



# Economic Outlook & the Impact on Shipping

Gary Morgan

Lloyd's Register

IMSF 2008 Gdansk, Poland

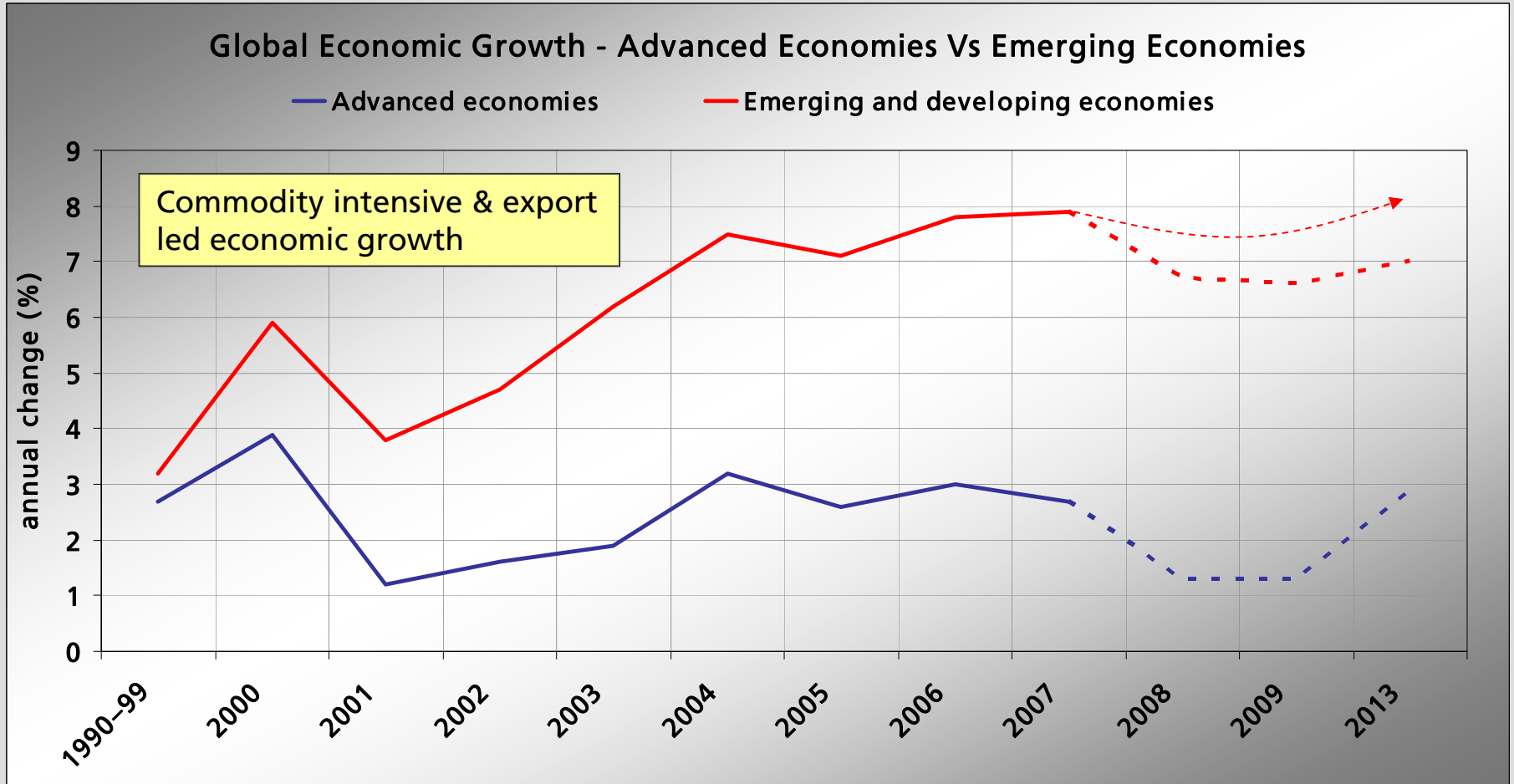
## A few points before we proceed

- Globalisation is further complicating the balance of trade
  - Dislocation between production & consumption
  - The term “decoupling” is a contradiction in terms
- Very strong global economic growth since 2001.....
- High domestic demand in emerging economies has supported trade thus far in 2008
  - Productivity gains through integration into global economy
  - Improving macroeconomic framework

But.....

- Liquidity crisis settling down but fallout has been monumental
- OECD predicts sub prime losses to hit \$420bn

# Global economic growth



Data source: International Monetary Fund

## Advanced economies.....Focus on US

- Advanced economies exercising less control over price due to location of manufacturing and raw materials
- Key economies suffering from Sub-Prime lending effects
- US export base expansion is sharp contrast to US domestic demand slowdown
  - Weak dollar
  - Housing crisis.....link between house price movement and consumer activity is strong.....price falls => reduction in consumer activity
- Still contribute to most of global GDP growth

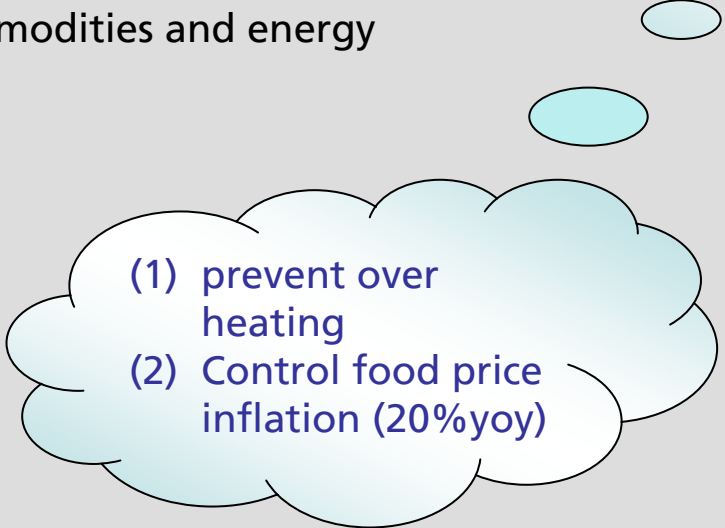
## Emerging economies

- High economic & population growth fuels increasing demand for energy
  - Account for 90% of increased levels of consumption since 2002
  - Supporting commodity intensive growth (exporters)
- Inflation is a key problem (most emerging economies raising interest rates)
- Intra regional trade rising substantially
- They are source of expansion in oil trades and dry markets
- Depending upon the location of supply and demand the required deadweight values are being pushed upwards (gross impact)
- BRIC accounted for 44% of global GDP growth during 2007



# China.....“Maintain Strong Economic Growth”

- Domestic growth fuelling further demand for commodities and energy
- Yangtze river development is a vital “artery”
  - Inner China to economic development
  - River, Roads and Railways
- Inward & Outward FDI
- $\frac{3}{4}$  of GDP derived by imports & exports activity
  - proportion of trade with US falling (32% to 22%)
  - Trading more intensively with Middle East, Latin America, Africa
  - 60% growth in trade between BRIC during 2007
- Inflation a REAL risk => 7% (main source is food)



