HSBC Global Connections

Forecast Data Modelled by Oxford Economics, based on HSBC Global Research Macro Data.

HSBC Global Connections Report
United States
February 2013

An overview of world trade and the opportunities for international businesses

Trade Flows – Exports flows are expected to improve gradually over the next few years as the global economy recovers. Canada, Mexico and China will persist as America's top three trade partners through 2030.

Sector Insights – High technological dynamism in the long run underpins America's exports of high value-added goods to fast-growing emerging markets. Expanded access to domestic energy sources will offer a tailwind for the plastics and chemicals sector.

Overview of Present Situation

Austerity measures are expected to dampen growth to 1.7% in 2013, a deceleration from 2012's growth of 2.2%. While consumption growth will be unchanged from the prior year, investment will slow from a 7.9% annual rate to a 3.9% annual rate between 2012 and 2013. Growth is then expected to increase to 2.5% as the country distances itself from the effects of austerity and uncertainty in 2012. Export growth will slow to 2.2% in 2013 before increasing moderately to 3.9% in 2014. Reflecting diminished appetite for consumption and investment in 2013, imports will slow to 1.3% in 2013 before increasing somewhat to 2.7% in 2014, which is the same expected pace from 2012.

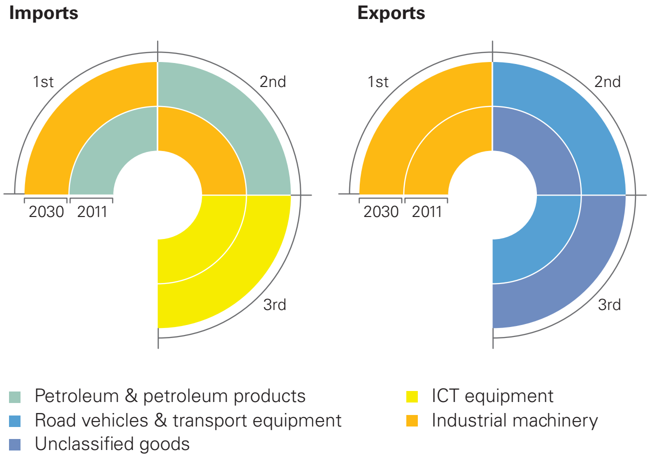
The top three markets for US exports are Canada, Mexico and China. The first two are perennial top destinations for US exports as a result of free trade agreements and proximity to the US. China's role in US exports and imports is part of the overall shift in global manufacturing to China over the past two decades, but also forward-looking demand from China for US high value-added products as the country's consumption share increases. This is partly reflected in the continuing importance of industrial machinery, transportation equipment and scientific apparatus in US exports in 2030. While the top three export destinations are unchanged out to 2030, in the long run Brazil and Korea will supplant Japan and the UK as major export destinations.

Another major influence on trade balances will be the extent of the energy revival occurring in the United States. Due to the advent of hydraulic fracturing technology, shale gas and oil exploitation in the US increased dramatically over the past 10 years, with some forecasters expecting the country to become energy self-sufficient in 2030. To the extent that this prediction holds, trade flows in petroleum products will therefore be somewhat reversed compared to the dynamics of the past few decades.

Top Five Export Destinations*

Rank	2011	2030
1	Canada	Canada
2	Mexico	Mexico
3	China	China
4	Japan	Korea
5	UK	Brazil

Top Three Import and Export Sectors in the United States 2011 and 2030*



*Note: Table only considers goods exports between the 23 economies in the sample

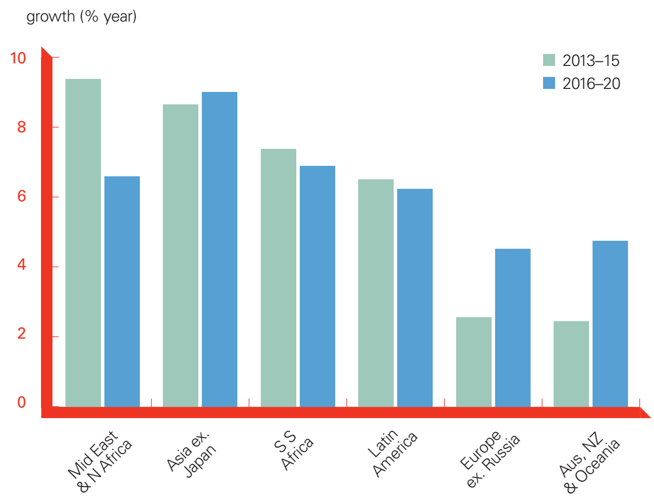
Corridors to watch

Our forecasts show that US exports will increasingly find their way to rapidly growing consumer markets in developing economies, as growth prospects for the industrialised nations remain subdued. Over the medium term, the value of US goods exports destined for the economies of Asia (excluding Japan) is forecast to rise at an average annual rate of 9% throughout the period 2021-2030. During this time period, exports to Vietnam, China and India are expected to grow at annual rates of 10% and 9%, with Malaysia and Indonesia close behind at 8% and 7%, respectively. These forecasts imply that recent US foreign policy focus on Southeast Asia trade and defence issues will pay off in the long run.

