

# Investment views



## The Silver Economy

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### Summary

Demographics are shifting. In 2017 the global population aged 60-plus totalled 962 million. Fast forward to 2050 and this cohort is expected to reach 2.1 billion<sup>1</sup> – a group whose spending power and consumption has come to be named by public and private sectors, the “**Silver Economy**”. Since 1950, life expectancy at birth has risen by 10 years in North America and Europe, 25 years in Latin America and the Caribbean and by 30 years in Asia. With lower birth rates, medical advances and a significant increase in life expectancy, the Silver Economy is set to grow.

So what does that mean for investors and how can one capture returns in a market estimated in Europe to have consumed 3.7 trillion Euros<sup>2</sup> worth of goods and services in 2015? In this Investment Views, we seek to answer these questions and find out where the opportunities lie in the Silver Economy.

<sup>1</sup> World Population Prospects: The 2017 Revision, Key Findings and Advance Tables, United Nations Department of Economic and Social Affairs, 2017

<sup>2</sup> European Commission: Digital Single Market, Silver Economy, Report Study 3rd May, 2018

<sup>3</sup> Usually defined as those born between 1945 and the late 1960s with high spending power

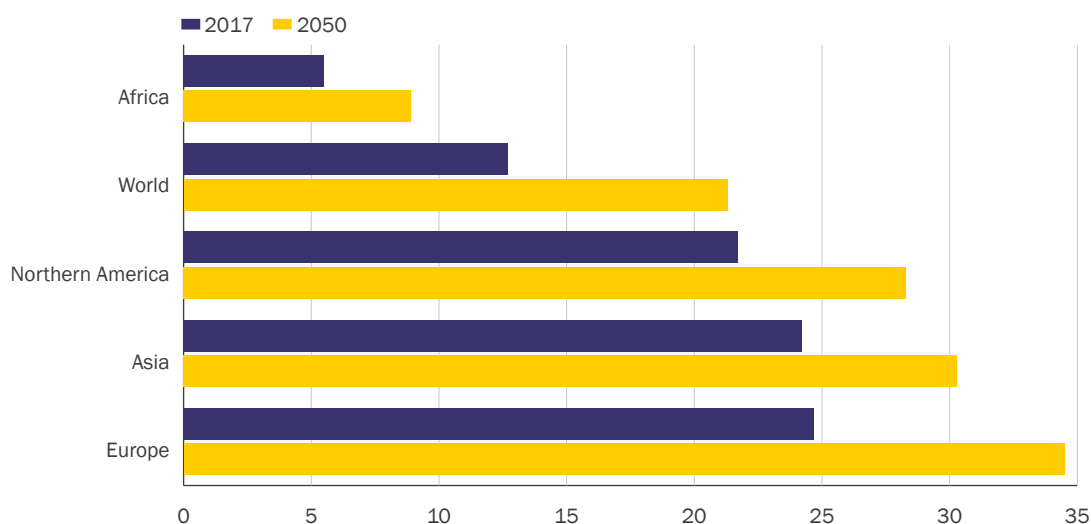
<sup>4</sup> The World Bank 2018, at constant prices USD

### Silver regions

By 2050 one in five people are projected to be aged 60-plus (Figure 1). Regionally, this trend is set to be most pronounced in Europe and Asia, where around one-third of the population will be over 60. This 60-plus segment, or **Baby boomers**<sup>3</sup>, is the **fastest-growing consumer group in the world**. Armed with increasingly higher spending power and a rising share of overall income, they will influence many corporations given their capacity to consume which is set to reach USD 15 trillion by 2020. Offering some perspective, the GDP of the Euro-area in 2017 was USD 12.5 trillion<sup>4</sup>.

**Figure 1: The rising Silver population**

Percentage aged 60 years or over by 2050



Source: United Nations (2017). World Population Prospects: the 2017 Revision

# “The Silver Economy targets the beneficiaries of the economic boom of the late 20<sup>th</sup> Century who are sitting on a great deal of capital.”

