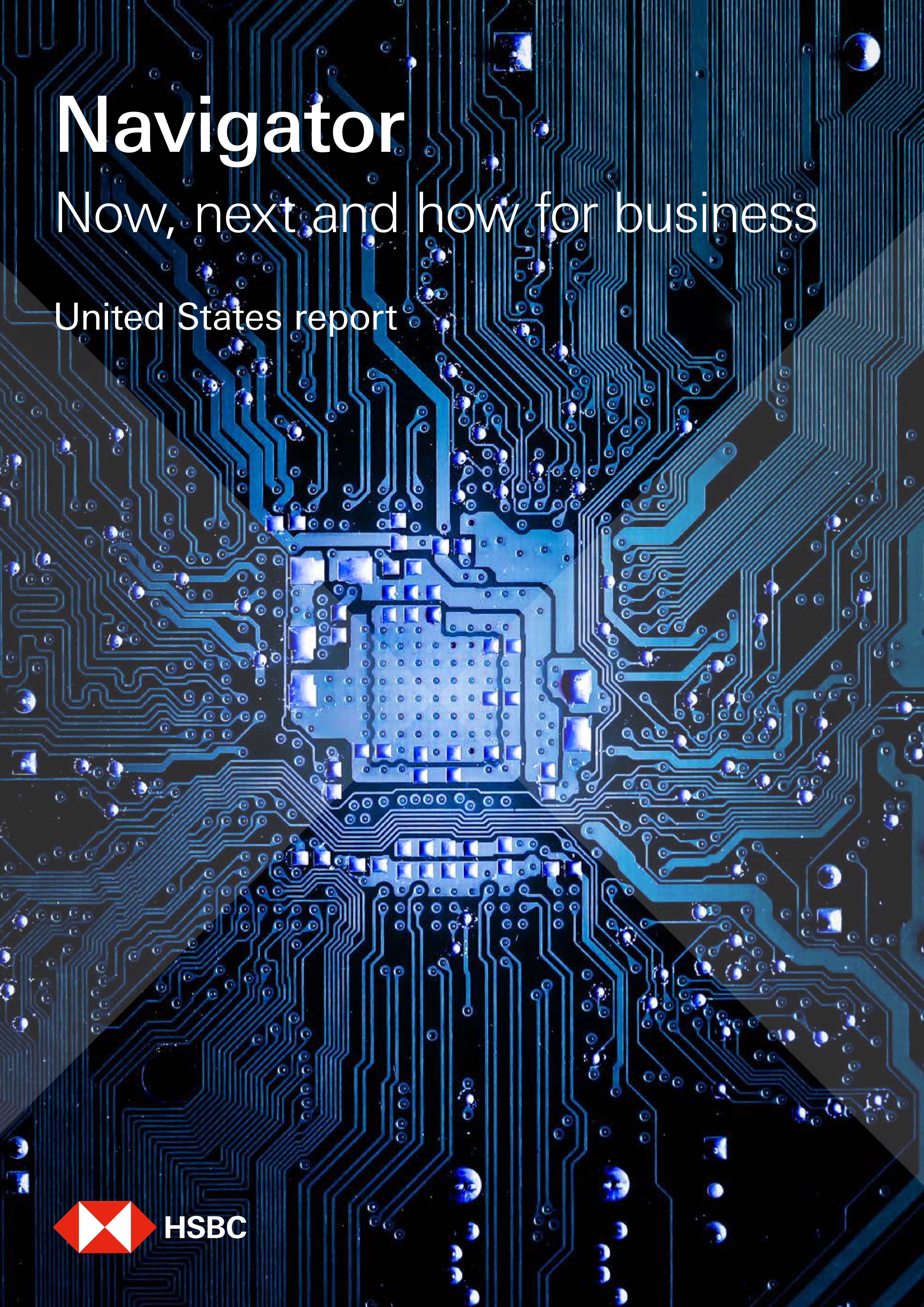
Navigator

Now, next and how for business

United States report



HSBC

United States

Protectionist clouds threaten the sunny outlook for trade

Assuming the administration's protectionist stance does not lead to substantial new trade barriers, the outlook for US trade is bright. Firms are optimistic about their foreign trade prospects and have especially high hopes for e-commerce. The US is well positioned to benefit from growing demand for its products and services in the emerging markets.

