

Plenty of scope to capitalise on world's demographic shifts

Global tactics

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Demographic trends can present considerable opportunities for investors. The young need everything from childcare to baby products, while the elderly need aged care and health services.

In the middle, wealth transfer is happening. Just consider our housing challenges. The over-55s benefit from higher house prices but aren't necessarily huge spenders, while Millennials face challenges getting on the housing ladder and have debt. How does all this inform smart investors?

A stereotypical response to demographics may go something like this. As the Australian population grows older, demand for healthcare and aged care will rise. Hospital operators such as Ramsay Healthcare and global hearing aid manufacturer Cochlear are well positioned to take advantage of this trend.

Japan provides further insights on how demographic change in a rapidly ageing and shrinking population may impact consumption. Japan's population change has seen the workforce hollowed out. Women have stepped in to partly fill this gap. According to the Brookings Institute, Japan's prime-age female labour force participation rose to 74.3 per cent in 2016, compared to 66.5 per cent in 2000. As Japanese female disposable income grew, demand for childcare, prepared food, deliveries and beauty-related services increased. It's not just enough for investors to understand demographics. The real value lies in acting on demographic shifts across eras and generations. But how can investors isolate meaningful trends?

The ageing population in Australia is



The iPhone generation values experiences and is known more for a "YOLO" (you only live once) mentality. PHOTO: THE NEW YORK TIMES

a large and well-established shift. But while the Baby Boomers might be entering their later phase of life, the Millennials, or the "iPhone generation", are only just entering the workforce, or preparing to.

How does the iPhone generation consume leisure? More people in this generation have the capacity and desire to travel. They value experiences and are known more for a "YOLO" (you only live once) mentality. Leisure-related companies such as Flight Centre and The Experience Co may be one way investors can tap this theme.

Healthcare is a lower priority for the iPhone generation compared with the Baby Boomers. Recent falls in private health insurance participation among the younger cohort of the Australian population reflect this trend, which has been compounded by rising health insurance premiums. But this may be encouraging changes within the insurance industry. Health insurance companies such as Medibank and NIB have responded by introducing products that are more aligned to the needs of the iPhone generation and are seeing good growth in take-ups.

Local demographics are only part of the story. Demographic shifts among our biggest trading partners can be just as influential. Consider rapid growth in the middle class, particularly in

developing Asian countries. That a bigger middle class creates higher consumption growth is no surprise. More interesting is how consumption patterns will change. For example, travel and leisure now comprise a larger proportion of household spending. This partly explains why outbound tourism from countries such as China is increasing at a rapid rate – to the benefit of Chinese online travel agents such as Ctrip, gateway airports such as Sydney Airport and Sydney harbour cruise operator Sealink.

Rising wealth has allowed Chinese parents to consider better-quality food products and is changing diet preferences. We anticipate this trend to continue as a significant force driving demand for dairy, fruit and meat. Hence, it is no surprise to see horticulture company Costa Group expand its berry farms in China.

Investors, of course, should bear in mind that they will only capitalise on demographic shifts if they invest in companies which exhibit the classic characteristics of a good investment, starting with: good management, good cashflow, little debt and a strong balance sheet.

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