



GLOBAL INSIGHT

What's Down the Road?

Presented to:

AAPA

Public Relations Seminar

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Radisson Resort at the Port

Canaveral, FL

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Agenda

- 
- **Global issues and trends affecting the world and U.S. economic outlooks**
 - **Implications for ports in the Western Hemisphere**
 - **Conclusions & things to remember**

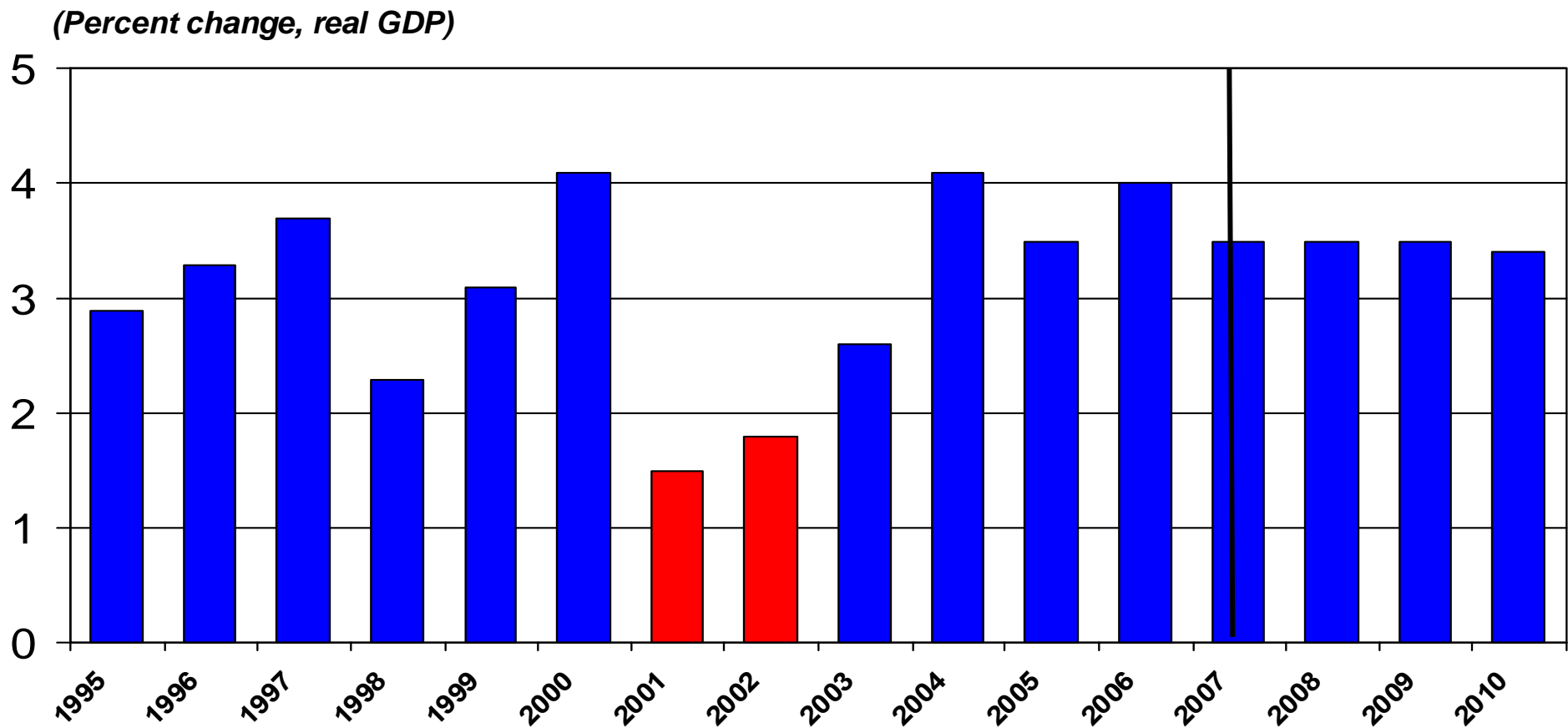
Key Global Issues and Trends



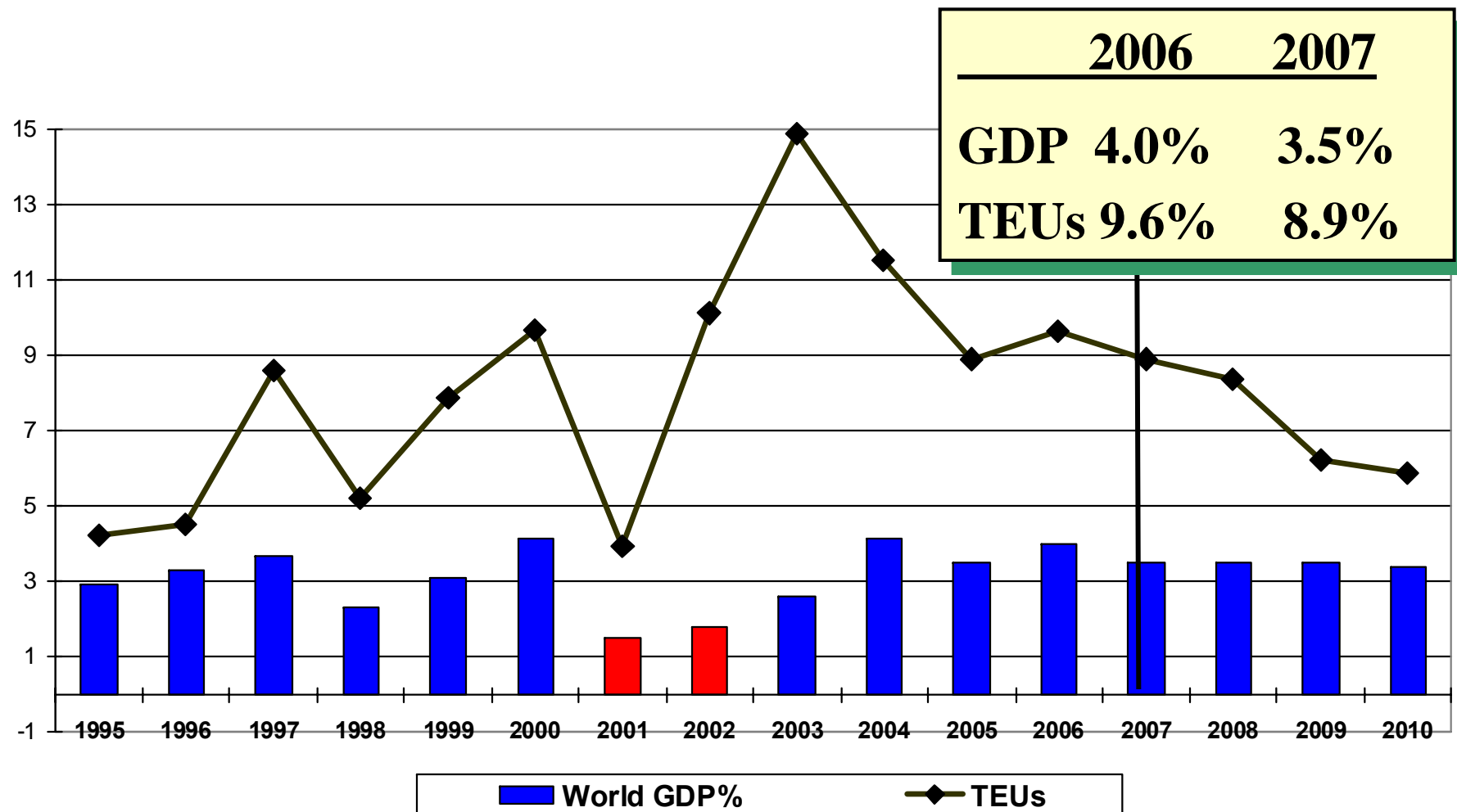
- Will higher oil prices derail the recovery? **NO - Not at \$70-75**
- Will the dollar crash? **NO, but . . .**
- China: Hard or soft landing? **SOFT**
- New and important players? **YES, A COUPLE . . .**

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

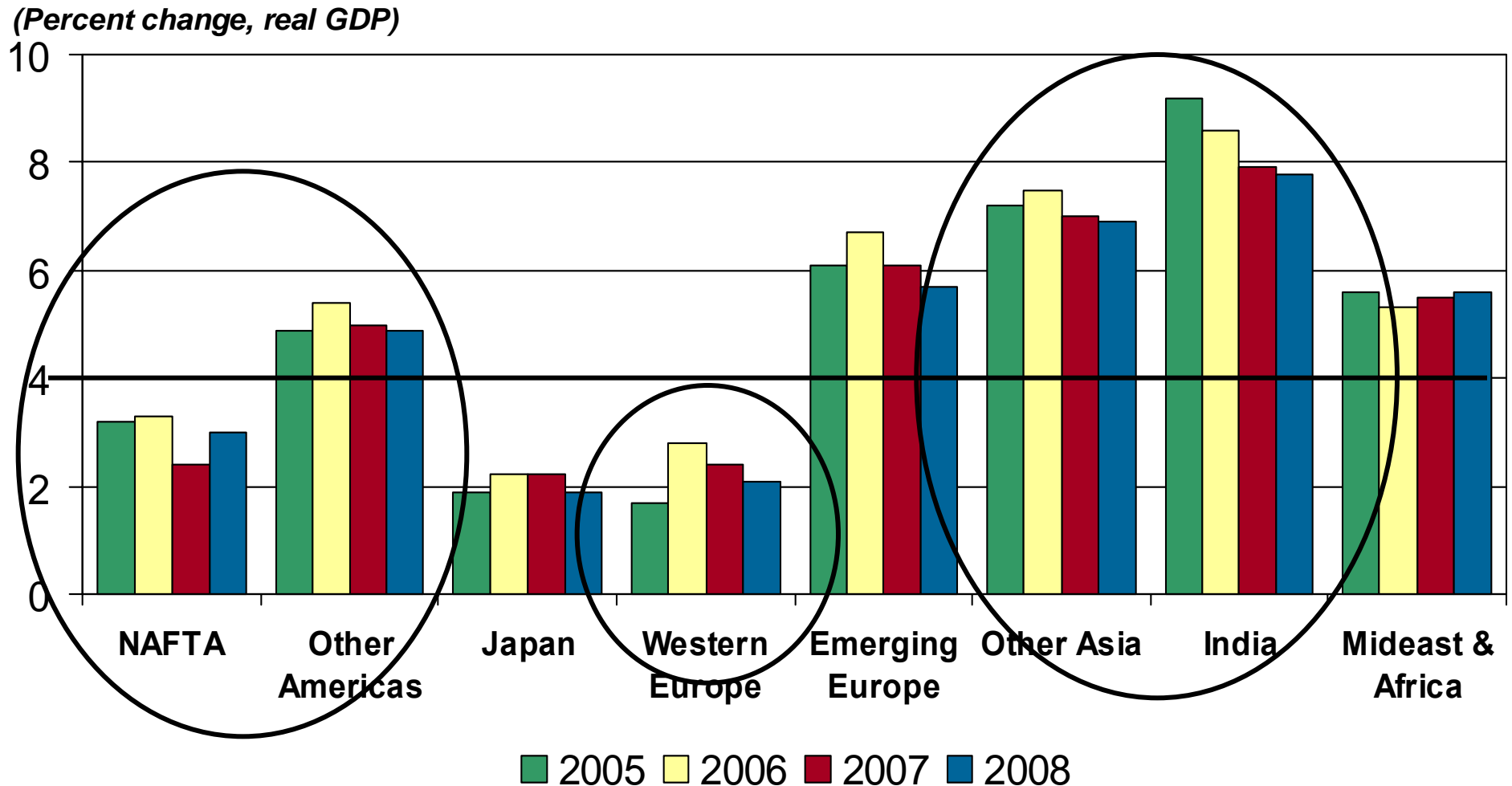
The world economy is in recession when real GDP growth is below 2%.



