing. China's constrictive population pyramid was partly shaped by decades of the one-child policy, which was implemented in 1980 before being loosened to a two-child policy in 2016, and then a three-child policy in 2021. Despite the change, the high cost of raising a child has been implicated in deterring couples from having a third child. Further to the restrictive child policy, the deep-rooted cultural preference for boys has also resulted in an uneven gender tilt. Often termed "the missing women of China", this shortage of women is expected to worsen over time. According to the U.N.'s World Population Prospects, China is projected to have around 244 million fewer women than men in 2050. Below in Chart 2, you can observe China's historical population data until 2019 and the projected population figures extending to 2100. Notably, this data underscores two key trends: an already peaked point in population growth and a rising segment within the over-65 age bracket, accompanied by a declining demographic within the 25-64 age group.

Chart 2: Population by broad age groups in China



Source: UN Population projects 2019, 95% prediction interval - Visual Capitalist

The Geography of the world's oldest countries and territories is shifting

The United Nations 'World Social Report 2023', mentions that population ageing is progressing more rapidly in developing countries than it did historically in more developed countries. From 2021 to 2050, the population aged 65 or over in Eastern and South-Eastern Asia and Central and Southern Asia is projected to grow by more than 540 million, accounting for more than 60 per cent of the global increase. In Europe, Northern America, Australia and New Zealand where population ageing is already well advanced, further ageing will take place more slowly. It's worth noting that many countries, which once enjoyed a population advantage, are currently experiencing a transformation as their population pyramids shift due to the ageing of this generation. Chart 3 below shows the forecast aged population shift from Europe towards Eastern and South-Eastern Asia by 2050.

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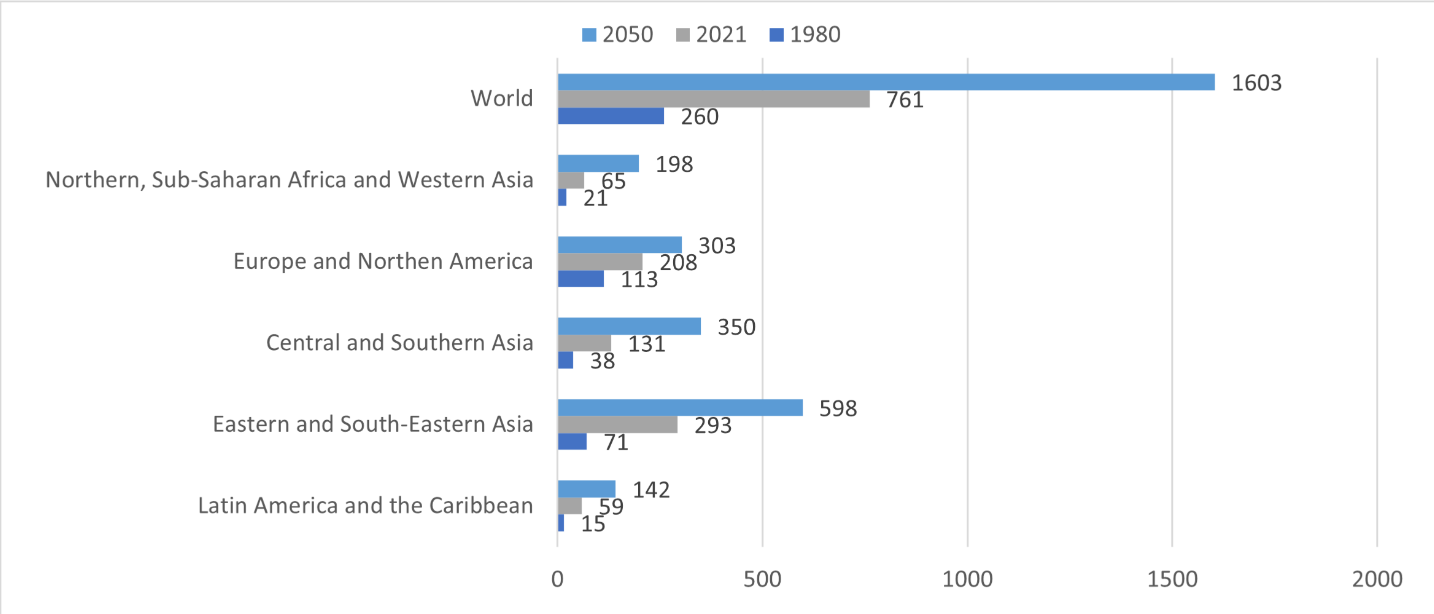
Chart 3: Global regions - people aged over 65 or above in millions



Source: United Nations (2022a)

Demographic Dividend - a new buzzword?

