

NEW NORMAL: THE WORLD IN 2021

A new direction is required to avoid a major economic and social crisis



There is still time to change the road we are on

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A parent's advice to their child in late 1990s Britain: "My dear child, go to university if you feel like it, but don't bother taking a degree in a subject that will help you to do something productive for the world. Instead, buy a flat in London on borrowed money, perhaps several, and your prosperity will be assured."

A parent's advice to their child in late 1990s China: "My dear child, get a degree in engineering. Then you can work for a consumer products company selling to Westerners living on the debt provided by asset-price bubbles."

All of us would love to be able to see into the future, especially when we worry about the financial security of our children.

The purpose of this chapter is to argue that there is a lot of clarity about the next 10 years

and beyond, although we might prefer to ignore it.

Chapter Four in the free ICIS/International eChem eBook *Boom, Gloom And The New Normal: How Western Baby Boomers Are Changing Global Chemical Demand Patterns, Again*, describes how the next decade will be radically different for all of us, whether we live in the developed or developing world. And by 2021, the world will have realised that the supercycle seen between 1982–2007 was an exceptional period of time. It will not be repeated in our lifetimes.

As we discussed in "The Challenges of the New Normal" (*ICIS Chemical Business*, May 23–29 2011), the economic boom seen during the supercycle was driven by the Western baby boomers (those born between 1946–1970). Their demand for housing, autos and electronics soared as they reached the 25–54

age range when many people settle down and have children. But now the boomers are leaving this age range. By 2021, there will be 324m Westerners over the age of 55 years. They will account for 33% of the Western population (North America, Western Europe, Japan, Australia and New Zealand).

Over-55s typically spend less and save more. And the boomers have to save as much as they can afford to provide for their extra decade of life expectancy compared with previous generations. Their savings will have pushed down interest rates in the more stable economies to Japanese levels of around 1–2%.

As a result, this is what the world may look like in 2021.

THE NEW NORMAL WORLD IN 2021

1. Western countries will have increased the retirement age beyond 65 in order to reduce unsustainable pension liabilities. Deep cuts will have been made to social welfare programs as governments struggle to reduce their debts.
2. Taxation will have been increased across the Western world in an effort to tackle the public debt issue. It will no longer be relatively easy to move large sums of money off-shore to countries with lower tax regimes, as regulations will have been tightened.
3. Western and Asian property markets will be flat, having suffered major price declines. Housing will no longer be seen as investments that will serve as pension funds. Around the world, house prices will instead be back at levels which are affordable for the majority of wage-earners.
4. A major shake-out will have occurred in Western consumer markets. The supercycle led to a focus on the middle-market, as the boomers increased their spending. But by 2021, the middle classes in the West will have largely traded down to bargain-basement shopping. The mid-market will be a small shadow of its former self. Luxury spending will once again be confined to a small minority as debt levels will be much lower.
5. Consumer products companies will have also recognised that in the emerging economies, the phrase "middle class" doesn't define people with Western income levels. Instead, it is often used to describe the mid-tier of the population, those earning only \$2–\$10/day. Companies who have understood this will be focused on more entry-level products. They will, as a result, be reporting very strong sales and profit growth.
6. Chemical markets will have become more regional. The slowdown in boomer demand will have reduced the need to outsource production from the West. This will probably have been accompanied by a growth in protectionism as politicians – focusing on the next election cycle – erect tariff and other trade barriers.



Social unrest: countries with younger populations will be angry at the lack of employment and prospects for income

7. Social unrest will have become a more regular part of the landscape. Those countries with younger populations such as the Middle East will be angry at the lack of employment and prospects for income. Those with older populations will complain about the impact of government debt-reduction programs on their lives and the reductions in entitlement programs.

8. Both young and old will be focused much more on “needs” rather than “wants”. Consumers will look for value-for-money and what is good for the environment as well as their budgets. Frequently asked questions will include “Why not make the old car last a bit longer?” or “Do I even need a new car?”

9. Investors will be focused on “return of capital” rather than “return on capital”. Their prime aim will be to understand the riskiness of any investment rather than its potential to make them rich overnight.

10. A new mood will also have replaced the consumerism that drove the supercycle. In part, this will be driven by anger over the asset-bubble era that left governments bankrupt. But it will also be driven by a growing desire to develop a more sustainable way of life, in contrast with the environmental recklessness seen during the supercycle.

IT DOESN'T HAVE TO BE THIS WAY

The New Normal offers the potential to restore a greater balance to society if companies refocus their creativity and resources on real needs.

Water shortages are just one of the megatrends that provide tremendous opportunities for economic growth over the next decade and beyond. In addition, there is the need for more affordable methods of treating water. Millions die every year in developing economies, and suffer serious illness, because of water-borne diseases.

Food preservation is a huge challenge in

countries such as India. More than 50% of food rots before it gets to the people who need it.

There is also an urgent need for companies

The wider population will find itself following the model of the ageing boomers, consuming less, saving more

to focus on basic research to tackle these issues rather than on using government grants to deploy old technologies. Solutions will need to be the result of long-term partnerships between governments and companies.

The transition to the New Normal will be a difficult time. The world will be less comfortable and less assured for many millions of Westerners.

The wider population will find itself following the model of the aging boomers, consuming less and saving more.

Rather than expecting their assets to grow magically in value every year, they may find themselves struggling to pay down debt left over from the credit binge.

More engineers and more scientists are going to be required to create the new products that will serve needs arising from the megatrends.

We will also need to find politicians with sufficient vision to sell the need for hardship and long-term struggle. This will be difficult, given that voters have become used to having all their wants met by quick “fixes” of increased debt.

We could instead decide to ignore all of this potential unpleasantness.

As Mohamed El-Erian, CEO of PIMCO (the world's largest bond fund managers) has

warned, “In these circumstances, human nature is to resort to an ‘active state of inertia’ and look back to what we are familiar with rather than try to define the new paradigm. That kind of Old Normal oriented behavior is clouding many people’s views.”

But doing nothing is not a solution. It will mean we miss the opportunity to create a new wave of global growth from the megatrends. And we will instead end up with even more uncomfortable outcomes. ■

THE NEW NORMAL EBOOK

A new chapter of our free *New Normal* eBook is published each month. Download chapter four and previous chapters at icis.com/NewNormalEbook.

It has been co-written by Paul Hodges, chairman of consultancy International eChem and author of the *ICIS Chemicals and the Economy* blog, and John Richardson, director, ICIS training Asia, author of the *Asian Chemical Connections* blog.

ICIS and International eChem are running regular “New normal – petrochemicals and the new demand drivers” training seminars to equip you with essential skills and knowledge.

