

HSBC Global Connections

Trade Forecast Update: Australia February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Australia's trade to grow by 146.04% to 2026
- Australian companies to increase trade activity by 5.79% annually over the next 15 years
- Growth to be fuelled by emerging trade with Thailand, especially in the oil and gold sectors where export trade will grow by 11.57% and 11.34% annually over the next five years

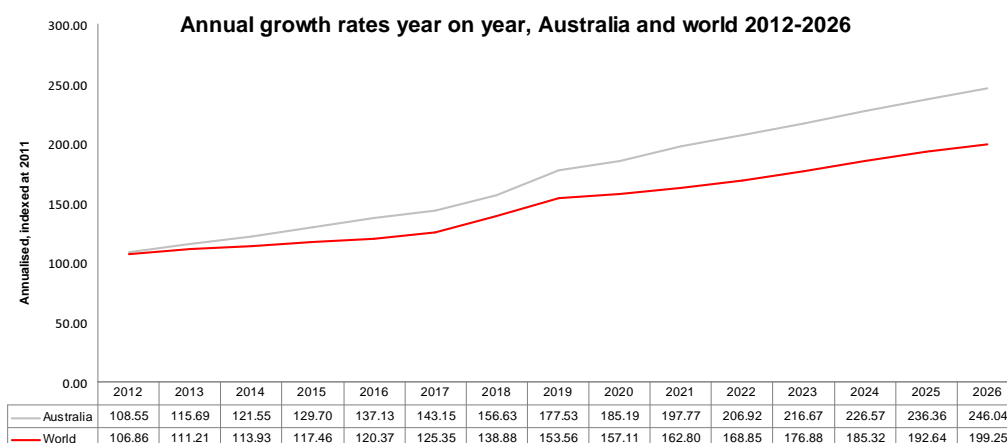
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Australia will grow at an annualised rate of 5.97% to 2016. The rate then increases to 6.88% between 2017 - 2021. This equates to growth, indexed to a base in 2011, of 146.04% to 2026. This is the result of an acceleration in trade expected with Asia Pacific as Australia increases its import and export trade across the region to take advantage of speedier growth in it after 2015. Annualised total trade growth in Australia over the next 15 years is predicted to be 5.79%, the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Australia's trade outlook

The Australian trade index, based to 2011, begins in 2012 with a similar average rate of growth for the world. However, in the next 15 years, the Australian rate of growth becomes increasingly higher than the world's average. This comes as no surprise when considering the health of the Australian economy both during and in the aftermath of the 2007 financial crisis, and the subsequent resilience it has shown in light of the current global downturn. Further, the acceleration of trade is also expected as the Trade Forecast anticipates a speedy recovery of the Asia Pacific region, whom Australia has strong inter-regional trade relationships with. By 2016 the Trade Forecast expects Australian trade growth to be greater than world trade growth by 17%. By the end of the forecast period in 2026 growth is expected to be 27% higher than average world trade growth.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Australia's largest export partners are China, Japan and South Korea. Exports to all of these countries are forecast to grow over the next five years at annual rates of 9.19%, 3.16% and 7.45% respectively. Exports to China are highly commoditised and dominated by crude oil, forecast to grow by 15.82%, coal, which is forecast to grow by 15.37% and wool by 4.68%, all annualised to 2016. Australia's fastest growing export partner after China is Thailand, with export trade overall expected to increase annually by 8.11% to 2016, dominated by an 11.57% annual increase in oil and gold exports. Fast growing partners are mainly in Asia Pacific; when ordered by growth this equates to nine out of the 10 top growth export destinations. Emerging export destinations reflect Australia's broadening reach: exports to Bangladesh will increase over the next five years annually by 14.01%, Nigeria by 13.82% and to Egypt by 13.71%. Australia's largest import partners are China, the USA and Japan with imports from all forecast to grow to 2016. This growth, particularly in the case of China, reflects Australia's growing demand for electronic goods: imports of electrical appliances for line telephony are set to increase by 11.38% and of radio and TV transmitters by 9.86% annually to 2016. Thailand is also a major growing importer, accounted for by a 9.49% increase in car imports, an 8.31% increase in road transport vehicle imports and a 13.69% increase in gold imports, all annualised to 2016. Emerging import partners reflect Australia's growing demand for oil, with oil-producing countries featuring strongly in the list.

