

HSBC Trade Connections:

Trade Forecast Quarterly Update

October 2011

Quarterly forecast exploring the future of world trade and the opportunities for international businesses

- World trade will grow by 73% in next 15 years
- World trade will grow annually at 2% until 2015
- Companies to increase trade activity annually by 3.9% to achieve projected growth
- Ireland's trade to grow by 71% by 2025

Global trade outlook

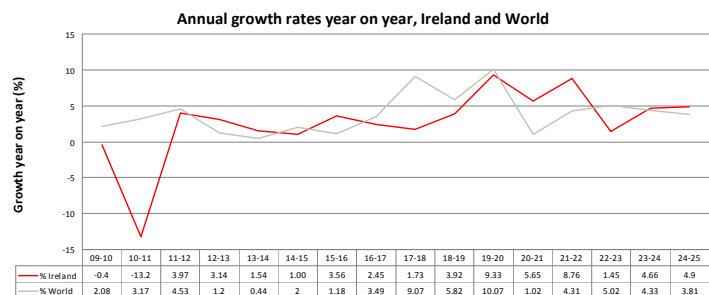
The new Trade Forecast is predicting that world trade will grow by 73% in the next 15 years, with merchandise trade volumes in 2025 hitting \$43.6trillion compared to today's \$27.2trillion. To achieve this growth, the Forecast is predicting that companies across the world will increase their trade activity by a combined 3.9% between 2011 and 2025. The Trade Forecast anticipates that the spotlight will be on Egypt, India, China, Indonesia and Brazil to drive world trade growth during this period.

This is reflected in HSBC's Trade Confidence Index which reveals that businesses around the world believe that China will continue to be a source of key trading opportunities over the next six months, with Latin America, South East Asia, and the Middle East also featuring strongly. Despite an overall dip in global trade confidence, businesses in Indonesia, Saudi Arabia, Egypt and the UAE are particularly optimistic about the future, showing a positive uplift in confidence on the first half of 2011. On a global scale, the majority of respondents (84%) anticipate either an increase in international trade, or consistent levels of international business activity over the next six months. For businesses trading internationally or starting to trade internationally, the combined global outlook provides a positive view of future business opportunities with new trade corridors opening.

Ireland's trade outlook

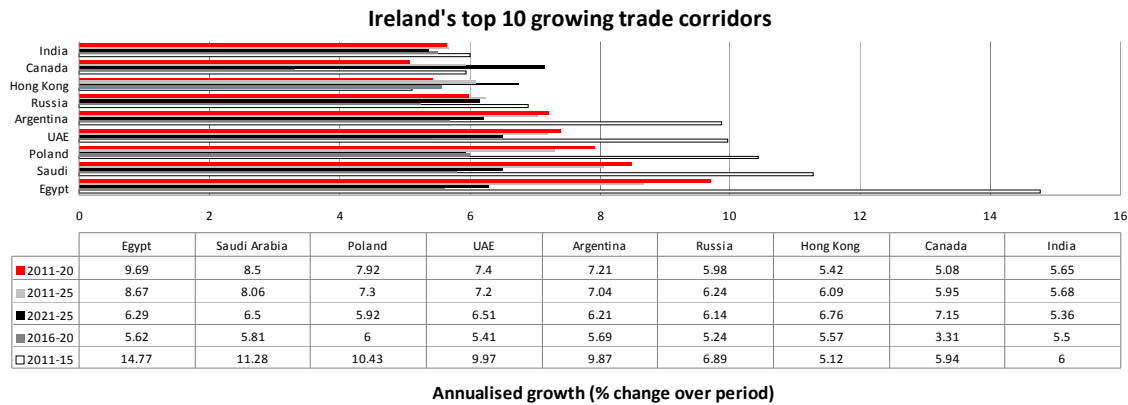
Ireland accounted for 0.6% of world trade at the end of 2010. The Forecast is predicting that trade volumes will grow by 71% to the end of 2025. Much of the growth will be in the export of pharmaceuticals and agri-business where Ireland has been building niche technologies and markets over time. The USA will become its largest trading partner taking over from the UK by the end of the forecast period. It is predicted that Ireland's merchandise trade volumes in 2025 will be \$261.6billion up from their levels at the end of 2010 of \$151.6billion.

