

# The UK's baby bust

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Economics - United Kingdom

## Births drop in 2022 as the trend resumes

- ◆ Births in England and Wales fell by more than 3% in 2022...
- ◆ ...continuing a meaningful downtrend, which could mean big shocks...
- ◆ ...to both population sizes and the economy

Data released by the ONS show that the number of live births in England and Wales fell by 3.1% in 2022, to 605,479, the lowest number since 2002 and as a share of the population, at least as low as any point since the 1930s (as far as data goes).

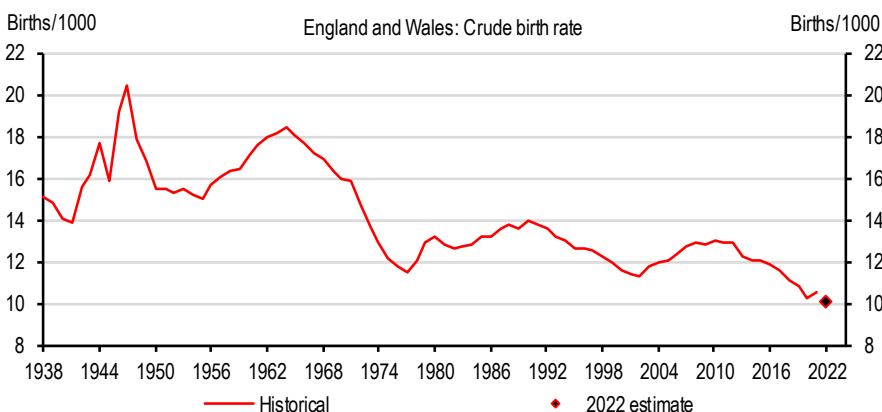
The trajectory is clear. The number of births has dropped by roughly 2.5% per year over the past five years, with 2021 seeing a small rise due to delayed births after the onset of the pandemic. On that path, the UK's total fertility rate, the typical number of children per woman, could fall below 1.0 by the end of the 2030s, implying that the population would then halve over the course of a generation if nothing changes.

As we outlined previously, this is not just a UK-specific problem, but one being faced by developed economies all over the world. Birth rates appear to be dropping in 2022 in many economies, and timely data in Sweden suggest births are down another 5% in the first five months of 2023.

This creates a headache for policymakers – while fewer births can help from a climate or housing perspective, fewer taxpayers and a smaller economy are not ideal when facing high levels of debt and an ageing population. Policy may well have to adapt to this demographic dilemma in the years to come.

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### 1. The UK's birth rate fell again in 2022



Source: ONS, HSBC estimates using 2022 population estimates.

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# The UK's demographic dilemma

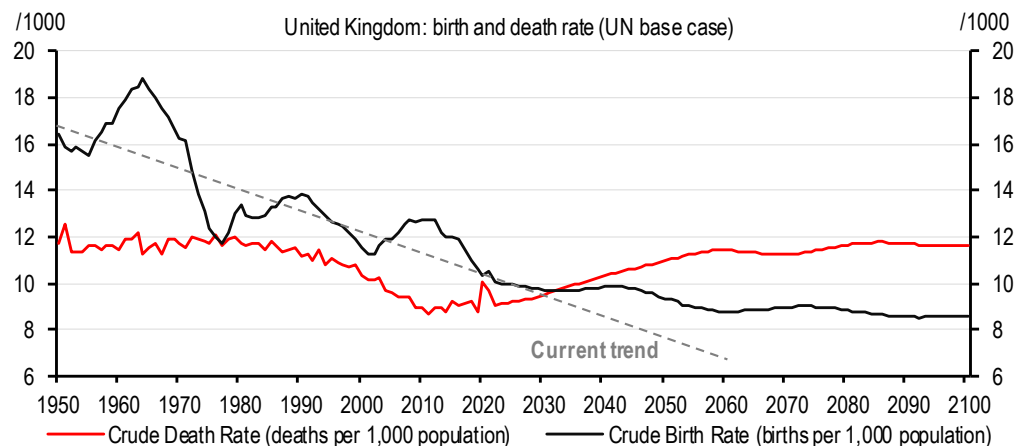
- ◆ Births in England and Wales fell by more than 3% in 2022...
- ◆ ...and it seems likely that we see even fewer in the years to come...
- ◆ ...creating a number of headaches for policymakers

## Fewer births to come?

The fact that the number of babies born in the UK in 2022 fell, even by as much as 3%, is not surprising. It is simply maintaining a trend that had been in place before the pandemic, and one we think may have been accelerated over the past few years. It's worth remembering that that 3% drop in births will include some delayed pregnancies from the onset of the pandemic in 2020 – so might even overstate the underlying picture of desired births.

