



Major Issues and Trends Facing the Port and Marine Transportation Industry

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Management Training Program
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Agenda

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- **Global issues and trends affecting the world and U.S. economic outlooks**
 - **What about China?**
 - **Implications for sea trade in the U.S.**
 - **Conclusions**

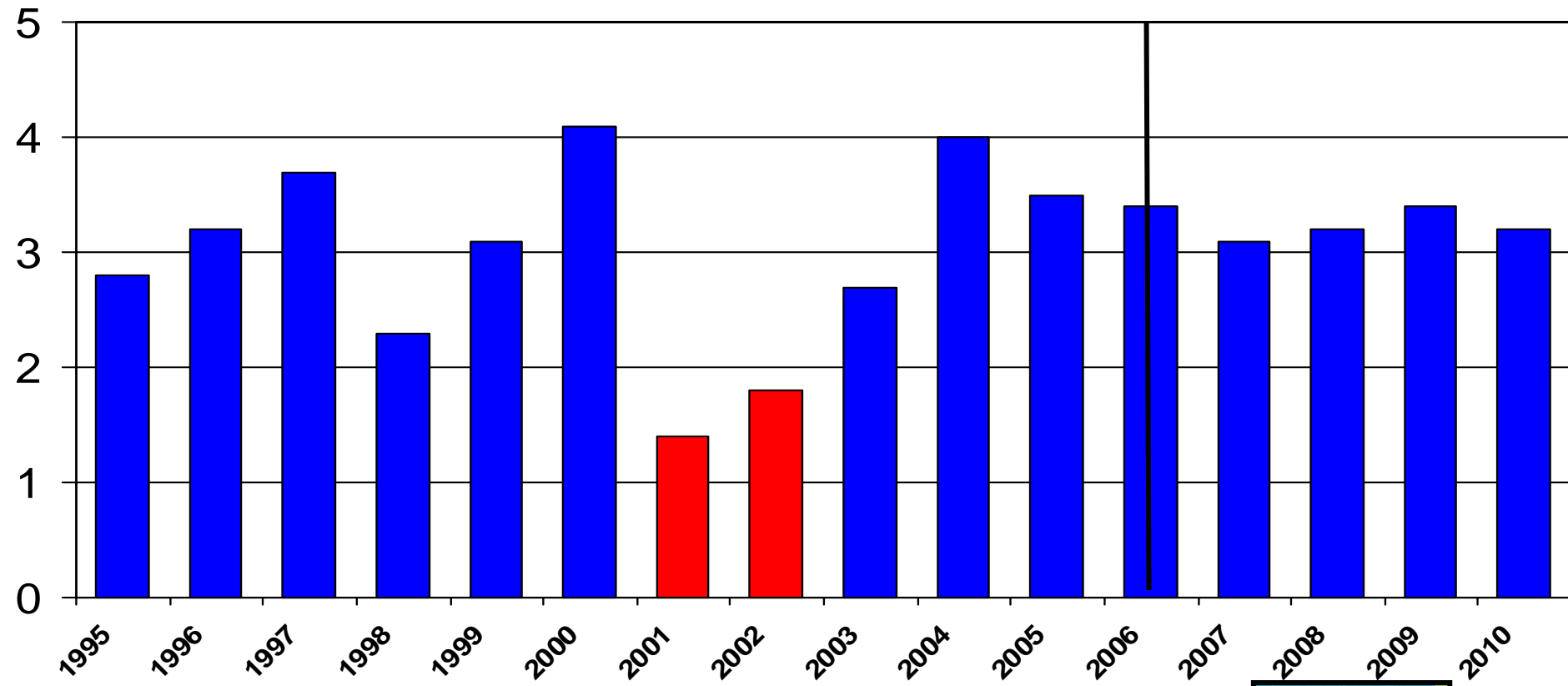
Key Global Issues and Trends

- **Will higher oil prices derail the recovery?** **NO - Not at \$70-75**
- **Will the dollar crash?** **NO, but . . .**
- **China: Hard or soft landing?** **SOFT**
- **New and important players?** **YES, A FEW . . .**

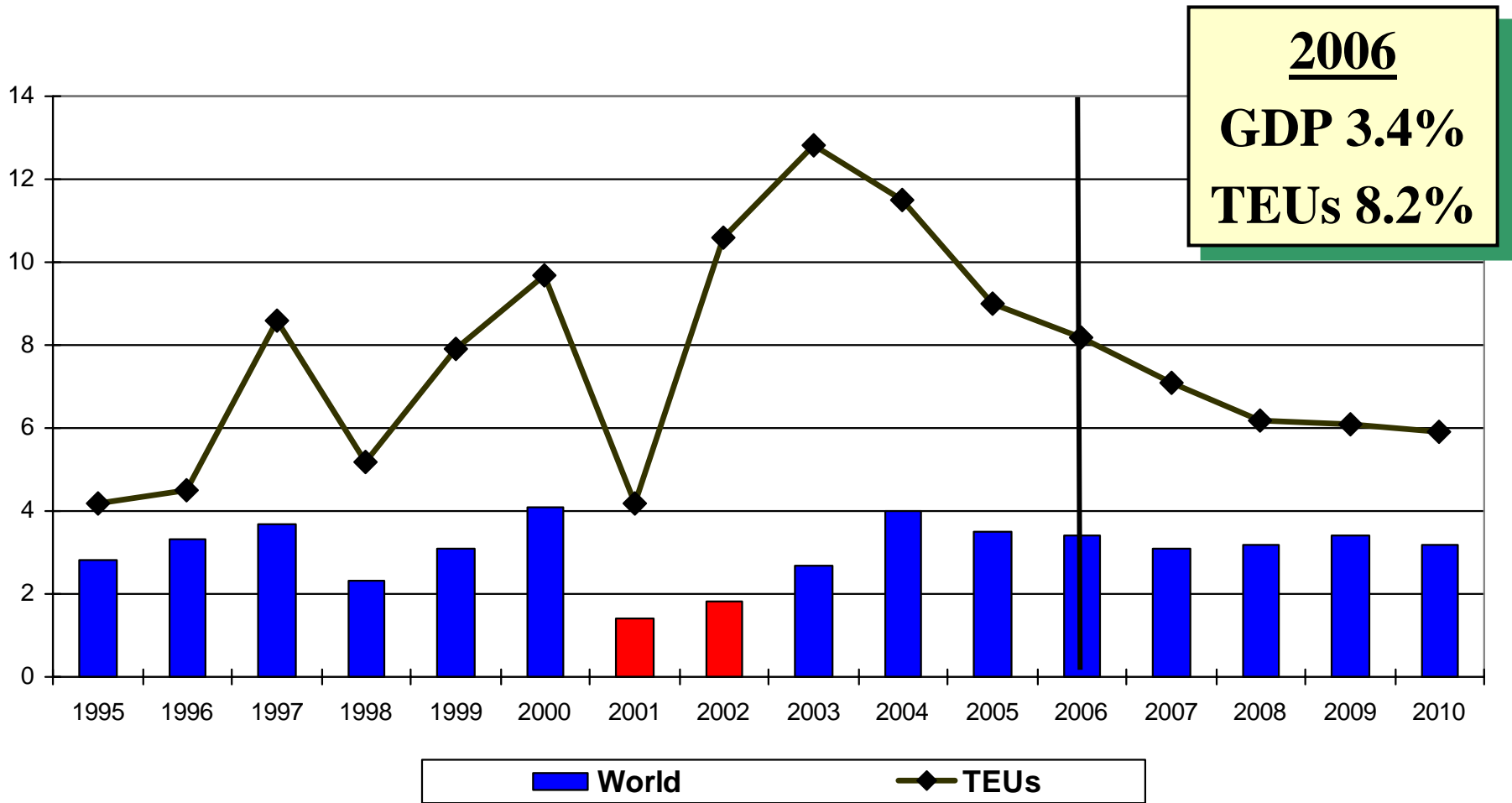
Has world economic growth peaked? - - - yes, but...

The world economy is in recession when real GDP growth is below 2%.

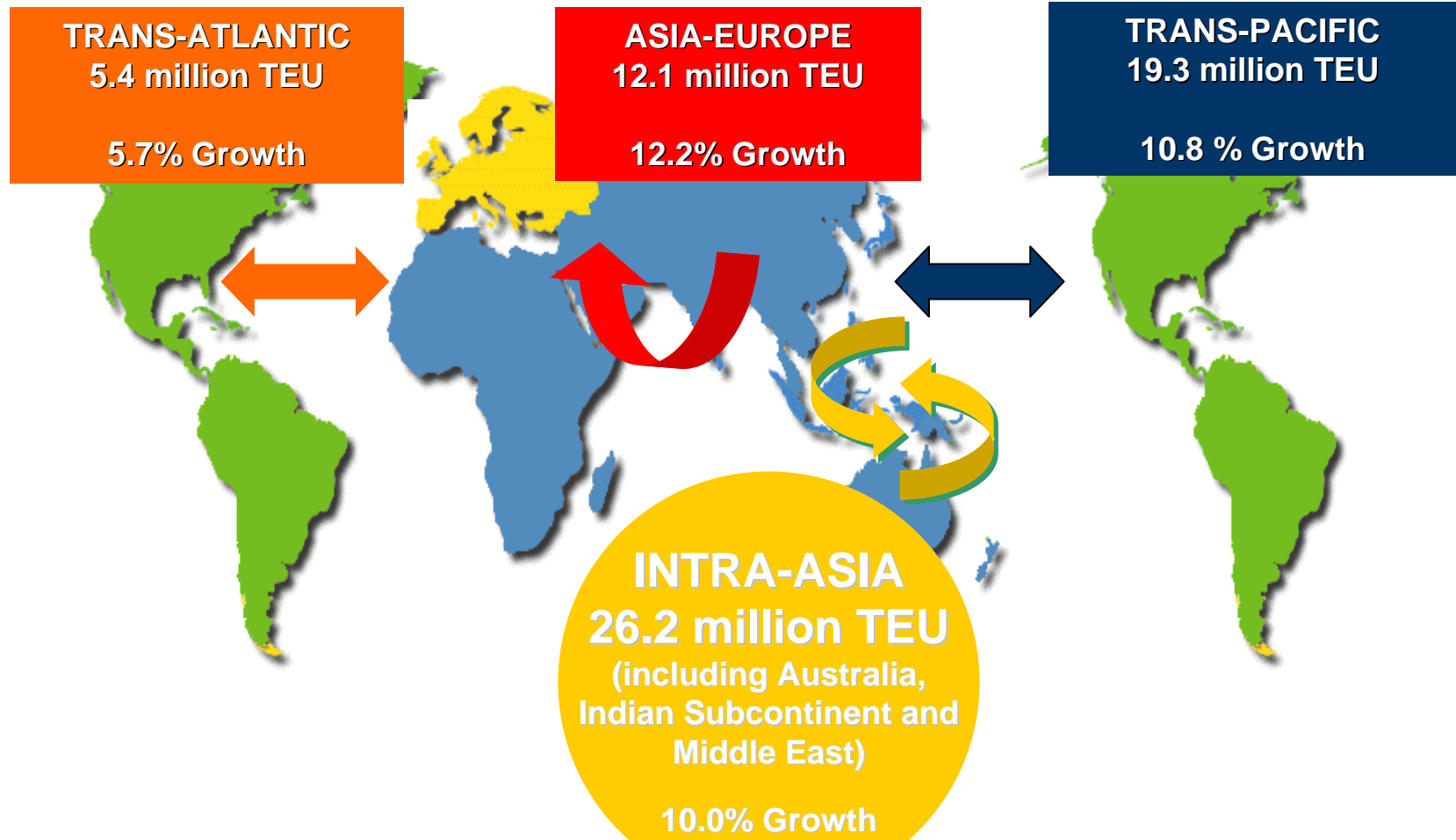
(Percent change, real GDP)