Short-Term Snapshot

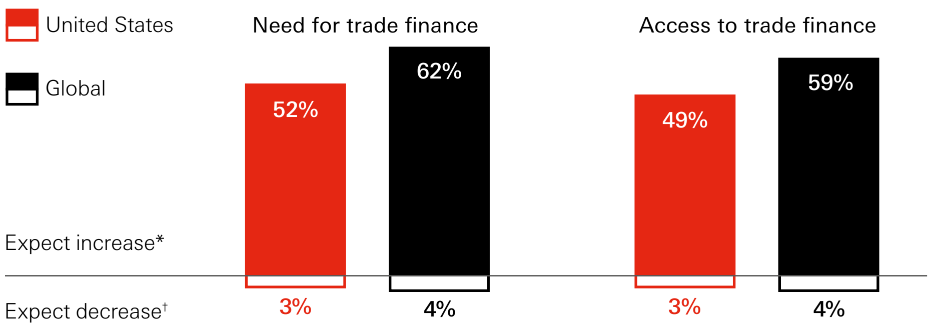
Buoyant domestic and global growth, rising energy prices, a weaker dollar, tax cuts, and deregulation combined to put the US economy on solid ground at the start of this year. We expect consumer spending growth to hold broadly steady, while business investment and exports may contribute more to growth over the coming year.

More than three-quarters (77%) of US survey respondents expect their trade volumes to increase in the next 12 months—exactly in line with the global average. Despite the ongoing renegotiation of NAFTA, firms name Canada and Mexico as their most important markets for expansion. Demand trends and the economic environment are considered the principal drivers of trade, but e-commerce comes in third, underscoring technology's growing influence on cross-border business.

Action points for business

- Producers of price-sensitive products, such as cars, should take advantage of the dollar's weakness to exploit opportunities in foreign markets.
- Ensure your business is making full use of e-commerce to reach customers in new markets undergoing rapid digital transformation.

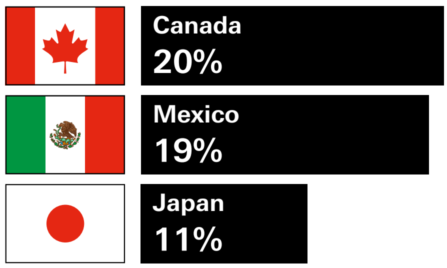
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
†Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

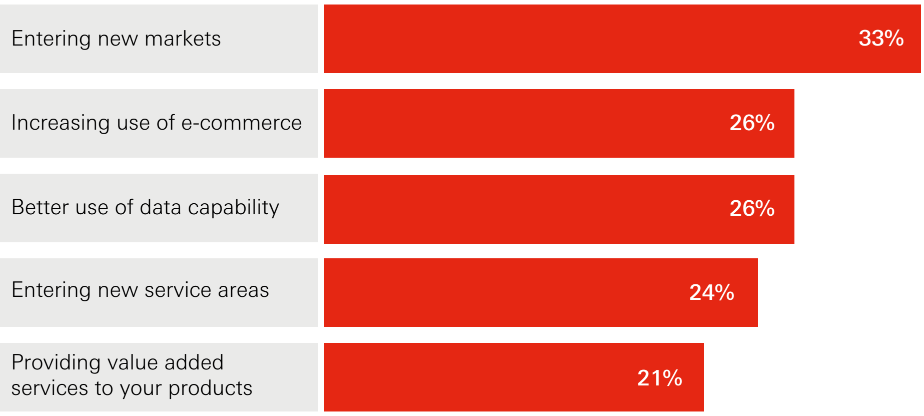
In light of the upbeat trade outlook, just over half (52%) of US businesses expected to need more trade finance over the next 12 months. A similar proportion (49%) think their access to trade finance will improve. Interestingly, US respondents rank the political environment (36%) higher than transaction costs (34%) as obstacles to meeting their trade finance needs.

> Firms are making e-commerce a linchpin of their export strategies, underscoring the influence of technology

The US leads the world in service exports, accounting for an estimated 15% of total international services trade in 2016. B2B and other services account for just over 40% of total service exports—the biggest chunk. Although service exports dipped in 2016, estimates suggest that they recovered last year, with momentum building into 2018. Indeed, more than half (57%) of US service firms answering our survey expect their volume of trade to increase in the next 12 months, while only 5% expect a decline.

