

Top-10 Economic Predictions for 2010 And Implications for Trade

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January 14, 2010

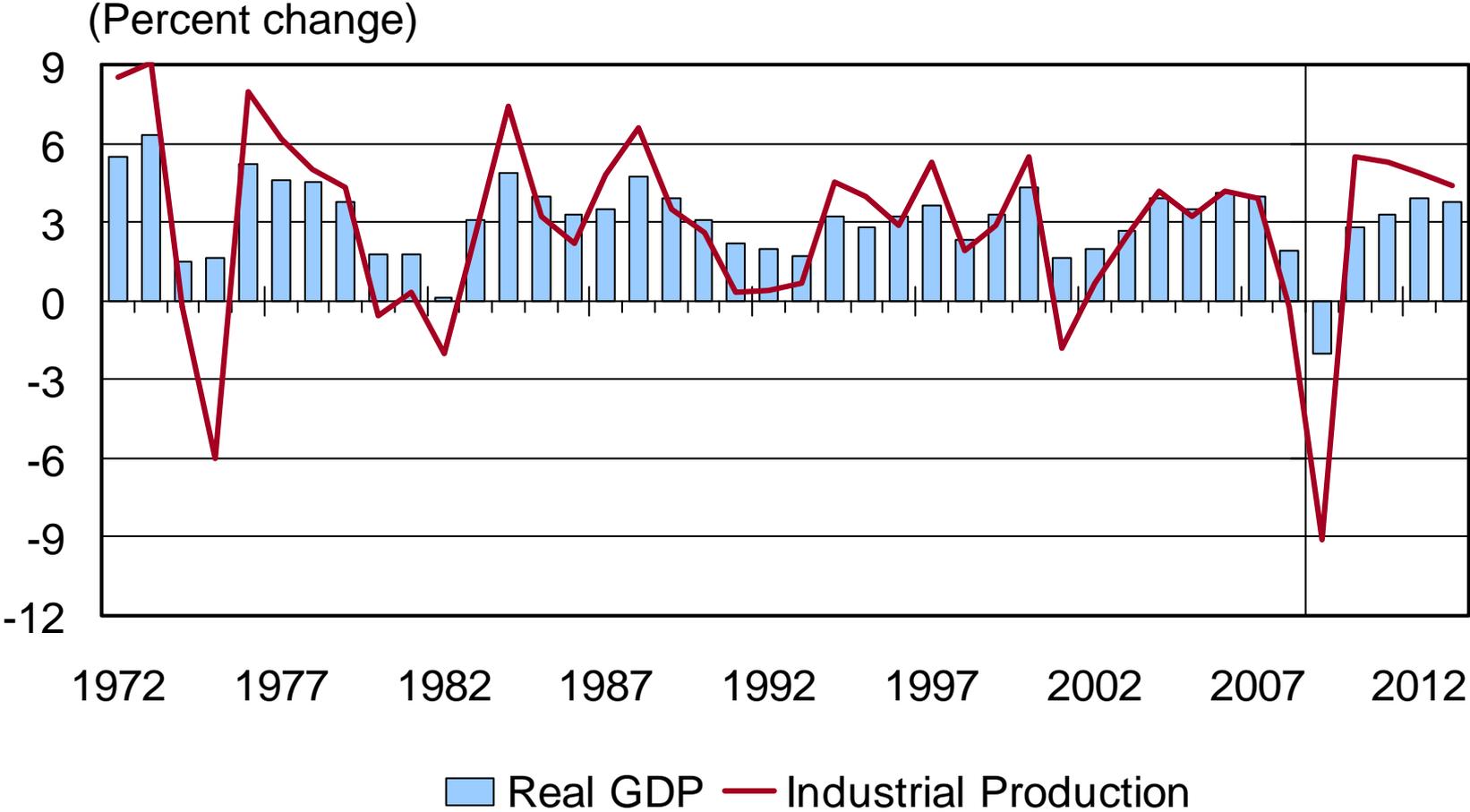


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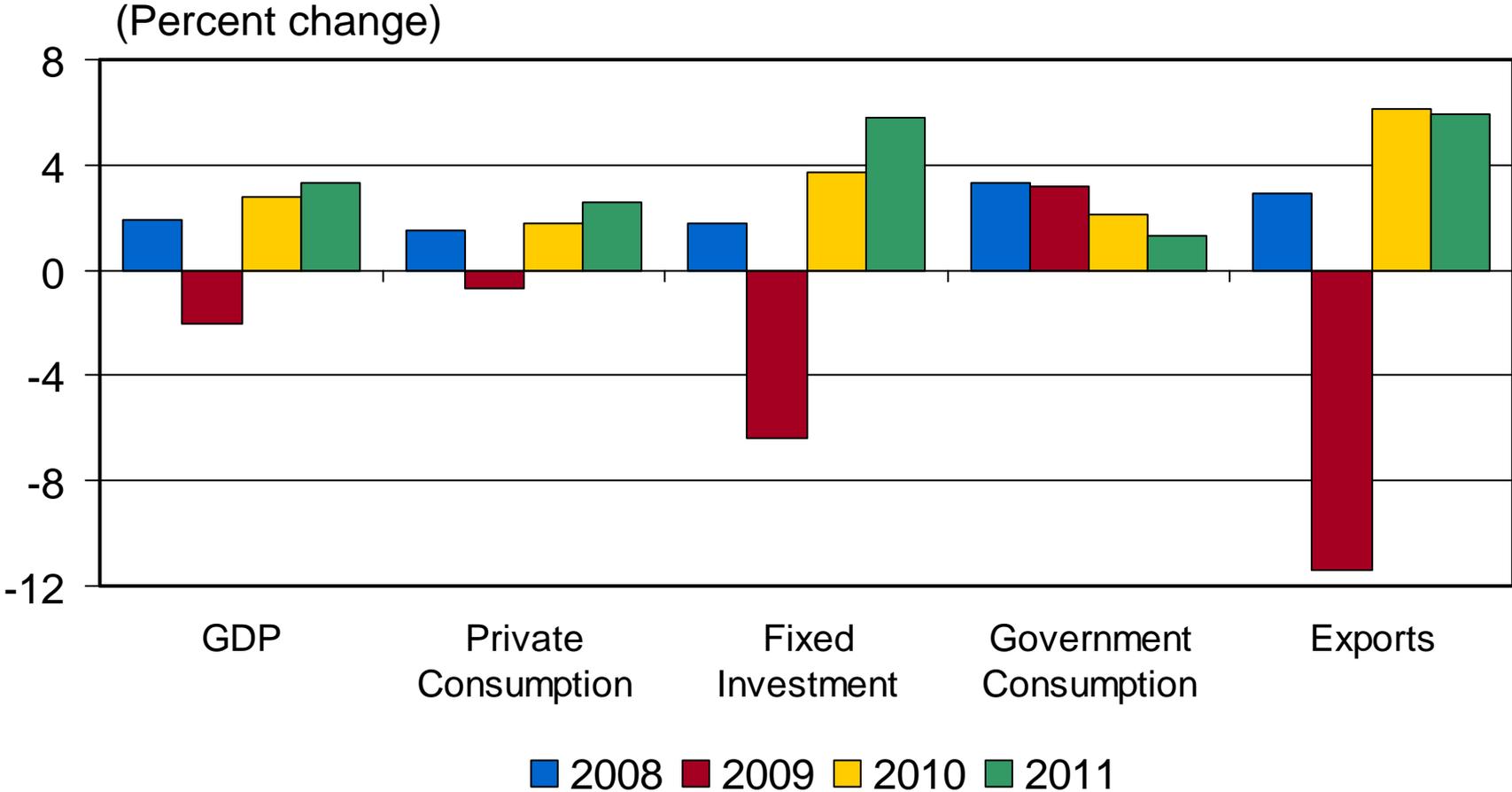
Global Outlook

- The recession is over and the recovery has begun – unfortunately, for most developed economies, this recovery won't feel like one in its early stages
- Strong tail winds (policy stimulus, improved financial conditions and pent-up demand) ...
- ... Are being partially neutralized by equally strong head winds (rising unemployment rates, lingering hangovers from housing bubbles and the financial crisis, and the winding down of fiscal stimulus)
- Global growth at 2.8% in 2010 will be well below the 3.5% to 4% trend rate of the last two decades

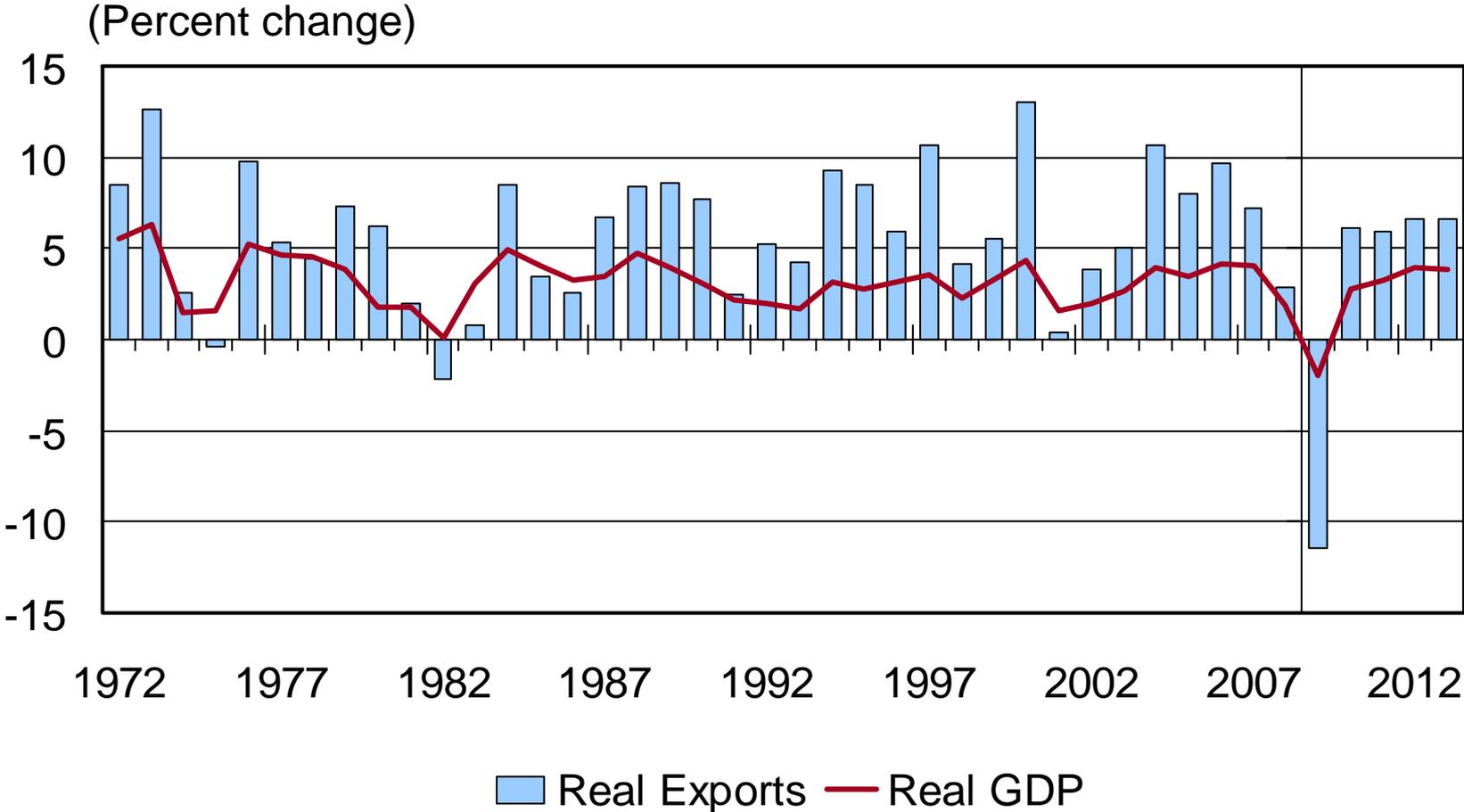
The World Economy Rebounds from the Worst Recession of the Postwar Era



The World's Real Economic Growth by Sector



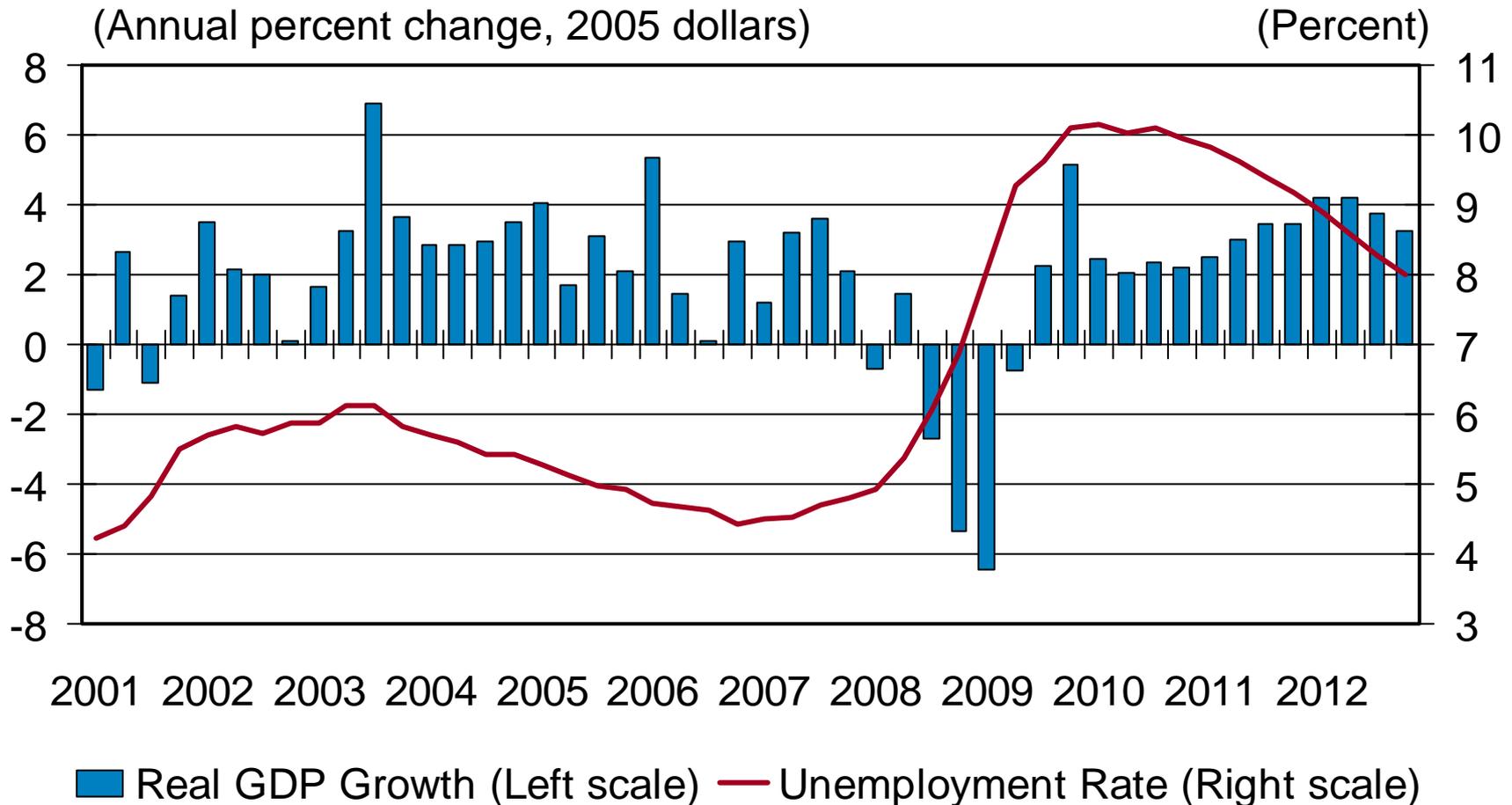
World Trade Volumes Plummeted in 2009



1. The U.S. Recovery Will Start Slowly

- During much of 2010, growth will be stuck in the 2.0% to 2.5% range
- Consumer spending is being held back by the strong headwind of a rising unemployment rate – expected to peak at around 10.5% in the first quarter
- The housing recovery, business spending on equipment and inventory rebuilding will boost growth...
- ...While non-residential construction and state-and-local spending will be a drag on the recovery
- Despite strong growth in exports, net trade will be a negative factor as imports will grow even faster

U.S. Real GDP Is Recovering, But the Unemployment Rate Will Rise into 2010

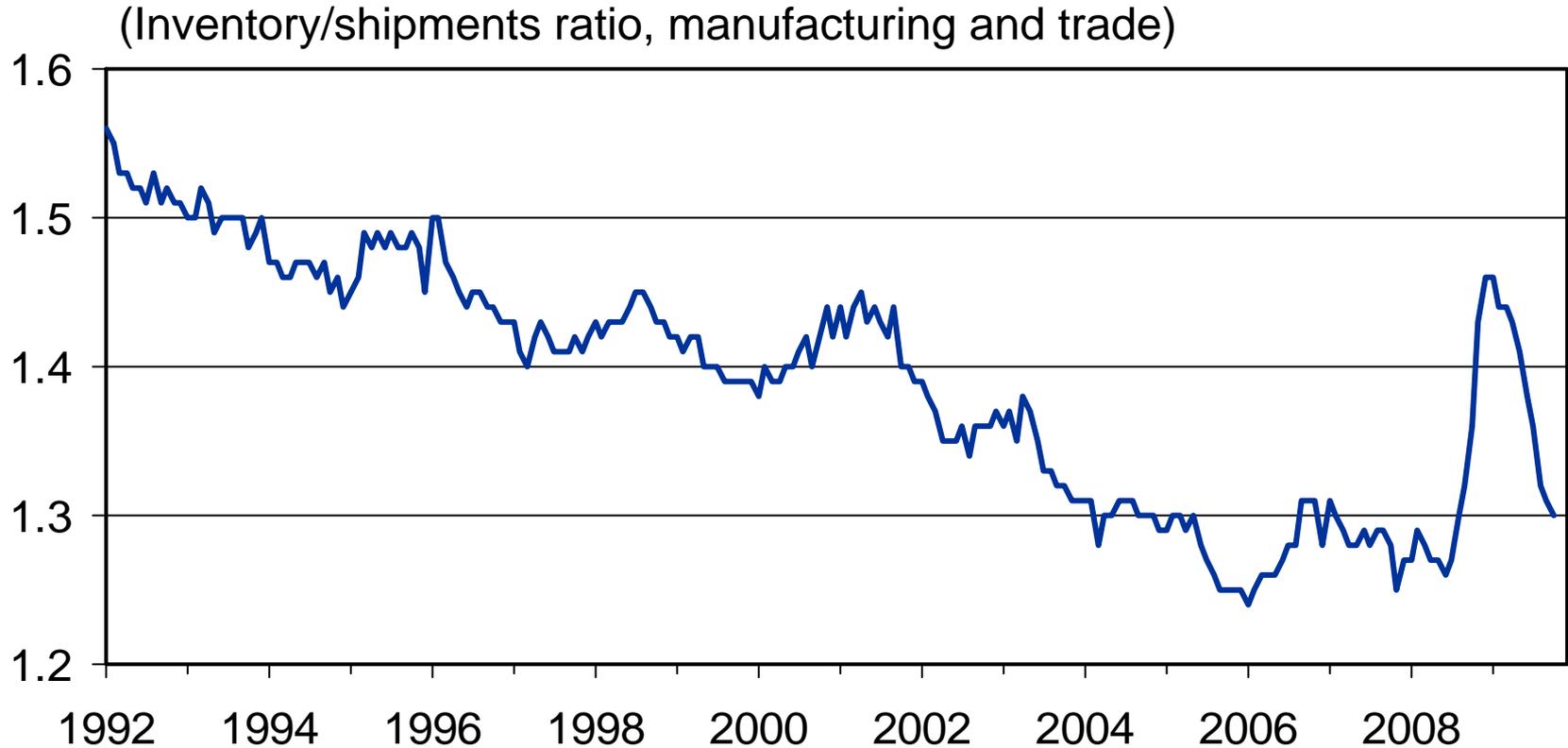


U.S. Economic Growth by Sector

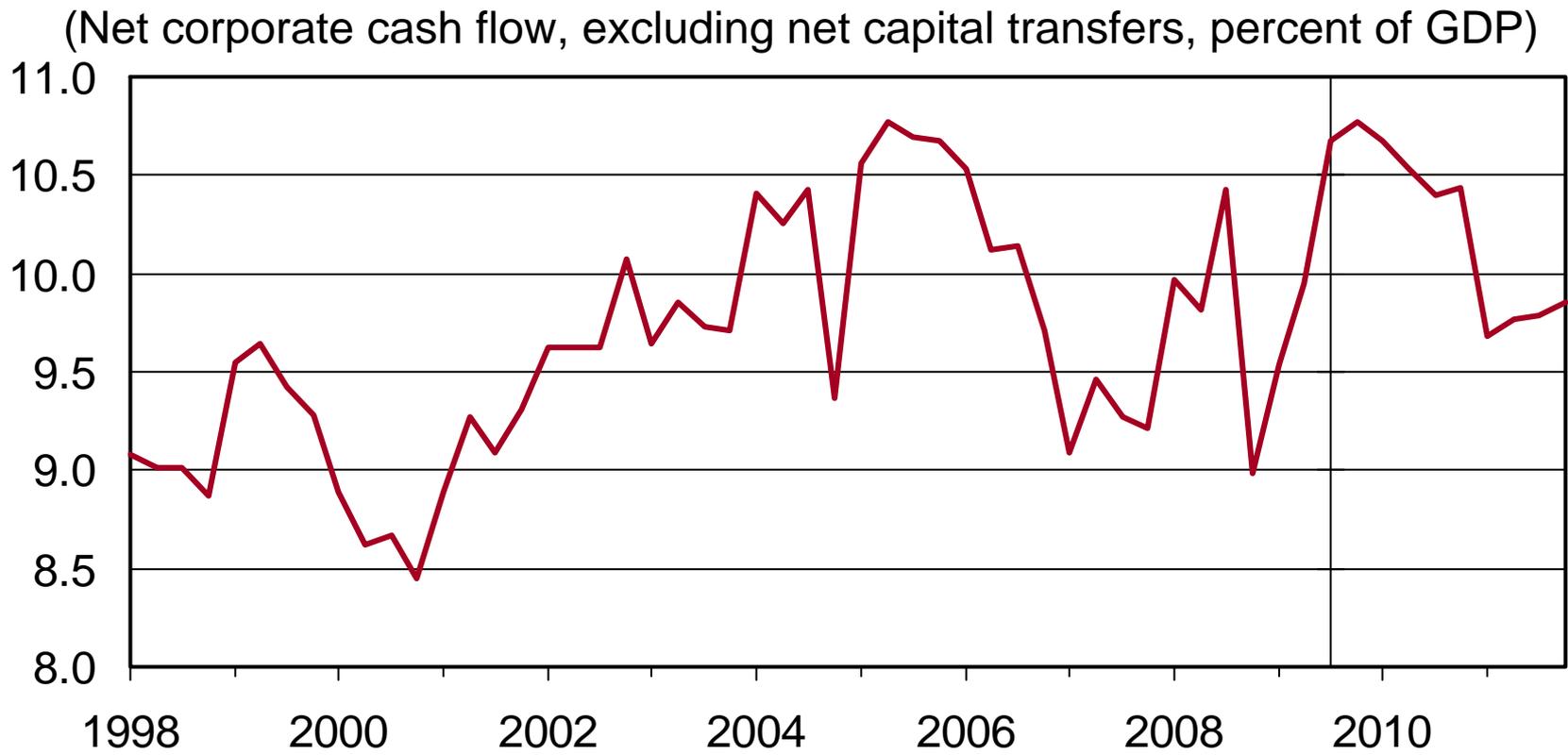
(Percent change unless otherwise noted)