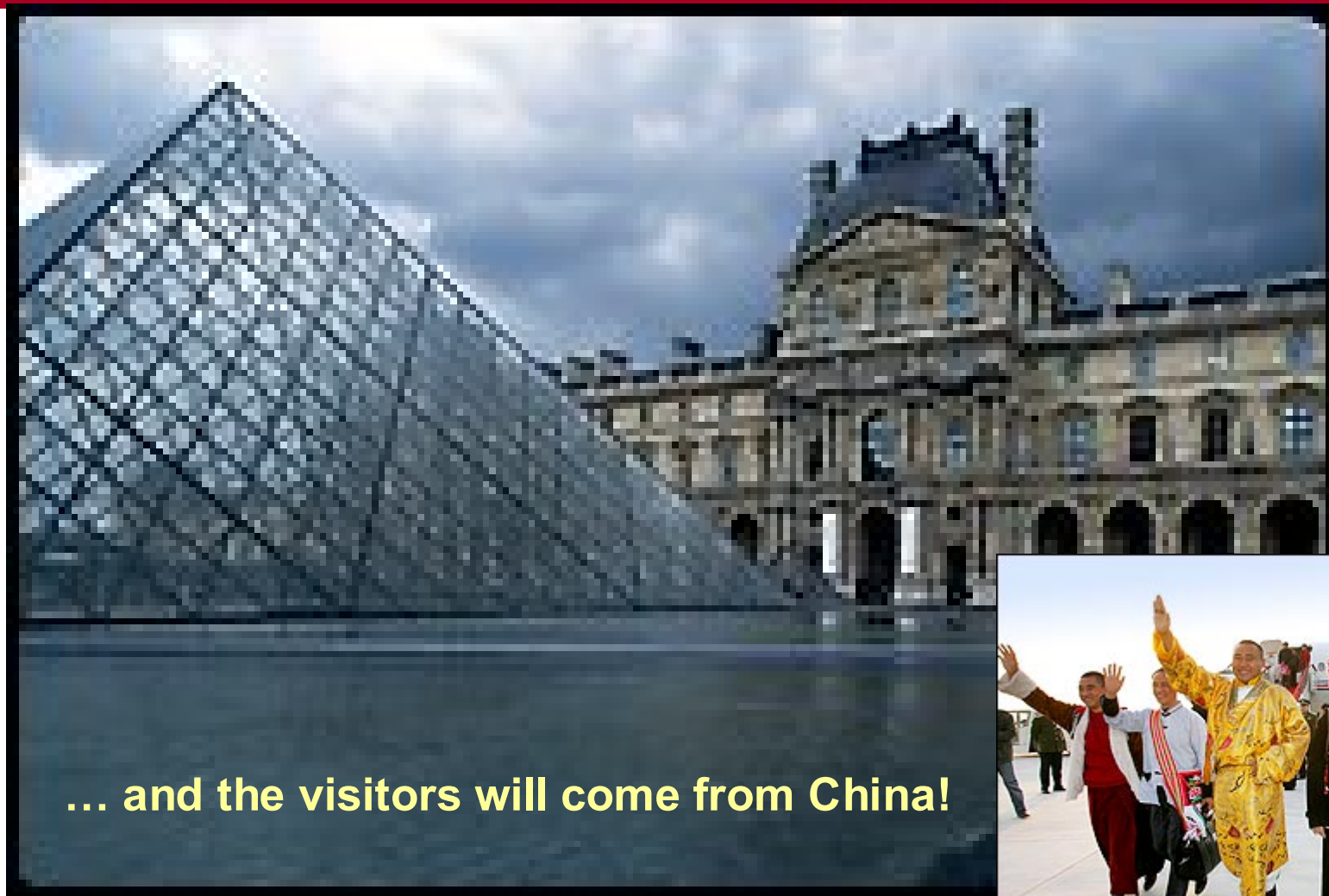
World container trade normally grows faster than the world economy. And 2006 was very healthy.



Trade is linked to real GDP growth - uneven across the world – and emerging markets grow fastest.



Europe in the long term – a great museum?



... and the visitors will come from China!



Growth is not uniform: Market shifts are coming and will affect U.S. trade and transportation

(Country GDP Rank in Billions of Real (2003) U.S. Dollars)

2000	2010	2020	2030	2040	2050
U.S.	U.S.	U.S.	U.S.	U.S.	China
Japan	Japan	China	China	China	U.S.
Germany	Germany	Japan	Japan	India	India
U.K.	U.K.	Germany	India	Japan	Japan
France	China	U.K.	Russia	Russia	Brazil
Italy	France	India	U.K.	Brazil	Russia
China	Italy	France	Germany	U.K.	U.K.
Brazil	India	Russia	France	Germany	Germany
India	Russia	Italy	Brazil	France	France
Russia	Brazil	Brazil	Italy	Italy	Italy

Source: Global Insight World Service and Goldman Sachs

The U.S. expansion is entering a new phase – a major U.S. slowdown is already here.



- The U.S. economy started to slow in 2006.
 - 2.2% in the first quarter 2007
 - Just 2.4% in the last quarter!



- Real GDP growth in 2007 will slip to 2.1%, below trend (3%).
- Home sales and construction are declining as affordability deteriorates.



- Business investment is now leading the expansion, supported by record profits and global market growth, especially Asia.

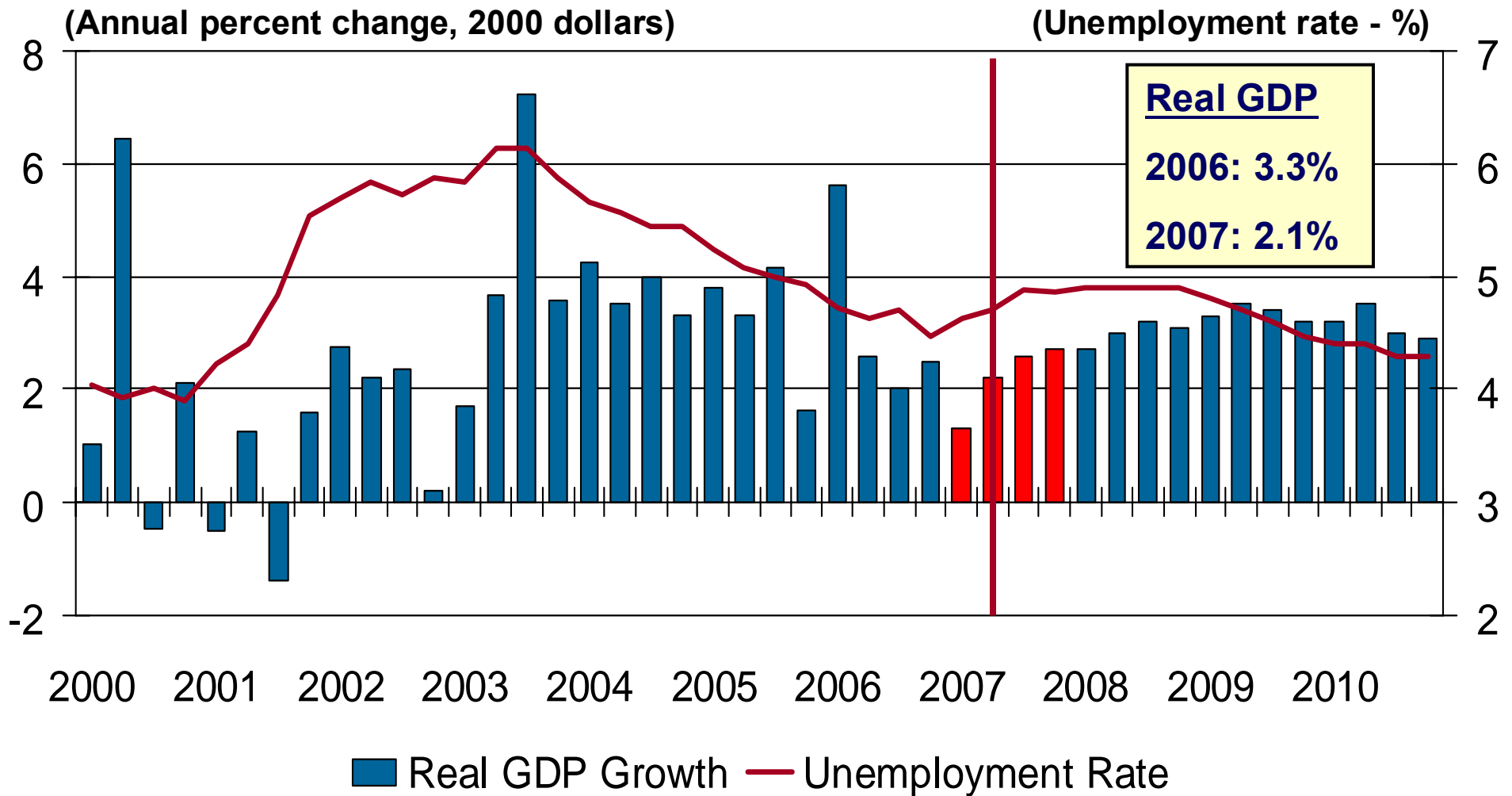


- Non-residential construction is poised to grow, at last.
- Further dollar depreciation is expected, so exports will improve.