Over a third (35%) of respondents think technology use stimulates growth in services trade. Indeed, after entering new markets—the number one strategy for increasing service trade, cited by a third of respondents—e-commerce is the second most popular approach. Given the Internet's importance to many firms' trade ambitions, it is perhaps not surprising that a vast majority (82%) report feeling concerned about cyber security.

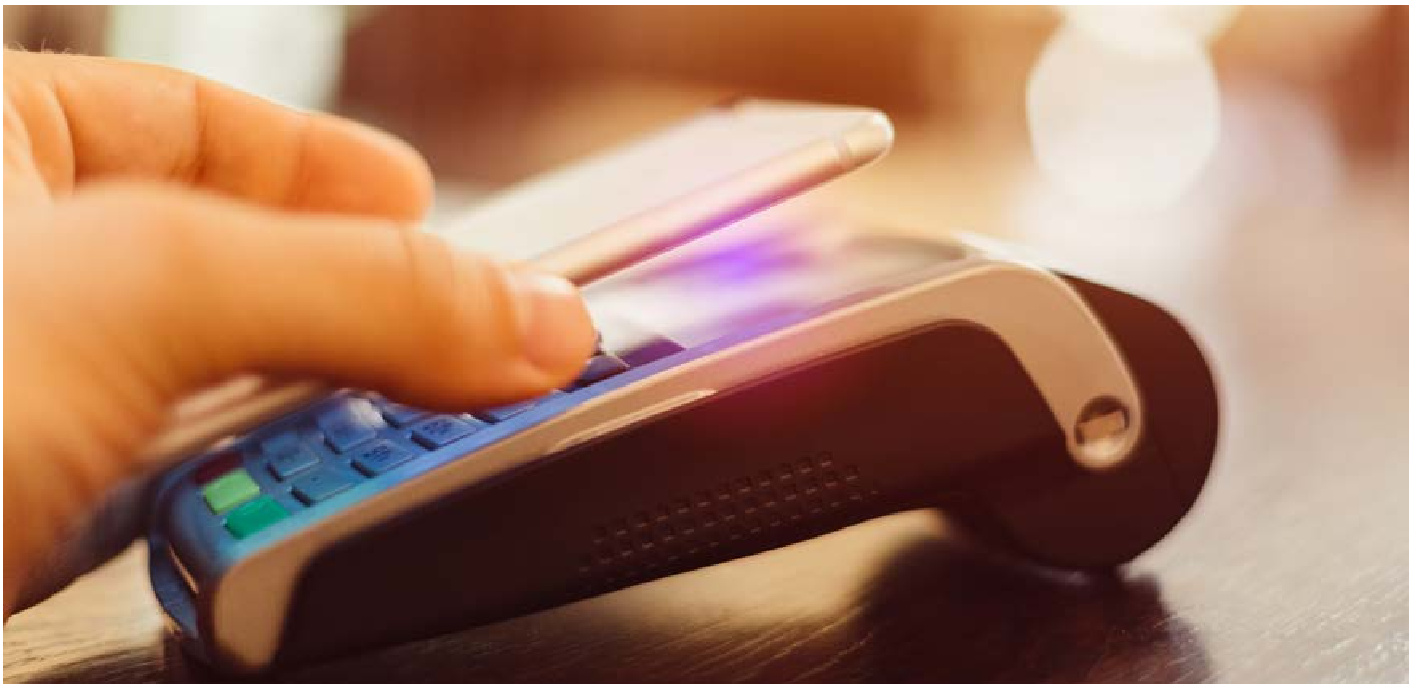
How do you plan to grow your services business?



Source: TNS Kantar

> More than 80% of US firms are worried about cyber security

More than three-quarters (77%) of US firms say easier access to data creates a more level playing field in international business, while about two-thirds (68%) believe data regulation would impede cross-border service delivery. On the other side of the coin, however, most companies (56%) also believe Big Data capabilities have the potential to give an unfair advantage to those who have access to them.



Trade Policy Developments

The US administration has recently moved to implement tariffs on imports of steel, aluminium, washing machines and solar cells. Such moves are rare; tariffs were last imposed by the Bush administration in 2001, on steel imports. And, of course, retaliatory action by other countries could hurt US firms' export prospects.

