



# Demographics

## A key driver of everything

Demographics are evolving at the fastest pace in history...

...adding fuel to the structural changes that are reshaping the global economy...

...with big implications for potential growth and policymaking



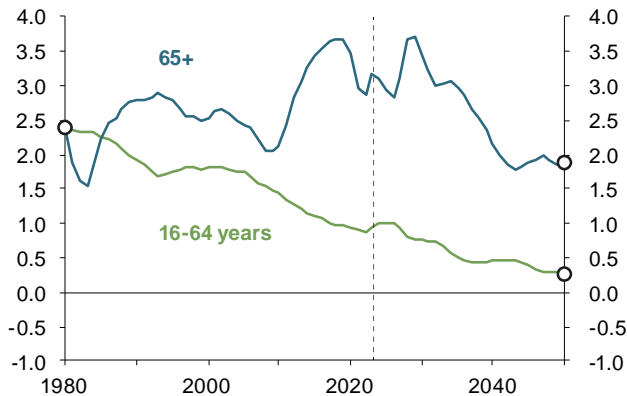
*This is a Free to View version of a report with the same title published on 12-May-24.*

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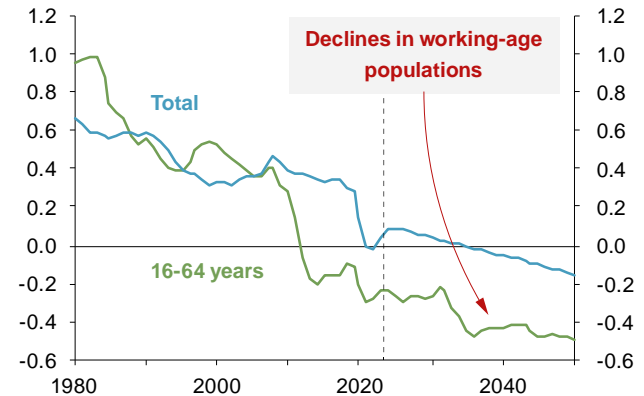
# The generation game

Demographic change will have indirect impacts across global economies ...

Global population growth by age group (% , yr)



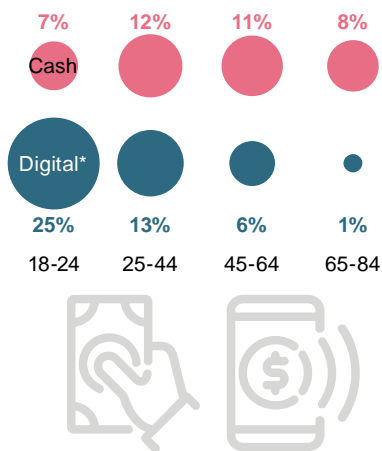
Population growth by age group in developed regions (% , yr)



... accelerating trends across our key themes ...

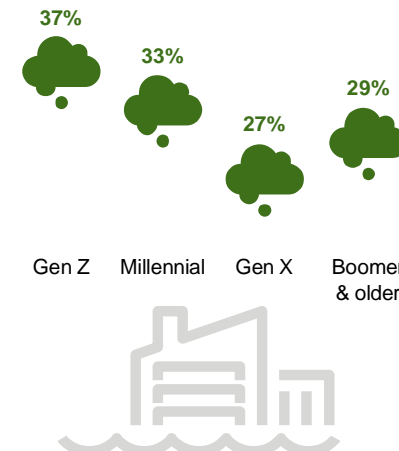
Payment choices by age group vary:

Which method of payment did you last use in a store? (Sweden, 2023)



Younger people see climate change as a

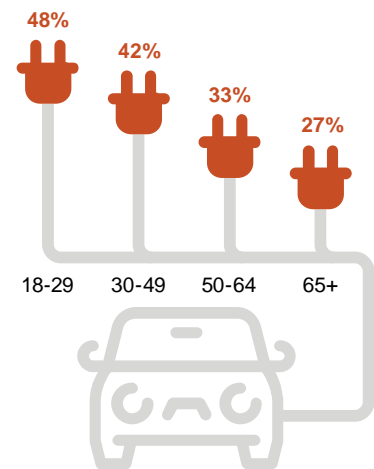
top priority: Addressing climate change is my top priority (US)



