



GLOBAL INSIGHT



The World Picture

A View for Sea Trade

Presented to:

AAPA Marine Terminal
Management
October 20, 2008
Baltimore, MD



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Agenda

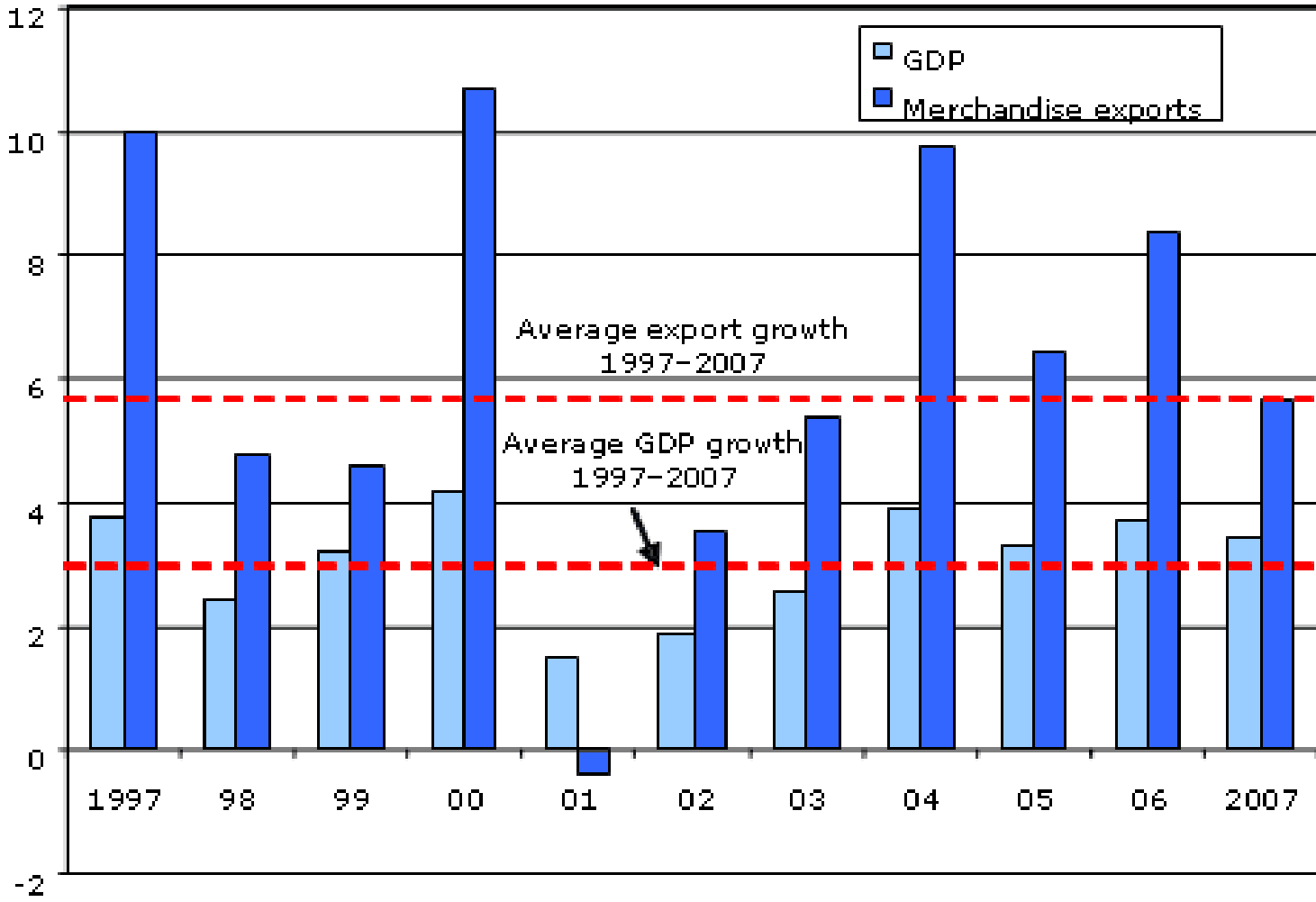
- **Global issues**
 - **The world outlook**
 - **ECONOMY, TRADE**
 - **National Outlooks**
 - **ECONOMY**
 - **RESOURCES & TRADE**
- **Implications for sea trade today**
 - **A system requires capacity throughout**
- **The U.S. Presidential Election**
- **Conclusions**



Key Global Issues and Risks: Q&A

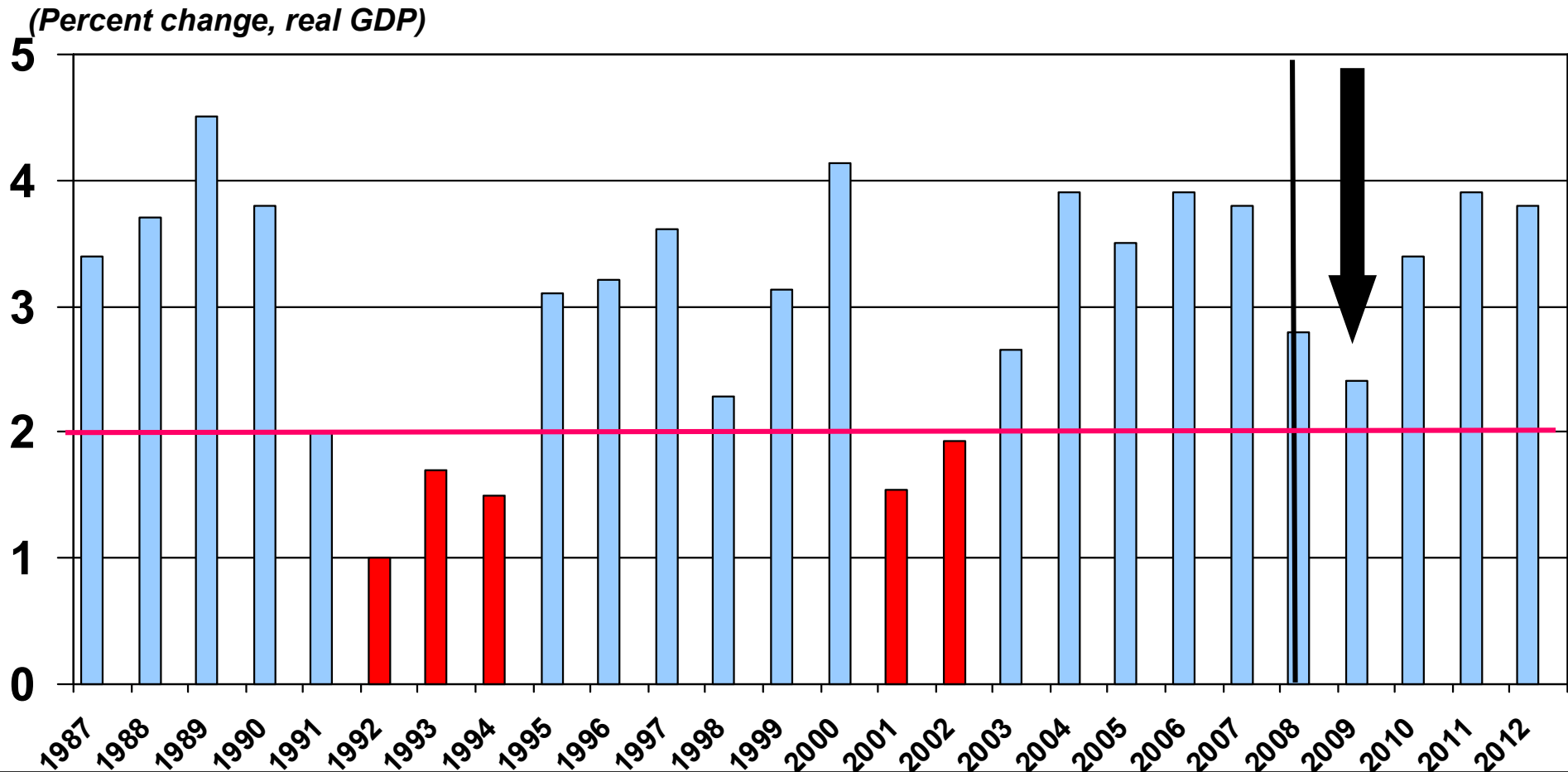
- **“My work is related to terminals. Why does economics matter to me?”**
- **Has world growth peaked? Is it hitting bottom?**
- **Will high oil prices derail the recovery and trigger higher inflation?**
- **Will the dollar continue depreciating?**
- **China: Hard or soft landing?**
- **How are different markets impacted?**
- **What will be the impact of the economy on the U.S. presidential elections and vice-versa?**

Growth in the volume of world merchandise trade and GDP, 1997-2007



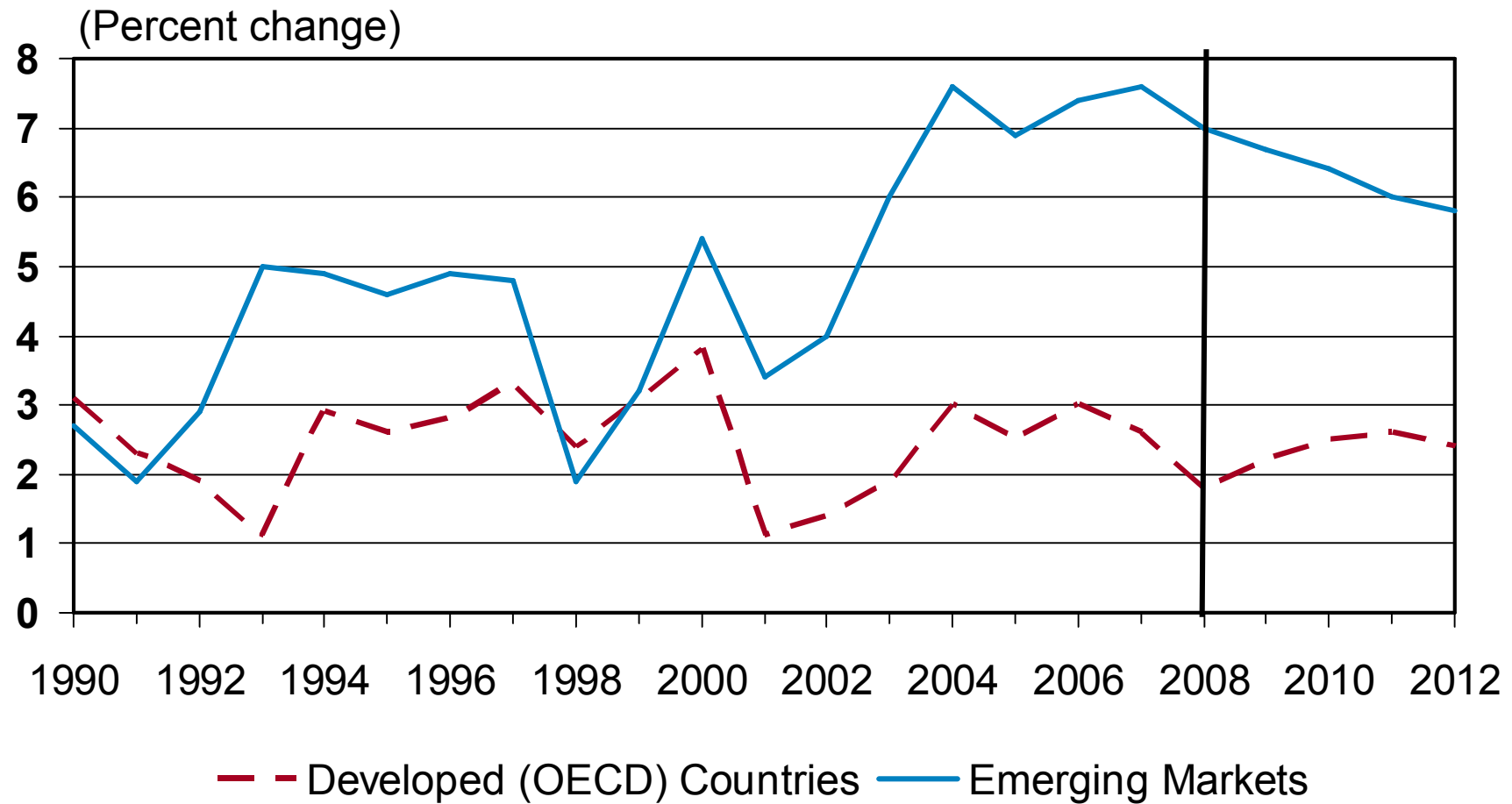
Source: WTO Secretariat

World economic growth is past another peak . . .

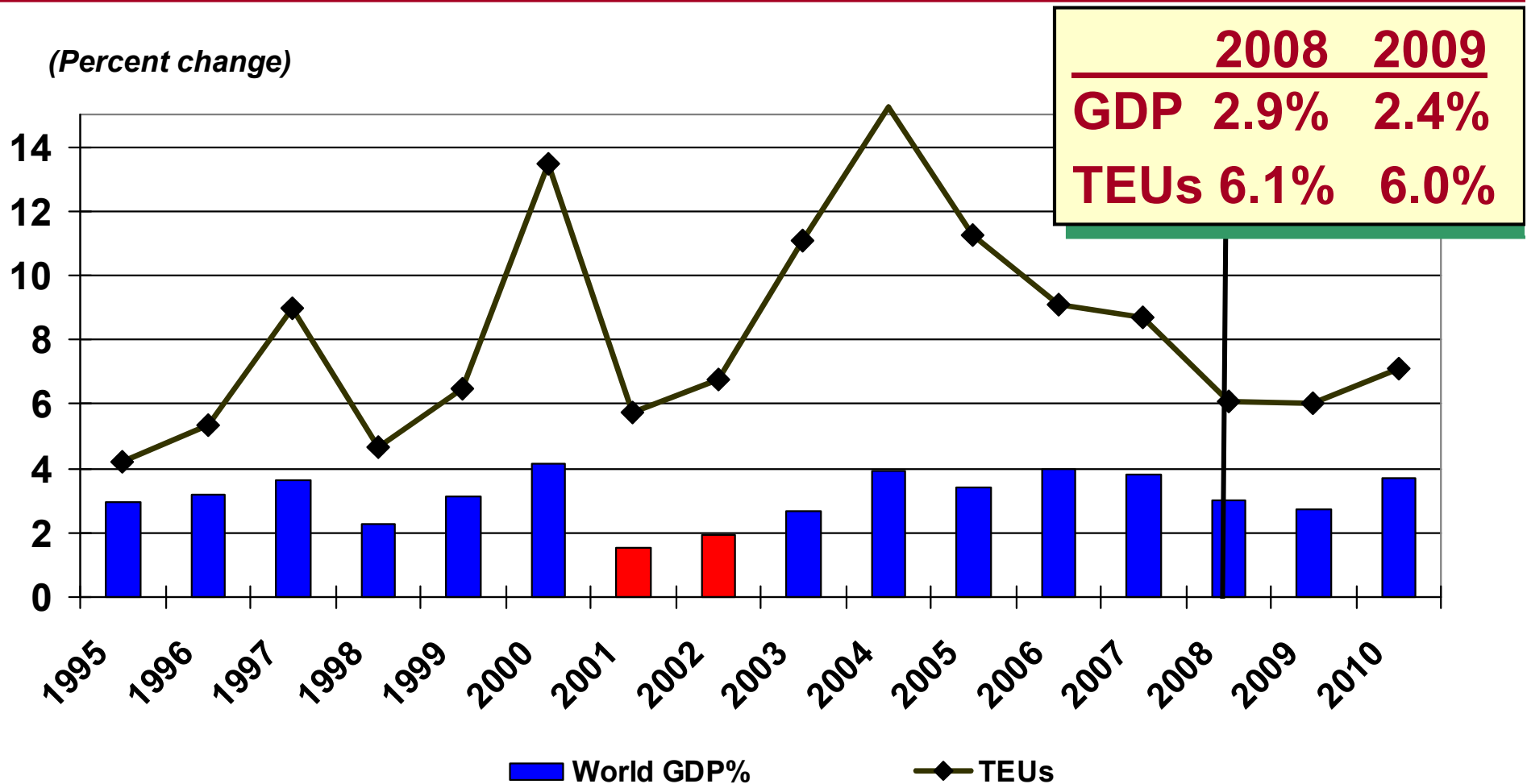


The world economy is in recession when real GDP growth is below 2%.