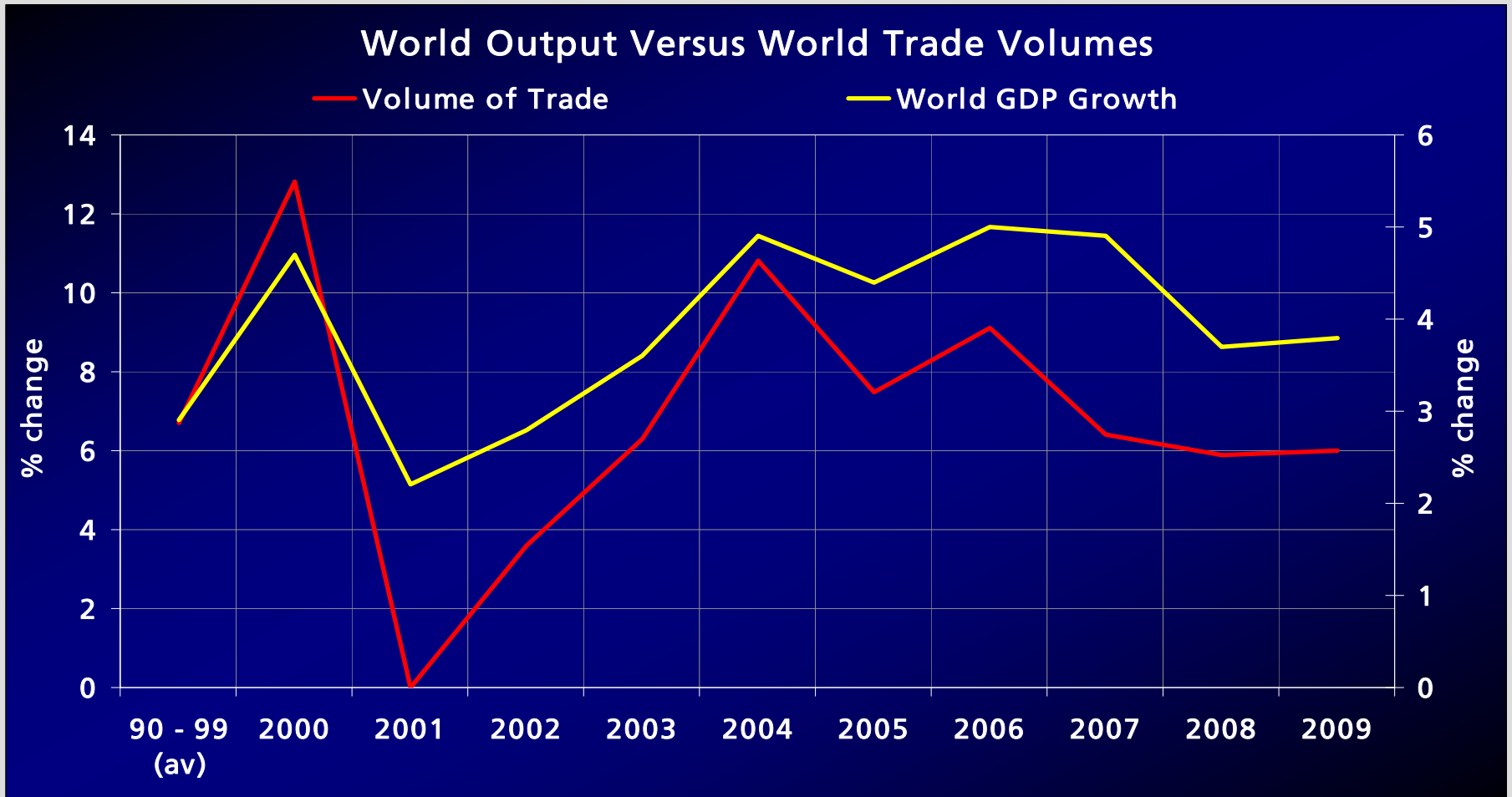
(1) prevent over heating  
(2) Control food price inflation (20%yoy)

Tight Monetary Policy

Risks of an economic slowdown... Impact on trades

What has happened in the past?

