



GLOBAL INSIGHT

Predicting the Future: Shifts in Global Trade Patterns

Presented to:

AAPA

**Commissioners Seminar
Hyatt Regency Savannah**

April 16, 2008

Savannah GA

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Agenda

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- **The weakening economic outlook**
 - **Shifts in trade patterns after the Canal expansion**
 - **Conclusions**

World Outlook – Looking very shaky all of a sudden

The Topic

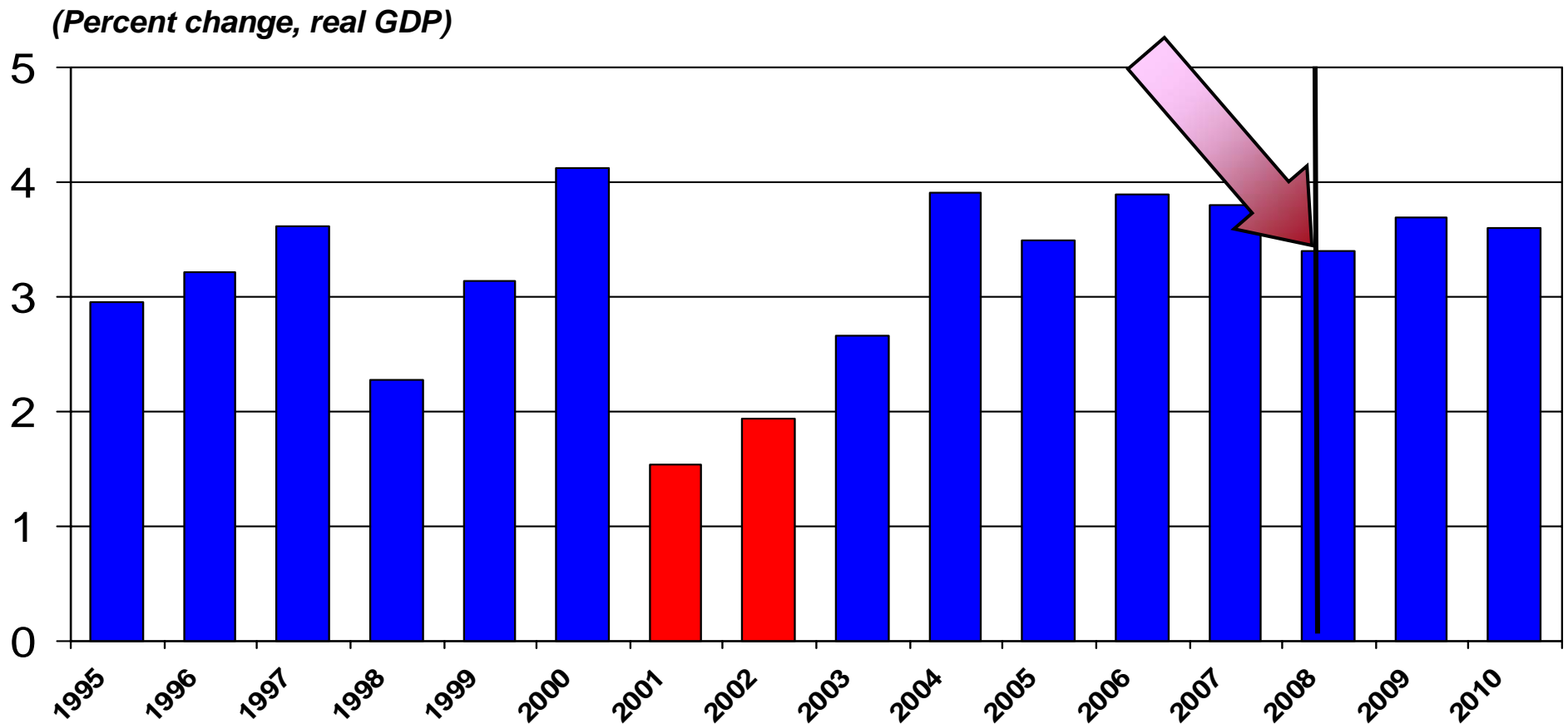
- Subprime crisis
- Oil prices
- U.S.
- U.S. dollar
- Europe
- China
- India
- Other emerging markets
- World recession risk
- Implications for trade