Container trade normally grows faster than the world economy. This year should be very healthy.

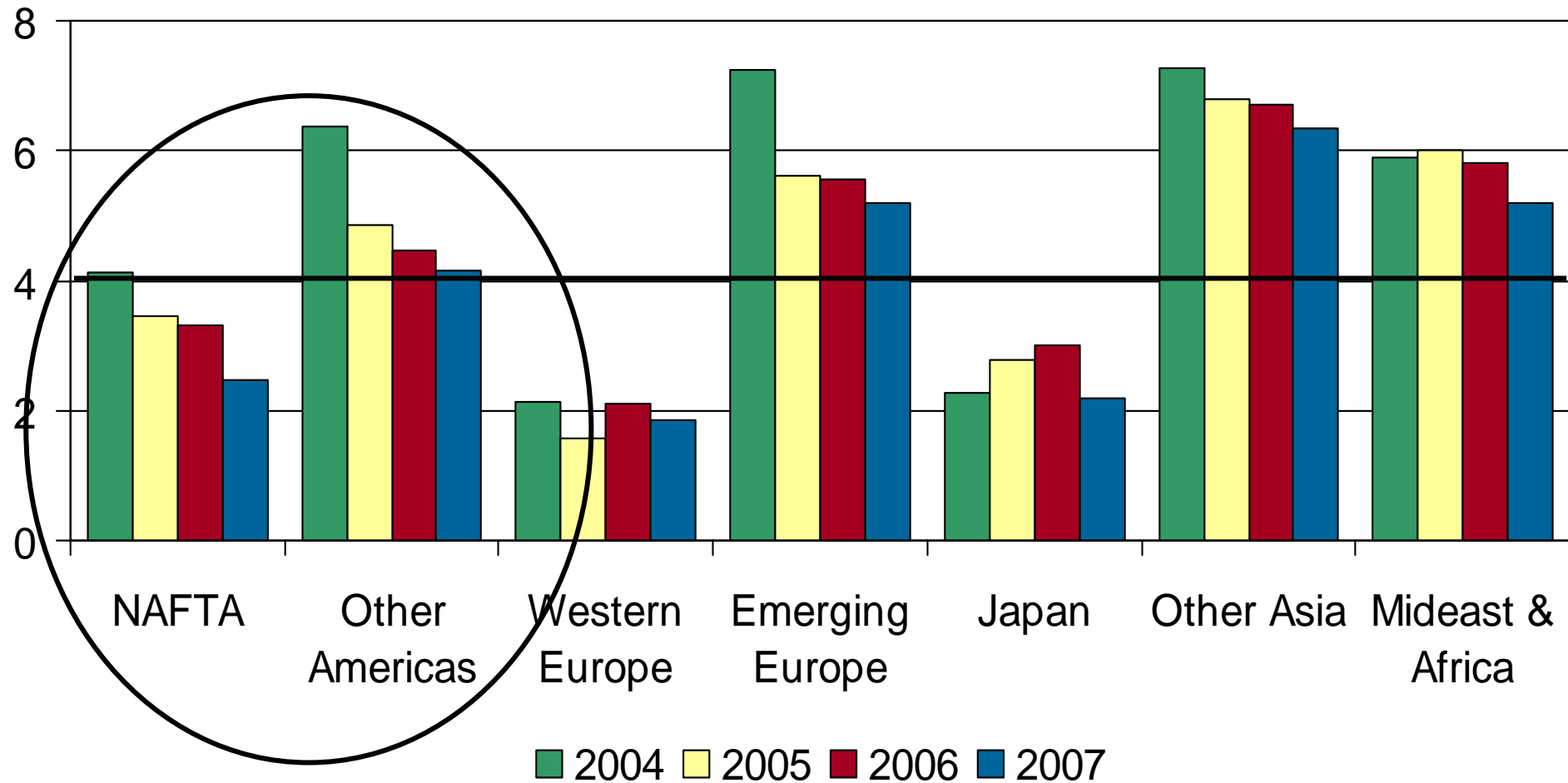


Asia is 2/3 of global container trade.



World Container Trade Flow 2005 E-W = 43% Intra Asia = 31%

Real GDP Growth Is Uneven Across the World – and emerging markets grow fastest.

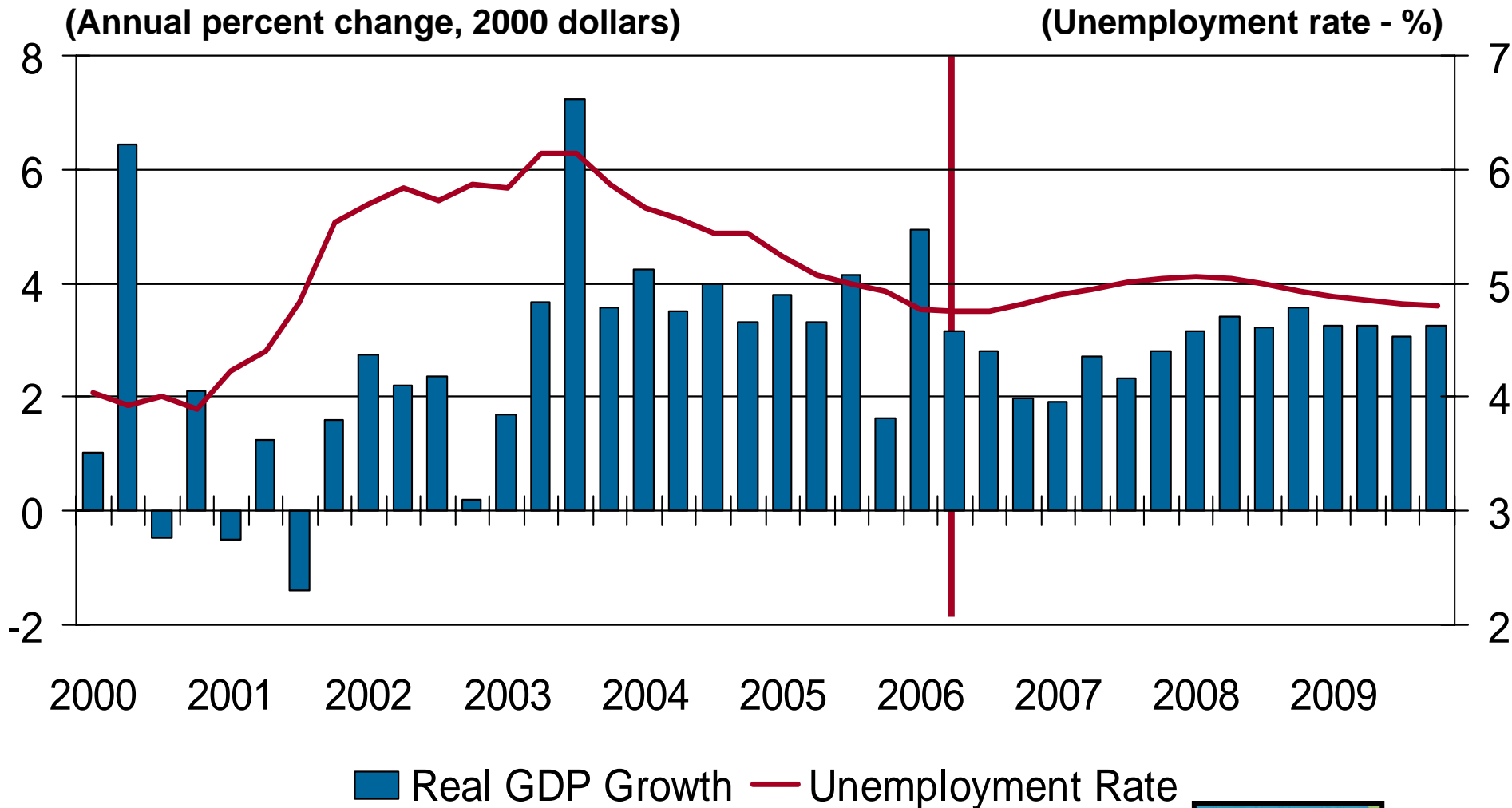


The U.S. expansion is entering a new phase.

