

On the threshold of a mid-cycle correction Outlook for the world economy in 2007-2008

Trade Winds/Mare Forum – Shipping China Energy 2007
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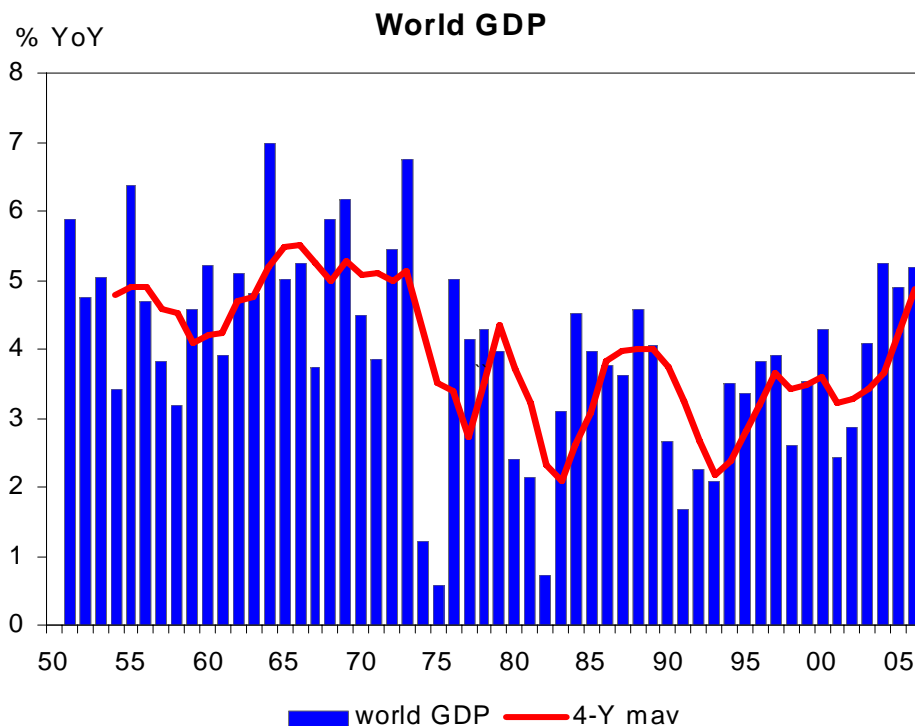
Guy Verberne,
Tel: +31 (0)20-535 7325
E-mail: guy.verberne@nl.fortis.com

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Fundamentals of the current upswing

It's the strongest in more than 30 years!

