



**GLOBAL
INSIGHT**

International Containerized Ocean Freight Volumes in 2009

Trade Forecast 2009

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Table of Contents

Section 1: Introduction	1
Section 2: International Trade Outlook	1
Section 3: Protectionism in Reaction to the Spread of Recession	3
Section 4: U.S. Trade	4
Section 5: U.S. Containerized Trade	6
> Exports	6
> Imports	7
Section 6: U.S. Containerized Trade by Region	8
> Western Europe.....	8
> Asia Pacific.....	8
Section 7: U.S. Containerized Trade by Partner	9
> China	9
> Brazil.....	9
> Japan.....	9
> Canada	10
Section 8: U.S. Containerized Trade by Key Sector	10
> Housing	10
> Automotive	11
> Consumer Goods	12
> Production Machinery and Equipment.....	12
Section 9: Conclusion	13

Figures

FIGURE 1: Total U.S. Containerized Trade	4
FIGURE 2: Total U.S. Trade Balance.....	5
FIGURE 3: U.S. Exports 2009.....	6
FIGURE 4: U.S. Imports 2009.....	7
FIGURE 5: U.S. Automotive Imports and Exports	11
FIGURE 6: U.S. Manufacturing Imports and Exports	12

Section I: Introduction

International trade, an important growth mechanism in the global economy, has been floundering since the second quarter of 2008 as a result of the worst global recession in six decades. The good news is that early signs of recovery are already evident. Current forecasts of key macroeconomic indicators by IHS Global Insight show global recovery beginning in 2010, with the economies of the United States and China leading the way among developed and emerging-market economies, respectively. A broader global recovery will be evident by 2011.

Recent economic news has generally been encouraging, with indications that the worst is now behind us. In the major Western economies there have been improvements in purchasing managers' indexes, as well as increases in measures of business and consumer confidence in the second quarter of 2009. The global economy's rate of decline has moderated, and signs of an upturn by year's end are increasingly likely.¹

¹ Data and forecasts are taken from IHSGI's World Trade Service, IHSGI's U.S. Macroeconomic Service, IHSGI's Executive Strategy Council, IHSGI's Pricing and Purchasing Service, IHSGI's Country Intelligence Service, and Lloyd's Register Fairplay.

Section 2: International Trade Outlook

International trade volumes are down due to the collapse of goods demand, a trend that spread globally in the second half of 2008. The downturn in world trade was propagated by the links between global financial markets and global supply chains, which meant declines in U.S. demand would spread throughout the world. The first quarter of 2009 was the worst quarter for world gross domestic product growth (down 2.7 percent) in this decade, even worse than the fourth quarter of 2001, when 0.82 percent growth was the previous low-point of the decade in the dot-com burst and post-9/11 global recession.

For now, the global economy continues to muddle through the recession. World trade and industrial production will both fall 10 percent to 12 percent in 2009, a sign of huge reductions in spending on motor vehicles, business equipment and construction. IHS Global Insight forecasts that world real GDP is expected to decline dramatically through mid-2009, with a first-quarter decline of 6 percent, followed by a 3.4 percent decline in the second quarter. From a shipping perspective, this translates into world trade tonnage falling 3.8 percent in 2009. Worldwide recovery in trade will take hold in 2010 with growth of 3.8 percent and a further 4.2 percent growth by 2011.

As bleak as this year has been, early economic indicators signal the beginning of the end of the deep economic crisis. In the second half of 2009, a weakening U.S. dollar will resume its effect of narrowing the gap between imports and exports, with more expensive imports and more competitively priced exports. Nevertheless, the projected 2010 recovery in the trade deficit is severely limited by the weak demand for U.S. exports (or demand for any goods for consumption) from weak overseas trade-partner economies. Import volumes are projected to turn around from the 12.8 percent decline in the first quarter of 2009 to achieve growth of 0.2 percent by the fourth quarter (in nominal customs clearance terms).

Global sea trade, measured in metric tons, is forecasted to drop less than total world trade, as demand for large-volume bulk commodities such as crude oil and grain falls less than for manufactured goods that move in containers. In 2009, world seaborne trade measured in metric tons will shrink 2.8 percent. Recovery will be positive but moderate at 3.95 percent in 2010. The real value of world merchandise trade will shrink more than the volume of trade, declining 7.2 percent in 2009. In the first quarter of 2009, shippers began to reduce bloated inventories, and imports fell as the decline in global demand and inventory reductions took hold.