	2008	2009	2010	2011
Real GDP	0.4	-2.5	2.6	2.7
Final Sales	0.8	-1.7	1.6	2.5
Consumption	-0.2	-0.6	2.1	2.2
Light Vehicle Sales (Millions)	13.2	10.3	11.5	13.8
Residential Investment	-22.9	-20.1	5.7	24.8
Housing Starts (Millions)	0.90	0.56	0.79	1.24
Business Fixed Investment	1.6	-18.0	-0.8	9.5
Federal Government	7.7	5.1	4.1	-3.0
State and Local Government	0.5	0.0	0.4	-0.3
Exports	5.4	-9.9	9.3	5.5
Imports	-3.2	-14.1	9.7	6.7

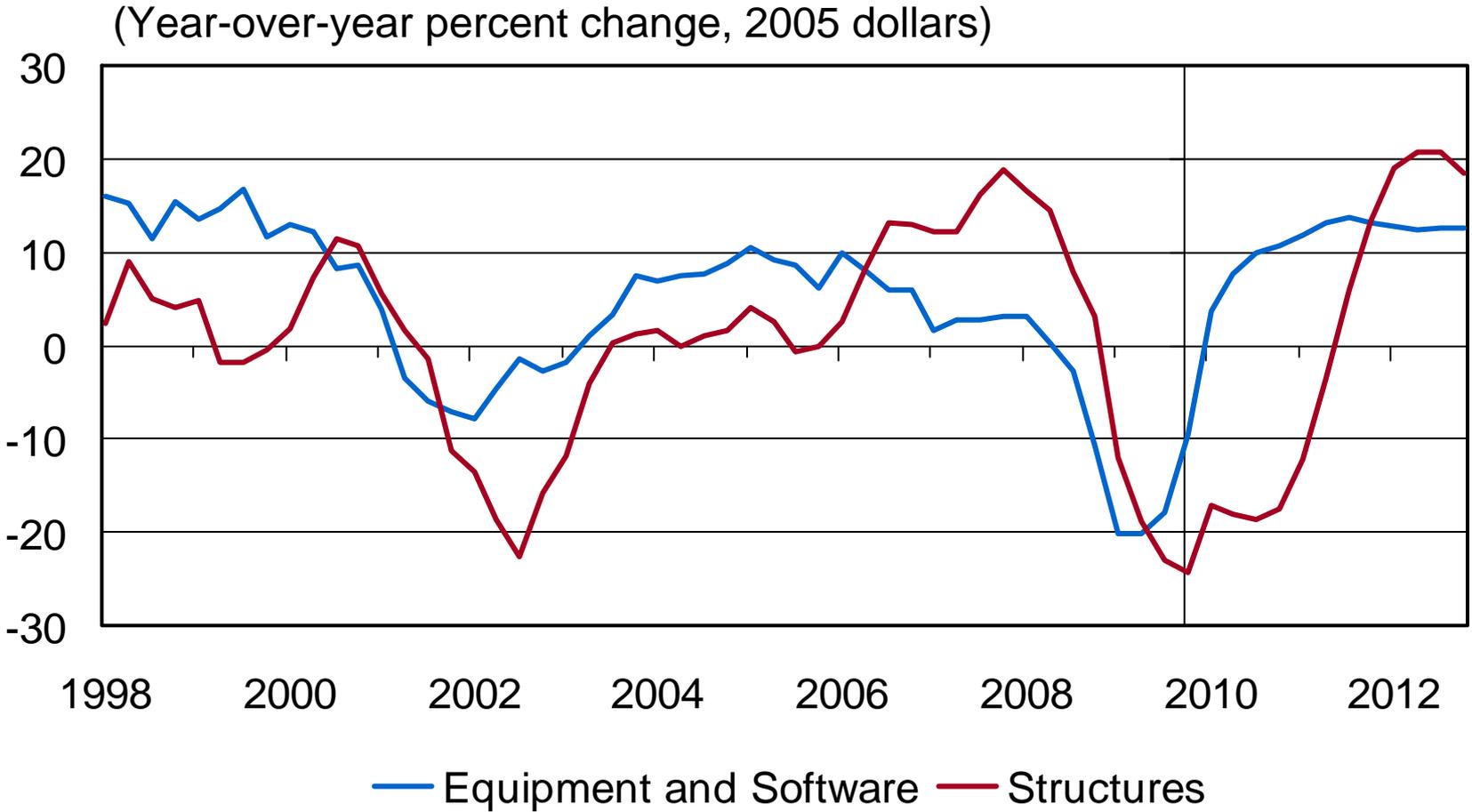
U.S. Inventory Adjustment Is Nearly Complete



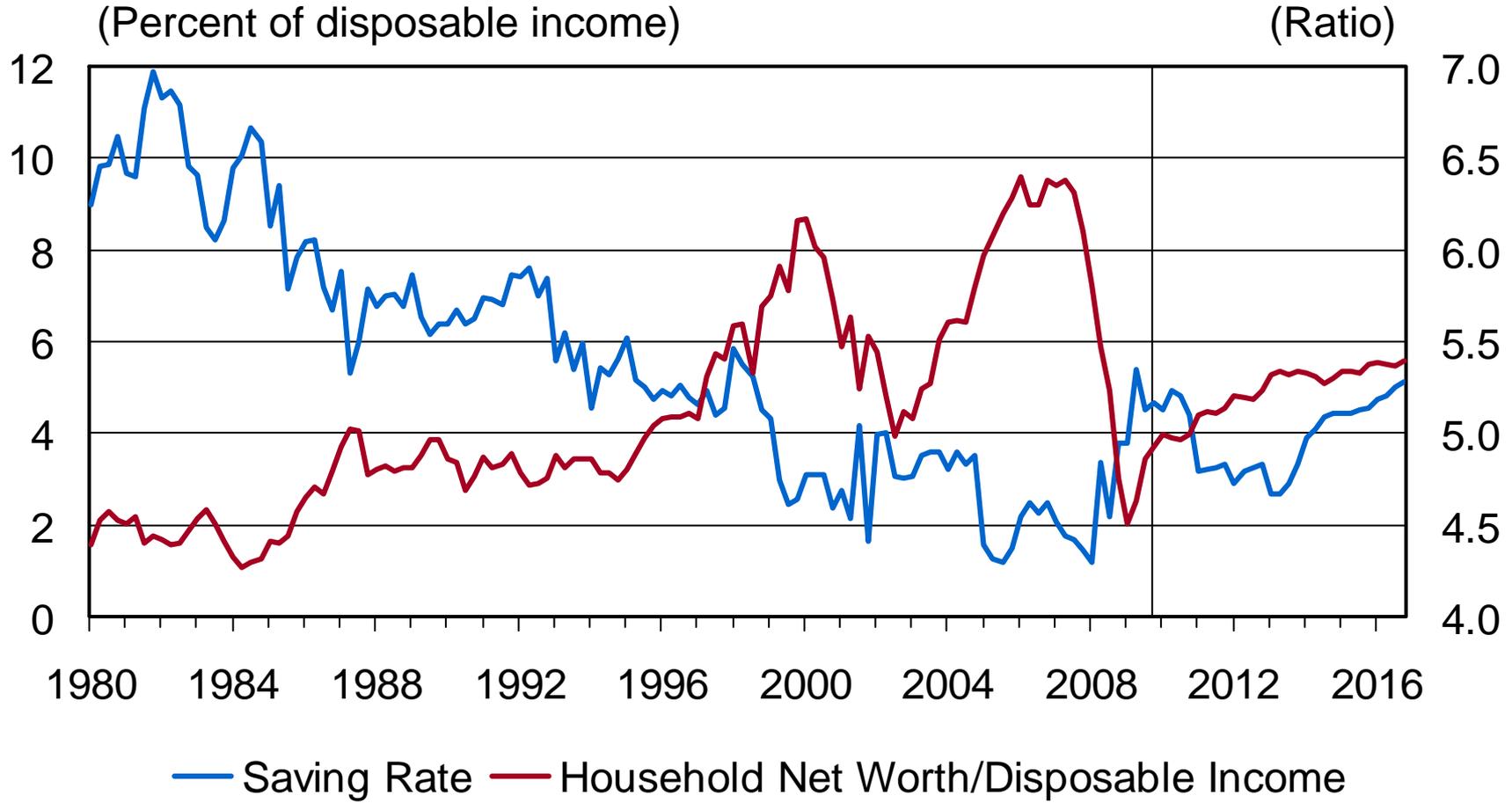
U.S. Corporate Cash Flow Strengthening



Different Cycles in U.S. Business Capital Spending: Construction Lags

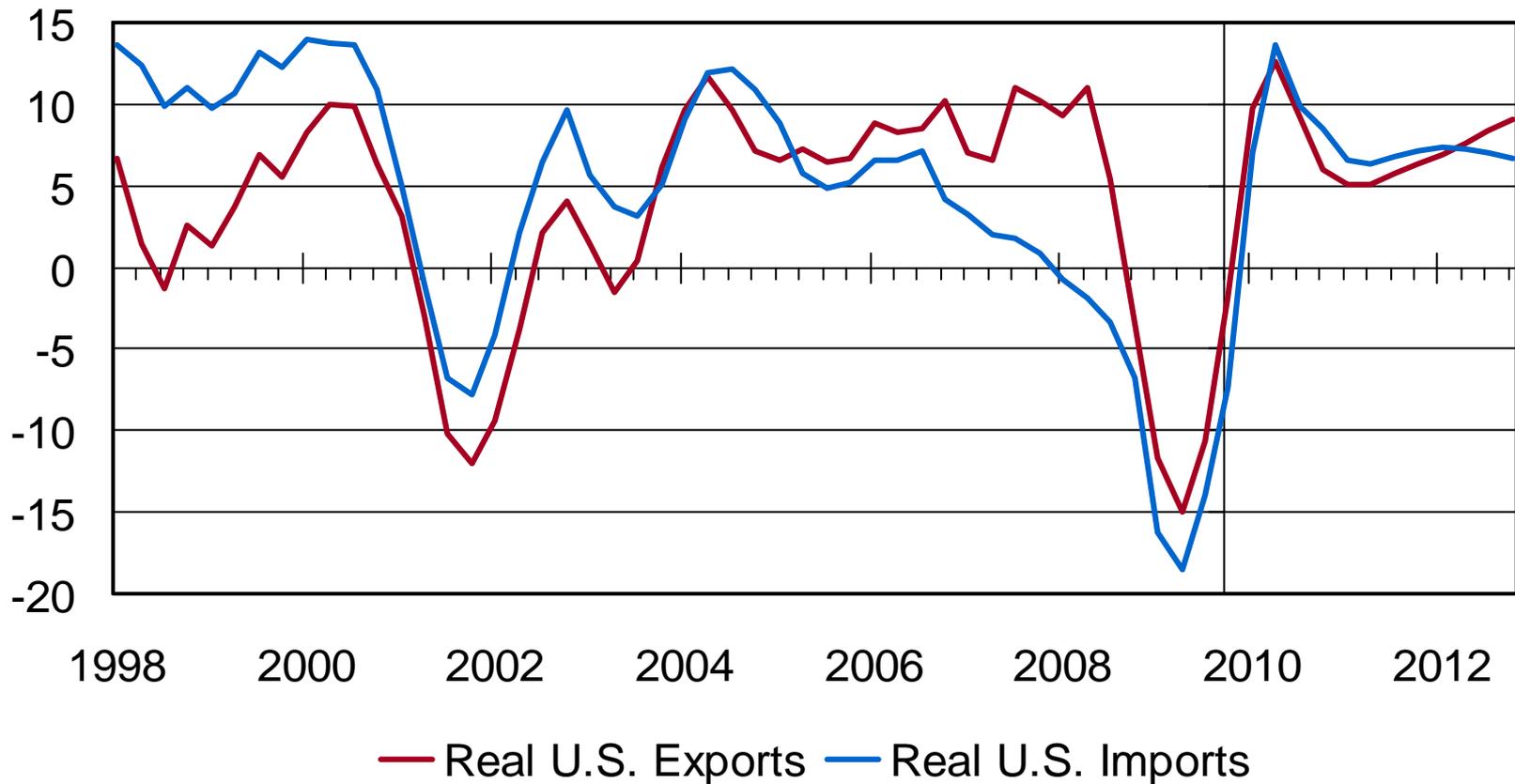


U.S. Households Have Increased Their Saving Rate in Response to the Decline in Net Worth

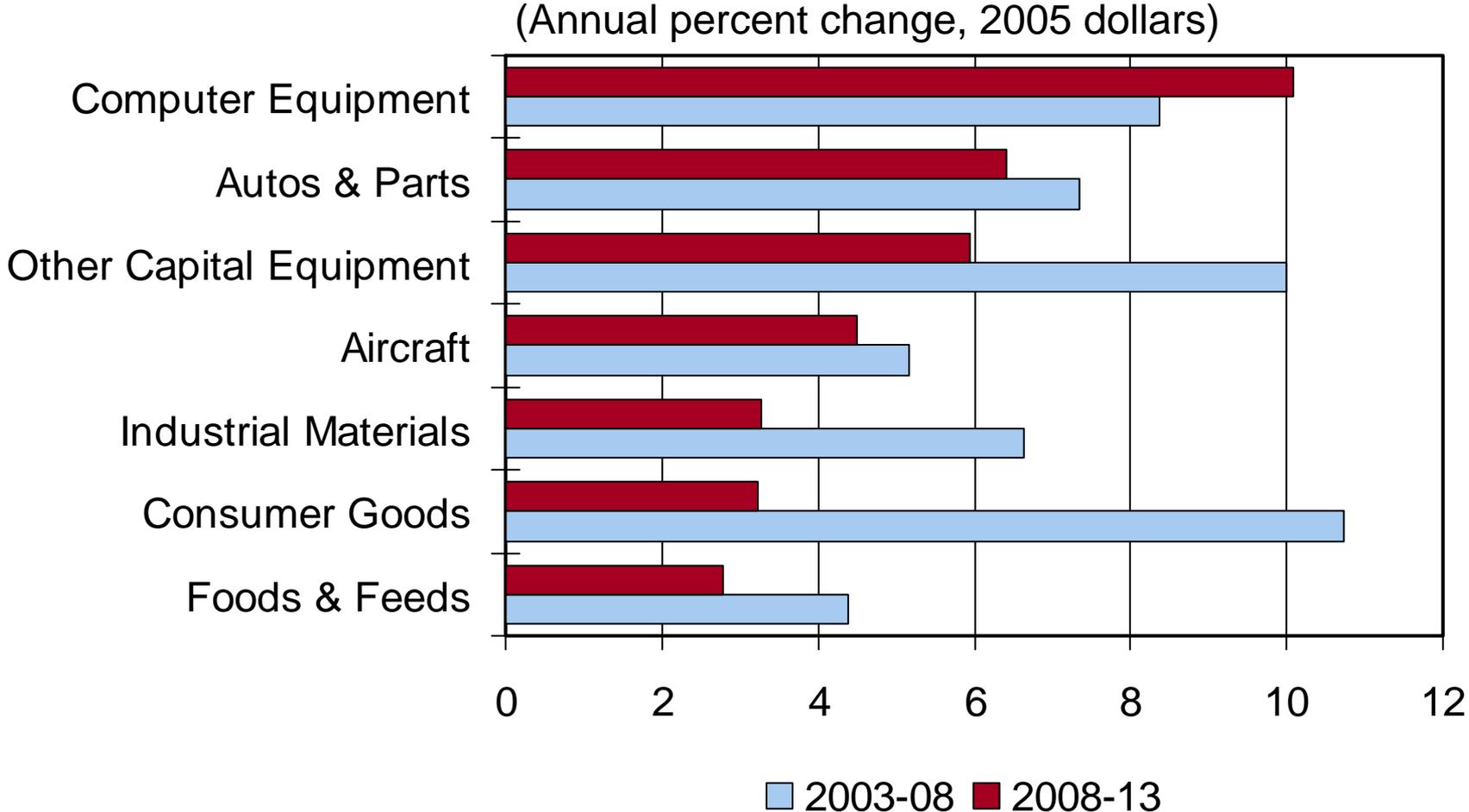


U.S. Real Export and Import Growth Patterns Reflect the Business Cycle and Exchange Rates

(Year-over-year percent change, 2005 dollars)



Capital Goods Lead Growth in Real U.S. Exports



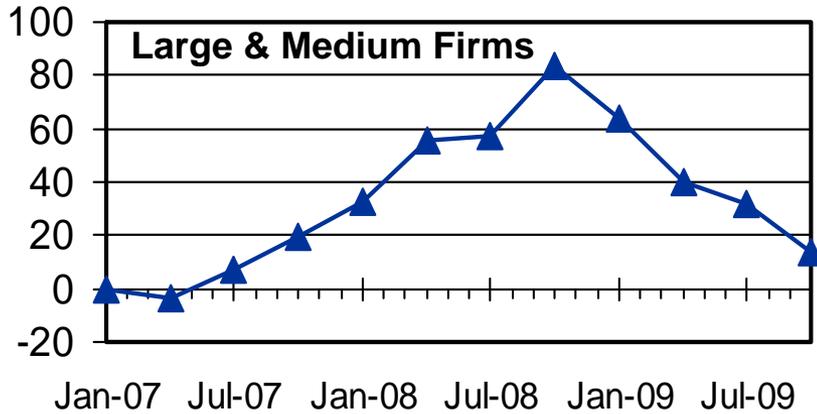
U.S. Housing: The Good, The Bad, and the Uncertain

- The Good
 - Housing affordability is at record highs
 - Single-family activity indicators are improving
 - Prices are showing signs of stabilizing
- The Bad
 - Foreclosure rate still rising
 - Overhang of empty homes
 - No improvement yet in multi-family indicators
- The Uncertain
 - How much payback after the new home-buyers' credit expires?
 - What happens to mortgage rates when the Fed stops buying MBS and agency debt?