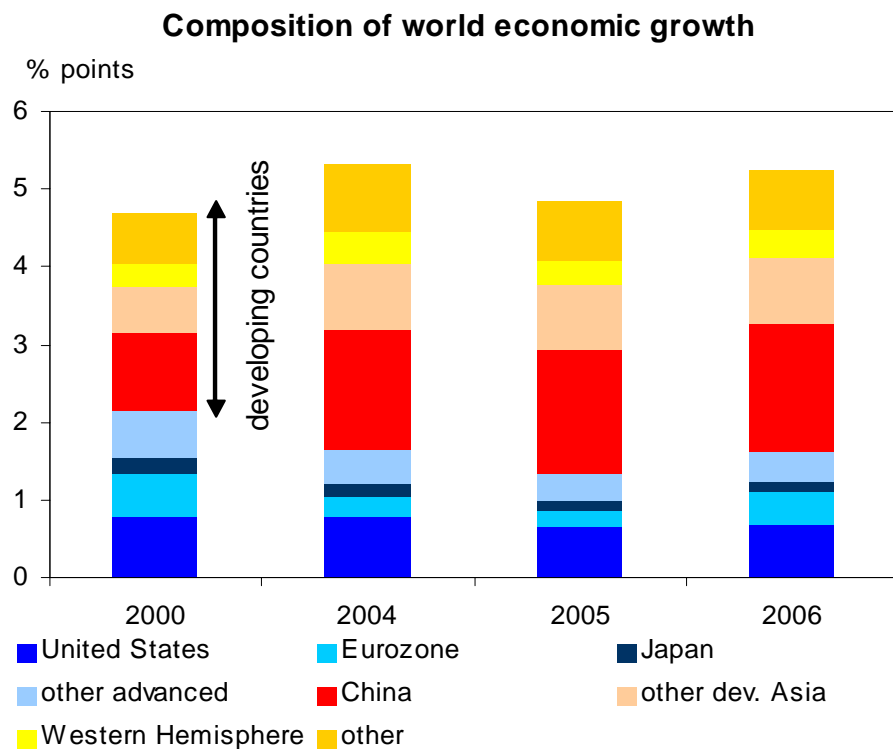


- World GDP growth in 2006: 5.2%
- Strongest 4-yr growth period since 1973
- But it could last longer (1950s – 1960s)
- What is driving current upswing, and how long will the party last?

Source: Angus Maddison (GGDC), World Bank, Fortis

Fundamentals of the current upswing

Emerging economies are driving force

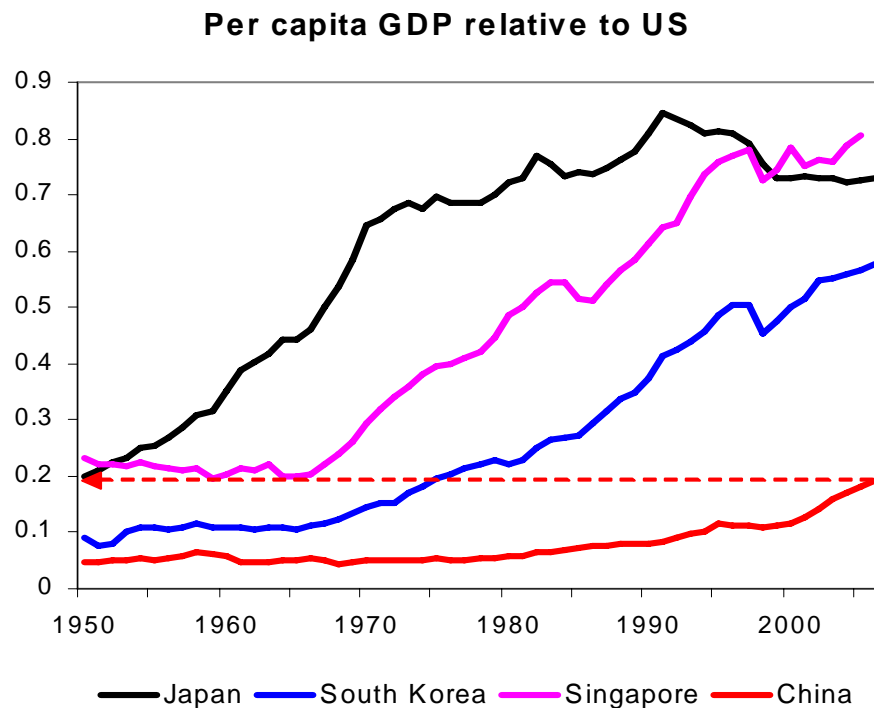


- Emergence of China as the “world’s factory”
- Emerging economies: 70% of world growth in recent years (China: 30%)
- This was only 50% or less in 2000 and previous years