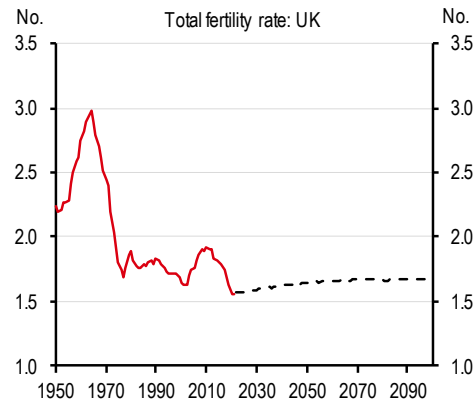
As things stand, the trajectory of both births and deaths in the UK suggest that the numbers will cross in the early 2030s. Chart 2 shows the UN's estimates for the UK death rate (which is rising due to an older population) and birth rate (which we discuss in more detail below) – this cross-over could happen sooner. That means that without migration, the UK's population would start shrinking quite soon – and migration may not be enough to offset this.

### 2. The UK's population could start shrinking within the next decade



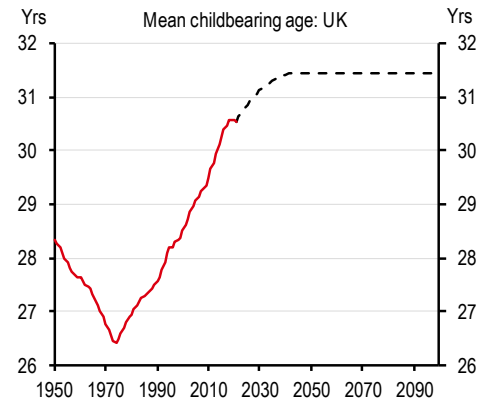
We think that there are considerable “downside” risks to these birth rate figures. Why? Because they are based on a fertility rate assumption that breaks the current trajectory that has been in place for some time – notably since the financial crisis.

### 3. The UN assumes that birth rates rise from here...



Source: UN Population Division, HSBC. Note: Based on UN median projections. Dotted lines show forecasts. Total fertility rate shows number of children per typical woman.

### 4. ...even as mean childbearing ages keep rising



Source: UN Population Division, HSBC. Note: Based on UN median projections. Dotted lines show forecasts.

There are three main reasons we see driving these trends, with the overall reason for the drop in birth rates likely to be a result of a combination of these factors:

#### 1. Later first-time parents

This has been an ongoing trend in the UK and across the world since the 1970s, with many studies<sup>1</sup> finding a strong relationship between female workforce participation and lower future birth rates. But this trend appears to have become stronger in recent years – potentially accelerated by the pandemic making it harder to find partners for a period or weddings being delayed. There appears to be a social shift towards people opting to become first-time parents later, which brings with it biological challenges in terms of the fertility, both for women and men, with declining sperm counts being a greater issue for older would-be fathers<sup>2</sup>.

#### 2. Affordability

In a period of high inflation, negative real wage growth and huge amounts of economic uncertainty, the cost of living is likely to weigh on the willingness and ability of many couples to be able to start a family.

But on top of these more general high costs of raising a family, the most pressing need is likely to come from housing. In order to start a family, most couples will want to be settled, either as homeowners or in a rental property that gives them enough space. But, in the UK, the cost of both of these things is already out of reach for many young people. Whilst housing affordability ratios have edged down with house prices in recent months, these figures are still at multiples of where we were back in the 1990s. Coupled with higher interest costs, it is unlikely that as many young families will be able to afford to buy a would-be family home in the coming years.

