



**GLOBAL** INSIGHT

# Economic Update



Alliance of the Ports of Canada, the Caribbean, Latin America, and the United States

## Port Finance Seminar

**Paul Bingham**  
**Global Insight, Inc.**

**Baltimore, MD**

**May 16, 2006**



# **The World Economy: Is the Risk of a Boom-Bust Rising?**

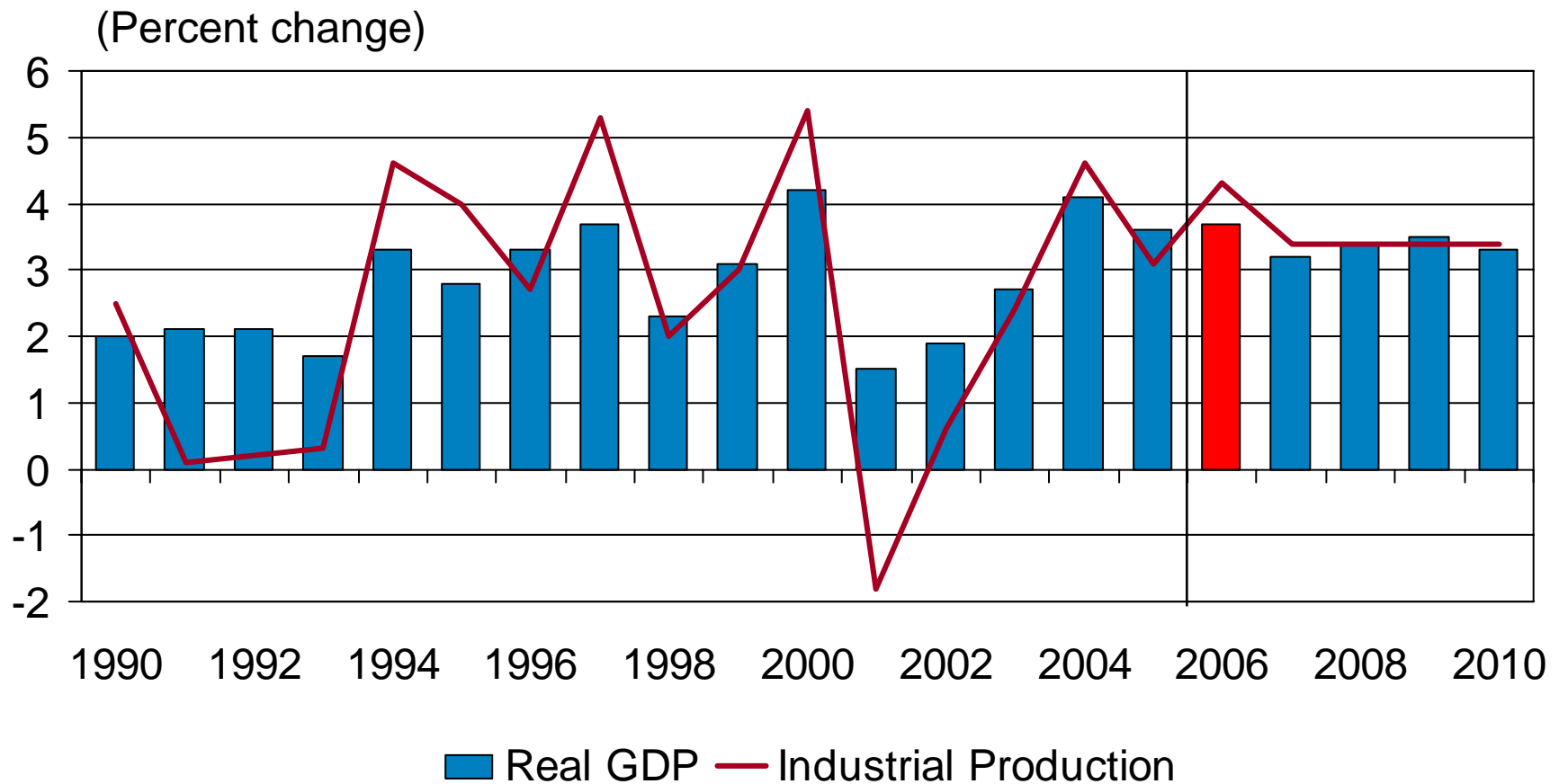
**As the U.S. Economy Slows,  
Will Other Regions Pick Up the Slack?**

**What Happens to U.S. Trade as a Result?**

# ***Is the Risk of a Global Boom-Bust Rising?***

- **2006 will be the third year of above-trend global growth**
- **U.S. growth will be strong in the first half – how much of a housing-induced slowdown in the second half?**
- **European and Japanese growth have rebounded – but for how long?**
- **There appears to be no slowing yet in China's boom**
- **Record or near-record commodity prices are helping many emerging markets**

