AI: A New Stage in the Great Disinflation

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Despite several successive geopolitical, health, and financial shocks, the average global inflation rate has fallen from 12% per year in 1982 to 3% today.[1] This represents a strong and steady decline over an exceptionally long 40-year period (see table).

Several factors have successively contributed to this price disinflation: the end of the financial consequences of the Vietnam War and the restrictive monetary policy led by Paul Volcker in the early 1980s[2]; the implementation of economies of scale across most major industrial sectors; the globalization of trade enabling better specialization and capital allocation; and the massive development of China in the global industrial economy, which exerted downward pressure on costs (China today accounts for 30% of global manufacturing value added).

Beyond major relocations of industrial sectors, the collapse of costs in several industries (clothing, electronics, electromechanics…) has allowed households to expand their spending on other uses (media, computers, mobile phones, tourism…), even as their budgets have been constrained by rising housing costs.

In parallel, the development of IT services has also driven massive productivity gains in administrative and managerial activities.

In major Western countries, the resulting cost pressures initially affected industrial jobs in traditional industries and later all intermediate-level jobs. In Western consumption patterns, the historically dominant core of the market has collapsed in favor of low-cost products (private labels, secondhand goods) or premium and even luxury products. The once "bulky" shape of consumption has shifted toward something resembling an hourglass.

Barring a major geopolitical crisis, current trends will continue along this trajectory. The rapid upscaling of China's economy and industry now threatens not only traditional blue-collar workers – including highly skilled ones – but also major white-collar roles at the core of the aerospace, electronics, biomedical industries, as well as research centers in Western countries. Defensive efforts to protect steel, automotive, or other 19th- or 20th-century industries risk becoming rearguard battles already lost, preventing development in more attractive sectors. India, Vietnam, and other countries will gradually take over low- and medium-value-added activities from China.

Partial deglobalization and geopolitical tensions may temporarily slow these developments. But unless a major economic downturn occurs, neither households nor public budgets – already under severe strain – will be able to absorb generalized cost increases of 20-30%.

The rapid and massive emergence of AI (and intelligent robotics), with its short- and medium-term deflationary impact, is likely to further accelerate this transformation of work and consumption structures in Western countries- pushing them toward an hourglass shape with a very narrow and elongated middle. A large share of physical and intellectual tasks (industry, administration, financial services, engineering and R&D, healthcare, legal services, professional services…), when they are of "non-exceptional" complexity, insufficiently differentiated, non-innovative, or lacking associated risk, are likely to be substituted.

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[1] 2024 (latest data published by the World Bank).
[2] Policy initiated in October 1979 and continued until 1982.

As a result, traditional progressive training paths for future skilled workers, employees, managers, executives, and experts – paths built on successive steps through intermediate roles – may disappear.

What might an economy and society look like where "intermediate" layers and jobs vanish – at least temporarily? Over what timeframe, in which new activities, and in which geographies can these resources be reallocated – or not?

Businesses today are understandably focused on what AI can bring them internally in terms of productivity (regardless of whether the AI is proprietary or shared) and competitiveness (particularly if they "own" their AI and it is more expert in their business domain), along with the internal adjustments this requires.

In doing so, they have not yet fully perceived the threats these changes also entail for their markets in the short and medium term, given the major forthcoming impacts on the jobs and spending power of their end customers.

The 250,000 British home-based handloom weavers of the early 19th century disappeared within a few years due to the invention of mechanical looms and the rise of more competitive weaving factories. These skilled artisans with strong purchasing power were forced to retrain as factory workers, seasonal farm laborers, miners… leading to major declines in living standards and resulting social uprisings. Will we see neo-Luddites as a consequence of AI?

New technologies often have a short-term deflationary effect so long as the resources they free up have not yet been redeployed into higher-value-added activities. The massive growth of mobile phones, information systems, search engines and the cloud over the last 15 years did not prevent Europe from stagnating in terms of economic growth during the entire period (unlike the United States).

