

9 February 2012: The sub-Saharan Africa demographic story

...what opportunities does this create for investors?

The Oxford Concise Dictionary defines demography as the vital statistics that illustrate conditions of a community. Webster's dictionary goes a step further, stating that demographics entails "...studies of a population based on factors such as age, race, sex, economic status, level of education, income level and employment, among others."

Accordingly a study of these factors can help provide a picture of a community, both in terms of demographic changes or trends, as well as demographic distributions. Globally we are seeing a big dispersion in terms of demographics. What is especially interesting to note is where developed countries were a few decades ago, and where the forecasts show today's developing countries, especially Africa, will be in the next few decades.

With the world's eyes currently firmly on Europe with its debt crisis and accompanying unstable economic outlook, problems associated with ageing populations increasingly occupy the minds of economists and policy developers.

In September 2011, Euromonitor, a market leader in consumer research, released a report on the world's oldest populations. It found that Japan had the oldest population in the world, measured in terms of the percentage of above 65-year olds to the rest of the population. For Japan the figure was 23.3%. The rest of the top ten were all European countries, with Germany at 20.6%, Italy 20.3% and Austria 17.6%. Of the so called "PIGS" countries - Portugal, Ireland, Greece and Spain, who of all the EU countries are probably experiencing some of the most severe economic woes, only Ireland is not in the top 10 of oldest populations.

Overall, developed countries have higher life expectancies due to higher standards of living. Female workforce participation is also relatively higher than in developing economies and, due to a higher average age of giving birth as well as lower fertility figures, old people make up a greater percentage of the population. In developing countries such as those in Sub-Saharan Africa we have almost the opposite situation. For example, Euromonitor's report noted that "in Uganda only 2.5% of the population is over 65% ... with the median age being 15.7 at the end of 2010."

Another statistic that illustrates the problem is the "age dependency ratio". This is the ratio of older dependents, people older than 64, to the working-age population aged between 15 and 64. Data are shown as the proportion of dependents per 100 working-age population - how many people are classified as "old" for every 100 working age people in an area or country. There is an incredibly big dispersion of numbers here if one looks at this globally.

Based on data supplied by the UN, North America has a statistic of 19.6 as at the end of 2010. The European Union has a corresponding value of 25.94 while the richer countries encompassing the euro area have an even higher value of 27.5. Eastern Asia is at 12.04 and Latin America at 10.55. Sub-Saharan Africa is at 5.89, by far the lowest of all the regions of the world and is also the region that has shown the least change in this statistic over the past 50 years. In 1960, the corresponding value was 5.615. For Eastern Asia it was 7.17, for the European Union it was 15.3 and for North America it was 15.08.

What these statistics show us, is that the richer developed countries are experiencing a situation where more and more older people have to be supported by the younger, shrinking working force. The so-called baby-boomer generation born after the end of Second World War, and one of the richest generations in history, has started to retire. In 2011, those born in 1946 reached age 65. In Germany, the total number of pensioners increased by an annual average of 1.8% between 2005 and 2010, while the total population decreased by 0.2% annually over the same period.

In the World Economic Forum's Global Risk Report of 2011, demographic challenges in the developed world were seen as likely threats with a big perceived impact – bigger than a slowing Chinese economy or an asset price collapse.

In contrast, Africa is estimated to have a population of more than a billion people after starting the millennium with 800 million. 15 out of every 100 people globally now are African, compared to 11 being European. The median age in Sub-Saharan Africa is only 18.6, lower than all other continents or major geographic groupings, including other developing regions. Asia has a median population age of just under 30, whilst the figure for BRIC nations currently stands at 32. Overall the median age of developing countries was 26.5 years in 2011. It is forecast by the UN's population division that by 2030 this number will have increased by 5.5 to 32 years. For the developed world, the median now is 39.6, and it is projected to be 44 in 2030.



Population dispersions can be shown in an age pyramid. With five-year intervals, these graphs depict the population according to age group. A triangular pyramid, would imply a relatively large youthful population, a smaller working age population and a small older one with the latter supporting the former. In countries experiencing graying populations, this triangle is the other way around indicating that the working population has to support more and more old people.

Between the 1960's and 1990's in most East Asian countries, especially South Korea and Japan, growth in the labour force exceeded that of the total population. This result was what was termed the "demographic dividend". There was a young work force, without the burden of supporting non-contributing members of society and economic growth experienced during that period was stellar. In a report by Accenture titled *The Dynamic African Consumer Market: Exploring Growth Opportunities in Sub-Saharan Africa*, at the end of 2010 the African population stood at 1.033 billion. Of this, 416 million or 40% was defined as youths, 582 million or 56% as working age, with only 4% over 65. Projections from the UN population division state that by 2050 the figure for youths will fall to 27%, the working aged population will comprise 66% and 7% will be over 65. Thus, the demographic trend in terms of size and composition of population will be the same as that experienced in Asia.

The pace of urbanisation around the world is also increasing. It is predicted that by 2030, 59% of the world's population will live in cities. For developing countries, this number will be 55%, an increase of just under 10 percentage points from what it is currently. The UN states that over 90% of urbanisation will occur in developing countries.

The rapid increase in the size of the working force from a low base relative to the rest of the world is expected to result in an incredible rise in demand for consumer goods and services. Due to improvements in infrastructure, it is also easier to reach consumers. By the end of this year it is estimated that 50% of all Africans will own a mobile phone, compared to 30% in 2008. Mckinsey & Co estimates that by 2020 consumer spending across the continent could top \$1 380 billion. This is the equivalent of adding a consumer market the size of Brazil to the world economy.

In a study done by Invest AD, an Abu Dhabi based investment committee in conjunction with the Economist's Economic Intelligence on some of the bigger global institutional investors looking at Africa, 39% of respondents said that the growing middle class and growing consumerism was the main attraction for investing in the continent, more than those that said commodity prices were the main motivation.



This is interesting, given that Africa has traditionally been seen as a resource play. 27% responded that positive demographics is the most attractive aspect of investing in Africa, indicative that the growing consumer market and positive demographics go hand in hand.

To ride this wave of economic growth driven by demographic trends, the ideal is to focus on industries that will benefit directly. Africa still has relatively illiquid investment markets. Direct investment opportunities are more readily available but they come with longer time frames. Investing in pension companies driven by the growing labour force is one possibility, since upon retirement this grouping would have to be adequately provided for. Improved retail shopping facilities in growing urban are another. In the US in 2010 there were 2.5 square meters per capita of modern retailing space. The corresponding figure for Europe was 1.5. For Zambia it was 0.0029 and for Nigeria, with its massive potential market, 0.0002.

Opportunities for real returns in "the last global investment frontier" are abundant, but are expected to become harder to find as investors increasingly turn their attention to markets where demographic fundamentals support the business case.

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