2-speed Real GDP Growth Gap Narrowing Long-term

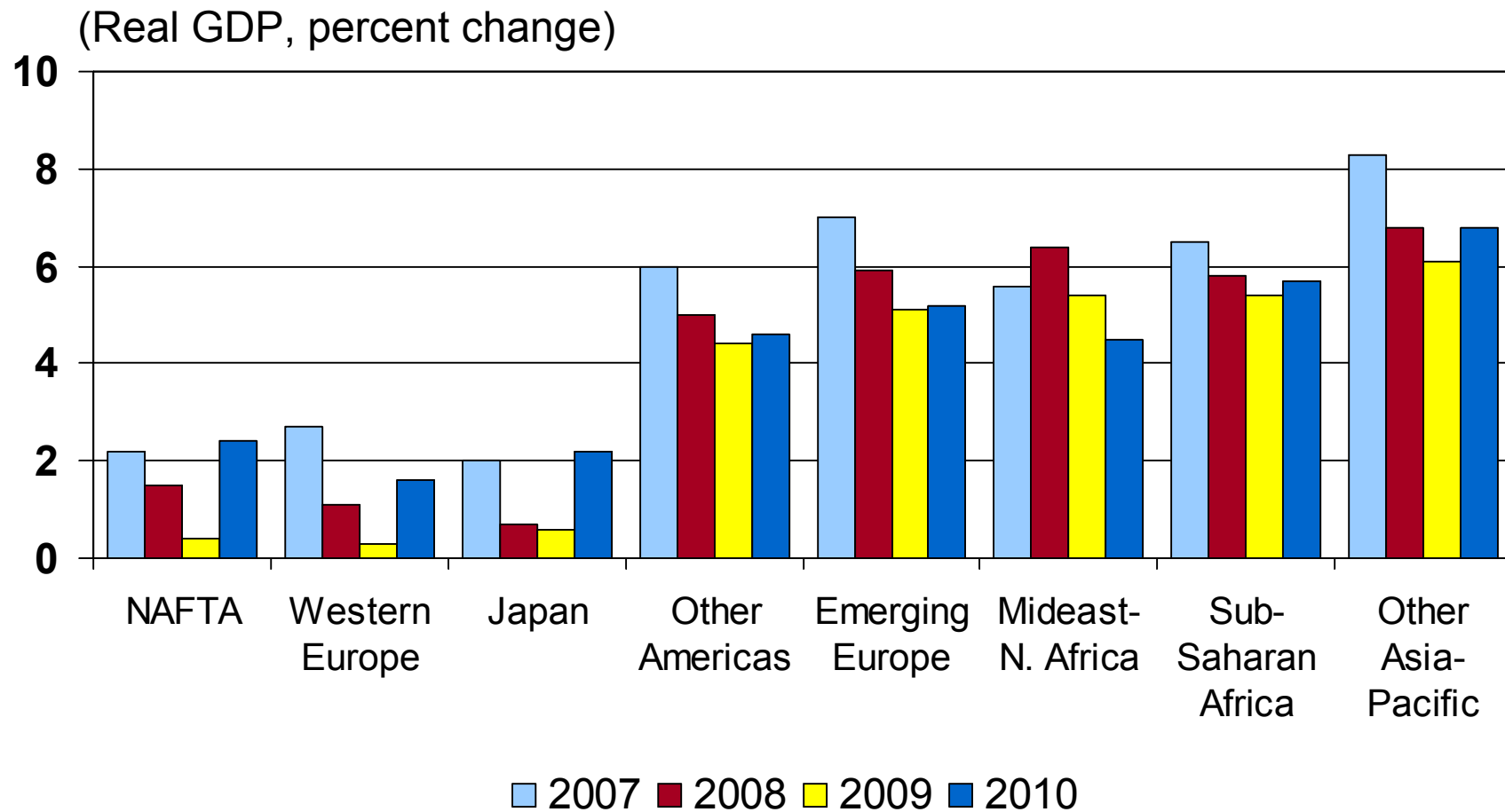


World container trade has been growing faster than the world economy, but the double-digit growth era is over



The U.S. slowdown and oil price spike dampens trade in 2009

Wide Variations in Regional Economic Growth



Long-term world growth is not uniform: Market shifts continue and will affect U.S. trade and transportation

(Country GDP Rank in Billions of Real (2007) U.S. Dollars)

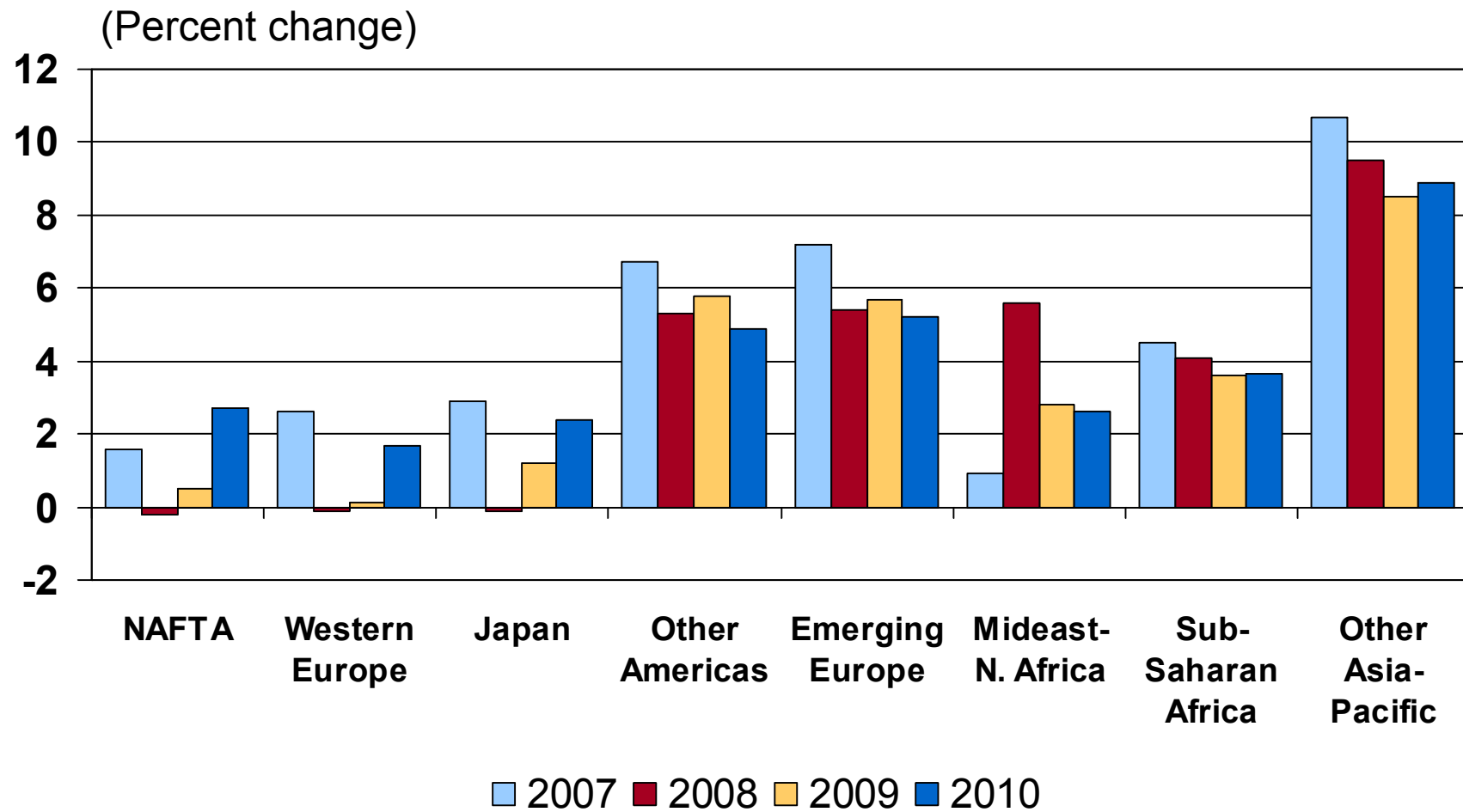
2007	2012	2020	2030	2040
U.S.	U.S.	U.S.	U.S.	U.S.
Japan	Japan	China	China	China
Germany	Germany	Japan	Japan	India
China	China	Germany	India	Japan
U.K.	U.K.	U.K.	Russia	Russia
France	France	India	U.K.	Brazil
Italy	Russia	France	Germany	U.K.
Spain	Italy	Russia	France	Germany
Canada	Brazil	Italy	Brazil	France
Brazil	India	Brazil	Italy	Italy

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Asia/Pacific Leads in Industrial Production Growth

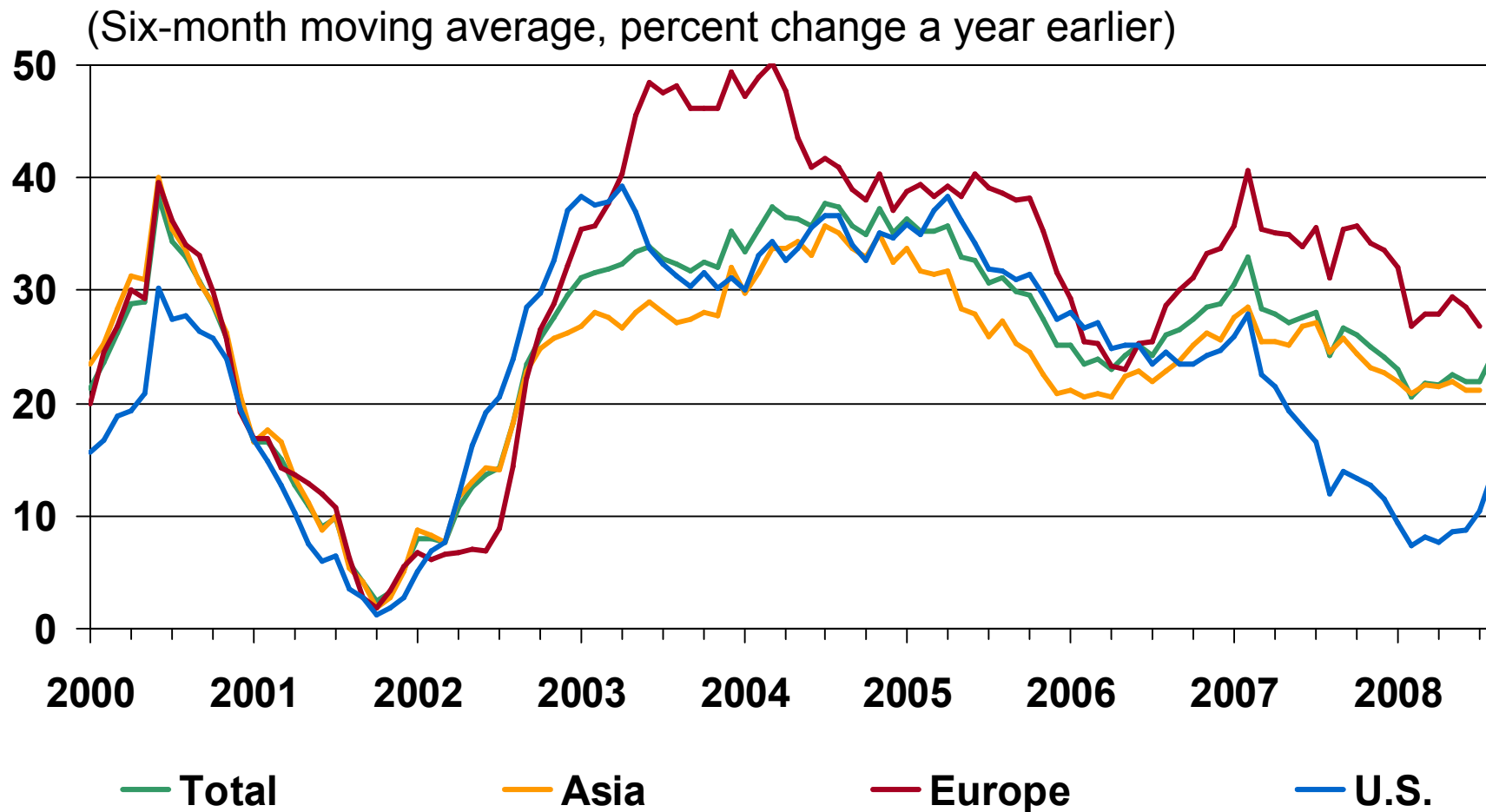


China has Changed Market Reform; Bigger; More Open

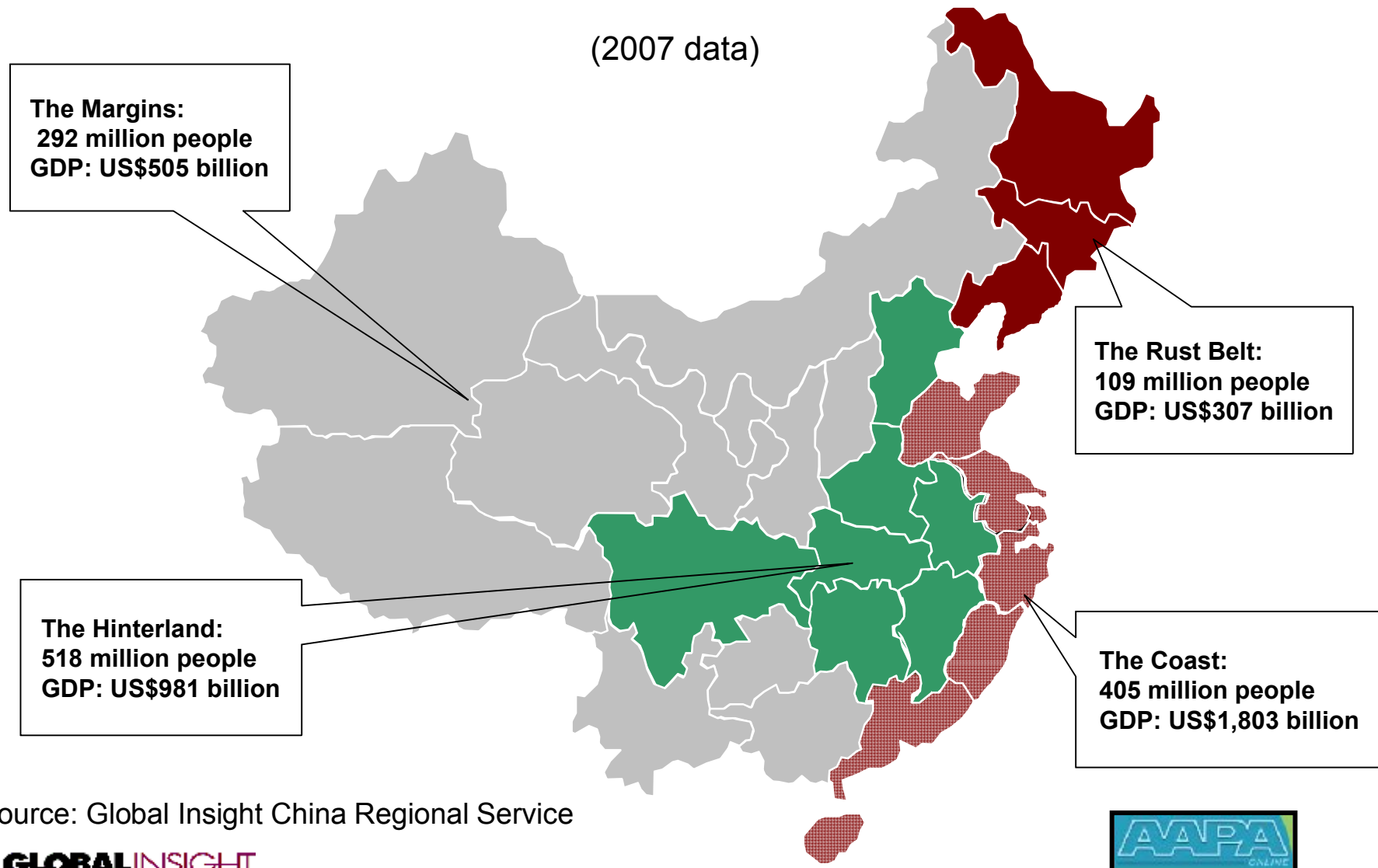
	1980	2002	2007
Real GDP (2002\$ billions)	0.169	1.24	3.28
Relative GDP (% of U.S. level)	3%	12%	23.7%
Avg Real GDP Growth Previous 10 Yrs	5.3%	9.3%	9.3%
Population (millions)	981	1,285	1,321
Nominal Per Capita GDP	171	946	2483
Trade's Share of GDP	15%	55%	66%
Current Account Surplus (\$ billions)	1	35	371.8
Agriculture's Share in GDP	30%	15%	11.3%
Urbanization	20%	32%	44%

