

Impact of 9-11 on Trade

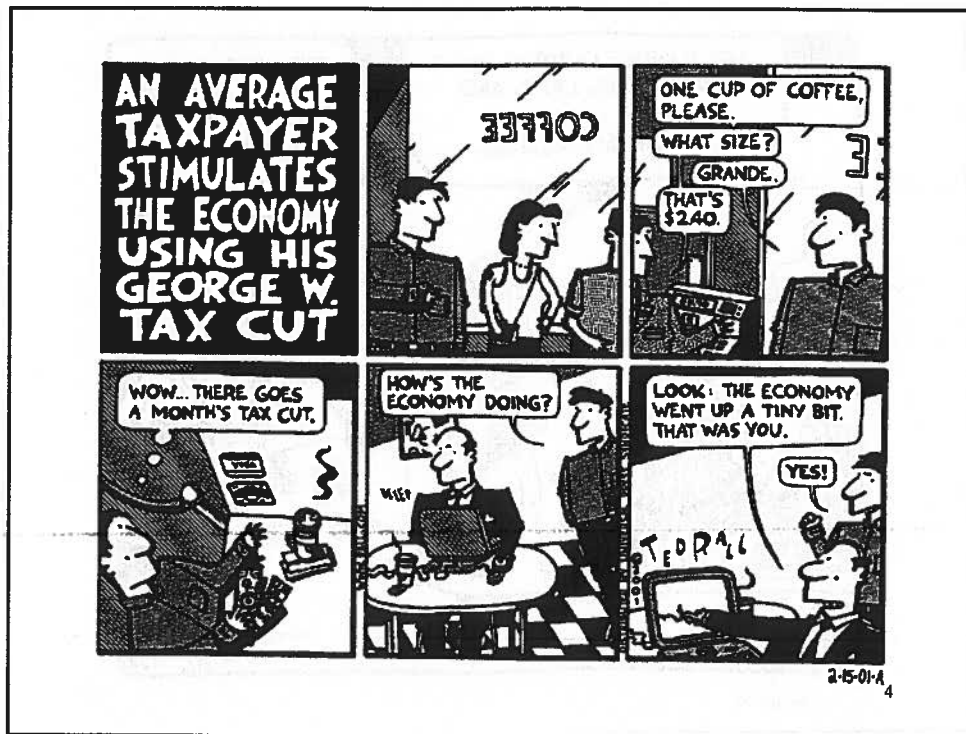
Mike McCracken
Informetrica Limited
November 7-8, 2001

CBE Meeting, Washington, DC

1



2



Trade Linkages

- Price effects – commodities
- Price effects – border costs
- Income effects – US recession
- Income effects – ROW weakness
- Taste changes – demand for domestic products/services

5

Base Case View

- Bottom of cycle in QIII-2001
- Recovery in QIV and QI-2002
- WOP in bottom half of range, but strengthening
- Growth pause or mild recession, except for a full recession in manufacturing

6

9-11 Consensus

- Delay recovery by 2 quarters
- Q1-2002 is bottom with recovery in 2002
- Loss of 0.5% of GDP in 2001
- Loss of another 1.0% off growth in 2002
- Gap closes in 2003 and 2004
- A Different Base Case?
 - No action leads to continuing terrorist attacks

7

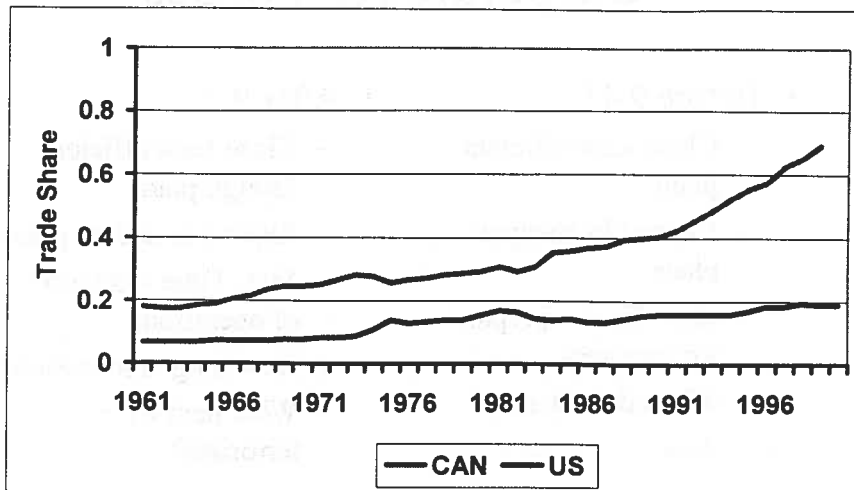
Commodity Prices

(% change)

Commodity	YTD Sept 7	Nov 2/ Sep 7
Total	-25.9	-6.7
Forest products	+5.7	-13.7
Oil & Gas	-55.7	+1.8
Base Metals	-16.7	-7.6
Gold/Silver	-2.0	+2.6
Agricultural	+0.1	-3.4

8

Trade in Goods



9

Fiscal Responses

- Stimulators
 - US
 - UK
 - Japan
- Restraint
 - Canada
 - Mexico
 - Argentina
 - EU (ex UK)
 - South Asia

10

Corporate Responses

- | | |
|---|---|
| <ul style="list-style-type: none"> • Before 9-11 <ul style="list-style-type: none"> – Close least efficient plant – Expand in cheapest place – Mgt. Time – prepare for recovery – When does it start? | <ul style="list-style-type: none"> • After 9-11 <ul style="list-style-type: none"> – Close least efficient foreign plant – Expand in secure place – Mgt. Time – security of operations – How long is recession? – What next from terrorists? |
|---|---|

11

Income Channel

- Import income elasticities are high (2-4)
- Price elasticities are low – (0.5)
- Slowdown of US GDP by 1.5% will mean 3 to 6% decline in imports
- Two-way street – slowdown in foreign GDP will magnify decline in US exports
- Less trade volume and lower prices
- External balance could go either way

12

Tourism

- Air travel down, accommodation down, entertainment, etc. down
- Fear pushes people to domestic travel over foreign travel
- Fear pushes foreigners away from US
- US and foreign tourism down
- Auto travel to Canada and Mexico may help

13

Structural Changes

- Security component of Business – reduces productivity & raises costs like indirect tax
- North American Energy Plan – increased urgency by US
 - Northern gas pipelines
 - Mexican supplies
 - Hydro electricity options
 - How much is security worth?
- Extending “Borders”

14

Time Paths

- Build up of effects
 - Security in place
 - Increased security
 - Post 9-11 events – anthrax, ???

- Wearing off
 - Efficient security
 - No new actions

15

Concerns

- Protectionism excuse
- Border “friction”
 - Inspection of goods
 - Review of People
- Deterioration in international linkages
- Oil price shocks
- “War” is broadened

16