Exports to the Middle East and North Africa are expected to decelerate in the near term somewhat, with 2013-5 growth of 9% decelerating to 7% over 2016-2020. The most promising countries for trade in the Middle East are Turkey and Egypt, both of which will feature as major US export and import destinations over 2021-2030. Many traditional export markets in Europe are set to decline in importance. US exports to the economies of Europe (excluding Russia) are forecast to rise at a modest average annual rate of around 4% over the period 2021-30. Latin American countries may slip from the top export destination ranking, but export growth for the region overall will remain at around 6% pa over the 2013-2020 timespan.

Regional Export Flows

Source: Oxford Economics



Fastest Growing Exports (% year)

Rank	Destination	2013–15	Destination	2016–20	Destination	2021–30
1	UAE	13	Vietnam	11	Vietnam	10
2	India	12	India	11	China	9
3	Vietnam	11	China	11	India	9
4	Korea	10	Turkey	9	Malaysia	8
5	Argentina	10	Poland	8	Turkey	8
6	Saudi	10	Malaysia	8	Indonesia	7
7	China	9	Brazil	8	Egypt	6
8	HK	9	Korea	8	Saudi	6
9	Egypt	9	Indonesia	8	Bangladesh	6
10	Turkey	8	UAE	7	UAE	6

Fastest Growing Imports (% year)

Rank	Origin	2013–15	Origin	2016–20	Origin	2021–30
1	India	17	India	13	Vietnam	9
2	Egypt	14	Turkey	10	India	9
3	Turkey	13	Vietnam	10	Bangladesh	9
4	China	9	China	10	China	9
5	Korea	8	Poland	8	Turkey	7
6	Brazil	7	Bangladesh	8	Mexico	7
7	Vietnam	7	Egypt	7	Malaysia	6
8	Mexico	7	Mexico	7	Canada	6
9	Poland	6	Canada	7	Poland	6
10	France	5	Malaysia	6	Egypt	6

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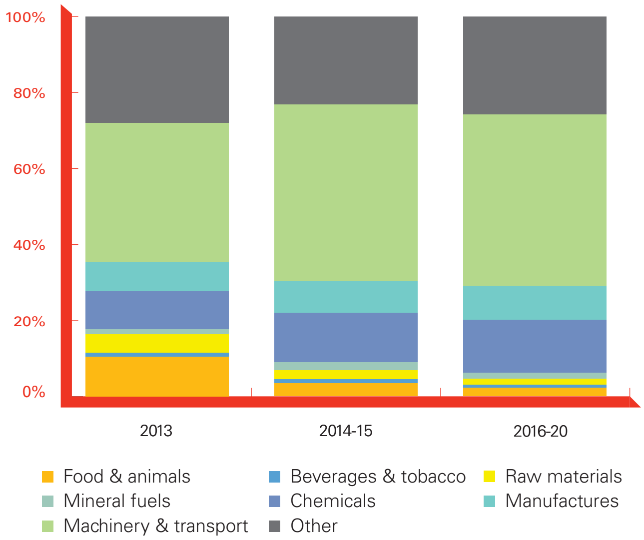
Sectors to watch

The United States' high productivity rates will likely be sustained into the long run. The country is also the world technology frontier. Additionally, selected industries will benefit from proximity to feedstock supplies of oil and gas products. The sum result of these trends are that we foresee continued strong export performance in high value-added goods demanded by fast-growing emerging markets (industrial machinery, transportation equipment and scientific apparatus), but also performance from energy feedstock industries (chemicals and plastics). Industrial machinery, transportation equipment and scientific apparatus will contribute to half of the increase in exports over 2021-2030. As a major destination for foreign direct investment (FDI), imports of industrial machinery and transportation will remain important both in the near-term and long-term. However, imports of ICT equipment will also support the manufacturing base of the United States alongside other flows, thus benefiting those countries who export these goods effectively. Industrial machinery, ICT equipment and transportation equipment will together contribute almost half of the increase in imports over 2021-2030.

