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The Global Outlook: A Very Mixed Bag

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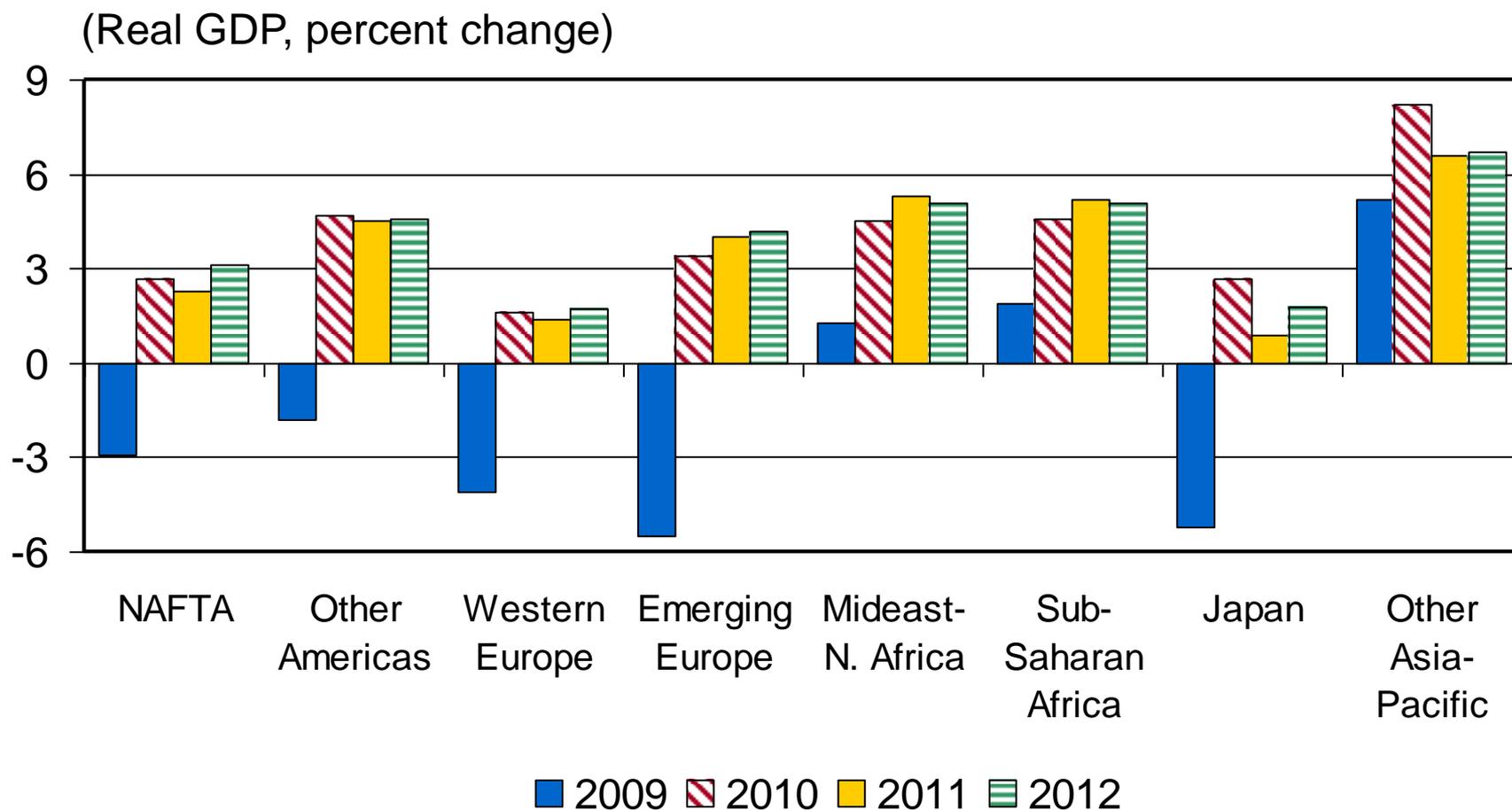
October 14, 2010



Main Features of the Global Outlook

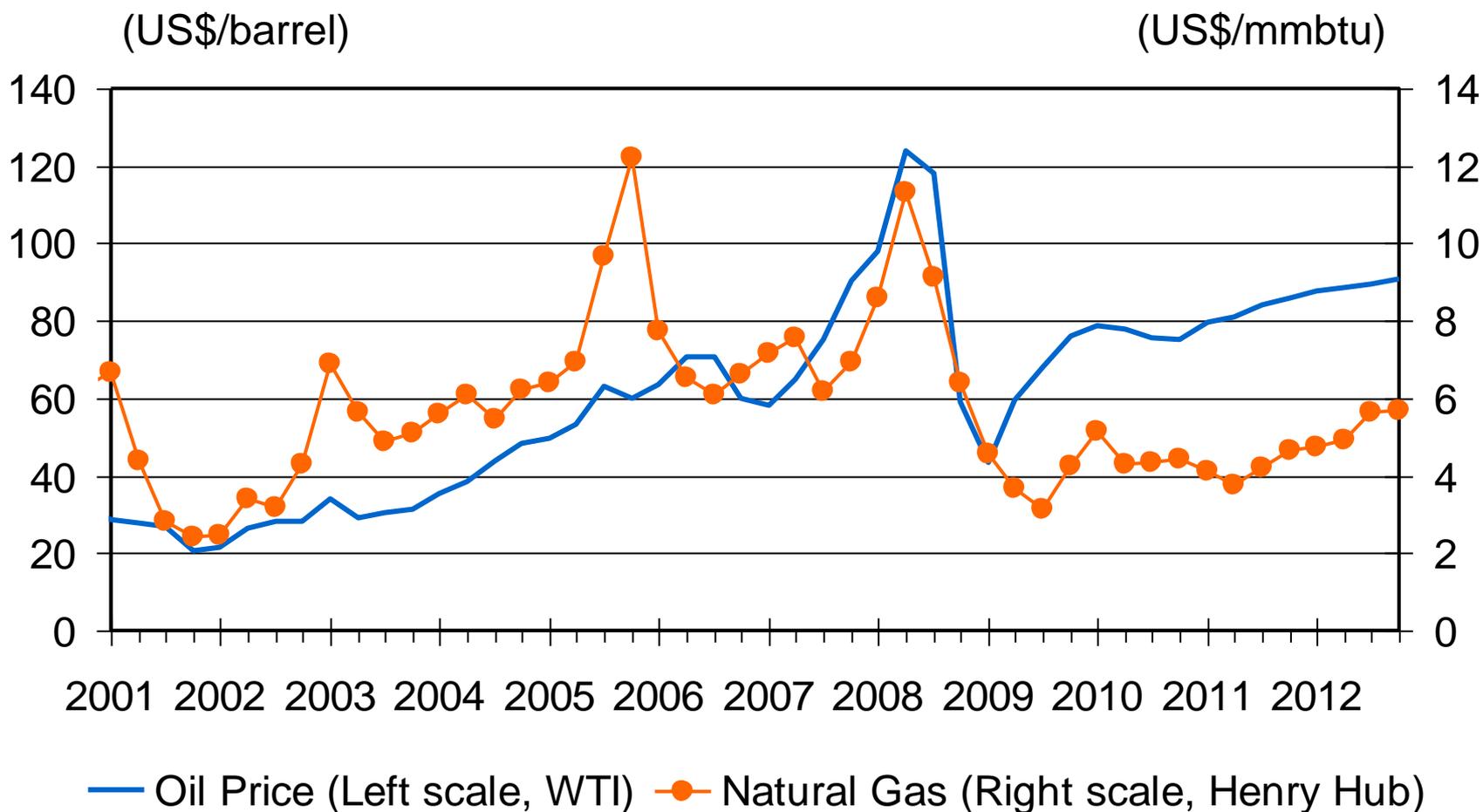
- The global recovery has slowed but is still on track
- The (temporary) effects of fiscal stimulus and the inventory cycle produced above-trend growth
- In the developed world, the post-crisis healing process will result in sluggish growth for some time – but probably no double-dip
- Commodity prices are “moving sideways”
- In the slow-growing parts of the world inflation is not a problem, interest rates are on hold and currencies are (mostly) falling
- In the fast-growing parts of the world inflation and interest rates are rising and currencies are (mostly) rising

A Multi-Speed (and Slowing) World

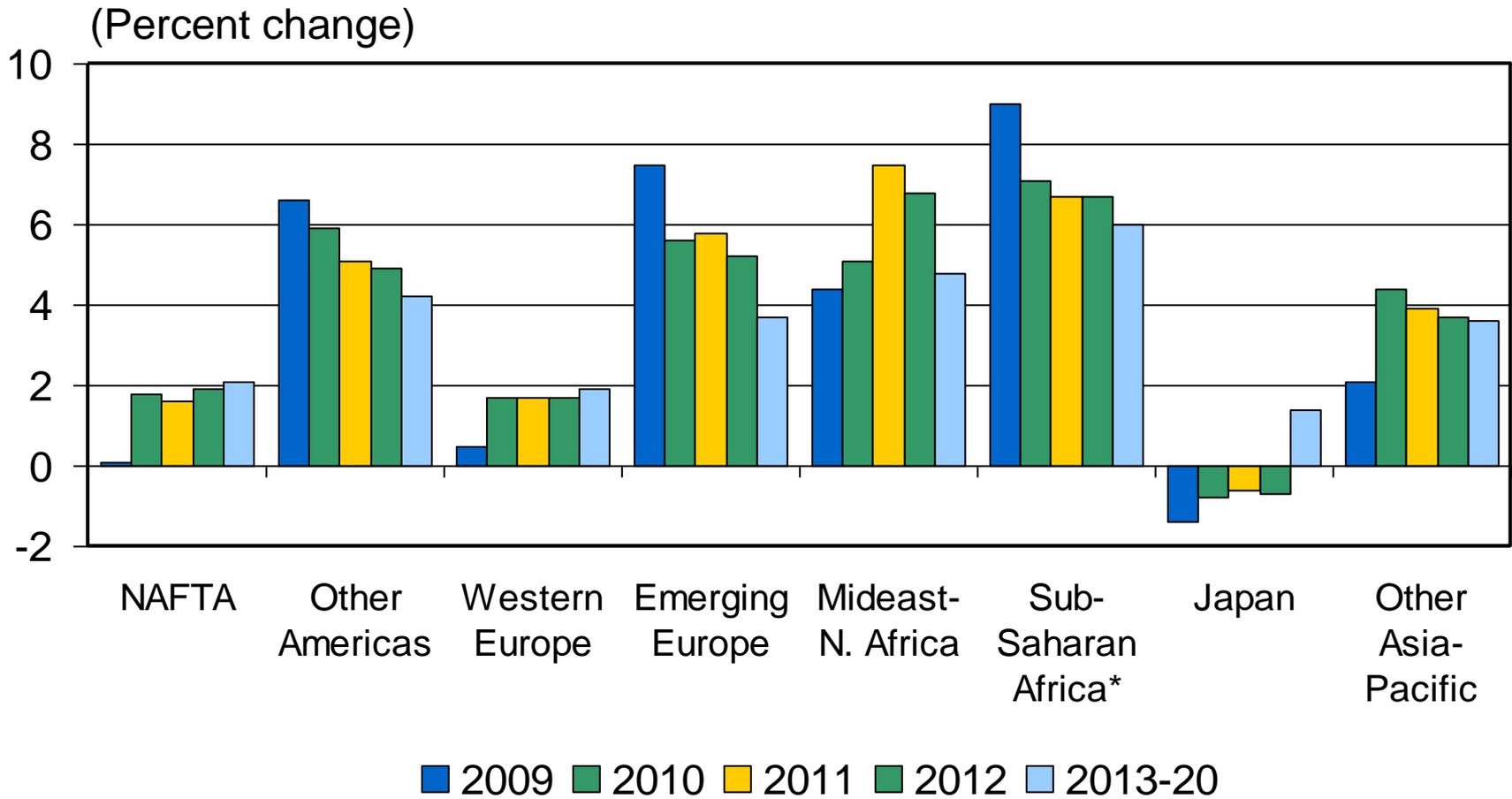




Baseline Oil and Gas Price Assumptions

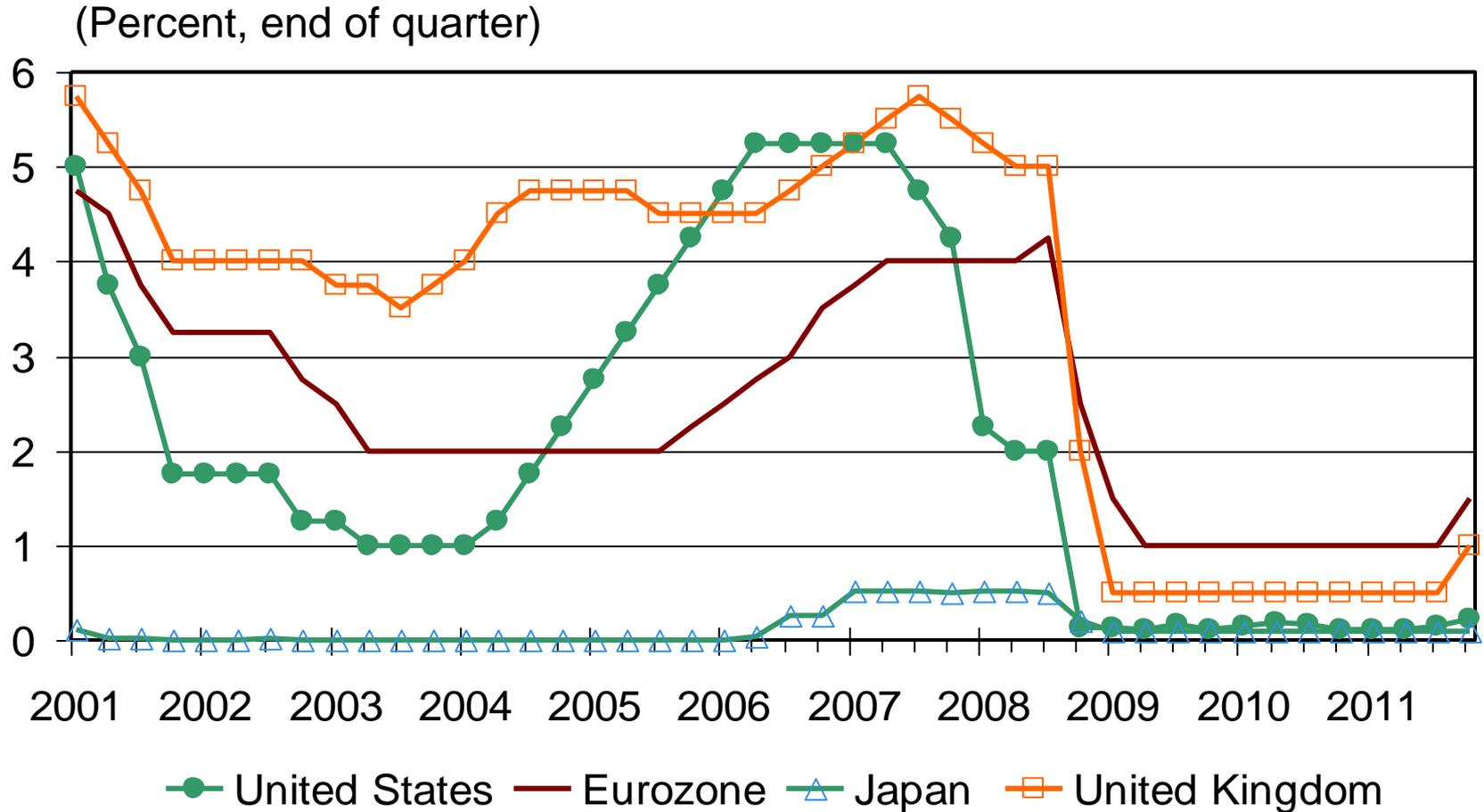


Consumer Price Inflation Will Be Mild in the Advanced Countries, Higher in Emerging Markets

