



Economic & Trade Outlook

2017 California Freight Advisory Committee

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For 2017 and 2018:

- World GDP growth at 2.7-3.5%
- US GDP growth at 2.1-2.5%
- World trade growth at 2.3-2.9%
- US trade growth at -1.7 to +4.0 (??)

“Financial vulnerabilities and policy risks”

– OECD

We are facing...

- Slower growth for the near future
- EMDE fragility
- Globalization plateau
- “Policy risks”
- **Widespread uncertainty**

We expect...

- IMF: world GDP up 3.5% in 2017, 3.6% in 2018
- OECD: world GDP up 3.3% in 2017, 3.6% in 2018
- UN: world GDP up 2.7% in 2017, 2.9% in 2018
- World Bank: world GDP up 2.7% in 2017, 2.9% in 2018

“Global growth stumbles”

– United Nations

We are facing...

- Slower growth for the near future
- Reduced confidence
- Tighter finances
- Slower productivity growth
- Persistent employment and income problems
- Upside potential from “fiscal stimulus”?
- **Widespread uncertainty**

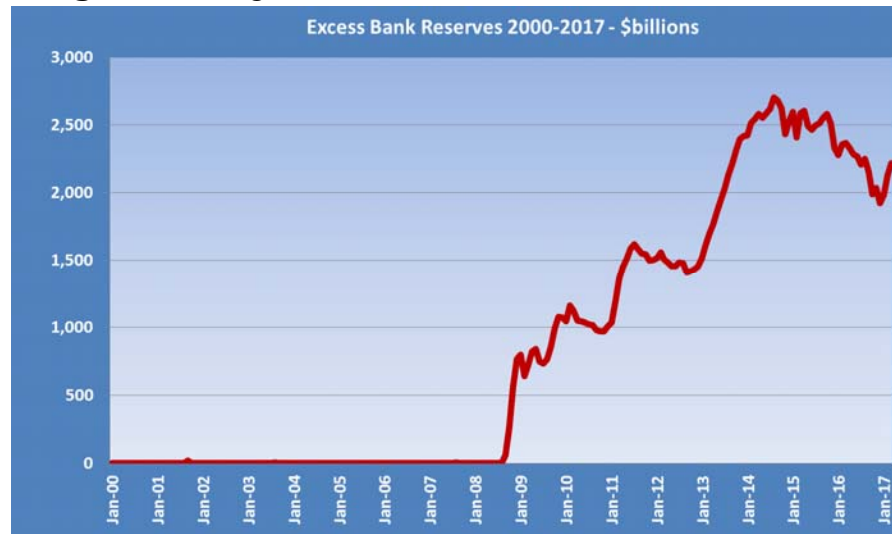
We expect...

- IMF: US GDP up 2.3% in 2017, 2.5% in 2018
- UN: US GDP up 1.9% in 2017, 2.0% in 2018
- Beacon Economics: US GDP up 2.5% in 2017
- HSBC: US GDP up 2.1% in 2017
- Woods Center: US GDP up 2.2% in 2017, 2.0% in 2018
- NRF: Retail sales up 3.7-4.2% in 2017

Tighter Finances



- Credit crunch from recession is still with us
- Banking regulations and low interest rates have discouraged lending
- Banks are “parking” money - \$2.2 trillion in excess reserves



“Weak investments in uncertain times”

– World Bank

Slower Productivity Growth

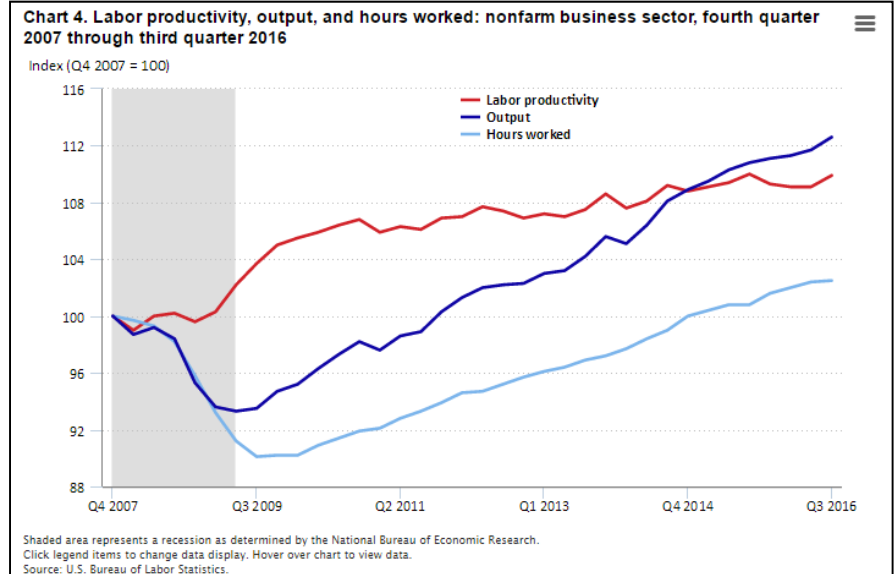


US labor productivity has not bounced back as expected after the recession

- Output recovery has been slow
- Hours recovery has been faster
- IT-based growth may have stalled