The Outlook

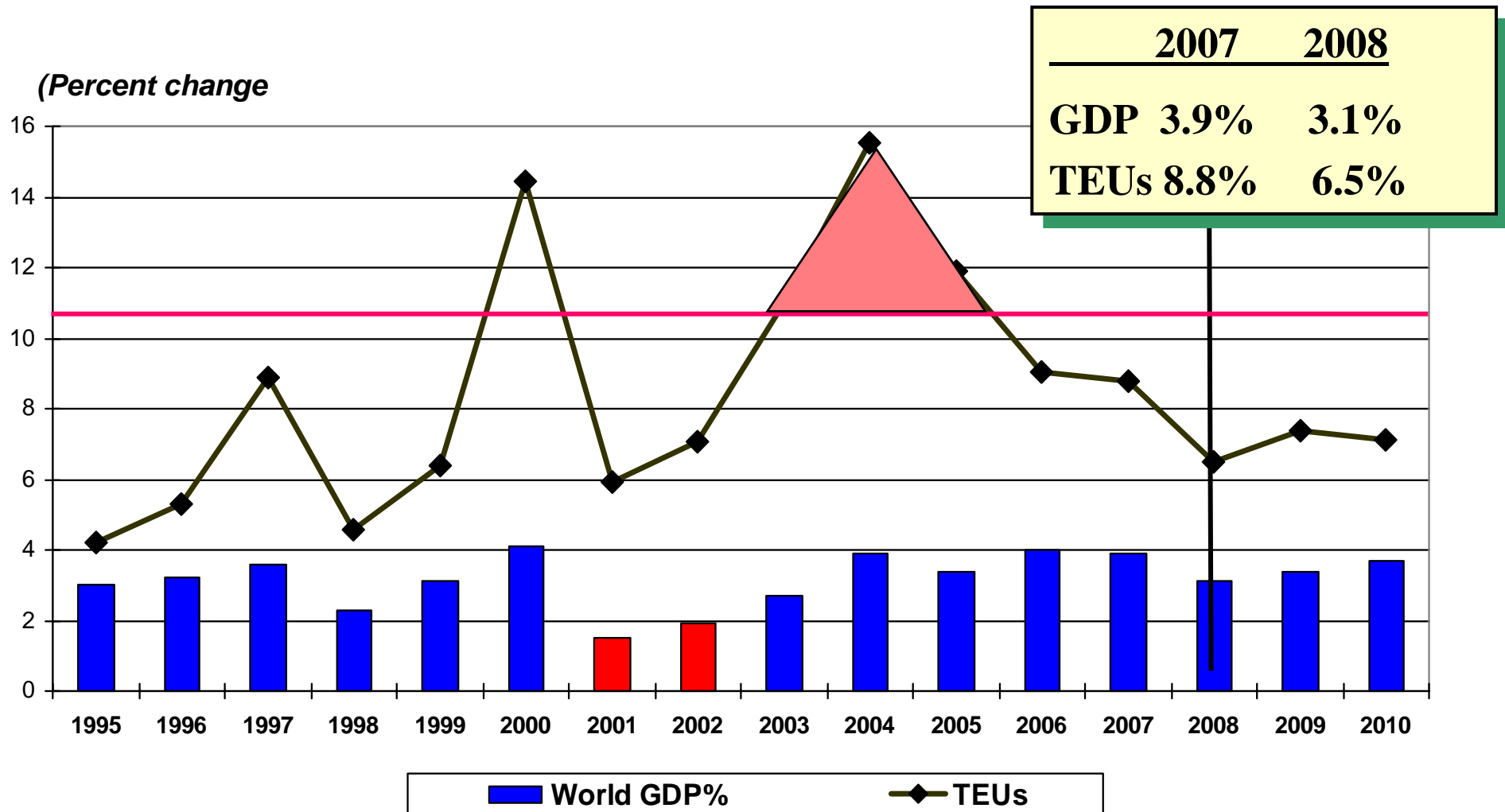
- A global problem
- How big of a threat? \$100+
- **We are in a recession**
- Still headed down
- No longer immune to U.S. economic problems
- Risk of a hard landing after the Olympics
- Relatively insulated from global shocks
- Happy days may finally be over, LA looks strong
- Still fairly low
- Not too negative & shift to exports in the U.S. and no China hard landing

World economic growth has peaked and is slowing . . .