Source: WTO, CIA Worldfactbook, EDC Canada, Global Insight,

China's Merchandise Export Growth Has Slowed



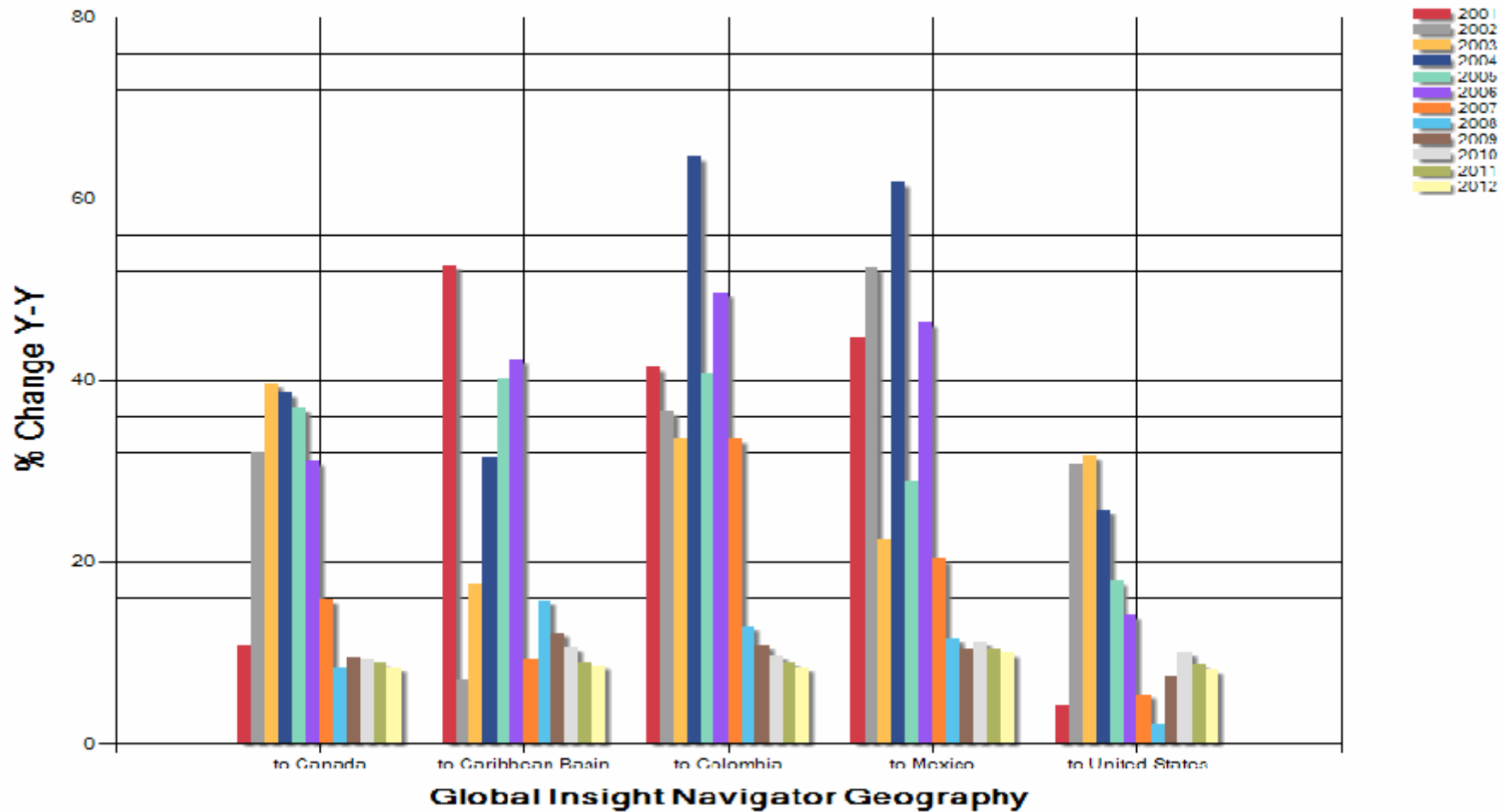
China's Heterogeneous Regions



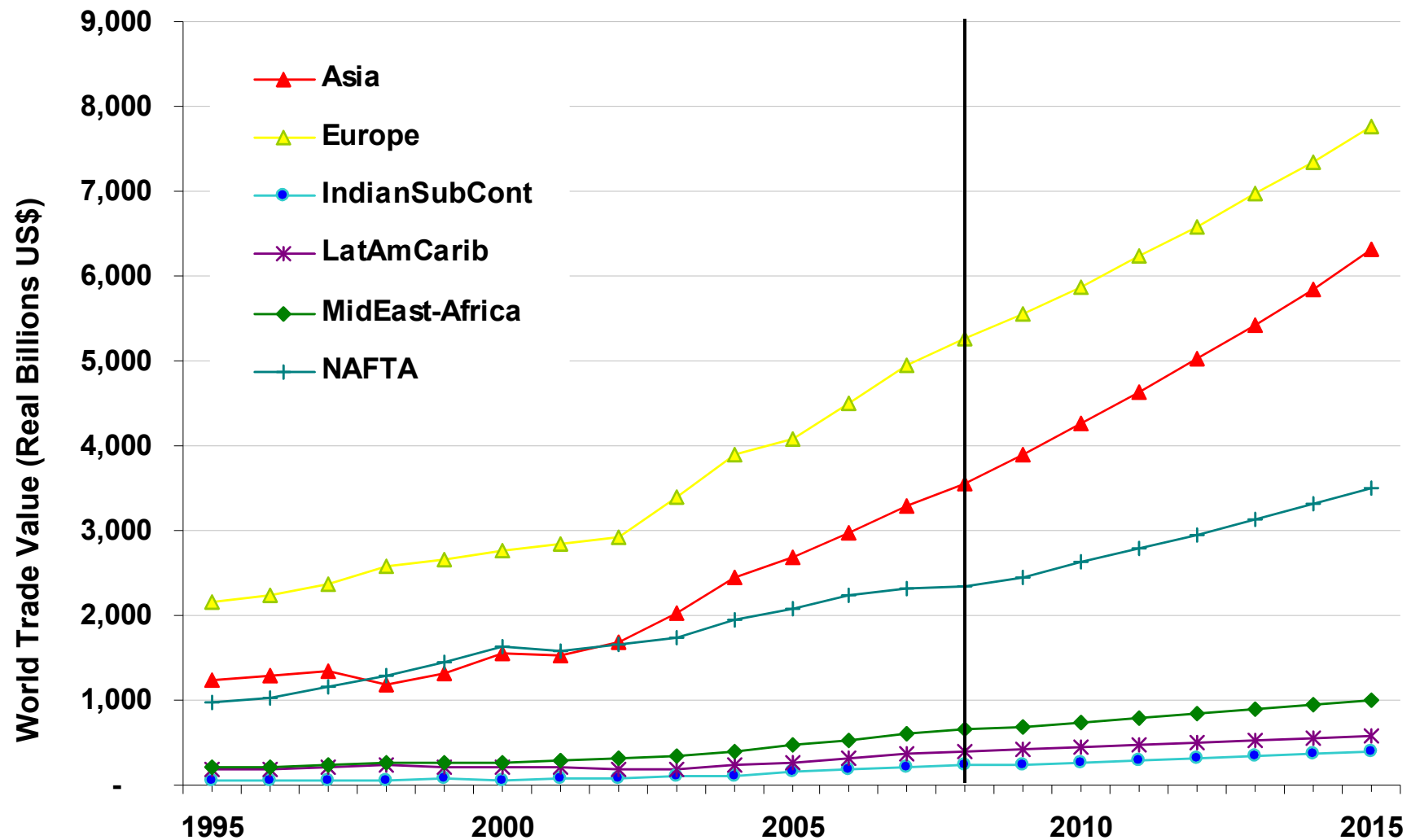
Source: Global Insight China Regional Service

China Exports to Americas

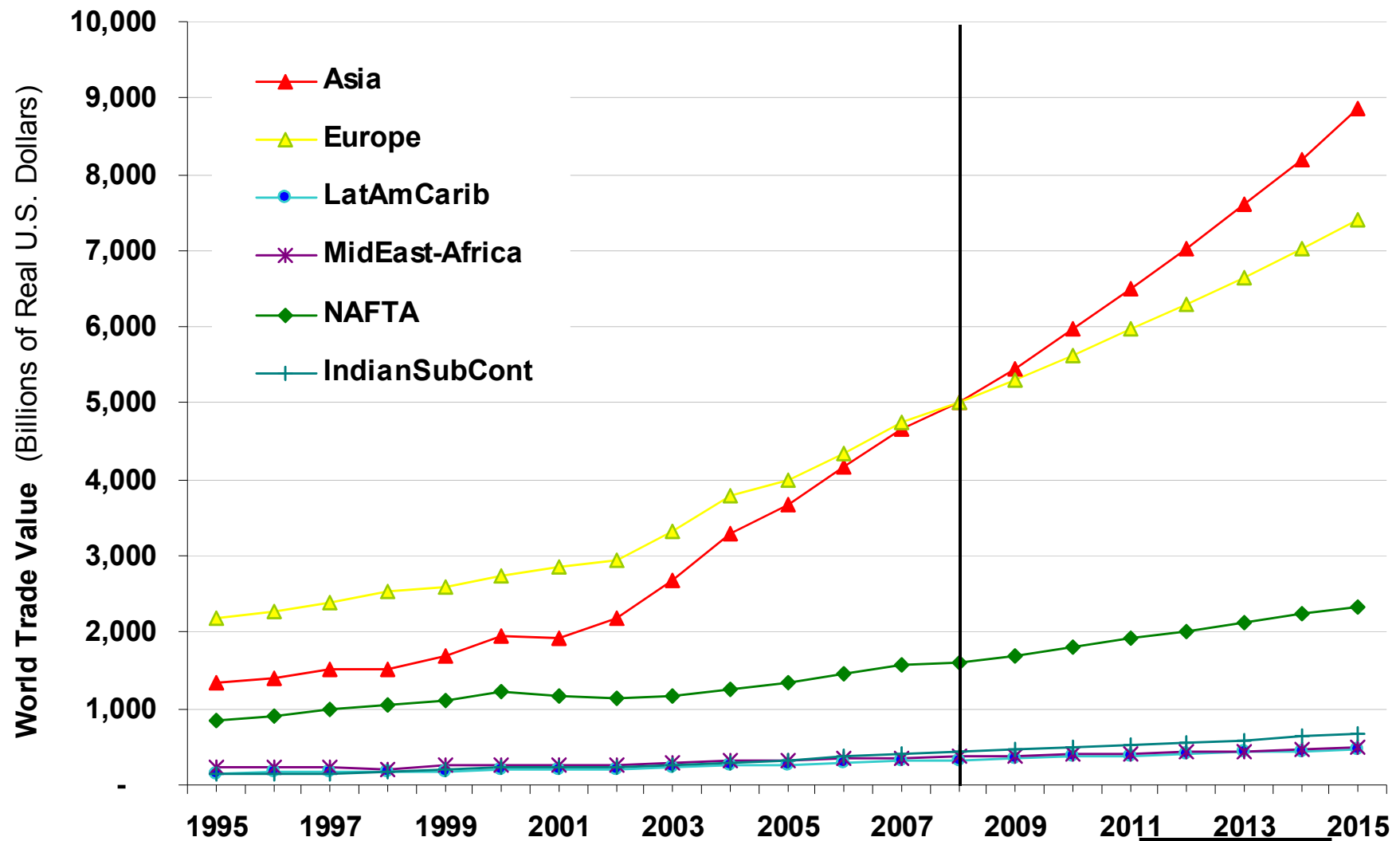
China - Total Commodities - Total Trade



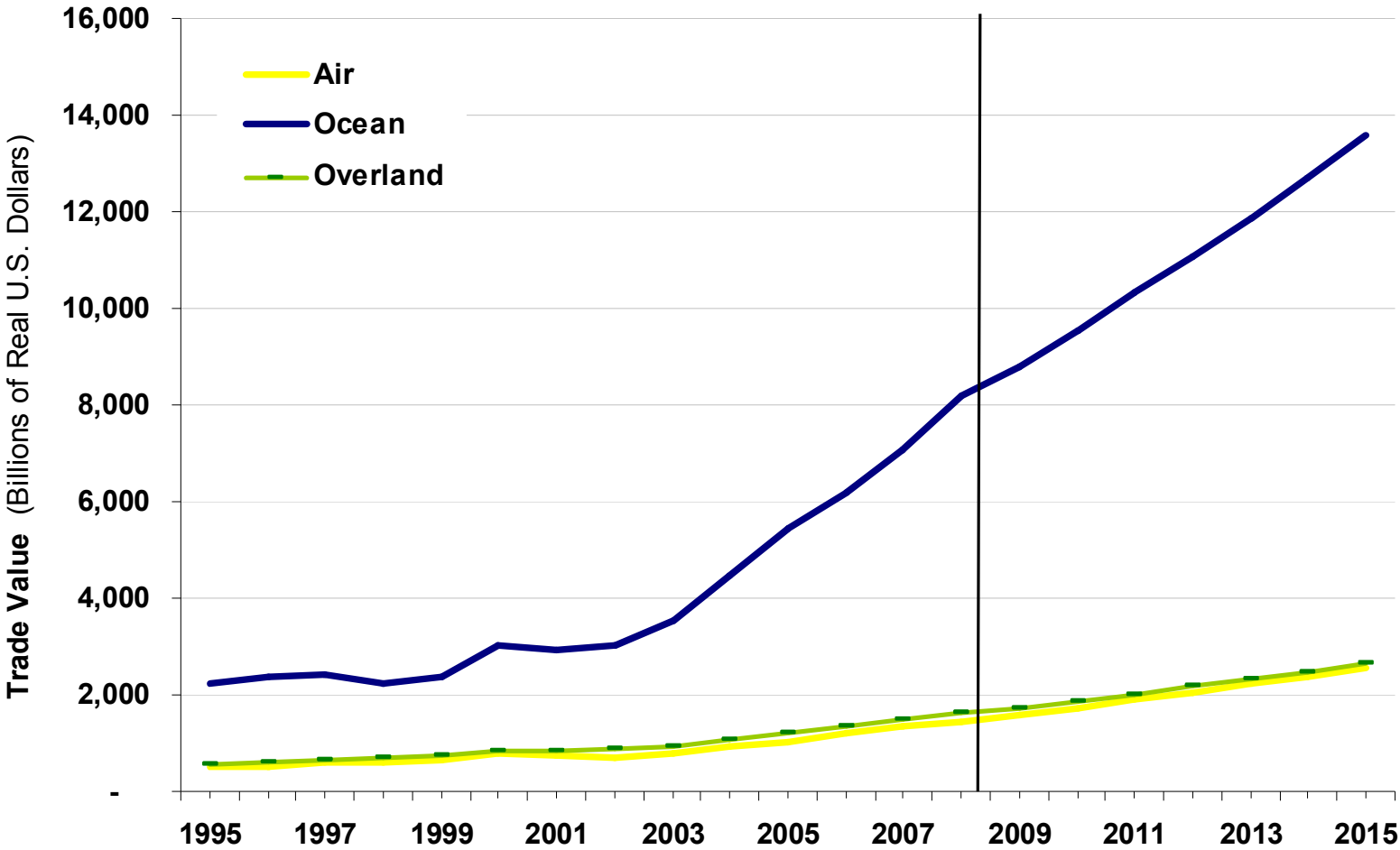
Europe, Asia Dominate Import Value Growth by Region



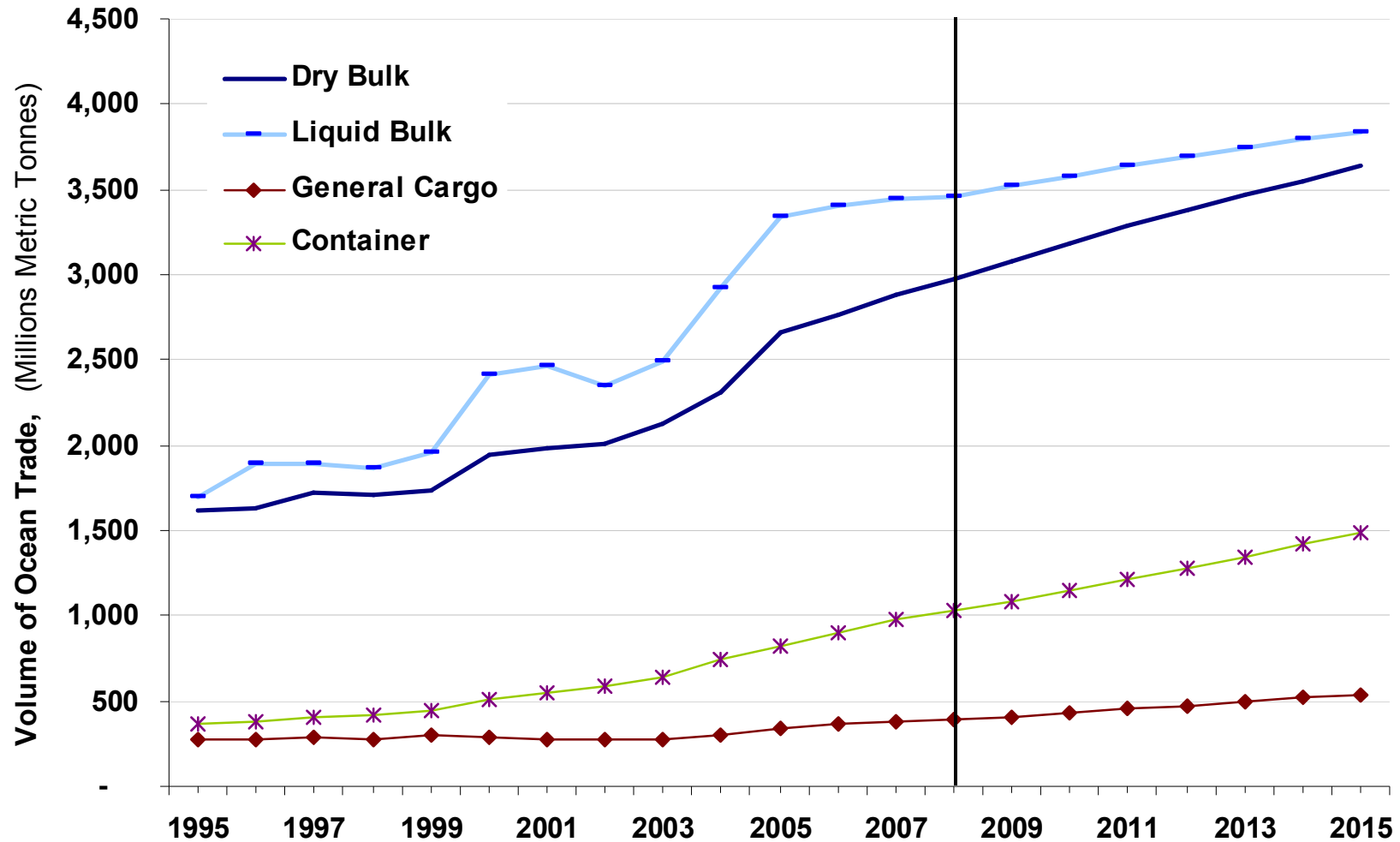
Asia, Europe Dominate Export Value Growth by Region