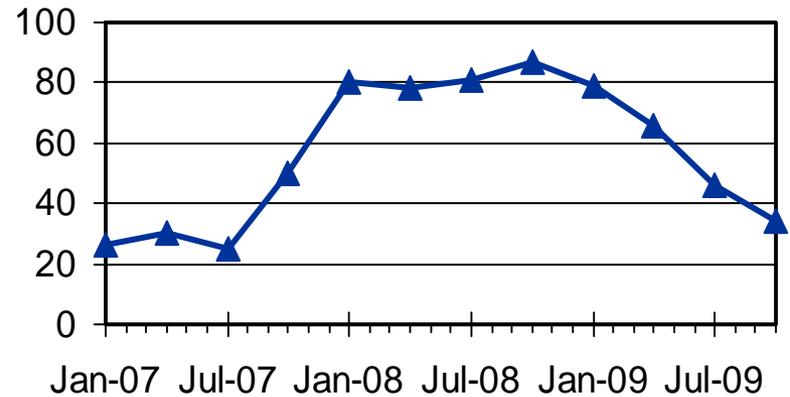
U.S. Banks Still Tightening Credit Conditions

(Percent)

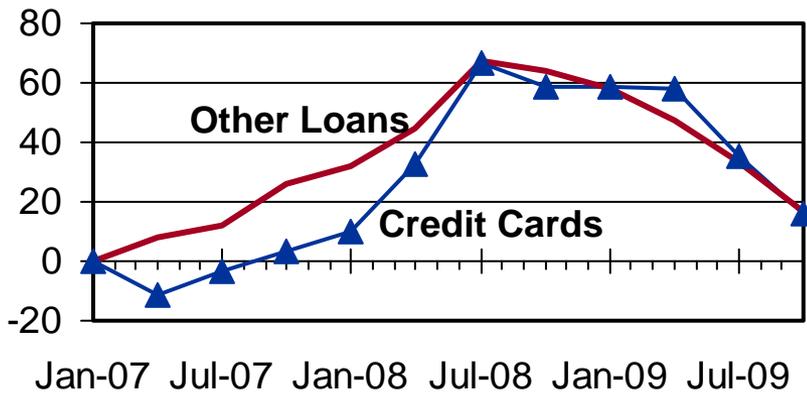
Tightening Comm. & Ind. Credit



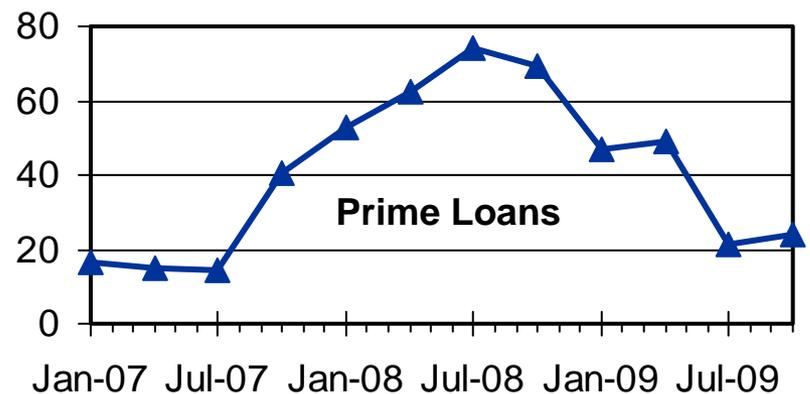
Tightening Comm. Mortgage Credit



Tightening Cons. Credit



Tightening Home Mortgage Credit

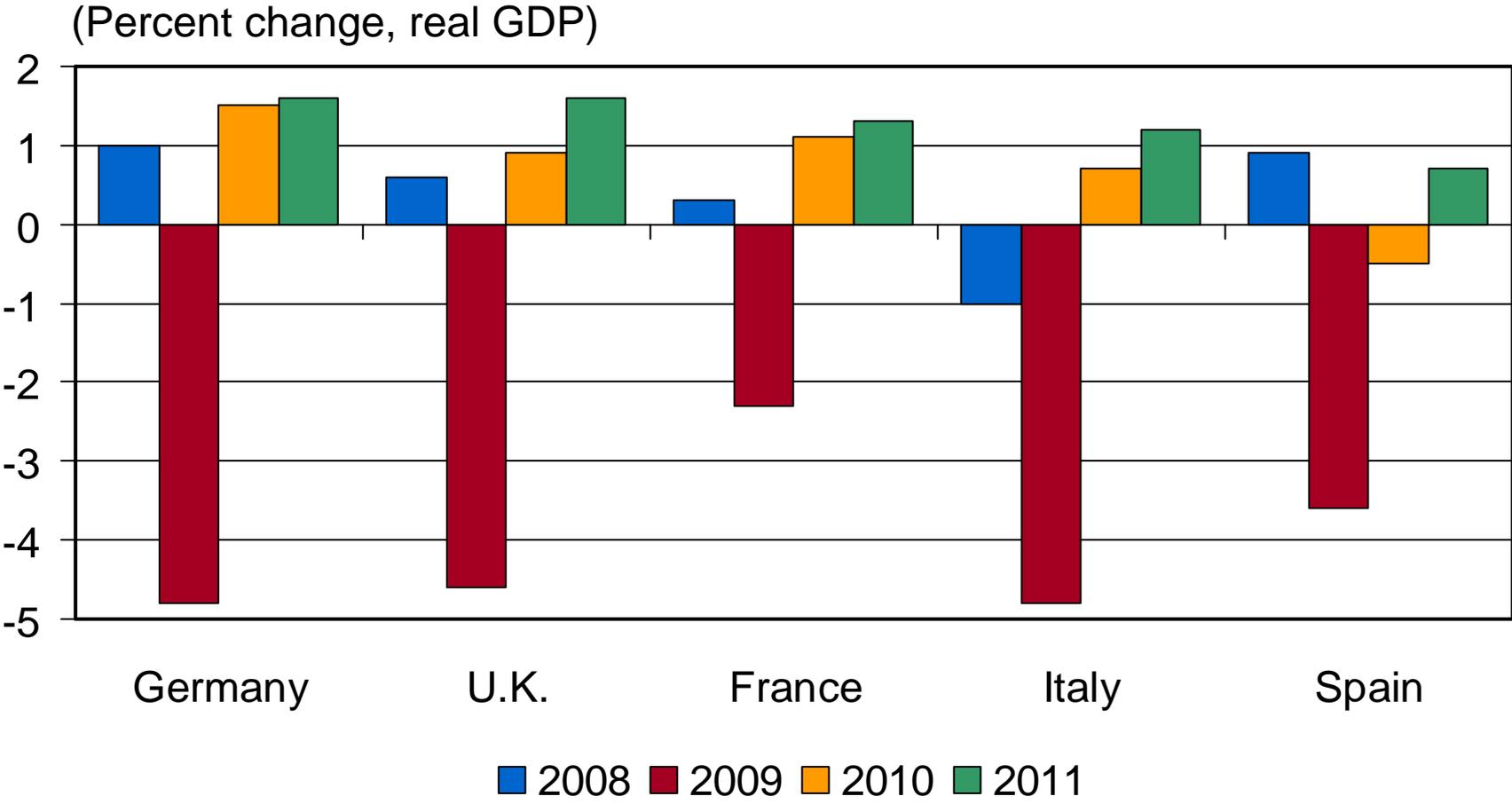


Source: Diffusion Indexes from Fed Senior Loan Officer Survey

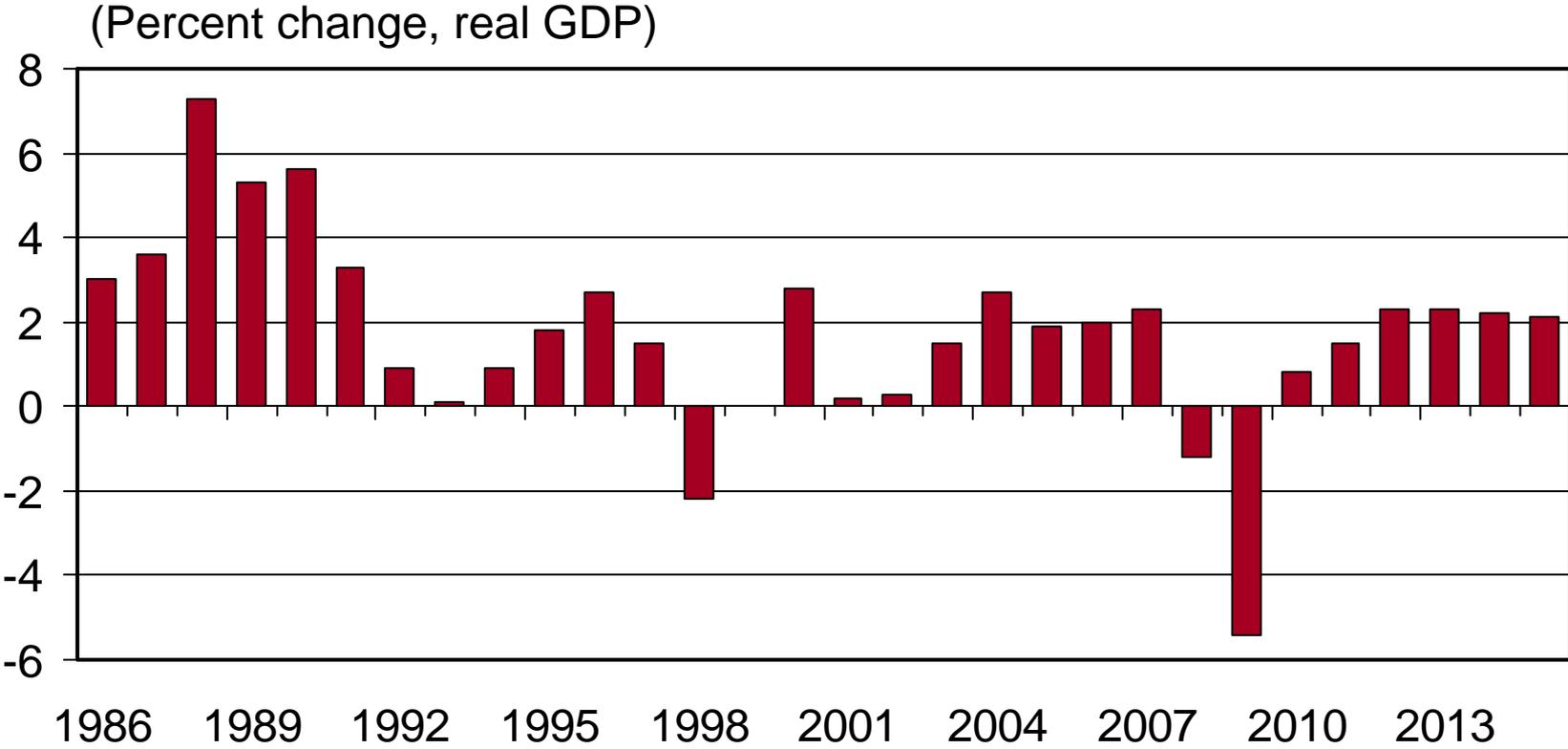
2. Europe and Japan Will Recover Even More Slowly Than the U.S.

- Second and third quarter growth rates in both Europe and Japan overstate the strength of the recovery
- Recent Eurozone data show a loss of momentum – how big of a risk is a W?
- While the worst of the financial crisis is over, there could be more aftershocks (including a possible sovereign default in the Eurozone), and credit remains tight
- Houses are still over-valued in some markets (Ireland, Spain, U.K. etc.) – how big of a vulnerability is this?
- Some European economies (including those of Iceland and Spain) will continue to contract in 2010
- The substantial downward revision of Japanese growth in the third quarter (from 4.8% to 1.3%) is troubling...
- ...As is the sharp increase in the pace of deflation in recent months
- Recent attempts by the Japanese government to stimulate the economy are likely to disappoint
- Appreciating currencies are a major headwind for both the Eurozone and Japan

Deep Recessions, Slow Recoveries in Western Europe



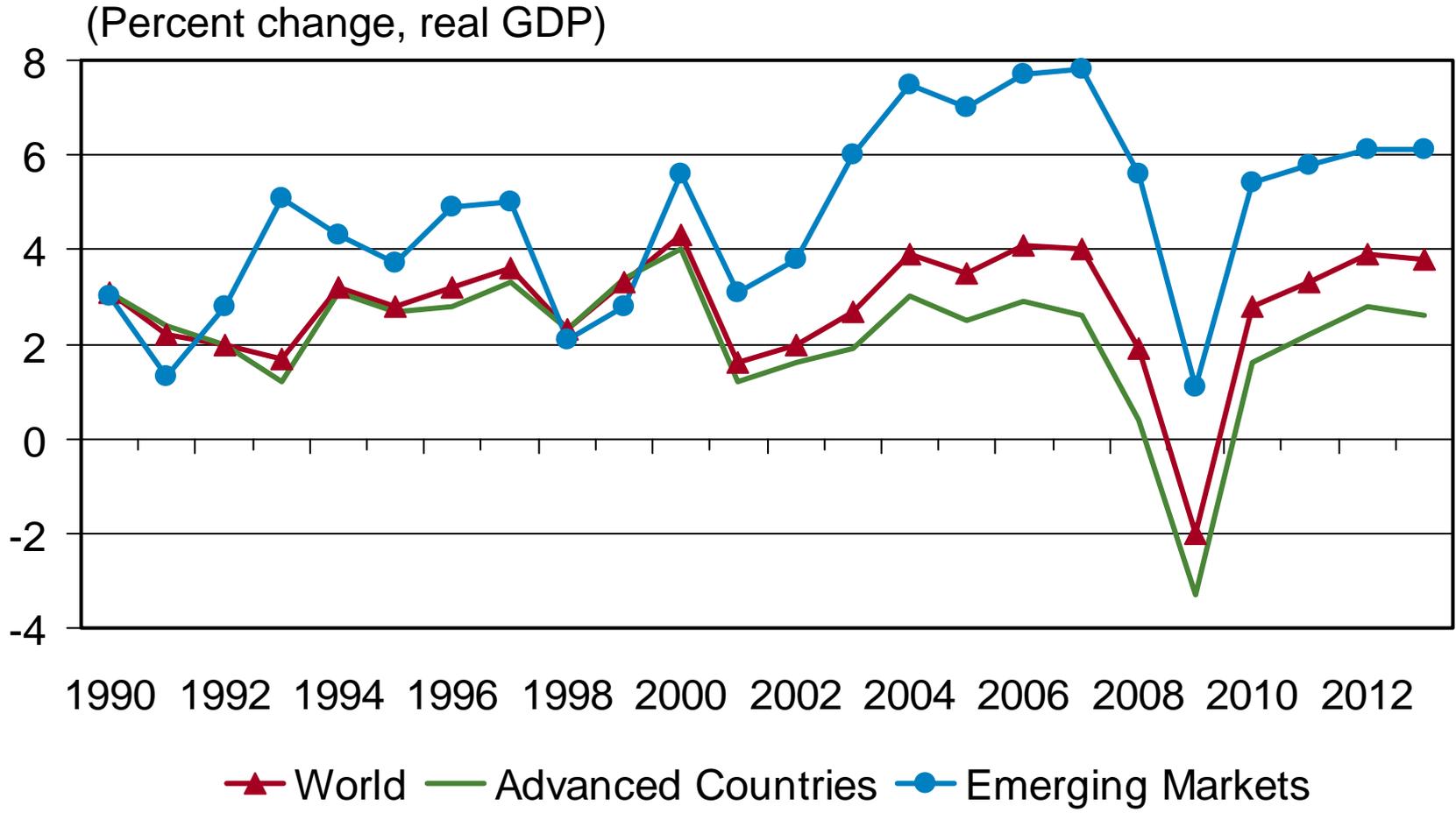
Japan's Economy Has Limited Growth Potential



3. Most Emerging Markets – Especially Asia – Will Outpace the Developed Economies

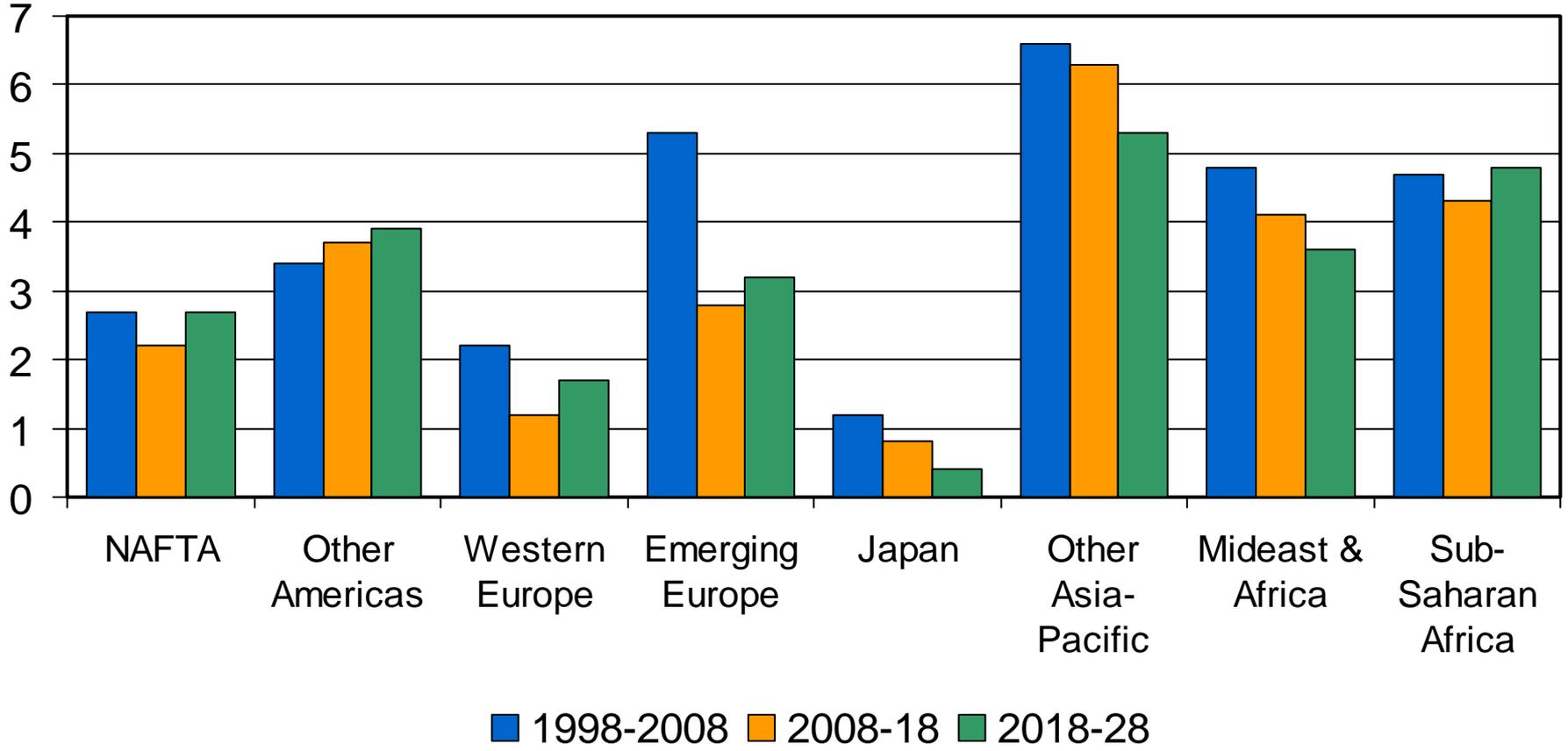
- Non-Japan Asia will be at the forefront, with a growth rate of over 7% next year
- Latin America, the Middle East, and Africa will see gains in the 3% to 4% range
- The laggard will be Emerging Europe, which will only grow between 1.5% and 2%
- Many emerging regions are benefitting from the sharp rebound in trade and the turn in the inventory cycle – can these be the basis for sustained growth?
- With the exception of Emerging Europe and some Gulf states, the impact of the financial crisis on the emerging markets has been modest
- Among the Big-6 emerging economies, China, India and Brazil will lead, while Russia, South Korea and Mexico will lag

Emerging Markets Lead the Global Recovery

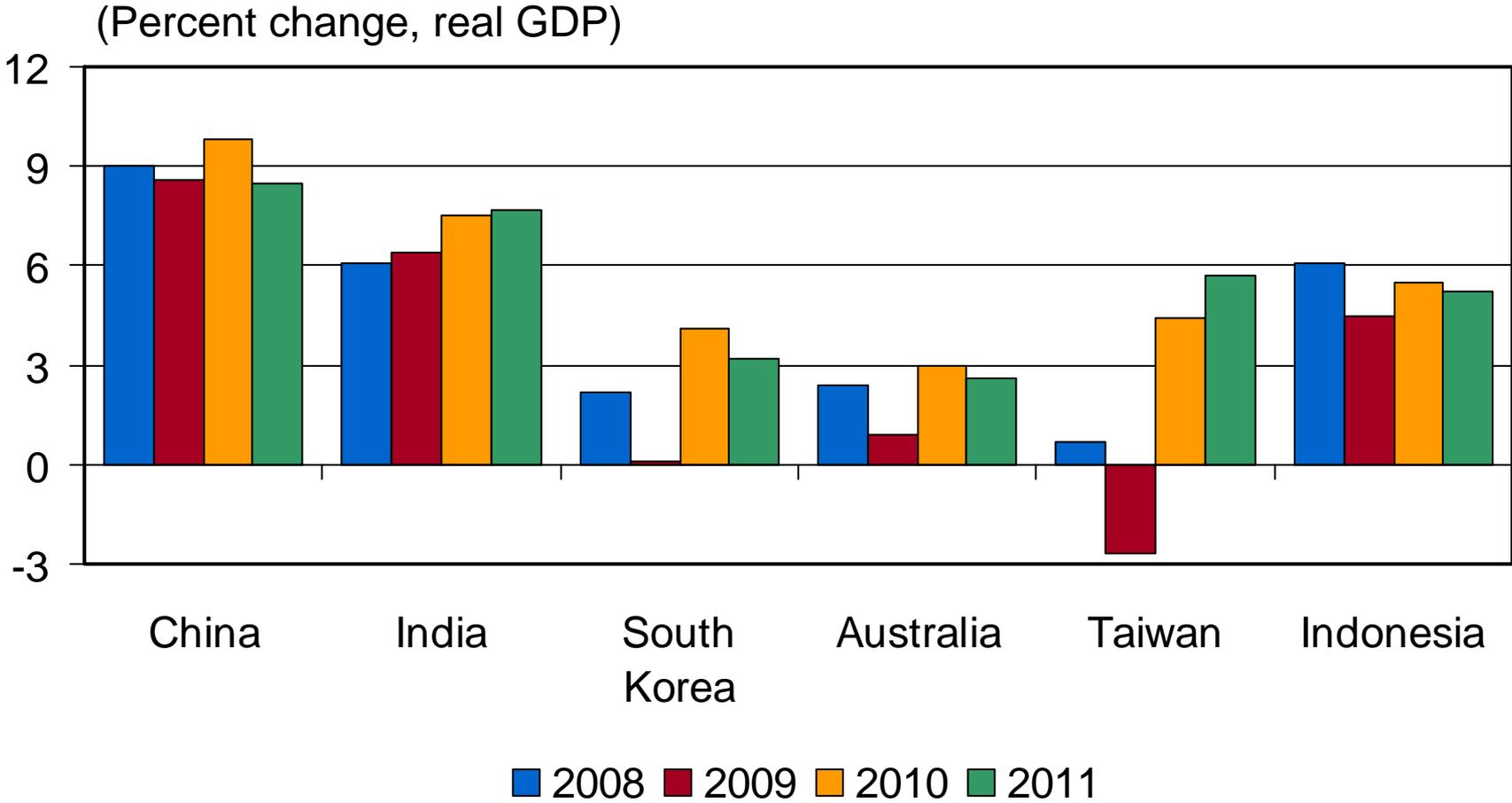


Long-Term World Economic Growth by Region

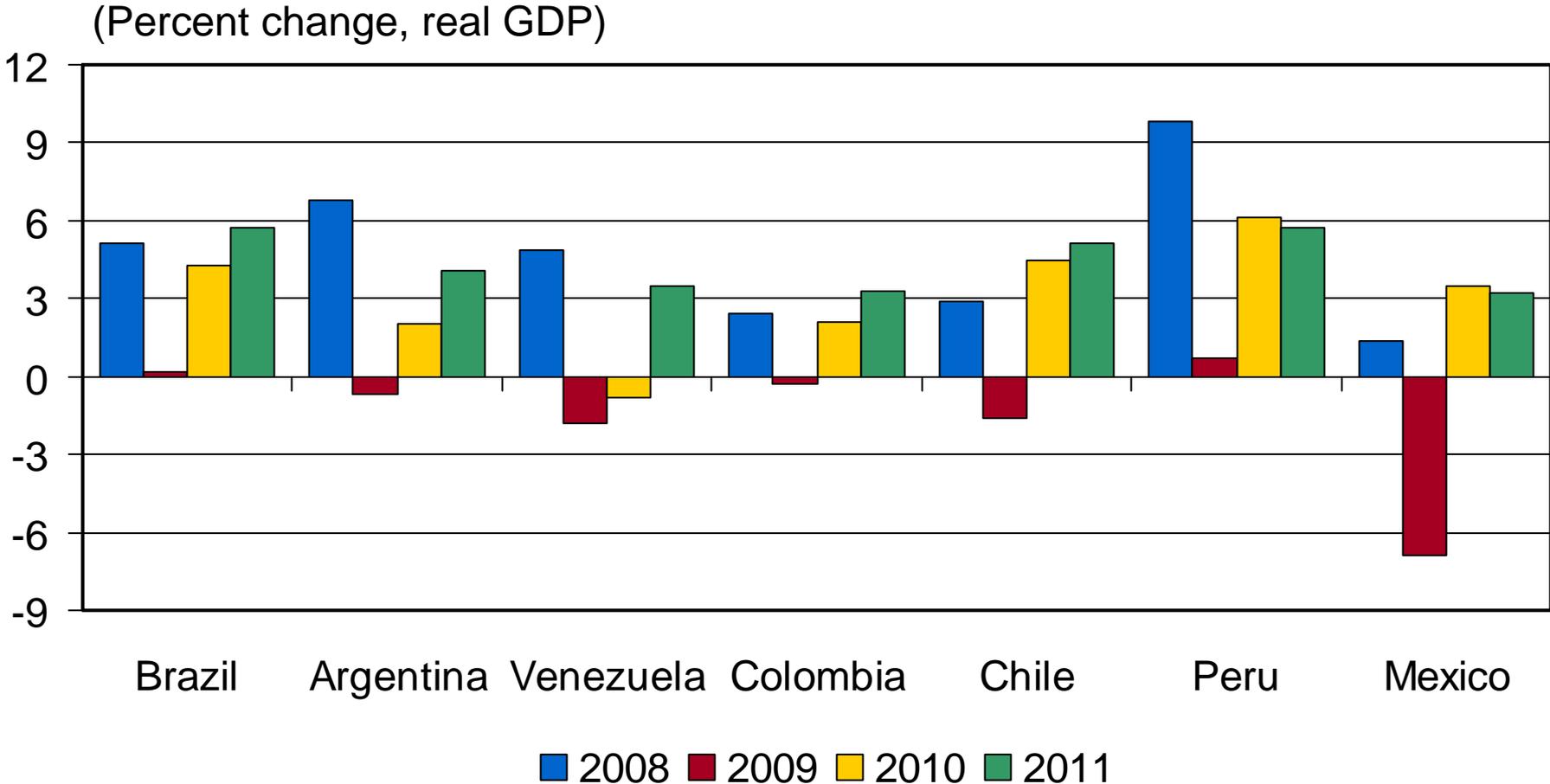
(Real GDP, annual percent change)



