

Flash Economics

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China: What will change the drastic population ageing at the beginning of the 2020s?

China will experience drastic population ageing at the beginning of the 2020s. What will be the consequences of this drastic ageing in a few years in China?

- The need to ensure vigorous growth to maintain full employment will in a few years be replaced by a far more modest need for growth (3% per year instead of 5% per year);
- This will enable the country to adjust industrial employment and correct excess capacity in industry far more easily than now;
- When there is population ageing, the private savings rate should fall and the external surplus should disappear. The capital outflows and acquisitions abroad taking place now will then be far more difficult to finance. China should then even start losing its external assets;
- Given the resulting weakening of potential growth, China's investment requirement is now reduced.

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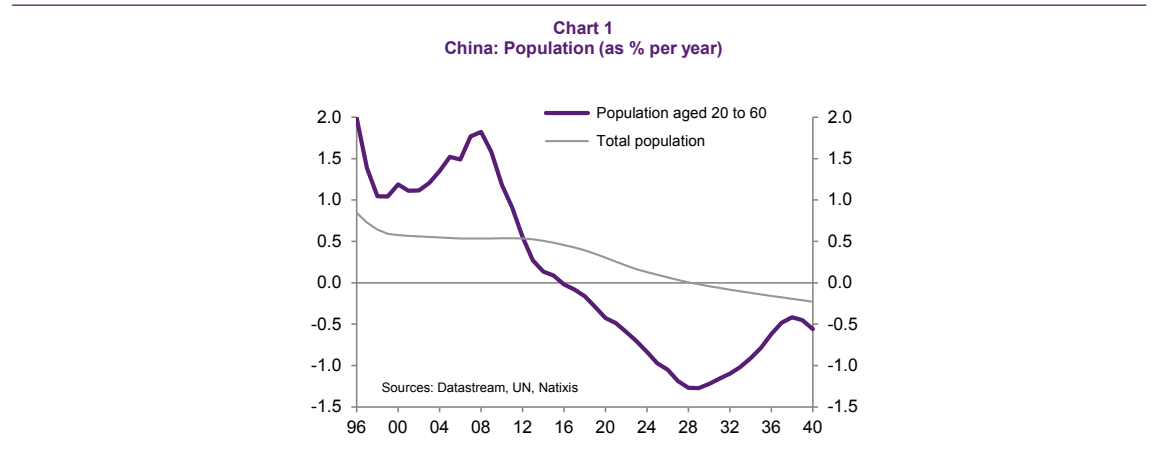
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Drastic population ageing in China from the end of the 2020s

Chart 1 shows that China will experience drastic population ageing from the end of the 2020s.



We seek to identify the consequences of this population ageing.

What should we expect from the drastic population ageing in China from the end of the 2020s?

1- Reduced need for growth

Chart 2A shows GDP and employment growth in China, Chart 2B per capita productivity growth; Chart 2C the unemployment rate.

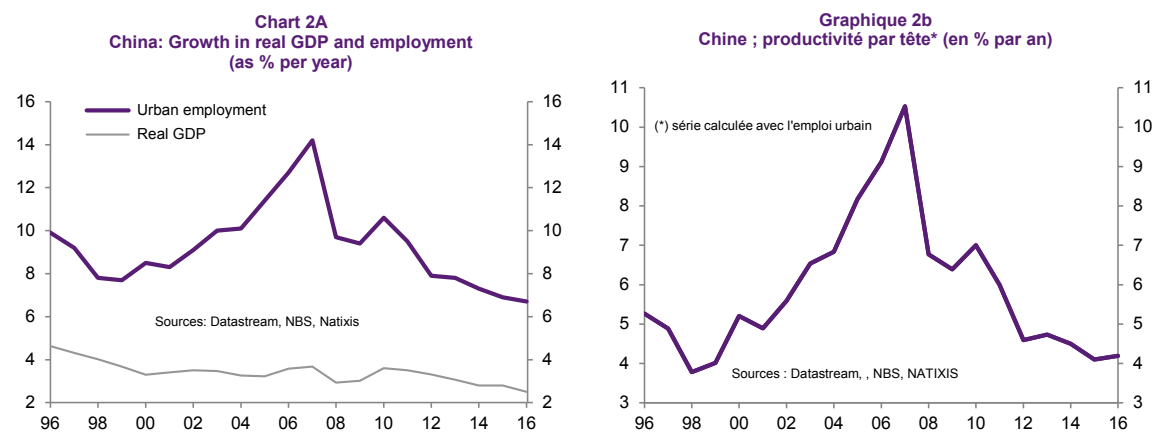
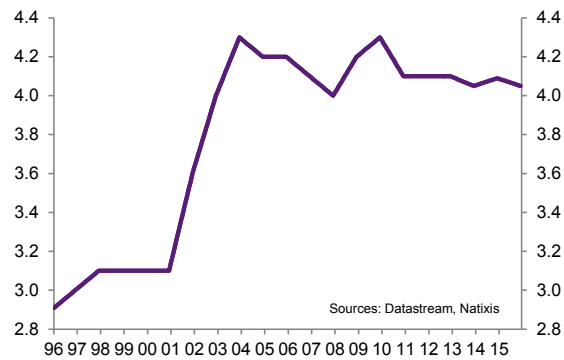