- **The U.S. economy has strong momentum entering 2006.**
 - **4.8% in the first quarter**
- **Business investment is now leading the expansion, supported by record profits and global market growth.**
- **Further dollar depreciation is expected, boosting exports.**
- **Home sales and construction will decline as affordability deteriorates; hurricane rebuilding will cushion the fall.**
- **Consumer spending growth will slow in response to higher interest rates and a cooling housing market.**

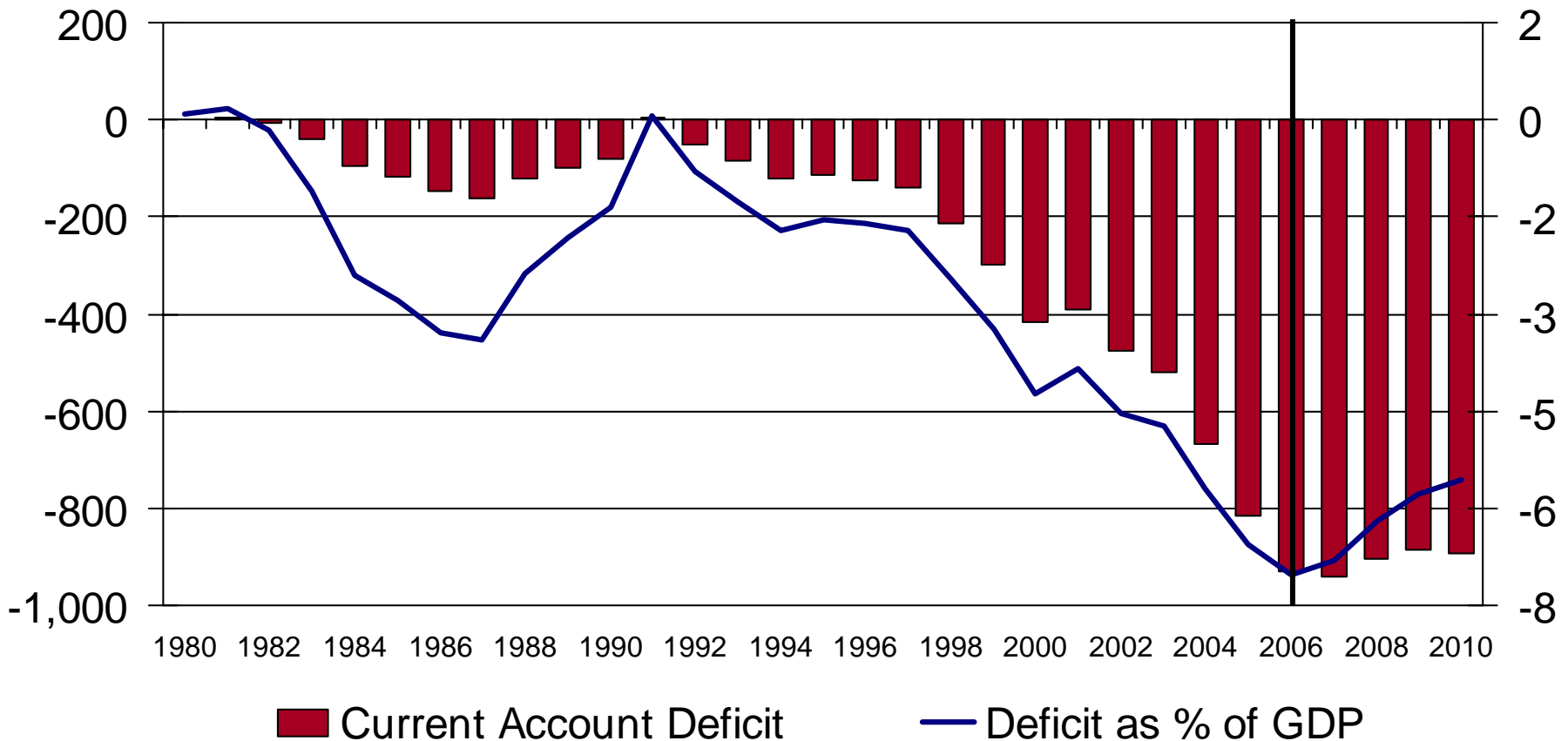
A Fast Start and A Slow Finish in 2006

The U.S. Economic Expansion Will Slow.

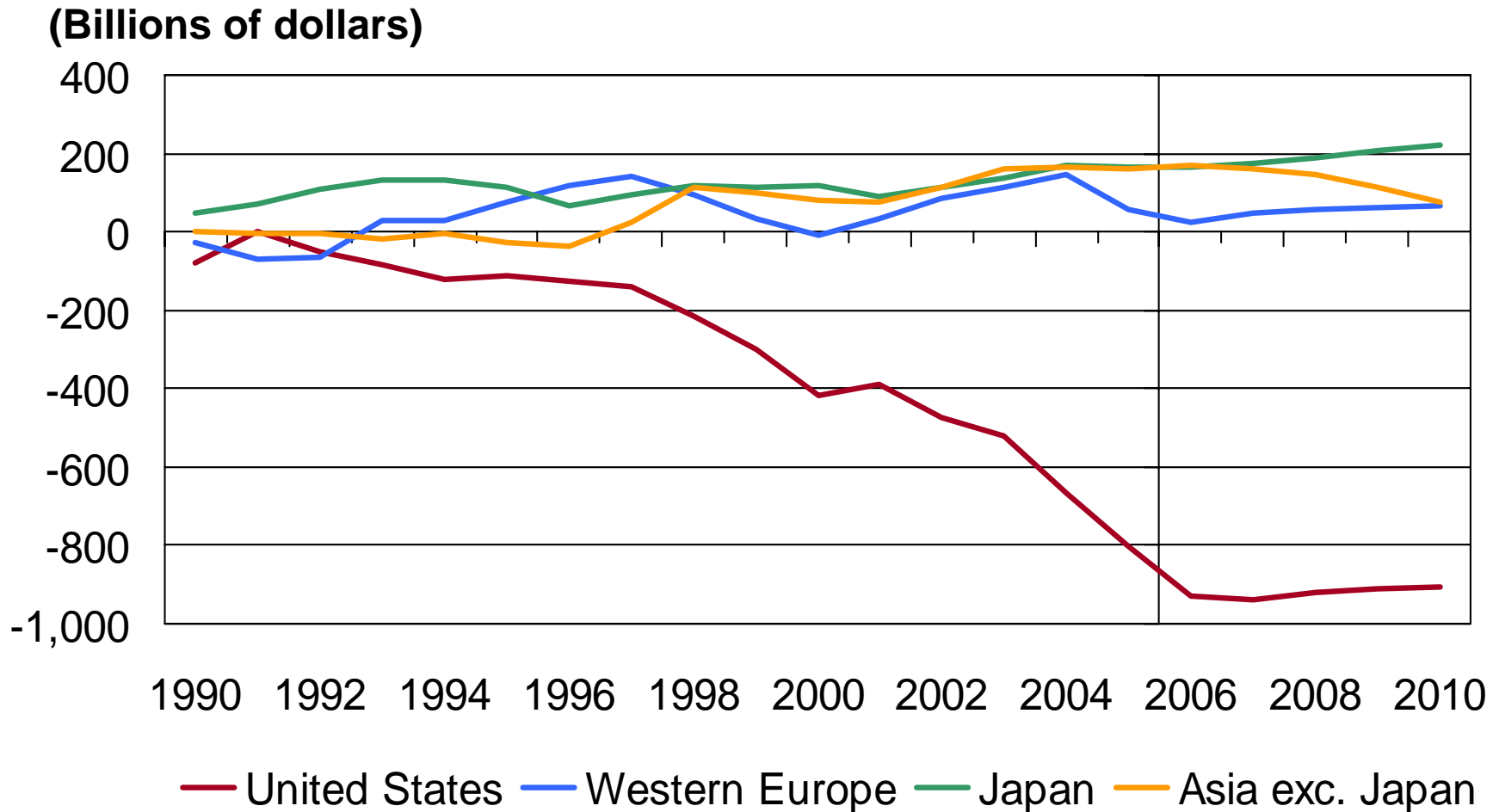


A Record U.S. Current Account Deficit – over \$800 billion as far as the eye can see.

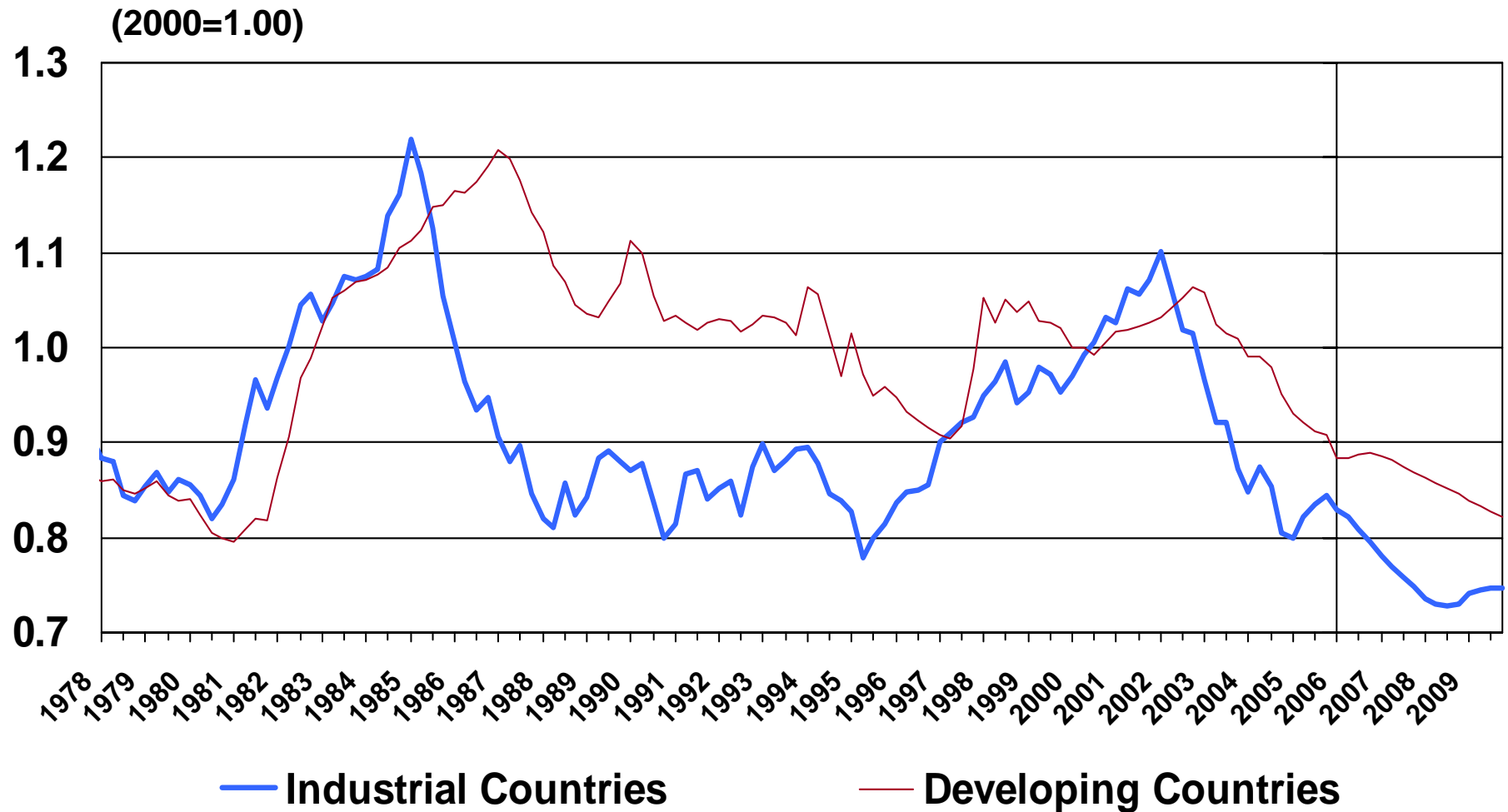
(Billions of dollars)



