

# All Clear?

## Shifting International Trade Routes

2011 Outlook  
February 1, 2011



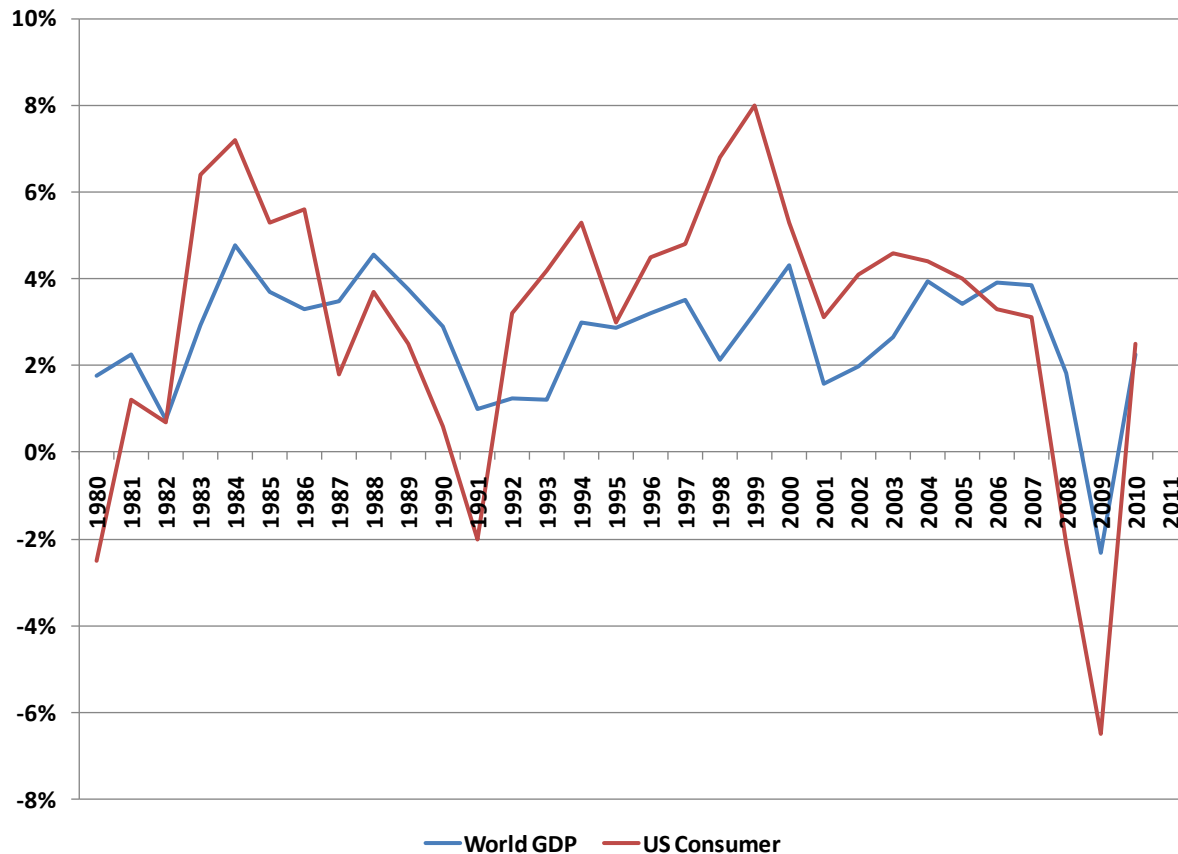
**Dr. Walter Kemmsies, Chief Economist  
Moffatt & Nichol**

# Main Points

- Recovery is proceeding “as planned”
  - Four lost years for most of the economy
  - Longer still for real estate, banks and local governments
  - Positive feedback: sustained global recovery depends on the US
- Too early to give the “all clear” signal... risk of policy errors
  - Raw material and transportation cost increases are compressing profit margins
  - Quantitative Easing: will too much money chase too few goods?
  - Need a lot of investment in capacity and infrastructure
- Focus on structural problems and opportunities
  - Twin deficits: US needs to live within its means... exports?
  - Retiring boomers will create labor shortages... and new markets?
  - Immature consumer market in China... exports and near-sourcing?
  - Global energy fragility... slow steaming and near-sourcing?

# World Economy Strains To Recover Without The US

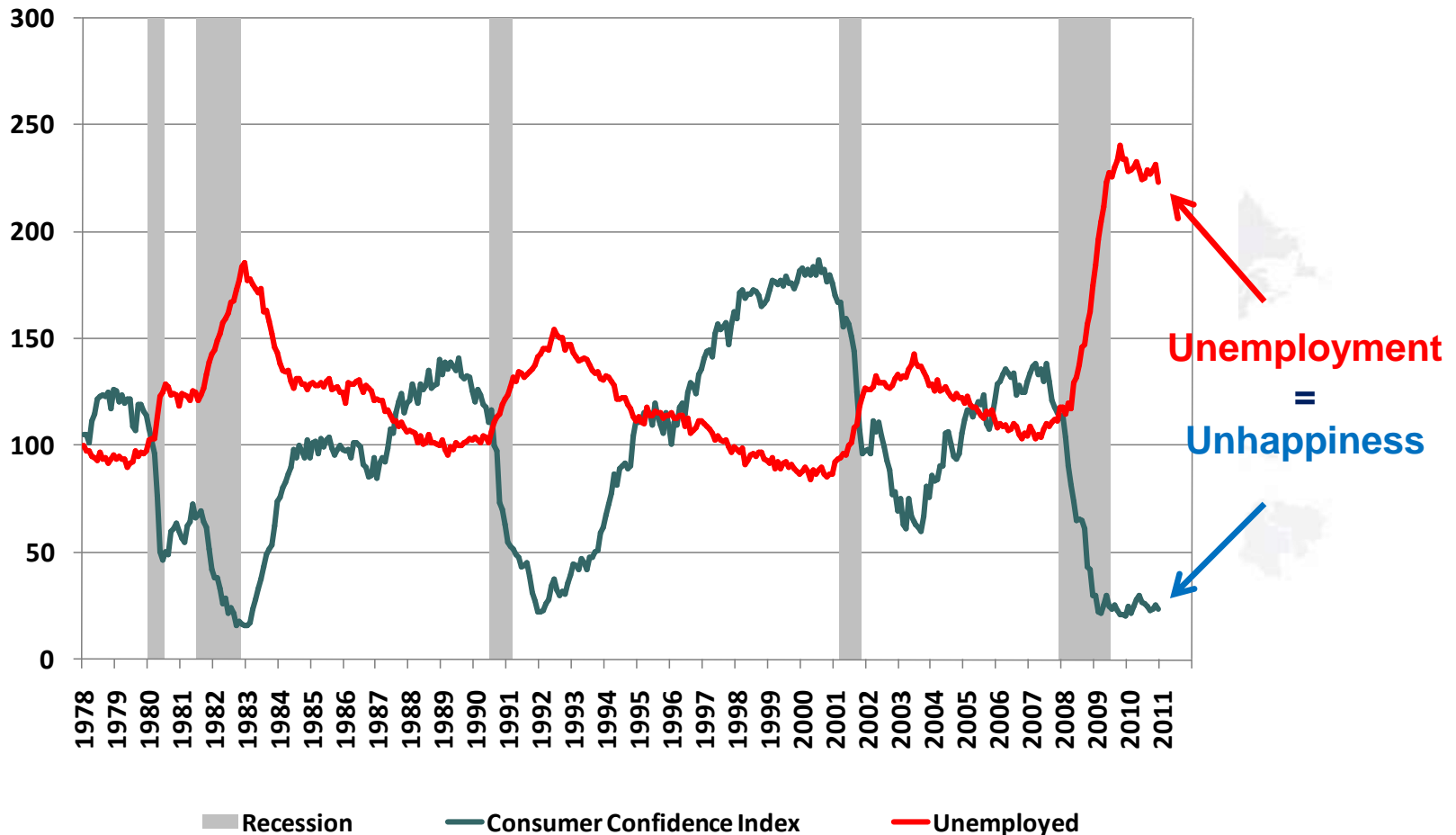
## US Consumer Spending and Global Real GDP Growth