Chart 2C
China: Unemployment rate (as %)



Currently, given the growth in the working-age population (Chart 1 above) and in productivity gains (Chart 2B above), **5% growth per year is needed to stabilise the unemployment rate.**

From 2020, growth of 3% to 3.5% per year will be sufficient to ensure full employment due to ageing.

2- Correction of excess capacity in industry

Chinese industry currently has **considerable excess capacity** in many segments (Table 1), which explains the fall in industrial prices from 2012 to mid-2016 (Chart 3A) and the fall in export prices (Chart 3B), as China is trying to export its excess capacity.

But **the Chinese authorities are currently hesitating to correct the excess capacity, as a major downward adjustment of employment would be needed (Chart 3C),** leading to an unacceptable rise in unemployment.

Table 1: China: Capacity utilisation rate by industry (as %)

Aluminium	76
Cement	73
Steel	71
Refining	66
Glass	79
Paper and cardboard	84

Sources: NBS, Natixis

Chart 3A
China: Industrial producer prices

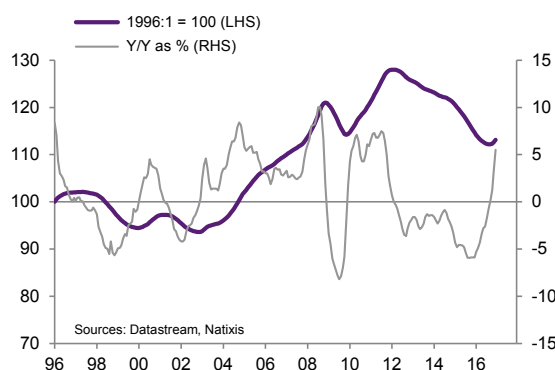


Chart 3B
China: Export prices

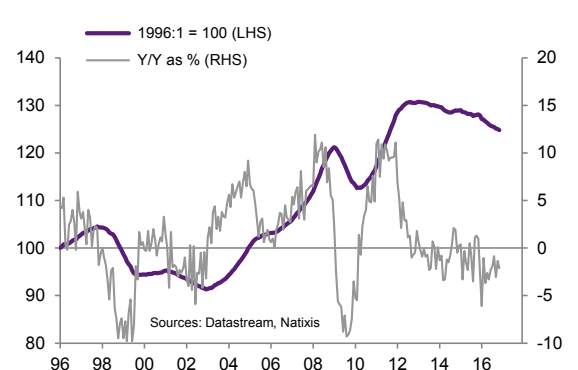
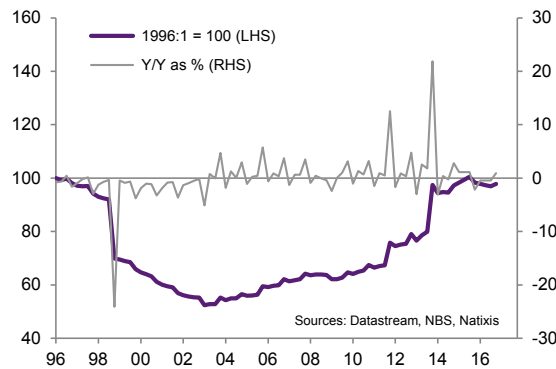


Chart 3C
China: Manufacturing employment



But from 2020, the decline in the working-age population will make the correction of the excess capacity much smaller.

3- Disappearance of the external surplus

Population ageing should normally lead to a fall in China's private savings rate (Chart 4A), leading to the disappearance of the external surplus (Charts 4B and C).

This disappearance should make capital outflows and acquisitions abroad far more difficult (Charts 4D and E), and even lead to a situation where China loses external assets instead of accumulating them (Chart 4F).

