

HSBC Global Connections

Trade Forecast Update: USA

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
- The USA's trade growth 2012 to 2026 predicted to be 68.95%
- American companies to increase trade activity annually by 3.68% over the next 15 years
- America's fastest emerging export sector is copra/coconut oil (20.95% annualized over the next five years - a product in demand because of use in food preparation and animal feeds). The fastest growing large export sector will be in non-crude oil (9.36% over the next five years).

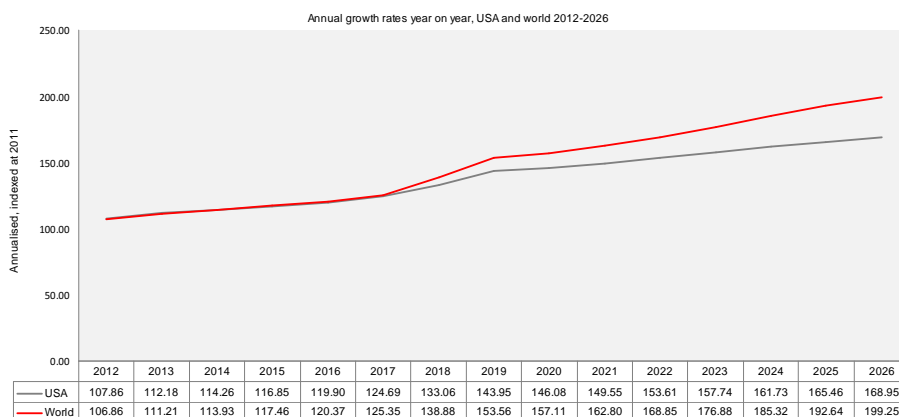
Trade overview

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 American trade will grow at an annualized rate of 1.95% over the next five years, which will be slower than world trade growth. However, this will pick up substantially after 2016 with annualized growth of 5.70% between 2017-2021. Companies in the USA will need to increase trade activity annually by 3.68% over the next 15 years if they are to keep pace.

USA's trade outlook

The USA's trade will grow to 168.95 by 2026. There is a noticeable uplift in trade after 2014 for both the world and the USA, but what is striking about the annualized growth rates is that, although the USA has faster growth in trade between 2012 and 2014 - fuelled largely by export growth in the first five years - the overall picture is that the pace of growth will fall behind the world average by 2015.



Recent indicators suggest that the USA's economy has gained momentum in recent months and should grow moderately throughout 2012. Estimated GDP growth in the final quarter of 2012 was 2.8%, and while this was less than the 3% expected, it should ease pressure on the Federal Reserve to implement a further economic stimulus. However, since Europe is one of the USA's export partners, the threat of a potential scarcity of credit in the eurozone means that uncertainty over economic recovery remains.

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

The USA's largest export partners are Canada, China and Mexico as are its largest import partners. Of the USA's key export partners, India, Brazil and Hong Kong are growing the most rapidly at 8.46%, 8.13% and 7.24%, respectively. Reflecting a range of commodity trade gold exports to India are forecast to increase annually by 15.51% over the next five years, oil exports to Brazil by 16.09% and jewelry exports to Hong Kong by 11.03%. Three of the top five emerging export partners are in Africa; Ethiopia (annualized growth rate of 14.33%), Rwanda (13.91%) and Ghana (11.97%). This demonstrates the speed with which Africa is growing as an export destination, particularly for infrastructural projects as the continent continues its post-crisis path to economic recovery.

China is the fastest growing importer into the USA with annualized growth to 2016 expected to be 4.28%. The rate of growth of imports is not as quick as the rate of growth of exports from the USA to China (at 7.10%). Motor vehicle exports to China are among the USA's top emerging sectors, with growth rates between 2012 and 2016 forecast to be at an annualized rate of 11.92%. South Korea is also a top trading partner that is growing imports quickly. Imports from Mexico, another key importer into the USA, will grow by 3.30%, driven by tractor imports (at 12.13%) and Gold (at 12.02%).