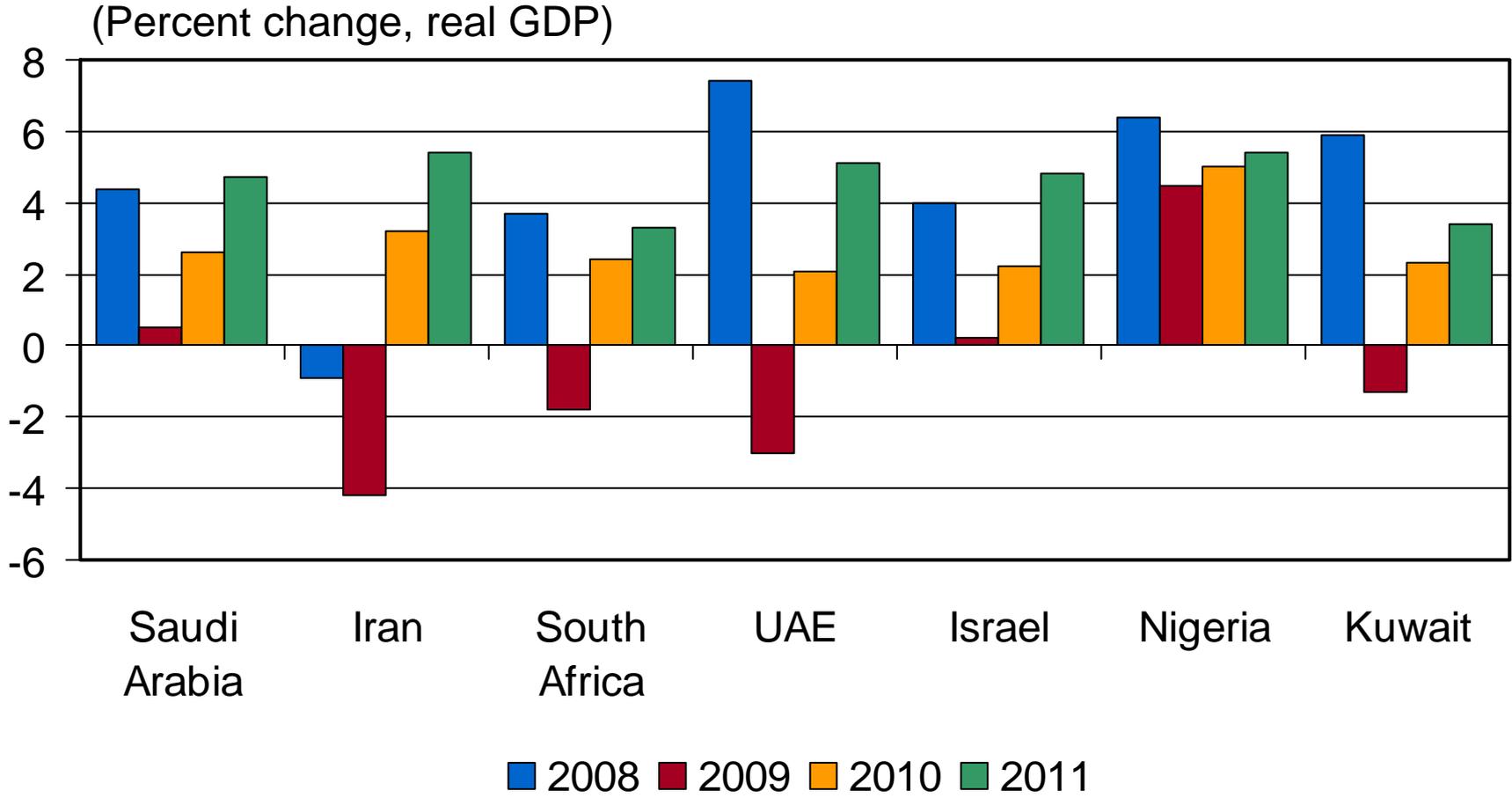
Strong Rebound in Asia



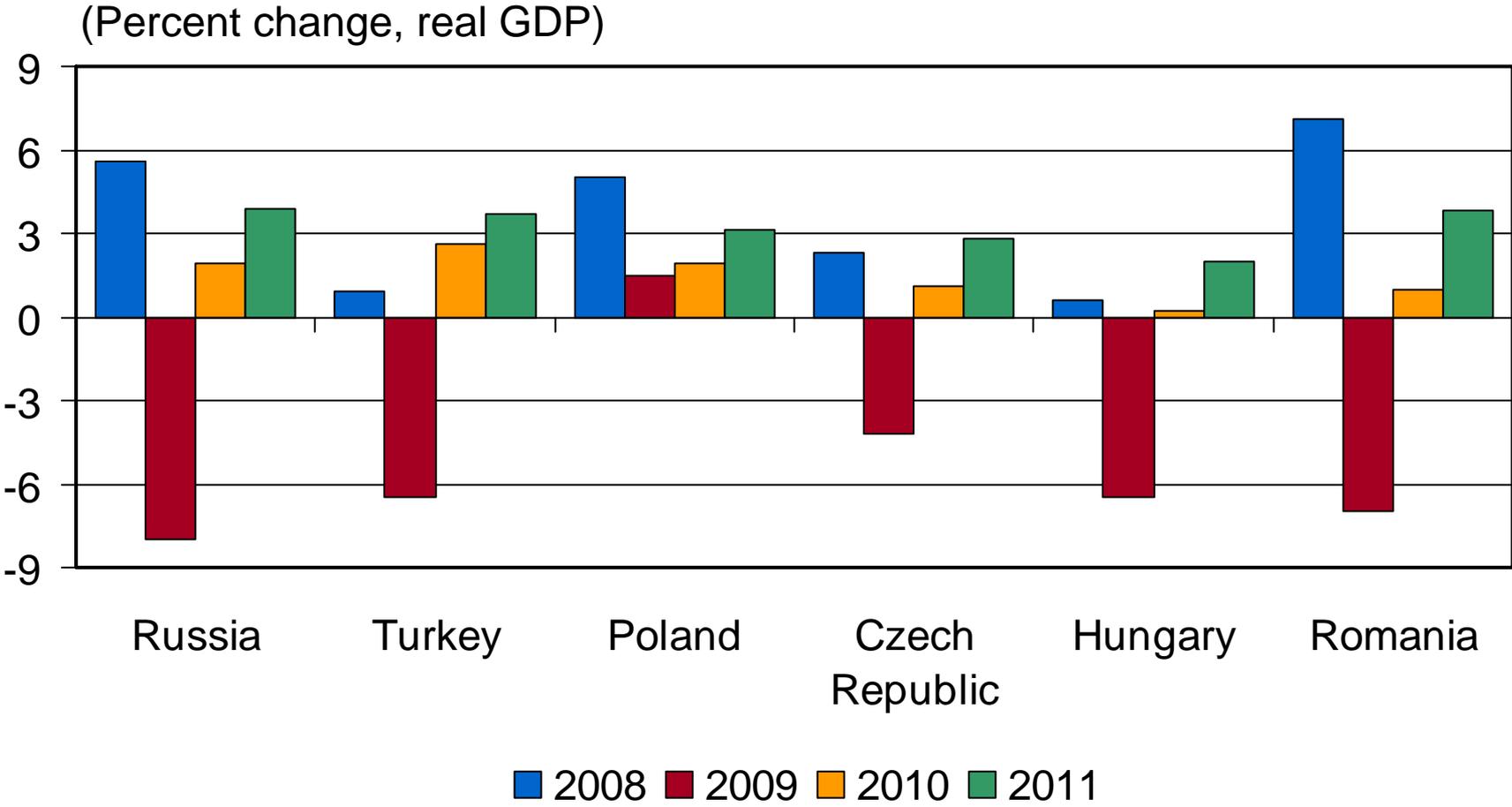
Respectable Recoveries in Latin America



Real GDP Growth in the Middle East and Africa



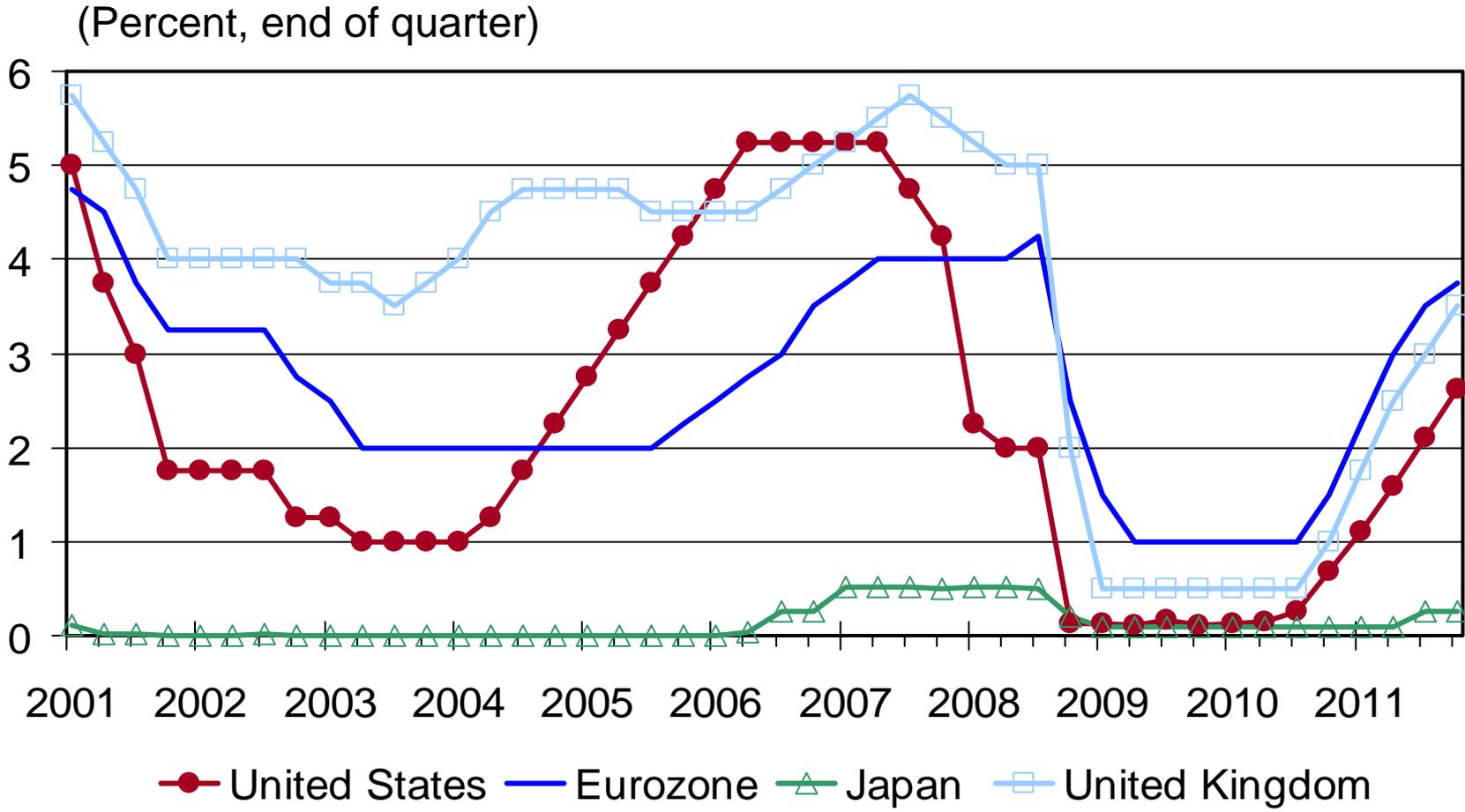
Deep Recessions and Slow Recoveries in Emerging Europe



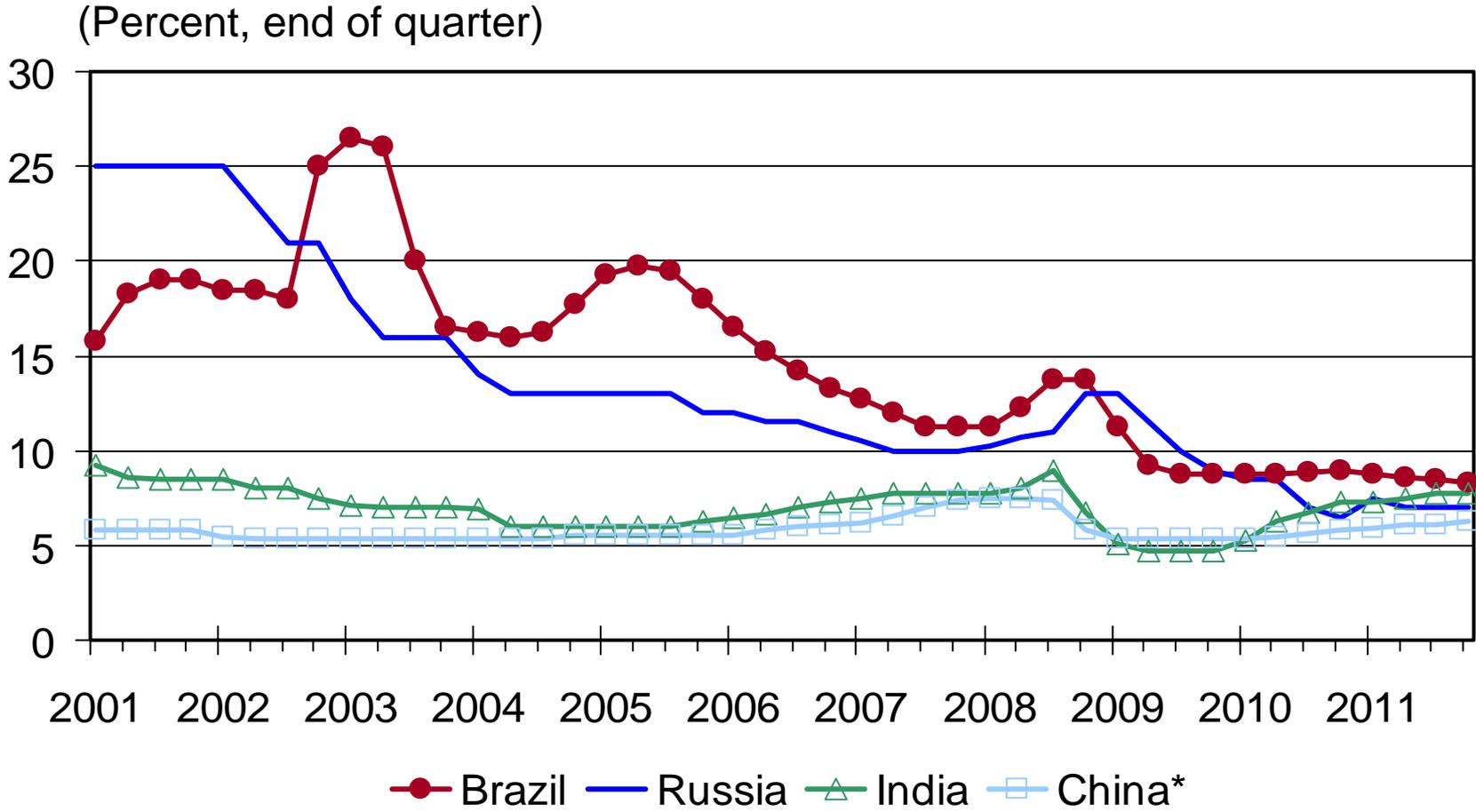
4. Interest Rates in the G-7 and the BRICs Will Remain Low

- Some central banks (notably Australia, Israel and Norway) have already started to raise rates
- The Fed, the ECB, the Bank of England and the Bank of Japan are unlikely to hike rates until the third quarter – although the “quantitative easing” measures will be phased out before then
- The G-7 central bankers are currently more worried about the fragility of the recovery and the aftershocks of the financial crisis than inflation
- Some Asian central banks (e.g., the Reserve Bank of India and the Peoples Bank of China) may pull the trigger in the first or second quarter, due to concerns about inflation and asset bubbles

