The Economist Intelligence Unit

Industries in 2013

A special report from the Economist Intelligence Unit

www.eiu.com/industry

Introduction

Last year we published *Industries in 2012* and made a number of predictions about developments in our six key industries – Automotive, Consumer Goods and Retail, Energy, Financial Services, Healthcare and Telecommunications. Some of our predictions were prescient, others were premature. In particular:

- **We said that Chinese automakers would become more assertive in 2012.** They did. In 2012 Chinese carmakers opened plants in Bulgaria, Egypt, Uruguay and elsewhere, and announced expansion plans in many more countries. Meanwhile, China's auto exports are expected to top 1m units for the year.

- **We said retail and consumer goods would need to get serious about multi-channel selling.** They have. Best Buy reversed its initial attempts to block "showrooming" (testing a product in-store and then buying it elsewhere online), and has now embraced it as part of its customer acquisition strategy. Even pure play retailers like Amazon and eBay reverted back to traditional channels with lockers and physical collection points.

- **We expected little progress on emissions-reducing policies.** We were right. Bickering between policy makers in rich economies and developing countries continues.

- **We predicted a breakthrough in mobile payments in the developed world.** We were too optimistic. Although there are signs of progress, the industry remains fragmented thanks to a profusion of standards and payment providers. Wider adoption will take more time.

- **We anticipated turbulence in healthcare in 2012.** We were right. Efforts to cut health spending helped spark riots in Greece and Spain, while healthcare reforms proved to be the most divisive issue in the US presidential election. And that is ignoring the turbulence within the pharma companies most affected by patent expiry.

- **We expected to hear even more about cloud computing in 2012 than we had in 2011.** We were right. Spending on cloud services will continue in 2013. Alongside this, companies will seek renewed assurances about security and fresh revenue streams by mining the petabytes of "big data" they are sending to the cloud.

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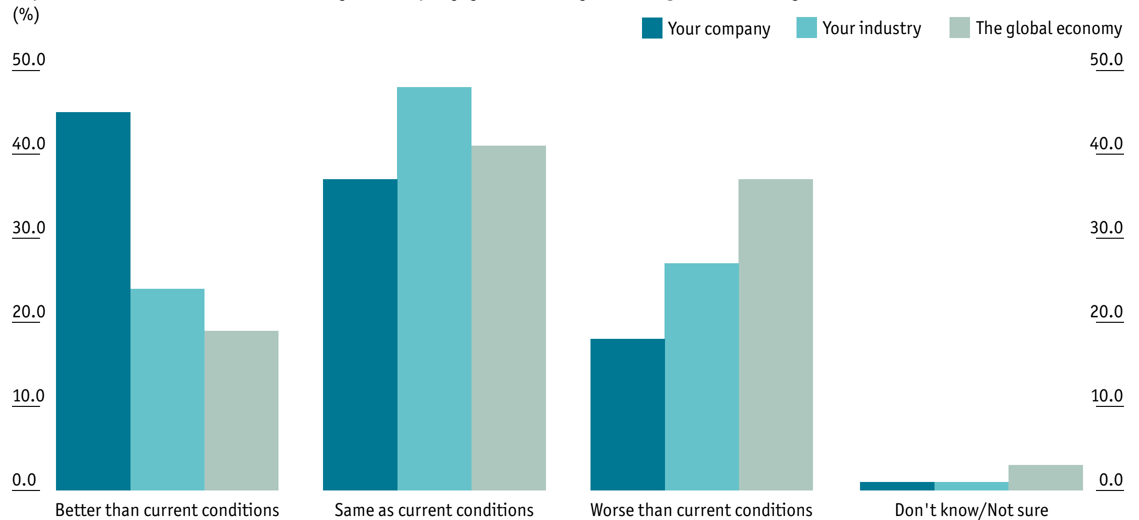

In last year's report we conducted a survey of business leaders to gauge their sentiment about the global economy and the outlook for their industries and their own companies. Over the past year we have continued to track sentiment, repeating the survey again in late November. Business executives believe 2012 is ending more hopefully than it began, with a 'balance of sentiment' (the positive views minus the negative ones) rising from -43 a year ago to -18 today.

The balance of sentiment is notably brighter in certain industries:

- In **retail** business executives spent 2012 transforming, or at least preparing to transform, their companies to benefit from new opportunities in the developing world. Although those transformations will not be easy – several major retail players became bogged down by India's regulatory quagmire – the momentum appears to be heading in the right direction. Notable too is that the survey was conducted in mid-November, when retailers are gearing up for the all-important Christmas shopping season.

- **Energy** companies are also upbeat, as oil prices remained high in 2012 and unconventional oil and gas production continues to expand, especially in North America.

- For **telecoms** companies, by contrast, the future looks much the same as it did last year; until technology developments drive higher spending in developing markets, expectations will remain muted.

- In **financial services**, major players have fewer options when it comes to diversifying into new geographies; our chapter on the sector articulates these constraints and explains why business executives in financial services remain as gloomy as ever. Innovation will help, but for many financial services firms, dreaming of the past has been a welcome distraction.

