



IHS Markit™

The US Economy and Container Trade in 2017 and Beyond

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Mario.Moreno@ihsmarkit.com

Agenda

- US economic outlook – Looking beyond short-term volatility
- US container trade outlook – imports continue to expand while exports are now recovering. What next?
- Alternative scenarios and conclusions: a look at the demand drivers of US TEU imports trade in the midst of political and policy uncertainties.

US economic outlook

Looking beyond short-term volatility

US economic growth will strengthen this spring

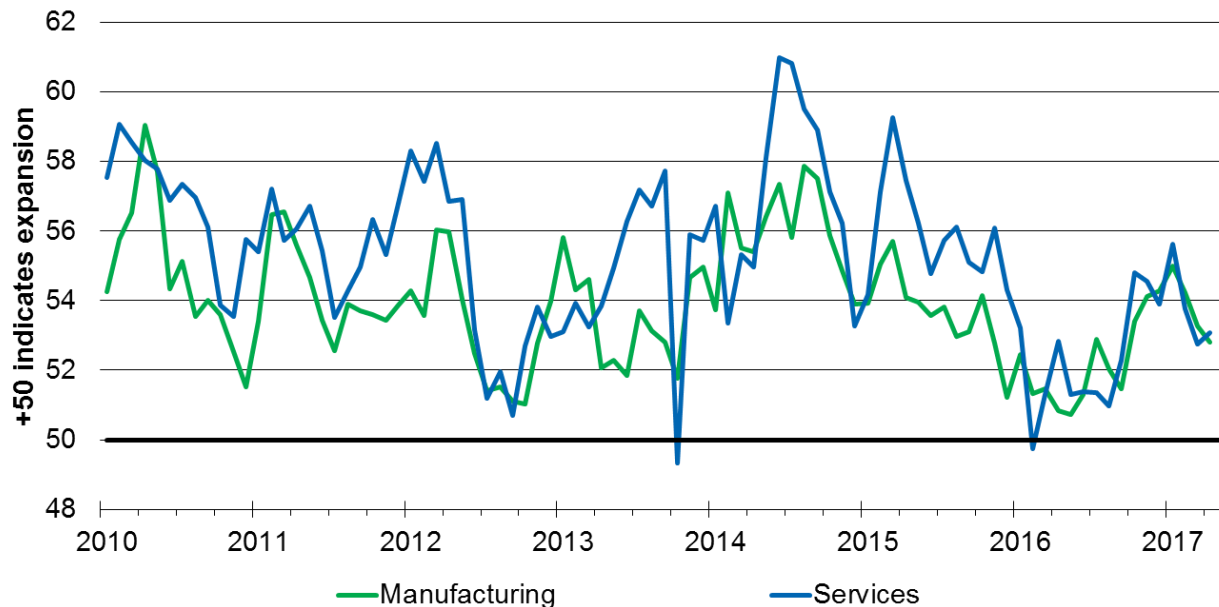
- Real GDP growth is on track to rebound from 1.2% annual rate in the first quarter of 2017 to 3.0%+ in the second quarter.
- Consumer spending will be supported by rising employment, real incomes, and household wealth.
- Business fixed investment will benefit from strengthening global markets, firmer commodity prices, an easing of regulations, and tax cuts in 2018.
- Brisk sales, low inventories of homes for sale, and rising prices will encourage more homebuilding, even as interest rates rise.
- Inflation, measured by the GDP deflator, will settle in the 2.0–2.3% range.
- The Federal Reserve will gradually raise interest rates (taking the federal funds rate to 3% in late 2019) and reduce its asset holdings.
- In response to a strong dollar, real import growth will outpace real export growth through 2019.

US policy assumptions in the IHS Markit's forecast

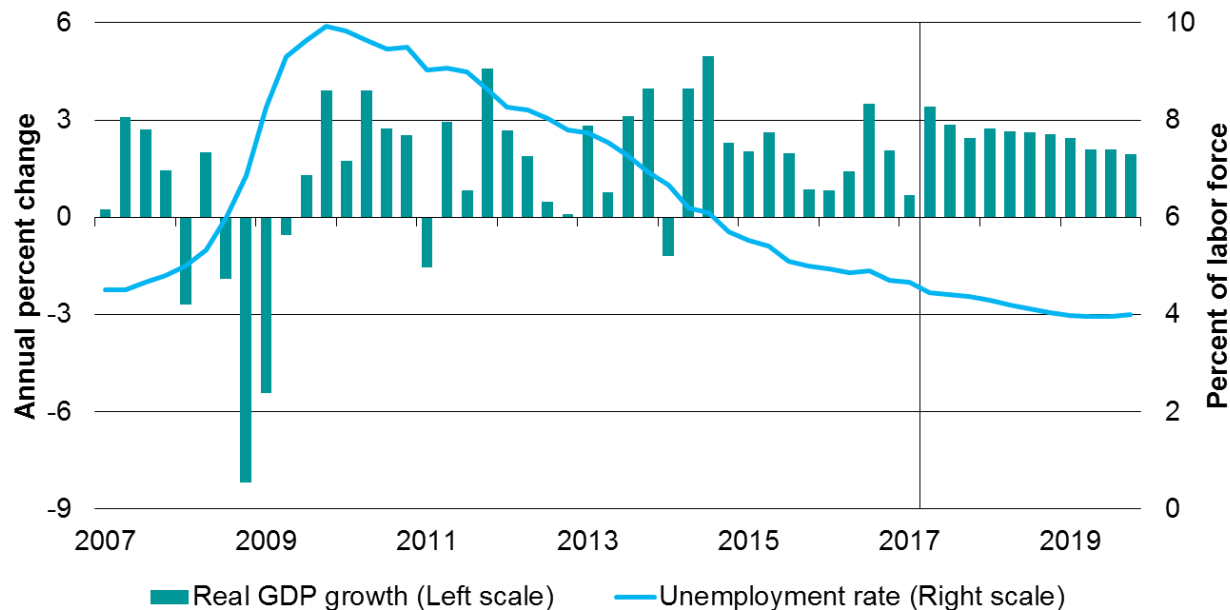
- A reduction in the statutory corporate income tax rate from 35% to 20%, partially offset by fewer tax credits, starting in January 2018
 - > No border adjustments
 - > Repatriation of \$800 billion of foreign profits at a reduced tax rate of 10% in 2018
- Personal income tax reforms that lower the average effective federal tax rate from 21.0% to 19.5% starting in 2018
- An increase in public infrastructure investments totaling \$250 billion over 10 years
- No major changes in healthcare or international trade policies
- Federal Reserve policy rate increases of 75 basis points in each of the next three years, bringing the rate to a long-term equilibrium of 3%
- Beginning in late 2017, the Fed will begin to reduce its asset holdings