Policy Interest Rates Will Stay Low into 2010



Policy Interest Rates in BRICs

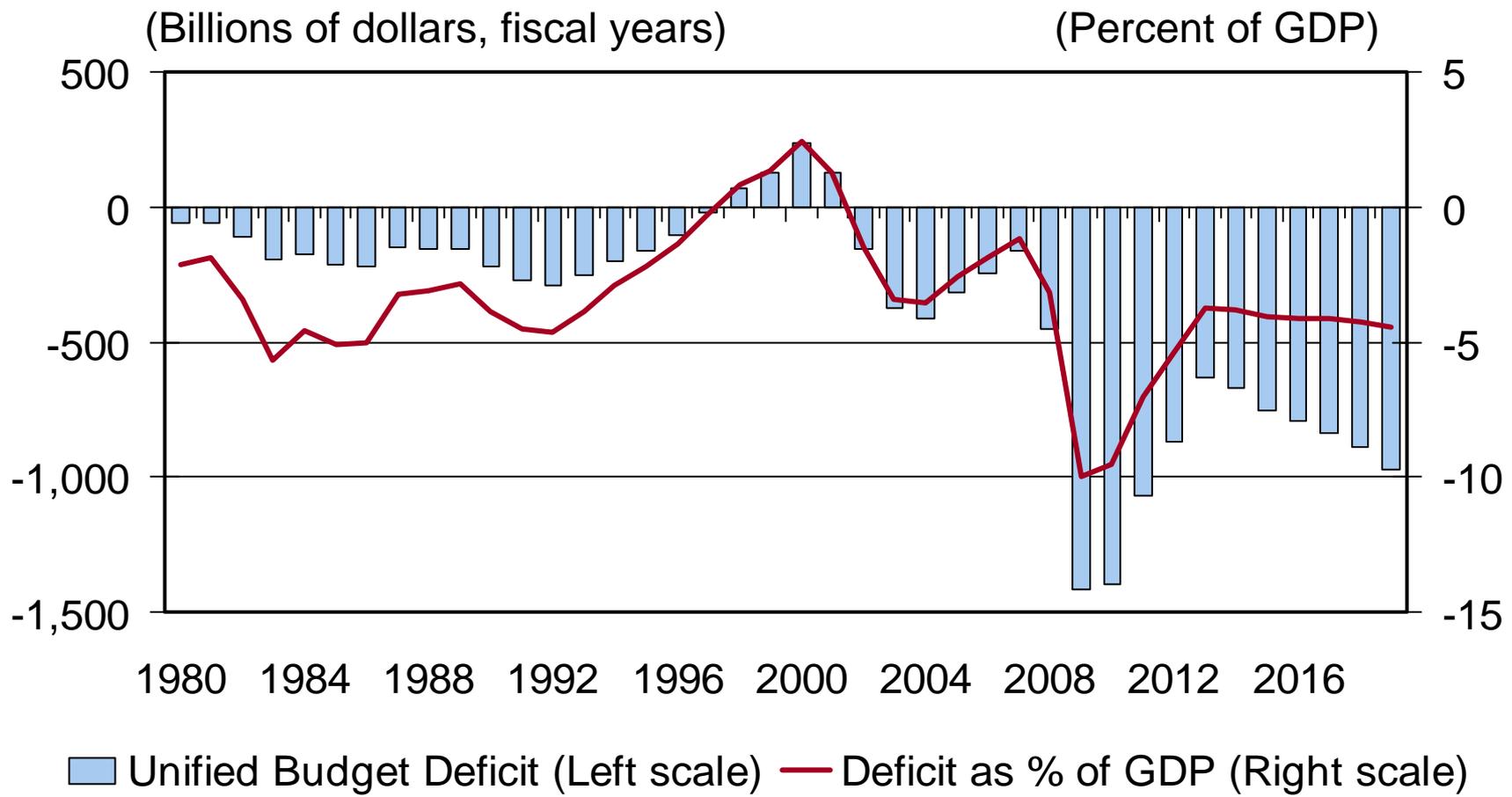


* One-year loan rate

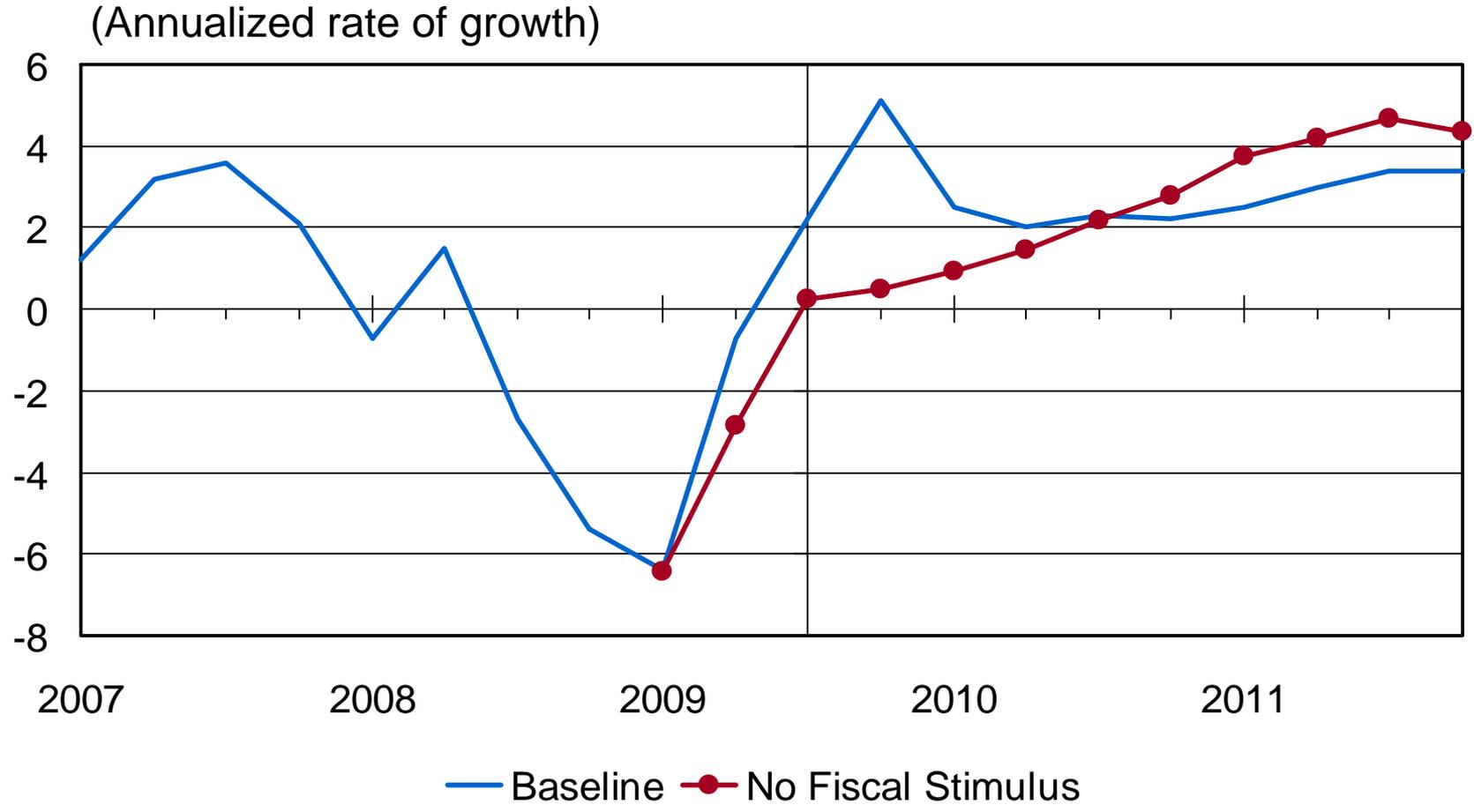
5. Fiscal Stimulus Will Begin to Ease

- Shaky public finances and voter unease severely limit the scope for any further stimulus – some countries will actually be tightening fiscal policy next year (e.g., the U.K.)
- Temporary measures (such as cash-for-clunker programs) have ended or will soon end
- The pressure on the U.S., European and Japanese governments to put in place credible deficit and debt reduction plans is likely to intensify
- The recently announced U.S. jobs program will only be feasible by using budgetary sleight of hand (i.e., TARP money)
- The biggest fiscal challenge in the medium- to long-term will be the pressure from public pensions and healthcare programs

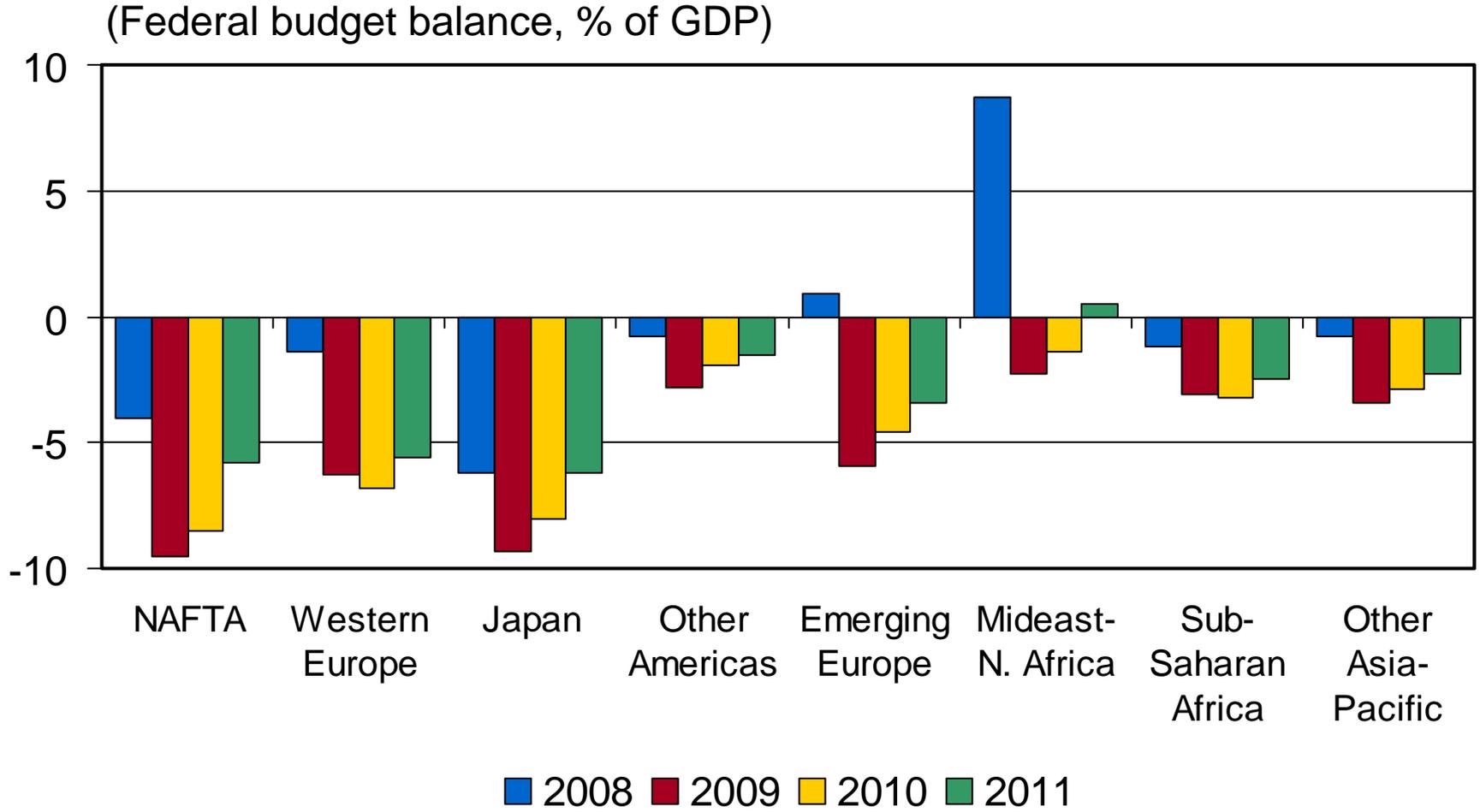
A Record U.S. Federal Budget Deficit in Fiscal 2009



U.S. Fiscal Stimulus Has Made A Difference

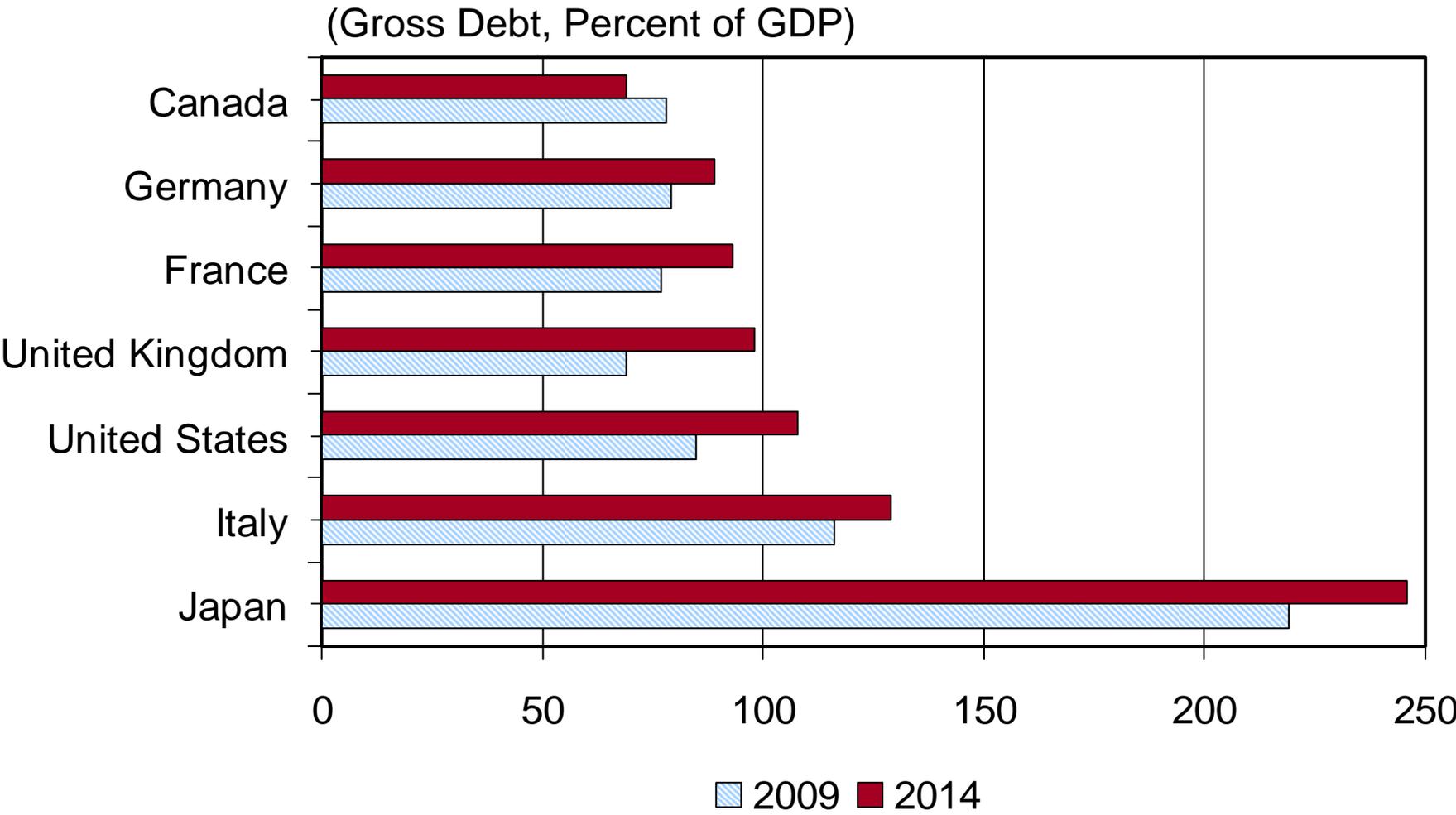


Fiscal Balances Have Deteriorated Across Regions



Source: IHS Global Insight

Public Debt Is Rising in Many Countries

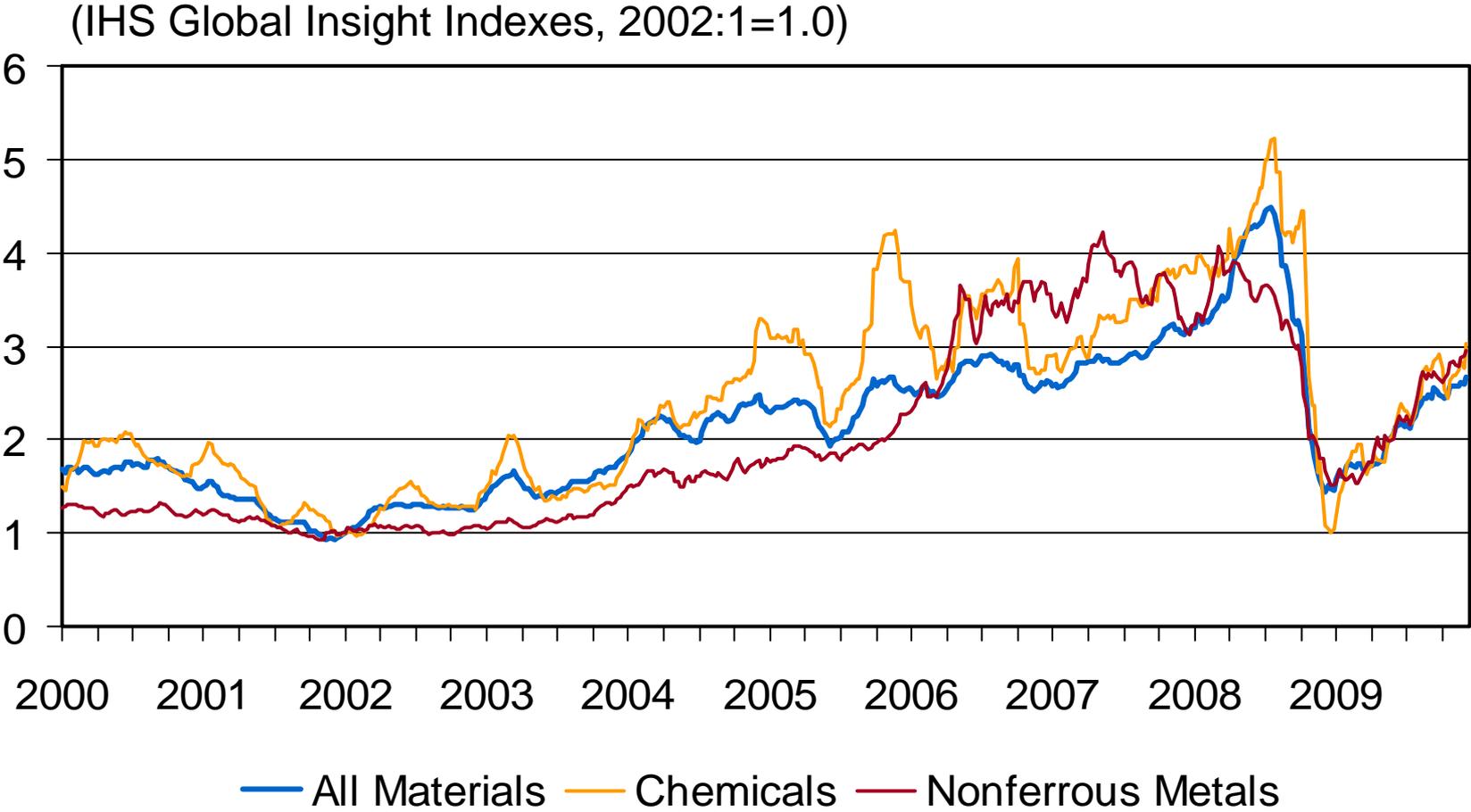


Source: IMF

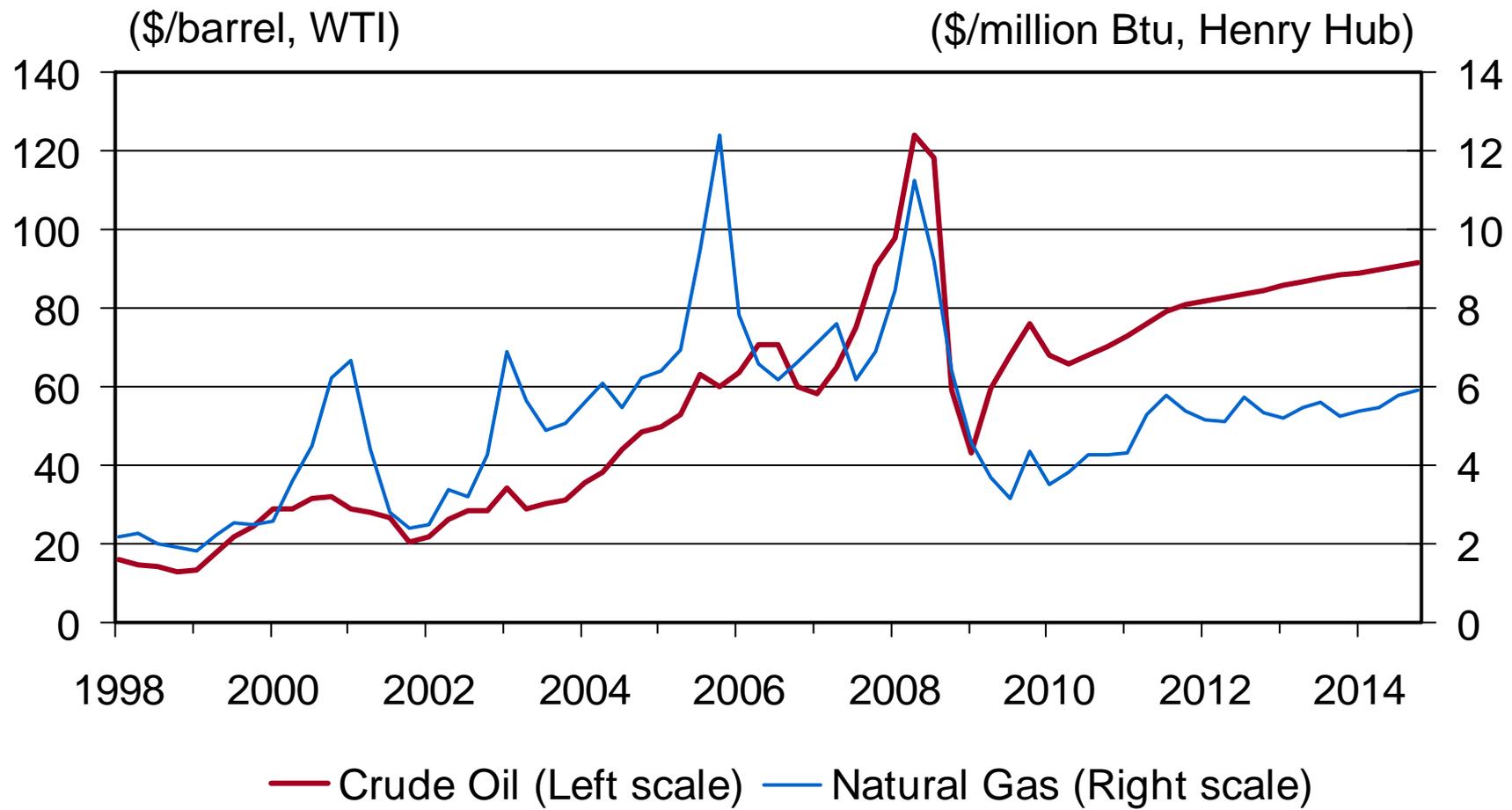
6. Commodity Prices Will Move Sideways

- The recent rises in commodity prices cannot be justified by market fundamentals – demand growth is weak and inventories are high
- Some of the increases of the past few months can be attributed to investment flows – is this the start of a new “bubble”?
- Most commodity prices are likely to soften in coming months – some already have in recent weeks
- A sustained rise in commodity prices is unlikely until the global recovery picks up steam at the end of 2010

