



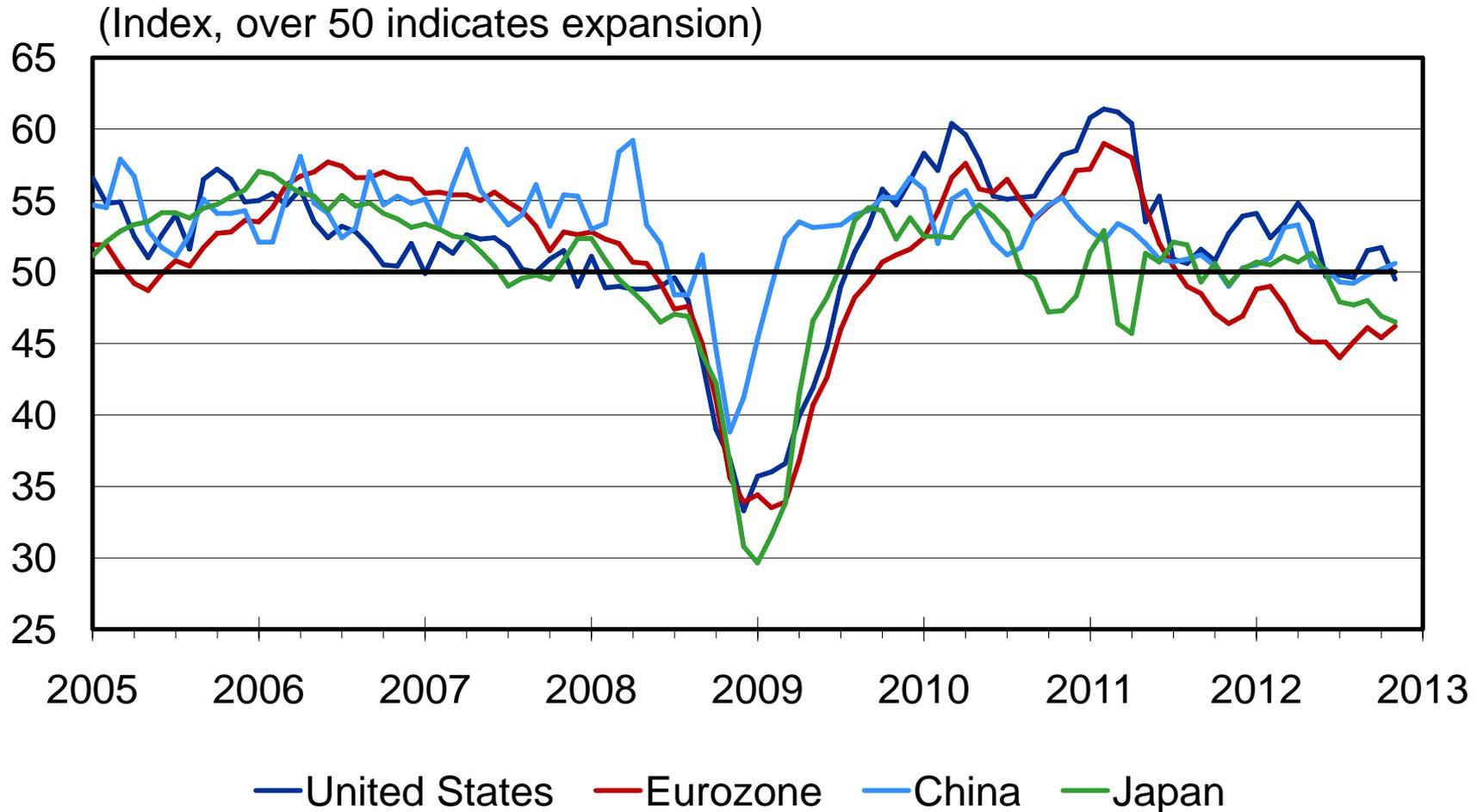
Top-10 Economic Predictions for 2013: Implication for the Port

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January 17, 2013

Introduction

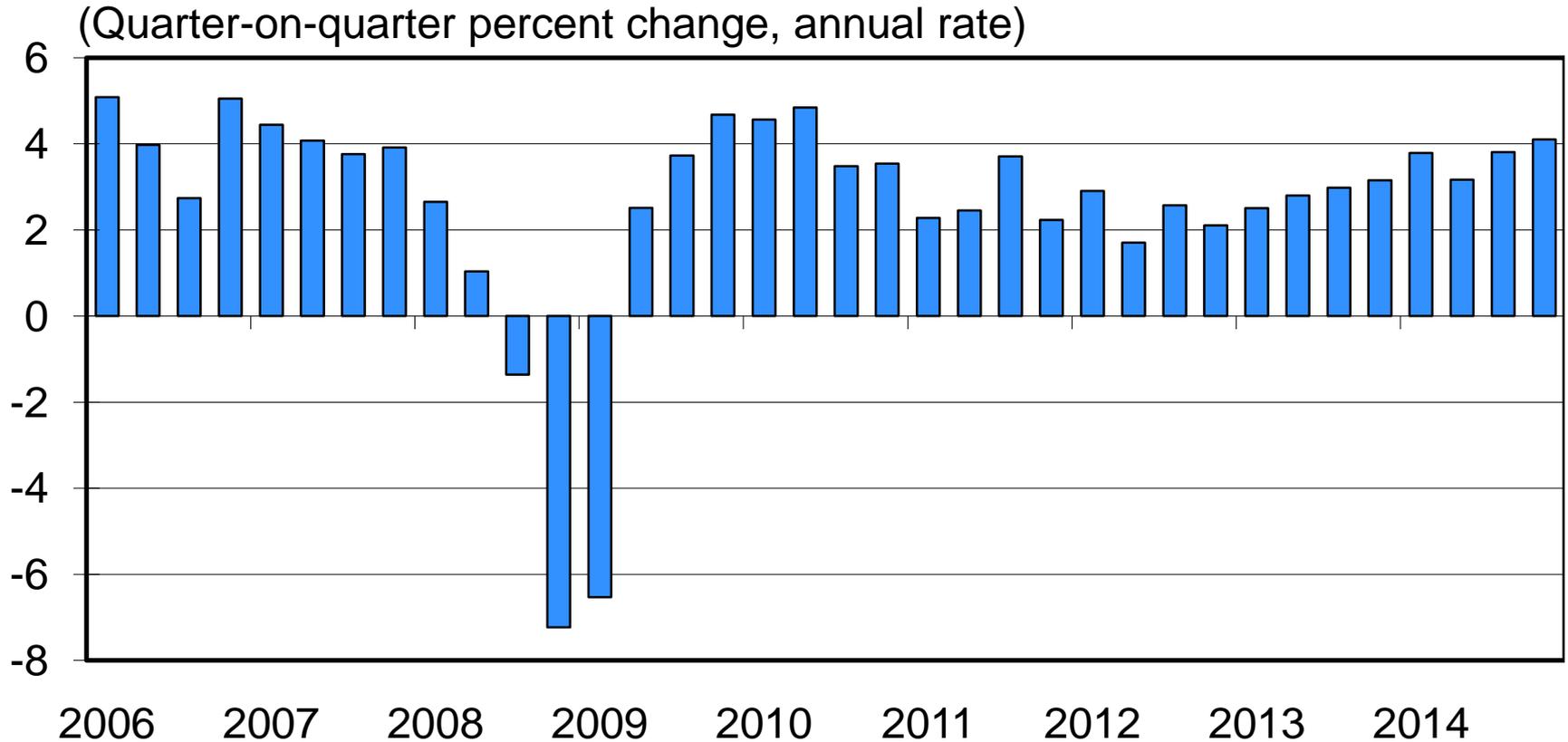
- World growth will stabilize in 2013
- After having slowed down from 4.2% in 2010, to 3.0% in 2011 to around 2.6% in 2012 (with the Eurozone and Japan going back into recession), the growth rate of the world economy will hold steady at around 2.5% in 2013
- Moreover, the stage will be set for a modest acceleration of growth in latter part of the year and in 2014
- The massive monetary stimulus put in place in many key economies over the past year and a half will have some positive impact on growth
- The current episode of “extreme uncertainty”—related to the US fiscal cliff, the Eurozone debt crisis, China’s growth, and instability in the Middle East and Africa—will become less intense, and worries about many of these risks will diminish
- The US and Asian economies will likely lead the way

Purchasing managers' indexes for manufacturing signal subpar global economic growth

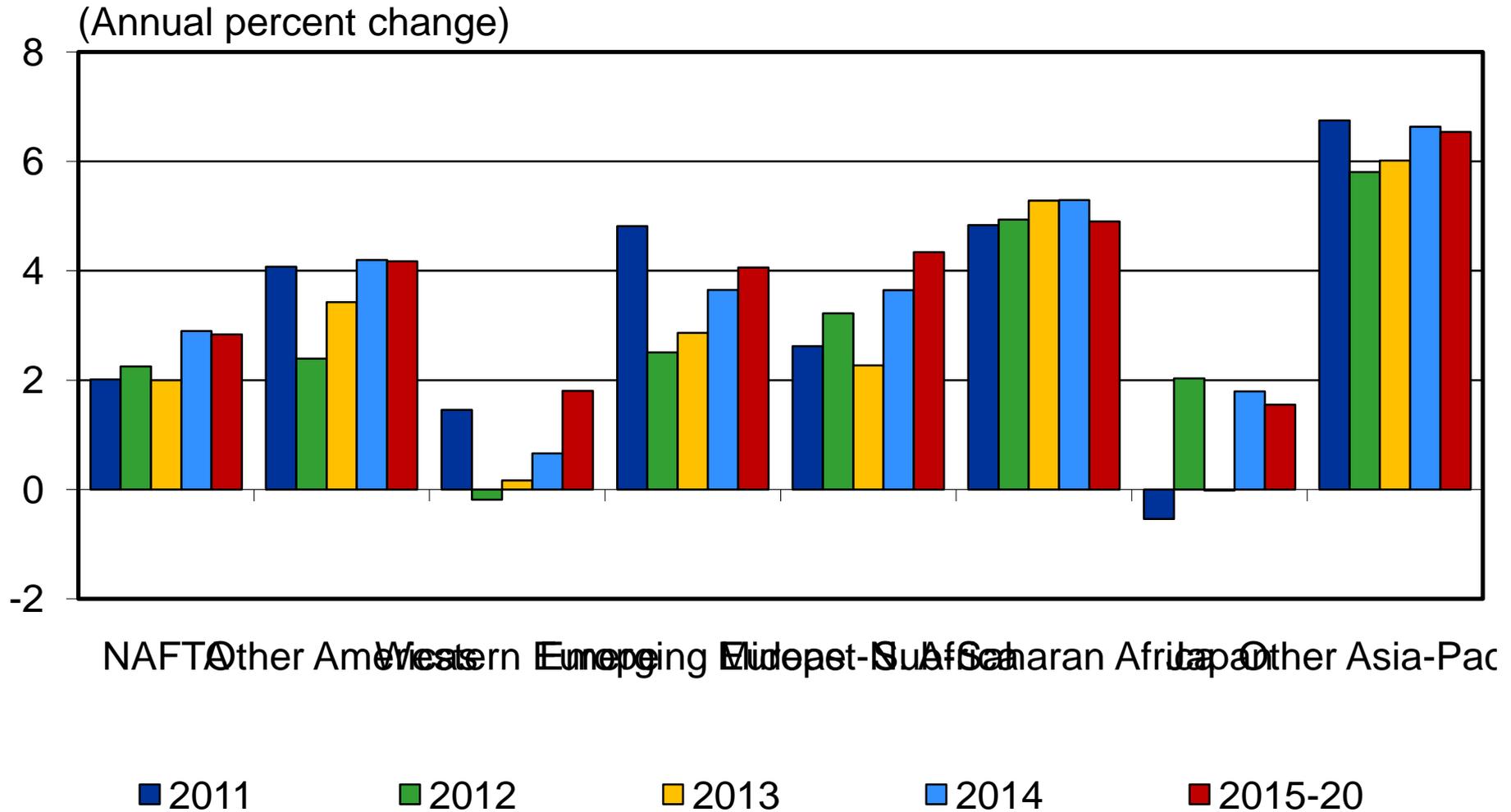


Sources: Institute for Supply Management, Markit, China Federation of Logistics and Purchasing

