Marcon International, Inc.

Vessels and Barges for Sale or Charter Worldwide

P.O. Box 1170, 9 NW Front Street, Suite 201
Coupeville, WA 98239 U.S.A.
Telephone (360) 678 8880
Fax (360) 678-8890
E Mail: info@marcon.com
http://www.marcon.com

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Growth, Trade and Whatever Else is Around the Corner

Towing and offshore petroleum industries experienced many ups and downs over the last 37 years since Marcon International was founded in the midst of two early 1980s *"double dip"* U.S. recessions. In addition to normal down turns and booms, we all faced an early 1990s recession, early 2000s *"dot-com bubble"* recession and the latest and greatest year-and-a-half-long *"Great Recession"* which officially ended in June 2009. Most of us have struggled the last eight years with a lackluster, start & stop recovery wondering if there would ever be a light at the end of the tunnel. Probably only the economists made note of that June date as an official end.

Growth and trade are now off to good starts in 2018. The latest numbers indicate the light in that mythical tunnel may have arrived and the future appears great for global growth, trade and Marcon's sales. We have already seen a recovery from the record low of 16 vessel and barge sales and tows last year. In first quarter 2018, Marcon concluded 14 sales and one 2,780nm long-distance tow, with four additional sales pending. We hope this activity will continue, but have to admit that many were *"blue light specials"* and both Marcon and Sellers would have preferred to see higher prices.

2017's 3.8% global growth was the highest enjoyed since 2011. The International Monetary Fund (IMF) in April forecast growth to reach 3.9% both this year and in 2019 before falling to a still respectable 3.7% in 2023. U.S real gross domestic product (GDP) increased at an annual rate of 2.3% in first quarter 2018, after a 2.3% growth in 2017. The U.S. is projected to achieve 2.9% growth this year before slipping slightly to 2.7% in 2019 and declining to 1.5% in 2023. To put these numbers in perspective, average 2000 – 2009 growths globally and in the U.S. were 3.9% and 1.8% respectively, and the highest growth rates were 5.4% worldwide in 2010 (an *"I've been down so long it looks like up to me"* moment) and 2.9% for the United States in 2015. We have not seen growth this broad-based or strong since the initial 2010 bounce-back from the 2008-09 financial crisis.

Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from January 2018 *WEO Update*[1]		Difference from October 2017 WEO[1]	
	2017	2018	2019	2018	2019	2018	2019
World Output	3.8	3.9	3.9	0.0	0.0	0.2	0.2
Advanced Economies	2.3	2.5	2.2	0.2	0.0	0.5	0.4
United States	2.3	2.9	2.7	0.2	0.2	0.6	0.8
Euro Area	2.3	2.4	2.0	0.2	0.0	0.5	0.3
Germany	2.5	2.5	2.0	0.2	0.0	0.7	0.5
France	1.8	2.1	2.0	0.2	0.1	0.3	0.1
Italy	1.5	1.5	1.1	0.1	0.0	0.4	0.2
Spain	3.1	2.8	2.2	0.4	0.1	0.3	0.2
Japan	1.7	1.2	0.9	0.0	0.0	0.5	0.1
United Kingdom	1.8	1.6	1.5	0.1	0.0	0.1	–0.1
Canada	3.0	2.1	2.0	–0.2	0.0	0.0	0.3
Other Advanced Economies[2]	2.7	2.7	2.6	0.1	0.0	0.2	0.1
Emerging Market and Developing Economies	4.8	4.9	5.1	0.0	0.1	0.0	0.1
Commonwealth of Independent States	2.1	2.2	2.1	0.0	0.0	0.1	0.0
Russia	1.5	1.7	1.5	0.0	0.0	0.1	0.0
Excluding Russia	3.6	3.5	3.6	0.1	0.1	0.2	0.1
Emerging and Developing Asia	6.5	6.5	6.6	0.0	0.0	0.0	0.1
China	6.9	6.6	6.4	0.0	0.0	0.1	0.1
India[3]	6.7	7.4	7.8	0.0	0.0	0.0	0.0
ASEAN-5[4]	5.3	5.3	5.4	0.0	0.1	0.1	0.1
Emerging and Developing Europe	5.8	4.3	3.7	0.3	–0.1	0.8	0.4
Latin America and the Caribbean	1.3	2.0	2.8	0.1	0.2	0.1	0.4
Brazil	1.0	2.3	2.5	0.4	0.4	0.8	0.5
Mexico	2.0	2.3	3.0	0.0	0.0	0.4	0.7
Middle East, North Africa, Afghanistan, and Pakistan	2.6	3.4	3.7	–0.2	0.2	–0.1	0.2
Saudi Arabia	–0.7	1.7	1.9	0.1	–0.3	0.6	0.3
Sub-Saharan Africa	2.8	3.4	3.7	0.1	0.2	0.0	0.3
Nigeria	0.8	2.1	1.9	0.0	0.0	0.2	0.2
South Africa	1.3	1.5	1.7	0.6	0.8	0.4	0.1

