

2019 AAPA Planning for Shifting Trade – Tampa, FL

January 30, 2019



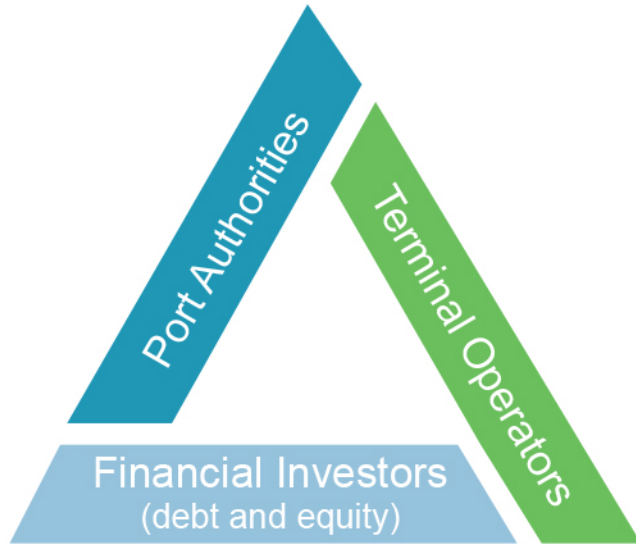
Joshua Hurwitz



moffatt & nichol

Moffatt & Nichol Commercial & Technical Advisory Services

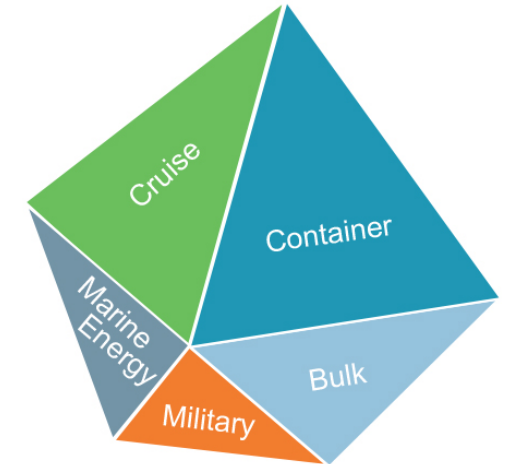
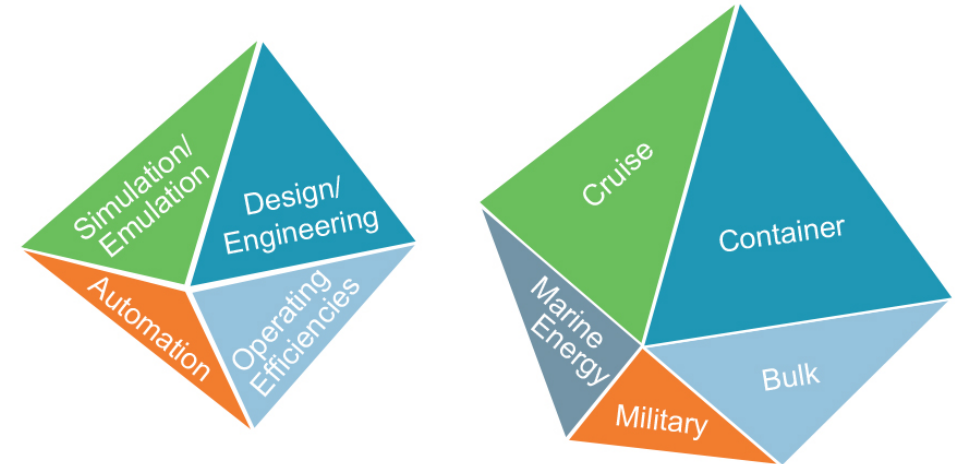
Who we serve



Commercial Advisory Services



Port Engineering / Design / Operations



Commentary and presentation materials are based on the personal views of the speaker and may not coincide with opinions held by Moffatt & Nichol or its employees

Agenda

1. You don't know where you're going until you know where you've been
2. We don't know what will happen in the future, but we know what may happen and therefore can plan for it
3. Ports are, and should be, champions of infrastructure development
4. Conclusion



You don't know where you're going until you know where you've been

Three broad themes discussed at the 2008 AAPA Shifting Trade Lanes conference in Tampa, FL

1. The weakening economic outlook
 - 60/40 chance of recession
 - Potential shock housing/sub-prime credit markets

2. The expected future opening of the Panama Canal
 - Favoring all-water route to US East Coast via Panama Canal
 - Increase in Caribbean transshipment

3. Capacity limits in Los Angeles & Long Beach lead to new gateways for U.S. cargo, especially in Mexico
 - Punta Colonet
 - Intermodal route from Lazaro Cardenas to U.S.

How well did our predictions pan out?

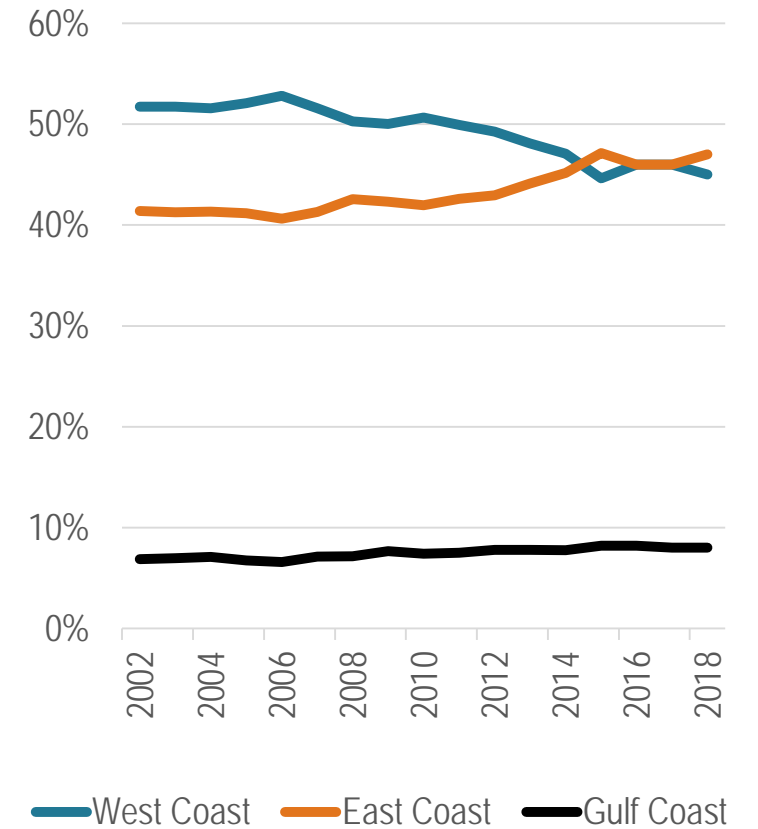
GREAT FINANCIAL CRISIS (GFC)