# Growth in the World Economy: 3.7% in 2006



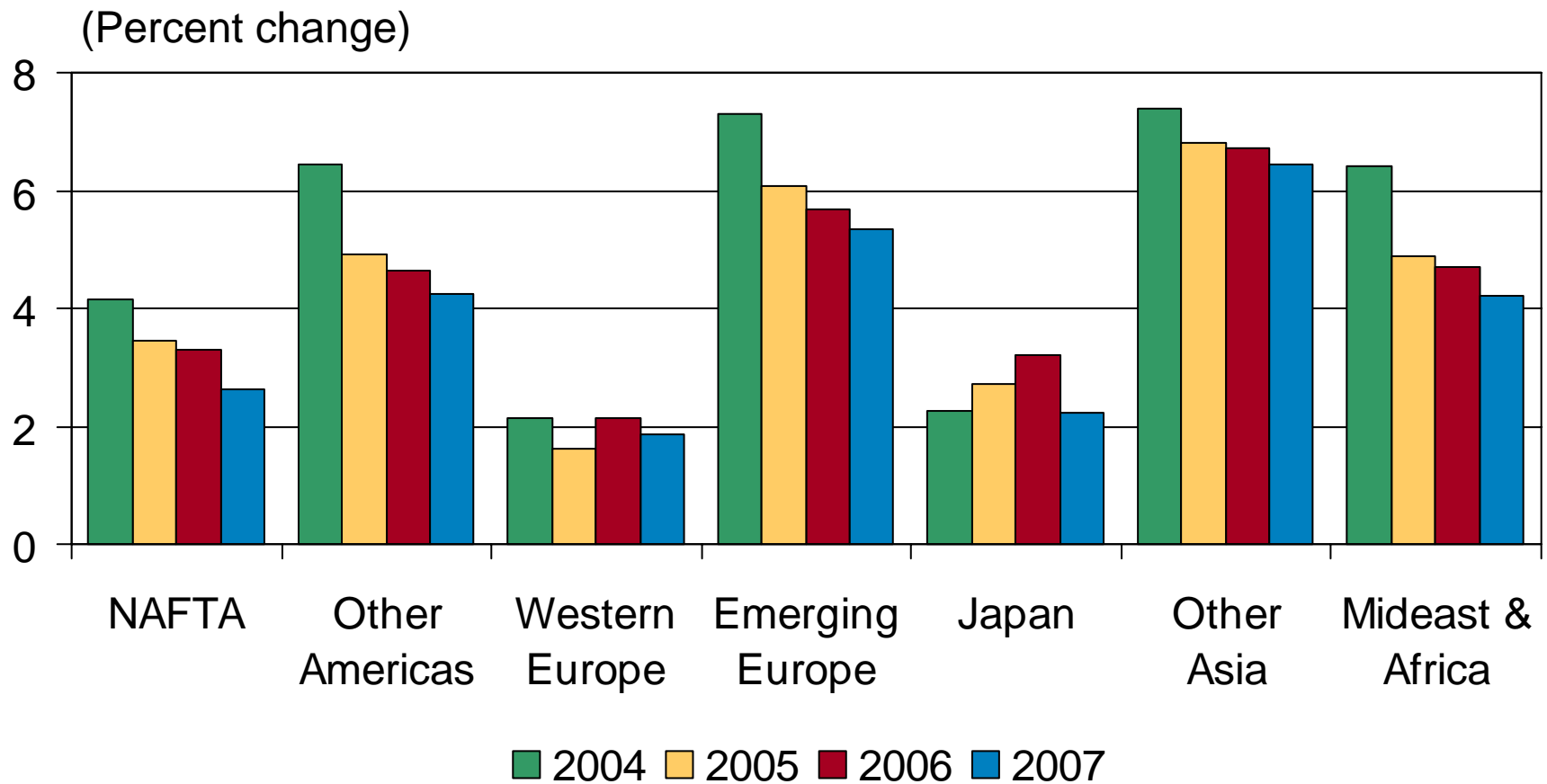
# ***Signs of Stress?***

- **Core inflation is edging up**
- **Bond markets are getting a little more jittery**
- **Crude oil prices keep getting hit by shocks and new fears**
- **Stock markets in the Middle East have plummeted, despite the continued high oil prices**
- **While a repeat of the Emerging Markets crisis of the 1990s seems unlikely, many economies are vulnerable to high interest rates in the G-7 countries and a drop in commodities prices**

# ***As the U.S. Slows, Will Others Pick Up the Slack?***

- **U.S. consumer spending is likely to slow as the housing market cools – the only question is how much**
- **Consumer spending in Japan is showing signs of life...**
- **...However, European consumers remain very cautious**
- **While consumer spending in China and India will eventually rival that of the U.S., it will take years before the “baton is passed” to these emerging giants**

# Real GDP Growth Is Still Uneven Across the World



# World Real GDP Growth Contributions

	Percent of World Growth, 2000–05	Percent of World GDP in US\$, 2005
Asia-Pacific	37	24
China	15	5
India	4	2
Japan	8	10
United States	29	28
Western Europe	15	30



# **United States – At a Crossroads?**

- **Big uncertainties for the United States**
  - **How much will core inflation rise?**
  - **How bad will the housing slump be?**

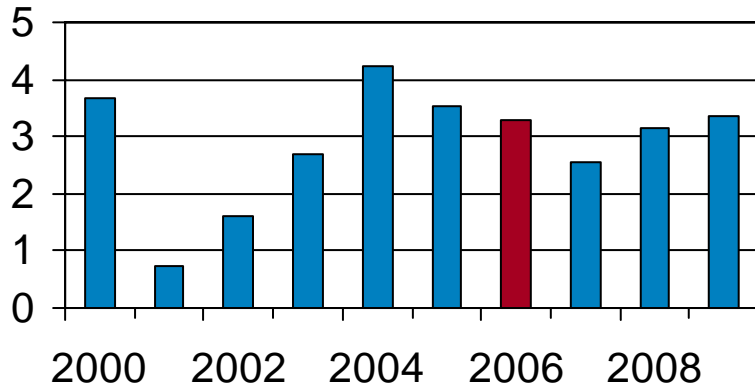
**The rise in U.S. interest rates will be determined by the answer to these questions**

- **Strong productivity gains and Federal Reserve Board vigilance will keep inflation under control**
- **Good news: Robust capital spending (thanks to very strong corporate profits) and exports (thanks to a weaker dollar and a strengthening world economy) will offset weaker growth in U.S. consumer spending and housing**
- **Risk: Will protectionist pressures get worse as the economy slows? (DP World P&O Ports deal was not a good sign)**

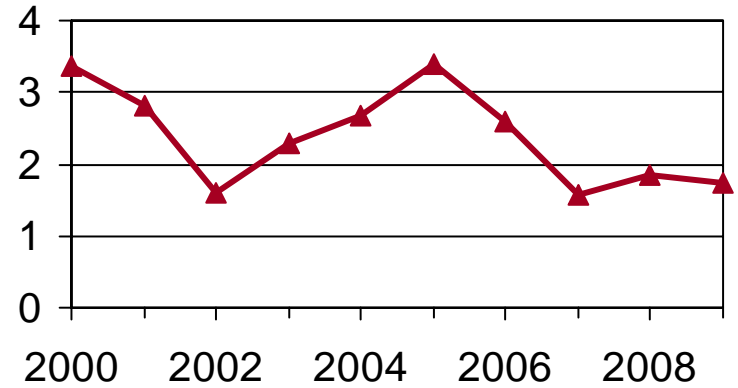
# United States

(Percent)

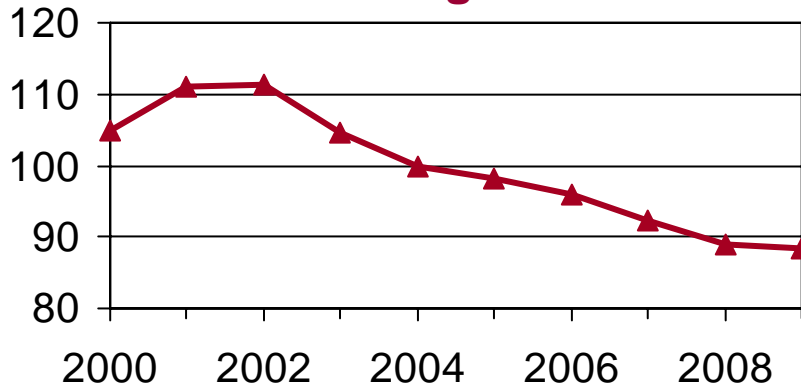
## Real GDP Growth



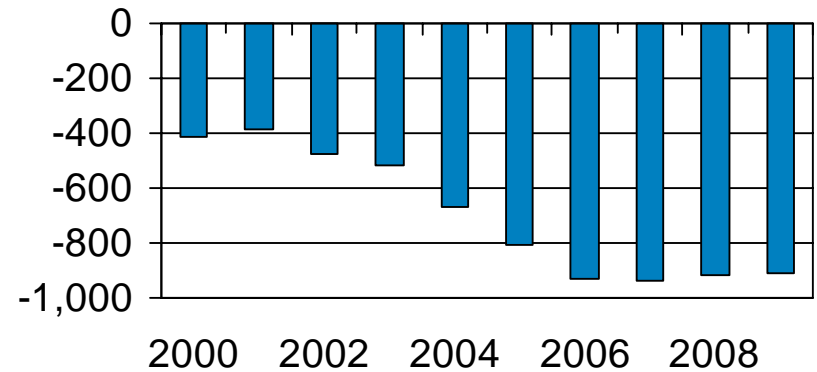
## Inflation



## Real Exchange Rate\*



## Current Account Balance\*\*



\*FRB broad index, March 1973=100

\*\*Billions of U.S. dollars



# ***The U.S. Trade Deficit is a Result of Imbalanced U.S. Trade though the Problem is Two-way***

- **The U.S. is dependent on lending from foreigners to finance its record trade deficit**
- **Trading partners are dependent on the U.S. consumer for the demand to keep them employed**
- **The global trade imbalance requires a global solution:**
  - **Higher U.S. savings, including federal deficit reduction and a cooling of housing and consumer markets**
  - **Faster domestic growth in Western Europe and Asia**
  - **U.S. dollar depreciation; Asian currency appreciation**
- **A further dollar slide of 10% is expected, with as much as 30% possible, promoting U.S. exports and dampening U.S. import demand, though over several years**

