Guarded Optimism—International Containerized Ocean Freight Volumes in 2010

Trade Forecast 2010

Written By:
Vicki Boykis
Global Commerce and Transport
IHS Global Insight

Distributed by:

American Shipper

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Section I: Introduction

International trade is recovering from the largest global recession in more than 60 years, in spite of disruptions such as Greece's economic collapse, blizzards in the United States, earthquakes in Chile, the volcano in Iceland, and the oil spill in the Gulf of Mexico. However, IHS Global Insight remains cautious about predicting a robust recovery for the United States as the trade deficit continues to grow and exports and imports lag pre-recession levels.

Already underway in 2009, further acceleration in the recovery's pace this year has been observed most clearly in Asia, North America, and key emerging market trade partners for the United States, such as Brazil. Europe faces a weaker "soft W" recovery—a 2010 growth relapse that avoids actual contraction, signaling that the geographic distribution of growth will remain uneven.

Section 2: International Trade Outlook

World trade volumes picked up over the last three quarters of 2009 and will continue to expand through 2010. Trade has a long way to go to achieve full recovery given the depth of its collapse since 2007. IHS Global Insight projects world trade is unlikely to reach its pre-crisis level before 2012, due to headwinds from constrained domestic demand growth in advanced economies and risks from rising economic nationalism, including in the United States.

World demand and output declined 1.9 percent in 2009. World gross domestic product is projected to advance 3 percent in 2010 and 3.4 percent in 2011, with a new peak level by the second quarter of 2010.

A longer-than-anticipated housing and construction downturn remains the global economy's main concern. Even though there are increasing signs of stabilization in most markets, the global housing downturn is not over and could re-intensify in 2010 if the global recovery falters or its expansion pace disappoints. With housing assets still overvalued by some measures and household debt at record levels in many countries, the current housing-market adjustments could turn out to be a very protracted process. From a trade perspective, this remains especially important for container volumes.

U.S. government stimulus spending led the U.S. economic recovery, followed by industrial production and capital spending. World trade initially lags real GDP in recovering. Asia-Pacific is the only region in which industrial production has fully recovered; all other regions are behind. Global sea trade, measured in metric tons, is forecast to increase more than overall world trade, growing 8.7 percent in 2010 (to 8.1 billion tons), compared to a 3.8 percent drop in 2009. Sea trade in the short term benefits from inventory rebuilding consequently posting strong gains.

Section 3: U.S. Trade Deficit

The U.S. trade deficit is widening, tempered by weak growth in consumer confidence as households cautiously resume spending. The current trade deficit stands at $39.7 billion. As employment improves and real income grows, real consumer spending is projected to increase 3 percent for 2010.

As producers seek to replenish inventories ahead of the forecasted upswing in demand, imports will exceed exports this year. Although consumer spending is increasing, it won't be as strong as recoveries from previous recessions. Short-term indicators show room for export improvement, as Institute of Supply Manager (ISM) surveys reported that production in the export-intensive manufacturing sector had expanded for the eighth consecutive month through March and passed above the 50-point mark.

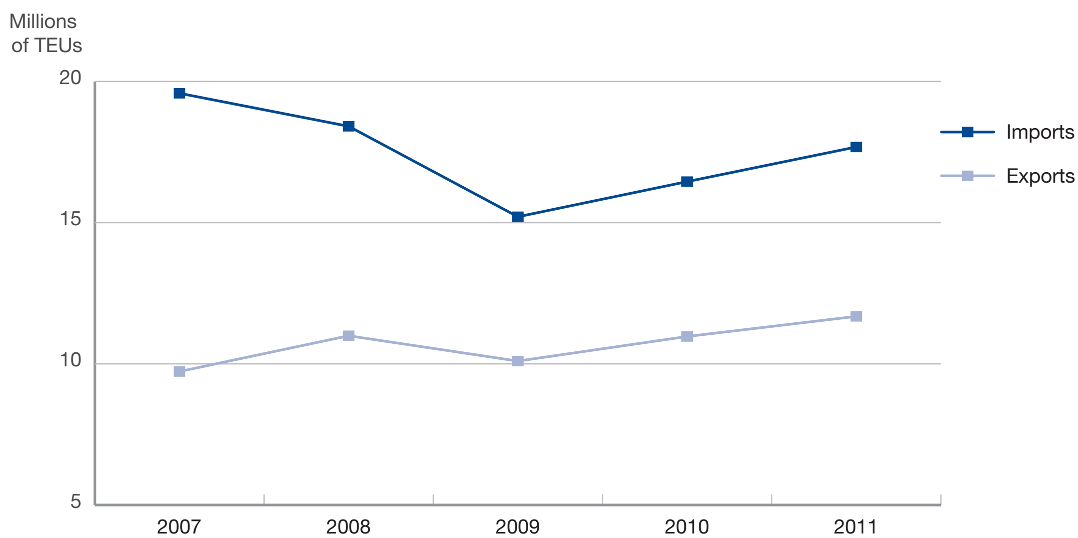
The trade deficit, which President Obama wants to shrink through the new National Export Initiative, will continue to be an important problem for American trade in the medium term. The optimistic goal of the initiative is to double exports in just five years by removing trade barriers abroad and assisting small businesses in entering new export markets. The initiative will include $2 billion to boost small businesses, but may not have as big of an effect as hoped for, given that small and medium enterprises are responsible for only 30 percent of U.S. exports.

