The 2014 Outlook is for Faster World Economic Growth

- World 2014 economic growth to reach 3.3%, vs. 2.4% last year
- World 2014 trade growth forecast 4.7%, about double of 2013
- Emerging market weakness in 2013 is reversed, with continued mild growth, yet faster than growth of developed countries
- Commodity prices mostly moderate – inflation is not the problem in U.S. and the developed world, deflation is a risk
- European recovery helps world GDP growth and trade growth
- Spread of recovery to more sectors, more job growth and consumer and business strength yield higher growth in 2014
- Global monetary policy still providing stimulus in 2014
Pace of World GDP Growth Increases From Now Into 2016 After Post-Recession Weakness

More volatile industrial production pace almost doubles in 2014 as manufacturing recovers in Europe and sees faster growth in Asia

(Annual Percent Change)

Source: IHS
GDP Growth Rate Differences Affect Pace of Trade Growth, and Trade Volumes by Trade Partner

Geography of world production / consumption is shifting as emerging markets grow 6% on average over rest of the decade vs. 2% for advanced countries.

(Real GDP, percent change)

Source: IHS
BRIC Economies’ 2014 GDP Growth Is Stronger Yet Not Back to Their Pre-Recession Pace

Real Gross Domestic Product Growth, China, India, Brazil and Russia

(Annual Percent Change)

Source: IHS
Trade Reflects World Economy Shifts in Share: Decline in U.S. Share Holding, as BRIC’s Grows

U.S. Share Peaked in 2002; Eurozone in 1993; Japan in 1995

(Domestic GDP as Share of World GDP in U.S. Dollars, Percent)

Source: IHS
NAFTA Trade Partner Economies Still Generally Growing In Sync

Mexico grows faster with near-shoring and broad trade growth

(Real GDP, percent change)

Source: IHS
Consumption in Developed Economies Still Key to Global Demand But Less Each Year

• Trade demand depends on business and household goods demand, part of consumption spending (about 70% of U.S. economy; and 58% of Western Europe’s economy.)

• China’s policy is to increase their 35% consumption share of GDP; the share from trade to decrease, though challenge to shift employment from export focus to domestic focus

• China consumption growth post recession averaging over 5.5% annually compared to 2.1% growth in the U.S.

• U.S. consumption share of world GDP peaked at 22% in 2001. W. Europe’s share reached almost 18% in 2004.

• IHS projects U.S. + Western European consumption share of world GDP falls to 27% by 2015 from 38% in 2002.
Domestic Consumption Shifts by Region as Share of World GDP

(BRICs are Brazil, Russia, India and China)

Source: IHS
U.S. Consumption of Durables Slowing As Pace for Nondurables Grows

Imports much less important for Services, the largest category

(Percent Change, Chained 2009 Dollars)

Source: IHS
Manufacturing Decline Long-term in Share of the World Economy as Services Grow

(Manufacturing as Share of GDP, National Currency Units)

Source: United Nations
Monetary Policy Remains Loose Throughout the Developed World

U.S. FRB ‘tapering’ is coming before interest rates increase

Source: IHS
Slow Recovery in U.S. Employment Coming From Private Sector

(U.S. Unemployment Rate, Percent)

Source: IHS
U.S. Unemployment In Context: Less of the Population Is In the Workforce

Overall U.S. Workforce Participation Rate Lowest in 34 Years

Source: U.S. BLS
World Trade’s Share of the Economy Grows Again After Decline in Recession

Globalization trend is shifting, not reversing, long-term.

(World imports, percent of GDP)

Source: IHS
Composition of World Seaborne Trade; Recent Growth Faster than in the 1980s

(Commodity Group Trade, Million Metric Tons)

Source: Drewry
Double U.S. Exports in Five Years? Good Stretch Goal But Not Achievable

President Obama’s National Export Initiative is four years old:

“So tonight, we set a new goal: We will double our exports over the next five years”

President Obama, State of the Union Address, January 27, 2010

- Improve trade advocacy and trade promotion efforts on behalf of U.S exporters.
- Increase access to export financing to ensure good opportunities do not fall through the cracks.
- Reduce trade barriers in order to open as many new markets as possible.
- Robustly enforce trade rules to ensure our trading partners live up to their obligations.
- Promote policies that lead to strong, sustainable and balanced economic growth.

Source: U.S. Dept. of Commerce, ITA
U.S. Export Growth Recovering From Slow Trade Partner Demand 2011-2013

(Percent Change, Annual Rate)

U.S. Export Growth Forecast to Overtake Import Growth By End of Year

Source: IHS
U.S. Container Trade: West Coast Still Dominates North American Import Container Trade

North American Container Import Volume, By Coast

Overall Market Shares of East Coast vs. West Coast Have Varied Little Recently

Source: Global Port Tracker, NRF and Hackett Associates
What Can We Conclude?

- Economic conditions are still key to trade demand. Relatively faster Emerging Market growth continues. Imbalances shifting.
- U.S. consumption demand is key to imports.
- Supply chain sourcing and individual country competitiveness affect trade shifts.
- Trade still grows faster than the economy as a whole, so trade increasingly important in the economy, of the U.S. and globally.
Thank you!

Paul Bingham
Economics Practice Leader
binghamph@cdmsmith.com