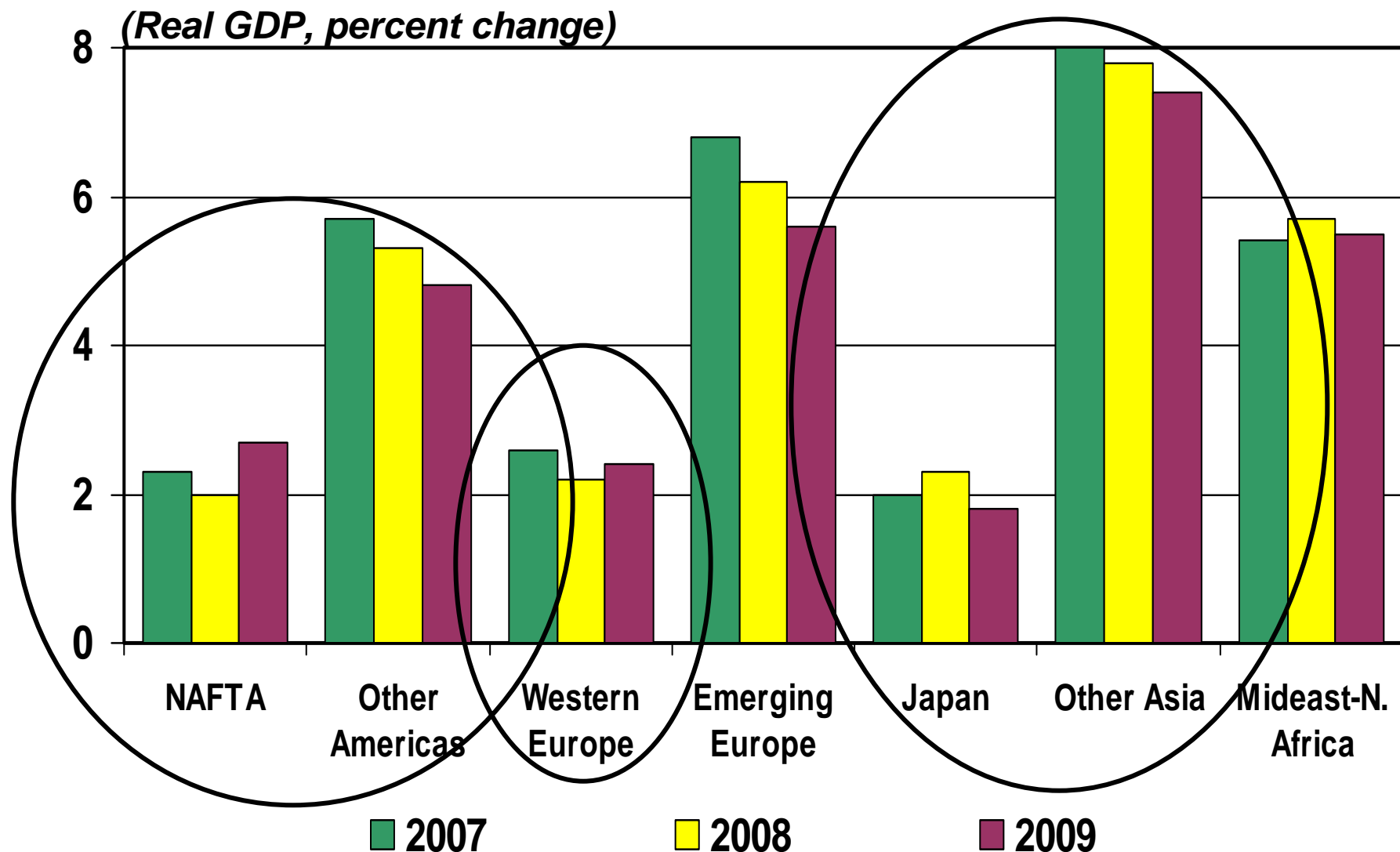
The world economy is in recession when real GDP growth is below 2%.