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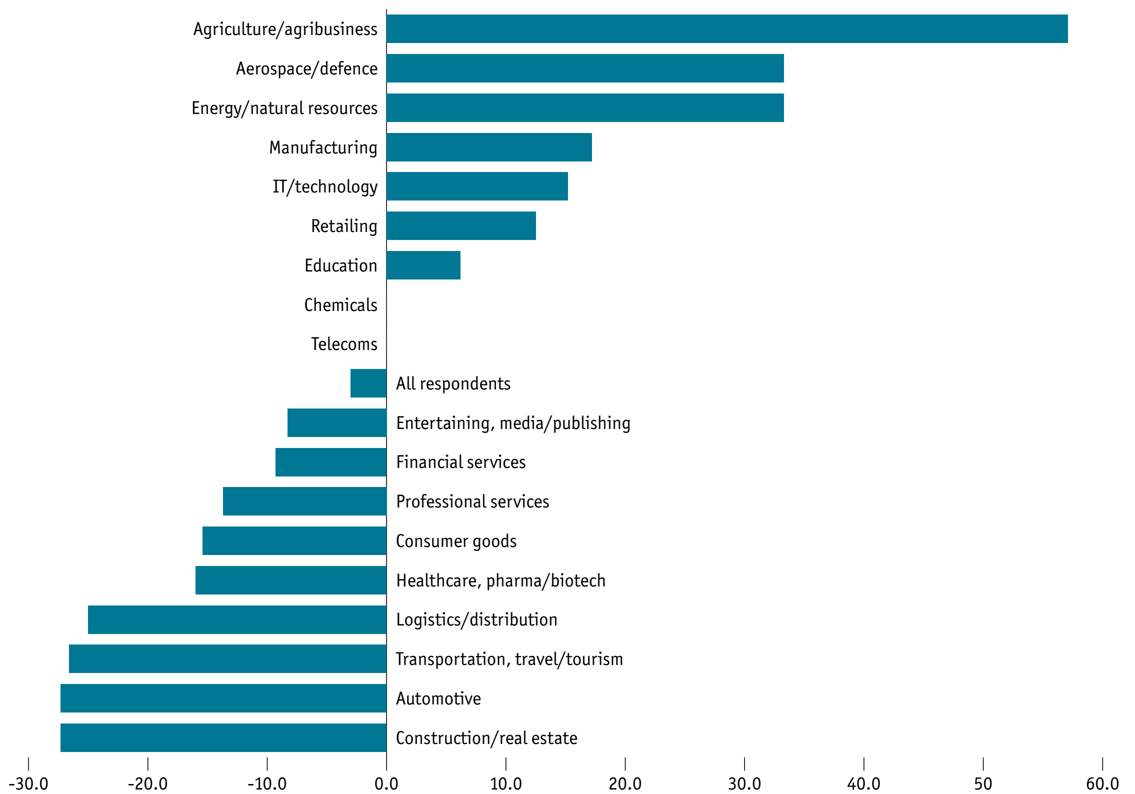
● **Healthcare** executives spent 2012 waiting. In the US they waited for the outcome of the Supreme Court decision on sweeping healthcare reform and, later in the year, for the outcome of the US presidential elections. Outside of the US they waited – and are still waiting – for emerging-market spending to increase to a level that begins to ease the pain of tighter spending controls in Europe.

● Lastly, for **automotive** companies, 2013 will see more plant closures in Western Europe and intense competition from a formidable group of developing-market companies growing in confidence.

'Balance of sentiment', the positive views minus the negative ones
(%)



Source: Economist Intelligence Unit.

About the survey

The Economist Intelligence Unit surveyed 405 executives in November 2012 on their expectations for business conditions in 2013. The survey sample was global, with 46% of respondents based in Europe, 25% in Asia, 10% from the Middle East and Africa and 5% from Latin America. The respondents are relatively senior – 37% hold C-suite positions while 7% are board members. They work in organisations of varying sizes, with 53% earning annual revenue of US$500m or more.

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Automotive: The end of boom and bust?

Vehicle-makers will be hoping for a calmer year in 2013, after the volatility of the past four years. The bust of 2008-09 was followed by the boom of 2010, and more recently by another bust – at least in some parts of the world. Those vehicle-makers with the right spread of sales, such as Volkswagen, rode the rollercoaster with ease, but those with a focus on Europe, such as PSA Peugeot-Citroen, have struggled. To regain their footing those companies will need achievable investment plans that shift production and sales away from stagnant markets. Formulating those plans will be easier if global sales patterns become more predictable.

Fortunately that looks likely, unless government intervention upsets the market balance once again or the euro crisis takes another turn for the worse. Barring that, we expect car registrations in the 60 countries that make up our global forecast to rise by 5.1% during 2013, marking a slight slowdown on 2012. But compared with 2012 – when the US boomed and Europe slumped – growth will be far more evenly spread. In 2013, the high and lows should start to moderate, at least in the biggest car markets. Commercial vehicle sales, which fell slightly in 2012, will also bounce back by a moderate 4.9%.

The global auto market should become less volatile, then, but that does not mean 2013 will be an uneventful year. Vehicle-makers will still be under pressure to respond to the long-term shift away from Western Europe. In 2013, the region will account for just 17% of global car sales, down from over 25% just five years ago. Asia will account for 43%, up from under 30% in 2008. China alone now delivers nearly a quarter of the world's sales, while Western Europe's look set to remain about 20% below pre-2008 levels for the foreseeable future.

With high oil prices and tightening emissions legislation adding to the pressure, carmakers in

Car registration forecasts for top 10 markets by unit sales
(% change, year on year)

* World consists of the 60 largest markets.
Source: Economist Intelligence Unit.

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Europe will need to push ahead with the tough decisions they have been starting to take over the past year or so. Fiat has already closed one plant in Sicily but is now banking on new model launches to mop up its overcapacity in Europe. Ford Europe is closing down plants in the UK and Belgium, following in the footsteps of General Motors (GM) Europe, as part of its plans to cut production capacity by 20%. PSA, having announced the closure of one French plant, is likely to have to scale back still further, despite political pressures and its nascent alliance with GM.

The cutbacks in European production will not be universal, because the fall in real wages across the continent has already helped to make its auto plants more productive. That has helped to win Nissan's plant in the UK, for example, some new business, while Spain seems set to win new investment for Renault thanks to its lower wages. But with European overcapacity now estimated at about 9m units (including the new plants that have been built in Eastern Europe), the production losses will need to be greater than the gains.

The US auto industry is in a far stronger position. Not only did it shed plenty of capacity during 2008-09, but its sales growth looks set to remain far higher than Europe's for the next few years. US carmakers GM, Ford and Chrysler (now part of Fiat) will be focusing their cuts on Europe instead. But all the major OEMs will also need to pay attention to the slowdown in the Chinese market, with years of heavy investment there combining with the slowdown to create overcapacity. China's international and domestic carmakers are already aware that they will need to ramp up exports to make up for lost sales growth at home.