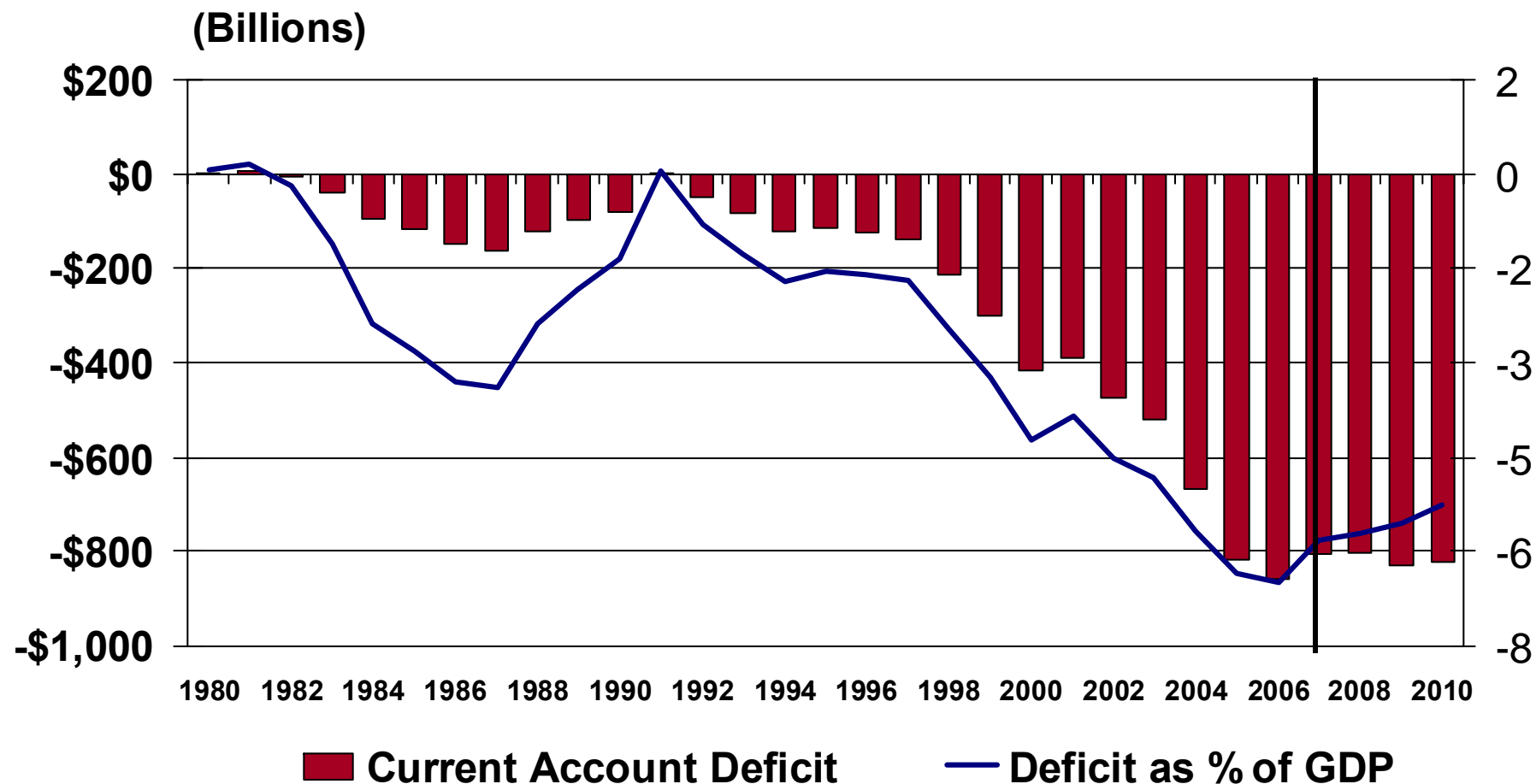


A weak start and a faster finish in 2007

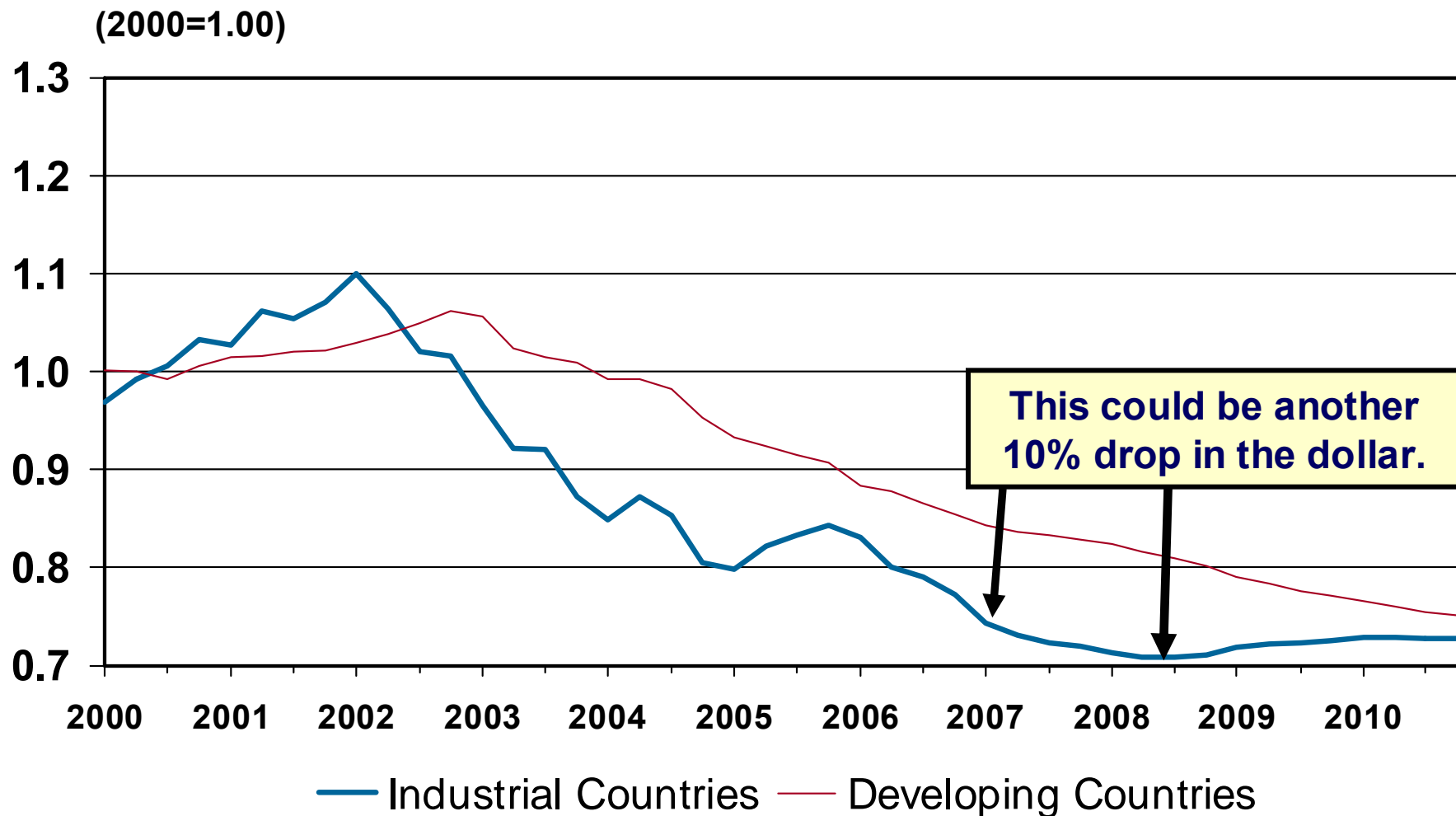
***The U.S. economic expansion has slowed quickly.
Modest improvements in 2007 –slower than the world.***



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



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

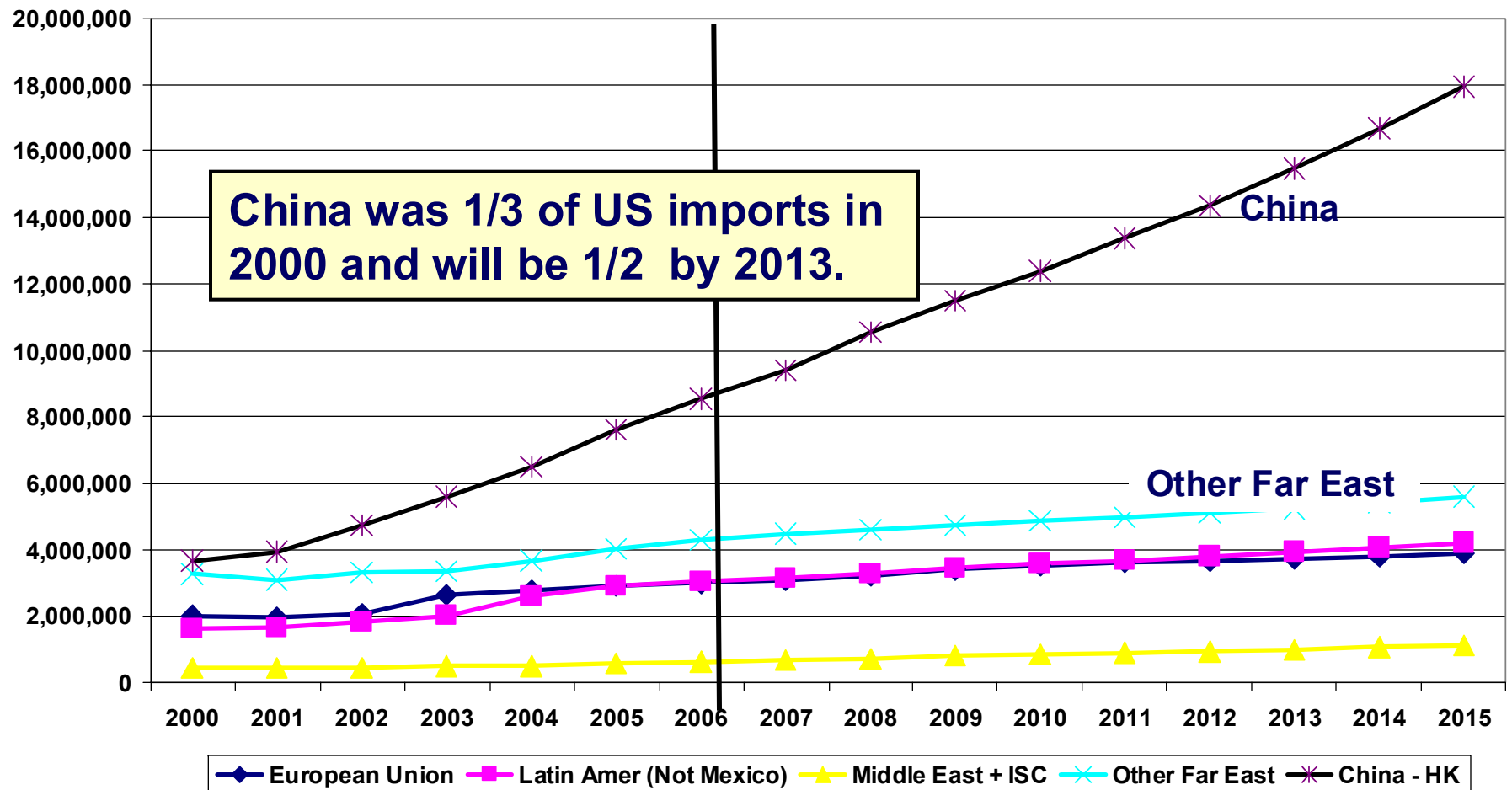


The U.S. was the engine of growth, but in 2006 this shifted to Asia, which is now supporting world economic growth.

- **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 (even Canals?).**
- **China will have a soft landing.**
- **1/3 of the world's container trade is Intra-Asia!**

U.S. TEU imports will slow to 5.6% in 2007, then 7.6% in 2008. Chinese imports will grow fastest (10% on average).

