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Industries in 2012

A report from the Economist Intelligence Unit

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Foreword: Industries in 2012

With disappointing economic growth in the US and the prospect of outright collapse in the euro zone, it is hardly surprising that a majority of the 900 business executives we surveyed recently were pessimistic when we asked their outlook for the global economy in 2012. These survey results are discussed in detail in this report, along with our industry experts' perspectives on likely areas for greater optimism.

One inarguable bright spot will be continued demand growth in developing markets. Emerging economies, especially in Asia, will take an ever-increasing share of automotive and consumer goods manufacturing, and back-office support services for the financial services industry. The corresponding rise in household income will bring a wide array of consumer products within reach, from luxury handbags, clothing and jewellery to electronic devices like smartphones and tablets. At the same time, higher wealth levels will result in greater demand for increasingly sophisticated financial products, including insurance and asset management services. Reflecting these trends, 2012 will see the Economist Intelligence Unit's product offering expand to provide clients with more local, data-driven insights on these opportunity areas.

On behalf of the EIU's team of industry specialists, I wish you a safe and prosperous 2012. As ever, please feel free to contact us with any questions, concerns or suggestions.

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Introduction: The view from the microscope is better than from the telescope

Steven Leslie, Lead Analyst, Financial Services

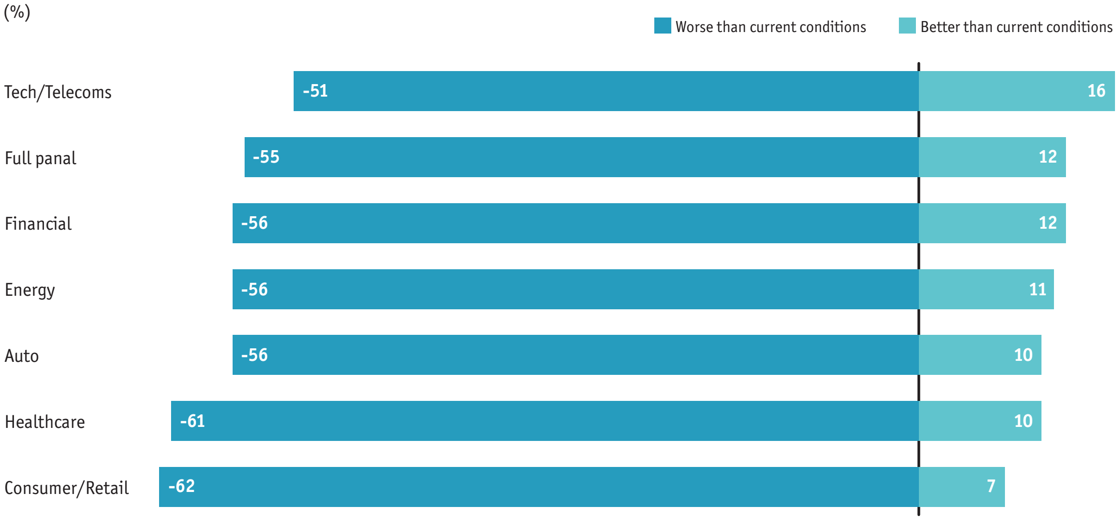
Business executives are sour about 2012. However, they are much more negative about the prospects for the global economy than for their own industries, and especially for their own companies. These are the headline findings from a global survey of more than 900 corporate decisionmakers about their expectations for 2012.

First, the bad news. Respondents are overwhelmingly pessimistic about the global economy in 2012: 55% say conditions will be worse than in 2011, with just 12% expecting prospects to improve. (The remainder either expects conditions to remain the same or declined to hazard a guess.) Therefore, the balance—the positive views minus the negative ones—is a dispiriting -43 percentage points.

This follows the general erosion of business confidence during most of 2011. The Economist/FT Global Business Barometer, a quarterly survey of executives, showed a positive balance of 19 percentage points in May, falling to -10 in July and to a very dreary -39 in October. At least part of this downturn in confidence is likely tied to the bungled management of sovereign debt loads in the US

To watch: 2012
The summer Olympics in London present a bonanza of marketing opportunities for firms in a variety of sectors

Chart 1: Expectations of business conditions: global economy
(%)



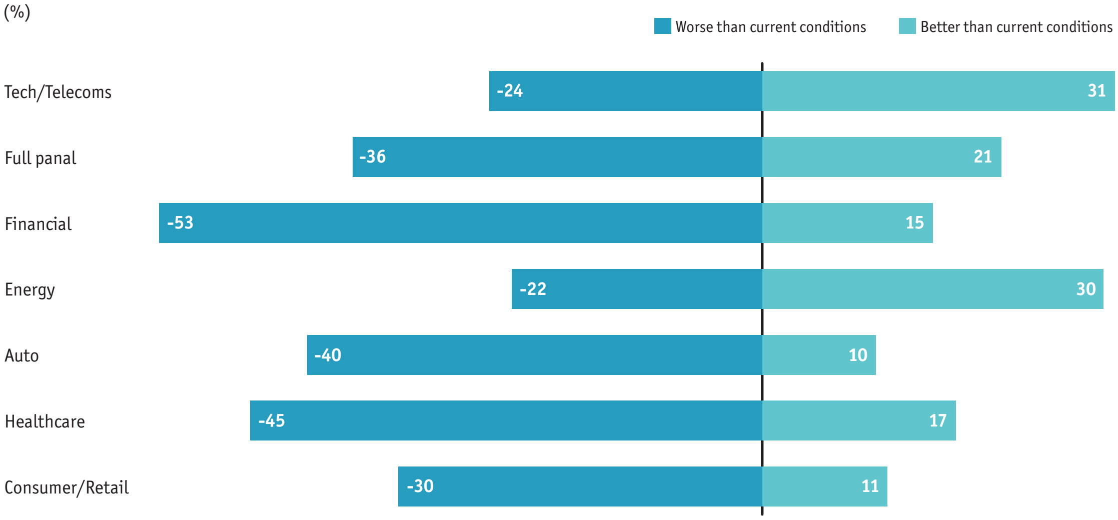
Source: Economist Intelligence Unit.

and, especially, the euro zone.

Survey results varied only slightly according to industry. Executives in the technology and telecoms industry are the most positive about overall economic conditions, but even so their balance of sentiment is -35 percentage points (see chart 1). Executives in the consumer goods and retail industry are the gloomiest; despite the counter-cyclical nature of some players in this sector, the overall balance of sentiment is -55 percentage points.