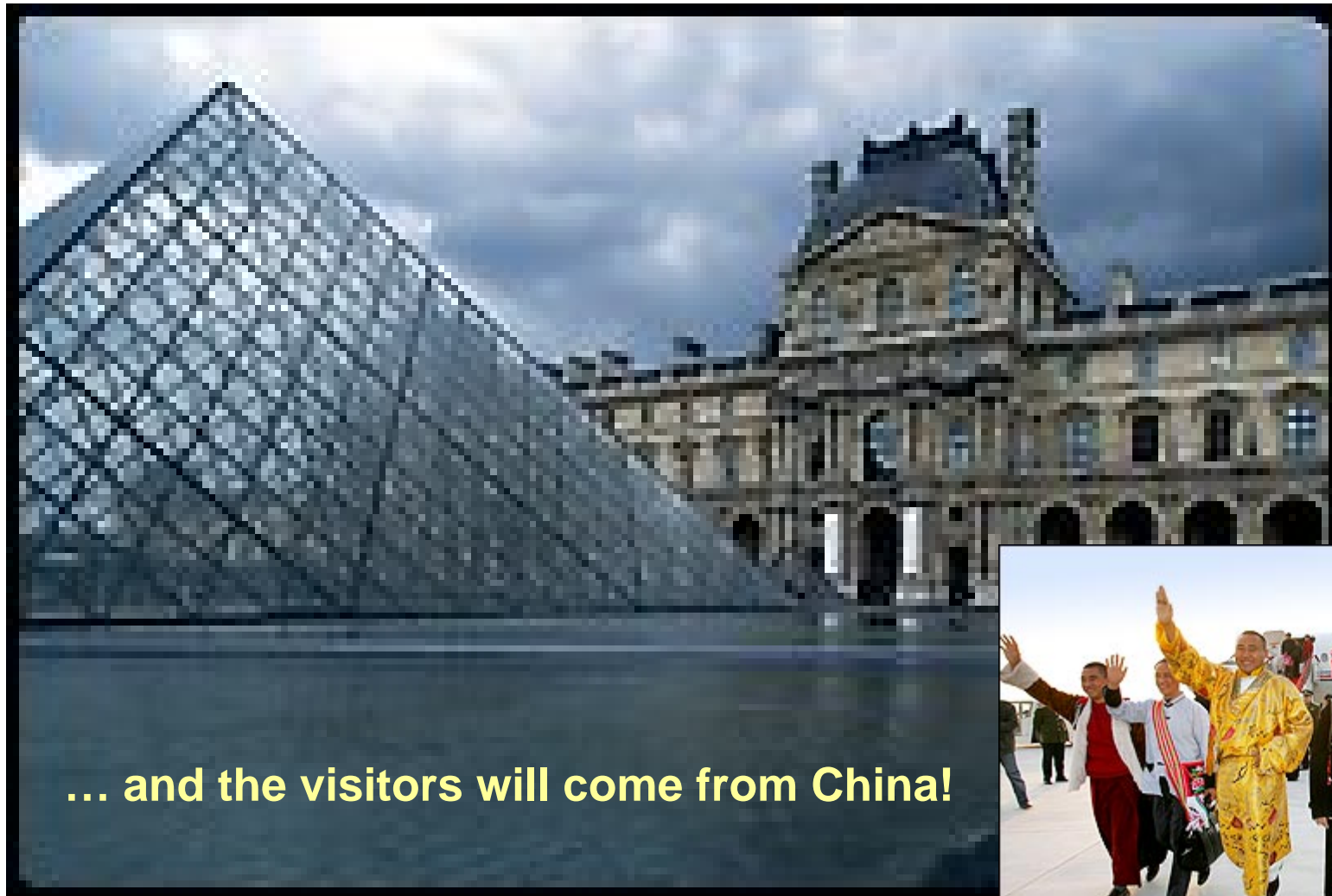
Container trade normally grows faster than the world economy. The age of double-digit growth is over.