- The US accounts for 25% of World GDP
- US consumers account for 70% of US GDP, or 17.5% of World GDP

# Low Consumer Sentiment Isn't Surprising

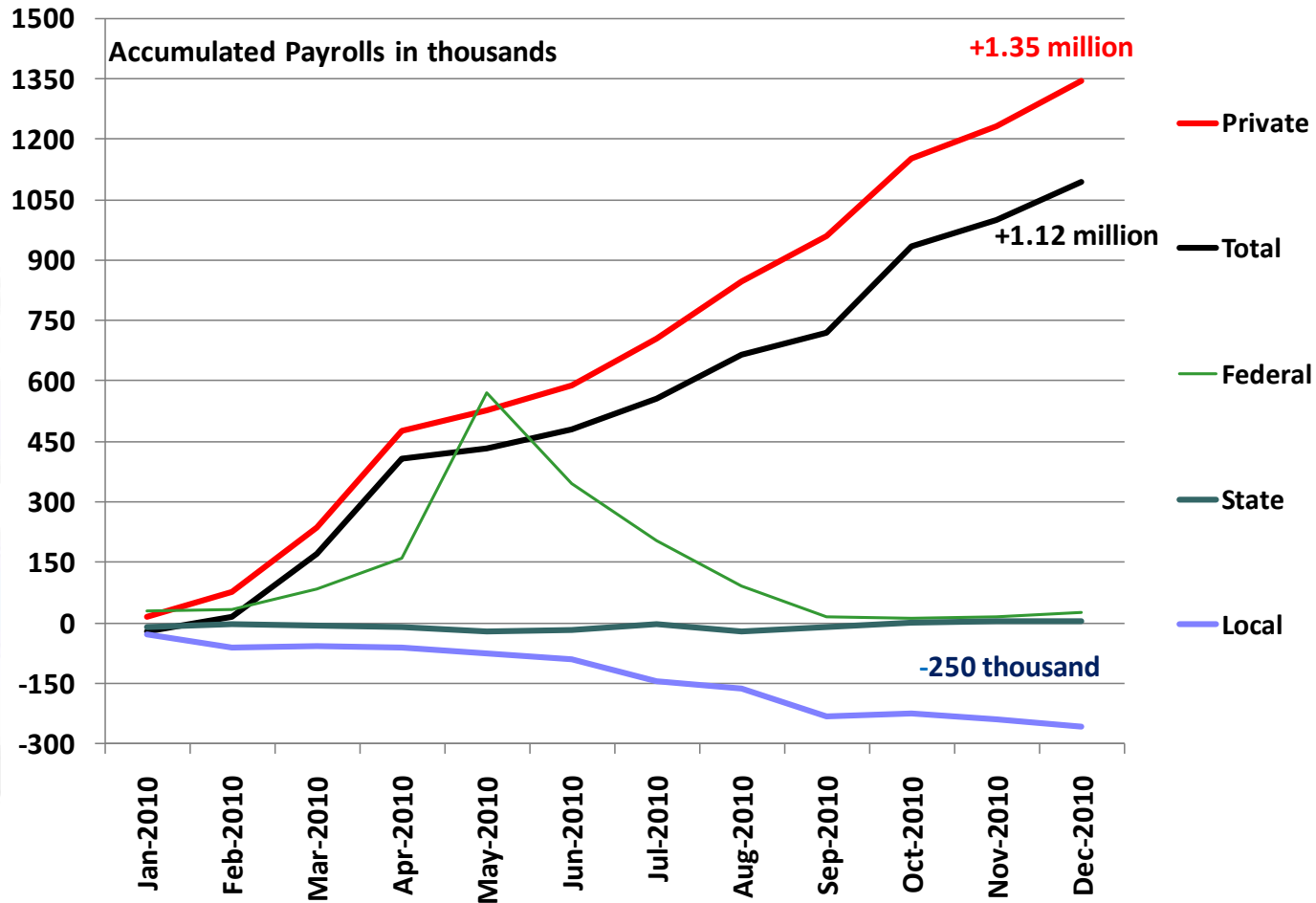
## Consumer Sentiment and Unemployment Indexes



- Significant rise in employment would improve consumer sentiment
- Companies have been focused on cost control not expansion