Since mid-2016, the growth in volume of world trade (excluding services) also improved. Trade growth was 5.4% in 2017, out-performing global GDP for the first time since 2013. Historically, world merchandise trade volumes have grown around 1.5 times faster than world real GDP. The ratio of trade growth to GDP growth rose above 2.0 in the 1990s, but fell back to 1.0 in the five years following the financial crisis (2011-2016). This rebounded from 0.8 in 2016 to 1.5 in 2017, which is close to the historical average. Strong trade growth relative to GDP growth is expected to continue at least into 2018, barring major economic shocks, but even before we get to enjoy the growth we are reading about, some economists see *"darker clouds looming"*.

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	2014	2015	2016	2017	2018P	2019P
Volume of world merchandise trade	2.7	2.5	1.8	4.7	4.4	4.0
Exports						
Developed economies	2.1	2.3	1.1	3.5	3.8	3.1
Developing economies	2.7	2.4	2.3	5.7	5.4	5.1
North America	4.6	0.8	0.6	4.2	4.5	4.5
South and Central America and the Caribbean	-2.1	1.8	1.9	2.9	2.8	2.6
Europe	1.6	2.9	1.1	3.5	3.6	2.9
Asia	4.5	1.5	2.3	6.7	5.7	5.0
Other regions	-1.0	5.5	2.6	2.3	4.7	4.4
Imports						
Developed economies	3.4	4.3	2.0	3.1	4.1	3.3
Developing economies	2.4	0.6	1.9	7.2	4.8	4.4
North America	4.3	5.4	0.1	4.0	5.7	5.0
South and Central America and the Caribbean	-2.7	-6.4	-6.8	4.0	3.9	5.7
Europe	3.0	3.7	3.1	2.5	3.5	2.8
Asia	3.7	4.0	3.5	9.6	5.9	4.7
Other regions	0.5	-5.6	0.2	0.9	0.4	1.8
Real GDP at market exchange rates	2.7	2.7	2.3	3.0	3.2	3.1
Developed economies	2.0	2.3	1.6	2.3	2.4	2.2
Developing economies	4.3	3.7	3.6	4.3	4.6	4.6
North America	2.6	2.7	1.5	2.4	2.8	2.7
South and Central America and the Caribbean	0.9	-0.9	-2.1	1.0	2.3	2.8
Europe	2.0	2.3	1.9	2.6	2.4	2.1
Asia	4.1	4.2	4.1	4.5	4.5	4.4
Other regions	2.5	1.1	2.2	2.0	2.8	2.9