Chart 4A
China: Private savings rate* (as % of nominal GDP)

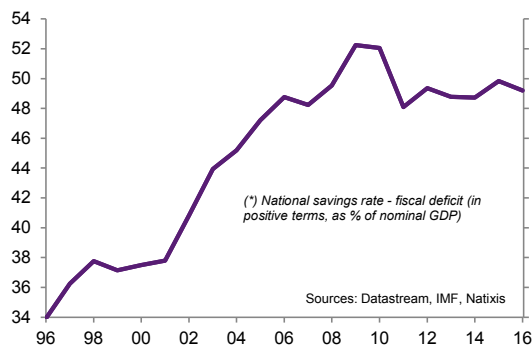


Chart 4B
China: Current-account balance

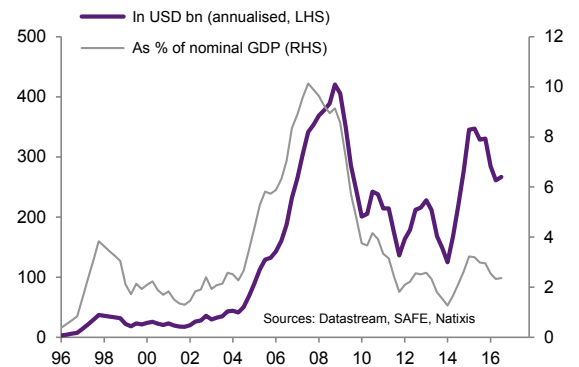


Chart 4C
China: Current-account balance (USD bn, annualised)

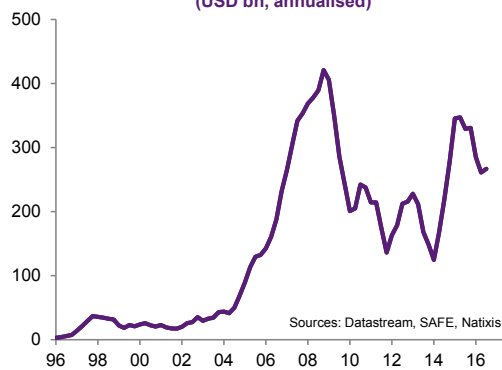
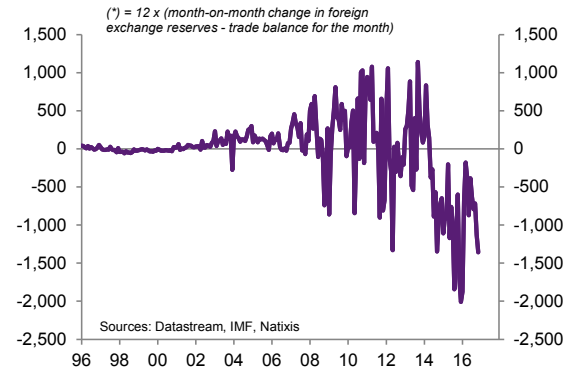
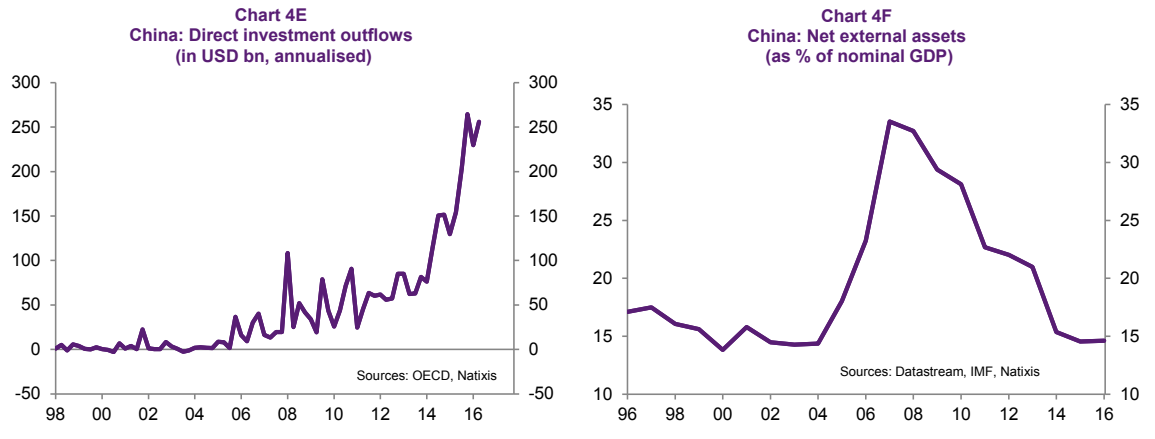


Chart 4D
China: Annualised capital flows* (in USD bn)

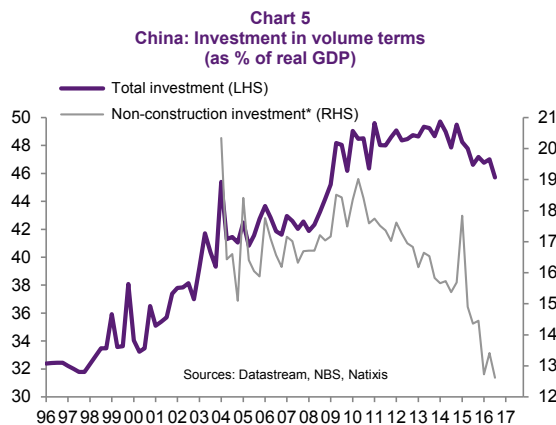




4- Smaller investment requirements

Given the productivity gains (Chart 2B above), population ageing (Chart 1 above) will push down China’s potential growth from 8% to 9% per year in the 2000s, to 4.5% per year currently and to 3% per year in the 2020s.

