2017
Scary Year for US Exporters
Strong Dollar, Weak Markets, Trade Wars

Agricultural Transportation Coalition 29th Annual Meeting

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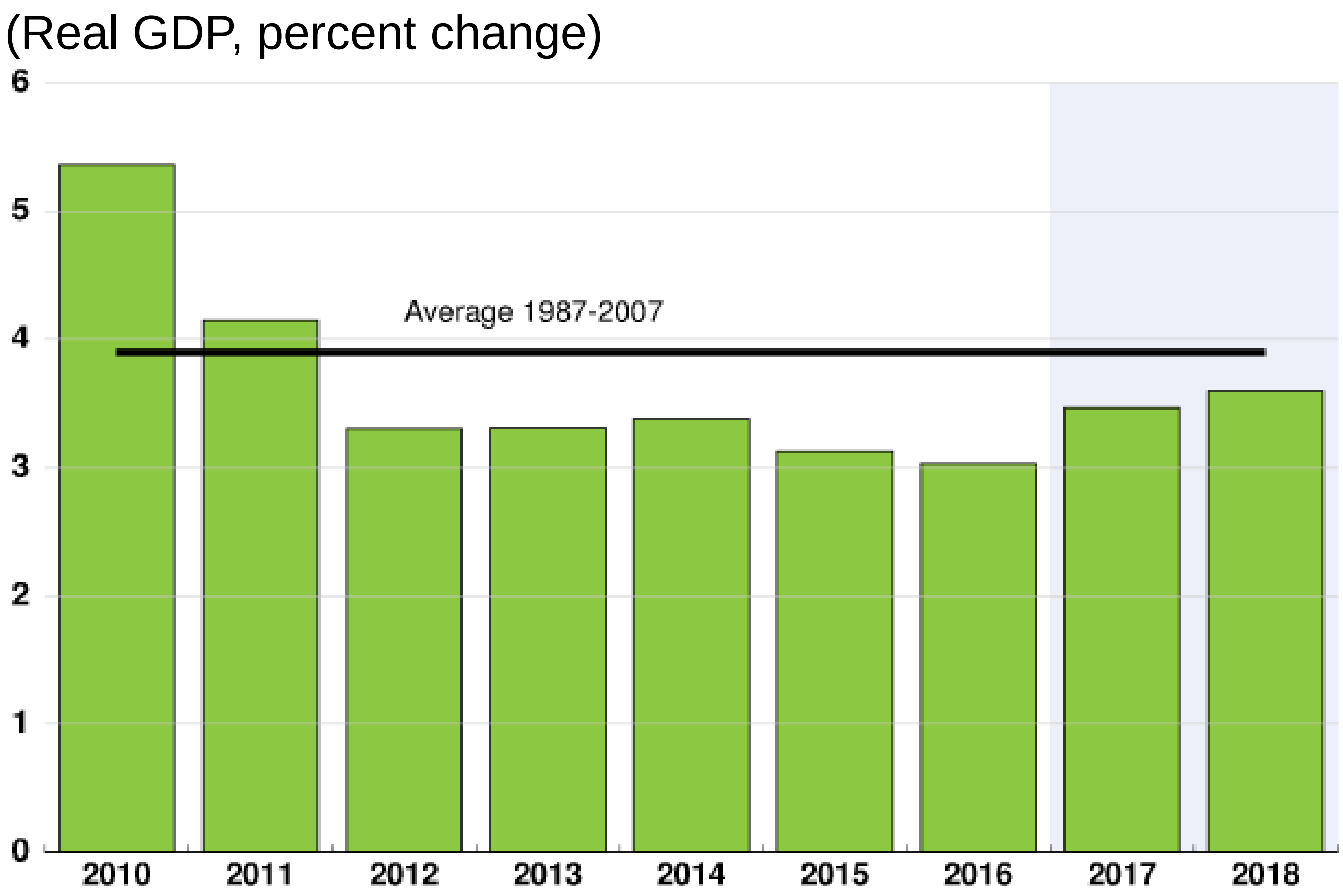
Export Outlook is Driven by Goods Demand that Depends on Health of Trade Partners' Economies