PANAMA CANAL EXPANDS

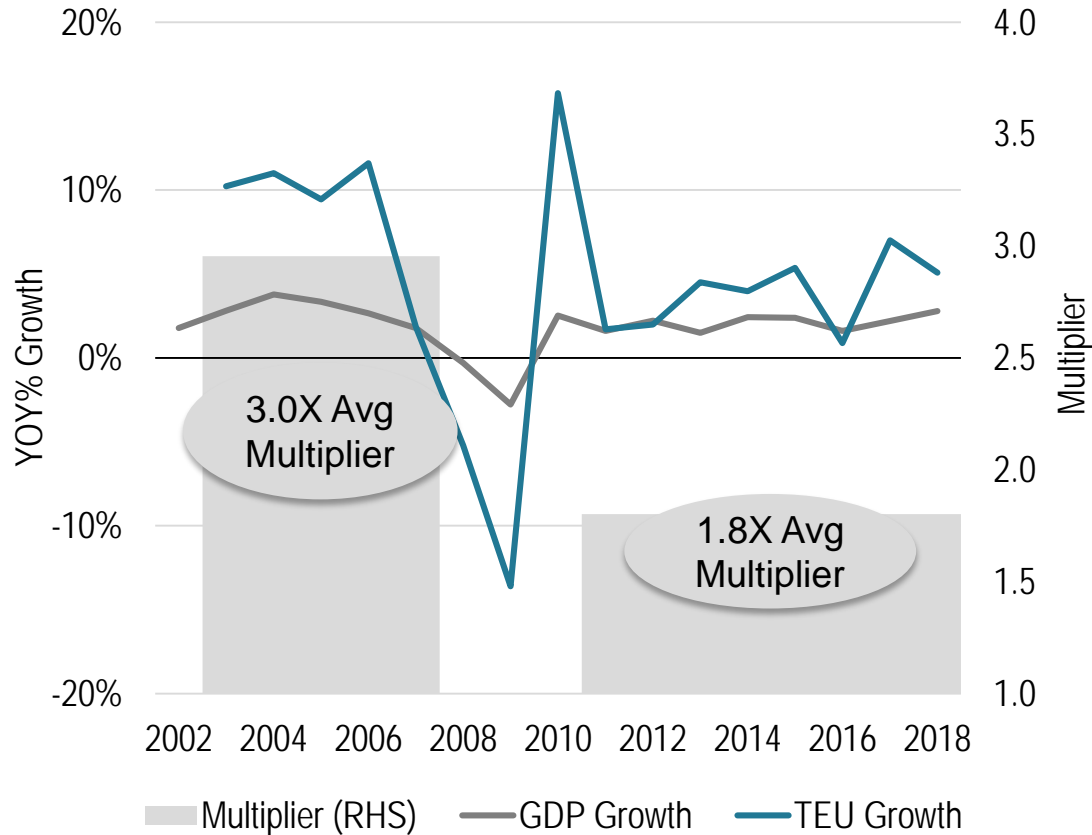


U.S. EAST COAST GAINS SHARE



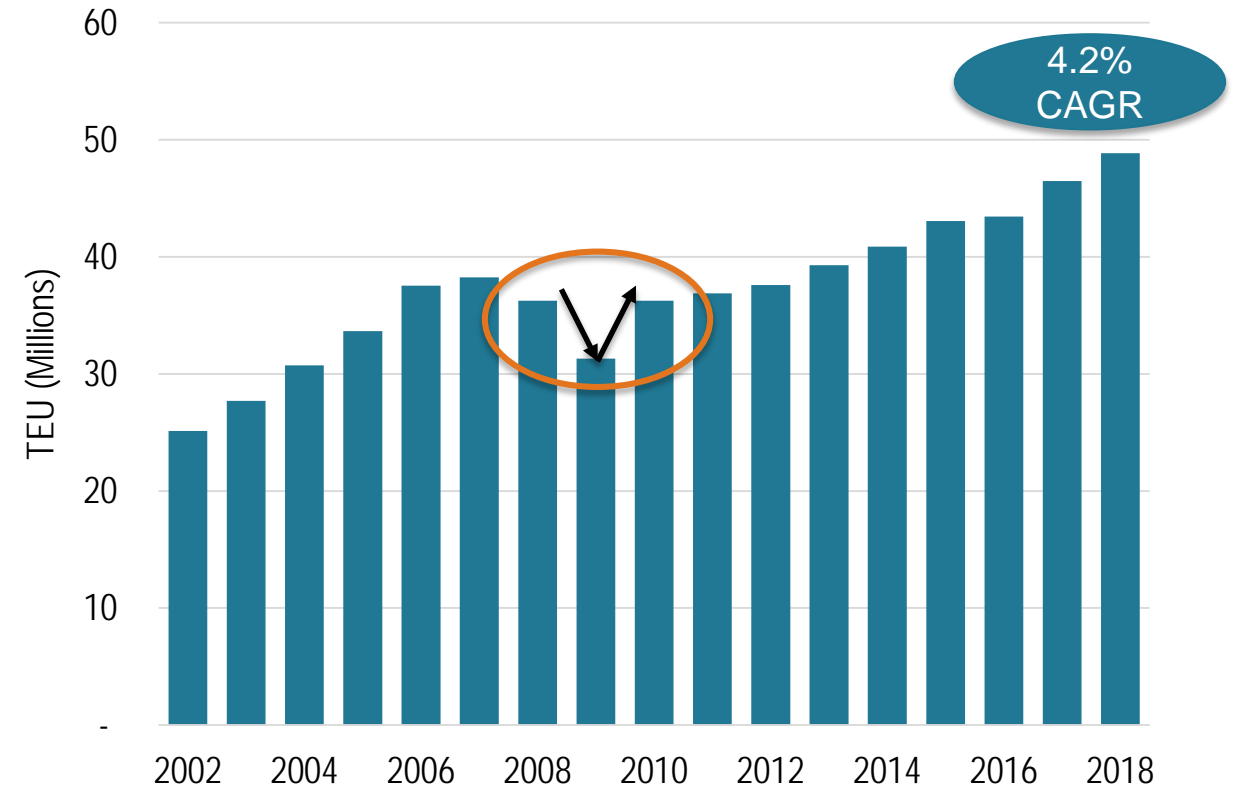
US container trade growth continues to outpace overall economic growth at roughly 1.8X GDP

U.S. CONTAINER TRADE GROWTH & GDP



Source: AAPA; MN

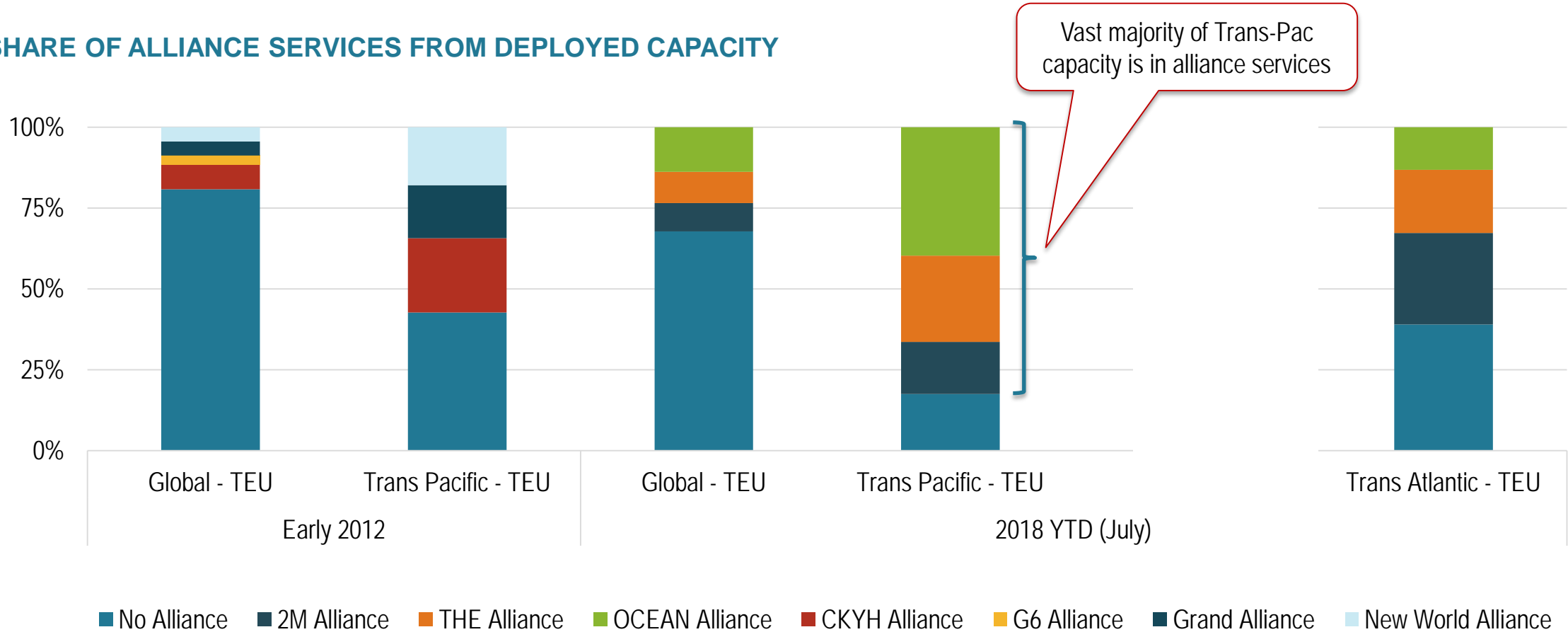
U.S. TOTAL CONTAINER TRADE (2002 – 2018)