According to the IMF, growth is expected to fall slightly a tenth of a percentage point this year, while 2019 is projected at 4.8%. In the value of world exports, this represents US$ 17,422 billion in 2017, US$ 19,474 billion in 2018 and US$ 20,515 billion the following year. Global trade, highly correlated with global investment, had a strong 4.9% real growth recovery in 2017 after two years of weakness. Among advanced economies, Germany, Japan, United Kingdom and the United States contributed to the strength in the recovery of exports. Among emerging market and developing economies, the rebound in export growth was strong in emerging Asia and China. The World Trade Organization takes a more conservative viewpoint and anticipates merchandise trade volume growth at 4.4% in 2018, as measured by the average of exports and imports, roughly matching the 4.7% increase recorded for 2017. Growth is expected to moderate to 4.0% in 2019, below the average rate of 4.8% since 1990 but still firmly above the post-crisis average of 3.0%. World merchandise trade growth is currently projected to remain strong in 2018 and 2019. On a month-on-month basis, the volume of world trade decreased 0.4% in February following a growth of 1.2% in January according to the CPB Netherlands Bureau for Economic Policy.

Growth and Trade in Goods

	Averages										Projections		
	2000-09	2010-19	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
World Output / Real GDP	3.9%	-	5.4%	4.3%	3.5%	3.5%	3.6%	3.5%	3.2%	3.8%	3.9%	3.9%	3.7%
United States	1.8%	-	2.5%	1.6%	2.2%	1.7%	2.6%	2.9%	1.5%	2.3%	2.9%	2.7%	1.4%
Canada	2.1%	-	3.1%	3.1%	1.7%	2.5%	2.9%	1.0%	1.4%	3.0%	2.1%	2.0%	1.6%
Mexico	1.4%	-	5.1%	3.7%	3.6%	1.4%	2.8%	3.3%	2.9%	2.0%	2.3%	3.0%	2.9%
Euro Area	1.4%	-	2.1%	1.6%	-0.9%	-0.2%	1.3%	2.1%	1.8%	2.3%	2.4%	2.0%	1.4%
Japan	0.5%	-	4.2%	-0.1%	1.5%	2.0%	0.4%	1.4%	0.9%	1.7%	1.2%	0.9%	0.5%
Latin Am. & Caribbean	3.0%	-	6.1%	4.6%	2.9%	2.9%	1.3%	0.3%	-0.6%	1.3%	2.0%	2.8%	2.8%
Russia	5.4%	-	4.5%	5.1%	3.7%	1.8%	0.7%	-2.5%	-0.2%	1.5%	1.7%	1.5%	1.5%
China	10.3%	-	10.6%	9.5%	7.9%	7.8%	7.3%	6.9%	6.7%	6.9%	6.6%	6.4%	5.5%
Mid-East	5.2%		4.7%	4.4%	5.0%	2.6%	2.8%	2.5%	4.9%	2.6%	3.4%	3.7%	3.6%
World Trade Volume	4.8%	5.0%	14.5%	7.0%	2.3%	3.3%	3.1%	2.2%	2.2%	5.4%	5.3%	4.8%	-
World Exports Billions US$	$9,792	$17,755	$14,907	$17,931	$18,135	$18,549	$18,635	$16,223	$15,757	$17,422	$19,474	$20,515	-
Avg. Oil Price US$/bbl	$49.17	$75.54	$79.03	$104.01	$105.01	$104.07	$96.25	$50.79	$42.84	$52.81	$62.31	$58.24	?

World Economic Outlook, April 2018

As in the past though, favorable conditions do not last. Over the last 45 years the U.S. experienced six recessions with an average period of a little over 6 years 5 months between recessions. As in 2008, what happens in the U.S. will not necessarily stay in the U.S. and vice versa. The world remains tightly connected through trade, finance and politics and this will continue over most of the globe regardless of what individual nationalists believe.

Continued expansion depends on global economic growth and strong global economies, but we all face the possible risks of tit-for-tat trade wars, expanded military action, increasing nationalism / isolation, increasing anti-trade sentiments, climate change / extreme weather events and daily cyber-attacks. All pose concerns to future global growth & trade, corporate bottom-lines and, of course, jobs – which of course have their own cycle and effect on growth. I am not an economist, but even though I now sit behind a desk, I still consider myself more of a seaman than anything else. I try to take a simplified view of things and risk is one case where the trickle-down theory makes perfect sense. There may be a time-lag, but from 37 years of experience it does flow down-hill.