Ireland is a strong innovation-based economy with core exports and import sectors in data processing, computers, agri-business and biopharmaceuticals, all of which are forecast to grow. The country is experiencing difficulties at present because of its austerity measures and uncertainties in its financial system. It is forecasted that the rate of trade growth over the next two years will slow but that growth will pick up towards the end of 2013. It is predicted that annualised growth will be around 4% in 2011-12 and 3.5% in 2012-13 but its share of world trade will decrease to 0.5% by 2025. The strongest growth will be in the next five years when annualised growth will be 2.4%.



Ireland's fastest growing trade corridors

Ireland's largest trade partners are the US, UK, Belgium, Germany and France. It is forecast that the US will overtake the UK as key trade partner by the end of the forecast period from volumes at the end of the last decade of \$36.1billion (compared to the UK's \$37.6billion in 2010) to \$43.3billion compared to the UK's \$42.7billion. Trade with the USA is growing the fastest of the top five trading partners with growth at some 97% or, annualised, nearly 5%. Trade with India is also a strong part of Ireland's emerging pattern of trade: here it is anticipated trade will increase at an annualised rate in the near term of 6% and, over the whole forecast period, of 5.7% taking \$US values to over \$1bn by the end of the forecast period.



Macroeconomic trends

Ireland's economy is steeped in the issues of the sovereign debt and banking crisis and is forecast to shrink by around 1.8% during 2011. Its commitment to austerity measures and a fundamental restructuring of the base of the economy to reduce the public sector deficit is the dominant trend at present and has affected inward investment in particular on which the Irish economy relies. However, it has built a strong innovation base, particularly in biopharmaceuticals and its agri-business is one of its core export sectors, meaning that trade is a vital part in its economic recovery plans.

Trade trends and corridors

Ireland has been very dependent on the UK and the US for its major trade relations and as these economies experience lower growth, this affects Ireland's trade too. However, Ireland plays a key role in the global supply chain of major UK and US multinationals in computing, IT and pharmaceuticals and these sectors dominate the emerging trade corridors. Some of the emerging corridors are smaller and focused on commodities trade with oil producing countries, but it is predicted that pharmaceutical exports to the USA will grow by an annualised 11%, or 162%, to \$1.7billion, while exports in the general agri-business sector will grow at annualised rate of 6.15% to the USA. Trade with India is growing very quickly, albeit from a smaller base, with imports of manufactured goods in the computing sector increasing at a rate of 6.88%. Another emerging corridor is with Poland around agriculture, where imports and exports are both set to grow by over 8% over the forecast period.

Business trends

Patterns of Irish trade have developed strongly around two key trade corridors: the USA and the UK. However, India and Poland are growing substantially and agri-business and pharmaceuticals are core to these corridors and to Ireland's restored economic confidence. The agri-business sector with core trade partners such as the US, Poland and India is growing at twice the annualised rate of more general trade growth at between 8 and 9% and this means that businesses in those sectors need to look at expanding their trade at that rate in order to keep pace with the process of change.

John Casey, HSBC Head of HSBC Commercial Banking, Continental Europe

"We commissioned *HSBC Trade Connections* to help our businesses shape their futures based on valuable, meaningful insight. The Forecast predicts international trade is set to grow over the next 15 years and over the next five years European businesses will increase their trade at a rate of 4%, double the growth rate expected for the rest of the world.

"Europe will continue to be instrumental in projects that literally build emerging economies. The next 15 years present European businesses with the opportunity to capitalise on how the world is changing. We are working with businesses across Europe, supporting them at every stage of the supply chain to provide the end-to-end financial support that benefits them and their suppliers."

HSBC Trade Connections Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 36 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

Trade Confidence Index

The HSBC Trade Confidence Index covers a total of 21 markets and is the largest trade confidence survey globally. The current survey comprises six-month views of 6,390 exporters, importers and traders from small and mid-market enterprises on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange on their businesses. The survey was conducted by research company TNS between July and September 2011.

About HSBC Commercial Banking

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets. With 7,500 dedicated relationship managers, Commercial Banking contributed over US\$4 billion in profit before tax to the Group in the half-year to 30 June 2011.