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)

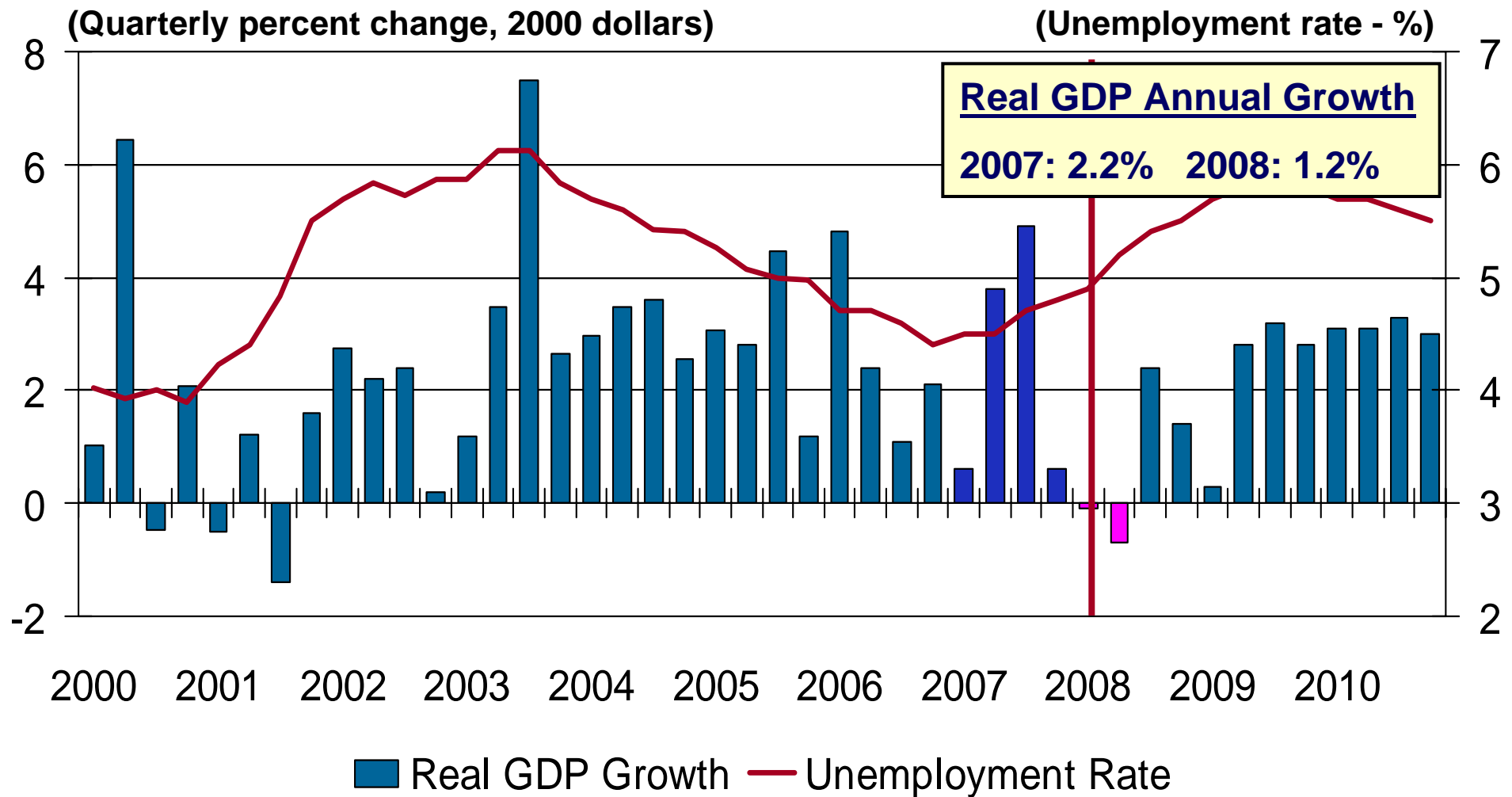
2000	2010	2020	2030	2040	2050
U.S.	U.S.	U.S.	U.S.	U.S.	China
Japan	Japan	China	China	China	U.S.
Germany	Germany	Japan	Japan	India	India
U.K.	U.K.	Germany	India	Japan	Japan
France	China	U.K.	Russia	Russia	Brazil
Italy	France	India	U.K.	Brazil	Russia
China	Italy	France	Germany	U.K.	U.K.
Brazil	India	Russia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