Markit PMI indexes signal moderate economic growth

Markit PMI indexes for US

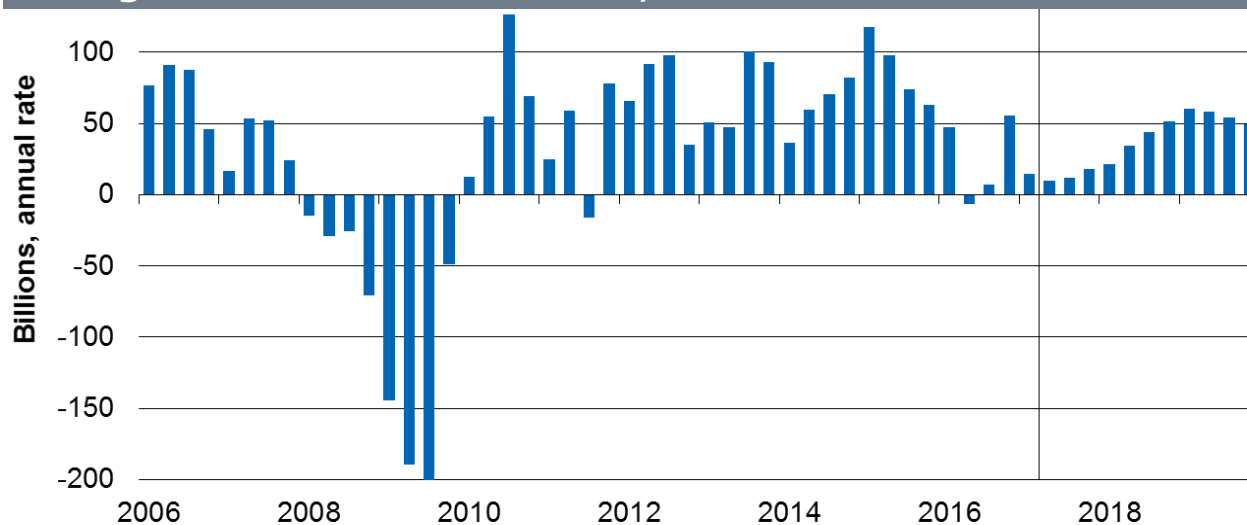


A 2017–18 pickup in US real GDP growth will lead to further declines in the unemployment rate



A gradual return to normal inventory investment will boost economic growth in 2018

Change in nonfarm inventories, 2009 dollars



Source: IHS

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Forces affecting consumer spending

Positive forces

- Employment growth
- Wage acceleration
- Rising asset values
- Income tax cuts in 2018
- Expansion of e-commerce

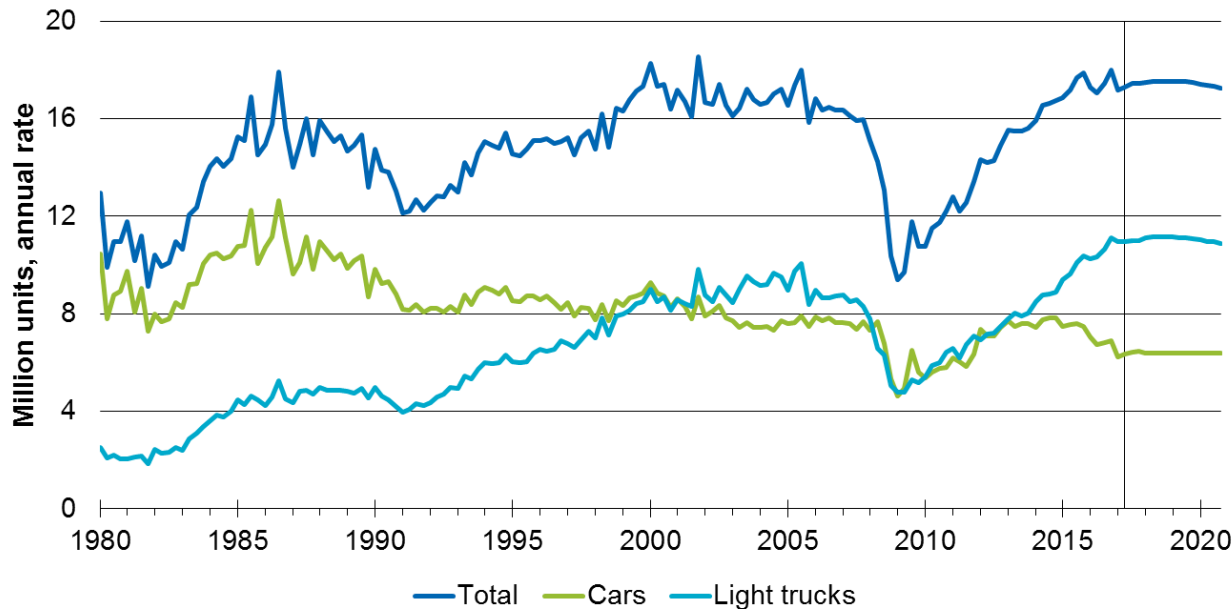


Negative forces

- High student debt burdens
- Saving for retirement
- Asset and income inequality raises aggregate saving