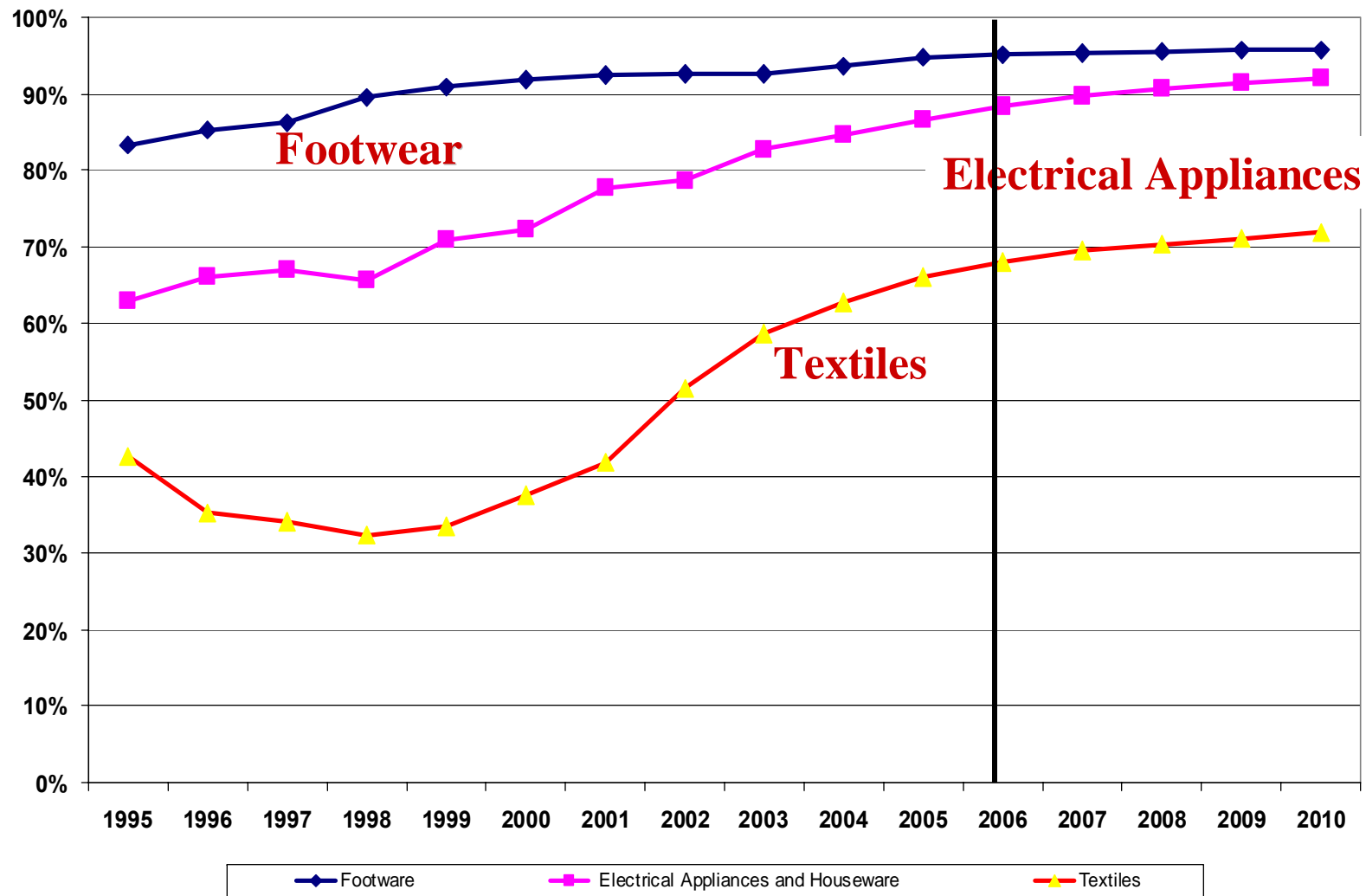
US TEU Imports



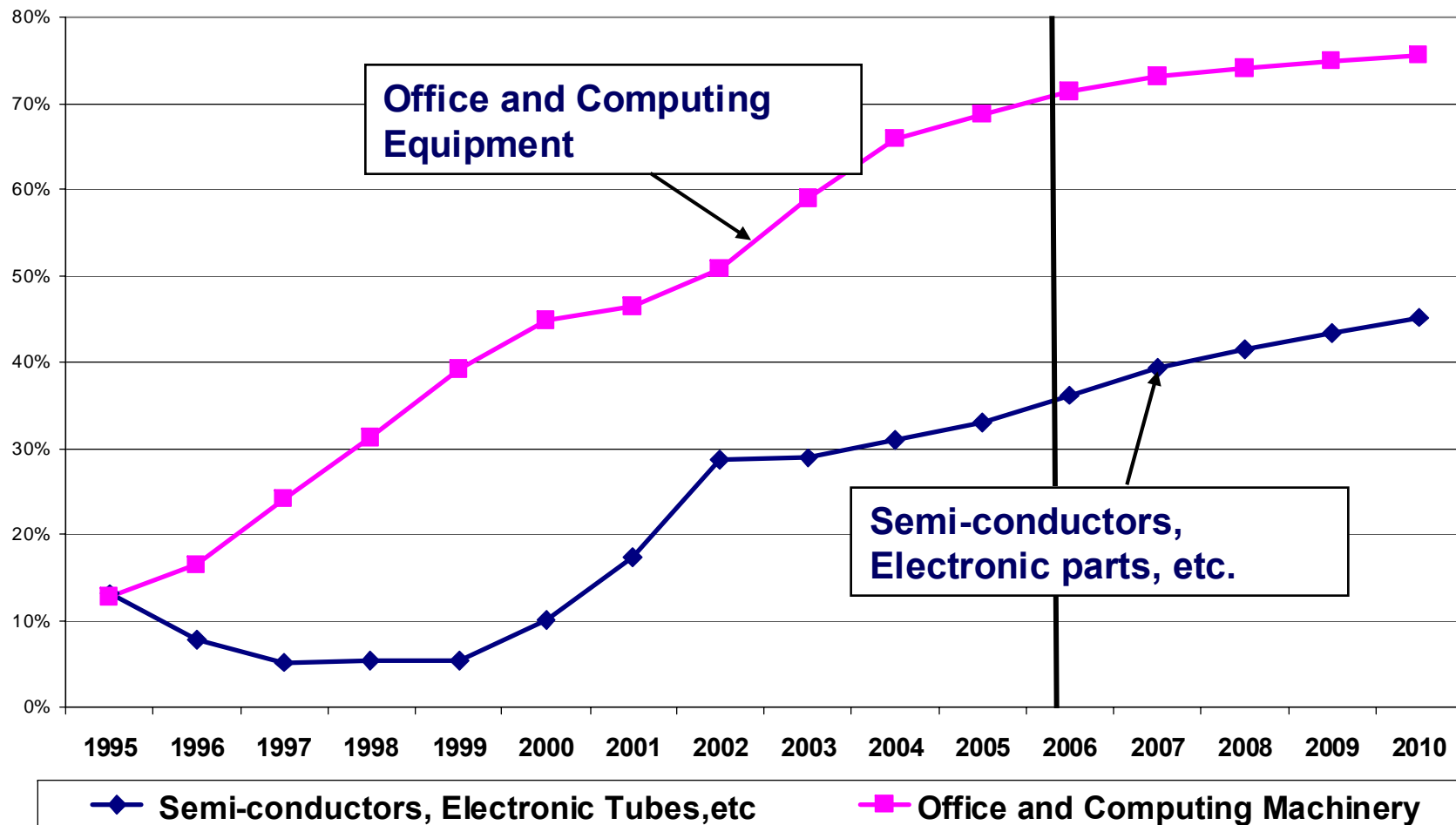
China's momentum is hard to slow down, but the China government is trying - - - soft landing most likely.

	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%

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 strong (week of Feb. 26), 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.
- **RISK:** the new urbanized masses are not keeping up with inflation

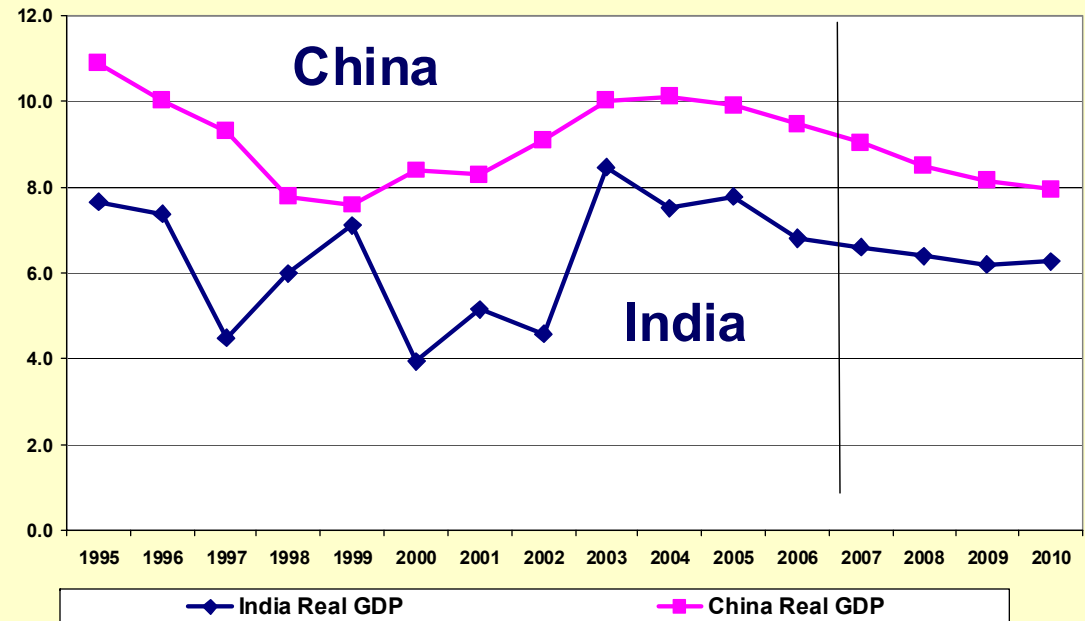
There are some New Players on the world scene

- **Chindia**
- **Colombia**

India could align with China (creating CHINDIA) and create a powerhouse from toys to high tech.



India and China Real GDP Growth Rates



INDIA

- \$800 billion GDP
- 8%/year TEU growth to 2010
- 6.8% GDP growth this year (2006)
- 1.1 billion population is growing 1.5% annually

In Latin America, Colombia is a new, fast-growing player.



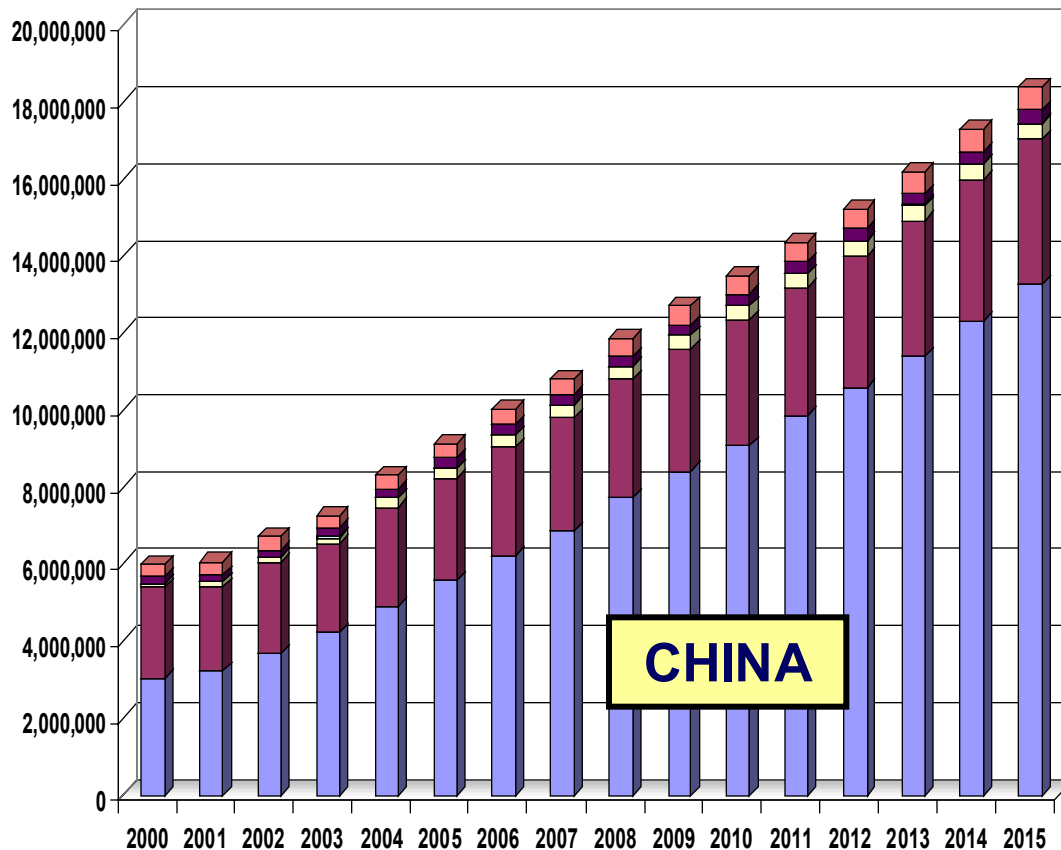
- Free trade deal with the USA (hopefully)
- Potential growth is 5+% per year (GDP) – and steady
- Privatized ports
- Strong import growth for containers – 18% in 2006
 - Domestic economic strength – 6% in 2006
 - Growing consumer sector
- Port infrastructure is being expanded to meet demand growth.
- Main rail link to be revitalized in 2008.