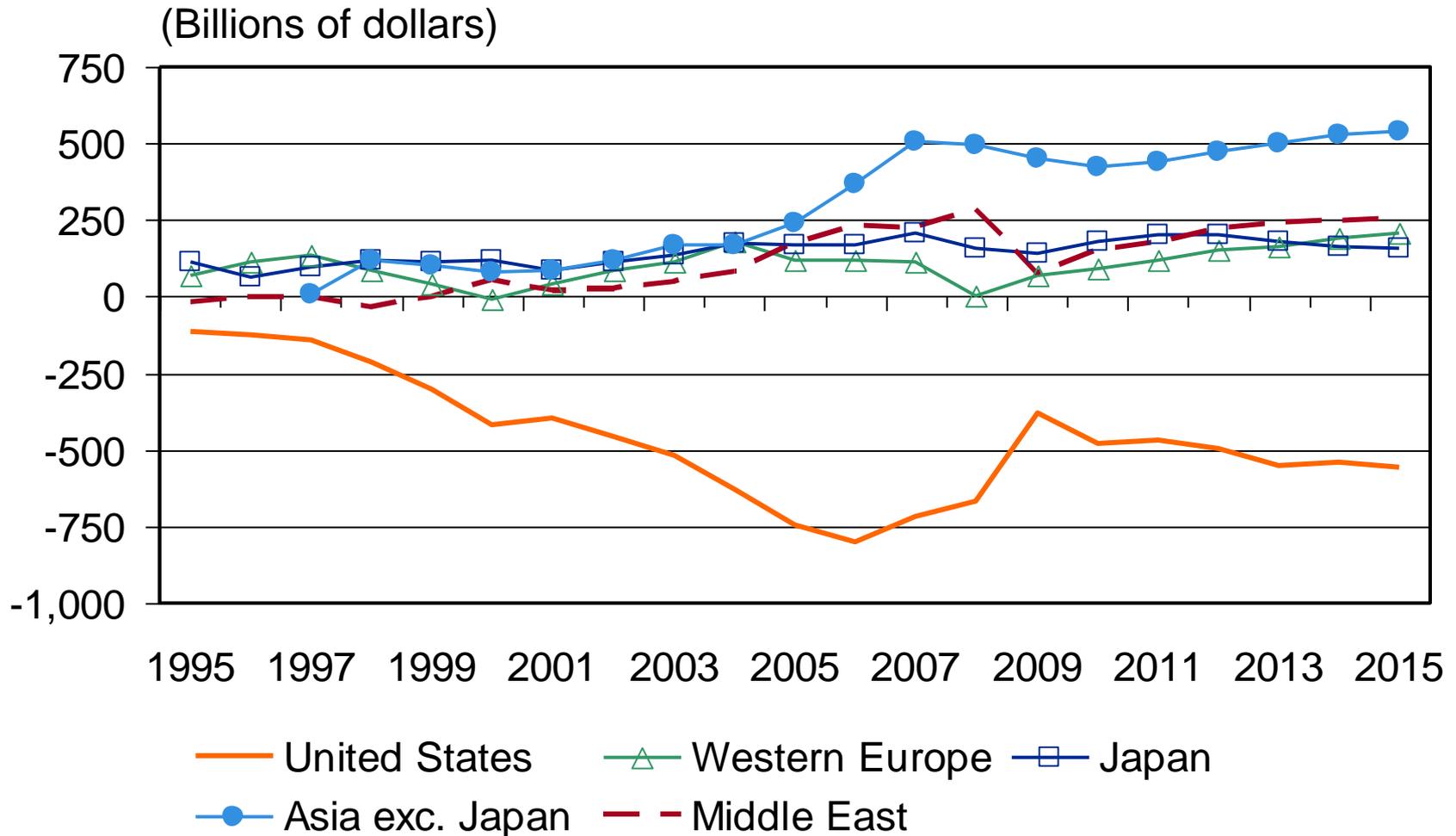


* Excluding Zimbabwe

Policy Interest Rates Will Stay Low in 2011 for the Advanced Economies



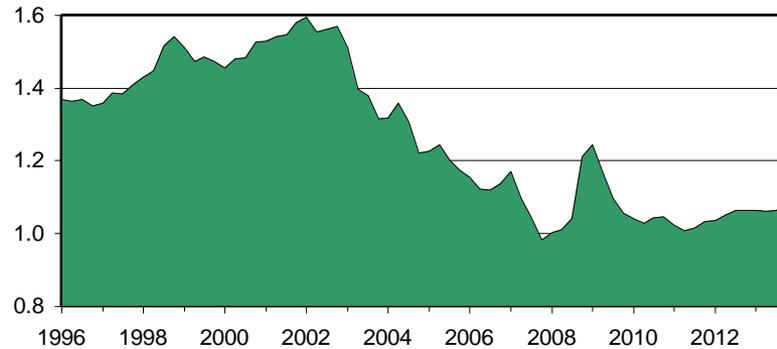
Current Account Imbalances Remain Large



U.S. Dollar Exchange Rates

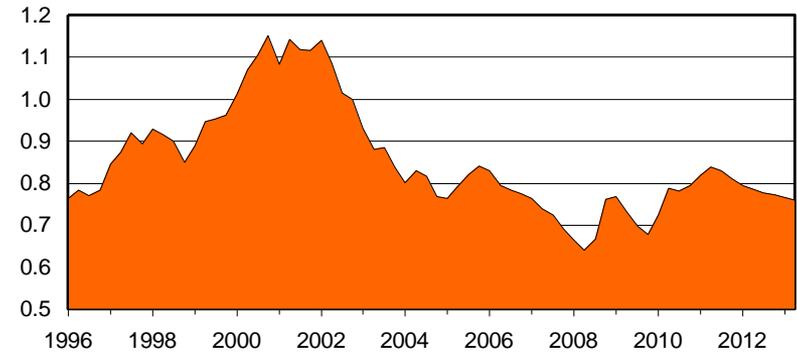
Canadian Dollar

(Canadian dollars per U.S. dollar, quarterly averages)



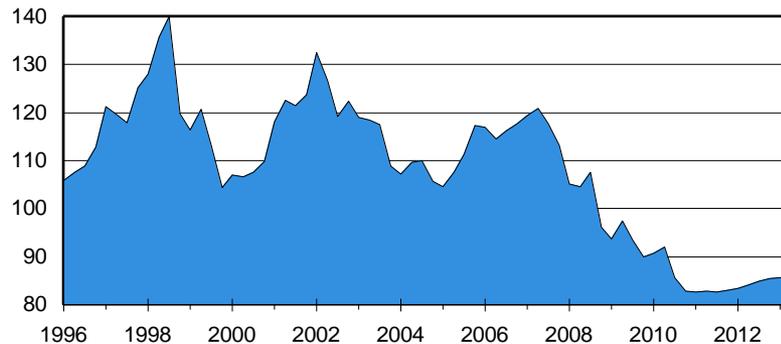
Euro

(Euro per U.S. dollar, quarterly averages)



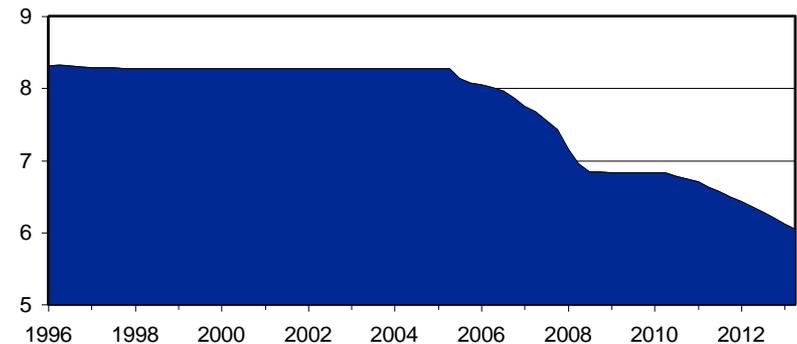
Japanese Yen

(Yen per U.S. dollar, quarterly averages)

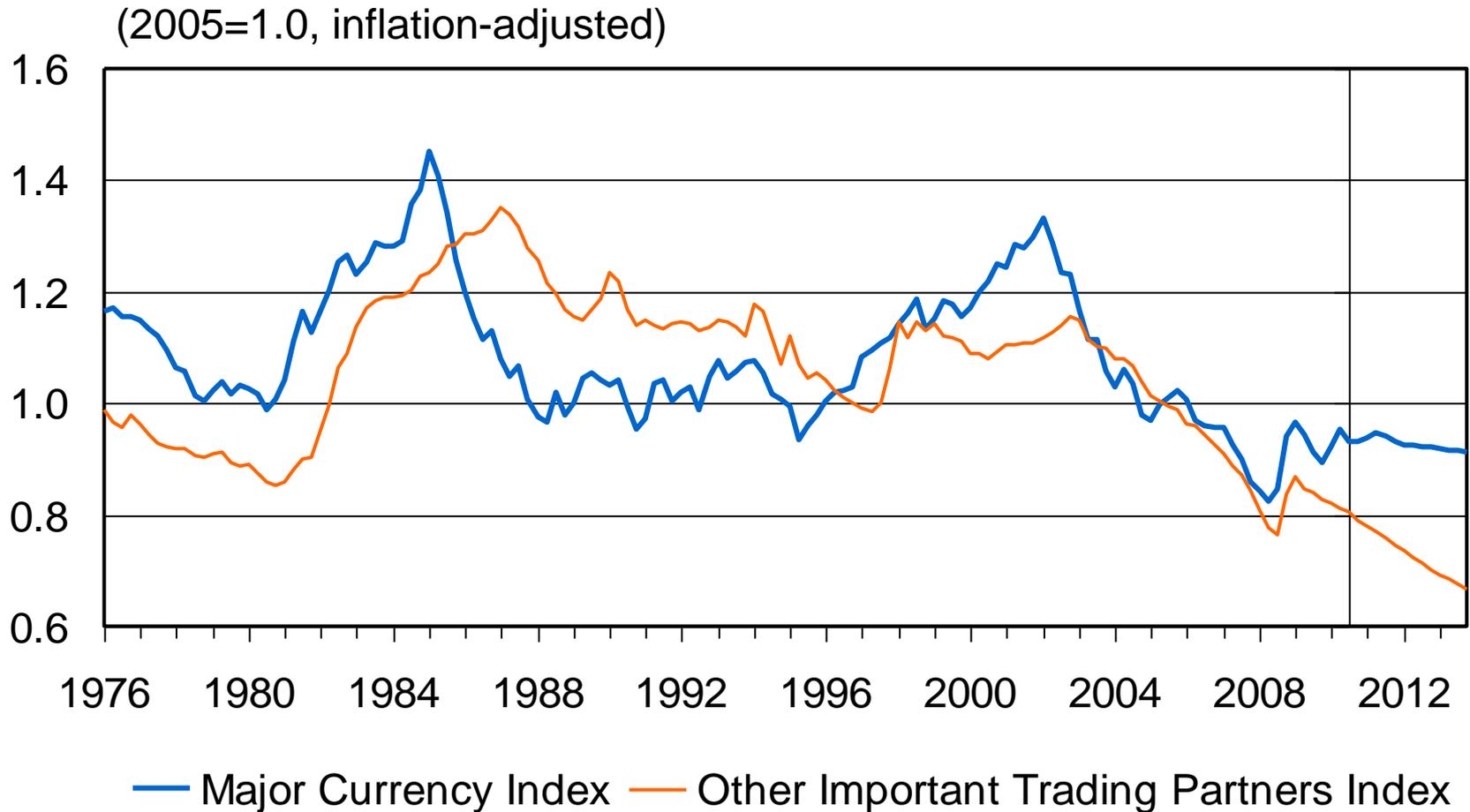


Chinese Renminbi

(Yuan per U.S. dollar, quarterly averages)



The U.S. Dollar: Secular Weakness Against EMG Currencies

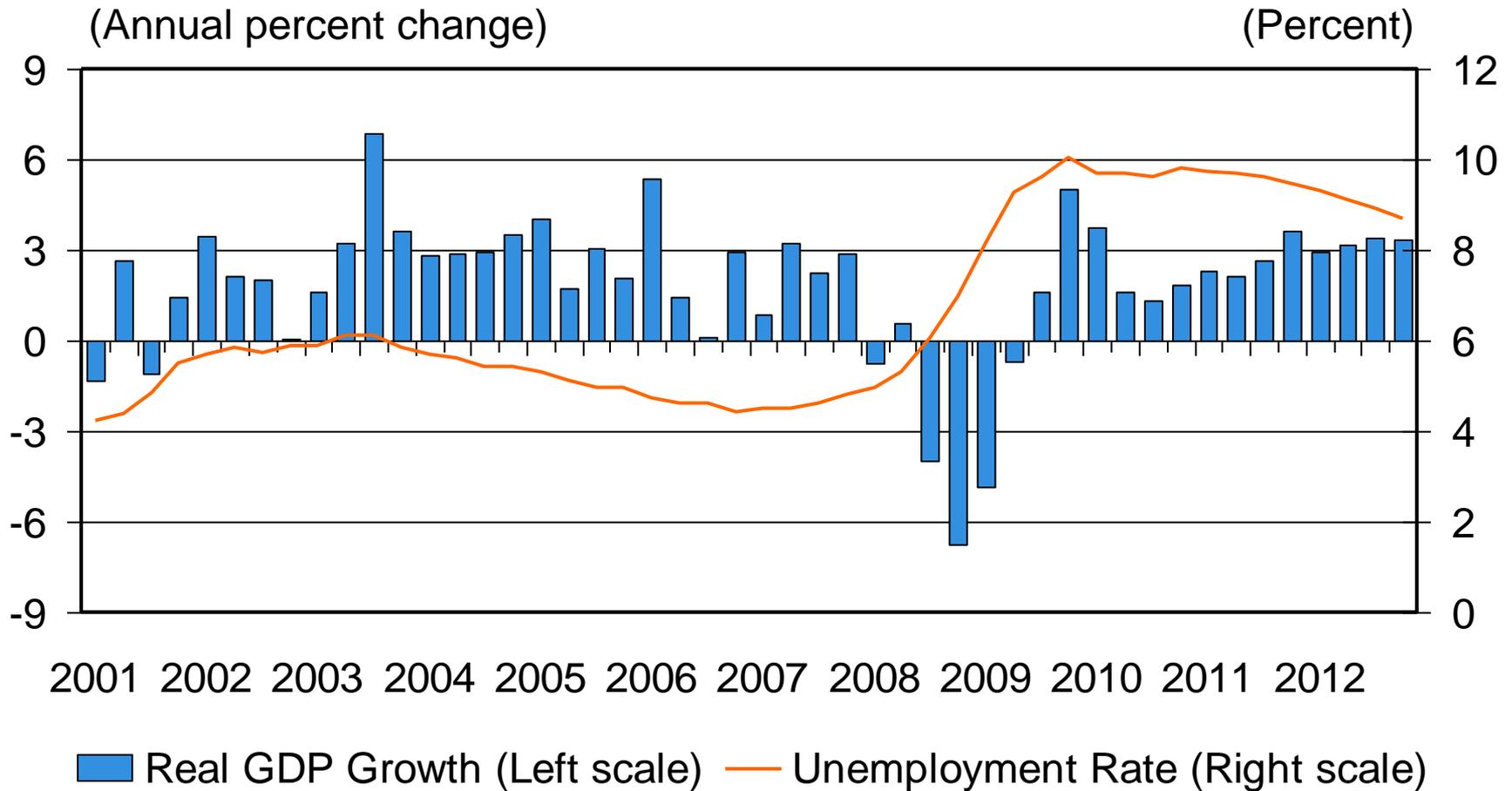




The U.S. Recovery: While the “Soft Patch” May Last Longer, Fears of a Double-Dip Are Ebbing

- Underlying growth is around 2%, as the boost from fiscal stimulus and inventory re-building fades
- Consumer spending growth is being held back by the strong headwind of a high unemployment rate and the need to de-leverage – an “epidemic of thrift”
- Business spending on equipment (and services) and inventory rebuilding are boosting growth – cash flow is very strong
- While non-residential construction and state-and-local spending will be a drag on the recovery
- Housing will continue to “bounce along the bottom”
- Exports are growing strongly – so are imports
- Policy uncertainty is a big problem

The U.S. Economic Recovery Advances Slowly





Cross-Currents Affecting Consumer Finances

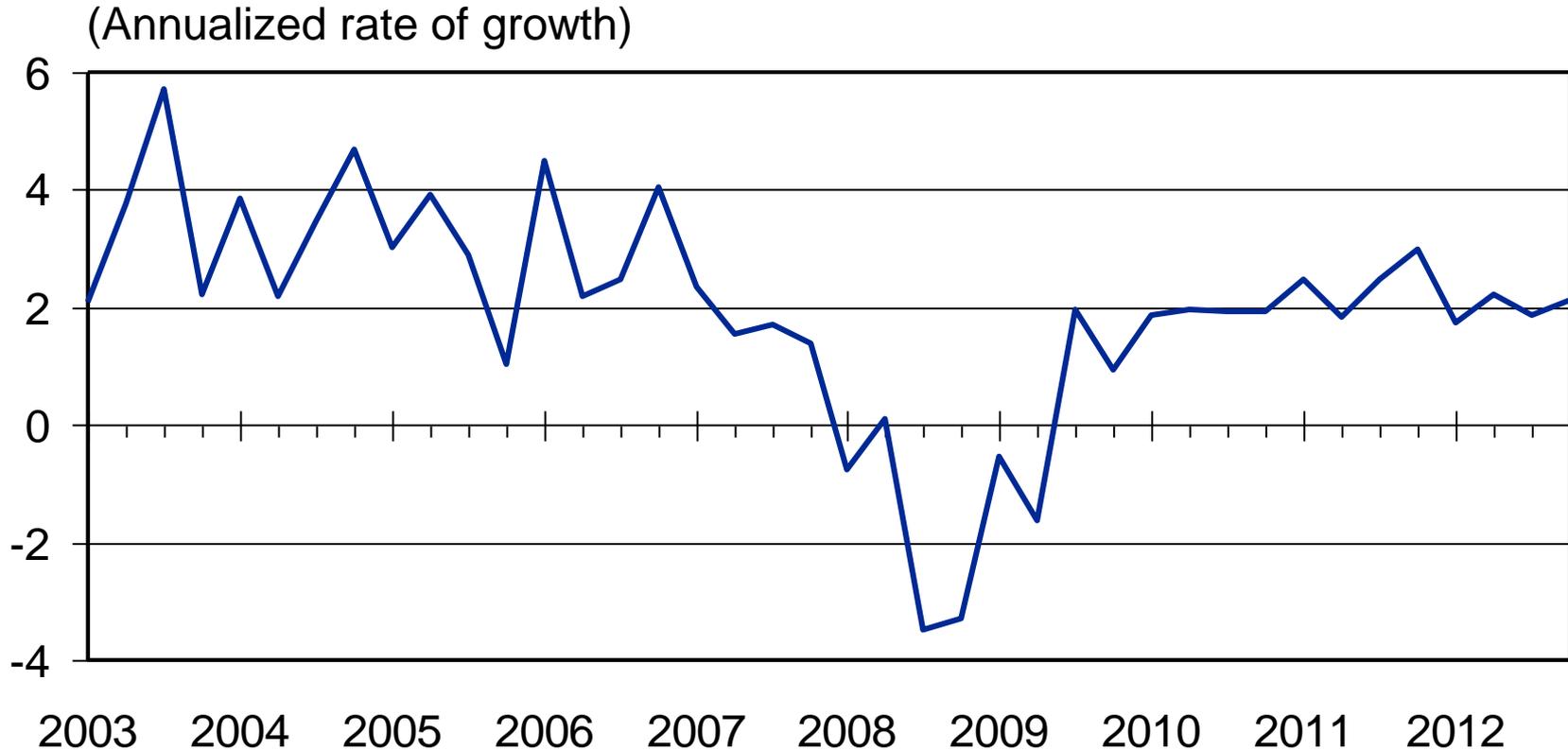
Positive Forces

- Rising Employment
- Real Income Growth
- Stock Market Recovery
- Mild Inflation
- Low Interest Rates

