Industries in 2020

A special report from The Economist Intelligence Unit

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## Contents

**Industries in 2020: overview**  
2  
**The global economy**  
6  
**Automotive in 2020: hard times**  
6  
**Boom or bust?**  
10  
**2020 calendar: automotive**  
11  
**Consumer goods in 2020: toil and trouble**  
13  
**No smoke?**  
16  
**2020 calendar: consumer goods**  
17  
**Energy in 2020: renewing the vows**  
19  
**Oil in the waters**  
22  
**2020 calendar: energy**  
24  
**Financial services in 2020: competition time**  
26  
**Meeting the tech challenge**  
29  
**2020 calendar: financial services**  
30  
**Health in 2020: battle lines are drawn**  
32  
**US pharma enters withdrawal**  
35  
**2020 calendar: healthcare and pharmaceuticals**  
36  
**Telecoms in 2020: living up to the hype?**  
38  
**Judgement day?**  
42  
**2020 calendar: telecoms**  
43
Industries in 2020: overview

After a gloomy year, the world’s major industries are looking for an upturn in 2020. However, much will depend on policies in the US

Last year, when The Economist Intelligence Unit issued Industries in 2019, we highlighted five major risks that could undermine global business during the coming year. Four of those risks came true: the deepening of the US-China trade war, an emerging market downturn, tussles over technology and sanctions on Iran. These all dented economic growth and consumer confidence, dragging down sales across several business sectors during 2019. The fifth risk we mentioned, Brexit, has still not happened, but continues to overshadow business in Europe.

We are expecting a pick-up in global GDP growth and global trade in 2020, despite continuing trade tensions. However, regional trends will diverge, leading to mixed growth forecasts for the six major business sectors covered in this report: automotive, consumer goods and retailing, energy, financial services, healthcare, and telecoms. While there will be opportunities on offer, there are six factors that will determine the direction of these industries in the coming year:

- **A sporadic recovery.** Although the global economy will accelerate, growth will be led by an upturn in non-OECD markets, while OECD markets will remain subdued. However, GDP growth in China will also continue to slow, affecting global demand for many goods and exposing problems with manufacturing overcapacity.

- **A watershed election.** The US presidential election in November 2020 will be a turning point for several sectors. The re-election of the Republican president, Donald Trump, would slow the rollout of renewable energy, for example, while a Democrat victory could bring new efforts to reform healthcare, as well as sharp increases in corporate taxes.

- **From trade to regulation.** The US-China trade war will broaden to affect markets including the EU and Japan. However, the focus will turn from tariffs to regulation, particularly that of the financial and technology sectors. We expect more US sanctions against Chinese companies, as well as legal skirmishes over intellectual property.

- **Asian alliances.** While the US continues to raise trade barriers, Asia is forging ahead with new trade deals. The 16 countries in the proposed Regional Comprehensive Economic Partnership (RCEP) aim to sign an agreement in 2020, creating the world’s biggest free-trade agreement. Meanwhile the 11 countries in the overlapping Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will continue to ratify that deal, while opening negotiations with potential new joiners such as China.
● Brexit hangover. Even if Brexit happens on January 31st 2020—as currently expected—uncertainty will not disappear. The transition period could be fraught, with short-term disruption to trade flows heightening political wrangling over future trade deals.

These factors will affect all six of the industries covered in this report, to varying degrees.

The automotive sector, which has tumbled in 2019, will benefit somewhat from the recovery in many emerging and developing markets. We see car sales heading into positive territory after dropping in 2019. However, commercial vehicle sales in particular will come under pressure from global trade trends as the US continues to threaten vehicle-producing countries such as Mexico, Germany, Japan, South Korea and China with increased tariffs. Brexit will also bring enormous challenges for Europe’s vehicle sector, particularly for UK-based producers.

Consumer markets will also be badly affected by global trade tensions, particularly in the electronics sector, while the political turmoil in Hong Kong will dent sales of luxury goods. This, combined with retail’s greater reliance on developed markets and the rise of online retailing, will slow global retail sales. We expect retail sales to rise by just 2.2% in volume terms, down from 2.5% in 2019.

For the energy sector, the pledges made under Paris Climate Change Agreement in 2016 will begin to take effect in 2020, making this the base year against which 2030 targets will be judged. However, with the US on the brink of withdrawing from the agreement, global progress will be slowed. The target of slowing global warming to less than 2 degrees centigrade is looking increasingly unattainable, unless the US election results in an unexpected policy change. The oil sector will also be vulnerable to political shocks, although we expect slow consumption growth to keep prices range-bound.

The financial services sector will see little uplift from accelerating global growth, because it will be more affected by the slowdown in core OECD markets. The economic weakness of developed markets will keep interest rates low, maintaining the pressure on banking and investment margins. Several major financial hubs, including Hong Kong and London, will also be fragile amid difficult political conditions. However, the expansion of digital banking will hold immense promise for increasing financial inclusion in emerging markets.

For the healthcare sector, too, the US presidential elections will be a particular watershed. Debates will rage over healthcare reform and drug pricing. With other countries also bearing down on prices but expanding access to healthcare, we expect global health spending to accelerate sharply, while spending on pharmaceuticals slows.
In the **telecoms sector**, investment in 5G and fibre fixed-line services is likely to be a top priority in 2020. However, companies will have to invest with little certainty of a return and with regulation still uncertain. Moreover, the US-China trade war will continue to pose a major risk, given the dominance of Chinese companies such as Huawei in the build-out of telecoms infrastructure.

As a result of these trends, our key global forecasts for the six industries covered by this report are:

- new-car sales will recover to grow by 1.7%, but CV sales will edge down by 0.1%;
- retail sale volumes will increase by 2.2%, slower than the 2.5% reported in 2019;
- global energy consumption will rise by 1.8%, with particularly strong growth for renewables, while oil prices will remain range-bound;
- bank balance sheets and lending will expand by 6.5%, with Asia leading the expansion;
- healthcare spending will climb by 6.2% worldwide in US dollar terms, despite growth of just 3.1% for pharmaceuticals; and
- global mobile subscriptions will increase by 3%, fixed lines by nearly 2% and broadband subscriptions by 6%.

Despite these mixed forecasts, there will be opportunities on offer for companies that are competitive and international enough to take advantage. Even so, they will have to be nimble to adapt to rapid changes in the business and political environment.
The global economy

Following a sluggish 2019, The Economist Intelligence Unit expects the global economy to accelerate slightly in 2020, expanding by 2.5% in real terms. This acceleration will be led by non-OECD economies, which will grow by 4.2%, up from 3.6% in 2019. We forecast that OECD economies will expand by just 1.5% in real terms in 2020, down from an estimated 1.6% in 2019 and 2.3% in 2018. This will primarily reflect a sharp slowdown in the US market, although Japan too will see its economy stutter. Although non-OECD markets will be more buoyant, China will continue its deceleration.

As a result of sluggish growth in OECD markets, interest rates are falling. The European Central Bank announced a package of easing policies in September 2019, including a rate cut and a revival of quantitative easing, a policy in which it buys bonds to bring down rates and seeks to spur economic activity. A series of rate cuts by the Federal Reserve (the US central bank) in 2019 are likely to be followed by one more, in March 2020, as the next round of tariffs trickles into economic data and business sentiment remains weak. The Bank of England is highly likely to ease policy as well, in response to either a negotiated or no-deal Brexit. Japan no longer has room to ease monetary policy, but official rates remain at or below zero.
Automotive in 2020: hard times

The global automotive sector will be slow to recover from a rout in 2019, and vehicle-makers’ finances will become more strained.

The past year has been fairly disastrous for the global automotive sector. Sales in major markets—including China and India—have slumped, propelled downwards by new taxes, congestion measures, the decline of diesel vehicle sales and a downturn in consumer confidence. Demand has been further sapped (and costs pushed upwards) by the US-China trade war, which has raised tariffs on both components and vehicles. As a result, an eight-year run of global expansion ended abruptly in 2019, with new-car sales down by an estimated 6.2% and commercial vehicle (CV) sales down by 1.4%. We foresee only a slight upturn in 2020 across the 58 markets covered by our forecasts.

Key forecasts

- We expect new car sales to rise by 1.7% year on year. That is a vast improvement on 2019, but it means that annual unit sales in most markets will remain below 2018 levels.

- Global new CV sales will continue to fall in 2020, although the loss will narrow to 0.1%, compared with a 1.4% downturn in 2019.

- China should see new-car sales rise by 4.8%, following two years of sharp decline, while new CV sales will recover from a decline in 2019 to rise by 3% in 2020.

- In the more lucrative US market, both car and CV sales will continue to fall, declining by 6.5% and 3.7% respectively.

There is a considerable degree of uncertainty to these forecasts, given the multiple factors affecting sales in each market. In India, for example, the implementation of new emissions standards in April is likely to lead to a jump in sales, followed by a decline (see box p10). More efforts to combat pollution in major cities could also pose a risk to our forecasts. In China, efforts to promote the sale of new energy vehicles (NEVs) will continue to have a mixed effect on demand. Carmakers will need to rack up NEV credits worth 12% of their sales, pushing them to launch new models and offer discounts to meet these targets. However, consumer incentives for NEVs will be phased out, undermining sales.