# Private Sector Has Led Employment Recovery

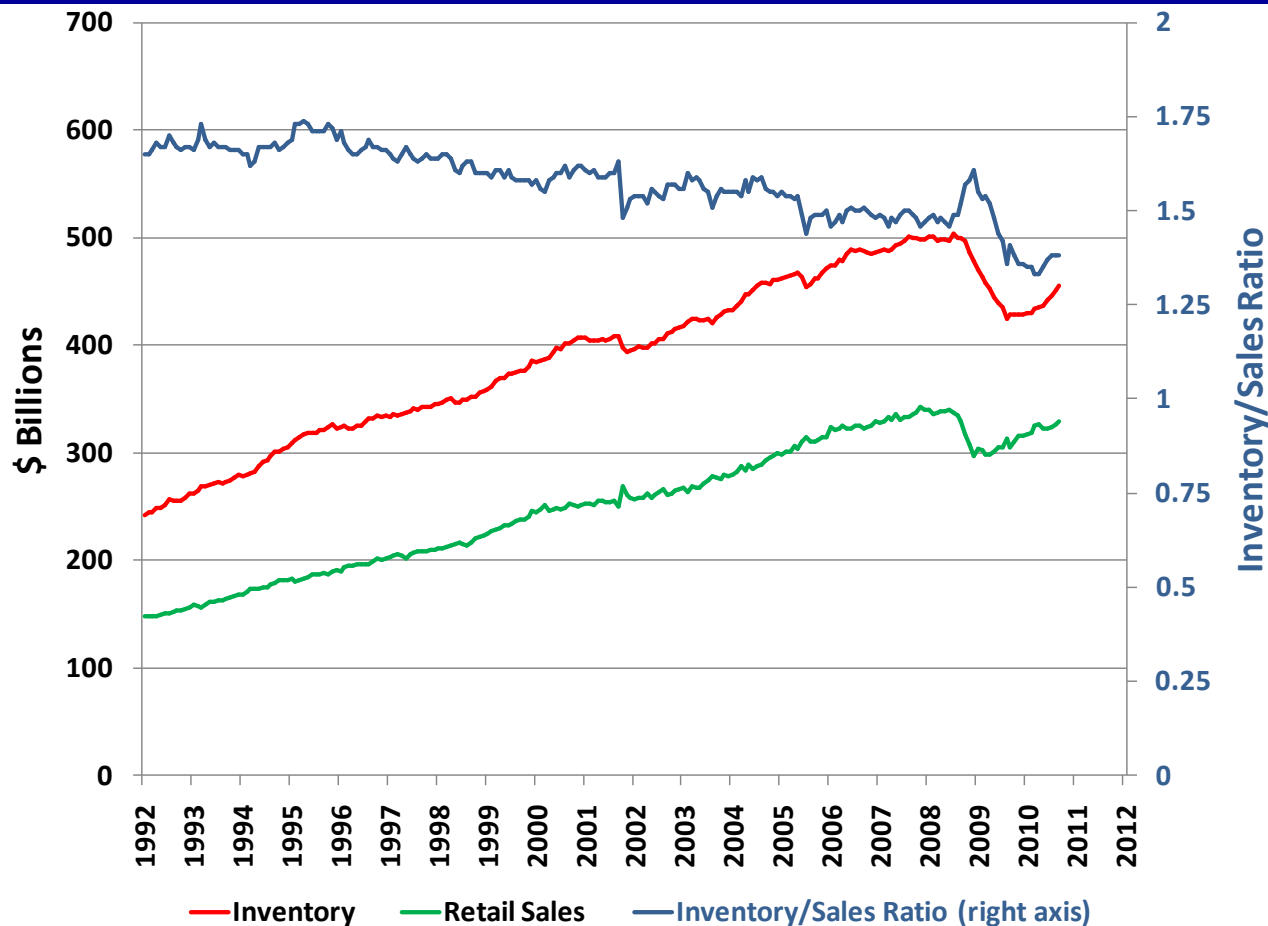
## Changes In Employment Levels in 2010 By Sector



- Private sector efforts are offset by public sector cutting 222K jobs

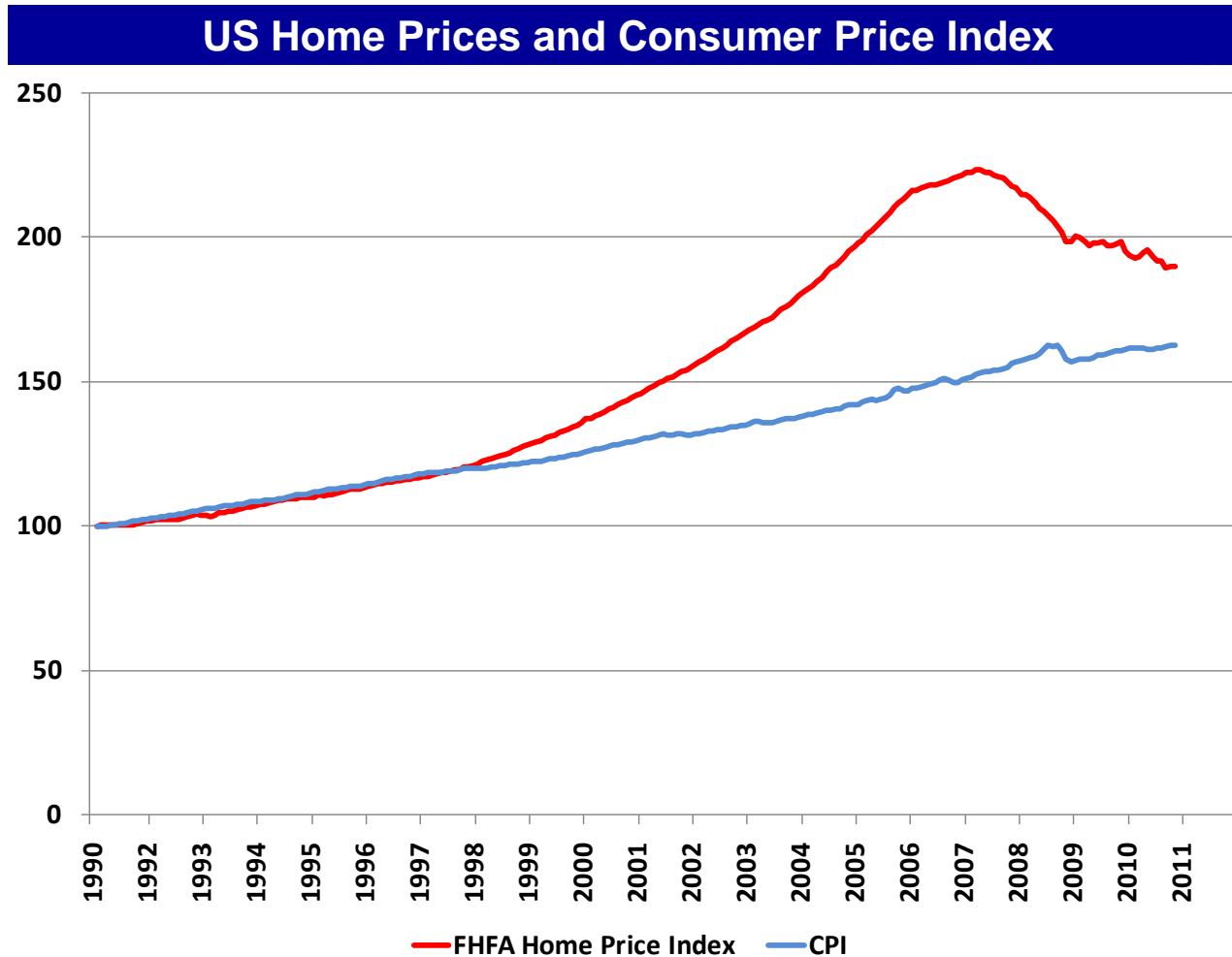
# US Retail Sales Recovering - Inventories Lag

## Retail Sales, Inventory and Inventory-to-Sales Ratio



- Retail sales are recovering – above pre-recession levels around May 2011
- Cautious inventory rebuild – supply chains are longer and less responsive

