

Global healthcare

Tracking healthcare trends in a changing economic environment

- **Modest expansion of global healthcare in 2016**
- **Rising inflation led by Europe**
- **Pharmaceuticals & biotechnology seeing capacity pressures amid marked growth of new business**

In an environment dominated by uncertainty and highly influenced by regulation, legislation and government policies, the healthcare industry will have to evolve in a changing landscape in 2017. The inauguration of a new government in the US, a key market in the healthcare sector, raises the possibility of significant policy changes over the course of the year which could have an impact on healthcare companies globally.

It therefore becomes crucial for corporates to track economic metrics, understand healthcare sector trends and adapt their strategy in anticipation of market developments.

In this note we use sector PMI data from Markit to illustrate how subscribers can closely follow the economic developments in the healthcare industry on a monthly basis.

Healthcare trends in recent years

Looking at the Purchasing Managers' Index (PMI), the global healthcare sector experienced a moderate expansion in 2016. The PMI Output Index averaged 51.8 over the course of the year, signalling a considerably weaker pace of expansion than in 2015 (54.4).

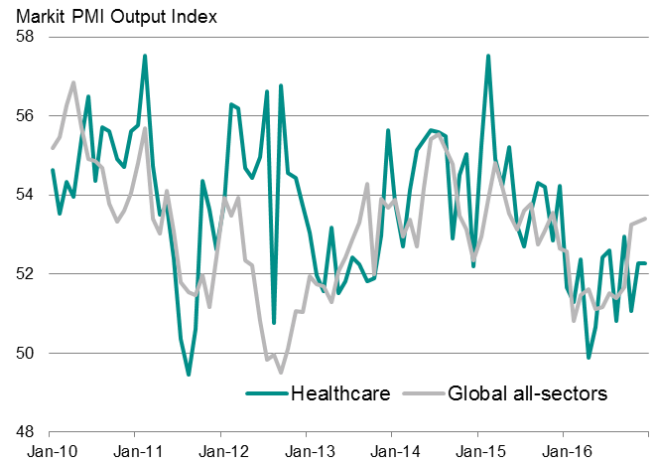
The healthcare trend has in fact tracked the global business cycle relatively closely in the past two years, showing a higher correlation with global economic growth than previous years.

Within healthcare, the healthcare services and pharmaceuticals & biotechnology sectors have tended to follow the same trend without showing major discrepancies over time.

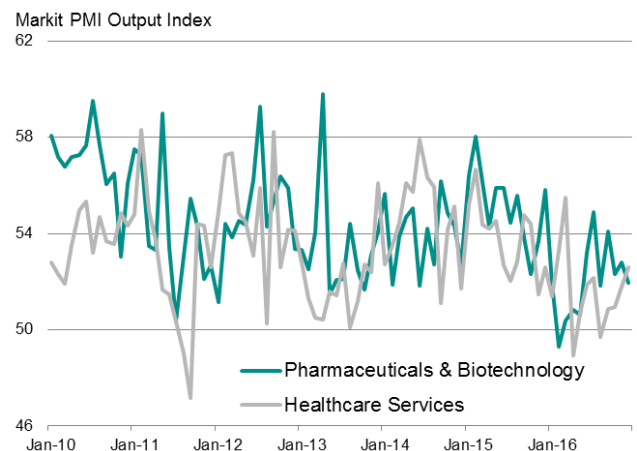
However, over the last two years, it appears that the pharma & biotech sub-sector has slightly outperformed the healthcare services sub-sector on average.

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Healthcare and the economic cycle



Healthcare sub-sectors



Structure of PMI Healthcare survey data

Healthcare Sub-Sectors		
Healthcare Services	Healthcare Equipment & Supplies	Healthcare Equipment
		Healthcare Supplies
	Healthcare Providers & Services	Healthcare & Related Facilities
		Managed Care
Pharmaceuticals & Biotechnology		Pharmaceuticals
		Biotechnology

Regional variations

The healthcare industry is typically more stable compared to other more cyclical sectors such as consumer goods or automobiles & auto parts. However, each region will reflect a different level of volatility in terms of business cycles.

