

ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

“

You cannot fashion a wit out of two half-wits.
Neil Kinnock

”

Friday, 3 March 2023

In this week's Investment Insight

US employment

Despite the Fed's considerable efforts, US employment remains stubbornly high, thus frustrating attempts to lower inflation. One of the main reasons, according to a new paper issued by the Federal Reserve Bank of San Francisco, is immigration restrictions. In *The Inside Track* we take a look.

Losing a Liverpool

For neither the first nor the last time this year, we visit China in this week's *Pic of the Week*. With a population more than four times that of the US, China's economic and demographic evolution is of global interest and import. As its middle class grows, it becomes less competitive as a low-cost manufacturer but also less reliant on external trade to fuel GDP. In a significant development, in 2022 China 'lost a Liverpool' - its population declined by 850,000, the equivalent of the entire city of Liverpool - which is the first decline in several centuries.

News wire

Some interesting nuggets from this week's newswires.

Market view

A visual snapshot of recent market performance.

The Inside Track: US employment

In many respects, full employment is highly desirable. It means a gainfully occupied labour force, a job for everybody willing to work and less pressure on state welfare. However, it also means there's no room for adjustment on one side of the equation which is not so desirable if you are a central banker or a government economic strategist seeking to curb inflation.

A growing population is a key factor in expanding the labour force. This can occur either as a result of the birth rate exceeding the death rate, or net immigration. In the US's case, domestic-born population growth has slowed in recent years through low fertility rates and the aging of the baby-boom generation. Therefore, reliance on net immigration has increased. However, two strong forces have curbed immigration: policies introduced during Trump's presidency and Covid movement restrictions.

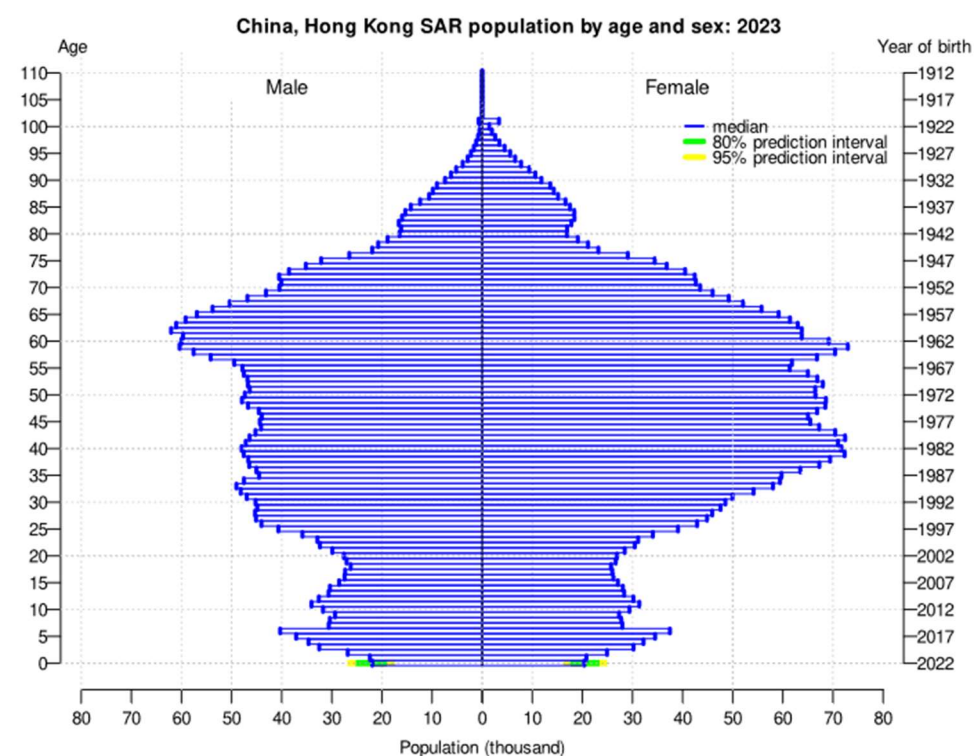
Over the course of four years of the Trump presidency, several hundred executive actions were aimed at transforming the US immigration system. These actions ranged broadly from increasing immigration enforcement to temporarily freezing refugee admissions and moving away from family immigration. Between 2016 and 2019 the number of new permanent residents dropped 13% and the number of student visas issued declined 23%. Nevertheless, according to the Federal Reserve Bank of San Francisco, these policies turned out to have a relatively modest impact compared with the border closures used as a pandemic mitigation strategy.