Global real GDP growth will stabilize in 2013



Real GDP growth by region

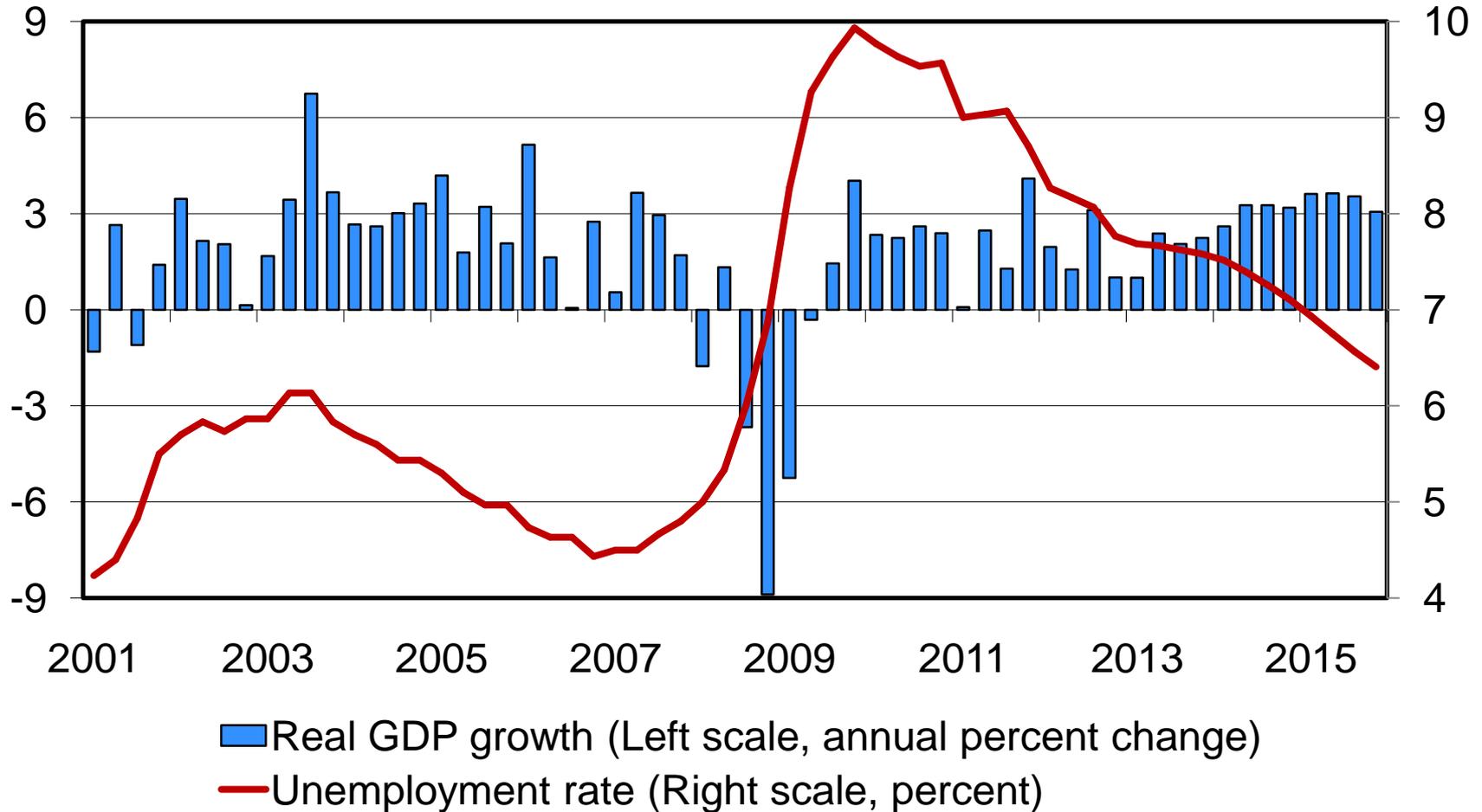


1. The US recovery will gradually pick up steam— barring more mischief from Washington

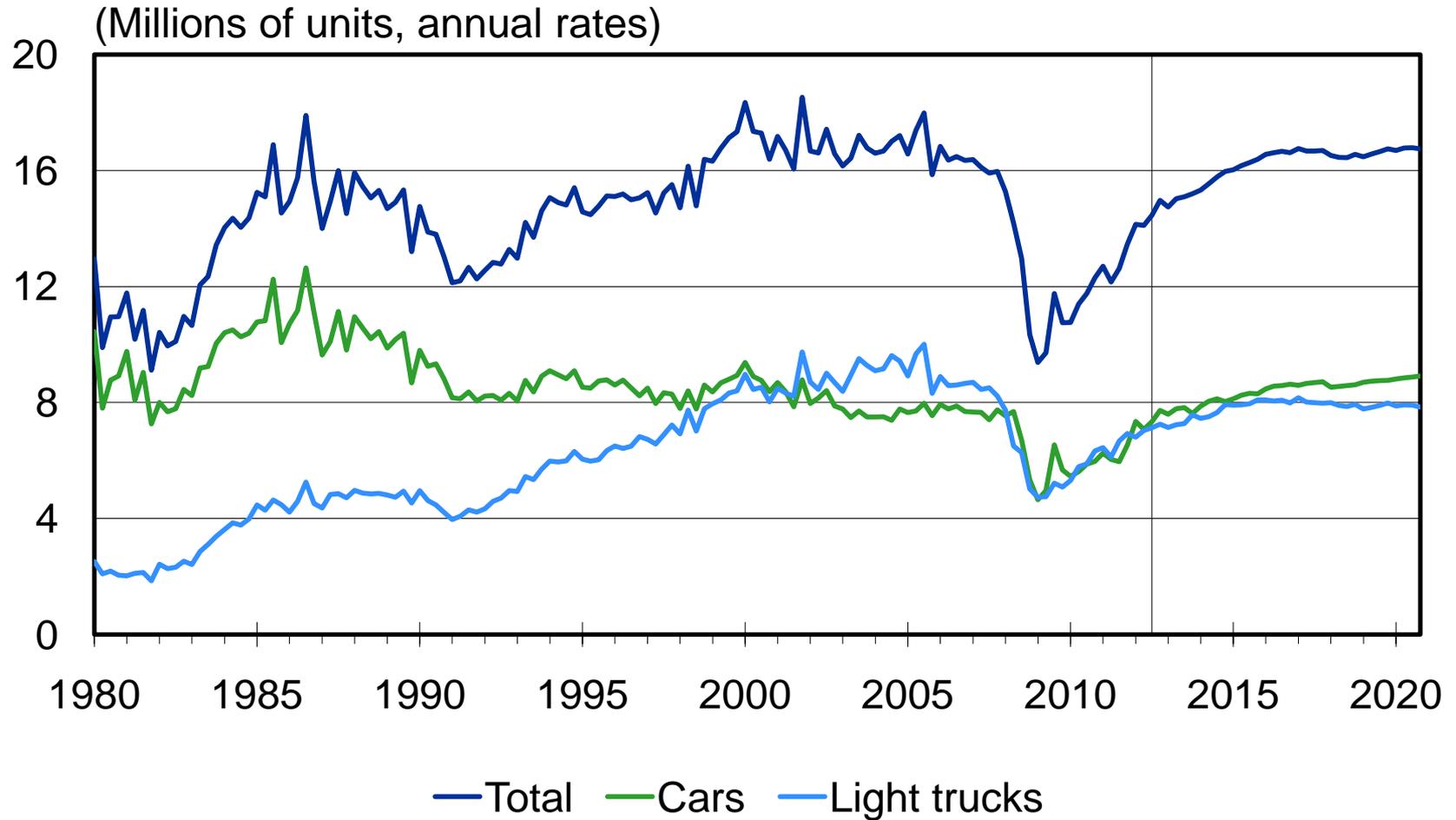


- The dynamics for a gradually accelerating US recovery are already in place.
- The balance of forces affecting US consumer spending has turned positive.
- Housing markets are—finally—showing signs of life, and can be expected to keep improving over the next year.
- As global growth begins to re-accelerate (albeit gradually), exports will follow suit.
- Last but not least, with uncertainties about the fiscal cliff and deficit/debt reduction having diminished somewhat, US businesses are likely to spend and hire more.
- This means growth will average around 2% next year.
- Of course, there is always the risk that another round of bitter disputes over raising the debt ceiling and cutting the deficit will badly damage confidence.

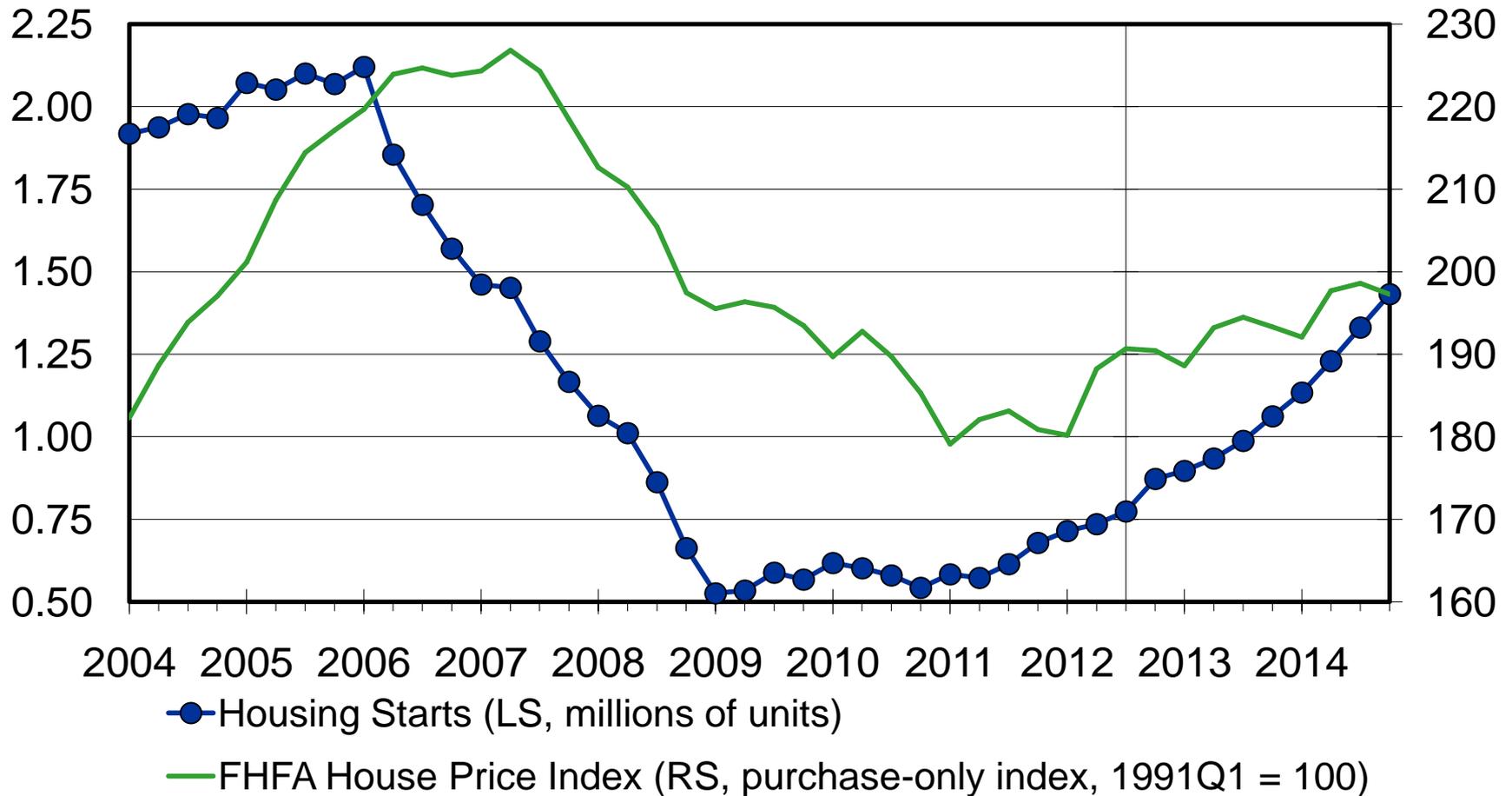
US growth and unemployment rate



US light-vehicle sales will continue to recover



Housing starts beginning a long climb; prices have probably hit bottom

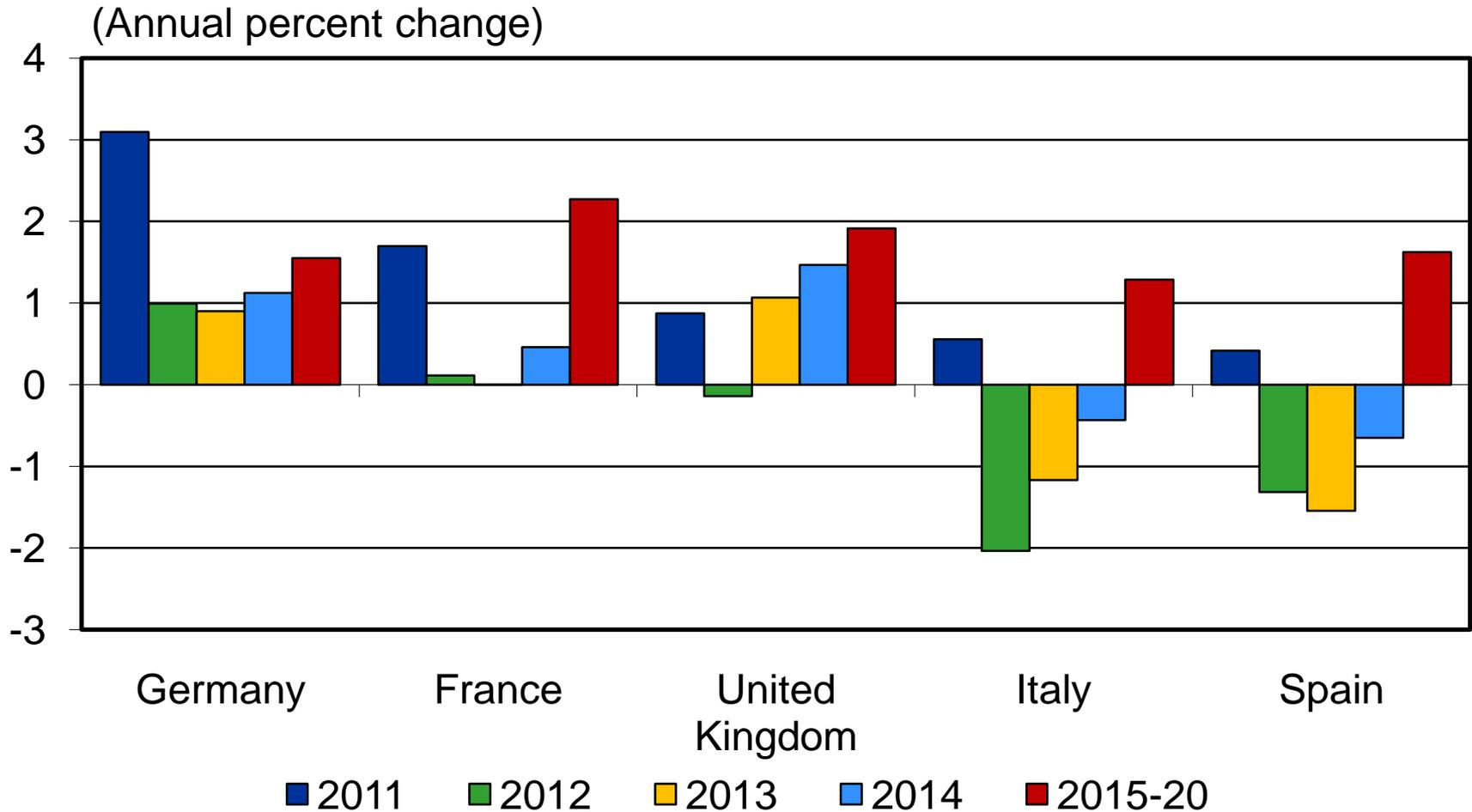


2. European growth will be weak in the north and negative in the south

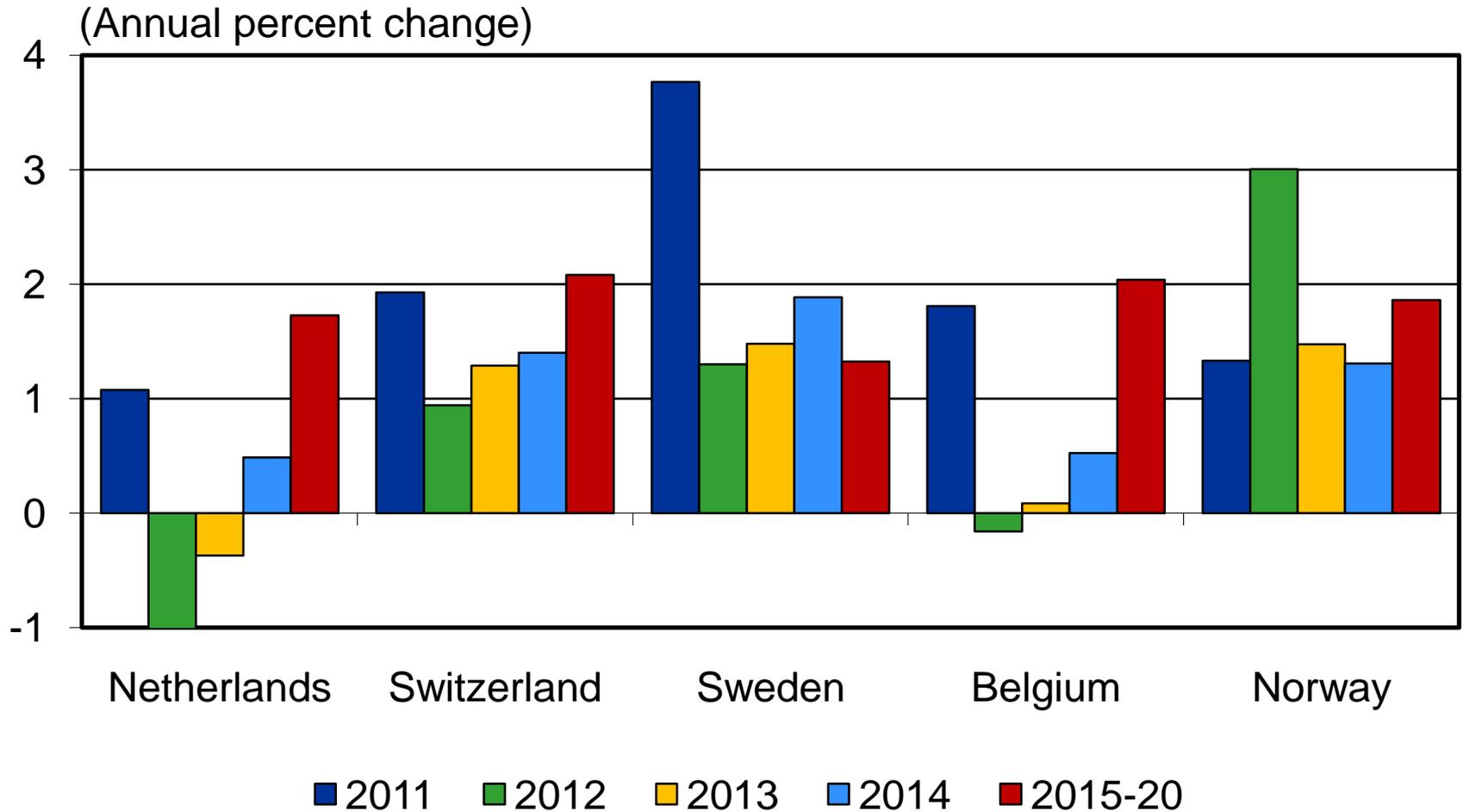


- Recent policy actions by the European Central Bank and EU governments have reduced the financial risks related to the Eurozone sovereign debt crisis, and helped to reduce long-term interest rates in the hardest hit economies.
- Nevertheless, during the coming year, the economies in Southern Europe will remain deep in recession territory, mostly because of tough austerity programs and very high unemployment rates.
- Unfortunately, this will drag down the economies in Northern Europe as well.
- Some (including Germany) will see positive but weak growth—in others (including Belgium, France, and the Netherlands) growth will be flat to slightly down.
- On balance, this means a real GDP contraction of around -0.2% for the Eurozone economy in 2013.