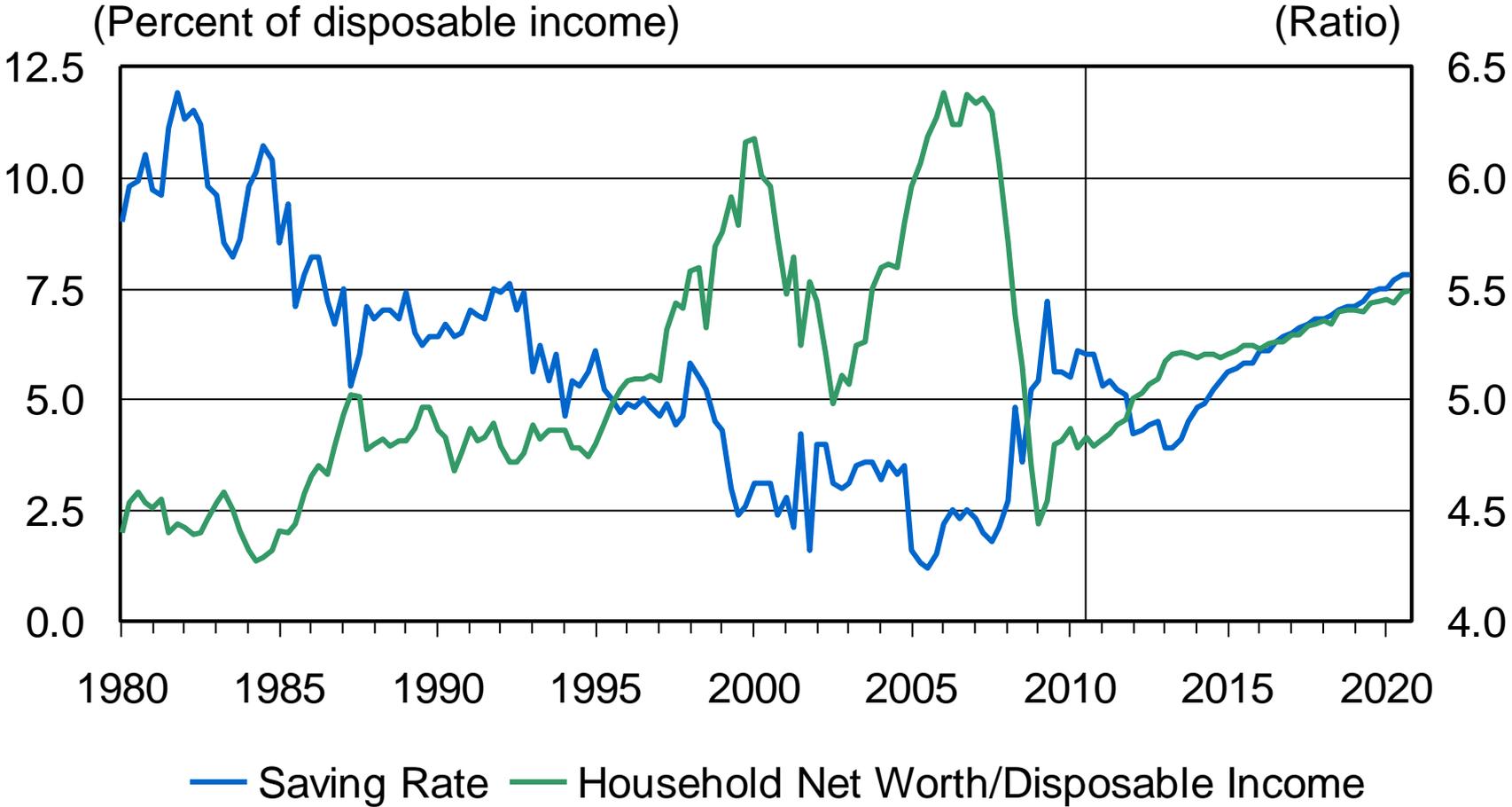
Negative Forces

- High Unemployment
- Reduced Housing Wealth
- Tight Credit
- High Debt Burdens

U.S. Consumer Spending Stabilizing, But Not a Strong Driver of Recovery



The U.S. Saving Rate and Household Net Worth



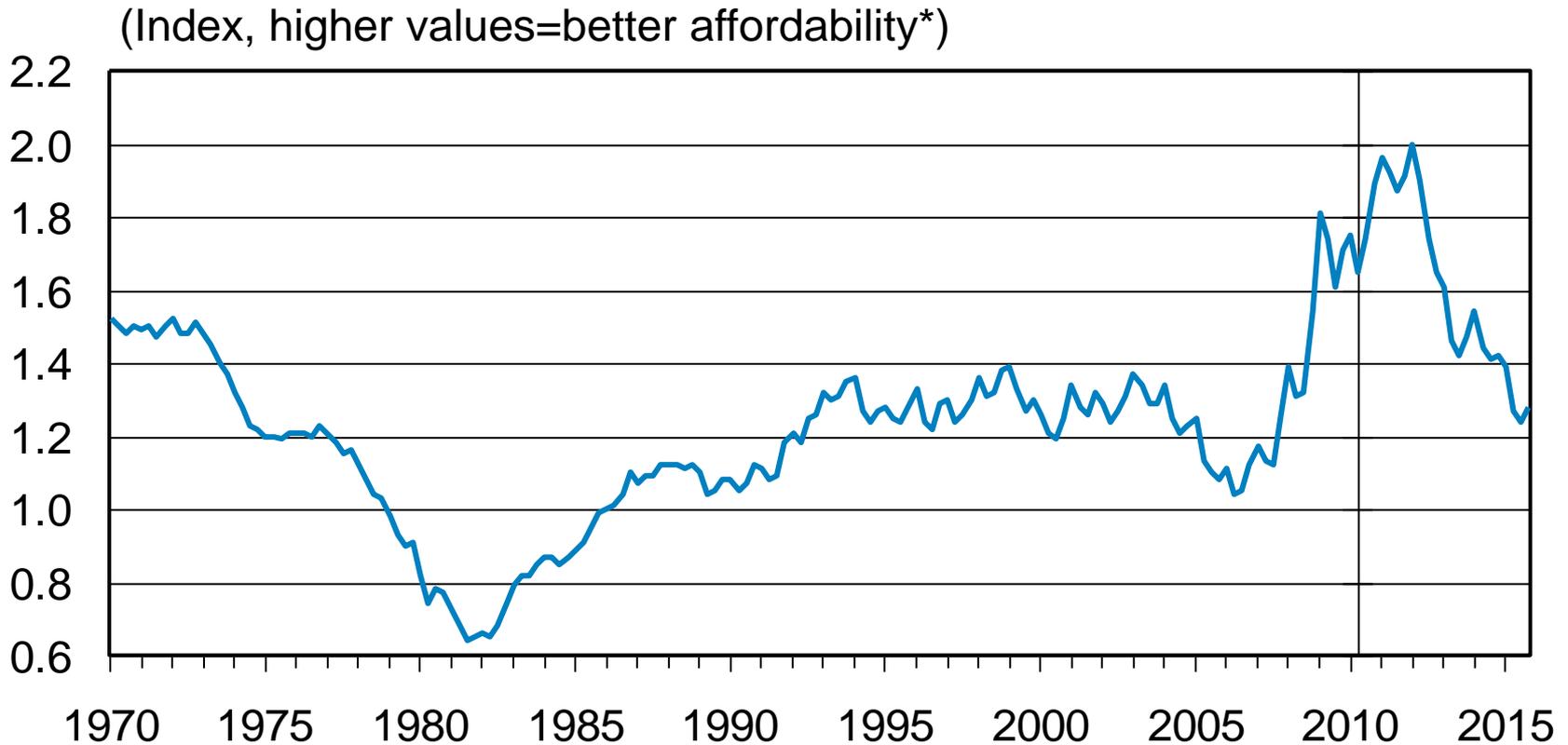
More Negatives than Positives for U.S. Housing Markets



- Positives
 - Housing affordability is at record highs
 - Prices are showing signs of stabilizing
- Negatives
 - Big sales payback after homebuyers' credit expired
 - New home sales at an all-time low
 - Foreclosure rate still high
 - Overhang of empty homes
 - Little improvement yet in multi-family indicators
 - Fed MBS purchases complete

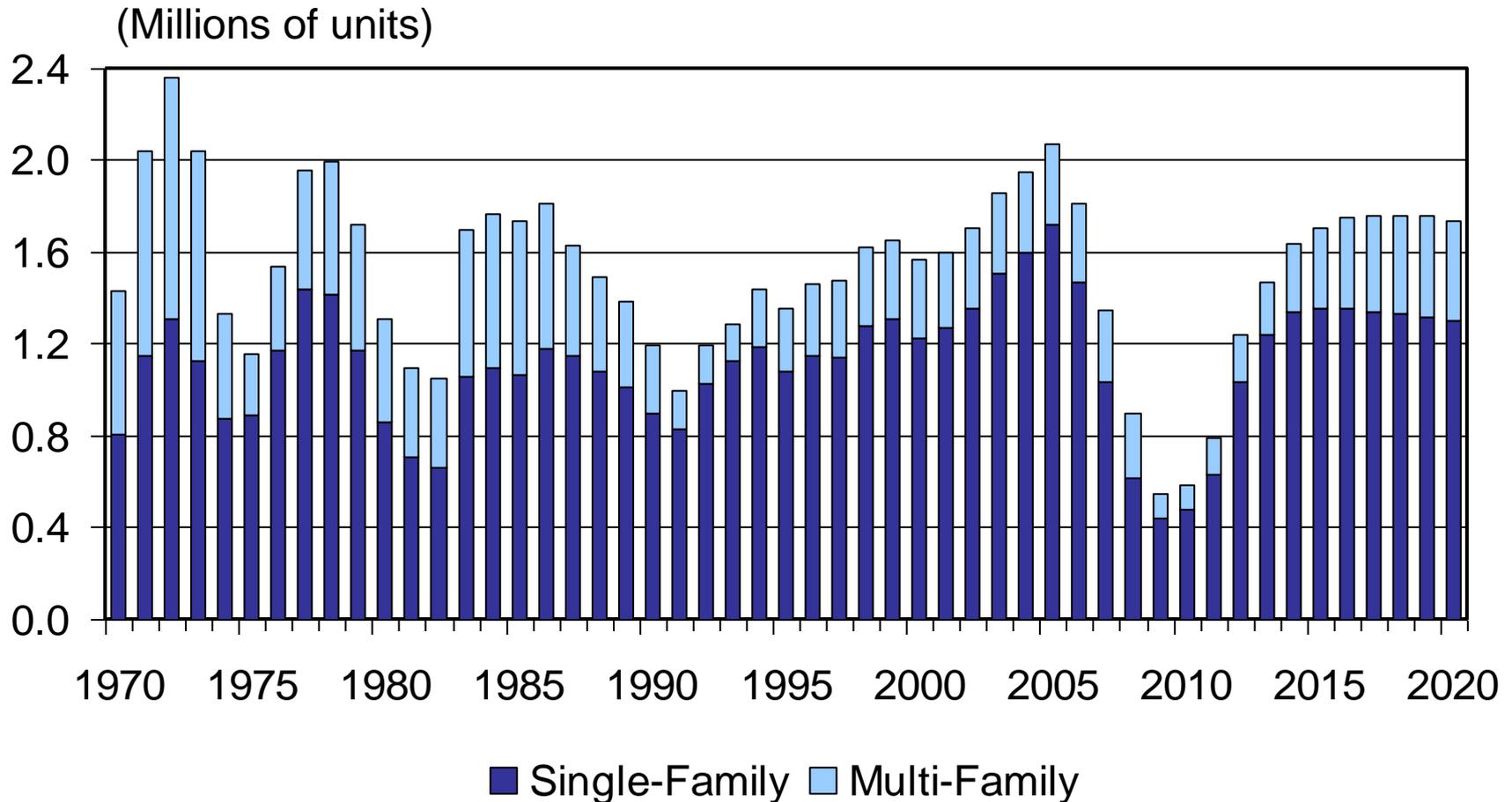


U.S. Housing Affordability Is Near Record High



* A value of 1.0 indicates a household earning the median income can afford a median-priced single-family home.

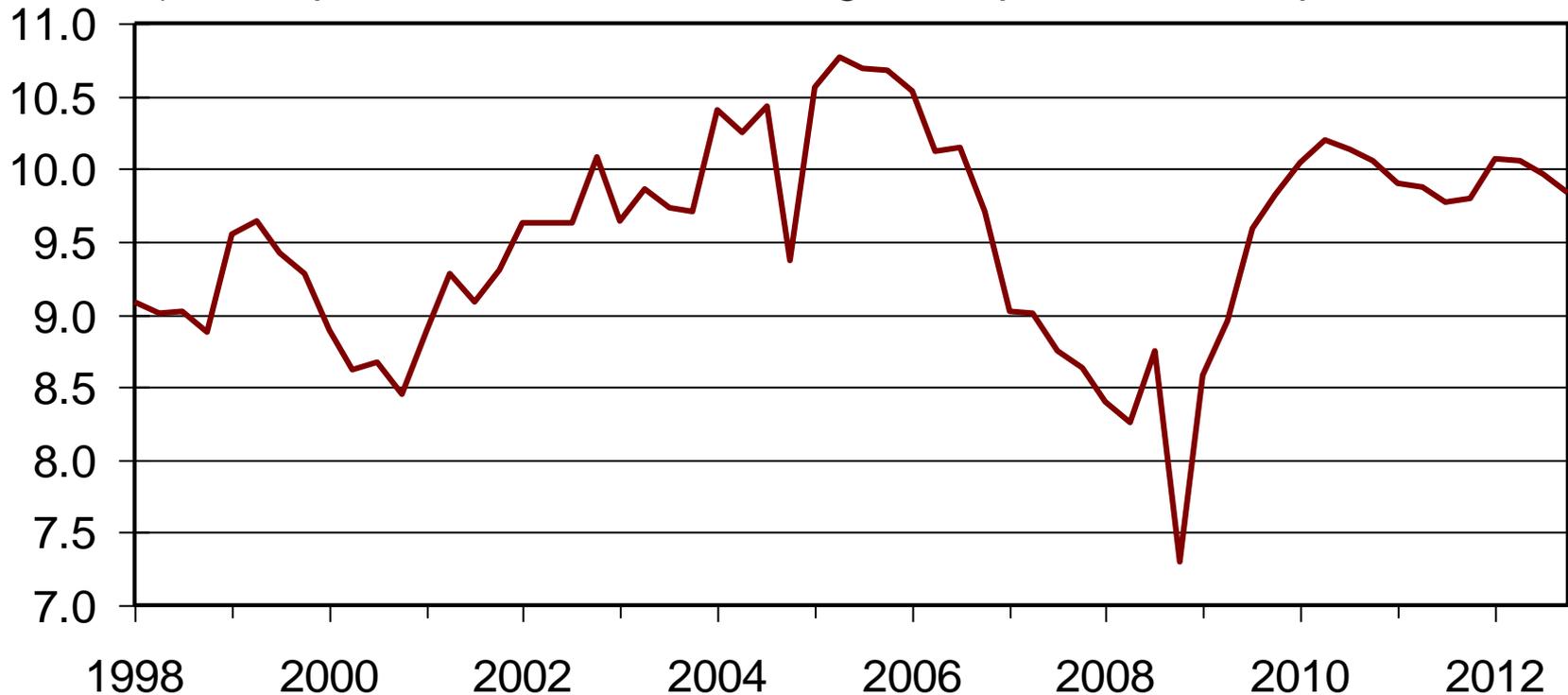
U.S. Housing Starts Will Recover from Depressed Levels



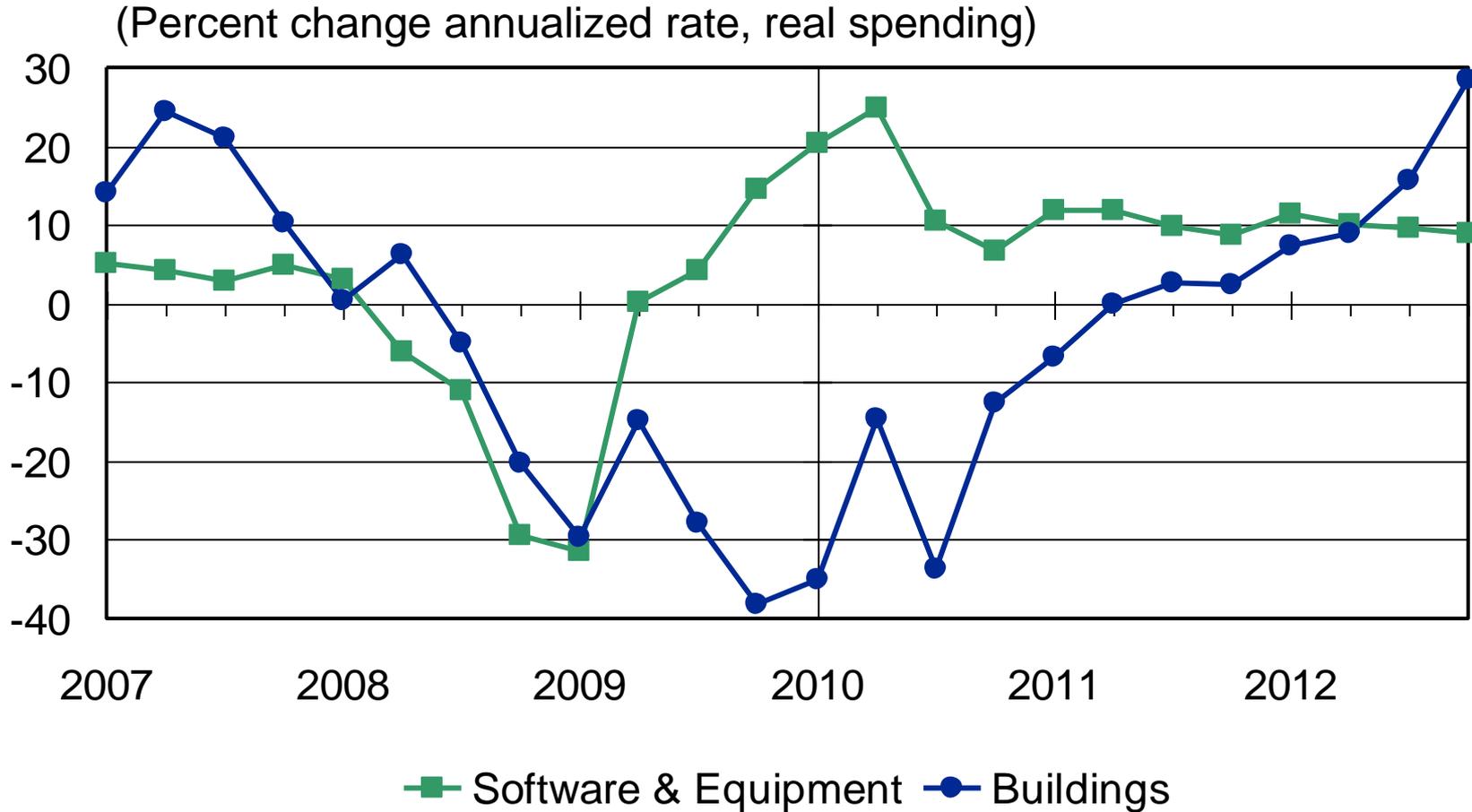
U.S. Corporate Cash Flow Strengthening: Very Good News



(Net corporate cash flow, excluding net capital transfers, percent of GDP)



