Why Demographics Matters More Than Ever - Catching Tailwinds for Businesses and Investors

By Claudia Zeisberger, INSEAD, and David G. Munro, Volatility Research & Trading

How understanding expanding and shrinking population subsets could help business and investors identify opportunities to pursue and pitfalls to avoid.

In November 2022, the United Nations announcement that the global population had crossed the 8 billion mark brought out the usual fearmongering regarding overpopulation, food shortages and environmental destruction. But what if this is the last flourish for population increases and, 50 years from now, we’ll reminisce of countries and economies that once grew?

The UN’s gargantuan figure does not paint a complete picture of current demographic trends, nor does it capture the fact that many countries are on the cusp of a significant decline in population growth.

Take South Korea, where the population peaked at around 52 million in 2021. If the country’s fertility rate rebounded to 2.0 babies per couple (the
current fertility rate in Vietnam, India and Bangladesh), the population would replenish itself indefinitely, neither rising nor falling. However, this is far from reality, as the last time South Korean couples conceived at least two babies each was four decades ago in 1983. If South Korea maintains its current fertility rate of 0.78 babies per couple, population decline will soon accelerate.

South Korean children born today will share the country with a mere 12 million people when they turn 75, and only 6 million compatriots will be around to celebrate their 100th birthday. This represents an 82 percent drop from peak population in a single century. With such rapid population decline, South Korea’s viability as a country could be in question.

The populations of China, Taiwan, Hong Kong and Japan are also on a similar path to extinction, albeit at marginally slower rates. The implications are extreme for government policy, geopolitical positioning and security, real estate values, the provision of healthcare and basic services, and business in general.

The effect of urbanisation on population figures

Demographic change is seen as a slow, boring and laborious process. Geological, not internet time. Populations roll over slowly. On a chart, the data line appears as a lengthy moderate arc – more of a plateau than a peak. Nothing to get excited about, one might think.

Increased urbanisation coincides with improvements in all development indicators. But life gets so good that city dwellers eventually stop procreating. The theatre, stadium, restaurants, clubs, parties and socialisation offer seductive alternatives to procreation. Large Asian cities have some of the lowest fertility rates globally, with Shanghai, Beijing, Seoul, Taipei and Hong Kong all recording well below one child per couple.

On the other hand, India, Indonesia, Bangladesh, Pakistan, Malaysia and the Philippines will continue growing for the foreseeable future. Assuming parents in these nations opt for two babies instead of the East Asian preference for less than one child per couple, their populations will hold steady, and extinction can be avoided. Africa is at the other extreme. It is likely that the continent will be the dominant region in terms of population numbers by the end of the 21st century.
What are the implications for businesses, investors, governments and the general public? Our research over the past 15 years examines population decline from a global perspective, highlighting both the positive and negative aspects of demographic trends and zoning in on the opportunities to pursue – and pitfalls to avoid – for business and investors.

**Implications for business and investors**

Businesspeople understand demography on a high level, but often not the specifics or nuances. Yet, analysing demographic trends can offer insights on future business opportunities and warn them of vanishing markets.

Take the example of the kidney dialysis industry. Back in 2008, we informed a healthcare corporation with a kidney dialysis business in Japan that their late 60s client demographic would increase by 20 percent over the next decade due to the post-war baby boom. We also explained to the client that they would be astonished by the speed of the subsequent collapse of their business.

The number of dialysis patients in Japan increased as we forecast but has now started to decline rapidly. What could the business do? Find another wealthy and aging population with government-sponsored healthcare. Indeed, the company spent billions buying hospitals in Germany and Spain six to eight years after hearing this stark analysis.

In 2010, we suggested that the rapidly increasing Indian home-buying demographic would push real estate prices up for the next 25 years. We’re currently seeing this play out. We also mused in 2010 that the hippies of the 1960s would require an ever-increasing number of hip replacements. The number of hip-replacement procedures went up by 80 percent over the following decade, as the 60- to 80-year-old demographic increased by 25 million.

Retirement homes and funeral services in the United States were all the rage for private equity (PE) firms at the turn of the century. PE firms understood the population was ageing but didn’t run the numbers to find out when. They were way too early and most of them went bankrupt. Retirement homes only service those in the last two and a half years of their lives. Funeral homes follow. Based on the existing numbers, PE firms should consider rolling out their end-of-life strategy in South Korea. They’ll have a 20-year tailwind as the country’s 80- to 90-year-old population doubles.
Extinction in East Asia, rapid growth in South Asia, a booming Middle East and eventually African domination. Governments, corporations, insurers, pension funds and the general public would do well to build a global demographic-based investment strategy or business plan by carefully analysing these trends – not just now, but over time.

**How to read the trends**

Unfortunately, there are many stories of companies and even entire industries that suffered by not paying attention to demographics. There are also others that rode the wave without knowing why. Every pitch deck lists current market potential, but rarely do they present how the target market is likely to change over the next decade.

So, how can business and investors better leverage this insight? Consultants can be hit and miss in their ability to “read the future” due to their bias for extrapolation and overcounting people, and there is a danger that in-house teams created to study demographic implications can be viewed with scepticism due to the length of time it takes to confirm or refute the accuracy of their predictions.

Our advice for investors and companies would thus be as follows: First, select a country and introduce yourself to its statistics department. Most developed countries are willing to share their data, which is often high-frequency and accurate. The reality is that UN, World Bank and CIA World Factbook data are all largely averaged from 10-year censuses and, as a result, are less useful than monthly or yearly country-specific data.

Next, learn what data is useful and how to exploit it. Choose an industry or theme that interests you and identify the median and distribution of users. The demographics may not always be obvious: A country’s primary school demographic is unambiguously comprised of 6 to 13 year olds, while the dominant real estate, stock investing or sporting cohorts are less clear-cut.

For instance, golfers spend the most on equipment and greens fees when they are approximately 50 years old, and the age of a new mother (which informs the demand for prams, diapers and infant formula) has crept higher over the years to around 31 years of age. Determine if that demographic is rising, falling or steady and – most importantly – establish the rate of change.
Often, the best companies are those downstream, but try and determine which businesses will benefit or suffer most from the trend you’ve identified. In a real estate boom, for example, lumber yards, shingle, brick, tile and appliance businesses should see increasing demand as the number of new housing projects goes up.

**What to keep an eye on**

The global 65-and-over population will double from 700 million in 2019 to 1.4 billion in 2043, presenting enormous opportunities for innovative AgeTech and HealthTech start-ups. The number of primary school-aged students will rise by 130 million in Africa and fall by 115 million in China, which offers a promising EdTech long-short trade.

India’s middle class is projected to surge from 460 million in 2023 to 1 billion in 2050, so Michelin-starred restaurants, skincare products, luxury vacations and anything that makes one feel pampered will likely do well. And the US housing market will experience a tailwind for a decade due to the large echo boomer cohort.

Find the tailwinds and hoist a sail. Avoid the headwinds. By fully understanding the global nuances of population change, businesses and investors can better predict if they are on the right path for their industry, home country and target audience.

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**About the author(s)**

Claudia Zeisberger is a Senior Affiliate Professor of Entrepreneurship and Family Enterprise at INSEAD and the Founder and Academic Co-Director of the school’s **Global Private Equity Initiative**.

David G. Munro is the Chairman of Volatility Research & Trading.