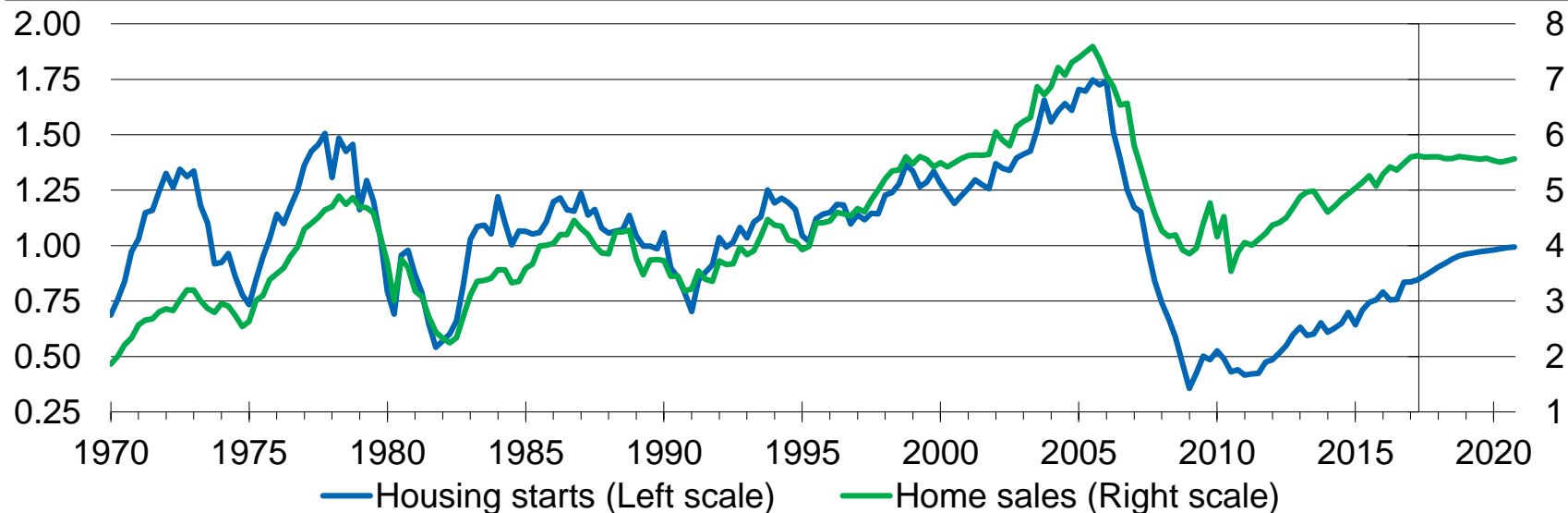


US light-vehicle sales have reached their peak; light trucks will continue to outsell cars

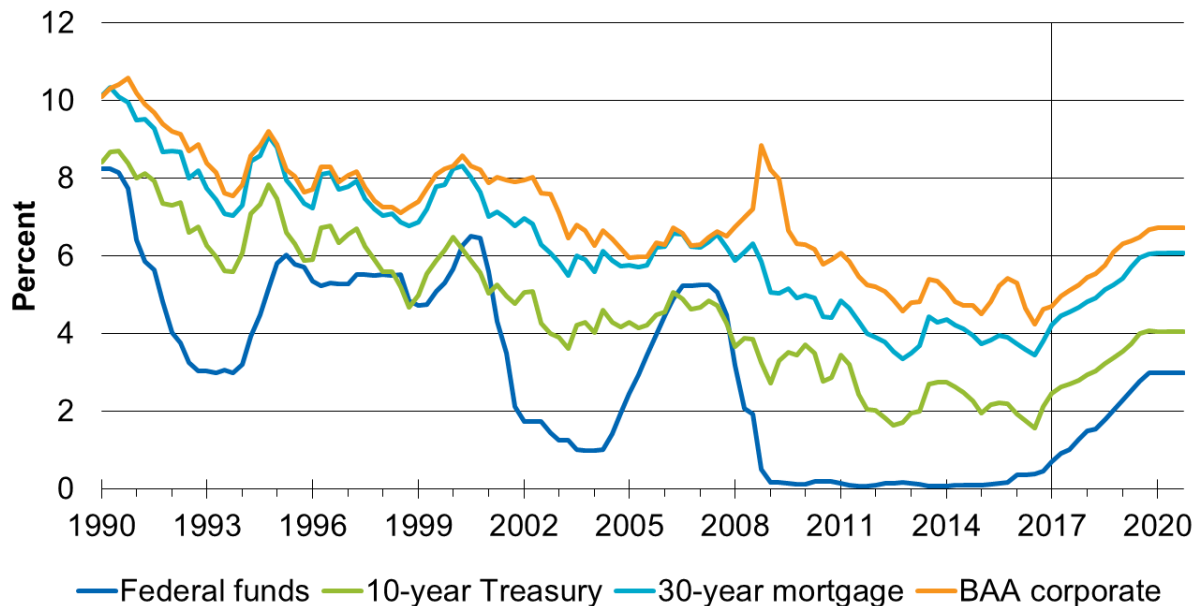


Single-family home sales and construction are not expected to regain their 2005 peaks