In Asia, the pharma & biotech sub-sector has been more volatile than the Global Output Index, even indicating short-lived contractions in February and June last year (contraction is indicated by a PMI index below 50). During December 2016, the Asia Healthcare PMI was signalling expansion at a stronger pace than the Global Healthcare PMI with an Output Index of 54.6. That said, Asian healthcare activity fell slightly in November, with the sector heavily affected by the volatile performance of the healthcare services sub-sector.

In Europe, healthcare companies reported a downturn in the first half of 2013. Later, the sector expanded more often than not until early 2016. More recently, the healthcare Output Index has rebounded from a three-year low in July 2016 (47.8) to a 35-month high in November 2016 (52.4). The bounce back was exacerbated by pharma & biotech as the Output Index of the sub-sector went from 44.9 to 58.7 in the space of three months between August and November 2016.

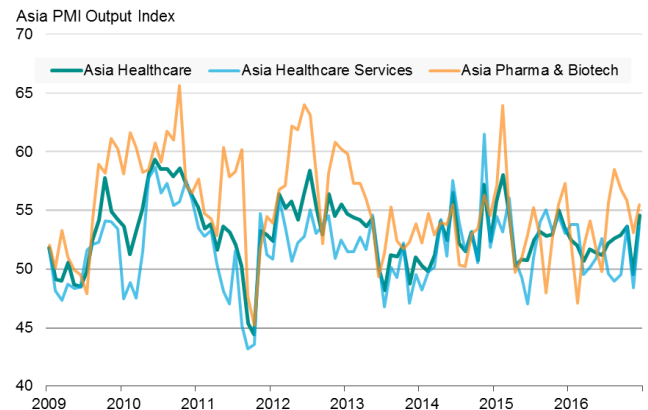
Sign of inflation picking up, particularly in Europe

Our various PMI analyses have highlighted a trend of increasing input prices across different manufacturing sectors in recent months, mainly due to more expensive raw materials. The healthcare sector is also impacted as our survey includes companies such as manufacturers of equipment or medical products.

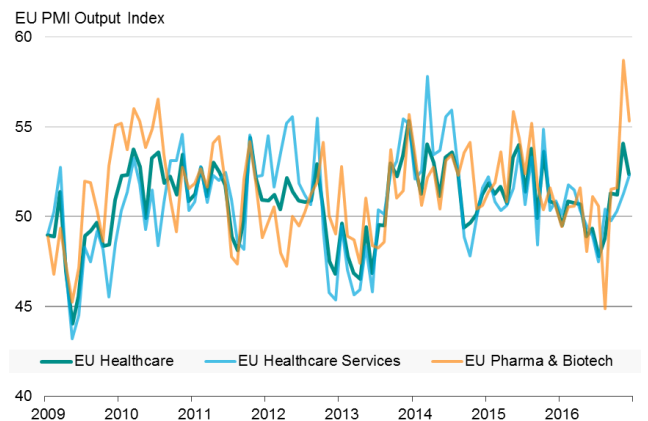
However, each region is showing varying degrees of cost-push inflation. Globally, input costs have risen more quickly than output prices throughout the survey's post-crisis history. That said, cost pressures have come to a head recently, with the rate of inflation exceeding that for output prices by the widest margin in 19 months during December (see margins chart). Europe appears to be the main driver of this inflation as the price differential for December 2016 was the highest among all regions monitored. Asia and the US have seen comparatively weak but still accelerating cost-push inflation.

The Input and Output Price metrics will be among the main focuses in 2017, as they show the squeeze on company margins across the industry which represents a real threat for future company revenues.