U.S. Imports are fueling the huge current account deficit.

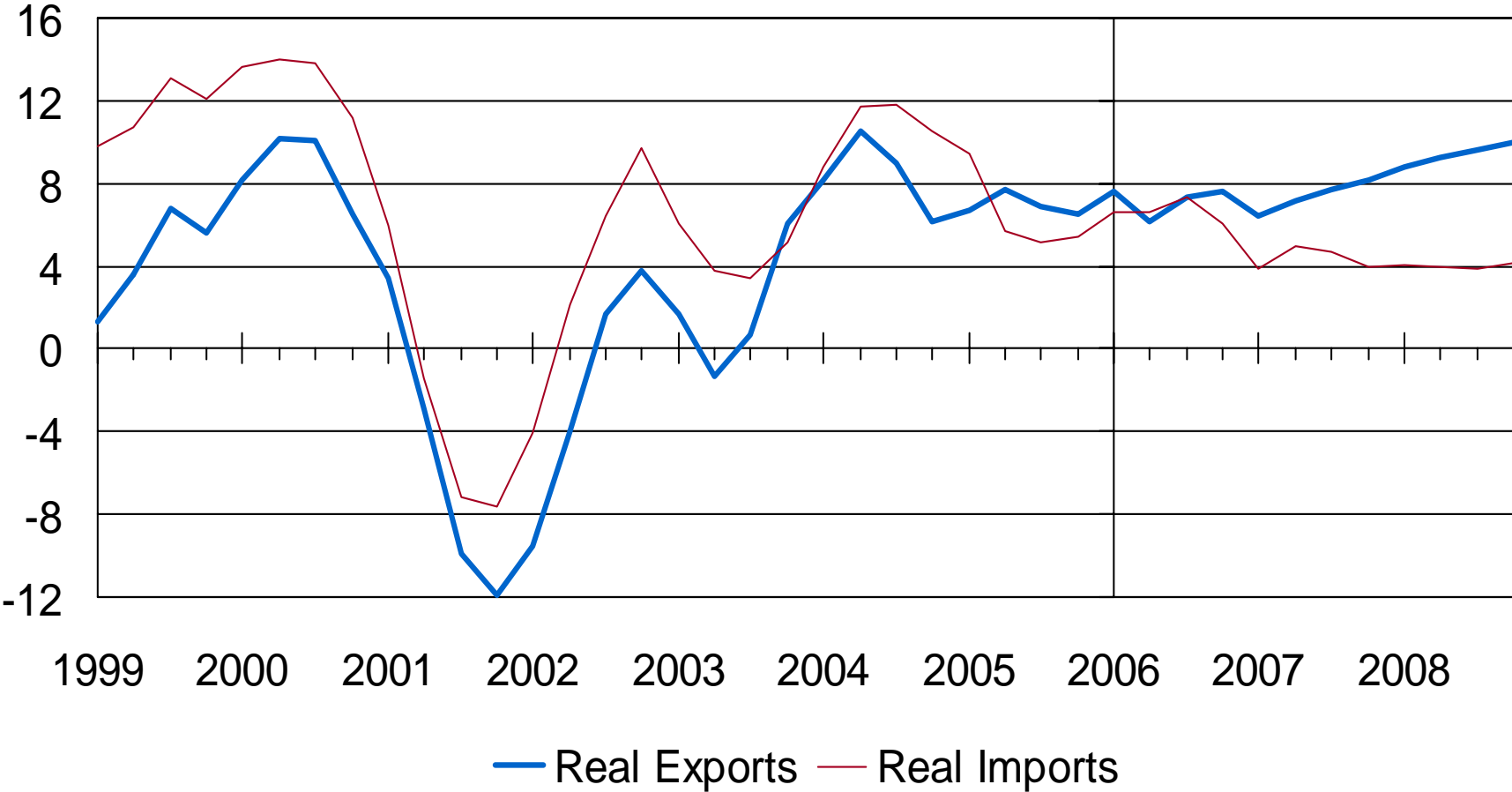


The U.S. dollar will depreciate further – steady declines through 2008, due to huge current account deficits.



Real U.S. exports and imports reflect the business cycle and exchange rates.

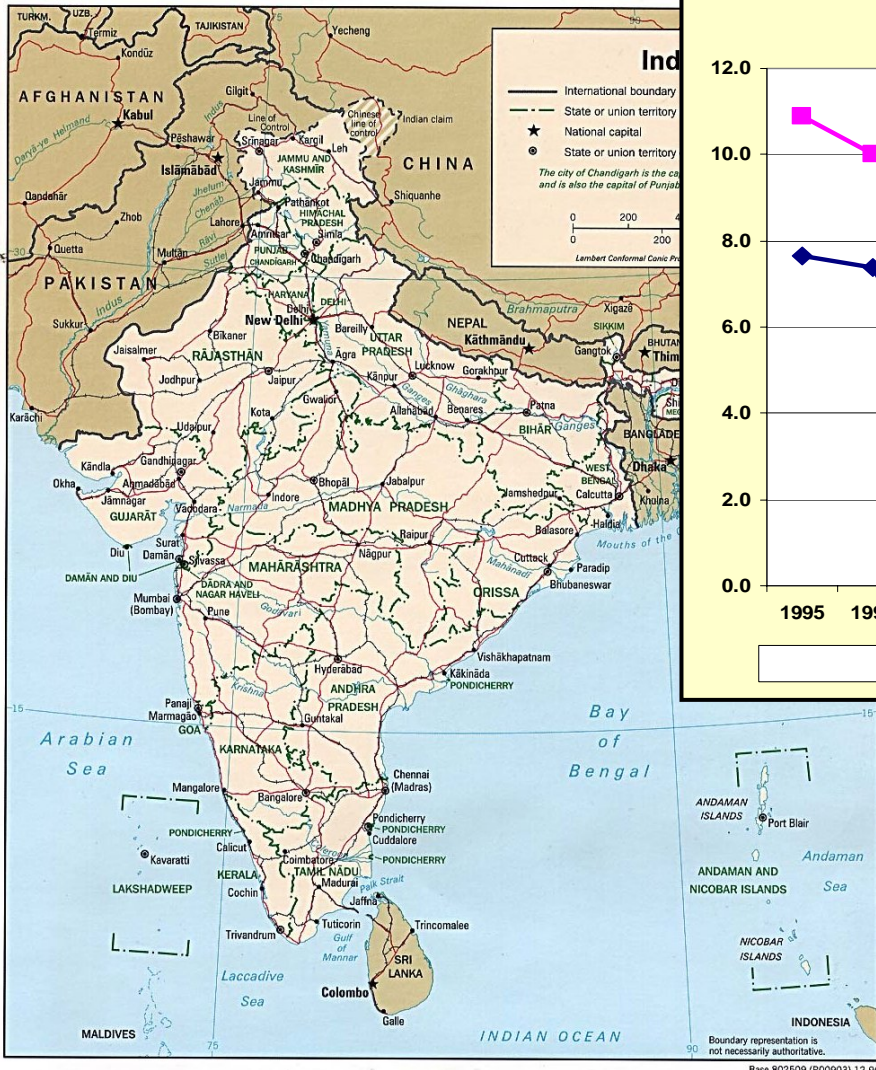
(Year-over-year percent change)



Asia is supporting world growth.

- Inflation remains under 4% in most Asian economies — exceptions include Indonesia, India, and the Philippines.
- High saving rates mean these economies will continue to be capital exporters - investors in ports and transportation infrastructure.
- China will have a soft landing.
- Exchange rates across Asia will rise as part of a global trade adjustment.
- India is positioning for an economic “take off.”

India could align with China and create a powerhouse from toys to high tech.