Single-family housing starts and sales, millions

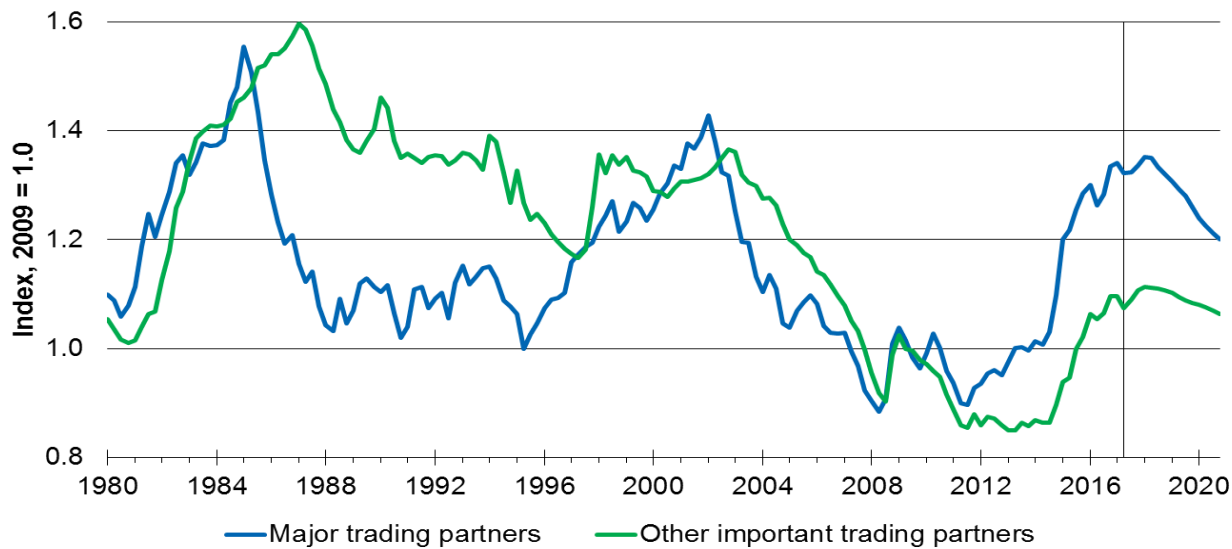


Interest rates will continue to rise as the Federal Reserve normalizes monetary policy



The dollar's real exchange value will depreciate in the medium term

Real trade-weighted dollar index



Bottom line for the US economy

- Real GDP growth is projected to pick up from 1.6% in 2016 to 2.2% in 2017 and 2.7% in 2018, before settling back to 2.4% in 2019.
- Consumer spending will be supported by solid gains in employment, real disposable incomes, and household net worth.
- Business fixed investment will benefit from an improving tax and regulatory environment, along with firmer commodity prices.
- Wage and price inflation will rise in 2017, while the Federal Reserve will gradually raise the federal funds rate to an equilibrium level of 3% by the end of 2019.
- Foreign trade will remain a drag on real GDP growth, due to a strong dollar and sluggish expansions in some major export markets.

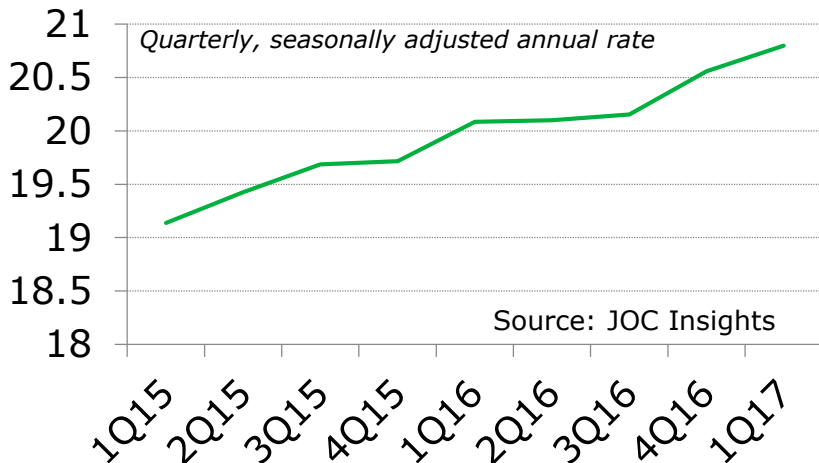
US Container Trade Outlook

Imports continue to expand while exports are now recovering. What next?

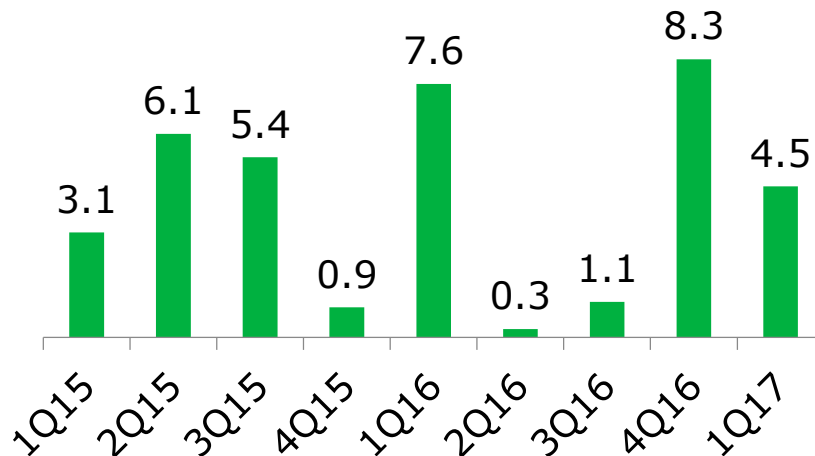
US imports kept uptrend not without facing headwinds

Imports rose 4.0% in 2016 as US economy underperformed, inventory realignment

**US Containerized Imports,
in millions of TEUs**



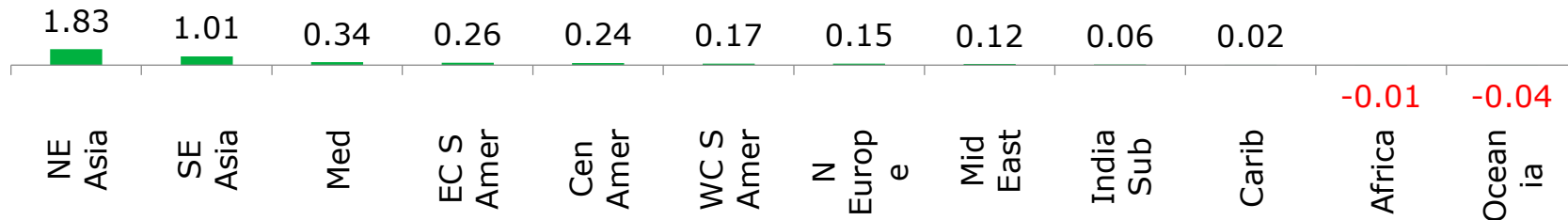
**US Containerized Imports
(Year-over-year % change)**



