

Peak People

How can UK investors benefit from positive demographic tailwinds in emerging markets?



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Olive Whitmore was 18 in 1742 when she married Arthur Guinness, the founder of the eponymous brewery and a man twice her age. Over the next 24 years she fell pregnant 21 times, although only 10 children survived to adulthood.

The reduction in fertility rates driven by advances in healthcare, education and employment opportunities for women is clearly a good thing. However, the speed of the reduction is happening faster than you might think. In the UK, the fertility rate has not been sufficient to sustain the population level since 1972ⁱ. In Japan, low birth rates and the resulting ageing population have led adult nappies to out-sell the baby varieties since 2011ⁱⁱ. In the developing world, China's population is expected to peak by 2024ⁱⁱⁱ.

The future will not look like the past

If you are fifty, the world's population will have doubled during your lifetime. There were less than four billion in the early 1970s and around eight billion now^{iv}. Population growth is generally seen as good for economies. More consumers mean more spending. A larger labour force can result in greater economic output. Both mean more tax revenue and more investment.

But the next fifty years will look very different. Diminishing fertility rates mean that the global population is likely to peak before it reaches 10 billion^v. In many countries that peak is coming very soon. The previous doubling of willing workers and consumers has been good for markets. The slowing of that growth and the approaching point of peak people is likely to be less positive.

If we look for consumers in countries with fertility rates that don't imply population decline, we find that 98% live in either Africa, Asia or South America^{vi}. By 2050, these regions will constitute 88% of the global population. The conundrum for cautious UK investors is that these positive demographic tailwinds come with elevated risks posed by investments in Indian, Nigerian or Columbian equities. If only it were possible to access these positive demographics by investing in well-established companies that trade on an exchange with stringent listing rules aimed at protecting investors...

By 2050, 25% of the world's population will live in Africa.

Africa is the stand-out region in terms of population growth. It is expected to double by 2050 with the population of Nigeria overtaking China by the end of this century. Nigeria, in line with the rest of the African continent, is experiencing rapid urbanisation. An astonishing 1 billion African's are expected to move to cities in the next thirty years^{vii}.

UK listed Diageo generates 20% of its sales from Africa^{viii}. It owns the East African Brewing Company, with operations in Kenya, Tanzania, Uganda and South Sudan, as well as Guinness Nigeria. Africa is the fastest growing beer region in the world, and Diageo maintains a number 1 or 2 share in most of its African markets^{ix}.

India's Urban Population is expected to double by 2050

India is now the world's most populous country. Its urban population will double by 2050^x. Unlike Europe or the US, it boasts a growing population of working people living in smaller family units and spending more money on consumer goods. Diageo's United Spirits business and Unilever's Hindustan Unilever are leaders in premium branded goods sold in the country. Unilever is the market leader in clothes washing powder, hair products, dishwashing, tea, skincare, ketchup, soup and health food drinks^{xi}. Diageo's United Spirits is the leader in the Indian spirits market, controlling around 1/3 of volumes and poised to benefit from more affluent consumers buying more premium whiskeys^{xii}.

Latin America positioned for faster growth?

There is also room for optimism in selective Latin American markets. As well as a faster growing and more affluent population, the region boasts significant commodity resources needed for the global energy transition, and is seeing a boost from “near-shoring” as US supply chains shift away from Asia.

Experian’s Brazilian business is seeing growth accelerate as more affluent consumers access credit, often for the first time. Experian is the largest player in a market where most people don’t yet have a credit card and around 30% don’t have a bank account^{xiii}. These figures are changing and Brazil’s financial industry is deregulating and expanding at more than double the rate of the US or UK. Experian’s Brazilian business grew by around 20% over the last 12 months^{xiv}.

Inchcape is another UK listed business with significant Latin American exposure operating as the official distributor for brands such as Mercedes, BMW and Jaguar in markets such as Columbia, Peru, Chile and Uruguay. The attraction here is the growing car ownership in the region, especially compared to Western markets, where penetration has plateaued. Inchcape is the clear market leader and continues to expand in the region.

Meaningful but manageable

The four companies mentioned have meaningful exposure to strong demographic trends but are balanced by less volatile developed market exposures. For Diageo, Africa and India constitute only 13% of sales, for Unilever, India represents 7%^{xv}. Revenues from Experian’s Brazilian business made up 19% of the total group^{xvi}, whilst Inchcape’s Latin American exposure is a third of group sales^{xvii}. We estimate that our portfolio averages around 16% direct exposure to developing market demand^{xviii}. We expect it to have a disproportionately positive impact on the capital growth we deliver for clients.

We shouldn’t always expect a smooth ride for companies selling their products in fast developing economies. The old joke among investors was that emerging markets are ones that never emerge. However, we do expect more affluent consumers in Africa, Asia and Latin America to spend more on globally recognised aspirational brands. UK Plc plays a big role in that, be it through sales of dishwasher tablets in India, German car ownership in Peru, or increased Brazilian credit card penetration. These growth opportunities for UK listed companies are thus opportunities for UK equity investors. If born today, Olive Whitmore might be surprised to find out that Ireland is no longer the second largest consumer of Guinness after the UK. That accolade now goes to Nigeria^{xix}.

ⁱ Office for National Statistics:

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytablesenglandandwales/2021#livebirths-and-fertility-rates>

ⁱⁱ <https://www.businessinsider.com/signs-japan-demographic-time-bomb-2017-3?r=US&IR=T#adult-diapers-outsell-baby-diapers-2>

ⁱⁱⁱ Fertility, mortality, migration, and population scenarios for 195 countries and territories from 2017 to 2100, Vollset et al., The Lancet.com Vol 396 October 17, 2020

^{iv} UN Dept of Economic and Social Affairs, <https://population.un.org/wpp/>

^v UN Dept of Economic and Social Affairs, <https://population.un.org/wpp/>

^{vi} UN Dept of Economic and Social Affairs, <https://population.un.org/wpp/>

^{vii} Africa’s Urbanisation Dynamics 2020; Africapolis, Mapping a New Urban Geography” OECD, 2020

^{viii} FY 2022, Source: Bloomberg

^{ix} Diageo Investor Conference: <https://www.diageo.com/en/investors/results-reports-and-presentations>

^x UN Dept of Economic and Social Affairs, <https://population.un.org/wpp/>

^{xi} Hindustan Unilever Capital Markets Day 2022, <https://www.hul.co.in/investor-relations/company-presentations/>

^{xii} Diageo Investor Conference: <https://www.diageo.com/en/investors/results-reports-and-presentations>

^{xiii} Experian at Barclay’s Global Credit Forum September 2022

^{xiv} Source: Bloomberg

^{xv} Source: Bloomberg

^{xvi} Source: Bloomberg

^{xvii} Company data, JOHCM Estimates

^{xviii} Company data, JOHCM Estimates

^{xix} <https://www.irishpost.com/news/top-5-surprising-guinness-drinking-countries-world-176215>

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Source: JOHCM (unless otherwise stated.)

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