In the US, vehicle sales will continue to fall in 2020, as they have done in 2019. The drop in new-car sales is longstanding, reflecting a shift in consumer preferences towards pick-ups and light trucks. However, the CV market will also remain in decline. Despite lower interest rates, we expect slower economic growth and weakness in the manufacturing sector to cause a contraction in corporate investment. November’s presidential election could also lead to uncertainty over emissions targets. The administration of Donald Trump has frozen targets at 2020 levels until 2026, but a Democrat win could see this decision reversed as the US re-joins global efforts to mitigate climate change.
In Europe, by contrast, we expect vehicle sales to recover, with particularly strong growth in the east of the continent. However, vehicle makers will still face challenges. The EU’s fleet-wide emissions standards will officially become mandatory from January 2020, leading to fines for some companies. Brexit will continue to unnerve the industry, particularly in the UK and Germany. Rising tariffs and trade barriers will push up vehicle prices, while corporate investment will be subdued, weighing on CV sales. The EU’s automotive sector also faces escalating trade tensions with the US.

Trade tensions
Trade battles with the US will be a major feature of 2020 for many countries. China will remain the main target—and we do not expect a major US-China trade deal until 2021 at the earliest. However, Japan and South Korea, major vehicle producing countries, are also under threat from US measures. And given their carmakers’ extensive sales in the US market, new tariffs could have an even bigger impact here than they have in China. Meanwhile, Mexico, despite having signed and ratified the new US-Mexico-Canada Agreement (USMCA) cannot rest easy. The deal has not yet been ratified by the US, and with a presidential election looming that process could become mired in political disputes.

Fortunately, US trade tensions will be balanced by falling trade barriers in Asia as progress continues on the proposed Regional Comprehensive Economic Partnership (RCEP) and the overlapping Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Japan, Australia, New Zealand and the Association of Southeast Asian Nations (ASEAN) markets, which are already members of both agreements, are hoping that their automotive sectors will benefit. Japan will also push ahead with implementation of its Economic Partnership Agreement with the EU. However, as the patchy progress of ASEAN integration shows, removing tariffs on automotive imports will not be straightforward, particularly in countries with a homegrown automotive industry to protect.
Costs and consequences

Surrounded by such uncertainty, the global automotive industry will continue to look for ways to cut costs without missing out on growth opportunities. A prospective merger of PSA Group (France) and Italy/US-based Fiat Chrysler Automobiles (FCA) could reshape Europe’s automotive sector, the two companies’ main area of overlap. PSA, following its acquisition of Opel/Vauxhall from US-based General Motors (GM) in mid-2017, was already set to eliminate 3,500 jobs in Germany by 2020 as part of its turnaround plan. So far, FCA is saying that no new plants will be closed, but their future will certainly be under scrutiny.

Renault, which previously ended talks with FCA, will also be reviewing its cost base to shore up its profits—and its shaky alliance with Japan-based Nissan and Mitsubishi. Nissan, for its part, is planning to eliminate 12,500 jobs worldwide by March 2020. Meanwhile, Ford will continue with its global restructuring programme, with European plants under particular scrutiny, and GM will close two more plants in North America. The UK plants of carmakers such as Jaguar Land Rover (UK), Honda (Japan), Toyota (Japan) and Nissan will also be under review if Brexit takes effect.

In China, too, the slowdown in car sales will once again highlight problems with overcapacity. The government halted new investment in fossil-fuel car manufacturing in January 2019, but NEV production capacity is also expanding too fast. This may prompt vehicle makers to review their launch plans, especially if NEV sales fail to take off. Meanwhile, foreign CV manufacturers will be given the right to open wholly owned operations in 2020; existing investors will review their joint ventures to see if they should raise their stakes.

Technology transfer

Amid all this cost-cutting, the need to invest in new models and new technology will remain acute. Globally, we expect electric vehicle (EV) sales to reach 2.8m units in 2020, up from 2.2m in 2019, with China accounting for over half of sales. Tesla, a high-end EV maker, will use its new Shanghai factory

### New commercial vehicle registrations (% change, year on year)

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia &amp; Australasia</td>
<td>-3.0</td>
<td>-4.0</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Transition economies</td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Western Europe</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>-1.2</td>
<td>-1.1</td>
</tr>
<tr>
<td>North America</td>
<td>-3.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>World*</td>
<td>-1.1</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

*58 biggest economies only.

Sources: The Economist Intelligence Unit; local sources.
to try to seize market share, although Chinese carmakers will fight hard. Some may also try to expand their NEV exports abroad, although their main export markets are developing countries with only scant EV infrastructure.

The roll-out of automated vehicles will also gather pace, although progress will remain behind the hype. Most automated cars are currently at just level three out of five (five being fully self-driving), although some level four vehicles are scheduled to appear in 2020. Regulations will struggle to catch up as the links between automakers and technology companies deepen still further. However, traditional automakers will continue to dominate manufacturing, benefiting from their global supply and distribution chains.
Boom or bust?

**Electric car sales in 2020**

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales (000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of world</td>
<td>359.9</td>
</tr>
<tr>
<td>USA</td>
<td>425.1</td>
</tr>
<tr>
<td>EU</td>
<td>597.9</td>
</tr>
<tr>
<td>China</td>
<td>1,396.4</td>
</tr>
</tbody>
</table>

*Sources: International Energy Agency; ACEA; The Economist Intelligence Unit.*

**In April 2020 India will introduce new emission standards, but it is unclear how this will affect new-car sales.**

Indian automakers have been preparing for the introduction of Bharat Stage VI (BS-VI) emission standards since January 2016, when the government decided to skip BS-V and advance to the equivalent of Euro 6 standards. BS-VI standards for all new vehicles will come into force on April 1st 2020. In step with a slowing economy, the automotive market has already gone into freefall ahead of the launch of the new standards, with new-car sales falling by an estimated 15% in 2019. It is not clear what will happen in 2020.

The most likely scenario is that new car sales will rebound in the first quarter of 2020 as dealers sell off old stock at a discount. Many dealers have a backlog of inventory following the recent slump. After April, however, the so-called Gruenspecht effect suggests that sales will dip again. Under this theory, developed by economist Howard Gruenspecht, most Indian automakers are likely to increase the sticker prices of new vehicles to recoup the investment they have put into upgrading their diesel and gasoline engines. However, this price rise is likely to deter buyers, reducing the effect on emissions.

After all, car prices in India have already risen sharply in the past year or so, owing to new safety standards, tighter lending controls, higher road taxes and a rise in insurance premiums. All this has helped to deepen the sales decline in 2019. However, in 2020 the effect of price increases may be offset by pent-up demand. Some Indian buyers may even prefer to buy the newer BS-VI vehicles, despite their cost, because they will have a higher resale value. In the longer term, too, the move to BS-VI should be positive for the automotive market, if it eases the pollution that is forcing many Indian cities to restrict vehicle usage.

Overall, The Economist Intelligence Unit is predicting that new car sales will increase by 5.9% in India in 2020. That will take annual sales to 3.1m units, slightly above 2016 levels, but still some way below 2018’s high of 3.4m units. However, the risks to this forecast are making inventory-planning more difficult for automakers and deterring investment. In November 2019 Maruti Suzuki—which accounts for half of India’s new car market—postponed the planned opening of a car plant in the western state of Gujarat. The plant will now open in July 2020, three months later than planned.

Other Indian automakers are lobbying the government to support the new-car market by adopting a more expansionary economic policy. They also want measures to support the development of electric cars, the used-car market, ride-hailing and car-sharing. Still other automakers are reining back their investment in future technology, in order to speed up new model launches. The success of sports utility vehicles, for example, shows that new cars with appealing features help to propel sales and justify higher prices.
2020 calendar: automotive

**January**
1: EU CO₂ emission standards take effect
1: EU real-driving emissions Step 2 takes effect
7-10: International Consumer Electronics Show (CES 2020), Las Vegas, US
10-19: European Motor Show, Brussels, Belgium
30: Volvo Group reports 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

**February**
4: Ford reports 2019 results
6: General Motors reports 2019 results
6-9: Auto Expo, New Delhi, India
7: Fiat Chrysler reports 2019 results
11: Daimler reports 2019 results
8-17: Chicago Auto Show, US
14: Groupe Renault reports 2019 results
14-16: Osaka Auto Messe, Japan
14-23: Canadian International Auto Show, Toronto, Canada

**March**
5-15: Geneva International Motor Show, Switzerland
17: Volkswagen Group annual media conference
25-April 5: The 41st Bangkok International Motor Show, Thailand
31-April 5: Zagreb Auto Show, Croatia

**April**
1: Bharat VI emission standards take effect in India
9-20: Indonesia International Motor Show, Jakarta, Indonesia
10-19: New York International Auto Show, US
21-30: Auto China 2020, Beijing, China
22-24: International Vienna Motor Symposium, Austria
27-30: EU Transport Research Arena, Helsinki, Finland
28-30: Commercial Vehicle Show, Birmingham, UK

**May**
7: Volkswagen Group Annual General Meeting
8: Toyota reports 2019 results

**June**
3-4: TU Automotive ’20, Detroit, US
7-20: North American International Auto Show, Detroit, US
August
British Motor Show, Farnborough, UK
24-27: MIMS Automechanika, Moscow, Russia

September
15-17: Electric and Hybrid Vehicle Technology Expo, Michigan, US
14-22: IAA International Motor Show, Frankfurt am Main, Germany
23-29: Chongqing International Auto Parts Exhibition, China
24-30: IAA Commercial Vehicles 2019, Hannover, Germany

October
1-11: Mondial de l’Automobile, Paris, France
20: Dubai Expo opens, Dubai, UAE
Seoul Motor Show, South Korea
Tokyo Motor Show, Japan

November
Dubai International Motor Show
Salon Internacional Automovil, Barcelona, Spain
Los Angeles Auto Show, US

*precise date to be confirmed*
The coming year will not be an easy one for the retail and consumer goods sectors.

