

Trade and Economic Trends Evolving Patterns and Attitudes

Paul Bingham

AAPA Marine Terminal Management Training Program



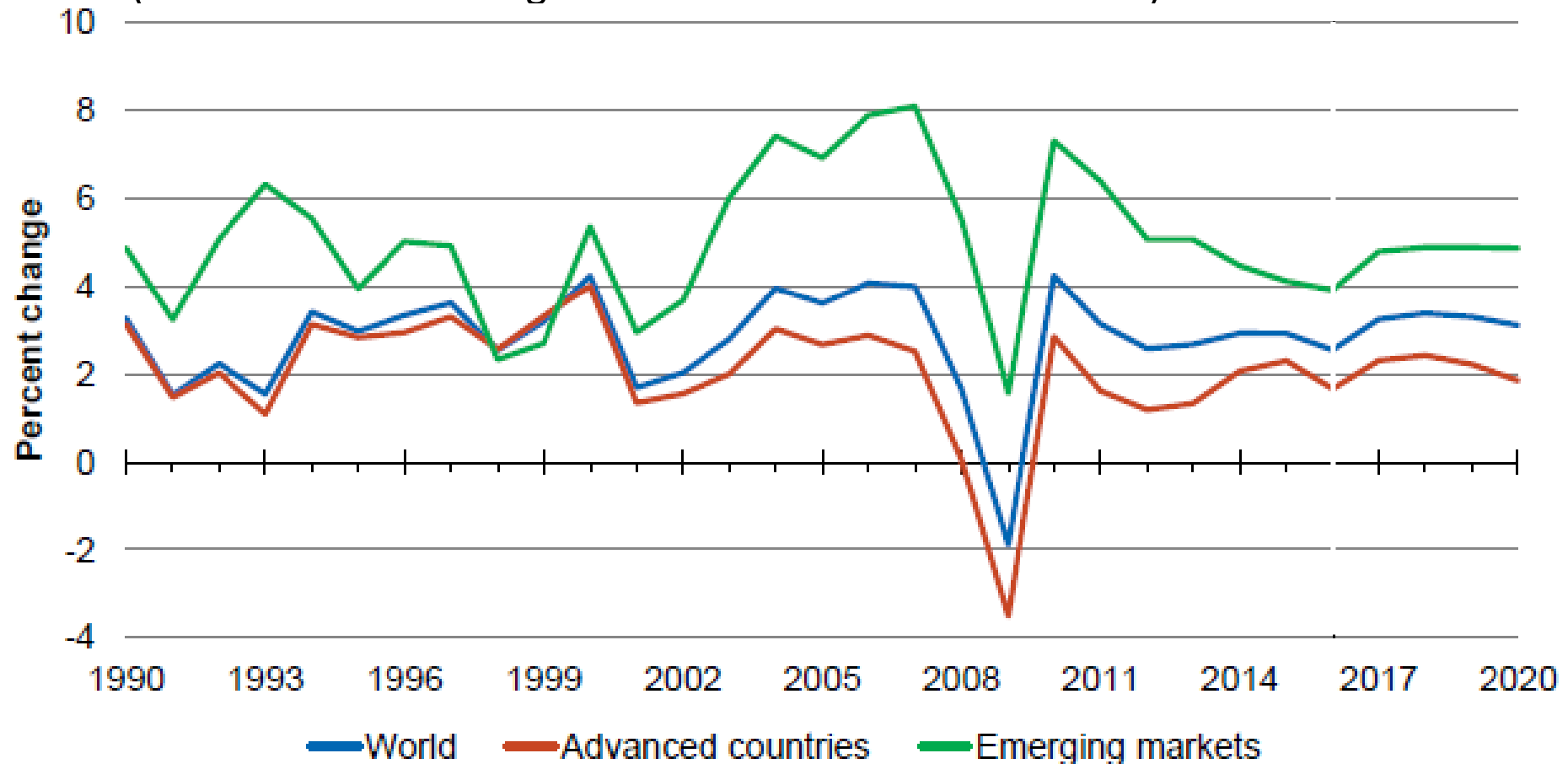
Long Beach California

October 1, 2018