Source: IMF, Fortis

Fundamentals of the current upswing

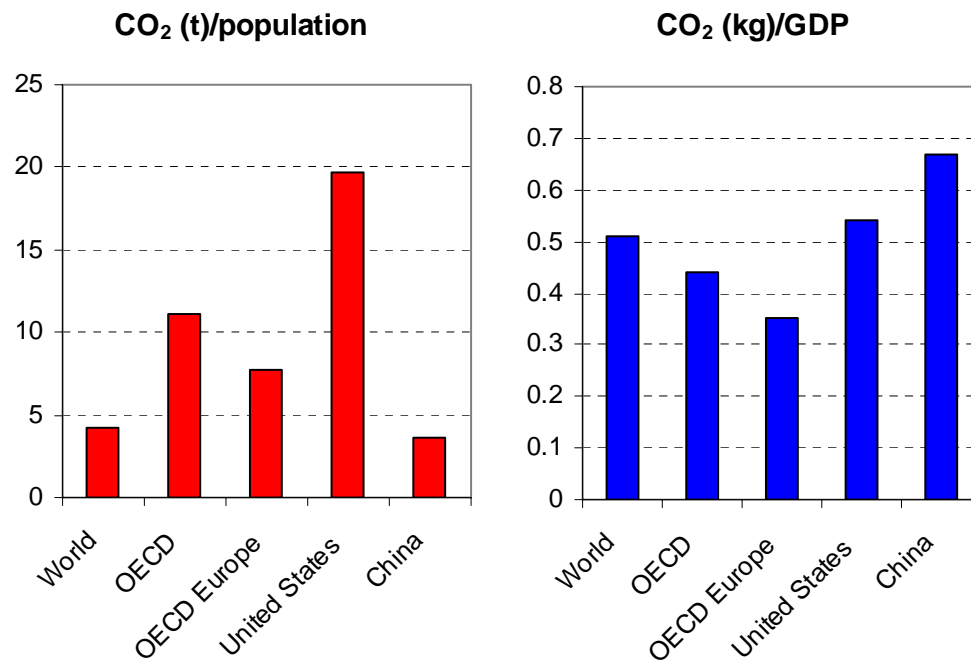
The long-term outlook for China looks excellent



- Catching-up has only just started!
- Per capita GDP: 0.20 x US
 - = Japan in 1950
 - = Singapore in 1965
 - = South Korea in 1975
- On present trends, China's economy will be as big as US in 2010 and twice as big in 2025

Some emerging bottlenecks

Environmental constraints to China's economic development

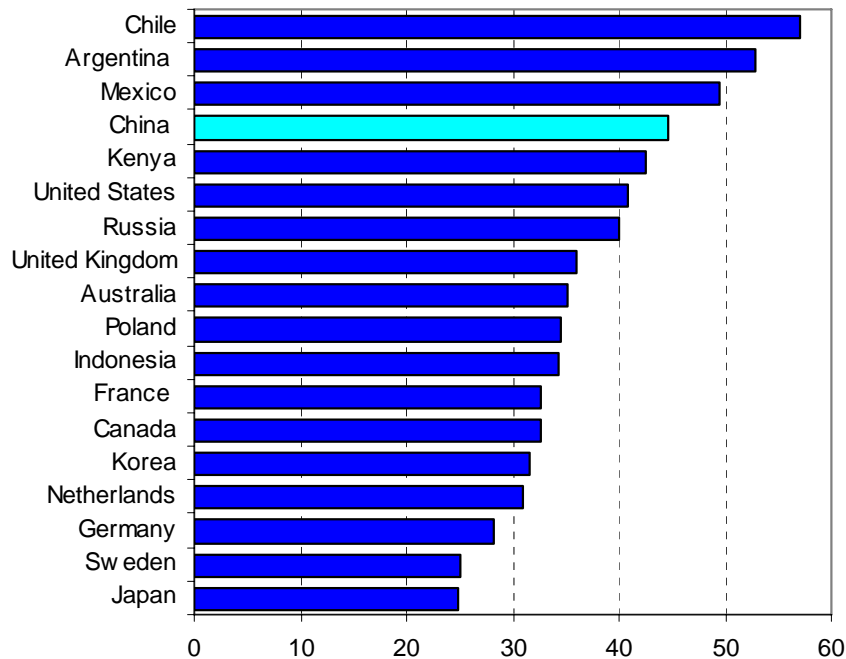


- Emphasis on energy-intensive industries: unsustainable burden for the environment
- Government goal to lower energy intensity by 4% annually requires rebalancing
- At 4%: China's CO₂ emission will equal US in 2009, and be twice as high in 2030 (2020 at 2%)
- Increasing outside pressures (Kyoto II)