The 2017 World Economic Outlook is Moderately Faster Growth

- Weakness in Europe, Japan and some developing economies has world 2017 GDP growth near 3.5% (up from 3.0% in 2016)
- U.S. GDP growth increasing to 2.3% in 2017 after 1.6% in 2016.
- Emerging markets growth mostly bottomed out in 2016 following commodity prices and slow growth in demand for their exports
- Commodity prices mostly up from bottom in 2016 - yet remaining overcapacity and slack resources limit upside for price increases
- Downside risks to the trade forecast remain dependent on policy including from the U.S. and BREXIT-related changes in Europe

World GDP Growth Picks Up Modestly
Correlation with U.S. Export Growth Not Automatic

OECD World Economic Growth Forecast Revised Up for 2017



Source: OECD

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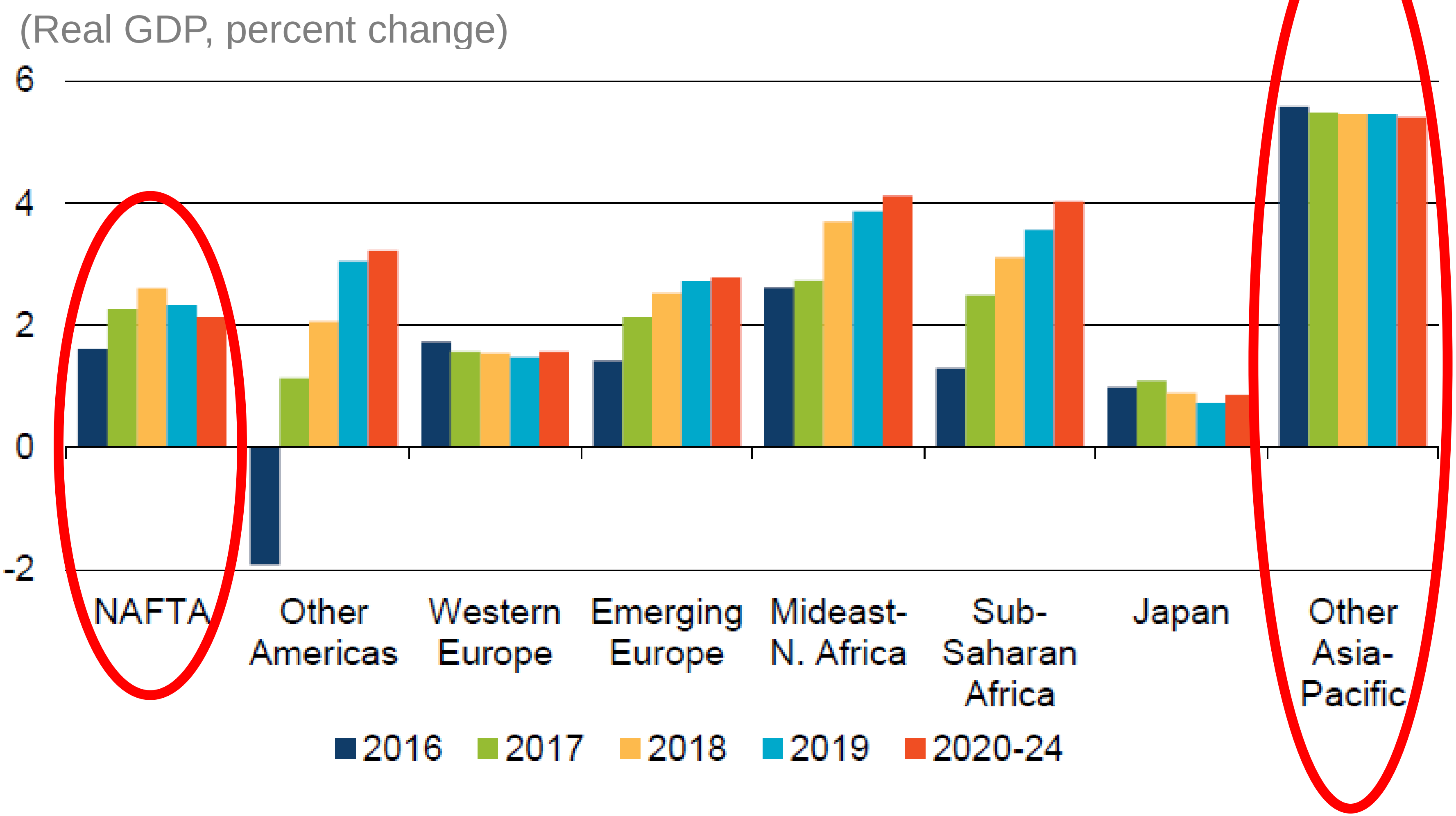
GDP Growth Rate Differences Affect Pace of Trade Growth, and Export Potential by Trade Route



