The World Picture
A View for Sea Trade

Presented to:
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Presented by:
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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

(Percent change)

- Developed (OECD) Countries
- Emerging Markets
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

(Real GDP, percent change)

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

2007 - 2010
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 |
| Japan          | Japan | Japan | China | China | China |
| Germany        | Germany | Japan | Japan | India | Japan |
| China          | China | Germany | India | Japan | Brazil |
| U.K.           | U.K.  | U.K.  | Russia | 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  | Italy |
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Asia/Pacific Leads in Industrial Production Growth

(Percent change)

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

2007  2008  2009  2010

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## China has Changed
### Market Reform; Bigger; More Open

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<tr>
<td>Real GDP (2002$ billions)</td>
<td>0.169</td>
<td>1.24</td>
<td>3.28</td>
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<tr>
<td>Relative GDP (% of U.S. level)</td>
<td>3%</td>
<td>12%</td>
<td>23.7%</td>
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<td>Avg Real GDP Growth Previous 10 Yrs</td>
<td>5.3%</td>
<td>9.3%</td>
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<tr>
<td>Population (millions)</td>
<td>981</td>
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<td>Nominal Per Capita GDP</td>
<td>171</td>
<td>946</td>
<td>2483</td>
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<td>Trade’s Share of GDP</td>
<td>15%</td>
<td>55%</td>
<td>66%</td>
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<tr>
<td>Current Account Surplus ($ billions)</td>
<td>1</td>
<td>35</td>
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<td>Agriculture’s Share in GDP</td>
<td>30%</td>
<td>15%</td>
<td>11.3%</td>
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<tr>
<td>Urbanization</td>
<td>20%</td>
<td>32%</td>
<td>44%</td>
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Source: WTO, CIA Worldfactbook, EDC Canada, Global Insight,
China’s Merchandise Export Growth Has Slowed

(Six-month moving average, percent change a year earlier)
China’s Heterogeneous Regions

(2007 data)

The Rust Belt:
109 million people
GDP: US$307 billion

The Coast:
405 million people
GDP: US$1,803 billion

The Hinterland:
518 million people
GDP: US$981 billion

The Margins:
292 million people
GDP: US$505 billion

Source: Global Insight China Regional Service
China Exports to Americas

China - Total Commodities - Total Trade

% Change Y-Y

Global Insight Navigator Geography

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Europe, Asia Dominate Import Value Growth by Region

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<td>8,000</td>
<td>9,000</td>
<td>10,000</td>
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</table>
Asia, Europe Dominate Export Value Growth by Region
Ocean Trade Dominates Trade Value Growth

Trade Value (Billions of Real U.S. Dollars)

- Air
- Ocean
- Overland

1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015
Tanker Trade Dominates Trade Tonnage

Volume of Ocean Trade, (Millions Metric Tonnes)

- Dry Bulk
- Liquid Bulk
- General Cargo
- Container
U.S. Containerized Maritime Trade

Imports
Exports

Million Metric Tons

2003 2004 2005 2006 2007 2008
U.S. Maritime Trade – Narrowing Gap between Imports & Exports

Million Metric Tons

- Imports
- Exports

2003 2004 2005 2006 2007 2008
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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

(Global Insight Indexes, 2002:1=1.0)
Household Energy Spending Takes a Larger Share of Disposable Income

(Percent of disposable income)

Gasoline Consumption

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

(Percent change from a year earlier, volumes)

Source: Global Insight U.S. Macroeconomic Forecasting Service

Real U.S. Exports — Real U.S. Imports
"...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

(Annual percent change, 2000 dollars)  (Percent)

Real GDP Growth  Unemployment Rate
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.

(Real GDP, percent change)


Canada United States
Western Provinces Lead Canada’s Growth—not updated for national forecast

(Percent change, real GDP)

- Canada
- British Columbia
- Alberta
- Saskatchewan
- Manitoba
- Ontario
- Quebec
- New Brunswick
- Nova Scotia
- PEI

2007 2008
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

(Percent change, real GDP)


Mexico
United States

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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
  © New infrastructure and transport development.

China is expected to continue growth with a soft landing.
Regional Select GDP


Countries

- Canada
- Caribbean
- Colombia
- Costa Rica
- Ecuador
- Mexico
- Trinidad and Tobago
- United States

Percentage Change

0.00%
1.00%
2.00%
3.00%
4.00%
5.00%
6.00%
7.00%
8.00%
Trade Prompts Interdependence

(Percent of world GDP in US$)

North America  Western Europe  Asia/Pacific
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China Exports to the World - Growth

Global Insight Navigator Geography

World Total China Exports Total Commodities in TEUs

TEUs

50000000

40000000

30000000

20000000

10000000

0

1995
2000
2005
2006
2007
2008
2009
2010
2011
2012

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US Primary Coastal Ranges

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

“I work on the terminal. Why does economics matter to me?”
Thank You!

QUESTIONS? Discussion?!

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