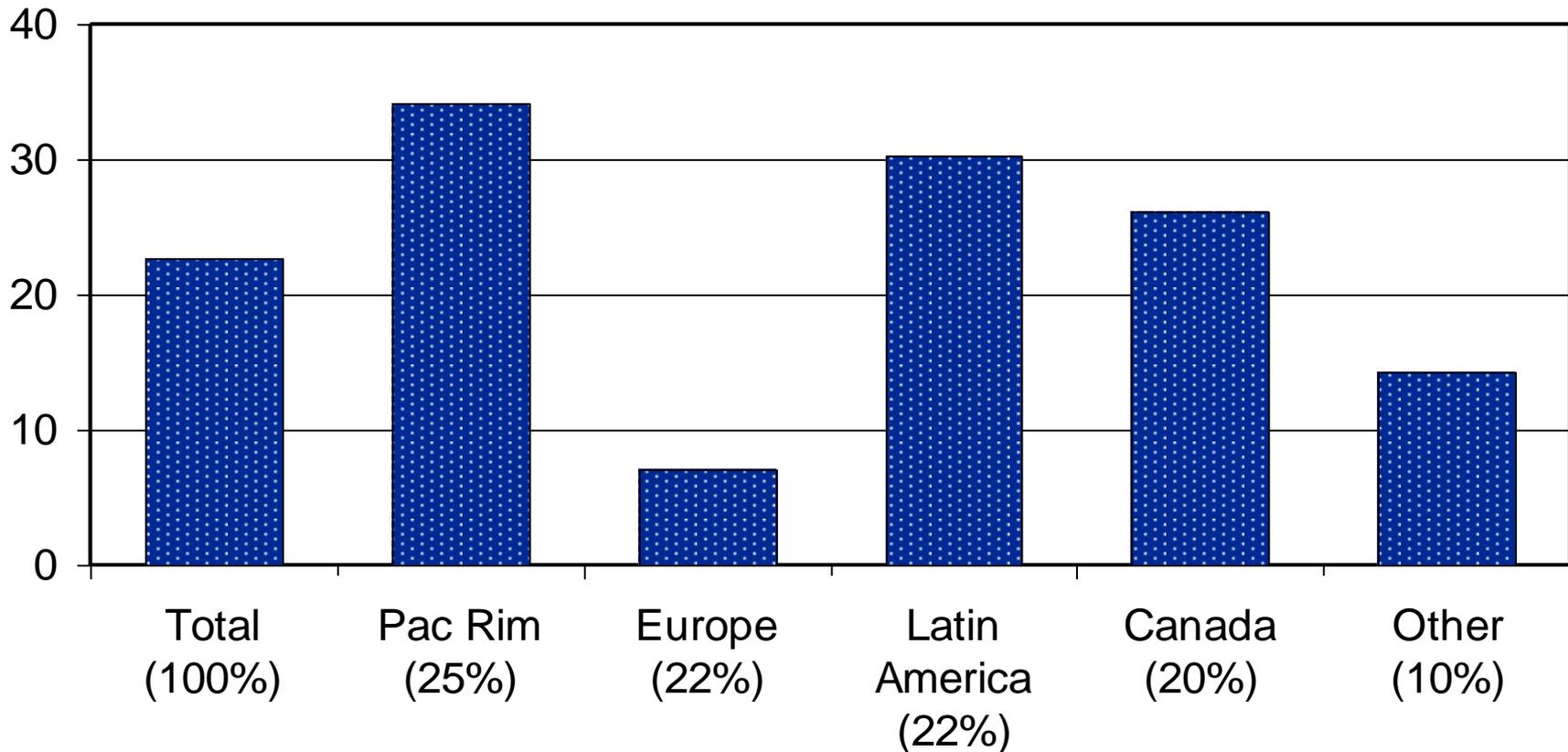
U.S. Business Capital Spending Cycle: Construction Lags



U.S. Export Growth By Destination: All Strong Except Sales to Europe

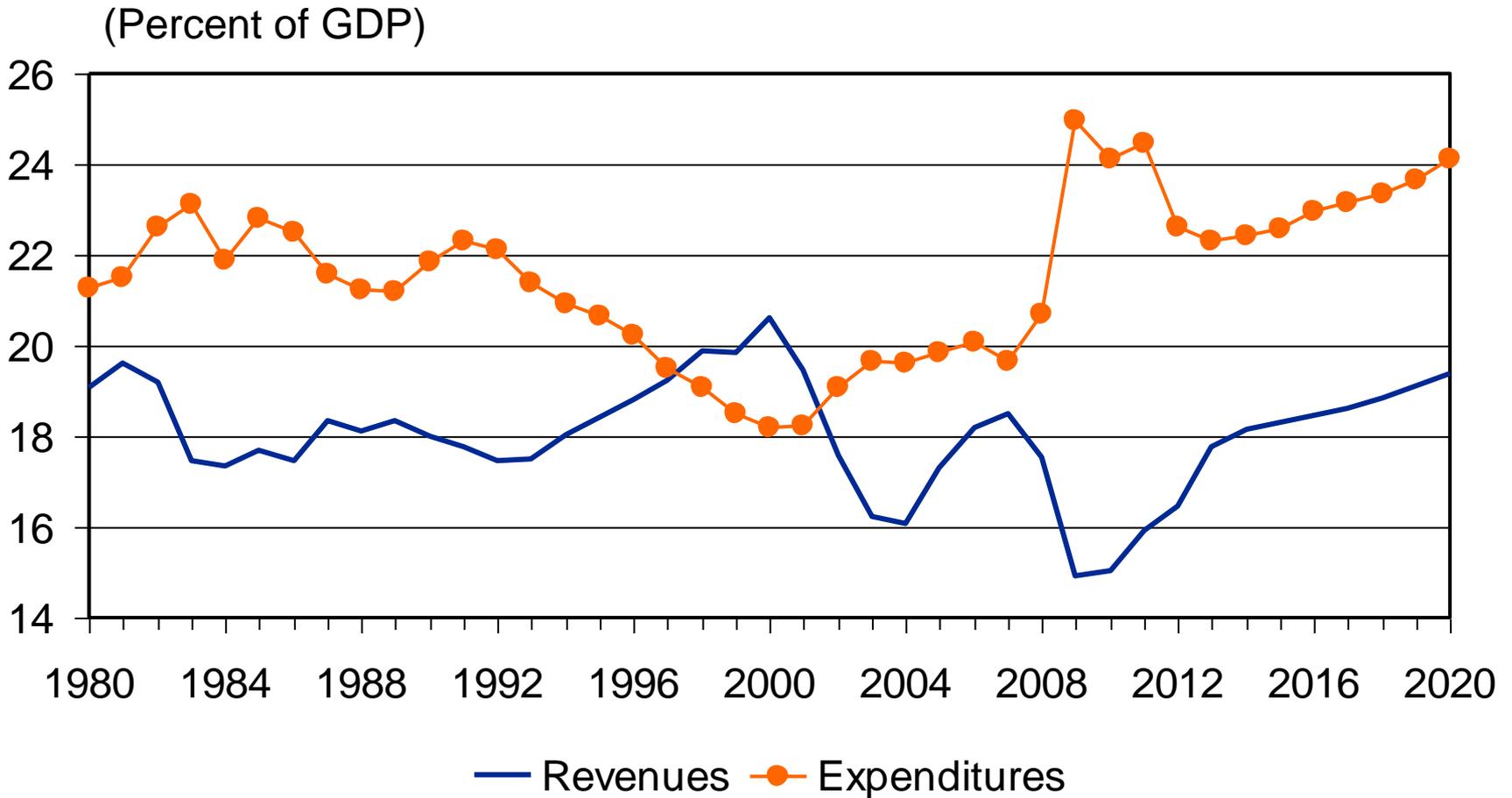


(Percent growth, merchandise exports, YTD, as of July 2010)



Export shares are in parentheses. Latin America includes Mexico.

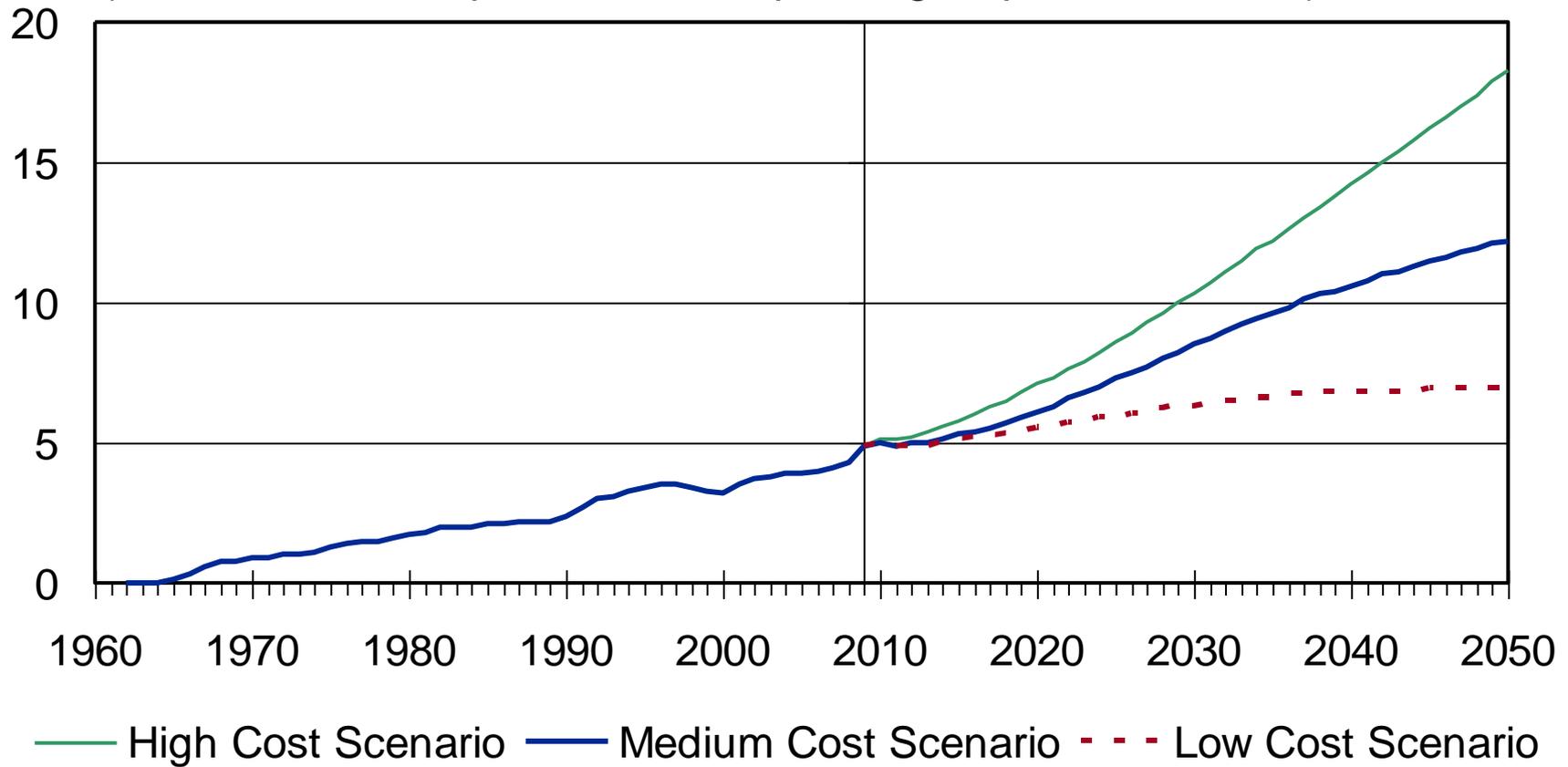
The U.S. Federal Budget Gap



The Long Term: U.S. Medical Spending Is the Biggest Problem



(Federal Medicare plus Medicaid spending as percent of GDP)



Source: CBO Long-Term Budget Outlook, June 2009



Potential Double-Dip Triggers

- Tightening credit conditions
- Households cut (rather than slow the rate of) spending
- Businesses cut inventories, reduce capital spending and slash payrolls
- Dollar strengthens – a lot (and not just against the euro)
- Policy tightens



Five Reasons Not to Worry

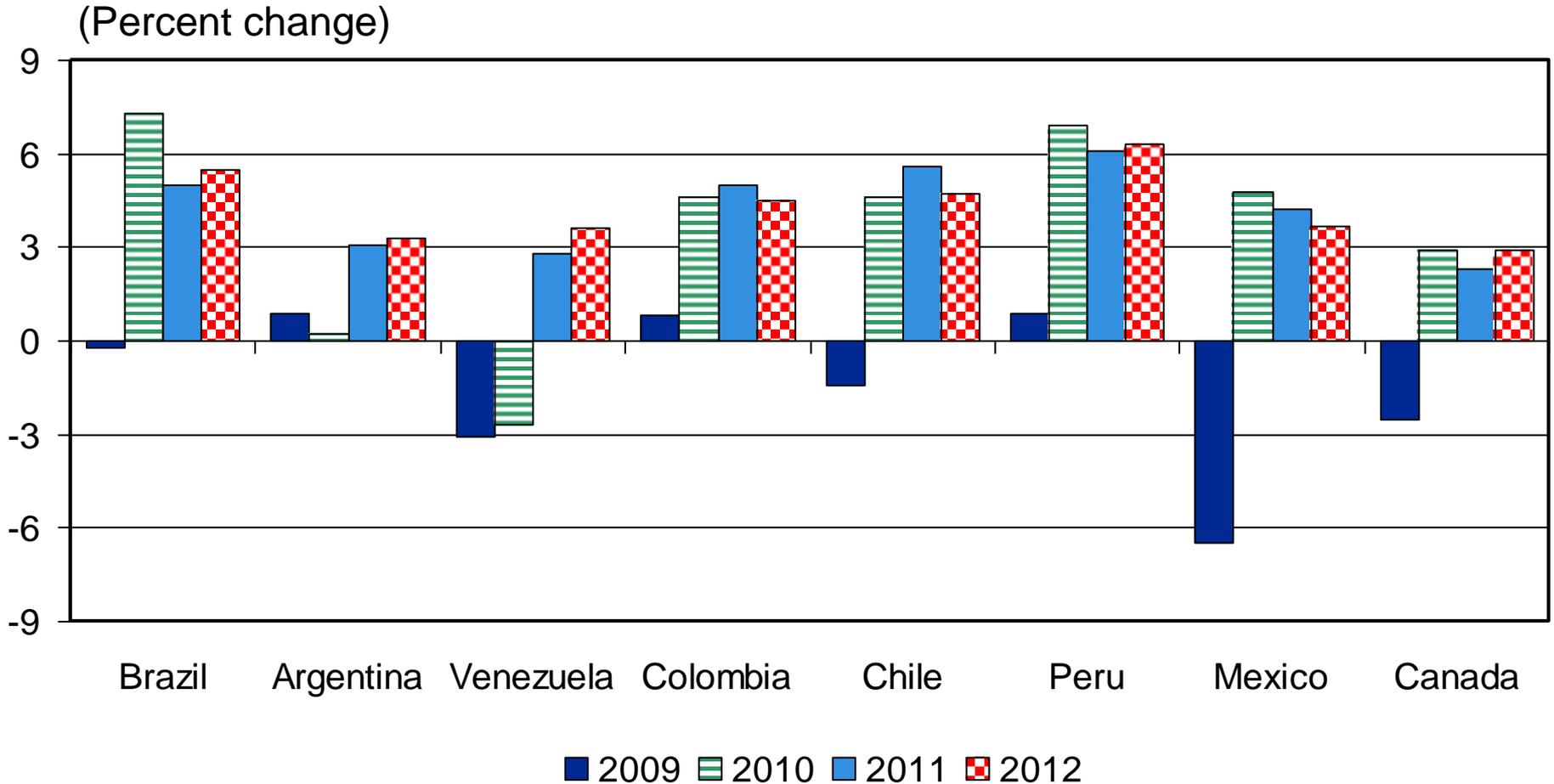
- Credit conditions are gradually easing
- The usual sectors that drive the economy into recession (housing, autos and inventories) have already undergone big adjustments
- The “epidemic of thrift” means that household and businesses are in relatively good financial shape
- The dollar has weakened against most currencies (except the euro) and emerging markets growth is strong – so exports will continue to be an engine of growth
- Neither fiscal nor monetary policy will tighten (arguments of the Bush tax cuts notwithstanding) – there is also some more unspent infrastructure money in the pipeline

Other Americas: Resilient in the Face of Crisis



- The region weathered the storm remarkably well, supported by strong macroeconomic fundamentals (with some exceptions) and relatively low debt levels – second quarter growth in Brazil, Chile and Mexico was particularly strong
- Brazil, Peru, Colombia and Chile are on solid ground, but members of the “Socialism of the 21st Century” (Venezuela, Ecuador, Bolivia and Argentina) will suffer consequences of macroeconomic mismanagement
- Monetary and fiscal stimuli remain in place in 2010
- Global risks are a threat (developed economies, China, commodity prices)
- Longer-term challenges: bloated public sectors, poor infrastructure, and restrictive business environments