The demographic dividend is a concept in economics and demography that refers to a period of potential economic growth and development that can occur when a country experiences a favourable demographic transition. In simple terms, an opportunity for a country's economy to benefit when there are more people of working age (usually between 15 and 64 years old) in the population compared to the number of dependents (like children and the elderly).

During this period, the workforce is larger, and there are fewer people who need to be supported, which can lead to increased productivity and economic growth. This can be a significant boost for a country, like having more hands to get work done and more money to invest in things like education and healthcare.

However, to make the most of this opportunity, a country needs to ensure that these working-age people have access to education, jobs, and other resources. If they do, it can lead to a period of prosperity and development. But if not, it might not be as beneficial. So, the demographic dividend is all about having the right balance of people in the right age groups to help a country's economy thrive. We discuss these factors in more detail below.

Why population Growth Matters and the Impact of an Ageing Population:

Population growth assumes significance within the demographic dividend phase due to its pivotal role in fostering the potential for economic expansion and development. The rationale behind this lies in the following primary impact points.

Work Force: Population growth, coupled with declining fertility rates and improved healthcare, leads to a larger working-age population relative to dependents (children and elderly). This shift to a younger age structure creates an expanding workforce that can contribute to economic productivity and growth. Innovation and entrepreneurship are also fostered which drives economic

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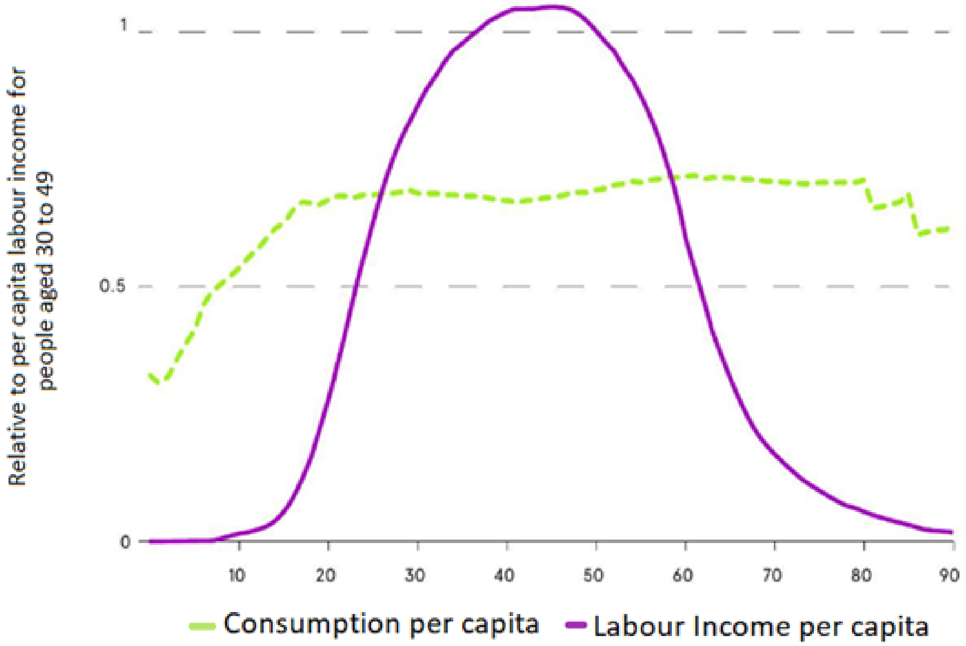
growth through the development of new industries, technologies and solutions. In addition, a larger workforce fuels a larger consumer base which further boosts economic activities through demand. On the contrary, with a smaller working-age population, there might be labour shortages in certain sectors. This can lead to skills gaps and affect economic output

Dependency and economics: A growing population can help reduce the dependency ratio, which is the ratio of dependents (children and elderly) to the working-age population. A lower dependency ratio means a larger proportion of the population is capable of contributing to the economy, potentially leading to higher savings and investments. A larger elderly population can strain public resources, such as healthcare and pension systems, leading to increased government spending. This can potentially lead to higher taxes or fiscal deficits. Consumption patterns may also change as older individuals tend to spend differently than younger ones, impacting industries like retail and entertainment.

Policy adjustments: Where faced with an ageing population, governments may need to implement policies that encourage longer working lives, promote retirement savings, and ensure adequate healthcare and social services for the elderly. Housing and urban planning infrastructure changes also come to the forefront as needs might shift, with increased demand for elderly-friendly accommodations and infrastructure.