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For USWC ports, imports from China will double by 2015.

USWC Imports



- In 2000, 1 in 2 containers came from China.
- This year, 63% of USWC imports will come from China.
- By 2015, 3/4 of the imports will come from China.

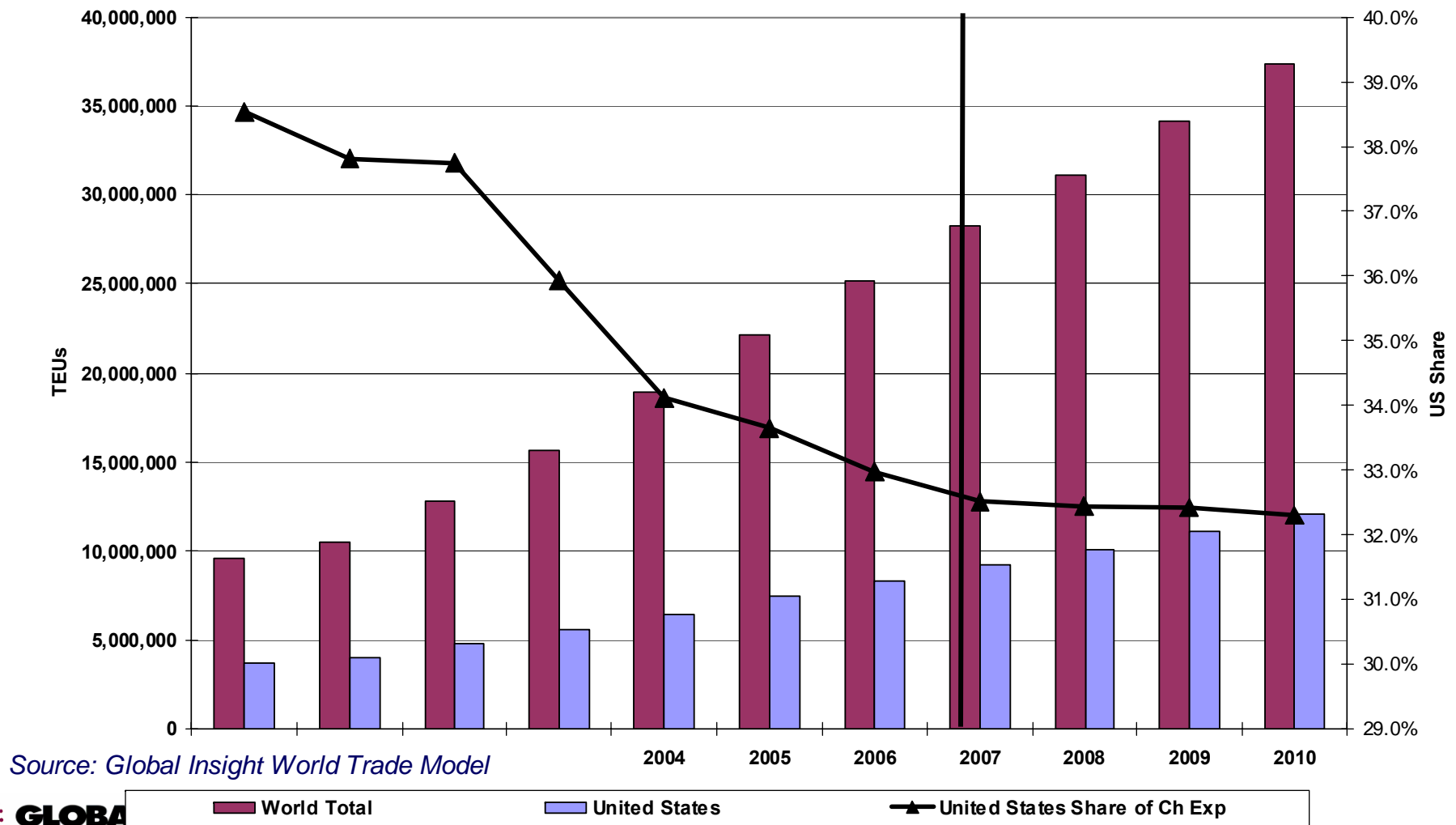
	2006-07	2007-2015
China	10.5%	8.6%
Rest of World	4.0%	4.5%

China - HK Rest of Far East Latin Amer (Not Mexico) Middle East European Union Rest of World

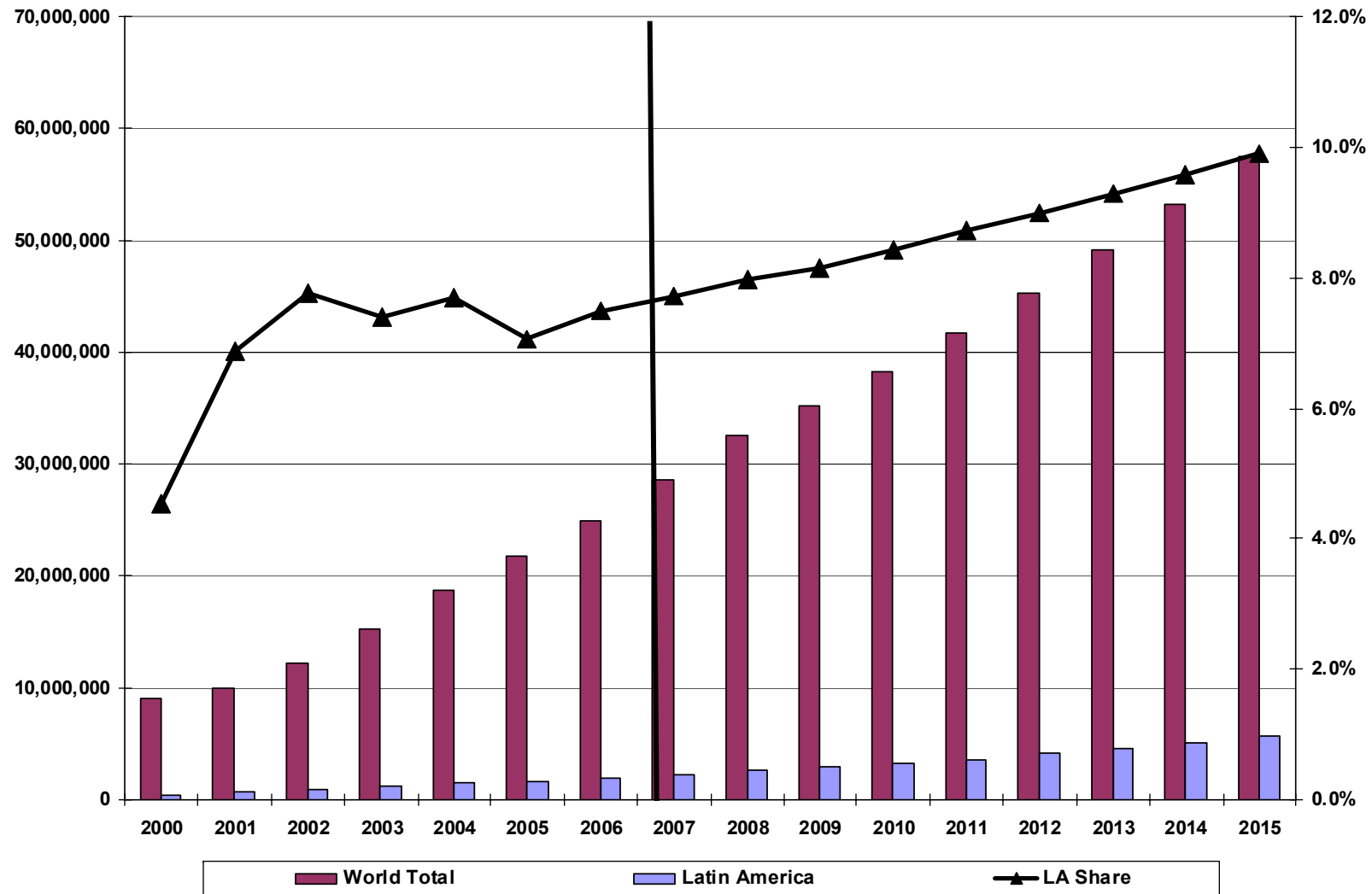
Source: Global Insight World Trade Model

As China expands its markets, the U.S. becomes less important, but Latin America - -

US Share of China Exports



... could absorb 10% of China's container exports by 2015, with strong growth in consumer products.



Source: Global Insight World Trade Model

Is there a capacity crunch on the USWC?

- **There is a lot more throughput capacity that is achievable**
 - **More flexible work rules? 2008 ILWU labor agreement?**
 - **Introduction of more technology for container handling?**
 - **Expand PIERPASS OffPeak program (LA, LB)**
 - **Currently Monday – Thursday evenings and Saturday mornings**
 - **Other USWC ports could adopt an off-peak option.**
- **Environmental considerations may force the crunch to hit sooner**
 - **Increases in port charges to pay for environmental compliance**
- **As USWC port costs increase, shipping lines will look to other options, like Mexico and Canada.**

Sol
the

\$9 billion

UP + Hutchison

BNSF + Grupo Mexico

MTC + Carlos Slim

Others?

*being discussed – to feed
a capacity squeeze.*

Punta Colonet



**Mexican
Railways**

- FERROMEX
- FERROSUR
- TFM
- VALLE DE MEXICO
- LINEAS CORTAS
- DERECHOS DE PASO
- TEXAS PACIFICO
- UNION PACIFIC
- BNSF

Manzanillo

Lazaro Cardenas

Oceano
Pacífico

Alfa-Omega Line

- Container volumes will continue to grow.
- USWC port and rail congestion could return – 5-10 years?
- All-water service costs will go up.
- But there are wrinkles to iron out in Mexico.