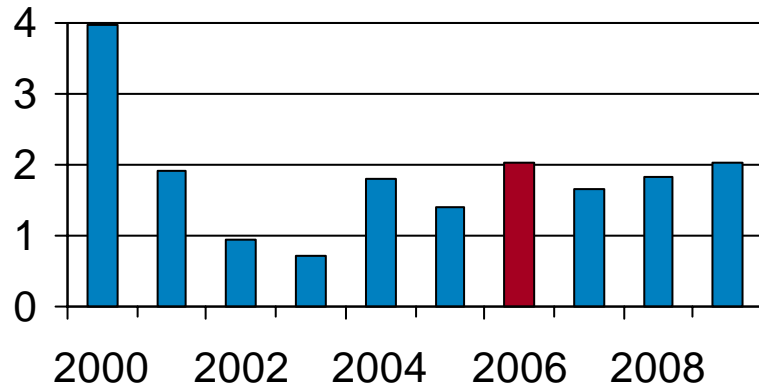
# ***Eurozone – How Long Will the Rebound Last?***

- **Good news: Capital spending and exports have strengthened while inflation remains tame**
- **Key uncertainty: When will consumer spending pick up?**
- **European business confidence remains much stronger than consumer confidence**
- **Business surveys are stronger than the hard data**
- **Headwinds**
  - **Rising interest rates**
  - **An even stronger euro**
  - **Tighter fiscal policy**
  - **Political turmoil and paralysis**

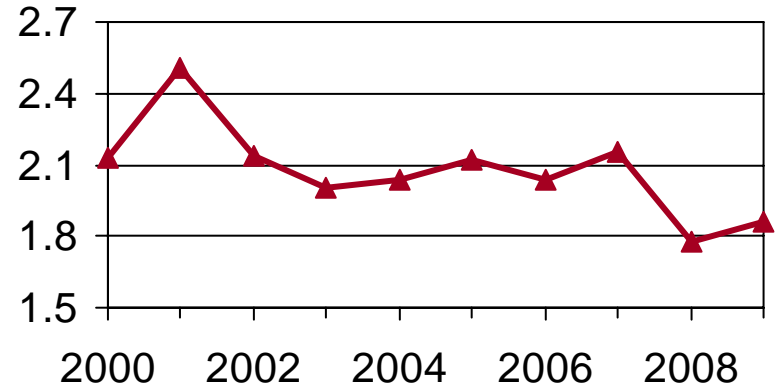
# Eurozone

(Percent)