Indeed, 2013 will be the year that Chinese carmakers start to make a determined push into international markets. Chery, Geely and Great Wall have already made some progress. The first is now China's largest exporter, the second is building on its acquisition of Sweden's Volvo Cars, and the third has set up a plant in Bulgaria to serve Eastern Europe. But given the challenge of hiking their standards to match those of developed markets, many Chinese carmakers are instead targeting the Middle East, Africa, Latin America and their own Asian neighbours. During 2013 they will start to bite at the heels of the Western carmakers who are counting on growth in these developing markets.

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Consumer Goods and Retail: Shifting sands and new battlegrounds

2013 will be a year in which retailers consolidate and shift strategies to address an evolving consumer landscape, both in terms of geography and in terms of channels.

2012 is a year many retailers will be happy to forget. Weak consumer sentiment across Europe and in North America has been a blow to an industry already struggling to come to terms with a structural shift towards online and convenience channels. The stretched balance sheets of firms like Best Buy and Staples have led to pronouncements that the era of "big box" stores is over. Meanwhile, the UK high street has seen store vacancy rates hit a record high of over 11%. Retailers in mainland Europe have been hit by austerity and unrest as the euro zone crisis continues to unfold.

Although emerging markets have supplied some bright spots, fears of an Asian slowdown, notably in China, have persisted, severely denting confidence in firms that may be overexposed, especially in the luxury goods segment. Indian FDI reform for retailers has been chaotic and divisive. Japanese consumer weakness has shown little sign of abating as the market continues into a third "lost decade" of stagnation.

Fears persist that 2013 will bring more of the same as bankruptcies and bearishness continue to dominate. But against this backdrop retail will be retrenching and tackling the challenges faced in 2012 to become leaner and more multichannel operations for the future.

Emerging markets offer growth

The balance of power in terms of growth opportunities has shifted firmly away from stagnating and austerity-hit mature markets into more exciting emerging markets, especially the BRIC countries. The biggest buzz in 2013 will surround China and India.

Although opportunity in China is already well established it does not mean that it will slacken. In 2013 China could complete a hat trick of becoming the world's largest e-commerce market, the world's largest grocery retail market and the world's largest luxury goods market. Starbucks has announced plans to open 600 coffee shops in China in the coming year and McDonald's has set an ambitious target of having 2,000 Chinese outlets in 2013. Even the relatively nascent online sector is attracting global

Home and away: volume retail sales growth in bric vs mature markets (%)

Country/region	2011	2012	2013
Brazil	6.4	6.7	6.5
China	10.9	10.9	10.5
India	3.8	12.1	6.3
Russia	7.2	5.4	3.8
UK	0.6	1	-0.4
USA	4.1	2	1.6
Western Europe	-1	-1.7	-0.7

Source: Economist Intelligence Unit.

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interest, with eBay and WalMart entering into joint ventures to tap into e-commerce growth. Although fears of a slowdown emerged in 2012, retail figures released in October and November point towards a recovery in volume growth, which is expected to remain in double digits in 2013.

For retailers, however, India could present an even more exciting opportunity thanks to the liberalisation of foreign investment rules for single and multi-brand operations. The market here is not without challenges. The liberalisation has been met with widespread opposition and comes with a raft of clauses from state vetoes to rigid local sourcing policies and minimum logistics investments. So far only WalMart has wholeheartedly stepped into the multi-brand fray, although Ikea has also made inroads in the single brand arena. The likes of Carrefour, Metro and possibly Tesco are still considering the options available. However, the Indian market is likely to prove too tempting to ignore over the next 12 months.

But domestic attentions must not fade

However, investment in new markets must not come at the expense of domestic share, a factor not lost on some retailers and one which will permeate as retrenchment strategies continue. Tesco and Carrefour have both seen domestic shares slide in 2012. Tesco has responded by withdrawing from Japan to embark on a £700m charm offensive in the UK accompanied by a renewed focus on convenience store channels. Carrefour's withdrawal rate has been even more dramatic with the world's second-largest retailer sacrificing operations in Greece, Singapore, Malaysia, Colombia and Indonesia. Both will continue to shed foreign operations into the coming year, with Turkey and Poland likely candidates for Carrefour and the US "Fresh & Easy" operation a potential candidate for Tesco.

In fact developed markets could become a battleground for emerging market retailers in the coming year. UK real estate firm Savills has identified five Chinese retailers exploring opportunities for retail expansion in London in the coming year. Retail casualties across Europe could also offer opportunities for cash-rich emerging-market firms.

Showrooming will be an industry gamechanger

As e-commerce continues to rise the last few years have seen the emergence of "showrooming" – the practice of testing a product in-store but buying on a mobile device – as a rapidly growing challenge to the traditional retail format. The growth in smartphone penetration and the accompanying ability to buy anywhere that there is a mobile signal has revolutionised point-of-sale decisions allowing people to search for items by barcodes, quick response (QR) codes or even photographs they take.

Research firm Forrester estimates that mobile retail in Western Europe will grow elevenfold between 2012 and 2017. This could prove conservative and 2013 will be a year where smartphone engagement becomes a core part of retail multichannel strategies. Having already tried to offset the practice by using non-transferable barcodes, US retailer Best Buy has undergone a strategic u-turn by announcing plans to "embrace" showrooming in 2013. It is far from alone and retailers will ramp up their own app-based offerings to counter losing out on price, whether this is through app-based loyalty or discount schemes or attempts to differentiate their retail brands from a product or service perspective. One thing is certain – m-commerce and showrooming are here to stay.

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Energy: Growth, but not as we knew it

Broadly, the story of world energy demand in 2013 will mirror that of the world economy. Still-tepid global economic growth will generate only a slightly quicker expansion in the world's energy needs than was the case in 2012. Global energy consumption will grow just 3%, a full 1.4 percentage points slower than the stimulus-driven rate in 2010. Looking beneath this, though, the contours of energy demand vary greatly between energy-guzzling developing economies and the flagging developed ones. Again, this reflects the global economic picture: real GDP growth at purchasing power parity in OECD economies will stumble along at 1.4%, while non-OECD countries will power on at 5.8%. Energy demand will follow suit.