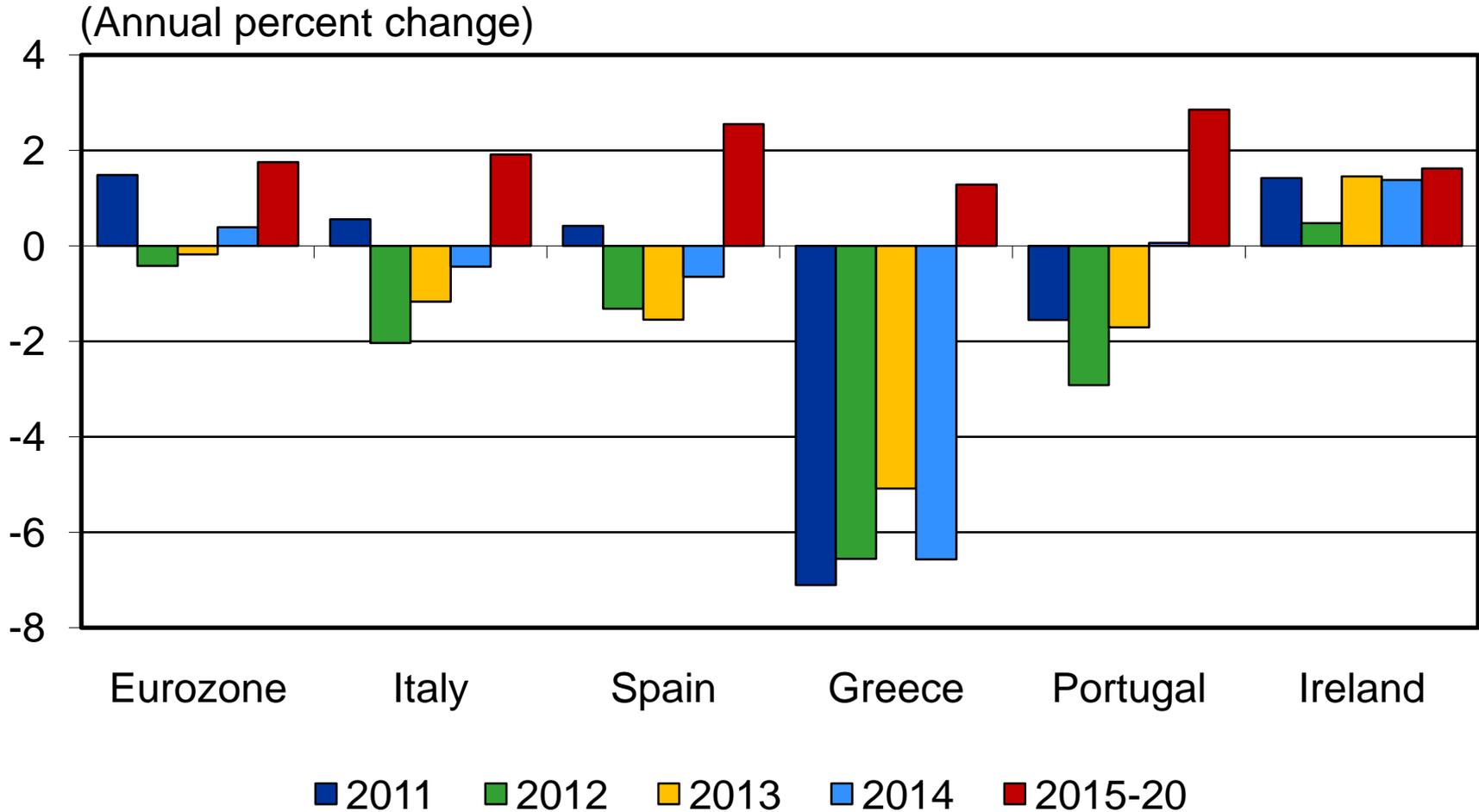
Real GDP growth in Western Europe



Real GDP growth in Western Europe (continued)



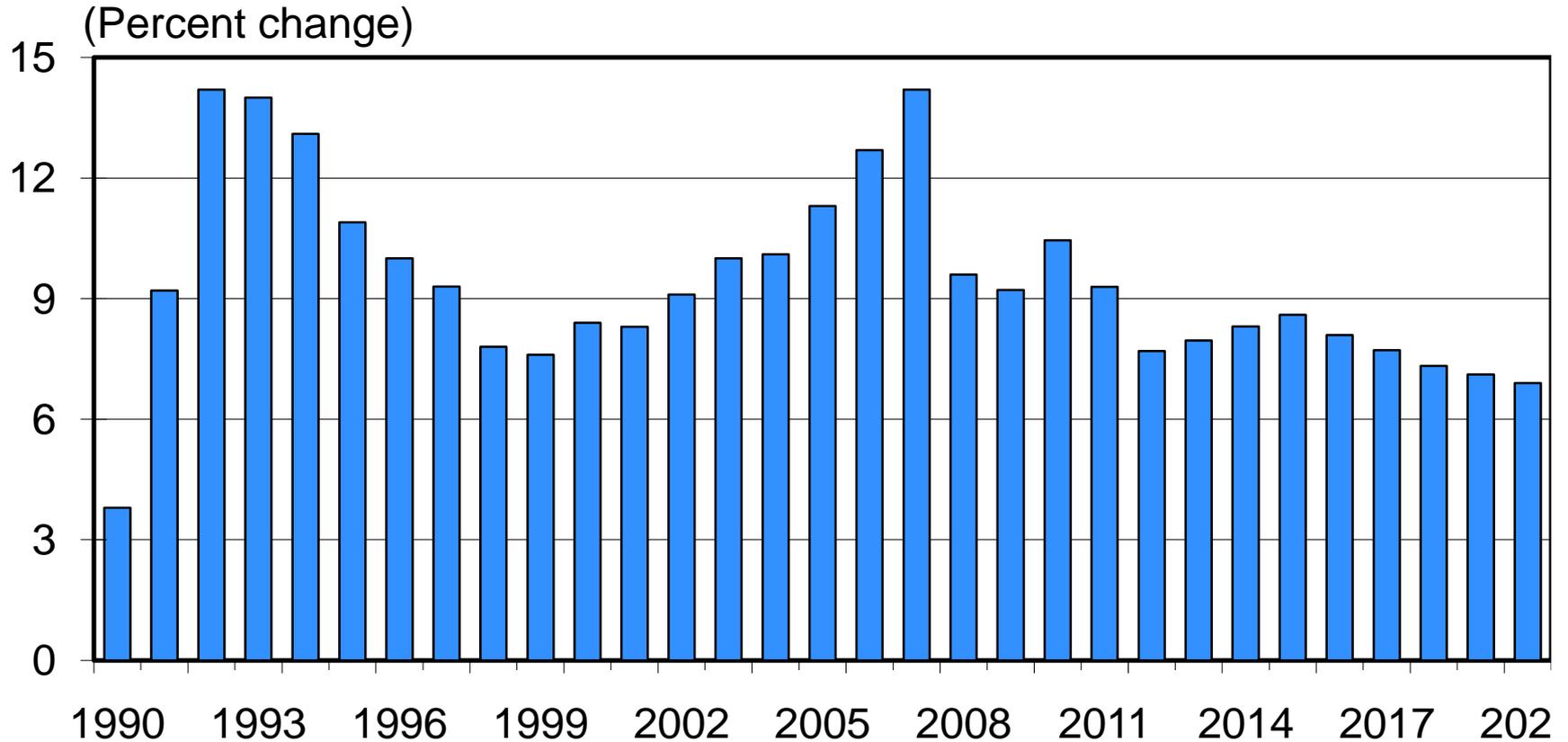
Real GDP growth in the Eurozone's peripheral countries



3. The Chinese economy will slowly gain momentum

- Since 2010, the Chinese economy has decelerated significantly, with growth falling from over 10% to around 7.5%.
- Fortunately, there are signs that growth has bottomed out and that a gradual pickup in momentum is in the offing—this trend is likely to continue in 2013.
- Modest stimulus seems to have been effective in limiting the depth and duration of the domestic demand downturn.
- With the leadership transition now complete, there could even be a little more stimulus in the coming year.
- Furthermore, export growth can be expected to rebound, thanks to continued (and improving) growth in Asia and the United States.
- All this will translate into growth of around 8% for China in 2013.

Real GDP growth in China

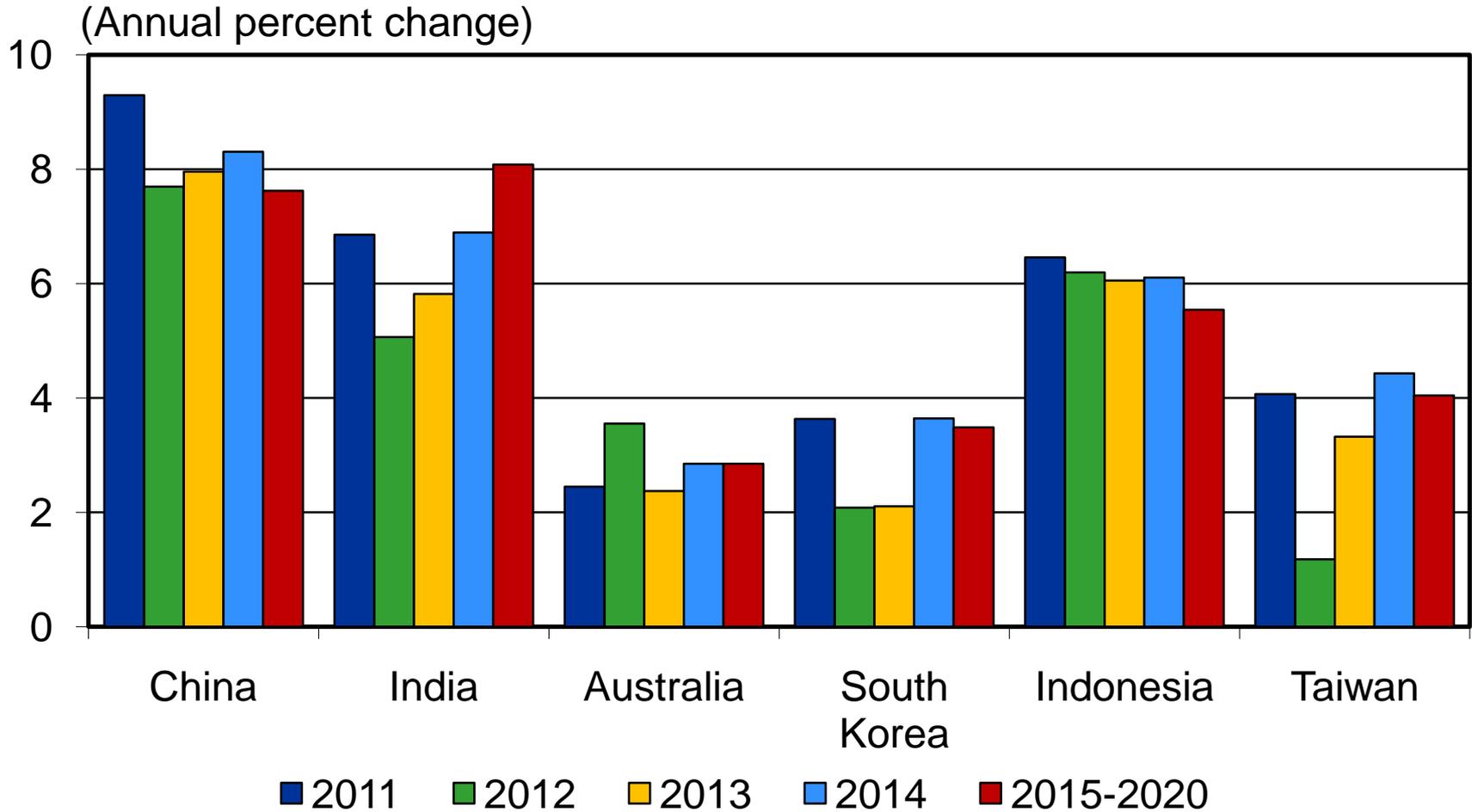




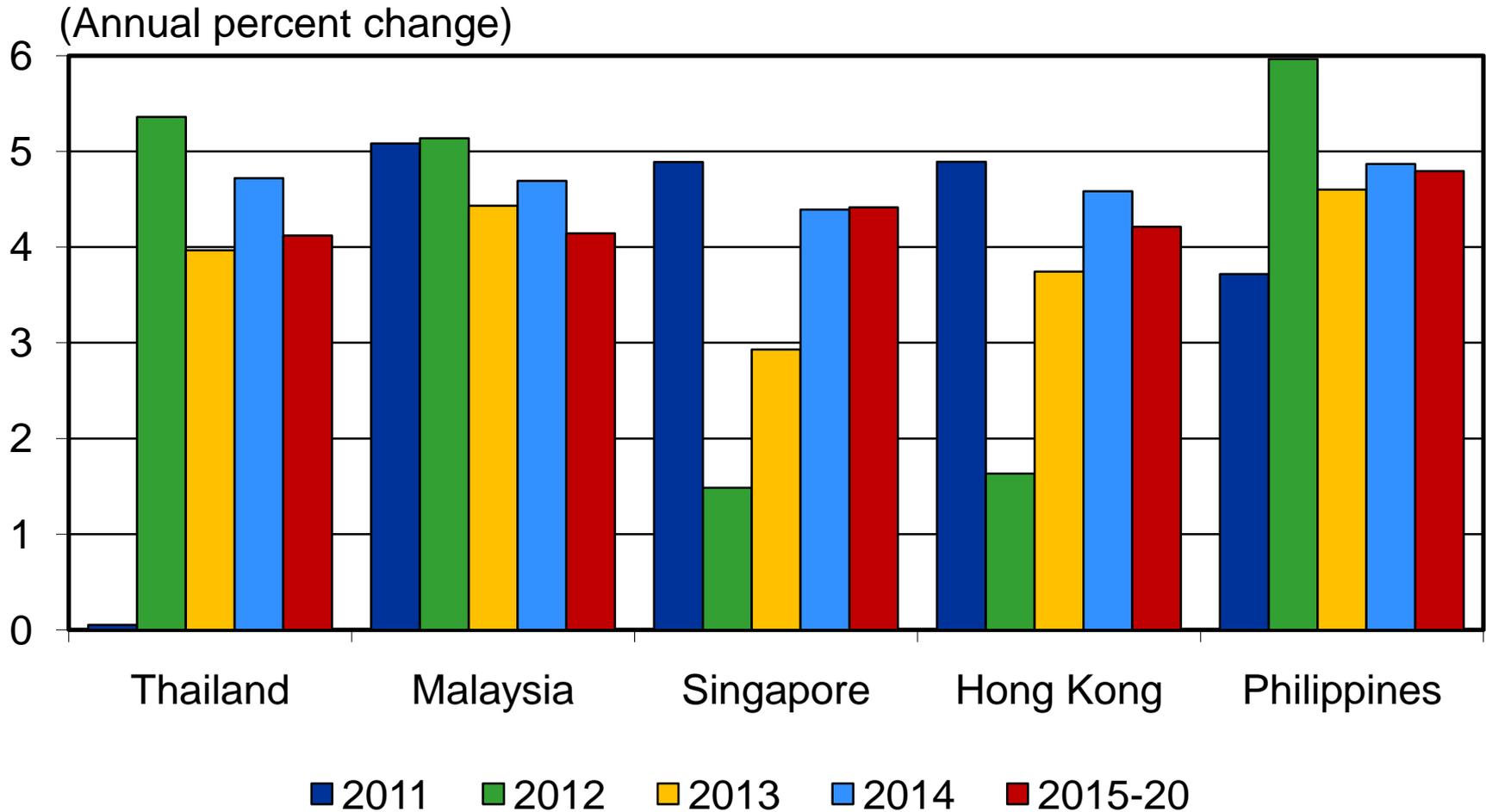
4. Other emerging markets will also show signs of life

- Weak growth in the US economy, recessions in Europe and Japan, and a soft landing in China all took a toll on growth in other emerging markets last year.
- This was compounded by the tight money policies that many of these economies had in place through the fall of 2011.
- With monetary conditions now easier than a year ago and with prospects for the world economy looking a little brighter, the outlook for emerging markets in 2013 is also looking sunnier.
- This is especially true in Asia (and particularly the ASEAN economies), where domestic demand growth has been fairly strong and where there is scope for more stimulus, if needed.
- Latin America, Emerging Europe, and Sub-Saharan Africa will also see modest rebounds.