Growth of labour productivity, before and after the crisis

	Average percentage change per year	
	2001–2007	2009–2014
France	1.5	0.9
Germany	1.3	1.2
Japan	1.6	1.2
United Kingdom	2.2	0.3
United States	2.0	0.9
China	9.5	7.4
India	4.4	7.0
Russian Federation	5.4	2.0
South Africa	3.1	1.5



Upside for “Fiscal Stimulus”?



Forecasters see the possibility of a “fiscal stimulus” that would boost GDP growth by .3 to .5%

The “fiscal stimulus” would include...

- Corporate and high-bracket tax cuts
- Higher infrastructure spending
- Higher defense spending

...and get us...

- Faster GDP growth
- Higher Federal deficit
- Increased inflation

... after a 2-year lag

We are facing....

- Globalization plateau
- Trade restrictions
- Strong dollar
- Carrier financial crisis
- Border Adjustment Tax?
- Brexit
- **Widespread uncertainty**

We expect...

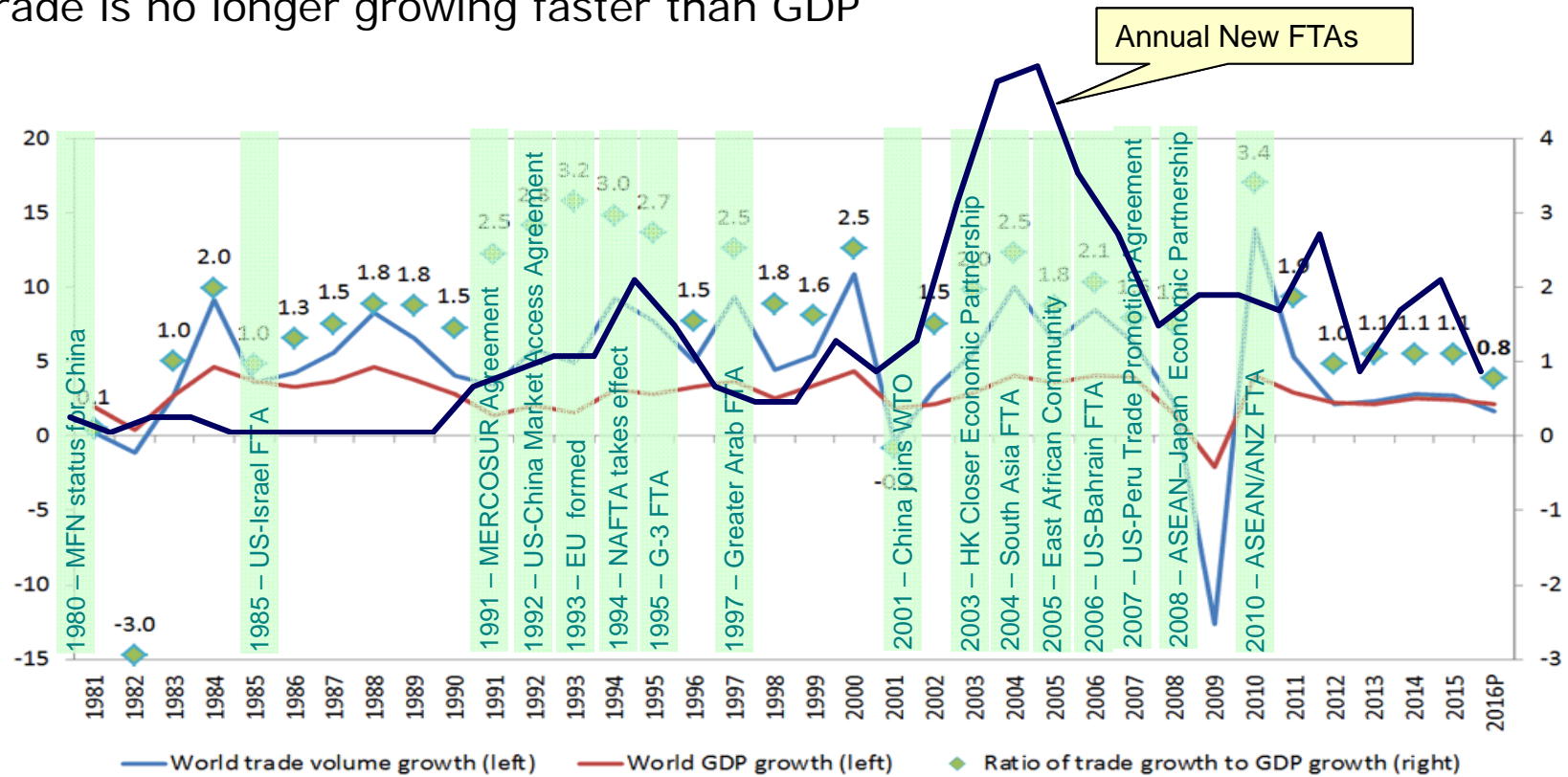
- WTO: Global trade up 2.4% in 2017, 2.1-4.0% in 2018
- World Bank: Global trade up 2.7% in 2017, 2.9% in 2018
- Trading Economics: US exports up 1.7% in 2017, imports down 1.7%
- USDA: Ag exports up .75% in 2017, imports up .9%