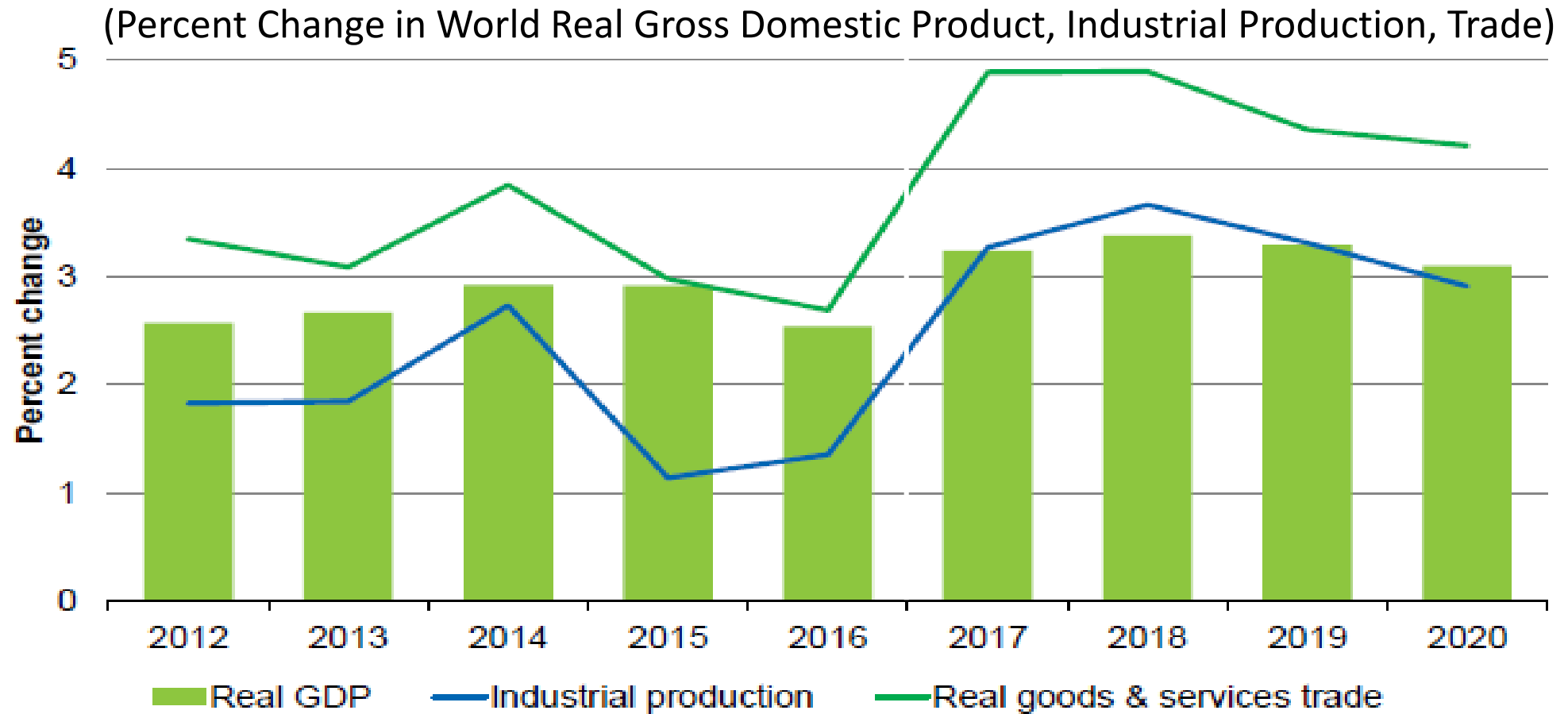


World Economic Growth Increasing Emerging Markets Grow Faster

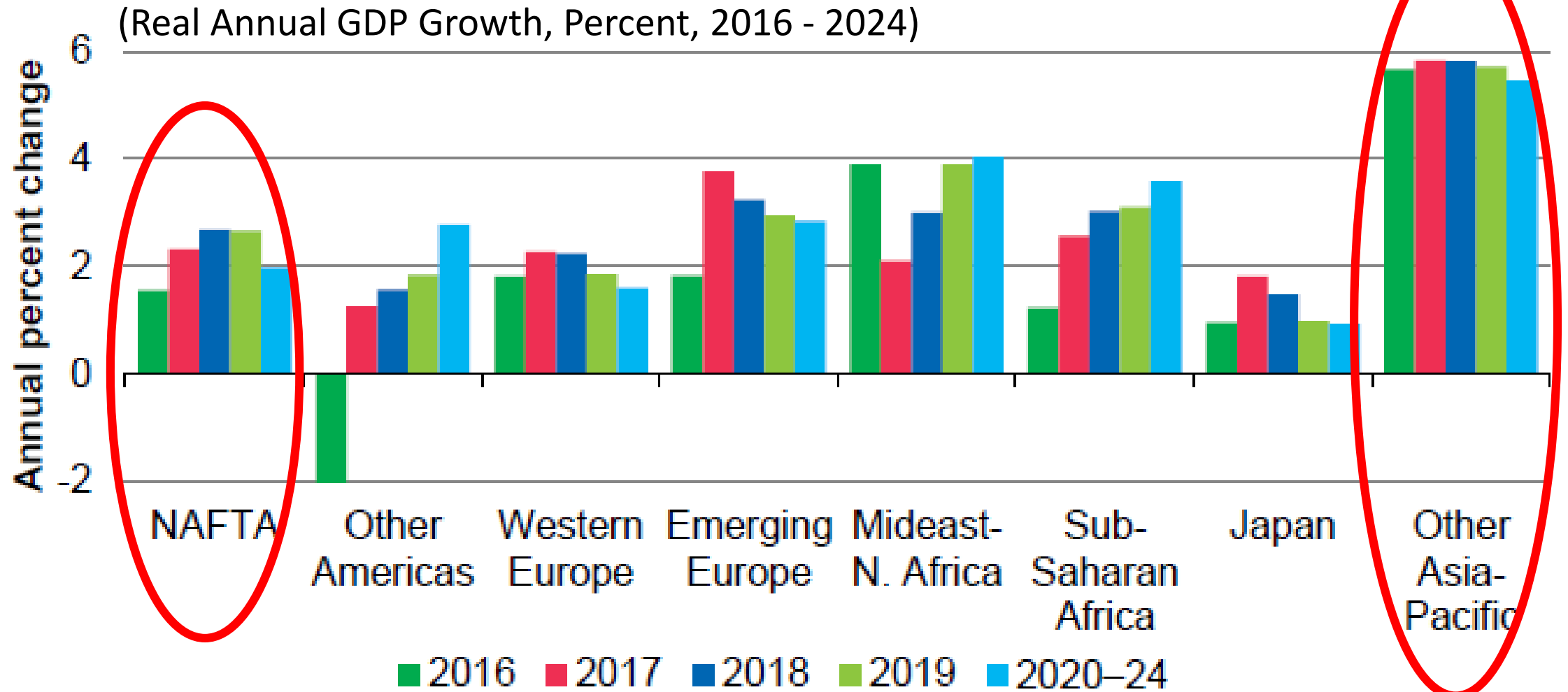
(Annual Percent Change in Real Gross Domestic Product)