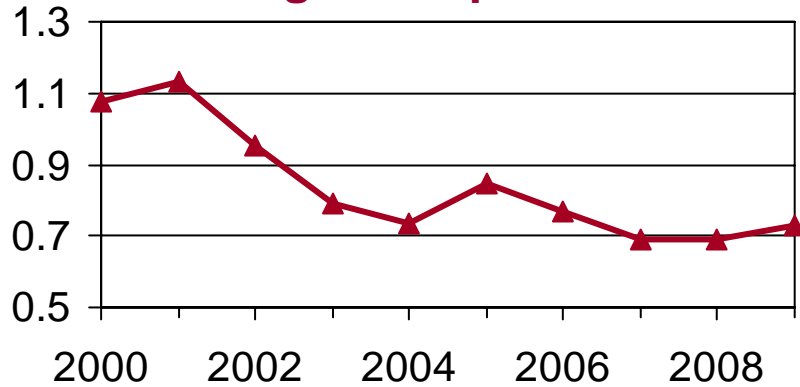
## Real GDP Growth



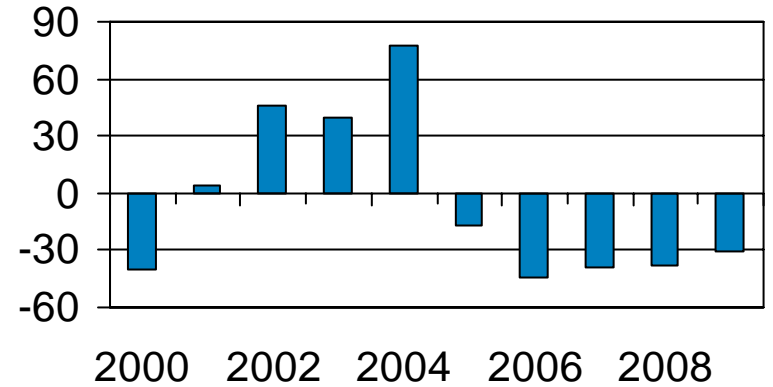
## Inflation



## Exchange Rate per US\$\*



## Current Account Balance\*\*

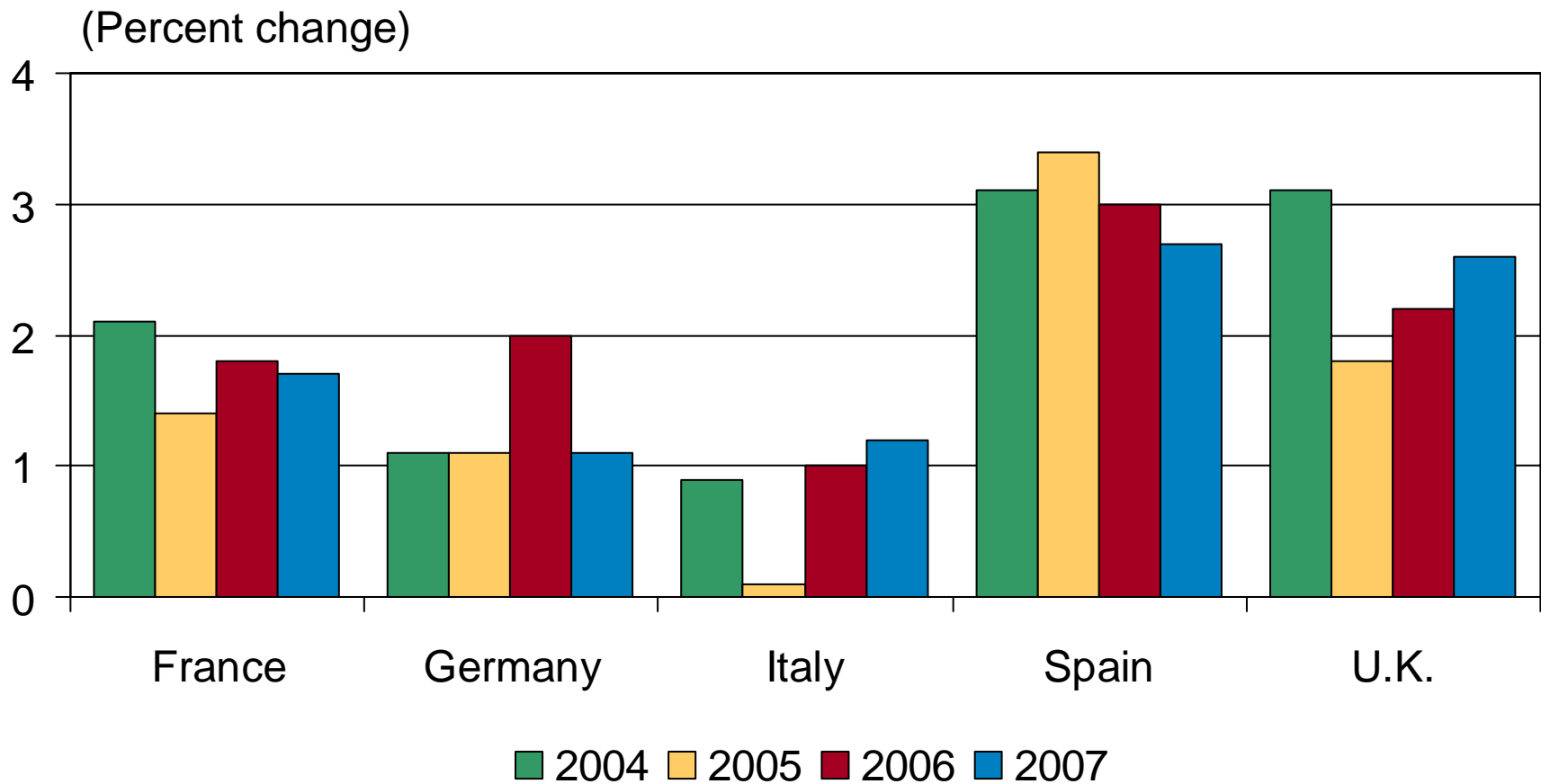


\*Year-end

\*\*Billions of U.S. dollars



# Real GDP Growth Rates Vary Across Europe



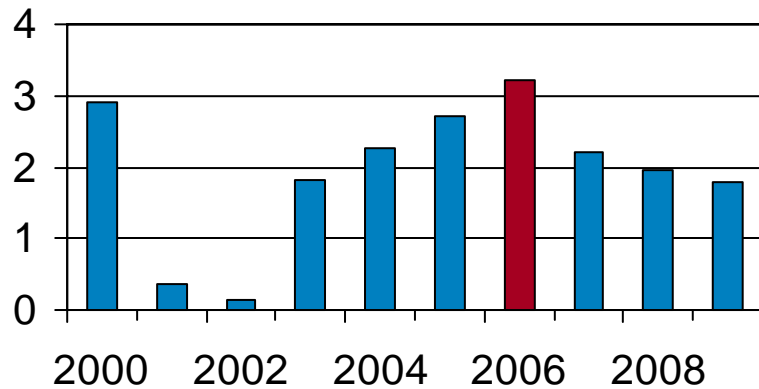
# ***Japan – Good Progress, But Many Challenges Lie Ahead***

- **Corporate and financial restructuring has come a long way – but the adjustment is still incomplete**
- **A more pro-active monetary policy is bringing an end to the era of deflation**
- **The growth rebound has been broad-based**
- **Challenges**
  - **A stronger yen**
  - **Higher interest rates**
  - **Tighter fiscal policy**

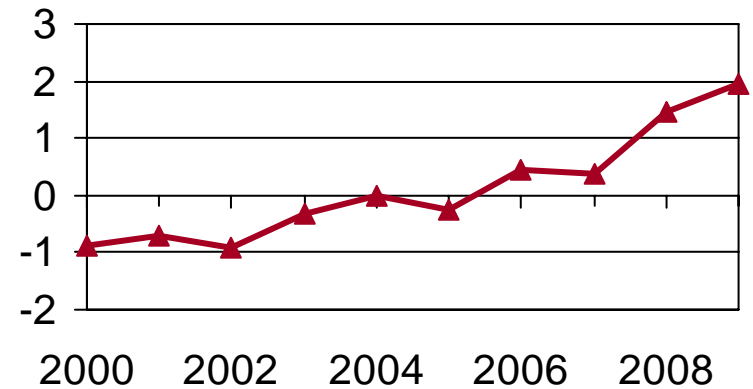
# Japan

(Percent)

