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Insight

Demographic change a force that firms ignore at their peril

The ageing population is not just a long term fiscal challenge…

New Zealand, like many developed countries, has a rapidly ageing population. Over the past year the over 65 population has grown by 4% while the under 40 population has shrunk slightly. Currently there are 5 working age people for every person over 65 and in 20 years' time figure 1 shows there will be just 3 working age people per person over 65.

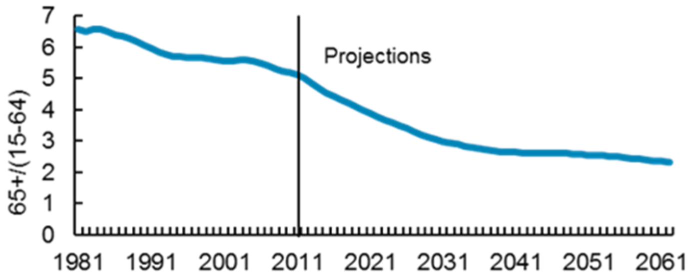
We have raised concerns about the lack of political willingness to address the potential fiscal effects of this demographic shift. This shift will put pressure on superannuation and healthcare costs in particular.[1] The economic impact of New Zealand's ageing population is a key theme of NZIER's Public Good work programme in 2012/13. We will release more work on these themes in coming months.[2]

…the impacts will be felt by all businesses

But New Zealand firms also need to be aware of the potentially significant implications of the ageing population on their business strategies. Some key impacts relate to:

- the make-up of the workforce
- succession planning
- entrepreneurship and innovation
- shifts in consumer demand.

Aged dependency ratio



Source: Statistics NZ, NZIER

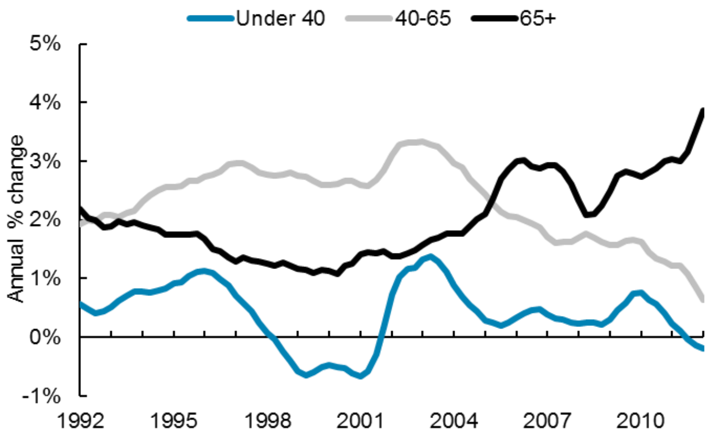
[1] See http://nzier.org.nz/publications/superannuation-dilemma and http://nzier.org.nz/publications/policies-made-on-a-calm-day-seem-more-robust

[2] See http://nzier.org.nz/public-good for an overview of our Public Good work programme for 2012/13.

More competition for junior and mid-level workers

As the chart below shows, the pool of available staff in the under 40 age bracket is already shrinking. This trend will continue.

Population growth by age group



Source: Statistics NZ, NZIER

Firms will need to work increasingly hard to attract and retain the best and brightest employees aged under 40 – they will become a scarce and prized resource. This has implications for the salary and development opportunities that firms will have to offer.

Don't bulk buy the gold clocks just yet

Firms will need to do more to encourage older workers to stay in employment rather than spending more time with their grandkids or sharpening their golf handicap. This might entail offering more flexible hours for those not wanting to work full time or drawing on these workers' institutional knowledge by retaining them as advisors to help bring through the next level of management.

Businesses might also want to examine how they attract and retain female, Māori and Pacific Island workers. The female labour force participation rate[3] currently stands at around 63%, compared to 75% for males.[4] While there are unsurprising reasons for this difference – namely bearing and raising children – closing even half the gap between male and female participation would increase the labour force by 4.5% today.

Firms may also want to consider the ethnic mix of their workforce. The Māori and Pasifika populations are significantly younger than the New Zealand European population. As Jackson

[3] The proportion of the female working age population that is either employed or actively seeking employment.