Global retail markets will deliver mixed results in 2020. In volume terms, sales growth will slow compared with 2019, but in US dollar terms growth will accelerate. This divergence will reflect differing regional trends in demand, pricing and exchange rates, with developing markets outpacing developed ones. The US-China trade war—and threats to other US trade partners—will continue to dominate the headlines and will push up the prices of some goods, particularly in Asia. Globally, however, inflation will fall as competition from internet retailing bites deeper, driving more job cuts in retail stores.

**Key forecasts**

- In US dollar terms, global retail sales across the 59 countries covered by our forecast will accelerate, rising by 4.8% to reach US$20.2trn.
- However in volume terms, growth will slow to 2.2%, compared with 2.5% in 2019. Volume growth will be led by Asia, but it will also see a slowdown.
- Food sales will increase by 5.1% in value terms, to US$9.5trn, while non-food sales will rise at a slower rate of 4.6%, to reach US$10.7trn.
- Despite some progress in negotiations, the US - China trade war will remain one of the biggest concerns for companies in the sector, as will the increase in online competition.

The fastest regional growth will be in Asia, where retail sales will rise by 3.3% in volume terms in 2020, led by Vietnam and India. However, regional growth will be down from 3.8% in 2019, reflecting a slight slowdown in China, as well as in other markets such as Australia and the Philippines. Even so, we calculate that Asia will account for nearly 45% of total global retail sales next year in US dollar terms.

The US-China trade war will remain a concern in 2020, putting pressure on exports and manufacturing output in China, the world’s second-largest economy. Unless a truce is declared, more tariffs will be imposed in the coming year. However, a larger impact could come from disputes over intellectual property, particularly in the electronics sector. Japan, meanwhile, will continue to see retail volumes fall as the introduction of a consumption tax in late 2019 weighs on demand. However, the decline will be less sharp than in 2019, when large retailers such as Seven & I and Family Mart were forced to cut thousands of jobs.

In Hong Kong, we expect the slump in sales seen last year to persist into 2020, even if the current political protests die down. The protests have already deterred visitors from China, impacting the restaurant trade and luxury goods retailers in Hong Kong. Moreover, this follows a partial liberalisation of China’s own luxury goods market, making it less cost-effective to travel abroad to shop. Unless a recovery comes quickly, global luxury goods companies may be forced into some unfamiliar cost-cutting during 2020.

Consumer goods in 2020: toil and trouble
The Middle East and Africa will rack up the second-highest regional growth, at 2.9% in volume terms. Algeria and Egypt will be particularly promising markets, but Iran and Turkey will continue to struggle amid political turmoil. By spilling over into international oil markets, that turmoil will also affect retail markets in the Gulf, particularly the UAE.

Continental drift

Asia’s retail expansion over the past decade has coincided with a relative decline in the retail market in Western Europe. Although Asia’s share of global retail sales value has risen by nearly 9 percentage points since 2010, to 45%, and that of North America has stayed stable, at 23-24%, Western Europe’s share will fall from 22% in 2010 to a forecast 17% in 2020. In volume terms, North America, Western Europe and the Transition Economies will all see slower growth in retail sales in 2020, compared with 2019.

We forecast that North America’s retail volumes will rise by 1.7% in 2020, down sharply from the 3.2% growth estimated for 2019. The slowdown will be driven entirely by the US, not by Canada, and could multiply US job cuts in the sector. These totalled 53,000 in the first half of 2019, taking retail employment to its lowest level for more than three years.

In Western Europe, we expect growth in retail sales volumes to slow to 0.7%, from 1% in 2019, while in the transition economies growth will fall from 2.9% to 2.1%. The German market is likely to be very subdued, while uncertainty over Brexit will continue to weigh on the UK and the wider region. Although we forecast that a Brexit deal is more likely than a no-deal Brexit at the end of January 2020, either is likely to lead to some disruption in supplies to UK retailers, as well as higher prices in shops.

There is brighter news from the rest of the world. We expect Latin America’s retail markets to return to positive territory over the coming year, after two years of decline, rising by 1.4% in volume terms. However, both online and real-world retailers will have to cope with a difficult economic environment...
in some countries, particularly in Argentina and Venezuela. The same will be true in the Middle East and Africa, where we also expect sales volumes to accelerate, despite considerable political risks.

Digital divide
Online retail will continue to undermine the competitiveness of brick and mortar stores in 2020, leading to more store closures. Social media shopping via apps such as TikTok and Instagram will drive online retail 2020, as will innovative tools such as augmented reality and better digital payment systems. Retailers and consumer goods producers will need to adapt quickly to changing local conditions, shifting suppliers and closing stores as demand patterns change.

The march of online retailing is not limited to developed markets. In Asia uptake has been rapid, with local companies competing hard against global firms. Amazon, for example, is set to invest US$643m into its Indian operations in 2020. Amazon will also retain the second spot in Latin America, after MercadoLibre, a local company, where both will compete with other local companies such as eNova, as well as international marketplaces such as eBay and Alibaba, to expand digital sales in 2020.

However, internet retailers will not have it all their own way. Marketing tactics and tax payments will come under increased scrutiny, particularly in Europe and the US. If job cuts gather pace, and the US-China trade war pushes retail prices higher, then the woes of bricks and mortar retailers could be highlighted during the US presidential contest. The European Commission, as well as some EU national governments, will attempt to correct some of the market imbalances by trying to claw back taxes from online retailers and scrutinising their use of customer data. However, the rapid development of new technologies will make it hard for regulators to catch up.
Tobacco companies may have to fend off legislation on e-cigarettes in 2020.

Uncertainty and reform in the e-cigarette industry have stalled initiatives by tobacco companies in 2019. These companies face a major task in the year ahead—securing a pre-market approval for their e-cigarette products from the US Food and Drug Administration (FDA), which has set a mid-2020 deadline for the application process. The deadline forms part of the FDA’s efforts to improve regulation of e-cigarettes as its policies on them evolve. The agency is also contemplating a ban on the use of flavourings in e-cigarettes, in a bid to reduce their popularity with young people.

If the ban goes ahead, the US will be part of an international backlash against e-cigarettes, which were once seen as an ideal way to wean people off combustible tobacco products, including real cigarettes. While the damage caused by cigarettes is far worse, e-cigarettes are no longer seen as harmless. In the US alone, e-cigarette or vaping products are reported to have caused over 30 deaths by October 2019. Moreover, some health policymakers assert that they operate as a gateway to later use of tobacco or drugs.

Many Asian countries, including Malaysia and India, have already imposed a complete ban on e-cigarette and vaping products. If the US does the same, it will sharply narrow the target markets for these companies. It will also raise new questions over the future of big tobacco companies, which have invested heavily in non-traditional products in order to mitigate the effect of anti-smoking legislation. E-cigarettes were a major factor in the US$49bn purchase by UK-based British American Tobacco (BAT) of Reynolds American (US) in 2017, as well as the US$12.8bn acquisition by Altria (US) of a 35% stake in JUUL Labs (US) at end-2018.

For now, however, the tobacco companies are continuing with their product rollout. Reynolds American and US-based Philip Morris International (PMI) have already filed for pre-market approval to sell their e-cigarettes in the US. In PMI’s case, this follows the launch of its latest heated-tobacco product in the US in October 2019, under the IQOS brand. After all, these market leaders may even gain from increasing regulation, given that it will raise entry barriers to the market for smaller players.

BAT and Philip Morris have also been developing safer versions of their existing brands to ease their passage through the FDA and other regulatory requirements. BAT plans to launch a variant of its e-cigarette, Vuse, with about 2.8% nicotine content, compared with the usual 5% in the product. PMI has recently introduced line extensions for its heated tobacco product, HEETS sticks.