Australia's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Australia's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
China	9.19%	Georgia	17.67%	China	8.20%	Libya	21.53%
Japan	3.16%	Libya	14.02%	USA	4.89%	Nigeria	21.49%
Rep. of Korea	7.45%	Bangladesh	14.01%	Japan	4.85%	Oman	18.75%
India	6.84%	Nigeria	13.82%	Thailand	9.82%	Kuwait	16.94%
New Zealand	2.56%	Egypt	13.71%	Germany	5.91%	Bangladesh	15.01%
USA	4.41%	Kazakhstan	13.09%	Malaysia	6.43%	Chile	14.56%
United Kingdom	4.68%	Morocco	12.92%	Singapore	5.61%	Venezuela	14.51%
Thailand	8.11%	Zimbabwe	12.79%	New Zealand	7.27%	Russia	14.17%
Singapore	7.32%	Myanmar	12.22%	UK	4.19%	Qatar	14.15%
Malaysia	7.82%	Lebanon	11.52%	Rep. of Korea	6.85%	Paraguay	13.75%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows Australia's fastest growing export and import sectors by partner:

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Petroleum oils, oils from bituminous minerals, crude	China	15.82%	Gold, unwrought, semi-manufactured, powder form	Thailand	13.69%
Coal, briquettes, ovoids etc, made from coal	China	15.37%	Petroleum oils, oils from bituminous minerals, crude	New Zealand	12.56%
Petroleum oils, oils from bituminous minerals, crude	Thailand	11.57%	Oils petroleum, bituminous, distillates, except crude	Japan	11.39%
Manganese ores, concentrates, iron ores > 20% Manganese	China	11.36%	Electric apparatus for line telephony, telegraphy	China	11.38%
Gold, unwrought, semi-manufactured, powder form	Thailand	11.34%	Oils petroleum, bituminous, distillates, except crude	South Korea	11.17%
Iron ores and concentrates, roasted iron pyrites	South Korea	9.17%	Articles for funfairs, table and parlour games	China	10.24%
Cooper ores and concentrates	China	8.54%	Radio and TV transmitters, television cameras	China	9.86%
Petroleum oils, oils from bituminous minerals, crude	South Korea	7.75%	Petroleum oils, oils from bituminous minerals, crude	UAE	9.82%
Cooper ores and concentrates	India	7.67%	Motor vehicles for transport of persons (except buses)	Thailand	9.44%
Petroleum oils, oils from bituminous minerals, crude	Japan	7.08%	Motor vehicles for transport of persons (except buses)	South Korea	9.30%

N.B. Fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Agricultural commodities: Australia's agricultural commodity sector is vast and growing. Wheat and meslin (a grain mix) exports are forecast to grow by 17.94%, while exports of jute, flax and wool are all forecast to increase at annual rates of 22.51%, 21.59% and 25.21% respectively over the next five years as demand increases globally. Countries like Bangladesh and Colombia are emerging export destinations for beef products and show how Australia's agricultural commodity supply chain extends across the world. Exports of wool to China are forecast to grow at 4.68% annually to 2016 and this, combined with other international opportunities, provides Australia's agri-business sector with a platform from which to expand international activities, at a rate of nearly 18.00% if they are to keep up with the pace of change.

Infrastructures: Australia is known globally for its exports of ores and iron and steel. Manganese ore exports are forecast to grow by 11.82% annually to 2016 and, as this is a key product used in rust protection and steel preparation, demonstrates the role that Australia provides at the 'commodity end' of infrastructure supply. China is a major export destination for manganese ore with export growth expected to be 11.36% annually over the next five years. Copper ore and refined copper are two of the top five large fast growing export sectors and again, China is set to increase as an export destination by 8.54% to 2016. However, the emerging sectors demonstrate that Australia has exports that help *transport* infrastructures abroad as well. Exports of railway passenger and special purpose coaches are set to increase by 22.12% annually to 2016. Australia's structural engineering and architecture sector also features strongly with increases in exports of architect plans of 25.19% annually over the next five years anticipated. Australia's infrastructure exports ranges from commodities to structural engineering and design. Companies internationalising here have opportunities globally but the complexity of infrastructure development means they must work together across the supply chain and across geographies in order to maximise growth.

Oil and coal: The energy sector is a vital part of Australia's trade structure. Coal is Australia's largest export sector and set to grow by 7.24% because of exports to China, which are forecast to grow by 15.37% annually over the next five years. Exports of coal to South Korea will grow annually by 6.90%, to India by 5.97% and to the Netherlands by 5.43% annually to 2016. Crude oil is the third largest export sector (growing at a forecast annualised rate of 8.92% to 2016) and is Australia's largest import sector (imports to grow by 7.20% annually to 2016). Oil and coal are complex sectors but, as Asia Pacific's trade increases, so will its demand for oil and coal. Australian businesses can take advantage of this by working with global suppliers in the market place.

HSBC Trade Connections

Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

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