East Asia contributed most to 2016 imports growth

Contribution to US Containerized Imports Growth, 2016

(In percentage points)



Source: IHS JOC Container Shipping Outlook

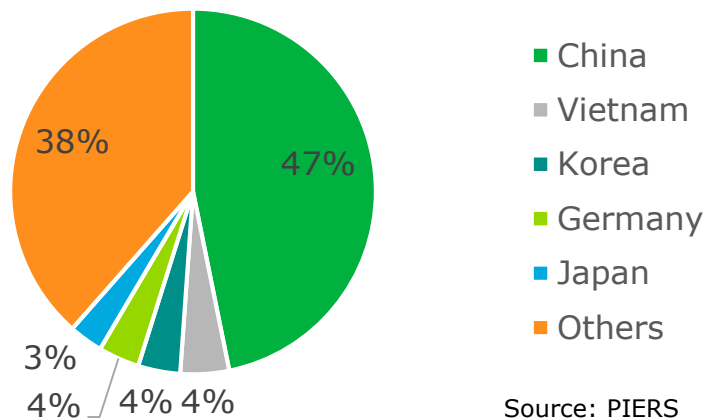
- Demand for some major consumer goods was solid.
- Subdued growth in import prices.
- In a country-specific level, China once again led the gains in 2016.

Consumer goods imports	2016 Growth
Furniture	+6%
Plastic products, misc.	+8%
Toys	+2%
Apparel, misc.	+5%
Lamps & parts	+6%

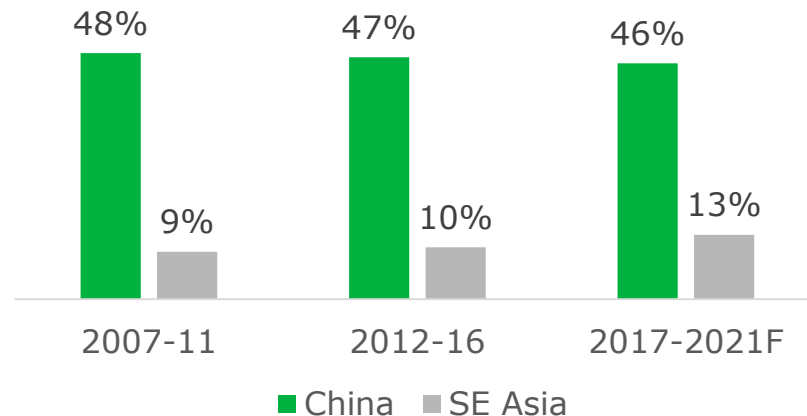
China continues to be top supplier of boxed goods to US

Vietnam's share of US TEU imports has risen at a remarkable pace

Top Source Countries,
2016



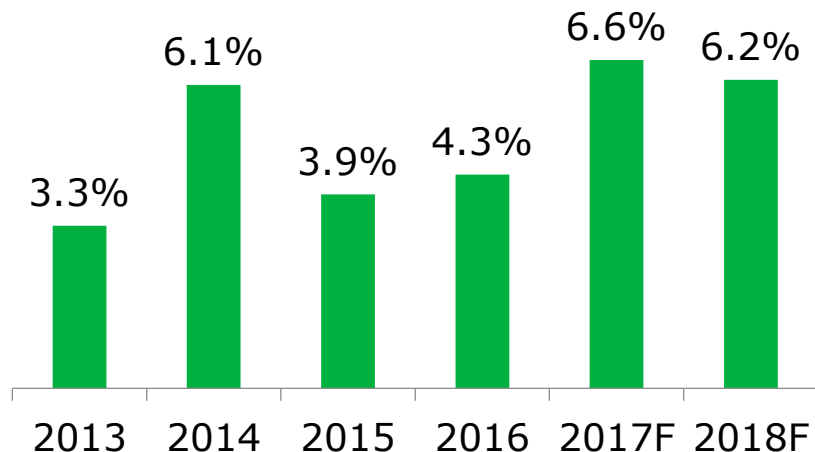
Share of US TEU Imports:
China vs. SE Asia



US imports forecast to continue growing in 2017-2018

Main assumption: No trade wars and no serious policy mistakes

Growth Forecast for US
Containerized Imports: Baseline



Source: JOC Container Shipping Outlook.

- US imports to expand 6.6% in 2017 and total 21.9M TEUs.
- US real GDP to rise 2.2% in 2017 (up from 1.6% in 2016), and expand 2.7% and 2.4% in 2018-2019, respectively.
- Existing home sales to increase from 5.44M in 2016 to 5.58M in 2017.
- US import prices expected to remain subdued on the back of a strong dollar.

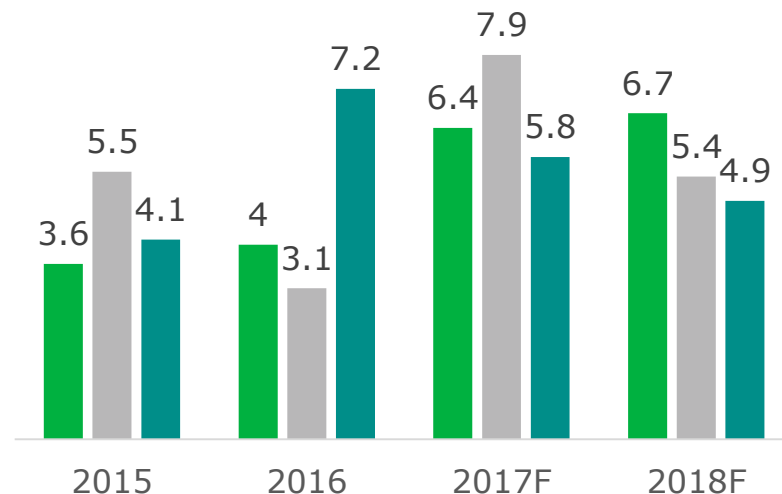
Asia-US to lead imports gains in 2017-18

Imports from Europe to accelerate

- China will once again be the main engine of growth in the Asia-US trade
- Favorable exchange rates are expected to drive near-term demand for European products.
- US imports from Latin America expected to keep the uptrend partly thanks to expanding residential construction activity.