\$1.3 trillion GDP

8%/year total TEU growth to 2010

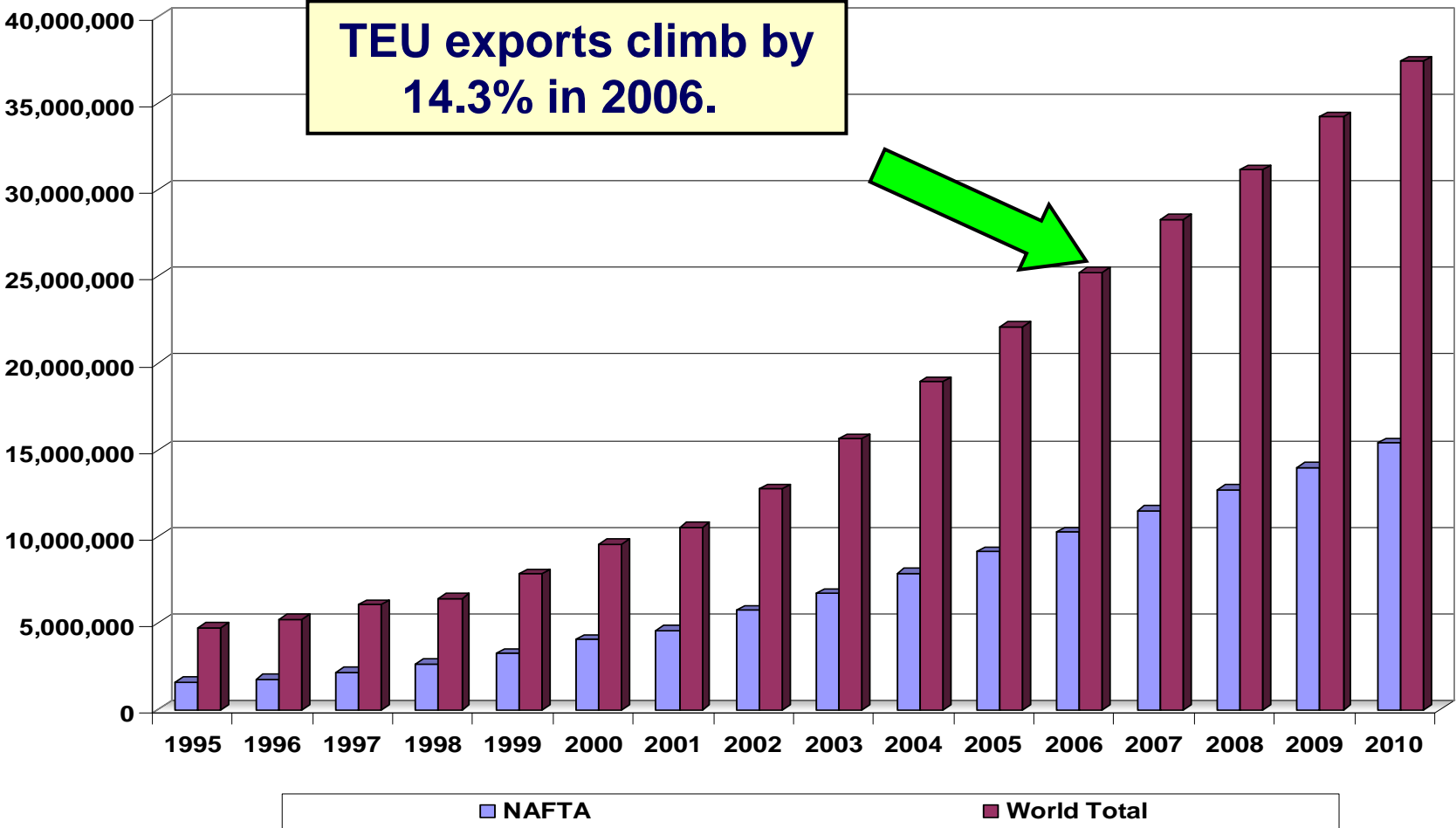
6.8% GDP growth this year (2006)

1.1 billion population is growing 1.5% annually

China's momentum is hard to slow down, but the government is trying - - - soft landing most likely.

	1980	2004
Real Per Capita GDP (2004\$)	\$171	\$964
Real GDP as % of US Level, 2004\$	3%	14%
Real GDP growth in previous 20 years	5.3%	8.6%
Population (millions)	981	1,300
Trade's share of GDP	15%	85%
Number of Supermarkets	0	70,000
Current Account Surplus (\$ billions)	1	266
Agriculture's share of GDP	30%	15%
Urbanization	20%	33%

China's container exports continue to grow at double-digit rates – NAFTA's share has hit 45%.



Mexico joins China's million-TEU club

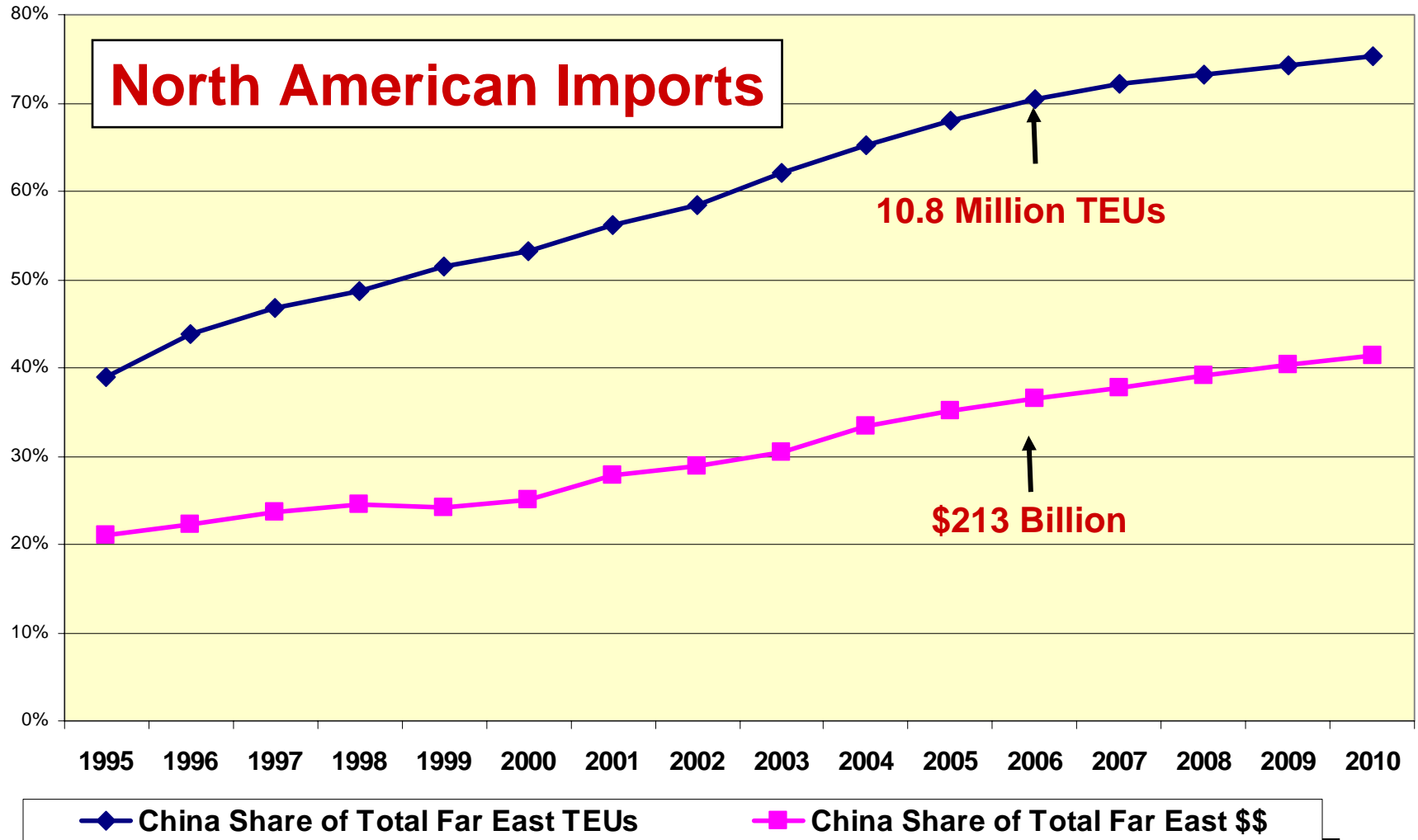
China/HK - Largest Export Markets

	2010	2006-10
United States	12,084,640	9.8%
Japan	3,778,186	9.1%
Mexico	2,798,144	15.5%
South Korea	1,862,507	11.4%
Germany	1,554,331	10.1%
United Kingdom	1,447,126	11.2%

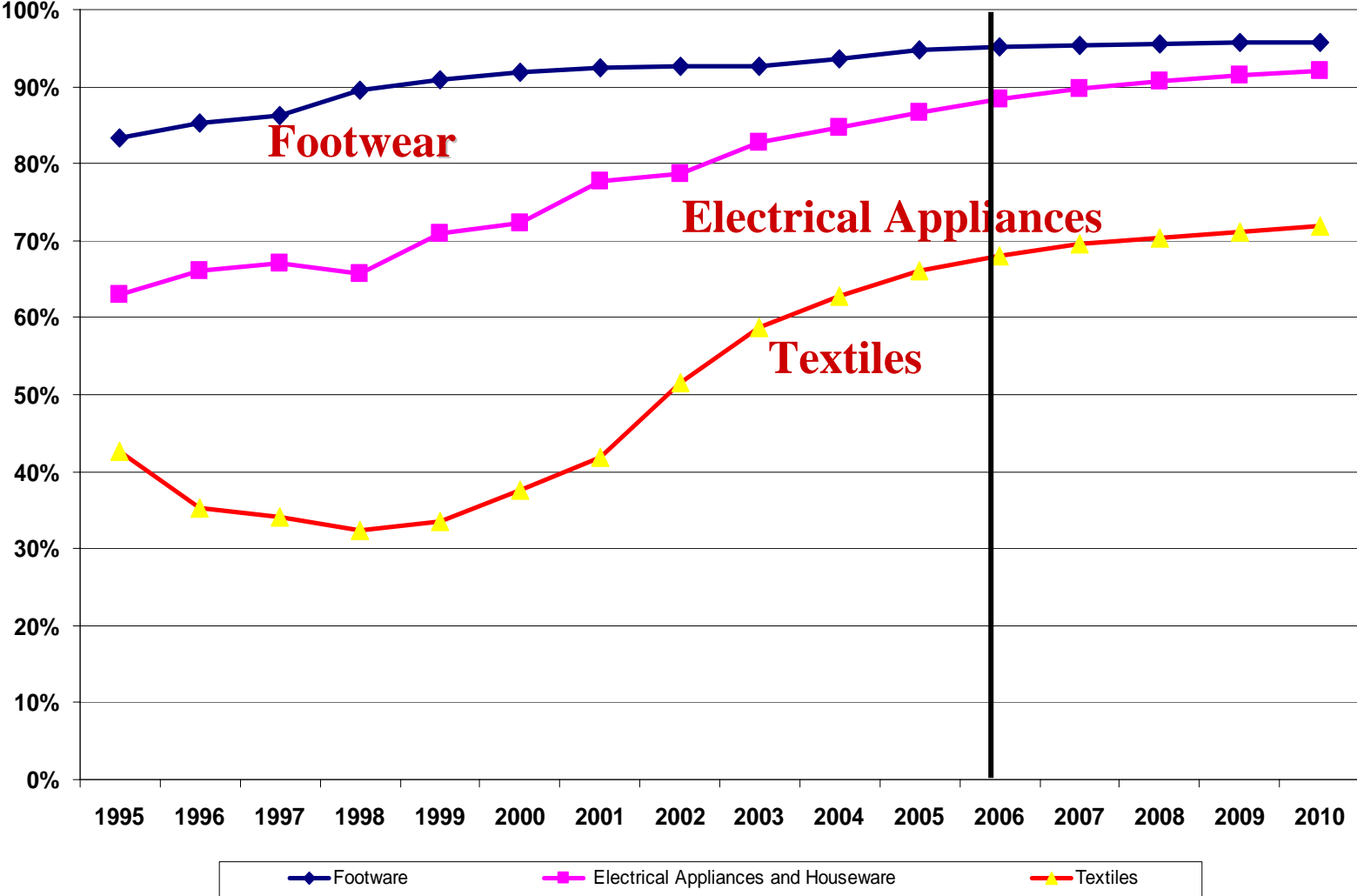
Mexico already imports 1.5 million full TEUs from China (2006).