Younger generations are more likely to

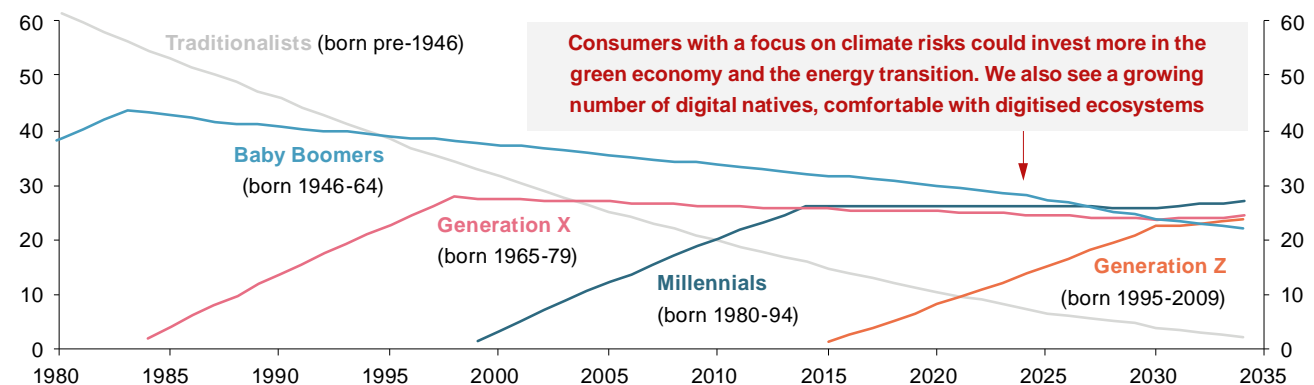
want to buy an electric vehicle:

Share interested in buying an EV (US)



... with implications for spending patterns and tech adoption

Share of adult population across developed regions (%)



Note: \*Digital=Apple Pay, Samsung Pay or Google Pay.

Source: UN Population Division, Sveriges Riksbank: Payment report 2023, Pew Research, FINN EV Ownership Report, HSBC

# Fuel for change

Demographics can be a divisive topic. For some, it's one of the most important drivers of the global economy, whilst for others it's too long term or irrelevant for their space. We agree with the first perspective and in this report show reasons why demographics' impact on the global economy is more current and more important than many people think.

Yes, demographics data may be relatively slow moving compared to other macro indicators, but we're living through the fastest pace of demographic change in history, with birth rates falling at a record pace, ageing of populations happening quickly and key demographic ratios moving just as speedily.

And beyond that, the importance of demographics affects far more than we might think. Which scenario we go down in terms of population sizes is as important, if not more, than any other single factor in determining potential growth rates – crucial for thinking about long-term interest rates and valuations.

For example, no factor is more important in determining future debt dynamics, with rapid ageing meaning worrying debt figures for governments that only look set to get materially worse in the years to come. Decisions over retirement ages, pensions and health spending are going to be crucial for fiscal policy – putting demographics at the front and centre for those decisions.

Demographic change also accelerates many of the other structural changes in the global economy. In *Gamechangers: Why the world will never be the same again*, 3 April 2024, we posited that the enormous structural, innovation and geopolitical shifts underway will intensify in the coming years. While not necessarily the trigger for many of these thematic changes, demographics are a potent fuel on that fire, likely to push the global economy to change in a myriad of ways more quickly.

This ranges from technology adoption – which should happen more quickly due to intense cohort effects playing out in the global economy. We can add to that more people shopping online, using digital payments or potentially buying an electric (or autonomous) vehicle. A generation raised on the worries of climate change are likely to be key in accelerating the energy transition, with governments across the world pushed into policy choices to win votes from a growing cohort of the environmentally focused electorate.

Demographics will also be a key driver in the tilt where growth comes from. The still-decent population growth in most of the emerging world is in sharp contrast with shrinking populations in many more developed economies. With rising incomes and more middle-class consumers, global demand will shift further towards the emerging world, potentially impacting trade flows, too, with more intra-EM trade looking likely.

And so we all need to understand the global demographics story – with the fast changes in the shape and size of the world's population set to have huge implications across the length and breadth of the global economy in the coming years.

# A key driver of everything

- ◆ Demographics are evolving at the fastest pace in history...
- ◆ ...with big implications for potential growth and policymaking...
- ◆ ...as a key driver of public spending needs across the economy

## A key driving force

**A key driver of so many parts of the global economy**

We are living through a period of dramatic population change all over the world – with birth rates falling quickly, populations ageing at unprecedented rates and migration becoming ever more important to near-term population changes and labour markets.

