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How can investors avoid the demographic trap?

- **Demographic change permanently slows economic growth in developed countries**
- **Opportunities for investors: Structural changes offer long-term growth potential**

Frankfurt am Main, 19 November 2018 Demographic change does not only affect pension debates in Europe. Economists are also warning of the effects of population decline, which are likely to have an impact on economic growth. Not only in Germany, but throughout Europe the average age of the population is rising steadily. According to studies, around 30 percent of people in the euro zone will be older than 65 in 2070. By comparison, in 2016 the figure was still 20 percent. "Demographic change in developed countries will have an economic impact," says Adrian Daniel, fund manager of the MainFirst Absolute Return Multi Asset, warning against a slowdown in economic growth. At the same time, however, he sees opportunities in industries that are growing particularly fast as a result of such structural changes. "Structural trends, including demographic change, offer interesting investment opportunities," says the fund manager, citing developments in healthcare and automation as examples.

Effects of demographic change

Falling numbers of workers in relation to pensioners will lead to a decline in labour force and employment and thus to lower productivity. One example of the consequences of an ageing population is Japan, where senior citizens already make up 27 percent of the population. "The historical development in Japan shows that an ageing population leads to a decline in consumption. In contrast to young families, the older generation has settled and does not foster growth trends," explains Daniel. A further complicating factor is that the low willingness to consume leads to price pressure among competitors and thus to deflation. "Mature consumers are less willing to make new purchases if they can assume that they will be even cheaper in the future". According to the fund manager, conditions in Japan can be taken as a blueprint for the euro zone and Germany is considered as being most affected by the loss in population. "For the younger generation, the challenge of creating growth is becoming increasingly difficult," says the fund manager.

New growth markets offer opportunities for investors

But demographic change also offers opportunities from a microeconomic point of view. Genetic medicine is already advanced and will in the long term enable the development of tailor-made, targeted medication and thus reduce treatment costs. Thus, healthcare companies have interesting opportunities to position themselves. The nursing sector is also a growth sector. "Companies can benefit from demographic change if they deal with the needs of older people". In this context, automation is also an interesting topic, even though - except in Japan - there are still great reservations about "robo caregivers". At the same time, this sector is promising for the future wherever traditional workers can be replaced. In China, for example, there is an increasing shortage of migrant workers, and automation should now help to counter the shortage of labour.

Structural growth trends enable long-term return prospects

"Investors can take advantage of structural growth trends, as they can be forecast well in advance and are long-term. This means greater security for investors," explains Daniel. This is shown by history where sectors have alwayas dominated for an average of 50 to 70 years. "However, in order to take advantage of this growth, we need comprehensive expertise and an analysis-based forecast," says the fund manager. "In this way, returns can be generated with an attractive risk/return profile despite demographic changes."

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