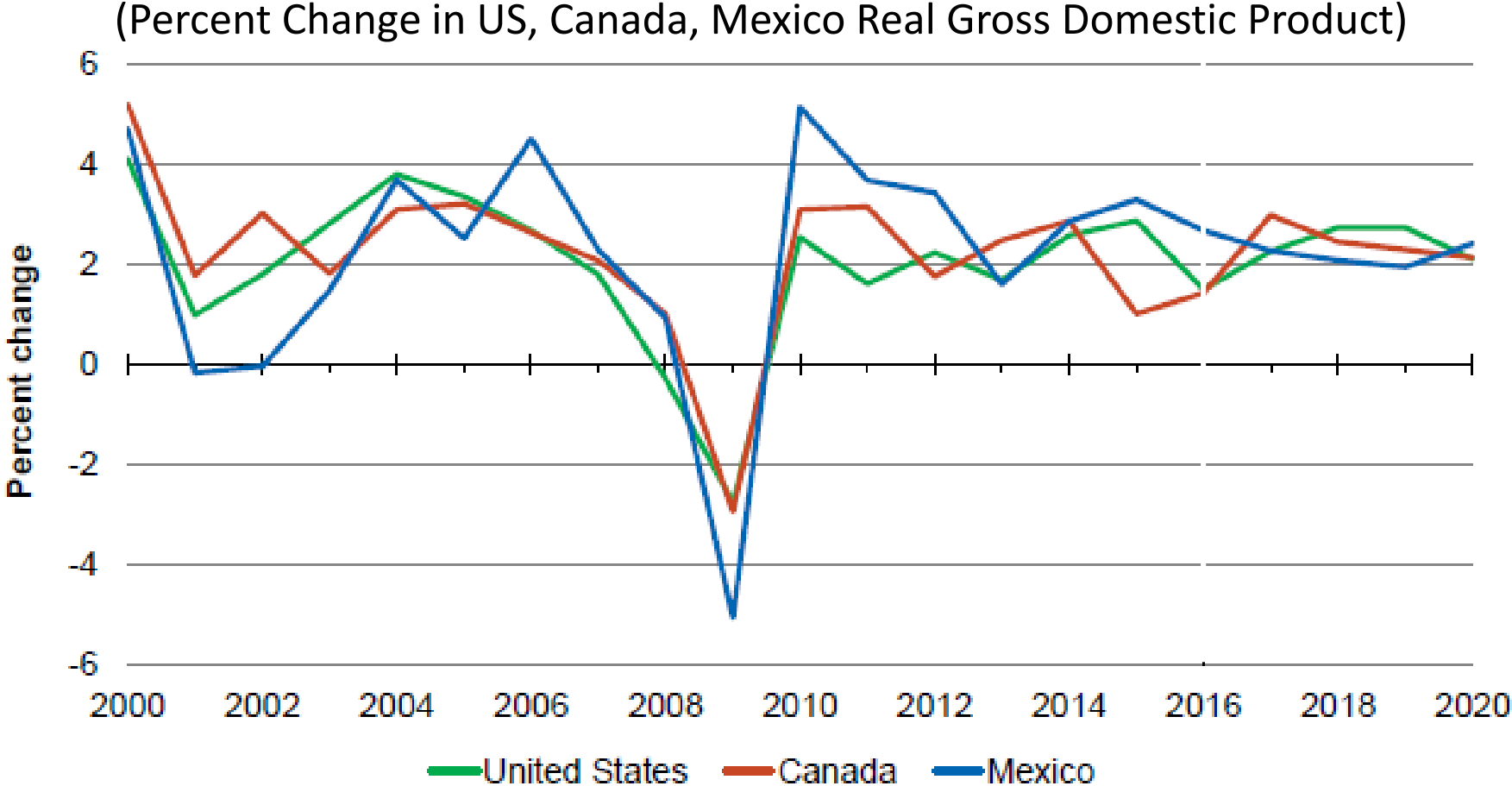
World Trade Growth of 4.9% Boosts 2018 Economic Growth; Manufacturing Strong as Industrial Production Up 3.6%



