

THE TWO FACETS OF THE DEMOGRAPHIC TRANSITION

Carmignac's Note

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Demographic trends are an important issue for asset managers. On the one hand, there's the ageing population, which – while creating opportunities in many sectors – could give rise to Japanese-style deflationary pressure in ageing countries. And on the other, there's the rapidly swelling global population, which is fuelling support for “degrowth” policies to prevent the depletion of the Earth's natural resources.

Ageing societies and the steady pace of new births are two paradoxical trends giving rise to opposing strategies: to compensate the effects of the rising proportion of elderly, and to hinder the kind of economic growth that could however fund such efforts. One way to square this circle is to promote labour and productivity – but we also need to take a closer look at the official population forecasts from the UN, which state that the global population won't peak until around 2085, after adding some 2.3 billion more mouths to feed to the 8.1 billion already on the planet.

An ageing population isn't a threat to economic growth until the working-age segment – that is, people between the ages of 15 and 65 – starts to shrink. On a global level, the working-age population began to contract in 2015, by less than 0.1% per year, and now makes up 65% of the total population. The proportion of under 15 year-olds has declined by less than 0.2% per year and now sits at 25%, while that of over-65s has grown at roughly the same pace and currently stands at around 10%¹. In Japan, people of working age account for just 58.5% of the population – down 10 percentage points from 1990 – while over-65s make up 30% of the population².

After seeing the experience in Japan – a country well ahead in the ageing process – many analysts are now concerned that a dark deflationary winter awaits, especially in more mature economies. Yet this bleak outlook doesn't consider several factors that could mitigate the impact to economic growth. First of all, Japan hasn't used immigration to make up for the decline in working-age people.

Second, the country had to grapple with the biggest property-sector crash in history. And third, the government has adopted economic policies that have increased the deflationary pressure, pushed up debt levels, and paralyzed the job market, especially with regard to wage progression. **Other ageing countries can learn from Japan to alleviate the consequences of their own demographic winters.** That said, per capita GDP in the country has grown 0.89% since 1990, compared with 1.47% in the US and 1.03% in France, suggesting Japan isn't doing too badly despite the demographic decline compounded by three strong recessionary factors.

Immigration is one way to mitigate the effects of an ageing population – although it's becoming increasingly clear that citizens in host countries would like to see tighter controls on migration – but there are others. One is to increase the workforce participation rate by bringing more women into the job market; another is to raise the retirement age or the number of working hours (although this measure would be hard to adopt in light of modern-day social aspirations). **In any case, productivity gains will be essential, achieved through greater investment and stepped-up efforts in education and innovation. Here, artificial intelligence (AI) will likely be a key element of the structural shifts needed to respond to the decline in the working-age population,** owing to its potential for enabling productivity gains and thus replacing the “missing” workers. From a macroeconomic perspective, the current hype about AI is warranted.

INDEPENDENT FORECASTS SUGGEST THAT THE GLOBAL POPULATION WILL PEAK AT AROUND 9 BILLION IN 2045, AND THEN FALL TO 7.5 BILLION BY 2100

The UN is behind the forecast of a 10.4 billion peak in the global population in 2085, up from 8.1 billion people today. But independent organisations³ have issued more conservative estimates – they put the peak at 9 billion people with a timing of around 2045, followed by a drop to 7.5 billion by 2100. The difference arises from the fact that the UN figures are calculated by extrapolating purely demographic data, whereas other organisations use models that incorporate the interplay between socio-economic development and planetary boundaries. For instance, China's population appears to have declined – well ahead of forecasts made even recently – which lends credibility to the hypothesis of a nearer-term peak. If actual data continue to corroborate these dynamic models, the momentum behind negative growth movements, which are driven by fears of an overpopulated planet, could die down. This would pave the way to more sustained economic growth and enhanced productivity as economic agents take a more realistic view of the planetary boundaries that are driving the energy transition.

A greater amount of labour coupled with technological advancement will spur economic output and productivity gains, while the impending depopulation will enable us to take a more pragmatic approach to how we use natural resources. Taken together, these shifts will help economies offset the effects of their ageing populations. If you look at recent advancements in the fields of robotics – where Japan excels by necessity – artificial intelligence, which has come at just the right time, and other key areas (like nanotechnology), it becomes clear that humankind's ability to adapt to the challenges thrown up by nature and its powerful cycles remains intact. **The theme of innovation – first and foremost AI – and the disparate demographics in countries at different stages of economic development are opening up opportunities for investment and regional diversification that can be best seized through an active and global investment approach.**

¹All demographic statistics (excluding projections) come from the United Nations World Population Prospects report, available via Our World in Data (December 2021).

²The equivalent figures are 37% and 33% for France; 44% and 24% for the US; 55% and 19% for China; and 52% and 10% for India.

³Earth for All study for the Club of Rome, March 2023.

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