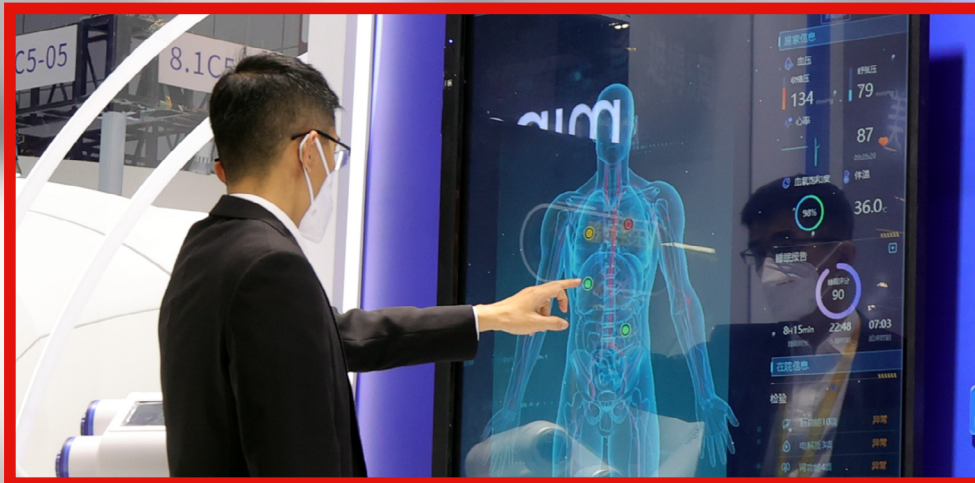


Healthcare outlook 2024

Stricter regulations, pricing
pressures and climate concerns



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Stricter regulations, pricing pressures and climate concerns

A return to real-terms spending growth will not ease concerns over the long-term sustainability of healthcare systems.

- Healthcare spending will rise by 6.1% in US-dollar terms and by 1.1% in real terms, following two years of decline, as inflation eases. However, resources will remain constrained as governments try to bring down fiscal deficits and public debt levels while heading off healthcare strikes.
- Pharmaceutical spending will rise by 6.5% in dollar terms in 2024 as drug prices continue to rise strongly, despite efforts to regulate them. Drugmakers face new regulations related to manufacturing standards in India and market entry requirements in the EU.
- Climate change will threaten human health and healthcare systems as heatstroke and natural disasters increase. Health providers and pharmaceutical companies will come under more pressure to reduce their contributions to global emissions.
- Digital health will develop further, with investment in artificial intelligence (AI) offering new opportunities. Regulators will increase scrutiny over data access and privacy, as well as AI ethics, while investors will push for more sustainable business models.

Health spending will overtake inflation for the first time since 2021

Although the covid-19 pandemic boosted healthcare spending worldwide, the available funding has not been high enough to cope with continued covid waves, the backlog of non-covid care and high inflation. EIU believes that global health spending fell in real terms in 2022 and 2023, leading to disruption and strikes in hospitals and clinics in many countries. This trend will change in 2024: although growth in health spending will slow to 6.1% in nominal US-dollar terms, it will outpace inflation, rising by 1.1% in real terms.

Resources will remain constrained in many countries as governments try to bring down fiscal deficits and public debt levels that have widened during the pandemic and (in Europe) the subsequent energy crisis. Healthcare workers, patients and taxpayers will remain dissatisfied with health provision in many countries, putting pressure on governments. Countries such as China, Egypt, Nigeria and South Africa will continue to work on expanding access to care, but voters are likely to resist reforms that entail additional taxes. Public pressure will be particularly acute in countries facing elections in 2024, including the US, India, Mexico, South Korea and Indonesia.

Drugmakers will face more pricing, production and competition challenges

We expect pharmaceutical spending to rise by 6.5% in dollar terms in 2024, aided by a recovery in global growth and a slight depreciation of the dollar. Drug prices will continue to rise strongly, despite efforts to regulate them.

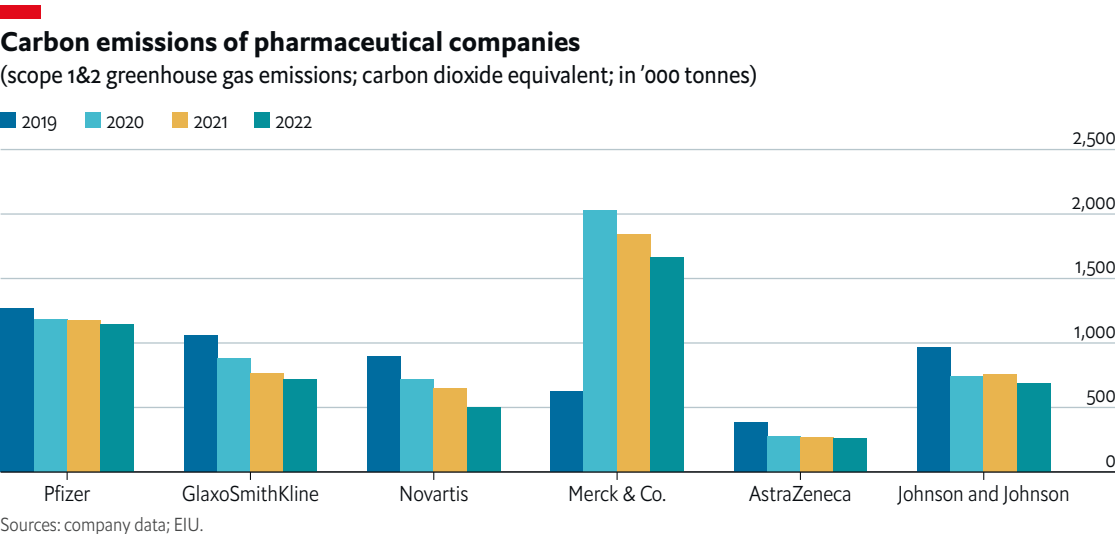
In the US, the Inflation Reduction Act allows the government to negotiate pharma prices through Medicare (a public health programme for the elderly) for the first time, with the results of the initial negotiations due to be published in September 2024. However, the prices themselves will not come into effect until 2026. Similarly, the EU’s proposed “pharmaceutical package” of regulations, which aims to improve market competition, will go through several regulatory hurdles before the European Commission’s current term runs out in October 2024.