What will be the 5–10 year impacts of AI on the value chains and portfolios of activities and geographies of major European industrial, consumer-goods, and service groups? What new activities could emerge sustainably (without subsidies) and absorb the "intermediate" resources freed up by AI?

Prospective analysis traditionally spanned a 15–20 year horizon. Today, disruption scenarios – and the strategic decisions they require – unfold within a 5–8 year timeframe.

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Estin & Co is an international strategy consulting firm with offices in Paris, London, Zurich, New York and Shanghai. The firm advises senior executives of leading European, North American and Asian corporations on growth strategy, and supports private equitiy firms in the analysis and valuation of their investments.

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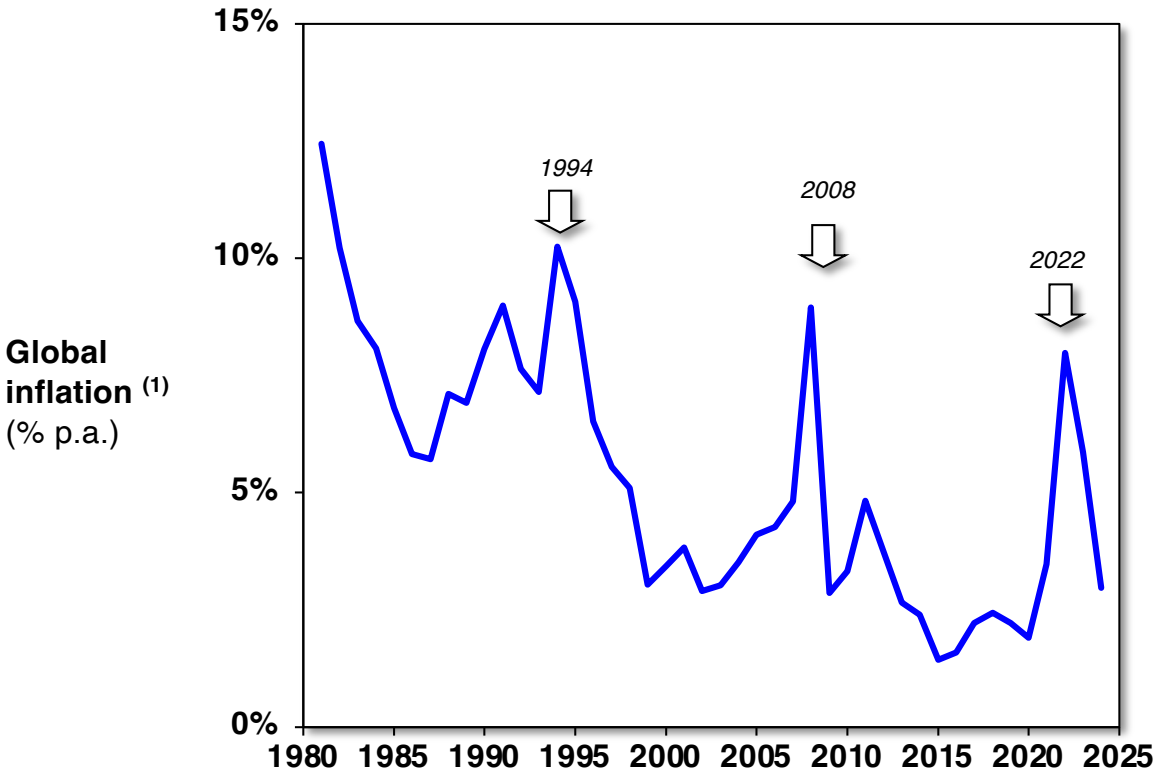
- Table -
Global consumer price inflation [1]
1981–2024



(1) Median of national inflation rates, measured as the annual (%) change in each country's consumer price index (CPI).
Sources: World Bank, Estin & Co analyses.