These changes, no matter how timely and current they are, often make people think about demographics as a topic to worry about over a 10-20 year time horizon, rather than influencing almost every facet of the global economy every single day

But it extends beyond that, with a number of ageing and cohort effects that means that this rapid demographic change will continue to affect the speed at which other thematic changes in the global economy happen.

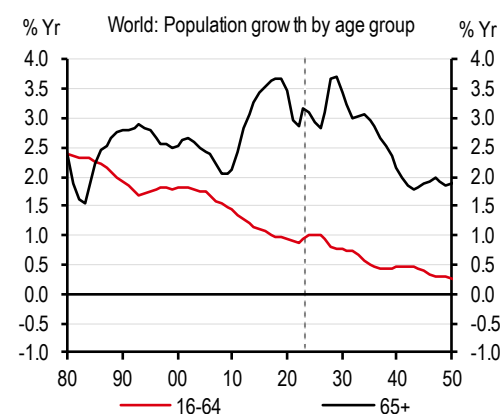
## Massive demographic change

### Big changes

**Ageing populations, shrinking workforces and falling birth rates**

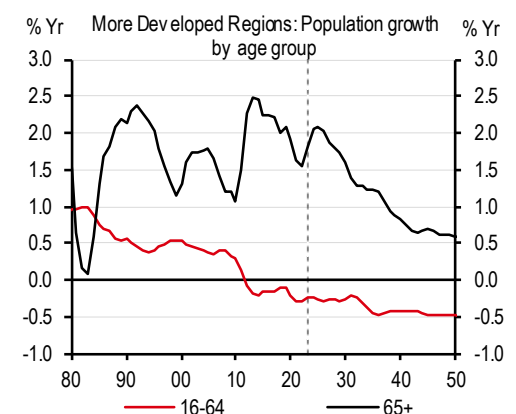
Demographics data may move slowly, but we're going through a period where the data are moving more quickly than ever before. Given the increases in life expectancy in the emerging world, a post-second world war baby boom in the developed world and a steady decline in global birth rates, the world's population aged 65+ is growing at the fastest rate in history. At the same time, we're seeing a slowdown in growth of the world's working-age population – particularly in the developed world, where lower birth rates for longer are playing a key role.

### 1. We're seeing rapid ageing of the world's population...



Source: UN Population Division

### 2. ...particularly in developed economies

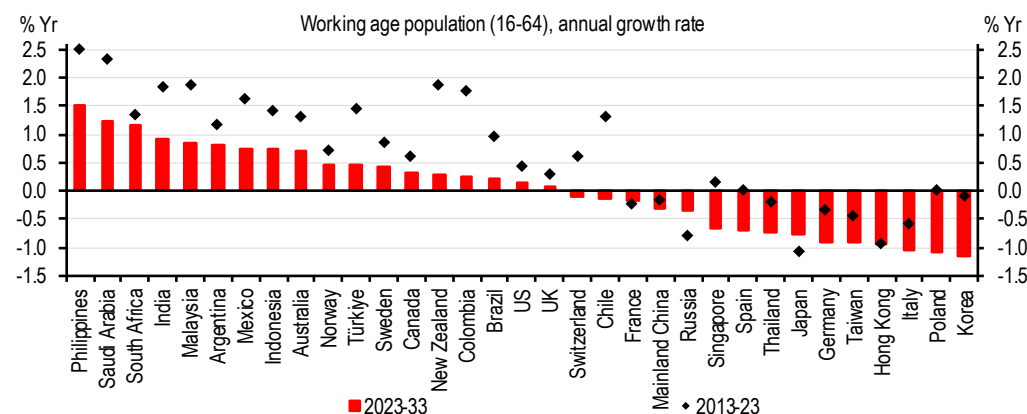


Source: UN Population Division

**A diverse global demographic outlook**

In some economies the change is more apparent than others. There could be a massive slowdown in population growth in the coming decade (like in much of Asia), a faster decline of the working-age population (like in Taiwan or Italy), or the working-age population now set to decline having not done so previously (like in Korea, Singapore or Poland). The only economy whose demographic profile looks “better” (or, at least, “less bad”) in the coming decade compared to the prior one is Japan – simply because the worst has passed on many metrics.