The drop in import demand following declines in consumption in developed economies has affected exports in developed and developing regions alike. The three key world trade regions of Europe, Asia and North America will all see absolute declines in trade in 2009 as their economies shrink.

Section 3: Protectionism in Reaction to the Spread of Recession

As a result of the economic and financial market crisis, politicians in America and across the world have enacted policies to stimulate their economies while trying to shield their individual countries from further economic deterioration. There is some evidence of intervention in currency markets and creeping protectionism.

The U.S. Congress boldly included a “Buy American” provision in the U.S. fiscal stimulus program, with some similar steps evident in other countries. In a dispute with the United States over Mexican truck access to the U.S. market, Mexico imposed tariffs ranging from 10 percent to 40 percent on 90 U.S. export commodities.

Other countries have taken steps to support domestic financial markets in ways that favor their economies instead of trade. The spread of this protectionism has been limited. Some countries, such as China, have taken steps to further liberalize trade. In China’s case, this includes restoring export rebates, which help promote export manufacturing.

IHS Global Insight does not predict that this will result in reversal of the long-term trends toward globalization. Although international shipping managers should proceed with caution, there is reason for optimism about world trade prospects. Shippers who can afford it should prepare for the recovery in demand by arranging for future capacity commitments at today’s low rates. Protectionism should stay muted enough that the turnaround in global shipping should be in full force by 2011. Shippers will have reduced excess inventories, and world trade demand will once again be strong in a global economy that has returned to growth.

Section 4: U.S. Trade

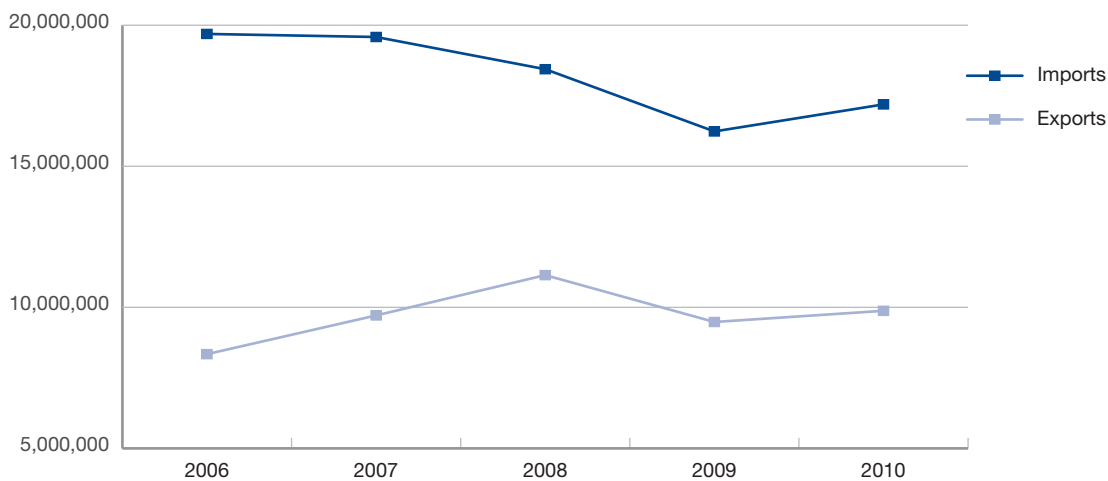
The United States, Japan and most countries in Europe are suffering the worst of the global downturn. The economies of developing countries such as Brazil and China are struggling but have not declined as much as those in the developed world. The exception to more moderate downturns in developing countries is Eastern Europe, where production fell tremendously as a result of weakened demand for Eastern Europe's products in key Western European markets.

After huge first quarter declines, IHS Global Insight sees the combined impact of fiscal and monetary stimulus efforts flattening U.S. GDP by the third quarter and promoting modest economic growth in the fourth quarter as consumer spending picks up. Housing remains a major drag on growth, and until the housing market stabilizes, it will be difficult to fully put an end to the financial crisis.

Recently, U.S. exports have been hit harder than imports in terms of volume declines. This is for two reasons:

- Exports have fallen from unsustainably high growth in early 2008 because of the collapse in housing and credit-fueled foreign consumption.
- The dollar's appreciation against the euro toward the end of last year has ended, resulting in decreased overseas demand for exports.