# World output Vs World Trade



Data source: International Monetary Fund

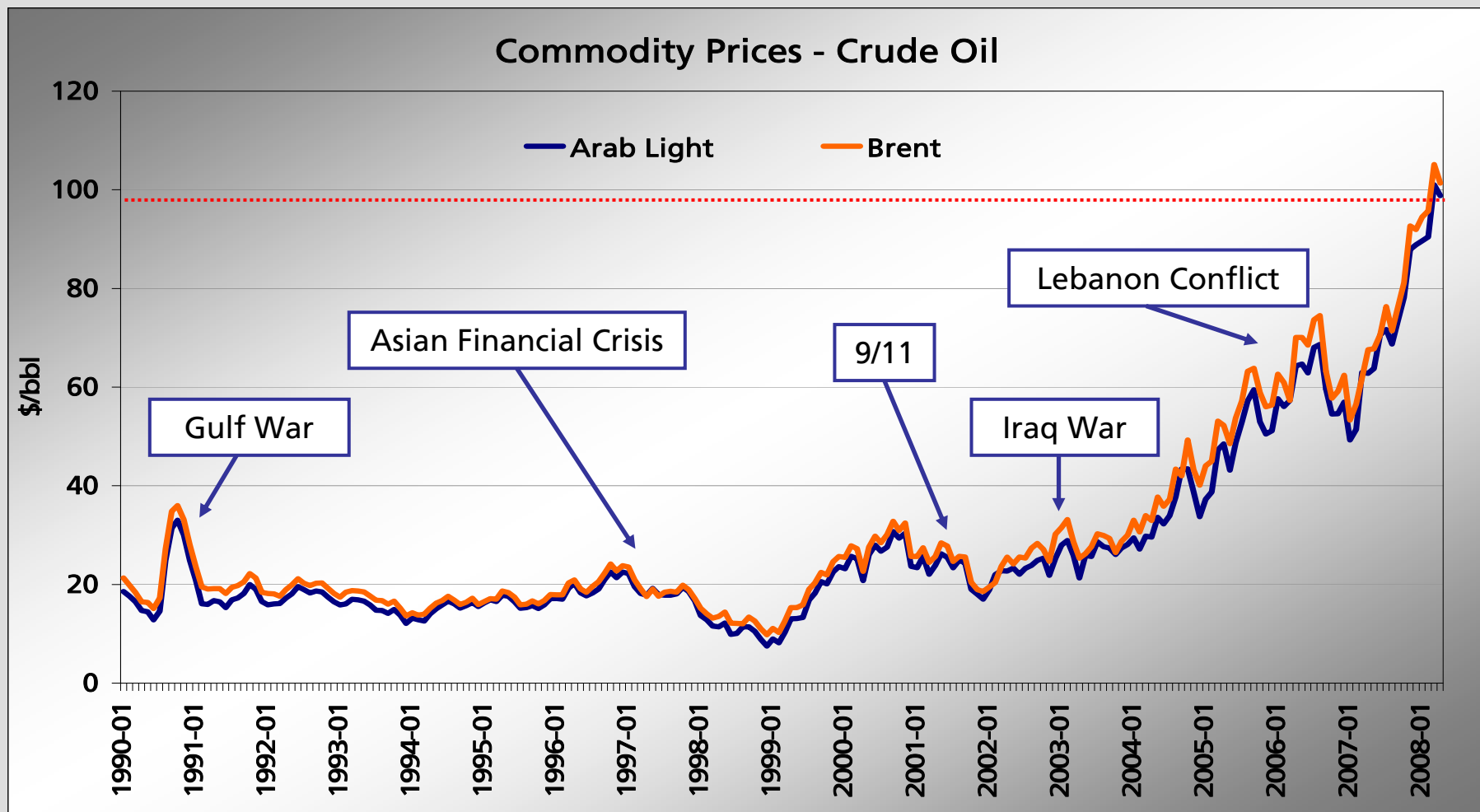
# Oil Trade

The health of the global economy is key

# Oil

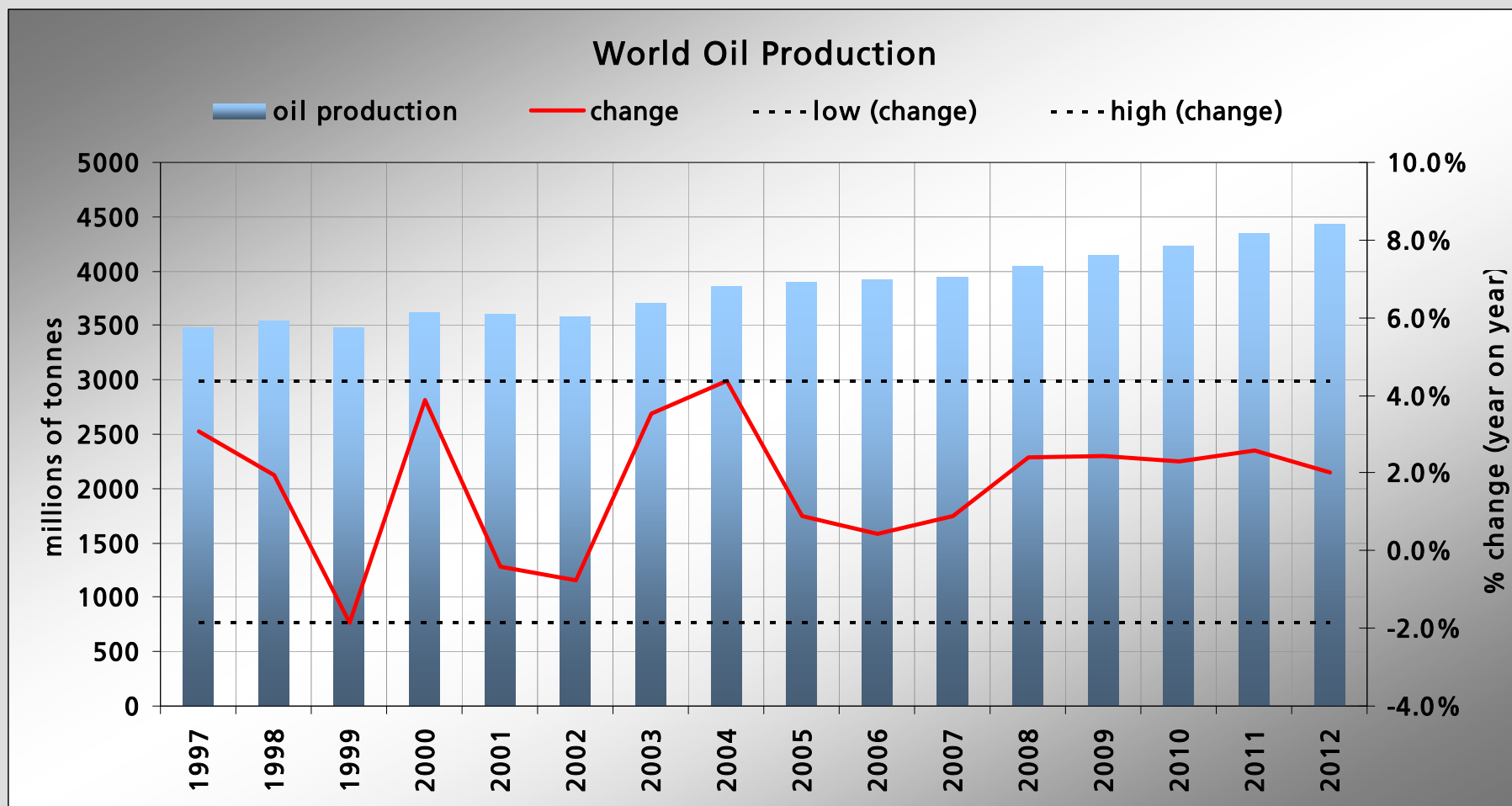
- 22 April 2008 => \$119.9 per barrel.....why?
  - Supply
    - OPEC stance
    - Violence & political instability in oil producing nations
  - Weak dollar.....investors look to oil and other commodities
    - Increased demand (double edged.....investment & price)
  - Refinery capacity (shortage)
  - Demand growth from emerging economies
- Why isn't price driving up increased production? After all, oil investment grew 70% from 2004 to 2006!!!