Source: AAPA; MN

Alliances dominate the Transpacific trade lane, less so on Transatlantic

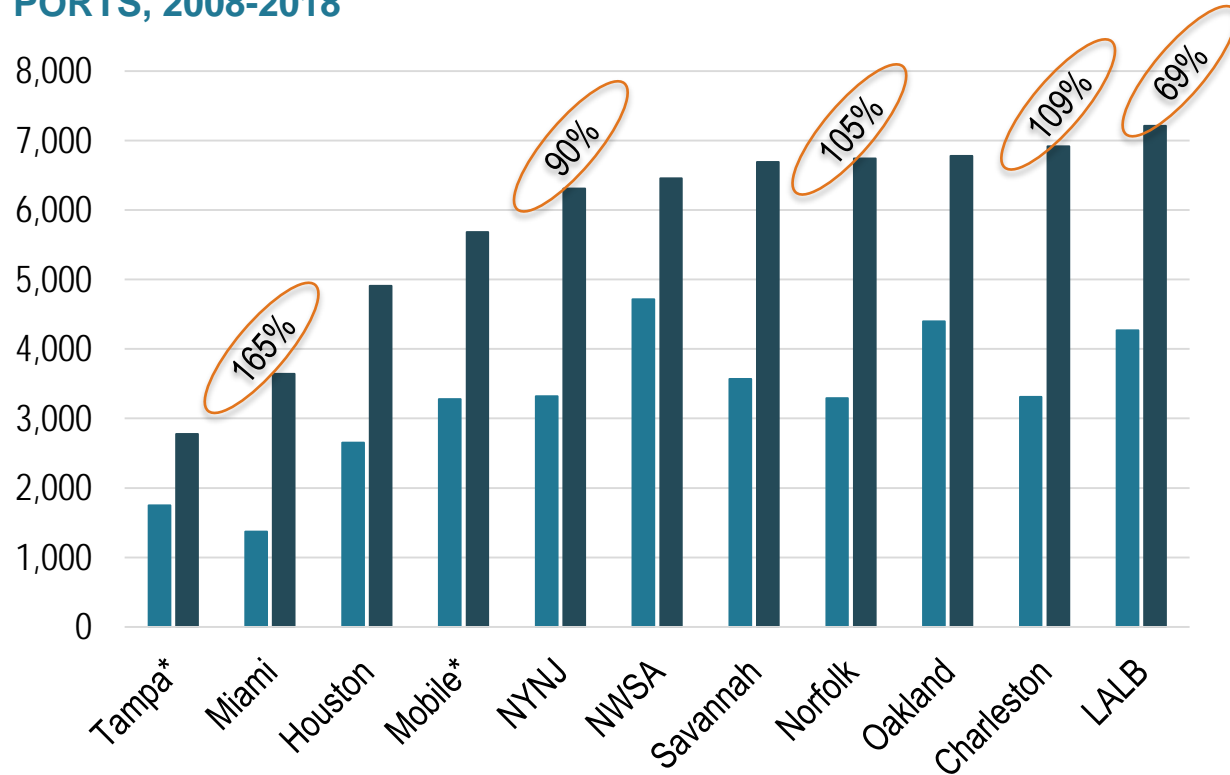
SHARE OF ALLIANCE SERVICES FROM DEPLOYED CAPACITY



Source: Bluewater

Average vessel sizes have increased on the order of 50-100% over the past decade

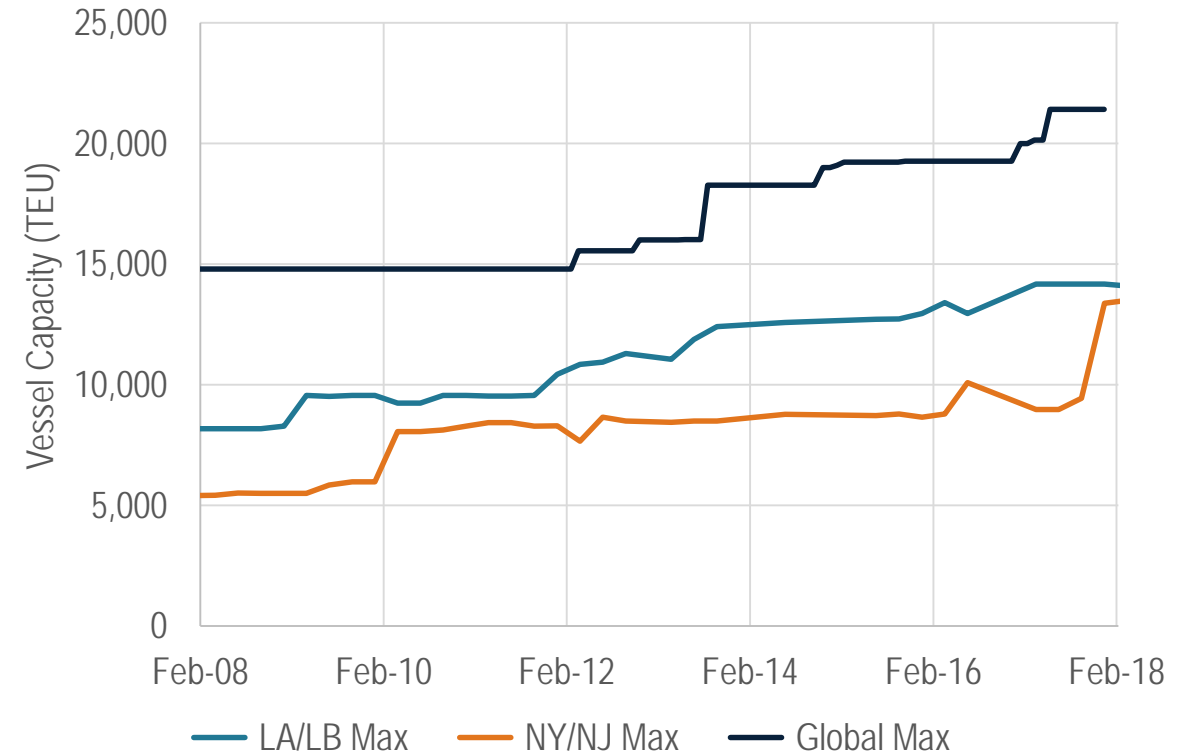
AVERAGE VESSEL SIZE (TEU) AT SELECT U.S. CONTAINER PORTS, 2008-2018



*Mobile 2012-2018

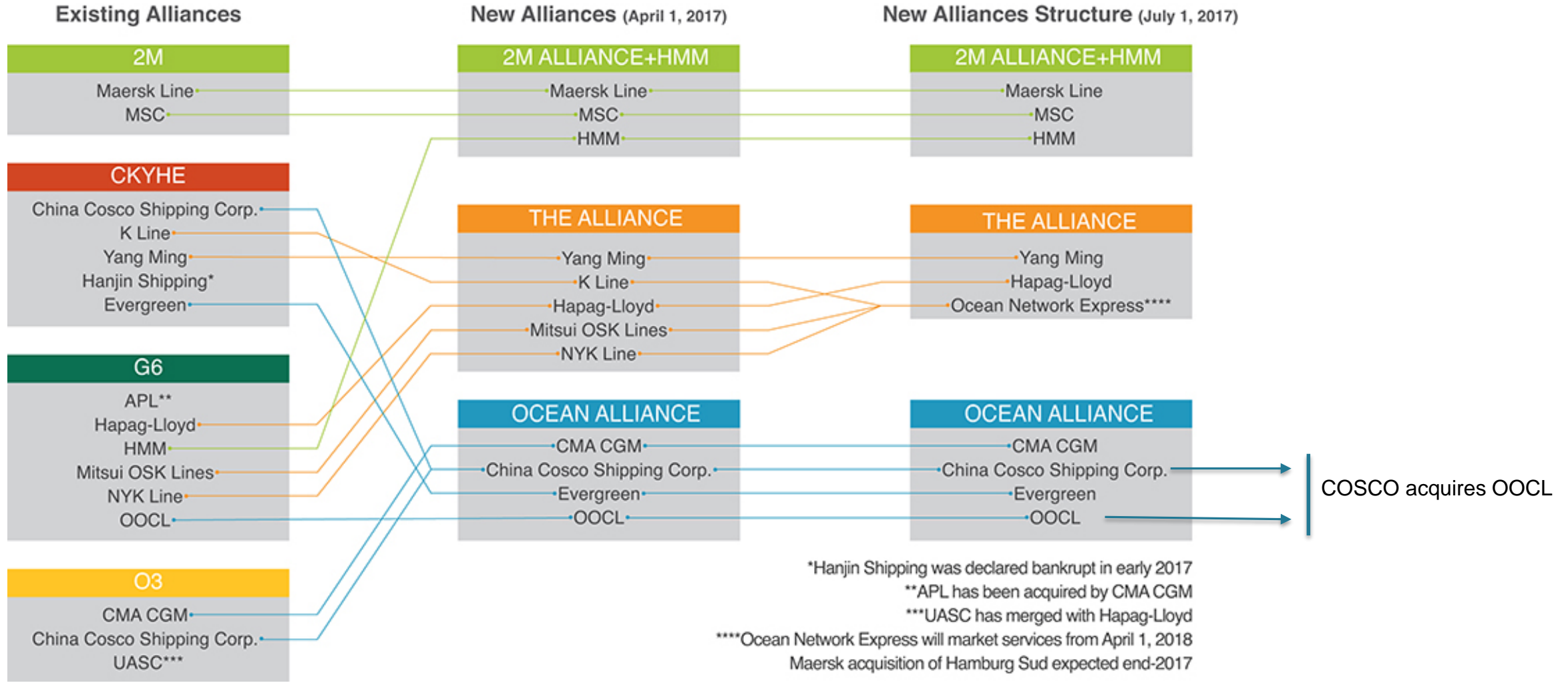
*Tampa 2012-expected average following COSCO service deployment