With Asia booming, respondents from beyond the Bosphorus would appear to have cause for optimism about 2012. In fact, with a balance of sentiment of -48 percentage points, they are nearly as gloomy as European executives, at -51. Despite the failure of congressional budget negotiators and the prospect of a rancorous election campaign, the mostly US-based respondents from North America are, somewhat surprisingly, the least glum, albeit with a balance of sentiment of -16.

Chart 2: Expectations of business conditions: your industry
(%)



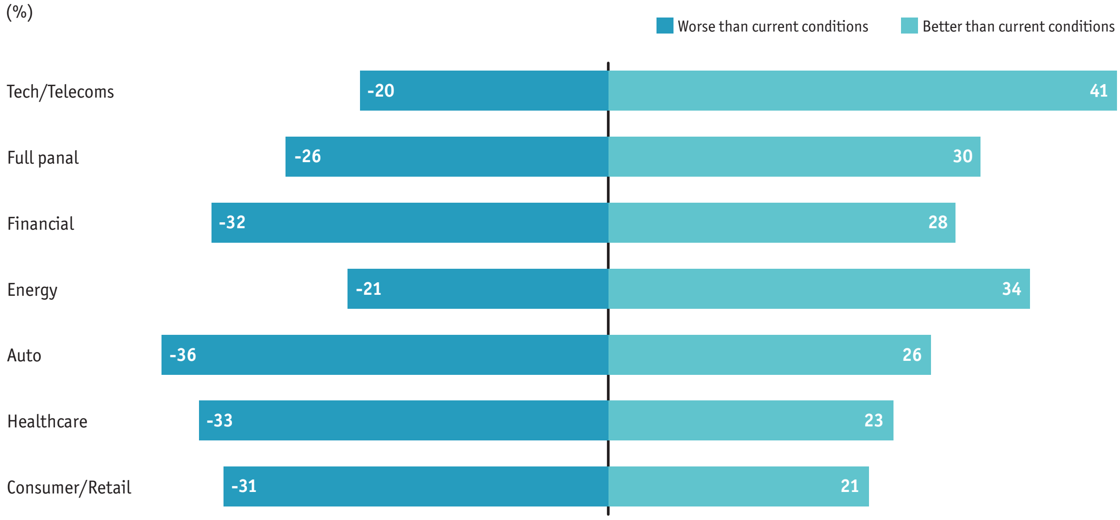
Source: Economist Intelligence Unit.

To watch: 2012
The Communist Party congress in China selects new leaders. Xi Jinping is tipped to be the next general secretary and president

Executives are more positive about their specific industries. The full panel is still negative, but less so, expressing a balance of sentiment of -15 percentage points. Those in the energy industry (+8) and technology and telecoms sectors (+7) are the most upbeat (see chart 2). By contrast, the darkest outlooks are among businesspeople in the financial (-38) and automotive (-30) industries.
The energy industry has enjoyed robust demand for its products despite a weakening global economy, while the tech sector has been bolstered by keen interest in breakthrough product debuts. Finance firms and automotive companies, meanwhile, have yet to recover fully from the blows they took during the initial stages of the global economic crisis.

When asked to assess prospects for their own firms, survey respondents are even more positive (see chart 3). Almost a third of the full panel believe that prospects for their companies will improve in 2012 and 26% think they will worsen, generating a positive balance of 4 percentage points. The rosiest views come once again from executives in the technology and telecoms industry (+21) and energy sector (+13). The balance of firm-level expectations for businesspeople in the other sectors polled—

Chart 3: Expectations of business conditions: your company
(%)



Source: Economist Intelligence Unit.

To watch: 2012
The US general elections will determine if Barack Obama wins a second term, and a Congress he can work with

consumer/retail, finance, healthcare and automotive—remains negative, but much less so than in their economic and industry-specific views.

For our panellists, the view for 2012 is markedly better in the microscope than in the telescope. So let's raise a glass in hope that they are a representative sample of business worldwide.

About the survey

The Economist Intelligence Unit surveyed 914 executives in November 2011 on their expectations for business conditions in 2012. The survey sample is global, with 45% of respondents based in Europe, 16% in North America, 27% in Asia-Pacific and 6% each from Latin America and the Middle East and Africa. They hail from a variety of sectors, including financial services (156 respondents); IT, technology and telecoms (135); energy and natural resources (105); healthcare, pharmaceuticals and biotechnology (83); consumer goods and retail (81) and automotive (50). The respondents are relatively senior—34% hold C-suite positions while 5% are board members. They work in organisations of varying sizes, with 37% earning annual revenue of US$500m or more.

Automotive: Less than a complete set of wheels

Ali Al-Saffar, Lead Analyst, Automotive

The automotive industry will contend with daunting economic uncertainty in 2012, making the year a turbulent one for carmakers across the world. Growth in the OECD will average only around 0.9% in real terms (adjusted for purchasing power parity), down from an already weak 1.7% in 2011. The emerging world will fare better, growing by about 6%.

In our poll of business executives, over 70% of automotive industry respondents said that difficulties accessing credit would negatively impact car sales. This is particularly true in Western Europe, which as a bloc represented around 22% of global new car registrations in 2010. A looming financial crisis and burgeoning debt problems put the euro zone at the epicentre of the global economic risk landscape—Western Europe as a whole will fall into recession, with output slipping some 0.2%. New car registrations will be even harder hit, falling 0.9% compared to 2011, making it the only region to contract.

To watch: 2012
Japan's Honda will start to ship passenger cars from US factories to South Korea, instead of from high-cost Japan

North America will do better as car registrations continue to recover from their collapse in 2009. US carmakers learned harsh lessons from their previous hardships, when two of the three Big Three manufacturers went into Chapter 11 bankruptcy protection. Importantly, they cut capacity by 1.5m units, making them leaner and more efficient than before the economic crisis.

The same cannot be said for their European counterparts. Figures released by JD Power, an industry forecaster, estimated that Europe's carmakers have a manufacturing capacity excess of around 10m units. According to Sergio Marchionne, Fiat's CEO, Europe is ''living in a kind of halfway house...a lack of a common vision hampered and continues to hamper efforts to address deeply rooted structural problems.'' With economic hardships worsening in 2012, carmakers, looking to protect their already razor-thin profit margins, may be pushed into carrying out the sort of wrenching reforms they have long put off.

The distribution of sales around the world will increasingly determine the fortunes of the world's largest carmakers in 2012. In our poll, 78% of automotive respondents agreed, either slightly or strongly, that emerging market auto demand will offset sluggish demand in the developed world. Registrations in Asia will increase by over 12%, making it the fastest-growing region for the auto industry.