Dominic Hollamby | Rothschild & Co’s Global Advisory Head of Healthcare

## Silver age consumption

The Silver Economy poses unprecedented economic opportunities and challenges for businesses given the rapid rise in consumer and public spending by and for the world’s 60-plus age-group (Figure 2). Centred on the specific needs of senior citizens and their consumption of goods and services, **the 60-plus segment is expected to represent nearly 60% of consumption growth** in Europe and Asia from 2015 to 2030. In North America, where consumption is more evenly spread across age segments, the 60-plus are still expected to represent nearly 50% of total consumption.

## Sectoral winners

With many active years ahead of them, \$120bn per year is spent by baby boomers in (silver) tourism and leisure. In the consumer discretionary sector, names such as **L’Oréal** and **Unilever** have introduced various product lines relevant to ‘aging gracefully’.

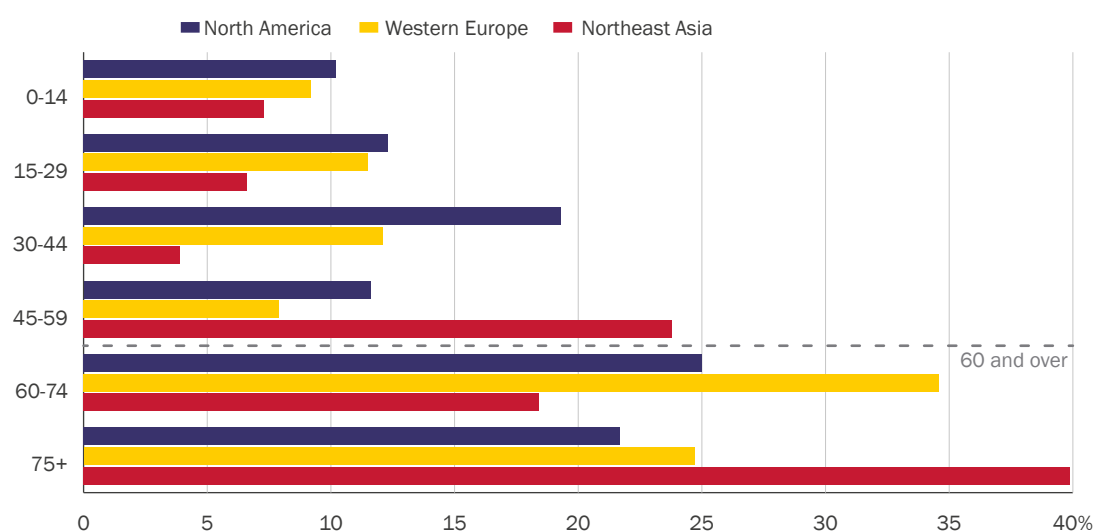
Meanwhile, Swiss food Group **Nestlé** has in several markets redesigned instant coffee jars and chocolate boxes by making them easier to hold and open, keeping products accessible to older age groups.

Changing sectors, **Toyota** has aimed at capitalising on the Silver Economy in Japan – often used as **the** case study for the future of global demographics – by developing humanoid robots to carry out household duties.

A discussion of sectoral winners from the Silver Economy would not be complete, however, without focusing on the **healthcare sector and health-tech products**, especially as healthcare spending is growing increasingly as a function of age (Figure 3 on page 3).

**Figure 2: Growing Silver age consumption**

Projected over 60s segment consumption growth 2015–2030



Source: McKinsey Global Institute Cityscope, 2016

# “The size and scale of ophthalmic and audiology markets, should not be underestimated.”

Dominic Hollamby | Rothschild & Co's Global Advisory Head of Healthcare

## Understanding healthcare

As discussed in our accompanying Investment Views podcast, **Rothschild & Co's Global Advisory Head of Healthcare, Dominic Hollamby** is quick to point out the distinction between discretionary healthcare services sold on the **self-pay market** and staple healthcare services often provided on public markets.

