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Trends of Note

Framing Insight, Analysis, and Acumen

Grumpiness On The Menu At Davos

Is that the sound of tumbrels interrupting the clink of champagne glasses at the World Economic Forum (WEF) this year? If you believe Ian Bremmer, Chairman of The Eurasia Group, it could very well be. According to Bremmer, "Governments worldwide are seemingly growing more and more fragile, and according to a report published by the World Economic Forum's Global Agenda Council (GAC) on Geopolitical Risk, political actors are more shackled by regional concerns and focused on their own domestic constituencies – at the expense of tackling larger-scale global issues that require collective leadership to solve. The report finds, in particular, that '**underperformance erodes elites' legitimacy, making it that much harder for them to lead effectively.** States captured by corruption or special interests, or that exhibit a lack of transparency, growing disparity of wealth, or a perceived indifference to the lives of the citizenry, will increasingly fall victim to this 'legitimacy deficit.'"

Translation: The kind of internationalism preached by the WEF is increasingly falling on deaf ears; market capitalism is not doing its job, and the natives are growing restless. With 197 million formerly employed workers around the world now without jobs, governments feeling hamstrung by social costs they can no longer afford, and worldwide infrastructure investments lagging in critical areas such as the development of clean water resources, sewage treatment, air pollution control and reliable electrical power grids, it's little wonder that the tenor of the world leans toward grumpiness. All the consumer goodies produced by all the brand leaders on the planet – the usual attendees at Davos, along with their bankers and financiers – can't make headway against the problems of a world with endless opportunity but an increasingly limited will to cooperate on almost any subject. What we see in the halls of the U.S. Congress is insignificant compared to, say, the lack of progress in international trade talks, or global climate discussions, or creating a consensus on what to do about inadequate water supplies. If there is a legitimacy deficit, as Bremmer claims, it is because leaders prefer to schmooze and dine at Davos rather than tackle the really difficult problems before them.

There'll Always Be An England. Maybe Not.

The 1940 song, "There'll always be an England," helped Britain's citizens survive the Blitz, but it's a song that may not be true for much longer. Scotland is taking a vote on whether to leave the United Kingdom and head out on its own next year. Prime Minister David Cameron continues to tighten the screws on government spending, working to disassemble much of the social safety net that has kept England going since the end of World War II, and he recently announced his desire to hold a referendum by 2017 on England's continued membership in the European Union.

Many of Cameron's cuts are falling on the defense establishment, so much so that Rolls Royce, the jet engine maker, has announced that it is closing one of its main factories, laying off 378 workers in the process. The workers, who are employed at a plant in Ansty, Coventry, do repairs to aircraft and marine engines, mostly for the military. But England is scrapping its fleet of Harrier jump jets, and has announced further cuts in its armed forces that will lead to a decreased need for the services provided by the plant. The plant's union, which is naturally opposed to the cuts, sees the loss of employment as not only a hardship on its workers, but as a loss of skills in a nation whose manufacturing prowess has been diminishing for decades. One wag has suggested that with continuing declines in Britain's defense budget – it is now under 3% of GDP and will fall closer to 2% within a couple of years as England winds down its commitments in Afghanistan – the nation will be reduced to a slap fight with Argentina over the Falklands (See this month's Fever Thermometer).

To make matters worse, GDP continues to fall. After a brief bounce from the Olympics and the royal jubilee, the economy is once again in negative territory, finishing up the year with a 0.3% decline in GDP. That's four negative quarters out of the past five, but Cameron continues to believe he can shrink the British economy to growth. What's more likely to happen is that Britain will experience a triple dip recession of a kind not seen since the end of World War I.

Fiat Goes Upscale

Having made a success of its takeover of Chrysler, and with the popularity of its tiny Fiat 500 in the U.S. market, Fiat chief Sergio Marchionne is gambling that the ongoing trend toward increased sales in luxury markets will be good news for Alfa Romeo, an upscale car model not now on sale in the U.S. Fiat sells a limited number of its Maserati and Ferrari supercars

in the American market, but it is gambling that it can increase sales and re-build the brands in the U.S. Automobile industry analysts say that Marchionne is pushing the luxury market because he is not making enough money on Fiat's lineup of small cars, which have been steadily losing market share in Europe. Fiat is forecast to lose 700 million euros this year on its European operations, and its factories on the continent are working at only 50% of capacity.

Adding a host of new luxury models and ramping up Chrysler's Jeep production will sop up some of the unused capacity, and at the same time provide much higher profit margins per vehicle sold. The problem for Marchionne is the U.S. market. An Alfa Romeo re-skin, the new Dodge Dart, is doing moderately well in the U.S., but bringing Alfas back to the American market will necessitate adding a new dealer network, which means a considerable investment.

In going up-market, Fiat is following the lead of the German carmakers. Worldwide deliveries of luxury brands are forecast to increase 19% to 3.25m vehicles in 2015, driven by demand from China and the U.S., according to IHS Automotive. VW's Audi brand generates 40% of the company's profits on less than 20% of company-wide sales, and BMW continues to grow beyond anyone's expectations: Back in the early 1970s, the *Financial Times* predicted that BMW would be one of the first brands to disappear because of Europe's automotive overcapacity problems. Instead, it was the British automotive industry that faded to black.

Apple: Growing Nicely, Hated By Wall Street

Here's a conundrum: Why is Apple's price/earnings ratio now lower than Microsoft's? Apple is growing by leaps and bounds while Microsoft is hanging on with a platform that continues to age and lose popularity, yet Apple shares have been in rapid decline – they've lost 37% of their value since hitting a peak of 700 back in September. Though the company has over $137 billion in cash on hand, and though it continues to sell iPhones and iPads as fast as it can make them, rumors continue to swirl that all is not right in Cupertino.

While no one but Apple CEO Tim Cook really knows the truth, the obsessively secretive company does have some interesting numbers going for it: For example, the number of apps downloaded from Apple's App Store has now passed more than 40 billion for the over half a billion iOS devices it has sold since 2003. More than 250 million Apple device owners

have already signed up for the company's iCloud service, which was launched just last year. And while Android devices now outnumber Apple's in the marketplace, it is not Microsoft that is benefiting, but Google. Apple watchers expect a slew of new products this year, including an expansion of the wildly popular iPad Mini, and a new iPhone with a larger screen. As we have noted before, the innovation path in consumer electronics does not have many more avenues, and the real innovation path is likely to come as Apple integrates its iOS operating system in to an ever-increasing number of facets of everyday life.