Mexico is the fastest-growing large market for China/HK.

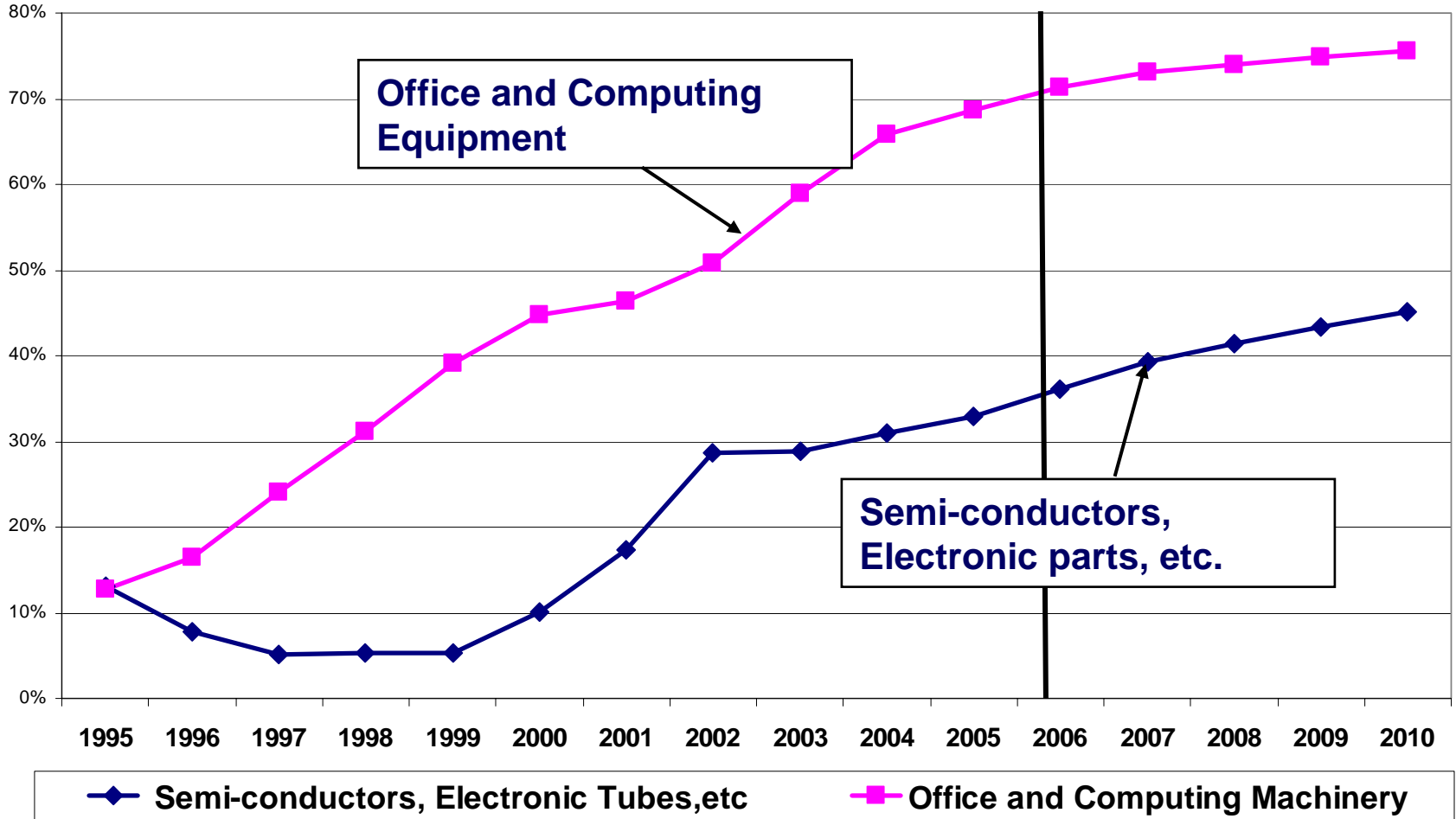
71% of North America's TEU imports from the Far East come from China, but only 36% of the value.



Market penetration in some sectors is reaching saturation ...



But look at China's penetration of new market segments.



China Economic Summary

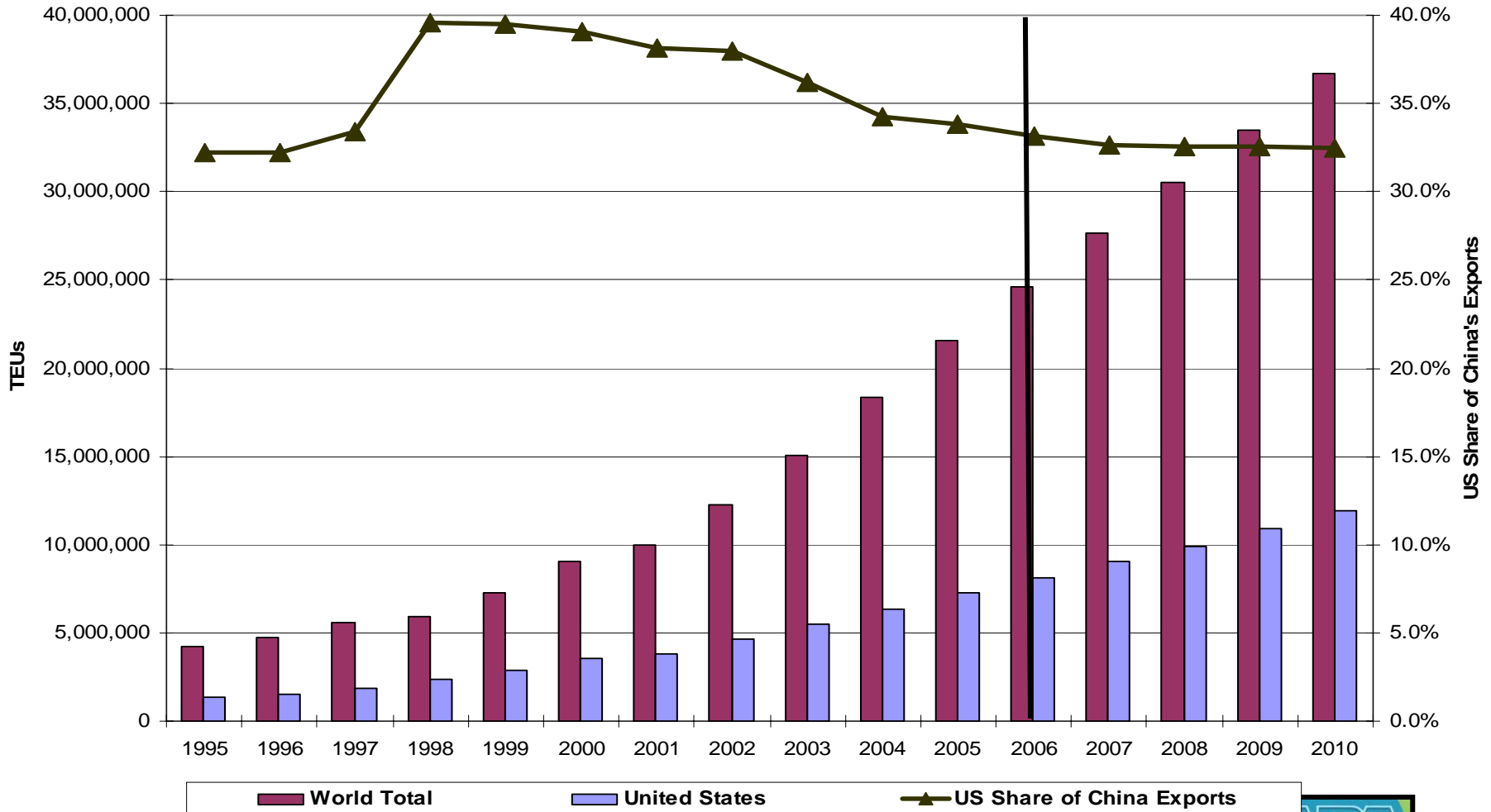
- **There appears to be little risk at the macro-economic level. Even with a “soft landing” we will see growth in excess of 8% GDP through 2010.**
- **The exchange rate will revalue smoothly.**
- **The financial markets, although not exactly stable, are also not seriously in danger of toppling.**
- **So long as Foreign Direct Investment continues, we will see the continuation of an export driven economy.**