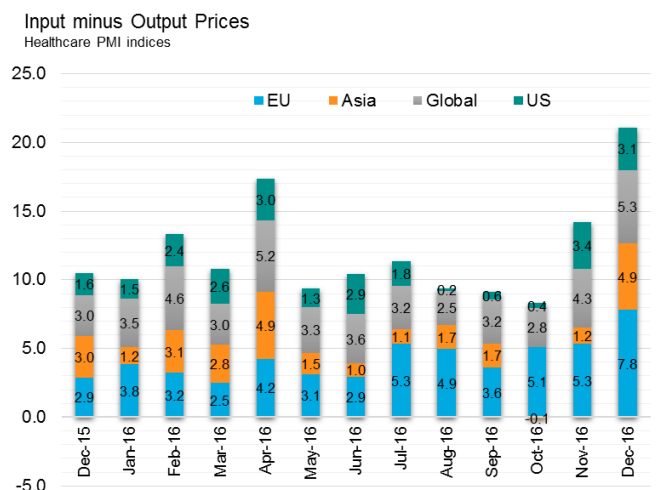
Asia Healthcare business activity



European Healthcare business activity



Margin indicators



Busy outlook for EU pharma & biotech companies

Both healthcare services and pharma & biotech firms saw order books revive towards the end of 2016. The sub-sectors went from contraction to expansion in terms of new orders received in October and September respectively. Although the improvement in demand for healthcare services remains fragile, pharma & biotech companies have seen a sharp

upturn in new work. Backlogs of work have followed a similar trend – the respective index jumped from 45.4 in July to 54.0 in December 2016. This implies that firms are getting busier and will likely consider hiring or opening new outlets in order to match their offering to the growing demand.

The Backlogs of Work Index represents the level of unfinished business (i.e. sales orders received but not yet completed) this month compared with the situation one month ago.

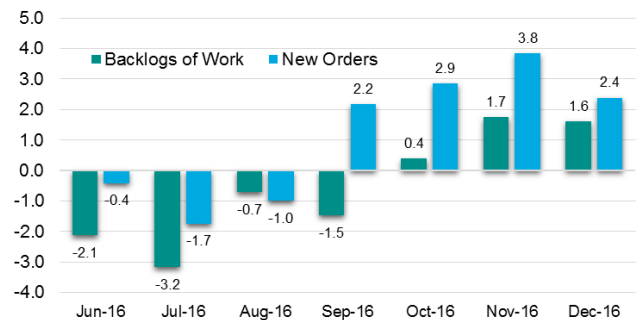
The trend of increasing new orders in the pharma & biotech sector has also been evident globally, with Asian firms seeing the largest gains on average over the past six months. The US healthcare sector has experienced disparate performance in comparison, with activity alternating between contraction and expansion during 2016.

In a global landscape of uncertainty and political change, sector PMI data will allow any subscriber to closely follow any economic development in the healthcare industry on a monthly basis.

Order book trends

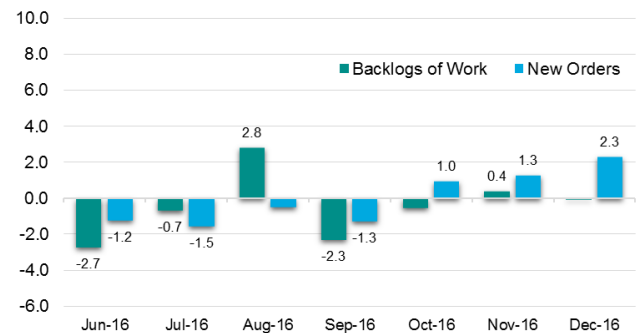
EU Healthcare

Divergence from 50, where 50 = no change on prior month



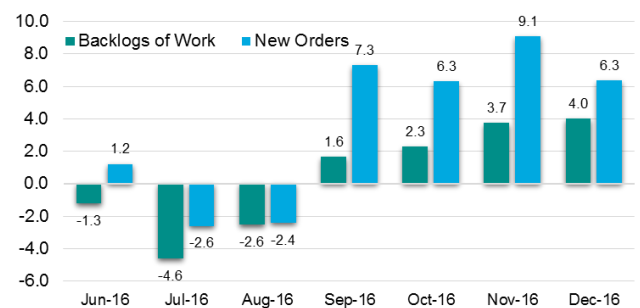
EU Healthcare Services

Divergence from 50, where 50 = no change on prior month



EU Pharma & Biotech

Divergence from 50, where 50 = no change on prior month



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