MAXIMUM VESSEL SIZE DEPLOYMENT BY PORT



Source: COMPAIR

Liner Consolidation and Alliances

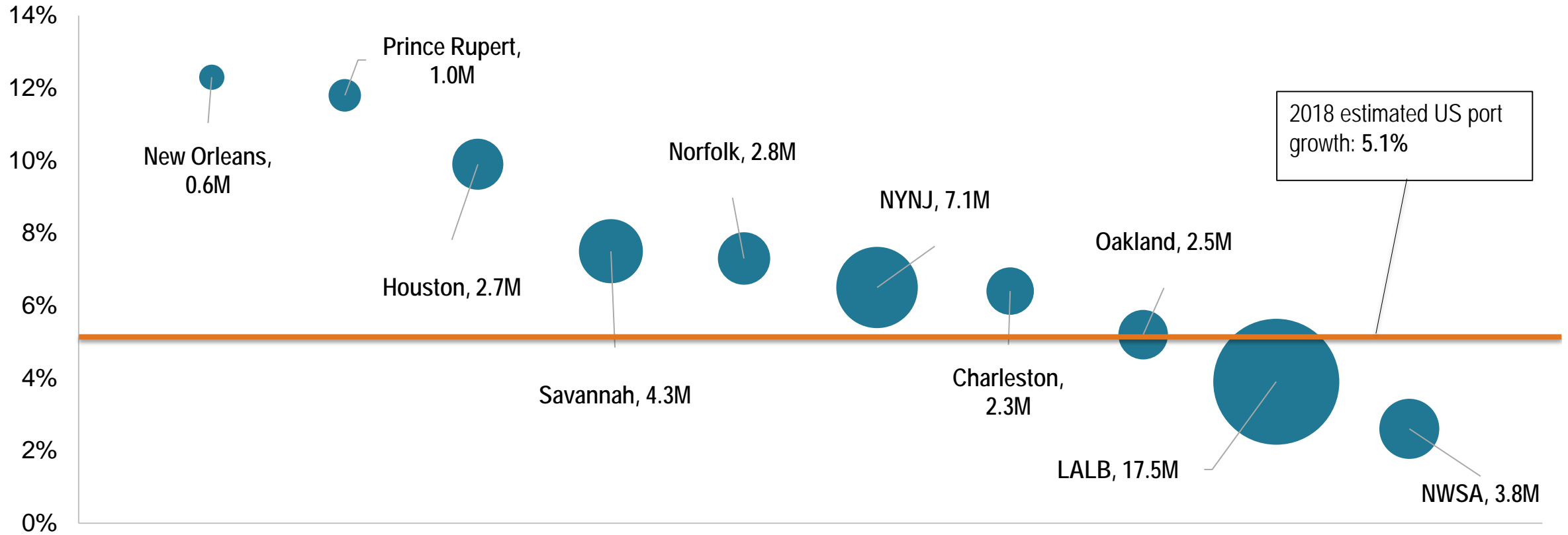


Consolidation trickling down to terminals and port authorities



Strong container growth at many North American ports

2018 TEU volume (in millions) and year-on-year growth rate for selected ports



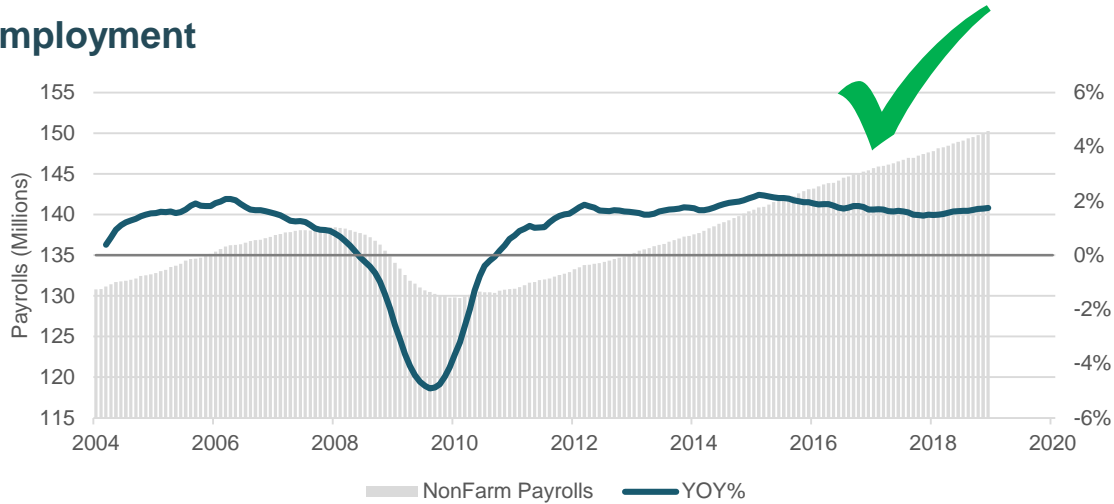
Source: MN estimates, port authority websites



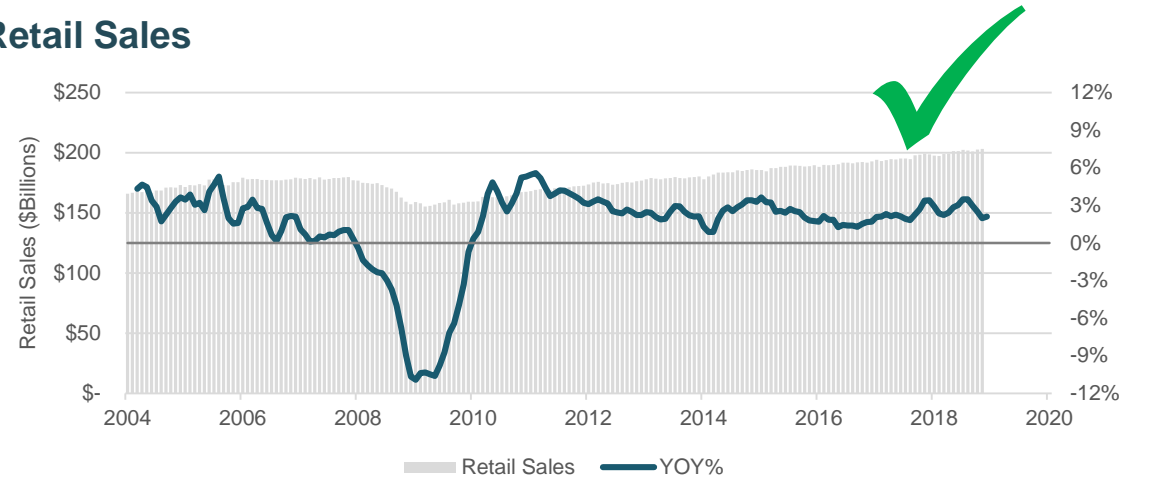
We don't know what will happen in the future, but we know what *may* happen and therefore can plan for it

In the U.S., economic fundamentals look ok for now, but headwinds exist and policy uncertainty looms over the near term