A Rebound in Industrial Materials Prices



Crude Oil and Natural Gas Prices Diverge

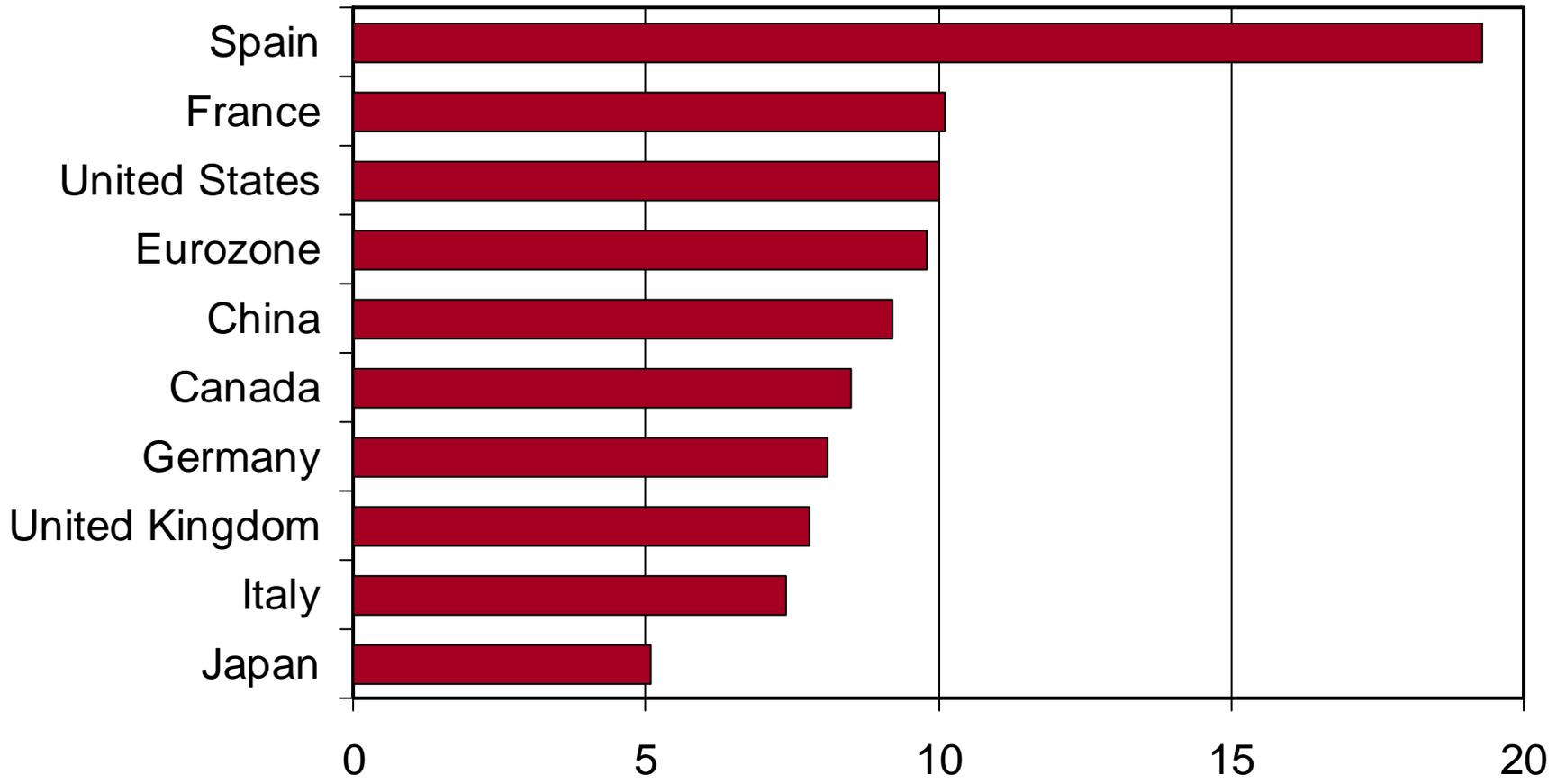


7. Inflation Will (Mostly) Not Be a Problem

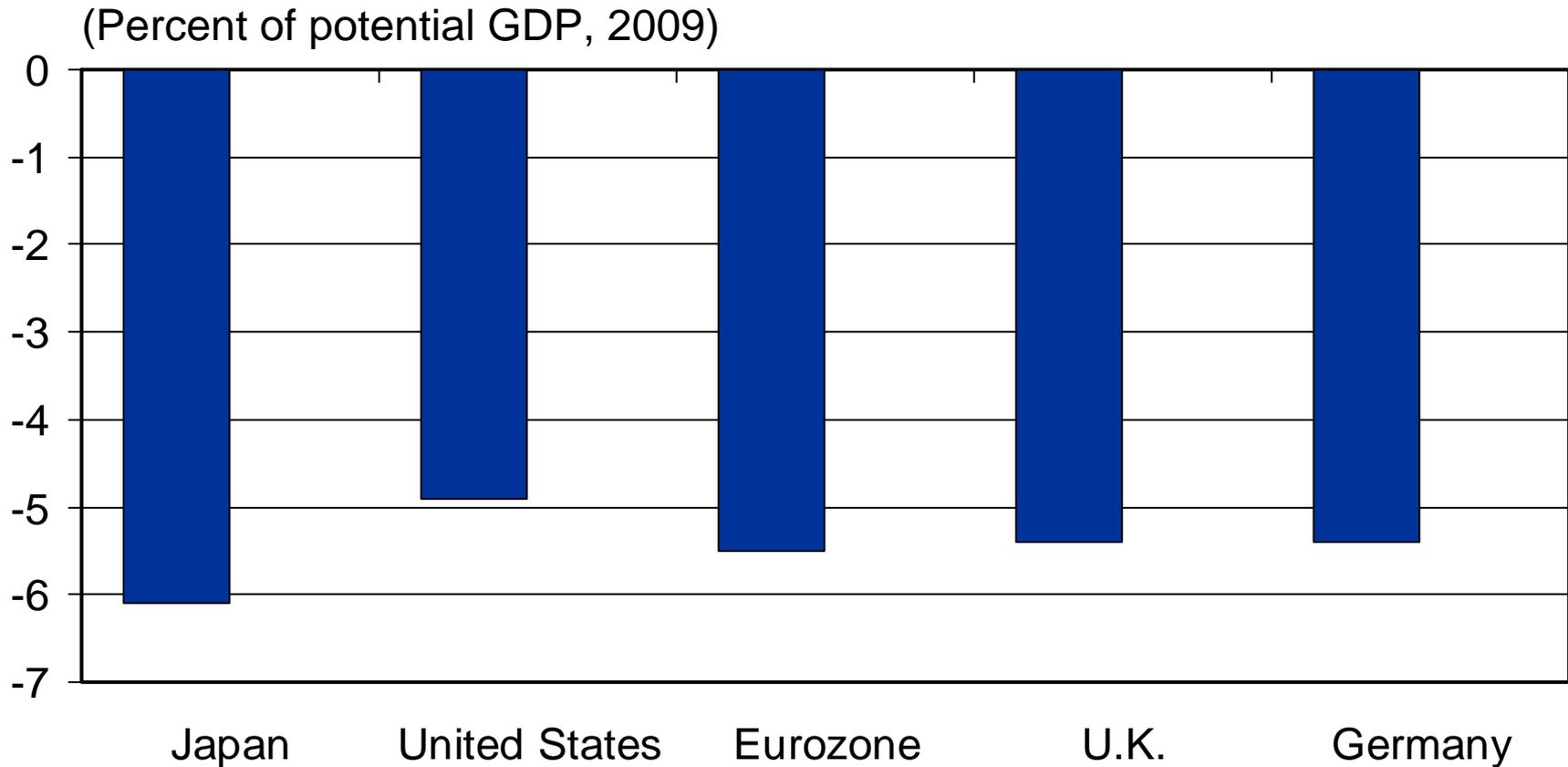
- Historically-high levels of unemployment and excess capacity will limit both wage and price inflation – also strong productivity growth in the U.S. has been a powerful disinflationary force
- Central banks will most likely remove the excess liquidity sloshing around the global economy, before inflation expectations begin to rise much
- Strong growth in Asia will probably mean that inflationary pressures will be felt in that region first
- Also at risk of rising inflation are countries that peg (or strongly manage) their exchange rates to the dollar – mostly in Asia and the Middle East

Labor Market Slack Will Limit Wage Inflation

(Unemployment rates, percent in October/November, 2009)

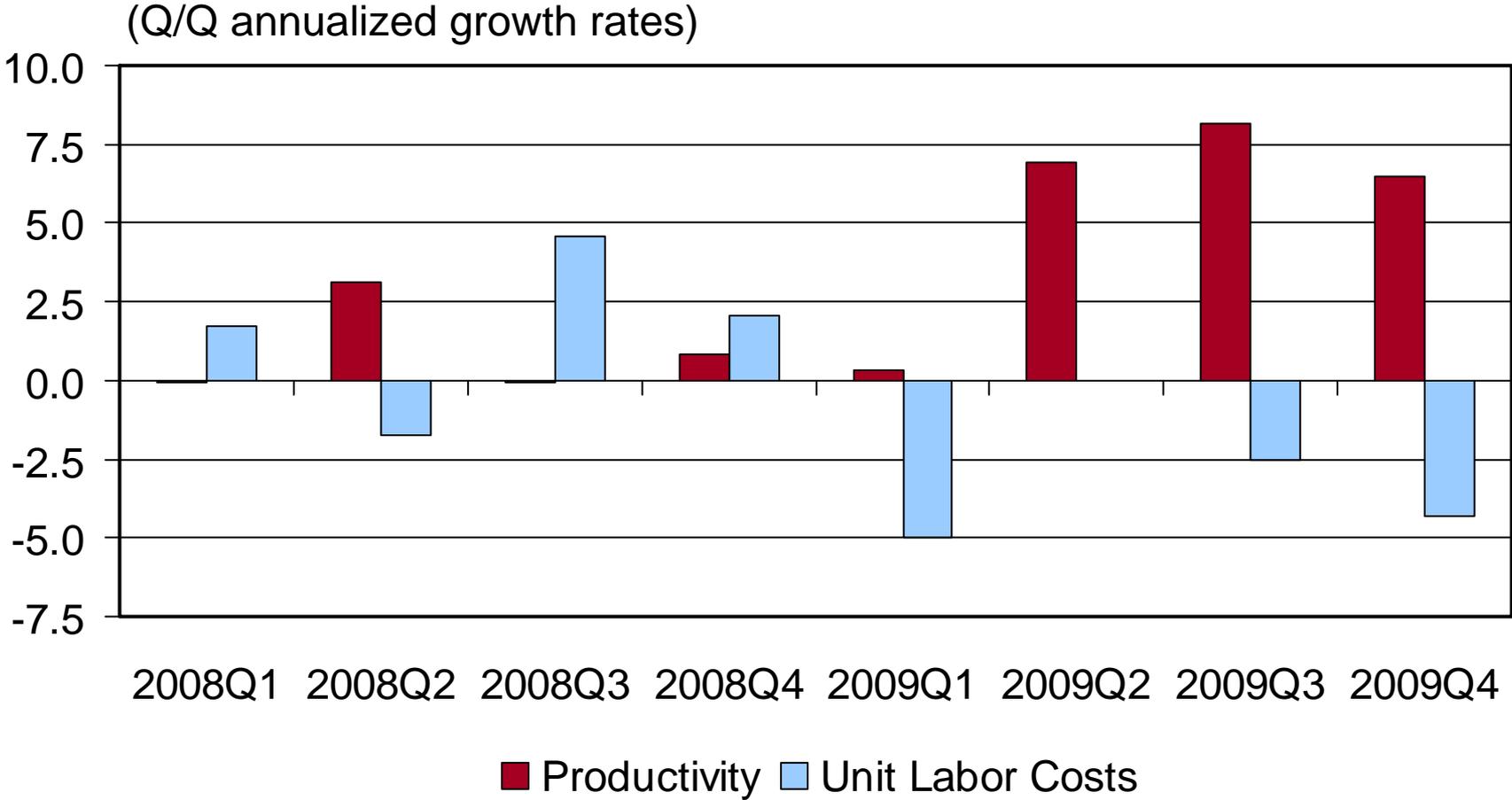


Output Gaps Will Limit Price Inflation

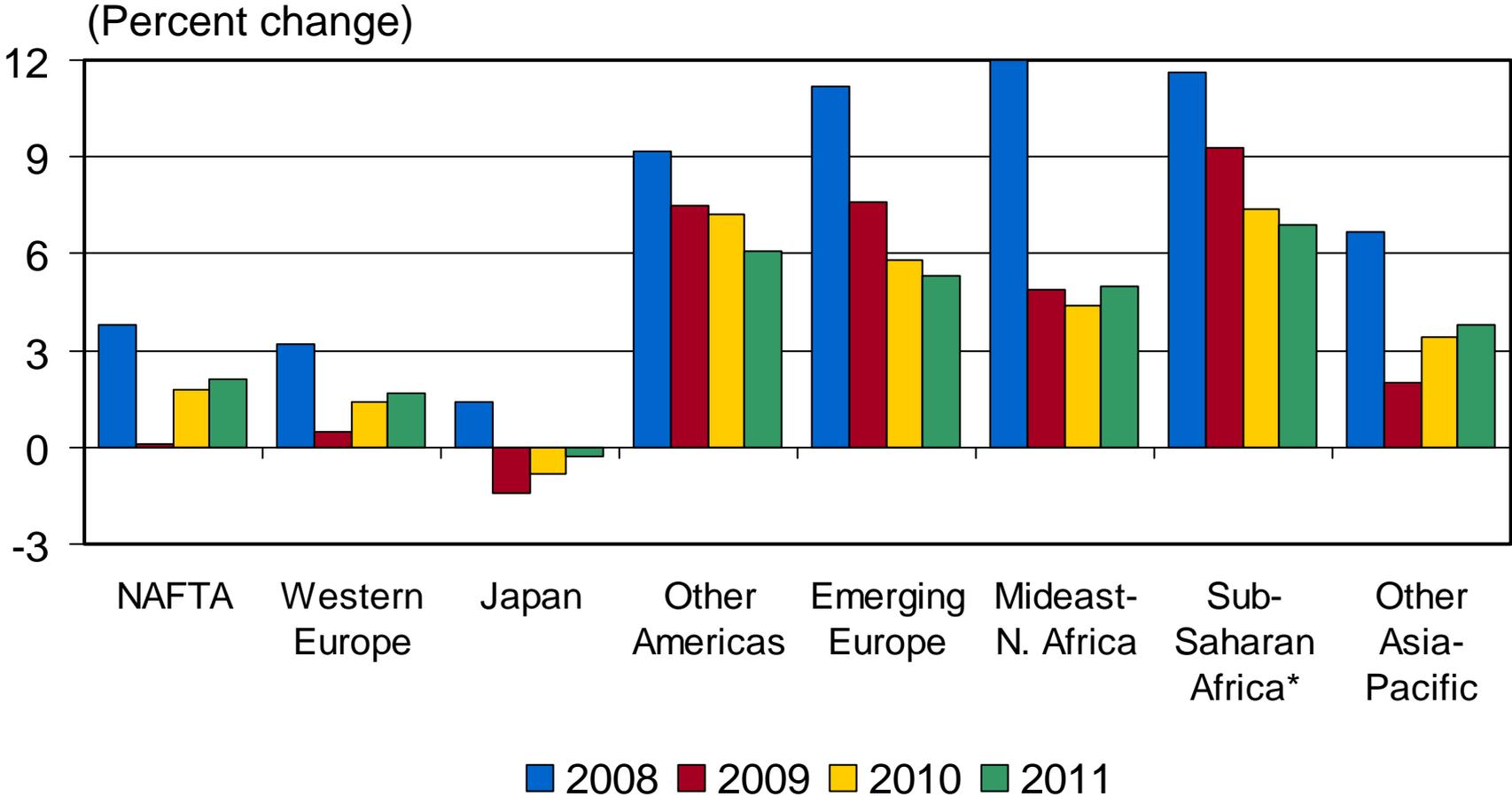


Source: OECD

Aggressive Cost-Cutting Has Boosted U.S. Productivity and Reduced Unit Labor Costs



Consumer Price Inflation Will Be Tame (Almost) Everywhere

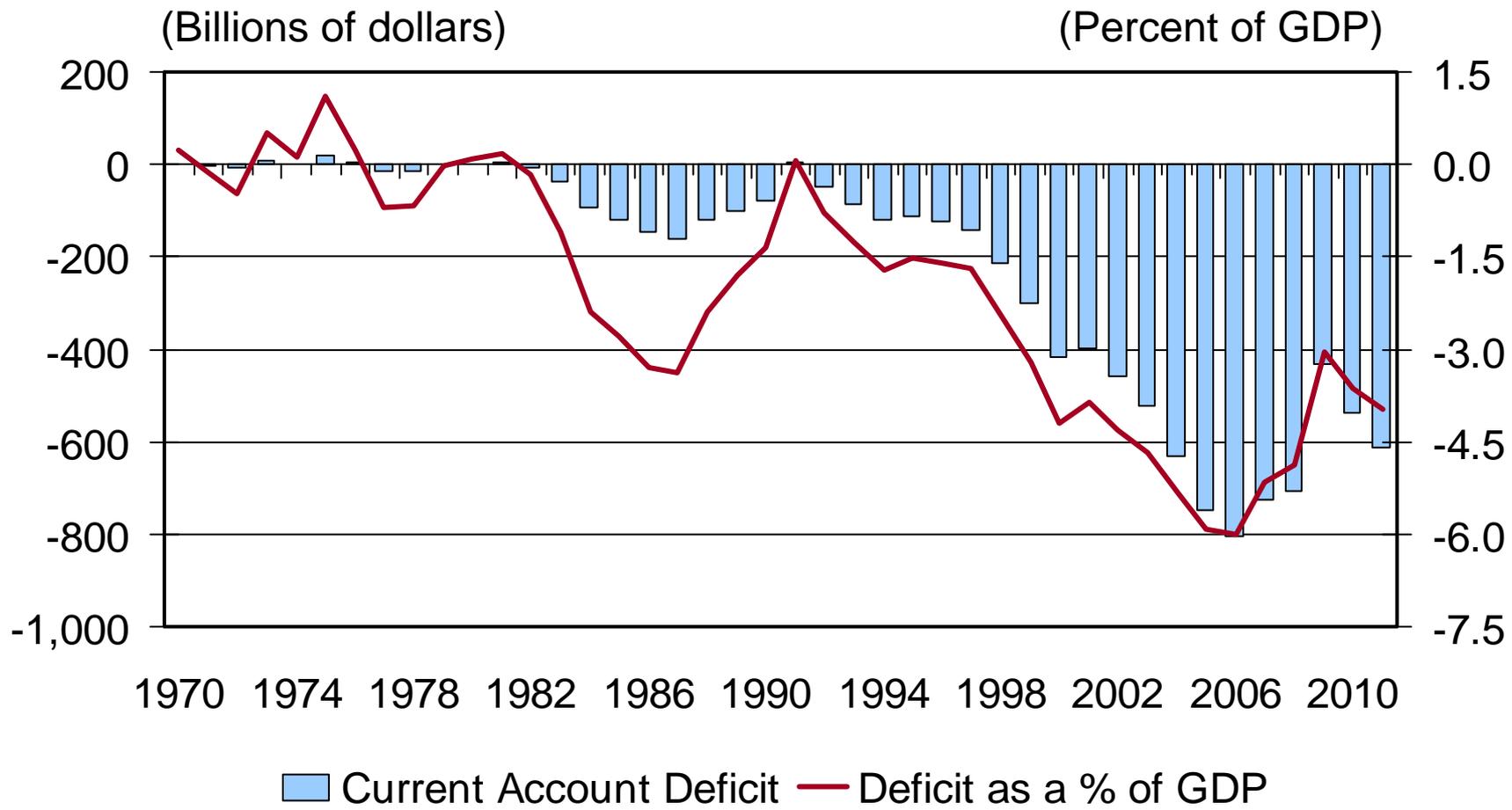


* Excluding Zimbabwe

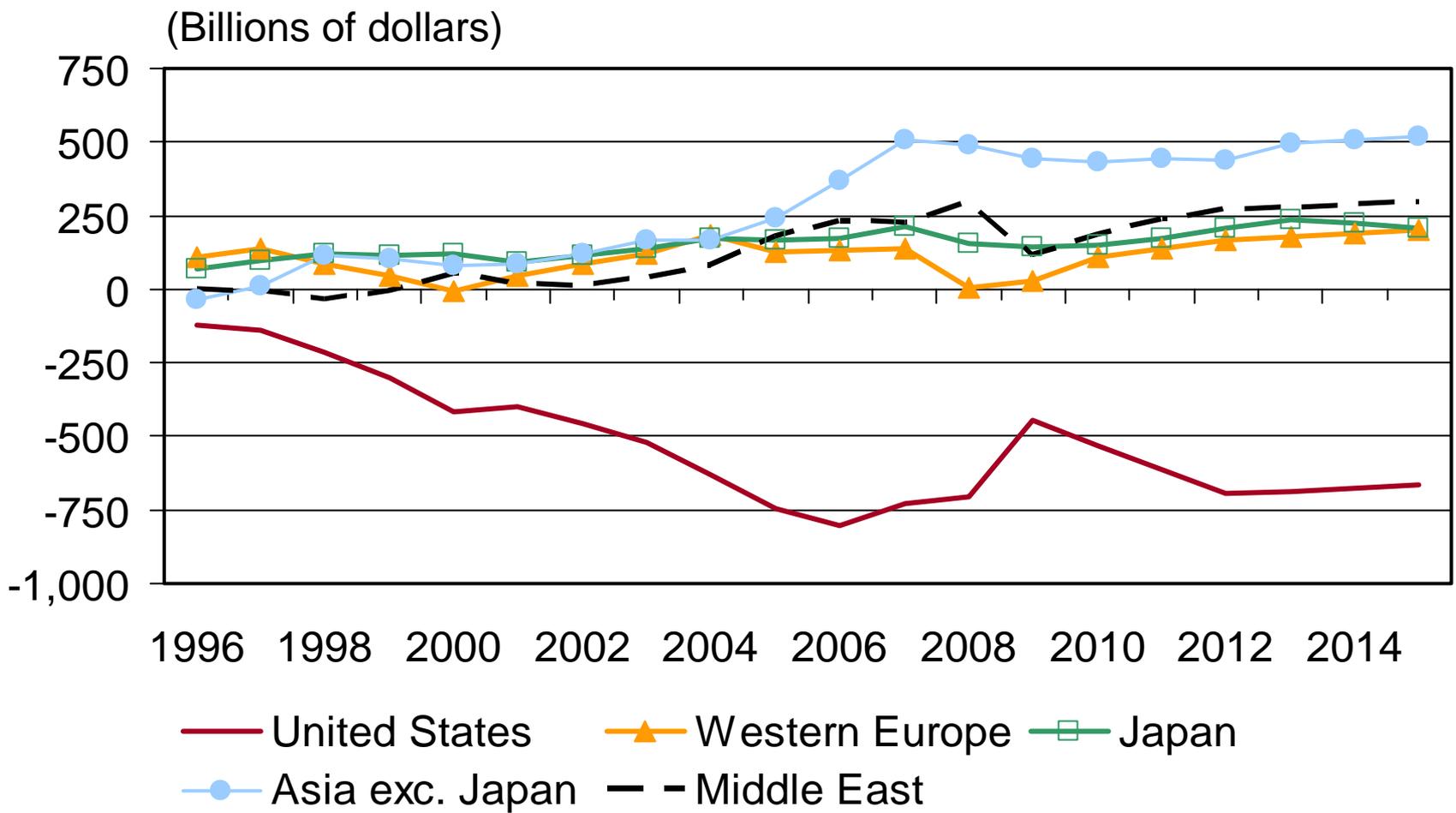
8. After Improving for a While, Global Imbalances Will Worsen Again