On the supply side, by contrast, 2013 will see the continuation of a surprising Western energy growth story: the explosion in "unconventional" North American oil and gas production. Extraction of natural gas from shale rock in the US quadrupled between 2007 and 2010. But gas drillers face prices too low for them to make a profit, even as oil prices remain high. This is spurring a mass migration of drilling rigs from gas plays to liquids-rich fields. The "shale-gas revolution" is being overshadowed by a shale-oil (more properly, tight-oil) and natural-gas-liquids (NGLs) boom in the US.

As a result, we expect US total liquids production to average above 9.25m barrels/day (b/d) in 2013. North of the border, Canada's tar-sands output is on an upwards trajectory. This will more than compensate for losses in non-OPEC production elsewhere, whether because of natural decline (in the case of the UK) or internal conflict (such as in Sudan). The shale boom is not about to make the US self-sufficient in oil, but North American energy security will keep improving—and inspire other countries to redouble efforts to tap unconventional hydrocarbons.

Among traditional oil and gas powerhouses in the Middle East, too, new trends are in play. To keep prices high, Saudi Arabia is likely to cut back production in 2013. Under sanctions targeting its nuclear programme, Iran's production of oil has dropped off dramatically (though the rot had set in before the West intervened, bred by Iran's own underinvestment in its oil sector). But oil output in Iraq, which has overtaken Iran to become OPEC's second-largest producer, will grow strongly in 2013—this, despite wrangling between the Kurdish Regional Government (KRG) and Baghdad over control of the oil sector, embroiling industry titans like ExxonMobil.

Clearly, political stability in the region will remain a worry. Iraq's problems and the Iranian nuclear standoff aside, Libya and Egypt are adjusting to life under new regimes while Syria's civil war blazes on. Global oil prices will therefore continue to factor in a hefty risk premium. Nonetheless, as oil demand in Europe and North America shrinks while production grows, the average price of a barrel of oil (Brent) in 2013 will slip to about US$104, from around US$112 in 2012.

For struggling US natural-gas producers, on the other hand, the pleasing news is that slower production growth is pushing up prices. This is set to continue in 2013, when Henry Hub prices will average close to US$3.3/million British thermal units—still too low for gas companies to make a profit on shale-gas drilling. But then many are in for the long haul, eyeing liquefied natural gas (LNG)

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exports. Only one LNG project has been approved so far in the US. Many more await the nod, but there are worries exports will drive up gas prices at home. The Obama administration's policy should become clearer in 2013.

The point of exporting North American gas is to capitalise on higher prices overseas, especially in Asia. Chinese and Indian gas demand is galloping in step with their economic advancement; Japan has turned to gas to help plug the hole left by the mothballing of the vast majority of its nuclear plants. Companies will push on with work already begun on giant liquefaction facilities, most notably in Australia.

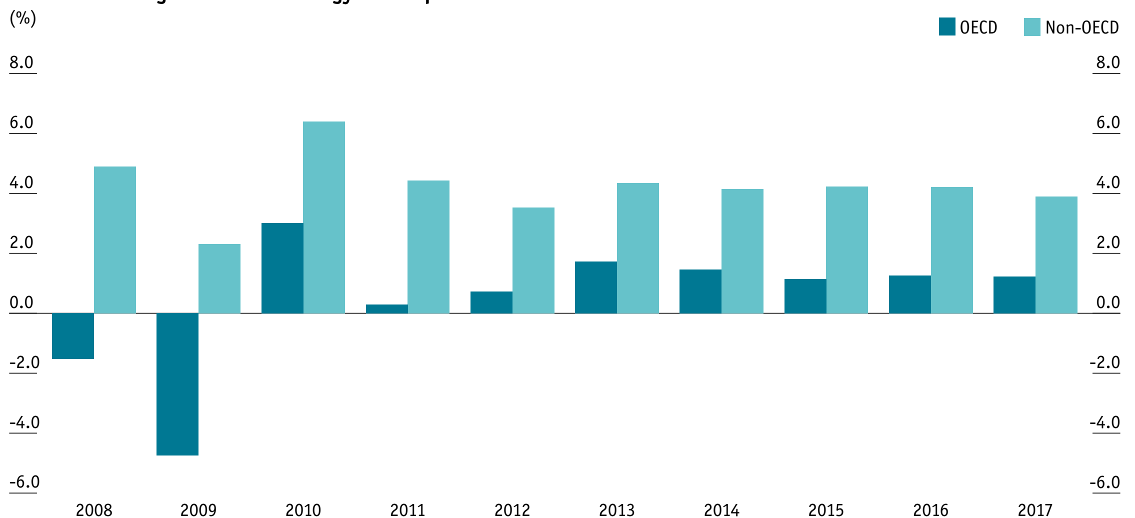
More greenery, but more soot too

Globally, gas is increasingly popular partly because governments favour it as a "greener" fossil fuel. But dirty old king coal has much life left in him. In the US, the cheapness of gas and environmental regulations targeting power plants are pushing coal out of fashion—and overseas to Europe, where gas prices are higher. This export trend is likely to weaken in 2013, as US natural-gas prices edge up and those in the EU slip, making coal less attractive. Far more important for the global coal appetite, though, is China, which burns almost half of all coal consumed. The country is struggling to wean itself off the polluting fuel, which supplies most of its energy; it will burn 5% more of the stuff in 2013.

Paradoxically, China also plays a pivotal role in non-fossil fuel markets. Up to seven nuclear reactors are due to come online in the country in 2013, as work continues on dozens more. Predictions of nuclear's demise after the Fukushima accident in March 2011 were always exaggerated, mainly because of China's go-ahead policy on atomic energy.