"Subdued demand"

– IMF

Growth: GDP vs. Trade

Trade is no longer growing faster than GDP



Sources: WTO Secretariat for trade, consensus estimates for GDP.

Yes, Globalization Has Plateaued



- No tariffs left to cut?
- Stalled trade agreements
- Shift from liberalization to protectionism
- Increased financial controls
- In-sourcing, near-sourcing, and re-shoring
- Migration of production between foreign sources
- **Widespread uncertainty**

More Trade Restrictions



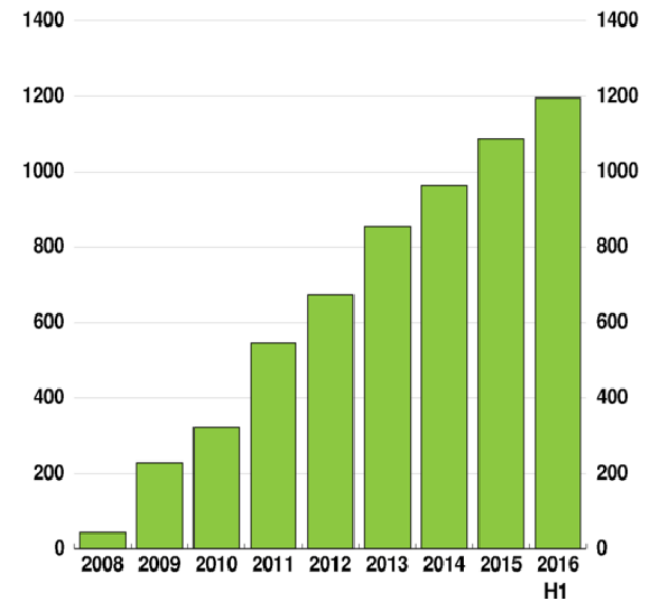
Complexity of remaining trade issues and backlash against globalization have halted liberalization and will limit near-term trade growth

- WTO's Doha round – Stalled since 2008
- Trans-Pacific Partnership (TPP) – Dead
- Transatlantic Trade and Investment Partnership (TTIP) – Dead

How long will this liberalization/protectionism cycle last?

Trade restrictions rising in G20 countries

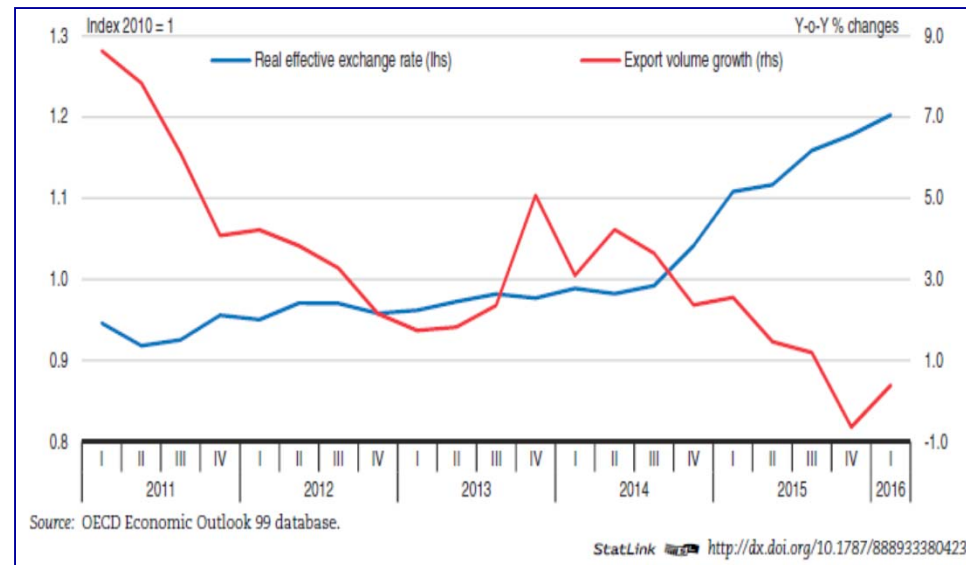
Number of trade restrictive measures in-force since the crisis