Global shift

Automakers understand that the focus of the global market has permanently shifted to developing countries, and in 2012 will continue their drive to establish production locally. For example, Toyota hopes to add an additional 300,000 cars a year to its current output in India. This is unlikely to be enough; the strong yen, which will appreciate even more against the dollar in 2012, is causing the automaker considerable difficulties. The company will increasingly look to shift its traditionally Japan-based manufacturing across the world, including to Latin America.

To watch: 2012
The first Chinese-made Geely models will arrive in the UK, the first major Western European market for the brand

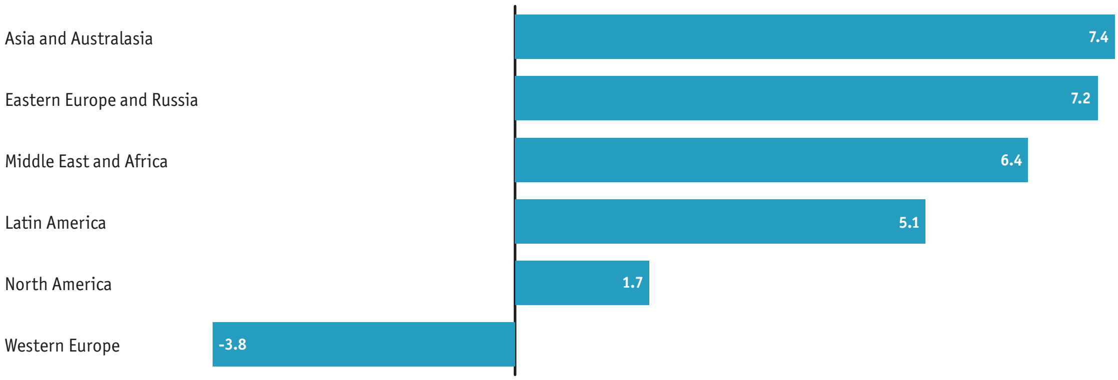
The majority (58%) of respondents in our poll agreed that their businesses were likely to shift part of their manufacturing operations to emerging markets. This presents its own risks, however. The floods in Thailand, which has a large components sector, ravaged Japanese car production in 2011; both Honda and Toyota faced delays launching new models.

The body-blows taken by Japan's auto giants will come as good news to South Korean rivals, which will be further buoyed by the free-trade agreements (FTA) their country struck with the EU and US. Hyundai, which managed to grab a 5% share of the US auto market for the first time in 2010, saw its sales rise by an additional 20% in the first nine months of 2011. With lower tariffs, the company will be better placed to offer the fruits of its low-cost production model to US consumers. South Korea's FTA with Europe will mean that 2012 may well be a watershed year for Europe's low-cost producers. Renault, PSA Peugeot-Citroen and Fiat are already working hard to shore up profits, and will have to accelerate their plans to save costs in an effort to maintain market share amid much tougher competition from Hyundai.

China, the world's largest automotive market, will become increasingly assertive in 2012. New car registrations, which will account for over 26% of the world's total, are just one part of the picture. Chinese companies will increasingly look beyond their country's borders for opportunities. They will be buoyed by increasing demand in emerging markets and will be assertive in their pursuit of a piece of the pie: Anhui Jianghuai Automobile and Chery have already made inroads in Brazil, with their investments in new plants gathering speed.

In essence, 2012 will see further acceleration away from the industry's traditional powerhouses, and towards once-peripheral emerging markets. Taken as a global aggregate, the sector's performance will not look bad, with vehicle registrations rising by 8% in 2012. But this overall figure belies key shifts: Western Europe will decline, North America will slow, and Asia will prosper.

Passenger car registrations, 2012
(annual % growth in units)



Source: Economist Intelligence Unit.

Consumer goods and retail: Glimpses of opportunity amid gloomy prospects

Jon Copestake, Lead Analyst, Consumer Goods

Weak consumer sentiment weighed heavily on retail and consumer goods firms in 2011. Conditions are unlikely to change in 2012. Of the respondents to our survey, 71% agreed that slow global economic growth will be their biggest challenge in 2012.

Fears seem to lie mainly in the ailing euro zone, which just under half of the panel thinks will exist in its current state by 2013. There is scope for optimism, however. One in five respondents see conditions for their company improving, while almost half think things will stay the same. Additionally, only one-third predict that things will get worse for the industry as a whole in 2012. The consumer goods and retail sectors are certainly expected to outperform the global economy, which 62% see as worsening.

Still, weak consumer sentiment will no doubt continue to affect retail and consumer goods well into 2012. However, the industry is traditionally more resilient than vulnerable sectors such as financial services or automotive. Whatever else happens in the world, people will always need to buy basic items, more so than they need a new car or mortgage loan.

To watch: 2012
LVMH, a French luxury-goods group, will open "L'Avenue Shanghai" - a luxury mall dedicated to outlets for the group's extensive brand portfolio

Moreover, the continuing success of luxury goods firms like LVMH, PPR and Burberry in China shows that the desire to shop will remain strong in wealthy emerging market households. The World Luxury Association predicts that China will overtake Japan to become the world's largest luxury goods market in 2012. It estimates that Chinese expenditure on luxury goods will reach US$14.6bn. This is equivalent to 3,842 Mouawad 1001 Nights Diamond Purses, the world's most expensive handbag (at US$3.8m each).

The same, but different

Retail and consumer goods executives hold out the greatest hope for growth in 2012 by shifting their emphasis. They have a dour outlook for the traditional "high street", with two-thirds of respondents anticipating store closures. Less than half expect to grow their operations. By contrast, almost three-quarters of those surveyed see fast-growing emerging markets taking up the slack, with two-thirds directing their ambitions to developing markets.

This shift is tempered with caution, however. Two-thirds believe that growth will be hampered if China's economy undershoots expectations. When discussing emerging markets, China remains the focus despite predictions that economic growth in India will outpace China in 2012 and beyond. In this, the fundamentals remain important. Private consumption per head in India will remain only half that of China.