Some companies are also seeing a shake-up as they develop a business model to cope with increasing regulatory oversight. JUUL was the first to embark on this journey when it recruited KC Crosthwaite from Altria as its new chief executive. He will help JUUL to resume its sales in China and to scrutinise the US reforms. Other companies, including PMI, BAT and Japan Tobacco, are also looking for a new route ahead.
2020 calendar: consumer goods

January
Dubai Shopping Festival, UAE
4-6: London Fashion Week Men’s, UK
7-10: International Consumer Electronics Show (CES 2020), Las Vegas, US
10-14: Milan Men’s Fashion Week, Autumn/Winter, Italy
12-14: Retail’s BIG Show, New York, US
14-19: Paris Men’s Fashion Week, France
20-23: Paris Haute Couture, France
28: Unilever reports 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

February
6 Yum! Brands reports 2019 results
6-13: New York Fashion Week
14: Metro Annual General Meeting
14-18: London Fashion Week, Autumn/Winter, UK
18: Walmart reports fiscal 2020 results
18-24: Milan Women’s Fashion Week, Autumn/Winter, Italy
25-28: Global Food Safety Conference, Nice, France
24-March 3: Paris Women’s Fashion Week, France

March
5: Carrefour reports 2019 results

April
2-3: Global Retailing Conference, Tucson, Arizona
8: Tesco reports 2020 results
28-30: The World Retail Congress, Rome, Italy

May
2-3: Retail Business Technology Expo, London, UK

June
20-24: Milan Men’s Fashion Week, Spring/Summer, Italy
23-28: Paris Men’s Fashion Week, France

July
5-9 Paris Haute Couture, France

September
6-11: New York Fashion Week, Spring/Summer, US
22-28: Milan Women’s Fashion Week, Spring/Summer, Italy
18-22: London Fashion Week Spring/Summer, UK
20: Dubai Expo opens, Dubai, UAE
28-October 6: Paris Women’s Fashion Week, France

**November**
11: Singles Day, China
27: Black Friday
30: Cyber Monday

**December**
19: Super Saturday

*Precise date to be confirmed*
Energy in 2020: renewing the vows

Use of renewables will rise swiftly in 2020, but not by enough to meet global climate change goals.

The year 2020 will be another strong one for renewable energy. As in previous years, The Economist Intelligence Unit (EIU) forecasts double-digit growth in non-hydro renewables next year, with energy consumption from these sources rising by 14%. By contrast, energy consumption from oil will grow only slowly, while coal consumption will edge down slightly. Natural gas will lead growth among the fossil fuels. Overall, the march towards renewables will not allay concern over climate change as the US moves to exit from the Paris Climate Change Agreement of 2016 at the end of next year.

Key forecasts

- Growth in energy consumption across the 69 countries covered by our global forecasts will remain subdued in 2020, at 1.4%, amid a sluggish global economy.
- Global energy consumption from non-hydro renewables will rise by 14%, far outpacing other sources. Renewables, particularly wind and solar, will account for over two-thirds of the new power generation capacity added during the year, led by China, the US and the EU.
- Global oil prices will remain range-bound, with supply problems in Iran and elsewhere offset by subdued demand growth.
- Growth in renewables will not be fast enough to meet pledges made under the Paris Agreement. Donald Trump will withdraw the US from the deal entirely if he wins November’s presidential election.

Higher deployment of wind and solar power will drive rapid year-on-year growth in renewables consumption during the coming year, outpacing growth in the use of fossil fuels. Under the climate change pledges made in Paris, 2020 will be the base year against which 2030 targets will be judged. Falling costs (especially for solar photovoltaic technology and offshore wind), the use of competitive auctions and favourable policy environments in many key markets, including India, will contribute to the strong growth in renewables consumption in 2020.

Even so, global energy supply is still a long way from being decarbonised. Global energy consumption in 2020 will still depend largely on fossil fuels, with use of natural gas and oil more than compensating for a slight decline for coal.

Oil. Peak oil demand may still be some years off, but growth in oil consumption in 2020 will be modest, at just 1%. Although we expect global GDP growth to strengthen next year, oil demand will be weighed down by the economic disruption caused by the US-China trade war and the resulting slowdown in China’s industrial production. The rollout of more energy-efficient transport in high-income countries will also dampen demand, while the shift to electric vehicles continues, albeit from a low base. What little demand growth there is will be driven mainly by non-OECD economies, especially in Asia,
due to stronger economic performance and growth in vehicle usage in industrialising economies.

On the supply side, the oil industry will remain vulnerable to tensions in the Middle East, as well as other factors (see box p22). Even so, market concerns about the global economy will see Brent prices average US$63/barrel in 2020, down slightly from $64.1/b in 2019. This will not lead to a sharper increase in consumption, but it will prevent consumption growth from being weaker.

**Natural gas.** The least carbon-intensive fossil fuel, natural gas will post the strongest consumption growth in 2020, at 2.6%. This will be driven mainly by the industrial sector, followed by power generation. In China, capacity constraints have eased demand sharply since 2018’s boom. However, policymakers will continue to promote the use of gas across the industrial, power and residential sectors. In the US, gas-fired generation will continue to make gains at the expense of coal, owing partly to competitive pricing. In Europe, however, natural gas will face increasing competition from renewables, while Japan’s decision to restart its nuclear power plants will ease demand for imported liquefied natural gas (LNG) in 2020.

**Coal.** We expect global coal consumption to fall by 0.2% in 2020. This is the fossil fuel most vulnerable to government policies. In many countries, coal usage for electricity is falling as governments implement measures to decarbonise energy systems and the cost of renewables becomes more competitive. This is particularly apparent in Europe, where demand for coal will fall owing to the rollout of wind and solar power, higher carbon prices in the EU’s emissions trading scheme, and the use of more competitively priced natural gas. Several states in Western Europe have announced plans to phase out coal completely.

In the US, political trends are different. The Trump administration has tried to bring about a reversal in coal’s fortunes. Even so, we expect US coal demand to continue falling in 2020 as coal plants close and utilities shift to natural gas and renewables. In China, we expect demand to edge upwards, but it will be weighed down by weaker economic performance and the build-out of renewables capacity.
Demand growth will be stronger in other non-OECD countries in Asia, particularly India and ASEAN countries, as rapid economic growth fuels strong power demand.

**Risks ahead**

These forecasts are contingent on our forecast that global economic growth will accelerate slightly, driven by non-OECD economies. However, energy consumption will be vulnerable to any deterioration in the global economy, particularly if the US-China trade war broadens or if oil prices spike on the back of inflamed tensions in the Gulf. In this case, a sharp economic contraction would cause global energy consumption to fall in 2020.

Conversely, if a fall in global energy demand begins to drive down fossil fuel prices, this would make gas and coal more competitive against renewables in power generation. An economic slowdown, as well as a shift in the competitive environment, could therefore affect investment in clean energy. China removed subsidies for solar power in 2018, and in Europe investment in non-hydro renewables has started to slow.

A contraction in investment and policy support for renewables would make it far harder for the world to meet the goals of the Paris agreement, which aim to limit the average global temperature increase to less than 2 degrees centigrade. A planned US withdrawal from the agreement will take effect on November 4th 2020, the day after the presidential election, unless the Democrats unseat Mr Trump. If the world’s second-largest emitter does exit the agreement, it may impact how other countries approach climate change policies, making some developing countries less willing to sacrifice economic growth in order to cut emissions.
Oil in the waters

**New regulations for the shipping industry will affect the global oil market from the start of next year.**

A new industry regulation, requiring that the shipping industry shifts towards cleaner marine fuel, will bring significant changes to the global oil market from 2020. Issued by the International Maritime Organisation (IMO), the regulation will limit the sulphur content in marine fuel used by ships operating outside Emission Control Areas to 0.5% mass by mass (m/m), down from the current 3.5%. Taking effect on January 1st 2020, it will change the shape of global oil demand.

As a result of the new IMO rules, demand for high-sulphur fuel will be replaced by demand for low-sulphur fuel, diesel and liquefied natural gas (LNG). Marine vessels consume about 4.3m barrels of oil per day (b/d), or around 4% of global oil demand, according to data from the International Energy Agency. The IMO regulations could therefore affect the prices of a wide range of petroleum products significantly in 2020 and moderately thereafter, impacting the margins of oil and gas companies. Whether this impact will be good or bad depends on the company. Oil companies with stronger supply infrastructure and refiners with better crude-upgrading capabilities will be at an advantage.

The shipping industry has, broadly, three options to comply withIMO regulations. It can shift to low-sulphur fuels that comply with the new regulation, it can install scrubbers on the ships to remove pollutants from the ship exhaust (allowing the continued use of high sulphur fuels), or it can switch to non-petroleum fuel (including LNG). Installing scrubbers will be difficult, given their high cost, a lack of quality raw materials and a shortage of skilled workers.

So the marine industry is likely to start 2020 using low-sulphur petroleum products. Next year is likely to bring a surge in prices for very-low sulphur fuel oil (VLSFO), which has 0.5% sulphur content. However, VLSFO has limited supply and suffers from engine compatibility issues. Marine diesel has no compatibility risk, but is the most expensive option among the IMO-compliant petroleum products. LNG, used as bunker fuel, is a cheaper option, but supplies will be held back by the high cost of fuelling infrastructure and limited storage facilities at ports.

As demand shifts, the prices of high-sulphur fuel oil are expected to decline. Sufficiently low prices for sulphur-rich fuel could encourage shipping companies to invest in high-cost scrubbers in order to reduce their fuel costs in the long term. Boston Consulting Group estimates that just 2,000 of the global fleet of around 60,000 ships will have scrubbers installed by the end of 2020. However, it reckons this could rise to 11,000 scrubbers-equipped ships by 2025 if they become more cost-effective.
The capability of refiners to upgrade crude oil will determine these price dynamics in 2020. Those refiners in the US and Asia that are capable of upgrading low-quality crude to higher-value products such as diesel, gasoline and environmentally compliant fuel will gain the most. Major refiners, including Royal Dutch Shell (UK/Netherlands), ExxonMobil (US), and China Petroleum & Chemical Corp, have already started producing IMO-compliant products, as have some Japanese oil majors. Others, including China’s Sinopec, are making huge investments to capture the growing market.