Source: Global Insight World Service and Goldman Sachs

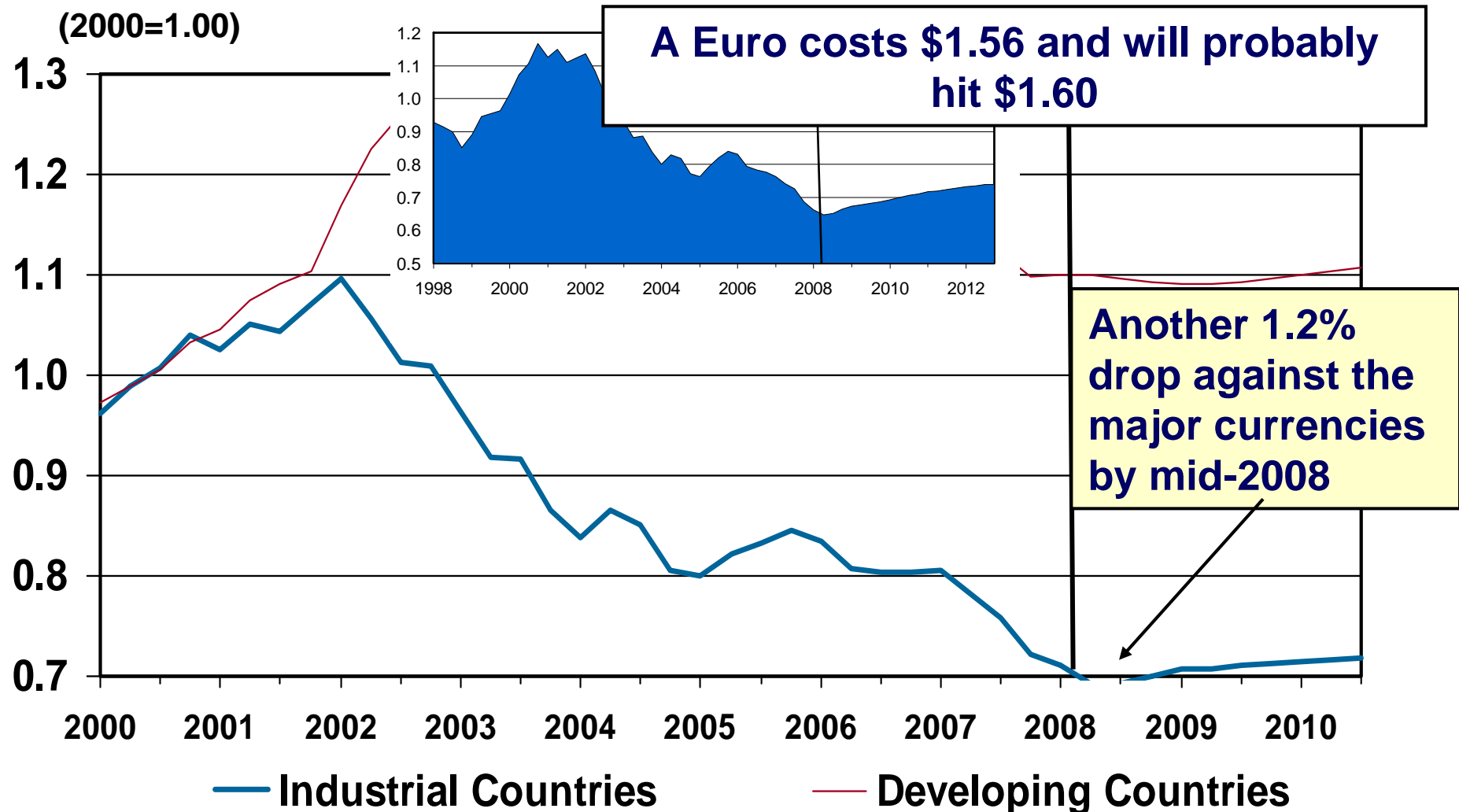
*The U.S. **recession** is here!*

- U.S. growth in 2008 is likely to come in at a weak 1.2%
- The main culprits are still the housing/subprime crisis and high oil prices – the “double-shock” economy
- Consumer spending will slow significantly, as employment growth grinds down
- Capital spending growth will be lackluster
- The only saving grace will be **net exports**. January was a blockbuster!
- We are in a (comparatively) mild, saucer-shaped recession in the first half of this year, with a high vulnerability to another shock
- The Fed will have to cut rates by another 50+ basis points today
- **Bottom line: we are decreasing our economic output now, but will turn the corner in the second half, thanks to the Fed and Government stimuli**

We are in a recession now. The snap-back is a bit artificial.



The U.S. dollar will depreciate further – steady declines through mid-2008, due to the huge trade deficits (\$800 billion).



