

China / Hong Kong Industry Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

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Asian Eldercare Sector

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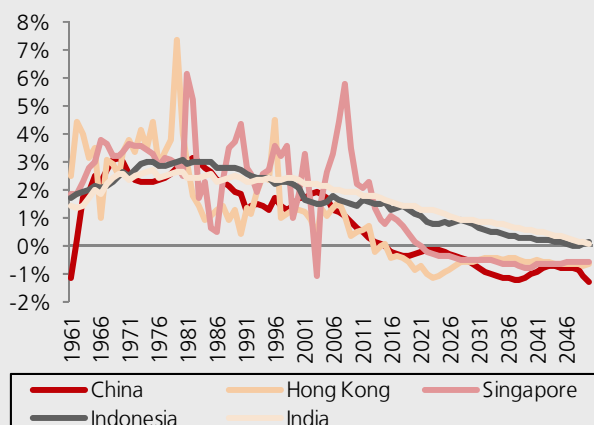
Slowing down with age

- Asia's population is ageing fast
- Socioeconomic changes have lowered fertility rates below what is needed to sustain the population
- Potential GDP growth will slow as the population declines, coupled with diminishing productivity growth
- China to see the deepest challenges as it is getting old before getting rich

Asia is growing old

Asia's economies are facing the challenges of an ageing population, the result of a low fertility rate and a longer life span. Its population growth rate has been in steady decline, with economies such as China, Hong Kong and Singapore going into negative growth rates in the next decade.

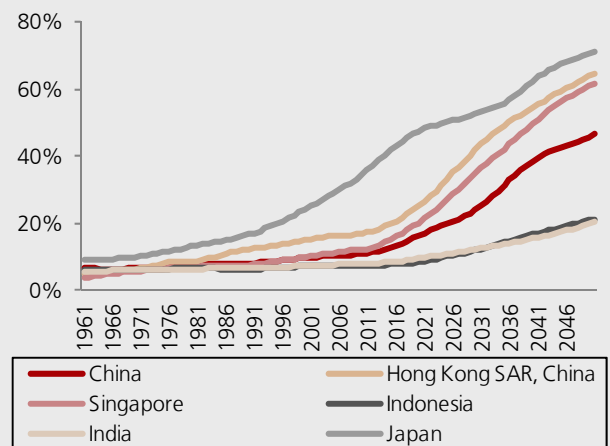
Population (working age) growth rate is declining



Source: World Bank

Not only are Asian economies seeing slower population growth, the structure is also transforming as baby boomers age. This can be seen in the old age dependency ratio, expressed as a percentage of the over-65 population against the working age population (15-64). Not only is the ratio rising, but the rate of rise will accelerate most apparently in the next few years.

Old Age Dependency Ratio is rising



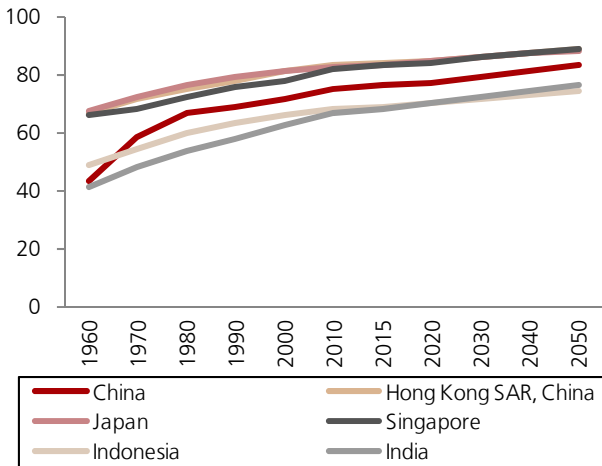
Source: World Bank

China / Hong Kong

Flash Note

The fact that life expectancy are rising is also a contributing factor.

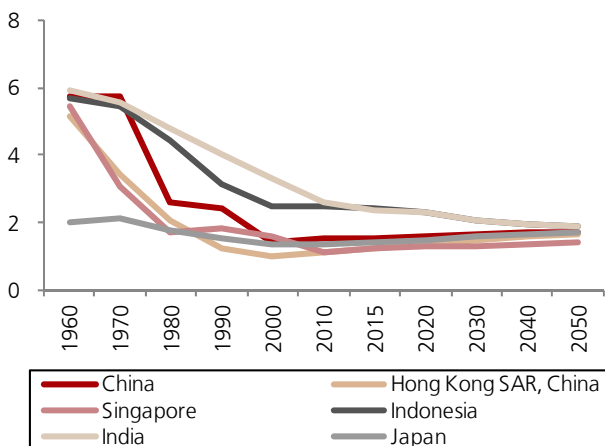
Chart Life expectancy



Source: World Bank

The core culprit of such changes is the relatively strong fertility rate in earlier decades followed by drastically reduced fertility rate. This can be seen across the Asian economies, with a notable sharpness in China due to the one-child policy. Socioeconomic changes and lifestyle choices are also key culprits to this trend.