Stronger Dollar, Weaker Exports?



- As the dollar exchange rate climbs export growth has slowed, as expected.
- **But** – growth in foreign demand and low westbound rates have boosted California exports.



Border Adjustment Tax

- Bundled in the “Better Way” program with corporate tax cuts
- Tax import sales, not export sales (Details vague)

“Reciprocal” Tax

- Match foreign tariffs on U.S. exports with U.S. tariffs on foreign exports to U.S. (Details vague)
- Effectively a retaliatory tariff

Both would

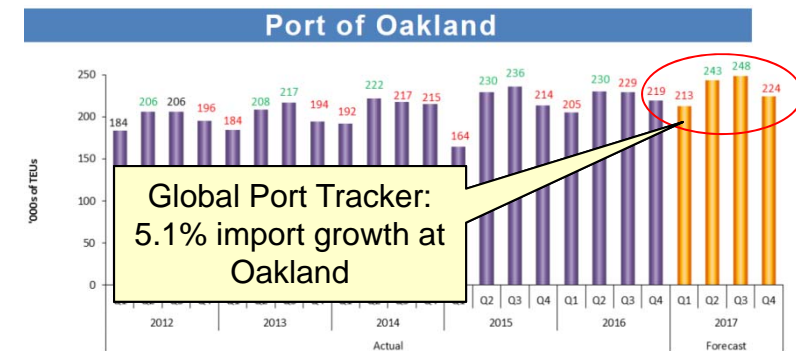
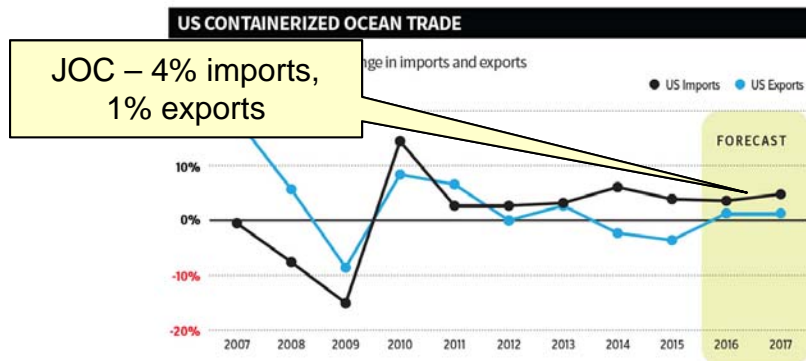
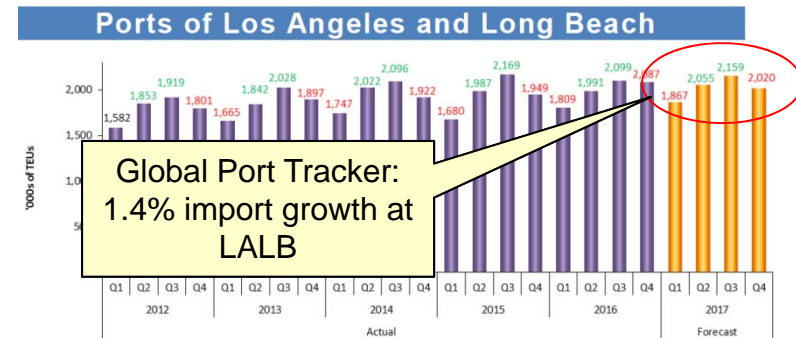
- Cause foreign retaliation
- Violate WTO rules
- Hurt U.S. consumers

Slow Containerized Trade Growth



Container Trade Growth Forecasts

- Maersk: Liner trade up 2-4% in 2017
- Global Port Tracker: US imports up 2.3% in 2017
- OSC: Pacific port demand up 4.0% in 2017, 4.2% in 2018



Source: JOC-PIERS Container Shipping Outlook, December 2016

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“Subdued growth, shifting policies, heightened uncertainty”

– World Bank