

What's the verdict?  
Goldman Sachs, 2016?

Over the next 2-3 years, we expect the Bear arguments to overpower the Bull arguments and weigh on high-versus-history margins as input cost benefits are competed away, room for further cost cutting shrinks, the headwinds of greater competition (from asset-light business models and EM competitors) gather momentum, interest costs bottom out and social/regulatory pressures become a more sizeable part of P/L statements. Consensus forecasts for 2016 and 2017 net profit margin for the US, Europe and Japan are currently 1-2 pp higher than the last five-year average margins, but these expectations will be tough to meet, in our view.

Resistance against these downward pressures on margins is most likely to come from lower competitive intensity, mainly in industries that have been a part of the ongoing wave of consolidation. Indeed, within our global coverage of 1,700 companies above US\$3 bn in market cap, only c.160 companies are expected to increase their EBIT margin by over 2 pp between 2014 and 2016 (having maintained or improved profitability since 2012). And several of them reside in: (1) sectors that have become more concentrated via M&A (semis, tobacco); or in (2) those seeing capacity discipline (shipping, airlines). Other sweet spots include subsectors that; (3) are innovation-focused with falling input costs (downstream chemicals) or high entry barriers (pharma); or (4) are growing services businesses that are mostly immune to overcapacity plaguing the industrial economy (UK housing, Japan tourism).

We highlight ten margin expanders as well as ten margin shrinkers below (and on pages 14 and 15). Together, they speak to both sides of several stories - changing market structure in sectors, business models, the role of tech, input costs and regulation.

A final point. We are always wary of guiding for mean reversion. But, if we are wrong and high margins manage to endure for the next few years (particularly when global demand growth is below trend), there are broader questions to be asked about the efficacy of capitalism.