Chart 4 below shows the age patterns of labour income and consumption, averaged across 41 countries, based on data between 1994 and 2016. From the age of 20 onwards, the consumption levels remain fairly constant. The labour income per capital reflects a significantly contrasting bell curve between the ages of 20 and 70. This highlights the strain an ageing population can place on an economy.

Chart 4: Consumption per capita compared to Labour Income per capita



Source: United Nations, World Social Report 2023

Demographics is a key factor but not in isolation

Population growth alone is not sufficient to realise the demographic dividend. The quality of the workforce, education and skill

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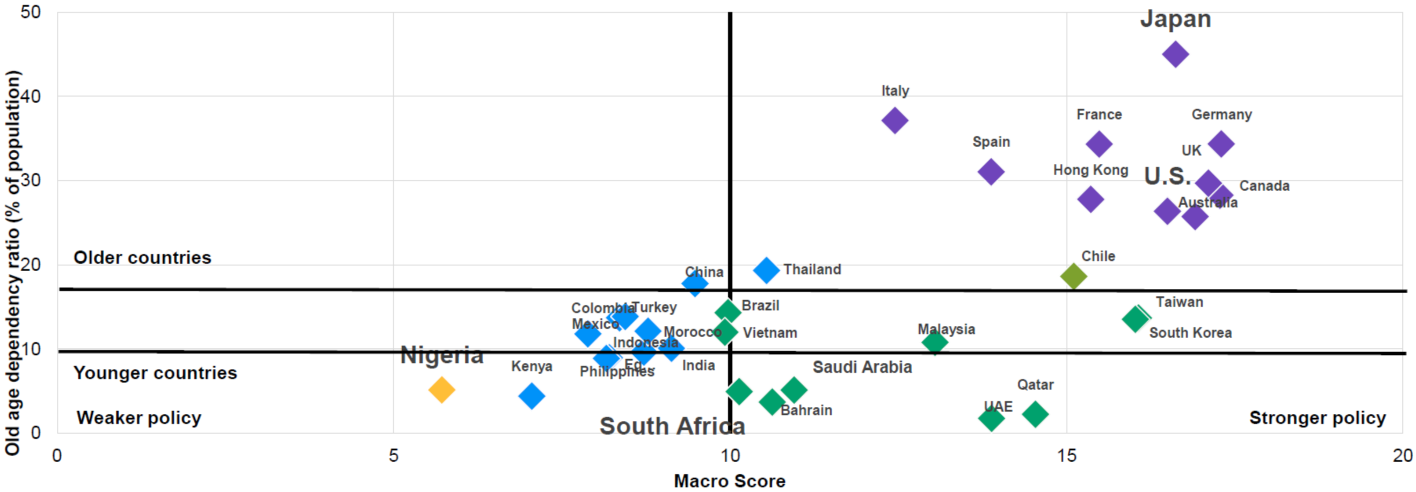
development, healthcare infrastructure, job opportunities, and supportive government policies all play critical roles in ensuring that the potential benefits of a growing population are harnessed effectively. If these factors are neglected, a rapidly growing population can become a burden rather than a dividend, as it could strain resources, infrastructure, and services, leading to challenges such as unemployment and social unrest.

Chart 5 below illustrates economies with a younger population, good macro governance and education look set to harness the demographic dividend (bottom-right quadrant). The macro score applied in the horizontal axis is derived from a combination of factors such as economic freedom, corruption perception, human capital, governance and education. Despite South Africa's population growth resulting in a low old-age dependency ratio, a poor score on the macro front places us in the middle of the policy quadrants. In other words, we have to pull up our socks to seize the opportunity presented by the demographic dividend.

Chart 5: Macro score vs. old age dependency ratio[1] (% of population)



Source: Heritage, Penn World Table (PWT), Transparency Internation, World Bank Governance Indicators (WGI), J.P. Morgan Asset Management, September 2022.

Conclusion

Understanding the shifting of demographic patterns and the likely impact across global economies is a crucial part of understanding the future growth rates of countries as well as the companies that operate within them. Asset managers are spending a significant amount of time developing a deeper understanding of these patterns to test whether the business case for companies they own are robust for the future.

[1] Old age dependency ratio is the number of people aged 65+ per 100 people of working age (ages 20-64). The macro score is based on J.P. Morgan Asset Management country-level analysis. It is a blended governance and education score based on 40% WGI Rule of Law (measures the extent to which agents have confidence in and abide by the rules of society), 20% Index of Economic Freedom (measures jurisdictions against each other in terms of parameters such as trade freedom, tax burden, judicial effectiveness, and more), 20% Corruption Perception Index (measures how corrupt each country's public sector is perceived to be), 20% PWT Human Capital Index (measures average years of schooling and an assumed rate of return to education). Score components as of Heritage (2021), PWT (2021), WGI (2021).