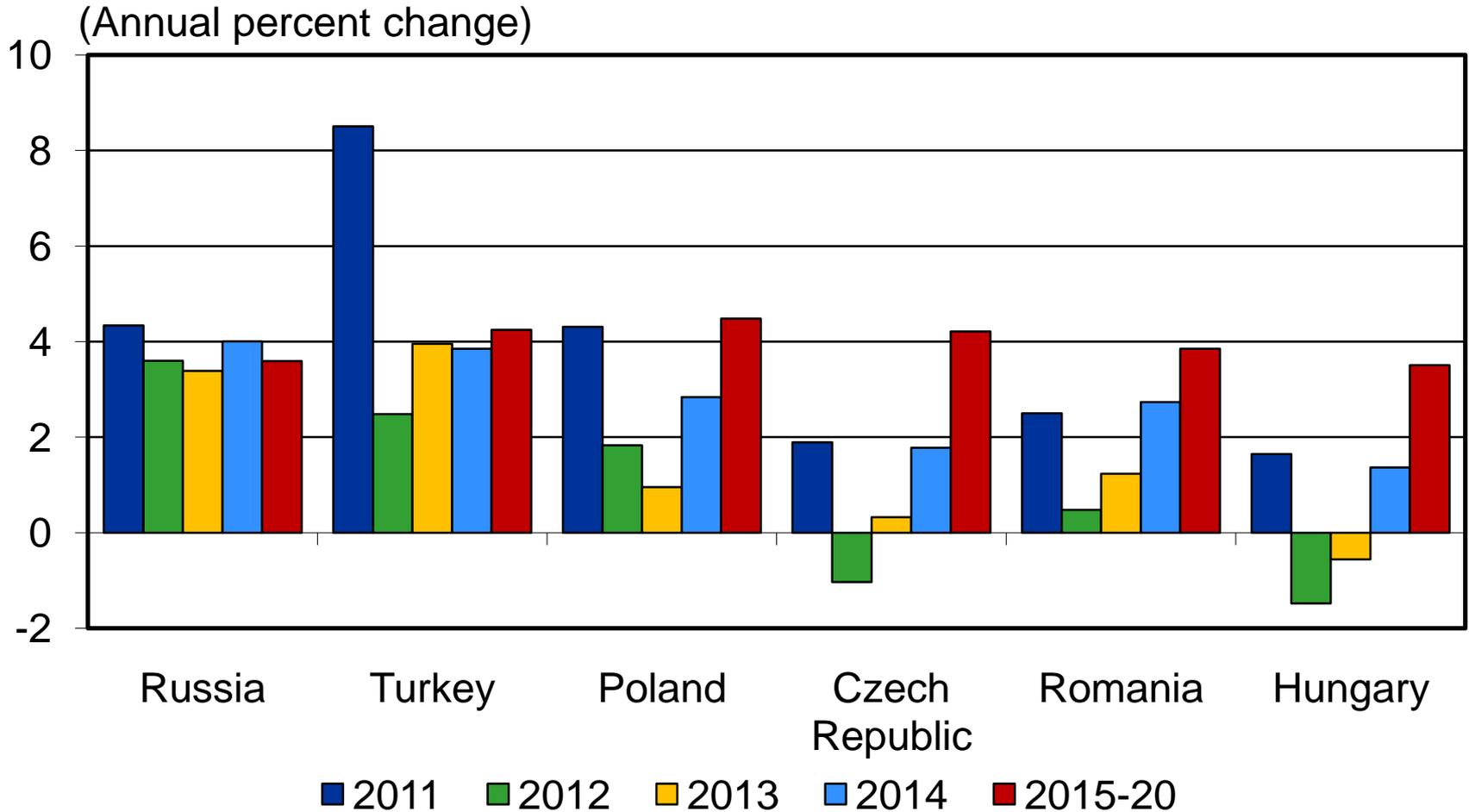
Real GDP growth in Asia-Pacific



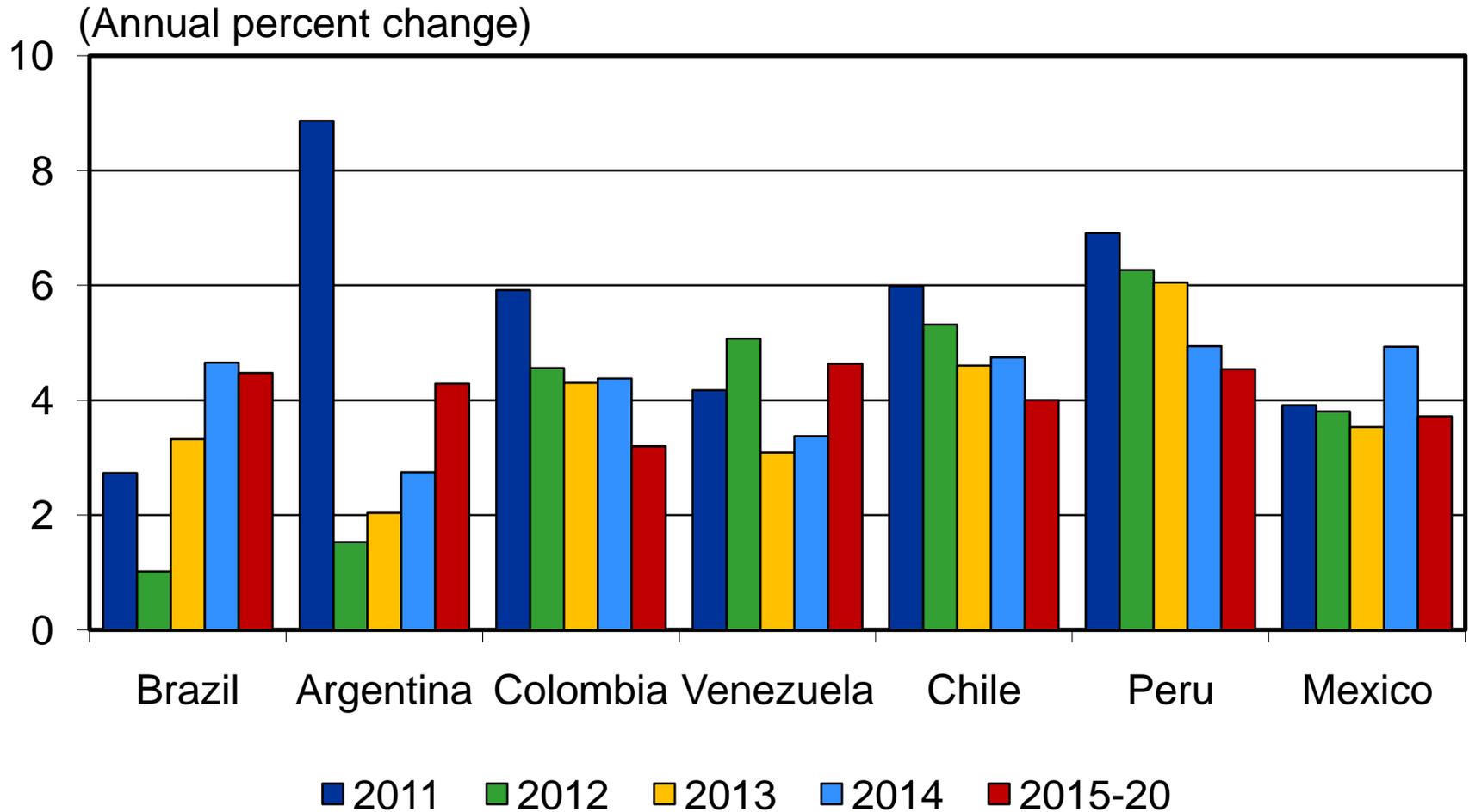
Real GDP growth in Asia-Pacific



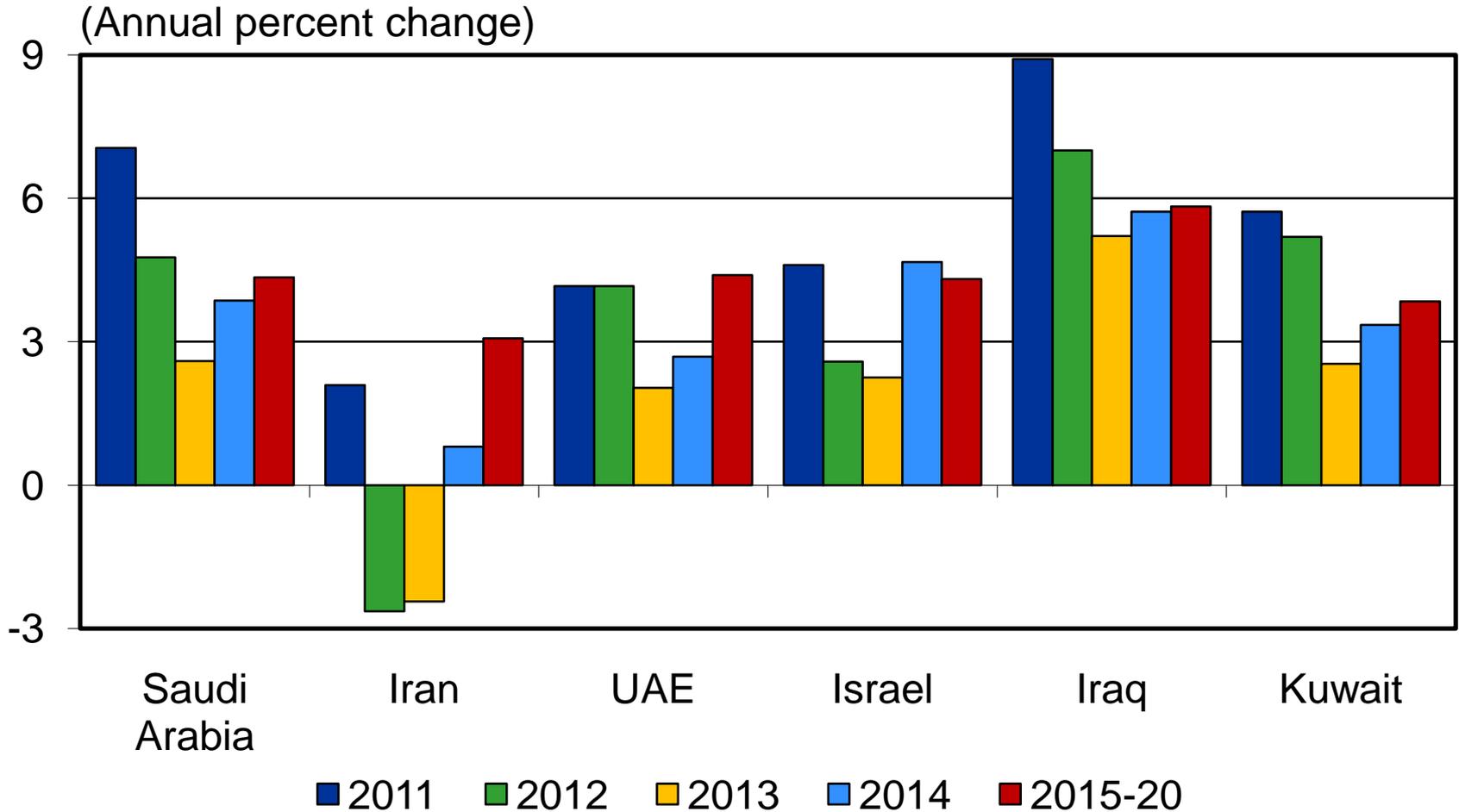
Real GDP growth in Emerging Europe



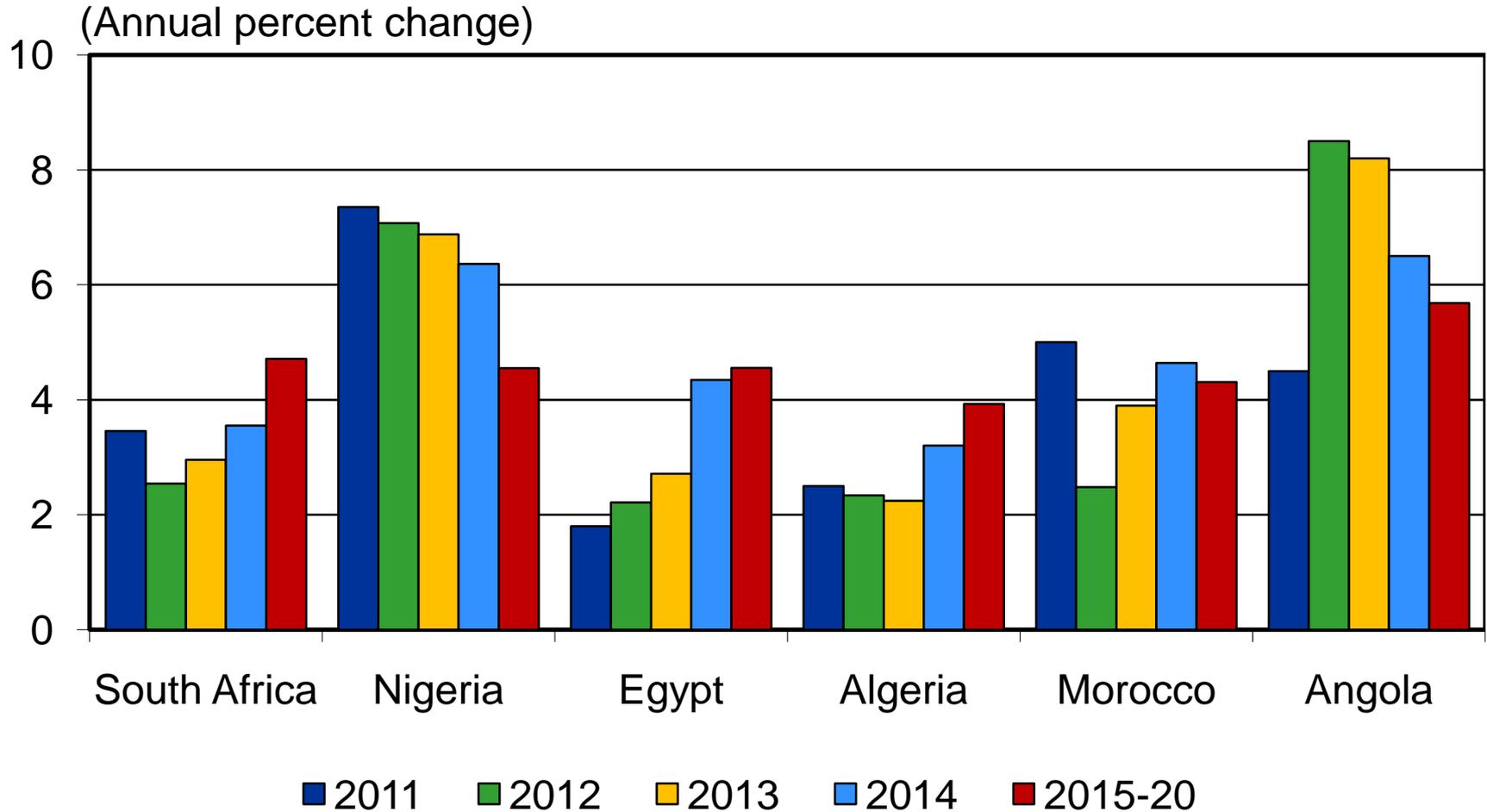
Real GDP growth in Latin America



Real GDP growth in the Middle East



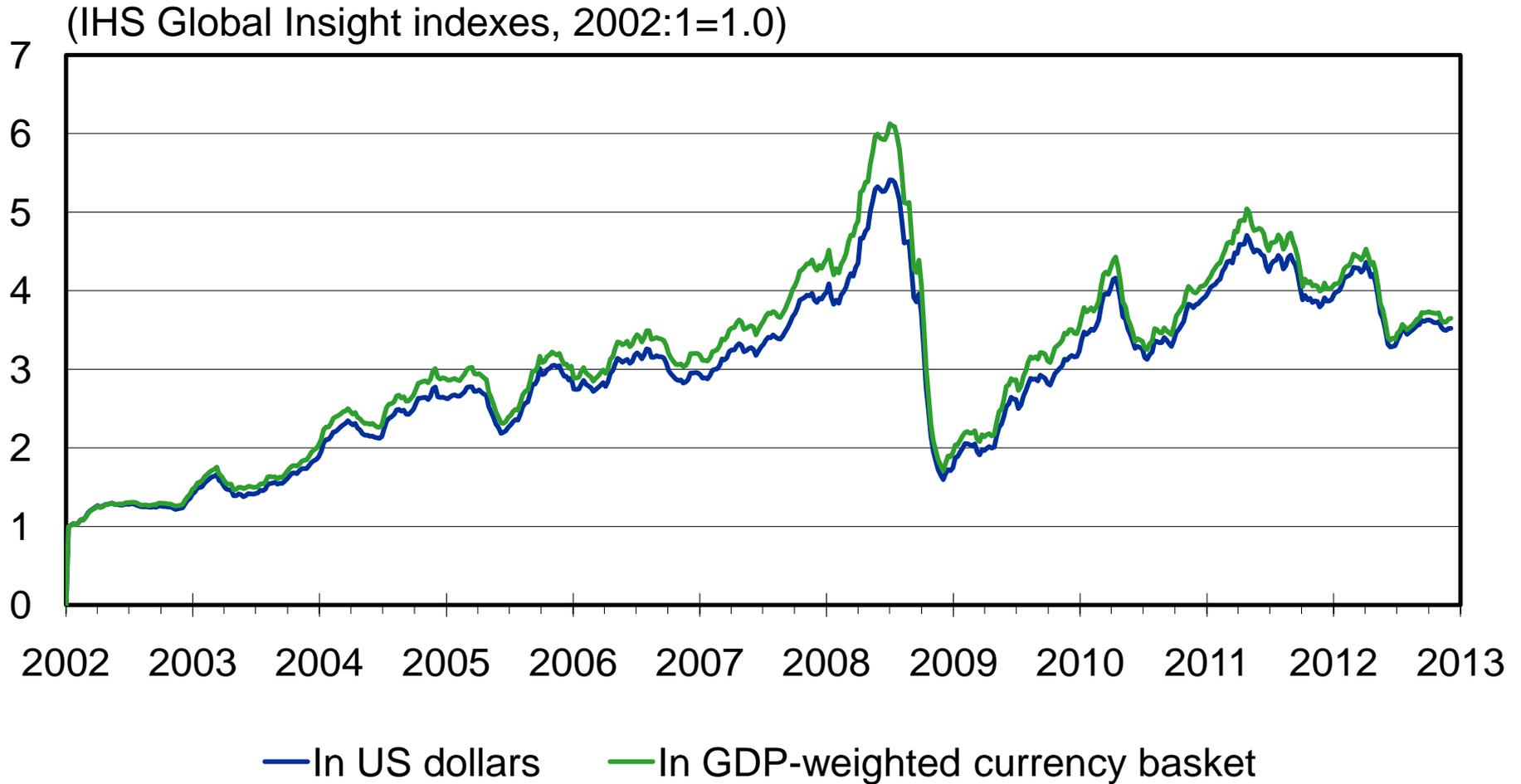
Real GDP growth in Africa



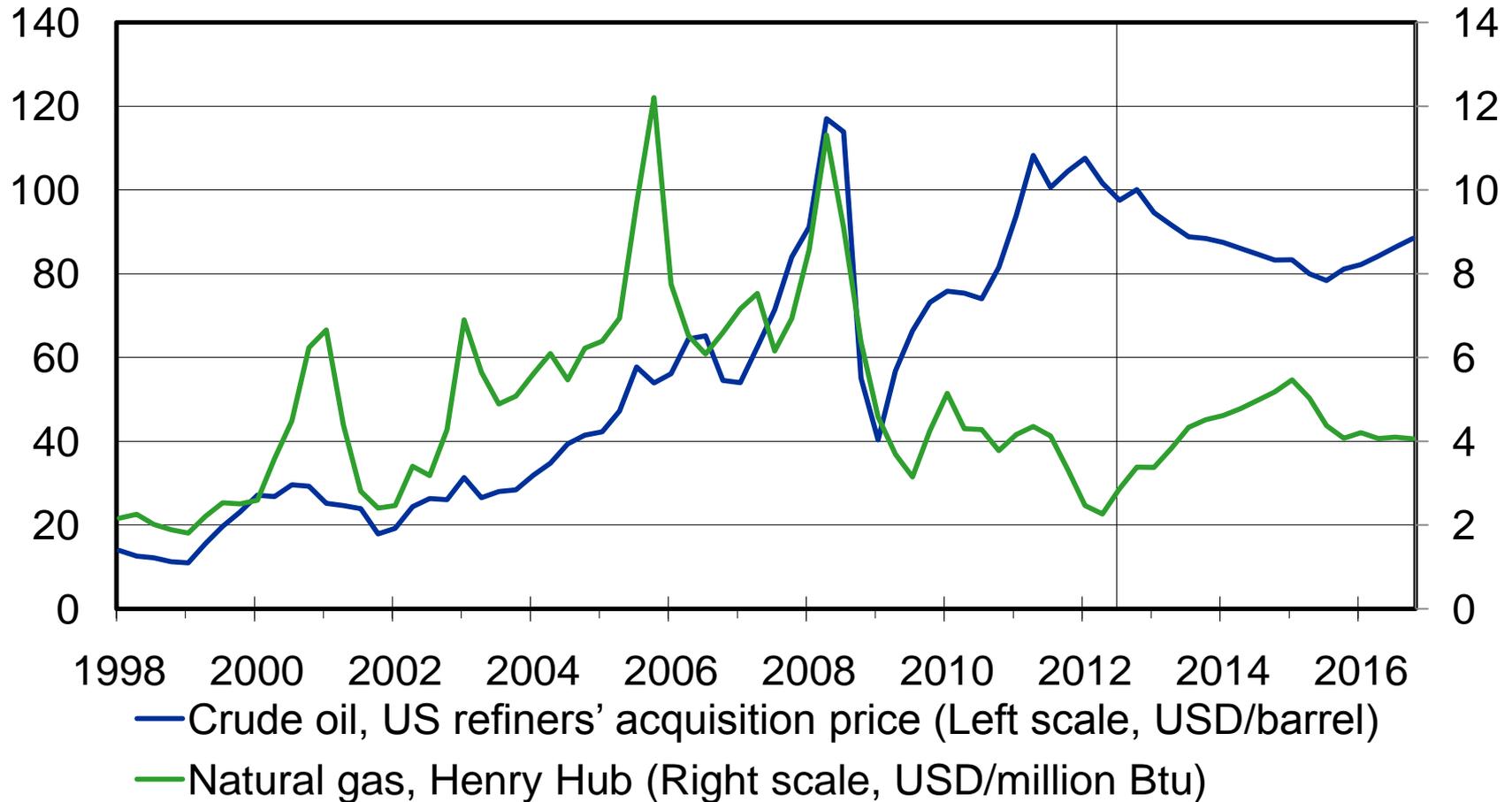
5. Commodity prices will move sideways, again

- Despite a good deal of volatility during the past twelve months, commodity prices are roughly at the same levels they were a year ago.
- Chances are good that 2013 will see a repeat performance.
- There are mild downward pressures from soft growth and relatively high inventories in some markets (especially oil).
- On the other hand, stronger growth in China and the rest of Asia could push price higher as the year progresses.