Sector Contribution to Increase in Merchandise Exports %

Source: Oxford Economics



% Contribution To Overall Growth In Merchandise Exports

Rank	Sector	2013–15	Sector	2016–20	Sector	2021–30
1	Industrial machinery	21	Industrial machinery	25	Industrial machinery	26
2	Transport equipment	17	Transport equipment	14	Transport equipment	14
3	Unclassified goods	11	Unclassified goods	10	Scientific apparatus	10
4	Scientific apparatus	7	Scientific apparatus	9	Unclassified goods	9
5	Chemicals	7	Chemicals	7	Chemicals	6
6	ICT equipment	6	ICT equipment	6	ICT equipment	5
7	Mineral manufactures	5	Mineral manufactures	5	Mineral manufactures	5
8	Animal products	4	Plastics	4	Clothing and apparel	5
9	Plastics	3	Misc. manufactures	3	Pharmaceuticals	3
10	Misc. manufactures	3	Pharmaceuticals	3	Plastics	3

% Contribution To Overall Growth In Merchandise Imports

Rank	Sector	2013–15	Sector	2016–20	Sector	2021–30
1	Industrial machinery	25	Industrial machinery	22	Industrial machinery	23
2	ICT equipment	16	Transport equipment	14	ICT equipment	13
3	Transport equipment	12	ICT equipment	14	Transport equipment	13
4	Petroleum products	7	Petroleum products	7	Petroleum products	7
5	Mineral manufactures	5	Clothing and apparel	5	Misc. manufactures	6
6	Clothing and apparel	5	Mineral manufactures	5	Mineral manufactures	6
7	Misc. manufactures	4	Misc. manufactures	5	Clothing and apparel	6
8	Textile and wood manufactures	4	Textile and wood manufactures	4	Prefab buildings	4
9	Chemicals	4	Chemicals	4	Textile and wood manufactures	4
10	Scientific apparatus	3	Prefab buildings	3	Chemicals	4

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"Rapid industrialisation and increasing wages, coupled with maturing consumer demand in many of the countries along the South-South corridor are driving different types of global trade growth. This report highlights how these trends are changing the types of goods imported, manufactured and subsequently exported.

As countries shift towards higher value sectors there are significant opportunities for companies to evolve and grow. Some of the faster growing, emerging markets show a shift from basic commodities trading in sectors such as Cereals or Sugar, to become a refiner or producer of branded goods based on those raw materials. In many of the developed markets there is a shift towards increasingly specialised sectors such as Chemicals and Pharmaceutical products as companies seek opportunities for higher returns.

Emerging markets are developing at a phenomenal pace and are set to reshape world trade patterns over the next 20 years. By expanding their operations in to new, higher value sectors, they are driving more developed nations to specialise and diversify to compete. Understanding which sectors are growing in which markets, delivers huge opportunities for businesses as they plan for the future and aim to capitalise on these trends."

James Emmett
HSBC Global Head of Trade & Receivables Finance

About the Data:

About the HSBC Global Connections report— Modelled by Oxford Economics

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports/imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries. Oxford Economics produces a global report for HSBC, plus regional reports and country specific reports on the following 23 countries: Hong Kong, China, Australia, Indonesia, Malaysia, India, Singapore, Vietnam, Bangladesh, Canada, USA, Brazil, Mexico, Argentina, UK, France, Turkey, Germany, Poland, Ireland, UAE, Saudi Arabia, & Egypt.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2013–15, 2016–20 and 2021–30.

Oxford Economics – formerly Oxford Economic Forecasting – was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 500 clients. Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore, Philadelphia and New York, and through its close links with Oxford University and a range of partner institutions in Europe and the US.

About the HSBC Sectors:

The model looks at two-digit classifications from the COMTRADE database, grouped in to a set of thirty headings. The sector data has been tracked by country, to give an insight in to the primary drivers of trade between the 25 countries and territories in the sample. The sector data has been calculated to show growth as a percentage of the overall contribution to growth, to ensure that the model highlights the sectors which are representing the biggest drivers of growth. More information about the sector modelling can be found on http://www.globalconnections.hsbc.com/

Sector classification headings:

1 - Animals & Animal products, Cereals, Sugars, sugar preparations & honey, Coffee and other spices
2 - Beverages, Tobacco
3 - Crude animal and plant materials, Oil-seeds, Crude fertilizers, Metalliferous ores
4 - Petroleum and petroleum products, Gas, natural & manufactured, Other mineral fuels & electric current
5 - Animal & vegetable oils
6 - Organic chemicals & inorganic chemicals, Pharmaceutical products, Fertilizers, Plastics
7 - Textiles & wood manufactures, Mineral manufacturers, Iron & steel, Non-ferrous metals
8 - Industrial machinery, ICT equipment, Road vehicles & transport equipment
9 - Prefab buildings, fixtures & furniture, Clothing & apparel, Scientific & photographic apparatus, Miscellaneous manufactured articles
10 - Commodities and transactions not classified elsewhere in the SITC, primarily gold in non-coin form.

About HSBC Bank plc

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.

For more information please see:
www.hsbc.com/globalconnections

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