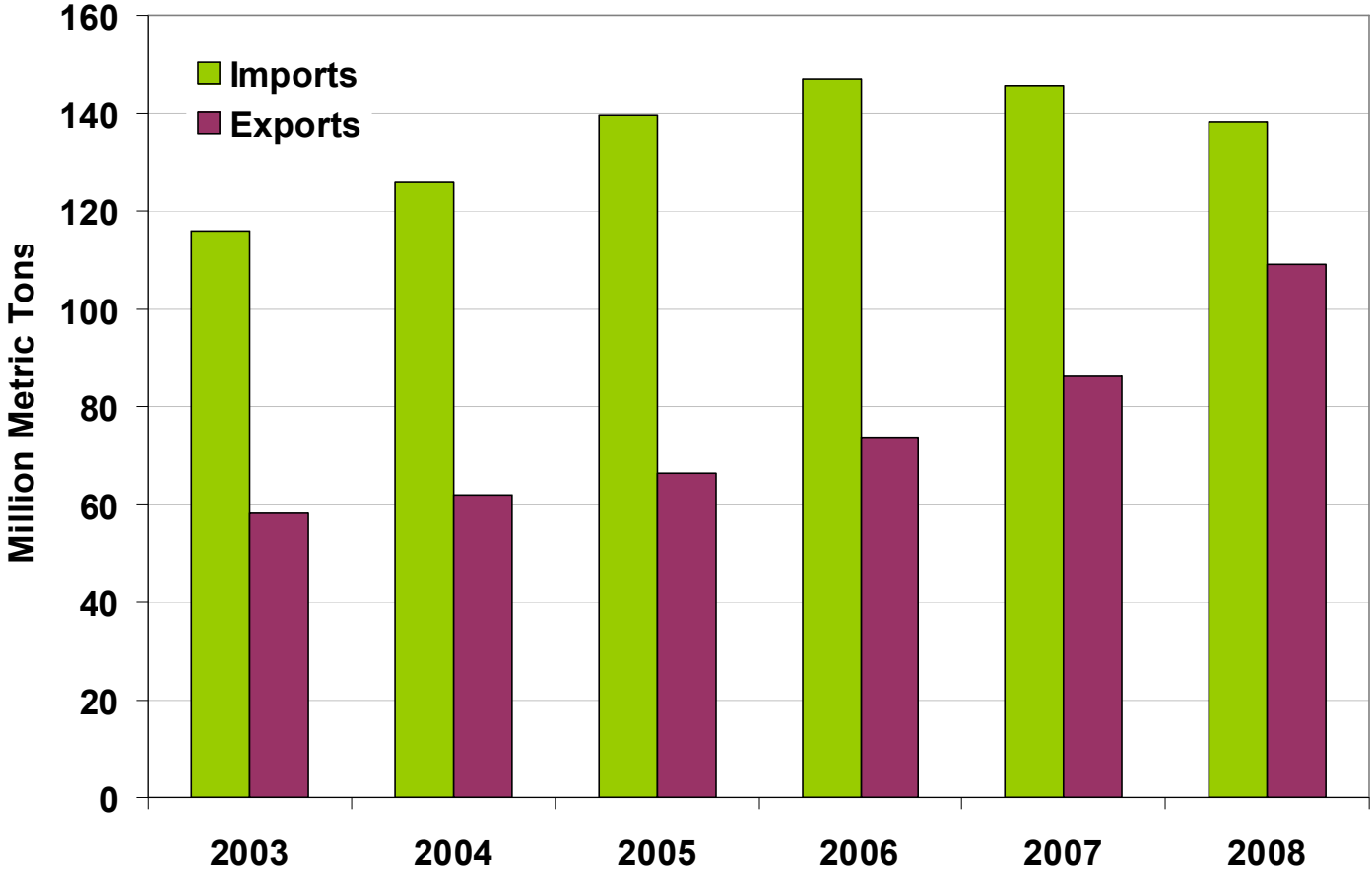
Ocean Trade Dominates Trade Value Growth



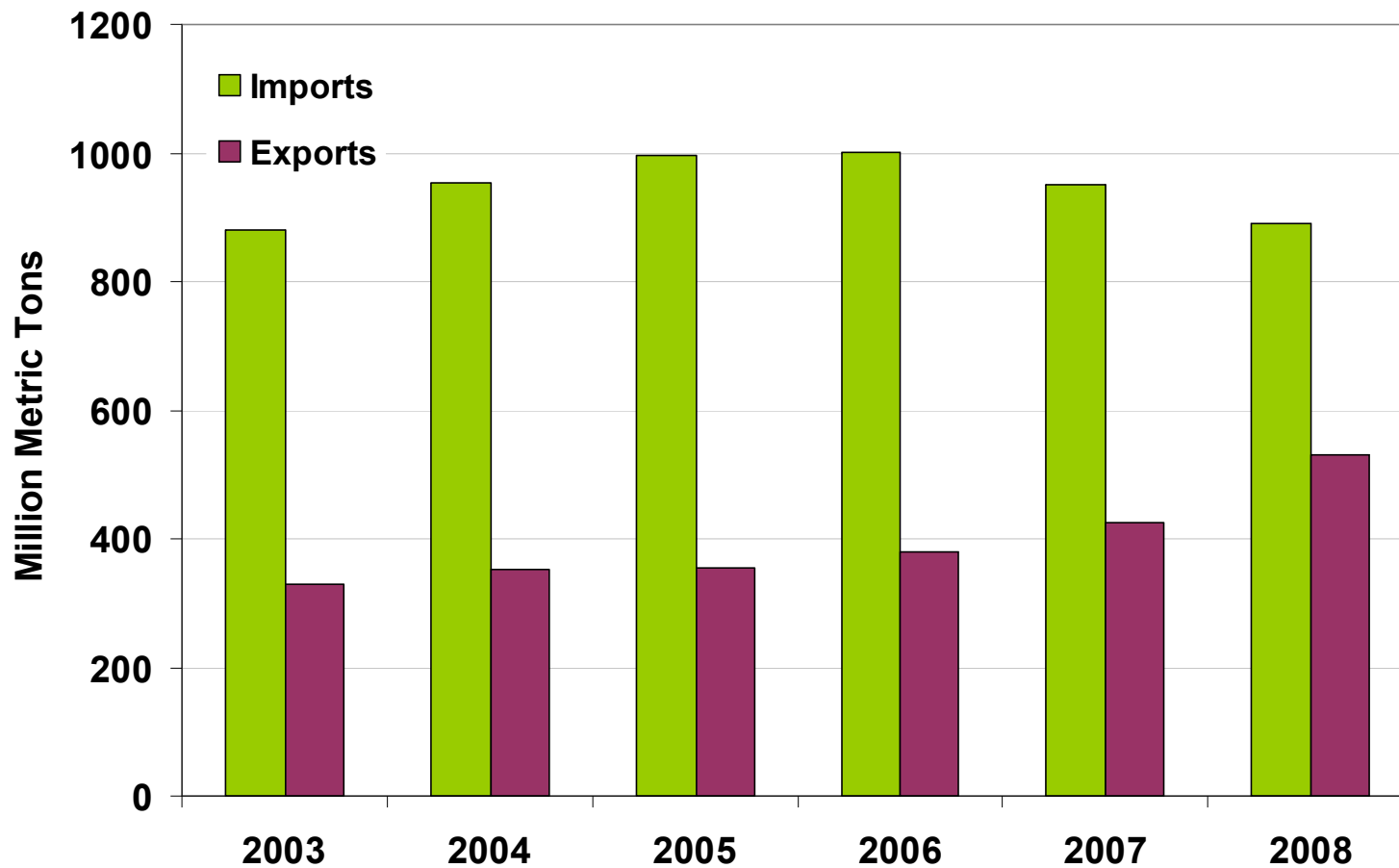
Tanker Trade Dominates Trade Tonnage



U.S. Containerized Maritime Trade



U.S. Maritime Trade – Narrowing Gap between Imports & Exports



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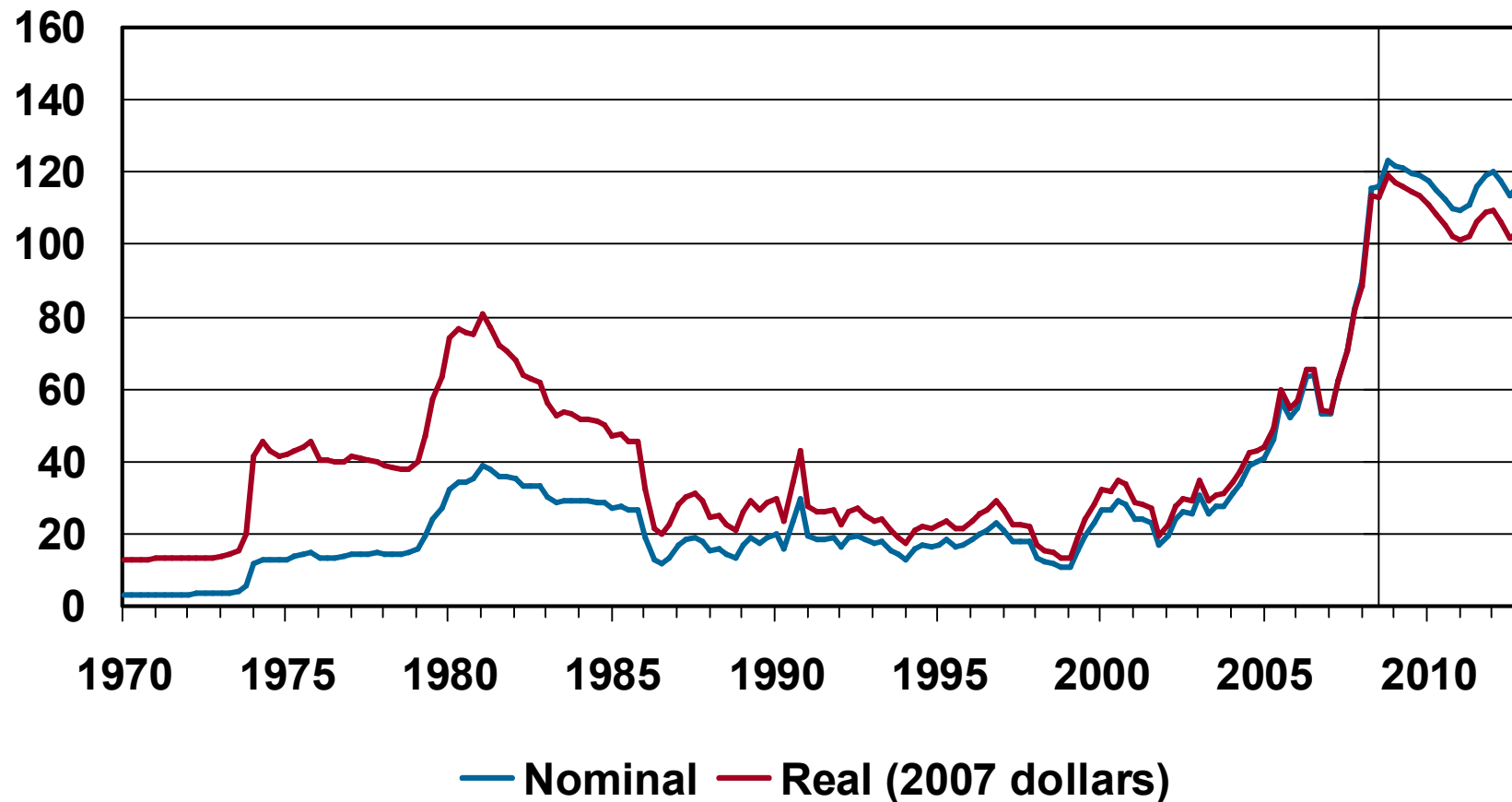
World Real Oil Prices Will Decline

- **Key Drivers**
 - Speculators pushed up the dollar oil price.
 - Global demand growth outstripped supply.
 - Short run additions to supply disappoint.
- **Periodic supply disruptions contribute to price volatility**
 - Geopolitical events.
 - Speculation / Market events.
- **Abundant energy resources**
 - Concentrated in higher-risk locales.
 - Conservation and additional production progress.

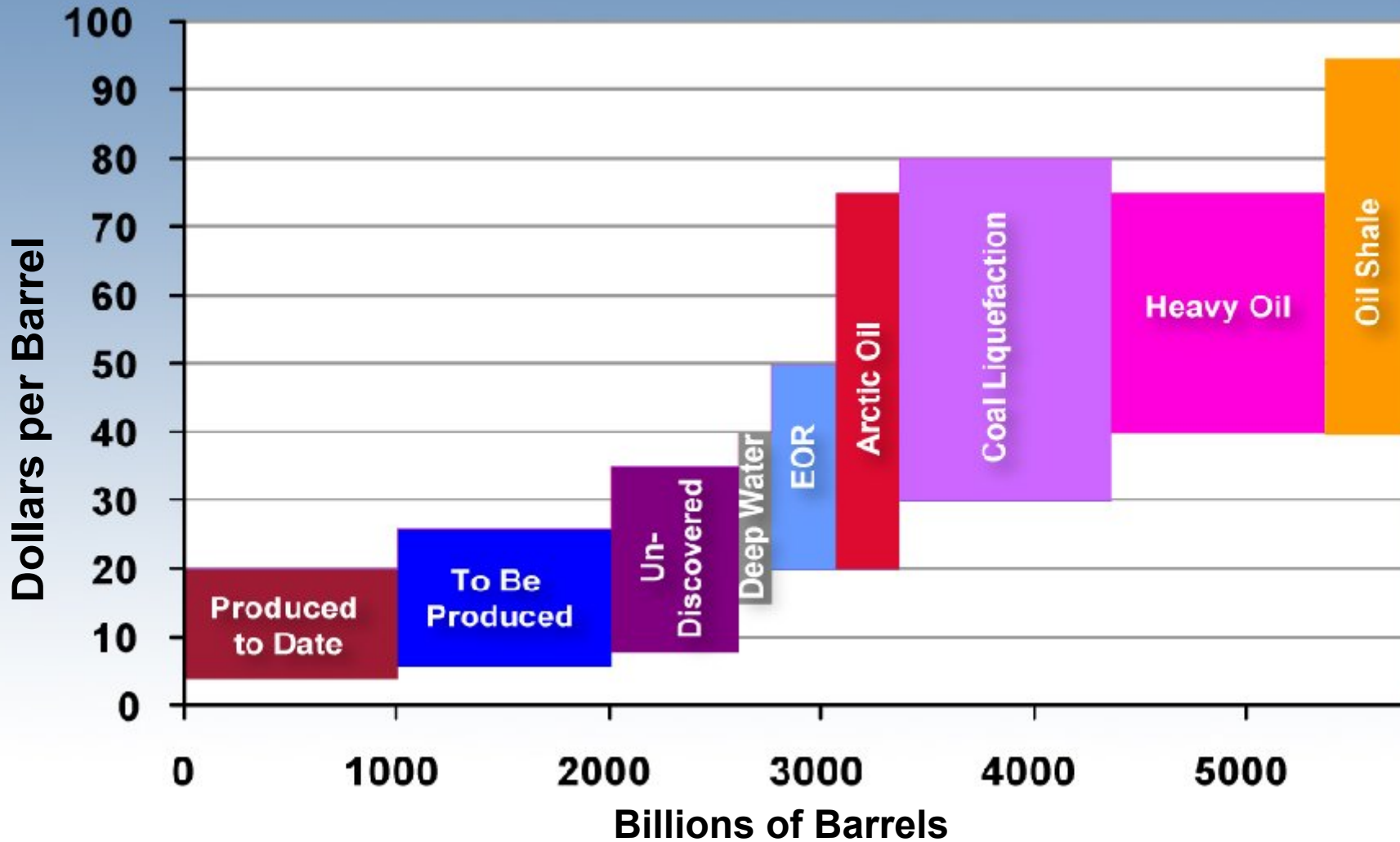
Risks: Lower prices in the near-term, Forecast lower prices in the medium-term (WTI falling to average \$90-101/bbl in '09-'10-'11)