# Crude oil prices (\$/bbl)



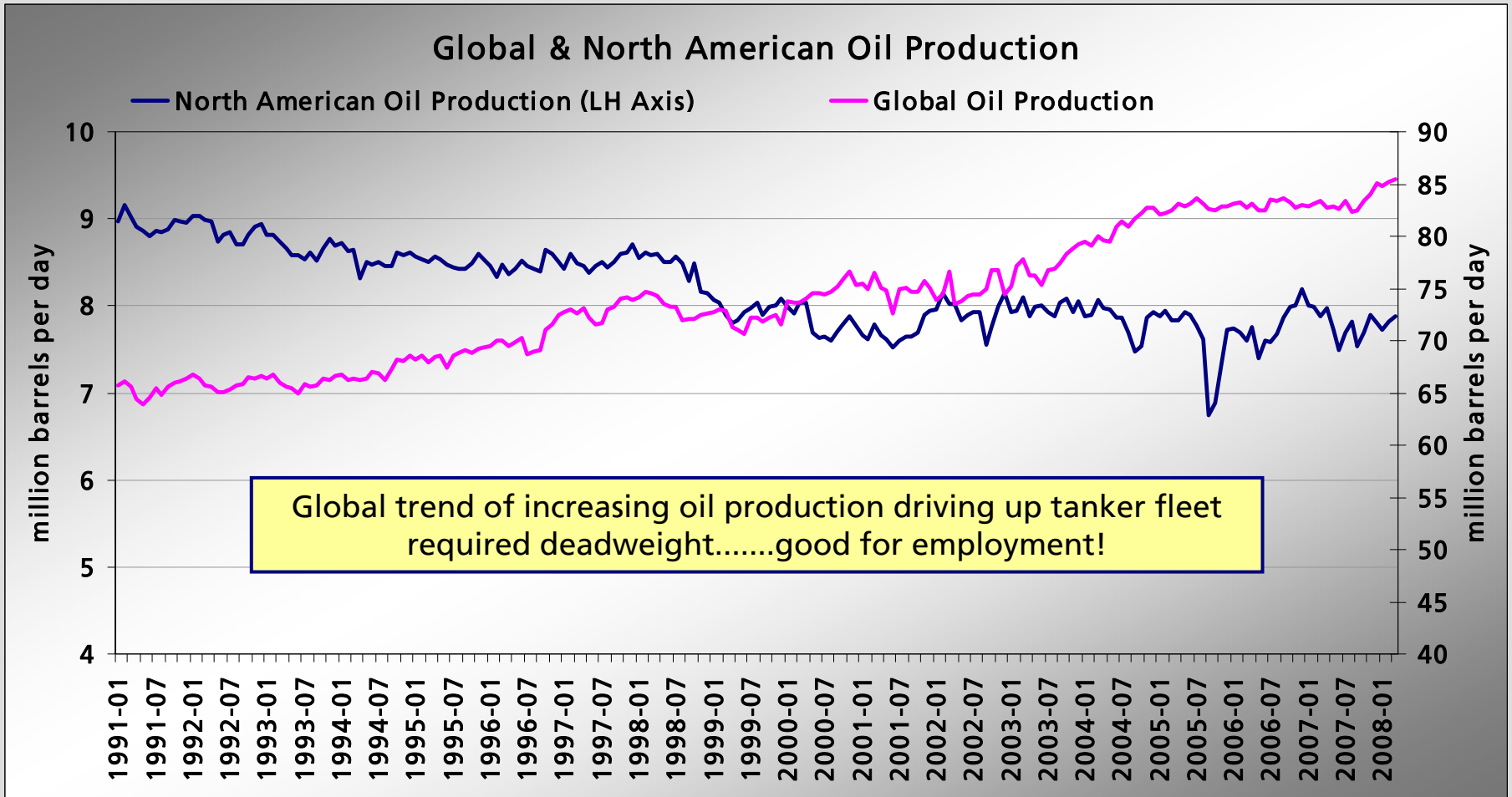
Data Source: Clarkson Research

# World Oil Production 1997 to 2012



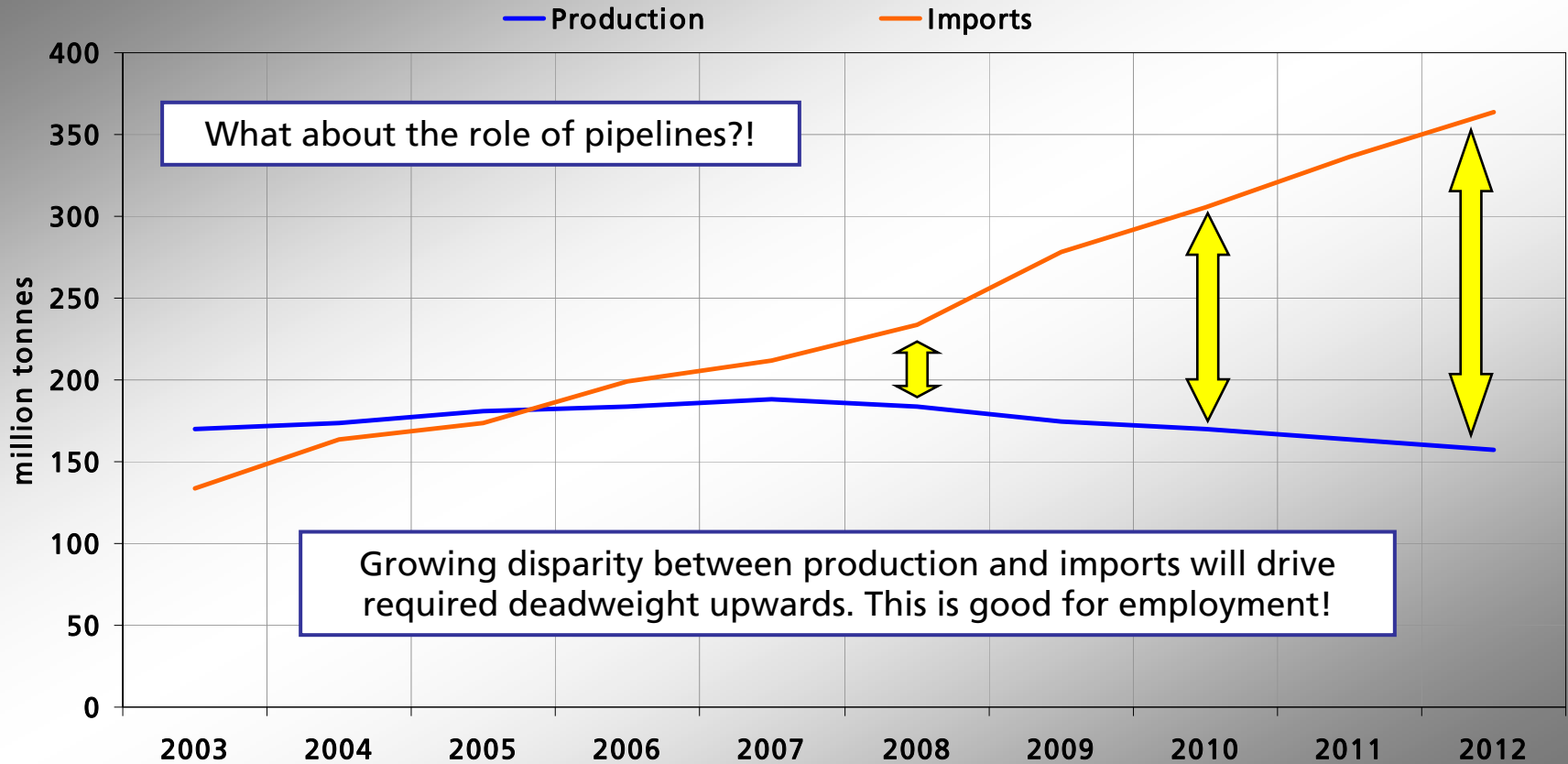
Data source: MSI Ltd

# Oil production 1991 to 2008



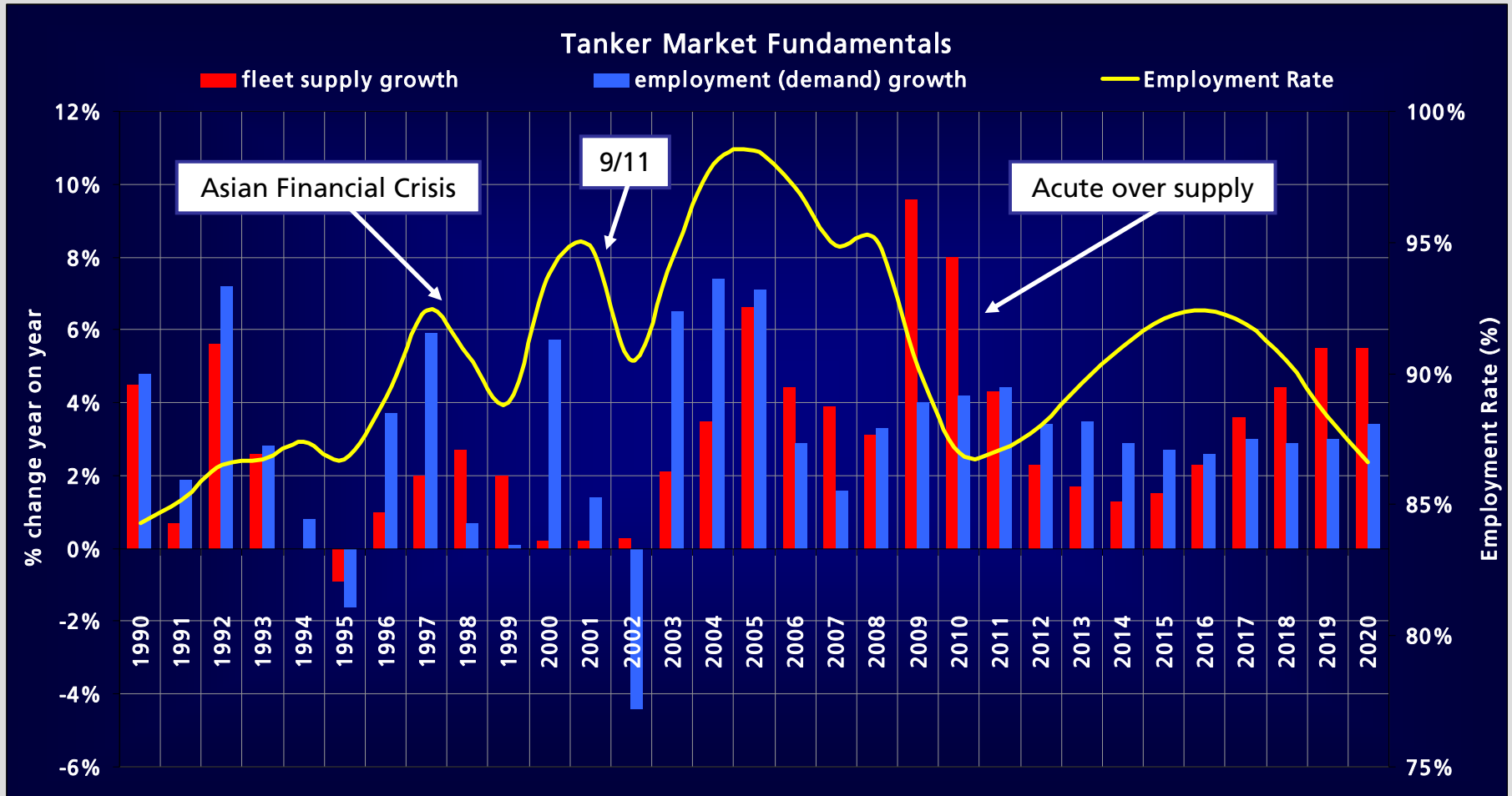
# China.....Production Vs Imports.....increasing required deadweight