- The recent sharp improvement in the U.S. current account is mostly due to the deep U.S. recession and the big drop in oil prices
- The less dramatic fall in the current account surpluses in other parts of the world reflects the sharp contraction in world exports and the drop in commodity prices
- The U.S. current account deficit will increase again, as the American recovery outpaces that of the other developed economies
- Likewise, continuing dependence on export-led growth in many large economies (e.g., Germany, China and the rest of Asia) will contribute to the worsening in global imbalances

The U.S. Current Account Deficit Will Widen Again



Current Account Imbalances Remain Large



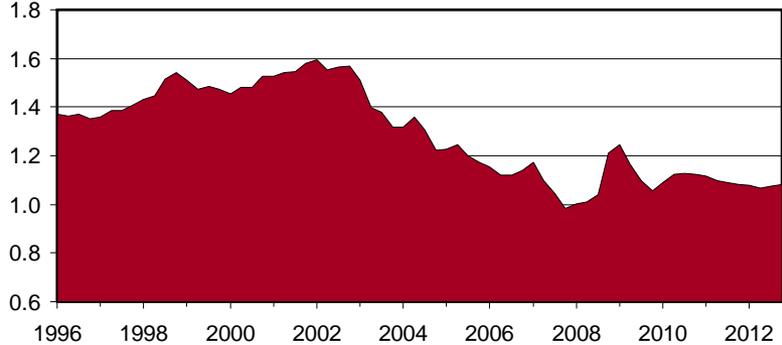
9. While the Dollar May Strengthen a Little, It Is on a Downward Glide Path

- The dollar is probably oversold relative to the euro and the yen, given the slightly better growth prospects of the U.S. economy – so a small appreciation in the next few months is likely
- Nevertheless, given that progress on the global imbalances has been temporary, the downward pressure on the dollar will continue
- The depreciation of the dollar is likely to be the largest vis-à-vis some emerging market currencies (especially the “floaters”)
- Notwithstanding complaints about a weak dollar, many developed country currencies have been declining on an inflation-adjusted, trade-weighted basis – this is especially true of the yen
- Despite being fixed relative to the dollar, the Chinese renminbi, is sharply down against the euro and on a real trade-weighted basis

U.S. Dollar Exchange Rates

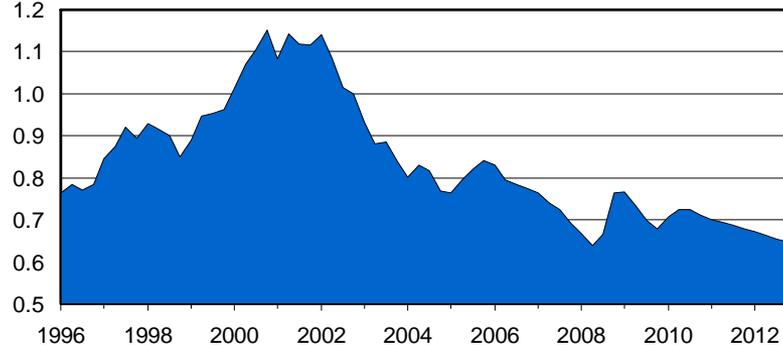
Canadian Dollar

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



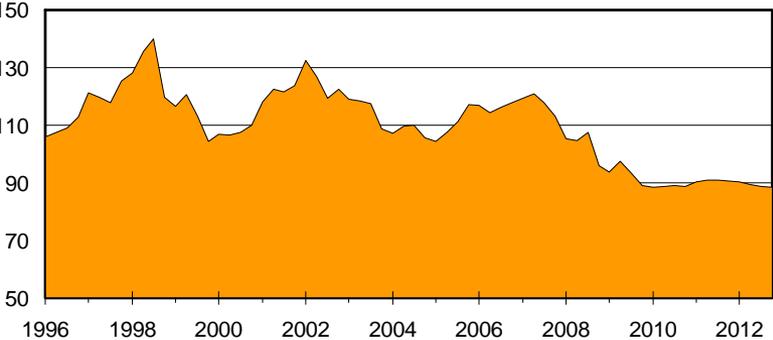
Euro

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



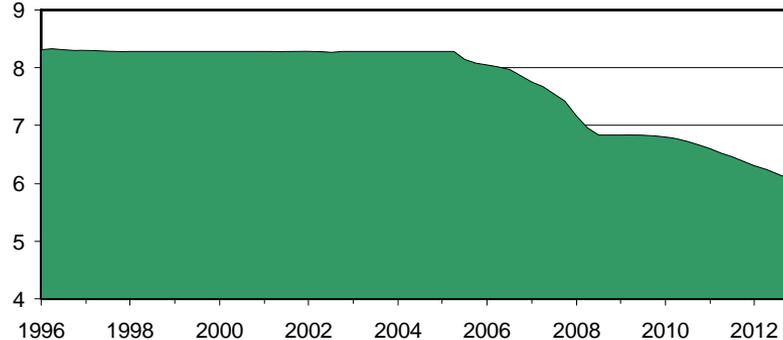
Japanese Yen

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

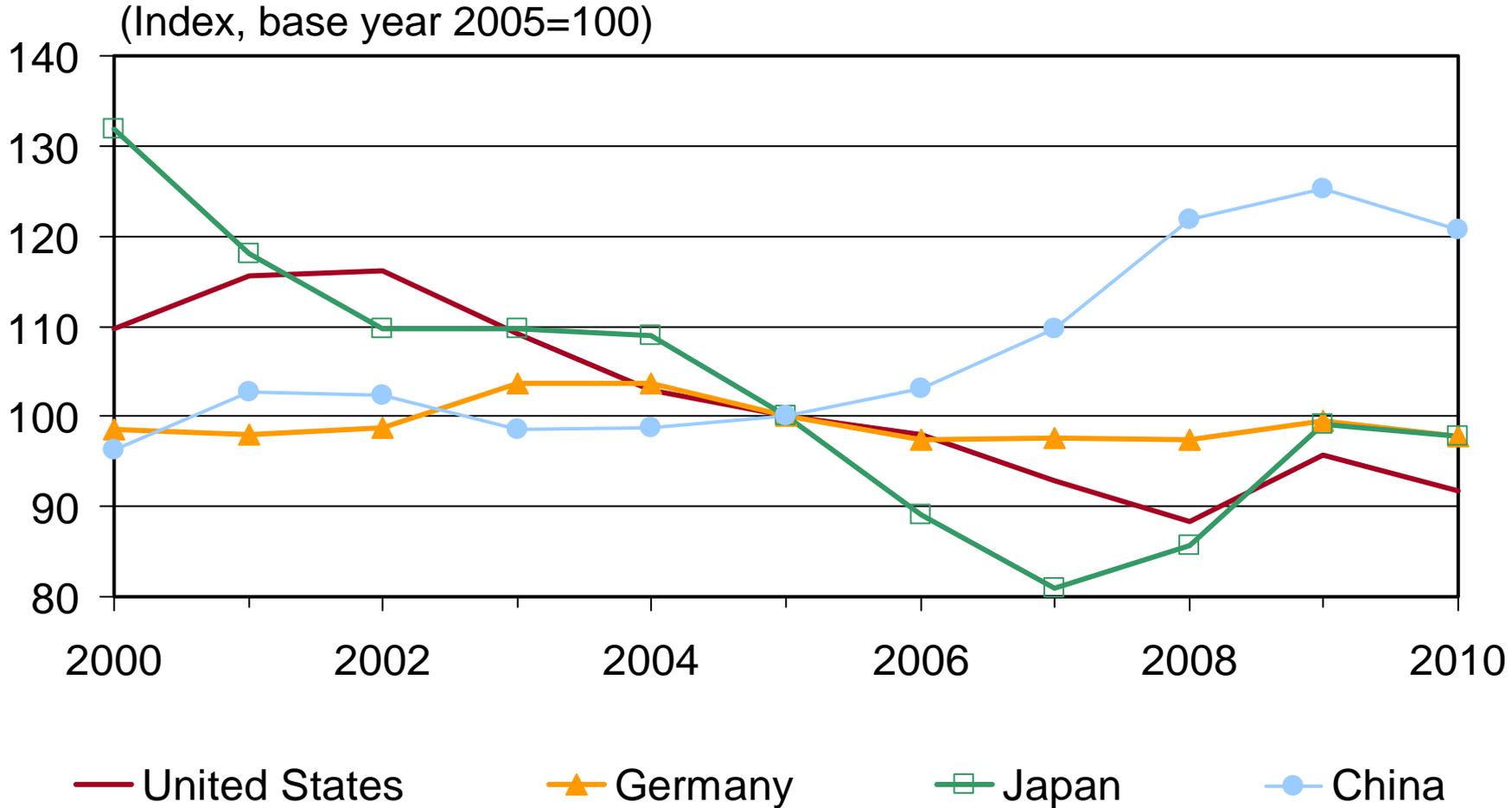


Chinese Renminbi

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



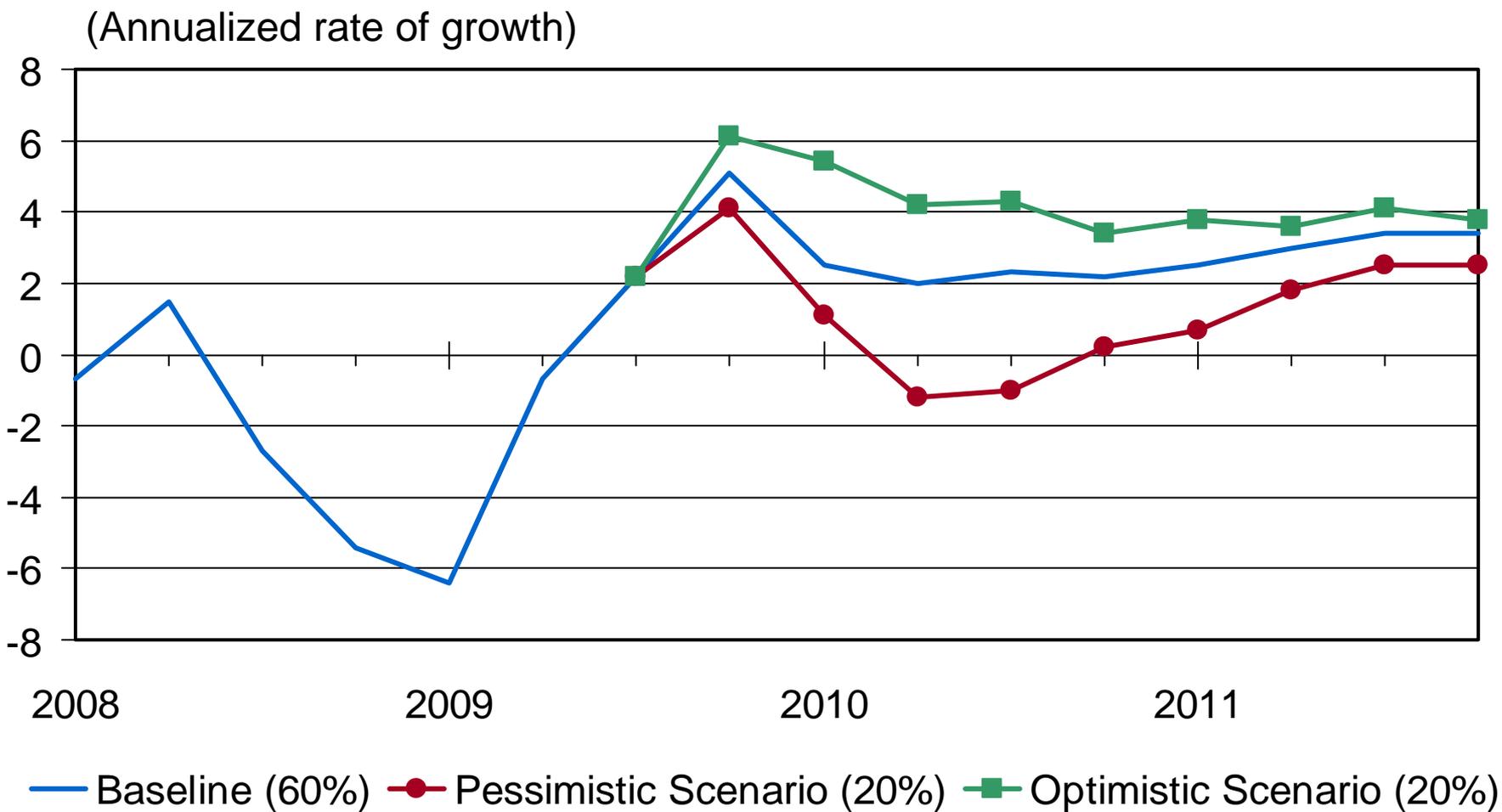
Real Effective (Trade-Weighted) Exchange Rates



10. The Risk of a “Hard W” Is Still Uncomfortably High

- The risk of a “hard W” is about one in five, and the list of possible triggers is long
- Fiscal and monetary policies could be tightened prematurely
- Consumer spending could collapse in the face of rising unemployment
- Oil prices could rise either because of a supply disruption or increased speculative activity
- A few large financial institutions could still fail
- It would probably take a combination of these factors to drag the global economy back into negative territory
- The good news is that the risks to global growth are evenly balanced, with upside risks including a quicker and stronger release of pent-up demand

U.S. Scenarios



Risks on Both Sides

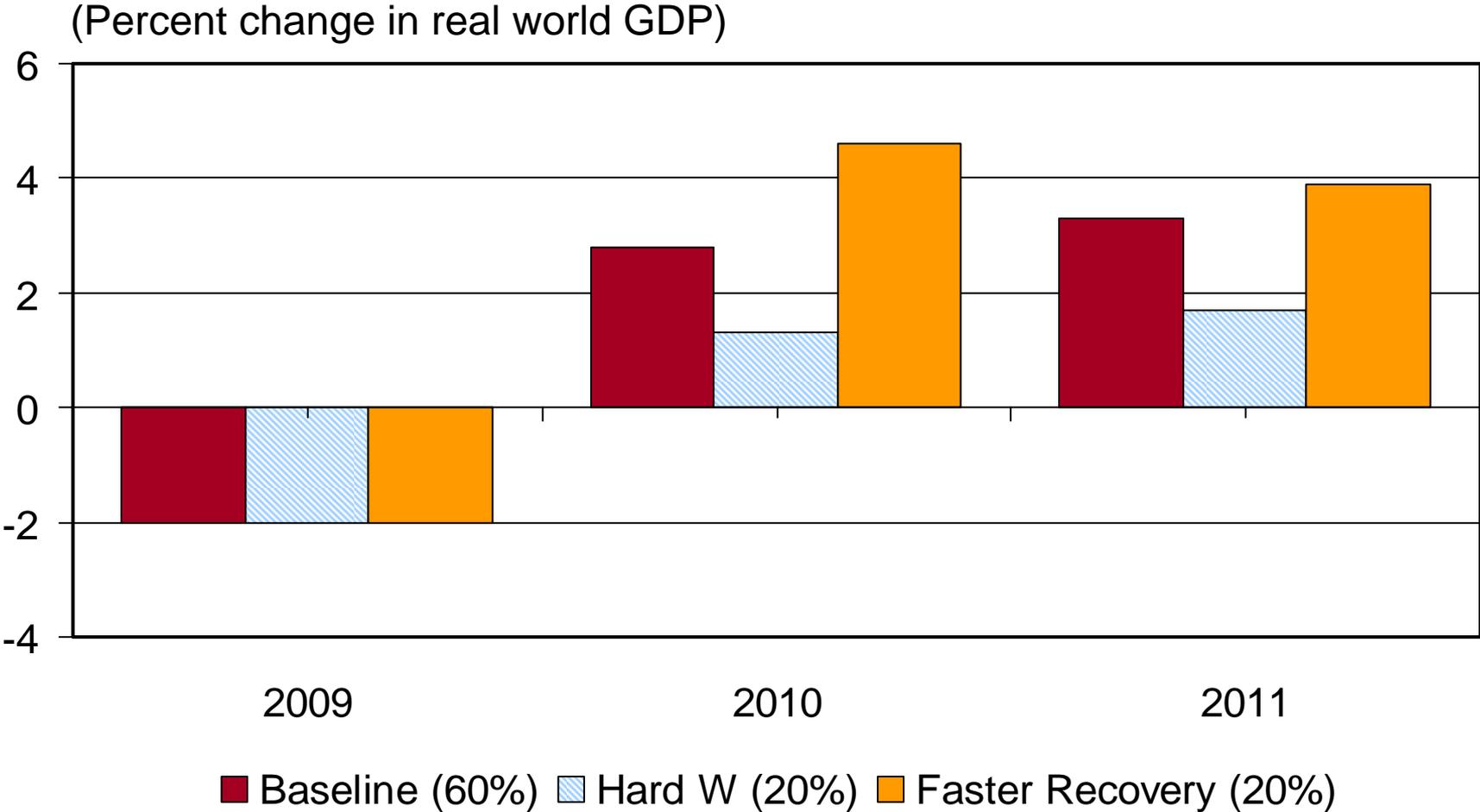
- **Downside Risks**

- **Private demand not ready to take over when stimulus is withdrawn (perhaps a policy error is made)**
- **Productivity keeps booming—household incomes suffer, firms save the profits**
- **Commercial real estate woes reignite the financial crisis**
- **Policy fears—e.g. health care, cap-and-trade**

- **Upside Risks**

- **Massive fiscal and monetary stimulus still in the pipeline**
- **Pent-up demand is accumulating after the “panic” spending cuts during the end-08/early-09 economic free-fall**
- **Prolonged growth surge in Asia, weak dollar boost exports more than expected**

Global Scenarios



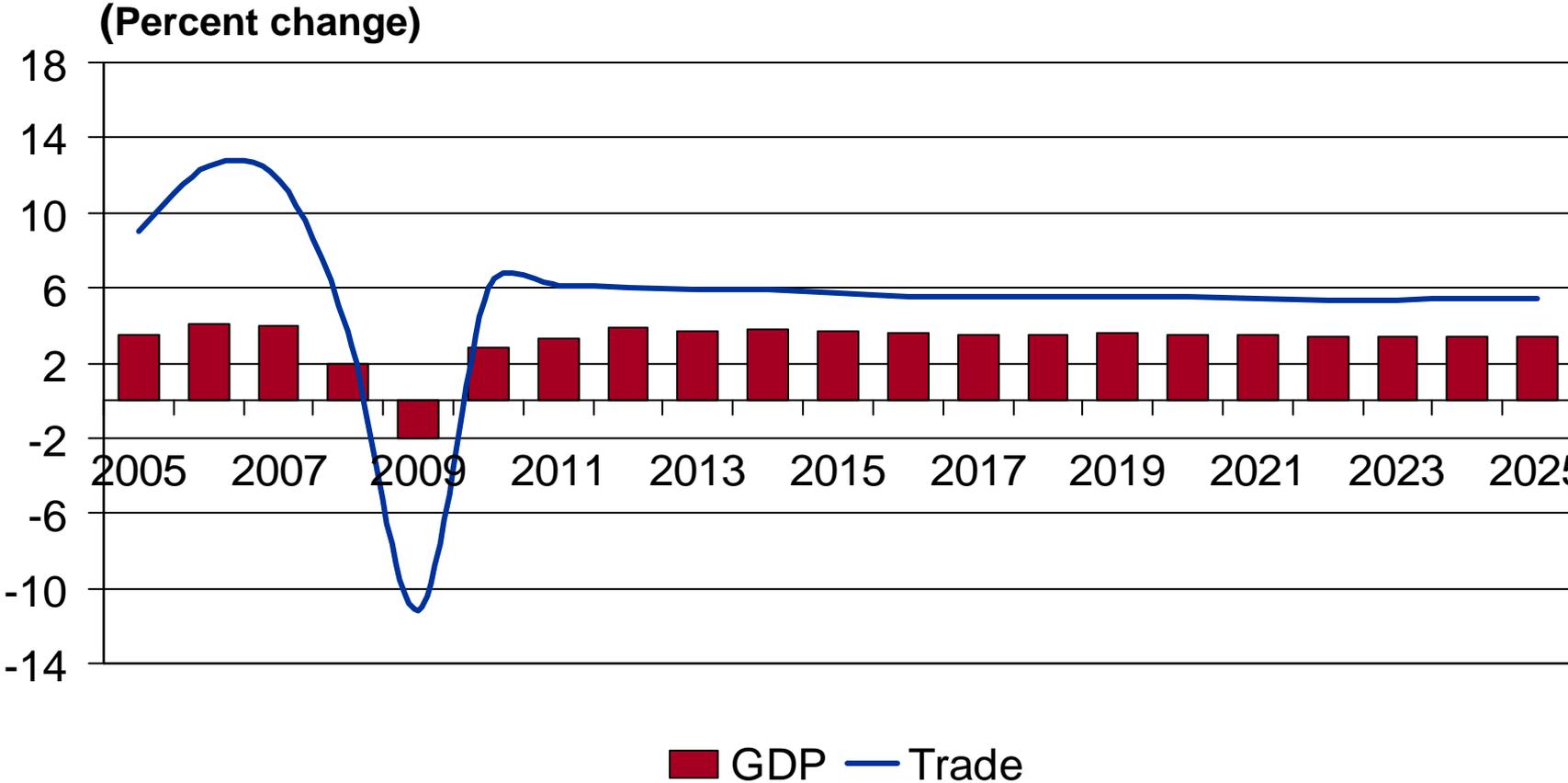
Trade Implications



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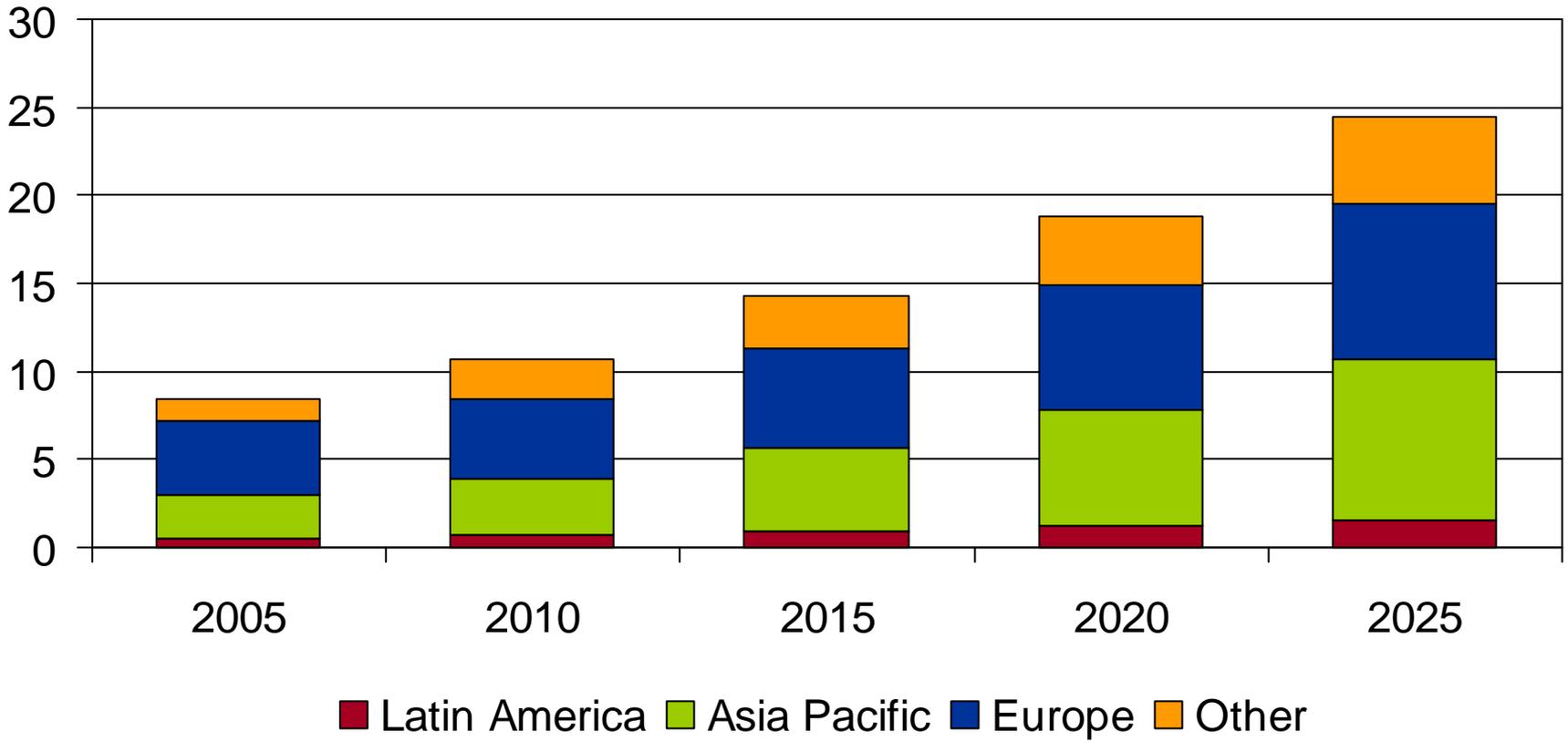
The Source for Critical Information and Insight™