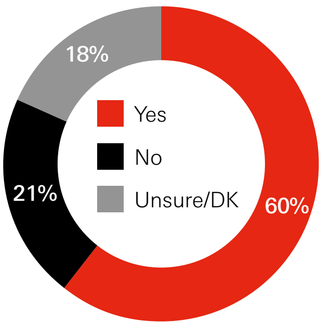
In light of the current political climate, it's hardly shocking that a majority of US businesses (60%) think governments are becoming more protective of their domestic businesses. Substantial numbers fear this will increase the cost of doing international business (39%) and lead to shortages of skills or labour (31%).

Yet US firms are sanguine about the domestic policy environment; half say that it will benefit their business in the next two years, which probably reflects the introduction of corporate tax cuts and other fiscal stimulus measures. A majority (58%) say NAFTA has an impact on their business, and close to half (49%) expect that impact to be positive – only 9% of respondents predicted a negative impact. This is in contrast to the US administration's claims that NAFTA was the "worst trade deal ever", implying instead that terminating the pact would have a negative impact on US businesses. Meanwhile, like their counterparts in many other countries, US companies don't consider trade initiatives in distant regions to have much relevance to their success.

Action points for business

- Engage with local business groups to ensure your industry's views are represented in the debate on US trade policy.
- Is your business up to date with recent trade policy developments, and the implications for your supply-chain strategy?

Are governments becoming more protective of their domestic business?



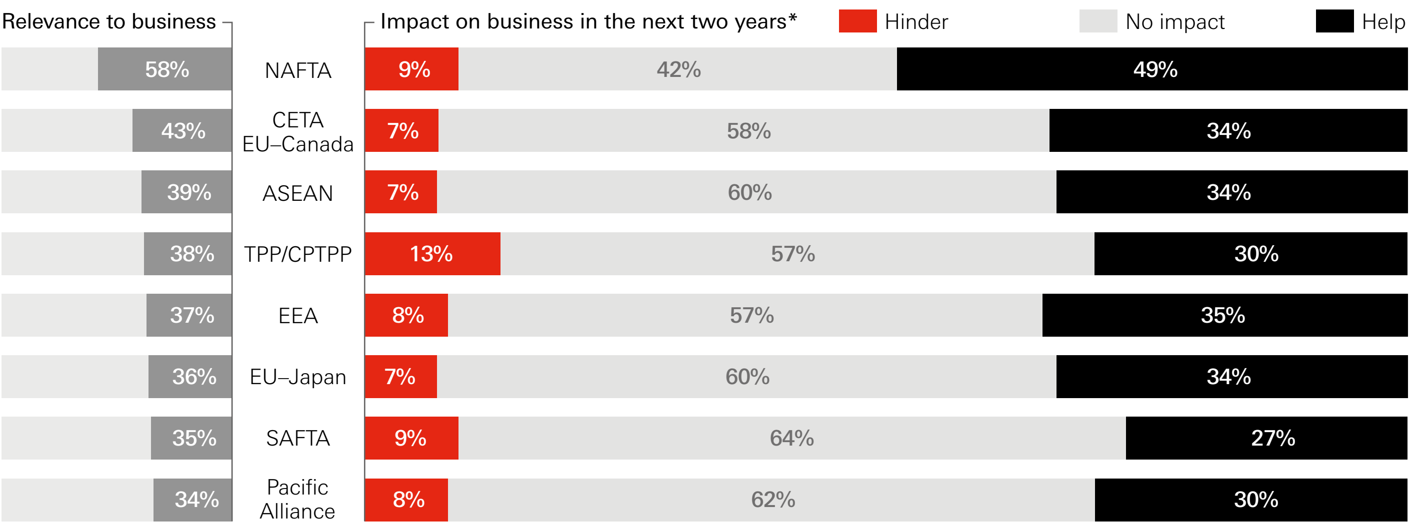
Note: may not total 100% due to rounding

Source: TNS Kantar

Top 3 impacts of protective policies on my business

Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

Long-Term Outlook for Trade

The longer-term outlook for trade appears positive, as the US enjoys plentiful low-cost domestic energy supplies, a flexible labour force, and a working-age population that will keep growing in the years to 2030. Thanks to strong R&D investment, the US should retain its competitive advantage in high-value-added and research-intensive goods.

The US is also a world leader in service exports, accounting for around 15% of global services trade. Yet the country exports only around 3% of its domestic services output. That means firms still have a lot of running room. As technology makes services increasingly tradable, we expect significant growth in areas like business and professional services, where the US can capitalise on its highly skilled workforce.