World GDP Growth Rate Differences Affect Trade Growth



North American Economies Growing Together Under NAFTA and USMCA



Source: IHS Markit

U.S. Economic Outlook Strong But Risks Increasing

- U.S. economy booming in recent quarters in 2018, due to underlying consumer and business confidence
- Federal Fiscal stimulus from the Tax Cuts and Jobs Act (TCJA) and the Bipartisan Budget Act (BBA) in the past year have driven short term GDP growth well over 3%.
- The unemployment rate has fallen to 50-year lows, which is making for upward pressures on wage and price inflation.
- The strong growth and rising inflation supports the Federal Reserve Board continuing to raise the federal funds rate in 2018 and more in 2019 on a path where the rate reaches 3.5% by 2021.
- Record stock market valuations are a concern, as are tariff impacts on prices and slower growth in trade partner economies

China Outlook More Volatile with Trade War

- Slower economic growth not just from trade war impacts.
- Inflation is increasing, although not strongly.
- Rising inflation could dampen government attempt to stimulate the economy more in the event of a further slowdown.
- Expansions of the trade war could also lead to higher prices for Chinese consumers and companies paying import tariffs.
- Debt levels are high, limiting some consumer / business growth
- Decline of the yuan / dollar exchange rate helps China export price competitiveness but raises prices of imports.

U.S. Dollar Exchange Rate Has Rebounded Since 2016

U.S. Dollar Strengthening has Weakened U.S. Export Competitiveness in 2018

(U.S. Dollar Trade-Weighted Foreign Exchange, Broad Index, 1997=100)



Source: FRB St. Louis FRED, Shaded areas denote recessions

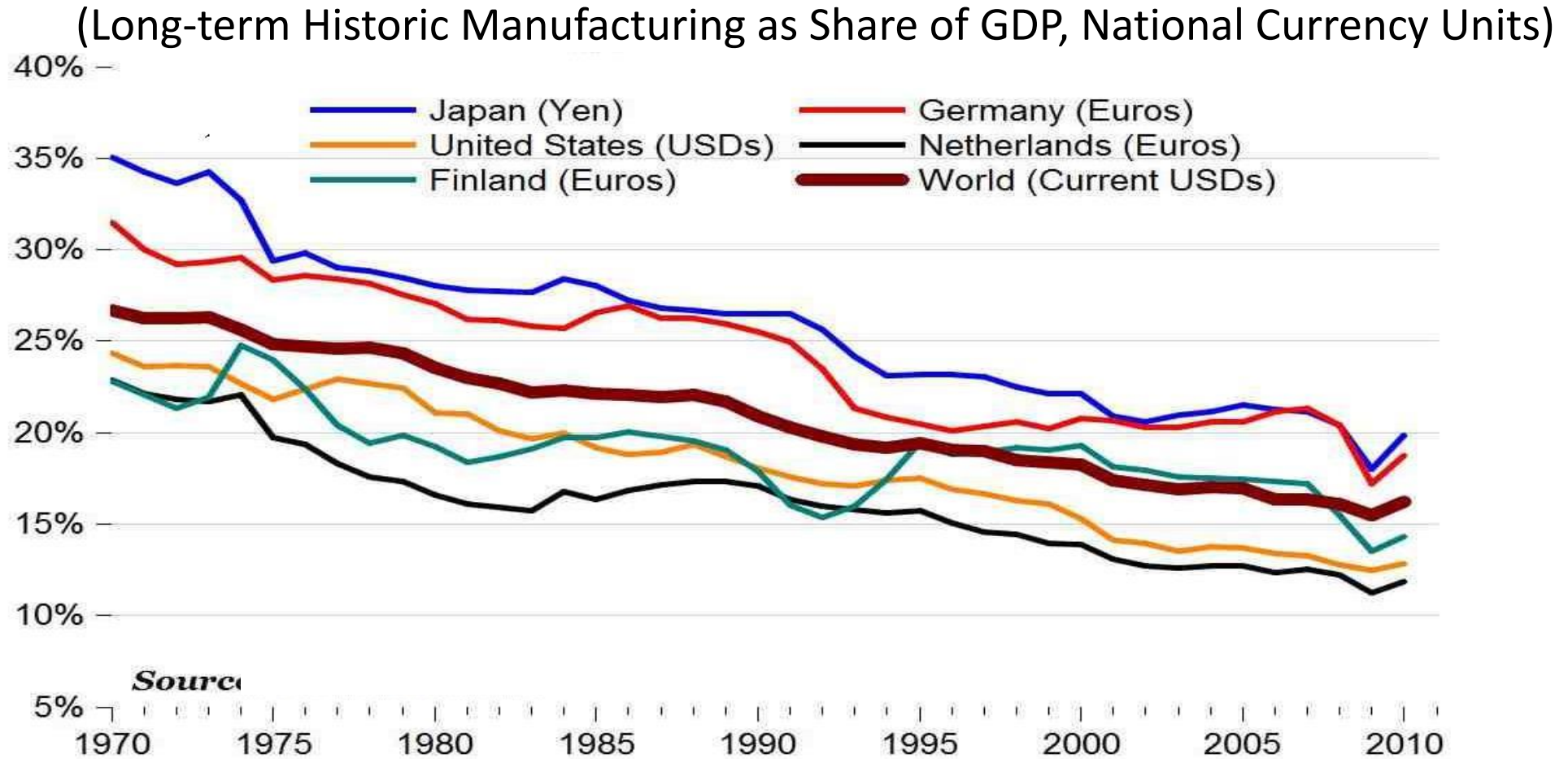
Trade Volumes Boosted by Strong Demand Moderate Commodity Prices & Inflation

- Commodity price inflation is moderate, but picking up in 2018 in North America, influenced by oil prices, tariffs and interest rates.
- Commodity prices globally are rising more slowly in 2018 following 50% increase in 2016 and a 17% rise in 2017.
- U.S. forecast is for higher inflation, off a low base, with wages up and tighter supply situations with tax cuts and fiscal stimulus.
- Consumption driving developed economy imports and resource exporting economy export volumes.
- Dry & liquid bulk, breakbulk, Ro/Ro and project cargo volumes all seeing volumes increase in 2018.

