

CIT - Outlook Conference

The Futures of Freight Transportation: Global and Canadian Factors

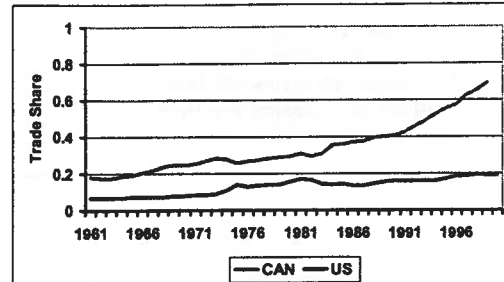
Prepared for:
Chartered Institute of Transport
in North America

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1

Trade in Goods



2

Grouping the Driving Forces

- **Society, etc.**
 - Labour market participation
 - Immigration
 - Learning Society
 - Productivity growth
- **International**
 - Real Interest rates
 - Growth
 - Commodity Prices
 - Market access & penetration
- **Monetary Policy**
 - Spread with US
 - Exchange rate
- **Fiscal Policy**
 - Degree of Federal-provincial restraint
 - Competition policy

3

US Issues

- Can a recession be avoided before 2005?
- Poor productivity performance in last twenty years and stagnating real wages.
- Changing income distribution - linked to skill levels?
- Medicare-Medicaid deficits
- Global peace-keeper
- Creating a more open trading regime
- Environmental actions - how much?

4

Driving Forces: US Structural

- Human capital formation
- Research and development
- Relative prices of medical services
- International trade liberalization
- Ageing population
- International trade agreements
- etc.

5

Driving Forces: US Policy

- Fiscal policy - Maintaining Balanced Budget
- Monetary policy - carrying the weight of inflation control
- Curbing medicare entitlements and reducing price pressures in health care
- Environmental policy on clean air, GHG
- etc.

6

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Driving Forces: ROW

- Economic performance
- Stability of governments
- Exchange rate against US dollar
- OPEC & other Commodity Prices
- Environmental Policies

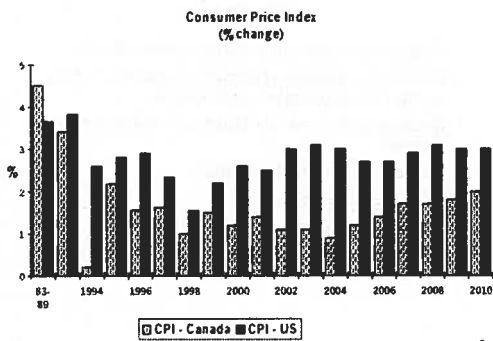
7

Canada-International Linkages

- US policy and performance
 - Monetary policy
 - Demand for exports
- Bilateral Forces
 - NAFTA expansion?
 - Cultural industries
 - Open skies
 - Trade actions (e.g., softwood lumber)
- International & Global
 - UN and OECD reform
 - Greenhouse gas emissions?
 - Human rights and trade

8

Inflation- Canada & US



9

Stability of Debt Ratio

$$D = \frac{(1+i)}{(1+y)} D_{-1} + PD$$

$$\Delta D - (i - y) D_{-1} + PD$$

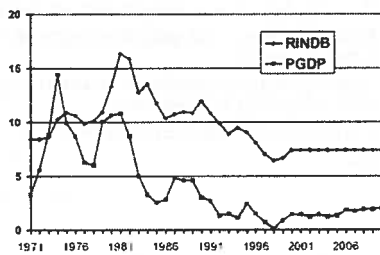
Stability Factor

Primary Deficit

D = Debt / Nominal GDP
 i = Interest rate (90 day T-Bills)
 y = Nominal GDP growth rate
 PD = Primary Deficit Ratio: Deficit plus net interest payments over nominal GDP.