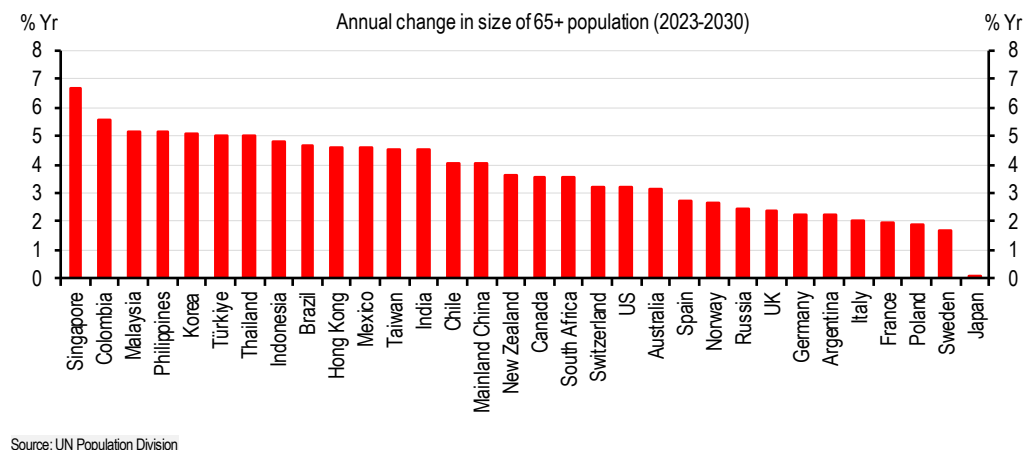
**3. There is a varied demographic picture across the world**



**Rapid ageing is a key theme for this decade**

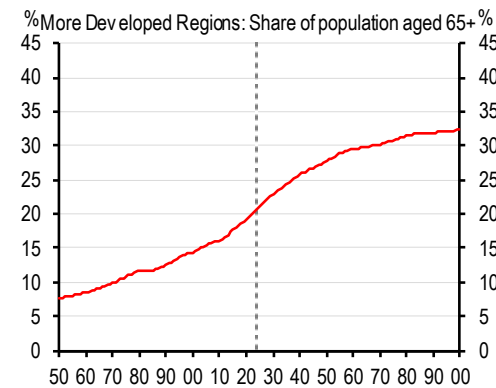
The striking thing for many economies, on top of the change in the working-age population, is the rapid change in the number of retirees. It’s worth noting that whilst we’ve used 16-64 as working age for these charts, the actual working and retirement ages will vary by economy, and in practice many people are working well-beyond the age of 65 as a result of the changing nature of work away from primary sectors and heavy industry to more services-focused employment, and better health outcomes. However, for many EM economies, the rapid growth in the number of over-65s is set to become a problem for the first time in this decade. Although as a share of the population these numbers are still low compared to developed market counterparts, the fact that these economies are still expected to see growth of 4-5% per year in that older cohort will create some economic challenges.

**4. There is set to be rapid growth in the retiree population in much of the world**

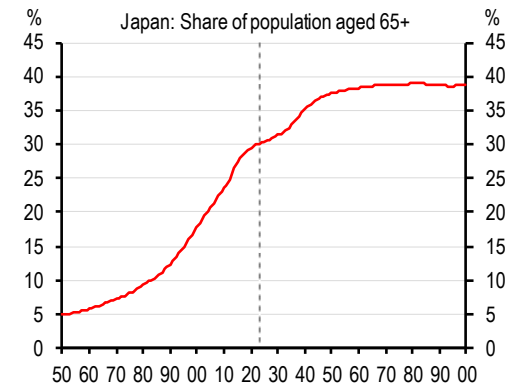


As a result, we're hitting some key tipping points, where the structure of populations starts heading towards Japan's. For example, the share of the world's population that is over the age of 65 is currently around 10%, and this is set to start rising quickly in the coming years. In developed markets as a whole, this figure is set to go from circa 15% today to double that in the coming decades, creating some challenging fiscal arithmetic for policymakers.

### 5. The world's population is ageing rapidly...



### 6. ...to look more like Japan's



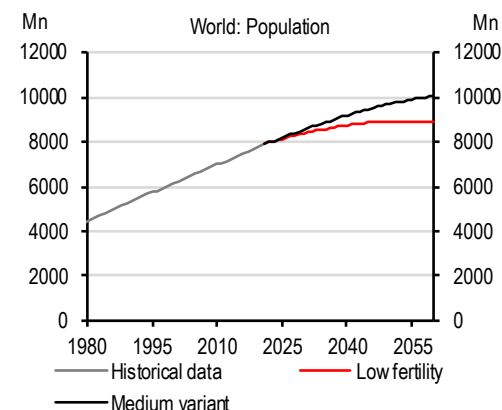
**Falls in birth rates add a new degree of demographic uncertainty**