U.S. exporters see more pressing barriers to growth than funding—namely the recent lack of container capacity in some parts of the country. Restoration of services cut back by the container shipping operators in response to their huge losses in 2009 are underway, a process that is not proceeding fast enough to satisfy exporters, particularly out of the Midwest.

Section 4: U.S. Trade Volumes

There has been modest acceleration of the pace of U.S. trade recovery. Both containerized exports and imports have picked up in the first quarter compared to 2009. Trade is projected to see double-digit growth during the second quarter and close to double digit growth for the year.

FIGURE 1: Total U.S. Containerized Trade

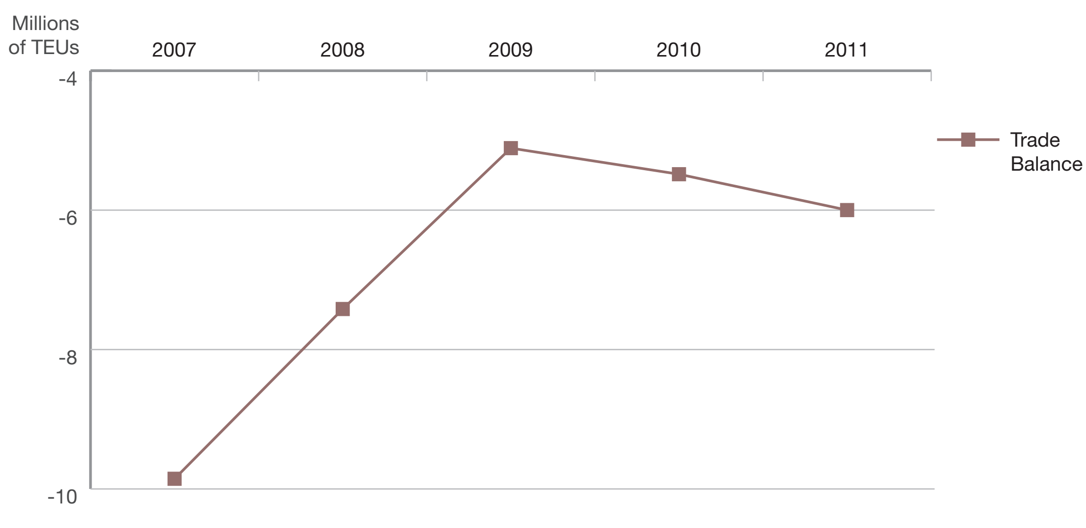


The improvement in the U.S. trade deficit over the past year contributed to the recovery in GDP seen by the fourth quarter. The 40 percent decline in the U.S. current account deficit in 2009 improved the net exports component of GDP. The decline in the trade deficit was boosted by lower commodity prices such as for oil, as well as the decline in import demand. In 2010 the improved trade deficit situation will contribute to the projected U.S. GDP growth of 3 percent. With inventory restocking advanced, the relative weakness in consumer confidence early in the year contributed only moderate growth in demand. This is seen in the first quarter GDP growth of 2.4 percent, affected by the slow pace of recovery in employment as well as some severe winter weather disruptions to business in January. U.S. trade will continue to grow with strong demand from Asia and advancing recovery throughout North America. Although the pace of the economic expansion has moderated since the fourth quarter, imports have been buoyed by the strengthening dollar against the euro.