Real Crude Oil Prices Will Come Down

(U.S. refiners' acquisition price of imports, \$/barrel)



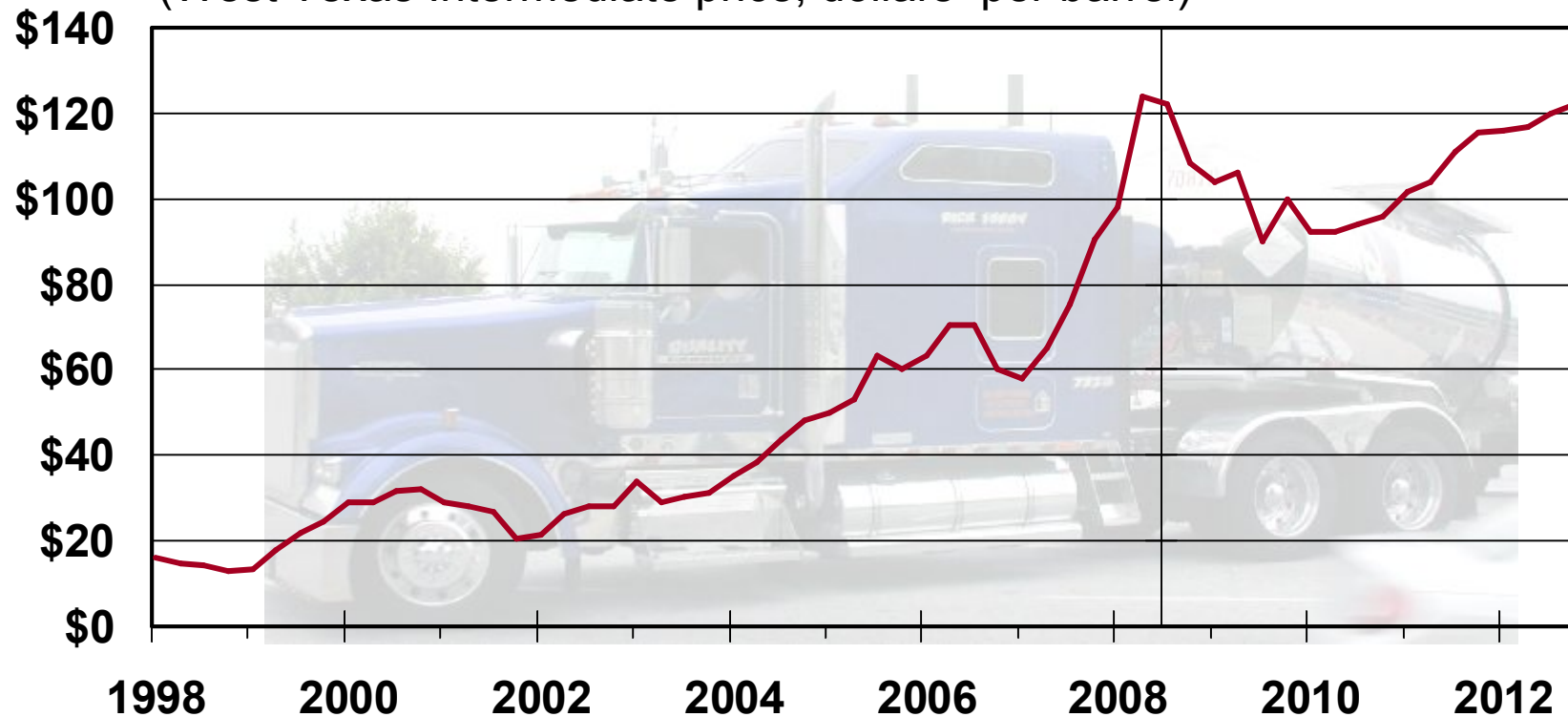
The Petroleum Resource Base Is Not a Constraint: Projected Supplies and Development Costs



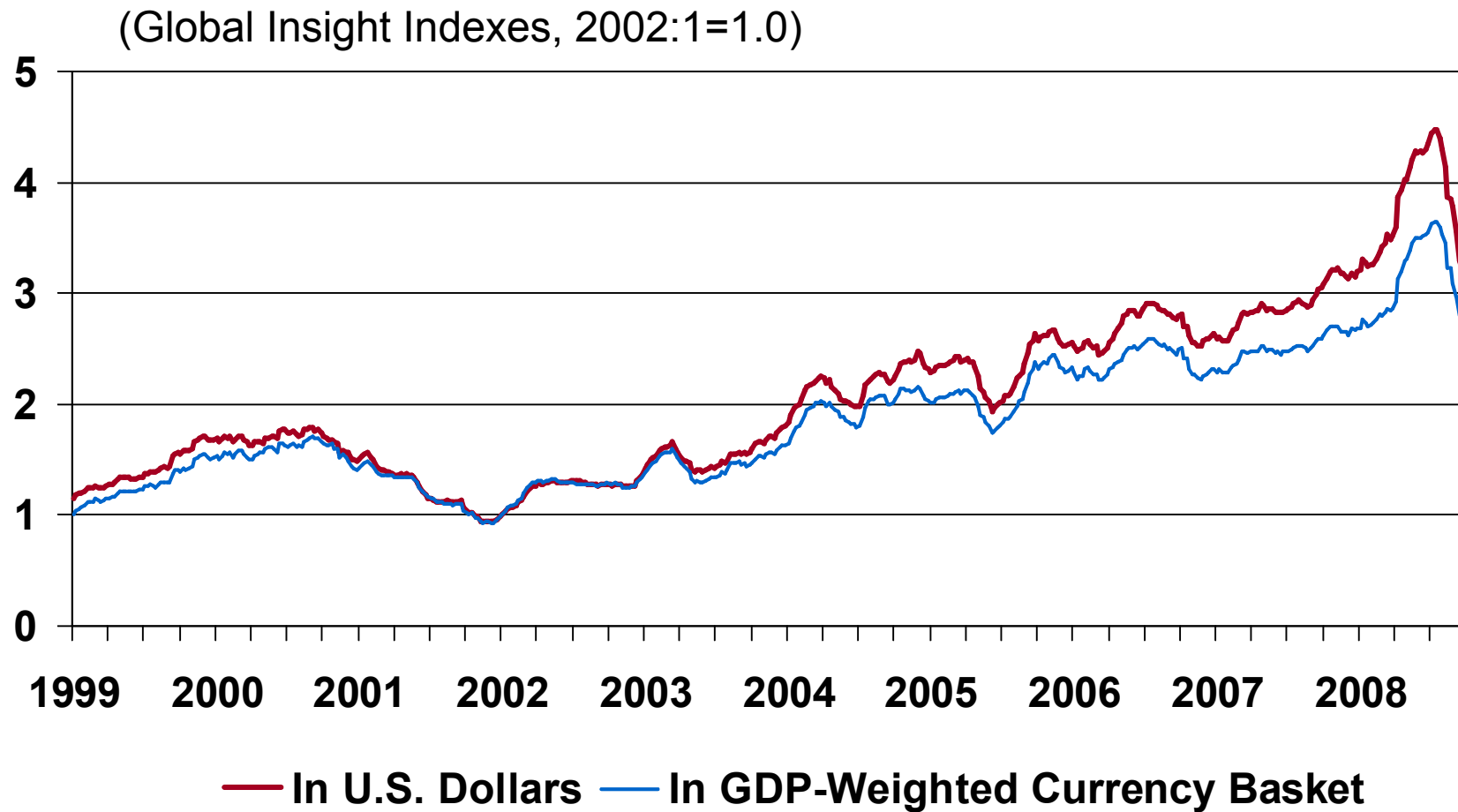
Sources: IEA, EIA, Company Websites, O&G Journal, World Oil, Rand Corporation, ECG

Oil Prices Will Return to Elevated Levels

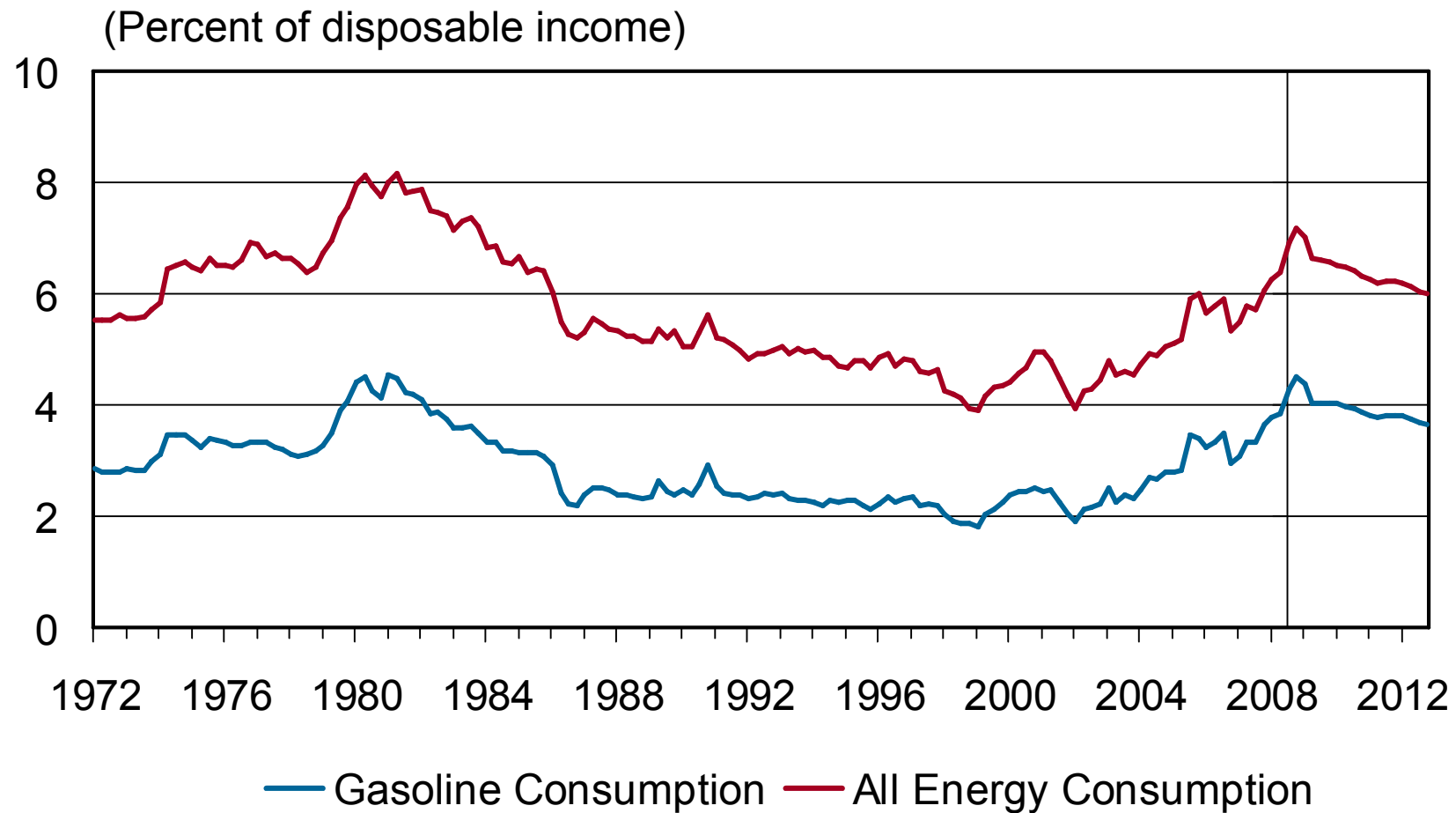
(West Texas Intermediate price, dollars per barrel)



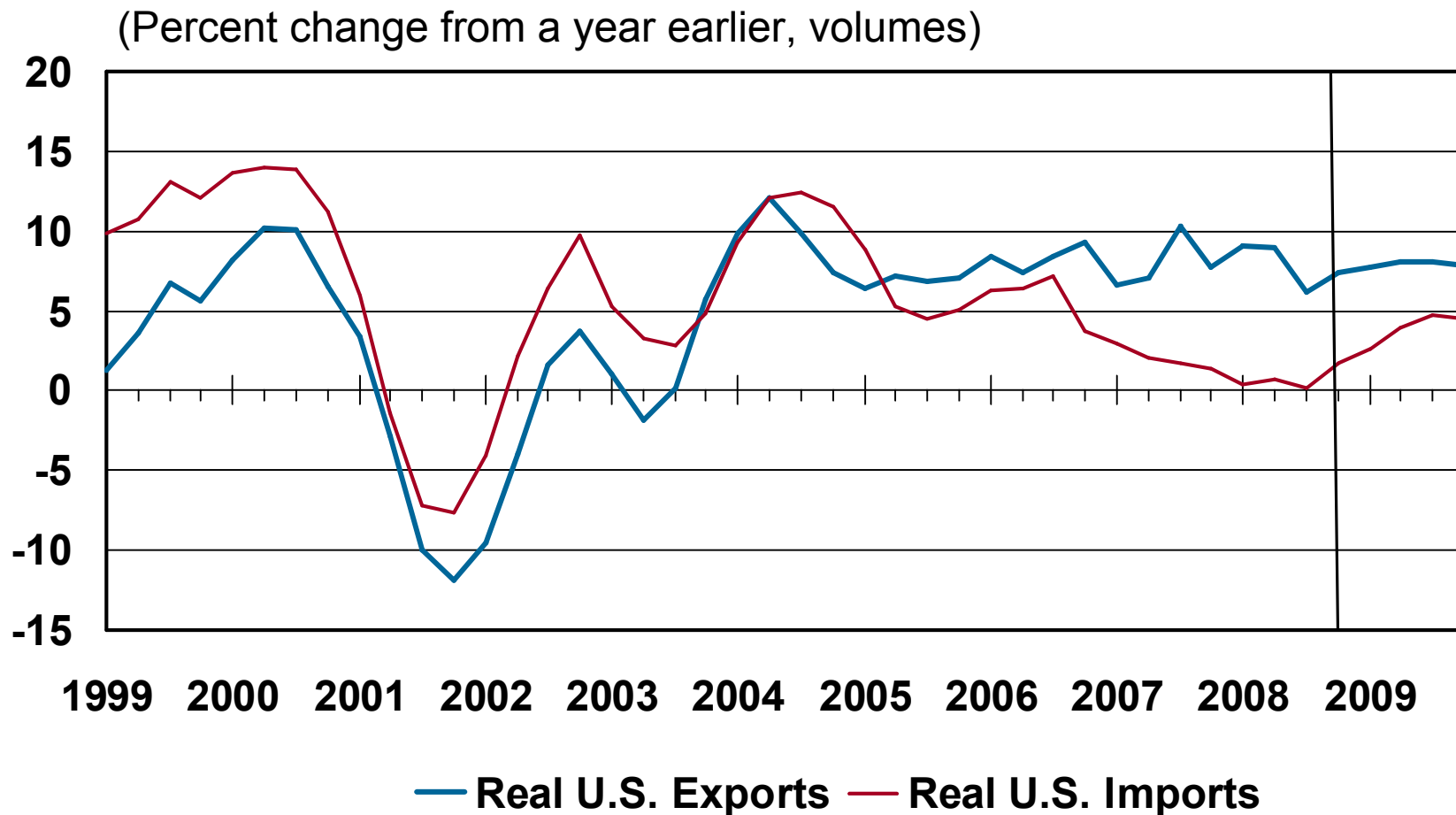
Industrial Materials Prices Retreat from Peaks



Household Energy Spending Takes a Larger Share of Disposable Income



U.S. Foreign Trade Outlook Reflects the Impacts of Exchange Rates, Business & Consumer Spending