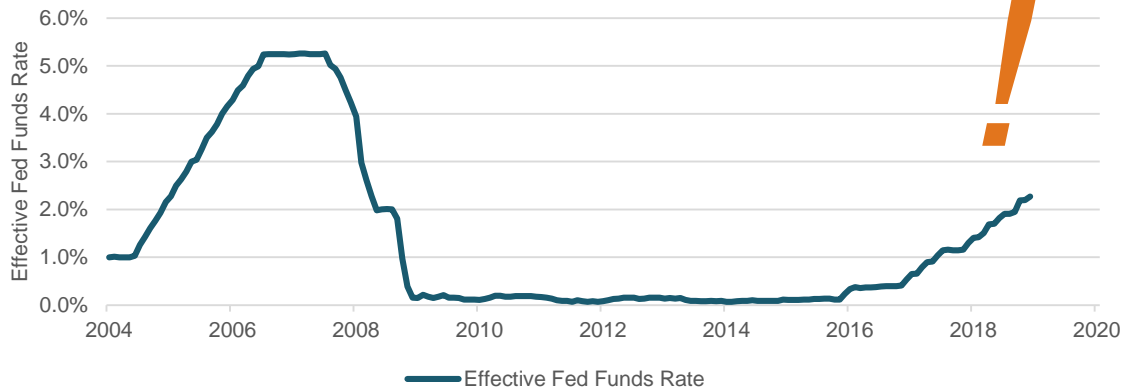
Employment



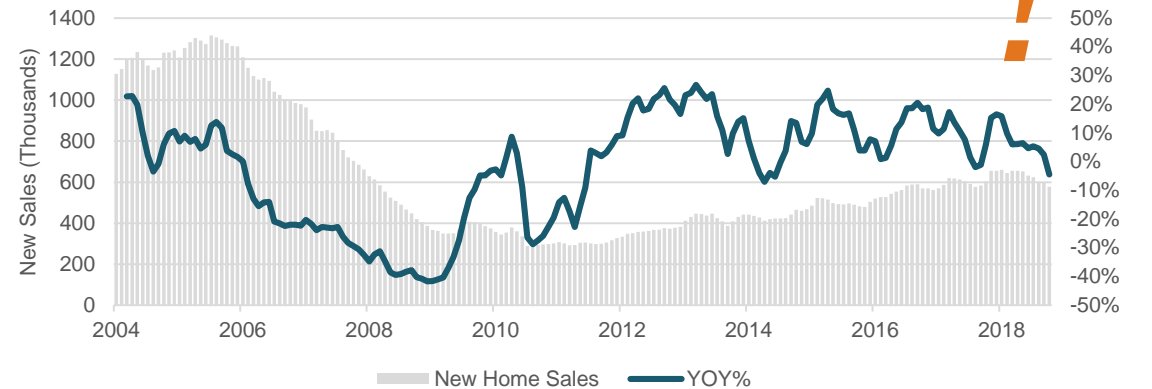
Retail Sales



Fed Funds Rate

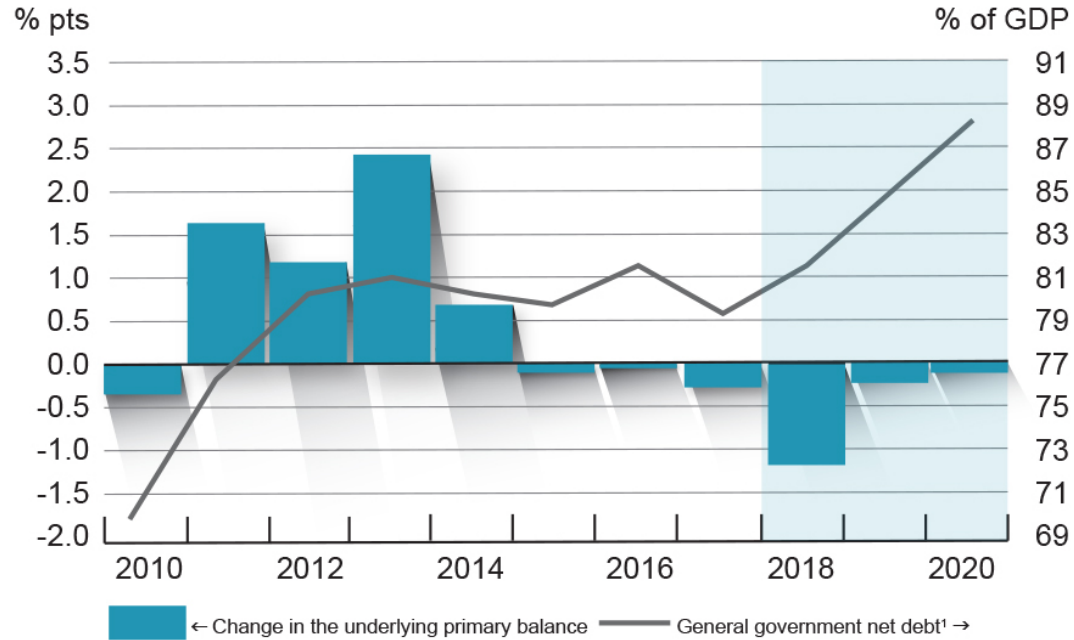


New Home Sales

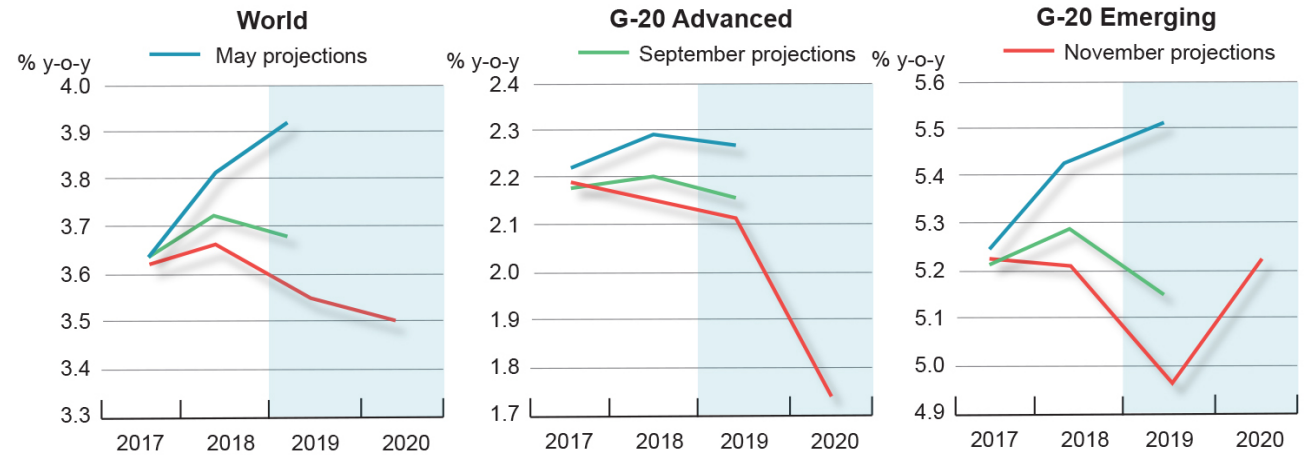


Fewer levers left to manage the next recession; global growth slowing

THE US BUDGET DEFICIT IS INCREASING



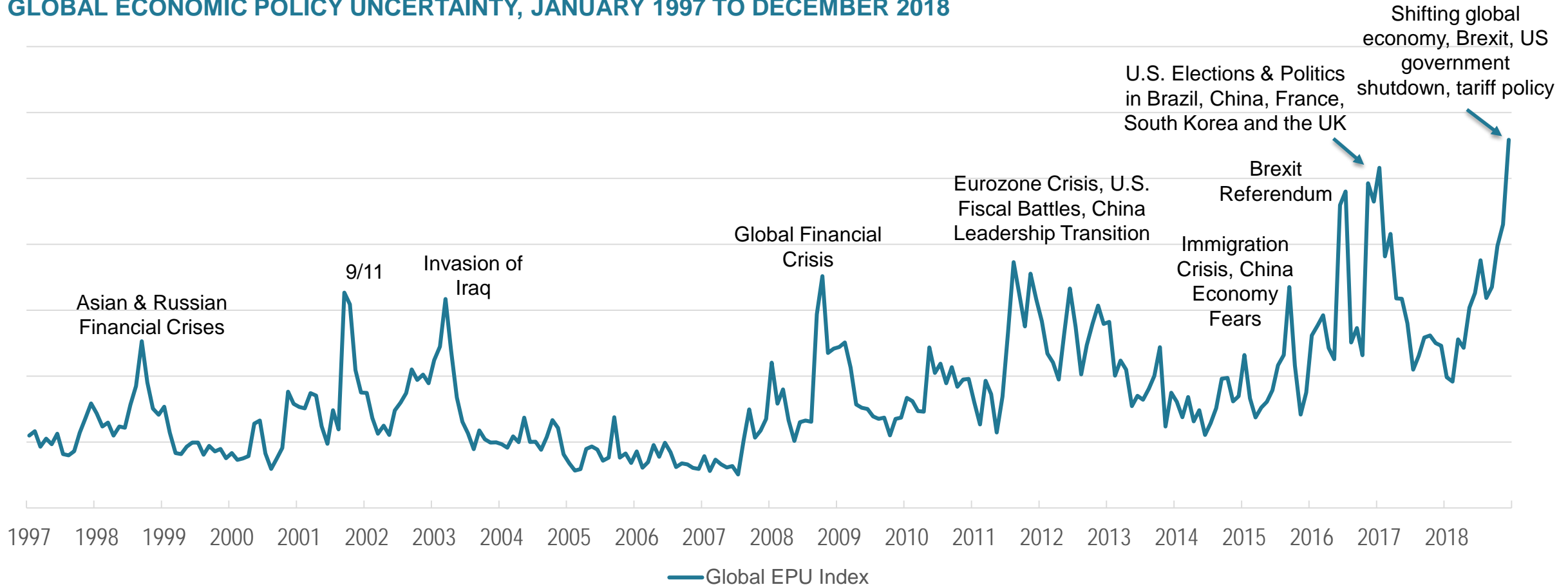