Beijing's related bullishness on renewable energy—another plank of its efforts to restrain energy imports, green its economy and upgrade its industrial structure—is proving problematic. Tensions caused by burgeoning imports of solar- and wind-power equipment are bubbling over in the West. Europe, the most important market for Chinese solar-equipment exporters, could impose provisional

Growth rates for gross domestic energy consumption across OECD and non-OECD countries



Source: Economist Intelligence Unit.

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anti-dumping tariffs by mid-2013. Already-introduced US trade measures will continue to hurt these firms in 2013. Indeed, pain is a theme throughout the solar and wind sectors. Companies are rapidly whittling down production costs—and thus, prices to end-users—to become competitive without subsidies. These have been slashed as European governments' finances come under pressure.

A welcome long-term boost for renewable-energy players would come from agreement over a climate-change protocol to replace Kyoto. However, negotiations are proving hopelessly drawn-out. Meanwhile, the world's carbon emissions keep accumulating. The Economist Intelligence Unit forecasts that, among the countries covered by our analysis, emissions of carbon from burning fuel will pass the 30-gigatonne mark in 2013. Another year, another ominous climate-change milestone.

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Financial Services: The two islands of world finance

To understand the current state of global finance, it helps to think about two islands. On the first island, by far the larger and more populous, there are only limited financial services but the industry is growing rapidly and earning strong profits. On the second, smaller island the outsized financial sector is painfully shrinking after a huge boom-bust cycle over the last decade.

The first island is, of course, the emerging markets—including China and India—comprising 80% of the world's population. The second is the developed countries of Western Europe, Japan and North America; they account for over three quarters of financial activity, despite holding less than a fifth of global population.

On both islands, the industry will be touched by innovations and reforms in 2013. The big picture is unlikely to change radically, however. The basic facts of demographics, debt and deficits pretty much determine that the finance industry will continue to exist in two very different and insular environments.

Innovations abound...

Innovations abound in finance, despite the general gloom. One of the hottest areas at the moment is in cards and payment systems, where insurgents are seeking to disrupt established business systems. Novel card readers—such as Square, which fits on to any smartphone—may catch on in 2013 at physical retailers in much the same way that PayPal took internet payments by storm a decade ago. Meanwhile, incumbents like Visa and MasterCard are not sitting still, forging pioneering mobile alliances of their own.

Mobile payments have caught on quickly among the underserved in Kenya and other places in recent years, and this technology is likely to boom elsewhere where the population has more mobile phones than bank accounts. Many banks in developing countries hope that these m-payments will prove the gateway that brings additional, easy-to-service customers into the fold. Electronic payments of government benefits may have the same impact, especially when combined with official efforts such as in India to provide reliable identification cards.

Meanwhile, many banks are reaching beyond branches to provide services in simpler, lower-cost locations. Lenders will continue to open offices within big-box stores, at post offices and in mobile-phone outlets. Increasing numbers are extending credit to households and tiny businesses that once could only turn to loan sharks or non-profit microlenders.

Providers are now jostling with each other to provide mortgages and crop insurance, products that are common in rich countries but rare in most of the developing world. In one example, home loans are expected to boom in Saudi Arabia in 2013 following a recent shake-up of the industry.

Even in the rarified world of investments, new approaches are catching on. Exchange-traded funds (ETFs) and other simple savings options are attracting savers with their low costs and wide variety of products. Thanks to tie-ups among exchanges, dedicated investors can increasingly choose among an amazing variety of stocks, bonds and derivatives from around the globe.

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...But reforms drag

Much of finance will continue to haul the heavy weight of reforms in 2013 and beyond. The Basel III standards, which officially launch in 2013 and get tougher through 2018, will force global banks to hold more base capital, and better forms of capital such as equity and retained earnings. This should make lenders more resilient the next time a crisis hits.

In the short term, however, raising the extra capital will hurt. Few investors want to buy bank shares these days, so most lenders will hold on to any profits (instead of sharing them with investors) or sell off assets such as loans, properties and entire business units.

This pain will remain sharpest in Europe, and the US to a lesser extent. Banks in emerging markets are little affected since most already hold capital of the types and quantities required by Basel III.

Other reforms are less sweeping but will also bite. Most developed countries want to move the lucrative business of over-the-counter derivatives onto less-profitable clearing platforms that offer greater transparency. Many European nations plan to impose financial-transactions taxes and tighten rules about the balance sheets of insurance companies. The US wants to bar deposit-taking banks from investing in private equity and hedge funds.

By the numbers

Finance will be particularly hurt by the two-track course of the world economy. In the view of the Economist Intelligence Unit, this will remain largely unchanged in 2013: the mostly rich countries of the OECD will grow by a paltry 1.4%, while non-OECD countries will expand by 5.8%.

The basic problem is that finance is overwhelmingly concentrated in developed countries. According to our forecasts, these markets will hold 77% of global bank assets in 2013, falling only to 76% by 2016. These same developed countries take in 85% of insurance premiums and hold over 90% of investible assets.

The two islands of world finance will remain far apart for a long time. Worldwide, about half of adults still lack access to a basic bank account, according to surveys by Gallup and the World Bank. But this is a geography of contrasts. Access to a bank is almost universal in Japan and the West, but is often very low even in middle-income countries (in Argentina just one in three adults has an account, for example). Innovations and official efforts will close the divide gradually in a process that will run far beyond 2013.

Building bridges

Finance is not a footloose industry that can chase demand or resources around the globe. Automakers, pharmaceutical firms and electronics manufacturers have all turned to Asia in recent years in response to rising demand in China and elsewhere in that region. Miners and energy firms have gone to the ends of the earth to excavate natural resources.

Banks, insurers and fund managers would love to do the same, but theirs is a highly regulated and closely-protected industry. Some firms retain their overseas operations as the result of long-ago colonial ties. Others have spent years as minority partners in joint ventures, hoping to build the trust and contacts needed to obtain the required licences.