## China Crude Oil Production Vs Crude Oil Imports



Data source: MSI Ltd

# Tanker Market Fundamentals



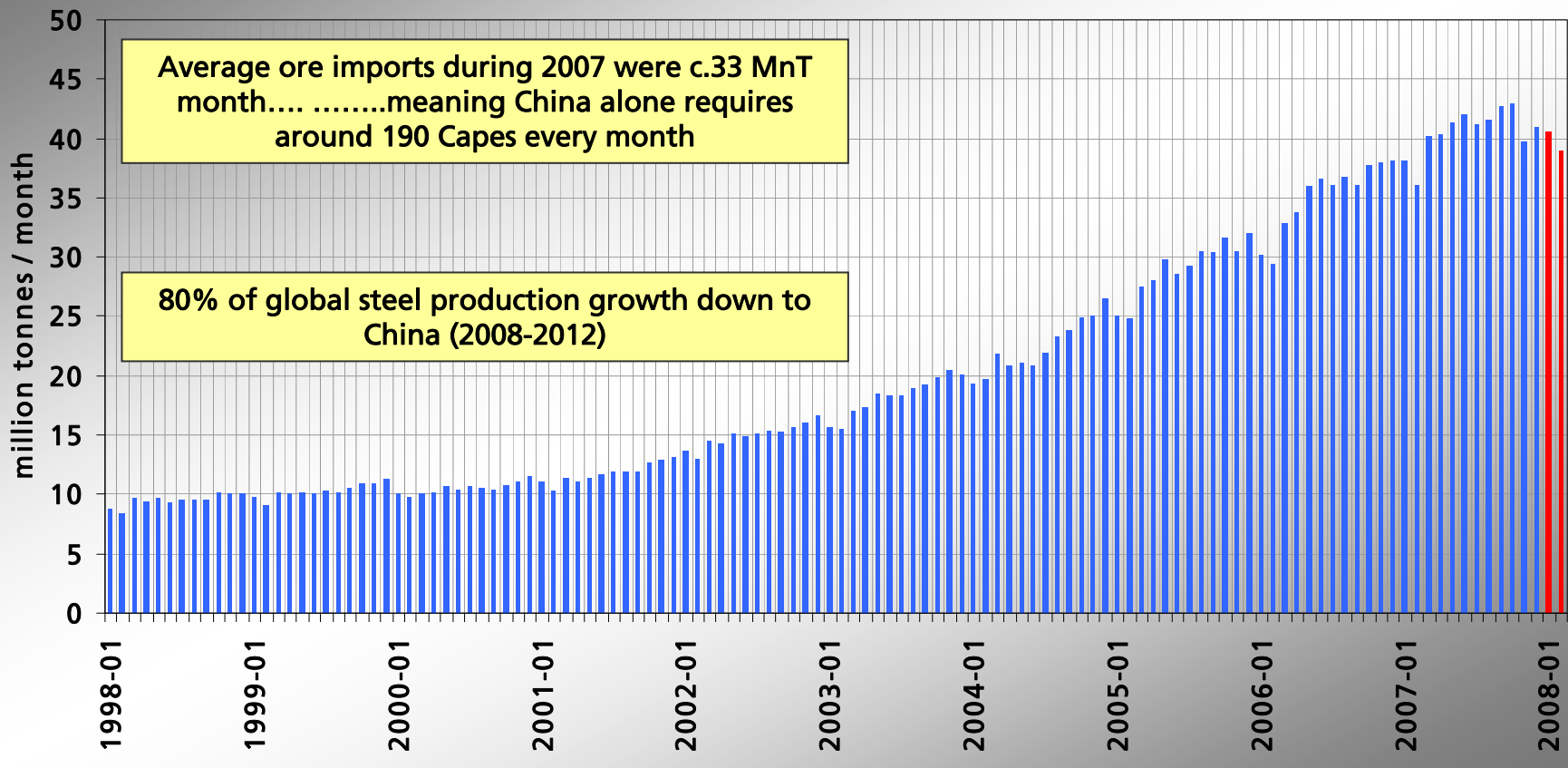
# Dry Bulk Trade

If China suffers from a US recession....dry bulk trades will suffer

# Steel production in China 1997 to 2008

24% ave.  
yoy growth  
since 2002