Total U.S. seaborne exports in metric tons declined 10.8 percent in 2009 and the recovery is projected to see 7.2 percent growth for 2010. Exports to Asia had fallen the most, but have been recovering with the pickup in Asian economies in 2009 and into 2010. U.S. containerized export volumes, measured in loaded 20-foot container equivalent units fell 8.2 percent in 2009 (to 10.1 million TEUs), but are expected to grow 8.6 percent in 2010 (to 10.9 million TEUs). U.S. exports had regained momentum in the closing months of 2009 so year-to-year comparisons will be moderated by the recovery having already been underway last year.

U.S. import volumes in seaborne metric tons fell drastically, by 16 percent, in 2009. The predicted recovery is for 7.8 percent growth in 2010. Fully loaded containerized imports follow this same pattern, dropping 17.4 percent in 2009 and recovering with 8.2 percent growth for 2010 (to 16.5 million TEUs). U.S. imports from Hong Kong, most of which are re-exports from China and elsewhere in Asia, suffered the most in 2009 (a 44 percent decrease that year), but are expected to come back strong. Imports fell more than exports in 2009 on a year-on-year basis. Because imports are expected to grow at a faster rate than exports for all of 2010, this will widen the trade gap.

FIGURE 2: Total U.S. Trade Balance

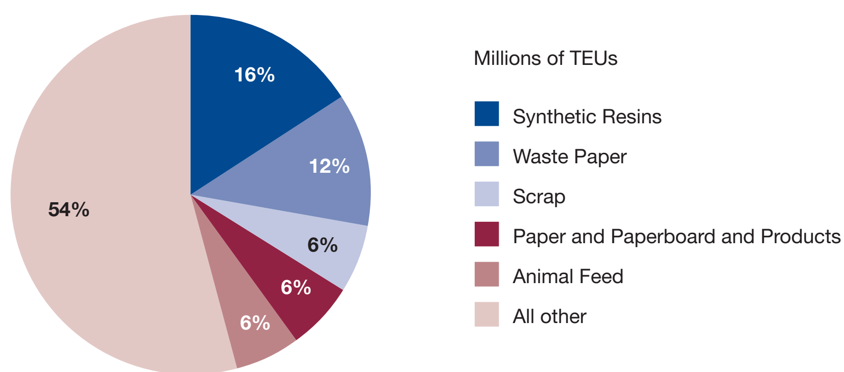


Section 5: U.S. Containerized Trade

EXPORTS

The United States remains a key exporter in the global economy, behind China and Germany in value terms. Primary U.S. containerized export commodities, in terms of TEU volumes, are synthetic resins, waste paper, scrap, paper and paperboard products, and animal feeds. Key importers of U.S. goods include China, Japan, South Korea, Taiwan and India. The pace of foreign-trade recovery slowed in the first quarter, but there is still plenty of momentum behind U.S. exports. The United States is benefiting from rapid demand growth in Asia and, closer to home, recovery in Canada.

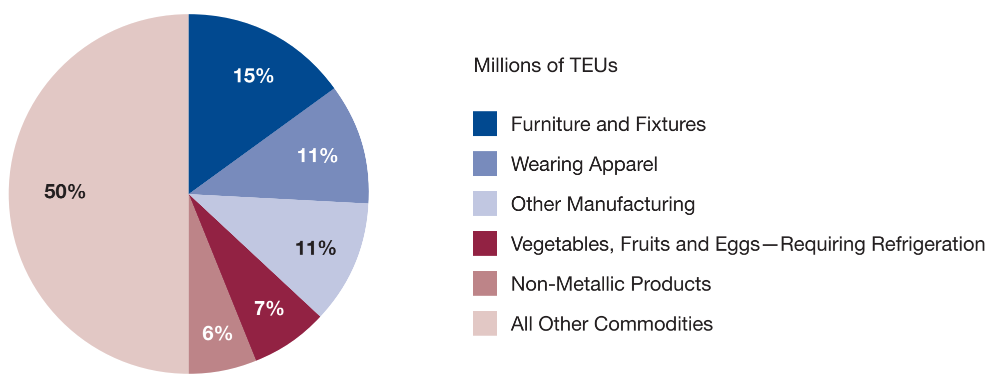
FIGURE 3: U.S. Container Exports 2010



IMPORTS

Among key U.S. import commodity categories are furniture and fixtures, wearing apparel, other manufacturing, vegetables and fruits, and non-metallic products. Furniture and fixtures and apparel imports will see increased sales in 2010 as consumer demand strengthens. Key import partners for the United States are China, Central America and Japan. The increase in import volumes in 2010 reflects short-term improvements in the U.S. economy, even while acting as a drag on the net exports component of GDP. The slower recovery in U.S. imports in the short-term is due to the earlier recovery in Asia, especially China, and comes despite the recent strengthening of the dollar against currencies like the euro. As oil and other commodity prices continue to stabilize further in 2010, import growth in those commodities will moderate.