US TEU Imports Forecast by Sourcing Region (Annual Percent Change)

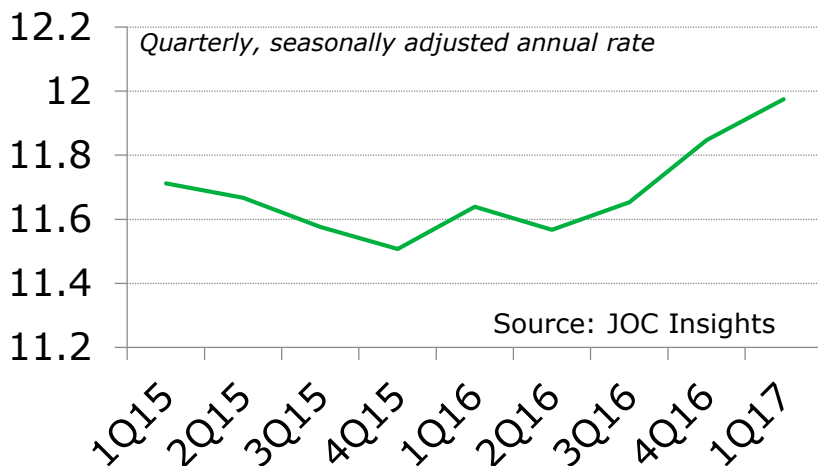
■ East Asia ■ Europe ■ LATAM



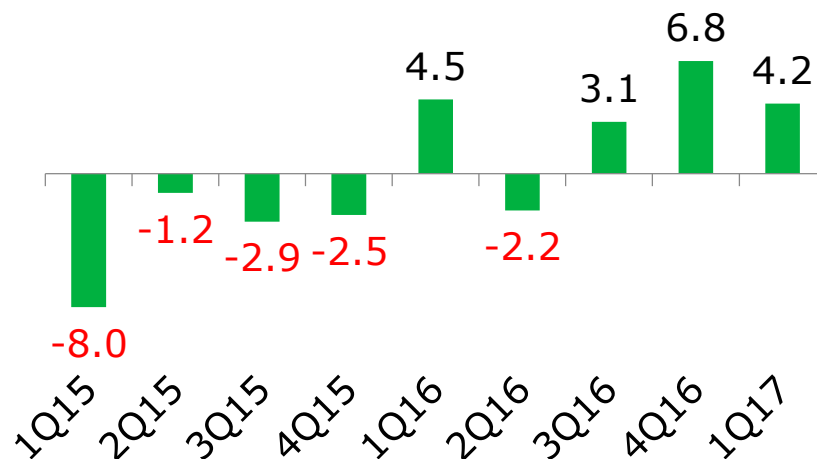
US exports are recovering

Exports rose 2.9% in 2016 after falling for two consecutive years

US Containerized Exports, in millions of TEUs



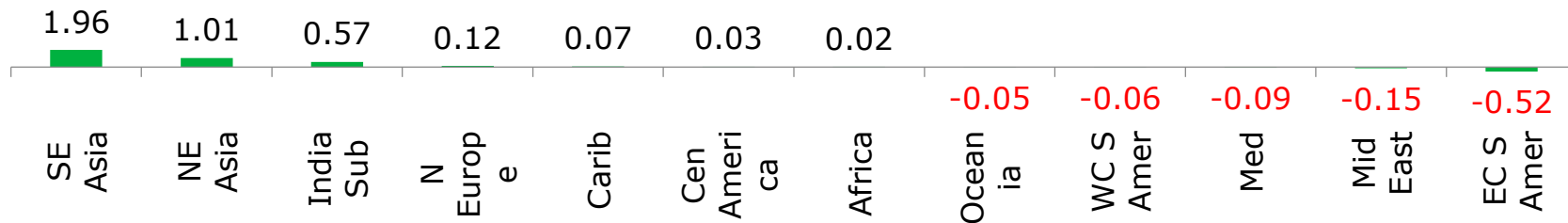
US Containerized Exports (Year-over-year % change)



East Asia contributed most to 2016 export growth

Contribution to US Containerized Exports Growth, 2016

(In percentage points)



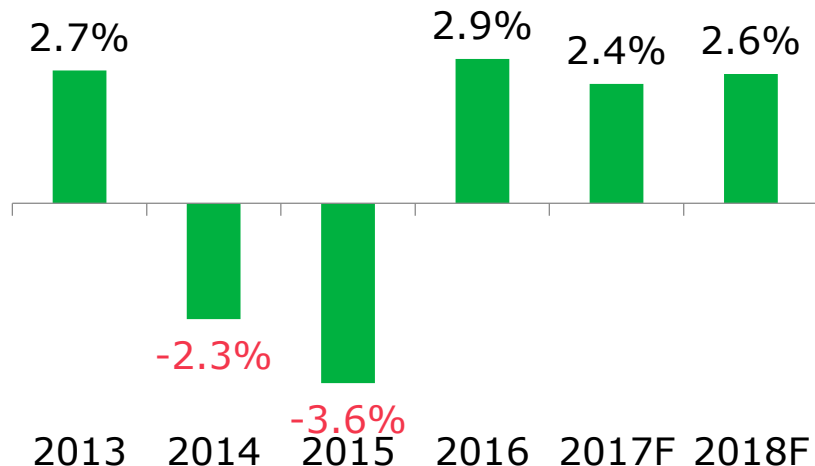
Source: IHS JOC Container Shipping Outlook

- East Asia led the gains, while the European market continued to struggle.
- Solid demand for industrial raw materials over 2H16.
- The USD further strengthened in 2016 but low ocean freight rates partly offsetting.