Downstream players in the Middle East and Africa are likely to get a short end of the deal. About 96% of crude produced in the Middle East in 2018 was sour crude, which has a high sulphur content. According to the 2019 World Oil Review published by Italy’s Eni, the complexity index of oil refining industry in the region stood at just 6.9 on a maximum scale of 20, the second lowest score after Africa. Meanwhile, Gazprom, a Russian state-owned natural gas company, has moved into developing LNG bunker vessels and is building infrastructure to push for LNG as bunker fuel.
2020 calendar: energy

January

13: EU Energy Day
13-16: World Future Energy Summit, Abu Dhabi, UAE
26-30: Arctic Frontiers, Tromso, Norway
22: Santos reports 2019 results
27: Novatek reports 2019 results
28: Peabody reports 2019 results
30: ConocoPhillips reports 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

February

4: BP reports 2019 results
5: Ørsted reports 2019 results
6: Equinor reports 2019 results
10-12: International Conference on Clean and Green Energy, Barcelona, Spain
14: Eni reports 2019 results
15-17: World Petrocoal Congress, New Delhi, India
18: Naturgy reports 2019 results
18: OMV reports 2019 results
24: Sasol reports 2019/20 interim results
25: Ecopetrol reports 2019 results
26: Pemex reports 2019 results
27: Acciona reports 2019 results

March

2: Petronas reports 2019 results
8: Engie reports 2019 results
25: E.ON reports 2019 results
15: Petrobras reports 2019 results
19: Rosneft reports 2019 results
21-23: Oil and Gas Asia 2020, Karachi, Pakistan
22: Enel reports 2019 results
22: Petrochina reports 2019 results
26: Sustainability Summit, Economist Events, London, UK
27: Sinopec reports 2019 results
29: Orano reports 2019 results

April

13: E.ON Annual General Meeting
CNOOC reports 2019 results
Energean reports 2019 results
Gazprom reports 2019 results
TEPCO reports 2019/20 results
CEPSA reports 2019 results

**May**
7: KEPCO reports 2019 results
4-7: Offshore Technology Conference, Houston, US
14: Equinor Annual General Meeting
26: ONGC reports 2019/20 results

**June**
9-11: Global Petroleum Show, Calgary, Canada

**July**
1: Climate Risk Summit, Economist Events, London, UK

**August**
20-21: Sasol reports FY 2020 results
21-23: World Renewable Energy Technology Congress, New Delhi, India

**September**
18: Pakistan Petroleum reports 2019/20 results
14-16: Annual Asia Pacific Petroleum Conference, Singapore

**October**
26-30: Singapore International Energy Week

**November**
8-10: Oil and Gas Asia 2020, Lahore
9-19: UN Climate Change Conference (COP 26), Glasgow, UK
24-26: OSEA, Singapore

**December**
6-10: World Petroleum Congress, Houston, US

\*Precise date to be confirmed
Financial services in 2020: competition time

With economies running cool, financial firms must become nimble.

Financial firms will have to make their own luck in 2020, as the global economy will not give them a boost. Weak growth in rich countries, low (or even negative) interest rates and the likely danger of major shocks in several of the world’s key financial centres will pose risks for the sector. Nevertheless, the best companies will be able to prosper by attaching themselves to mega-trends such as the rising use of mobile devices, globalisation and a focus on transparency in customer communication.

Key forecasts

- Worldwide, bank balance sheets and lending will expand by about 6.5% in nominal US-dollar terms in 2020, significantly faster than nominal economic growth of 3.8%.

- Asia and Australasia will be the fastest growing region in both regards, with balance sheets rising by 7.6% and economies growing by 4.3%. By contrast, both measures will expand by just 3.5% on average in North America.

- Weak economies in developed markets will keep interest rates low, maintaining pressure on banking and investment margins.

- Key global financial hubs, especially in London and Hong Kong, will suffer from political crises in 2020, which will reduce their appeal for individuals and businesses.

- Singapore will become the latest Asian country to give out licences for digital banks, following the rollout of virtual lenders in markets such as China, India and South Korea.

Unpromising conditions

Economic growth will be anaemic in 2020 in the world’s wealthy economies, which remain the key markets for financial firms. We forecast that OECD economies will slow in real terms in 2020, with one important consequence being falling interest rates. This is already reducing lending and investment margins, particularly in the US, forcing financial firms to shift to new terms of engagement.

Non-OECD economies will grow more quickly during the coming year than in 2019. Financial companies will be lifted by population growth, economic expansion and financial inclusion. However, non-OECD economies drive only a minor part of global output of the financial industry. Moreover, China is experiencing a slowdown as its economy grows more sophisticated, with the pain of the transition exacerbated by on-going trade tensions with the US.

Specific problems will bedevil the industry in some of the world’s main financial hubs. Although multiple delays have given companies more time to adapt since 2016’s Brexit referendum, financial firms in the UK will inevitably suffer from any type of split from the large, but sluggish EU economy. As we have long predicted, they will lose direct access to EU markets through “passporting” and give up the unhindered ability to hire talented staff from across the continent.
Hong Kong, Asia’s key business and financial hub, is facing difficulties of its own as protests against the grip of the Chinese government escalate, undermining the “one-country, two systems” policy. A harsh crackdown appears increasingly likely, which will undermine the city’s attractiveness for individuals and businesses. Meanwhile, the US will spend most of 2020 engulfed in an election campaign that threatens to incite populist proposals from both sides of the political divide.

Troubles will not be confined to advanced economies. India’s lenders will continue to struggle with bad loans, for example, while Turkey will remain vulnerable to investment flows because of its large current-account surplus. Argentina has too much debt, as usual, but has just elected a populist government that is unlikely to face up to the country’s economic difficulties.

**Prevailing winds**

The prevailing headwinds for financial firms will endure in 2020. One set of concerns relates to ageing and declining populations, combined with mature markets where most customers are already banked and insured. The result is slow-growth markets in the rich world, requiring firms to maintain strict cost controls to remain profitable. These issues will gradually manifest themselves in emerging markets as well, particularly in China, where birth rates have not recovered from the now-abandoned one-child policy and the workforce is rapidly ageing.

A second set of issues relates to stricter financial rules—both on an international and national basis. Although 2020 is not a landmark year for the Basel regulatory framework, deadlines for its new regulations arrive at a regular pace in the period to January 2022. The stricter requirements have made banks and markets increasingly resilient, and therefore less likely to need the sort of bailouts adopted in the 2007-09 crisis.

However, rules requiring stronger and more liquid balance sheets at financial companies, as well as stiffer disclosure standards, have sapped profitability, and firms remain nervous of further tightening.
The US presidential election in November will also orient the future direction of regulation in the world’s biggest market. Another victory for Donald Trump would be likely to yield further relaxation of the Dodd-Frank Act, passed by the US Congress in 2010 in response to the global financial crisis, while a Democratic victory could lead to new measures, including the possible separation of commercial and retail banking.

**A tough transition to nimble finance**

Financial firms in emerging markets will have a relatively straightforward task in 2020 and beyond: take advantage of growth in numbers of customers, the value of economic output and greatly expanded access to services to build their businesses and earn profits. Many competitors from Japan, Europe and North America will also seek this traditional form of growth by investing in developing countries. However, they will encounter new competition (see box p29).

Most financial business is still transacted in the rich economies. To succeed in such markets, firms will need to transition to a nimbler, cheaper approach to financial services. First, they will need to design their services primarily for mobile or online usage. Individual and business customers now expect to shop for and choose financial services on devices instead of in branches. For younger people, this is second nature. This shift can also help financial firms to cut their costs.

Second, customers now want global services that align with their purchases, transfers and travels. Third, financial customers value transparency in marketing and communications following scandals involving opaque financial products and fees. Banks, insurers and fund managers will have to shift away from long-winded legal contracts to plainly spoken offers and prompt client service. Start-ups in the financial technology sector are offering all these features in sleek alternative packages that will make them formidable contenders in years to come.

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* Bank lending only.

Source: The Economist Intelligence Unit.
Meeting the tech challenge

Singapore will issue five digital banking licences in 2020 as Asia continues to embrace fintech.

For decades policymakers in much of Asia issued few if any banking licences, fostering local oligopolies and keeping strict regulatory oversight over national financial systems. However, in recent years governments across the region have begun to give their stamp of approval to new digital banks that aim to provide cheaper and better services.

Taiwan and Hong Kong issued their first virtual banking licences in 2019, following similar rollouts by South Korea and emerging economies—including China, India, Thailand and Indonesia—in previous years. Singapore is set to issue five digital banking licences, two for retail operations and three for wholesale banking, in the middle of 2020. These licences are designed to spur the development of financial technology (fintech) firms like those found in China and in western markets.

