Trade and Economic Trends

Marine Terminal Management Training Program

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IHS Global Insight

Long Beach, CA
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The Global Recession Is Ending

• Leading indicators are improving across regions
• The global inventory correction is winding down
• Massive and unorthodox U.S. and foreign monetary stimulus promoted growth
• Financial markets have stabilized though credit remains tight, limiting spending to satisfy pent-up demand
• The timing and speed of recovery will vary globally, with Asia leading, the U.S. coincident, and Europe lagging
• Bottom Line: deep recession in 2009, modest recovery in 2010, and a stronger rebound in 2011-2012
The World Economy Has Suffered the Worst Recession of the Postwar Era

(Percents change)


Real GDP  Industrial Production
Asia – Pacific Economic Growth Leads the World

(Real GDP, percent change)
Government Fiscal Stimulus in 2009 and 2010

(Percent of GDP)

China
United States
Japan
United Kingdom
Germany
Canada
France
India
Italy

 Sources: International Monetary Fund, IHS Global Insight
U.S. in Perspective: Peak-to-Trough Declines in Country Real GDP in the Current Recession

(Percent change, based on quarterly data)

Canada  United States  France  United Kingdom  Italy  Germany  Japan

Canada  -2  0  -4  -6  -8  -10
United States  -10
France  -6
United Kingdom  -4
Italy  0
Germany  0
Japan  0

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Industrial Production Down in Most All Regions

(Percent change)

-30 -20 -10 0 10 20

NAFTA Western Europe Japan Other Americas Emerging Europe Mideast-N. Africa Sub-Saharan Africa Other Asia-Pacific

2008 2009 2010 2011
Purchasing Managers’ Indexes for Manufacturing: Some Signs of Improvement Around the World

(Index, over 50 indicates expansion)
Industrial Materials Prices Are Recovering Though not to 2007 – 2008 Bubble Levels

(IHS Global Insight Indexes, 2002:1=1.0)

In U.S. Dollars

In GDP-Weighted Currency Basket

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World Real Economic Growth by Sector Shows Trade Affected the Most; Government the Least
After Rally, the U.S. Dollar Depreciates Long-term

(Real Trade-Weighted Dollar Index, 2000=1.0)

The Drop in the Dollar Boosts U.S. Export Competitiveness; Dampens Imports
The U.S. Recession Is Bottoming Out

• Signs of stabilization in consumer and housing markets support view that the economy is turning up in 2nd half 2009

• But employment is expected to decline further this year

• Consumers are still focused on saving rather than spending

• The downturn in lagging nonresidential construction is just beginning and will be severe

• Thus, the road to U.S. recovery will be a long one

• Wage and price inflation will remain subdued for several years
## U.S. Economic Outlook: Trade Recovery is Higher Rate than Overall Economy, but Not Double Digits

(Percent change)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>0.4</td>
<td>-2.5</td>
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<tr>
<td>Consumption</td>
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<td>Bus. Fixed Investment</td>
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<tr>
<td>Federal Government</td>
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<td>5.3</td>
<td>2.1</td>
<td>-3.9</td>
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<tr>
<td>State &amp; Local Govt.</td>
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<td>0.2</td>
<td>0.9</td>
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<tr>
<td>Exports</td>
<td>5.4</td>
<td>-11.3</td>
<td>5.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Imports</td>
<td>-3.2</td>
<td>-14.1</td>
<td>8.9</td>
<td>6.6</td>
</tr>
</tbody>
</table>
Canada’s Economy in Recession

- The drop in energy and other commodity prices from 2008 peaks undermined investment.
- Canada’s recovery is expected to begin in the 4th quarter of 2009, led by government stimulus and consumer spending.
- The Canadian dollar will appreciate, but it is not expected to return to parity with the U.S. dollar.
- Western provinces will lead Canada’s long-term growth; Ontario, Quebec and Atlantic provinces will lag.
Canada’s Real Economic Growth by Sector Reveals Weak Recovery in Trade Until 2011