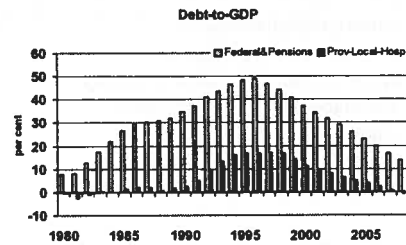
10

Interest Rates & Inflation



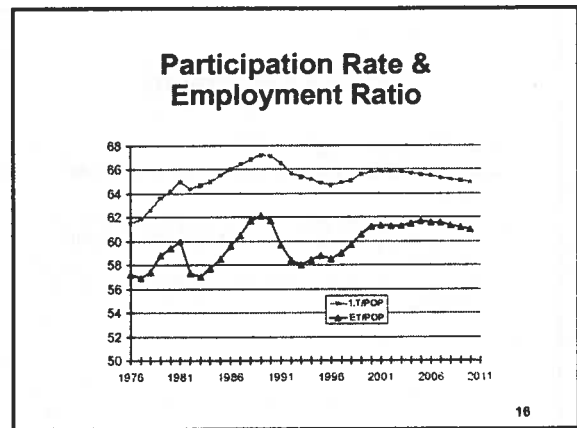
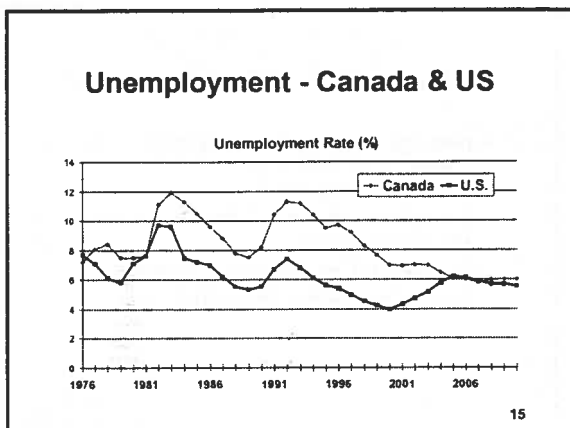
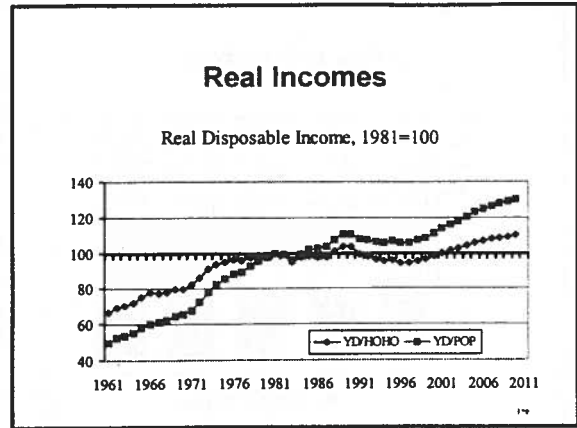
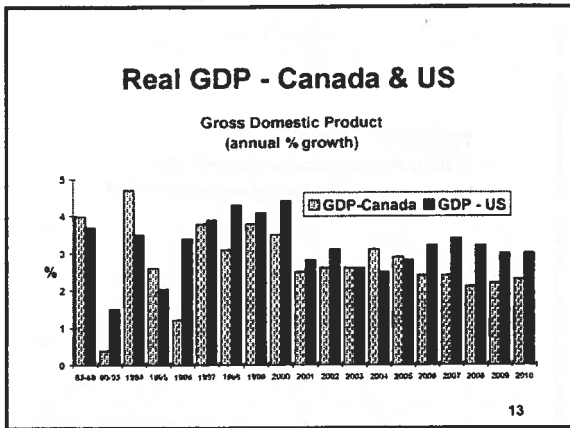
11