It is worth highlighting that our forecasts assume current trade policies will remain broadly unchanged, and NAFTA will remain intact. In light of the US administration's tough rhetoric, we consider a relapse into protectionism the single greatest risk to the long-term outlook for trade.

China and India: Lands of opportunity for US exporters

Over the long term, machinery and transport equipment are poised to play the biggest role in driving US merchandise export growth. Expertise in high-end manufacturing and investment in technological innovation give US firms a lead position in a highly competitive international market. Growing global demand for their vehicles and aircraft will also benefit US exporters. Over time, however, we expect manufacturers to establish production centres abroad, to serve regional markets and improve flexibility in meeting customer demand.

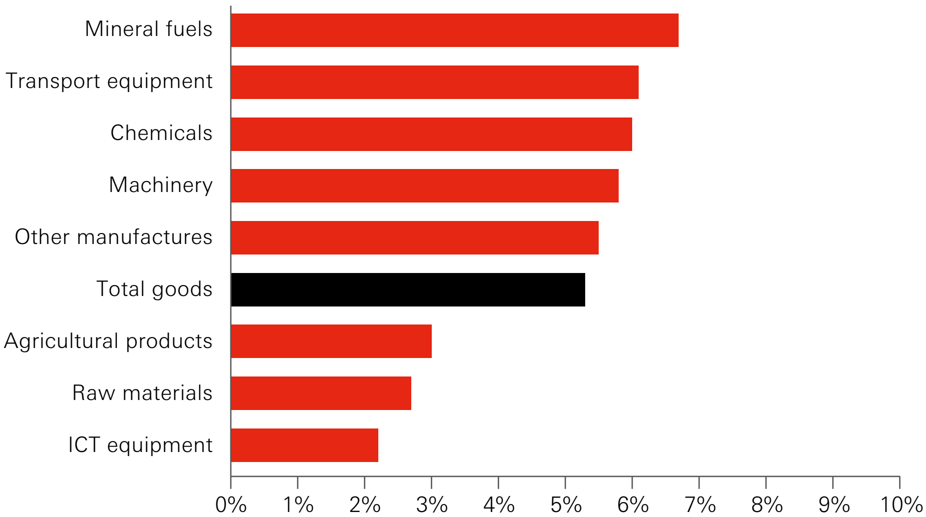
The projected recovery in commodity prices should boost the value of mineral fuels exports. Growing oil production from the shale revolution should boost export volumes in coming years, with the US set to become a net oil exporter by 2030. And as gas production ramps up, the US will also begin liquefying and shipping gas to foreign markets.

Action points for business

- Do you have an R&D strategy in place that gives you a competitive edge in the global marketplace?
- Is your business positioned to take advantage of high-growth emerging markets like China and India?
- Consider opportunities to bundle goods, services, technology, and financing to gain a competitive advantage.

US service producers have substantial untapped potential to boost exports

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	Canada	Canada
2	Mexico	Mexico
3	China	China
4	Japan	Japan
5	UK	India

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

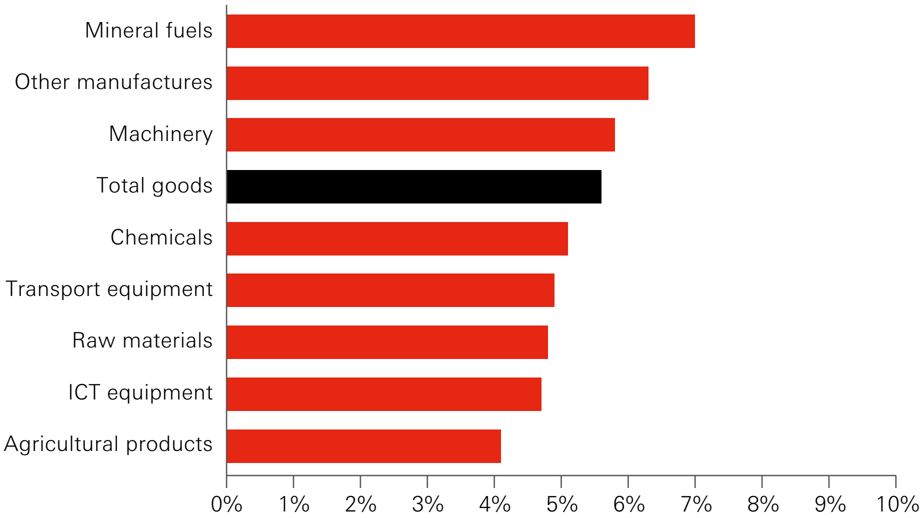
Canada and Mexico will remain the two biggest buyers of US exports over the coming decade. But their dominance will gradually wane as emerging-market demand grows more quickly. We expect sales to China, India, and Vietnam will rise most rapidly, with the value of shipments growing by 8% to 9% per year on average between now and 2030. Indeed, we foresee India overtaking the UK as the fifth-largest market for US merchandise exports by 2030.