Some emerging bottlenecks

Unequal income and wealth distribution

Income distribution: Gini coefficients

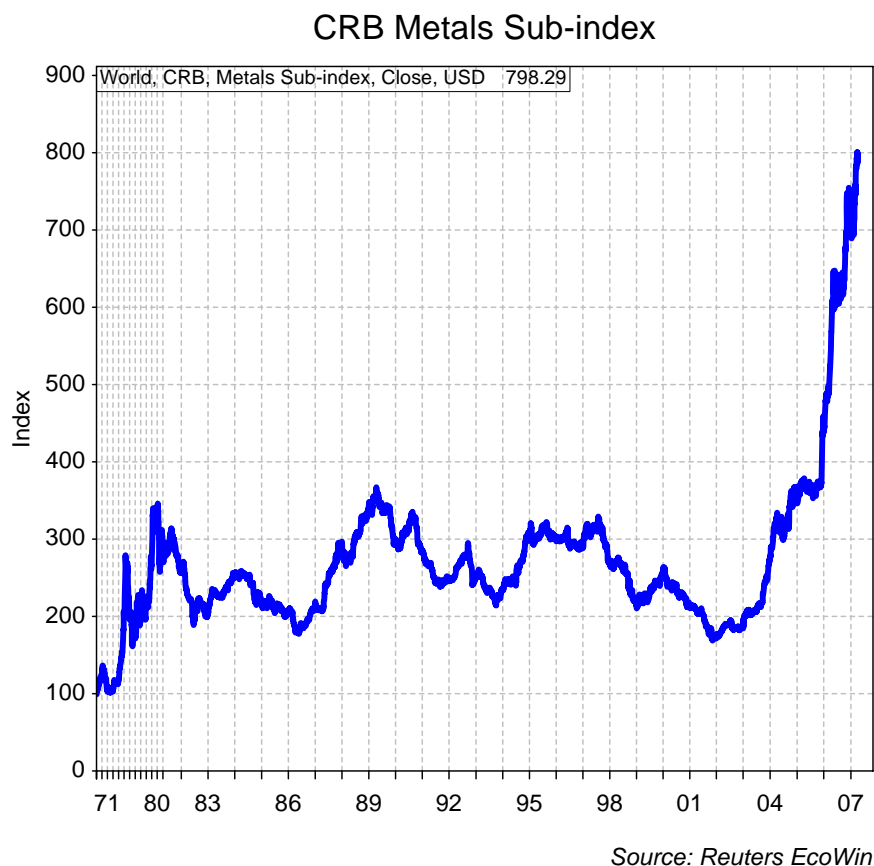


Source: UN Human Development Report 2006

- If that's communism....
- Is increasingly putting political system under strain
- Reducing inequality is key-target in new 5-year plan ('Harmonious Society')
- How? Spend on health, education, rural development, increase social security coverage
- Appreciation renminbi would also help
- Consistent with rebalancing goal