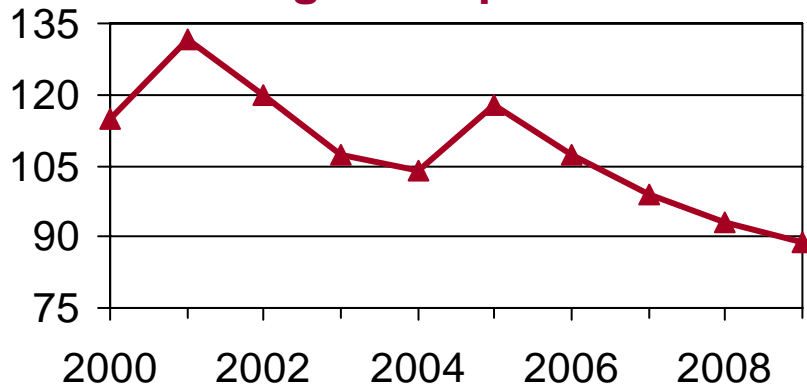
## Real GDP Growth



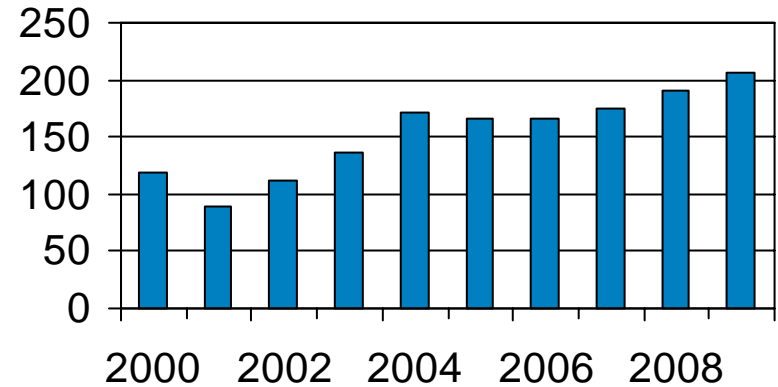
## Inflation



## Exchange Rate per US\$\*



## Current Account Balance\*\*



\*Year-end

\*\*Billions of U.S. dollars





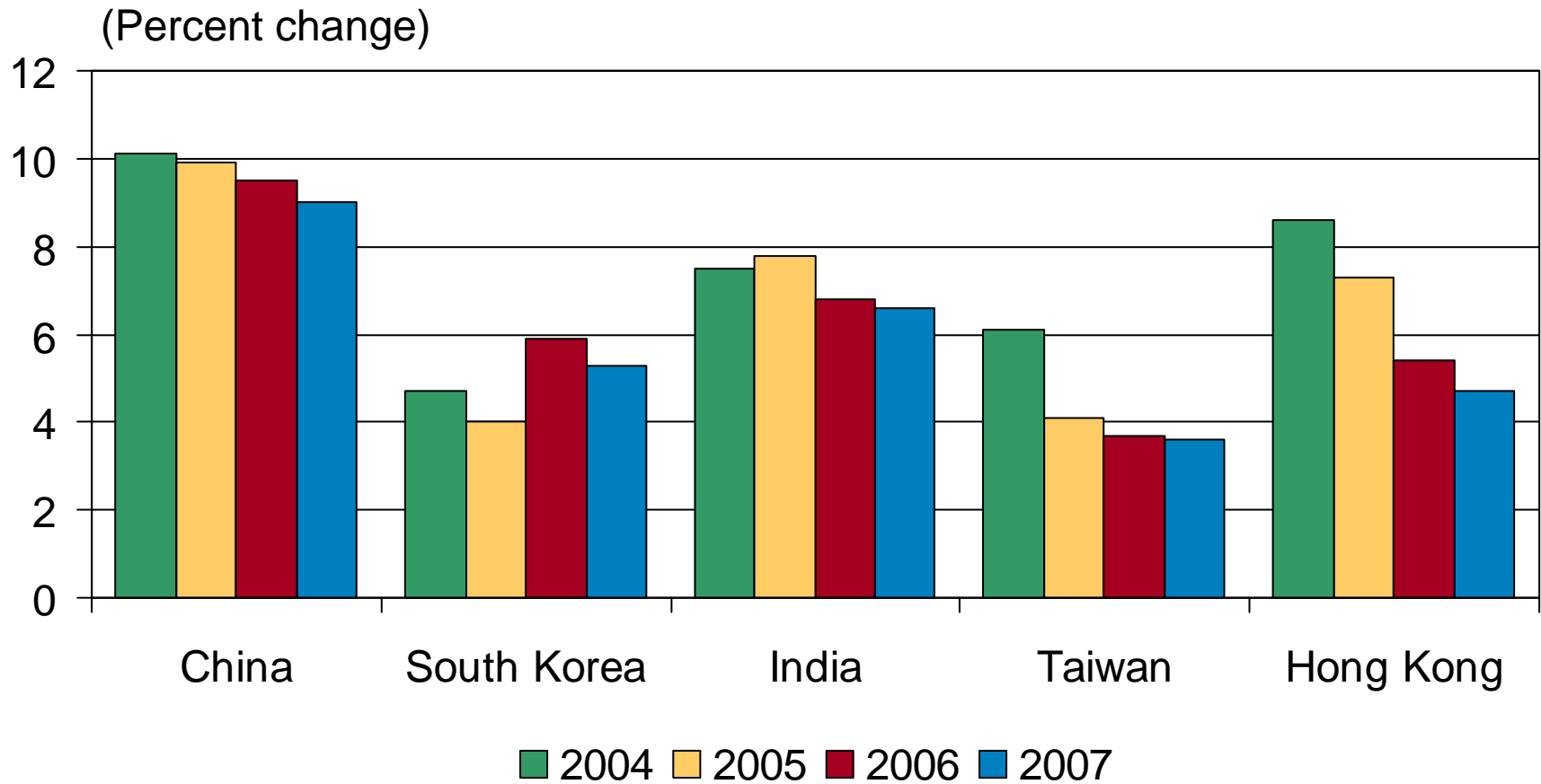
# ***Asia Is Supporting World Growth***

- **Asia will remain a powerhouse of global growth in 2006, with only a modest deceleration**
- **Momentum is shifting from exports to domestic demand, resulting in more-balanced growth – although growth is still too export-dependent**
- **Central banks are gradually raising interest rates to counter inflationary pressures, but policies remain accommodative and inflation remains under 4% in most Asian economies**
- **High saving rates relative to investment rates mean that these economies will continue to be capital exporters (i.e. to the U.S.)**
- **Exchange rates across Asia will rise as part of a global trade adjustment**

# ***Asia-Pacific's Key Economies***

- **China's rapid growth will *eventually* decelerate as the government curbs excessive state investment**
- **India will maintain high growth, led by its software, biotech, and business and financial services industries**
- **South Korea's economy is accelerating as consumer spending rebounds and capital investment strengthens**
- **A gradual slowdown in exports to the U.S. and China will temper growth in Taiwan and Hong Kong**

# Real GDP Growth in Asian Economies



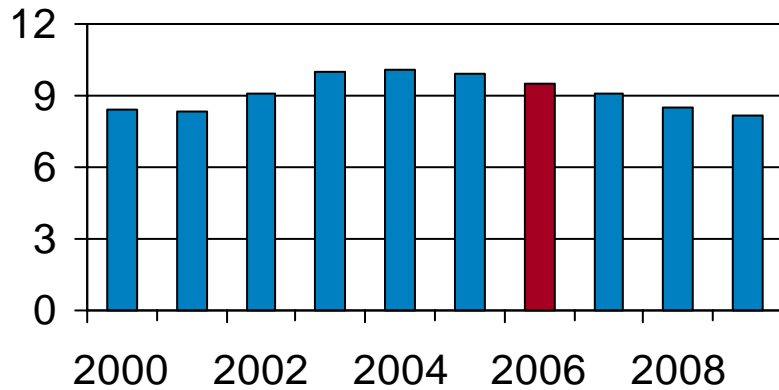
# ***China as a Global Economic Power***

- **China's rapid, sustained expansion has been driven by exports and investment**
- **Growth will moderate as investment and exports decelerate, while imports accelerate and consumer spending picks up moderately**
- **Price controls in the energy sector have created inefficiencies and excess investment in energy-intensive industries**
- **Under the new 2005 managed float, the renminbi will appreciate modestly and gradually, by about 3–5% annually**
- **Concern remains with what happens with the growing incompatibility between China's closed and rigid political system and its increasingly market-oriented economic system**

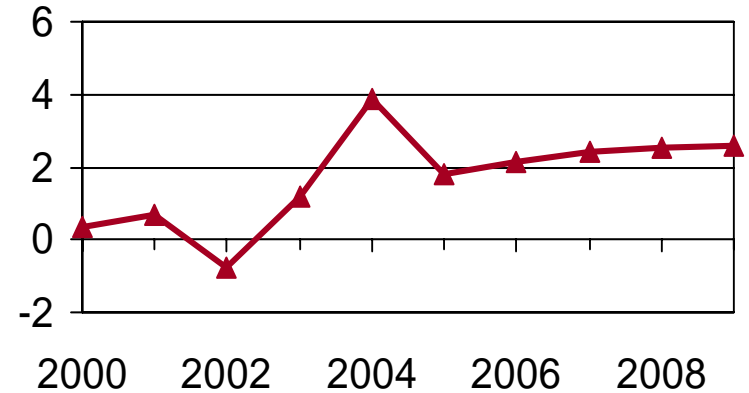
# China

(Percent)