Emerging markets will not be the only story in 2012. The year will bring plenty of other opportunities through innovation and evolving retail channels. Apple is expected to launch its much anticipated iPhone 5 and iPad 3. However, it faces being overtaken by Android app downloads and non-iPad tablets. This highlights how mobile devices will be a focal point, and not just at the top end of the market. The recent launch of the Aakash in India, with a price tag of just US$60, shows that tablets will become more affordable. Meanwhile, increasing uptake could push global mobile phone penetration beyond 100% by

To watch: 2012
More stringent food-labelling laws come into force in Canada, aiming to warn consumers of allergens, sulphites and gluten

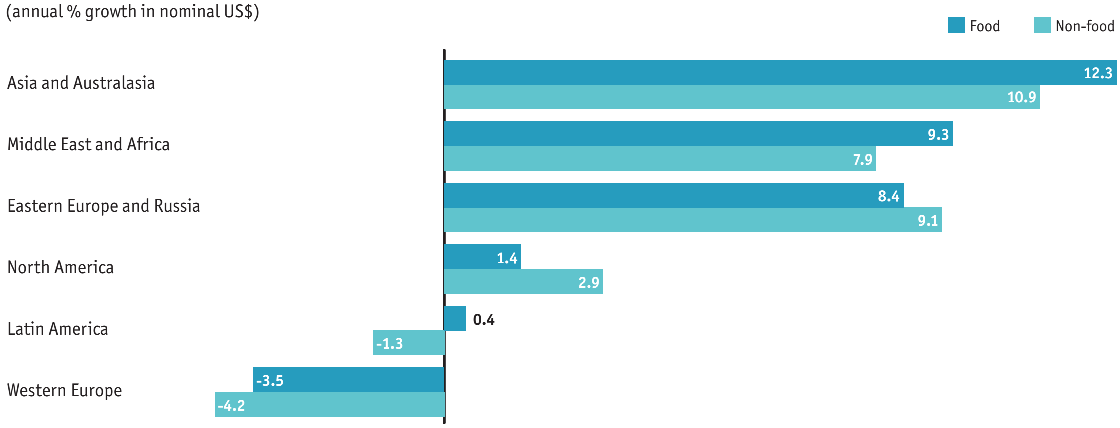
the end of 2012.

The importance of mobile devices as retail sales channels was not lost on our panel. Among them, 61% anticipated that 2012 will see mobile commerce step out of the shadow of e-commerce to become a retail channel in its own right. This sentiment has a strong basis if the most recent "Cyber Monday" (the first working day after the US Thanksgiving holiday) is anything to go by. IBM reported a 33% jump in online sales in the last Monday of November 2011, and purchases via mobile devices accounted for over 10% of these sales. The economic squeeze may give western shoppers even more motivation to browse online for bargains. Improved connectivity will see them increasingly joined by consumers from emerging markets.

Despite the obvious need to engage with consumers via new channels, actual strategies to do so are thin on the ground. Just one-quarter of the panellists plan to use online cross-border channels to reach new markets, with 43% discounting the strategy that has already been adopted by retailers like the casual clothes shop Gap and the women's apparel seller ASOS.

Similarly, respondents indicate that social media will not be a core focus for retail and consumer goods firms in 2012. Almost half have no plans to focus on targeting and selling via social networks. IBM reported that only a tiny proportion (0.6%) of 2011 Cyber Monday transactions were generated via social networks. This shows that there could be a long way to go before these networks represent viable sales platforms. That said, the sheer volume of users and the explosive growth of Groupon, which recently launched its own social network, could make social media hard to ignore.

Retail sales, 2012
(annual % growth in nominal US$)



Source: Economist Intelligence Unit.

Energy: The uncertain and the unconventional

Peter Kiernan, Lead Analyst, Energy

The energy industry faces a long list of worries in 2012. Sources of unpredictability include the threat of the global economy enduring another downturn, ongoing political tensions in the hydrocarbon-rich Middle East, a seeming lack of direction on climate change policy at an international level, and the growing debate on the environmental sustainability of unconventional sources of oil and gas.

Spikes in energy prices in recent years have prompting debates about peak oil, energy dependence by OECD economies on OPEC and "unfriendly" states, the rise of a mercantilist China in oil and gas markets, and the need to cut back on petroleum consumption. As 2012 beckons there remains a general sense of crisis about energy, but the prevalent issues are generating new debates.

The explosive growth in shale gas output in the US since 2006—now comprising 25% of the country's natural gas consumption—is raising hopes among energy-consuming, resource-deficient countries for realising their energy security objectives. It also highlights the role of natural gas as a partial solution to controlling carbon emissions, given that gas-fired power stations emit less carbon dioxide than coal-fired plants.

To watch: 2012

Nigeria and Iraq will pass new petroleum laws, which should improve the legal environment for exploitation of their large reserves

With regards to the oil patch, increased production from tar sands in Canada, "tight oil" production from shale basins in the US, and growth in crude oil output in deepwater regions offshore Brazil and West Africa have eased fears of an imminent supply crunch for the time being. But the impacts of the practices used in developing unconventional oil and gas, and the environmental risk involved in deepwater oil drilling, will sharpen the divide between those in the industry promoting energy security and green groups who argue that these new sources of hydrocarbons are not environmentally sustainable.

Hotting up

Debate on the exploitation of unconventional oil and gas comes against the backdrop of the latest round of climate change talks—the United Nations Climate Change Conference in Durban—which did not result in a universally binding treaty to replace the Kyoto Protocol on reducing emissions. Developing markets are not willing to risk hampering economic growth by reducing emissions, while OECD economies are adamant that they will not agree a new deal unless industrialising economies join in trimming their carbon footprints.

There may, however, be little time for communiqués and conferences without concerted action. The International Energy Agency reported that energy-related carbon-dioxide emissions grew by more than 5% in 2010, reaching record levels. The agency reckons that the world has less than a decade to implement policies that will keep the rise in the average global temperature to just 2 degrees Celsius.

Energy and natural resource executives do not rate the chances of a post-Kyoto agreement being struck very highly. When asked whether negotiations to sign a post-2012 Kyoto agreement will fail, 73% agreed.

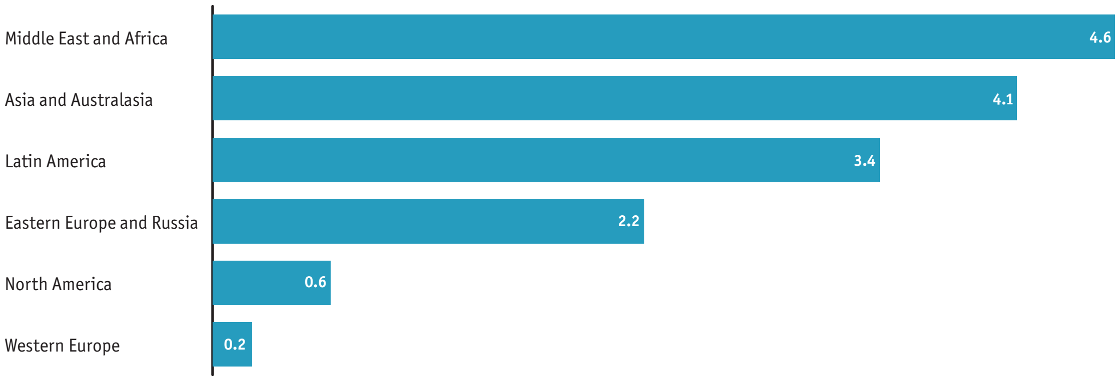
To watch: 2012
Akademik Lomonosov, a Russian floating and towable nuclear power plant, is scheduled for completion