Top US TEU Exports	2016 Growth
Paperboard	2%
Pet & animal feeds	2%
Logs & lumber	21%
Wood pulp	5%
Meat, fresh and frozen	16%

US TEU exports forecast to grow modestly over next 2 years

Growth Forecast for US
Containerized Exports: Baseline



Source: JOC Container Shipping Outlook.

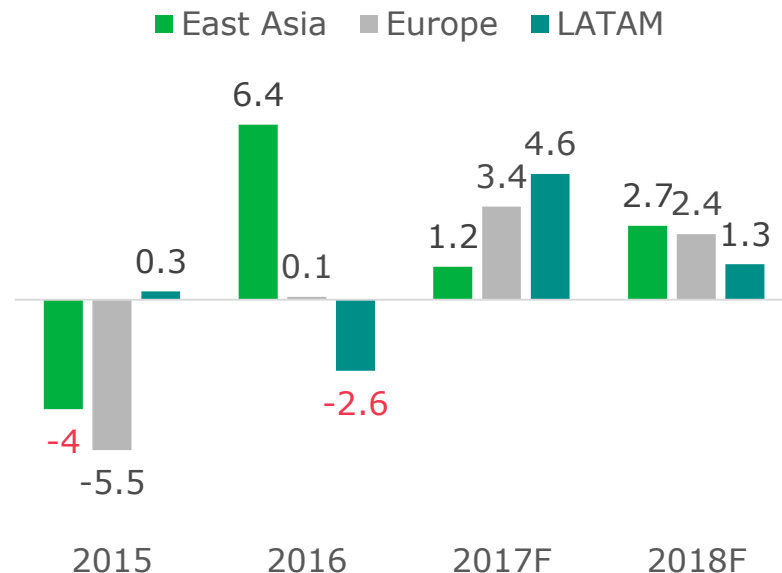
- US TEU exports forecast to expand 2.4% in 2017 and total 12.1M TEUs.
- World GDP, excluding NAFTA, forecast to rise 2.9% in 2017, up from 2.5% in 2016.
- Global manufacturing sector modestly improving.
- Downside: USD may rise further and peak in 2Q18; trade barriers.

US-Asia to lead exports gains over 2017-18

European market to pick up the pace

- US-Asia forecast to slow down the pace this year yet will contribute most to overall exports growth over 2017-2018.
- US-China trade barriers limit growth.
- The European market is expected to pick up the pace this year.
- The Latin American market is forecast to partially rebound partly owed to easy year-over-year comparison.

US TEU Exports Forecast by Regional Market (Annual Percent Change)



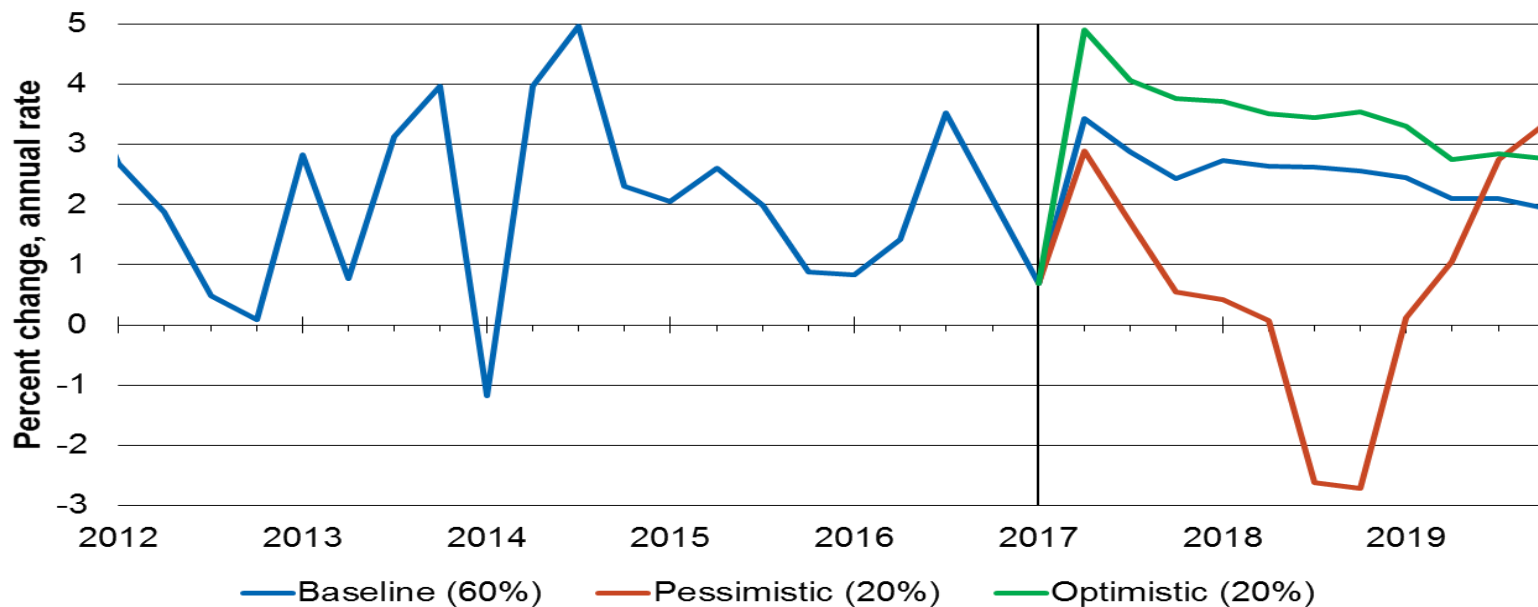
Alternative scenarios and conclusions

Risks to the US forecast

Scenario	Characteristics
Recession induced by strained trade relations (Probability = 20%)	<ul style="list-style-type: none"> • Strained trade relations with Mexico and China undermine business confidence, investment, and productivity. • A stock market correction, a surge in oil prices, and a weakening job market hurt consumer spending. • The US suffers a recession in the second half of 2018.
Lower taxes and fewer regulations (Probability = 20%)	<ul style="list-style-type: none"> • A rollback of regulations and lower corporate taxes result in higher capital spending and productivity. • Consumer and housing markets benefit from higher incomes and milder inflation. • Stronger global economic growth helps exports.
Baseline forecast (Probability = 60%)	<ul style="list-style-type: none"> • The Fed gradually raises interest rates through 2019. • Personal and corporate income tax rates are cut in 2018. • Consumer spending, homebuilding, and business fixed investment post moderate growth. • Global economic growth picks up in 2017–18.