One day, an audacious business move or a grand merger will throw a bridge between these islands. However, this almost certainly won’t happen in 2013. For now, the gap is too wide and business conditions too different to permit it.

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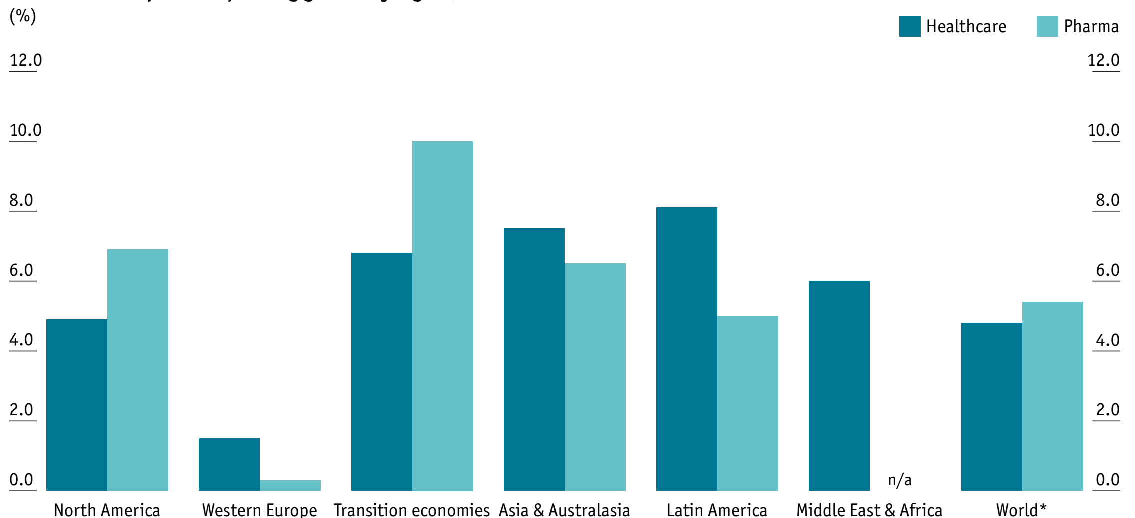
Healthcare: The cliff and the crunch

With the steepest part of the patent cliff now past, innovative drug companies will spend 2013 confronting the challenges of more generic competition. Their struggle will not be made any easier by the continuing cost-crunch in Western Europe and some emerging markets. Faced with escalating healthcare spending, many governments will remain determined to use the current crisis in the global pharma industry to cut prices and promote the use of cheaper generics. Pharma companies, despite their deep pockets, will be in a weak position to fight back.

Their difficulties must not be overstated, however, given that they continue to operate in an environment of rising healthcare and pharma spending. Many developing countries remain anxious to extend care to more of their populations. That and the rapid ageing of populations (particularly in Europe and Japan) will carry on pushing up healthcare expenditure. Total spending in dollar terms slowed sharply in 2012 after its recovery in 2010-11, but we expect 2013 to bring another acceleration, with year-on-year growth of 4.8% in the 60 countries that make up our global forecast. Global pharma spending, meanwhile, will rise by a forecast 5.4%.

The sole dampener on both these numbers will be Western Europe's continued spending crunch. Elsewhere, spending will rise at, or faster than, the global average, driven largely by government policies. In the US, for example, the main driver will be the implementation of President Barack Obama's landmark healthcare reforms of 2010. These aim to roll out health insurance coverage to around 32m of the 47m Americans who currently lack it, a process that should bring new business for insurers and pharma companies alike.

The roll-out will not be easy, however. Although the threat of a wholesale Republican repeal ended



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with Mr Obama's victory in November's presidential election, opposition to the plans is still fierce. So far 16 mostly Republican-run states have refused – and another nine partially refused – to set up health insurance exchanges during 2013 to aid market competition. A Supreme Court ruling in August also allowed states to refuse to expand Medicaid, the public insurance fund for poorer Americans. Yet despite these obstacles, we still expect most states to be ready to implement the individual mandate – when all Americans have to buy insurance – by the January 2014 deadline.

Several other countries are also expanding access to care. Efforts to roll out public healthcare programmes in China and to a lesser extent India will help to push up Asia's healthcare spending by 7.5% in 2013. Chile's and Mexico's increasingly expensive healthcare systems will contribute to an 8.1% rise in Latin America's spending. Meanwhile, the efforts of countries such as Saudi Arabia to build up local hospitals, as well as strong population growth, will see spending in the Middle East and Africa rise by an estimated 6.0%.

Despite this growth, healthcare is one industry in which emerging market spending remains far lower than developed market spending, thanks largely to lower wage costs. But the gap is narrowing: in 2013, Asia will account for just over 20% of global health spending, up from 15% five years ago. Western Europe's share has shrunk from 31% to 25% in the same period, while the US has stayed at around 40%. Moreover, in terms of pharma spending Asia has already overtaken Western Europe.

Pricing pressures

Indeed, many emerging markets governments are increasingly worried that demand for expensive imported drugs is swallowing up too much of their healthcare spending. Both India and China are likely to step up support for their local generic drug producers during 2013 to counteract this. India recently passed a National Pharmaceutical Pricing Policy that aims to limit price rises for drugs on its Essential Medicines List. In the past year, the government has also issued its first-ever compulsory licences under the WHO TRIPS agreement, allowing local firms to copy in-patent medicines. In May 2012, China passed a law that will allow it to follow suit, and 2013 could see it start to issue licences.

Emerging-markets drug companies, particularly those from India, are also keen to boost their exports, as countries everywhere from Latin America to Europe turn to generics in a bid to drive down healthcare costs. Their efforts will be helped by the number of drugs coming off-patent worldwide. In 2012, according to Evaluate Pharma, drugs accounting for around US$33bn in sales saw their patents expire, marking the steepest point of the patent cliff. In 2013, that figure will fall to US$20bn, but the expiries will include that of Eli Lilly's US$4.9bn antidepressant Cymbalta. Generics companies will continue to see a huge growth opportunity.

