INSIGHT

QUARTERLY MARKET REVIEW

Q1 2024

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PODCAST

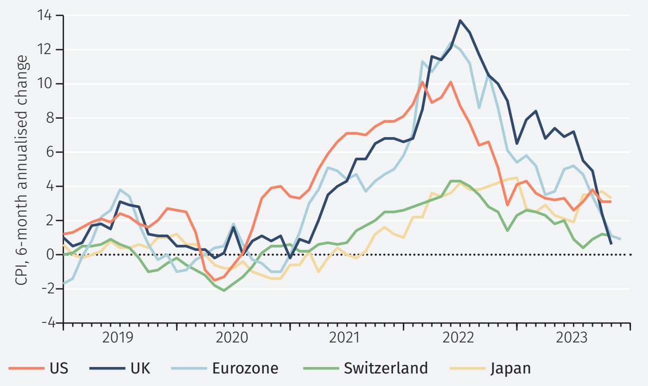
OVERVIEW	EUROZONE	ASIA	SPECIAL FOCUS
Soft landing for the global economy?	Germany's tough stance	The year of the rising yen?	Demographics is (still) destiny

We share the generally benign consensus outlook for the world economy in 2024: a continued decline in inflation and a soft landing for economic growth. In the longer-term there are important cross currents affecting prospects.

2024: benign outlook

Across the major advanced economies, inflation rates are retreating. The trend is clear in six-month annualised rates of change (see Figure 1) which have already dropped below 1% in the UK and eurozone.[1]

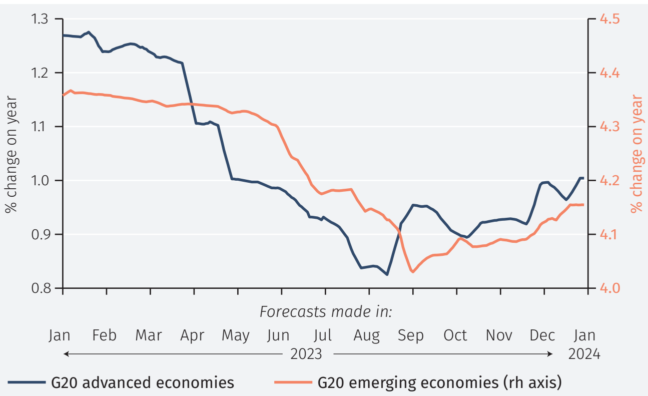
1. Inflation retreating



Sources: LSEG and EFGAM calculations. Data as at 5 January 2024.

As 2024 progresses, there may well be bumps along the way as inflation retreats. Supply chain pressures have re-emerged in some areas (because of sea freight disruption, for example). But by the end of 2024 there are good grounds for thinking that inflation rates (measured in the conventional way, as 12-month changes) will be close to central banks' 2% targets. This disinflation has been achieved without any major recession – notably in the US, where it was widely expected to occur in 2023. Indeed, from the summer of 2023, expectations for growth in the major advanced and emerging economies have trended higher (see Figure 2).

2. Forecast 2024 GDP growth: advanced and emerging economies



Source: Bloomberg Consensus forecasts. Data as at 5 January 2024.

Around the base case of a 'soft landing' remain two risks. First, of a recession, notably in the US. We would put around a 25% chance on such an outcome. Leading economic indicators, yield curve inversion and the collapse in broad money growth all indicate the possibility. A coincident indicator of recession – based on the unemployment rate – does not yet signal such a downturn but will be closely watched. A mild recession could still, however, be consistent with current consensus expectations of US growth above 1% year-on-year. The second risk, to which we ascribe a 10% chance, is one in which US growth carries on at a rate close to 2% supported, in particular, by a strong labour market, the continued run-down of household savings and the easing of (particularly mortgage) interest rates.

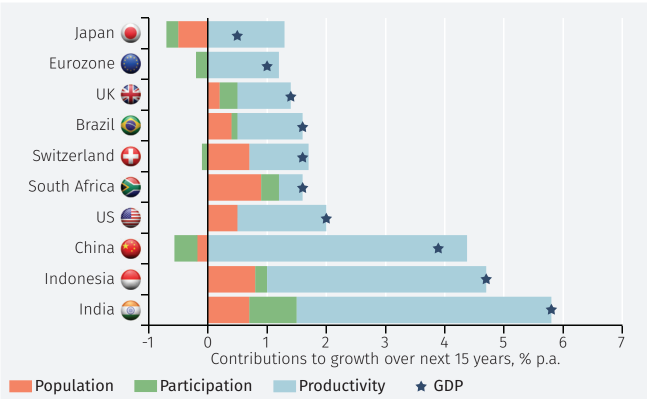
Longer-term developments

Although John Maynard Keynes famously stated that "in the long run we are all dead", it is increasingly important to consider longer-run prospects now that the volatile performance during and after the pandemic has receded into the distance. These will condition the environment for financial markets in the years to come. We consider three factors as of the greatest importance.

Generating growth

First, how much real economic growth can be generated. This is determined by demographic trends (population growth and the proportion the population that are participating in the economy) and productivity growth. These determinants are shown in Figure 3 for the major economies. For the US, they point to longer-run growth of around 2% p.a. (around 0.5% population growth, little change in the participation rate and 1.5% productivity growth). In Europe, the rate is lower (due to a shrinking workforce and lower productivity). In China the population is set to shrink over the next 15 years, a trend which deteriorates further as the horizon is extended. An ageing population will mean the proportion of the population working is likely to decline – meaning all of China's growth will depend on productivity gains. India and Indonesia look set to be the

3. Major economies: longer-term growth drivers



Sources: LSEG and EFGAM calculations. Data as at 5 January 2024.

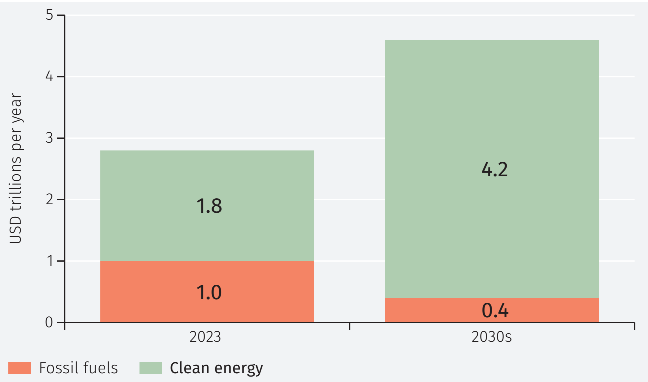
[1] We prefer to look at 6-month annualised rates of change, which pick-up disinflationary trends faster than (the more conventionally reported) price changes over one year.

strongest-growing economies, as productivity improvements are complemented by demographics.