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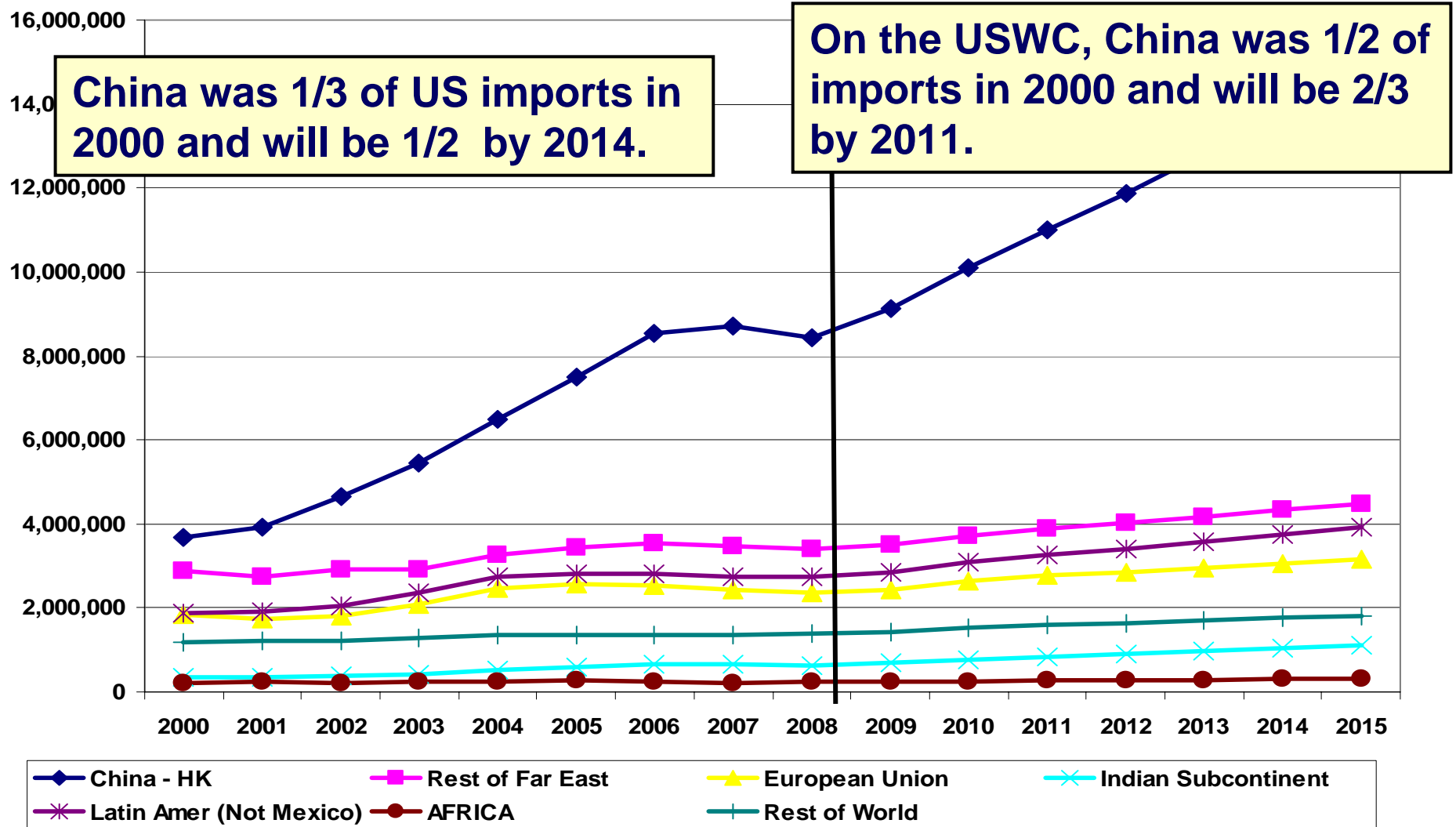
Containerized Trade Movements

(Thousands of TEUs)