### China Steel Production



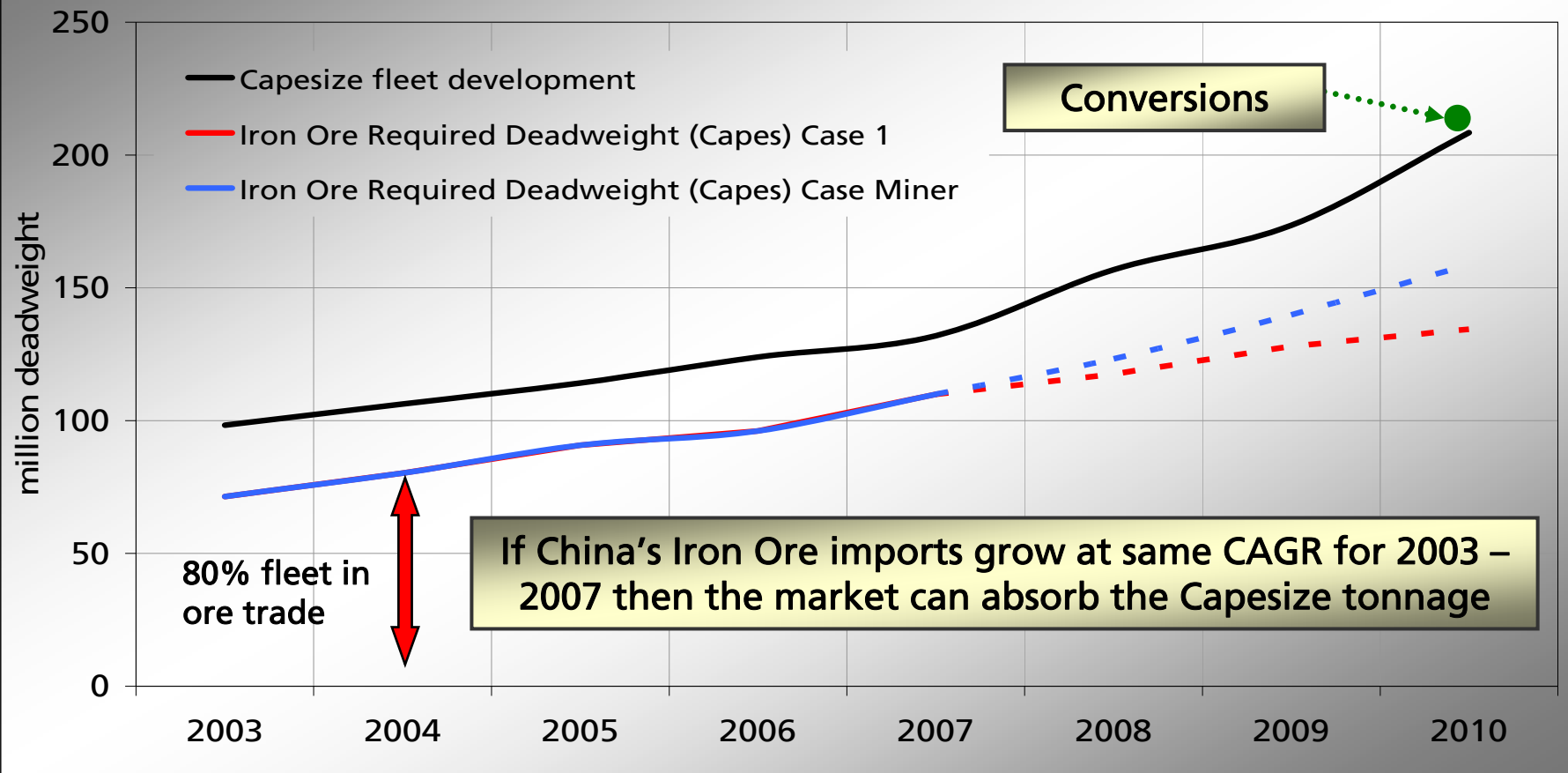
Average ore imports during 2007 were c.33 MnT month..... meaning China alone requires around 190 Capes every month

80% of global steel production growth down to China (2008-2012)

Data source: Clarkson Research

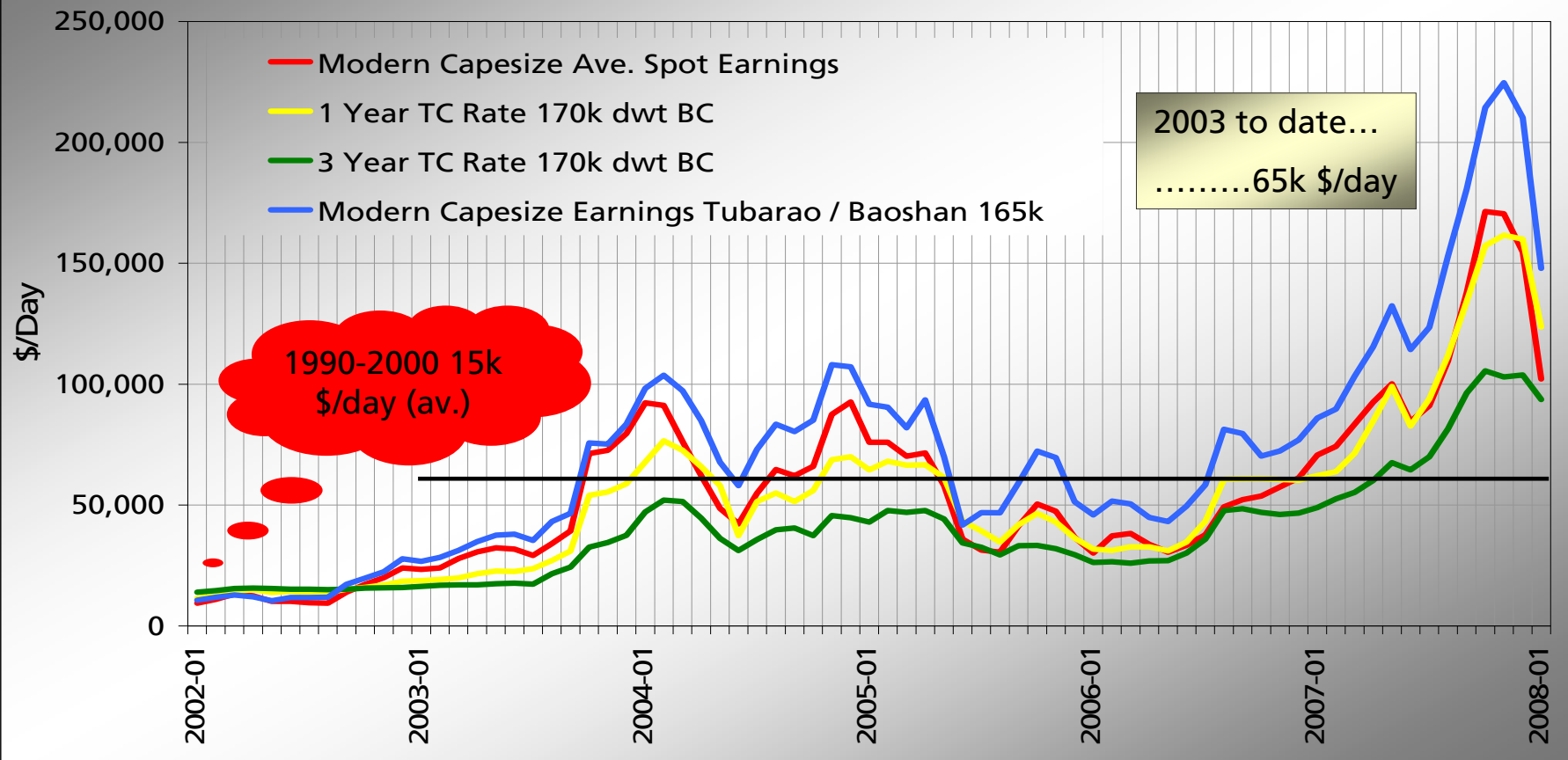
# Iron Ore Trade.....vessel employment 2010