OECD: GLOBAL GDP GROWTH IS LOSING MOMENTUM



OECD Economic Outlook, 21 November 2018

There is a lot of near-term uncertainty, but infrastructure is long-term

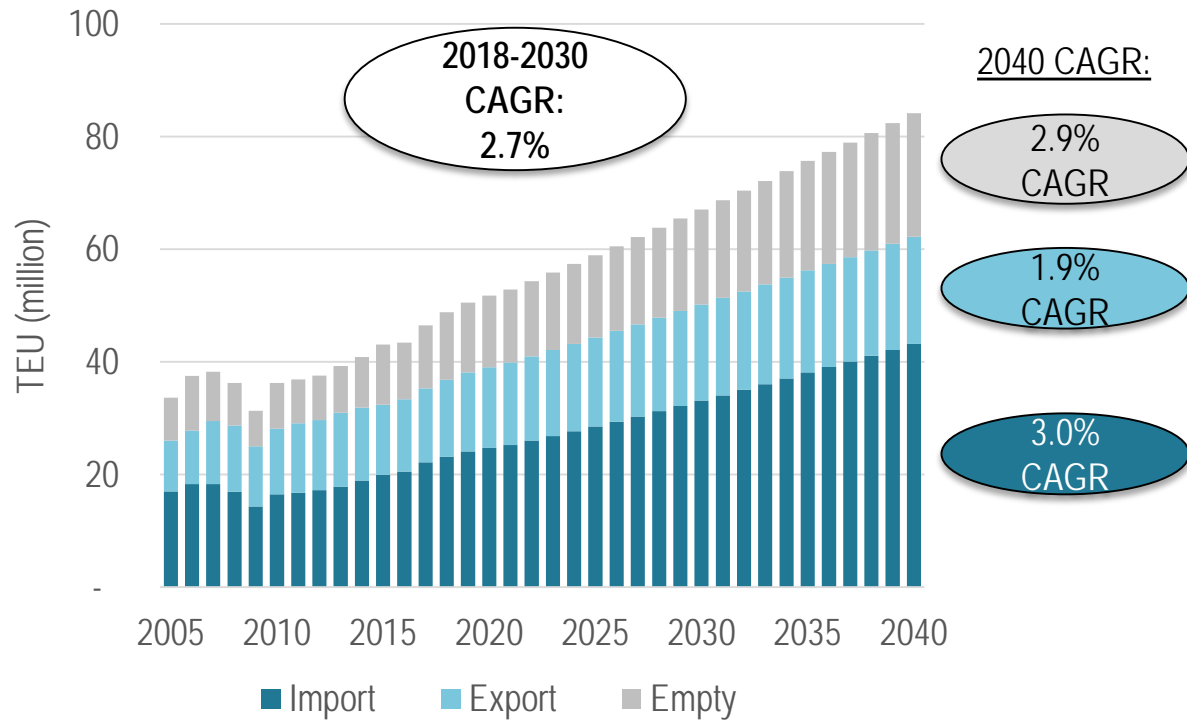
GLOBAL ECONOMIC POLICY UNCERTAINTY, JANUARY 1997 TO DECEMBER 2018



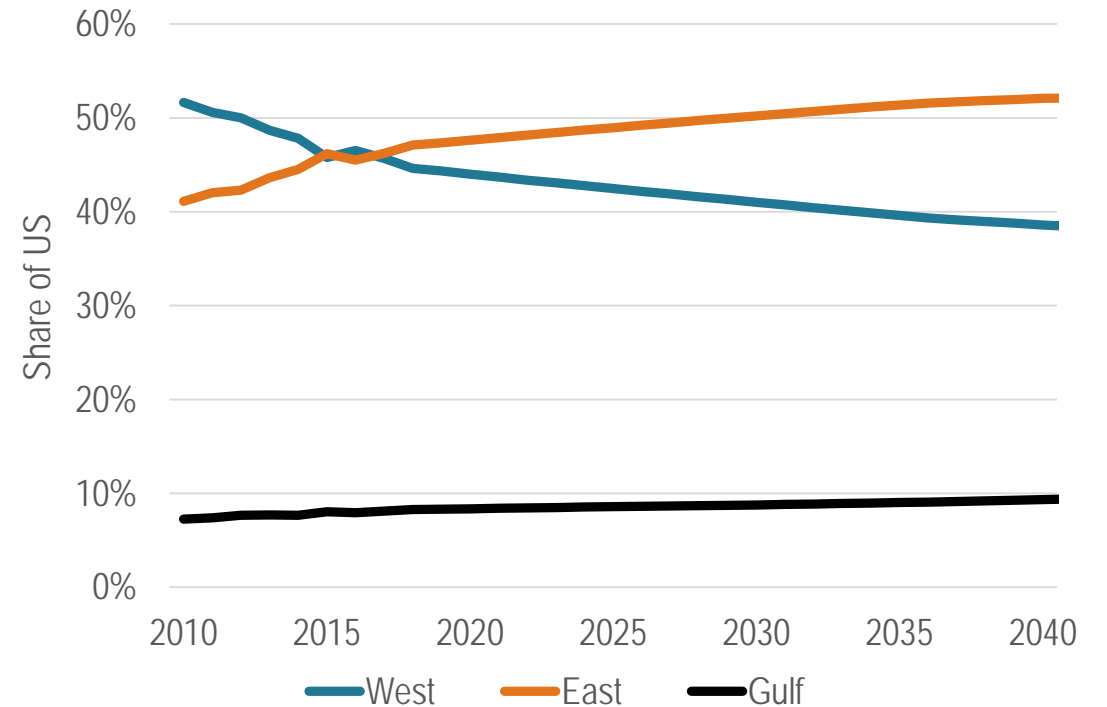
Source: PolicyUncertainty.com; Baker, Bloom and Davis