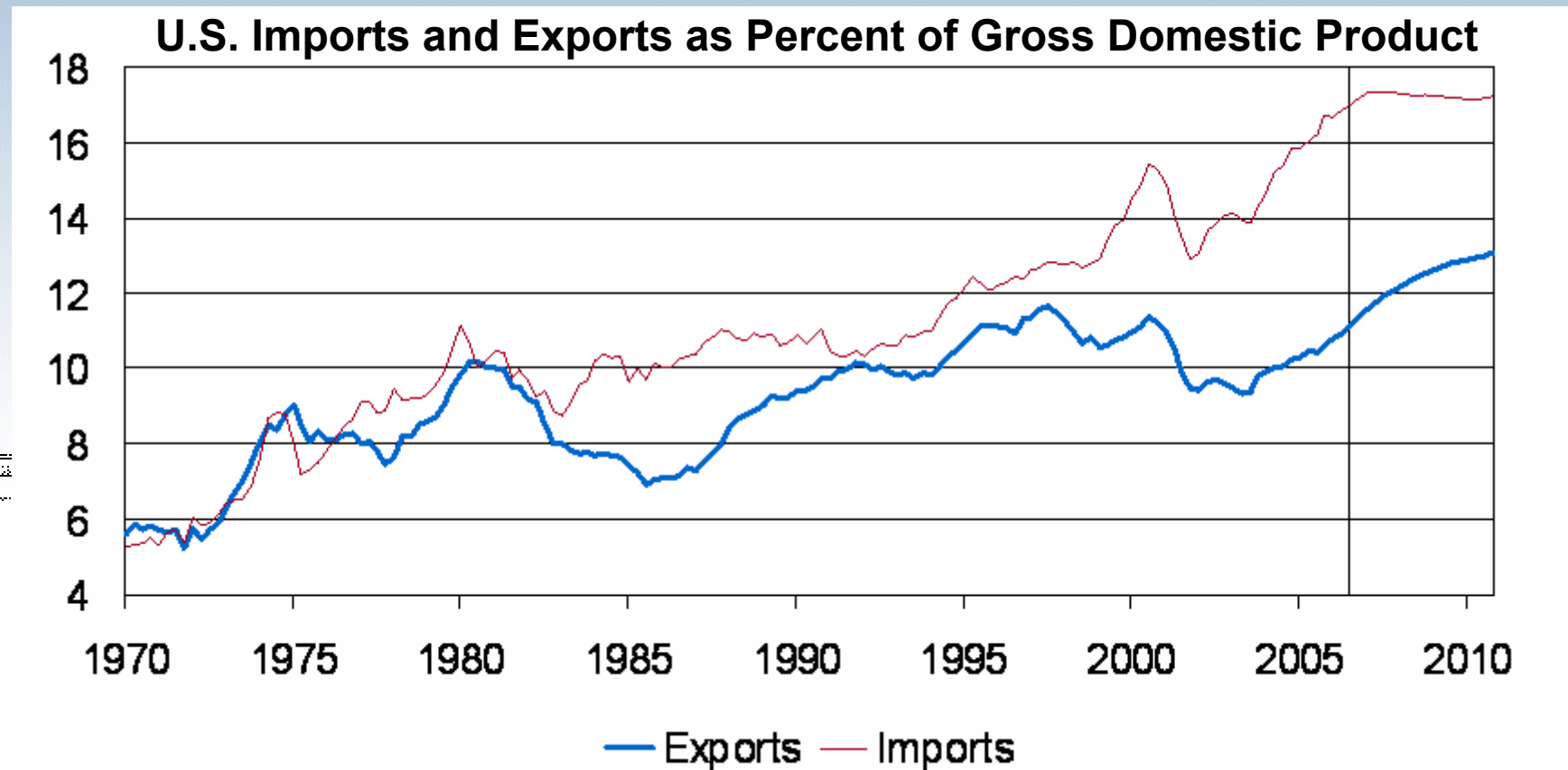


Source: Global Insight U.S. Macroeconomic Forecasting Service

TR

"...the man who really counts in the world is the doer, not the mere critic, the man who actually does the work, even if roughly and imperfectly, not the man who only talks or writes about how it ought to be done." (1891)

U.S. Long-Term Globalization Trends Are Not Reversed by the Current Oil Price Spike



Source: Global Insight U.S. Macroeconomic Forecasting Service

The Story on Reverse Globalization

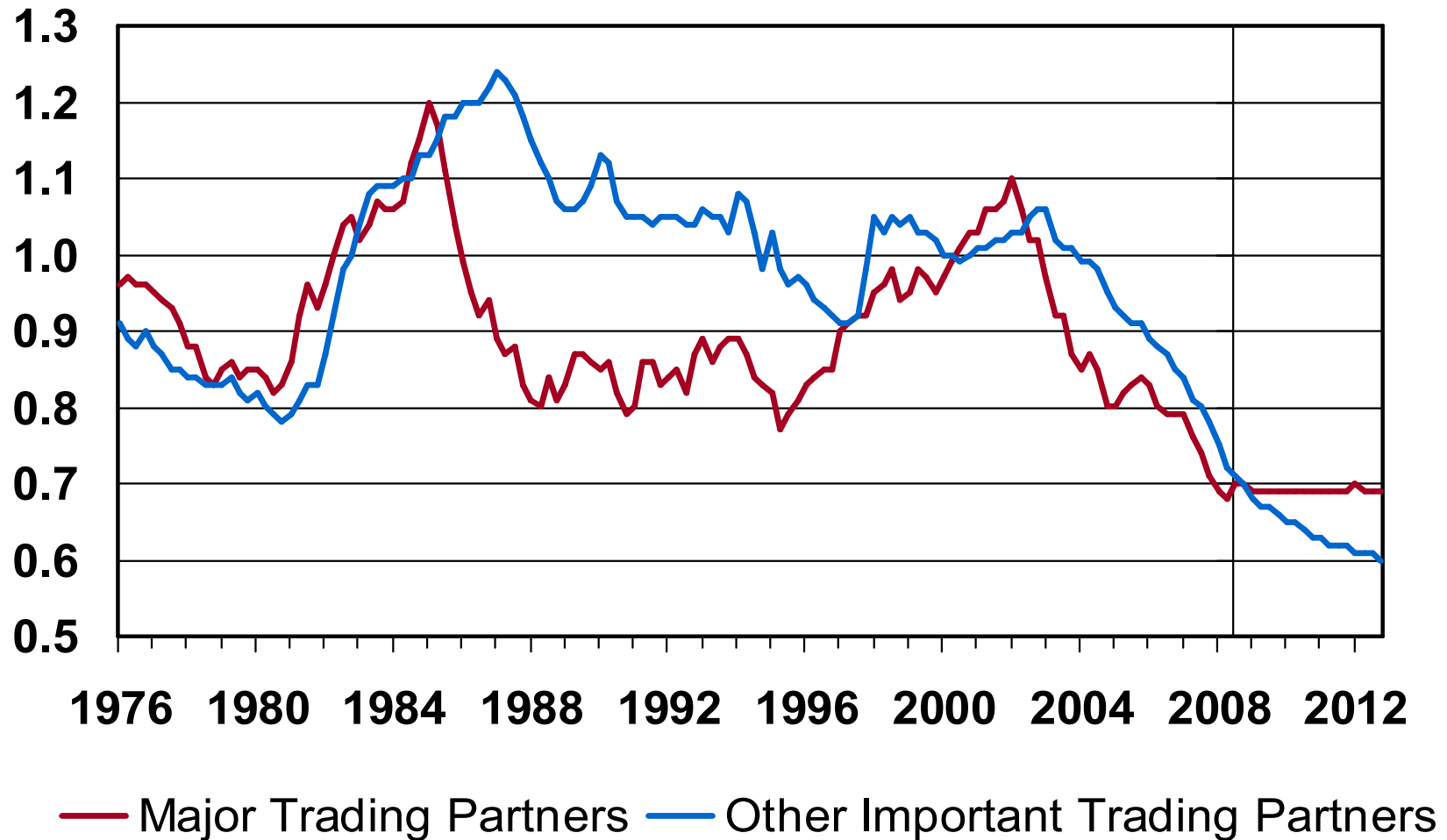
- **High transportation costs**
 - **Origin to Destination**
- **Can somewhat be offset**
- **Trade-offs in service quality**

Direct trade sourcing diversion pressures can be reduced

Outlook for U.S. Transportation from Trade

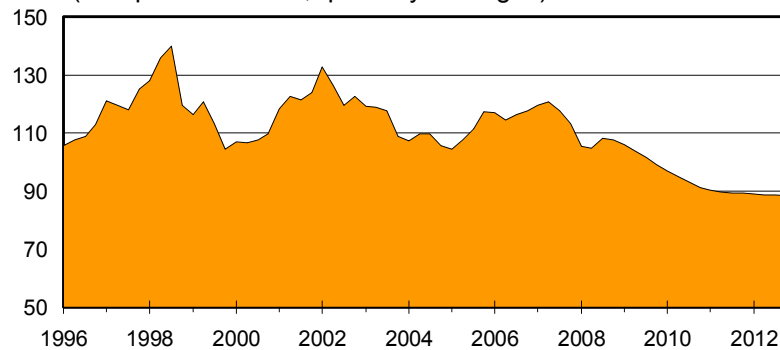
- **Long-term, trade volume growth eventually adds new traffic through smaller port gateways and on secondary traffic lanes.**
- **Trade growth increases average total length-of-haul, but inland U.S. transport rail & truck mode portions of these shipments are under pressures from energy, environmental and labor dimensions to be rationalized.**
- **The cost pressures work to the advantage of rail versus truck.**

The U.S. dollar depreciation – steady decline from 2002, due to current account deficits.

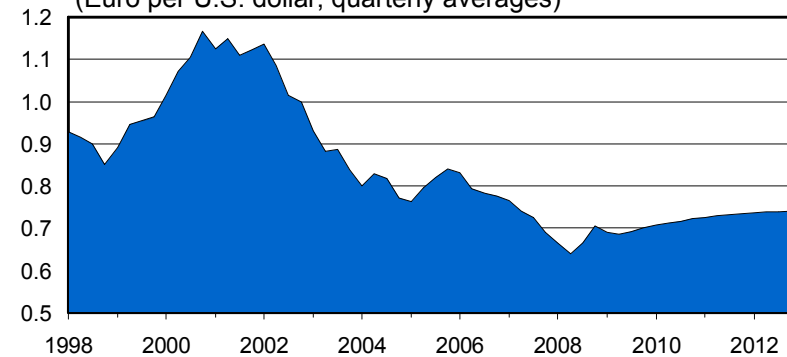


U.S. Dollar Exchange Rates

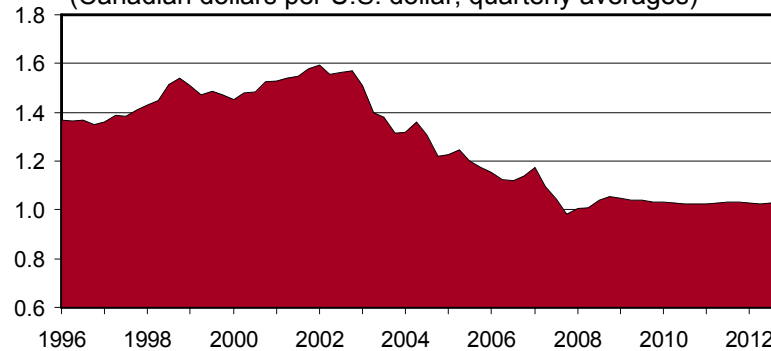
Depreciation Against Japanese Yen
(Yen per U.S. dollar, quarterly averages)



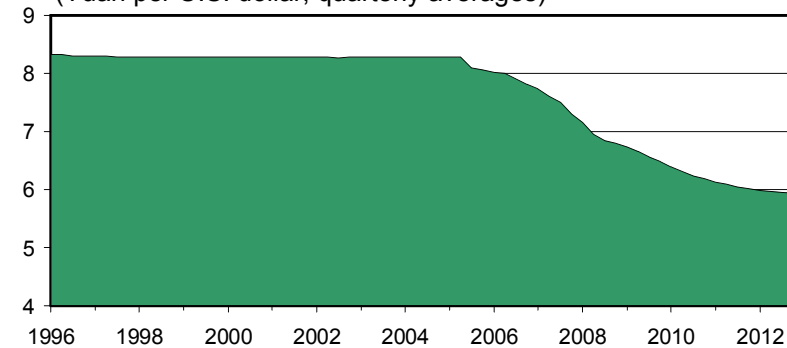
Spring 2009 Trough Against the Euro
(Euro per U.S. dollar, quarterly averages)



Near Parity with the Canadian Dollar
(Canadian dollars per U.S. dollar, quarterly averages)



Falling Against China's Renminbi
(Yuan per U.S. dollar, quarterly averages)

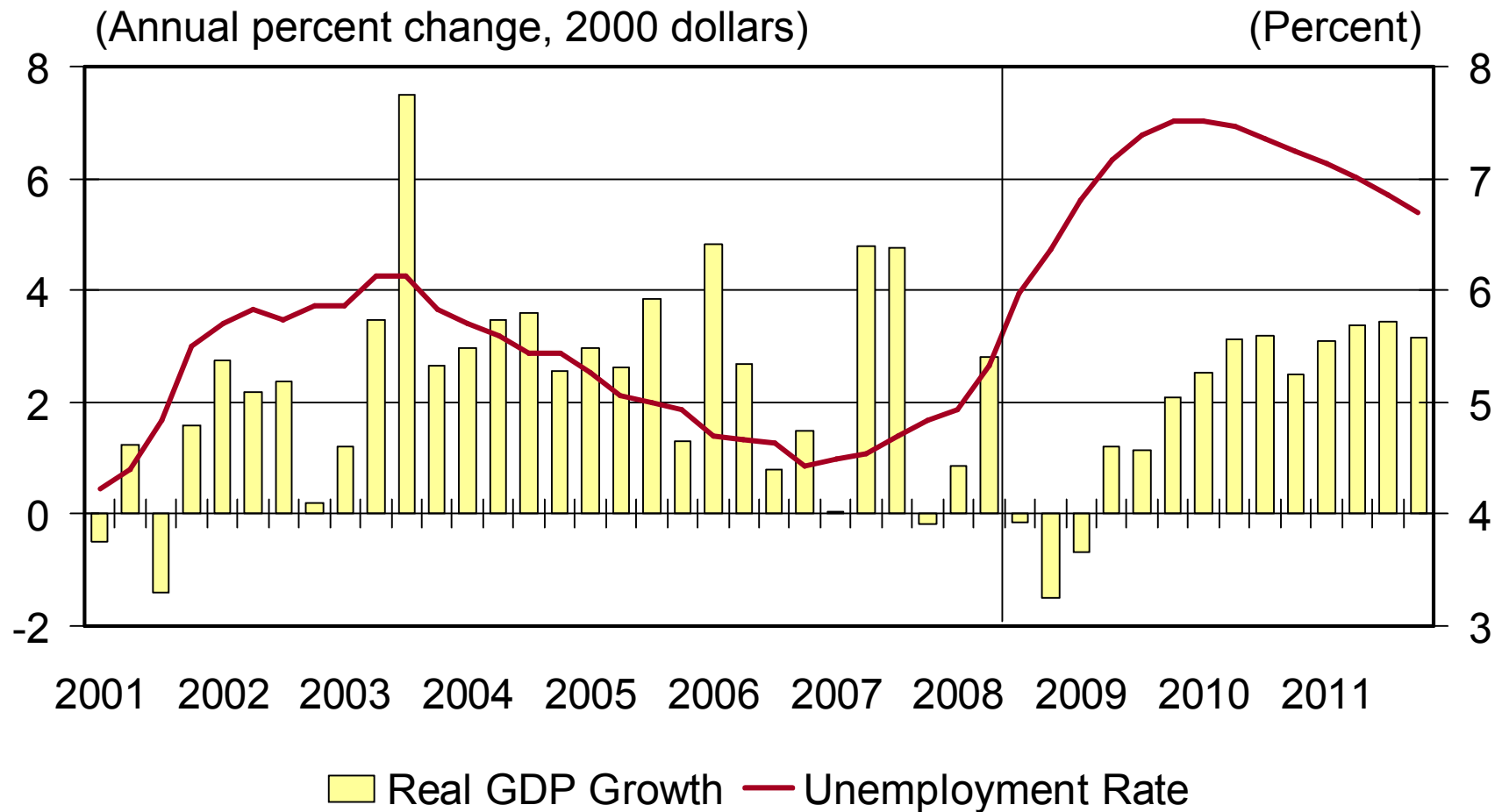


The U.S. Economy in Recession

- **The financial crisis will deepen and prolong the recession that began in late 2007**
- **Consumers, businesses, and state & local governments face tighter credit conditions and will spend cautiously**
- **The global economy is dragged down too, undermining the U.S. export boom**
- **Inflation is yesterday's problem; more interest rate cuts are expected**