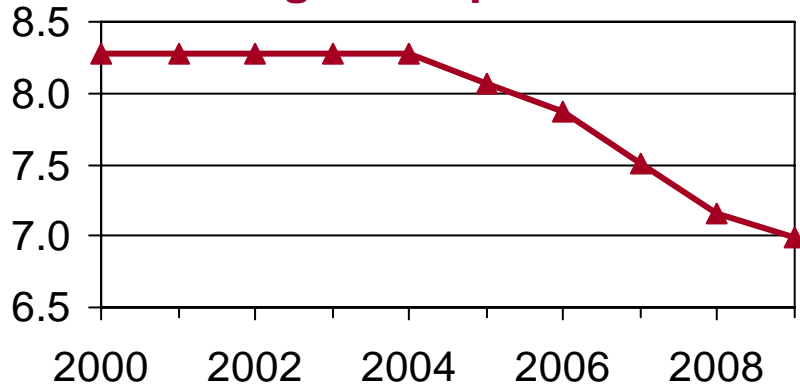
## Real GDP Growth



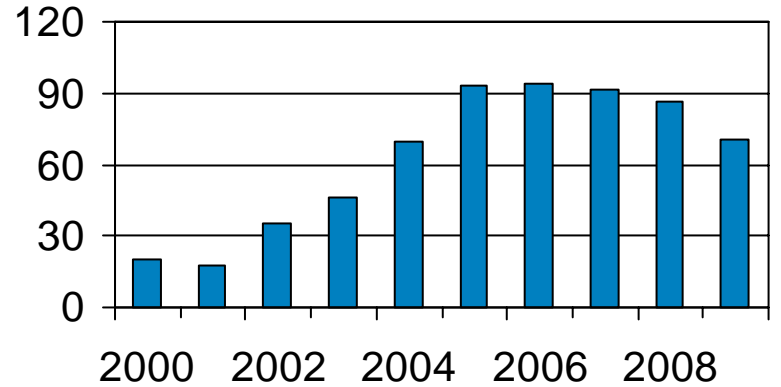
## Inflation



## Exchange Rate per US\$\*



## Current Account Balance\*\*



\*Year-end

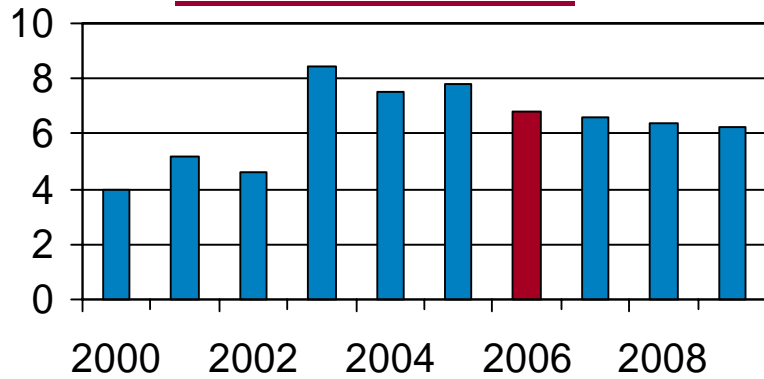
\*\*Billions of U.S. dollars

# ***India Will Sustain 6–7% Real GDP Growth***

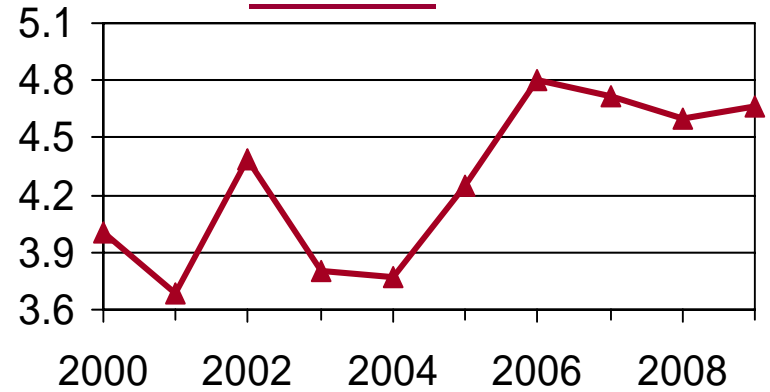
- **Economic reforms are slowly gaining momentum, opening the economy to more trade and foreign investment**
- **Information technology services, pharmaceuticals, business outsourcing, and financial services are driving export growth, leveraging India's strengths in engineering and analytically skilled workers**
- **India's population of 1.1 billion is growing 1.5% annually**
- **But India is still a relatively closed economy with high tariffs, non-tariff barriers, a overbearing bureaucracy, inadequate infrastructure, and a big fiscal deficit**