Source: IHS Markit

Emerging Market Leaders in Past Years are Now a Drag on Global Growth, While Others Recover

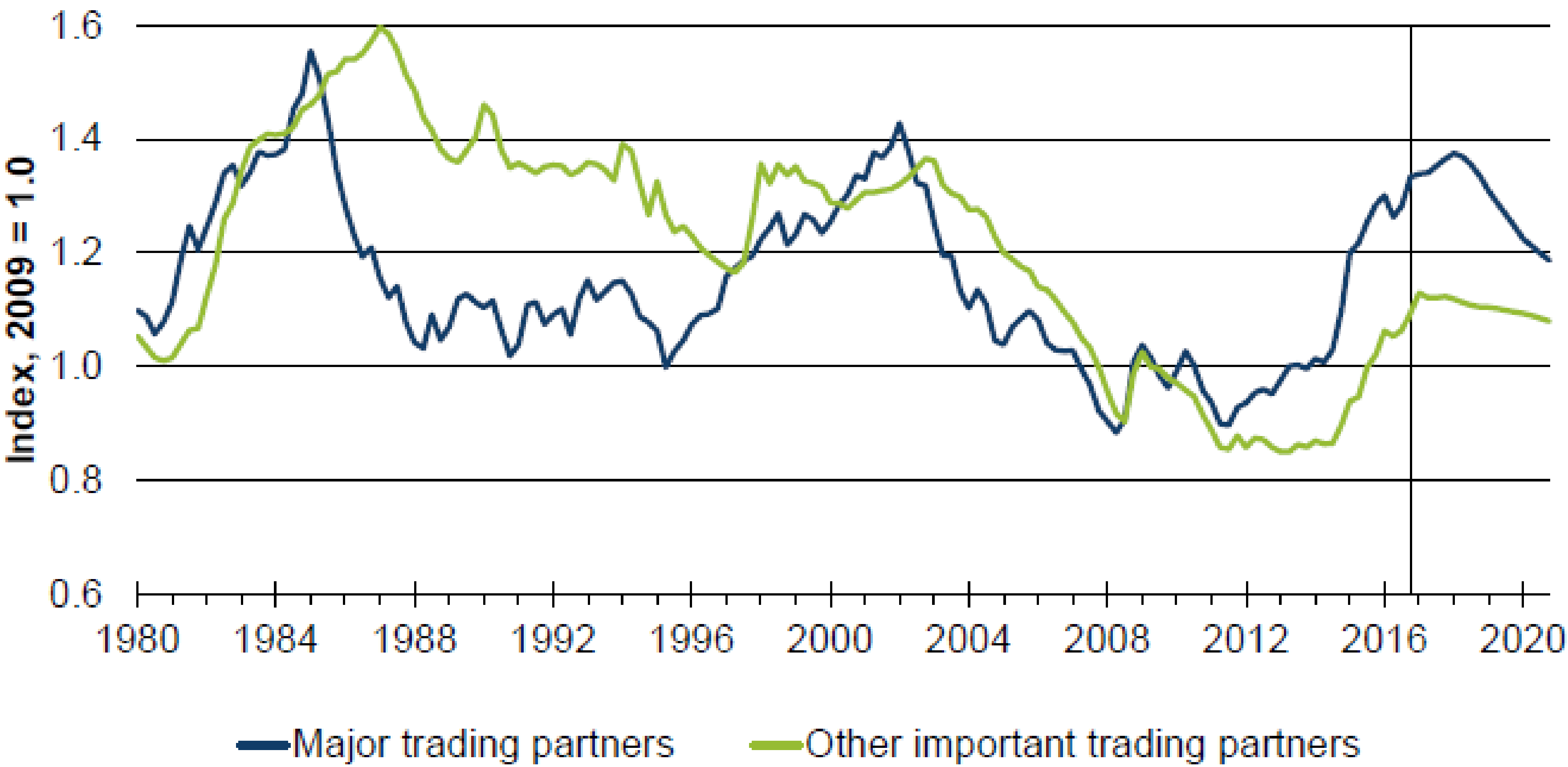
The outlook for the BRIC country emerging markets is weak