FIGURE 1: Total U.S. Containerized Trade

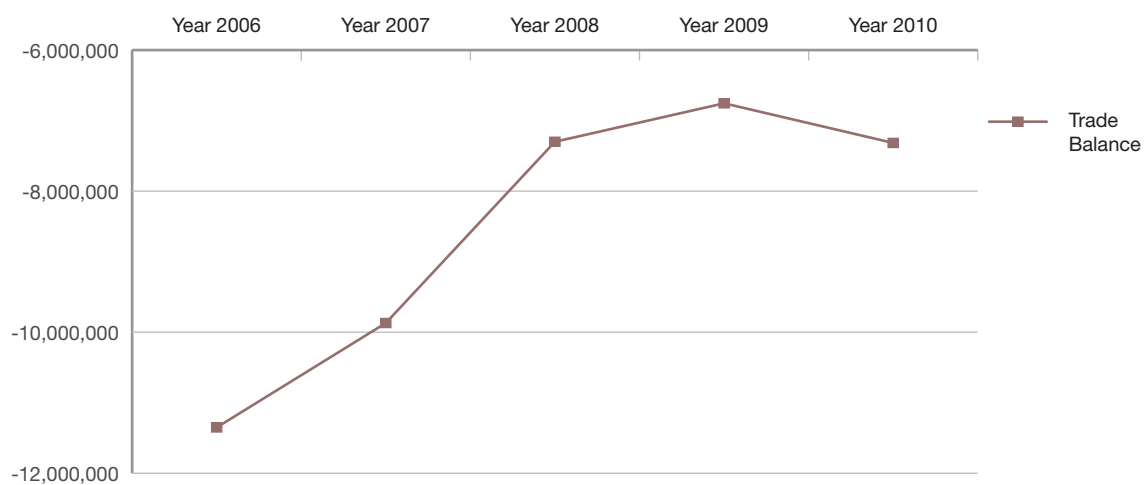


U.S. export volumes, measured in metric tons, are expected to drop 11.5 percent in 2009. Both exports and imports will be increasing again in 2010 with annual growth of 3.1 percent. Seaborne export tonnage is projected to decline 2 percent in 2009 and recover to growth of 2.6 percent for 2010. Containerized exports, a subcategory of seaborne trade measured in fully-loaded TEUs, have also fallen more than imports. Trade from the United States to Asia and Europe will have dropped the most.

U.S. import volumes, measured in metric tons, will drop 7.2 percent during the year. Seaborne metric imports will shrink 7 percent in 2009 and are projected to recover to 3 percent growth by 2010. Fully loaded TEU imports fell 5.8 percent in 2008 and are projected to shrink a further 12 percent in 2009, with recovery expected to reach 5.9 percent growth in 2010. U.S. imports from Northeast Asia (China, Hong Kong, Japan, South Korea, and Taiwan) will fall the most in container volume terms.

Declining U.S. exports have fallen more than imports on a year-on-year basis, but the container trade imbalance remains, with imports exceeding exports by 6.7 million TEUs in 2009, increasing 8.3 percent to 7.3 million in 2010.

FIGURE 2: Total U.S. Trade Balance

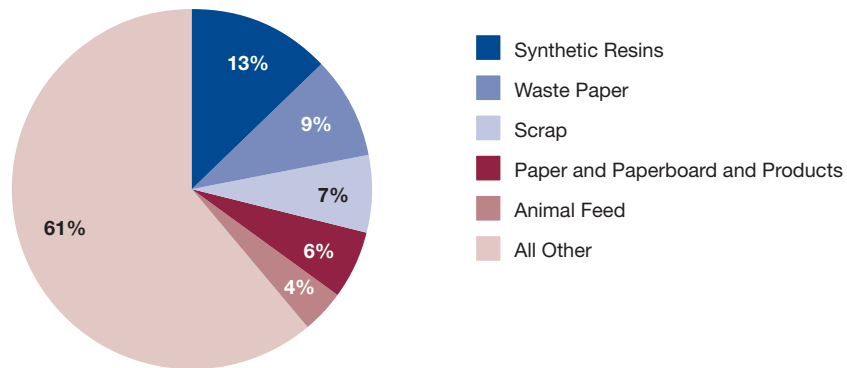


Section 5: U.S. Containerized Trade

EXPORTS

The United States is the world's third-largest exporter, measured in millions of U.S. dollars, behind China and Germany. Key U.S. containerized exports include synthetic resins, wastepaper, scrap, paper and paperboard products, and animal feeds. Exports will remain depressed as producers continue to face weak foreign demand and are not expected to recover until the beginning of 2010. Key containerized trade export partners for the United States include China, Japan, Taiwan, South Korea, and Brazil.