## Iron Ore Trade and Vessel Employment



# Capesize bulk carrier earnings (spot & TC)

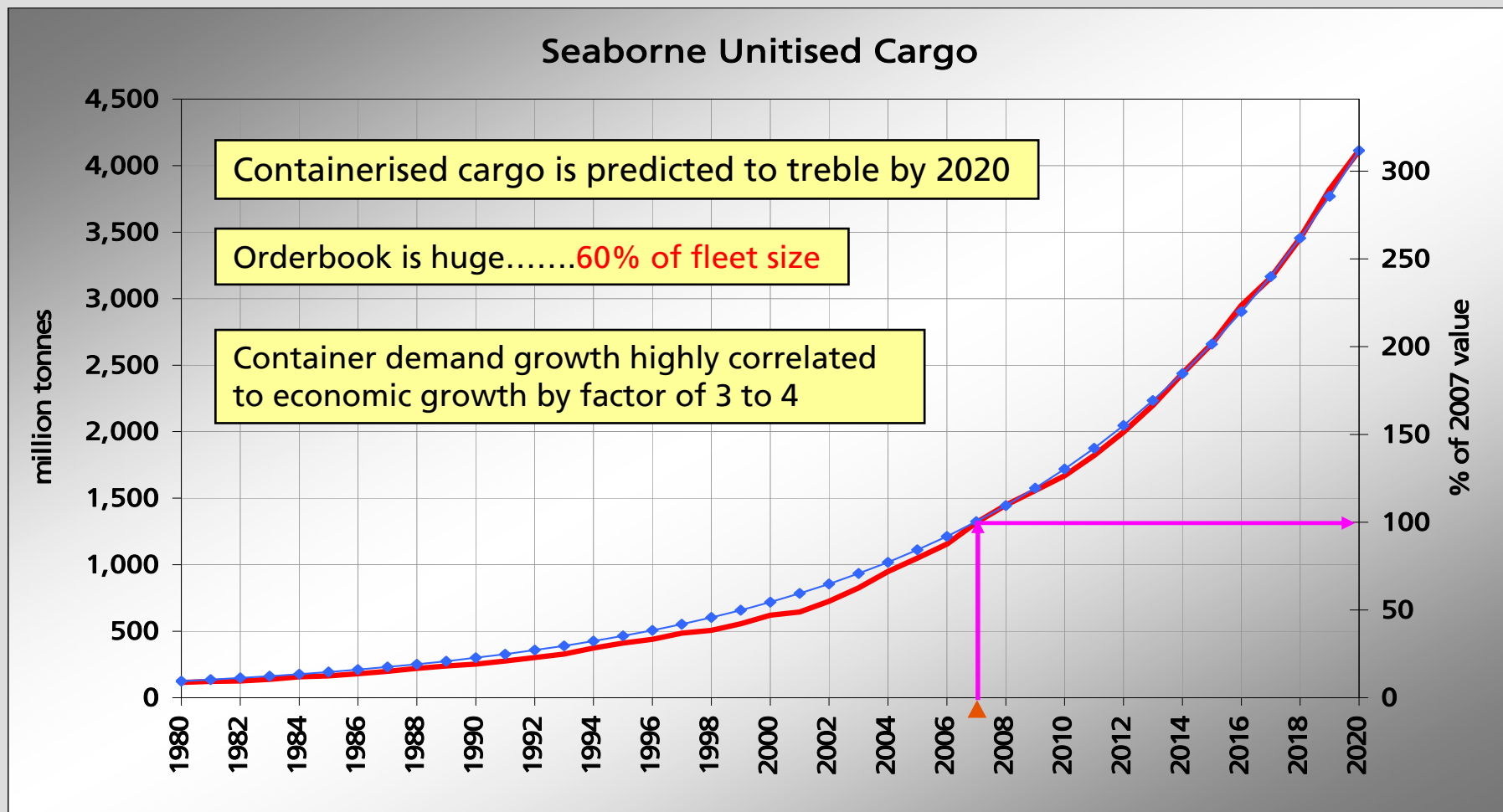
## Bulk Carrier Spot & TC Earnings since 2002



