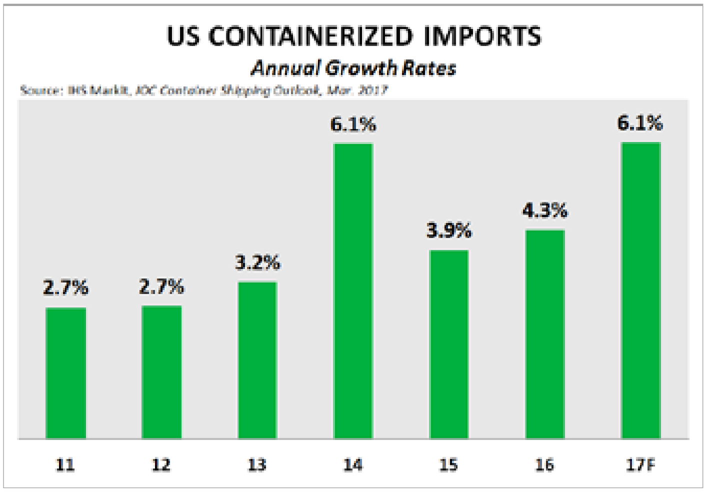
IHS Markit™

2017 Container Trade Trends

US Imports Forecast to Rise

US CONTAINERIZED IMPORTS

US containerized imports stayed on an upward trend in 2016 as forecast, expanding by an estimated 4.3 percent and totaling a volume record of approximately 20.6 million TEUs, on the back of subdued import prices, expanding payrolls, and further gains in the home sales market. Gains were achieved not without facing strong headwinds including issues with excessive inventory levels, soft manufacturing growth, and Hanjin's collapse.



Gains were seen across all sub-regional markets with the exception of Africa and Oceania. Northeast Asia contributed most to the import trade, adding 1.91 percentage points to growth, followed by Southeast Asia which contributed 1.02 percentage points to growth. China continued to be the largest supplier of containerized goods to the US, accounting for 46.8 percent of the total US inbound trade – a market share merely unchanged from the year prior, but lower by 1 percent from five years prior. The decline in China's market share of US containerized imports may prolong in 2017 and beyond as China's manufacturing sector continues to upgrade its value chain, prompting factories of low-value, labor-intensive goods (e.g. apparel, footwear) to relocate in search for lower production costs and workers, by either relocating inland or shifting away to Southeast Asia. Low-skilled, semi-skilled labor shortages in coastal provinces of China persisted last year as many of these workers are finding job opportunities in their home provinces, west of China. Furthermore, demand for technical personnel in Guangdong's Pearl River Delta region is increasing in line with growth of high-tech companies.

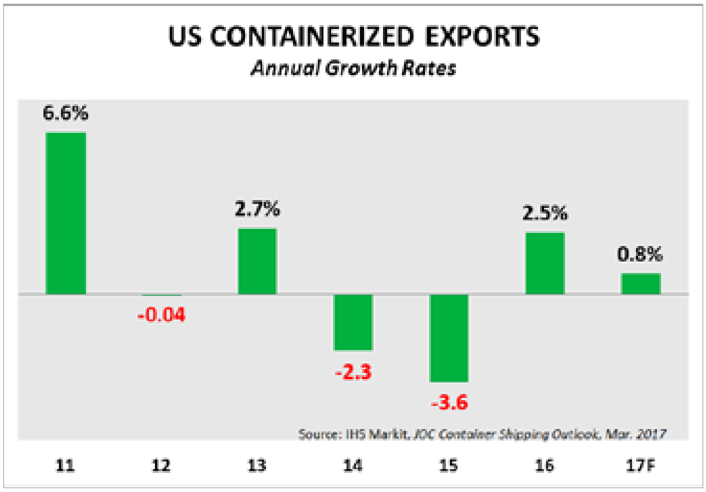
China's dominant share of US containerized imports may also come under pressure if a US-China trade war emerges, triggered by a new direction in trade policies here at home. US President Donald Trump was very vocal during the Presidential campaign with a China-bashing rhetoric, calling China an "unfair" trader and a "currency manipulator", while promising his administration will impose tariffs on Chinese imports as high as 35 percent. Chinese state media have nevertheless highlighted the possibility of "countermeasures" including against the sale of Apple iPhones in China, imports of US maize and soy, and outstanding orders from Boeing. While frictions over trade and currency is likely to remain elevated in the next few years, an all-out trade war between China and the United States still looks unlikely as both these nations have a lot to lose.

Retaliatory tariffs would be far costlier for China in balance-of-trade terms alone. Nearly 17 percent of Chinese exports, a sum representing 4 percent of its GDP, went to the United States in 2014. In contrast, less than 8 percent of US exports, or less than 1 percent of its GDP, went to China. However, in terms of TEU trade the cost would be more or less equal for both countries. About 24 percent of Chinese TEU exports were shipped to the US in 2015, while similarly 24 percent of US TEU exports were shipped to China in the same year.