FIGURE 3: U.S. Exports 2009

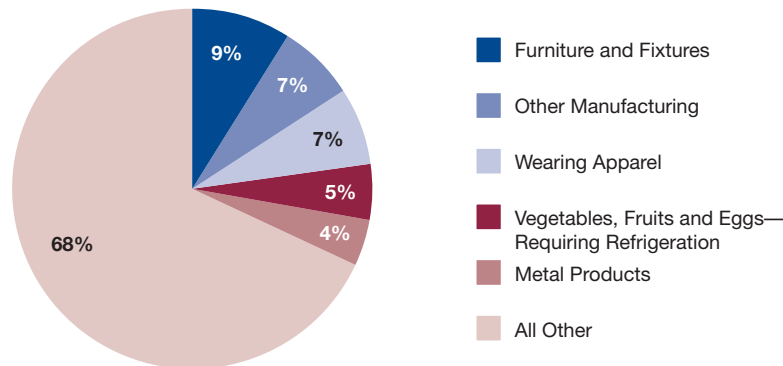


IMPORTS

Key U.S. import containerized commodities in 2009 still include furniture and fixtures, followed by the catchall other manufacturing category and wearing apparel. Despite the recessionary impact on demand, these categories remain important to U.S. consumers. The United States' key import partners include China, Japan, Germany, Brazil, and Taiwan.

In the short term, U.S. importers and exporters alike are in survival mode. Coping with drops in sales and restricted credit has been the focus of companies early in the year. In the longer term, trade will return to more normal growth levels, although from the lower base level coming out of the recession. Once the U.S. economy begins its recovery in the fourth quarter of 2009, U.S. trade will resume its shift toward developing economies in Asia such as China, Southeast Asia, and even India as opposed to trade with its traditional partners in Europe.

FIGURE 4: U.S. Imports 2009



Section 6: U.S. Containerized Trade by Region

WESTERN EUROPE²

U.S. import trade growth from Europe slowed in 2007 and began to turn down in late 2008. This region is expected to suffer more than the rest of the developed world because the recession in Europe will be long and deep. Housing bubble bursts in countries such as Spain, the United Kingdom, and Ireland, as well as losses in the banking sector, are projected to be greater than even those of the United States.

For 2009, growth in this trade route is expected to fall. Western European containerized exports to America are forecasted to drop 5.9 percent before recovery of 3.8 percent in 2010. U.S. exports to Europe will fare much worse, decreasing 25.9 percent in 2009. There will be the start of recovery in European import demand in 2010, with U.S. exports expected to recover to 3.6 percent growth.

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 PACIFIC³

U.S.-Asia trade was strongly affected by the U.S. financial crisis, with economies in the region, especially Japan, hit very hard. In 2007, transpacific trade growth began to decline, and shipping lines began to more tightly manage capacity, diverting some capacity to the Asia/Europe trade. By 2008, Asia Pacific/North America TEU trade slowed 6.4 percent. The forecast is for further decline of 14.4 percent in 2009, before recovery to 6.1 percent growth in 2010. U.S. exports to Asia also are expected to decline, down 13.0 percent in 2009. Recovery in U.S. exports takes longer to gain strength; they will grow just 4.2 percent 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

CHINA

China is the largest U.S. containerized sea trade partner. The U.S. trade deficit with China remains with imports continuing to exceed exports in 2009. China is heavily dependent on exports, which means forecasts for its economy are for growth to be reduced by half in 2009, compared to previous projections.

U.S. exports to China are expected to fall 8.3 percent in 2009. As businesses and consumers accelerate spending (and inventories are rebuilt), exports are predicted to recover to 7.9 percent growth in 2010. Chinese exports in 2009 to the United States are forecasted to fall 13.4 percent in the depth of the recession yet rebound with 6.99 percent growth in 2010.