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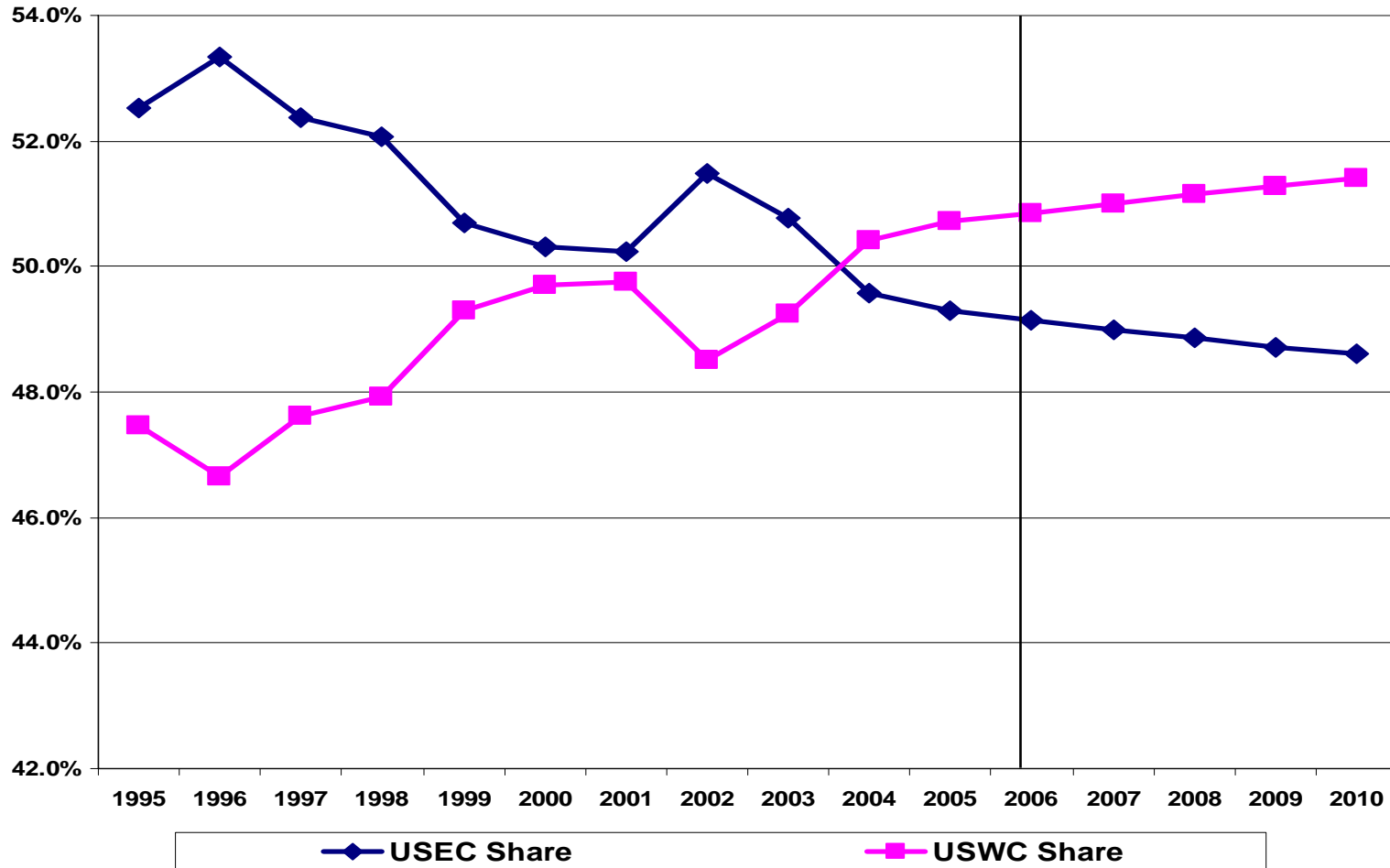
As China expands its markets, the US becomes less important.

US Share of China's Container Exports



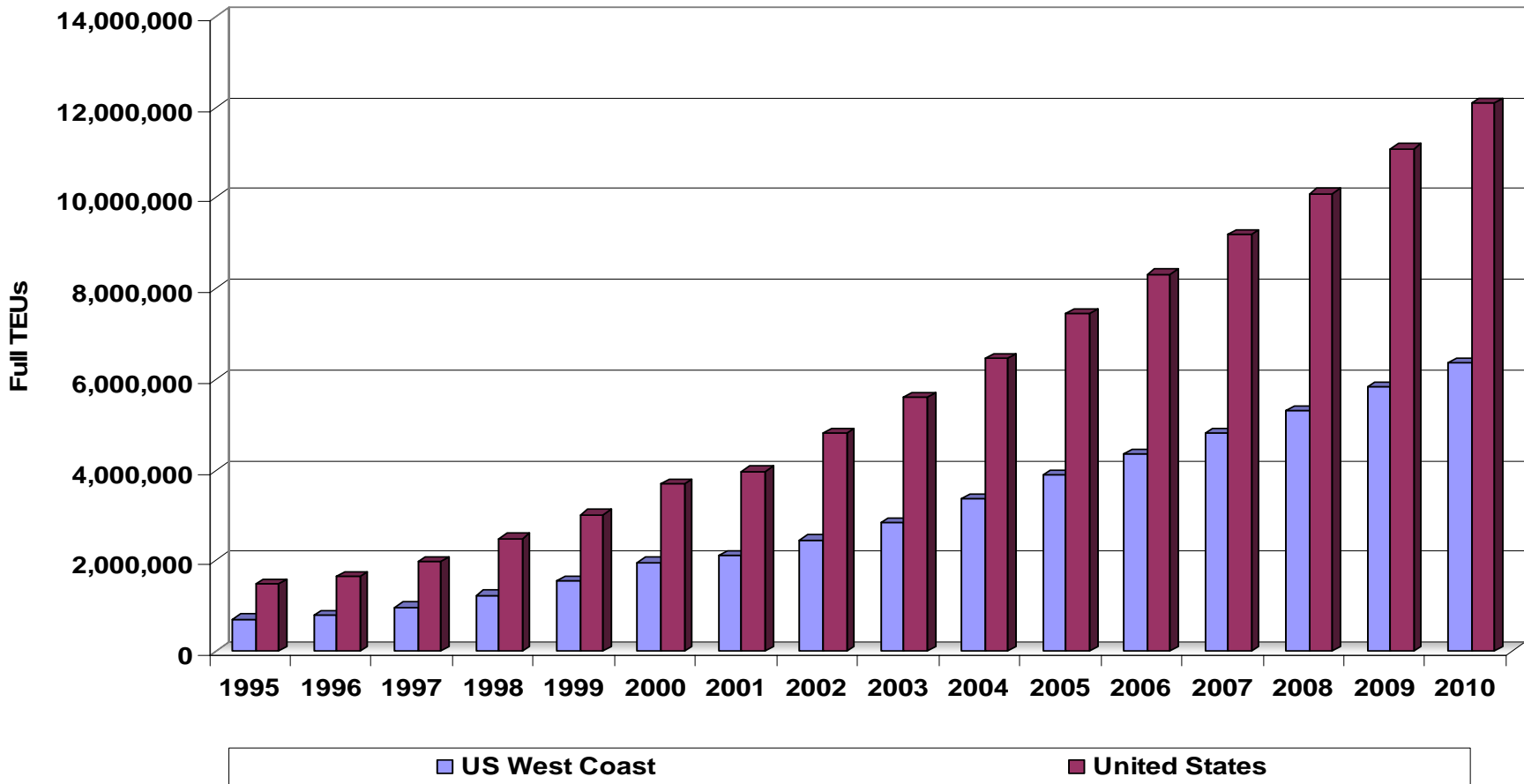
The USEC gained share of imports from the Far East in 2002, but the USWC has resumed its increase in share.

US Coastal Shares of TEU Imports from the Far East



The USWC will hold on to its 53% share of imported Chinese containers shipped to the U.S. Unless - - -