Globally, we are optimistic that the productivity trend can improve. That is one of the key themes of our *2024 Outlook*.[2] The effects of generative artificial intelligence (AI) are already being seen and could boost US labour productivity by 0.1% to 0.6% p.a. up to 2040, according to one estimate.[3] In the rest of the world, trade restrictions, in areas such as high-technology products, could impede productivity gains for some economies although 'frugal innovation' is a key theme in many emerging economies.[4]

One important factor driving productivity gains and growth will be investment in the new clean energy infrastructure. By the 2030s, this is estimated to require annual investment of over USD 4 trillion per year (see Figure 4).

4. Investment required for Net Zero



Sources: IEA, *The Oil and Gas Industry in Net Zero Transitions*, November 2023.

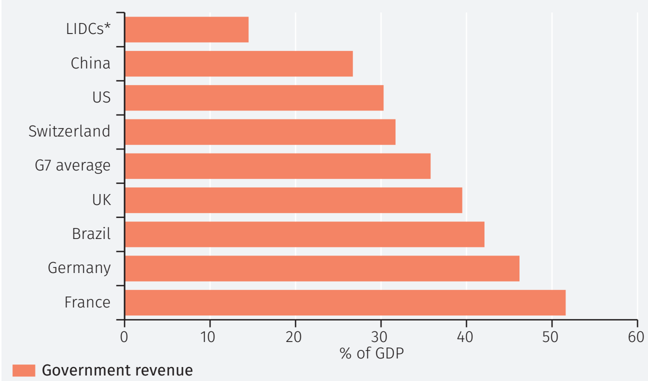
Public versus private sector financing

How to finance that spending is the second main longer-term theme. Raising more in tax revenues to finance new spending is constrained by the fact that government tax revenues are already high – close to historic highs – in most advanced economies (see Figure 5). The appetite for tax increases is low. More tax could be raised in developing and emerging economies, a major theme of the IMF's recent recommendations. They claim there is 'low hanging fruit' that can be harvested – notably by removing fossil fuel subsidies. The scope is large. Globally, fossil fuel subsidies were USD 7 trillion in 2022 and are expected to be USD 8 trillion by 2030[5] – twice the anticipated clean energy infrastructure investment. Again, however, the appetite for phasing out such subsidies is low.

Pressure on real interest rates

Realistically, therefore, much of the financing for the clean energy infrastructure will need to come from the private sector.

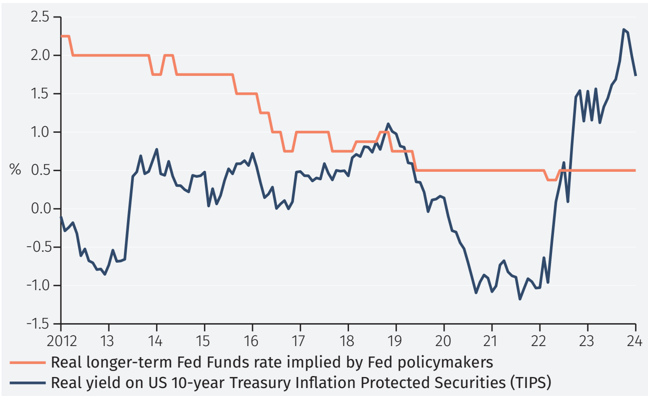
5. Government revenues



* Low Income developing countries. Source: IMF Fiscal Monitor database via LSEG. Data as at 4 January 2024.

That is one reason why real interest rates have been under upward pressure recently. 10-year real yields in the US have risen to around 2%, from significantly negative levels two years ago. Interestingly, that is well above the 0.5% real longer-term Fed funds rate implied by US Fed policymakers (see Figure 6).

6. Longer-term real interest rate expectations



Sources: Federal Reserve, *Summary of Economic Prospects* and LSEG. Data as at 4 January 2024.

Longer-term real rates are normally higher than short-term rates: the yield curve is upward sloping. Our assessment is that a 1% real Fed Funds rate and a 1.5-2% real 10-year rate are broadly appropriate. Assuming inflation credibly and sustainably returns to 2%, that would translate into an equilibrium Fed funds nominal rate of 3% and an equilibrium nominal 10-year bond yield of around 3.5% to 4%. The bond market is close to that level already. The futures markets suggest the Fed funds rate will get to a 3% level by early 2026. It could well reach that level sooner if inflation falls quickly or the chance of a recession is seen as higher. The Fed will likely remain data dependent.

[2] https://www.efginternational.com/us/insights/2023/2024_outlook.html
[3] McKinsey. See http://tinyurl.com/3dbakkej
[4] See *Frugal innovation: how to more with less*, Radjou and Prabhu (Economist books).
[5] https://www.imf.org/en/Topics/climate-change/energy-subsidies

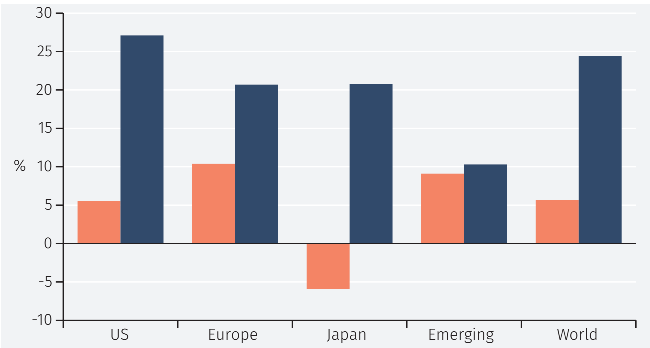
ASSET MARKET PERFORMANCE

Solid equity market gains were the most notable feature of 2023. US, European and Japanese markets all gained more than 20% in US dollar terms. Bond market returns were lower but were positive in US dollar terms in all markets except Japan.