US Containerized Volume Growth Projections

US CONTAINER GROWTH PROJECTIONS



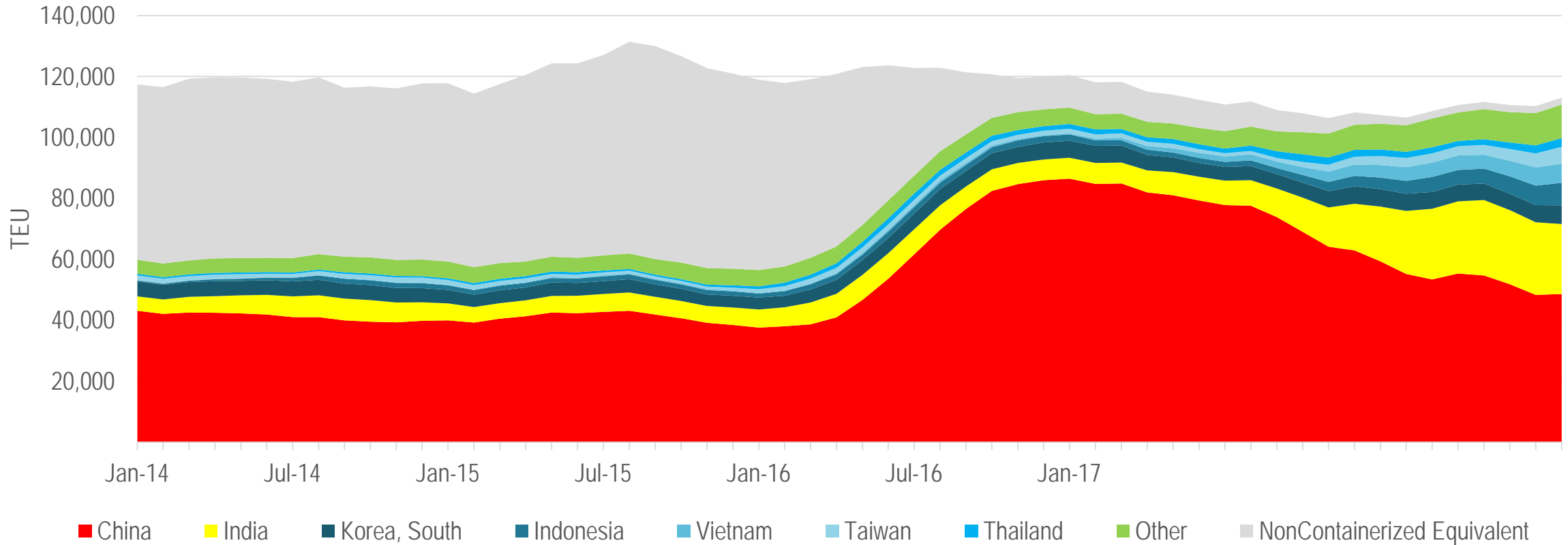
MARKET SHARE PROJECTIONS BY COAST



Several factors have the potential to alter our planning for trade lane growth

China's effort to reduce waste imports is shifting US waste paper export trading partners

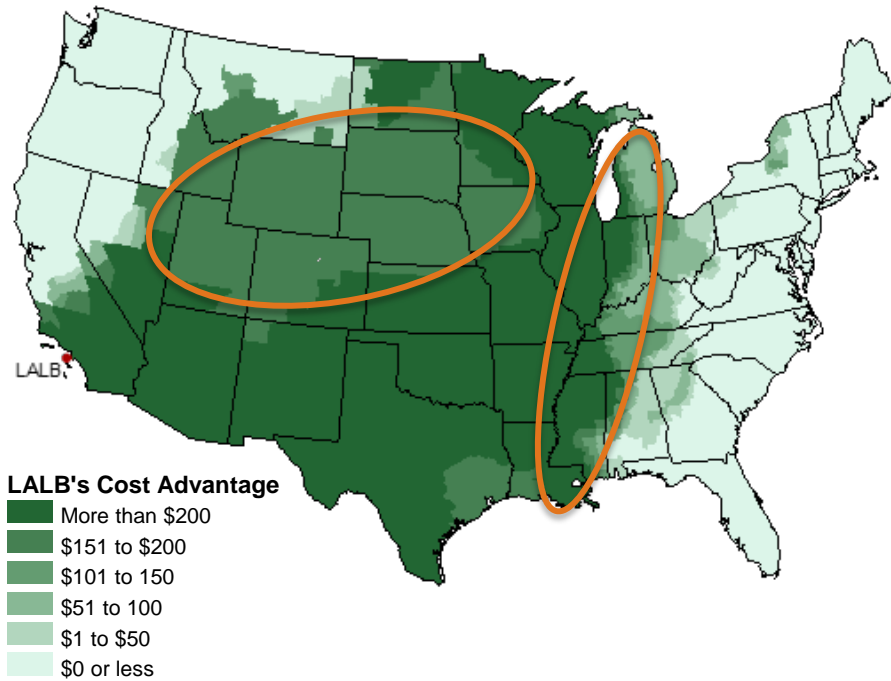
EXPORTS OF US WASTE PAPER (6-MONTH MOVING AVERAGE)



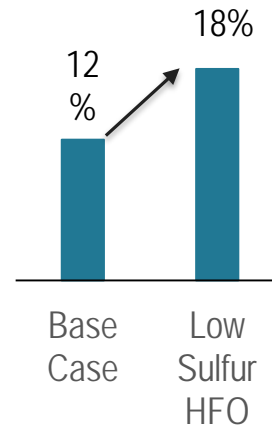
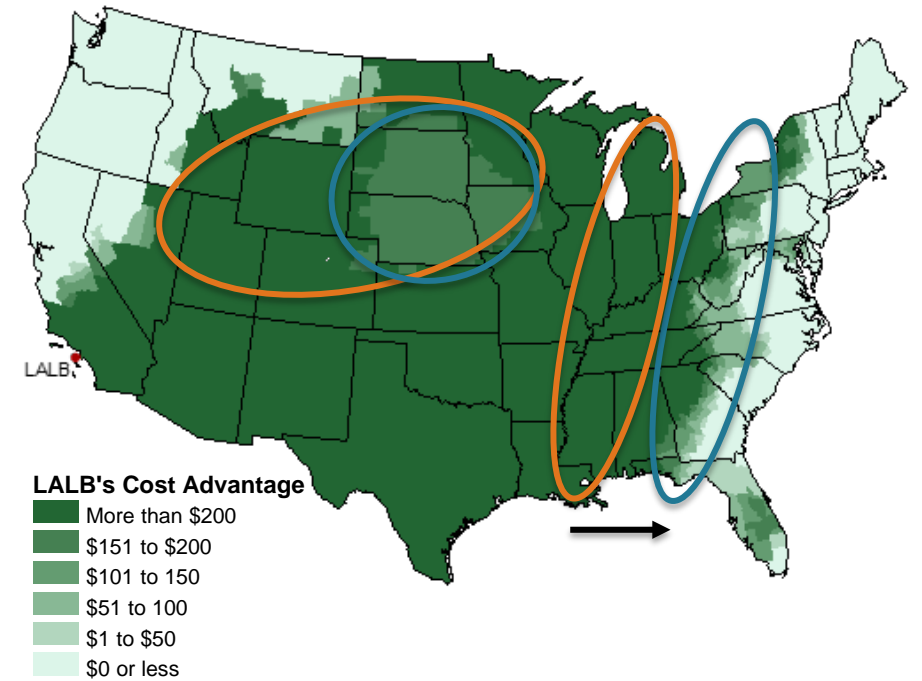
Source: US Trade Online

IMO 2020 could (temporarily?) shift up to 1.2 million TEU of discretionary cargo to the West Coast