Consumption in Developed Economies Still Key to Global Demand But Less Long-Term

- Overall port trade demand depends on business and household goods trade demand, part of consumption spending (about 70% of U.S. economy; and about 60% of Western Europe's economy.)
- China's policy is to increase their 40% consumption share of GDP; the share from trade to decrease, though big challenges shifting structure of employment from export focus to domestic focus.
- China consumption growth since 2009 has averaged over 5% annually compared to 2% growth in the U.S., even as China's growth slows.
- U.S. consumption share of world GDP peaked at 22% back in 2001. West Europe's share of world GDP reached almost 18% in 2004.

Manufacturing is Key to Ocean Trade, Which Remains in Decline as a Share of the World Economy as Services Grow

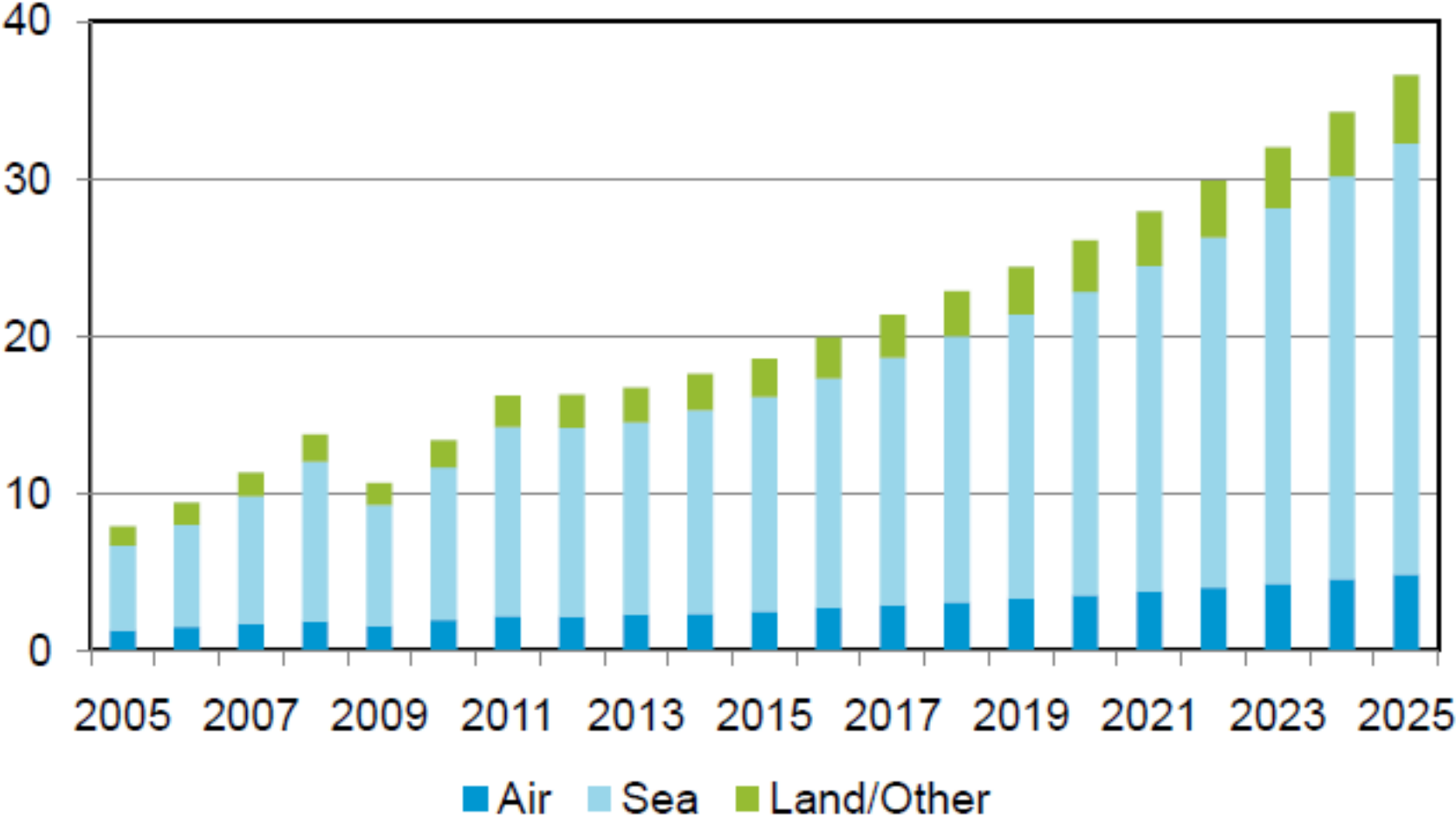


Source

Sea Trade Dominates Global Trade Growth

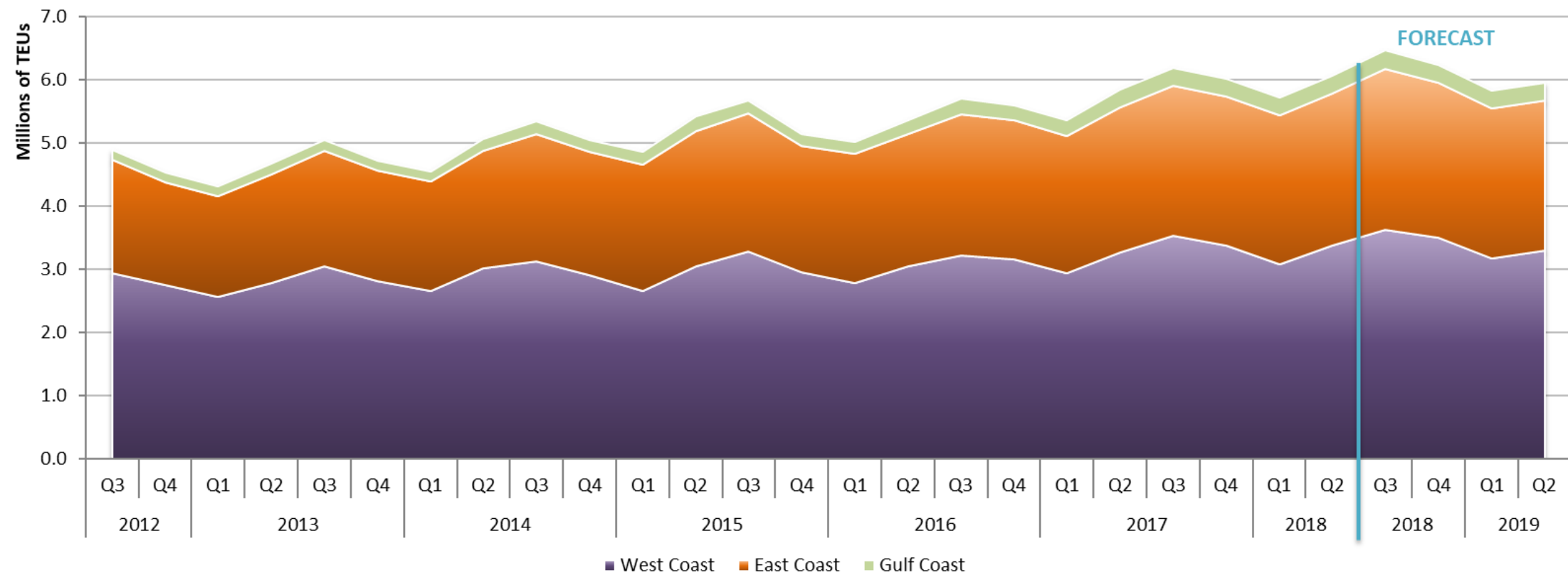
Seaborne trade forecasts strong, in value terms

(Value of World Trade by Mode of Transport, Trillions of U.S. Dollars)