Asset market performance

Returns from global equities in US dollar terms were 24.4% in 2023; global bonds returned 5.7% (see Figure 7). Towards the end of the year, clear signs of an easing of inflationary pressures, and a growing consensus that policy interest rates were at their peak helped bond markets recover from weakness earlier in the year. Across almost all bond and equity markets, local currency appreciation against the US dollar lifted returns in US dollar terms. That was the case in all major markets apart from Japan, where the currency continued to weaken against the dollar.

7. Asset market performance



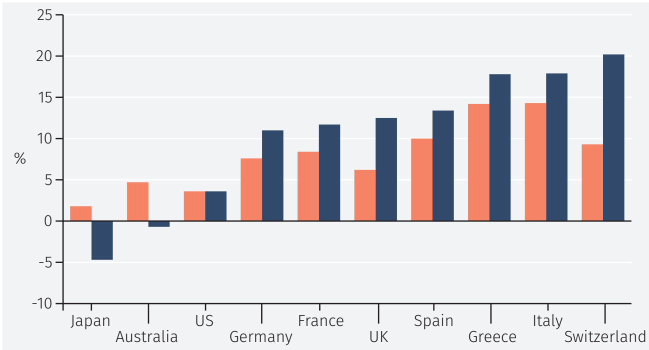
Sources: Barclays Bloomberg (bonds); MSCI (equities). Data for year to 31 December 2023.
Past performance is not necessarily a guide to the future.

Bond markets

Returns from 10-year government bonds were positive in local currency terms across all major markets in 2023 (see Figure 8). Returns were greatest in the higher-yielding eurozone markets of Italy, Greece and Spain but were still positive (+7.6%) in Germany. That reflected relief at the decline in inflation rates and a growing perception, towards the end of the year, that policy interest rates had peaked and could start to fall in 2024. In Japan, the main development was the easing of the central bank's cap on 10-year yields, allowing them to rise to a modest extent. The consequent capital losses offset coupon returns.

Returns from government bond markets were generally lower than those from corporate and high yield markets during the year. Inflation-linked bonds performed poorly as real yields rose sharply, offsetting the inflation-protection element.

8. Bond market returns

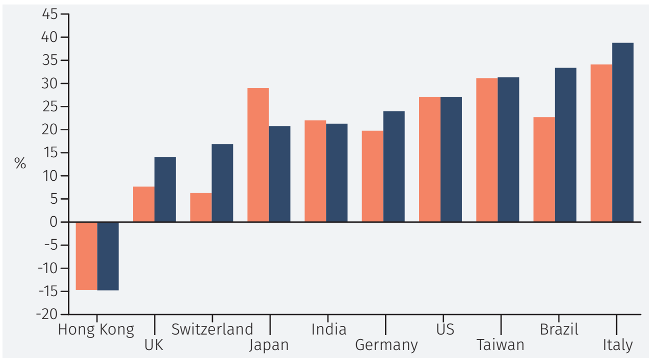


Source: LSEG Data and Analytics. 10-year benchmark bond total returns. Data for year to 31 December 2023.
Past performance is not necessarily a guide to the future.

Equity markets

After a strong final quarter of the year, returns from the US equity market were as high as 27% in 2023 (see Figure 9). Those returns were predominantly due to the strength of large-cap tech stocks, also a feature of the Taiwanese market's strength. In Brazil, high returns were due to stronger than expected growth and a decline in inflation, largely due to early monetary tightening. High local currency returns in the Japanese equity market reflected a continued recovery in the economy and corporate earnings, amidst a general reappraisal of Japan by global investors. Concerns about the muted recovery in China's economy weighed on the Chinese and Hong Kong markets.

9. Equity market returns



Source: MSCI. Data for year to 31 December 2023.
Past performance is not necessarily a guide to the future.

[5] Global bond returns are measured by the Bloomberg Barclays Global Aggregate Bond Index, which comprises government and investment grade corporate debt from developed and emerging markets issuers in 24 countries. Global equity returns are measured by the MSCI World Index which represents large and mid-cap equities across 23 developed markets.

US inflation and interest rates are falling. The timing and extent of interest rate declines depends on how sustainable the drop in inflation is judged to be. Trends in wage growth will be important in that assessment.

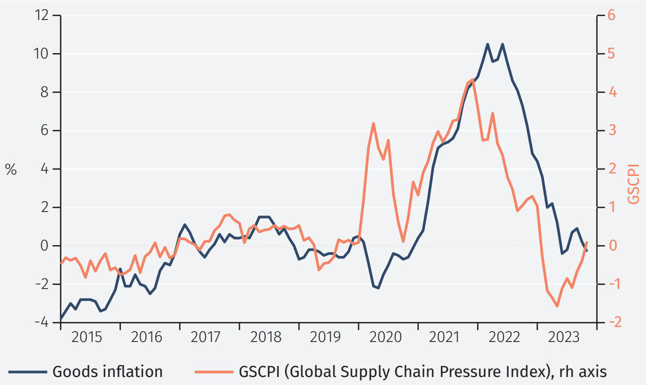
Two dimensions to the inflation trend

The rise and fall in US inflation over the last three years is best seen in two dimensions: the trend in goods prices and in services prices.

Goods price inflation...

Goods price inflation, negative in the early months of the pandemic, surged to a rate of 10% in 2022. Much of that was because supply could not keep up with increased demand for lockdown-related goods. Supply chain pressures have now eased and goods inflation is moderately negative (on the Fed's preferred measure, shown in Figure 10). However, clear risks to global supply pressures are now evident, notably with disruptions to shipping routes.

10. US goods inflation and supply chain pressures



Source: LSEG. Data as at 4 January 2024.

...and services

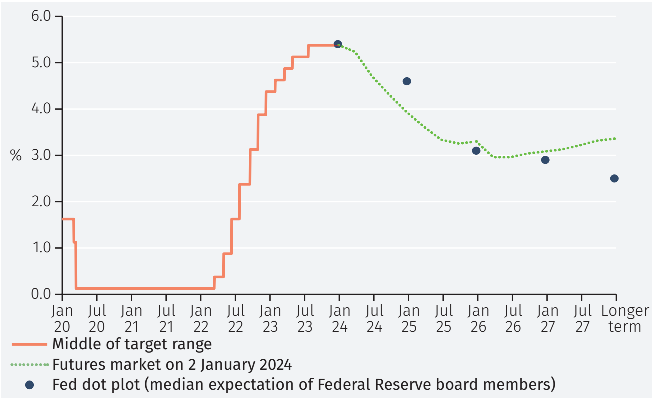
As the US economy re-opened, demand for many services – notably entertainment and leisure – rebounded, driving up

11. US CPI shelter and house prices

Source: LSEG. Data as at 4 January 2024.

the services component of inflation. While inflation for those services has abated a little, the main component (56%) of US service price inflation is the cost of shelter (housing). In turn, a large part of that is assessed as 'owner equivalent rent' – the rent equivalent to the services provided by owner-occupied housing. That estimate tends to have a lagged relationship with house prices (see Figure 11) but is relatively sticky. A more convincing retreat in service price inflation will be needed if interest rate reductions are to be faster than the Fed currently expects – and as aggressive as the market is pricing (see Figure 12).