<table>
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<tr>
<td>Residential Investment</td>
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<tr>
<td>Business Fixed Investment</td>
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<td>-13.0</td>
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<tr>
<td>Government Consumption</td>
<td>3.7</td>
<td>3.7</td>
<td>4.5</td>
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<tr>
<td>Exports</td>
<td>-4.7</td>
<td>-16.3</td>
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<td>5.9</td>
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<tr>
<td>Imports</td>
<td>0.8</td>
<td>-18.9</td>
<td>1.8</td>
<td>4.2</td>
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</tbody>
</table>
Mexico’s Economy in Recession

- Manufacturing and remittances are hit by the U.S. recession
- Fiscal and monetary policies will support growth
- Currency adjustments have improved competitiveness
- Declining oil production is a serious problem
- Swine flu has hurt the tourism sector the most
- Port traffic affected by weak demand
# Mexico’s Real Economic Growth by Sector Reveals Trade Growth Recovers Significantly by 2010

(Percent change)

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<th>2011</th>
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<tr>
<td>Real GDP</td>
<td>1.4</td>
<td>-6.0</td>
<td>2.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Private Consumption</td>
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<td>-5.7</td>
<td>2.0</td>
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<tr>
<td>Fixed Investment</td>
<td>5.0</td>
<td>-6.6</td>
<td>6.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>0.6</td>
<td>0.8</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Exports</td>
<td>1.4</td>
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South and Central America: A Temporary Setback

- The global recession has affected exports, capital inflows, and remittances; current accounts have moved into deficit.
- Compared with previous crises, Latin America enjoys relative economic stability; debt profiles have improved substantially.
- Long-term prospects are bright for countries attracting foreign investment, including Brazil, Chile, Peru, and Colombia.
- Policy mismanagement and resource nationalism will take a toll on Argentina, Venezuela, Bolivia, and Ecuador.
Mild Recessions in South America

(Real GDP, percent change)

Brazil  Argentina  Venezuela  Colombia  Chile  Peru

2008  2009  2010  2011
Overseas: Western Europe’s Recovery Will Lag

• The recession is moderating, but only a little
• The financial crisis has hit the region hard, due to banks’ high leverage and exposure to Eastern Europe
• Housing market bubbles in Spain, Ireland, and the U.K. burst
• Exports and business investment have plummeted
• Weak public finances limit the scope of fiscal stimulus
• Europe’s recovery will be slower than elsewhere
Japan: A Recession of Epic Proportions

- Collapse in exports and capital spending sent Japan into a deep recession—the deepest among the G7 countries
- Deflation persists; nominal GDP is at its 1993 level
- Consumer spending remains weak
- Industrial production and real exports are recovering
- More policy stimulus is in the pipeline
- Japan’s population has entered a long-term decline
Asia-Pacific Region Hurt by Falling Exports

- While finances are strong, export dependence is a problem
- Capital inflows are diminishing, dampening private investment
- Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, and Thailand are lagging coming out of recession
- Domestic demand is resilient in China and India
- Except for Japan, Asia will lead world growth, including trade
### Comparison of Key Emerging Markets & U.S., 2008

<table>
<thead>
<tr>
<th></th>
<th>GDP ($Billions)</th>
<th>Population (Millions)</th>
<th>GDP per Capita ($)</th>
<th>Real GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>4,326</td>
<td>1,328</td>
<td>3,258</td>
<td>9.0</td>
</tr>
<tr>
<td>India</td>
<td>1,223</td>
<td>1,186</td>
<td>1,031</td>
<td>6.0</td>
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<tr>
<td>Brazil</td>
<td>1,574</td>
<td>195</td>
<td>8,062</td>
<td>5.1</td>
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<tr>
<td>Mexico</td>
<td>1,086</td>
<td>106</td>
<td>10,203</td>
<td>1.4</td>
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<tr>
<td>Russia</td>
<td>1,677</td>
<td>142</td>
<td>11,826</td>
<td>5.6</td>
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<tr>
<td>Turkey</td>
<td>726</td>
<td>76</td>
<td>9,575</td>
<td>1.1</td>
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<tr>
<td>U.S.</td>
<td>14,265</td>
<td>305</td>
<td>46,713</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Future U.S. Trade Patterns Will Be Influenced By Trade Partner Growth Capacity
World Trade Outlook: Export / Import Volumes Recover in 2010 from Dramatic Decline in 2009