Looking into 2017, I am anticipating US containerized imports will expand at approximately 6.0 percent, and reach a new peak at approximately 21.8 million TEUs, mainly on account of stronger economic growth even before any Trump fiscal stimulus. US real GDP is forecast to grow 2.3 percent this year after expanding by only 1.6 percent in 2016. Consumer spending growth is expected to moderate slightly over the next couple of years, although it will remain supported by gains in real disposable incomes and jobs. Meanwhile in the housing sector, we are estimating existing home sales made measured progress in the fourth quarter and should average above a 5.5 million-unit annual rate this year. Housing starts should average about a 1.2-million-unit annual rate this year and new home sales are forecast to grow to 670,000 for all of 2017, further supporting the inbound containerized trade. The major downside risk to the forecast centers around the possibility of the US government making serious policy mistakes regarding trade and immigration. In this pessimistic scenario, strained relations with China and Mexico trigger a recession in the US economy during the middle two quarters of 2018, resulting in US containerized imports stalling in that year, and falling in 2019.

US CONTAINERIZED EXPORTS

In the outbound trade, US containerized exports grew 2.5 percent in 2016 after falling for two consecutive years. This performance stays short of any celebration as export volume is still below its prior peak of 2014 by 6 percent. The dollar's value increased on average by 4.7 percent in 2016 over its average value of the prior year, while demand from emerging markets in Asia improved somewhat over the second half of 2016 as commodity prices rose.



Southeast Asian markets led the gains in 2016, contributing 1.96 percentage points to the annual growth on the back of solid demand for aluminum blocks, soybeans, and fabrics including raw cotton. On the downside, sharp losses were registered in the East Coast South American markets, subtracting 0.54 percentage points from the annual growth. US containerized exports to East Coast South America is now down for 5 consecutive years, with Brazil as the main source of weakness.

Just when many emerging markets were recovering from sinking commodities prices, currencies, and stock markets over the past few years, the potential for rising protectionist populism and the increases in US interest rates and the dollar are undesirable news. Any threatened protectionism would slow global trade growth even more and would hurt all the emerging markets highly dependent on export trade. The Asian economies, which are among the world's most dynamic traders, are especially vulnerable.

For 2017, I anticipate US containerized exports will rise again, this time by a modest 0.8 percent for a total TEU count of 11.9 million. The global economic outlook improves a little with every passing month, but the strengthening US dollar will continue to restrain export growth. The low ocean freights in the westbound trans-Pacific lane are partly offsetting the negative effects of the strong US dollar over export volume.

The global economy, excluding NAFTA, is forecast to modestly improve from 2.5 percent in 2016 to 2.8 percent in 2017, with China's real GDP growth expected to continue slowing from 6.7 percent in 2016 to a still respectable 6.5 percent pace this year and 6.2 percent in 2018. India's economy appears to be stabilizing after taking a hard hit from the government's 9 November demonetization, while in Japan, growth is likely to remain modest in 2017 (1.1 percent) because of sluggish domestic demand. Similarly, the Eurozone economy will struggle to accelerate amid considerable political uncertainties during 2017 and reduced consumer purchasing power due to higher inflation. Meanwhile, in South America, Brazil's economy continues to struggle. Yet, businesses remain hopeful that conditions will improve in 2017. IHS Markit forecasts stabilization of the economy in the first half of 2017.

In the exchange rates front, the inflation-adjusted, trade-weighted value of the US dollar for the broad index of trading partners is expected to increase 3.6 percent between fourth-quarter 2016 and fourth-quarter 2017. A stronger dollar exerts a downward pressure on US exports. IHS Markit assumes the dollar will reach its peak value in the first quarter of 2018, 6.5 percent above the 2016 average. This will be followed by a steady decline from 2018 through the end of the forecast period, leading to a 14.9 percent drop by 2027.

For 2018, I am anticipating US containerized exports will pick up the pace, barring a trade war with China. Until we get better indications of how much of the campaign rhetoric will translate into actual policy initiatives, I will remain very cautious in my outlook for US containerized exports for this year and 2018. I am also wary uncertainty related to Brexit, global political risks, and rising interest rates in the US may have unintended effects over economic growth in major US export markets, causing demand for foreign goods to weaken.

Author: Mario O. Moreno, Senior Economist IHS Maritime & Trade

For more information www.ihs.com/maritime_trade

CUSTOMER CARE AMERICAS
T +1 800 447 2273
+1 303 858 6187 (Outside US/Canada)

CUSTOMER CARE EUROPE, MIDDLE EAST, AFRICA
T +44 1344 328 300

CUSTOMER CARE ASIA PACIFIC
T +604 291 3600

E CustomerCare@ihsmarkit.com

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