12. Fed funds rate: actual and expected paths



Sources: LSEG and US Federal Reserve. Data as at 4 January 2024.

The third dimension: labour shortages

The price of many services is, of course, heavily influenced by wage costs. A shortage of workers is often cited, not just in the US but around the world, as a factor maintaining upward pressure on labour costs. These trends are both short and long-term in nature. The current US unemployment rate remains low - below the level that would indicate an imminent recession; and there are still more job openings than there are unemployed. Longer-term, a structural shortage of workers as birth rates fall and populations age will tend to keep upward pressures prices.

Politics and economics

2024 will, of course, be a year in which there will be particular attention on politics, in particular the 4 November presidential election. None of the likely candidates is set to engage in an opening up of the US economy to greater immigration and a liberalisation on trade, two developments which would ease inflationary pressures. In these circumstances, the Fed will remain data dependent in its interest rate and quantitative tightening decisions.

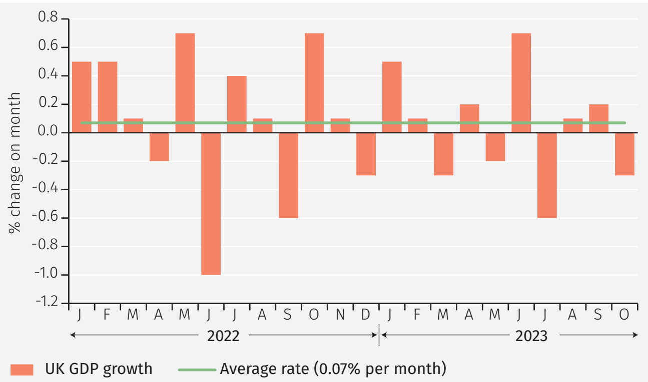
[6] See, in particular, *The Great Demographic Reversal: Ageing Societies, Waning Inequality and an Inflation Revival,* Goodhart and Pradham, (Palgrave Macmillan, 2020).

UK economic growth is hesitant and weak. Three explanations for this are credible. Rectifying the situation will, however, be no easy task.

Corrugated growth

The pattern of UK economic growth on a month-by-month basis (see Figure 13) can be described as corrugated: up one month, down the next, with trend growth only marginally positive. In 2023 as a whole UK GDP is expected to have grown by around 0.5%; a slightly lower rate is the consensus expectation for 2024.[7] Why has growth been so weak? There are three credible explanations.

13. UK: corrugated growth



Sources: LSEG and EFGAM calculations. Data as at 3 January 2024.

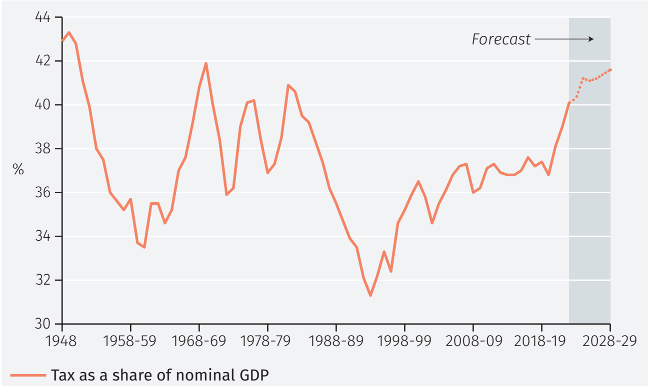
Productivity weakness

UK productivity growth has been weak in recent years. In the fifteen years before the global financial crisis, productivity (output per person employed) grew by 1.9% p.a. With population growth and a rise in the participation rate (the proportion of the population working or actively seeking work) adding another 1%, GDP growth ran at close to 3% p.a. In the fifteen years from 2007, productivity growth has collapsed to just 0.3% p.a. Unlike the US, UK productivity is still "stuck in the basement" in the words of Krishna Guha from Evercore ISI.[8] The large size of the financial sector provides some of the explanation: inflated productivity gains in that sector before 2007 may have flattered gains, with underlying weakness revealed afterwards. The relatively small size of the tech sector is another explanation. And the UK may be simply behind in adopting best-practice management techniques.[9]

Brexit

The second explanation is that Brexit has hampered growth. One recent estimate is that the UK economy is 6% smaller because of it.[10] Inward investment has been adversely affected. The impact of Brexit itself has been compounded by the resulting political uncertainty.

14. UK: tax burden

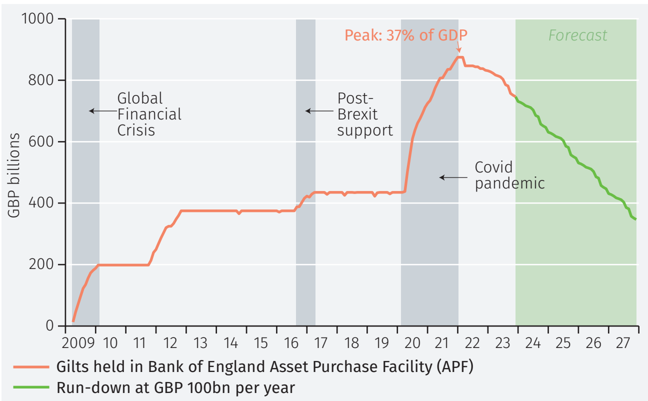


Sources: Office for Budget Responsibility and LSEG. Data as at 4 January 2024

Government sector

Third, the government sector is large. Government spending and tax revenues (see Figure 14) are arguably at levels which impede the vitality of the private sector. Moreover, public sector spending is predominantly on current expenditure, rather than capital spending (which could assist productivity gains). Further constraining government finances is the fact that the Bank of England has made losses on its gilt purchases (see Figure 15), for which it will be compensated by the Treasury. The lifetime cost is estimated at £126bn, similar to the cost of the new HS2 rail scheme.[11]

15. Bank of England's gilt holdings



Sources: Michael Saunders and EFGAM calculations. Data as at 4 January 2024.