### Uncertainty over the path means demographics are a key growth driver

Demographics data are typically seen as reliable data to plot the underlying path of the global economy – given that birth rates, death rates and migration rates are relatively slow moving. But, in many ways this is changing – with some of the underlying assumptions starting to move much more quickly. So, although the UN Population Division's projections are still seen as the gold standard for demographics data, we think that its low-fertility scenario is looking much more plausible as the central case for the coming years given the sharp fall in birth rates that we've seen in recent years that seems to only be getting worse, with very sharp drops in birth rates in 2023 in most economies.

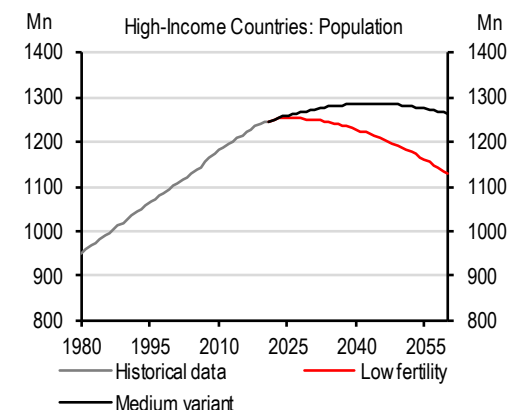
There are also risks to some of these assumptions from migration flows – which could become much larger in the coming years due to climate change impacts in many highly populated areas of the world. But, despite these potential risks to the precise figures, there is a lot of value in demographic projections, particularly over the next 10-15 years before birth rate impacts become substantial. Beyond that time frame, there is scope for things to look a little more uncertain between scenarios.

### 7. The world's population outlook depends on various uncertain factors...



Source: UN Population Division. Note: Scenarios are different projections from the UN.

### 8. ...which could drastically change the demographic outlook for some economies



Source: UN Population Division. Note: Scenarios are different projections from the UN.

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**A huge impact on potential  
GDP growth rates**

The difference between these scenarios in roughly all major economies equates to circa 0.3ppts per year slower population growth between now and 2050. So, if we were to take the global figures – in the UN Median projection, the world's population would grow by 0.7% pa, but 0.4% pa in the lower fertility scenario. In the case of some borderline economies, like the UK, it's the difference between 0.2% pa population growth and 0.1% pa population decline. On top of the simple population size impact on GDP growth, these lower-fertility scenarios imply a weaker population mix – with population pyramids that further skew towards older generations. As a result, the difference between the two scenarios is likely to mean 0.4ppts slower global GDP growth per year between now and 2050 – and we're very clearly heading down the lower fertility rate scenario right now. No other indicator has the power to affect underlying global GDP growth rates over a sustained period like birth rates, though short-term migration rates can also have a dramatic impact – like in the US in 2023.

In Japan, there are 100 fewer people every hour. Birth rates in Korea are now amongst the lowest in the world. No wonder the general consensus around the world is that ageing and low birth rates represents some kind of existential threat to China and other large parts of Asia.

This view, however, is far too alarmist and simplistic. It is true that ageing is a new demographic reality for North Asia. But what matters is how nations respond to this change through their institutions. And it is the nature of their response that will determine whether they prosper or not.

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**There is uncertainty over the  
impact of ageing populations  
on growth**

While the early stages of population ageing can be conducive to economic growth, many economists argue that there can also be a "second demographic dividend": the creation of a market in which a large group of senior citizens with relatively high rates of savings consume goods and services at a higher rate. This is often called a "silver market" or "silver economy" or "silver dollar". Think not just of travel and tourism but health care, new lifestyle products and the emergence of "gerontechnology" which aims to find technological solutions for an ageing population

This "silver economy" can be a driver of economic growth because it will open up new avenues of consumption. In addition, it can stimulate investments too, especially if the savings of the elder generation can be put to effective use. But there is more to this. The "silver economy" should be about enabling and empowering senior citizens, not only as consumers but also as senior members of society, as well as providing wider choices for all, regardless of their income level.

*This is a Free to View version of a report with the same title published on 12-May-24.*

*Please refer to the full note for discussions on the fiscal crunch facing policymakers, generational effects and how demographics is driving so many structural changes that are reshaping the global economy.*

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- 2 All market data included in this report are dated as at close 09 May 2024, unless a different date and/or a specific time of day is indicated in the report.
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