- Meanwhile, tensions in the Middle East and North Africa could be a wild card in oil markets, driving prices up if the instability in the region gets worse or pulling them down if there is a de-escalation.

Industrial materials prices



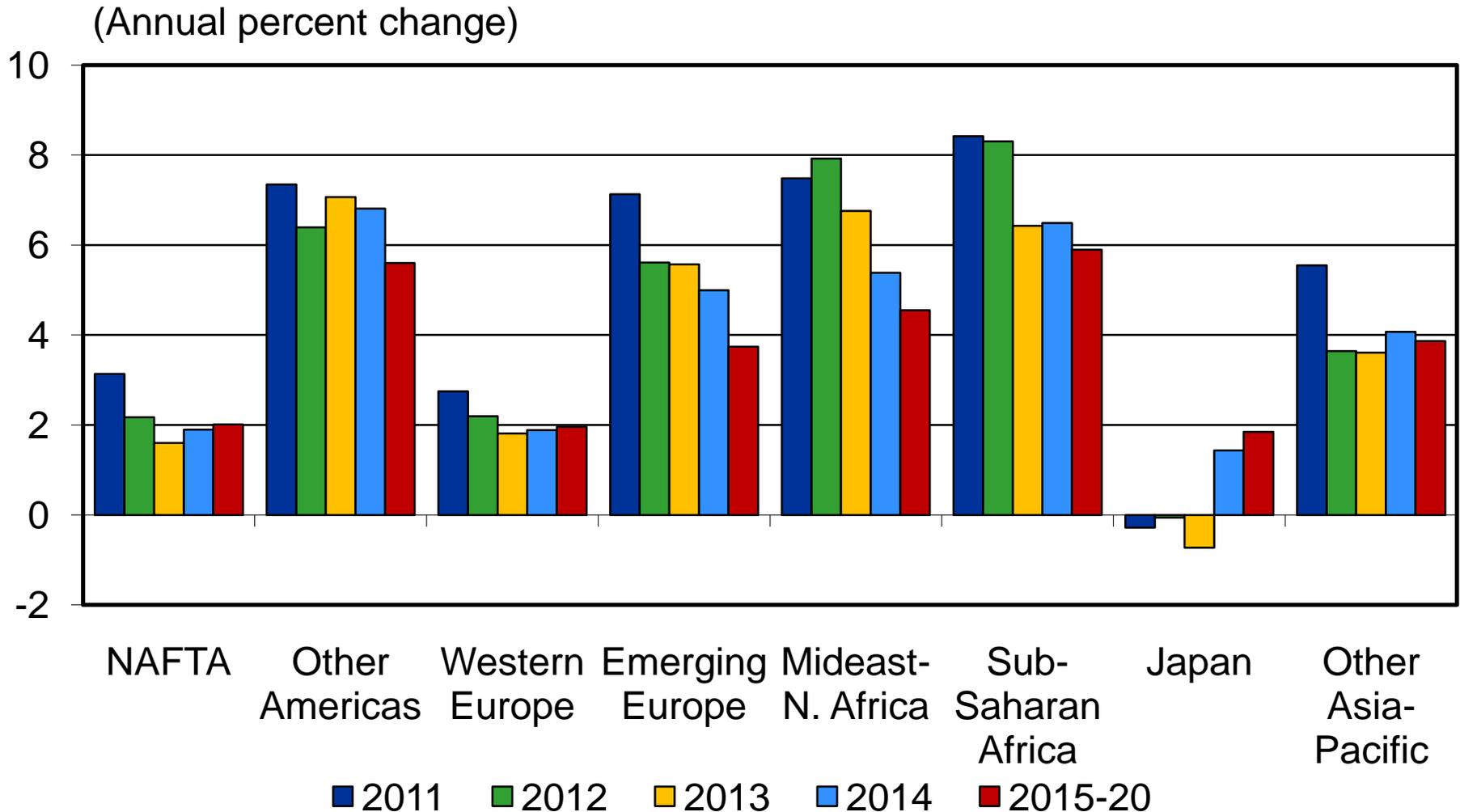
US crude oil and natural gas prices



6. Inflation will remain tame

- Soft growth, large output gaps, and high unemployment rates in the past couple of years have significantly reduced price pressures.
- Between 2011 and 2012 the rate of inflation has fallen in all but one region (Middle East and North Africa).
- This benign state of affairs is likely to continue through 2013, despite worries about the inflationary potential of the massive amounts of liquidity sloshing around the global economy and despite the recent rise in food prices (which is likely to be temporary).
- In fact, in the developed world and some emerging regions (notably Asia, the Middle East and Africa), inflation will continue to drift down over the coming year.