Certainly, the UK has strengths. It is a leader in the adoption of renewable energy (offshore wind, in particular) and has world-leading creative industries and universities. It remains to be seen whether any change in the political landscape after the expected general election in the second half of the year will be able to build on those strengths.

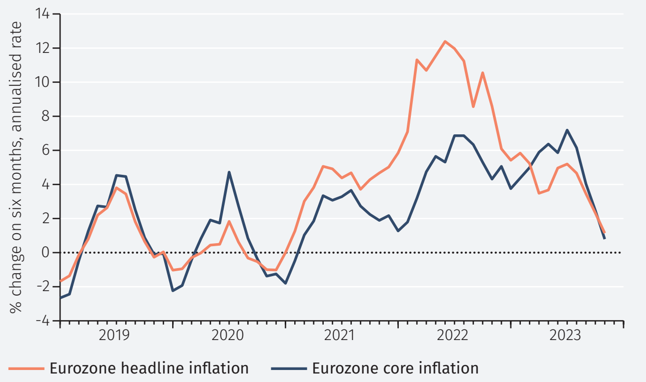
[7] Bloomberg Consensus forecasts; 4 January 2024.
[8] A speaker at our EFG Investment Summit on 8/9 January 2024.
[9] See 'Why productivity is so weak at UK companies', *Financial Times*, http://tinyurl.com/5fcw4h9y
[10] Cambridge Econometrics, see http://tinyurl.com/3hpuuxtp
[11] http://tinyurl.com/5acsnta3

The decline in inflation – faster than expected – should put the European Central Bank on track to cut interest rates in 2024. But caution prevails, as it does on fiscal policy as well. Growth will likely remain subdued.

Inverted 'V'

The drop in inflation in the eurozone looks like an inverted V (see Figure 16). That is why "The ECB should, objectively, be the first central bank to cut rates because the fall in inflation is fastest there".[12] But caution prevails.

16. Eurozone inflation



Sources: LSEG and EFGAM calculations. Data as at 4 January 2024.

There are two main reasons. First, the highly unionised nature of wage settlements means that there is a risk of higher inflation becoming ingrained as a result of a wage-price spiral. Our work suggests that risk is small. Rather, wages tend to react to past inflation; but do not provide much guide to future inflation.[13] Second, an influential piece of work by the IMF on 100 previous inflation shocks shows that they typically take three years to resolve, although a good proportion remain unresolved (see Figure 17). The risk of premature celebration is high. Countries that resolved inflation had: tighter monetary policies, implemented consistently for longer (no early reversals); limited nominal exchange rate depreciation; lower nominal wage growth; and lower growth in the short-term (1-2 years) but stronger growth over the long term (5 years).[14] Patience is the key to success.

Fiscal rectitude

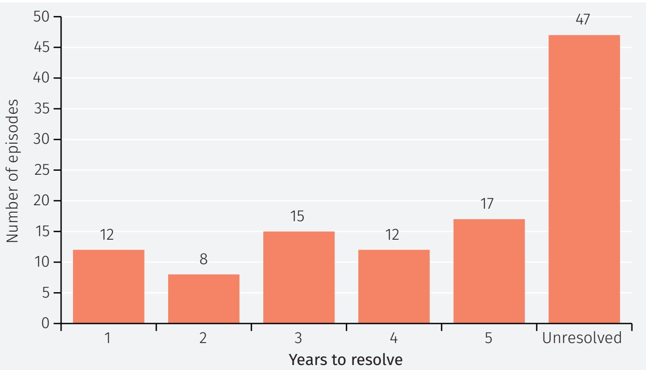
The message of restraint on monetary easing is complemented by a similar one on fiscal policy. After suspension during Covid, the rules on eurozone fiscal debts and deficits (60% and 3% of GDP, respectively) have been reinstated, albeit whilst allowing a more gradual adjustment for transgressions. Germany is clearly reverting to type on fiscal rectitude, seeing itself as setting the standard for the rest of the bloc (see Figure 18).

18. Germany: government debt

Source: IMF Fiscal Monitor datbase via LSEG. Data as at 5 January 2024.

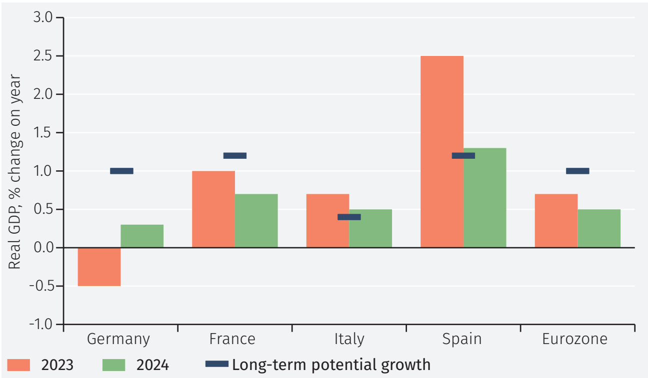
Christian Lindner, German Finance Minister, recently commented that "I'd rather do the right thing and lose my job than do the wrong thing and get re-elected".[15] This tightness of monetary and fiscal policy may well hamper growth in 2024. Eurozone growth looks set to be 0.5%, half the potential long-term rate (see Figure 19).

17. Lessons from 100 inflation shocks



Source: 'One hundred inflation shocks: seven stylised facts', *IMF Working Paper*, 15 September 2023.

19. Eurozone growth prospects



Sources: IMF (2023 estimate), Bloomberg Consensus forecasts (2024) and EFGAM calculations (long-term potential). Data as at 5 January 2024

[12] According to Krishna Guha, speaker at our EFG Investment Summit on 8/9 January 2024. See https://efginvestmentsummit.com/
[13] See EFG *Infocus*, 'How high is the risk of a wage-price spiral?', September 2023, http://tinyurl.com/bttdjkkz
[14] Source: 'One hundred inflation shocks: seven stylised facts', IMF. http://tinyurl.com/mamb4kct
[15] Comment at the IMF meetings in Marrakech on 12 October 2023.