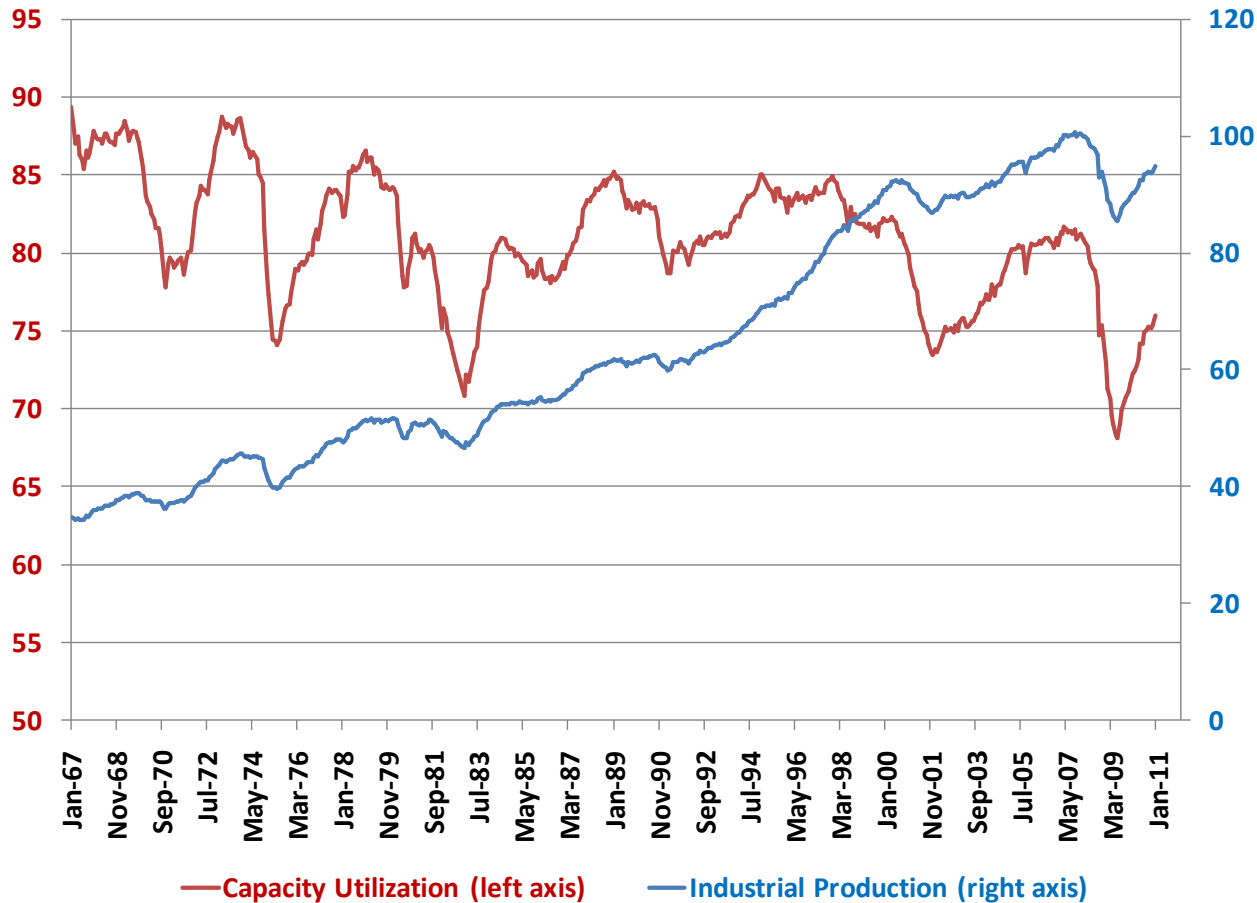
# Home Prices Still “Correcting”



- Increases in home sales has been accompanied by falling prices
- Mortgage default rates still at peak levels indicates no recovery yet

# Industry Is Recovering From A Steep Drop

## Industrial Production and Capacity Utilization

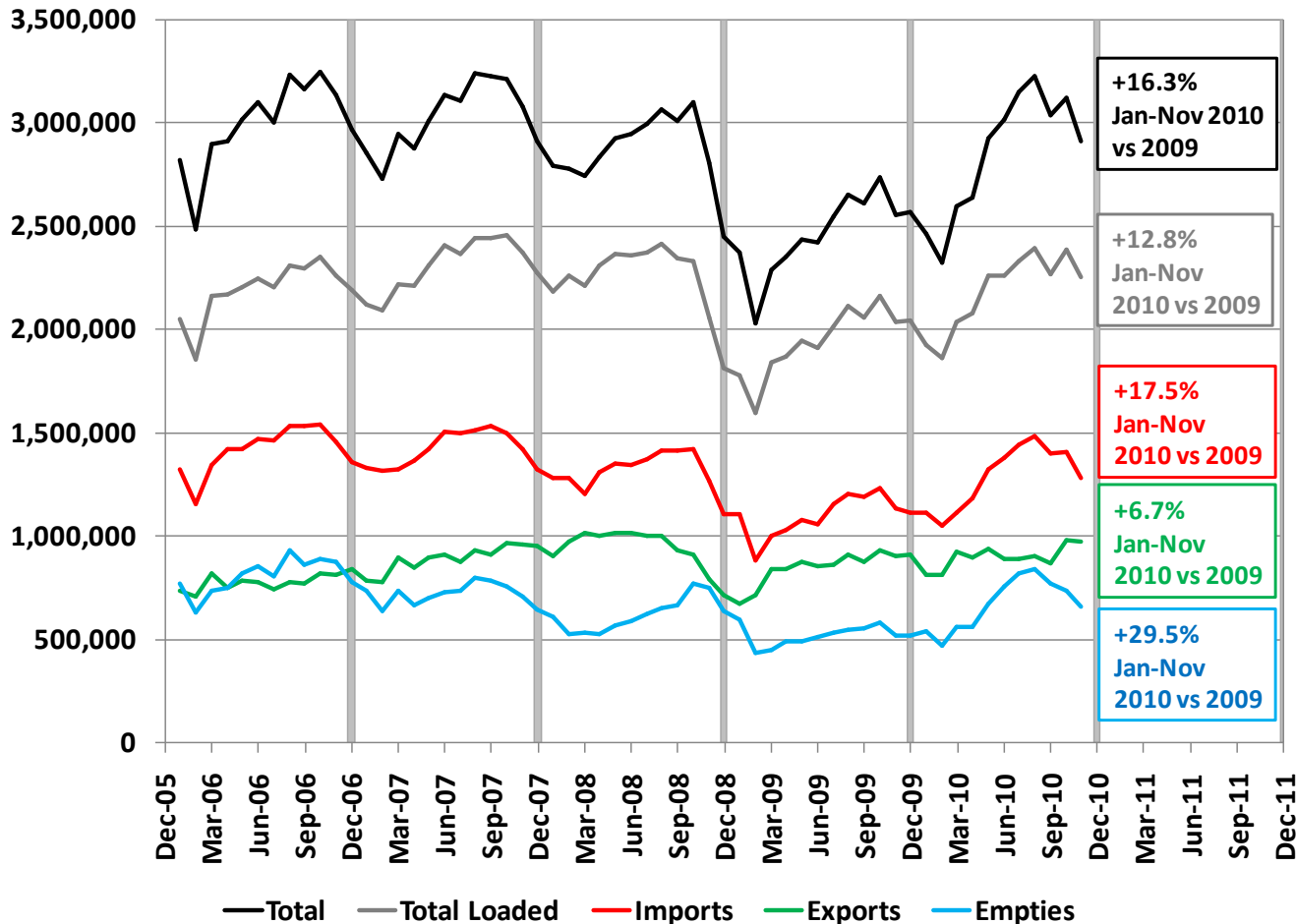


- Production rebound since 2009-Q2 not enough to reach pre-recession levels
- No surprise that companies are cautious about employment and investment