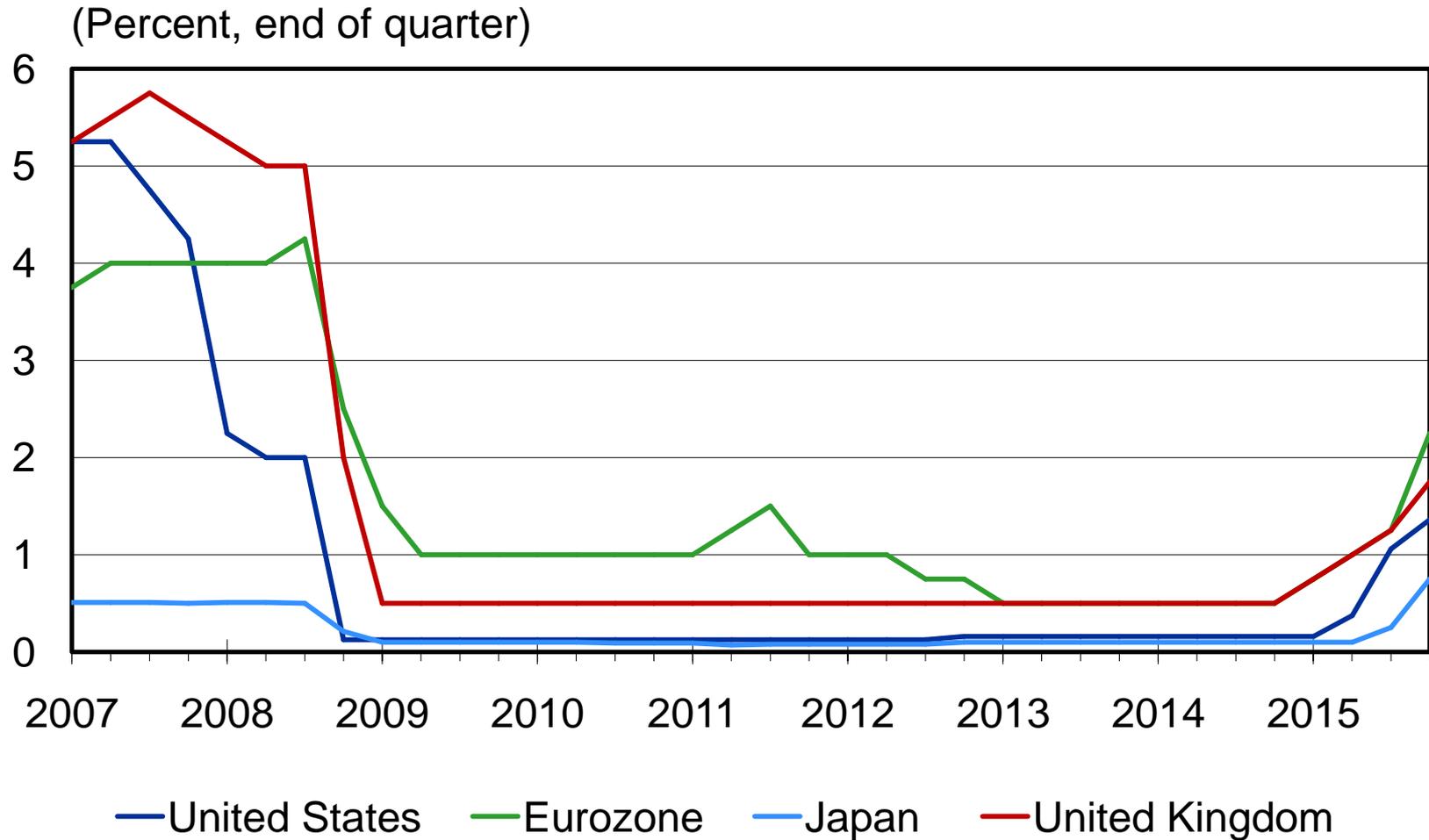
Consumer price inflation by region



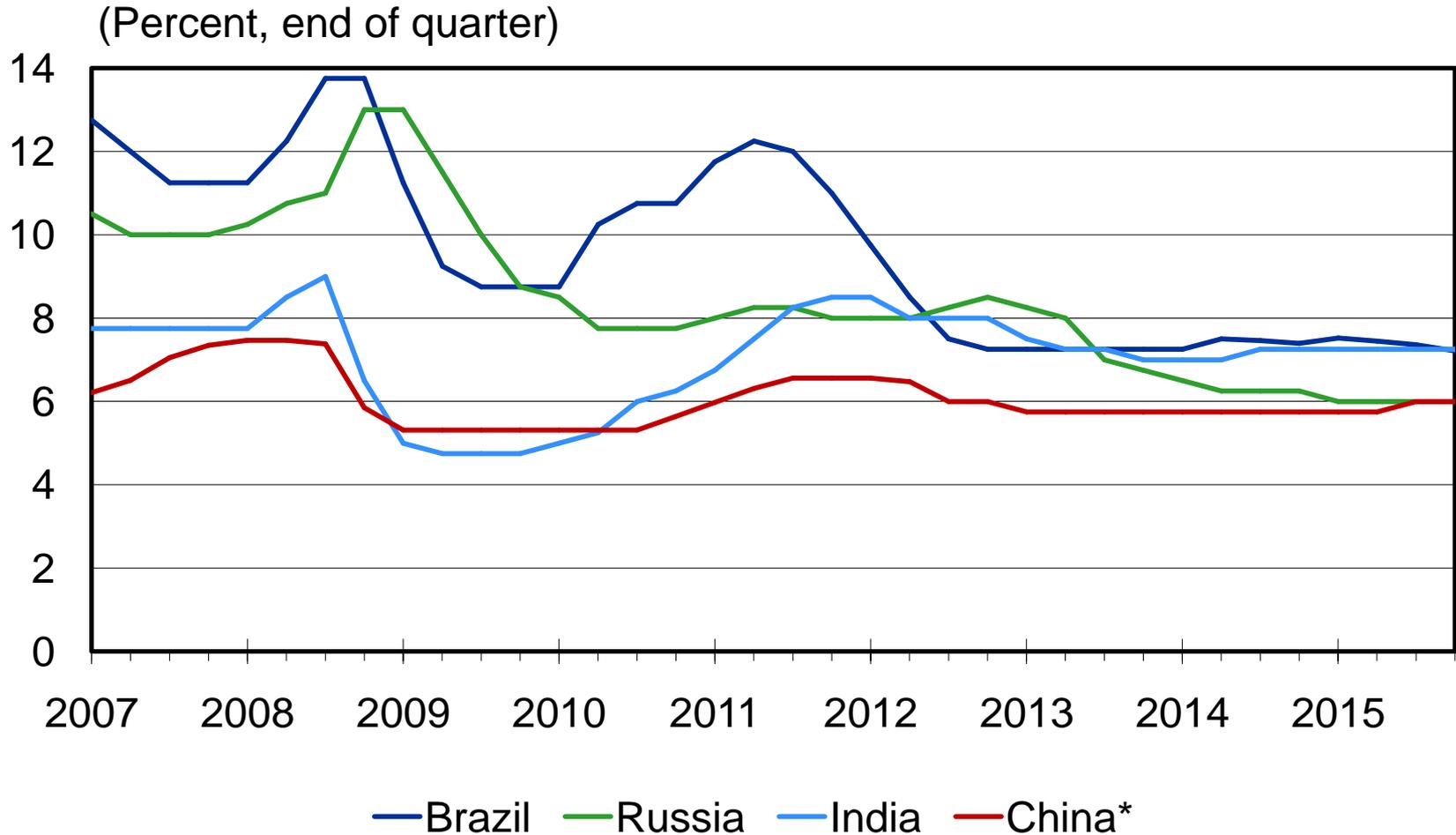
7. Central banks will mostly be in wait-and-see mode

- The behavior of central banks over the past year and a half can best be described as aggressive easing.
- Nevertheless, as growth prospects in many of the world's key economies start to look better, central banks will begin to take a more neutral stance, putting monetary policy on hold.
- While a little more easing (interest rate cuts and/or quantitative easing) by the Fed, the European Central Bank, Bank of England, Bank of Japan, and the Reserve Bank of India is probably in the cards ...
- ... Other central banks are likely to take a more cautious approach to further stimulus, while still keeping a lookout for any signs of renewed weakness in the coming year.

Policy interest rates in the advanced countries will stay low for several years



Policy interest rates in emerging markets

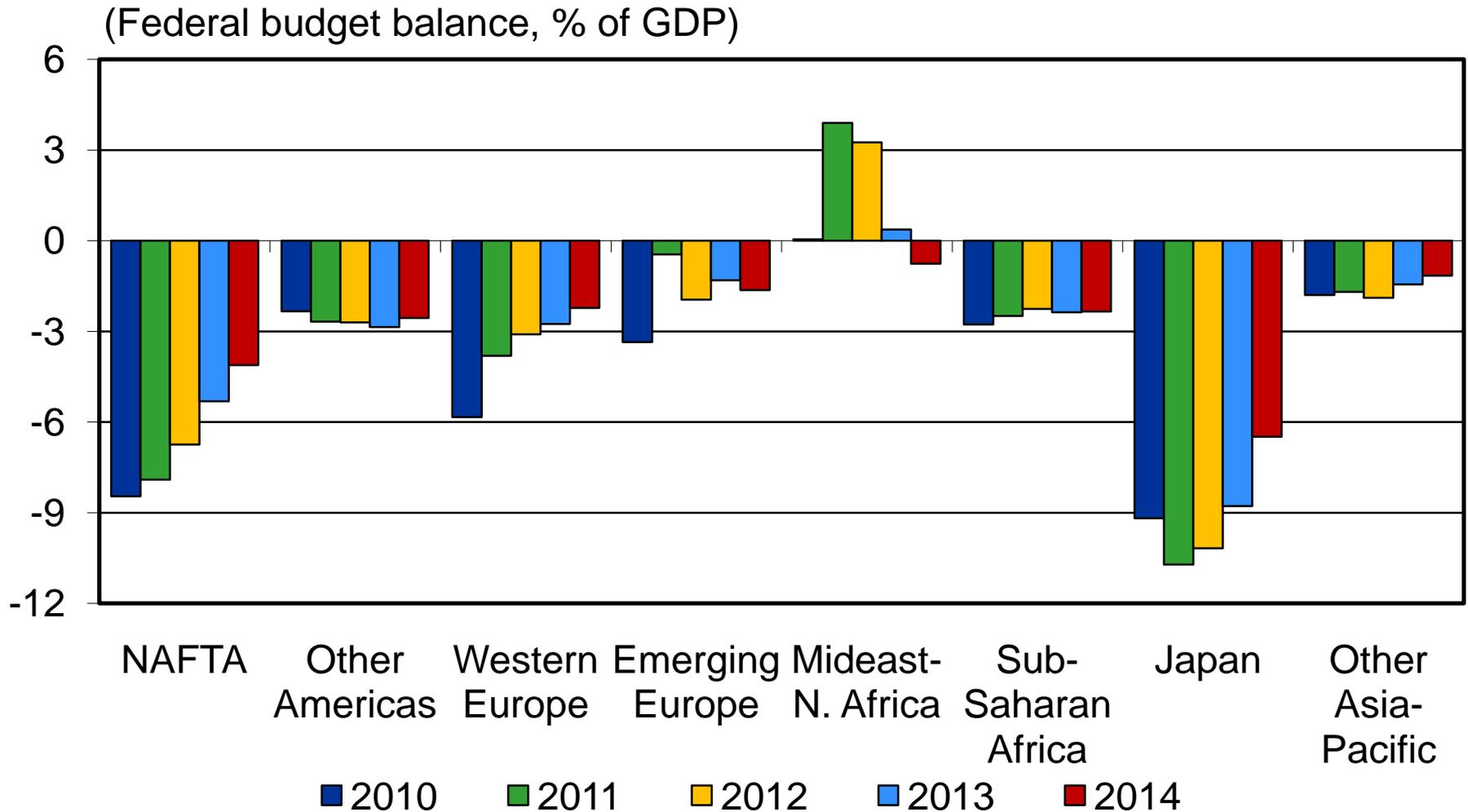


* One-year loan rate

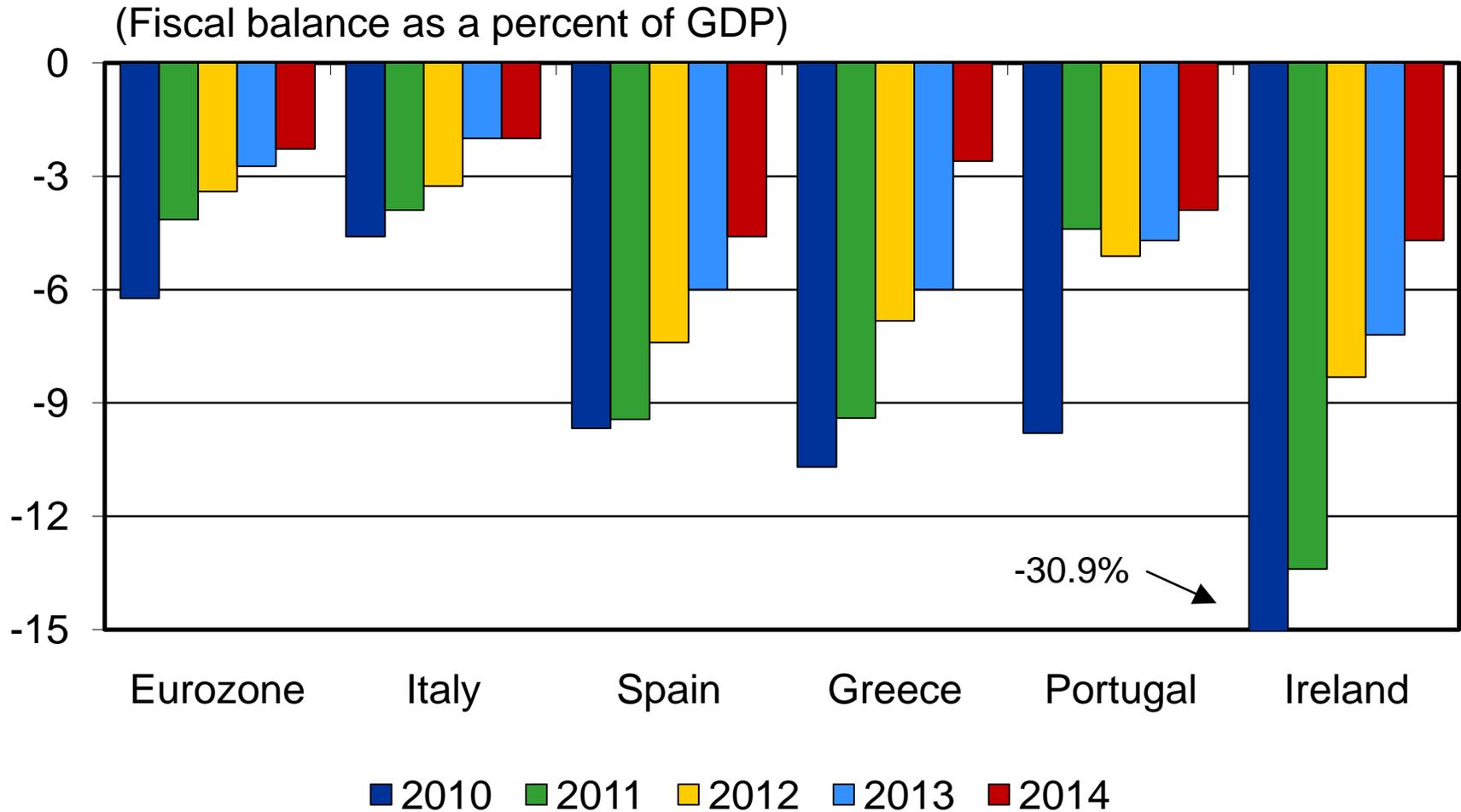
8. Fiscal policy will stay tight or become tighter

- This is mainly true of the United States, the Eurozone, and Japan, all of which face large and rising government debt ratios.
- US fiscal policy was set to tighten, regardless of the fiscal cliff—the mostly likely scenario calls for a gradual further reduction in the deficit, which will help to stabilize the US debt ratio, without hurting growth unduly.
- In Southern Europe austerity is damaging growth prospects—but this will not deter further tightening.
- France will also be pressured to constrict fiscal policy even more—it has one of the biggest deficit-to-GDP ratios of the non-crisis Eurozone countries and its government spending-to-GDP ratio is one of the highest in the developed world.

Fiscal deficits are narrowing in most regions



Eurozone fiscal deficits

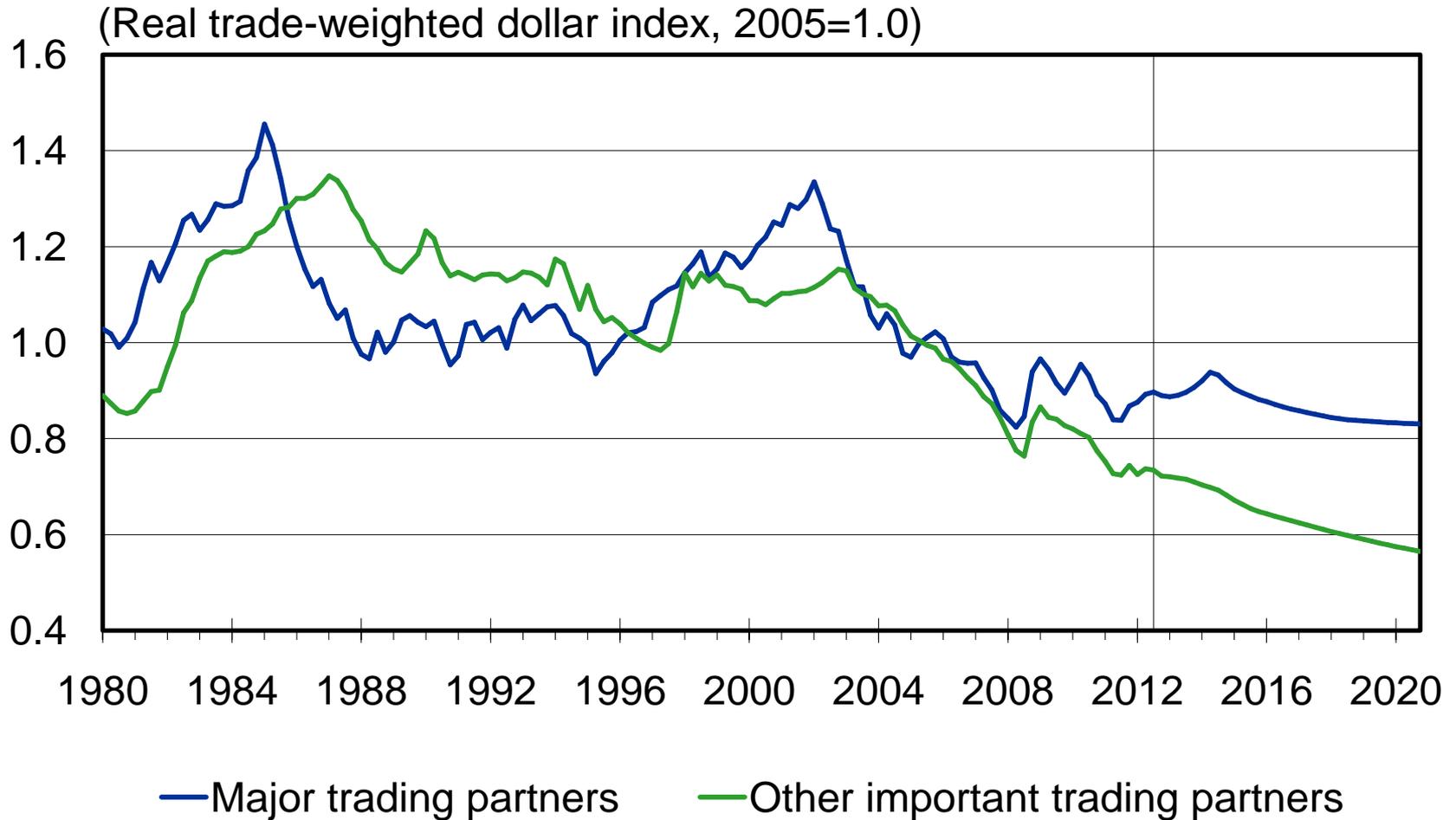


9. The US dollar will be stronger against the euro and flat against the rest



- During the coming year, economic fundamentals (e.g., growth differentials and current account balances) will tend to favor the dollar, especially relative to other developed economy currencies.
- As the growth outlook in the emerging world improves and capital flows into these economies rise once again, the upward pressure on these currencies could intensify, balancing out some of the positive forces working on the dollar.
- Meanwhile, as the world's principal reserve currency, the US dollar is very sensitive to swings in investor sentiment and changes in risk aversion ...
- ... Consequently, enduring worries about the Eurozone debt crisis will tend to favor the dollar over the euro and other risky currencies.