The Swiss National Bank (SNB) has executed a 'cautious pivot' on its monetary policy stance. We think there is considerable scope for Swiss interest rates to fall in 2024.

The SNB cautiously pivots

The Swiss National Bank (SNB) has made a cautious pivot in its monetary policy. The statement issued after the meeting on 14 December 2023 no longer refers to the need to increase interest rates. This marks the end of the tightening bias which was in place from mid-2022. Even the willingness to intervene in the currency market will no longer be aimed primarily at strengthening the Swiss franc by selling foreign currency, thereby reducing inflationary pressures.

The change in monetary policy bias is not surprising considering the sharp drop in inflation in recent months and the loss of momentum in the economy. However, the SNB maintains a cautious attitude on future decisions in light of the many uncertainties weighing on the economic outlook.

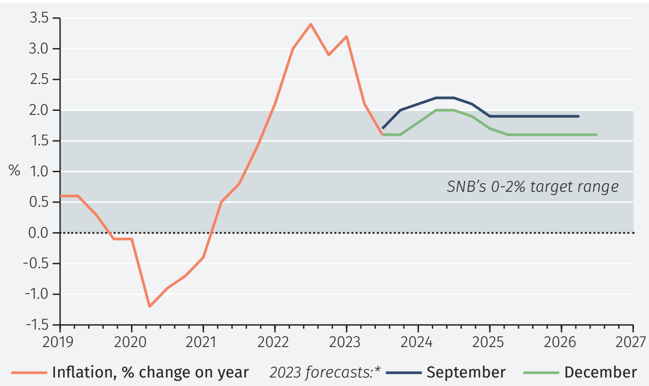
21. Switzerland: business confidence and GDP growth

Source: LSEG. Data as at 4 January 2024.

Inflation forecast edged downwards

The December 2023 conditional inflation forecast (see Figure 20) has been revised downwards compared to the September forecast. Both forecasts assume the policy interest rate is held at 1.75%. Inflation is now expected to remain below 2% for the entire forecast horizon despite the already-announced increases in the VAT rate and electricity prices in January 2024. After a temporary increase, the SNB expects inflation to stabilise at 1.6% in the medium term (the green line in Figure 20)

20. SNB conditional inflation forecast



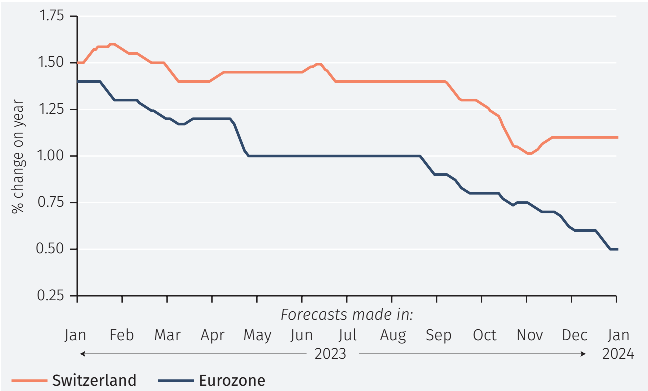
*Both forecasts assume policy rate held at 1.75%. Source: SNB. Data as at 4 January 2024

GDP growth

In regard to GDP growth, the central bank underlined the expectation of moderate growth in Switzerland and in its export markets in 2024 and that the risks to this scenario are mainly to the downside. In particular, business confidence in the manufacturing sector and for export markets has deteriorated (as shown in Figure 21): this typically is an indicator of weak GDP growth. Weak demand is another factor that will help keep inflation low. Even so, GDP growth in Switzerland is expected to remain comfortably above the rate in the eurozone in 2024 (see Figure 22).

In this context, it is natural to anticipate that the SNB will cut rates and the markets are discounting the first move as early as March and a total of 75 basis points of reduction before the end of 2024. While the expectation of a rate cut as early as March could be a little too optimistic, it appears increasingly clear that, during 2024, the SNB will have room to significantly reduce the policy rate.

22. Forecast 2024 GDP growth: Switzerland and eurozone



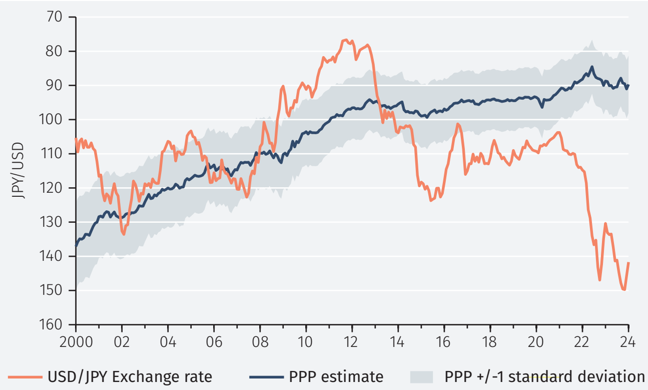
Source: Bloomberg Consensus forecasts. Data as at 4 January 2024.

Asia is a vast area with divergent trends. We see three key developments being key for the region in 2024: prospects for Japan and the yen; export dependence; and the housing market in China and India.

Prospects for Japan and the yen

After three decades of low inflation or deflation in Japan, inflation is back. While policymakers in the west worry that high wage growth may embed higher inflation, such a trend is broadly welcomed in Japan. With interest rates and bond yields set to rise as a result, at the same time as interest rates are expected to fall in the US and Europe, the interest rate and yield differential should favour the Japanese yen as a currency. Additionally, the yen is markedly undervalued on most measures of purchasing power parity. Our estimate (see Figure 23) is that a rate of JPY 90/USD is appropriate; *The Economist's* Big Mac measure is JPY 80/USD. Such an undervalued exchange rate does benefit Japanese exporters and makes Japan a cheaper destination for tourists. Both can help lift growth. But with the yen being so far from equilibrium, we see a stronger yen against the US dollar as an important trend in 2024.

23. Japanese yen exchange rate and PPP estimate

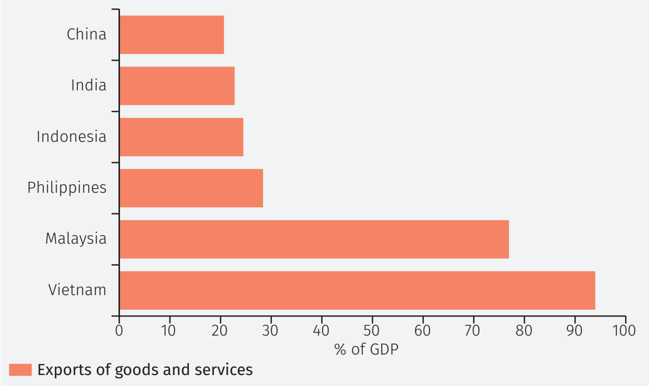


Sources: LSEG and EFGAM calculations. Data as at 4 January 2024.