- MHFM Transport (Mexico)
- SPV (Japan)
- Arias Asia (China)

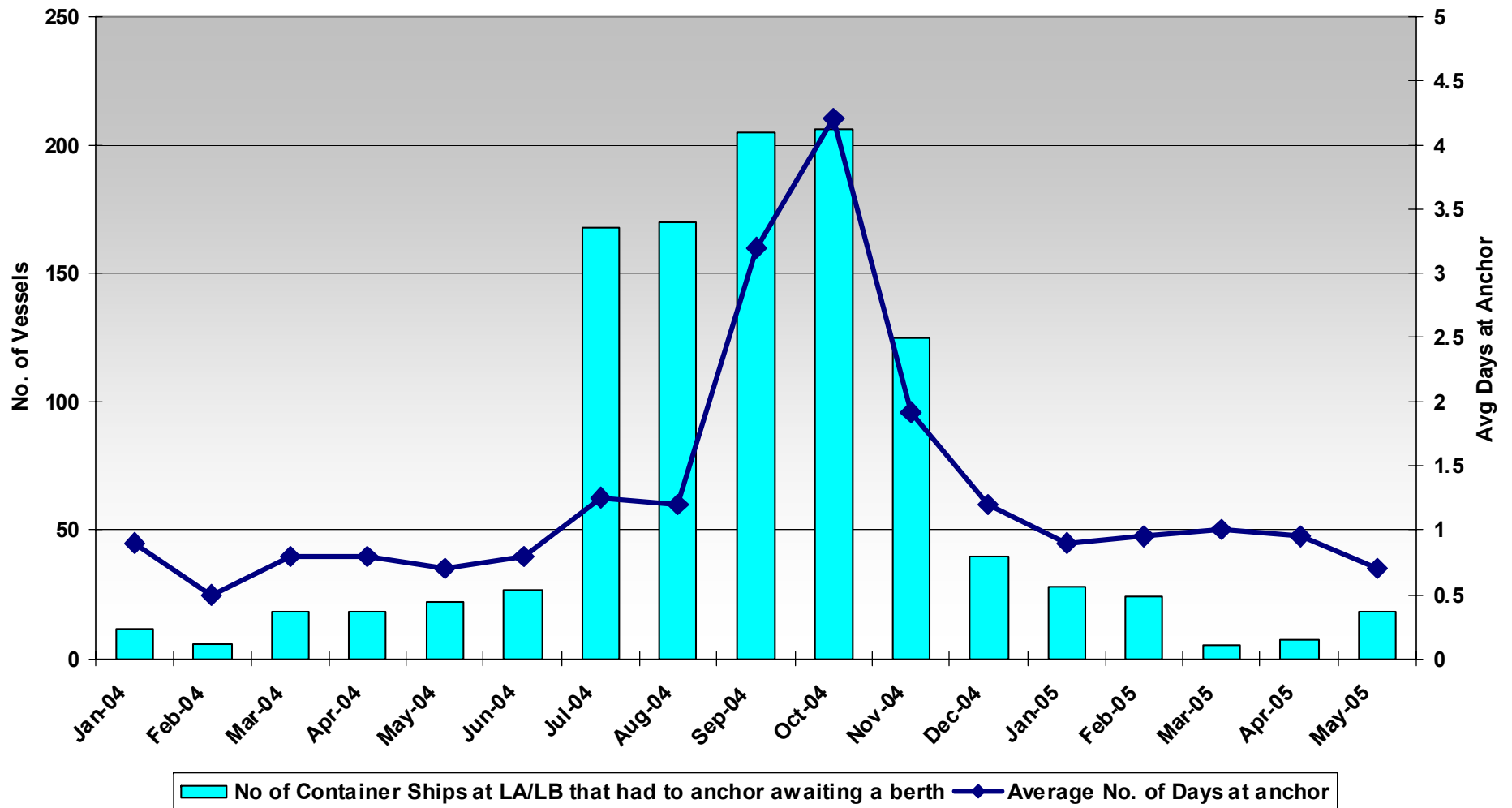
Keys to competitiveness

- The ports and inland infrastructure must be made more productive and expanded in some cases.
- Asian ports have increased productivity much faster than European or U.S. ports.

TEUs/acre/year			
	1999	2004	CAGR
Asian Ports	9,272	16,595	12.3%
European Ports	4,284	6,396	8.3%
U.S. Ports	2,894	4,018	6.8%

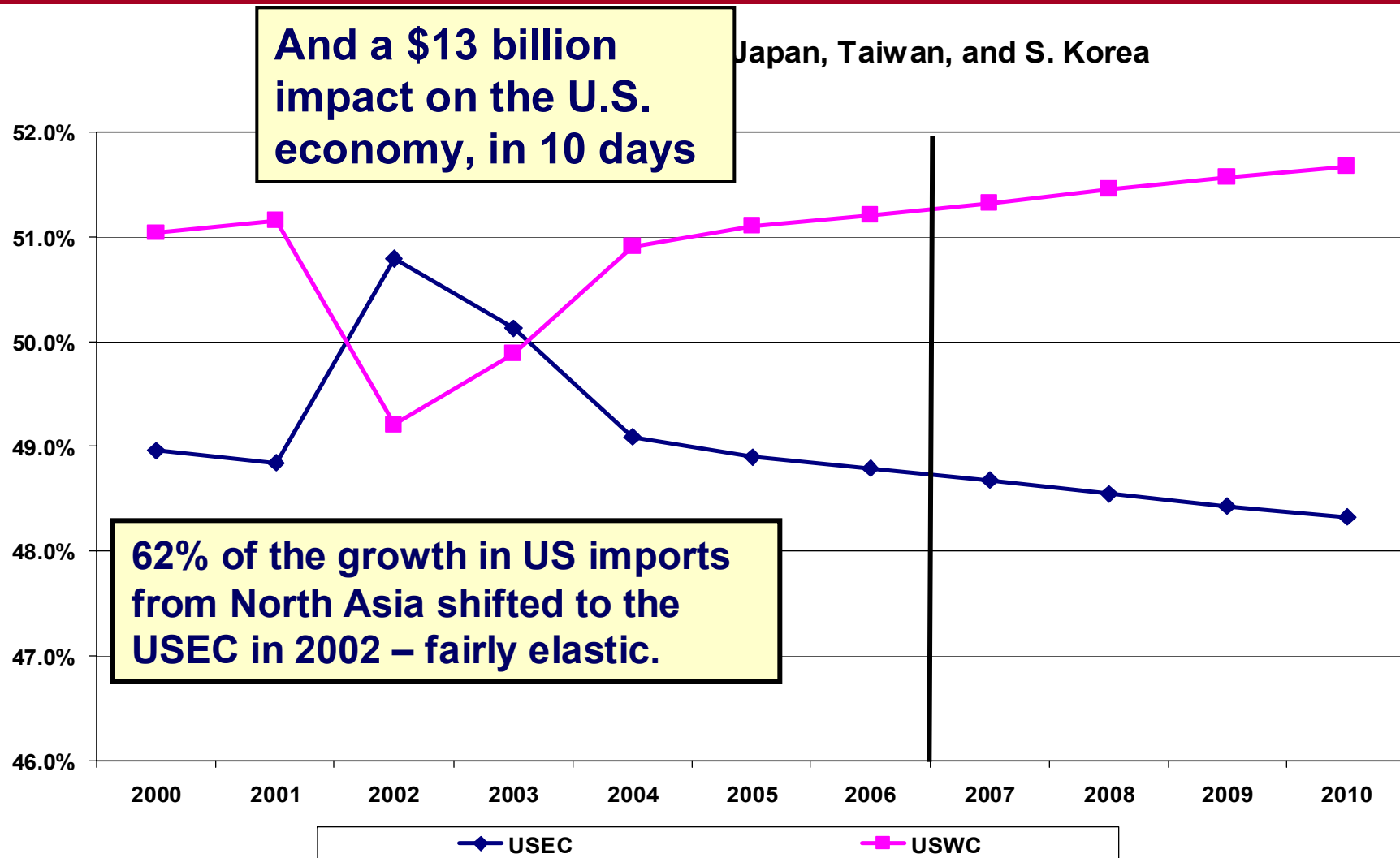
Source: John Vickerman, TransSystems, CI Database,
Seaports of the Americas

Container vessel wait time at LA/LB – a short interruption of service, affecting productivity, can cause . . .



Source: John Vickerman, TranSystems, derived from data from Marine Exchange of Southern California

... a fast shift by carriers to alternate routes. Here, carriers shifted to the US East Coast through the Panama Canal.



Source: Global Insight World Trade Model

Within the containership fleet, Post-Panamax is the fastest growing vessel type.

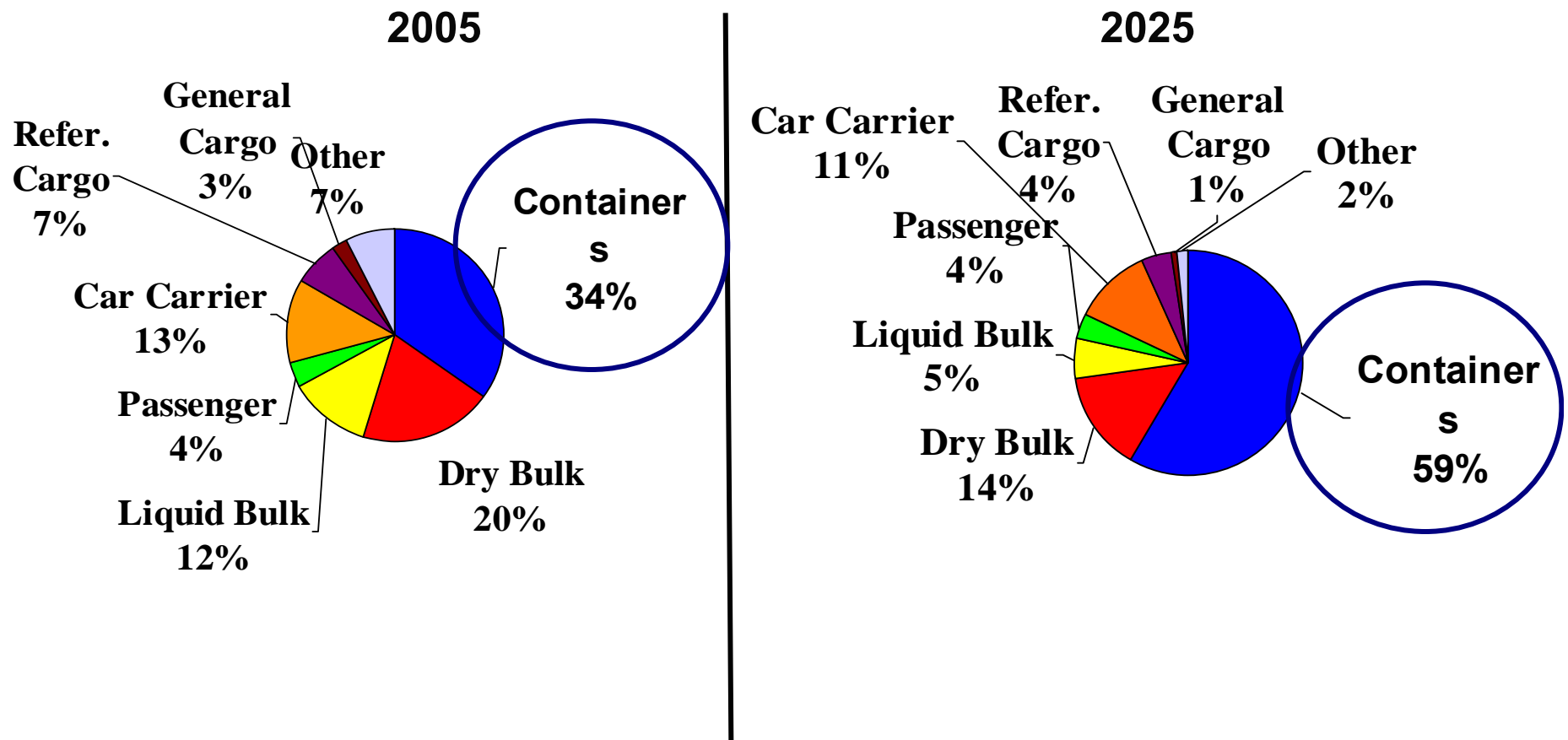
Number of Vessels in Operation

Vessel Type	2002	2003	2004	2005	2006	2007*	% Δ 2002- 07
Post-Panamax	201	246	283	332	391	488	143%
Panamax	392	435	473	513	578	642	64%
Sub-Panamax	432	464	498	529	574	629	46%
Handy	874	890	915	935	979	1,051	20%
Feedermax	548	565	593	626	675	728	33%
Feeder	461	452	445	444	443	444	-4%
All Containerships	2,908	3,052	3,207	3,379	3,640	3,982	37%

*2007 data is as of January

With a third set of locks, container traffic will account for nearly 60% of all Canal tonnage in 2025.