Though still small, digital banks are sparking a revolution across the banking industry, pushing traditional banks to ramp up their technology investments and adopt fintech practices. In 2017 Singapore’s DBS Group Holdings spawned Digibank, India’s first mobile bank, which has now racked up more than 2.5m users. Since then, several well-known Indian banks, including HDFC Bank and ICICI Bank, have produced their own digital variants, while DBS has launched a digital bank in Indonesia.

In 2020 DBS and its local rivals—Oversea-Chinese Banking Corp (OCBC) and United Overseas Bank (UOB)—are also likely to vie for virtual banking licences in Singapore, where cash transactions have been steadily falling. Singaporeans prefer digital payments, especially credit cards; mobile wallets such as Razer Pay, GrabPay, Apple Pay and Samsung Pay are also becoming widely popular. Financial sector outsiders are also likely to apply for licences, spurring competition in the city-state’s banking system.

These online platforms will not pose a serious challenge to incumbents over the next year, but traditional banks still need to respond quickly to protect their market share. Whereas the last technology invasion into the banking sector was primarily aimed at back-end operations, fintech companies are focusing on the user interface. This will allow them to influence customer trends in 2020.

Most conventional banks do not offer the same customer engagement and seamless user experience as fintech companies. At present, fintech companies use their innovations mostly for routine banking and payment services, but it is only a matter of time before they move into other financial services, including insurance and investment advice. As consumers shift online, traditional banks will need to reassess their branch networks as well as their own online offerings.

However, the fintech upstarts are not safe either. The expansion of technology giants—such as the US-based Alphabet and Amazon, and China’s Alibaba and Tencent—poses a threat for banking incumbents and newcomers alike. These internet companies could establish an ecosystem across the retail system that allows them to roll out deposit, lending and other financial services. Alibaba and Tencent have already obtained virtual banking licences in Hong Kong and may seek them in Singapore as well.
2020 calendar: financial services

January
14: Citigroup, Wells Fargo & JP Morgan report 2019 results
15: Bank of America reports 2019 results
21: UBS Group reports 2019 results
20-21: Bank of Japan’s first monetary policy meeting (outlook report)
23: European Central Bank (ECB) monetary policy meeting
28-29: First US Federal Reserve meeting (Federal Open Market Committee)
29: EU Solvency II Review, Brussels, Belgium
30: Deutsche Bank reports preliminary 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

February
6: Raiffeisen Bank reports 2019 results
18: HSBC reports 2019 results
20: Credit Suisse reports 2019 results
21: Allianz reports 2019 results
25: Finance Disrupted Latam, Economist Events, Mexico City, Mexico

March
12: ECB’s monetary policy meeting
18-19: Bank of Japan’s second monetary policy meeting
25: Minutes of Bank of Japan’s first monetary policy meeting
31: Deadline for Indian banks to implement Basel III

April
14: JP Morgan reports Q1 2019 results
15: Citigroup, Bank of America report Q1 2019 results
27-28: Bank of Japan’s third monetary policy meeting (outlook report)
28-29: Third US Federal Reserve meeting (Federal Open Market Committee)
28: UBS Group reports Q1 2019 results
29: Deutsche Bank reports Q1 2019 results
30: ECB monetary policy meeting

May
7: Minutes of Bank of Japan’s second monetary policy meeting
12: Allianz reports Q1 2019 results
12-14: FINRA Annual Conference, Washington DC, US
14: Raiffeisen Bank International reports Q1 2019 results
June
Monetary Authority of Singapore to announce the successful applicants for digital bank licences
4: ECB monetary policy meeting
9-10: Fourth US Federal Reserve meeting (summary of economic projections)
15-16: Bank of Japan’s fourth monetary policy meeting
16-17: Global Treasury Leaders’ Summit, Economist Events, Hampshire, UK
19: Minutes of Bank of Japan’s third monetary policy meeting

July:
16: ECB monetary policy meeting
16: Bank of America reports Q2 2019 results
21-22: Bank of Japan’s fifth monetary policy meeting (outlook report)
28-29: Fifth US Federal Reserve meeting (Federal Open Market Committee)
29: Minutes of Bank of Japan’s fourth monetary policy meeting
29: Deutsche Bank reports Q2 2019 results

August
5: Allianz reports Q2 2019 results
11: Raiffeisen Bank International reports Q2 2019 results

September
10: ECB monetary policy meeting
16-17: Bank of Japan’s sixth monetary policy meeting
15-16: Sixth US Federal Reserve meeting (summary of economic projections)
24: Minutes of Bank of Japan’s fifth monetary policy meeting

October
13: Citigroup, JPMorgan report Q3 2019 results
14: Bank of America reports Q3 2019 results
28-29: Bank of Japan’s seventh monetary policy meeting (will release outlook report)
28: Deutsche Bank reports Q3 2019 results
29: ECB monetary policy meeting

November
4: Minutes of Bank of Japan’s sixth monetary policy meeting
4-5: Seventh US Federal Reserve meeting (Federal Open Market Committee)
6: Allianz reports Q3 2019 results
12: Raiffeisen Bank International reports Q3 2019 results

December
10: ECB monetary policy meeting
15-16: Eighth US Federal Reserve meeting (summary of economic projections)
17-18: Bank of Japan’s eight monetary policy meeting
23: Minutes of Bank of Japan’s seventh monetary policy meeting
Health in 2020: battle lines are drawn

After a lacklustre 2019, global health spending will accelerate in 2020. However, the US election campaign will raise huge questions for the future.

For the healthcare and pharmaceutical sectors, 2020 will bring many of the trends of the past few years into sharp focus. In the US, the debate on health reform will intensify as November’s presidential election approaches. In the UK, Brexit will raise more questions about funding for the National Health Service (NHS). China, meanwhile, will reach its deadline, set a decade ago, to provide “safe, effective, convenient and affordable” healthcare for all by 2020. Everywhere, the challenge will be to improve health provision without raising costs too much.

Key forecasts

- Across the 60 countries covered by this forecast, we expect health spending to accelerate, with growth of 6.2% nearly double that reported in 2019.
- Growth will be fastest in the transition economies of the former Soviet bloc, and the Middle East and Africa, while Asia will see spending accelerate again. However, the crucial US market will see spending growth slow ahead of November’s presidential election.
- Efforts to reduce pharmaceutical prices, particularly in China and the US, will lead to a sharp slowdown in sales growth. We expect sales to rise by just 3.1%, down from 6.3% in 2019.

With global health spending set to accelerate, we expect it to reach US$8.7trn, or around 10.2% of global GDP in 2020. However, this spending will be very unevenly spread. The US alone will account for around 44% of total health spending, while Asia and Western Europe will each account for over 20%. That will leave less than 10% of spending to be shared across the rest of the world.

Even so, healthcare provision will expand rapidly in these lower-spending regions. The former Soviet transition economies will see spending rise by 10% in 2020, making this the fastest-growing region. Growth will be led by a recovering Russia, where in February 2019 the president, Vladimir Putin, challenged all regions to provide access to good medical services by 2020. This is an extremely tight deadline, given the ground that needs to be regained, but the government will begin by boosting infrastructure spending and reforming primary care.

The Middle East and Africa will also see strong growth. In the Gulf region this will reflect an economic recovery as oil prices stabilise, while in Egypt, South Africa and Nigeria it will reflect plans to roll out health insurance to more of the population. In Asia, meanwhile, access to health care will keep improving. Pakistan has promised healthcare for all districts in 2020, while India is revamping up to 40,000 health centres under its new national scheme.

In Europe, spending growth will be slower; Germany’s economic slowdown will constrain its ability to expand budgets, while Brexit will weigh on UK spending—despite politicians’ promises to support
the NHS. However, Latin America will be the slowest-growing region. New governments in Brazil, Chile and Argentina have plans to overhaul existing public health systems to improve quality or coverage. The region as a whole, however, will be dragged down by continuing economic problems in Argentina and Venezuela, as well as economic and political uncertainty in Mexico.

Twin peaks
The two most important healthcare markets will remain the US and China, where dynamics will differ markedly. In China, spending will accelerate as the Healthy China 2020 target date arrives. With broad health coverage now in place, the challenge is to deepen and improve health provision. The government will hasten implementation of the Healthy China 2030 plan outlined in 2016. This aims to improve care for chronic diseases, the elderly and residents in China’s rural areas, and to increase life expectancy to 79 years by 2030.

Meanwhile, despite the economic slowdown, Chinese citizens’ willingness to spend on their own healthcare and that of elderly relatives will increase as better private care and insurance becomes available. As a result, we expect that China’s total health spending will rise by 4.8% in US dollar terms in 2020, up from just 2.2% in 2019. In local-currency terms, growth will be much stronger, at 8.7%, as the Chinese currency continues to weaken.

In the US, by contrast, we expect health spending growth to slow to 3.9% in nominal terms, down from 4.4% in 2019. Mr Trump will be running for re-election buoyed by his partial success in reining back Obamacare, the healthcare system launched by his predecessor. By removing the individual mandate that obliged Americans to buy health insurance, and introducing lower-cost employee schemes, Mr Trump claims to have reintroduced more choice. However, the number of Americans without insurance rose to 27.5m in 2018—the first increase in almost a decade.