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August 2023

MARKET REPORT

31/08/2023

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
FTSE/JSE All Share Index (ALSI)	ZAR	0.4%	4.9%	15.8%	14.9%	8.9%	9.5%	17.1%	14.1%
FTSE/JSE SA Listed Property	ZAR	4.2%	-1.3%	10.3%	17.2%	-3.2%	2.6%	26.9%	21.3%
SA All Bond Index (ALBI)	ZAR	6.7%	3.9%	7.5%	7.8%	7.7%	7.8%	8.3%	8.1%
SA Cash Index (SteFI)	ZAR	2.0%	5.2%	7.3%	5.2%	5.9%	6.3%	0.4%	0.4%
Balanced Benchmark	ZAR	1.5%	8.0%	15.3%	11.8%	8.7%	9.7%	11.6%	9.5%
SA Inflation (1 month lag)	ZAR	1.3%	3.7%	4.7%	6.2%	4.9%	5.1%	1.4%	1.4%
GLOBAL MARKET INDICES BASED TO USD									
Global Equity (Datastream World)	USD	7.1%	16.5%	16.2%	8.9%	8.9%	9.9%	18.3%	14.6%
Emerging Markets Equity (Datastream EM)	USD	3.7%	4.9%	1.7%	-1.0%	1.4%	3.4%	19.2%	17.1%
Global Property	USD	3.3%	1.1%	-7.6%	0.7%	1.0%	4.1%	19.5%	16.0%
Global Bonds (Barclays Global Bond Index)	USD	-0.7%	0.7%	-0.1%	-6.1%	-1.2%	0.1%	8.6%	7.3%
Global Cash	USD	1.4%	3.6%	5.0%	2.1%	2.0%	1.4%	0.5%	0.4%
MAJOR INDICES BASED TO RANDS									
FTSE/JSE All Share Index (ALSI)	ZAR	0.4%	4.9%	15.8%	14.9%	8.9%	9.5%	17.1%	14.1%
Global Equity (Datastream World)	ZAR	2.3%	29.7%	29.1%	13.0%	14.6%	16.8%	16.0%	15.1%
Emerging Markets Equity (Datastream EM)	ZAR	-1.0%	16.7%	13.0%	2.7%	6.7%	9.9%	13.6%	13.2%
Global Property	ZAR	-1.3%	12.3%	2.6%	4.5%	6.3%	10.7%	18.2%	17.3%
SA All Bond Index (ALBI)	ZAR	6.7%	3.9%	7.5%	7.8%	7.7%	7.8%	8.3%	8.1%
Global Bonds (Barclays Global Bond Index)	ZAR	-5.1%	12.1%	11.0%	-2.6%	4.0%	6.4%	14.4%	13.8%
COMMODITIES									
Gold (US Dollars)	USD	-1.5%	7.0%	13.0%	-0.4%	10.1%	3.4%	13.9%	13.7%
Gold (Rands)	ZAR	-5.9%	19.0%	25.5%	3.3%	15.9%	9.9%		
CURRENCIES									
Rand / Dollar	ZAR	4.4%	-11.3%	-11.1%	-3.8%	-5.3%	-6.3%	15.5%	15.1%
Rand / GBP Pound	ZAR	2.3%	-17.2%	-21.0%	-1.9%	-4.7%	-4.2%	13.3%	14.6%
Rand / Euro	ZAR	2.7%	-13.2%	-19.9%	-0.5%	-3.8%	-4.3%	12.9%	13.3%

Spot Rates		31-Aug-23	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US$	Rand	18.9	18.9	17.0	14.7	10.2	7.3
Rand/GBP	Rand	24.0	24.0	19.8	19.1	15.8	11.6
Rand/EUR	Rand	20.6	20.6	17.1	17.0	13.5	8.0
RATES							
Libor 6m $	US$	5.9	5.8	3.7	2.5	0.4	1.2
Repo Rate	Rand	8.25	8.25	5.50	6.50	5.00	11.00
Prime	Rand	11.75	11.75	9.00	10.00	8.50	15.50
All Bond Index Yield	Rand	10.4	10.5	11.6	9.6	8.5	9.7
COMMODITIES							
Gold ($/oz)	US$	1,942.5	1,916.0	1,719.6	1,202.8	1,397.6	376.5
Platinum	US$	980.0	897.0	845.0	792.0	1,514.0	707.0
Oil (Brent Crude) $	US$	86.9	74.5	96.6	77.7	116.2	29.9
INFLATION							
SA Inflation	%	4.7	6.3	7.6	4.9	6.3	9.4

data provided by FE Analytics

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