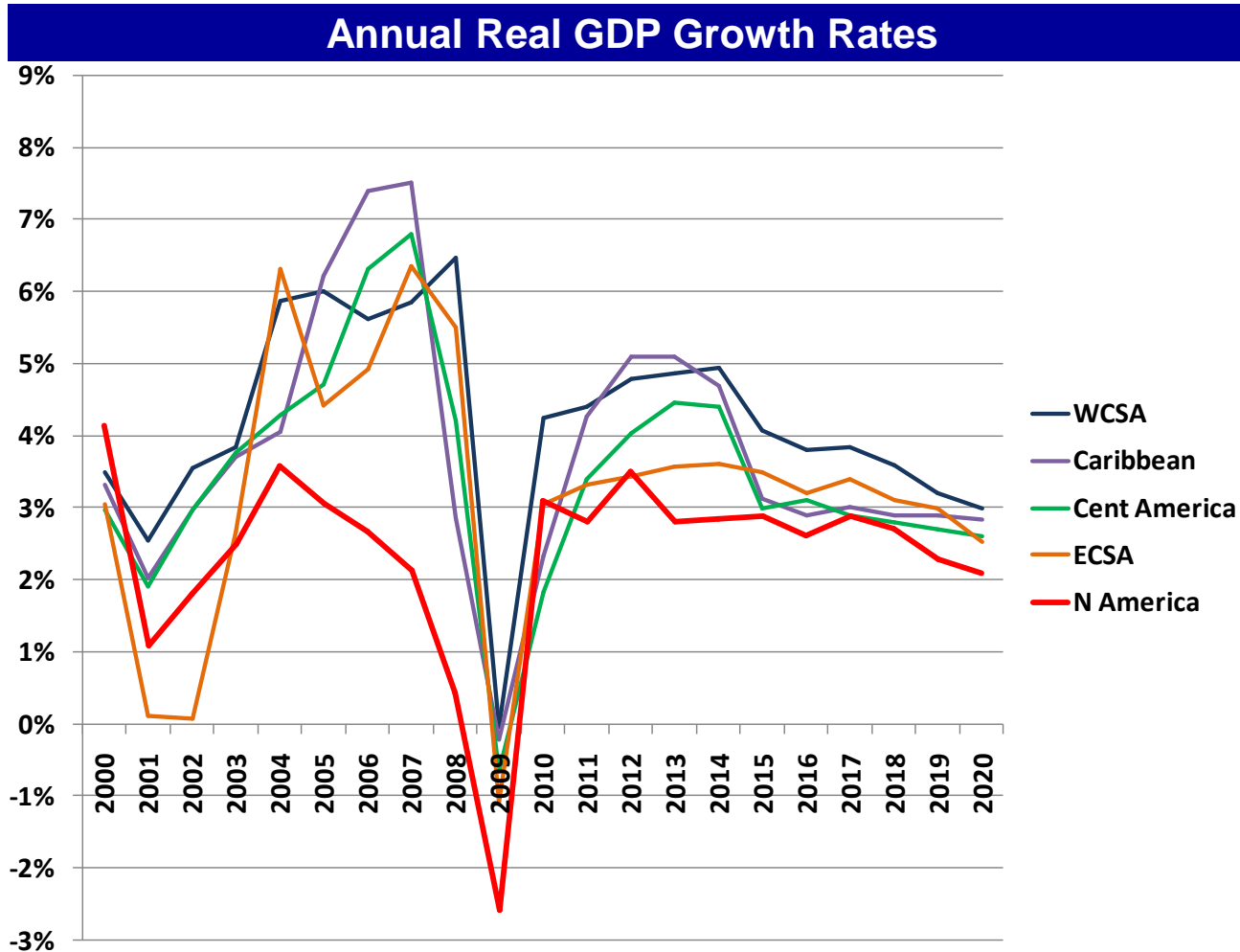
# US International Containers Peaked In August

## Monthly TEU Volumes – 11 Largest US Ports

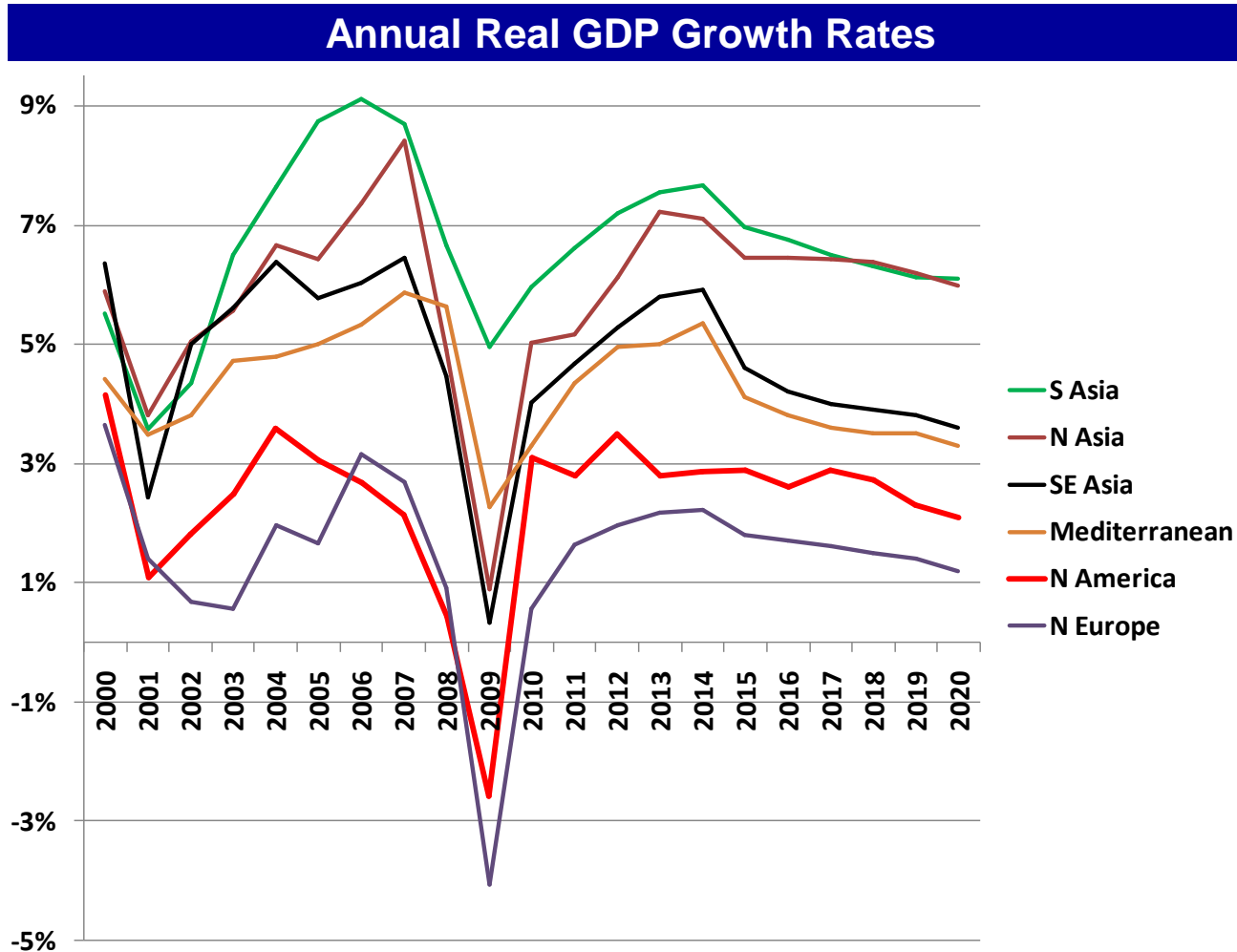


- Imported and empty containers led growth – 2010 running 7% below 2007
- Exports were surprisingly flat given that the World economy was growing and the US dollar was weakening throughout most of 2010