# India

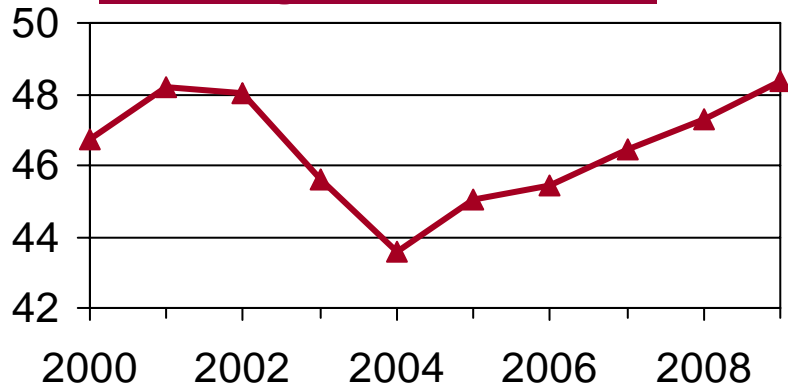
## Real GDP Growth



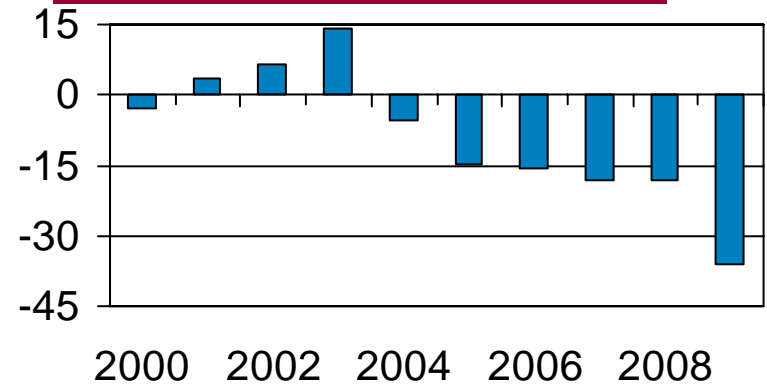
## Inflation



## Exchange Rate per US\$\*



## Current Account Balance\*\*

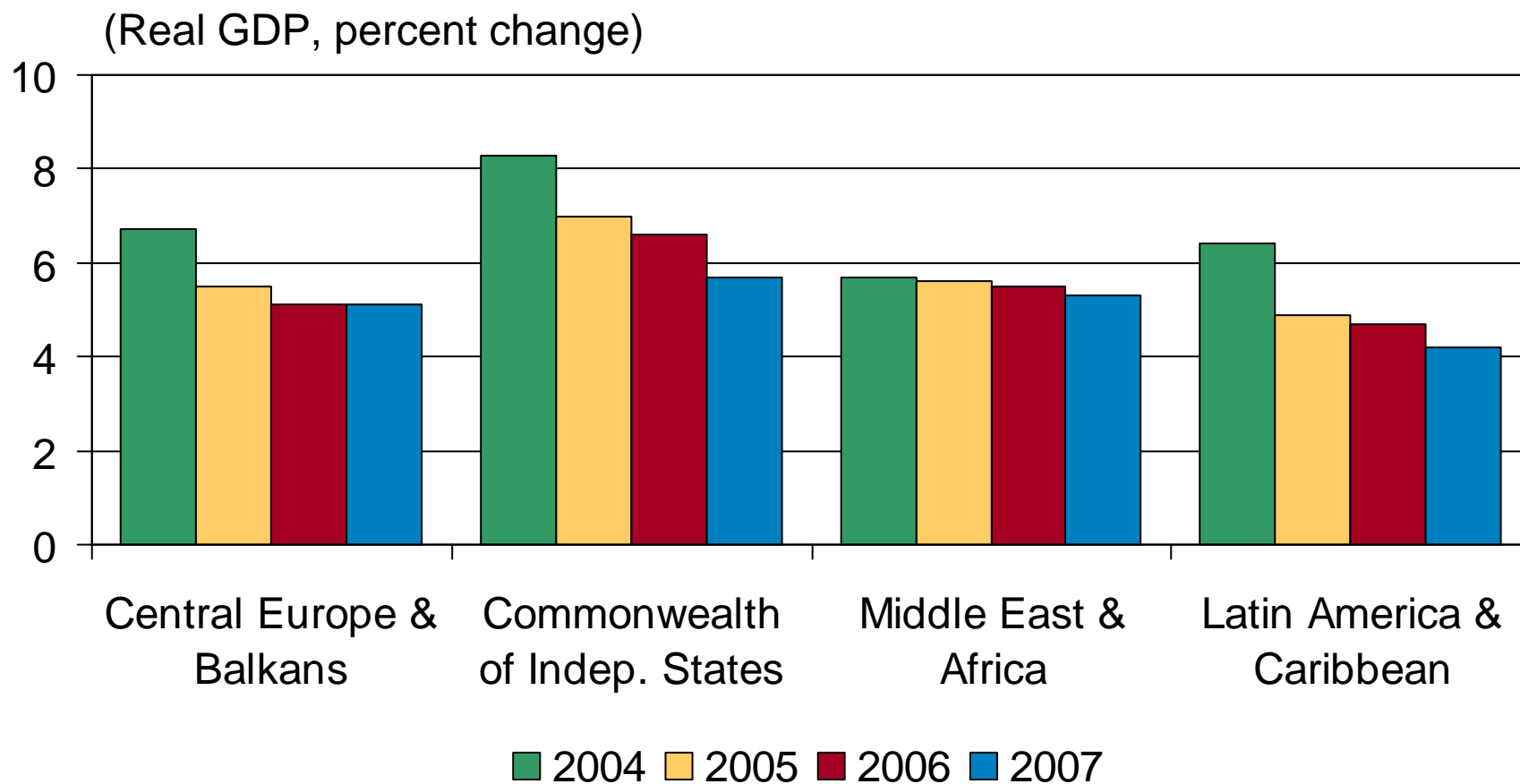


\*Year-end

\*\*Billions of U.S. dollars



# Other Emerging Markets Are Still Growing





# ***Latin America Is Growing, But Risks Are High***

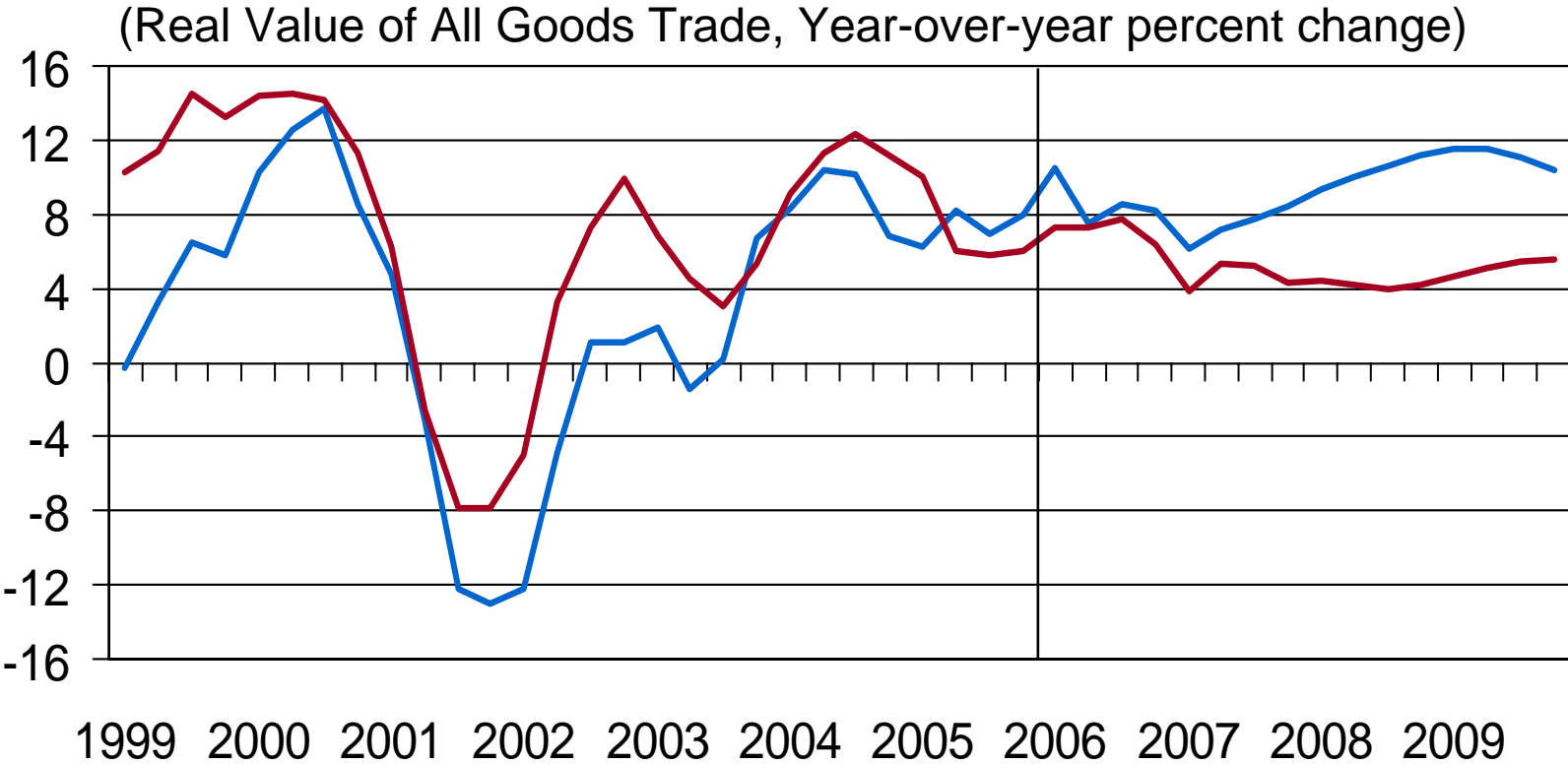
- **A growing world economy, competitive currencies, and high commodity prices are supporting Latin American growth, but a retreat from market reforms of the 1990s dims longer-term prospects**
- **Mexico's economy has rebounded, but progress on structural reforms has been slow and transition to the new President adds uncertainty**
- **In Brazil, corruption scandals weaken the ruling party, while high interest rates are restraining growth**
- **Argentina's economy has rebounded strongly, but production bottlenecks are fueling double-digit inflation**
- **In Venezuela, the oil export windfall has enabled President Chavez to increase public spending, but macroeconomic imbalances are accumulating under price and exchange rate controls**
- **Chile's growth will be supported by high copper prices, a favorable investment climate, and fiscal surpluses**