FIGURE 4: U.S. Container Imports 2010



Section 6: U.S. Containerized Trade by Region

WESTERN EUROPE[1]

This major trade route saw both sides in recession in 2009. Containerized trade volumes fell 20 percent in both directions. Despite problems in Southern Europe, the Eurozone is now growing again and will see positive GDP growth for the coming year. Off of a low base from 2009, trade won't be back to 2007 levels until at least 2013. Westbound trade is closely tied to U.S. consumers, with beverages particularly important. Eastbound, the commodities often have lower unit values and more often associated with industrial use, resulting in still-slow growth in both directions.

Western European containerized exports fell 23 percent in 2009, but are projected to grow off the low base by 5.2 percent in 2010. U.S. exports to Western Europe fell even harder, by almost 28 percent in 2009, and are forecasted to recover more slowly, at 4.2 percent in 2010.

2 *Europe is defined as the Western European countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.*

ASIA-PACIFIC[2]

U.S./Asia-Pacific trade lane volumes began recovery in the third quarter of 2009, but caution is advised even as the Asian trade began its rebound in 2010, with month-to-month growth over 10 percent.

Inventories are key to the situation with importers trying to stay ahead of consumer demand growth. The drop in U.S. imports from Asia-Pacific was 18.3 percent in 2009, so recovery of 9.8 percent projected for 2010 does not return the trade to the pre-recession level. U.S. exports to Asia suffered less, shrinking 3.8 percent in 2009, with strong recovery of 10.8 percent growth forecasted in 2010.

3 *Asia Pacific is defined as: China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.*

Section 7: U.S. Containerized Trade by Partner Country

CHINA

The U.S. relationship with China has remained complicated over the past year with trade disputes and continued U.S.-Renimbi exchange rate concerns. Nevertheless, China has taken over from Canada as the United States' most important trade partner. Chinese imports of commodities and finished products alike flow from the United States, and China remains heavily dependent on its exports to the United States to drive its economy.

U.S. containerized exports to China grew 15.9 percent in 2009 and are forecast to see 15.2 percent growth in 2010. Chinese exports to the United States, however, tumbled nearly 17 percent in 2009. The recovery is expected to be 10.6 percent growth for 2010.

JAPAN

Japan is the United States' second-largest import partner and one of the countries hit hardest by the recession resulting in their worst downturn in more than 30 years. GDP fell all four quarters in 2009. Exports are helping Japan recover, with return to growth projected in 2010 as the world recovers.

U.S. containerized exports to Japan fell 21 percent in 2009 and are projected to recover just 4.2 percent in 2010. U.S. imports from Japan, following sharp drops in demand for Japanese products such as auto parts, fell 36 percent in 2009. Recovery off this low base is projected to be 9.5 percent by the end of 2010.

MEXICO

Along with Latin America, Mexico is a key source of imports for the United States. Although Latin America did relatively well as a whole in the recession, Mexico's economy is still suffering and will continue to lag, recovering to pre-recession levels only in 2011. Drug-related violence continues to undermine business sentiment and international trade, although only marginally, meaning economic activity and exports will to progress in 2010.

U.S. containerized exports to Mexico fell 15 percent in 2009, slightly less than U.S. imports from Mexico, which fell 18 percent. For 2010, U.S. exports are forecasted to improve more than imports from Mexico, at 7.8 percent, versus 6.5 percent for imports.

SOUTH KOREA

Along with China and other key Asian exporters like Hong Kong, South Korea has suffered in the economic downturn from drops in export demand outside China. Slower near-term growth follows the strong performance for 2009 as a whole, but Korea's trade surplus is slowly returning as rebounding exports offset the recent increase in import oil prices.

South Korean containerized exports to the United States fell 20 percent in 2009. The forecast recovery is for 7.8 percent growth in 2010. United States exports to South Korea will recover to 9.8 percent growth in 2010, from a 16 percent decline in 2009.