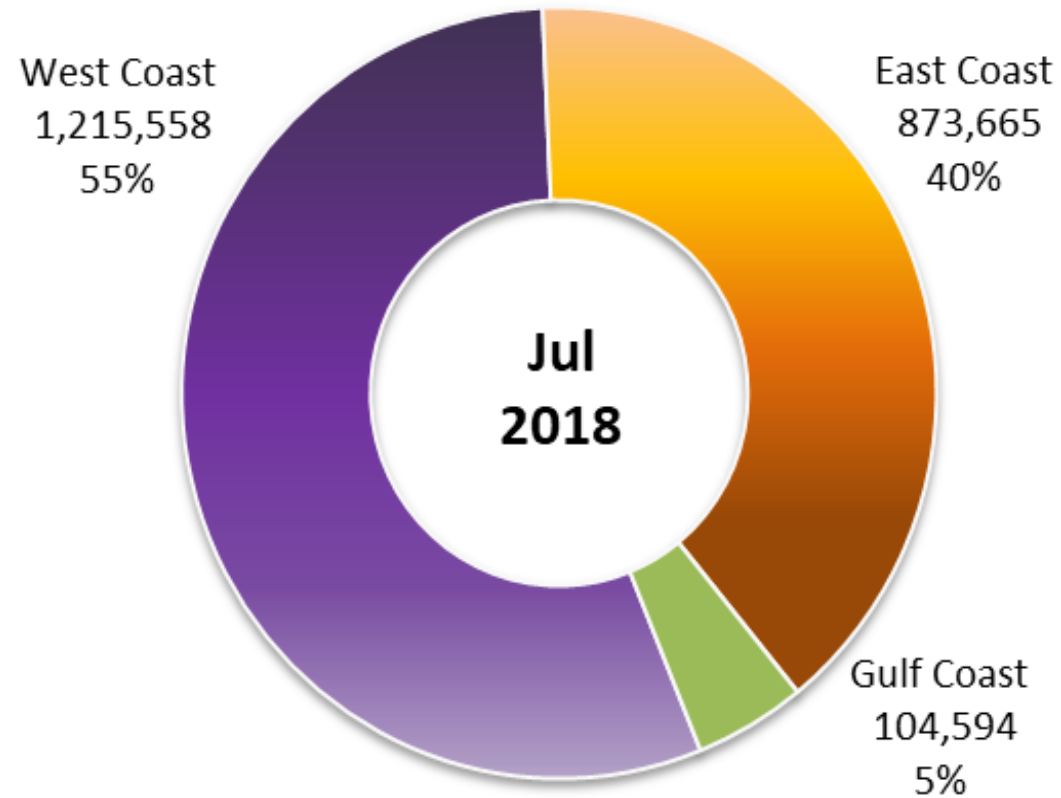


North American Container Imports Outlook

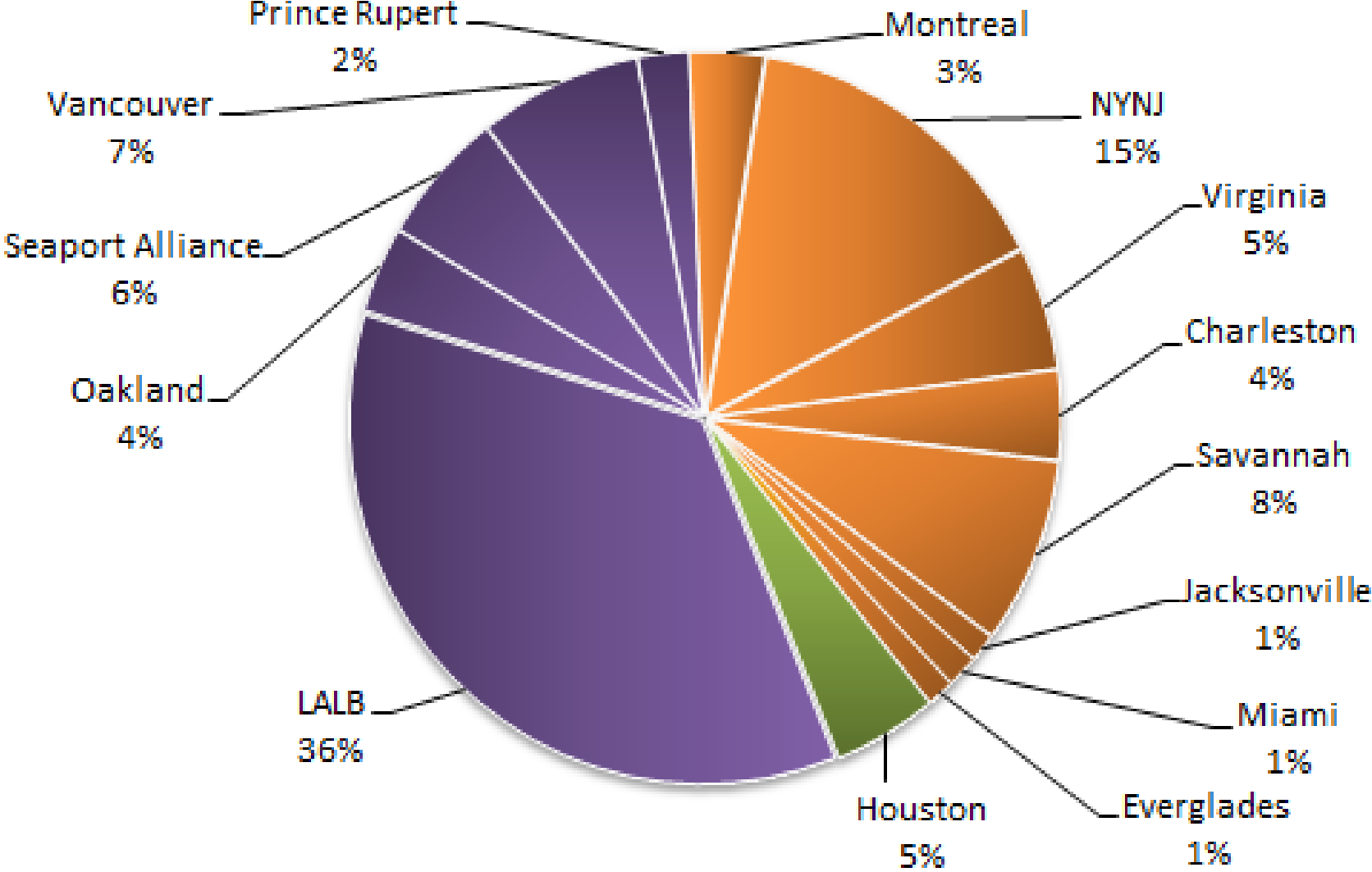
Yearly seasonality evident, as is West Coast dominance of import TEU share