Some emerging bottlenecks

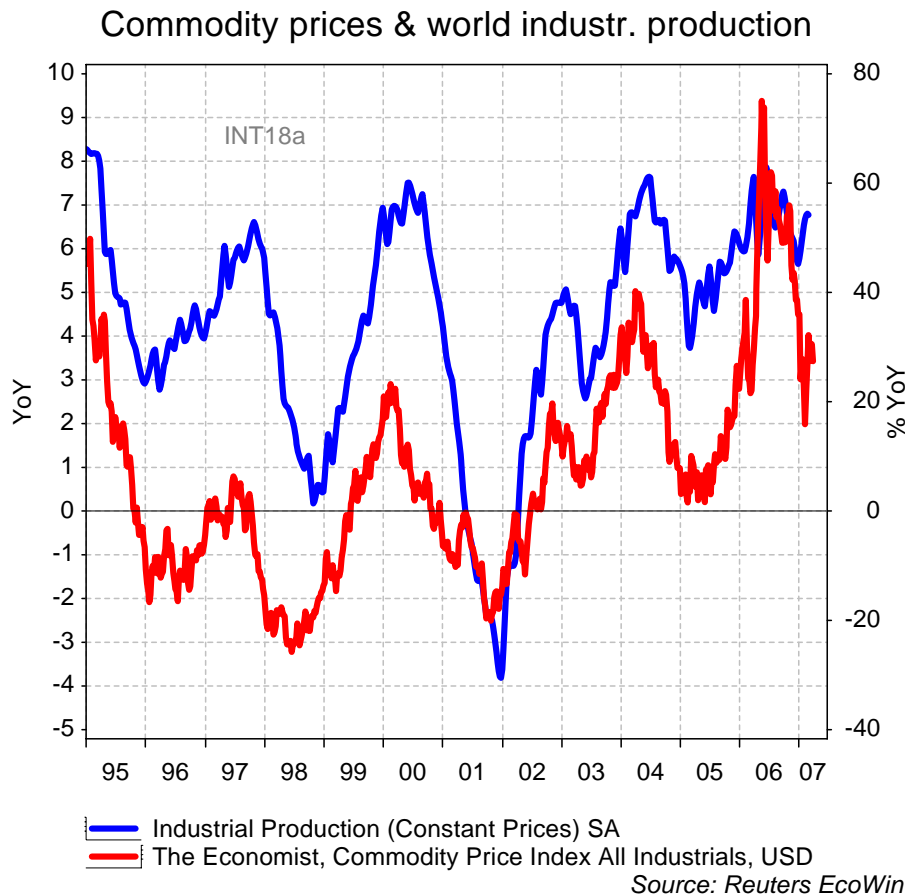
Commodity squeeze



- Commodities are increasingly in short-supply
- Metal prices explain 90% of 60% increase in non-fuel commodity prices since 2002 (IMF Sept. WEI)
- In 2002-2005, China contributed 50% to growth in world demand for aluminium, copper and steel (IMF), and 30% to growth in demand for crude oil
- Sharp increases in commodity prices tend to precede slowdowns in world industrial production growth

Consequences for the world economy

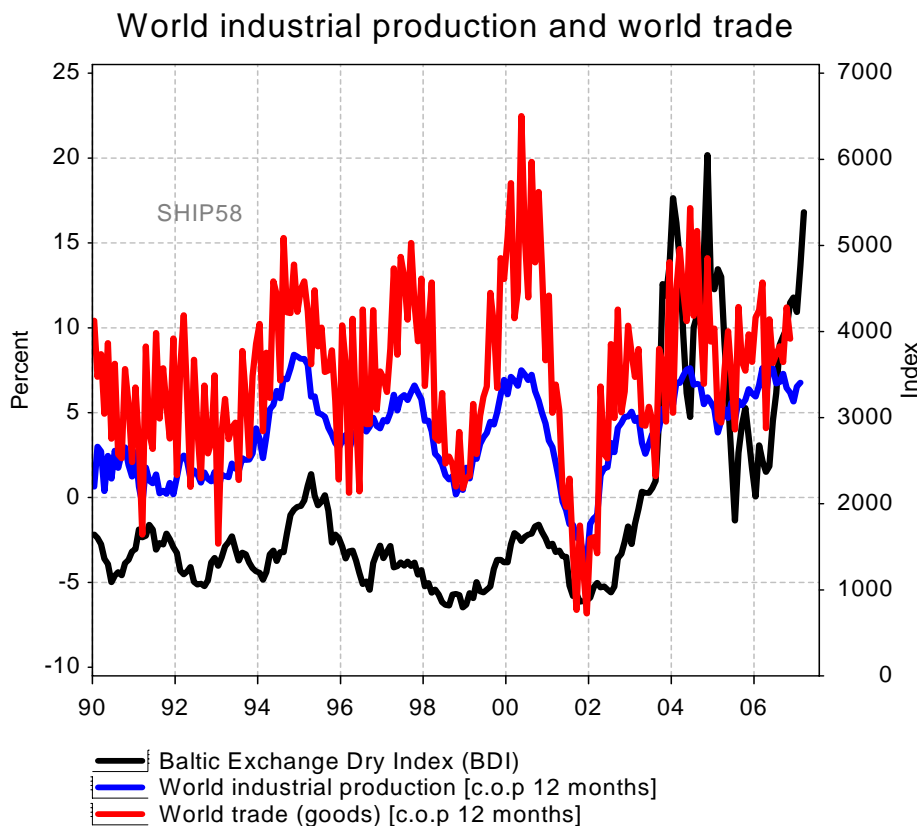
Current slowdown in world industrial production to continue