Data source: Clarkson Research

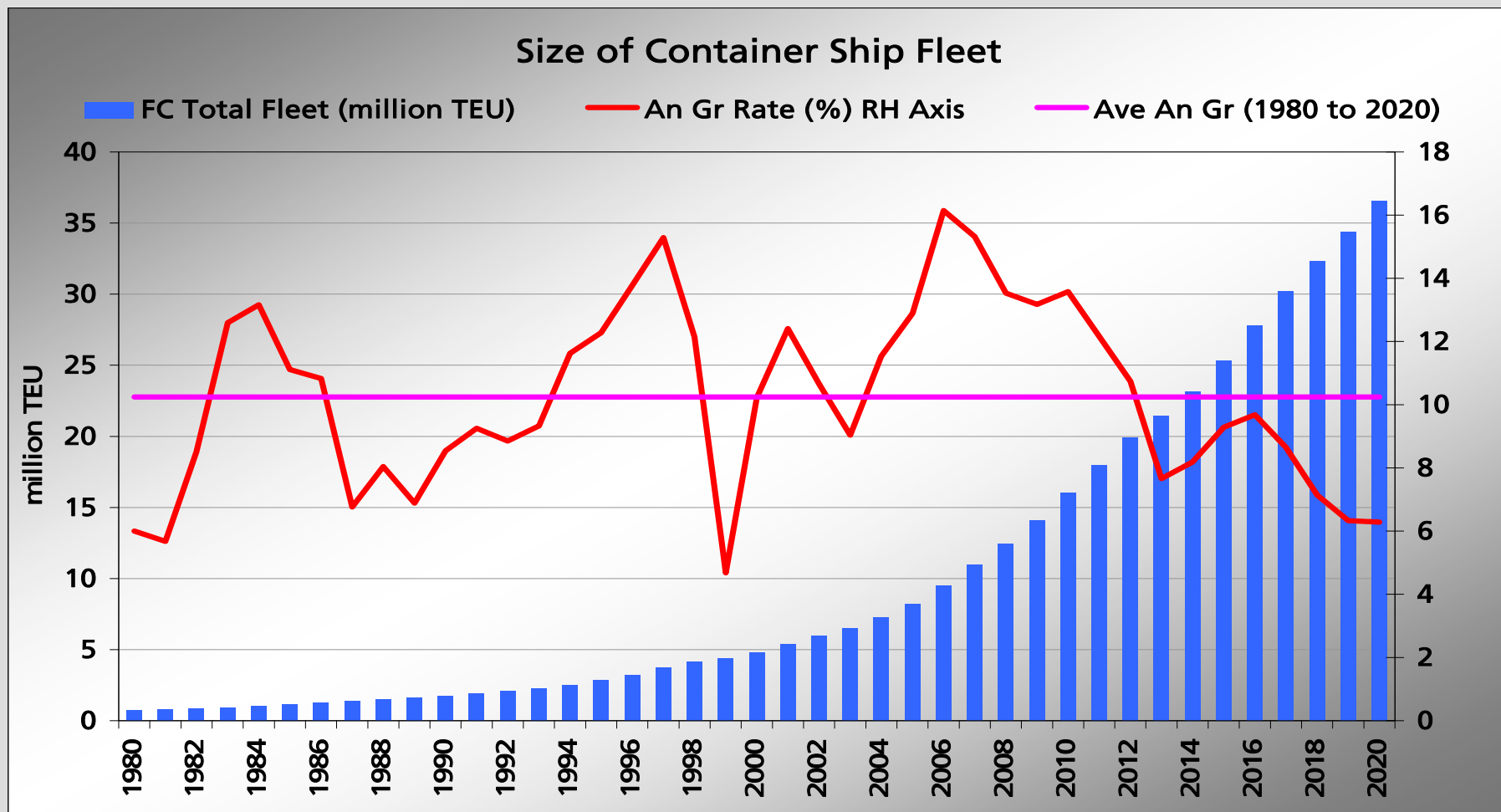
# Containerised Trade

# Container market outlook – demand growth



Data source: MSI Ltd

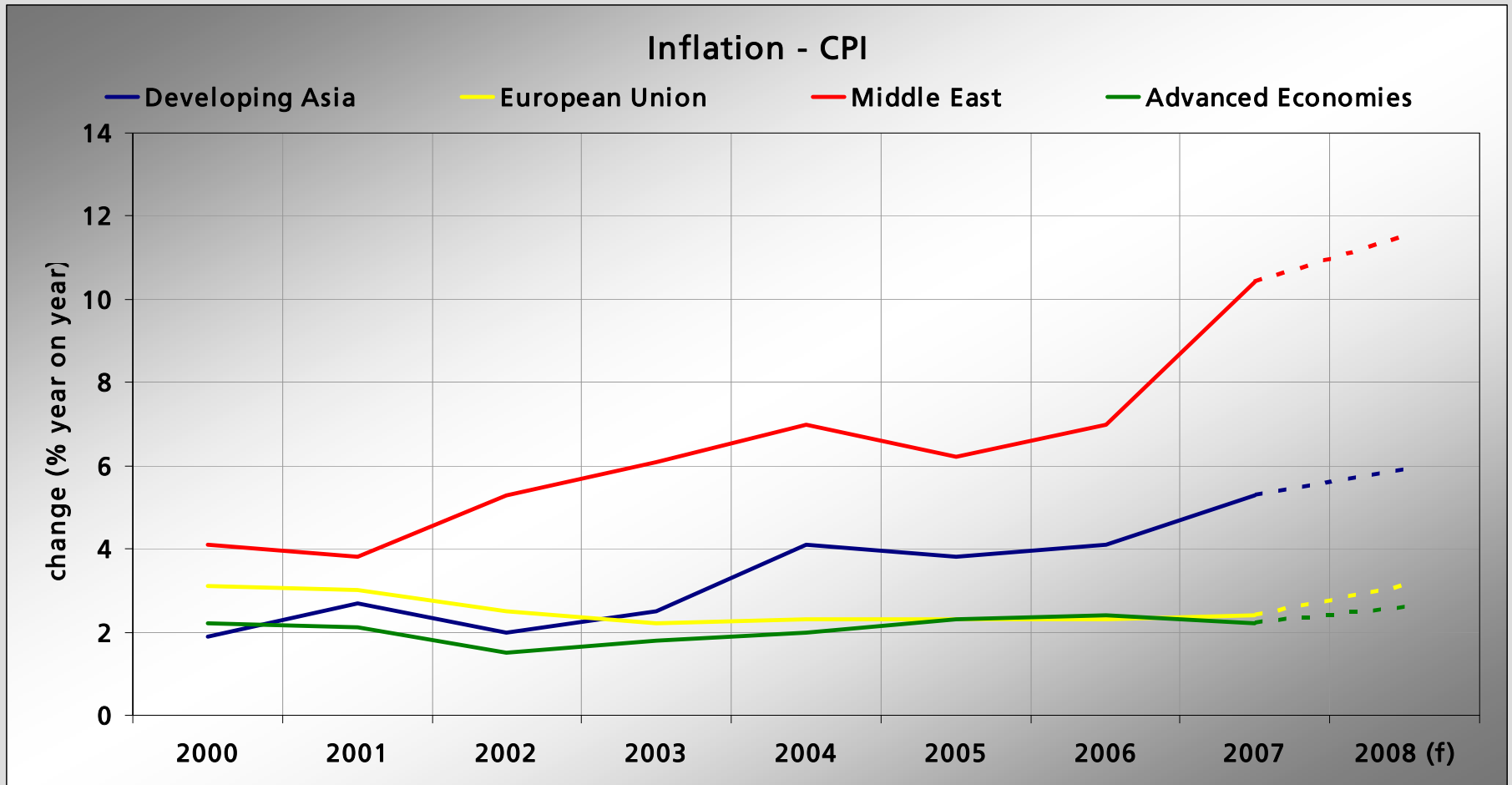
# Container Ship Fleet Development



Data source: MSI Ltd

Keep an eye on.....

# Inflation - the prognosis for 2008



Data source: International Monetary Fund

## The World in 2030.....

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- Long term economic outlook is key to shipping industry
    - Export level to rise from \$9tr to \$27tr
    - World population to increase by 1.5bn
  - Globalisation and urbanisation will heavily influence the industry outlook
    - Trade developments / requirements
    - Specialisation

# Conclusions

- Uncertainties are rife.....
  - Economic, Political & Environmental
  - The orderbook => how reliable beyond 18 months?
  
- Strong demand growth will be essential for sectors where fleet supply growth rates are aggressive
  
- Many challenges
  - Shipbuilding expansion.....Korea / China
  
  - Industry resources stretched => shortages.....
    - People & Expertise, Materials, Components & engines
  
  - Geo-Political & Environmental (Wars / Terrorism)
  
  - **INFLATION!!!**

Thank you for listening

Gary Morgan  
Market Analyst

BA (Honours) Economics  
MRes (Distinction) Marine Technology

Telephone	44 (0)207 423 2725
Mobile	44 (0)777 926 9953
E-mail	Gary.Morgan@lr.org

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