# Positive Macroeconomic Outlook for the Americas



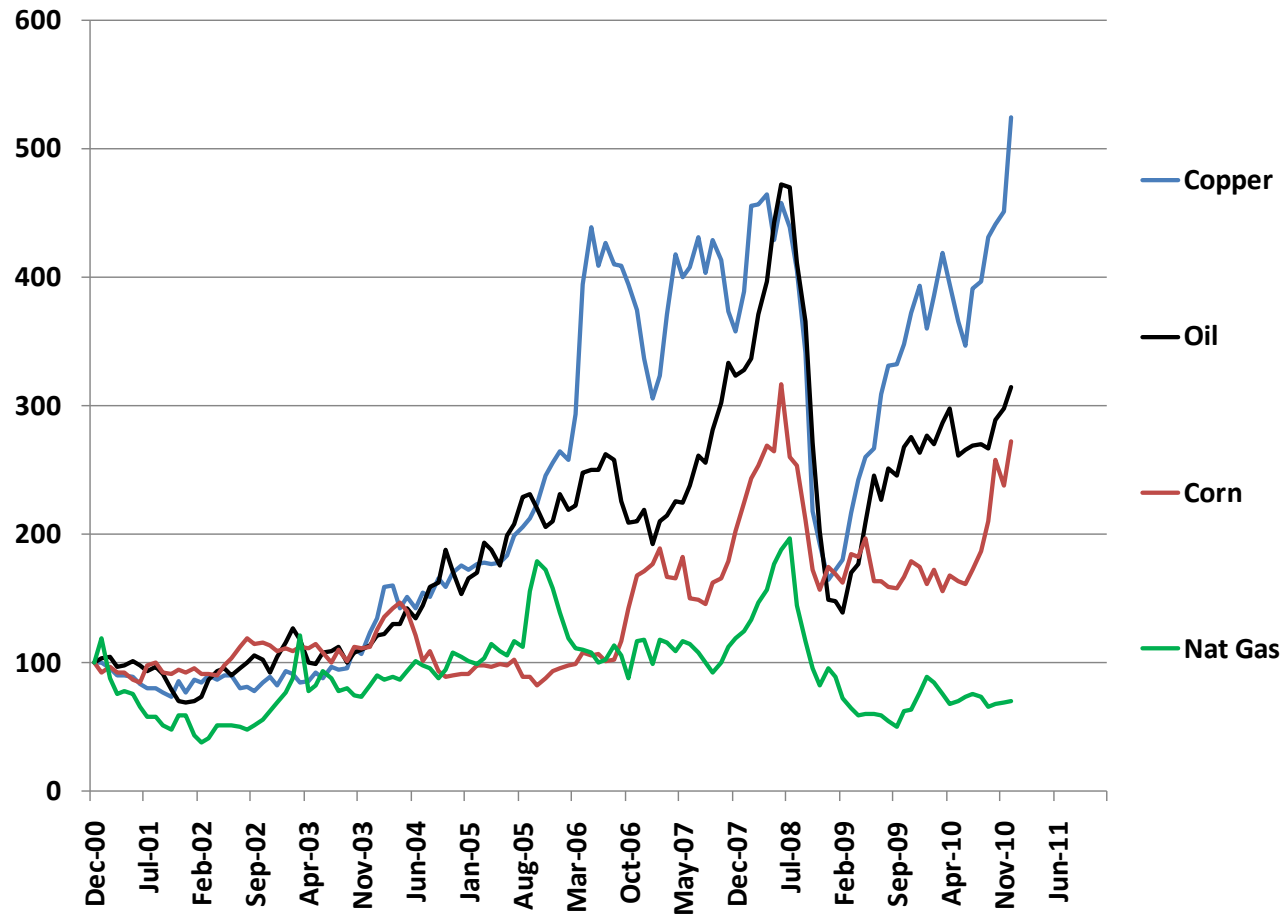
- Except for Argentina and Venezuela, the outlook is for robust growth



- Except for developed economies, the outlook is for robust growth

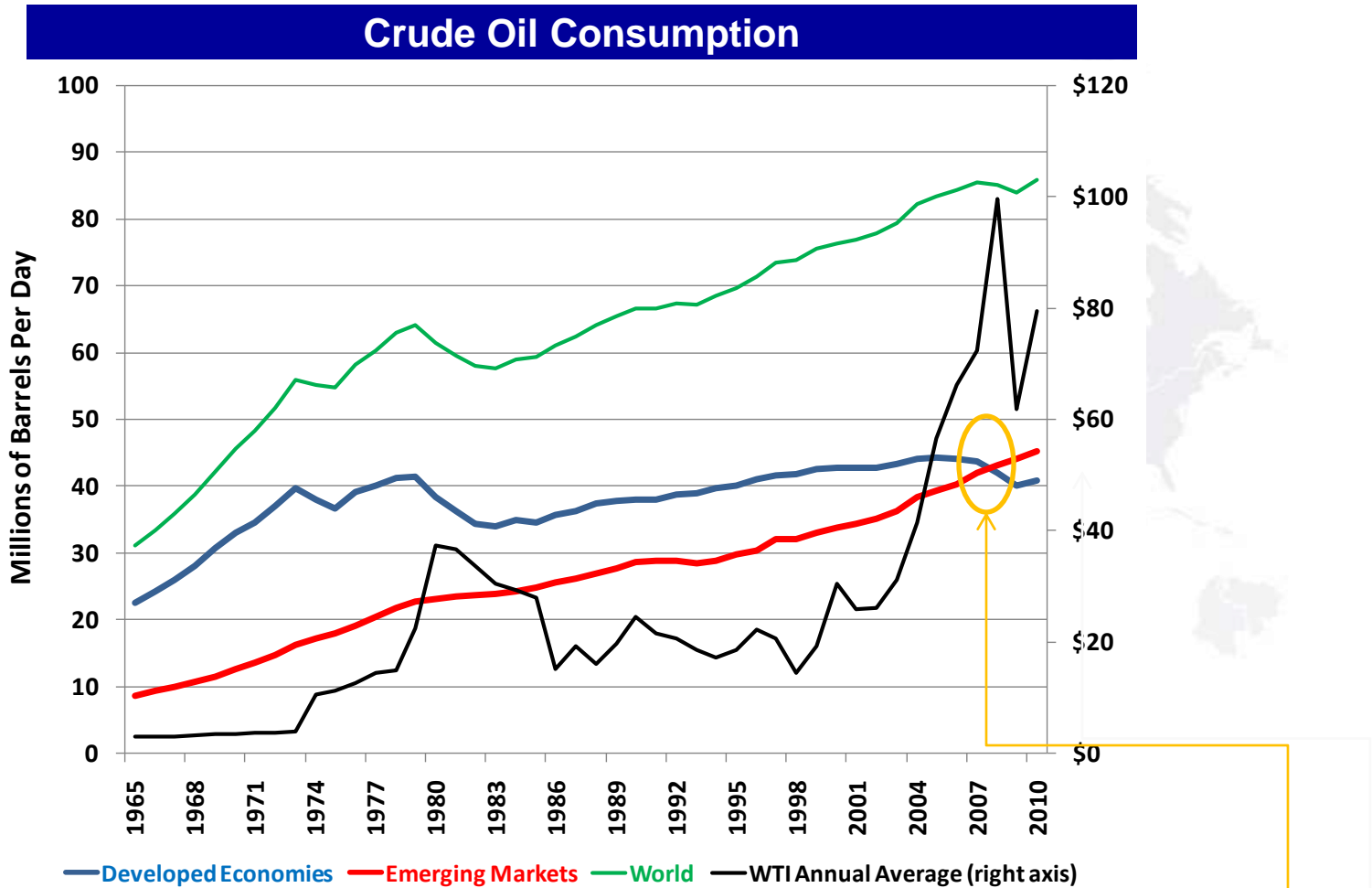
# What Are Commodity Prices Telling Us?