**GLOBAL** INSIGHT

# U.S. Trade Outlook

# U.S. Merchandise Trade Outlook Reflects the Impact of Exchange Rates, Business & Consumer Spending

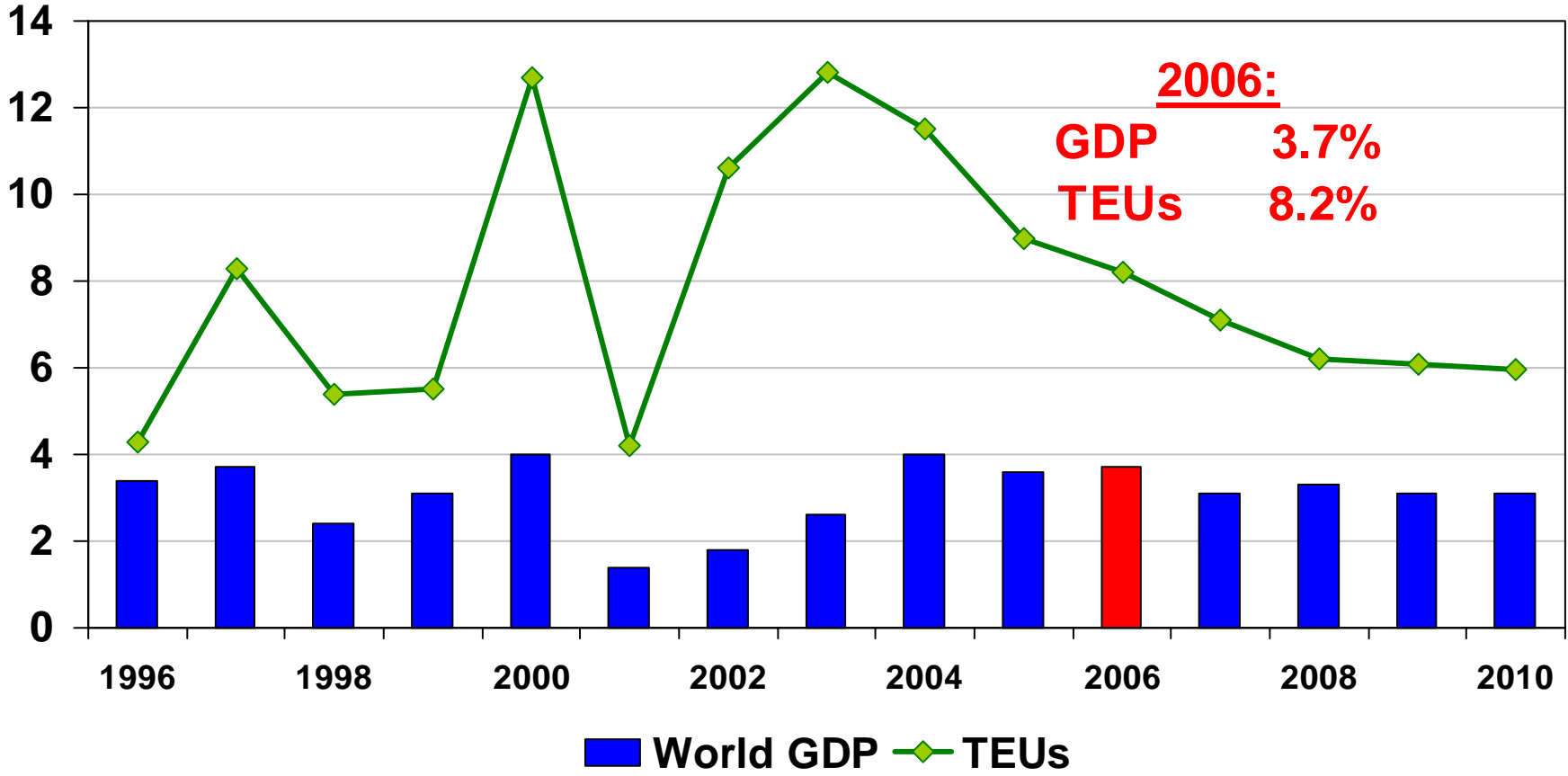


— Real Exports — Real Imports

Source: Global Insight U.S. Macroeconomic Forecasting Service

# Ocean Container Trade Volume Will Continue to Grow Faster than the World Economy

(Year-over-year percent change)



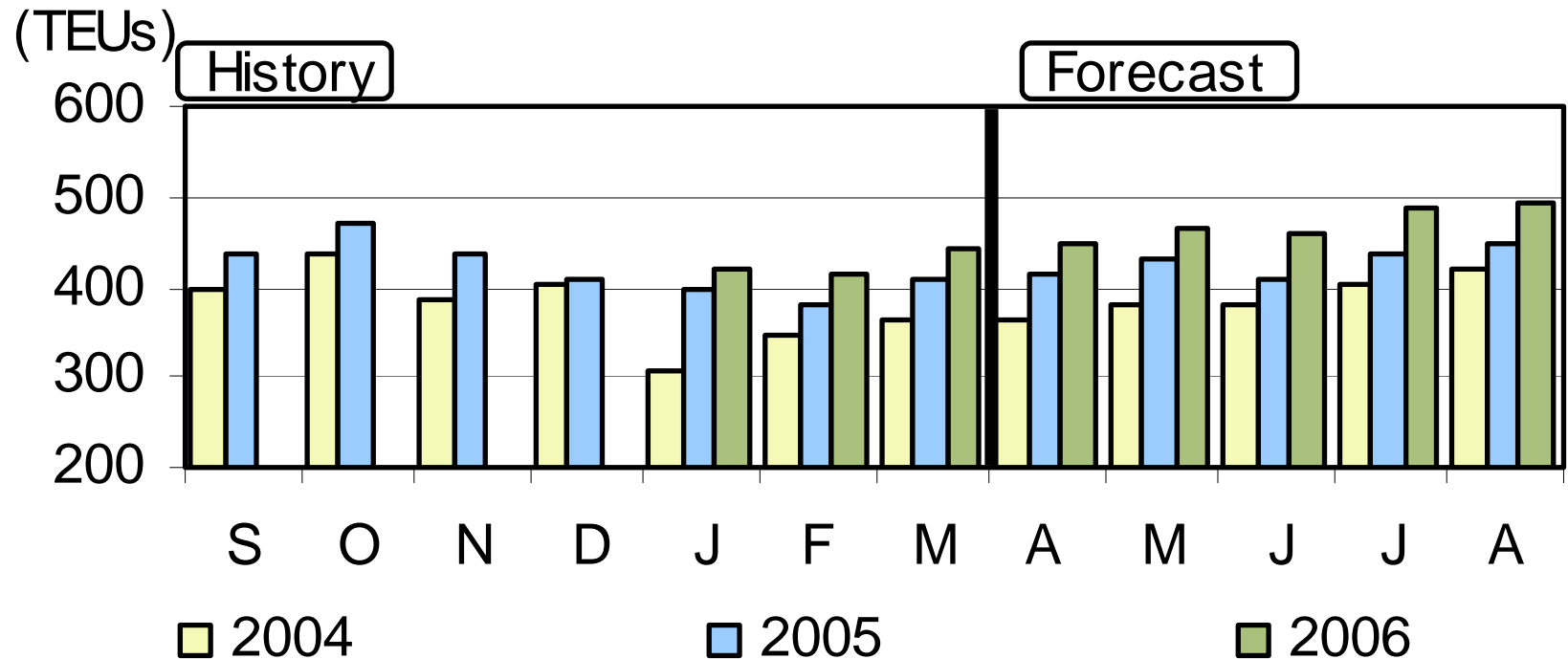
Source: Global Insight World Service and World Trade Service

# Port Tracker *Container Port Congestion Outlook*

- Our forecast of U.S. container port traffic, done for the Supply Chain Council of the National Retail Federation and as published monthly in *Port Tracker*, is for no congestion for the next six months at any of the key U.S. container ports.
- There will be continued challenges to system performance due to continued volume growth, especially from Asia.
- There are continued concerns with the tight conditions in the rail system and ongoing challenges for trucking.
- The industry should be able to repeat the overall success of the 2005 and keep any terminal and network congestion that develops to a minimum through continued refinement to operations and continued vigilance over performance.

# Import Volumes Build Towards a New Record Peak

## East Coast Total Import Volume



Source: Port Tracker



# ***Bottom Line***

- **There is a growing risk of a boom-bust at the global level**
- **While in the near term Japanese and European growth has picked up, they don't replace the U.S. and China as the primary growth engines**
- **Emerging markets are benefiting from global growth, but are increasingly vulnerable to higher interest rates and lower commodity prices**
- **U.S. maritime trade growth this year will be stronger than last year, with export growth faster than import growth.**



**GLOBAL** INSIGHT

# Thank You

**Paul Bingham**

**Global Insight Global Trade and Transportation Practice**

**E-mail: [paul.bingham@globalinsight.com](mailto:paul.bingham@globalinsight.com)**

**(202) 481-9216**