Fertility rate is falling



Source: World Bank

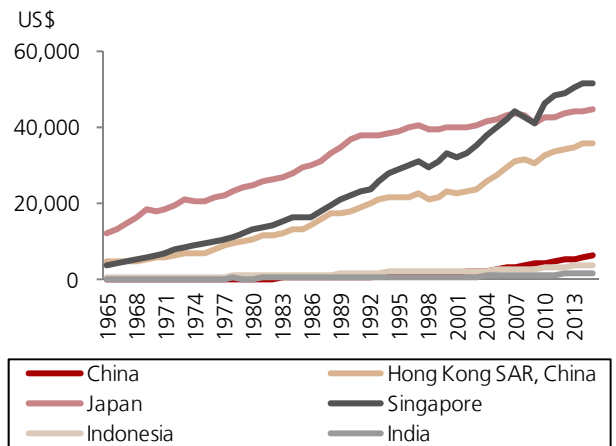
This situation is set to continue as fertility rates decline further and the base becomes higher. In effect, economies such as China, Hong Kong and Singapore have long dropped below a minimum fertility rate of c.2.0 child per woman which is needed to sustain a population. This is not the case for economies such as India and Indonesia, which have seen lower fertility rates but still continue to grow their populations at fertility rates of >2.0.

The old age dependency ratio clearly illustrates the increasing burden on the younger generation. Whilst we see the old age dependency ratio rising in the next decades, it is clear that China, Singapore and Hong Kong face the biggest challenge due to this structural change.

Impacts on GDP

GDP is a function of aggregate labour hours and labour productivity. As such, slower population growth would imply slower GDP growth. The elderly also typically contribute lower productivity. Both of these have implications on overall GDP.

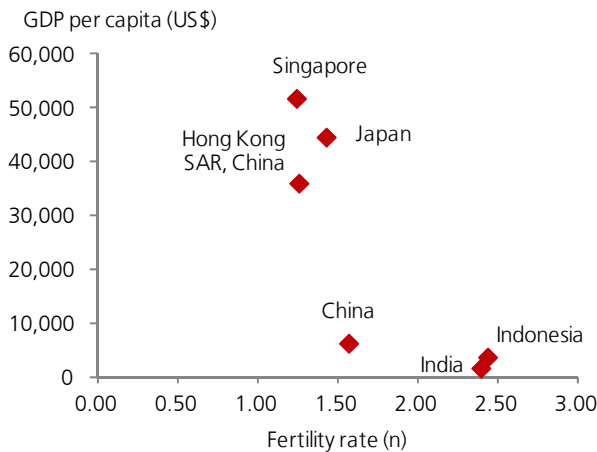
GDP per capita (USD)



Source: World Bank

It is clear that the countries that have the lowest fertility rate also tend to have highest GDP per capita well above US\$20,000. China, at c.US\$7,000 GDP per capita is also suffering from very low fertility rates. This combination of “getting old before getting rich” presents a unique challenge.

2015 GDP per capita vs fertility rate



Source: World Bank

To tackle a falling birth rate, China has abandoned its long-standing one-child policy. Another way to boost labour utilisation would be to raise the retirement age. This is in fact sensible as overall technological advancement has improved the overall health of the population. It is often said that “60s is the new 40s”. The relaxing of the retirement age would help relieve the pressure on the labour force. For example, China is said to review its current official retirement age of 60 for men and 50-55 for women next year, according to government sources. Hong Kong has revised its retirement

age for civil servants from 60 to 62 in 2015. Singapore maintained its retirement age at 62-65, but offers re-employment to 67 in 2017.

Official/Recommended Retirement Age

Retirement Age	Male	Female
China	60	50+55
Hong Kong SAR, China	65	65
Japan	60	60
Indonesia	58	58
Singapore	62-65	62-65
India	56-60	56-60

Source: Wikipedia

Finally, the relaxation of immigration policy can boost the stagnant birth and fertility rate. This is indeed a more direct and quick way to change prevailing conditions related to a low birth rate.

An alternative way to tackle this issue would be to increase labour productivity, which could come from technological improvements.

Divergent impact

The challenges posed by an ageing population are common to all Asian countries, albeit at varying degrees. For countries that still possess a sustainable terminal fertility rate, the issue is less acute. More developed economies with a low natural birth rate would benefit from policies such as immigration. For China, the combination of a large baby boom population followed by a rapidly declining birth rate, whilst staying stuck in a relatively low per capita income, seems to present the most challenging situation.

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FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

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Share price appreciation + dividends

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