No sustained upturn until mid-2009 at earliest

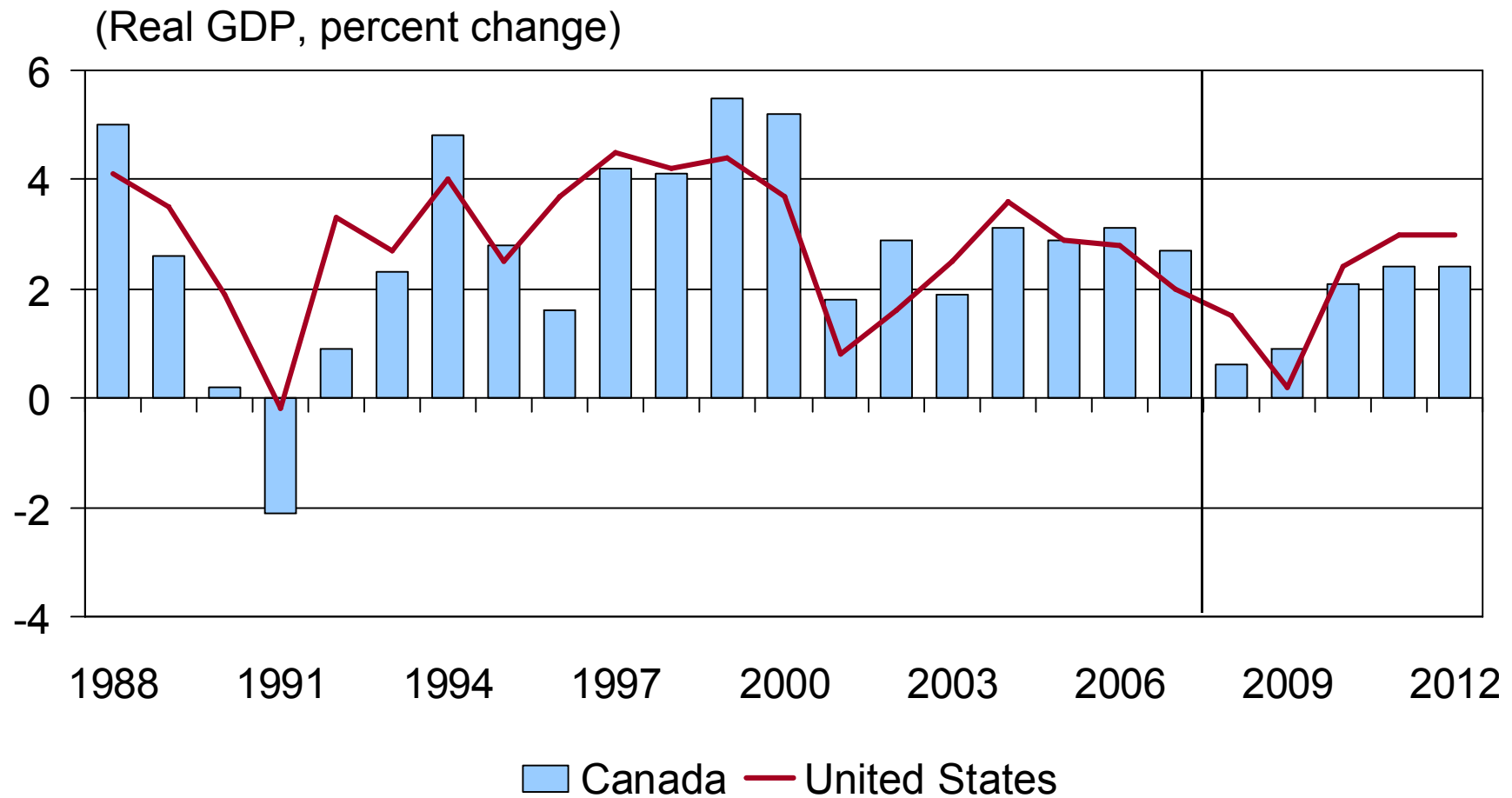
As U.S. Economic Growth Falls Below Potential, the Unemployment Rate Rises



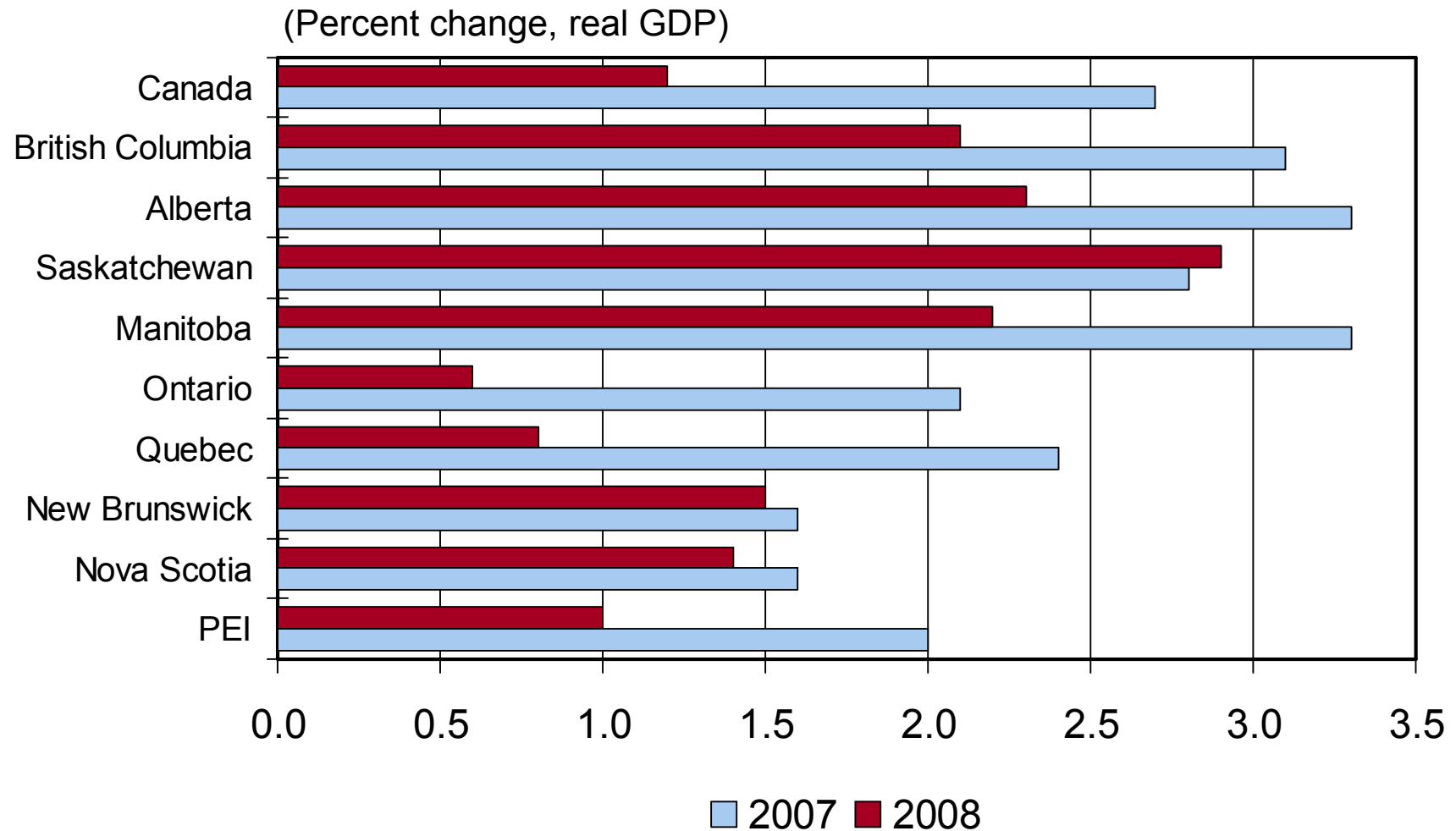
Canada's Economy Faces Headwinds

- **After soaring 60% from late 2002 to late 2007, the Canadian dollar has retreated 15%**
- **Growth stalled in the first half of 2008 as a weak U.S. economy dragged down exports**
- **No pick-up is expected before the summer of 2009**
- **Consumer and government spending are driving the economy**
- **Western provinces will lead Canada's growth; Ontario and Quebec will lag**

Canada's Economic Growth Depends on the U.S.



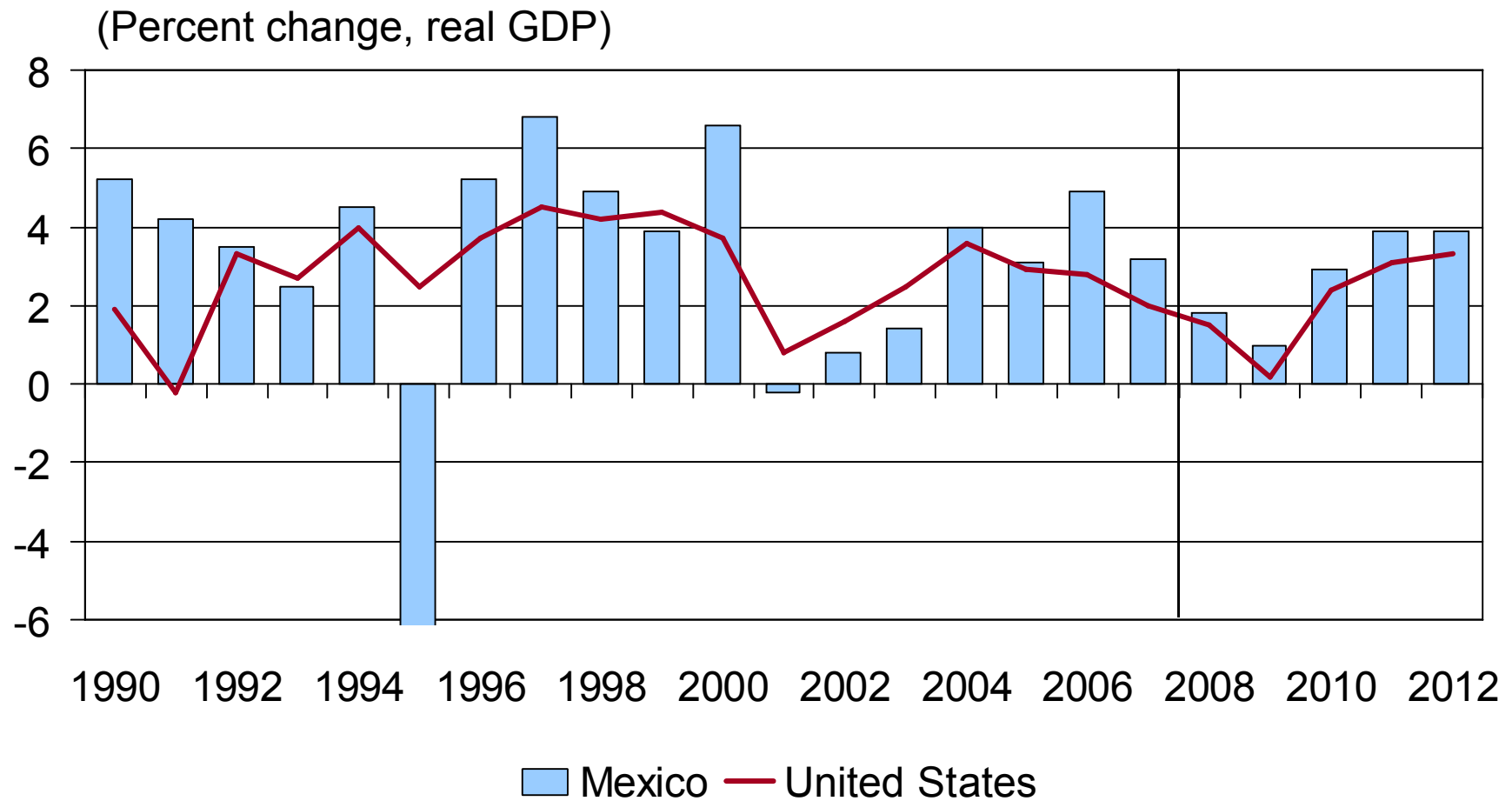
Western Provinces Lead Canada's Growth—not updated for national forecast



Mexico's Economy Chilled by U.S. Recession

- **Manufacturing and remittances are adversely affected by the U.S. recession**
- **Monetary policy was tightened to restrain inflation**
- **Fiscal stimulus support growth**
- **But declining oil production is a major problem**
- **Currency adjustments have improved competitiveness**
- **More structural reforms are needed**

Mexico's Economy on a Moderate Growth Path



Mexico's Economy Chilled by U.S. Recession

- **Manufacturing and remittances are adversely affected by the U.S. recession**
- **Monetary policy is tightening to restrain inflation**
- **High oil prices and fiscal stimulus support growth**
- **Declining oil production is a major problem**
- **Currency adjustments improved competitiveness, helping auto industry**
- **More structural reforms are needed**
 - **Education**
 - **Infrastructure**
 - **FDI / Productivity Competitiveness**

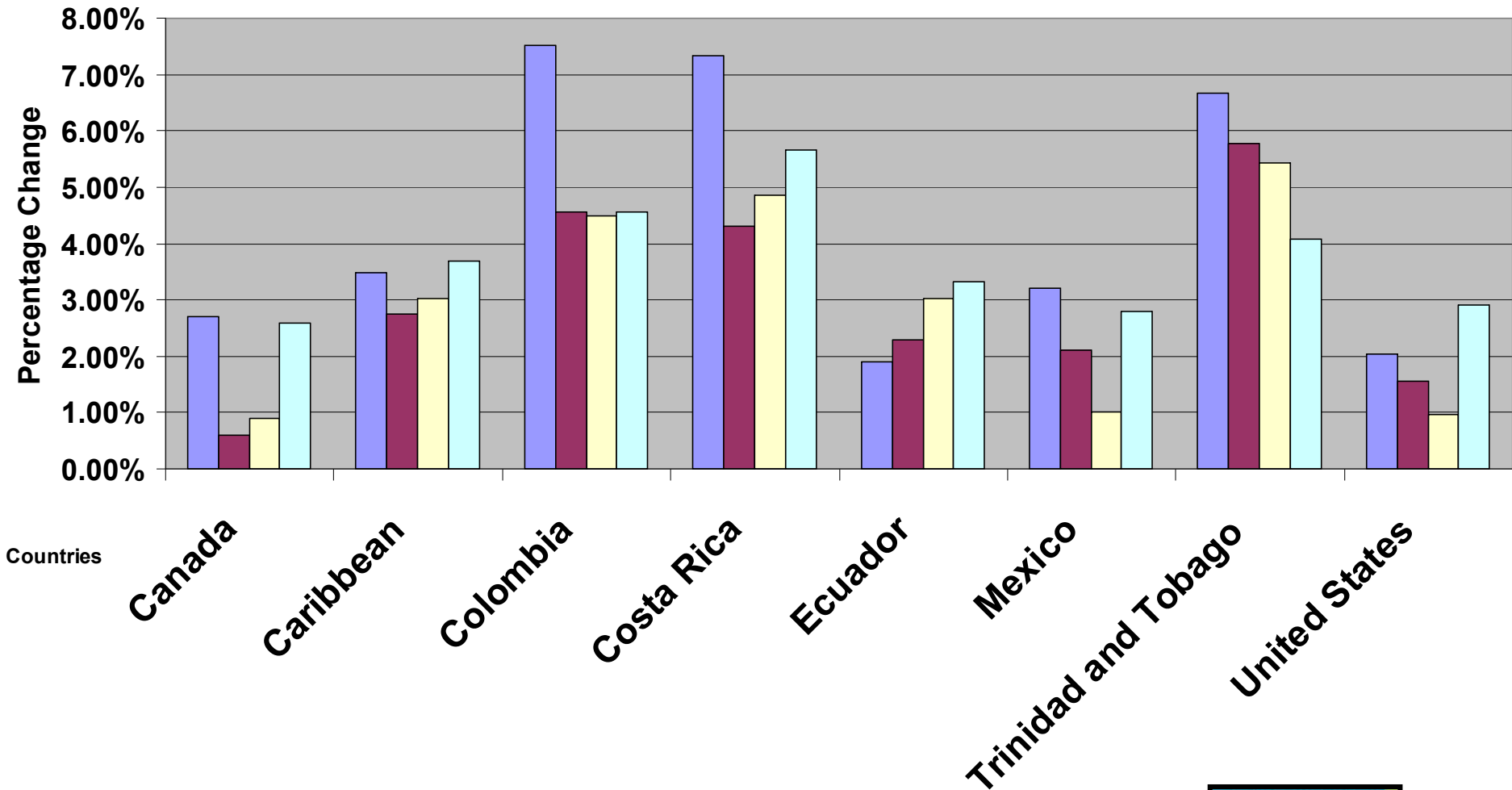
Asia – Helping More than Hurting World Growth

- **China, particularly**
 - Domestic demand growth strong as “mini” growth locomotive.
 - Boost to commodity exporters worldwide.
- **India, particularly**
 - Early signs of economic “take off”
 - Reform process continues.
- **Inflation has been rising**
 - Fear of overheating, so far premature
 - High savings rates as capital exporters