USA's Emerging Growth Importers and Exporters (2012-2016)							
USA's Largest Export Partners	CAGR (2012)	Emerging Growth Export Partners	%	USA's Largest Import Partners	CAGR (2012)	Emerging Growth Import Partners	%
Canada	2.88%	Ethiopia	14.33%	China	4.28%	Laos	14.39%
Mexico	3.95%	Malta	14.13%	Canada	0.96%	Rwanda	10.27%
China	7.10%	Rwanda	13.91%	Mexico	3.03%	Kazakhstan	9.55%
Japan	2.82%	Ghana	11.97%	Germany	1.12%	Bolivia	9.05%
Germany	3.98%	Vietnam	11.77%	Japan	0.47%	Estonia	8.21%
United Kingdom	2.63%	Bahrain	11.44%	United Kingdom	2.07%	Ethiopia	7.84%
Netherlands	4.97%	Bolivia	11.33%	South Korea	3.90%	Vietnam	7.65%
South Korea	5.97%	Luxembourg	11.13%	France	2.18%	Ghana	7.22%
Brazil	8.13%	Morocco	10.76%	Italy	0.85%	Qatar	6.68%
Belgium	4.72%	Lebanon	10.51%	India	5.05%	Morocco	6.65%

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. CAGR stands for compound annual growth rate.

Sector watch

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

USA's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Oils petroleum, bituminous, distillates, except crude	Brazil	16.09%	Blood, antisera, vaccines, toxins and cultures	Ireland	16.32%
Oils petroleum, bituminous, distillates, except crude	Colombia	15.79%	Gold, unwrought, semi-manufactured, powder form	Colombia	14.98%
Gold, unwrought, semi-manufactured, powder form	India	15.51%	Medicaments, therapeutic, prophylactic use, in dosage	Belgium	12.90%
Waste or scrap of precious metal	Switzerland	14.85%	Motor vehicles for transport of persons (except buses)	South Africa	12.85%
Fertilizer mixtures in packs of >10kg	India	14.46%	Printing and ancillary machinery	Singapore	12.75%
Television receivers, video monitors, projectors	Mexico	13.24%	Oils petroleum, bituminous, distillates, except crude	India	12.55%
Electric apparatus for line telephony, telegraphy	Brazil	12.98%	Electric apparatus for line telephony, telegraphy	Japan	12.53%
Medicaments, therapeutic, prophylactic use, in dosage	Spain	12.90%	Medicaments, therapeutic, prophylactic use, in dosage	India	12.45%
Oils petroleum, bituminous, distillates, except crude	France	12.52%	Printing and ancillary machinery	China	12.20%
Printing and ancillary machinery	Mexico	12.12%	Tractors (other than works, warehouse equipment)	Mexico	12.13%

N.B. The 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.

The sector opportunity

Non-crude oil and petroleum sectors: These dominate the emerging sectors building on the role of the sector as one of traditional strength. Businesses operating in this sector will have experience of international trade beyond the USA but they will need to be aware of new regulatory and cultural challenges and open up links with local suppliers and distribution networks in order to be able to make the most of opportunities within Latin America.

Automobiles: Exports of cars to China is the 10th fastest growing export sector. The trade route in automobiles and automobile parts is well established and businesses within the sector and its related components are familiar with global supply chains and international business. Importantly, however, is that trade with China is growing at a rate of 11.92% and businesses will need to accelerate their international activity by at least this rate in order to remain in the game as trade along this corridor develops.

Pharmaceuticals and biopharmaceuticals: India is an emerging importer of medicines into the USA, with imports set to increase by 12.45% annualized over the next five years. This suggests that India is part of America's global pharmaceutical industry and importing into the USA at the high end of value chains in its own right. Belgium and Ireland are other key import partners in the overall pharmaceutical and biopharmaceutical sectors with import growth from Ireland in blood products set to increase annually at 16.32% and from Belgium in medicaments at 12.90% to 2016. This is a fast growing sector internationally and is dominated by global supply chains and high levels of skill and innovation as well as global and national regulation. Businesses in this area are familiar with these, but there will be new opportunities that come specifically from a rapidly emerging sector in India which is both highly advanced and cost effective. At the high-value end of the spectrum, the USA is a global leader in production of blood products, antisera and vaccines; exports of these products will grow by 7.95% annually to 2016. This will be driven by equally strong imports in blood products from Ireland, suggesting a tight supply chain in bio-pharmaceuticals between these two countries.

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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.

About HSBC Commercial Banking

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