Global economy faces tough 2013

Demographic changes mean that the global chemical industry must prepare for years of slow economic growth

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Better healthcare means people are living longer, and that impacts the economy

Renewed global recession appears to be the major risk facing us at the start of 2013. The International Monetary Fund (IMF) has already warned that "the risks for a serious global slowdown are alarmingly high." It added that this would mean a recession in wealthy nations and a "serious slowdown" in emerging nations.

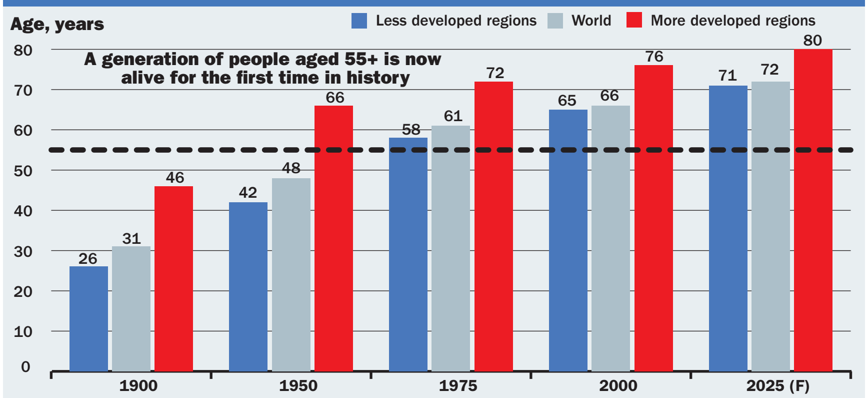
Europe provides clear evidence for the IMF's concern, with most commentators now assuming the eurozone is already back in recession. Borealis CEO Mark Garrett went further when warning: "I believe Europe has entered a 10-year stagnation period, just like the Japanese have suffered."

Equally, China's new leadership is clearly worried about the economy. Premier-designate Li Keqiang told China's National Congress in November that "the period ahead is full of unprecedented risks and challenges."

The US remains more optimistic, and certainly its shale-gas-based move towards energy independence is potentially game-changing for the manufacturing industry. But its consumers still suffer from the fact that oil prices have been at record average levels for the past two years. Today's cost, amounting to 5% of global GDP, has historically always led to a global downturn. It is also hard to believe the US could somehow remain buoyant if both Europe and China weaken.

Thus we appear to be fulfilling my forecast of four years ago ("Checklist for Survival", ICB January 5-11 2009), which advised CEOs and boards "to prepare for a marathon not a sprint" in dealing with the aftermath of the 2008 crisis. Equally, few would now argue

LIFE EXPECTANCY AT BIRTH, 1900-2025



SOURCE: IeC; Maddison, UN Population division

with my then highly controversial suggestion that it was "unlikely that governments will quickly find a 'magic bullet' to quickly correct the causes of today's problems".

Policymakers now find themselves in a deep hole. They have tried stimulus and liquidity programmes, as well as tax cuts and austerity packages. It would be humiliating for them to now accept the simple truth that demographic changes, particularly the ageing of the Baby Boomers, are the cause of the current slowdown in global growth. They may well therefore end up going full circle in 2013 with another, even larger, G20-type stimulus package.

DEMOGRAPHICS IS KEY

Boards clearly need to be alert to this possibility. But they cannot afford to indulge in wishful thinking about the potential success of any new stimulus. After all, consider the old adage, "A good definition of insanity is doing the same thing over and over again, and expecting different results." Instead, executives need to reflect on the fact that if there were no people, there would be no chemical industry and no global economy. Companies that continue to ignore this demographic truth are asking for trouble. The key to future success will be to instead identify how to profit from the two great growth opportunities presented by today's changing demographics.

The first of these requires further analysis of the so-called 'population explosion'. The world's population seems set to rise from today's 7 billion to 9 billion in 2050. But the phrase is completely misleading. Women in virtually every country in the world are actually now having fewer children. Globally, UN data shows that the average woman has just 2.5 children today compared to five children in 1950. Instead, we are benefiting from a 'health explosion' caused by advances such as the use of chlorine in drinking water and healthier lifestyles.

As the chart shows, these mean that an entirely new generation, the New Old 55-plus cohort, is now alive for the first time in history. Just a century ago, life expectancy was only 46 in the West and 26 in less developed regions. Even in 1950, only Westerners could expect to live into their 60s. Yet today, Westerners live to around 80 years, and those in emerging economies to 65. Globally, average life expectancy has already more than doubled to 66 years, from 1900's average of only 31 years.

This is a truly historic moment, and should be cause for major celebration. Instead, we appear to be doing our best to snatch defeat from the jaws of this famous victory, by focusing on the inevitable slowdown that it is causing in global growth.

Older people consume less, as they usually need to buy only replacement products once the kids have grown up and left home. Equally, today's New Old know their pensions were originally designed to finance only a few years of retirement, not decades. So they have to reduce spending today to compensate. Thus it is no surprise that growth has now gone L-shaped, as Western household consumption accounts for 40% of the global economy (as described in "Demographic Slowdown Hits Company Results", ICB 26 November 2012).

As John Richardson and I highlighted in our free ebook Boom, Gloom and the New Normal, companies now need to refocus their strategies on the opportunity to meet the needs of this New Old generation. They already account for an unprecedented 29% of the Western world, 272m people. And by 2030, their numbers will have risen by 34% to 364m. Their future needs for water, food, health, shelter and mobility will be key to the future growth for any company operating in the Western world.

Thus 2013 provides a wake-up call for everyone, including policymakers. It marks the critical moment when the average Boomer, born in 1958, joins the New Old generation. There is no going back to the economic supercycle that developed when the Boomers were in their peak consumption period between 25 and 54 years old. Equally, the generation following them is much smaller and so cannot possibly compensate for their parents' slowing demand.

The second great opportunity is for those focused on the emerging economies. They need to ignore the wishful thinking that these countries have magically now become middle class overnight and can seamlessly replace lost demand in the West. As Asian Development Bank data shows, only 45 million Chinese earn more than $20 (€15.50)/day ($7,600/year). And even this would hardly rank them as middle class in the West.

Twenty years ago, 60% of China's population earned less than the $2/day poverty line. But today, there are nearly a billion Chinese earning in the $2–$20/day bracket, most of whom now have some spending money for the first time in their lives. They are part of a large and fast-growing global market of low-income consumers. Companies that focus on meeting their needs will have decades of success ahead of them.

My suggestion as we enter 2013 is therefore that companies embark on a fundamental change in mind-set and culture. They need to be aware of the risks of major economic disruption and guard against these as well as they can. But at the same time, they need to move beyond the short-termist approach of financial markets that has created today's economic cliff.

As Harvard University Prof Michael Porter argues, our "field of vision has simply been too narrow" and has meant "companies have overlooked opportunities to meet fundamental societal needs." Technical and business model innovation is now essential, if companies are to instead profit from the two major growth markets now starting to dominate Western and emerging economies. ■

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