Panama Canal Tonnage: 2005 vs. 2025

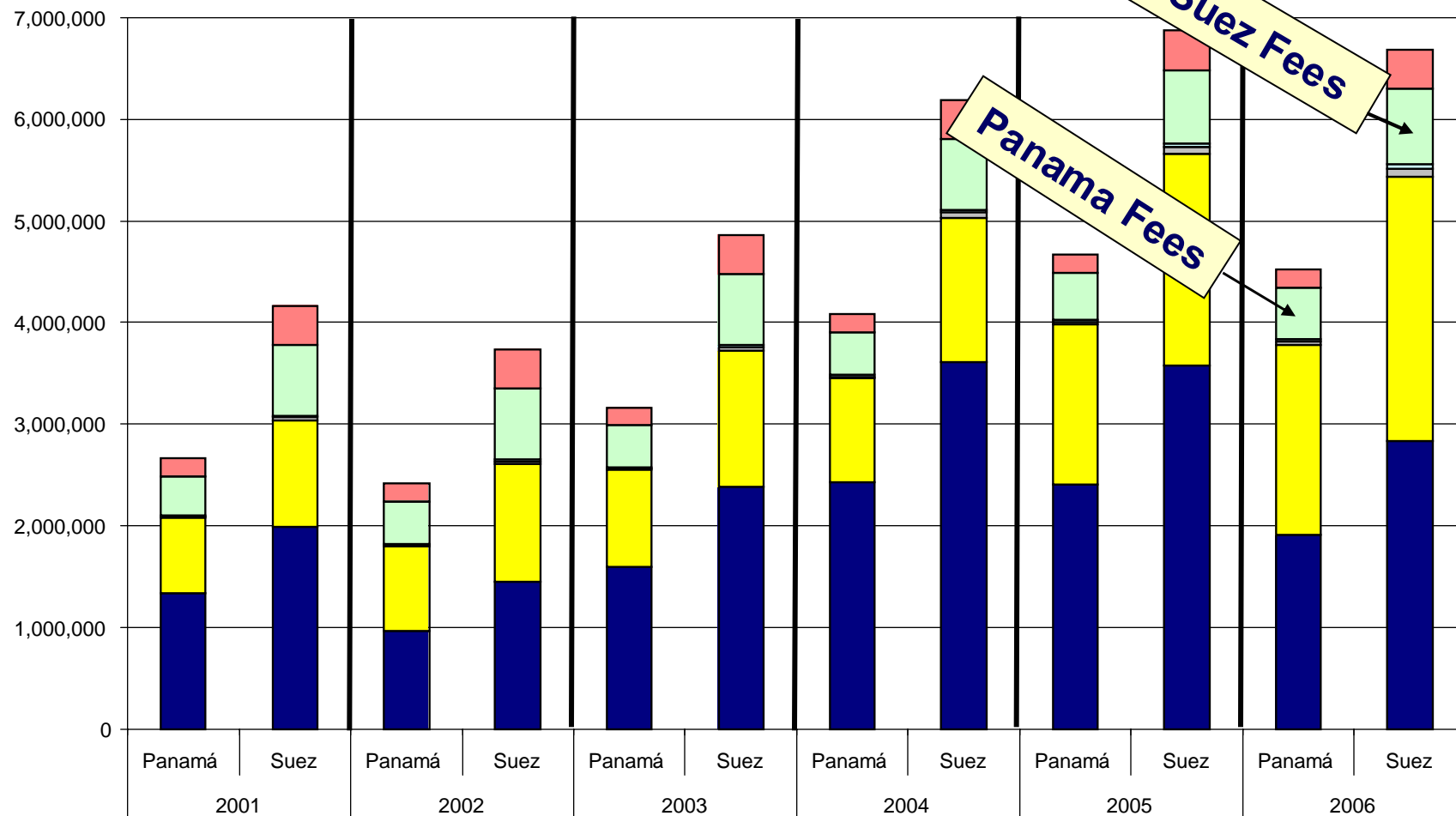


Source: ACP; Norbridge, Global Insight forecasts

Caribbean Transshipment Triangle



Panamá – Suez Route Cost Comparison: Northeast China to USEC



Source: Panama
Canal Authority

■ Ship provision costs
■ Fuel costs - Canal

■ Fuel costs - sea
■ Canal fees

■ Fuel Costs - Port
■ Port fees

Will the PPX ships use the expanded Canal?

YES

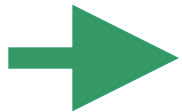
- Round-the world
 - One USEC or Caribbean port call
 - No concern about the backhaul

NO

- These ships seek hub-hub routes
 - High utilization needed in each direction
 - Not efficient for *multiple* port calls (USEC)
 - Could transship in one major Caribbean hub port
 - Will there be enough backhaul to make money?
 - Laden Canal tolls will apply in both directions – even if there is only “one banana on board”
- Perhaps the ships will remain on the transpacific
 - Fewer ships needed for weekly service to USEC
 - Better chance of strong backhaul cargo
 - More options available for overland intermodal connection

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Bottom Line

- To have any hope of forecasting the future correctly, do it often.
- Every international container can reach its destination by 2 routes, or more.
 - The Panama and Suez Canals do compete.
- The search for alternative gateways is on.
- China will not take over the world, but Chindia might!
- Enormous growth in container traffic and the shift to PPX vessels will push many ports to their full capacity limits, before the Canal expansion is ready (2014).
- USWC ports are currently not in a capacity crunch but they will be forced to expand operational throughput.
 - Will “just in time” become logistical archeology?



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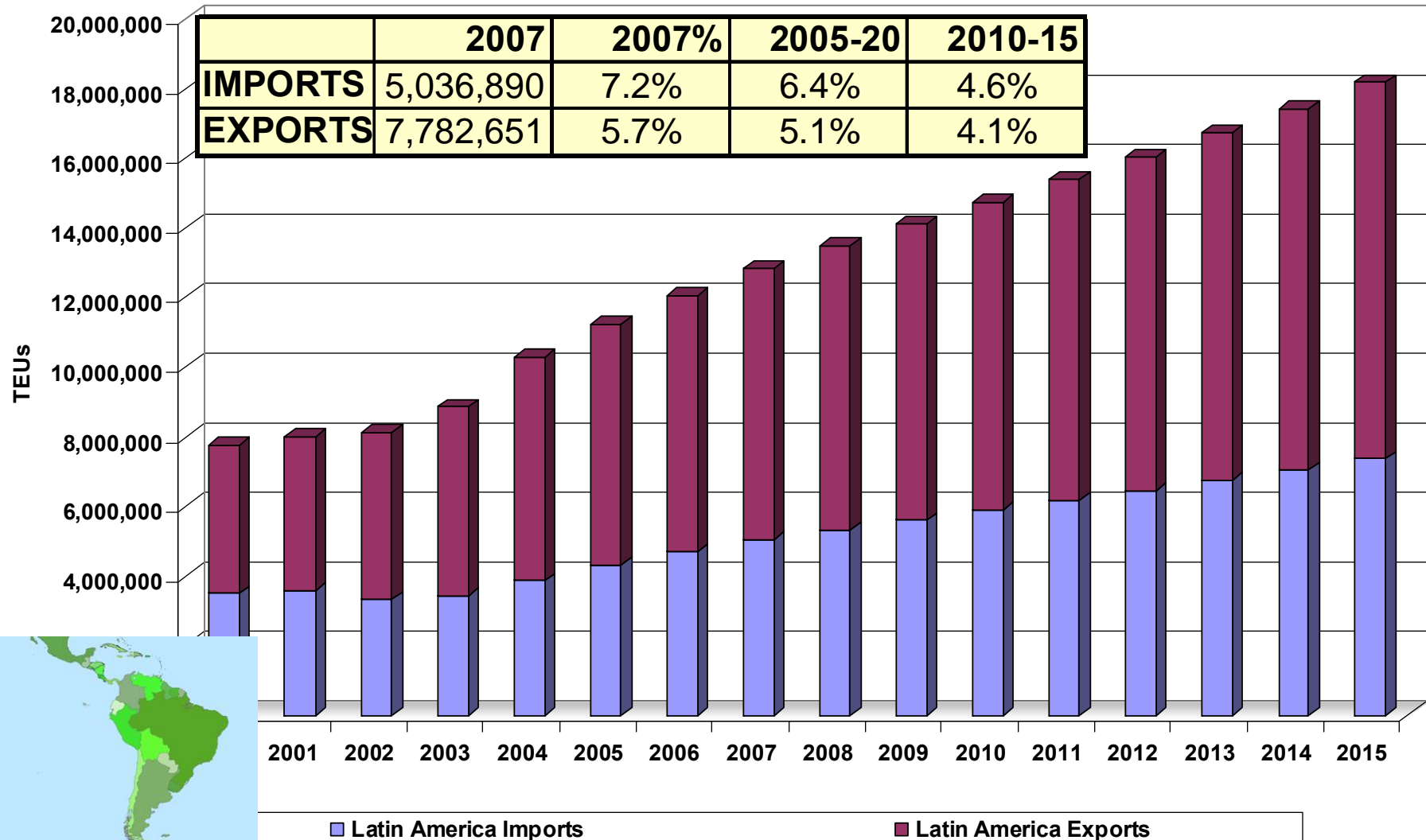
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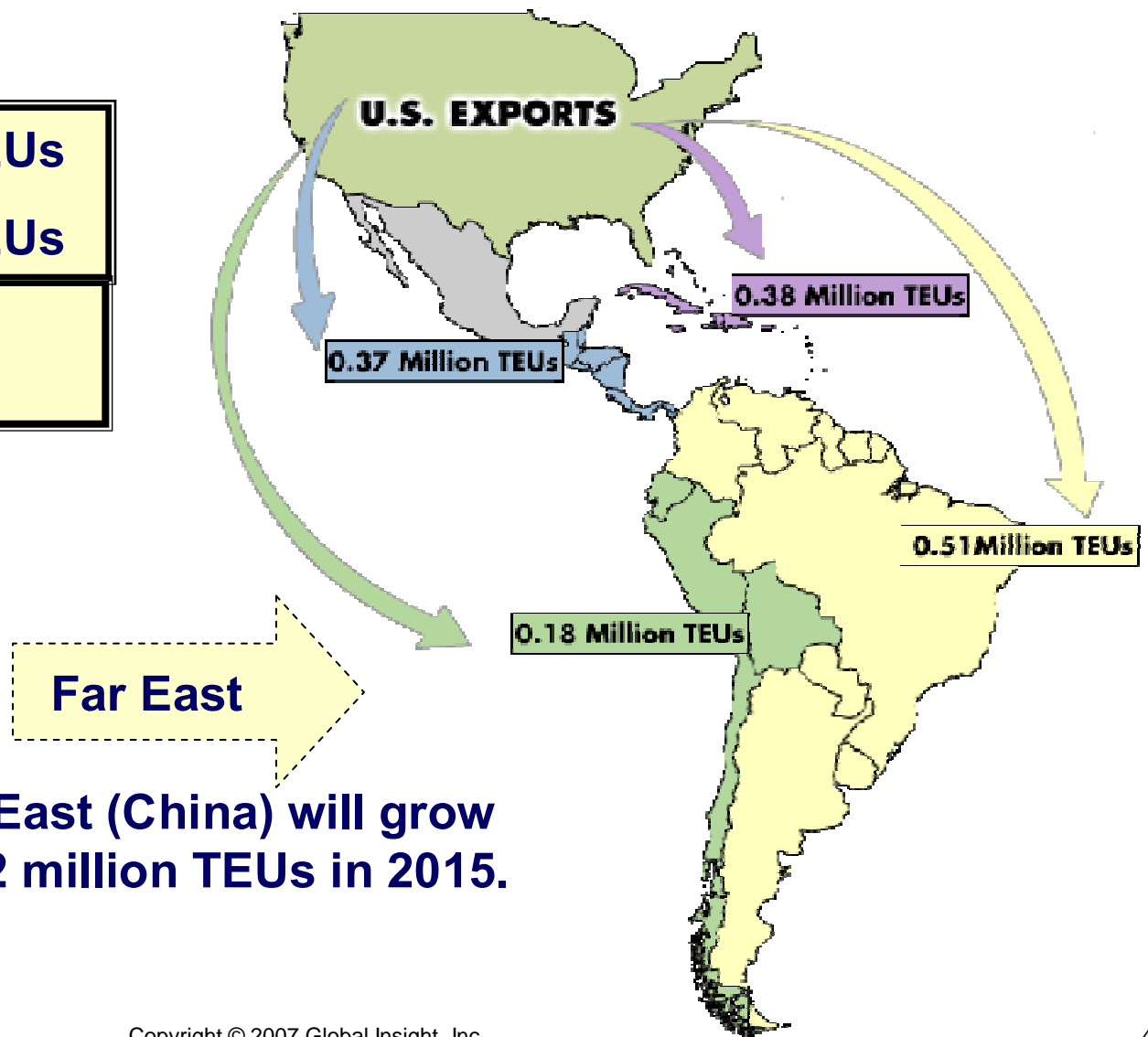
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Latin America's sea trade is expected to grow in line with general world sea trade growth. Imports will outpace exports.