Moreover, Mr Trump’s policies have backfired with some voters. According to opinion polls, most Americans now support Obamacare and nearly three-quarters want a public healthcare option. Some
Democratic candidates for the presidency have proposed health reforms that go beyond Obamacare, including the two Medicare for All systems proposed Bernie Sanders and Elizabeth Warren. Mr Trump has dismissed these plans as "socialist", but even he is under pressure to extend insurance coverage.

**Trump’s challenge**

In his campaign, however, we expect Mr Trump to focus less on health insurance and more on drug costs, where he is on surer ground. His administration has already introduced measures to bolster competition and price transparency in the pharmaceutical market. Better focus on drug costs, particularly for pensioners, will feature on his election platform, along with further efforts to encourage competition. His opponents are also planning radical measures to cut prices, including, in Ms Warren's case, the establishment of a state-owned generics manufacturer.

Getting legislation approved for any of these reforms will be difficult. However, we do expect the pressure on US drug pricing to intensify. This will have a major impact on pharmaceutical companies globally, given the size of the US market. With Canada introducing a national pharmacare system, to make purchasing more efficient, we expect growth in North America's pharmaceutical spending to slow to 4.6%, down from 5% in 2019.

In Europe, meanwhile, drug spending will decline by 1% in US dollar terms as the euro weakens, while other regions will also see a sharp slowdown in spending growth. As a result, we expect global pharmaceutical spending to rise by just 3.1% in 2020, less than half the 6.3% reported in 2019. For new opportunities, companies will look to China and other developing nations, where uptake of innovative medicines will rise rapidly as governments and individuals combat a rise in chronic diseases. However, even here, generics prices in particular will come under increasing pressure.

Given these trends, faster treatment approvals and better protection of intellectual property will become priorities in 2020. The nature of that intellectual property will change, too. Use of health data, including genomics, will gather pace, aiding diagnosis and the planning of health services. Digital apps, such as Tencent’s WeDoctor in China or Babylon Health in the UK, will start to take patients away from traditional doctors. However, integrating these systems will remain a huge challenge, while some innovations will come under scrutiny. A global moratorium on gene editing is possible as scientists mull the ethics of designer babies.
US pharma enters withdrawal

Pharmaceutical spending in 2020
(US$ bn)

Transition economies 65.8
Latin America 71.3
Western Europe 287.7
Asia & Australasia 387.4
North America 463.0

*60 biggest countries only.
Source: The Economist Intelligence Unit; World Health Organisation.

Legal action over the opioid crisis will dent pharma companies’ profits in 2020 and could lead to regulatory shifts.

The US opioid crisis has been a long time coming. According to the US National Institute on Drug Abuse, more than 130 people a day in the US have died of overdoses from addictive painkillers since the late 1990s. The US Centres for Disease Control and Prevention (CDC) estimates that the economic burden of prescription opioid misuse amounts to US$78.5bn a year. The cost in human terms is incalculable. In 2020 this national crisis will come to a head, and the impact on those companies that sell opioids will also become clear.

This process has already started. In 2019 Purdue Pharma announced a settlement framework that will, if approved, see it pay more than US$10bn to fund treatment and other anti-opioid measures. Johnson & Johnson (J&J) was fined US$572m in August 2019, while McKesson, Cardinal Health, AmerisourceBergen and Israel’s Teva agreed to pay US$215m to settle a lawsuit in October.

This is unlikely to be the end of the matter. Next year Purdue will file for bankruptcy, if a final deal is settled by April 2020, as expected. With around 2,700 opioid lawsuits pending, J&J and the others are reported to be discussing a US$48bn settlement to limit their exposure. However, this would still not be enough to offset the full costs estimated by the CDC. Moreover, other countries, though less prone to lawsuits, have not escaped the opioid crisis and could launch their own actions.

Drug makers with revenue flowing in from well-established, patent-protected blockbuster drugs will remain insulated from the effects in the short term. J&J, for one, is still upgrading its profit forecasts, despite a series of patent expirations in 2019. However, costs related to action on opioids will begin to drive up expenses and drive down profits at several pharmaceutical companies.

Global insurers, too, could be affected by the huge payouts that will be needed.

In the longer term, if lawmakers use the huge tobacco settlement of 1998 as a model, then the financial impact of the opioid crisis could climb even higher. The crisis may also prompt further changes to US drug regulations and oversight. At present, the US Food and Drug Administration has little power to control the marketing and promotion of approved drugs. Meanwhile physicians receive little independent training in how to prescribe them, unlike in neighbouring Canada. That may change, giving the crisis the power to reshape the US pharmaceutical sector in the long term.
2020 calendar: healthcare and pharmaceuticals

January
16-17: 21st International Conference on Medical, Biological and Pharmaceutical Sciences, Guangzhou, China
21: US implements revised Common Rule for clinical trials
27: Bristol-Myers Squibb reports 2019 results
27-28: 12th Asia Pacific Global Summit on Healthcare, Tokyo, Japan
28: Pfizer report 2019 results
29: Novartis reports 2019 results
30: Roche reports 2019 results
30: Eli Lilly reports 2019 results
30: AstraZeneca reports 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

February
5: GlaxoSmithKline 2019 results
6: Sanofi reports 2019 results
11: Gilead reports 2019 results
27: Bayer reports 2019 results

March
6-7: European Pharma CI Conference, Milan, Italy
7: Merck KGaA reports 2019 results
23-25: World Conference on Primary Healthcare, Dubai
24: WHO World Tuberculosis Day
26: War on Cancer Asia, Economist Events, Singapore
29-April 1: 17th Annual World Health Care Congress, Washington, DC

April
7: World Health Day
23-25: HIV and Hepatitis in the Americas, Bogota, Colombia
24-30: WHO World Immunisation Week
25: WHO World Malaria Day

May
73rd World Health Assembly, Geneva, Switzerland
14: WHO World No Tobacco Day
16-20: ISPOR 24th Annual International Meeting, New Orleans, US

June
2-4: World Preclinical Congress, Boston, US
14: WHO World Blood Donor Day
28: WHO World Hepatitis Day

**September**
WHO Regional Committee for Europe, Copenhagen, Denmark

**November**
12-18: WHO Antibiotics Awareness Week

**December**
1: WHO World AIDS Day

*Precise date to be confirmed*
Telecoms in 2020: living up to the hype?

The global telecoms sector will thrive in 2020, but individual operators could face challenges, particularly over 5G.

While demand for telecoms will continue to increase in 2020, next-generation technologies and the pressures of digital transformation will continue to reshape what it means to be a telecoms operator in 2020. Consumers and companies will begin to work out the benefits of potentially disruptive technologies, while policymakers will explore their broader ramifications for society. Operators will have to prove they can provide the connectivity required to make a digital future possible, and that they can do so competitively and profitably.

Key forecasts

- Take-up of mobile subscriptions will continue, with global penetration rising from 119 per 100 people in 2019 to 128 per 100 people in 2020. Emerging markets in Asia, the Middle East and Africa will lead uptake.
- Broadband penetration will also rise slightly, from 18 per 100 people to 18.5 per 100 people. This slow growth will reflect the challenge of providing advanced connectivity in markets where costs, pricing and geography are not conducive to investment.
- As investment in advanced connectivity continues, IT spending is set to rise from just over US$2.2trn in 2019 to US$2.3trn in 2020.

We forecast that mobile subscriptions will grow strongly in 2020, reaching 7.3bn. Growth will be particularly rapid in Asia, the Middle East and Africa, where increased investment in mobile network infrastructure and take-up of budget handsets and smartphones will increase mobile penetration by 11% compared with 2019. However, in most regions, the number of fixed lines will continue to decline as mobile and internet connections proliferate. The sole bright spot will be fixed broadband subscriber lines, which will reach nearly 1.1bn in 2020.

Despite this bullish overall outlook, there are risks to these forecasts. The ongoing US-China trade war will continue to rumble while Donald Trump remains US president. While trade in goods has been the prime target so far, disputes will increasingly focus on the strategic importance of the ICT sector and cybersecurity. The dominance of Chinese manufacturer Huawei when it comes to vital 5G hardware will remain a sore point. More broadly, any escalation in trade tensions could disrupt supply chains and prompt a global economic downturn. In that event, the telecoms sector would be hit in any number of ways, including increased costs, a decline in mergers and acquisitions, and, perhaps most crucially, a slowdown in 5G rollout.
In Europe, meanwhile, the risk of a disorderly Brexit will continue to weigh on the sector, at least in the early part of 2020. With Brexit now due at the end of January 2020, the UK’s departure from the EU’s Digital Single Market or the divergence of UK telecoms legislation from that of the EU could damage the UK telecoms market in 2020, while any benefits will take longer to materialise. The government and companies will also have to work hard to plug any skills or funding shortages, in order to maintain the UK’s position as a competitive global market for ICT investment and innovation.

5G or bust

As in 2019, investment in 5G and fibre fixed-line services is likely to be a top priority—and headache—for operators in 2020. Whether operators will be able to meet connectivity expectations is a matter for debate. Although the initial stages of deployment are likely to be scattered across just a handful of countries in 2020, the path towards a 5G future is littered with challenges.

The rollout will require a co-ordinated approach between regulators, governments and operators, as well as the small matter of hard cash. Operators will need to negotiate the timely release of 5G spectrum, secure vital bandwidth at a reasonable price, calculate their return on licensing costs, and fund investment in radio-access network (RAN) infrastructure, small cell sites and core networks. However, the biggest challenge will be monetising 5G technology and developing use-cases that allow operators to recoup at least some of their investment.