Federal Debt Ratio



12

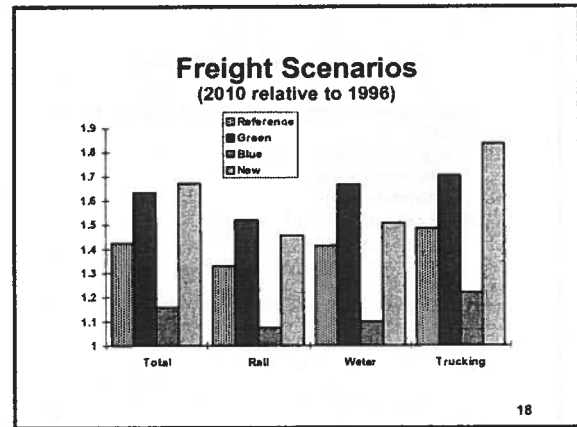
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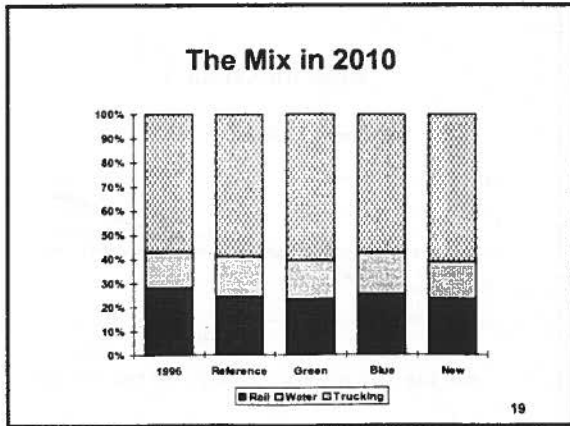
Freight Transportation Implications

- GDP of Rail, Water, and Trucking
- Distribution by Mode
- Ownership Structure

17



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Major Uncertainties

- OPEC is out of the box
- GHG is on the global policy agenda
- International institutions are under attack

20

Oil Price Uncertainty

- OPEC wants a higher return
- Environmental goals require a higher price for users
- Both the supply price and the demand price are likely to be significantly higher in the next 25 years.
- But uncertainty is reflected by a 50% variation.

21

Globalization - What Direction?

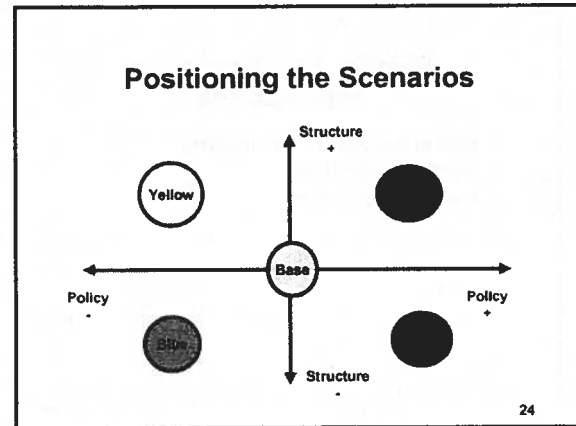
- Less trade, more protection, and the breakdown of existing agreements.
- New items on the tables.
- Greater protectionism or more cooperation?
- More or less trade?
- Divergence or convergence of incomes?
- More or less cyclical instability?

22

Other Considerations

- What Other Driving Forces might change the picture?
 - Public Infrastructure spending
 - Removal of subsidies
 - World food patterns
- What affects the mix?
 - Processing patterns
 - Relative fuel costs
 - O.F.F.
 - » Climate change accelerated - ports unusable?
 - » Dirigibles?
 - » North American Rail System?

23



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The Reference Case

- Real interest rates exceed real economic growth
- Unemployment rates remain high (8-10%) through 2006
- Debt ratios slowly improve
- Current account balance is a stable and small deficit

25

The Blue Scenario

- Real interest rates are higher - both abroad & in Canada
- Foreign growth slows and protection reduces penetration
- Fiscal balances maintained through tax hikes
- Immigration reduces
- Discouraged workers increase
- Unemployment rate approaches 12%
- Real disposable income lower by over 5%

26

The Green Scenario

- Real interest rates are lower - both abroad & in Canada
- Foreign growth increases and more penetration of foreign markets
- Fiscal surpluses reduced through tax cuts
- Immigration increases
- Discouraged workers return to labour market
- Unemployment rate approaches 6%
- Real disposable income higher by almost 6%

27