Real GDP Growth in Non-U.S. Americas

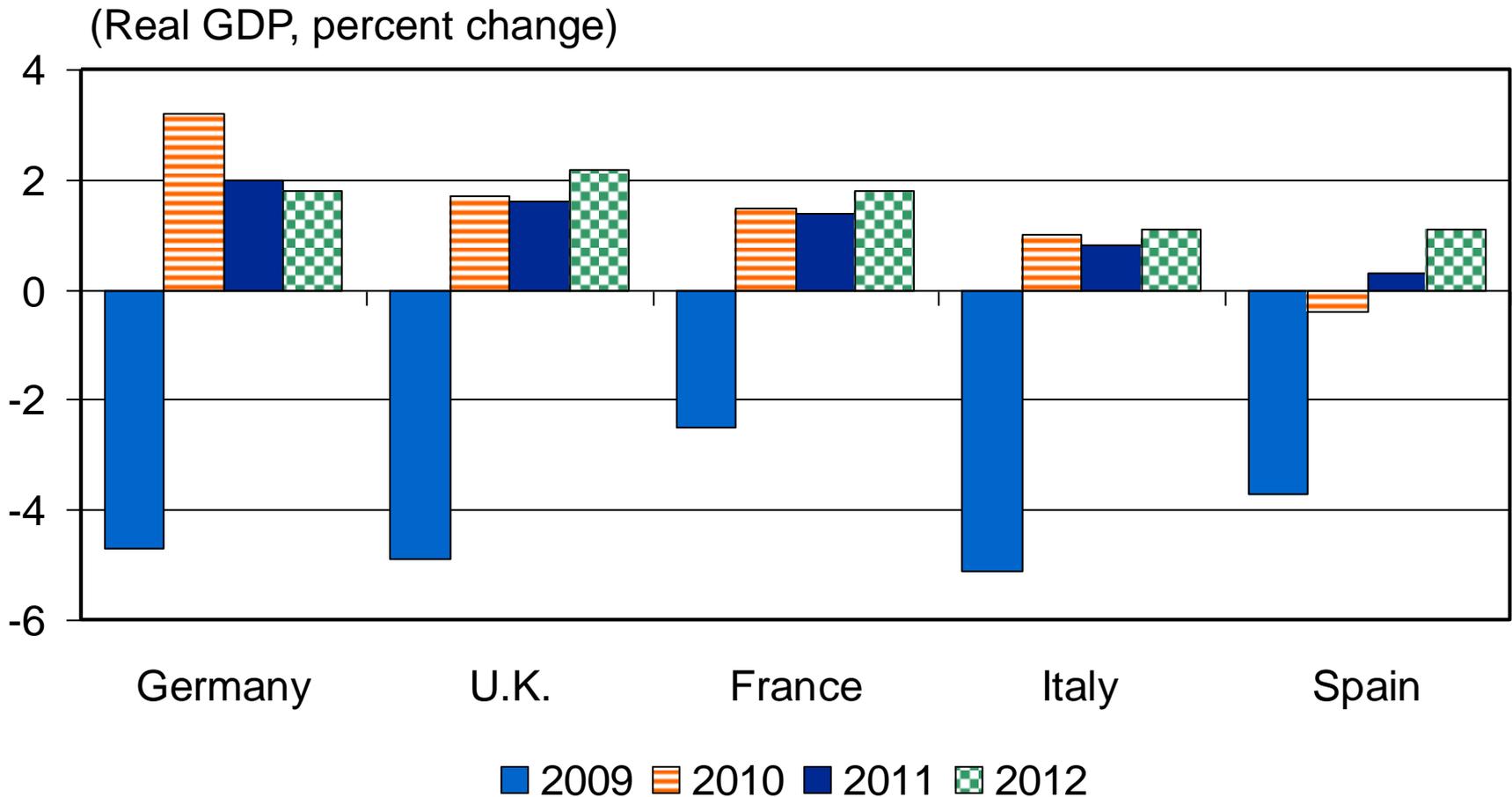


Europe: After a Strong Second Quarter, Growth Is Already Weakening

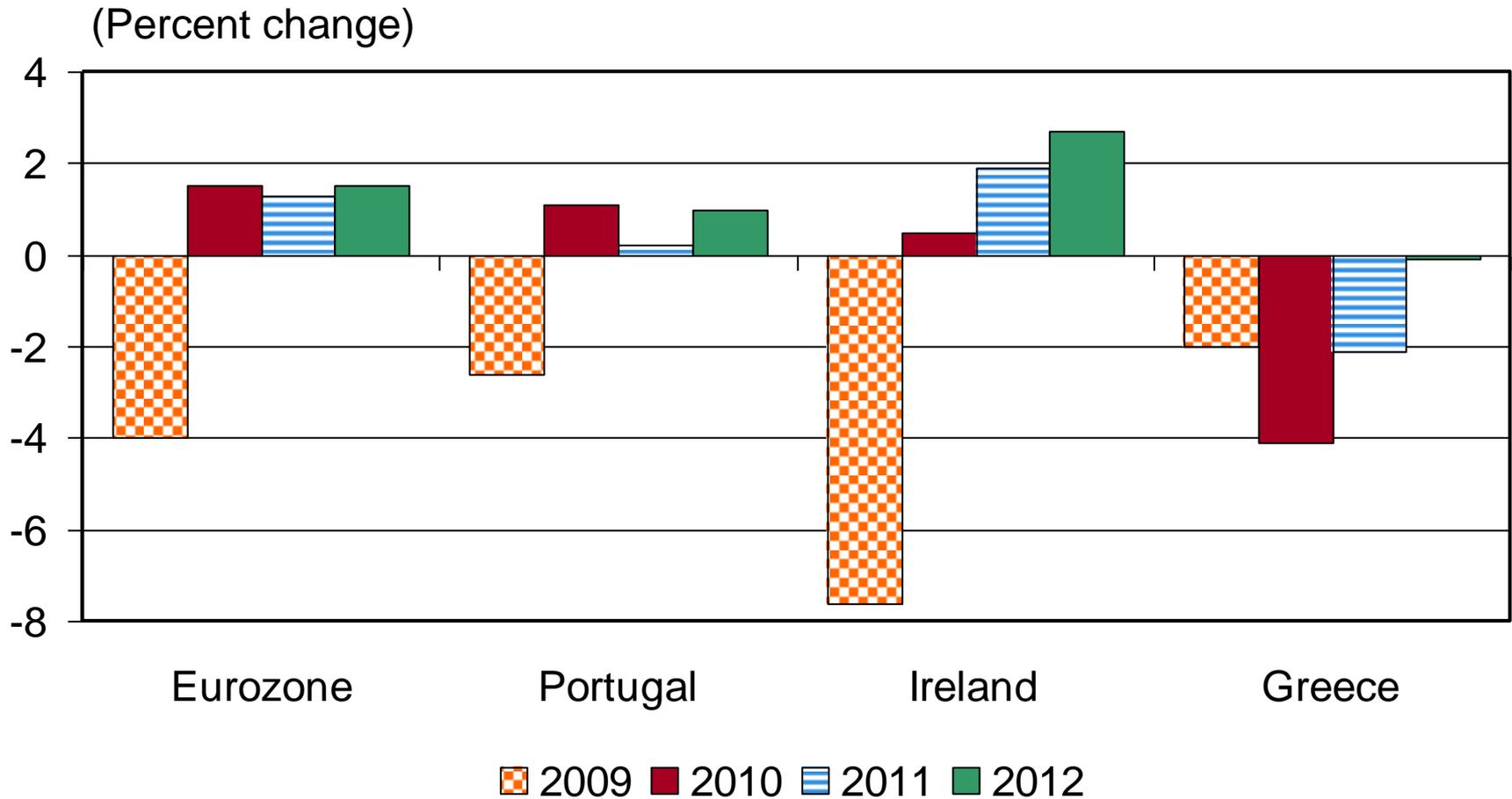


- Two-speed Eurozone (as well) – North doing well (especially Germany), South struggling
- Despite strong a strong second quarter, growth will remain sluggish as fiscal stimulus is withdrawn. And fiscal policy being tightened earlier and/or more aggressively in some countries due to heightened debt fears e.g. Greece, Portugal, Spain, Ireland and Italy.
- High unemployment, weak wage gains, and tight credit will restrain consumer
- Business investment still limited by substantial excess capacity and concerns about the sustainability of the recovery
- An strong emerging markets growth will boost exports, along with a weak euro
- The euro will remain under downward pressure in the near-term at least, due to concerns over Greece's debt problems and possible future contagion effects on Spain, Portugal, Ireland, and Italy

Deep Recessions, Slow Recoveries in Europe



Real GDP Growth in the Other High-Debt Eurozone Economies



Eurozone Debt Crisis — Why and What Now?



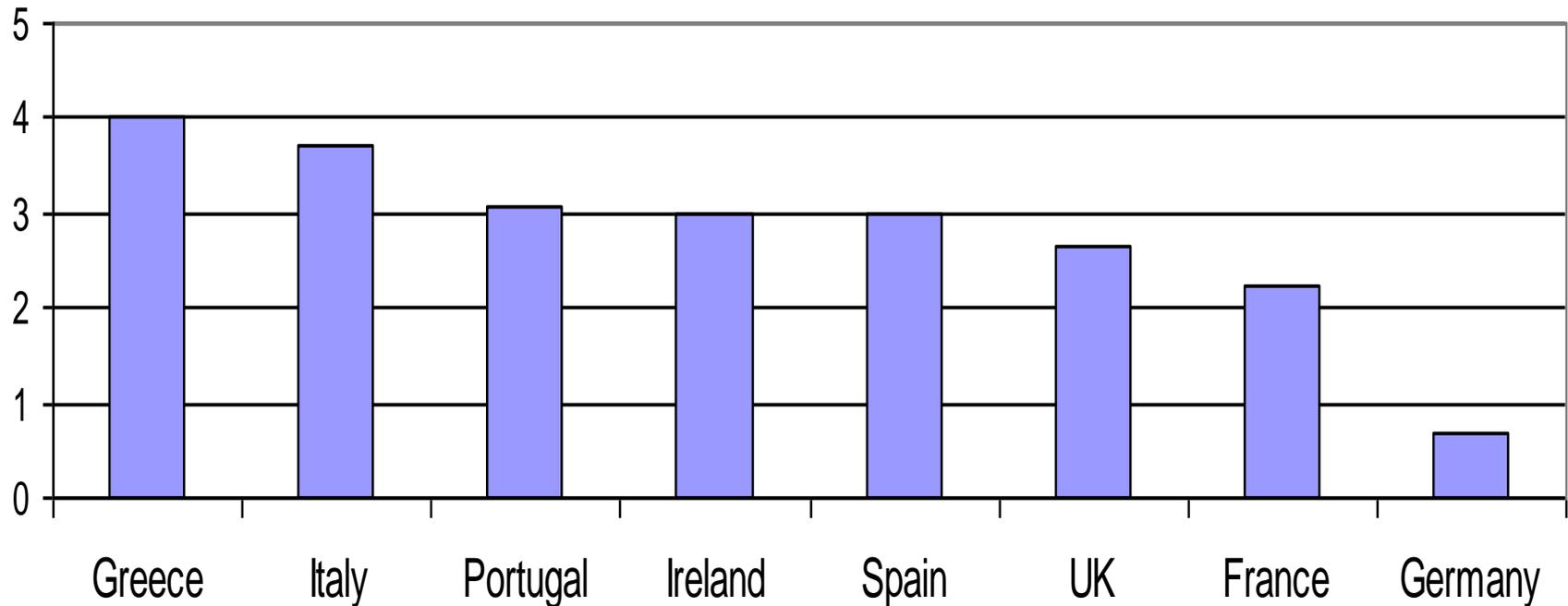
What got the Eurozone into this mess?

- Design Flaw: The region is a monetary union but not a fiscal or political union
- Sharp deterioration of external competitiveness in Southern European countries and Ireland as overly low real interest rates fuelled unsustainable (private and public sector) credit and wage expansions
- Trigger: Sharp deficit revision by Greek government to upside, highlighting the lack of proper control mechanisms by European institutions – and a poor initial response by the EU governments
- Outlook: crisis has been averted but structural problems remain – muddling along is the most likely scenario

Annual Average Growth in Unit Labour Costs (2001-2009)



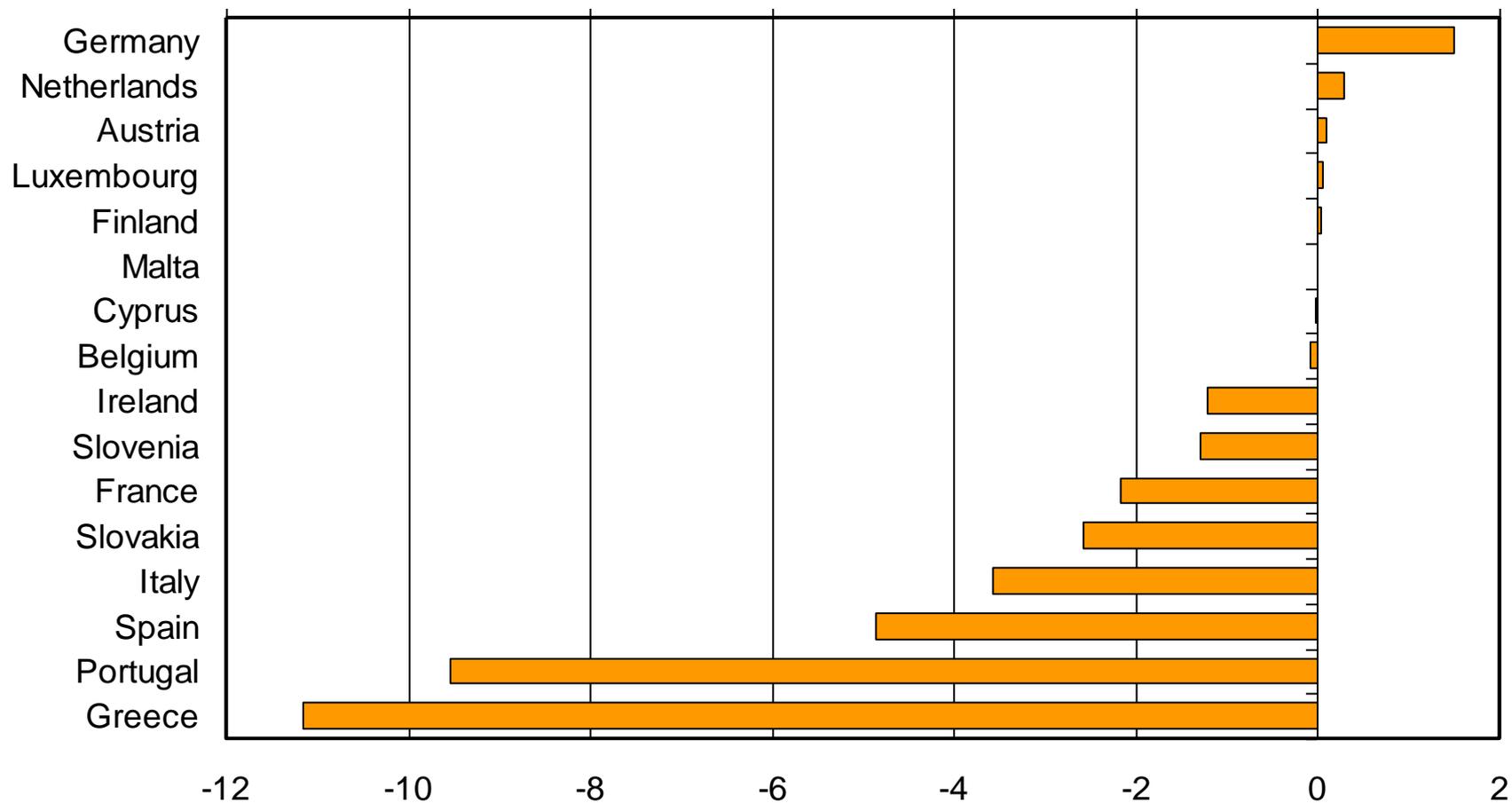
Strong Wage Growth Dented Competitiveness Of Several Eurozone Countries (Average Growth in Unit Labour Costs, 2001-2009)



Source: Various

Eurozone Current Account Imbalances

(Current account balance as a share of GDP, 2010)

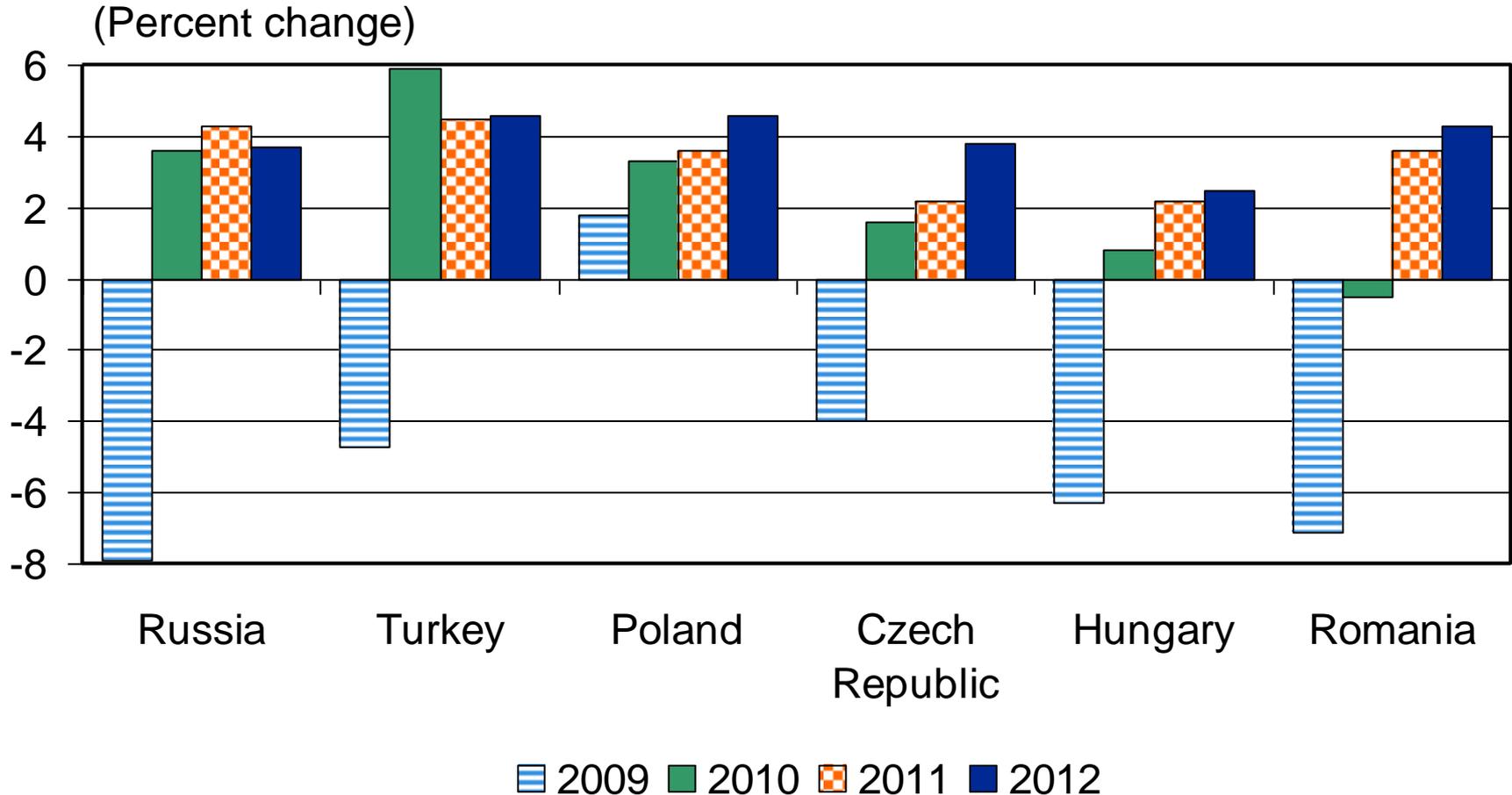




A Difficult Road for Emerging Europe

- Contagion from the Greek crisis adds urgency to fiscal reforms
- Fragile governing majorities complicate the task
- Consumer spending will be restrained by high unemployment, slow wage growth, tight credit, and government budget cuts
- Despite high risks, sovereign debt defaults are unlikely as long as IMF and European Union support continues
- Poland is the standout performer, with strong domestic markets and lower levels of external debt
- The region is unlikely to recapture the 5-7% growth rates of the 2002-07 period