Export dependence

It is often considered that China is a highly export-orientated economy. Imports of competitively-priced Chinese electric vehicles (EVs) to Europe and the popularity of Chinese online discount retailers cement that view. But, in practice, China is much less export-dependent than other economies in Asia. China's exports of goods and services peaked at over 36% of GDP in 2006 but are now just 20% (see Figure 24). Partly that reflects US tariffs on China and the diversion of some trade via other Asian economies (Vietnam is known to benefit from this trend). But it also reflects a move by China to put more reliance on domestically-generated growth. With demographic challenges in the years and decades ahead, such a re-orientation may make growth harder to achieve.

24. Asian economies: exports as a share of GDP



Sources: World Bank and OECD data for 2022. Data as at 4 January 2024.

Housing market in China and India

The housing market in China remains weak, as evidenced by the continued decline in new and second-hand house prices (see Figure 25). The government is easing policy, but loan growth is still weak. The biggest concern is that even if there are more stimulus measures, these essentially amount to 'pushing on a string' given weak consumer confidence. The very high level of youth unemployment (the government has stopped releasing statistics) means the supply of potential new home buyers is constrained, in a population that is already shrinking and ageing. India's housing market stands in contrast. The residential property market has recovered after a seven-year downtrend and banks are in a stronger position to provide finance after a marked improvement in their balance sheet strength, particularly with a decline in non-performing loans.

25. China: house prices declining

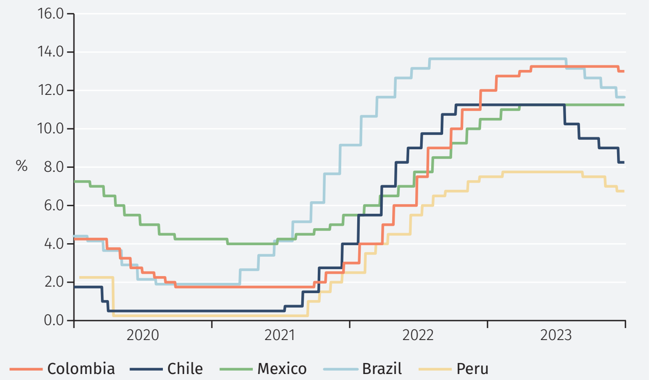
Source: LSEG. Data as at 4 January 2024.

Latin American economies have been in search of economic stability for decades. Brazil has made great progress on that front. Argentina is making another attempt to achieve it.

Brazil: improving credentials

Brazil's early monetary tightening has burnished the central bank's inflation-fighting credentials. The central bank, made independent as recently as February 2021, has set an example to other economies both in the region and internationally, in raising interest rates early (see Figure 26) and successfully curbing inflation. At the end of 2023, inflation was inside the target range (3.25% +/- 1.5%) and looks likely to stay in (a slightly tighter) target range in 2024.

26. Latin America: policy interest rates



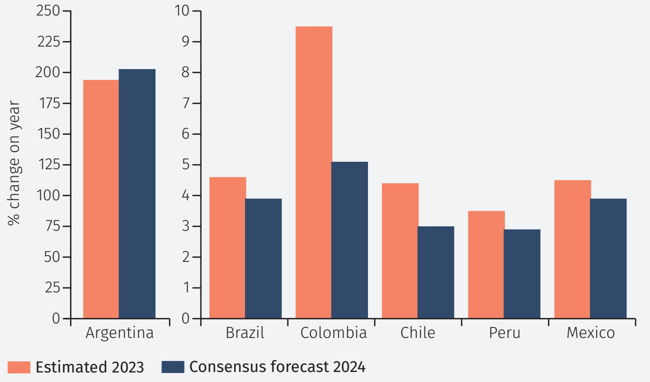
Source: LSEG. Data as at 4 January 2024

Given that as recently as the 1990s, Brazil had two episodes of hyperinflation (over 5,000% p.a., a rate of 8% per day) this is a notable success. Economic growth in 2023 was stronger than expected, tending to support the view that curbing inflation is the key to sustained growth. Also reassuring foreign investors has been the stability of broad economic, and especially fiscal, policy. Concerns that President Lula would adopt less market-friendly policies have so far proved unfounded. Indeed, with Brazil now taking over the G20 presidency, this could well be a year for Brazil to further strengthen its global credentials.

Argentina: another attempt at economic management

Hyperinflation and weak growth have plagued many other Latin American economies, notably Argentina. In that context, it is no surprise that new, innovative solutions are often sought. In Argentina's case these are not the standard global methods adopted by Brazil but an idiosyncratic mix. Argentina's new president was elected on a radical platform of policies, including abolition of the central bank, dollarisation and substantial cuts in government expenditure. So far, developments are not tracking that plan. The first

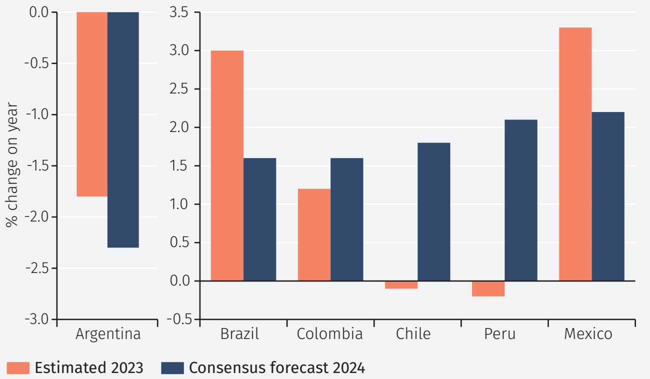
27. Latin America: inflation



Source: Consensus Economics forecasts via LSEG. Data as at 4 January 2024.

problem is that President Milei does not have enough votes in Congress to support his proposed policies. Discussions over dollarisation and closing the central bank have faded for the time being. An easing of controls on the peso has triggered a further devaluation of the currency and further depreciation seems likely. Inflation is already close to 200% and the rate could move into hyperinflationary territory (see Figure 27). A weaker currency should help export price competitiveness, but that seems most unlikely to be enough to prevent the generally-expected strong contraction in economic activity in 2024 (see Figure 28).