Shoring up pharma supply chains and setting up manufacturing hubs for active pharmaceutical ingredients (APIs) will continue to be a priority for many. However, difficulties in producing APIs at scale will make it hard to reduce reliance on Chinese supplies. Health regulators in India will enforce stricter quality checks on medicine exports, and all pharmaceutical companies must ensure compliance with the World Health Organisation (WHO) Good Manufacturing Practices over the next year. However, enforcement will continue to be unsatisfactory.

Healthcare will be affected by climate change, and will also drive it

Thanks to climate change as well as the El Niño climate pattern, 2024 is expected to be the hottest year ever recorded, resulting in threats to human health. Countries along the equator are particularly at risk, including African countries such as Mali, Burkina Faso, Niger, Djibouti, Mauritania and Senegal. Droughts and floods will also bring risks to many parts of the world, particularly low-lying island nations. This will test the resilience of healthcare provision and aid agencies. The recent inclusion of the African Union into the G20 should give the continent greater leverage in negotiating assistance. Air pollution will be another threat; the WHO will be rolling out a toolkit to train healthcare workers on its effect during 2024.

The healthcare sector will also be under pressure to reduce its own emissions, which account for 8.5% of total emissions in the US and around 5% in the EU. Much of this is caused by energy usage by health providers and pharmaceutical companies, but products such as asthma inhalers are also under scrutiny. Moreover, an estimated 5.2m people die annually due to illnesses caused by unmanaged medical waste. All of these sources will come under new scrutiny as legislation tightens over supply-chain monitoring and climate-related disclosures.



Digital health investment will be under scrutiny

The covid-19 pandemic brought a boom for health-tech investment. However, with promising ventures such as Health IQ (US), Babylon Health (UK) and Pear Therapeutics (US) filing for bankruptcy in 2023, venture capital funding has been drying up. We expect investors to remain highly selective about digital health start-ups in 2024 as they seek out those with genuinely profitable business models.

Even so, digital healthcare will continue to develop, along with the regulatory frameworks surrounding it. The WHO's five-year window for member states to develop a secure strategy for digital health ends in 2024. This will nudge several countries into framing better legislation for health data to safeguard citizens' sensitive personal information. For example, Germany aims to have a fully accessible personal health record for everyone in the country by the end of next year.

Digital medical devices will also come under more scrutiny as the EU's Medical Device Directive reaches the end of its transition period in May 2024 and the UK implements its own regulations two months later. In the US, virtual healthcare providers, including retailers Amazon and Walmart, will need to improve their management of health data, including information on abortions. Regulations on the use of artificial intelligence (AI) in healthcare will also come into effect in the EU. AI is already being used for healthcare tasks ranging from drug discovery and clinical trials to health consultations and diagnostics, and its adoption is expected to continue rising in 2024. The healthcare sector is expected to set aside more than 10% of its budget, up from about 5% in 2022, to further AI and machine learning in 2024, according to a report by Morgan Stanley.

Healthcare strikes will die down but workers will remain discontented

Healthcare workers have been involved in industrial action in several parts of the world for over a year now. Rising inflation, unsatisfactory wage hikes and burnouts have fuelled these strikes, which will continue into 2024 at a smaller scale. Governments have been reaching pay settlements with several unions, reducing the scope for strikes. For example, the state senate in California recently approved a US\$25 hourly minimum wage for all of its medical workers after months of talks. Easing global inflation will also help.

However, with staff burnout still an issue, both developed and developing countries will continue to compete for workers to sustain their healthcare and long-term care systems. Poaching from vulnerable nations will become more controversial: the WHO's 2023 update on international healthcare recruitment strongly recommends that member states not to recruit health workers from 55 countries, 37 of them in Africa. This will force countries to become more innovative in their recruitment methods: one solution could be more international agreements to exchange skills and training in exchange for service commitments.

What to watch

Peak baby-boomers. According to US census data, the number of people celebrating their 65th birthday in the US will peak in 2024. According to the projections, 4.4m Americans will reach the age of 65 next year. The US is already burdened with a high incidence of ageing-related illnesses, including dementia and Alzheimer's disease, which affects as many as 55m people worldwide.

Long-term care. Slovenia will be one country introducing a new long-term care system for the elderly and disabled in 2024. The system, which will be implemented from January 2024, is intended to be

funded by a new levy on salaries from 2025, although this may prove difficult to implement.

Pandemic preparedness. Under the WHO’s initiative, a process is underway to identify the next group of pathogens, such as arboviruses, that could pose a threat to global health systems. The pandemic preparedness and responsiveness accord is expected to be published in May 2024.

Obesity drugs. Next year will be pivotal for anti-obesity medicines as drugs such as Novo Nordisk’s Wegovy (semaglutide) and Eli Lilly’s Mounjaro (tirzepatide) are used more widely. This will generate more real-world data on their effectiveness; positive results would encourage insurers and governments to extend reimbursement, but they could add to supply problems.

EIU's weather forecast for healthcare businesses in 2024



Source: EIU.

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