As debates rage over the impact of hydraulic fracturing ("fracking") for shale gas, building pipelines to transport heavy oil to the US from Canada, and how to curb global carbon emissions, oil prices continue to bubble at around the US$100 per barrel level. This is the case despite foreboding signs for the global economy. However, the Economist Intelligence Unit expects the Brent oil price to drop moderately in 2012 to an average of US$95 per barrel, from an estimated average of US$111 in 2011. We expect global oil demand to grow by just 1.5% in 2012, slightly more than the estimated 1.3% in 2011 but much less than the 3.2% of 2010. Slower economic expansion in two key growth markets for crude oil—China and India—will moderate the pace of oil demand growth.

A great deal of uncertainty surrounds the price of oil in 2012. Pulling prices downwards are gloomy forecasts for the performance of economies in Europe as well as the US. But upside risks include ongoing tensions in the Middle East, especially regarding the standoff between Iran and the West over Tehran's nuclear programme. However, we do not expect Libya-style internal turmoil—to the extent that it drastically impacts global supply—to reach any of the major oil producers in the region in 2012.

As far as the energy industry is concerned, there is little in the way of unanimity concerning where prices might be headed. When asked whether Brent oil prices would stay below US$100 per barrel in 2012, 39% of survey respondents agreed (13% strongly and 26% slightly) and 54% disagreed (38% slightly and 16% strongly). It seems to depend on the severity of economic conditions or the political temperature in the Middle East. Or both.

Domestic energy consumption, 2012
(annual % growth in tonnes of oil equivalent)



Source: Economist Intelligence Unit.

Financial services: Dark before the dawn

Steven Leslie, Lead Analyst, Financial Services

The bad news for the global financial industry is that 2012 will mark simply one more chapter in a multi-year erosion of the sector's prominence. The industry will face weak output growth in the ageing countries of the rich world, over-indebted households and governments, and a mounting tide of re-regulation. It also stands to suffer acutely from bumbling economic policy in the euro zone and the United States.

The good news is that there remains abundant worldwide need for the services the industry offers: safekeeping for savings, credit for major purchases and promising ventures, insurance for families and businesses, efficient management of pooled investments and so on. By some estimates, fewer than half the world's population uses banks; an even smaller share take advantage of insurance policies, investment funds and brokerage accounts.

To watch: 2012
Stockmarket mergers are planned in Russia (combining MICEX with the RTS) and Japan (bringing together the Tokyo and Osaka markets)

Fortunately, a wide variety of innovations provide the embattled industry with opportunities to embrace a much broader global market. The novelties include branchless and wireless banking, cheap worldwide money transfers, low-cost insurance policies, index funds and other low-fee investments, and greater access to a wider range of investible assets.

Financial services is hardly the first industry to suffer through what the economist Joseph Schumpeter called "creative destruction". The global telecoms and automotive industries have also been through the wringer over the past decade. The financial firms that successfully manage this turbulence will find ways to wring value from traditional activities even as they experiment with promising new strategies and geographies. This transformation will last well beyond 2012.

In the short term, executives are pessimistic about the financial services sector. Just over 53% of respondents to our survey from the financial industry said that business conditions in 2012 would be worse than in 2011. Only 15% of respondents thought that prospects would improve in 2012, while 31% believed they would remain the same. They are even more pessimistic about the global economy, with 56% expecting worse conditions in 2012, and only 12% predicting better conditions (29% believed they would remain the same).

Somewhat surprisingly, the same executives are more optimistic about business conditions for their own companies. Only 32% said 2012 would be worse, just edging out the 28% that thought it would be better (38% expected it to be the same). Respondents from the Asia-Pacific region, of whom more than half were from India, were by far the most optimistic (41% foresaw better conditions for their companies, while 30% saw tougher times ahead). Respondents from Western Europe were the most pessimistic (only 17% expected better conditions, while 40% saw them turning worse).

Under pressure

Weak demand will be the main malaise of the financial industry, which currently draws the vast majority of its business from the wealthy nations of Europe, North America and Japan. For banks in these locations, lending and deposit volumes will stagnate in real terms, if not contract outright, in 2012. Flat yield curves will hold down net interest margins while a general frugality will steer households and

To watch: 2012
The EU will crack down on complex derivatives, banning some credit default swaps and "naked" short selling of certain securities

businesses to cheaper types of fee-generating services.

Insurers will continue to complain about weak prices in their underwriting of policies, and they will struggle to earn sufficient premiums to cover their claims. Investment earnings will also remain weak due to the very low yields on high-quality government and corporate bonds that insurers buy. Cash-strapped savers will set aside little in investment funds, and will prefer simple, low-cost options over complex, high-fee managers.

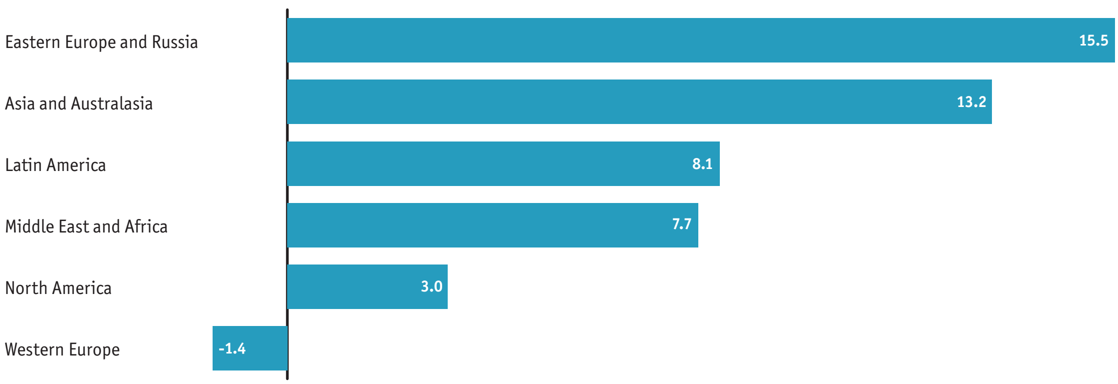
The year 2012 will prove important for the re-regulation of the global financial industry. In the US, many of the provisions of the Dodd-Frank Act will begin to apply, including the registration of many hedge and other private funds in March, as well as the "Volcker Rule" forcing banks gradually to divest proprietary trading desks in July. In the EU, banks have until June to boost their core capital ratios to 9% of risk-weighted assets, a big increase from current levels. EU insurers must offer identical pricing for insurance and pensions for men and women starting in December. Banks around the world will have to prepare for the stricter capital requirements of Basel III, which kick in on January 1st 2013.