BRAZIL

The United States is Brazil's largest containerized trade partner, and Brazil is the United States' most important South American trade partner. Exports from the United States to Brazil are projected to fall 15.9 percent in 2009 before a strong rebound to 11.5 percent growth in 2010. Brazilian exports to the United States have been falling since 2007 and are estimated to drop 16.7 percent in 2009, but are expected to rebound to 6.09 percent growth in 2010. Key imports from Brazil include motor vehicle parts, iron and steel, and rubber products.

JAPAN

Japan has been one of the countries hardest hit by the global economic crisis, with some speculation that it could experience its second "lost decade" of growth. Of all key U.S. trading partners, Japan has been hit the worst by the recession because of its economy's export orientation. The collapse of the U.S. stock market has deeply affected Japanese markets as well. The drop in U.S. demand has led to a sharp decline in exports both directly to the United States and to other trade-partner countries such as China, which uses Japanese goods in its export production.

U.S. imports from Japan are forecasted to fall 22 percent in 2009 with only 0.3 percent growth in recovery in 2010. U.S. exports to Japan are equally weak, with an expected drop of 18.3 percent in 2009 and flat growth for 2010.

CANADA

Canada is the No. 1 U.S. trade partner due to the proximity and trade volumes that cross the border every day, much of it by truck and rail. Bilateral trade between the two countries amounts to the equivalent of about \$1.5 billion a day in goods. Maritime container trade between Canada and the United States is a very small percentage of their bilateral trade. This small volume trade is projected to fall 22.6 percent in 2009.

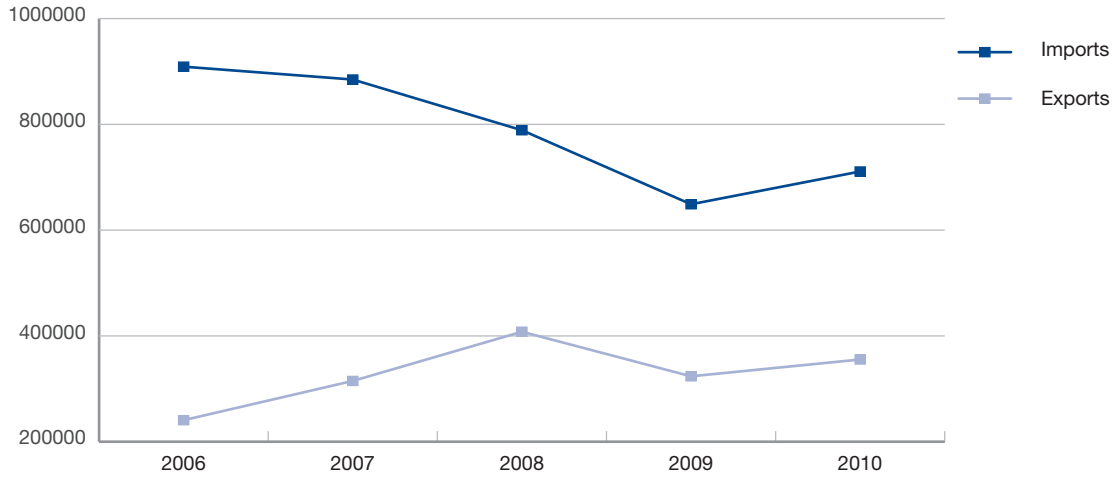
U.S. total overland exports to Canada are forecasted down 12.5 percent in 2009, recovering to 3.6 percent growth for 2010. Canadian imports will also fall in 2009, but at a more moderate rate of 6.7 percent. Canadian imports are under pressure from the still relatively strong Canadian dollar and slower economic growth. In 2010, they are forecasted to grow to 3.2 percent.

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

HOUSING

As furniture and fixtures have been some of the highest-volume containerized import commodity categories this decade, this sector's performance is important to the recovery in trade. The U.S. housing sector is still depressed, with unsold housing stock and debt overhang still lingering. New home construction is still dormant, and existing home sales have fallen. Total residential and commercial construction spending is still subdued in 2009, forecasted to be down 11.3 percent. Prices for building materials, including traded goods such as lumber, have consequently fallen sharply. The housing sector is expected to finally hit bottom in the second quarter of 2009 and then begin to improve gradually thereafter.