Operators are dreading a repeat of their experience with 4G, where returns were slow to accumulate. Although the enterprise sector is eager to embrace 5G, with its promise of new business models and efficiency gains, the appeal for consumers is less clear. Handset prices will be high, while 5G coverage and connectivity speeds will be patchy, given that networks are being rolled out over existing 4G infrastructure. This will result in slow uptake of 5G among consumers, with only early adopters willing to pay a premium for top performance.
Consumers will only adopt 5G *en masse* when networks become increasingly virtualised and standalone rollouts become more widespread. However, this will only start happening towards the end of 2020.

**ARPU snafu**

Given these uncertainties, many operators are likely to focus on cost-cutting in 2020, with measures including asset sales, network-sharing or deferred payment structures. While raising investment cash will be the main goal, managers will also be hoping to revive average revenue per user (ARPU), which has stagnated or fallen for years in many markets.

In India, for example, ARPU has plummeted on the back of fierce price competition, which has resulted in ultra-low-cost tariffs. The pressure may ease slightly in 2020 as operators look to shift subscribers onto higher price packages and the government considers cutting spectrum costs and, possibly, other levies. Nevertheless, the global ARPU challenge will be reflected in global telecoms revenue, which is expected to remain relatively subdued in 2020, at US$1.2trn.

Both in India and elsewhere, operators will have to grapple with these challenges at the same time as they prepare for disruptive technologies such as artificial intelligence (AI), machine learning and cloud computing, which can spawn new business models, services, customer engagement models, and
Operators that adopt an agile approach will stand the best chance of avoiding a “dumb pipe” future, whereby they become responsible for connectivity but other companies—including over-the-top (OTT) providers—develop the more lucrative content.

The clamour for increased regulatory oversight of OTTs is likely to grow in 2020. However, operators will also need to consider the trade-offs involved with advanced connectivity, the most significant of which, perhaps, are security and privacy. Cyber-attacks have continued to cause problems in 2019—including an attack on a nuclear power plant in India in October. In 2020 the telecoms sector will have to redouble its efforts to ensure backhaul and core network infrastructure can ward off attacks.

Meanwhile, mergers and acquisitions in the telecoms sector are likely to be less frequent in 2020, amid an uncertain global economic outlook. Many operators will be awaiting the outcome of the pivotal US election in November 2020. This will reveal the next chapter in the ongoing trade spat between China and the US, as both camps recognise that the battle for future economic and political hegemony will be waged on digital, rather than physical, terrain.
Judgement day?

The big US technology companies face increased regulatory scrutiny in 2020.

The re-appointment of Margrethe Vestager in October 2019 as the commissioner of the European Commission’s anti-trust wing was definitely not on the wish list of America’s technology giants. After all, Ms Vestager was responsible for a slew of fines that US companies have faced in Europe since 2017 for anti-competitive practices. In 2020, the question of whether big technology companies have become too big is likely to rage not just in Europe but also in the US.

Ms Vestager first courted headlines in June 2017 for a US$2.7bn fine she imposed on Google, the search engine company owned by Alphabet (US), for using its online search market supremacy to give its comparison-shopping service an unfair advantage over other retailers. Google has so far been forced to pay US$9.1bn in fines after losing European judgements. Apple (US), meanwhile, was asked to pay back US$15.5bn in taxes by the European Commission back in September 2018 after Ireland was judged to have offered the company improper investment incentives. Both companies are appealing the fines.

In 2020 Apple also faces fines over its music-streaming service, while Amazon is being probed for abuse of data collection. Meanwhile, Alphabet, Amazon and Facebook face fines of up to 4% of their revenue if the European Commission finds that they breached the General Data Protection Regulation (GDPR), which became effective across the EU in May 2018. These sound like huge sums, but in the eyes of critics of Big Tech they are simply a rap on the knuckles that do nothing to protect competitors.

However, Ms Vestager is searching for new ways to discipline erring companies. The mandate for her second term has expanded to include framing the EU’s digital policy, in addition to policing tech giants. This gives her new weapons to use in 2020, including so-called “interim measures”, which aim to prevent irreparable harm to competition. For example, in October 2019 Ms Vestager asked a US chipmaker, Broadcom, to halt its exclusive contracts with TV and modem makers for three years while she investigated whether the practice threatened a fair-trade environment.

Secondly, Ms Vestager wants to shift the onus of proof onto the companies, which must demonstrate their benefits to consumers, rather than the regulator having to prove harm to competition. These changes may not happen in 2020, but they will give companies reason to worry. All the more so because tech firms also face increased scrutiny in the US.

In July the US Department of Justice announced it was opening an antitrust review of big technology companies including Google, Facebook, Amazon and Apple. The DOJ has also launched a separate antitrust inquiry into Google, while 50 state attorney generals have launched enquiries into the search engine’s advertising policies and use of customer data. As for Apple, it was delivered a severe blow in May 2019 when the US Supreme Court agreed to litigation by end-customers against the firm’s mobile application store charges.

The penalties will keep coming in 2020, and are likely to become increasingly politicised as the US election approaches in November. One of the front-running Democrat candidates, Elizabeth Warren, has threatened to break up the big technology companies if they are found to be violating anti-trust rules. This would be more than a rap on the knuckles.
2020 calendar: telecoms

January
7-10: International Consumer Electronics Show (CES 2020), Las Vegas, US
27-28: Kickstart Europe 2020, Amsterdam, Netherlands
23-24: TMT Finance Asia, Singapore
29: Elisa reports 2019 results
31: UK leaves the EU unless extension to Article 50 process is agreed

February
3: Alphabet reports 2019 results
19: Deutsche Telekom reports 2019 results
24-27: Mobile World Congress, Barcelona, Spain
25-27: Embedded World Conference, Nuremberg, Germany

March
4-5: Open Compute Project, California, US
5: Innovation Summit, Economist Events, Chicago, US
7-20: Icann 67th Public Meeting, Cancún, Mexico
8-10: International Exhibition & Conference for Internet of Things, Riyadh, Saudi Arabia
8-12: The Optical Networking and Communication Conference, California, US
9-11: DVB World, Valencia, Spain
17-18: IoT Tech Expo Global, London, UK
19-20: Digital Utilities 2020, Sydney, Australia
25-26: Telecoms World Asia, Bangkok, Thailand
25-26: IoT Asia 2019, Singapore
29-31: 5G MENA 2020, Dubai, UAE

April
6-9: WSIS Forum 2020, Geneva, Switzerland
15-16: China SDN/NFV/AI Conference 2020, Beijing, China
18-20: NAB Show, Las Vegas, US
21-23: FTTH Conference, Berlin, Germany
22-23: Dublin Tech Summit, Dublin, Ireland
27: Network Transformation Congress 2020, US
27-30: MVNO’s World Congress 2020, Berlin, Germany
27-29: Network Virtualisation & SDN Europe, Berlin, Germany

May
12-13: ICT Spring Europe 2020, Luxembourg
12-13: Small Cells World Summit, London, United Kingdom
17: World Telecommunication Day (UN)
June
2-4: NGON & DCI World, Barcelona, Spain
9-11: CommunicAsia 2020, Singapore
10-11: Optinet China Conference 2020, Beijing China
10-11: CE Week 2020, New York, US
13-14: Digital Assembly 2020, Europe
16-18: Digital Transformation World 2020, Copenhagen, Denmark
19-20: 14th Annual European Spectrum Management Conference, Brussels, Belgium
22-25: Icann 68th Public Meeting, Kuala Lumpur, Malaysia
30-July 2: Mobile World Congress, Shanghai, China

July
1: Spectrum Summit 2020, Baden, Germany
3-5: International Conference of Wireless Networks, London, UK
29-31: China International Internet of Things Exhibition, Shenzhen, China

August
The Africa Peering and Interconnection Forum

September
4-9: IFA Consumer Electronics 2020, Berlin, Germany
6-9: ITU Telecom World 2020, Hanoi, Vietnam
8-9: Telecoms World Middle East, Dubai, UAE
9-12: Open Data Science Conference India 2020, Bangalore, India
11-15: IBC 2020, Amsterdam, Netherlands
23-24: Submarine Networks World, Singapore
24-26: CE China 2020, Guangzhou, China

October
14-15: MVNOs Europe 2020
16: Body of European Regulators for Electronic Communications, 8th Stakeholder Forum, Brussels, Belgium
17-22: Icann 69th Public Meeting, Hamburg, Germany
20: Dubai Expo opens, Dubai, UAE
21-23: Mobile World Congress, Los Angeles, US
22-23: 7th World Machine Learning and Deep Learning Congress, Helsinki, Finland
27-29: IoT Solutions World Congress, Barcelona, Spain
31-November 3: PT Expo China, Beijing, China

November
7-8: Open Mobile and Digital Experience Summit, California, US
TMT World Congress, London, The UK
18-19: The Things Conference 2020, Hyderabad, India
December
4-6: International Conference on Wireless Networks and Embedded Systems, Bangkok, Thailand

*Precise date to be confirmed*
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