Real GDP Growth in Emerging Europe: Slower Than Most

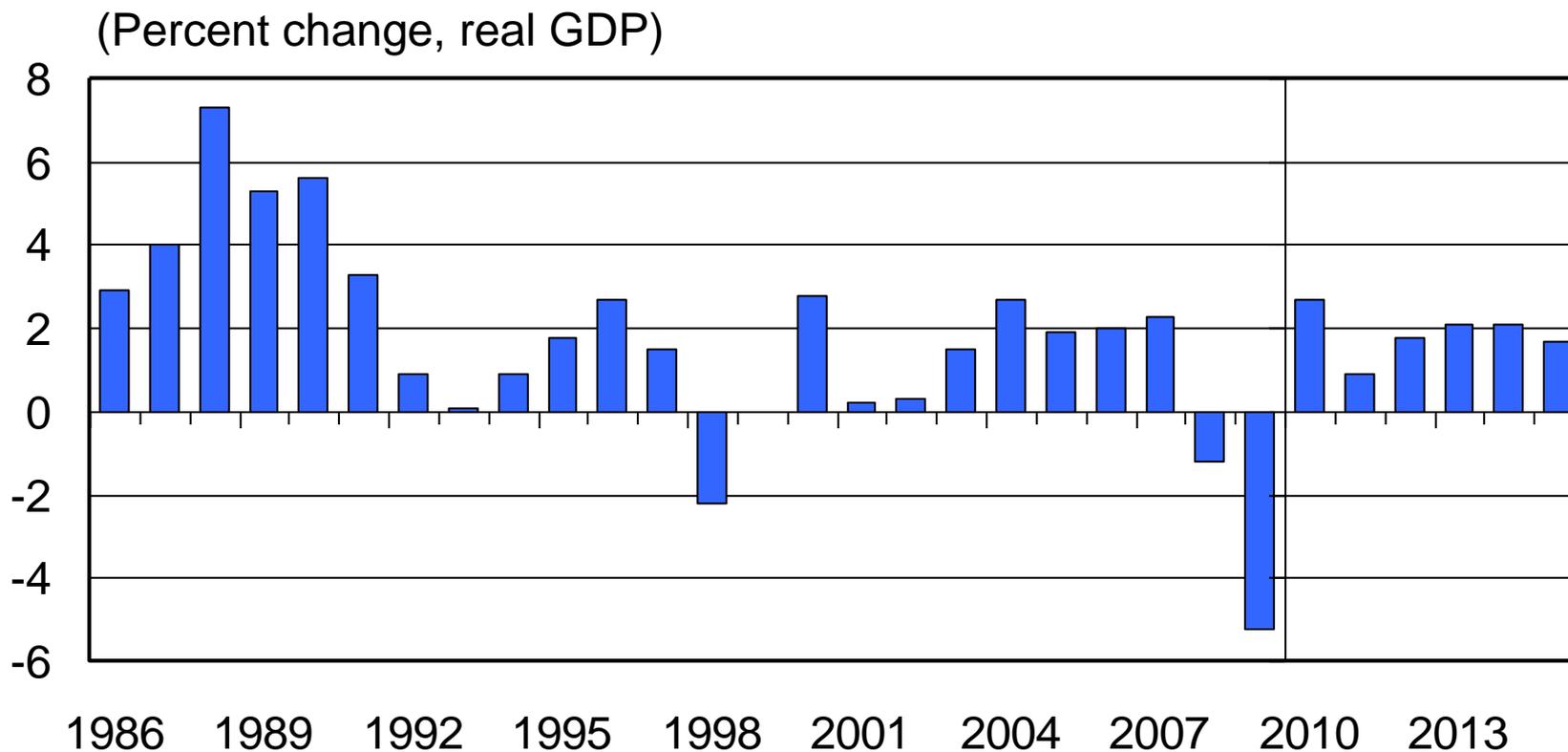




Japan

- Uneven recovery – strong first quarter followed by very weak growth in the second
- High unemployment in restraining consumer spending
- Still lots of slack—excess capacity, unemployed—so capital spending will grow slowly
- Too **dependent** on exports
- **Debt** levels are the highest in the developed world
- **Deflation** is still a big problem – nominal GDP is still at mid-1990s levels
- **Demographics** is a challenge in the longer-term

Japan's Economy Has Limited Growth Potential

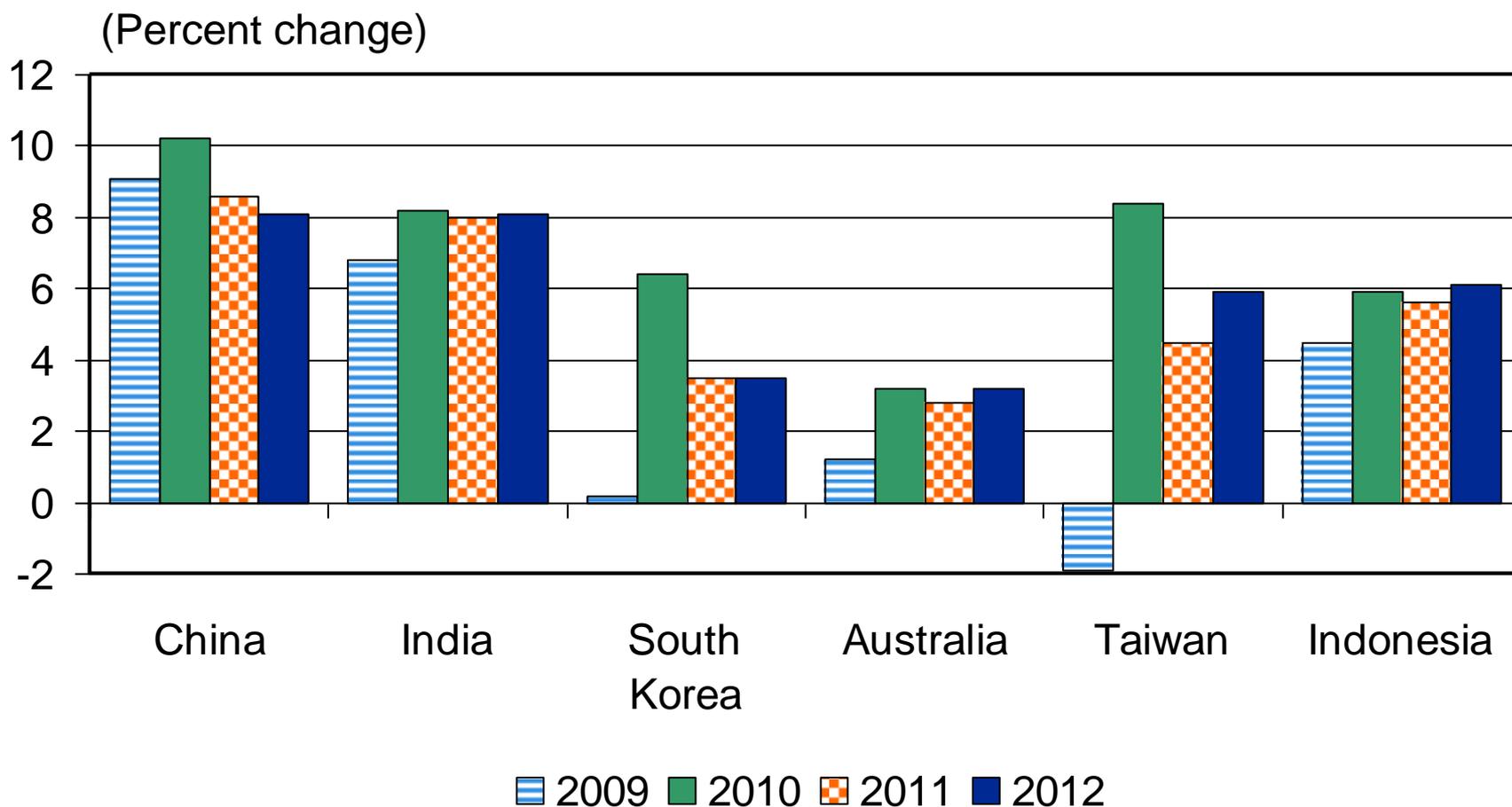


Asia-Pacific Region Leads the Global Recovery



- The region weathered the financial crisis better than most and has led the global recovery
- Consumer spending is growing at a healthy pace, supported by rapidly rising labor income
- Exports are rebounding, but their growth will slow
- Outside India, inflation is not a problem
- Asset price bubbles are a more significant risk
- Fiscal and monetary policies will continue to tighten

Real GDP Growth in Asia-Pacific Economies





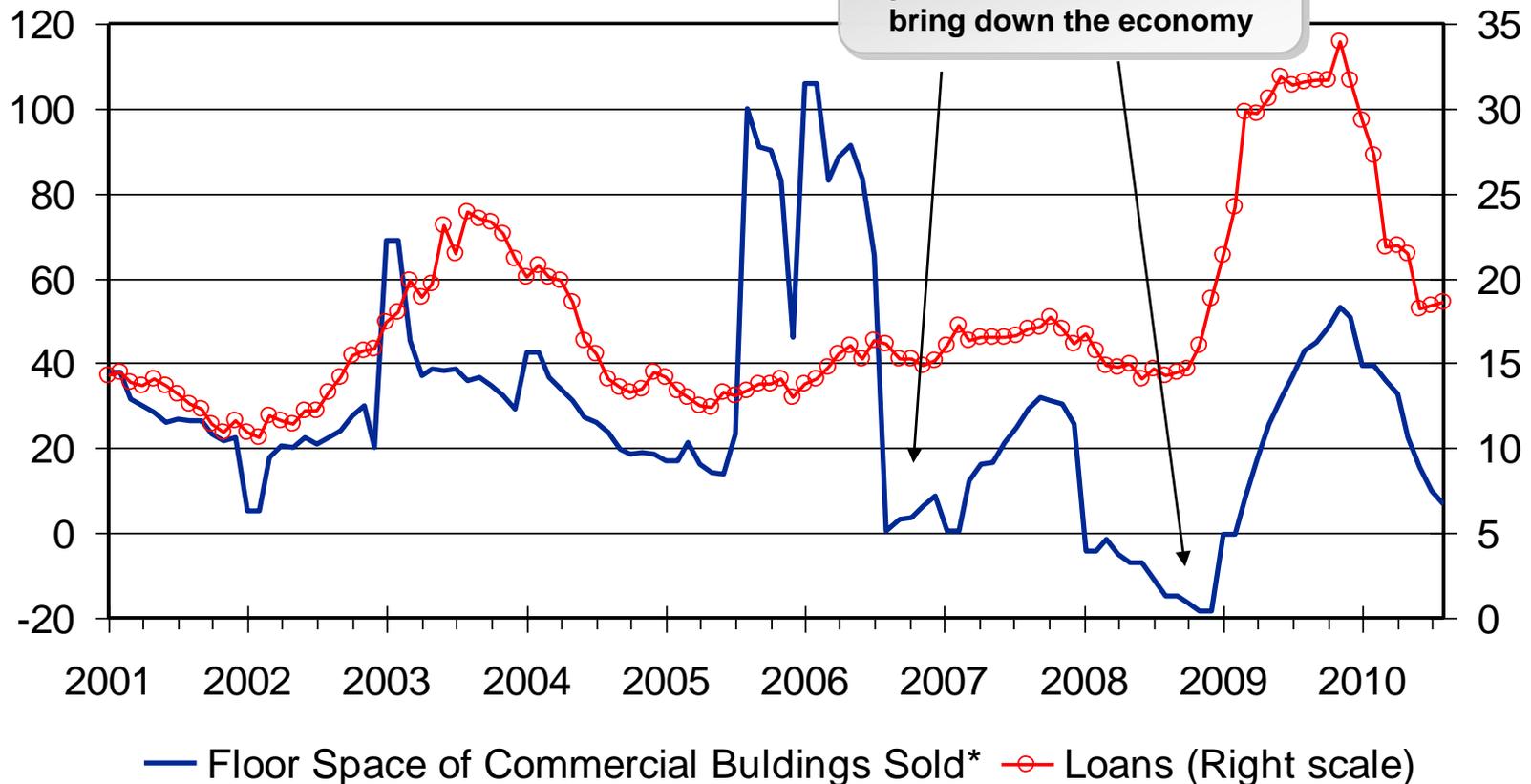
China: Focus on Risks

- Slowdown has stabilized
 - Property sector tightening policy effective in deflating bubble, so far
 - Following the initial sharp slide, construction and overall output have leveled off
 - Growth downtrend should continue, as tightening policy will remain in effect and export growth is expected to slow
- Soft-landing is still the most probable scenario
 - External demand will stagger, not collapse
 - Policy will be “cautiously accommodative”, including RMB appreciation
 - Consumer demand should remain stable
- But risks of hard-landing have increased
 - Recovery in the U.S. and EU still unstable
 - 2009 credit binge could turn into a full-fledged banking crisis, especially local government debt
 - The usually steady consumer demand will likely then collapse
 - If all flashpoints ignited, we are looking at the worst case scenario

China Investment Slowdown Driven by Government Crackdown on Property Market Bubble



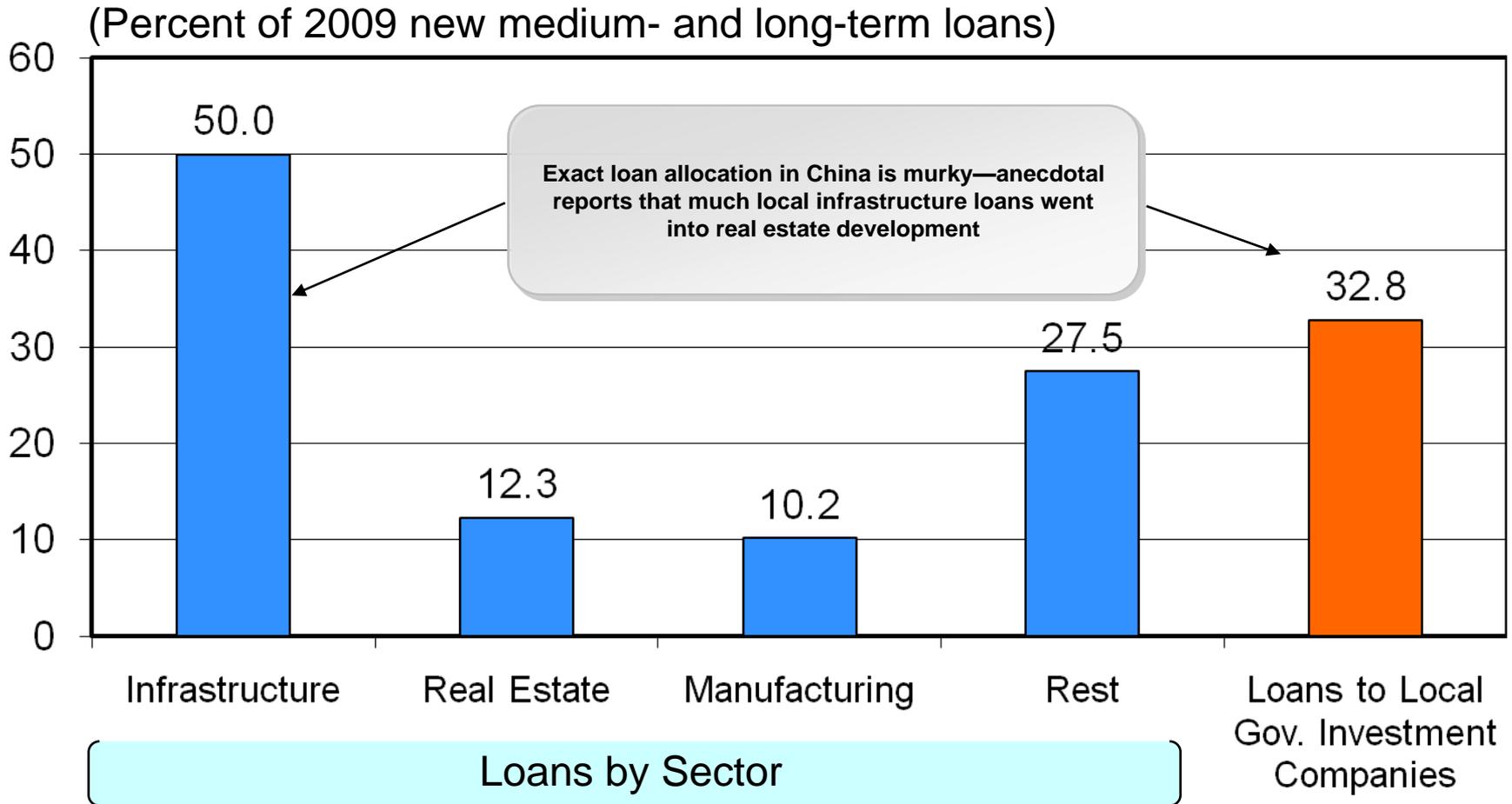
(Percent change from a year earlier)



Source: NBS, PBoC.