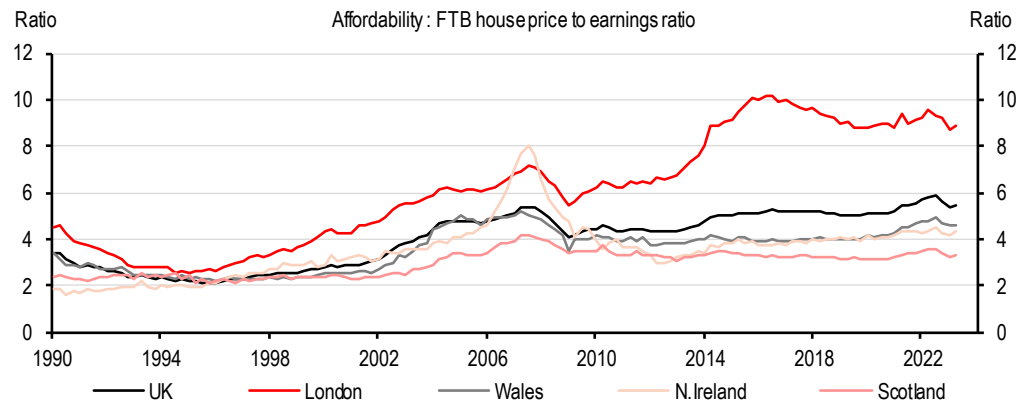
The challenge is made greater by the higher cost of rents. Whilst rents are rising quickly<sup>3</sup>, the jump in costs may make renting larger properties unaffordable for many couples who are looking for an extra bedroom. On top of this, childcare costs are ever increasing. The situation is such that for many families, if both parents return to work, then the cost of childcare would outstrip the extra income of one parent staying at home. But in this event, with a lower household income, the maths in terms of being able to afford a mortgage may not be possible. The financial squeeze means that birth rates are more likely to move much lower in the year to come than pick up.

<sup>1</sup> Such as Murtin, F. (2013). "Long-term determinants of the demographic transition, 1870–2000." *Review of Economics and Statistics*, 95(2), 617–631

<sup>2</sup> Global sperm counts are falling. This scientist believes she knows why, FT, 22 June 2023

<sup>3</sup> UK rents rise at highest rates since 2016, BBC, 16 August 2023

### 5. Housing affordability is already very stretched across the UK



Source: Nationwide

### 3. Social change

Some social adaptations, such as working from home, could influence birth rates. It is possible that the increased flexibility will encourage more child caring responsibility for men and allow women to re-enter the workforce more quickly or part-time following maternity leave more easily. This could allow couples to have more time and money to have more children should they wish. However, it does not seem time and career are the only factors influencing millennials and Generation Z to have fewer children. According to one survey, 31% of millennials (born between 1980s and late 1990s) are not interested in having children at all, 38% think it is too expensive to raise children, and 13% are concerned with the climate change implications of a large population<sup>4</sup>.

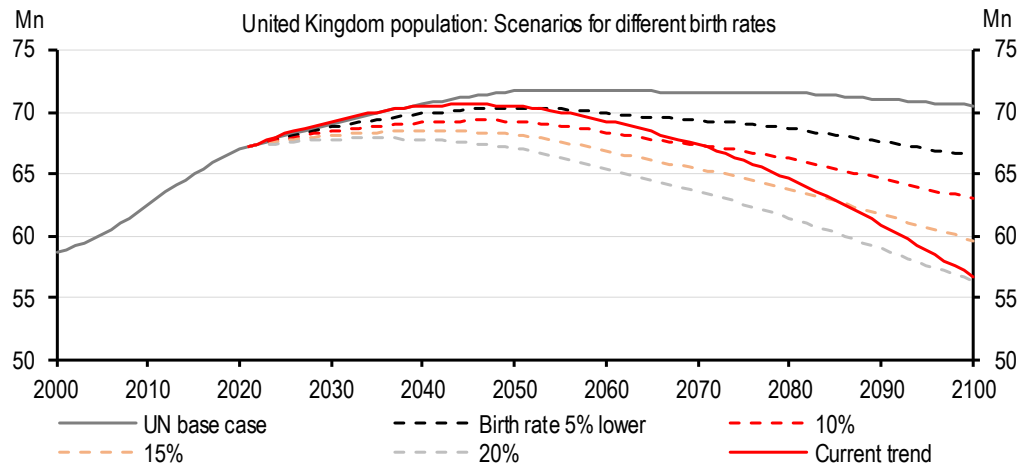
### What does all this mean?