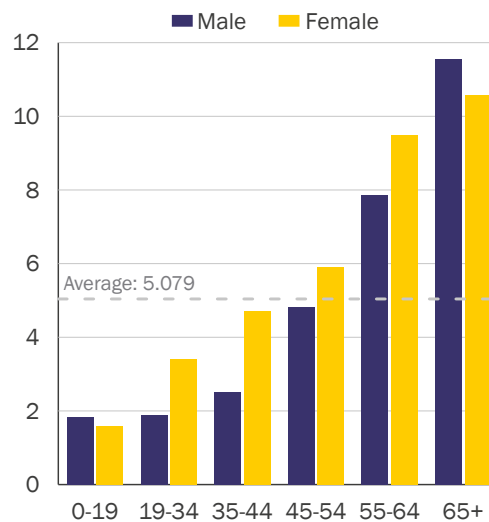
Businesses offering services to public markets, such as oncology treatment for life-threatening illnesses, tend to be operating in highly regulated environments where services are provided to state entities. This market has and always will be harder for investors to navigate. By contrast, the self-pay market aimed at discretionary products such as cosmetics, is where we see the greatest potential for companies, and therefore investors seeking returns from the Silver Economy.

As people age, two sectors in particular to mention are the **ophthalmic** (eyes) and **audiology** (hearing) markets. The size and scale of these markets should not be underestimated. With increasingly deep pockets, we see these two sub-sectors as key discretionary areas of spending for Silver Economy consumers looking to improve their quality of life.

Nevertheless, the human body has many weaknesses and companies which are positioned to help hold back the effects of ageing and improve quality of life more generally, will also prove popular with Silver Economy consumers.

**Figure 3: Increasing healthcare costs**

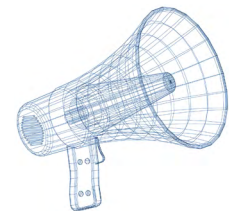
Average annual health spend progress with age (\$, thousands)



Source: Kaiser Family Foundation analysis of Medical Expenditure Panel Survey, Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, 2015

## Silver Economy Podcast

To listen to the full-length interview with Dominic Hollamby, Rothschild & Co's **Global Advisory Head of Healthcare**, our podcast which accompanies this publication can be accessed [here](#).



# “Inherently heterogeneous, corporations will meet the needs of the Silver Economy in different ways.”

## Unlikely leaders

Despite a focus on the healthcare sector, the Silver Economy’s reach across a myriad of sectors generates multiple opportunities for investors.

So where are these opportunities? Below we set out a number of case studies to illustrate the far-reaching impact of the Silver Economy and how it is set to create new revenue streams for organisations both in and outside of healthcare.

## Silver Economy case studies



Has partnered with companies and leading research institutions to launch the ‘Aging Well’ initiative. This is aimed at helping senior citizens to live healthy and independent lives by, for example, providing at-home interactive services. These use on-screen instructors with home owners to monitor how balance and strength improve after surgery.



The audio technology company has entered the (audiology) hearing aid industry and was recently granted FDA approval to market a new hearing aid device that can be used and adjusted using a smartphone and without assistance from any healthcare provider.



Has been experimenting with how the Alexa voice-assistant can contribute within health and wellness. Merging healthcare and digital innovations, Amazon Alexa has been used to assist elderly patients, ensuring greater access to family members and timing of medication.

## And now to invest...

**Silver investment strategies** have been around for a while but many have struggled to corner the market. Contributing to this is the breadth of potential beneficiaries from this theme, meaning there is no concentrated collection of easy purchases.

Inherently heterogeneous, corporations will meet the needs of the Silver Economy in different ways. Careful analysis of ‘silver’ services and goods is needed, therefore, before adopting a specific investment strategy.

It is for this reason, that our Advisory team at Rothschild & Co Wealth Management has dedicated time and resources to analysing this market and is ready to advise you on investing in this long-term trend.

## Investment conclusion

In our **Investment Views Podcast**, we interview Silver Economy investment managers from Rothschild & Co Asset Management and Rothschild & Co’s Global Advisory Head of Healthcare, bringing you insights and experience from across our divisions.

Companies in consumer staples to technology sectors are presented with a real opportunity to profit from the Silver Economy. Yet, if one sector stands out, it is the discretionary **healthcare market** which looks set to be the most attractive beneficiary of the Silver Economy.

For further information on how to invest in this sector as well as strategies in leisure and financial (insurance) sectors, please contact your client adviser.

## For more information

Please contact [wminvestmentcommunications@ch.rothschildandco.com](mailto:wminvestmentcommunications@ch.rothschildandco.com)

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