China & Hong Kong Containers to the USWC

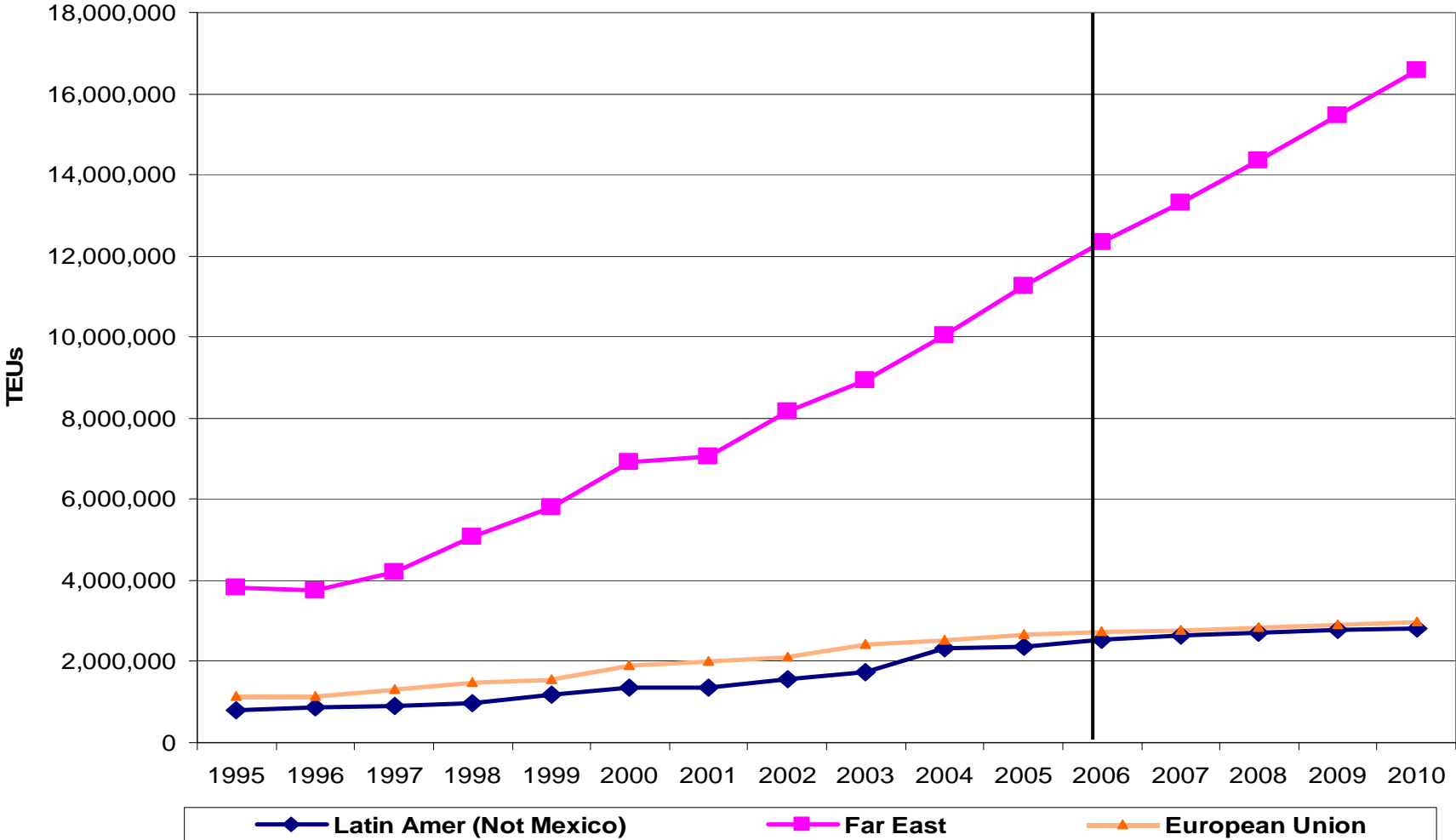


... Mexico can implement this idea, to compete for US imports from the Far East.



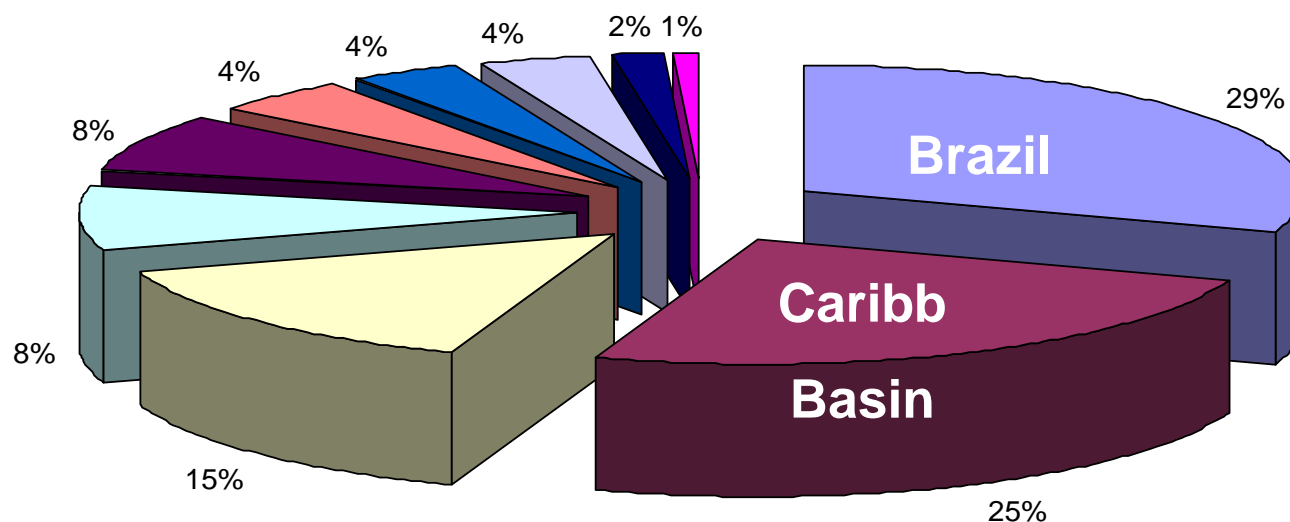
- Container volumes will continue to grow.
- USWC port and rail congestion could return.
- All-water service cost may go up.
- There are wrinkles to iron out.
 - 3.0 more days at sea (at 18 knots)

US container imports from Latin America will rise to equal imports from Europe.

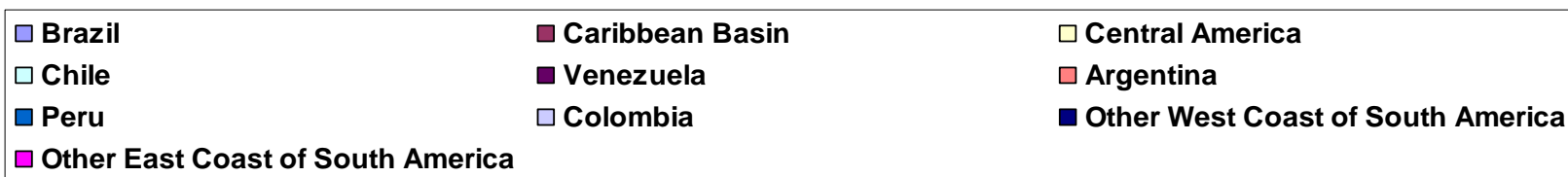


US imports from Latin America will top 2.5 million this year (full TEUs).

US TEUs Imported from Latin America - 2006

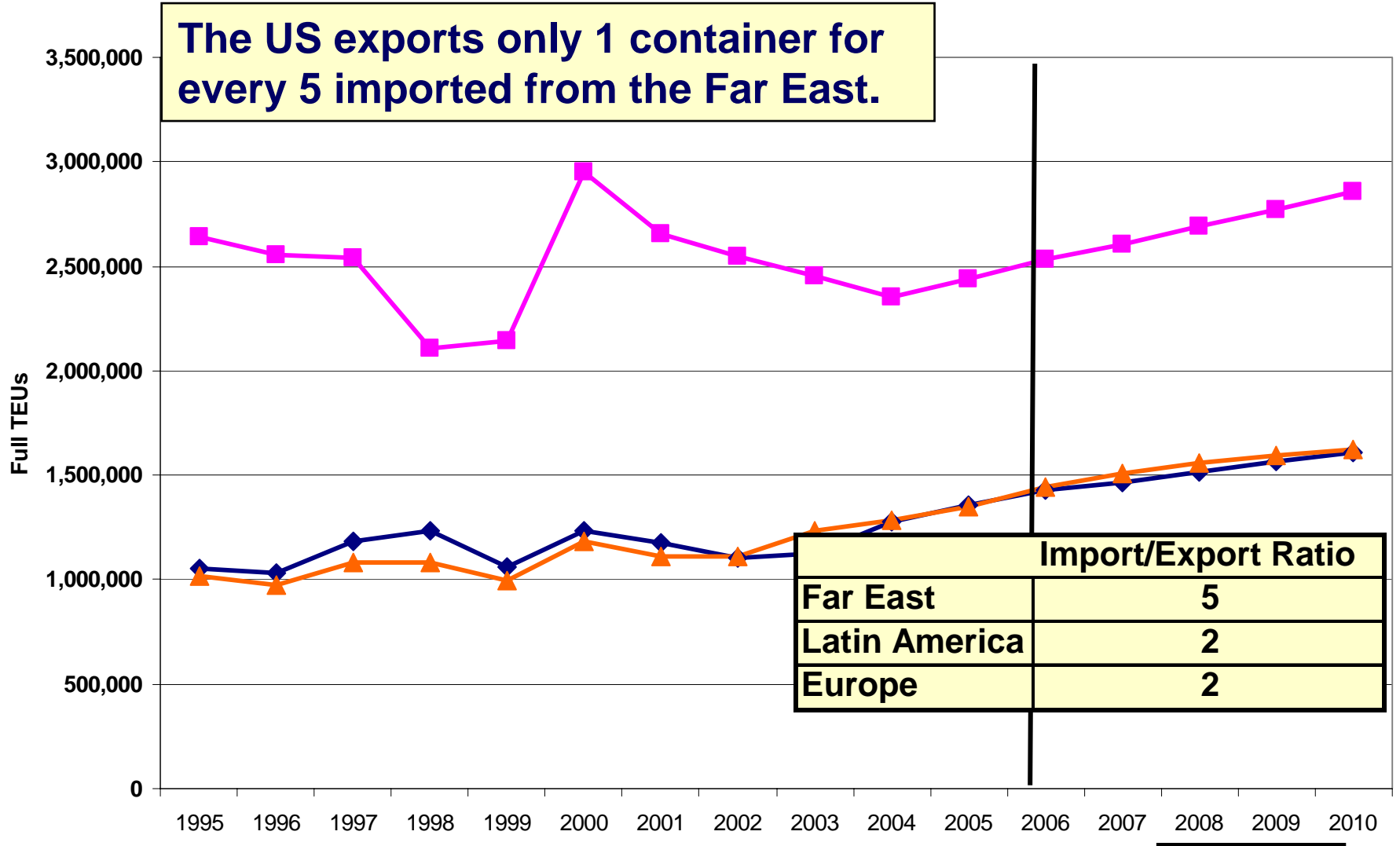


Brazil and Caribbean containers come through the USEC.



US container exports are dominated by the Far East and are about equal to Europe and Latin America.

The US exports only 1 container for every 5 imported from the Far East.



Import/Export Ratio	
Far East	5
Latin America	2
Europe	2



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Bottom Line

- **World economic growth will remain robust in 2006, but will slow by year end. Enjoy it now.**
- **Emerging markets of Asia and Europe will experience the strongest growth; the Eurozone and Japan will lag behind.**
- **A growing trade deficit will further weaken the dollar, by 10-30% through 2010.**
 - **China's currency adjustment will be gradual.**
- **The U.S. and Far East (China) will expand their imbalanced trade, with imports swamping exports.**
- **While transpacific container trade continues to climb, north-south trade will grow in importance.**

No recession is likely in 2006 or 2007



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