(Percent change)


Real Exports Real GDP
Drivers of Trade: North American Housing in Recovery After 2009 as Four-year Decline Ends

(Housing Starts, Millions of units)

Furniture, Fixtures and Furnishings Trade Demand Recovery Depends on Housing
Drivers of Trade: U.S. Traditional Manufacturing Recovery Draws in Parts Imports; Creates exports

(Manufacturing Output, Percent change from a year earlier)

Recovery in Durables Demand drives Strong Rebound in Their Manufacture
N. American Light Vehicle Sales Boost From Cash-For-Clunkers Is Temporary; Still a Long Road Back

Autos and Parts Shipments Recovery will be Weak in 2010
Intermodal Rail Traffic Outlook for North America is for Weak Growth in Volumes in 2010

(Loadings – 1000s of Containers and Trailers)

Full Rebound in Container Volumes Only After 2011
NAFTA Imports and Exports of Containers

(Containers, Millions)

Full Rebound in Container Trade Volumes Only After 2011
Port Development to Handle Cargo Demand

Demand on North American ports for additional cargo throughput capacity, and for the connecting network capacity will return following the recovery

- Economic geography, inside and out of the U.S., drives the geographic patterns of increased transportation system demand
  - affected by relative costs, performance and productivity of the available route & service options for delivering to end markets

- Supply chain demands affect gateway sea ports, inland freight corridors and warehousing / distribution center space needs
  - logistics choices are influenced by the combined efforts to minimize costs and risk and maximize reliability of delivery
Logistics Cost Trends Affect Sales and Trade

- Shippers manage logistics costs, not just transportation costs
- As % of GDP, logistics costs increased from 2003 until 2007

Source: CSCMP State of Logistics Report, 2009
Carrier’s Reactions Due to Pre-Recession Trade Growth Have Not Reversed Except Vessel Orders

- Increased utilization of physical assets and people
- Increased energy consumption management
  More optimization, emissions reductions
- Increased complexity of operations

Source: M. Turnquist, Cornell University
Containership Supply / Demand Has Huge Imbalance

Even with recovery in the economy, slow-steaming, new routes, and transport of empties the extra capacity is evident.

Sustained financial pressures on carriers affect their terminals.
Demands on Ports Competing for Trade

• Following recessionary down year in 2009, port traffic will resume expanding, but at lower rates than in first half of decade
  • Inland hinterland service via truck and rail remains differentiator in capturing discretionary cargo, including cross-border.

• Shippers are reconfiguring their logistics networks to adapt to carrier changes and to minimize costs
  • Location, inventory and transport decisions
  • Benefits some ports yet others lose share

• Coordinated decisions across the supply chain
  • Among firms, not just within firms
  • Sharing data, when possible without anti-trust concerns

Source: M. Turnquist, Cornell University
Bottom Line

- World economic growth and trade growth will return after recession, but not at the pace of growth of 2003-2006

- Developing countries in Asia will experience stronger growth; Western European and Japanese growth will be slower

- U.S. trade will grow faster than in other developed countries, but slower than for the developing economies

- Pressures from growth in container traffic return in a few years as it continues to outpace growth in the U.S. economy

- Ports benefit from more balanced two-way trade but providing the infrastructure and productivity to handle return to growth in volume will remain a challenge. The time is now to plan for the growth.
Thank you!

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