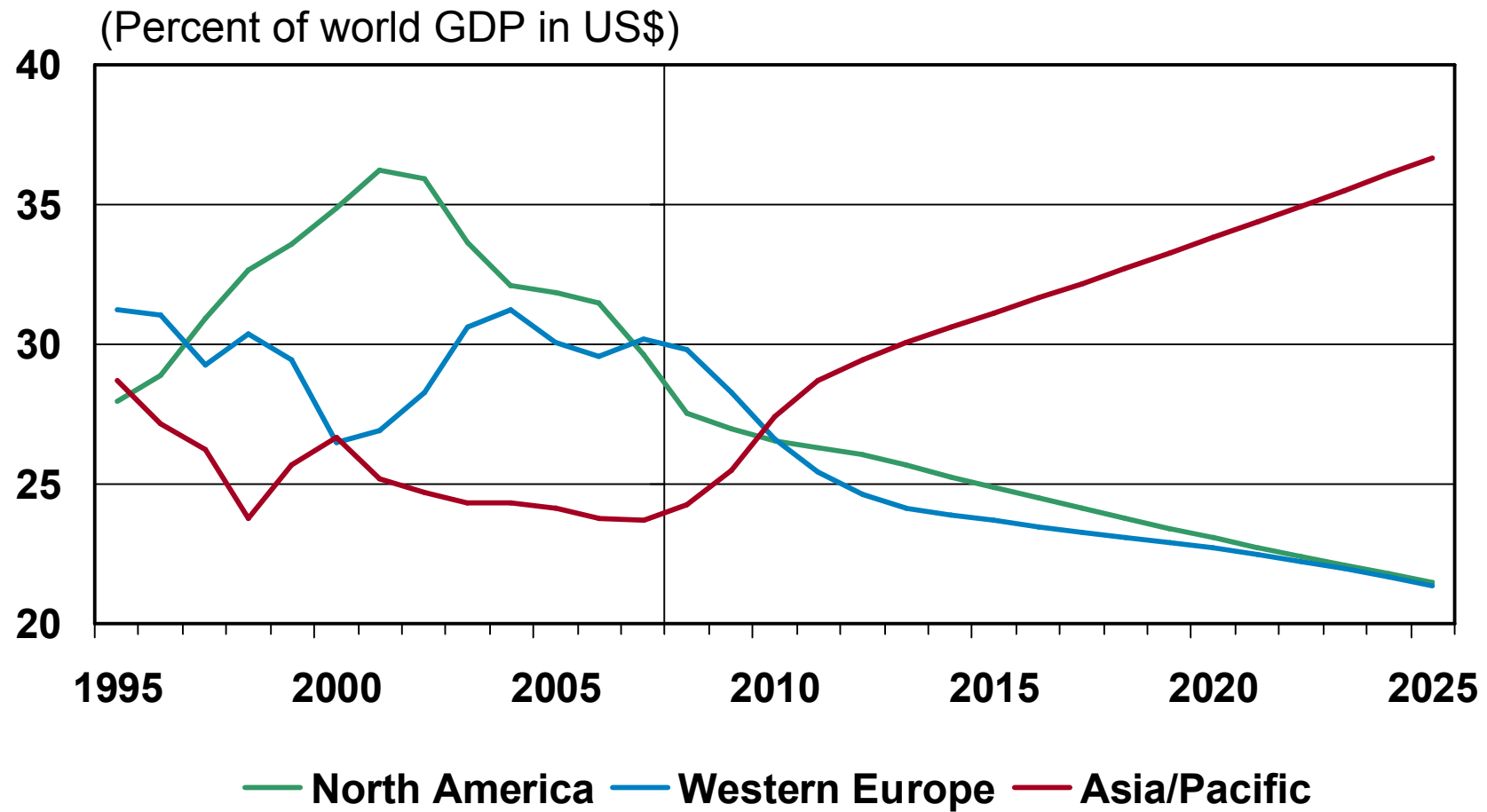
China is expected to continue growth with a soft landing.

Regional Select GDP

2007-2008-2009-2010 GDP (% Change Y-Y)



Trade Prompts Interdependence

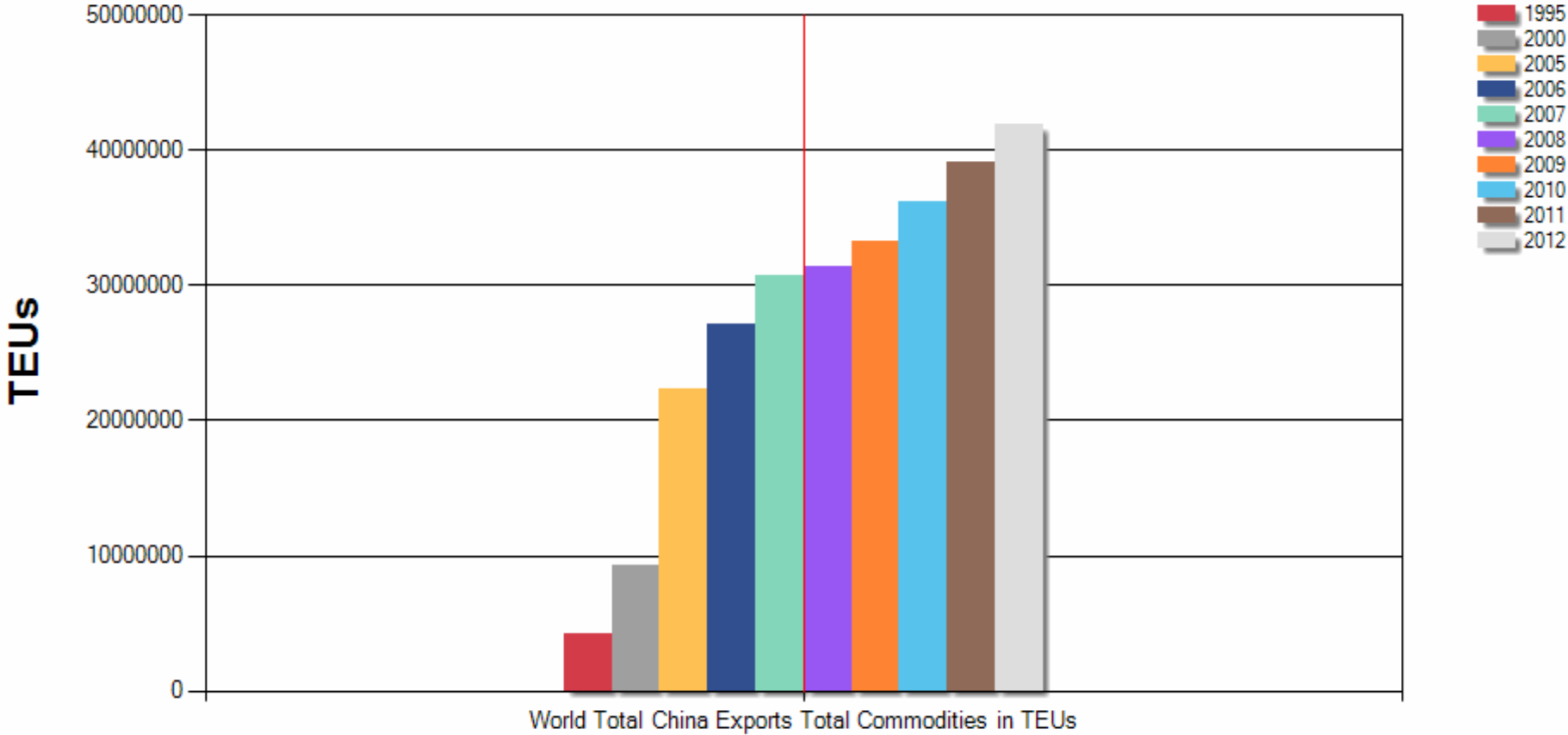


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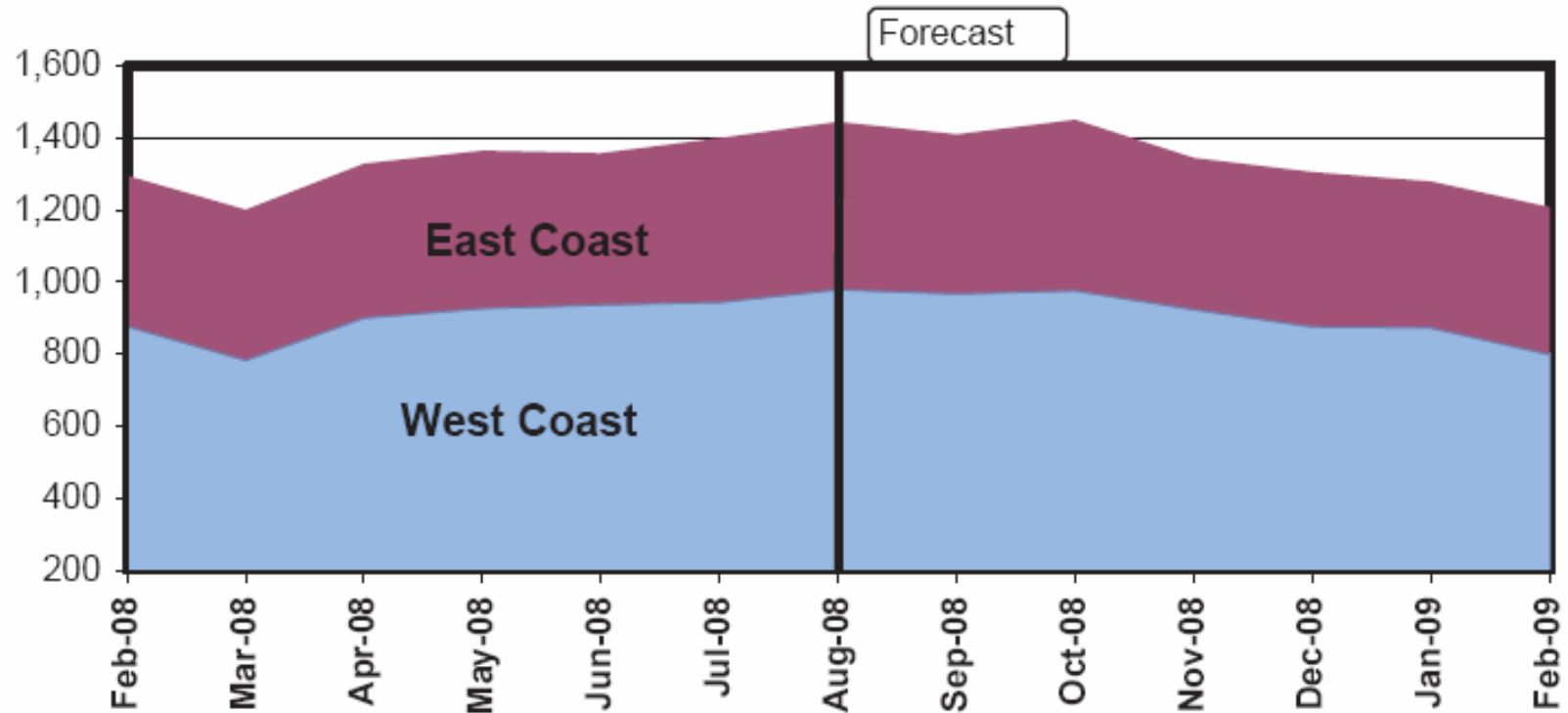
China Exports to the World - Growth



Global Insight Navigator Geography

US Primary Coastal Ranges

U.S. Coastal Import Volume (TEUs)



Source: Historical data from selected national and international data sources. All forecasts provided by Global Insight.

North American Opportunity – Compete for imports from the Far East



- **USWC port and rail congestion will likely persist.**
- **Container volumes will continue to grow.**
- **All-water service cost may go up.**

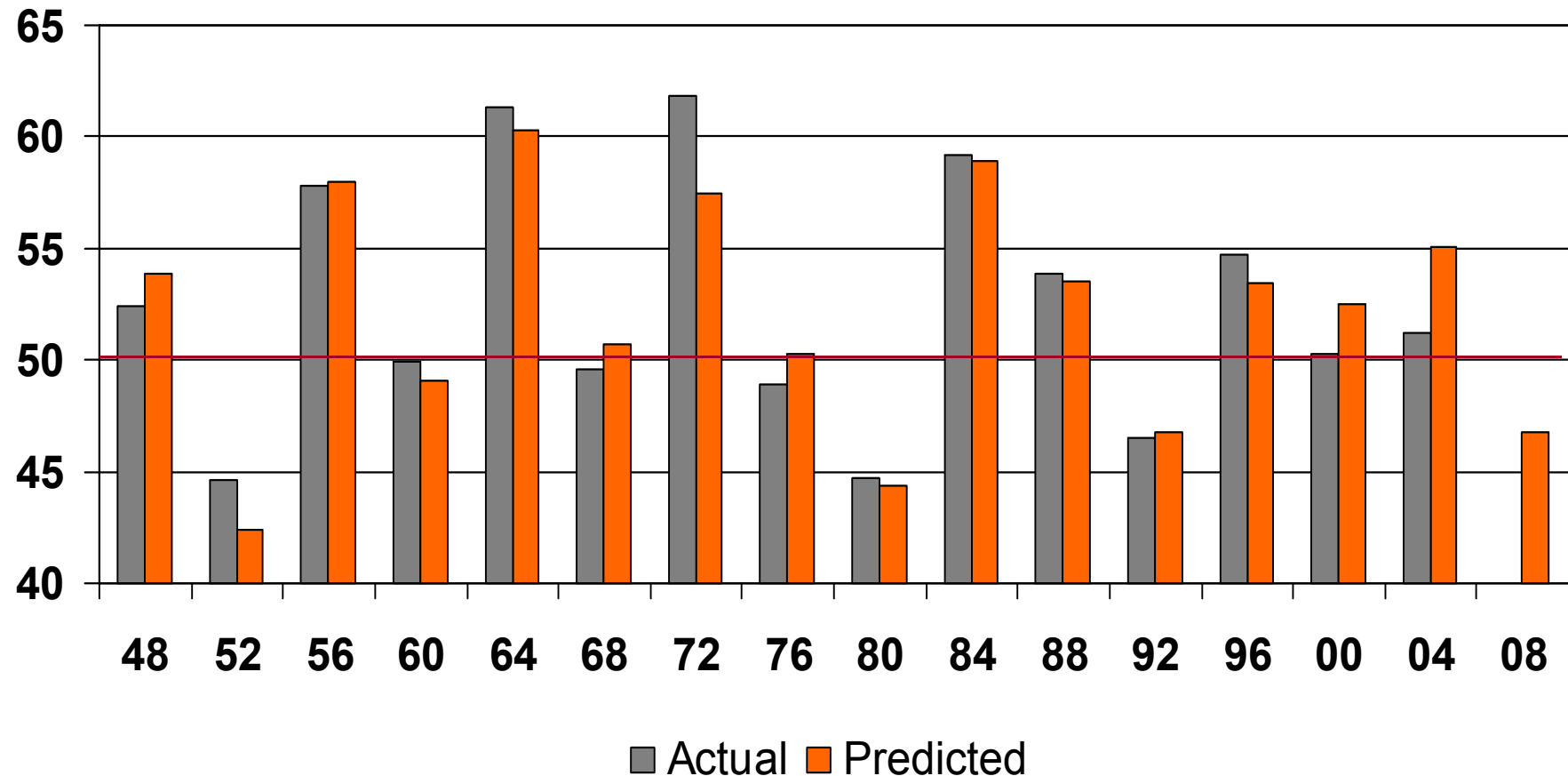
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Global Insight Election Model Points to the Democrats

(Percentage of 2-party presidential vote for incumbent party)



Bottom Line

- **Impact to Trade Patterns**
 - Supply Chain Flows Driven by Economics
 - Relative Prices and Total Delivered Cost.
- **Impact from Near-sourcing**
 - Transport cost increases
 - Trade with Near-Neighbors and Domestic Sources.
- **Impact on Trade in the Americas**
 - Exports have been up Soften due to global slowdown.
 - Energy Price Spike (July) Has Limited Impact.

Infrastructure capacity: Trade diversion risks considered. Current flow adjustment is no excuse for delay improving facilities.

Bottom Line

- **Global recovery will happen, but uneven.**
- **Inflation and interest rates are set to fall – then rise.**
- **A soft landing is the most likely scenario for China.**
- **\$100 oil and \$4 diesel ranges are challenging**
 - **What direction – foresee opportunities**
 - **Global Insight: \$90-\$95?**
 - **Others: \$147? 175? \$200?**

The dollar will appreciate somewhat, but stabilize.

Bottom Line

- **A global recession in 2009 is increasingly likely**
- **After surging in 2008, global inflation will retreat in 2009**
- **The U.S., Japan, and several European countries (U.K., Italy, Spain, Ireland) will experience recessions**
- **Growth in emerging markets will slow; there is no decoupling from the downturn in advanced countries**

The global financial crisis poses downside risks

Did we answer the questions?

- **Growth in all major regions will slow in 2009**
- **Inflation depressurized as commodity prices retreat**
- **The U.S. recession will extend into 2009**
- **Headwinds from currencies, tightening credit, and price corrections**
- **Emerging markets increasingly drive global growth**
- **A worsening financial crisis is the major risk**

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Thank You!

QUESTIONS? Discussion?!

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Thank you!

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