FIGURE 5: U.S. Automotive Imports and Exports



AUTOMOTIVE

The U.S. automotive industry is key to imports and exports. Motor vehicle exports have declined dramatically, from a 48 percent growth boom in 2008 to a 21 percent decline in 2009. This is partly because overseas markets are too weak to buy many U.S.-made vehicles. U.S. exports are expected to see a rebound in growth of 8 percent in 2010. U.S. imports of motor vehicles have fallen sharply as the result of drastically decreased sales, with imports forecasted to be down 17.1 percent in 2009. Demand is expected to recover to 6.5 percent growth in 2010.

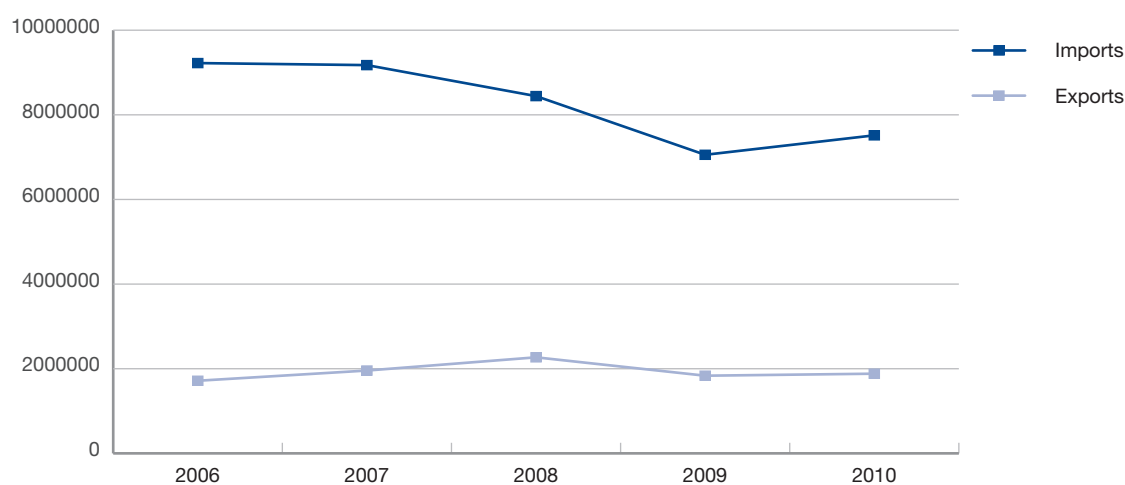
CONSUMER GOODS

U.S. consumer goods demand is still wavering while consumers retrench, as the government and Federal Reserve attempt to jump-start credit markets. The news here is positive, with U.S. consumer spending up at an annual rate of 2.2 percent in 2009. Markets for U.S. consumer goods exports are still depressed with a forecasted drop of 16.5 percent in 2009; weak recovery of 4.7 percent growth ensues finally in 2010. Important U.S. consumer goods categories include manufactured commodities such as apparel, chemical products, and furniture. Consumer goods imports are forecasted to be down 11.9 percent in 2009, with moderate recovery of 5.9 percent for 2010.

PRODUCTION MACHINERY AND EQUIPMENT

U.S. manufacturing has suffered heavily in the recession, and the industry's downturn remains an obstacle to economic recovery. In 2009, manufacturing imports plunged 16.4 percent, and exports fell 19.1 percent. Imports are expected to recover more quickly than exports, growing 6.5 percent in 2010 and 6.49 percent in 2011. Exports are projected to grow 2.6 percent in 2010 and 5.05 percent in 2011, but will moderate to 2.74 percent by 2015.

FIGURE 6: U.S. Manufacturing Imports and Exports



Section 9: Conclusion

The worst global recession in six decades has hit international trade hard. Trade volumes are down, both in terms of exports and imports. The first quarter of 2009 was the worst for world GDP growth since 9/11. As a result, U.S. imports and exports, both heavily tied to the performance of the world economy, have suffered.

The outlook, however, appears brighter. Key sectors of the economy strongly tied to exports and imports—including vehicles, consumer goods, and production machinery and equipment—will all see steady increases in growth beginning in late 2009. Broad recovery in demand for the global shipping sector is expected as well, by 2011. Nevertheless, the vessel supply overhang left from the boom times for shipping over the past 10 years will take quite some time to work off, leaving supply slack and pressuring ocean shipping rates downwards.

A lesson of the recession is that globally integrated international supply chains have developed to the point where there is increased interdependence between regions. Downturns in one economy can easily spread through trade declines around the world. Thankfully, we are turning a corner with this current recession.



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