Firstly, we have to think about what could happen to the UK population in the course of the coming years. The UN's base forecasts for the UK continue to assume a reasonably high degree of immigration and the still-high birth rates that we outlined above.

If we create a simple model of how the population could evolve under some lower birth rate assumptions, we can see how the population could trend from nearly 70m down towards ~55m by the end of the century, even with the UN migration assumptions. The concerning part of these projections is that given the base case that the UN has assumed, and the reasoning outlined above, these scenarios are all likely to be upper limits of where the population could end the century. It's quite plausible that the birth rates in the UK (and other developed markets) follow the recent trajectory as South Korea, where the birth rate was close to the same rate seen in the UK today back in the early 2000s, and now the total fertility rate is just 0.78 children per woman, suggesting that the population would halve. Monthly data from other developed economies, such as Sweden, suggest another sharp drop in 2023 is likely. In such a scenario, a halving of the population within the next 100 years becomes highly plausible. As well as birth rates, migration will be key here, and despite pledges from the government to control immigration numbers, they were up in 2022.

<sup>4</sup> Millennials Were Already Putting Off Having Children. Then the Pandemic Hit, Morning Consult, 28 September 2020

### 6. The UK's population could start shrinking quickly in the second half of this century

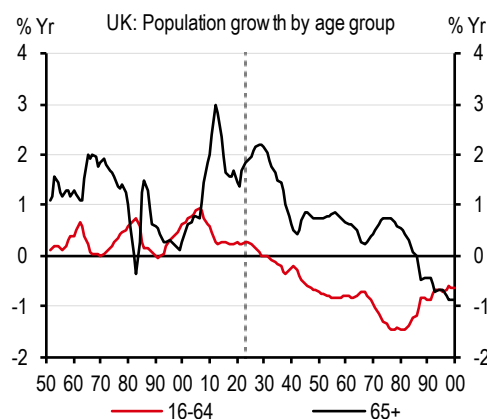


#### Does this matter?

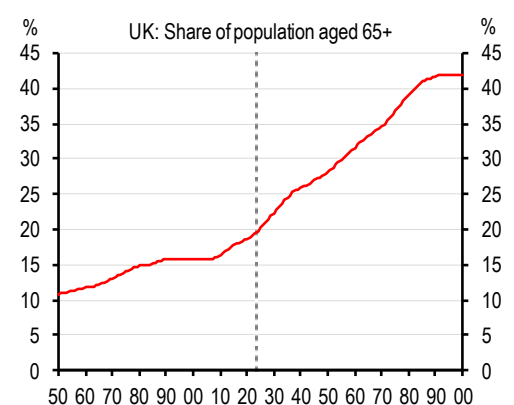
In many ways, a shrinking population, or a less-quickly growing one, is a good thing. It can help to lower the strain on resources – both from an environmental perspective and within the economy, with less strain on the housing stock, infrastructure and services compared to a continually faster-growing population. It may mean that any worries about technological change, such as AI, meaning much lower levels of employment, are less relevant.

But this comes at a bad time. The UK's working-age population may be expected to start shrinking in the coming years already – and so any lower-fertility scenario would mean this could look even worse further down the line. At the same time, the population is ageing rapidly. The median age in the UK is already above 40 and the chances are that this rises to above 45 by the time we reach 2050. With a much larger share of the population of retirement age, this may mean many more people to support in terms of healthcare and pension spending with a smaller workforce. The implications for fiscal positions and potential growth are not likely to be good news.