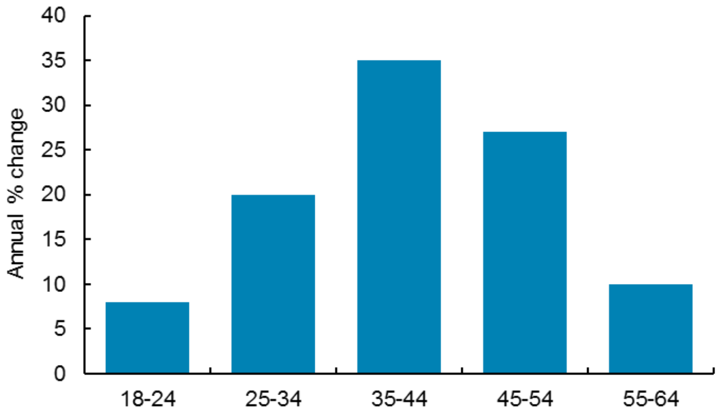
[4] Further information on female participation trends in New Zealand can be found at http://www.mwa.govt.nz/news-and-pubs/publications/work-and-enterprise and http://www.treasury.govt.nz/publications/research-policy/wp/2005/05-06

(2011)[5] notes, in 2006 the median age of the Māori population was just 23 years, compared with 38 years for the European/New Zealander/Other population. This suggests that as many baby boomers are heading into retirement, there will be more employment opportunities for the younger Māori population. This shift may have implications for firms in terms of funding for development, given the lower average educational achievement of Māori and Pasifika.

Where will the ideas come from?

Evidence shows that those in the 35-54 age bracket are responsible for the bulk of entrepreneurship activity in New Zealand. Workers approaching retirement have less incentive to introduce innovative work practices as the pay-off period to them is shorter. This suggests that the 'stock' of innovation will decrease over time unless firms come up with creative ways to incentivise junior or older workers to invest in improving business practices or developing new products.[6]

Early stage entrepreneurs by age



Source: The Global Entrepreneurship Monitor Aotearoa NZ (2005)

The marketplace will change

The shifting demographic sands will also have some important impacts on the types of goods and services that households will demand in the future. Aside from the obvious increase in demand for aged care services and products aimed at the older age bracket, there will be some more subtle changes.

A good example of this is in the demand for cars. It might be expected that the demand for cars will reduce as the population gets older. This is not necessarily so. We have analysed car

[5] See Jackson, N. (2011). 'Mäori: Ko te Whakatipu Tängata hei Huanga Ohanga Mäori: Demographic Dividend for Economic Return'. Research report to TPK http://www.tpk.govt.nz/en/in-print/our-publications/publications/maori-demographics-for-economic-return/download/Maori%20Demographic%20Trends%20for%20Economic%20Return.pdf

[6] Some evidence for the United States suggests older demographic groups have found creative ways of innovating, see for example "Why Baby Boomers are the Innovators of the future", Dominic Basulto, Washington Post, 26 June 2012.

ownership at the household level and found a significant effect on car ownership from older couples buying a second car. Couples in their fifties (or older) without children are more likely than most to be a two car family, primarily because at this age they are likely to be enjoying the highest disposable income of their lives.

En route to getting older, the New Zealand population will feature an increasing number of couples in their fifties and consequently an increasing number of people looking for a second car.

This boon to the car market is set to grow for the next decade or so. After that it will ease off for a while but a further boost is in the pipeline. The baby blip that occurred in the 1990s was significant enough that by 2040 these newly minted 50 year olds will account for a significant share of the population and ready to buy second cars galore.

The impact of demographic change on housing demand (and for the durables that are bought to fill houses) may also be significant. Traditionally, those aged 20-44 years old have been seen as 'prime-age house buyers'.[7] But if this cohort is shrinking in size, where will the demand for the houses that baby boomers might want to sell to fund their retirement come from?

Long term business planning requires in-depth understanding of demographics

Most New Zealand firms are currently focused on riding out the post-GFC economic adjustment. The business environment will remain challenging in the short term.[8] But as the outlook improves, firms will start to think longer term.

The most successful firms will be those that have a clear understanding of the impacts of demographic change on both the supply side and demand side of their businesses, and that put in place strategies to address the challenges and opportunities that an ageing population will bring about.

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[7] Magnus, G. (2009). *The age of aging: how demographics are changing the global economy and our world*.

[8] See NZIER's June 2012 *Quarterly Predictions* for our latest assessment.