Section 8: U.S. Containerized Trade by Key Sector

Recent manufacturing and trade indicators confirm what we see in the trade statistics, which is that businesses clearly have been building inventories instead of liquidating them. Restocking has further to go to match the rate of sales growth, and thus maintain a comfortable inventory/sales ratio. That means more imports, both of finished consumer goods and of materials to supply manufacturing.

HOUSING

Furniture and fixtures are a key import volume category, unfortunately linked to the ailing U.S. housing sector. Housing and unemployment remain the biggest obstacles to stronger growth. The housing market remains fragile despite extended government housing incentives. Total containerized furniture and fixtures imports in TEU terms are projected to grow 13 percent in 2010.

Total U.S. construction spending contracted 12.2 percent in 2009, and another 5.6 percent decline is projected for 2010 before finally recovering in 2011. Home builders were less gloomy in April then they were in March, but remain deeply pessimistic. And for good reason: business has never been worse in 60 years. New home sales were still low in the first quarter, and the median time for sale remains near all-time highs. The first half 2010 outlook for housing is not a good one, but as employment increases, acceleration in household formation and a restocking of house inventories will result in a second half pickup in single-family housing and related trade.

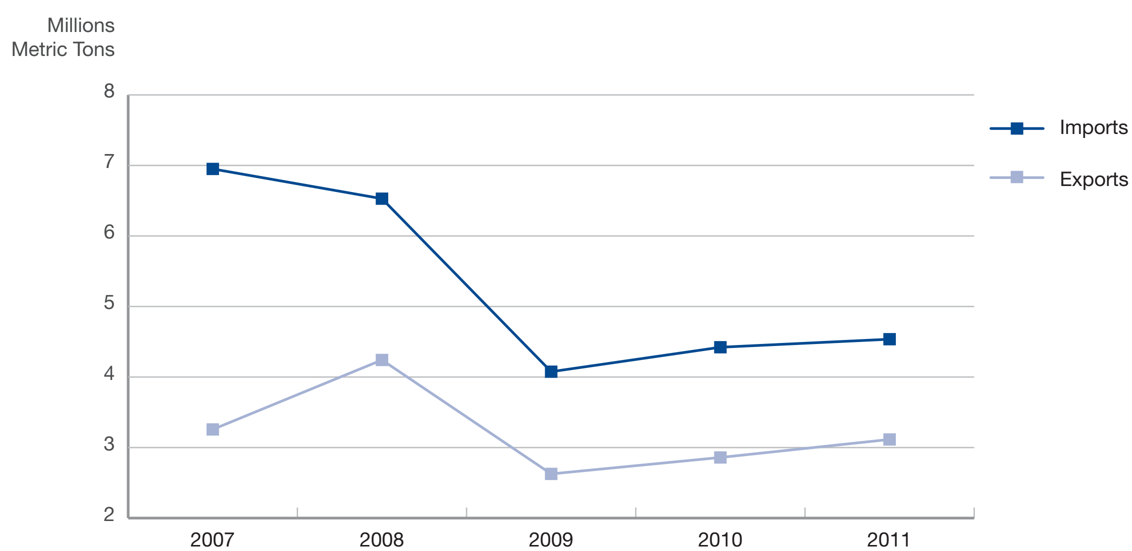
AUTOMOTIVE

The U.S. automotive industry is traditionally the largest in the world. The country has a bigger vehicle production industry and a larger vehicle market than any other country, with only Japan and China able to lay claim to being in a similar league. Competition from new manufacturers is intense, and the former Big Three automakers are fighting hard to avoid losing market share.

The auto industry is another key sector for trade demand and one that drew great attention in 2009. U.S. light-vehicle production remains on the upswing, but is not forecasted to reach anywhere near the 10-year average sales level of 1998-2007. Although 2009 will have been the worst year ever for the U.S. automotive industry 2010 has seemingly begun where 2009 left off, although the manufacturer grabbing the headlines has changed. The autos recovery is expected to gain traction through 2011, when light-vehicle sales are forecasted at 13.8 million units.

U.S. seaborne export tonnage of motor vehicles plummeted 38 percent in 2009 and is projected to improve only 8 percent in 2010. Imports also crashed, by 37 percent in 2009, and are projected to recover by 8.5 percent in 2010, off the low 2009 base level.