More than three-quarters of survey respondents either strongly or slightly agreed that the Basel III international banking rules, and related national regulations, will reduce the supply of credit in 2012. And there may be more regulatory upheaval to come; the vast majority of those polled (74%) said policymakers had not done enough to solve the problem of too-big-to-fail banks.

Following several years of gloom, will the first shafts of dawn light appear for the industry in 2012? Some are already appearing in poorer parts of the world. Mobile banking through simple text messages has been a huge success in Kenya, and is now spreading to other countries in Africa and Asia. Indian banks are expanding their reach via lorries with tiny branches inside; one Brazilian lender does the same, but on a boat in the Amazon. Ethiopian farmers can now buy index insurance, which pays out if rainfall readings fall short in their districts.

A mobile payments breakthrough on smartphones in rich countries could be on the cards in 2012; Citibank is teaming with Google Wallet to allow payments on such devices, while Visa and Samsung will provide phones with digital money to athletes at the London Olympics. This sort of forward-thinking technology—combined with much leaner operations—will define the successful financial firm in 2012 and beyond.

Banking assets, 2012
(annual % growth in nominal US$)



Source: Economist Intelligence Unit.

Healthcare and pharmaceuticals: A looming patent cliff, but rising spending too

Ana Nicholls, Lead Analyst, Healthcare

The year 2012 will be momentous for the world's biggest pharmaceutial companies, as the patent cliff reaches its steepest point. A record number of blockbuster drugs will lose their protection in the US, leaving them exposed to generic competition and denting the revenues of producers by up to 40%.

The pharma industry is still not ready for this long-expected crunch, according to our survey. Only 17% of respondents think that pharma companies have done enough to prepare for the patent cliff. This is despite the hundreds of thousands of job cuts that have already taken place across the industry, despite the dramatic consolidation that took place in early 2009, and despite the strategic rethink that has seen many research-led pharma companies invest in emerging market generics producers.

The crunch is already upon US pharma company Pfizer, which saw its blockbuster cholesterol treatment Lipitor come off patent in the US in November 2011. The drug generated sales of over US$10bn in the year to July 2011, with half of that coming from the US. The world's second-biggest drug, Plavix (Bristol-Myers/Sanofi), comes off patent in the US in 2012, as do Seroquel (AstraZeneca), Singulair (Merck & Co) and Actos (Takeda), among others. Pfizer, Forest Laboratories and AstraZeneca will be among the worst-hit. Altogether, we calculate that nearly US$29bn in US drug revenues will be exposed to generic competition over the next year, with the global total around double that amount.

To watch: 2012
The 10 ASEAN countries will harmonise drug filing regulations, meaning only one filing will be needed to sell across the region

Fortunately, the effort that pharma companies have put into refilling their pipelines is starting to pay off. The US Food and Drug Administration recently reported a surge in the number of new drug approvals. Nevertheless, approvals remain below their peak of a decade ago, and safety regulations continue to be onerous. In Europe, they will become more so from July 2012, when the new Pharmacoviligance Committee at the European Medicines Agency will tighten up on drug monitoring.

Despite their preparations, research-based pharma companies will find it difficult to replace lost revenues. Restructuring will therefore gather pace. Pfizer and Sanofi have already announced thousands of job cuts, and the cull will continue in 2012. Around 65% of the respondents to our survey expect industry consolidation to quicken, following a sharp slowdown in deals in 2010 and 2011. Although more mega-mergers cannot be ruled out for 2012, most deals are likely to be far smaller, as companies gobble up small biotech or specialist companies, or buy their way into emerging markets.

Generic drug producers will be the biggest beneficiaries of the patent cliff in 2012. Ranbaxy of India (owned by Daiichi-Sankyo of Japan) is already poised to launch its generic version of Lipitor, as is Watson Pharma of the US. Meanwhile, many of the most sophisticated generic producers, including Teva of Israel and Gedeon Richter of Hungary, are also preparing to develop biosimilars, or generic versions of high-cost biotech drugs, after the US finally introduced rules to approve such drugs.

Budget matters

Generic drugmakers will benefit from other shifts in how healthcare budgets are being spent. Overall, the Economist Intelligence Unit expects healthcare spending in the 60 countries covered by our forecasts to

To watch: 2012
Brazil's government may seek a new tax to fund public healthcare programmes

rise by 4% in dollar terms in 2012, while spending on pharmaceuticals will rise by around 5%.

In Europe, the combination of ageing populations, new medical technologies and patient demand is putting increasing pressure on government budgets ravaged by the debt crisis. Many countries have already cut salaries and pensions for healthcare workers. They have also slashed pharma prices, and introduced regulations to encourage the use of generic drugs. We expect pharma sales to fall marginally again in 2012, marking the fourth straight year of decline for the region.

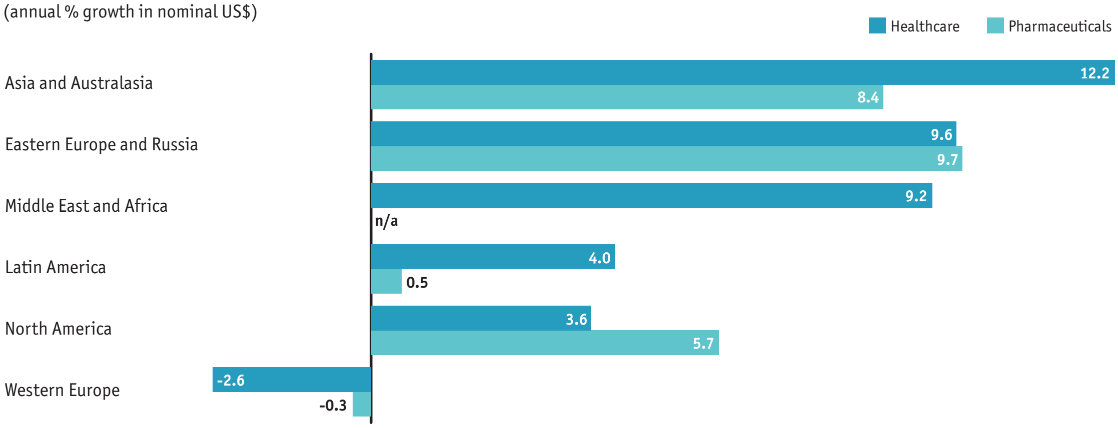
In the US, a fragmented healthcare system, a younger population, and the expansion of health insurance to more of the population will provide protection for healthcare and pharma budgets. We expect spending to rise broadly in line with the global average, and the US will continue to account for around 40% of global healthcare spending. But the November presidential elections mean there is huge uncertainty: even if President Barack Obama wins a second term, as 50% of our survey respondents expect, he will continue to face challenges to his healthcare reforms. Even before then, the Supreme Court will make a ruling on whether the obligation for every US citizen to buy insurance is, in fact, constitutional.