Low-cost goods imports: The secret ally of US business

Turning to imports, we expect machinery to account for around a fifth of US import growth in the decade to 2030, in part reflecting the participation of US manufacturers in cross-border supply chains. Other major contributors to import growth will be consumer goods like household appliances, ICT equipment like mobile phones and computers, and clothing and apparel. Americans will continue buying these products from countries where they can be produced at lower cost.

We expect the value of imported goods from China to rise by 8% a year on average, supporting China's position as the leading source of US imports in 2030. Mexico and Canada should remain in second and third place, respectively, reflecting the close integration of the North American economy.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	China
2	Mexico	Mexico
3	Canada	Canada
4	Japan	Germany
5	Germany	Japan

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

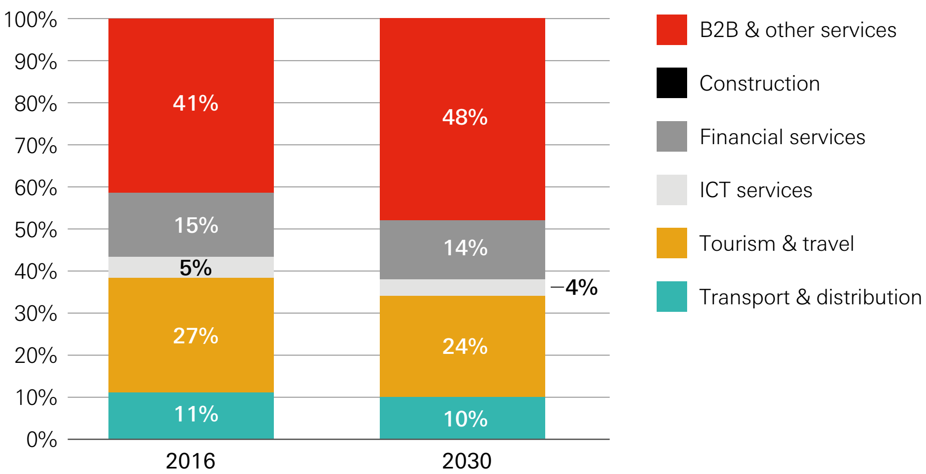
Professional services will see rapid growth
The US enjoys an advantage as a service provider: its highly skilled and productive workforce. Not surprisingly, business-to-business (B2B) services represent the largest category of US service exports, encompassing a range of industries including consultancy, accounting, engineering, healthcare, and legal services. We expect rapid advances in communication and information technology, and US trading partners' increasing sophistication, to multiply the opportunities for exporting such services in coming years. Increasingly, too, manufacturers will bundle services with their products, looking to gain an edge over competitors abroad who can't provide comparable add-ons.

Another important component of B2B services are 'charges for the use of intellectual property', covering the use of patents, copyright and trademarks. Given the US's leading role in developing and marketing new technologies, this category of exports is also poised for strong growth.

Overall, therefore, we expect B2B will remain the principal driver of service export growth in coming years and will account for 48% of total service exports by 2030, up from 41% in 2016.

B2B providers will drive service export growth, leveraging a highly skilled workforce

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	UK	China
2	China	UK
3	Canada	Canada
4	Ireland	India
5	Japan	Japan

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

On the buy side, we forecast that by 2030 China will be taking 10% of US service exports, compared with 7% currently, and will displace the UK as the largest market for such sales. Service exporters should benefit from the increased sophistication of China's economy as it shifts toward consumption as a driver of GDP and demand for foreign services booms. Other Asian markets also offer rich opportunities for US exporters. For example, we expect India to ascend into fourth place in the service export destination rankings by 2030, up from 10th place today (amongst the 24 trading partners considered in the forecast).

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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