Real GDP growth in alternative scenarios

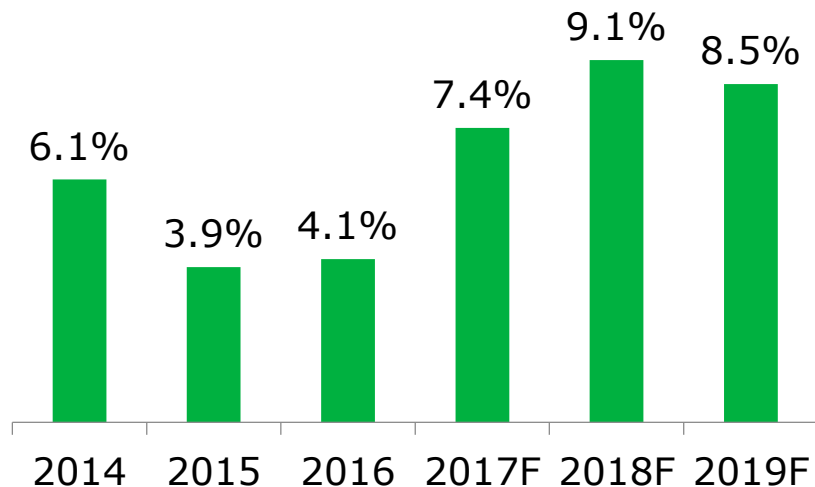
US Real GDP



Optimistic scenario: US imports accelerate over next 3 years

Main assumption: Lower taxes and fewer regulations (20% probability)

Growth Forecast for US
Containerized Imports: Optimistic



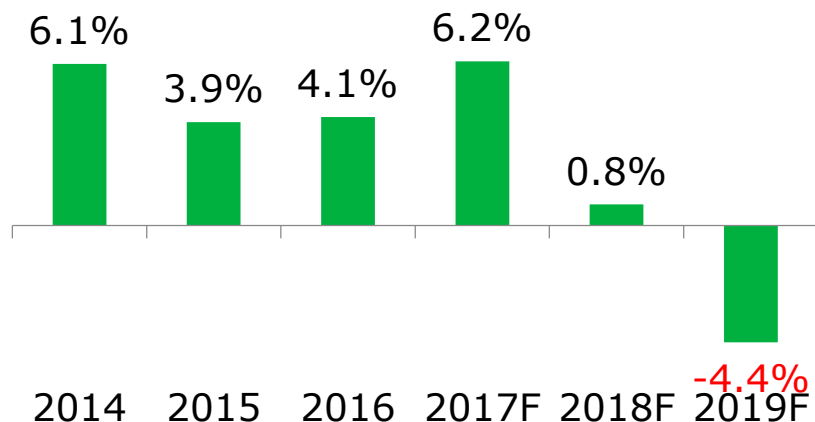
Source: JOC Container Shipping Outlook.

- US imports to expand 7.4% in 2017 and total 22.1M TEUs.
- US real GDP to rise 2.7% in 2017, up 3.8% in 2018, up 3.2% in 2019.
- Existing home sales increase from 5.44M in 2016 to 5.67M in 2017.

Pessimistic scenario: US imports stall and fall in 2018-2019

Main assumption: Strained trade relations trigger US recession (20% prob.)

Growth Forecast for US
Containerized Imports: Pessimistic



Source: JOC Container Shipping Outlook.

- US imports to expand 6.2% in 2017 and total 21.8M TEUs.
- US real GDP to rise only 1.9% in 2017, up from 1.6% from 2016, up 0.1% in 2018, and down 0.1% in 2019.
- Existing home sales decline from 5.44M in 2016 to 5.51M in 2017, and down to 4.89M in 2018.
- An all-out trade war with either Mexico or China is still unlikely.

Conclusions

- US economic growth will strengthen this Spring.
- US containerized imports forecast to keep the uptrend on the back of improving economic conditions.
- US containerized exports forecast to grow modestly over the next 2 years as demand from key markets improve.
- Strained trade relations with Mexico and China could bring the US economy into recession with adverse consequences over TEU trade.
- An all-out trade war with either Mexico and China still unlikely.

Thank you.



JOC Senior Economist Mario O. Moreno,
JOC Insights, JOC Container Shipping Forecast, JOC Port
Forecast

Appendix

US economic growth by sector

Real GDP and its components				
Percent change	2016	2017	2018	2019
Real GDP	1.6	2.2	2.7	2.4
Consumption	2.7	2.5	3.2	3.0
Residential investment	4.9	5.5	3.6	2.3
Business fixed investment	-0.5	4.5	4.5	3.8
Federal government	0.6	0.1	-0.4	-1.1
State & local government	0.9	0.1	2.0	1.5
Exports	0.4	2.7	2.0	3.0
Imports	1.2	3.6	5.4	5.6

Other key US indicators

Key indicators				
Percent change	2016	2017	2018	2019
Industrial production	-1.2	1.9	2.9	2.4
Payroll employment	1.8	1.5	1.1	1.1
Light-vehicle sales (Million units)	17.5	17.3	17.5	17.5
Housing starts (Million units)	1.18	1.27	1.35	1.41
Consumer Price Index	1.3	2.3	1.8	2.2
Core CPI	2.2	2.1	1.9	2.0
Brent crude oil price (USD/barrel)	44	55	54	61
Federal funds rate (%)	0.4	1.0	1.7	2.6
10-year Treasury yield (%)	1.8	2.5	3.2	3.8