28. Latin America: GDP growth



Source: Consensus Economics via LSEG. Data as at 4 January 2024.

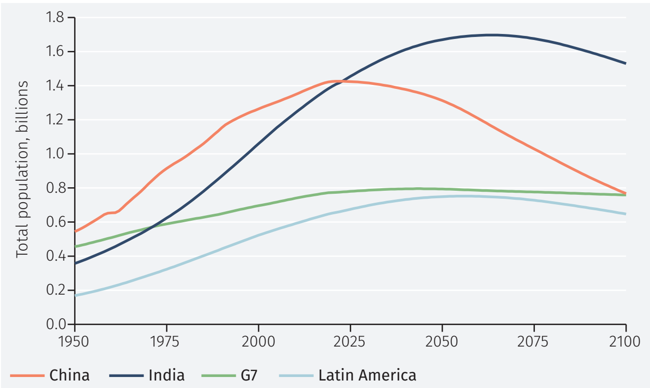
Argentina's economic position is likely to get worse before it starts to improve and, as a result, asset prices in Argentina will remain volatile. Unless there is broad political agreement on the way forward, the likelihood of a deep crisis remains.

Changes in demographics are a slow burn influence on economic and financial market developments. The changes taking place in the coming decades are significant in their magnitude and implications.

Old views...

There has always been a dispute about the implications of demographic change. Two great economists of the eighteenth century had polar opposite views. Malthus thought the world's resources could not keep pace with the growth of population.[16] Famine, pestilence and war would result: the so-called Malthusian trap. The modern take on that would be a concern about overstepping the earth's planetary boundaries. Adam Smith had a more cheery take.[17] He considered that 'the most decisive mark of the prosperity of any country is the increase of the number of its inhabitants.' The modern take on that would be the plea by Giorgia Meloni and the Pope for women to have more babies. So how should we view the important changes now taking place?

29. Demography is (still) destiny

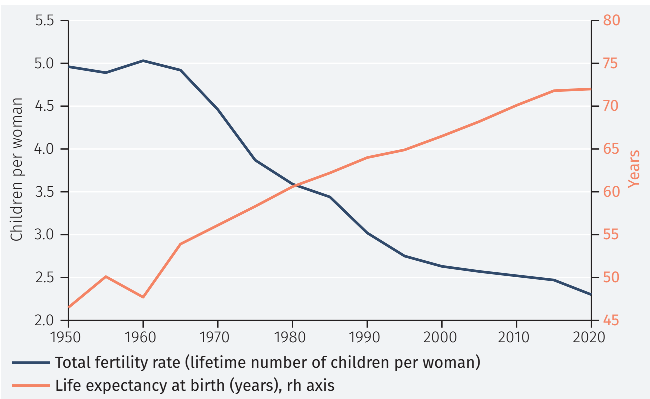


Source: United Nations population projections, 2023 medium variant.

...new challenges

The projected shrinking of China's population between now and 2100, 650 million people, is perhaps the most notable global demographic development (see Figure 29). It will lose as many people as the current population of Latin America. India, in contrast, is expected to see its population continue to expand up until around 2060, then decline modestly.

30. World fertility and life expectancy

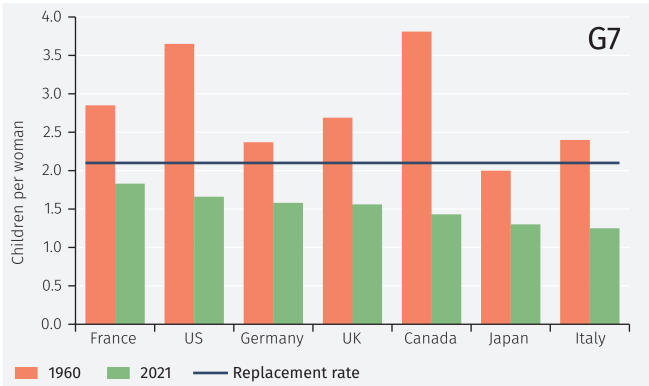


Sources: United Nations, World Bank. Data as at 4 January 2024.

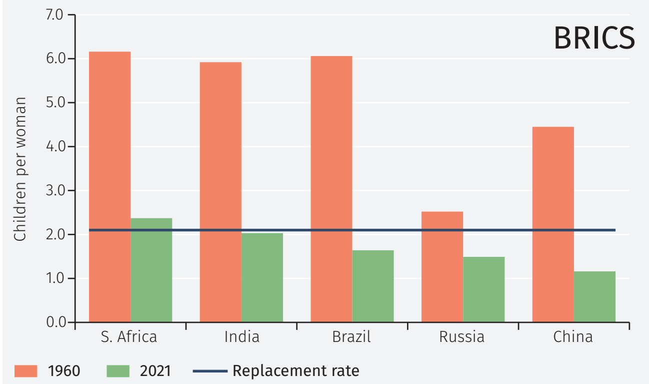
Demographic projections depend on the balance between life expectancy and the fertility rate (the lifetime number of children born per woman). Average world life expectancy at birth was 47 years in 1950 (see Figure 30). It is now 72 years. In Japan it is 85 years. In the UK, the Office for National Statistics expects that one in three babies born today will live to celebrate their 100th birthday.[18]

But longer life expectancy is strongly offset by declining fertility rates. Globally, these have fallen from around 5 children per woman in the 1950s to 2.3 today. In all the major advanced and emerging economies (see Figures 31 and 32) fertility rates are below the replacement rate.

31-32. Fertility rates in G7 & BRICs countries



Source: World Bank Human Development Indicators. Data as at 4 January 2024.



Source: World Bank Human Development Indicators. Data as at 4 January 2024.

Countries can adapt to the challenges of a shrinking and ageing population. Participation rates can increase through later retirement; measures to improve productivity can be encouraged. Or, passive acceptance of what seem like inevitable trends can we welcomed for the relief of pressure on the world's resources.

[16] *An Essay on the Principle of Population* (1798), Thomas Malthus.
[17] *Wealth of Nations* (1776), Adam Smith (1776), Book I, Chapter 8.
[18] http://tinyurl.com/yf44mab6

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