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?
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

- Significant rise in employment would improve consumer sentiment
- Companies have been focused on cost control not expansion
Private Sector Has Led Employment Recovery

- Private sector efforts are offset by public sector cutting 222K jobs
US Retail Sales Recovering - Inventories Lag

- 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

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

Source: Federal Reserve, Moffatt & Nichol
US International Containers Peaked In August

- 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?

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

Source: UN-ILO, Business Monitor, Moffatt & Nichol
• 8 million barrels of crude oil were consumed daily in 2010
• Since 2008 Emerging Markets consume more oil than Developed Economies

Source: UN-ILO, Business Monitor, Moffatt & Nichol
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

Source: US Census Bureau
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

- Japan
- Europe
- China
- Canada
- US
- Brazil
- Mexico
- India

- 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
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

Walter Kemmsies
Moffatt & Nichol
New York
+1 212 768 7454
wkemmsies@moffattnichol.com