## Commodity Prices Indexed To 100 in Dec 2000



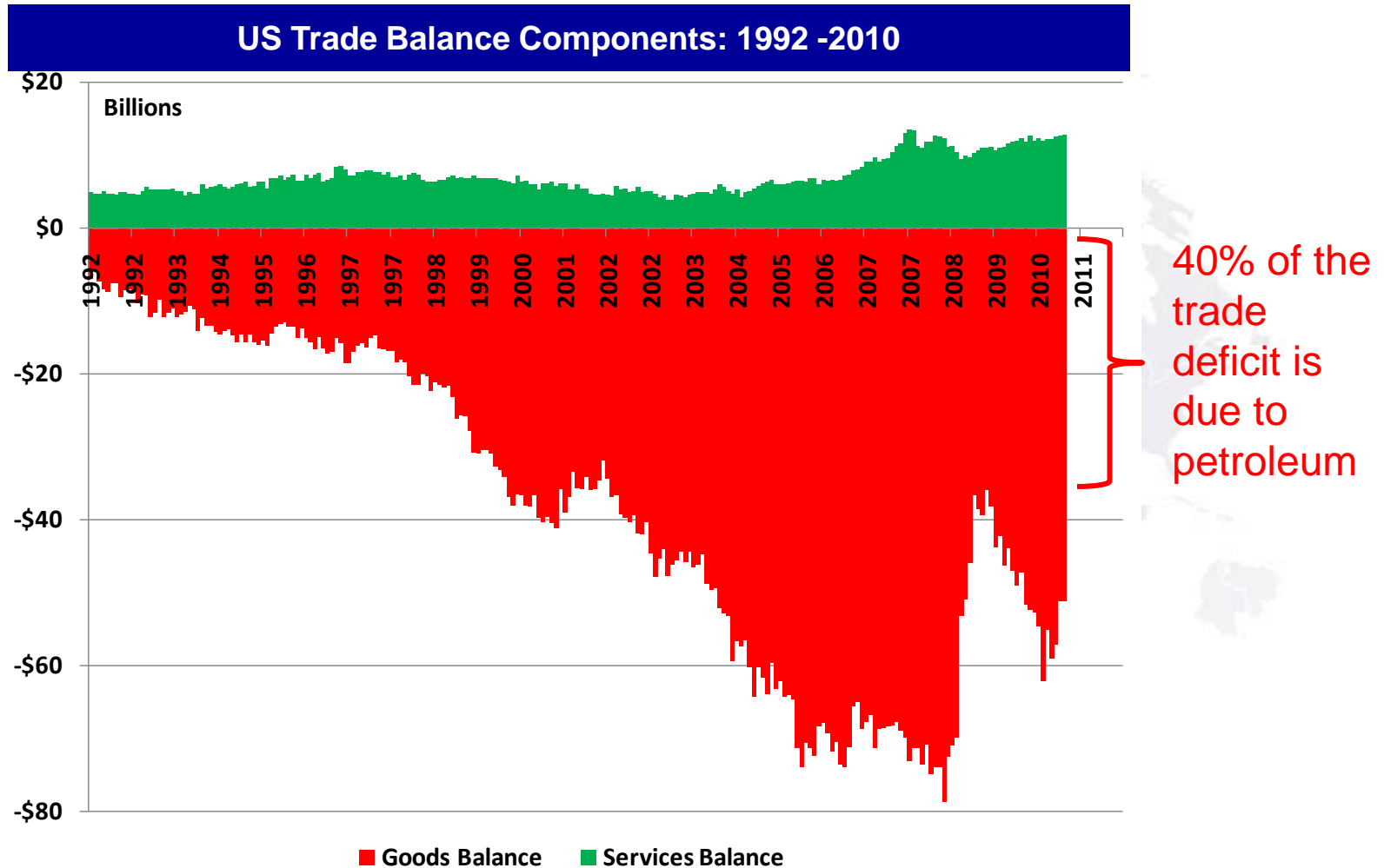
- Since the middle of the last decade commodity prices have soared
- Not speculation but supply-demand balance and infrastructure

# Oil Consumption Trends 1965 - 2009



- 8 million barrels of crude oil were consumed daily in 2010
- Since 2008 Emerging Markets consume more oil than Developed Economies