This will be particularly true in Western Europe, where – with citizens strongly opposed to cuts in healthcare services – pharma spending is still an easier target. Pricing and reimbursement controls will get even stricter during 2013, particularly in countries hardest-hit by the euro zone crisis. Regulators will force innovative pharma companies to justify the price of their drugs, and generics companies will not be immune either. Consolidation in the pharmacy sector will also push down prices. We expect Western Europe's healthcare spending to rise by just 1.5% in dollar terms during 2013, while pharma spending will be almost flat.

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Pharma companies will try to limit the damage, for instance by striking deals with individual governments to stop price-cuts bleeding across borders through reference pricing systems. In those countries with large pharma industries, such as Switzerland, the UK, Germany and France, they will also push for more measures to support innovation and prevent jobs disappearing overseas. Nevertheless, the operating environment will be difficult, and innovative pharma companies will spend most of 2013 hoping that the efforts they are making to cut costs and restock their pipelines will be enough to secure their future.

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Telecoms: Who profits from the data boom?

The world's burgeoning demand for data, at home, at work and everywhere in between, will dominate the global telecoms agenda in 2013. Mobile data traffic alone is doubling every year, according to Ericsson, and is forecast to reach more than 1,000 petabytes by the beginning of 2014. Coping with this reality will drive most major sector developments in the next 12 months.

Superfast spending

Around the world, operators and governments will make massive investments in super-fast broadband infrastructure. On the mobile side, the Global Mobile Suppliers Association (GSA) forecasts that there will be 209 live 4G LTE networks in 75 countries by the end of 2013, up from 113 networks in 51 countries in November 2012. In the US, AT&T, the world's largest telecoms provider by revenue, will invest US$14bn over the next three years to upgrade its broadband networks, with US$8bn earmarked for 4G LTE improvements and US$6bn devoted to fixed networks. China will continue with its ambitious plans to connect 100m households with fibre by 2015, having spent US$58.5bn on telecoms infrastructure in 2012, up 10% from the previous year.

The next 12 months are too soon to tell whether operators will achieve acceptable returns on these colossal outlays. Charging for connectivity will likely not be enough. The operators' future will depend instead on how well they compete in the crucial battle for control over the market for services, content and connected devices running on the networks they own and manage. This battle is just beginning and will play out beyond 2013, but during the next year we should begin to see which strategies are showing signs of success.

Beat them, join them or both

One strategy is to block the so-called over-the-top (OTT) players who deliver content and services on the networks. This looks to be increasingly untenable, demonstrated by AT&T's decision in November 2012 to reverse its restrictions on Apple's FaceTime mobile video calling application. Technical challenges, regulations requiring net neutrality in some countries and the threat of public outcry over any moves that seem to be restricting access to the internet will also make this a less attractive path.

Operators will see more promise in providing services through strategic partnerships, acquisitions and in-house development. There will be plenty of examples to watch in 2013, including Vodafone's expansion of M-Pesa, its mobile money service that started in Kenya in 2007. The UK-based operator instituted cross-border transactions in late 2012. Users in countries that already operate the service, including Kenya, South Africa and Tanzania, will be able to transfer money to 35 countries through the "HomeSend" hub operated by BICS, a money transfer company. It also announced plans to launch the service in India by the end of 2012, in partnership with ICICI Bank, the country's largest bank.

Telefonica's "TU me" app, which allows users to make free calls over the internet (thus competing with VoIP providers such as Skype), is one of the first attempts by a large-scale operator to compete head-to-head with major OTT players and will have its one-year anniversary in May 2013. In February

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2013, Orange, the French operator, will launch a new version of its "Livebox", a home hub allowing the upgraded box, which will feature a simpler design, more efficient energy consumption and the ability to control other networked devices in the home through a smartphone, will intensify competition in France between SFR and Bouygues, each which have rival home hub offerings.

With these launches and others, operators are following what they see as one of the most important lessons from Apple's phenomenal success: they are attempting to create and own a well-recognised, branded eco-system. Through this model, operators allow other companies to sell services onto the branded platform and, in so doing, retain control of the all-important customer relationship (billing, service plans and – most crucially – customer data).

M2M and big data – separating hype from reality

Two buzzwords, "machine-to-machine" (M2M) and "big data", already over-used in 2012, will get even more attention in 2013. This is unavoidable because there is enough potential in both concepts to believe even the most rosy revenue forecasts. There are significant barriers, though, which makes it even more important to separate hype from reality. In 2013, we will look out for practical examples with clear drivers and logical business models. M2M adoption will be driven by regulation (smart meters, automated emergency calling in vehicles) and cost efficiencies (remote monitoring for buildings and some remote health applications).

One big data initiative to watch is location-based advertising, in which subscribers opt in (or don't, depending on the model) to receive special offers and messages based on their location. SFR, says it has three million subscribers opting into its service and reports "significant revenue" after two years in the field. SFR is also using sophisticated software to crunch the billions of anonymised daily subscriber "events" recorded on its network to build a sophisticated business-to-business market research offering. Its reports tell retailers, for example, where customers travelled from on a particular day, aiding decisions about where to advertise; or track spectators leaving a stadium to help transport officials determine where to lay on extra trains, buses and taxis.

Who benefits?

Operators' fortunes in 2013 will have a lot to do with geography. Europeans, saddled with more than 100 market players and stagnant GDP, will look longingly at the US, with only four major competitors in an economy returning to growth. In Asia the challenge will be adding subscribers to build market share without eroding profits to the point of no return. As always, regulators in individual markets will have huge influence on the bottom line, with decisions on spectrum and licences. Although the question of who ultimately wins from the data boom won't be conclusively answered in 2013, there will be plenty of clues if we look in the right places.