With major developed markets in turmoil, global healthcare spending will be driven largely by emerging markets—particularly in Asia. With China and to a lesser extent India rolling out huge public health programmes that are also attracting private investment, we expect healthcare spending across Asia to rise by 12% in 2012, with pharma spending rising by 9%. By 2015, our forecasts suggest that healthcare spending in Asia will account for over 23% of the global total, up from 14% in 2006. That would put the region almost on a par with Western Europe's 24% share.

The vast majority (81%) of respondents to our survey expect to invest in production, as well as marketing, in emerging markets. At the same time, 83% expect stronger competition from emerging-market companies operating globally, such as India's Ranbaxy and Dr Reddy's, or South Africa's Aspen.

Given these developments, it is not surprising that respondents' feelings about the global healthcare sector are mixed. Overall, 45% expect market conditions for the healthcare industry to worsen in 2012, compared with 61% who expect the global economy to worsen, suggesting that the healthcare sector continues to be relatively protected from downturns. Moreover, only 33% expect conditions for their own company to worsen. There will be winners as well as losers in what will be a turbulent year for healthcare.

Healthcare and pharmaceutical spending, 2012
(annual % growth in nominal US$)



Source: Economist Intelligence Unit.

Telecoms and technology: Rising opportunities, falling prices

Iain Morris, Lead Analyst, Telecoms and Technology

The telecoms sector weathered the 2008-09 recession better than most other industries, but a much sharper downturn, triggered by the euro crisis, could deal a significant blow to companies in developed markets. Many are pinning their hopes on emerging markets to pick up the slack. Indeed, an overwhelming 93% of telecoms and IT executives who responded to our survey expressed the view that smartphones will extend their popularity beyond rich countries into emerging markets.

In developed markets, a sharp fall in prices has already made these gadgets affordable for consumers with average incomes, and further price declines would put them within reach of sizeable markets in countries like China and India. With that in mind, operators in those countries are rolling out advanced networks, based on 3G and sometimes 4G technology, that allow mobile phone customers to use the Internet and other data services on their devices.

To watch: 2012
Global mobile phone penetration will top 100% by the end of the year

Interest in LTE (long term evolution), the standard sometimes referred to as 4G, will soar in the coming months. So far, around 30 operators have launched commercial services using LTE technology, but more than 100 deployments are being planned. In most cases, operators will not see 4G as a route to new revenues but as a means of freeing up capacity on congested 3G networks. LTE is also a more efficient technology for providing data services and operators will hope to benefit accordingly.

Even in emerging markets, however, operators will struggle for growth, as consumers prove unwilling or unable to pay much more than they already spend on traditional services for the privilege of using the mobile Internet. Regulators and competitors, including non-traditional rivals (such as providers of Internet telephony), will also exert downward pressure on prices. In this environment, the debate around net neutrality—the principal that operators treat all Internet traffic on equal and non-discriminatory terms—will grow more heated.

Companies will continue to invest in fixed-line networks, too, according to our survey, with 71% of respondents agreeing that new and improved Internet cables will bring dramatically faster broadband to new parts of the world. New submarine capacity off the coast of Africa has already helped to lower the price of connectivity on the continent, but there is still a shortage of access infrastructure. In Europe, governments will continue to encourage private-sector investments in superfast broadband, but a recession may dampen enthusiasm for such schemes. Opposition to more light-touch regulation will grow as alternative operators fret over the growing power of incumbents. Public-sector funds will be channelled into providing broadband connectivity in rural and remote areas, with governments arguing that the economic benefits of such investments outweigh the cost. In some cases, the sale of 4G radio spectrum to cash-rich private-sector companies will help to cover those costs.

Get smart

The smartphone market will become even more of a two-player race between Apple and Google, unless the Windows Phone 7 operating system can help Microsoft to recapture some initiative. Nokia could be a casualty of a Microsoft failure. The Finnish phone maker entered into a smartphone partnership

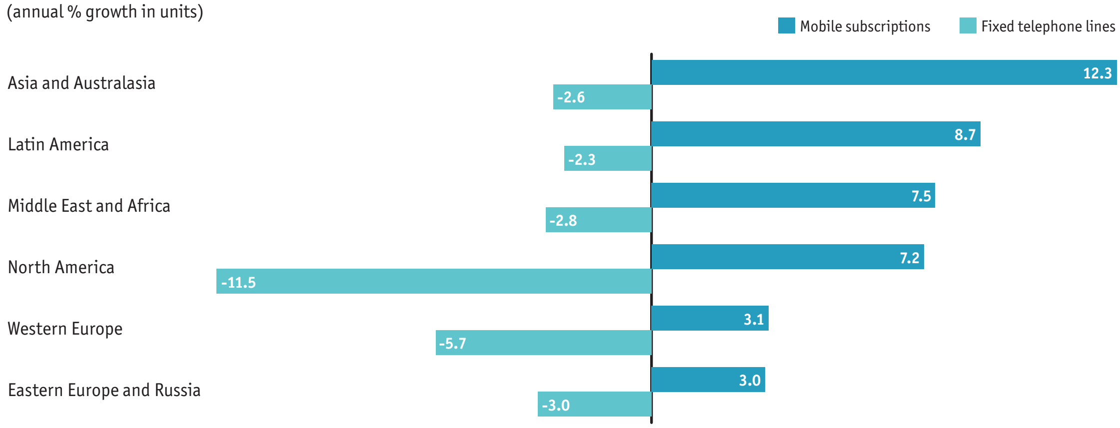
To watch: 2012
Facebook is likely to make an initial public offering that could value the company at as much as US$100bn

with the US software giant after virtually giving up on its own Symbian operating system, which has not been able to challenge the dominance of Apple and Google. Nearly two-thirds of respondents to our survey, however, believe that open source software will prevail over proprietary software in the smartphone market. That suggests that Google, whose open-source Android system is growing fast, will emerge from this battle as the victor.