- World industrial production has indeed slowed
- Chinese industrial production has begun to slow (as has commodity-intensive fixed investment)
- Fortis forecasts for world industrial production growth:
 - 2006: 6.5%
 - 2007: 4% (= trend)
 - 2008: 5-6%

Consequences for the world economy

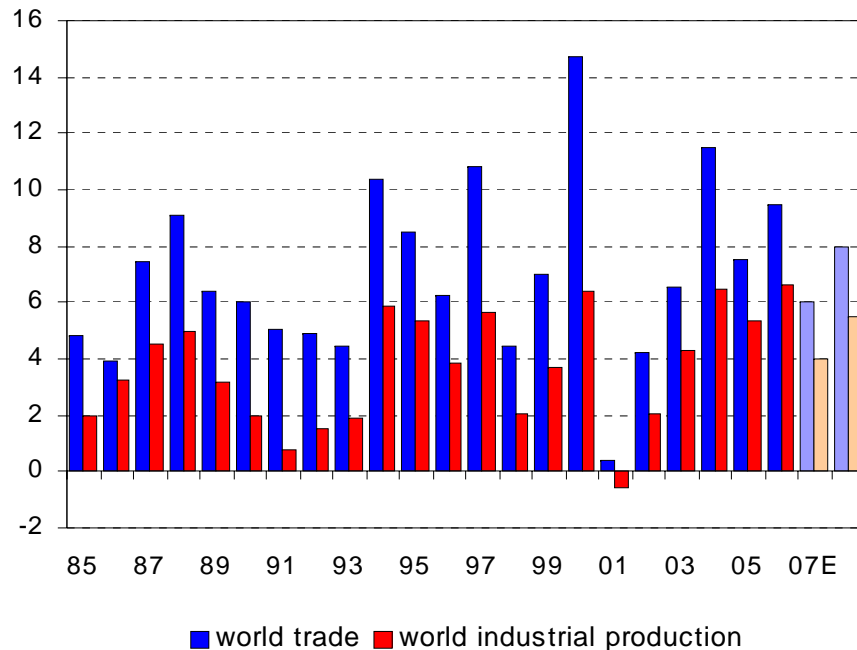
And what does all this mean for shipping, well.....



- Slowdown in world industrial production growth should lead to slower world trade growth
- Recently, industr. production and world trade have begun to move in opposite directions – will not last
- Fortis forecasts for world trade growth:
 - 2006: 9.5%
 - 2007: 6%
 - 2008: 8%
- But that's only the demand side of shipping.....

Conclusions

World trade and world industrial production



Source: Reuters EcoWin, Fortis

- China has been driving world economy to highest growth rates in more than 30 years
- Short and medium term threats:
 - rise in (non-fuel) commodity prices
 - rebalancing of Chinese economy
- Our forecasts for growth in world industrial production/world trade for 2007 and 2008, are similar to realisations for 2003 and 2005 respectively
- Long-term outlook for China and world economy is excellent, *if* modernisation drive succeeds

Thank you!



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