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Important business milestones and meetings in 2013

AUTOMOTIVE

January

- European Motor Show (11-20 Jan)
- North American Motor Show (14-27 Jan)
- Global New Energy Vehicle conference is held in Hainan, China.
- A new UK allowing 16-year-olds to drive microcars comes into effect. (19 Jan)

March

- Geneva Motor Show (7-17 Mar)

April

- Shanghai Motor Show (21-29 April)

June

- EU Motor Vehicle Block Exemption Regulation comes into force, aimed at increasing competition in the market for repair and maintenance. (1 June)

September

- Frankfurt Motor Show (12-22 Sep)

November

- Tokyo Motor Show (22 Nov-1 Dec)
- EU regulation on mandatory fitment of advanced emergency braking systems and lane departure warning systems in M2/M3 cars and N2/N3 goods vehicles comes into effect. (1 Nov)
- EU requirement on maximum rolling resistance limits for tyres on new vehicles comes into effect. (1 Nov)

December

- Euro VI emissions standards for HD diesel vehicles are implemented. (31 Dec)

CONSUMER GOODS / RETAIL

January

- UK Retail Distribution review legislation comes into force. (1 Jan)
- International Consumer Electronics Show (11 Jan)

February

- Ambiente, the world's largest consumer goods fair, takes place in Germany. (19th Feb)
- WalMart reports full-year financial results. (21 Feb)
- British Retail Consortium Economic Briefing Report is released. (28 Feb)

March

- Apple expects to open its first stores in Denmark, Austria, UAE and Thailand. (29-30 Mar)
- Target enters Canadian market en masse with 125 stores due to open in 2013, beginning in March/April.

April

- Apple expects to open its first store in Brazil. (24 April)
- China's full-year economics and retail sales data is released.

July

- New "cosmetics products" legislation comes expands consumer protection over cosmetics across the EU. (11 Jul)
- Global etailer Amazon celebrates its 18th birthday.

October

- World Retail Congress (7-9 Oct)

November

- Black Friday in the US is 29 November.

December

- Cyber Monday in the US is 2 December.

ENERGY

January

- Community Energy Saving Programme and Carbon Emission Reduction Target are replaced by the Energy Company Obligation. (1 Jan)
- Wind-turbine manufacturers in the US wake up with relief to a renewed production-tax credit – or to life without the subsidy. (1 Jan)

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April

- UK Energy Efficiency Scheme enters its second phase. (1 Apr)

May

- Ireland's "Smoky coal" ban regulations kick in.

June

- The UK Energy Summit, Economist Conferences, London (27 Jun)

November

- The "COP 19" international climate change conference is held. (11-22 Nov)

FINANCIAL SERVICES

January

- The world's banks face higher minimum capital rules under Basel III, though some countries, including the US, have delayed the kick-off. These regulations should make lenders more resilient in crises. (1 Jan)
- Barring policy changes, the US government goes over the "fiscal cliff". Several types of taxes ratchet up while spending cuts hit military and social programmes. (1 Jan)

February

- The globe's private equity honchos gather at SuperReturn in Berlin. (25-28 Feb)

April

- Britain's Financial Services Authority splits into two bodies, one overseeing the soundness of banks and other businesses, and the second ensuring their conduct with consumers. (1 Apr)

July

- Mark Carney, a Canadian central banker, takes the top job at the Bank of England. He first acquires British citizenship. (1 Jul)
- MySuper, an overhaul of Australia's system of mandatory workplace pensions, kicks in. It provides a default savings option, and hopefully lower fees and greater simplicity. (1 Jul)
- The EU inaugurates its permanent crisis fund, the European Stability Mechanism. It replaces the current European Financial Stability Facility. (1 Jul)
- US regulators bar many financial firms from "swap" deals, under a "swaps pushout provision" in the Dodd-Frank Act of 2010. The measure aims to ensure that taxpayers aren't obliged to rescue a firm engaging in these transactions. (16 Jul)
- All 27 member states of the European Union are required to put new rules on alternative investment managers on their law books. (22 Jul)

September

- Insurance execs meet at a major conference, Les rendez-vous de Septembre, in Monte-Carlo. (7-12 Sep)
- The G20 Summit is scheduled to be held in St Petersburg, Russia, but no confirmed dates yet.

HEALTHCARE

January

- Caps on Flexible Spending Accounts for tax-free medical expenses in the US are introduced. (1 Jan)
- Medical device excise tax is introduced in the US. (1 Jan)
- Most of EU Directive 2011/62/EC on falsified medicines comes into force to cut down on illegal pharma imports. (2 Jan)

February

- The Pharma Summit, Economist Conferences, London (28 Feb)

March

- EU regulation of e-labelling of medical devices comes into force. (1 Mar)
- Japan reaches its deadline by which generics are to account for 30% of pharma market by volume.

April

- The complete overhaul of the health and care system in UK, including abolition of primary care trusts, takes place.
- UK patent box comes into force, giving tax breaks on revenues from innovative products.

May

- The patent for Humalog, Eli Lilly's blockbuster first insulin analog drug, expires in the US.

July

- Roll-out of Europe's first gene therapy, Uniqure's Glybera, is expected to begin.

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August

- The patent for OxyContin, Purdue Pharma's blockbuster opioid painkiller, expires in the US.

October

- New UK rules on clinical trials come into force, protecting trial organisers from being sued for patent infringement.
- US states' health insurance exchanges due to go live, letting residents browse through their insurance options and sign up for plans.

December

- The patent for Cymbalta, Eli Lilly's blockbuster antidepressant, expires in the US.
- The patent for Avones, Biogen Idec's blockbuster multiple sclerosis drug, expires in the US.

TELECOMS

January

- UK begins its 4G spectrum auction.

February

- 70,000 attendees are expected to convene for the GSMA's Mobile World Congress in Barcelona. (25-28 Feb)

March

- Technology Frontiers, Economist Conferences, London (5-6 Mar)
- India is expected to re-auction 2G spectrum after disappointing results in original auction in November 2012.

April

- Telefonica plans to launch LTE services in four cities in Brazil, with six more cities to follow afterward, ahead of the World Cup in 2014.
- Australia holds auction to allocate "digital dividend" spectrum freed up after analogue television switch-off.

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