# Unsustainable Trade Deficit



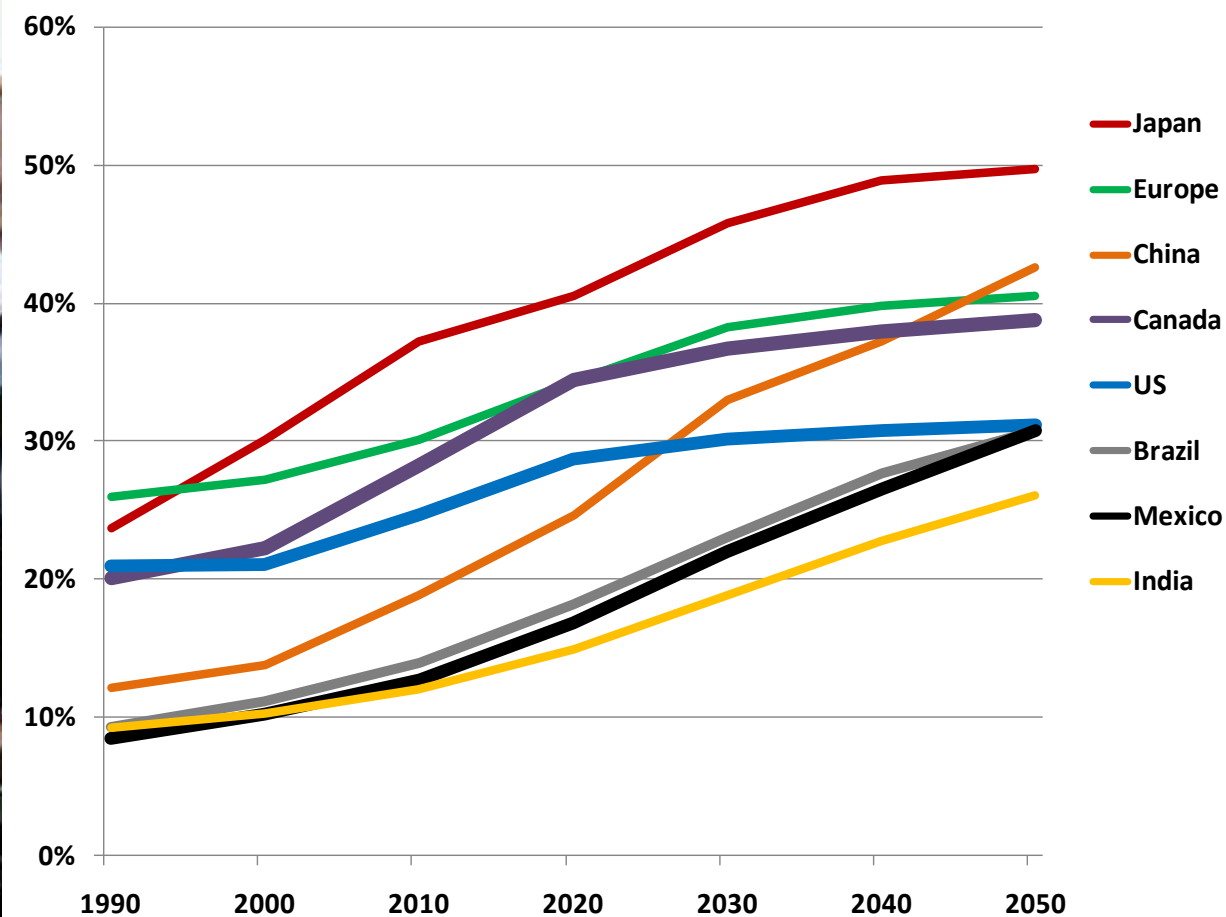
- Including oil, the goods deficit is 4.8x the services surplus, excluding oil it is 2.75x
- Deficit is due to demographics, containerization, trade policies and communication/information processing technology
- Increased import dependency is unavoidable – the US needs to export more

# US Export Candidates

- **Relative to faster growing Emerging Markets, the US has**
  - A lower cost of capital, but a higher cost of labor
  - Relative abundance of scarce resources such as water
  - More advanced biotechnology
  - More reliable quality control and surveillance of compliance
- **Bulk commodities and specialized capital goods (project cargo) fit the profile of US comparative advantages**
- **Strong Emerging Market demand for bulk is expected to continue as these economies continue to grow and develop**
  - **Grains and oilseeds**
  - **Meat**
  - **Coal**

# The World's Population Is Aging

## Proportion of Population Above 55 Years of Age

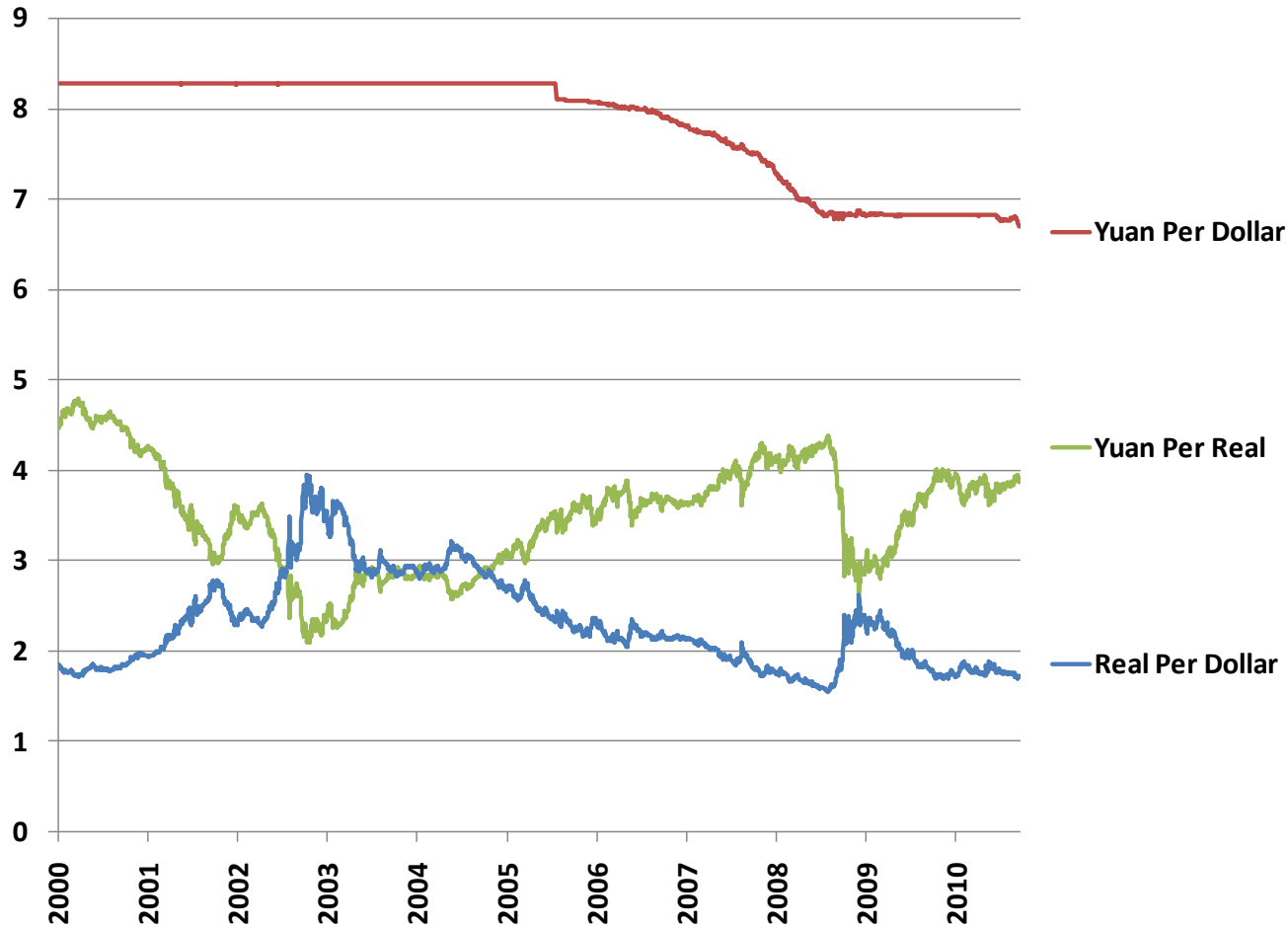


- What will this booming consumer segment do next?



# China's Currency Policy Is One Source Of Global Economic Risk

Exchange Rates Between US\$, Chinese Yuan and Brazilian Real



# Summing Up...

## **Recovery is proceeding “as planned”**

Sustained World economic recovery depends on the US

## **Too early to give the “all clear” signal... risk of policy errors**

Fiscal and monetary stimulus help but create new risks

## **What will characterize the next cycle?**

*Thank you for your attention*

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