N. American Container Import Shares: July 2018



N. American Container Imports Port Shares



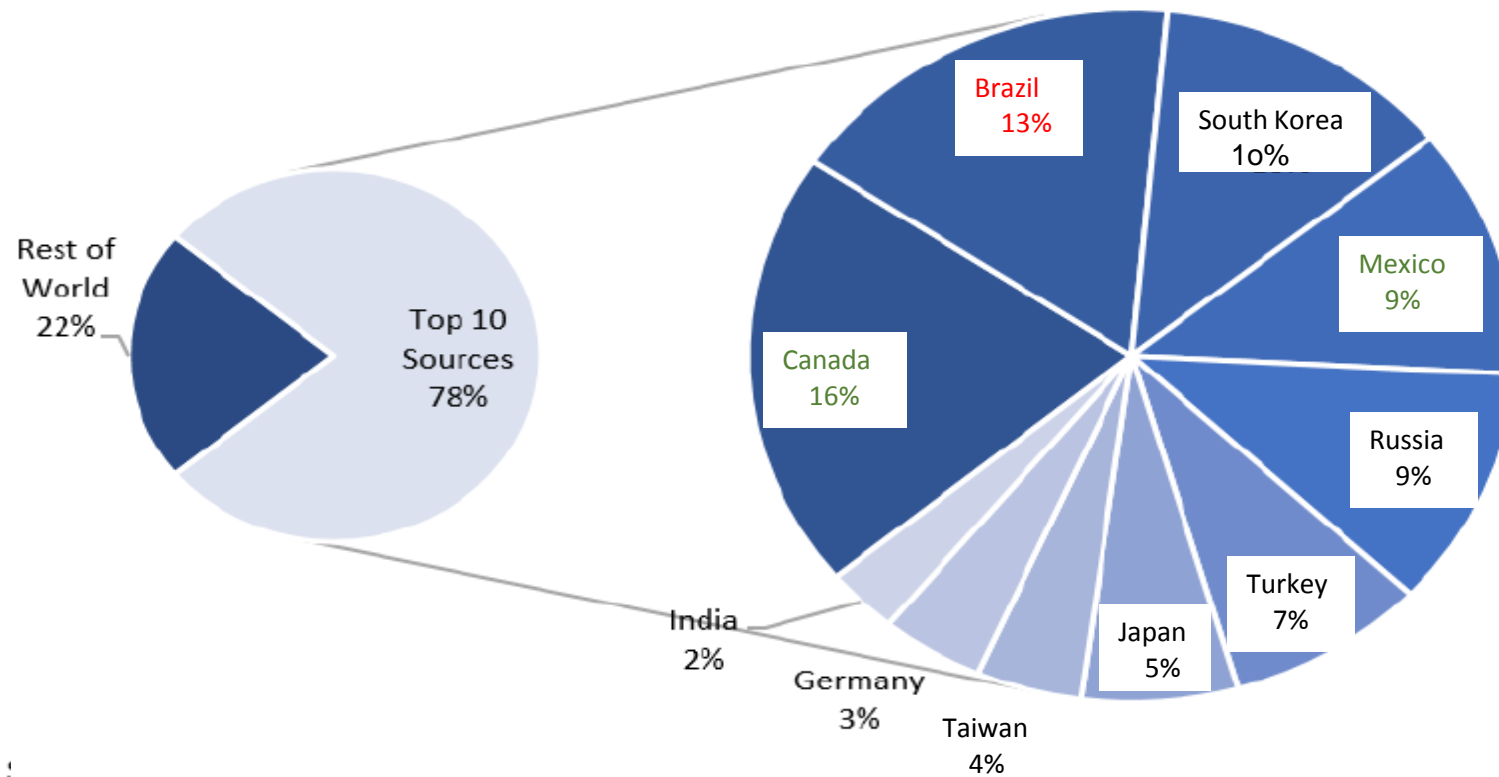
Source: Hackett Associates Global Port Tracker, Data for July 2018

Hemispheric Trade Liberalization Continues Outside the United States

- American Hemisphere countries pursuing trade agreements apart from the U.S.
- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership signed by 11 Pacific Rim countries earlier this year replaces the TPP minus the United States
- The U.S. could still join this TPP substitute, but unlikely soon
- Mercosur (Argentina, Brazil, Uruguay, Paraguay) in several trade negotiations now including with The Pacific Alliance (Chile, Peru, Colombia, Mexico), the European Union and with Canada

Tariff Retaliation: China was Not the Most Affected by the U.S. 25% Steel Tariffs. Canada, Brazil, Korea and Mexico Were

(Top 2017 US Steel Import Source Countries, Percent of Volume)



Tariff Retaliation Outlook

- Retaliation has followed the U.S. national security justification used for steel and aluminum tariffs, and the rounds of China import tariffs
- The NAFTA replacement, the USMCA leaves some areas of trade dispute unaddressed, leading to questions of further battles
- Retaliation by trade partners has focused on high profile U.S. export commodities significant in U.S. politics (e.g. agriculture)
- Which ports are affected partly depends on the commodities selected for retaliation.
- Net impacts on 2018 port trade volumes likely very limited for 2018 but risks of lower volumes could grow in 2019.

What Can We Conclude?

- Key drivers of North American port volumes, consumer and business import demand, are stronger in 2018 than 2017 but with risks headed into 2019
- U.S. dollar exchange rates rebounding in 2018, with a loss to U.S. export trade price competitiveness.
- Strong consumer demand for imported finished products supports increases demand for trade in bulk and breakbulk intermediates and scrap.
- North American coastal container port shares nearly stable in 2018
- Retaliation against U.S. import tariffs has accelerated shipments in 2018 year-to-date but payback is lower trade volumes now and into 2019
- Significant risks to the downside if trade retaliation increases back and forth, inflation prompts Fed to spike interest rates, and/or a sharp recession

Thank you!

Paul Bingham

paul@hackettassociates.com

+1(626) 538-4283