* Residential buildings account for 90% of commercial buildings

China Bank Exposure to Property Sector Could Be Much Larger than Official Figures Suggest



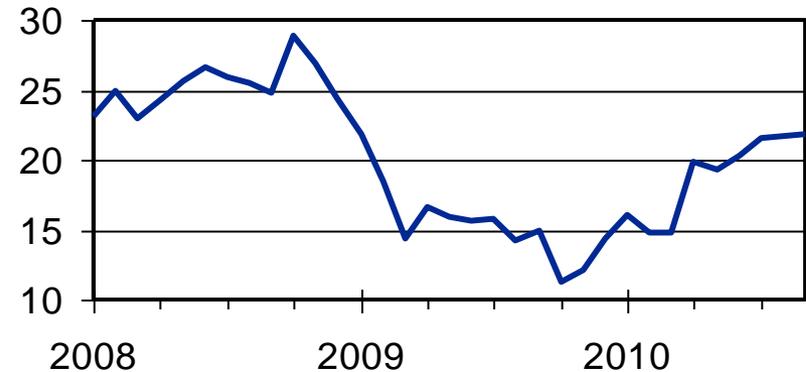
Source: People's Bank of China, China Banking Regulatory Commission

India: Growth Back to Trend Rates (8%) as Domestic Demand Accelerates

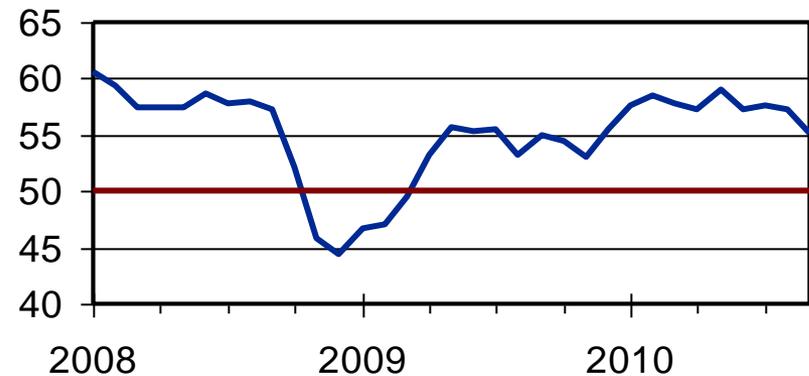


- Private consumption — mainstay of economy — recovering strongly
 - Credit growth accelerating to above 20% y/y
 - Passenger car sales rose 34% y/y in August
- Investment acceleration expected
 - Domestic financial/credit conditions improving
 - Capital inflows increasing
 - Improved access to international capital for domestic businesses
 - Infrastructure spending rising
 - PMI in positive territory for the past 18 months

Non-Food Bank Credit Growth



Purchasing Managers' Index

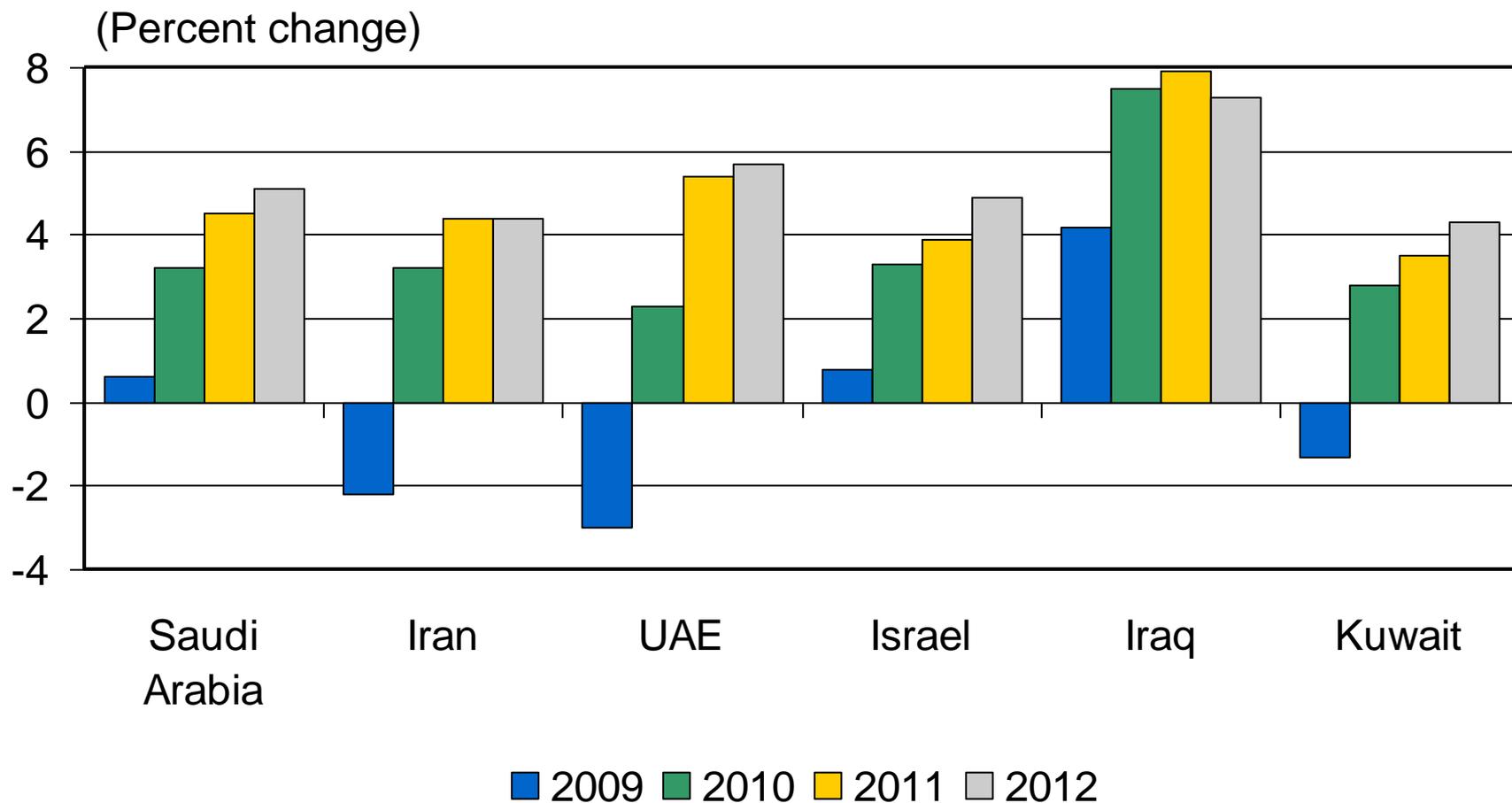


Middle East and North Africa: Growing but Not as Dynamic as Asia



- Rising oil prices and demand have sparked economic growth
- Strong public spending and investment are leading recovery
- Businesses and households remain cautious
- Headwinds from weak property markets and banking problems
- Qatar, UAE, and Saudi Arabia are diversifying
- Young, growing populations enhance growth prospects

Real GDP Growth in the Middle East

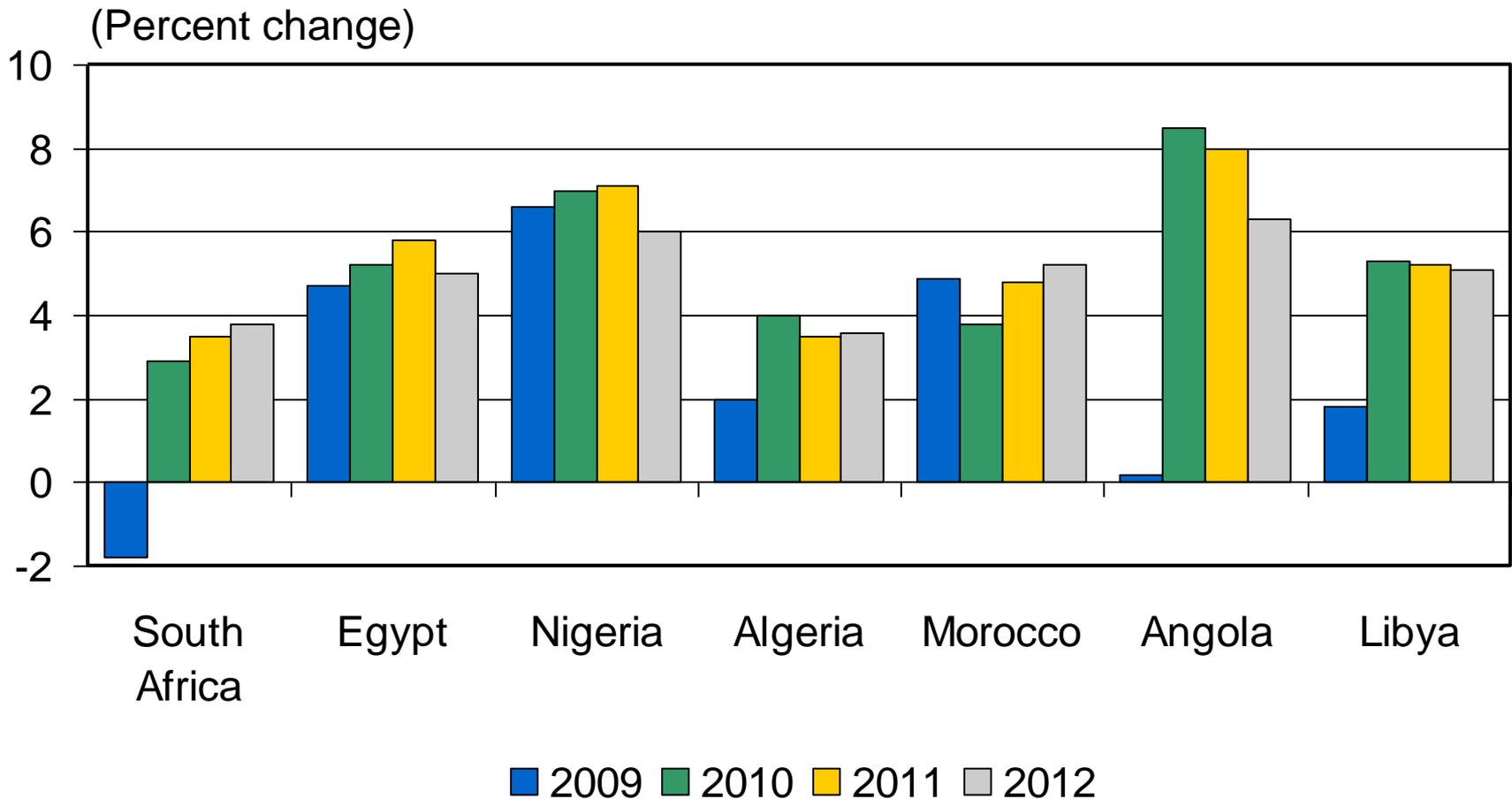


Sub-Saharan Africa's Economic Development Challenges



- Commodity price fluctuations continue to drive growth
- Exports to Asia and FDI by China are gaining importance
- The 14 countries that peg their currencies to the euro will benefit from improving export competitiveness
- A Eurozone debt crisis poses risks in terms of reduced trade, remittances, aid, and FDI from that region
- Poor infrastructure, political instability, and corruption will remain constraints on economic development
- Management of mineral resources will be key to economic diversification and poverty reduction

Real GDP Growth in Africa Will Be Led by Angola and Nigeria





Bottom Line: A Multi-Speed Global Economy

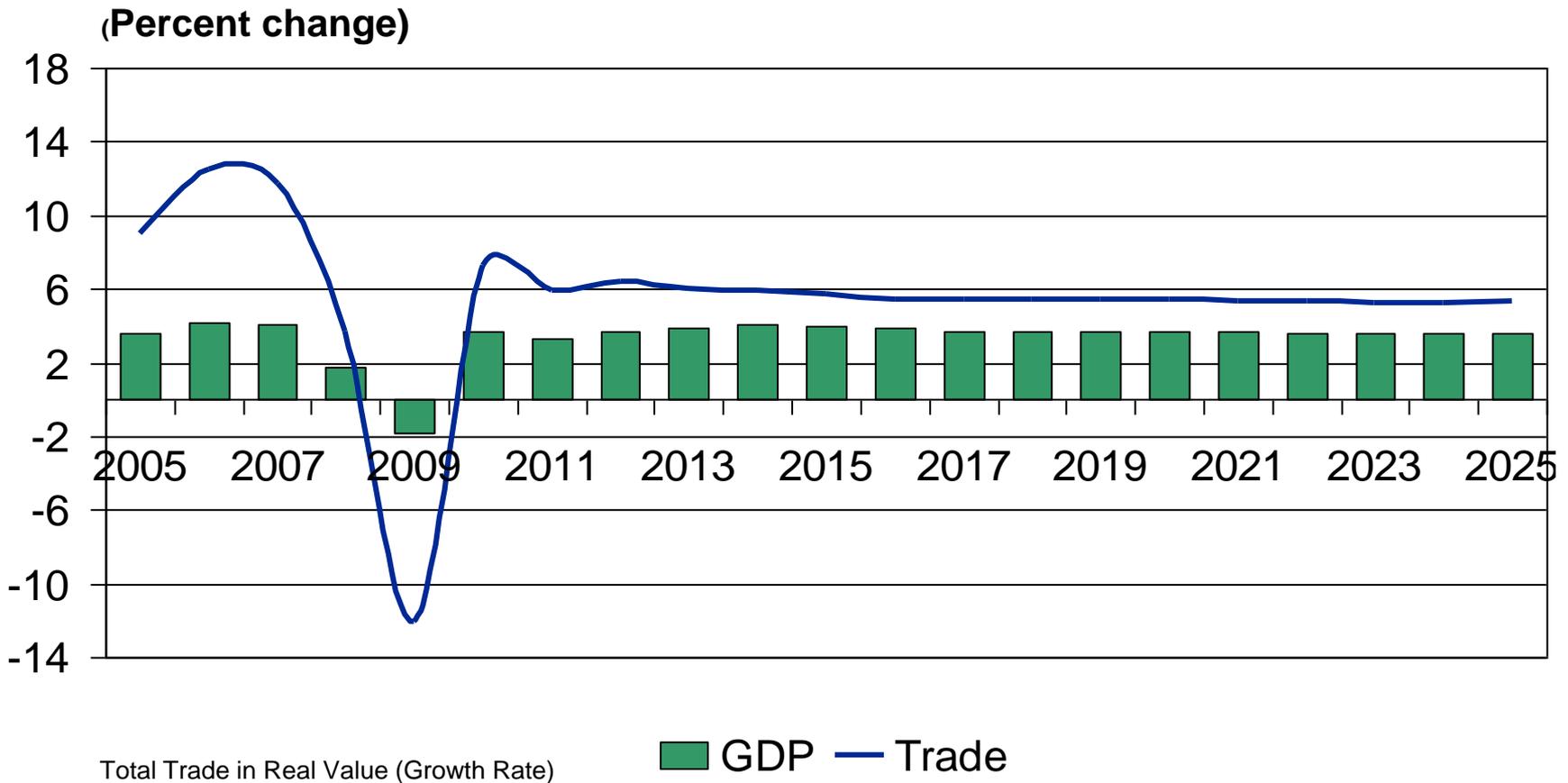
- Economies are resilient; the expansion will continue
- But recoveries from financial crises are usually slow
- Asia is in the fast lane, Europe and the U.S. in the slow lane
- Domestic demand is becoming a more important engine of growth in Asia, Latin America, the Middle East, and Africa
- Heavily indebted governments need “exit strategies” from budget deficits or financial markets will impose them
- Globalization of trade and capital flows brings business cycle synchronization and volatility



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Trade Implications

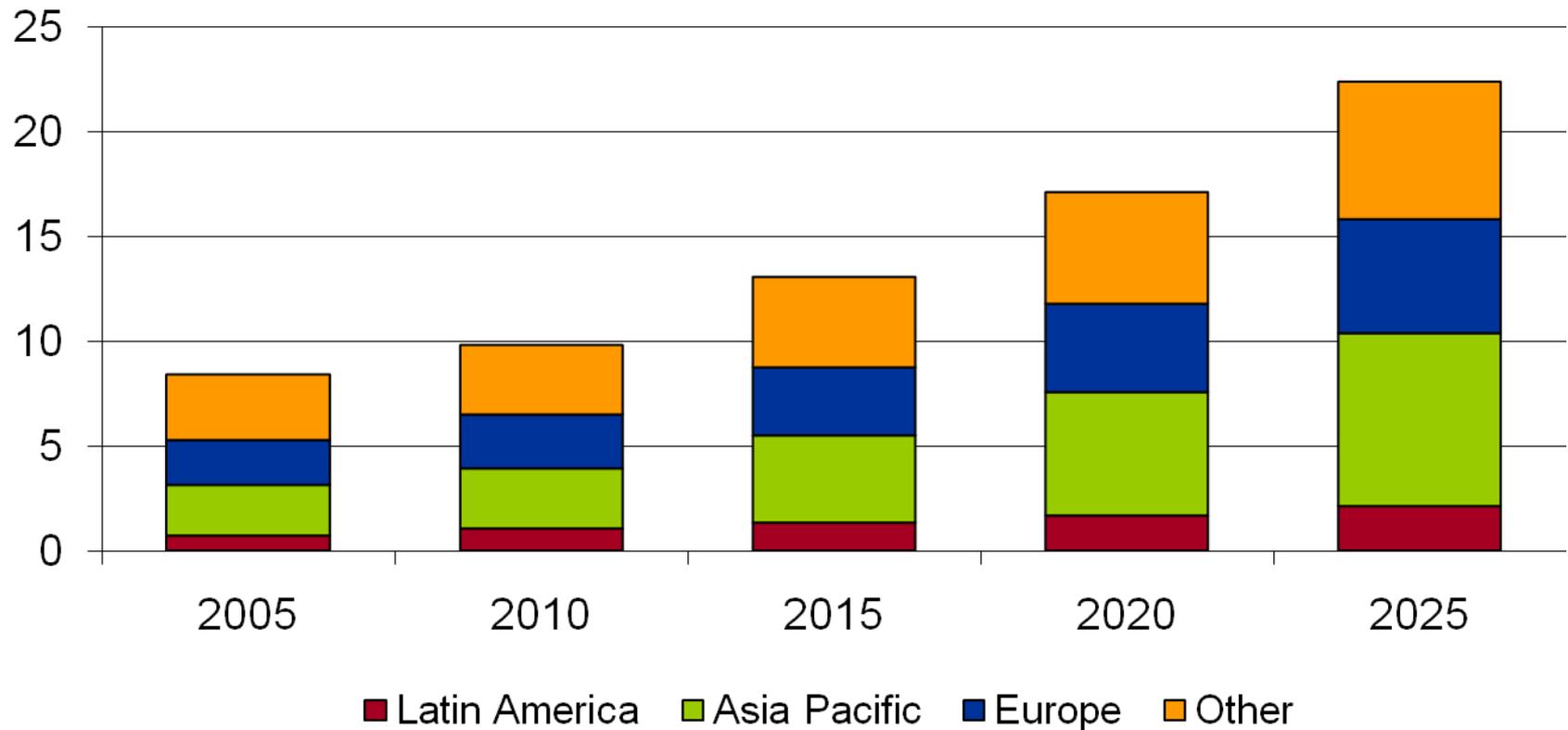
World Trade Typically Grows Faster Than Real GDP