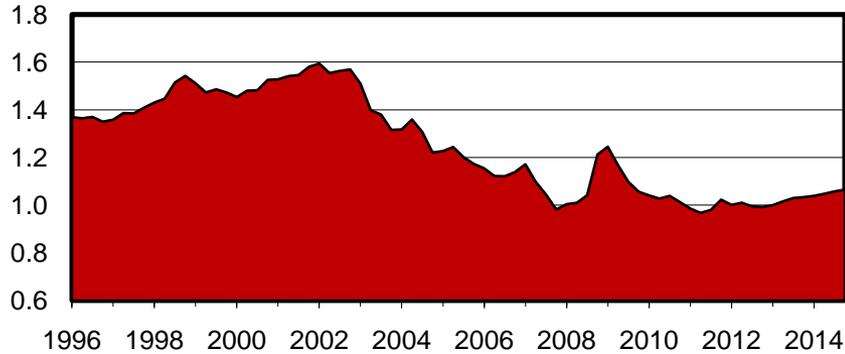
The dollar's real exchange value



Exchange rates per US dollar

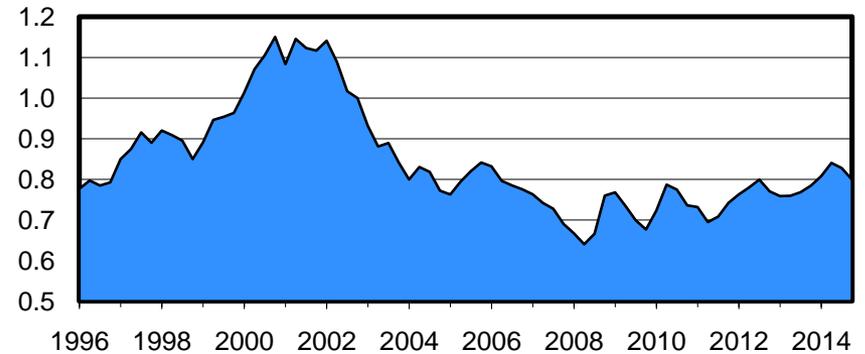
Canadian Dollar

(Canadian dollars per US dollar, quarterly averages)



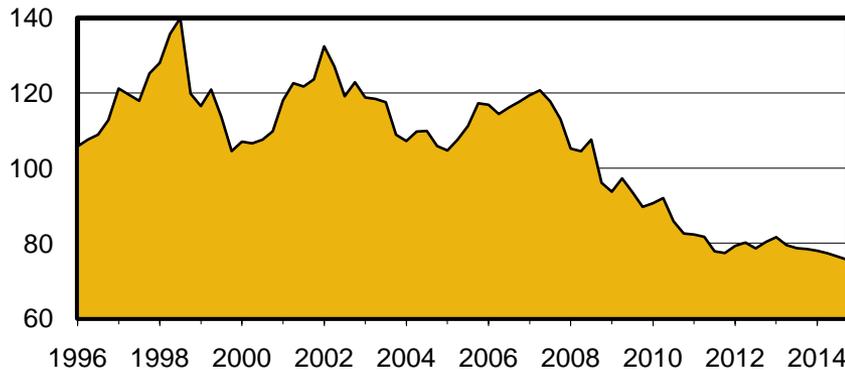
Euro

(Euro per US dollar, quarterly averages)



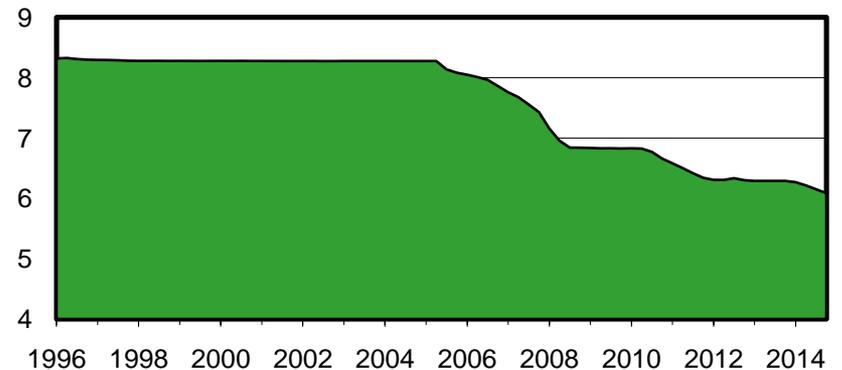
Japanese Yen

(Yen per US dollar, quarterly averages)



Chinese Renminbi

(Yuan per US dollar, quarterly averages)



10. The risks facing the global economy will be more balanced

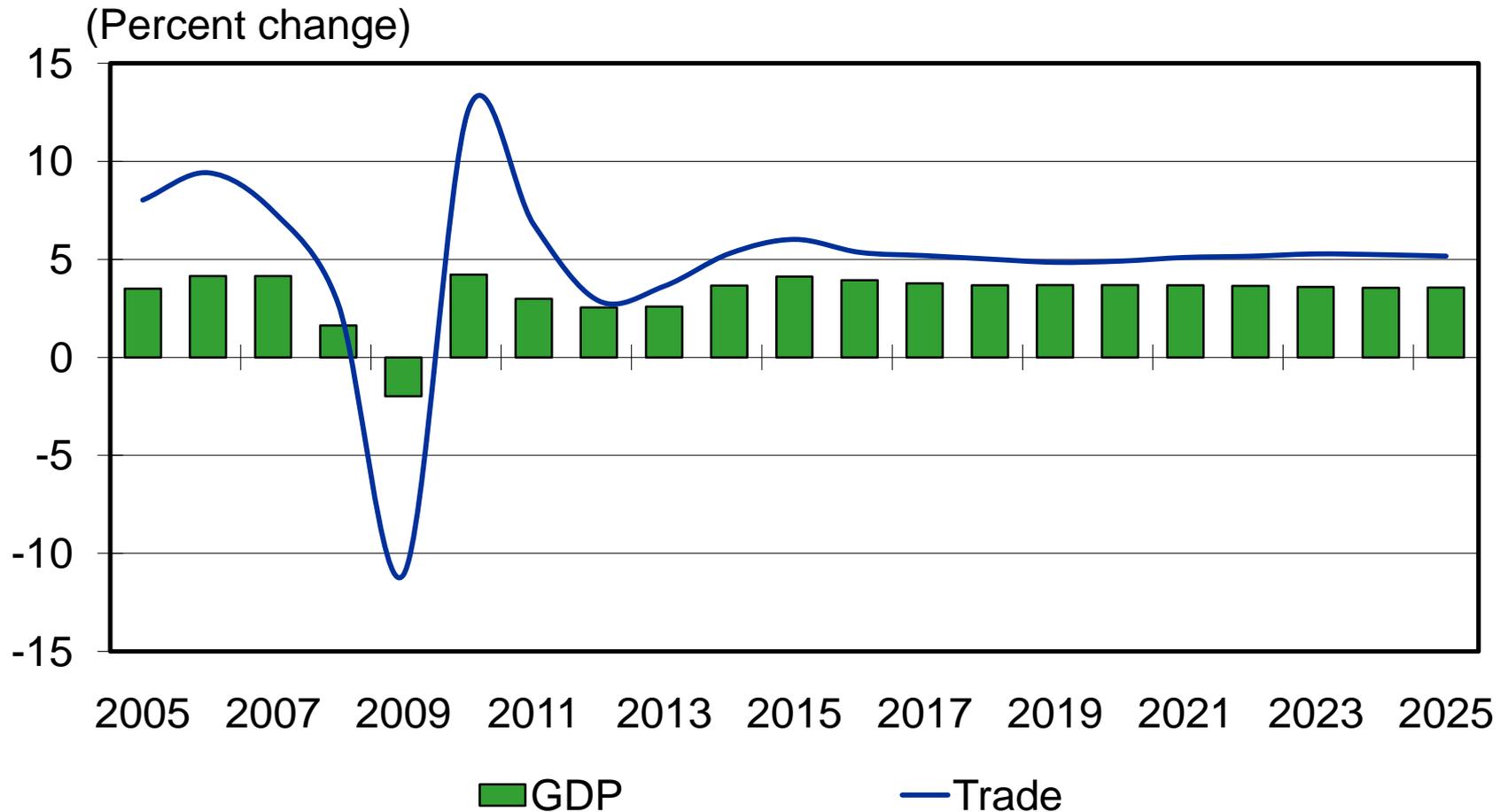


- Over the past year, the risks facing the global economy were skewed to the downside.
- In the coming year, not only will some of the big-four threats—another US recession, a Eurozone meltdown, a China hard landing, and a war in the Persian Gulf—become less menacing, but there could be some upside surprises as well.
- Chief among these is pent-up demand from consumers and businesses.
- In the wake of the Great Recession and subsequent Great Stagnation, households and companies have been very cautious about their spending, preferring to save more and reduce their debts.
- There is some evidence that this process may be winding down—especially in the United States and parts of Asia.

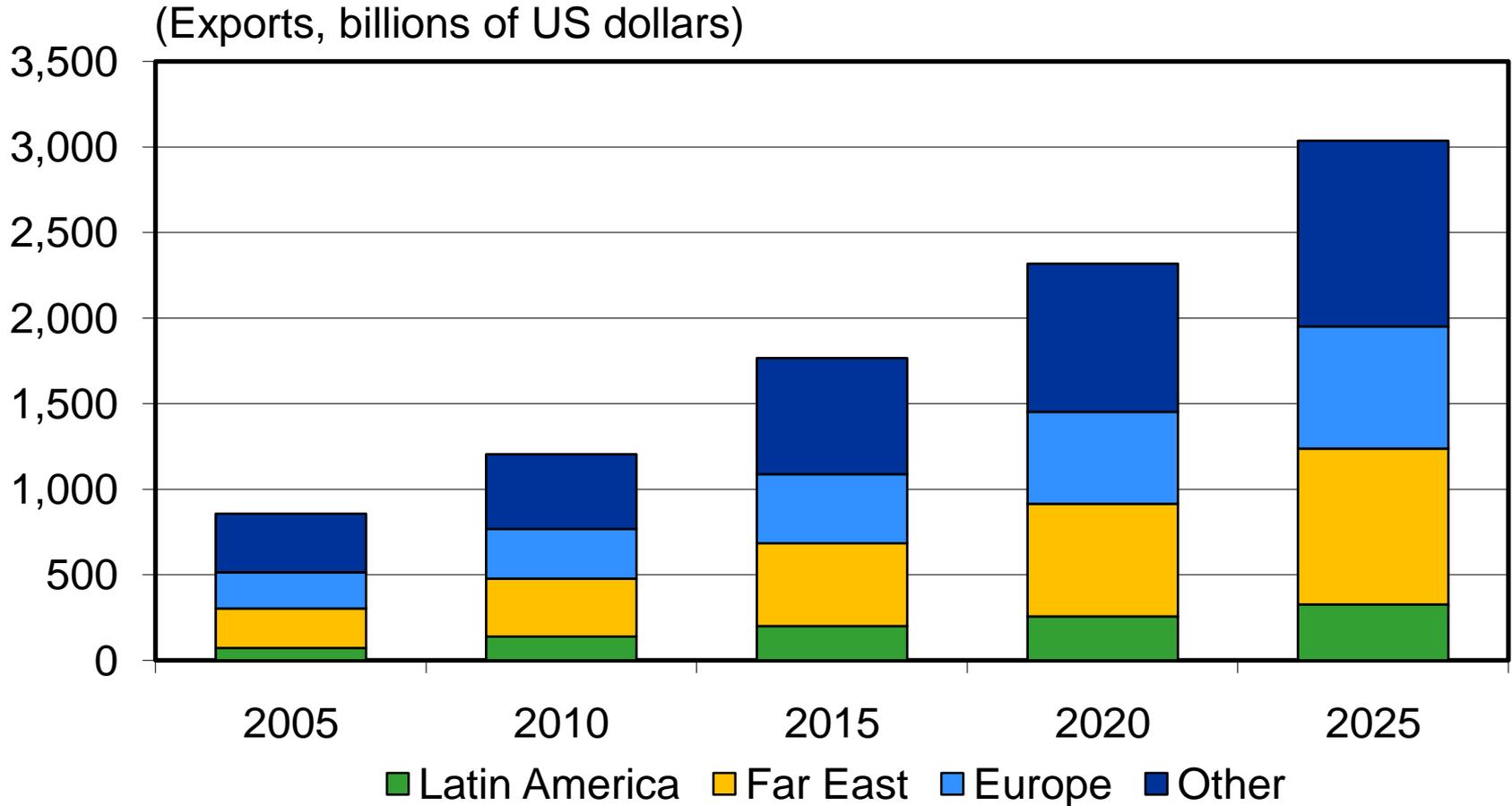


Trade Implications

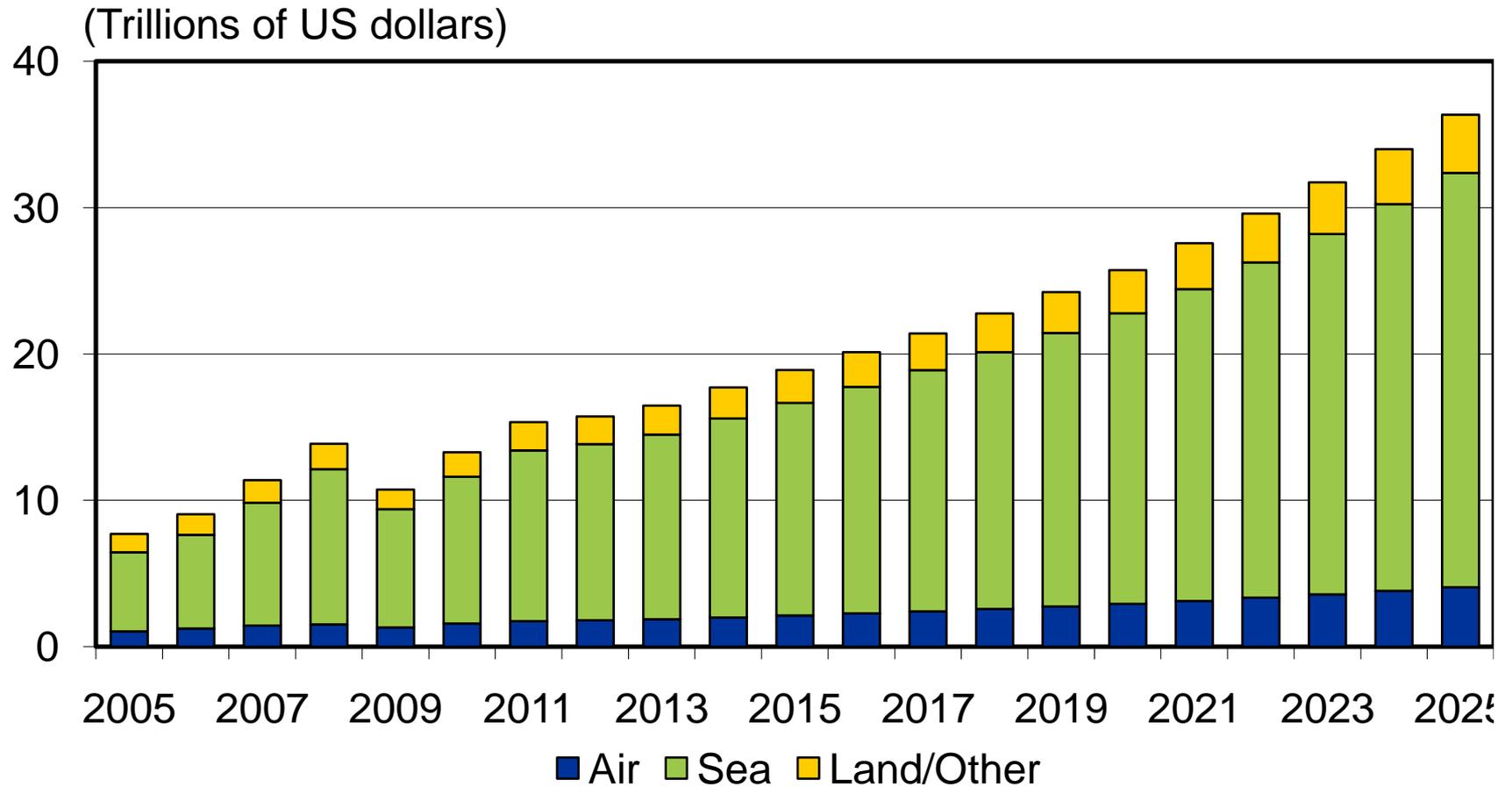
World trade typically grows faster than real GDP