### 7. An ageing population can create strains....



### 8. ...particularly if the share of the population who are pensioners keeps rising



## What needs to be done?

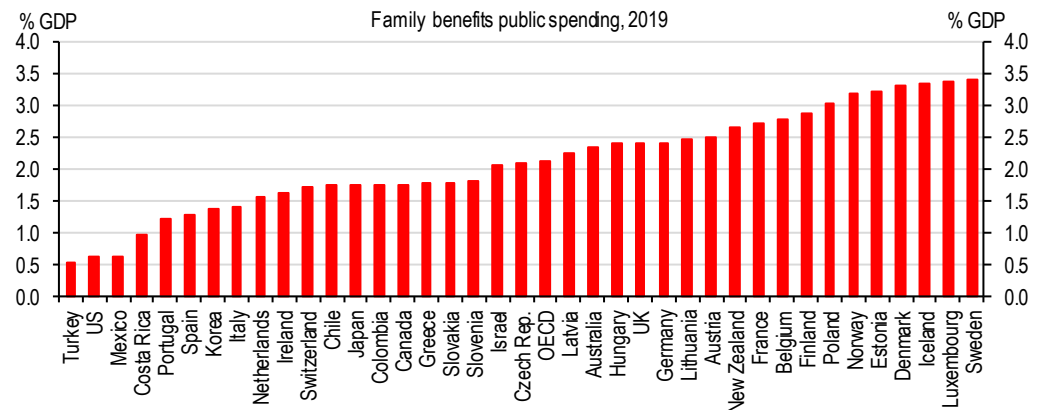
The demographic situation for the UK is clearly a challenge for the years to come. The policy choices from here will therefore be key in determining how it evolves, with three key facets: birth rates themselves, and other counterbalances – either from immigration or thinking about retirement ages.

### How to lift birth rates?

It's not easy to get birth rates up. Governments across the world have tried to lift birth rates with greater financial support – removing some of the financial barriers to starting a family. In the UK context, the 2023 Spring Budget expanded support for free childcare to parents of children aged nine months to two years (having previously been not in place until children reached age three). As a result, eligible parents of children under school age will have access to the expanded 30 hours of funded childcare from September 2025. The policy was introduced as a means of getting parents back into the workforce to tackle labour shortages in the economy, but this, alongside increases in child allowances for people receiving Universal Credit, may help to remove some of the cost barriers to having children for many families.

But, whilst this may be a step in the right direction – there are two issues. The level of UK support for families is only around the median across the OECD. Secondly, even in those economies where support is much greater – such as Sweden and Denmark – we have also seen birth rates move lower. It seems that greater support can help to tackle one of the issues (financial) but not the others – in terms of social attitude changes towards having children. Quite simply, it may be very hard to notably move birth rates higher, but greater support may limit the speed of future declines.

### 9. There is a wide range in the degree of family support across the world



Source: OECD. Note: Family benefits spending refer to public spending on family benefits, including financial support that is exclusively for families and children. Broadly speaking there are three types of public spending on family benefits: Child-related cash transfers to families with children, public spending on services for families (benefits in kind) with children, and financial support for families provided through the tax system.

### Immigration

An alternative solution to the demographic challenges this creates comes from immigration. We may need to see a greater openness to immigration to keep the working-age population from shrinking, to tackle the challenging imbalance between the number of workers and non-workers. There is already a risk to base demographic assumptions that migration numbers are much higher in the years to come due to the impact of climate change, and the UK's temperature, climate and language make it a prime candidate for larger-scale climate-induced migration in the years to come.

The first challenge may be around the political acceptance of inward migration. According to Ipsos Global Trends 2023, 64% of respondents (based on c48k adults surveyed in late 2022, across 50 markets) agreed with the statement “There are too many immigrants in my country”. In the UK, although the trend has been more encouraging in terms of acceptance, as of 2022, 42% of the population wanted immigration to be reduced and just 22% for it to be increased (and this was up from <10% pre-pandemic).

Beyond the flow of people into the economy, however, there is a pressing challenge to ensure that migration works properly and integration will be key – making sure that any language barriers are removed or lowered, getting people access to employment and providing enough housing and basic services like education and healthcare. Whilst higher levels of migration may tackle one part of the demographic challenge, it creates a different, integration, one.

### **Making people work longer**

In the absence of a much higher rate of immigration or a sudden turnaround in the number of births, we may need to see retirement ages rise. We have outlined many times in recent years why an increase in retirement ages is necessary to combat these challenges, even if it may prove to be an unpopular policy with the electorate.

Equally, the UK economy may need to evolve to adapt to the demographic situation. This could mean a much faster wave of automation of many roles in order to lift productivity. However, even if automation can pick up some of the slack, policymakers will have to ensure people have access to training and skills as employers’ needs change.

## **A demographic dilemma**

Overall, the UK faces a demographic headache. It may not be quite as painful as in Korea or Japan, but the trajectory of birth rates suggests that such a path may not be unlikely in the years to come. Tackling low birth rates is hard, but without more financial support for families or lower house prices, we could see birth rates fall even more quickly in the years ahead, creating much greater economic challenges further out. If such a scenario does play out, then policies such as higher retirement ages or a greater openness to immigration may well be necessary.

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