L.A. imported 1.5 million TEUs from the U.S. in 2006.

2007	1.5 million TEUs
2015	2.0 million TEUs
3% average annual growth	



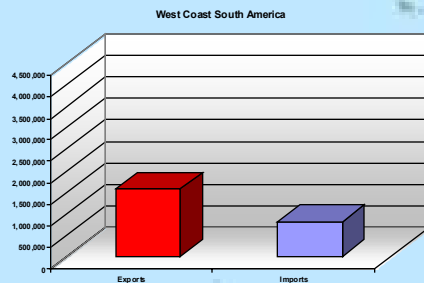
Imports from the Far East (China) will grow by 7.1%/year and hit 2 million TEUs in 2015.

South America's east & west coasts are export oriented, but imports will grow faster.

TEUs

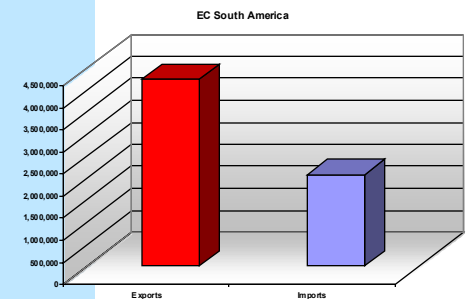
EXPORTS

IMPORTS



West Coast, South America

<i>WC South America</i>	2006	2010	CAGR%
Exports	1,566,754	1,896,612	4.9%
Imports	804,329	1,018,626	6.1%



East Coast, South America

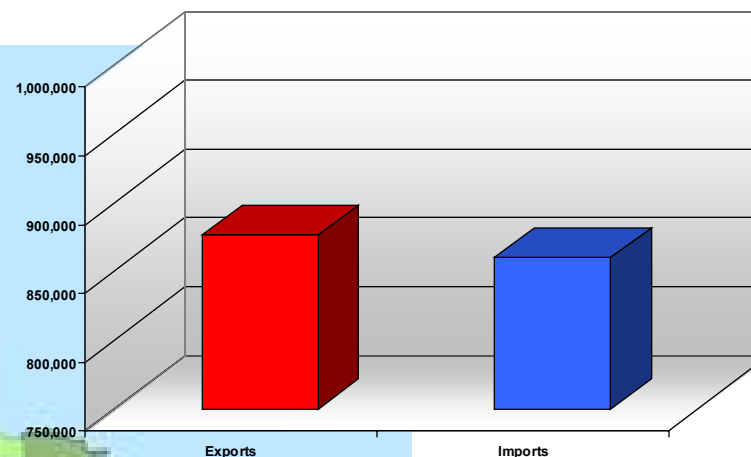
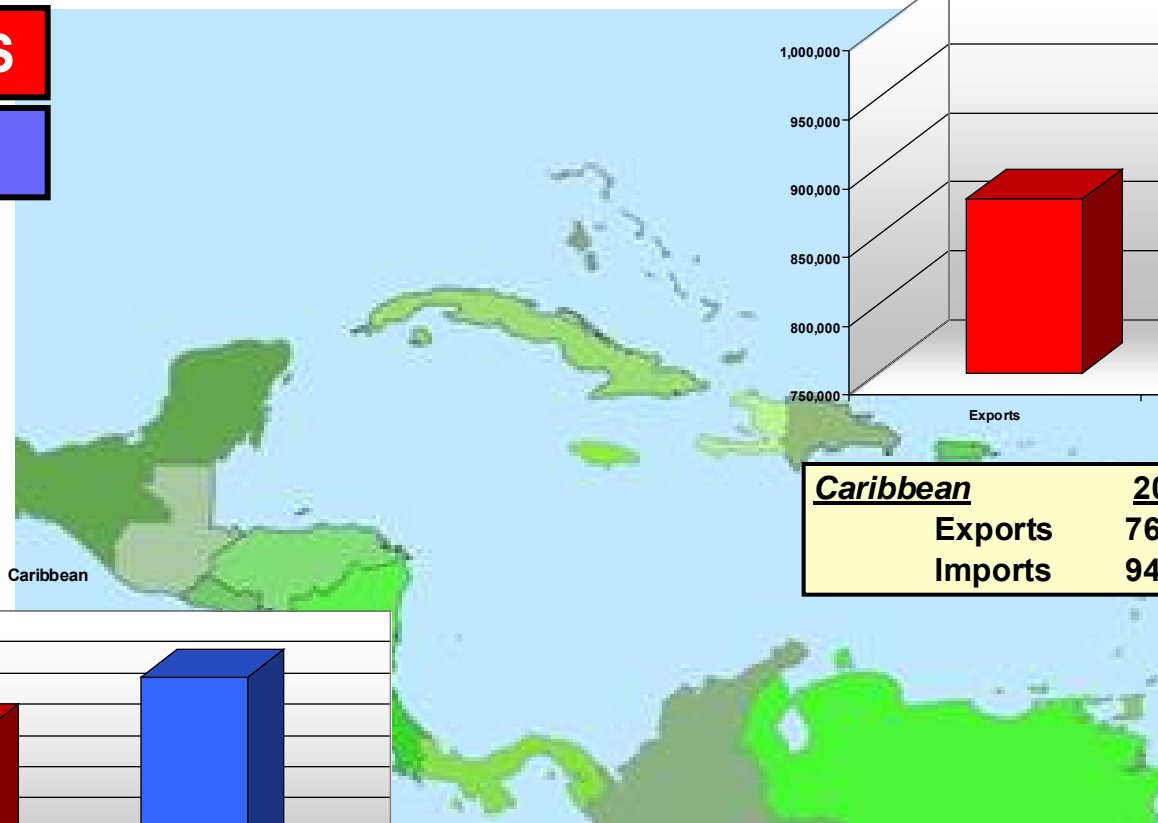
<i>EC South America</i>	2006	2010	CAGR%
Exports	4,242,497	5,050,706	4.5%
Imports	2,078,162	2,620,572	6.0%

Caribbean and Central America are fairly well-balanced.

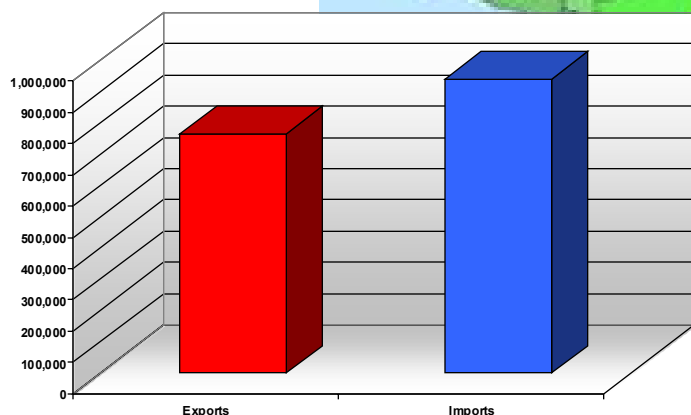
TEUs

EXPORTS

IMPORTS



<u>Caribbean</u>	<u>2006</u>	<u>2010</u>	<u>CAGR%</u>
Exports	765,407	912,922	4.5%
Imports	941,749	1,093,995	3.8%



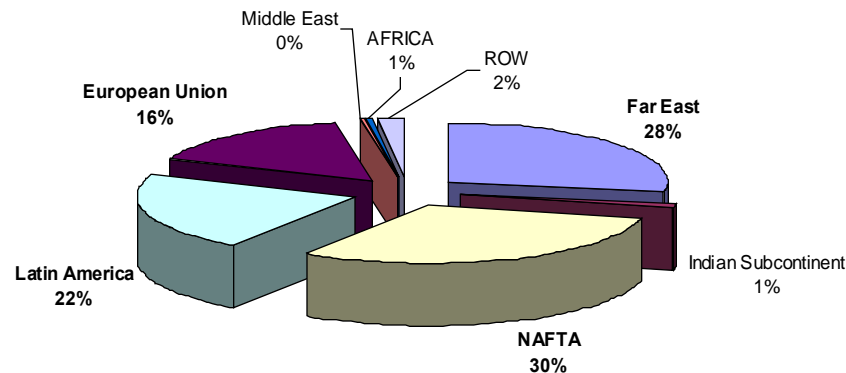
<u>Central America</u>	<u>2006</u>	<u>2010</u>	<u>CAGR%</u>
Exports	876,189	1,014,329	3.7%
Imports	859,621	1,080,414	5.9%

Each part of Latin America depends much more on the Far East for imports than for exports.

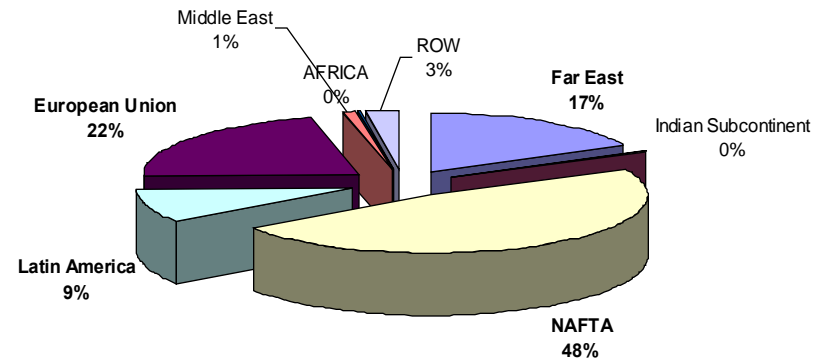
Far East Share (%) of Container Trade

	Imports	Exports
WCSA	28	17
ECSA	24	12
Cen Amer	33	2
Caribbean	17	1

WCSA Imports - 2006



WCSA Exports - 2006



L.A. containers to the U.S. in 2006 = 3 million