FIGURE 5: U.S. Automotive Imports and Exports



CONSUMER GOODS

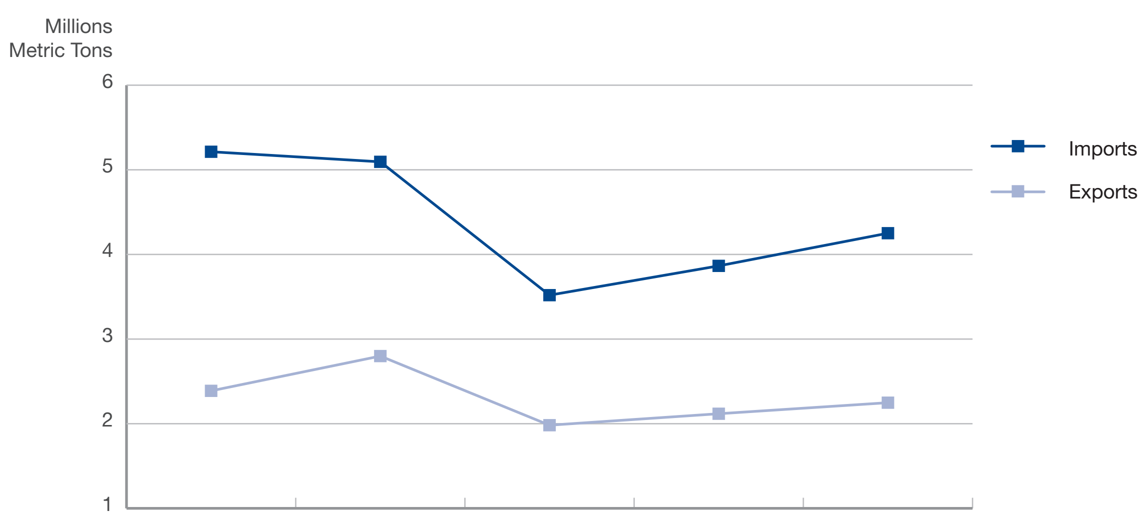
With the unemployment rate hovering just below 10 percent, consumers remain anxious. Yet, they are hopeful that economic conditions will improve over the next six months. Even though consumer sentiment is increasing for both goods and services through the second quarter of 2010, consumer goods sales are still down compared with pre-recession levels. Recent reports confirm consumers are increasing purchases. Real consumer spending is expected to grow at an annual rate of nearly 3 percent in the first quarter, up from 1.6 percent growth in the fourth quarter of 2009.

PRODUCTION MACHINERY AND EQUIPMENT

Manufacturers, retailers, wholesalers, construction contractors, energy and mining industries, and the service sector are not expected to rush back into the market and start buying up machinery and equipment in the short term. With the subpar economic recovery pace, still tight credit conditions, and lots of idle and underutilized capacity, Corporate America is likely to keep a tight grip on the purse strings as it moves through 2010. The forecast is that the economic recovery eventually hits its stride, and capital expenditure programs should hit theirs beginning in 2011. A weak dollar and healthy growth in China, India and other foreign markets should bolster U.S. exports of machinery and equipment.

In 2010, U.S. machinery and equipment exports are forecasted to grow 6.8 percent after their fall of 29 percent in 2009. Machinery and equipment import growth of 9.8 percent is recovering, though not to pre-recession levels following the plunge of 31 percent in 2009.

FIGURE 6: U.S. Manufacturing Imports and Exports



Section 9: Takeaways

The worst global recession in six decades is decidedly over for the United States, although it will take several years for economic fundamentals to return to trend levels, with the trade recovery slower than in prior recessions. Among key U.S. trade lane partners, Asia leads the recovery, while Europe lags. Although growth will be strong in many key sectors of the American economy, the trade deficit remains a problem, in spite of a reduced role for oil in the commodity trade deficit compared with the high oil prices reached during the summer of 2008.

U.S. exports and imports are both recovering, with imports recovering faster than exports in 2010. President Obama's National Export Initiative, even with its optimistic targets, will help focus attention on trade. Recovery in trade should help the liner industry, which has pushed rates back up substantially, though the supply/demand balance achieved may not be sustainable with the large ship capacity additions still on order. As volumes from Asia with Europe and North America show healthy double-digit growth on a year-on-year basis, the competitive balance is coming into play. New services are being announced as ships leave layup and new ships are launched.

For carriers, memories of the original reasons for the financial disaster may fade, leading to capacity additions greater than the recovered level of trade demand. Freight rates, which have started the carriers towards financial recovery, could falter again as carriers shift back to deploying more ships, risking reversion to a market share growth strategy even as the pace of the U.S. recovery from the recession remains moderate.

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