The overall impact of both factors was to reduce the US's working-age population by 1.5 million versus the predicted trend growth figure. This gap widened to 2 million people by the end of 2021. Since then, immigration has rebounded, nearly closing the population gap with its pre-pandemic trend by the end of 2022. If the current catch-up continues, we shouldn't be too far from releasing the current pressure valve on employment which, in turn, should pave the way for less aggressive monetary policy by the Fed.

Pic of the Week: Losing a Liverpool

In 2022, for the first time in several centuries, China's population fell. It fell by about 850,000, equivalent to the population of Liverpool. It seems like this could be the beginning of a new trend. A combination of rapid economic growth and government policy has led to a decline in China's birth rate over many years, to the point where it is now impacting the aggregate population. The UN's median forecast for China's population by the end of this century is to be almost half of today's figure. The Chinese government has made a number of policy changes to try and address this impending problem, most notably relaxing the one-child policy. However, to date this is showing little sign of success. As the chart illustrates, it is also noticeable that the skew in birth trends by sex in recent years is heavily towards males. Such imbalances will contribute further to population decline in future years.

The potential implications for investors are huge. A falling population will mean a shrinking and ageing workforce. For China itself, this will have a number of associated social issues that it will need to address. For the world, there are huge economic consequences as access to China's low-cost workforce will no longer exist. This will present opportunities to other countries of course, in particular those in less developed parts of Asia and Africa. As China's population pyramid shows, with the largest cohort of China's population currently aged between 30 and 60 and the younger population considerably fewer in number, pressures will soon, and increasingly, mount to support a large non-productive cohort of the overall population. China's economic evolution presents attractive investment opportunities but, given the demographic dimensions, for investors in both China and in its western-world upstream supply chain partners navigating the investment universe will require activity and deftness.



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United Nations, DESA, Population Division. *World Population Prospects 2022*. <http://population.un.org/wpp/>

Newsire

...on Monday

Rishi Sunak reaches a post-Brexit Northern Ireland deal with the EU.

...on Tuesday

China's manufacturing PMI reports the biggest increase in over a decade as the economy reopened after Covid.

...on Wednesday

Tesla's share price falls as investors find Elon Musk's much-touted third master plan unconvincing.

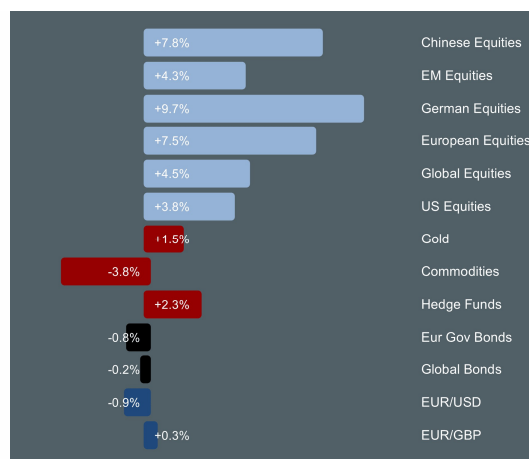
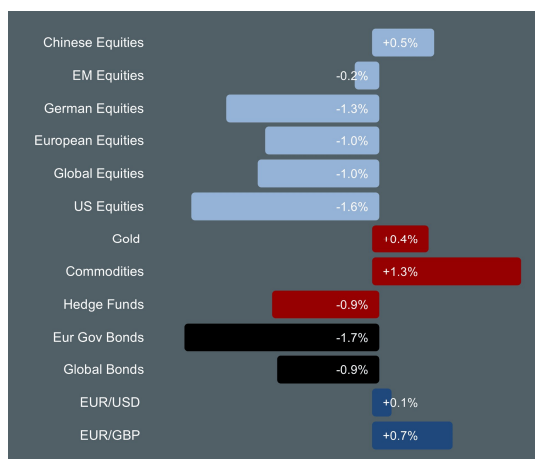
...on Thursday

The ECB announces a 0.5% increase in interest rates and states its intention to continue raising at a steady pace until inflation comes under control.

Market View

Last 7 days (€)

Year to date (€)



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