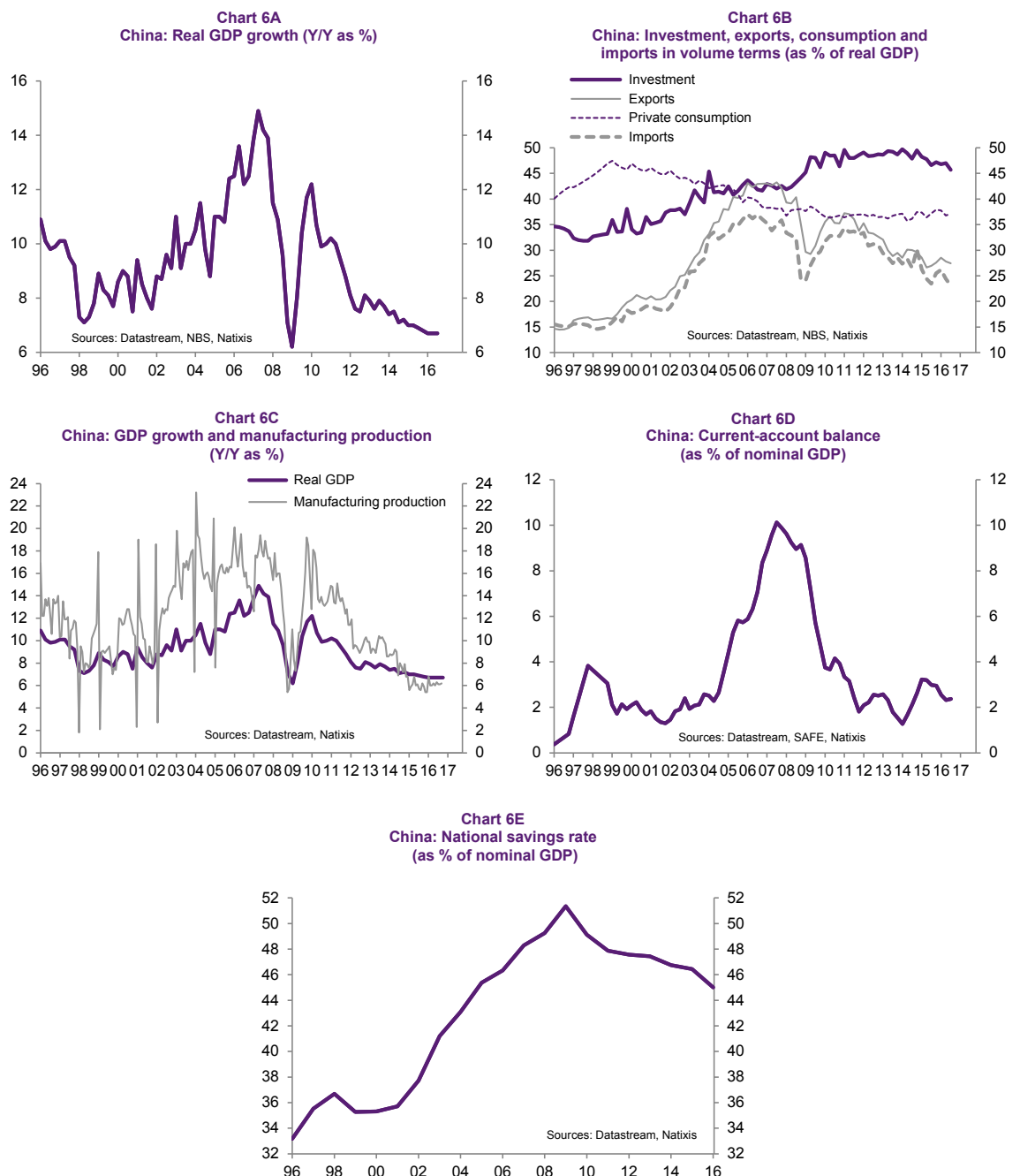
The current fall in China’s investment rate is therefore normal (Chart 5) since the outlook is a weakening of long-term growth.



Conclusion: Towards a different China

China's economy will become very different due to the drastic population ageing from the end of the 2010s:

- Much lower growth (around 4% per year, **Chart 6A**);
- Decline in investment in total demand (**Chart 6B**);
- Contraction in industry and reduction in excess capacity (**Chart 6C**);
- External deficit and not external surplus (**Chart 6D**), fall in external assets;
- Decline in savings (**Chart 6E**).



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