A related question concerns what happens to personal computers in the future. Some industry observers predict a dramatic decline in the PC market as tablets and handheld devices gain market share. But our respondents are not so sure. A small majority (57%) foresee this kind of slowdown, perhaps because tablets and handheld devices are still not suited to the types of applications common in the workplace. What's more, chief information officers remain concerned that newer types of devices pose a threat to security and do not comply with certain standards. All of this suggests that PCs will be around for some time yet.

Besides mobility, the big issue of the day is cloud computing and how quickly it will be adopted. Without a doubt, cloud computing promises huge savings for companies, allowing them to avoid costly investments in server farms and instead rent capacity from providers as and when they need to expand. Yet companies have been worried about such "offshoring" of their data, especially given a recent high-profile security breach at Amazon, a cloud-computing specialist. Nevertheless, our survey suggests that such fears may be waning. Nearly three quarters of respondents agree that cloud computing will enjoy explosive growth as consumers and businesses put aside worries about security. If that happens, it will be the most significant IT development of 2012 by far.

Telecoms, 2012
(annual % growth in units)



Source: Economist Intelligence Unit.

Important business milestones and meetings in 2012

January

- China promises to allow Taiwanese banks with branches in the mainland to start conducting renminbi-denominated business
- Both the US and EU begin to apply new CO2 vehicle emission limits, effectively mandating fuel efficiency
- A customs union comes into effect between Russia, Belarus and Kakakhstan
- The North American International Auto Show, the most important US forum for the industry, is held in Detroit
- ConsumeExpo takes place in Moscow. The show is the leading convention for consumer goods in Russia
- The World Economic Forum's Annual Meeting opens in Davos, Switzerland
- Economist Conference: The Future of Banking, Paris

February

- HTC's Tegra 3 Android tablet is set to make its debut, providing more competition for Apple in the fast-growing product space
- Economist Conference: The Pharma Summit, London
- Economist Conference: The CFO Summit, London
- Stock car racers compete in the Daytona 500, the iconic first race in the NASCAR Sprint Cup Series

March

- The Geneva Motor Show, a leading European automotive exhibition, exhibits the new models
- Norway's Skarv offshore oil and gas field starts production
- Deadline for US hedge funds and other private funds to register with the SEC under the Dodd-Frank Act
- Pluto LNG project in North West Australia is expected to come on stream
- The expected US patent expiry for Lexapro, an anti-depression drug made by Forest Laboratories
- Economist Conference: The Insurance Summit, London
- Economist Conferences: Healthcare in Africa (Cape Town), Europe (Geneva) and The Gulf (Dubai)

April

- South Africa begins a pilot programme in ten cities in preparation for the rollout of universal healthcare
- Japan's two main nuclear watchdogs are merged and separated from the powerful Ministry of Economy, Trade and Industry
- The UK's Health and Social Care Bill is expected to become law
- Beginning of India's latest five-year plan, which includes US$1trn in infrastructure spending, double the amount in the previous plan
- Apple may launch the iPad 3, the successor to its highly successful first tablet computer

May

- The Skybridge Alternatives Conference, a major hedge fund gathering, lures traders to Las Vegas
- Expected US patent expiry for Plavix, a medicine for cardiovascular disease made by Bristol-Myers Squibb
- Rio's Earth Summit 2012 marks the 20th anniversary of the first such ecological meeting in that city
- Economist Conference: The UK Energy Summit, London
- Economist Conference: Bellwether Europe, London
- One of the most famous races of the F1 motor-racing season, Monte Carlo, is held

June

- The China International Consumer Goods Fair opens its doors in

Ningbo, a port city south of Shanghai

- Deadline for European banks to reach core Tier-1 ratio of 9%, a big boost from earlier levels

- The Supreme Court is expected to rule on the constitutionality of the US health insurance mandate

- Nokia's Windows 8 tablet is slated to roll out. It will be a big test of the Nokia-Microsoft alliance in software for handheld computers

July

- A feed-in tariff law in Japan will require all independent power producers and utilities to buy electricity from renewable sources

- EU countries must adopt altered prospectus rules for securities offerings and harmonised prospectus summaries in order to facilitate comparability between issuers

- Australia's 500 biggest polluters will start to pay a tax on carbon emissions, ahead of an emissions-trading scheme due to start three years later

- New rules on pharmaceuticals data come into force in the EU, so that side-effects can be monitored more closely

- The "Volcker Rule" requiring banks to divest proprietary trading becomes effective

August

- The ACE fibre-optic cable linking the countries lying in the Atlantic between South Africa and France is expected to start transmitting data

- Expected US patent expiry for Singulair, an asthma and allergies drug made by Merck & Co

- More-stringent food-labelling laws come into force in Canada, aiming to warn consumers of allergens, sulphites and gluten

September

- The World Retail Congress takes place in London

- A major global insurance meeting—t he International Convention of Insurers, Reinsurers, Brokers and Reinsurance Consultants—opens in Monte-Carlo

- The Building Energy Code will enter into force in Hong Kong. It stipulates minimum energy-efficiency standards on certain buildings

- International Conference on Pharmacy and Pharmaceutical Sciences is held in Singapore

October

- The annual meeting of IMF and World Bank opens in Tokyo

- International Pharmaceutical Federation's Centennial World Congress takes place in Amsterdam

- Economist Conference: The Buttonwood Gathering, New York City

November

- Drivers compete in the season's final F1 event -- the Grande Premio do Brasil -- after which a world champion will be crowned

- The WHO commemorates World Diabetes Day, dedicated to prevention and treatment of the chronic disease

- Asia-Pacific Economic Co-operation holds its annual summit on Russky Island, off of Vladivostok, Russia

December

- The Desertec Industrial Initiative plans to start construction of world's biggest solar power project in the Moroccan desert

- Insurers in the EU must stop charging different rates for insurance and pension products for men and women

- Basel II capital rules for banks come to an end. Basel III regulations will be phased in over 2013-18

- The Kashagan offshore oil field is slated to begin production in Kazakhstan

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The key industry sectors we cover are listed below with links to more information on each of them.

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Analysis and five-year forecast for the automotive industry throughout the world providing detail on a country by country basis

www.eiu.com/automotive

Commodities

This service offers analysis for 25 leading commodities. It delivers price forecasts for the next two years with forecasts of factors influencing prices such as production, consumption and stock levels. Analysis and forecasts are split by the two main commodity types: “Industrial raw materials” and “Food, feedstuffs and beverages”.

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