LALB – NORTH ASIAN IMPORTS – BASE CASE



LALB – NORTH ASIAN IMPORTS – LOW SULFUR HFO

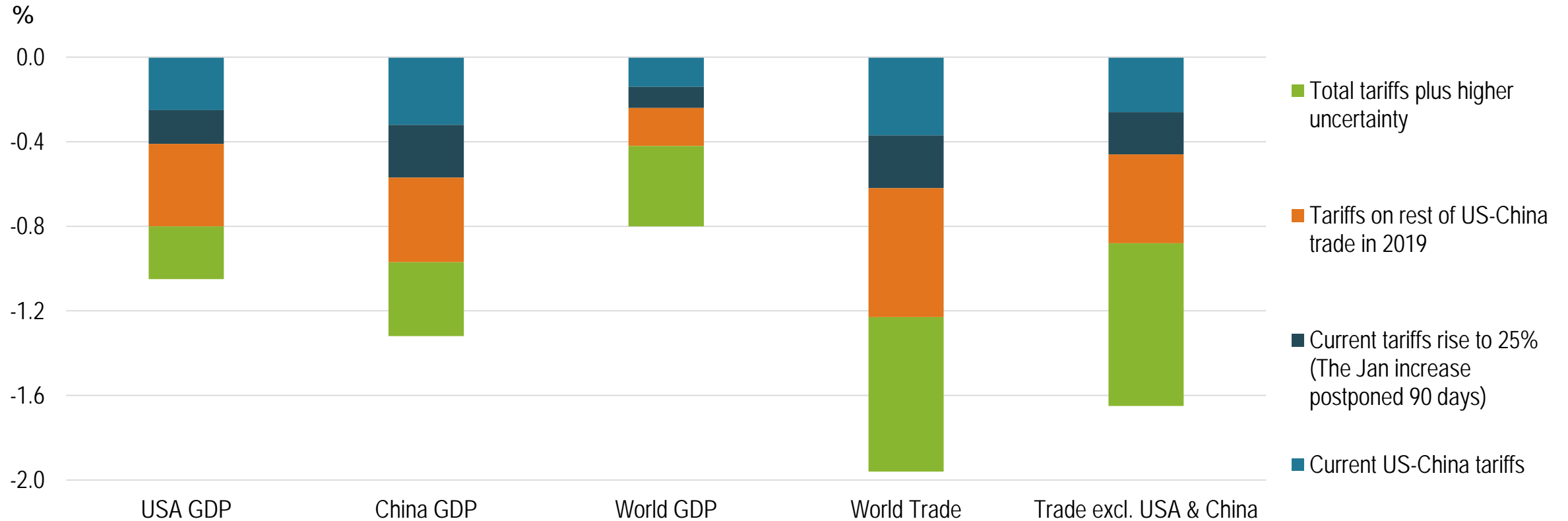


Source: MN

Cost Advantage of LALB over NYNJ for North Asian Import destined for Chicago

US – China tariff hikes would slow GDP growth

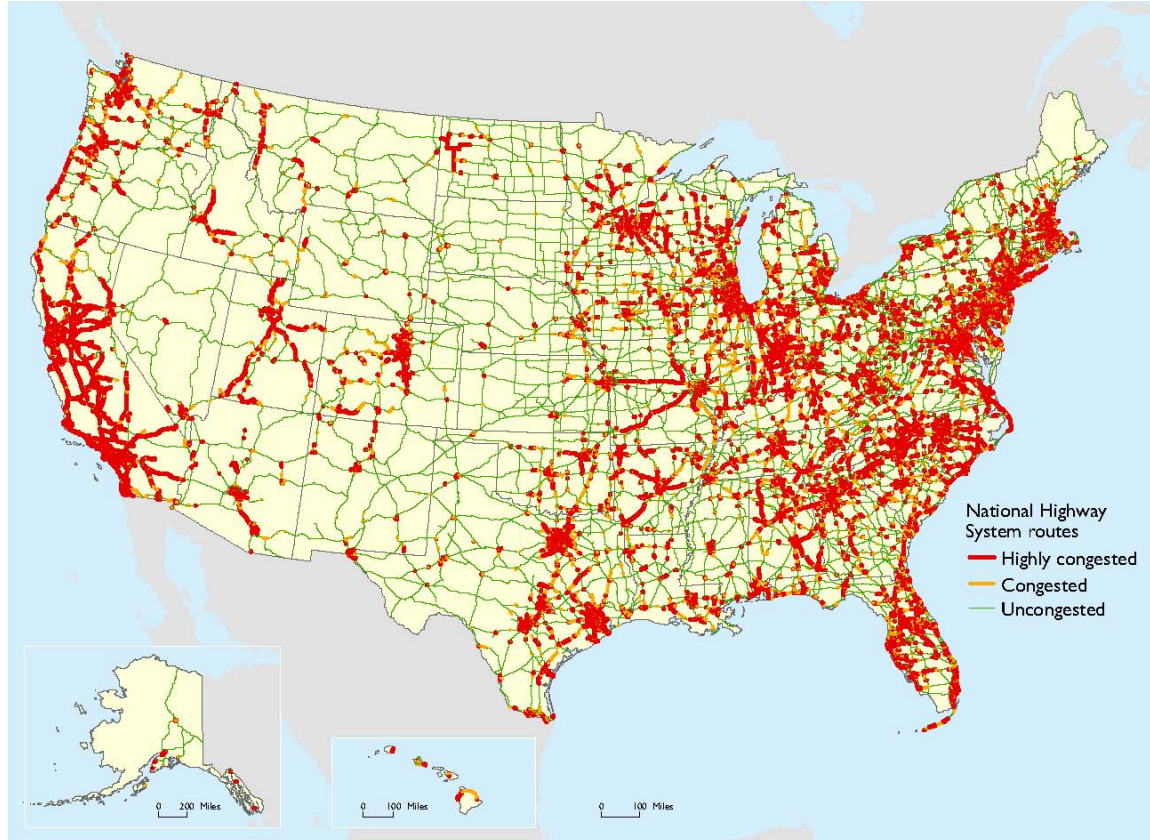
IMPACT ON GDP AND TRADE BY 2021, PERCENT DIFFERENCE FROM BASELINE



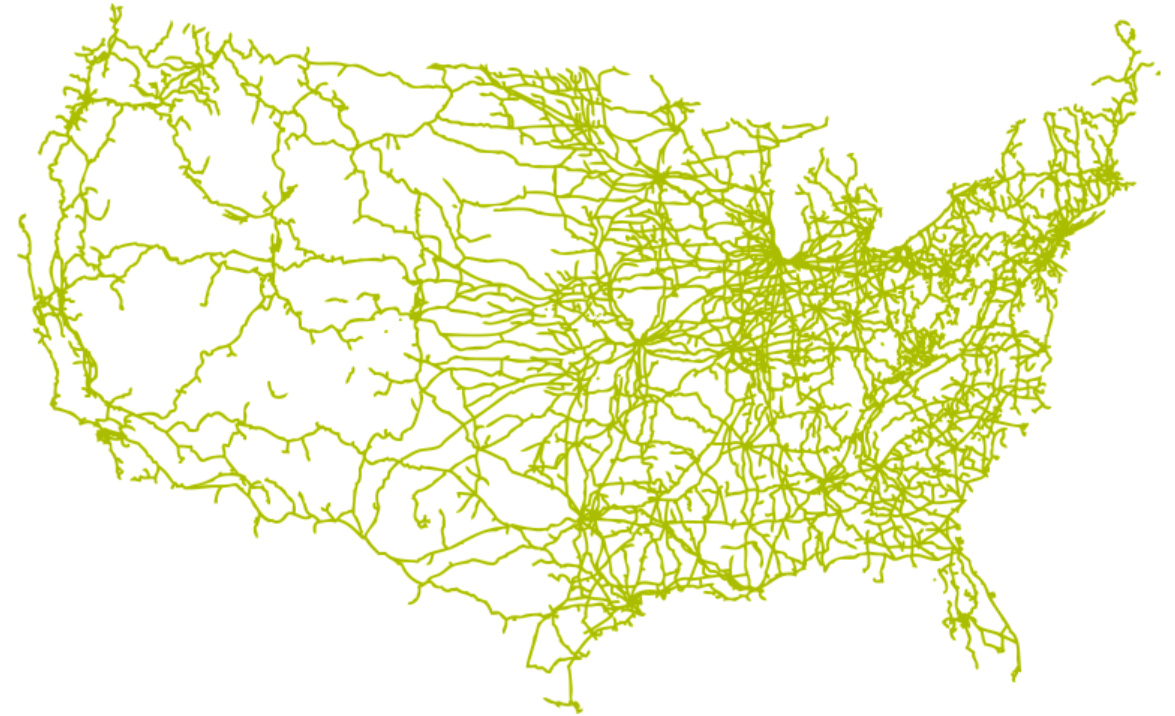
Source: OECD

Conflicting trends and a diversity of business strategies for serving inland markets

HIGHLY CONGESTED HIGHWAYS, 2045



PRECISION RAILROADING



Source: USDOT, Bureau of Transportation Statistics, 2017



Ports are, and should be, champions of infrastructure development

Smart infrastructure investment precedes, follows and facilitates trade growth

SAVANNAH, GA: MASON MEGA RAIL 2020



Source: GPA / Stephen A. Morton

Smart infrastructure investment precedes, follows and facilitates trade growth

TAMPA, FL: MASTER PLAN: VISION 2030



Source: Port Tampa Bay



Conclusion

Major Themes

1. US economy strong but showing signs of weakness; Global growth slowing
2. Near-term uncertainty over major economic policies, including trade policy
3. IMO 2020 has potential to cause short-term congestion challenges in West Coast
4. Longer-term macro fundamentals favor continuation of slow shift to East and Gulf Coasts, provided proper planning
5. Landside connectivity is an evolving challenge
6. Efficient freight networks require multiple entities working together
7. Infrastructure needs a champion: port authorities are that champion

THANK YOU

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