World Trade Typically Grows Faster Than Real GDP



U.S. International Trading Partners Are Shifting

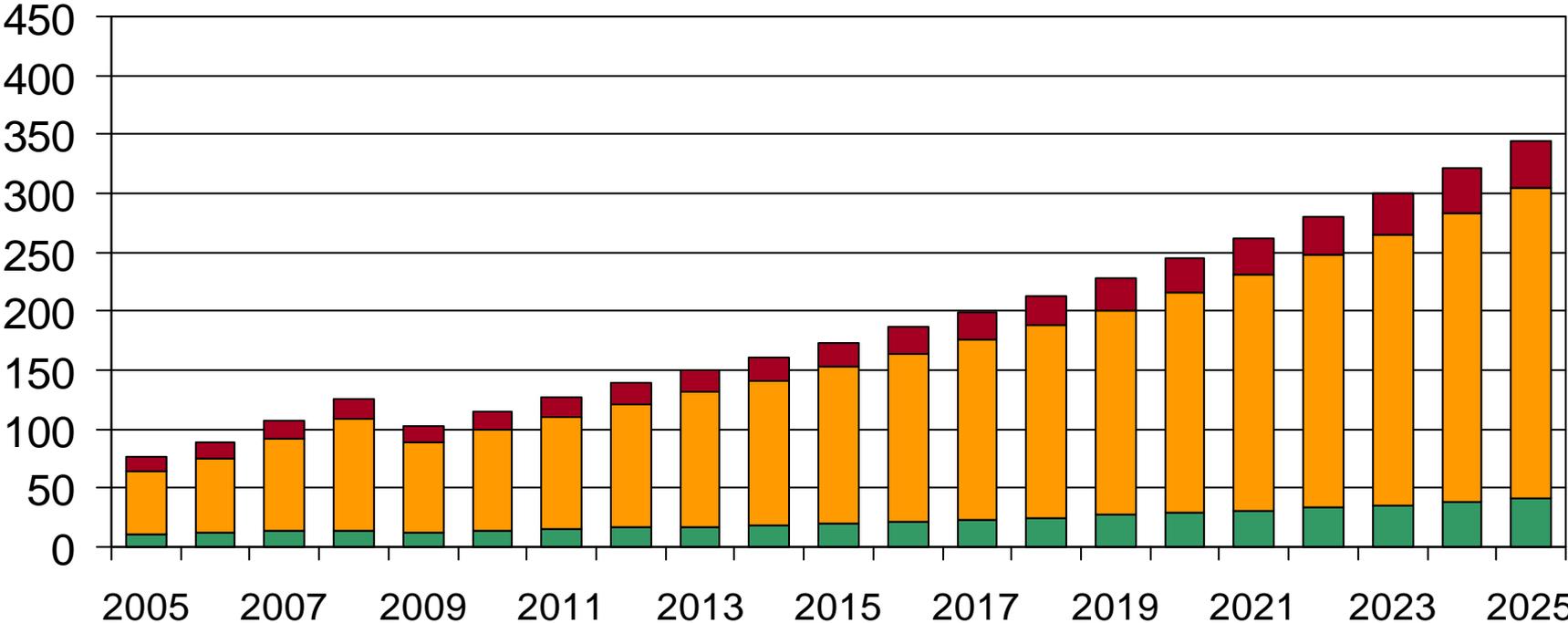
(Exports, trillions of U.S. dollars)



Source: Global Insight World Trade Service

Growth in Global Merchandise Trade

(Trillions of U.S. dollars)



■ Air ■ Sea ■ Land/Other

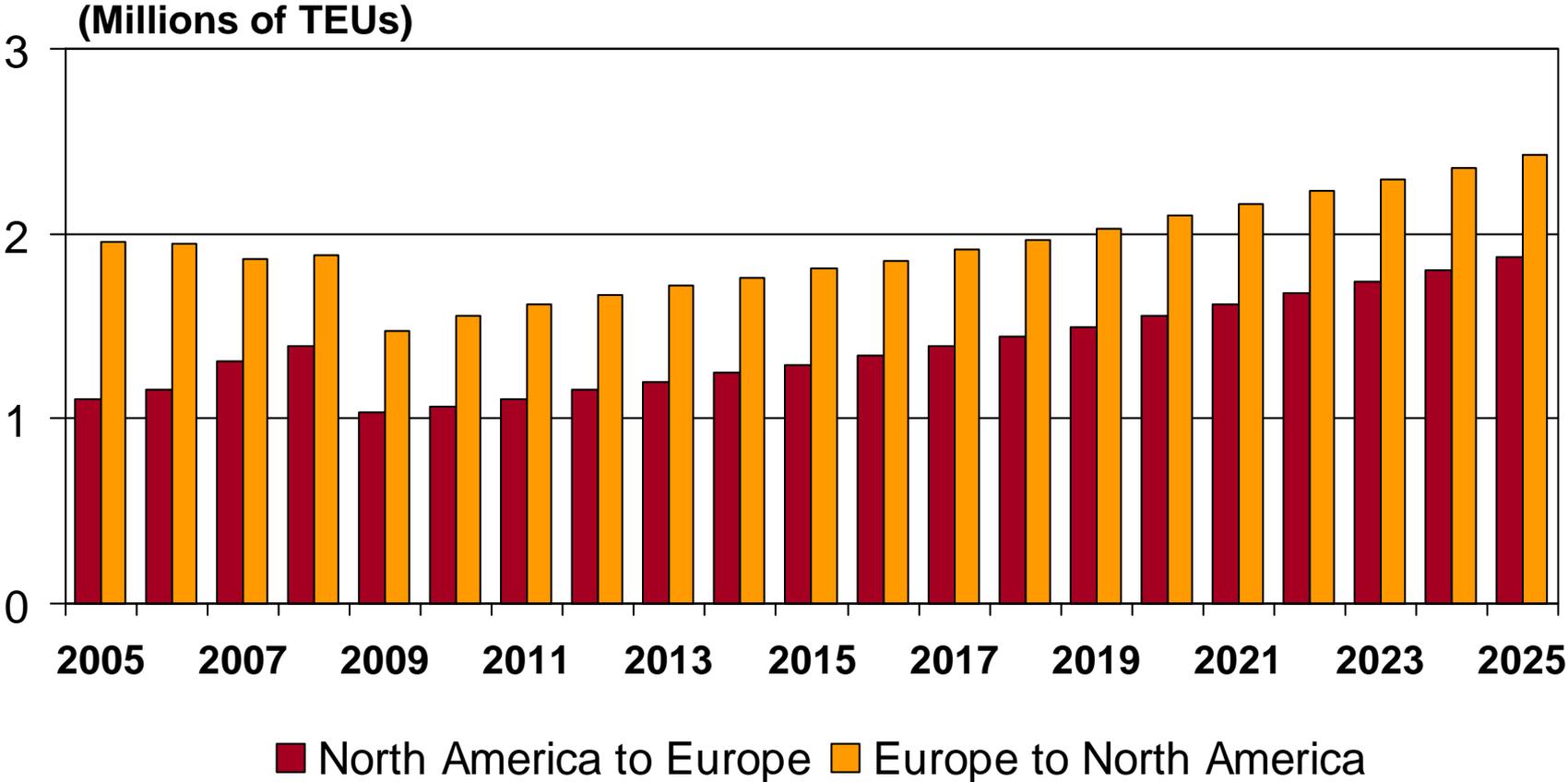
Source: Global Insight World Trade Service

Containerized Trade Movements

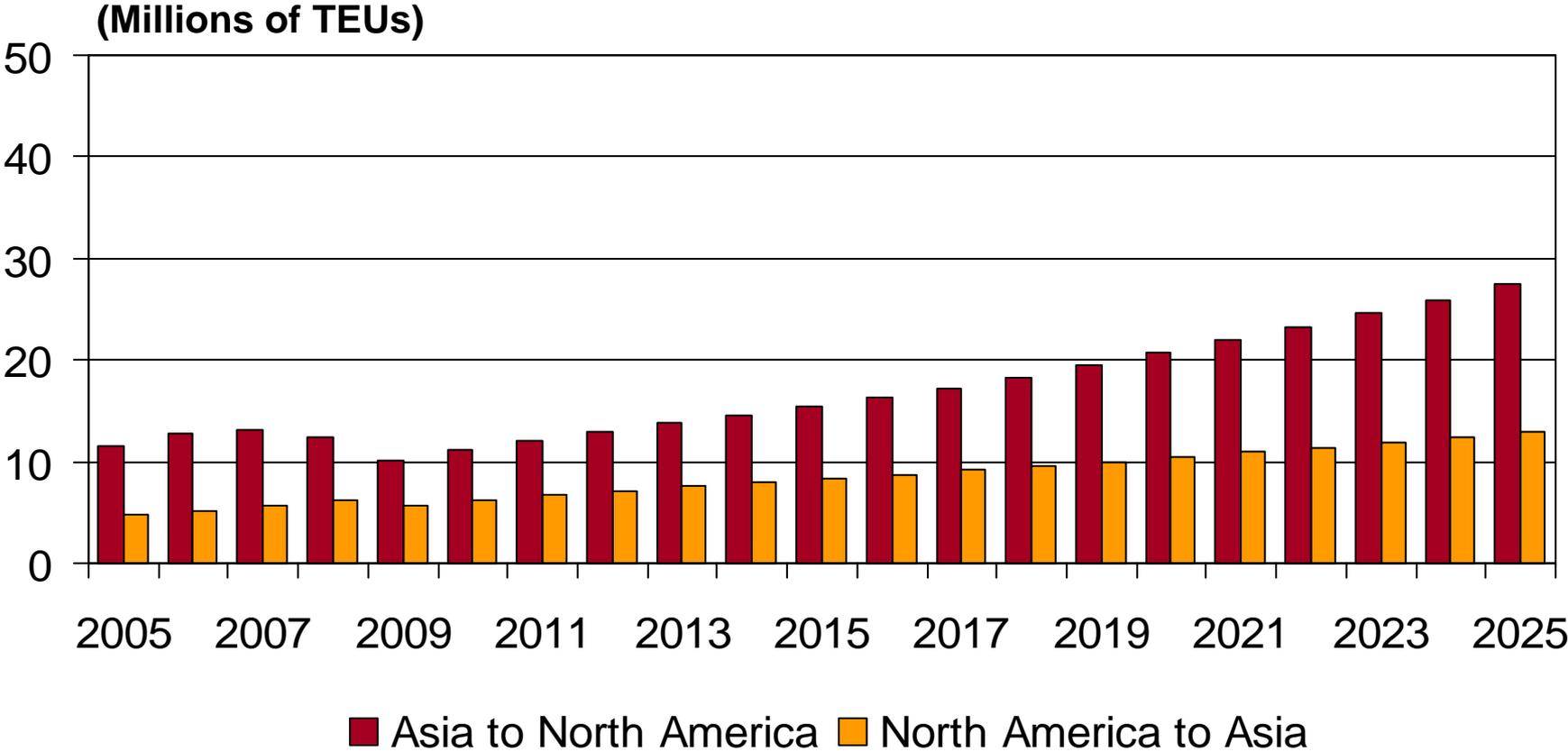
(Thousands of TEUs)

	2005	2010	2015	2020	2025
Transatlantic	5,397	4,623	5,503	6,523	7,705
Transpacific	16,425	17,364	23,747	31,194	40,437
U.S. Atlantic/Asia	3,661	4,559	6,282	8,259	10,713
Europe/Asia	14,774	17,595	23,741	31,270	40,682
Intra-Asia	23,227	27,708	39,035	51,442	66,198
Total	94,216	114,429	153,188	196,976	250,028

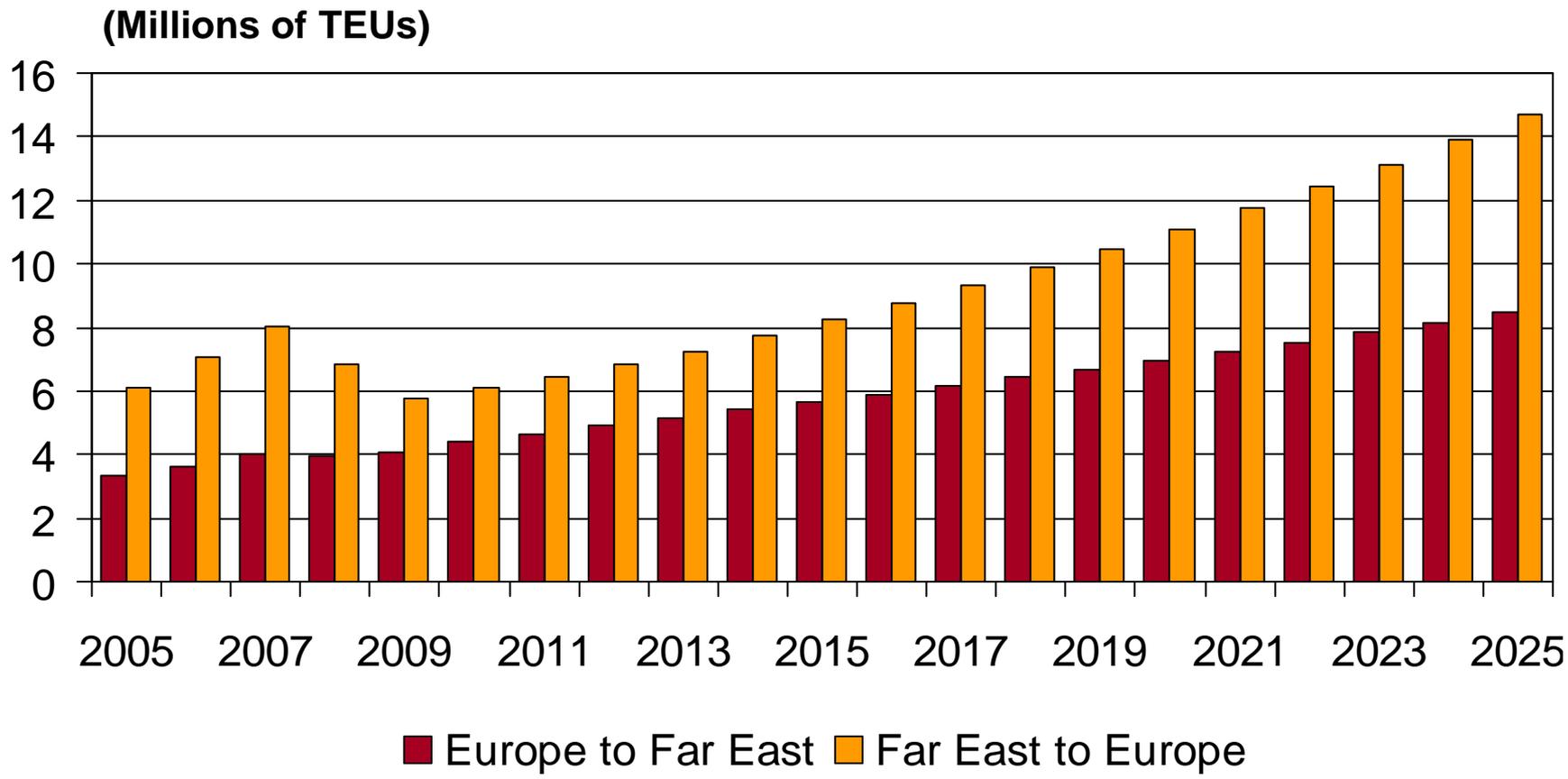
Transatlantic Container Trade



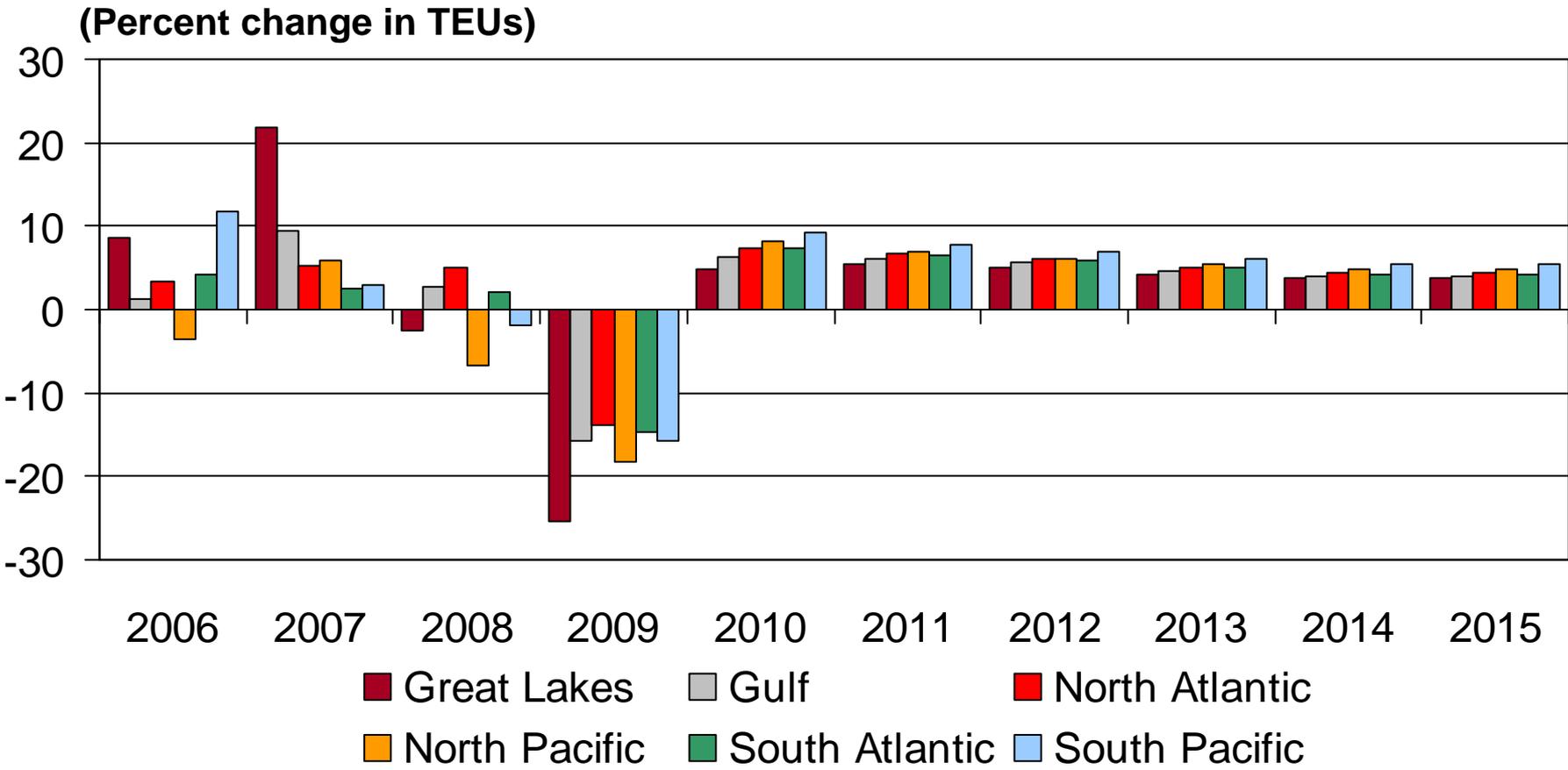
Transpacific Container Trade



Europe to Far East Container Trade



Container Growth Rates By U.S. Coast



Implications for the Port

- The trade recovery from last year's low has begun
- Pace of trade volume recovery is slow
- Export growth to Asia will be strong ...
- ... While European trade will remain weak
- This explains the East Coast/West Coast differences in container traffic
- Bottom line: it will get better but slowly

Thank you!

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