US international trading partners are shifting



Growth in global merchandise trade



Note: Intra-Europe trade excluded

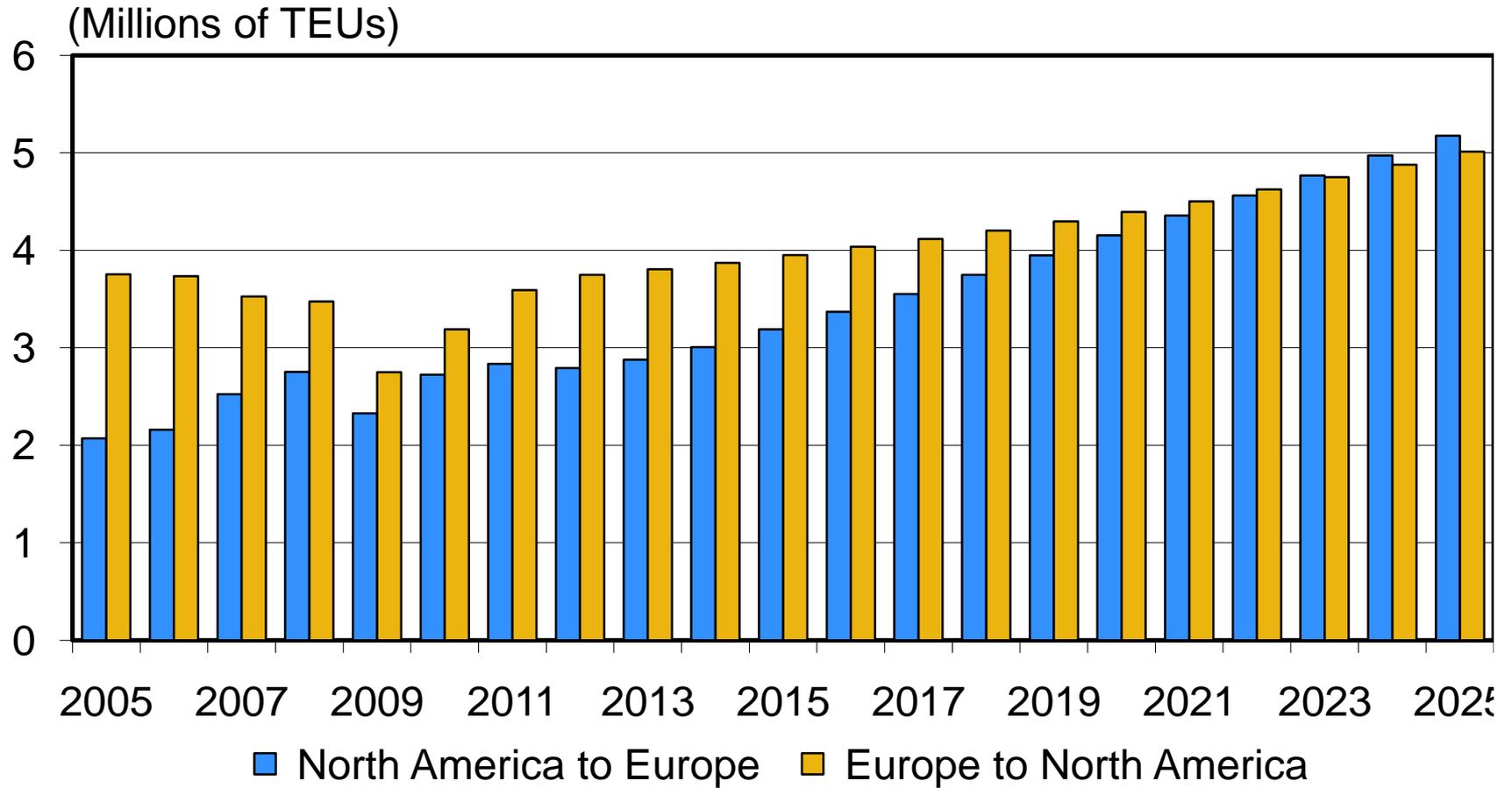


Containerized trade movements

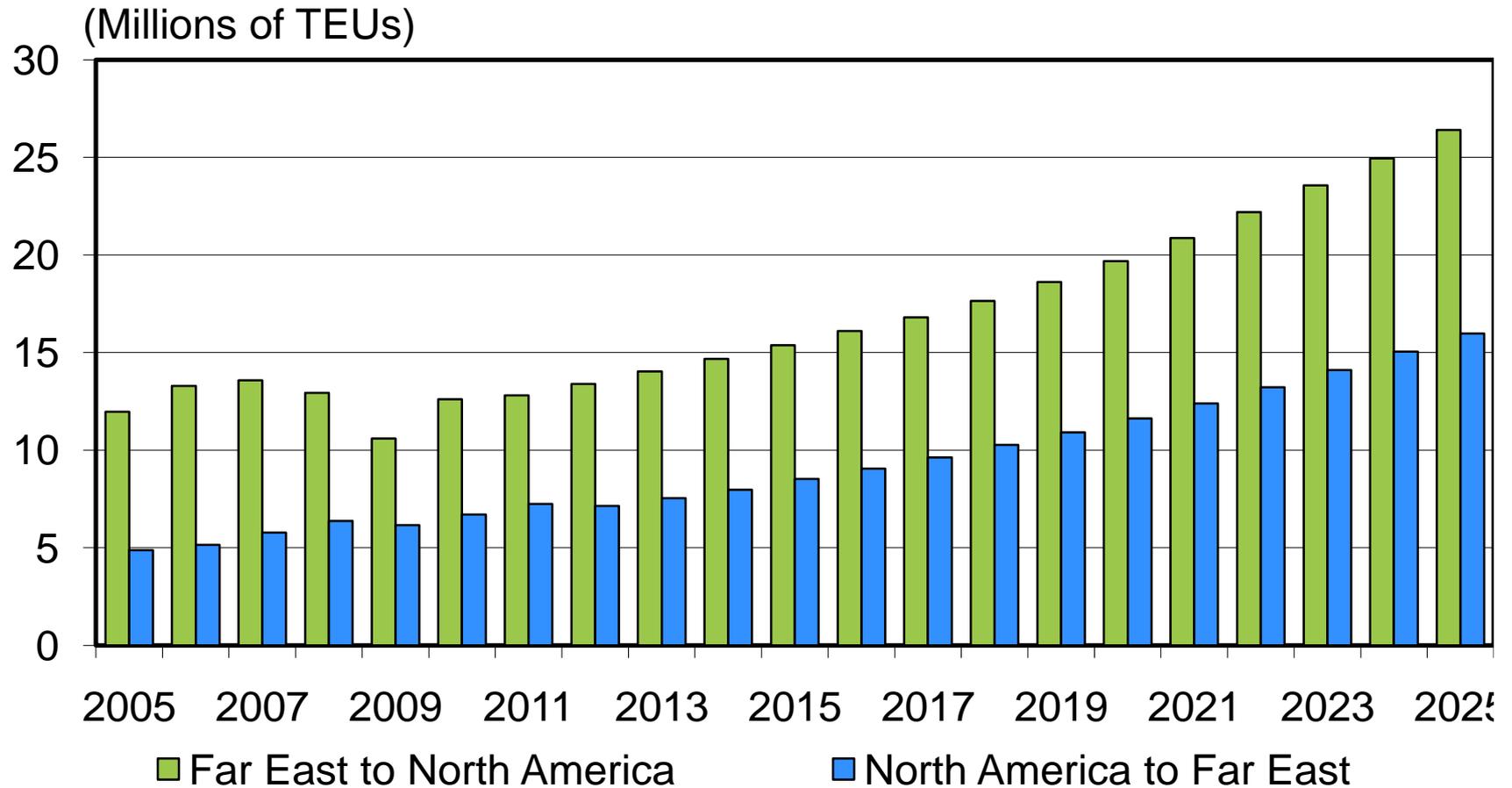
(Thousands of TEUs)

	2005	2010	2015	2020	2025
Transatlantic	5,827	5,913	7,140	8,547	10,187
Transpacific	16,853	19,318	23,903	31,309	42,371
U.S. Atlantic/Far East	3,659	4,907	6,048	7,957	10,898
Europe/Far East	13,977	19,889	24,890	33,094	44,393
Intra-Far East	18,169	22,004	29,690	39,087	51,446
World Total	87,142	114,341	146,756	191,318	249,911

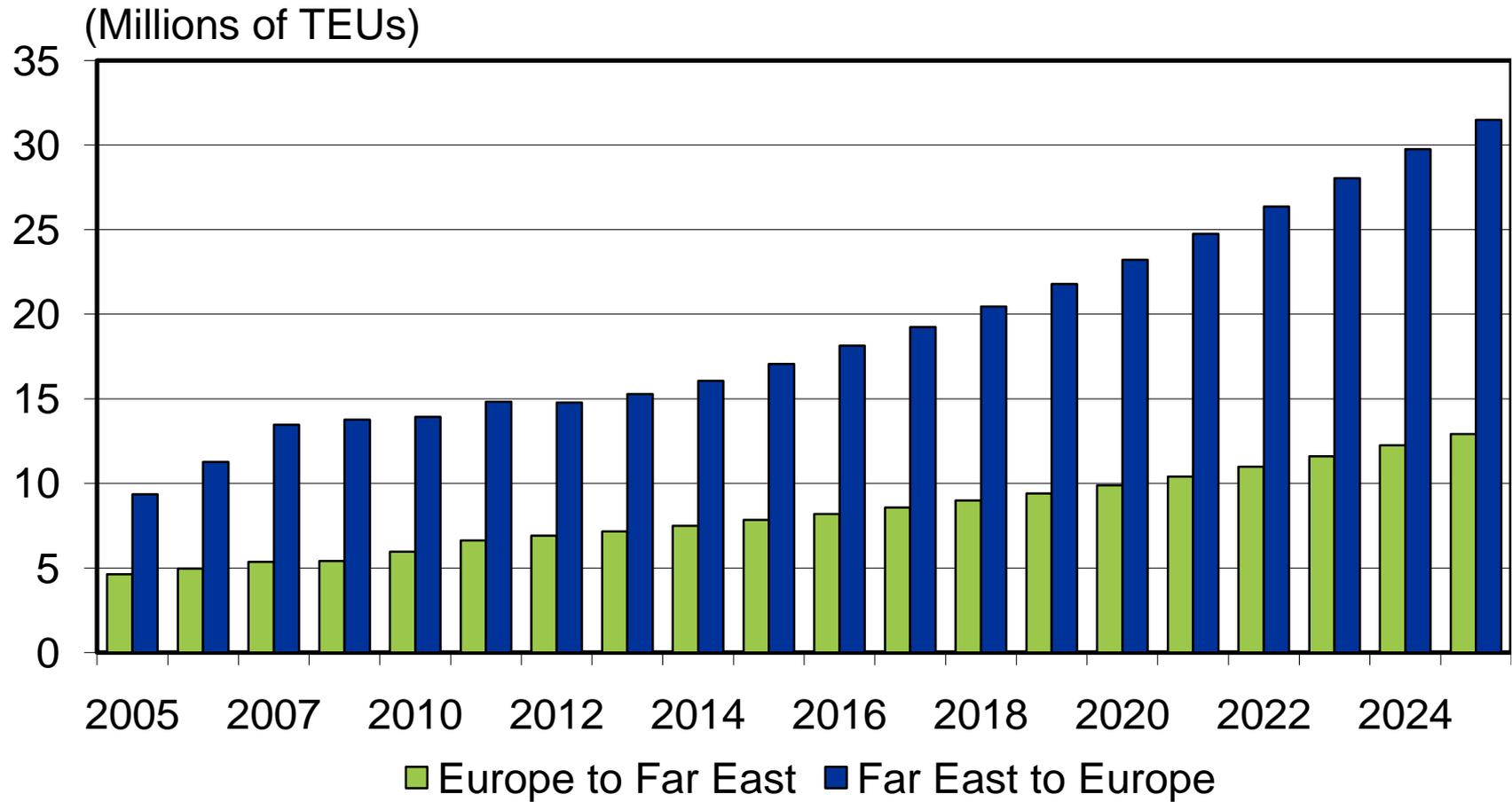
Transatlantic container trade



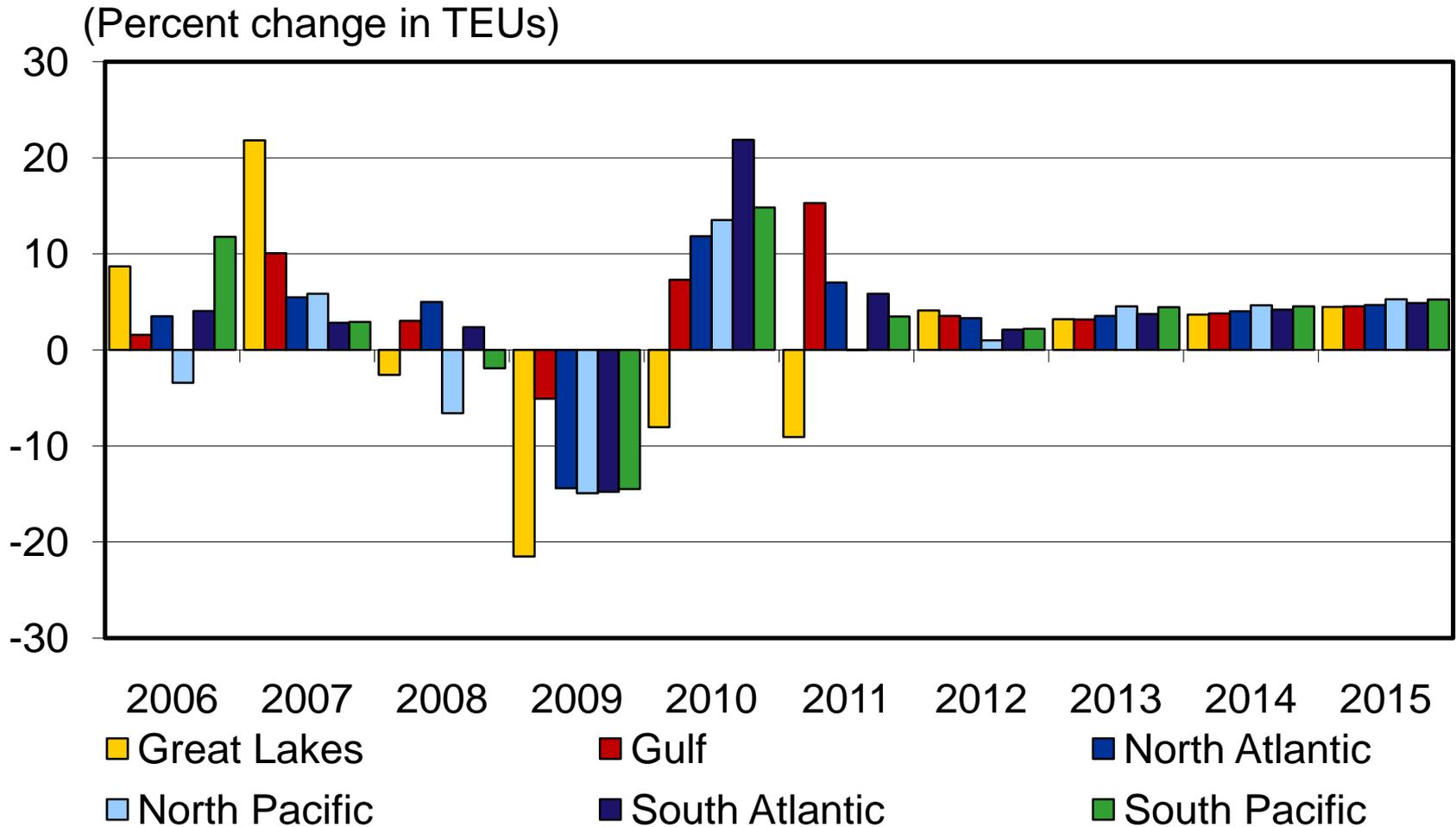
Transpacific container trade



Europe to Far East container trade



Container growth rates by US coast



Implications for the Port

- Trade will remain an engine of global growth in the long-term ...
- ... But activity has slowed dramatically in the near-term.
- Transatlantic containerized trade growth slowed sharply in 2012; in 2013 it will be a little faster.
- U.S. Atlantic/Far East containerized trade is expected to expand at roughly the same rate as Transpacific containerized trade over the next several years.
- U.S. Atlantic/Far East containerized trade volumes will exceed Transatlantic containerized trade volumes starting from 2023.
- Intra-Far East containerized trade will grow faster than Transatlantic, Transpacific, and Europe/Far East trade over the next several years.
- Downside risks to short-term trade projections are more balanced than a



Thank you!

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