U.S. International Trading Partners Are Shifting



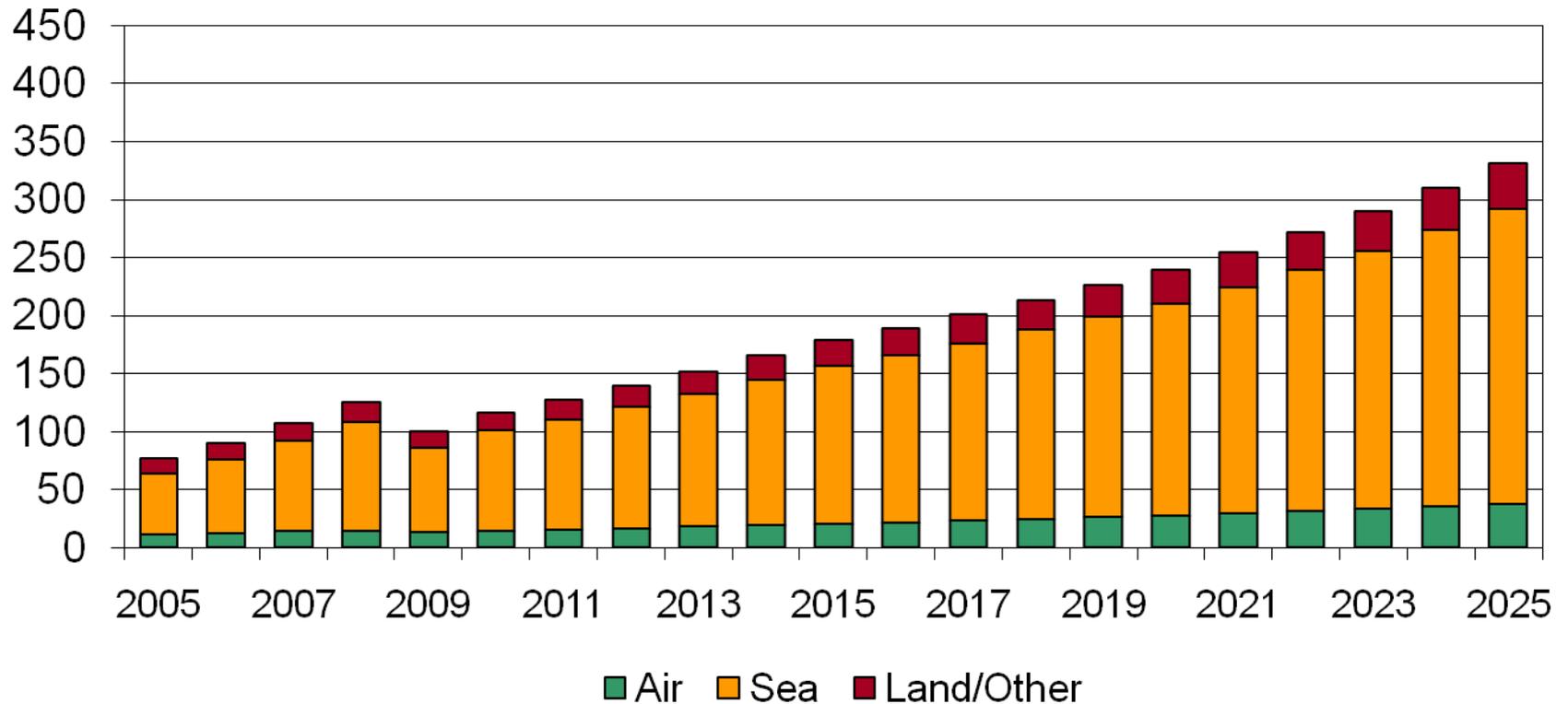
(Exports, trillions of U.S. dollars)



Source: Global Insight World Trade Service

Growth in Global Merchandise Trade

(Trillions of U.S. dollars)



Source: Global Insight World Trade Service

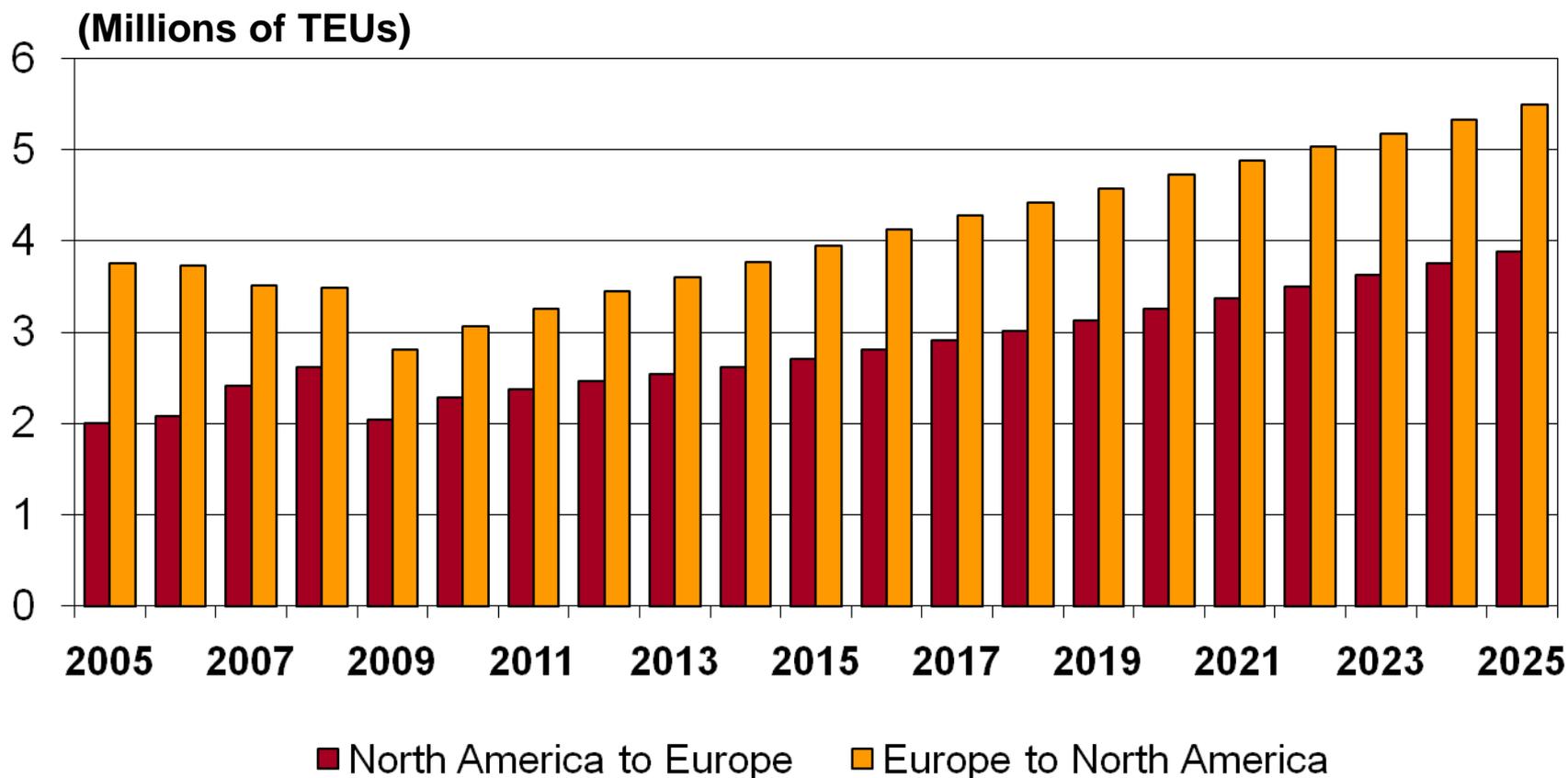


Containerized Trade Movements

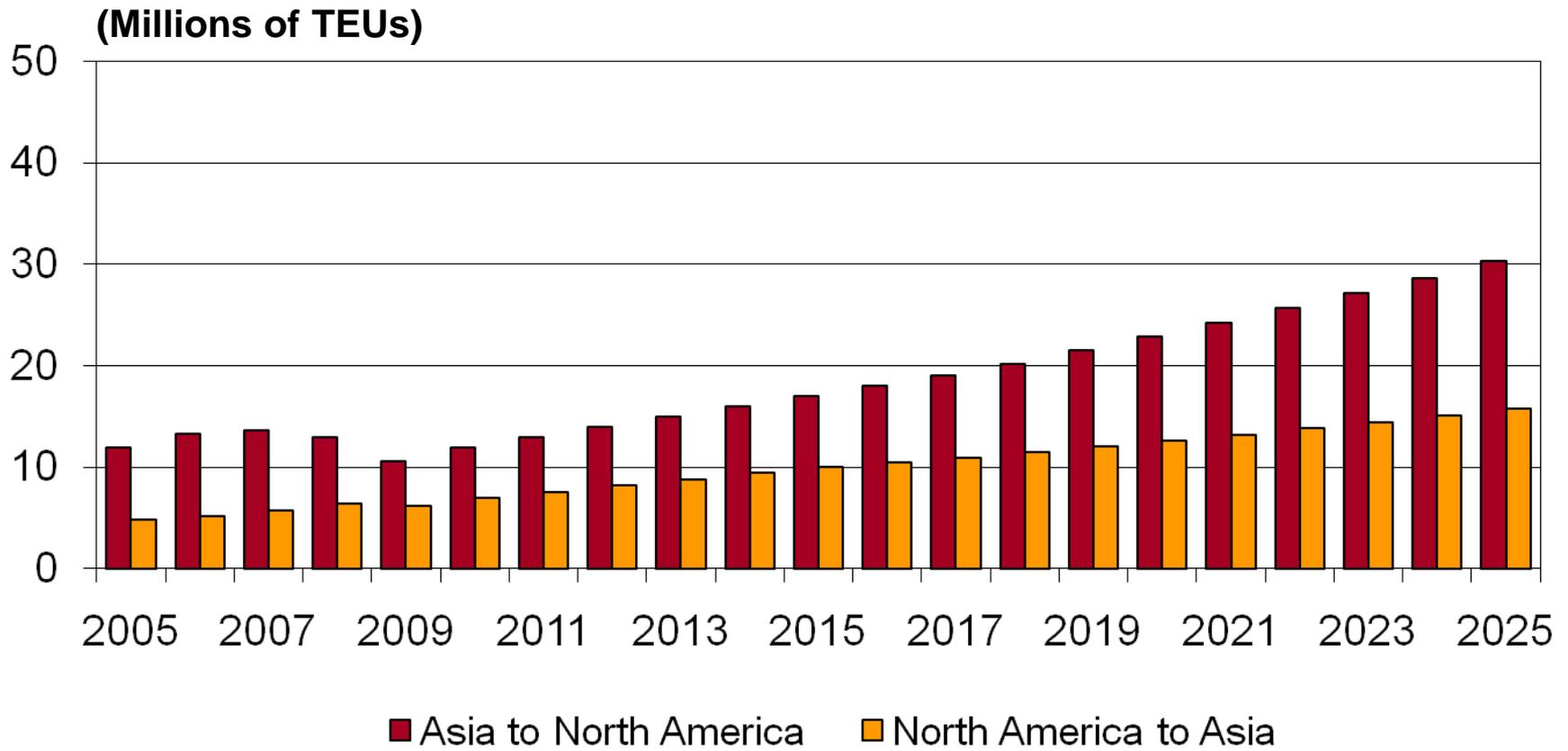
(Thousands of TEUs)

	2005	2010	2015	2020	2025
Transatlantic	5,366	4,969	6,159	7,396	8,709
Transpacific	16,905	18,887	26,792	35,102	45,541
U.S. Atlantic/Asia	3,661	4,559	6,282	8,259	10,713
Europe/Asia	14,220	18,737	25,939	34,268	44,552
Intra-Asia	19,714	24,741	35,910	46,880	60,156
World Total	86,378	110,173	152,246	197,617	252,965

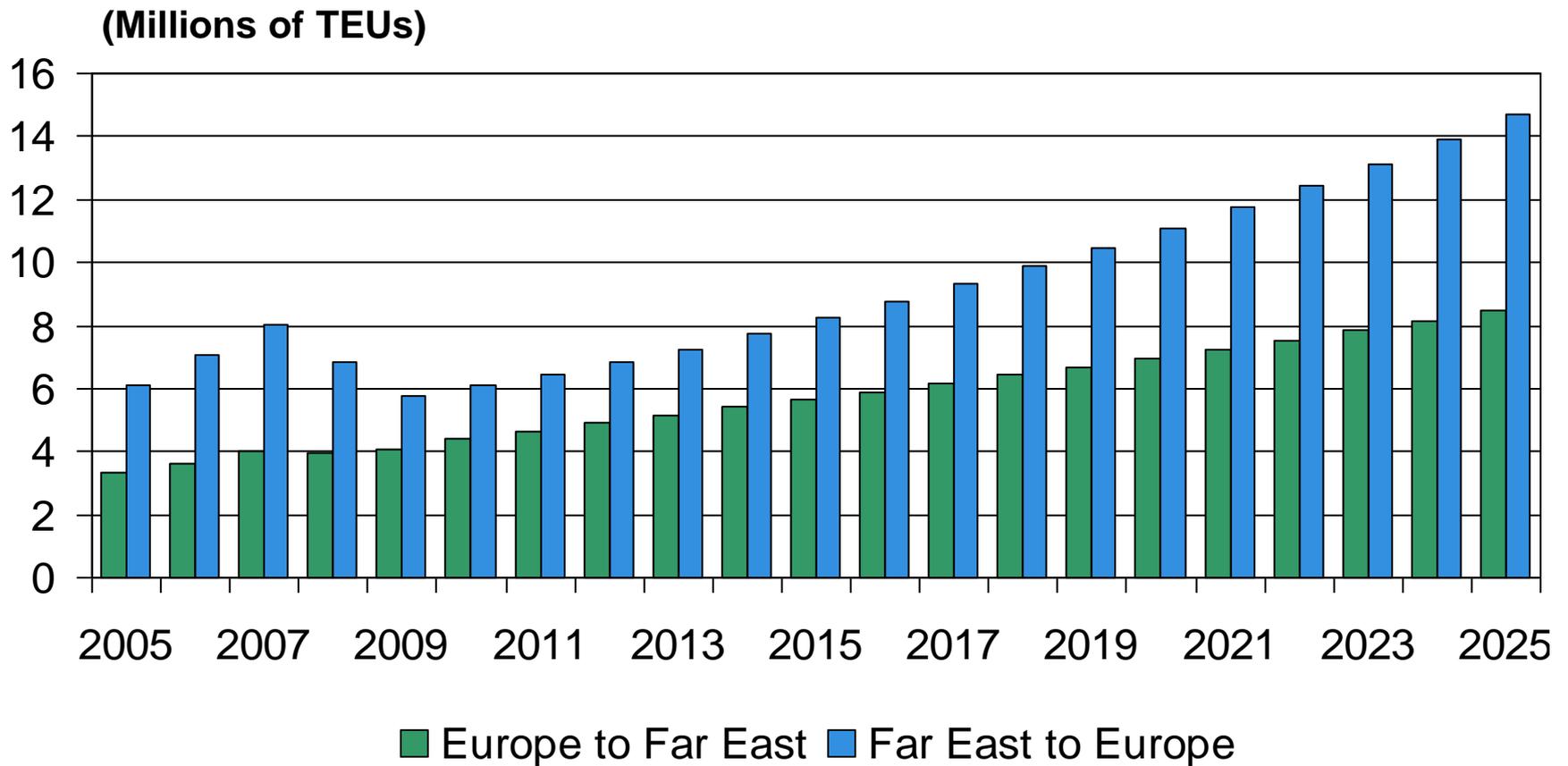
Transatlantic Container Trade



Transpacific Container Trade

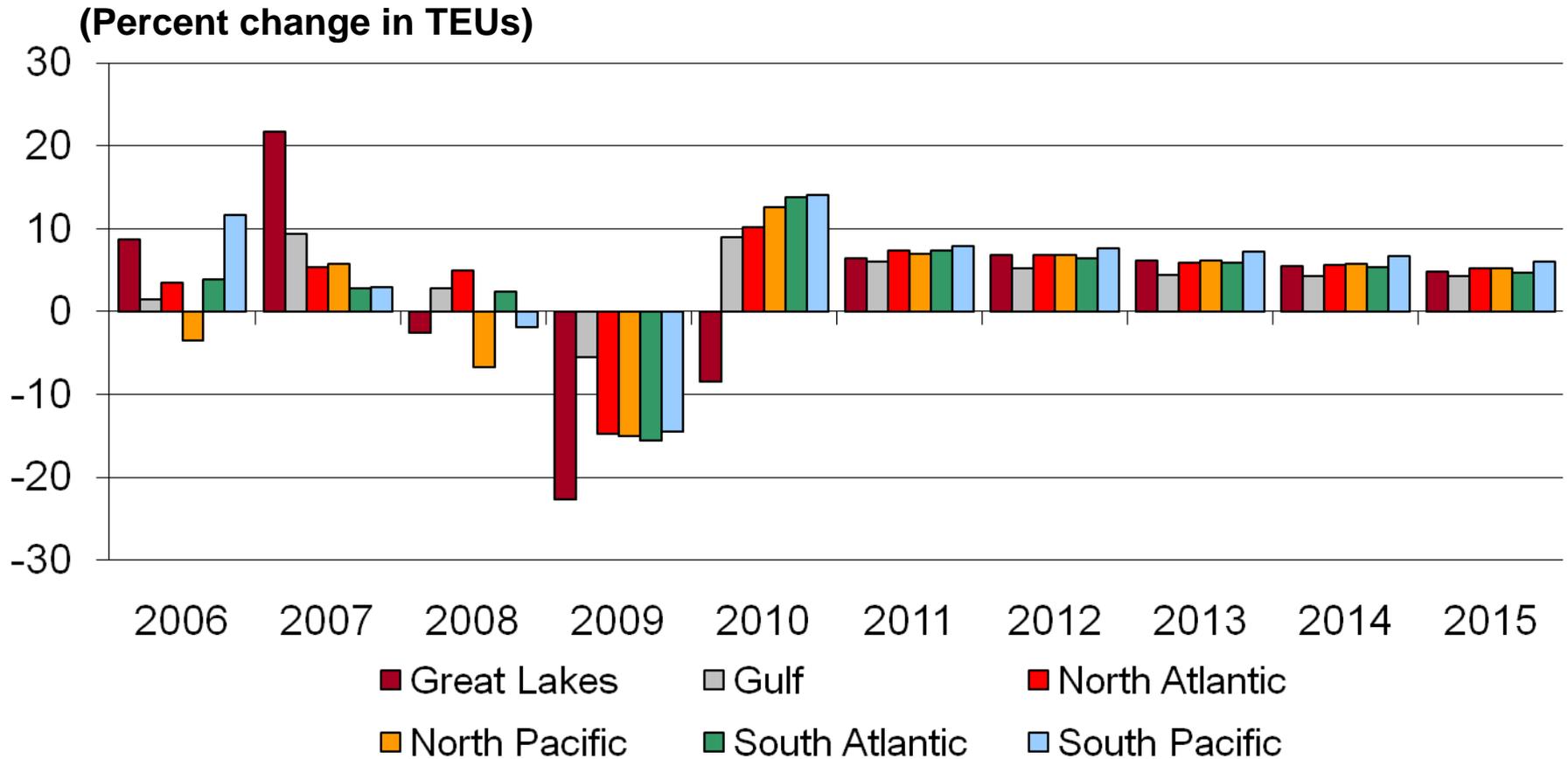


Europe to Far East Container Trade





Container Growth Rates By U.S. Coast





Implications for the Port

- Trade is back to being an engine of global growth
- Transatlantic trade is recovering more slowly than Transpacific trade
- U.S. Atlantic/Asia trade will also be strong – as will Europe/Asia and Intra-Asia trade
- This explains the East Coast/West Coast differences in container traffic
- Bottom line: it is also a two-speed world for container traffic
- Implication: in about 5 years U.S. Atlantic/Asia trade volumes will be larger than Transatlantic trade volumes



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Thank you!

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