- **Brazil's** economy struggling out of their deep recession with high unemployment lingering, inflation has slowed and exports are up.
- **Russia's** economy is recovering but still very weak with low oil prices and remaining trade sanctions.
- **India** with GDP growth now higher than China, benefitted from low import prices and price competitiveness for exports.
- **China's** growth is slower (for China) due to housing and autos weakness, and over-capacity in manufacturing plus capital flight.

Source: IHS Markit

U.S. Dollar Exchange Rate Not at a Historic Record Level Yet Higher Than in Over a Decade

U.S. Dollar exchange rate growth reduces export price competitiveness



Source: IHS Markit

Strong U.S. Dollar Exchange Rate Affects Trade Competitiveness and Export Outlook

- The already-strong dollar rose further in 2016, hitting highs against the Euro and the Japanese Yen, boosting European and Japanese exports.
- Some emerging-market currencies fell harder, including new record lows versus the dollar.
- Dollar exchange rate rises more in 2017 against developed and developing trade partner country currencies.
- Yet magnitude of further increases will be limited as developing-country currencies already saw large declines against the dollar in 2016.
- The strong dollar acts to “export” U.S. inflation to the rest of the world—as falling currencies in trade partner countries translate into higher import prices and headline inflation within those countries.

Consumption in Developed Economies Still Key to Global Demand But Less Long-Term

- Trade demand depends on business and consumer goods trade demand, part of consumption spending (about 70% of U.S. economy; and 58% of Western Europe's economy.)
- China's policy is to increase their 37% consumption share of GDP; the share from trade to decrease, though they are facing big challenges shifting structure of employment from export focus to domestic focus.
- China consumption growth since 2009 averaging more than double the 2% annual growth in the U.S., even as China's overall growth slows.
- U.S. consumption share of world GDP peaked at 22% in 2001. West Europe's share reached peaked near 18% in 2004.

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Policy: Infrastructure Supporting Trade or Trade Barriers & Retaliation

- New policies (trade barriers, infrastructure investments) can affect trade, but at different rates. Barriers can act fast, not so infrastructure.
- Beyond direct effects of trade policies, economic conditions are affected by policy expectations, also affecting U.S. goods exports.
- Trade partners retaliate against trade barriers (e.g. Canada on softwood lumber, Mexico in the past on trucking access) so trade wars can result.
- Baseline forecast is widespread trade wars will be avoided, due to lack of Congressional policy support.

Thank you!

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