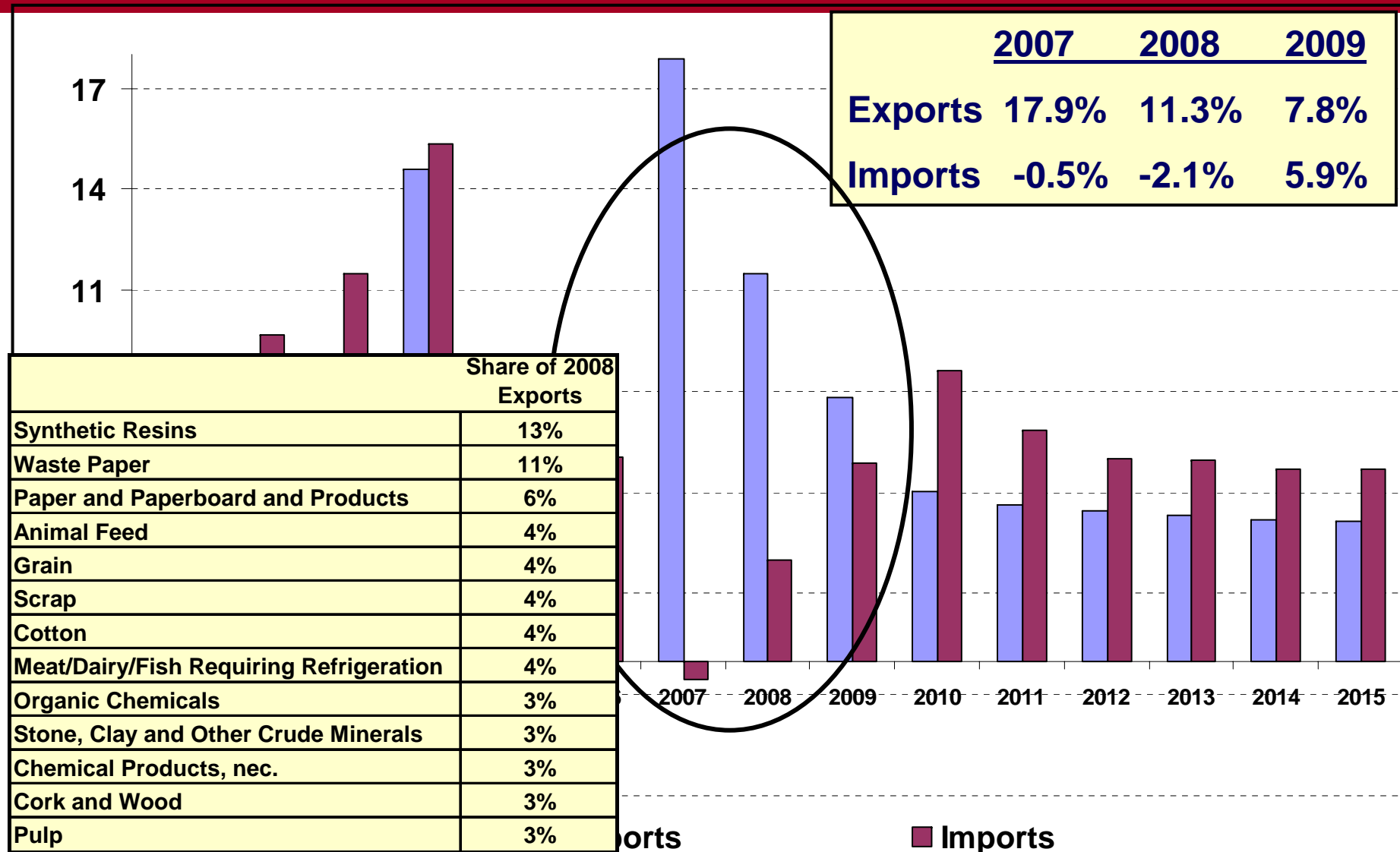
	2008	2010	2015	2008-2015 CAGR (%)
Transatlantic	6,137	6,758	8,065	4.0
Transpacific	19,880	23,025	30,982	6.5
U.S. Atlantic/Asia	4,572	5,277	7,029	6.3
Europe/Asia	22,958	26,691	36,413	6.8
Rest	46,072	52,535	69,864	6.1
Total	123,668	142,331	190,770	6.4

1/4 of world TEUs are Intra-Asia

U.S. (full) TEU imports decreased in 2007 by -0.5%, and will continue decreasing in 2008 by -2.1%. Chinese imports will grow fastest 6.8% on average through 2015.



For the U.S., TEU growth has shifted to exports.

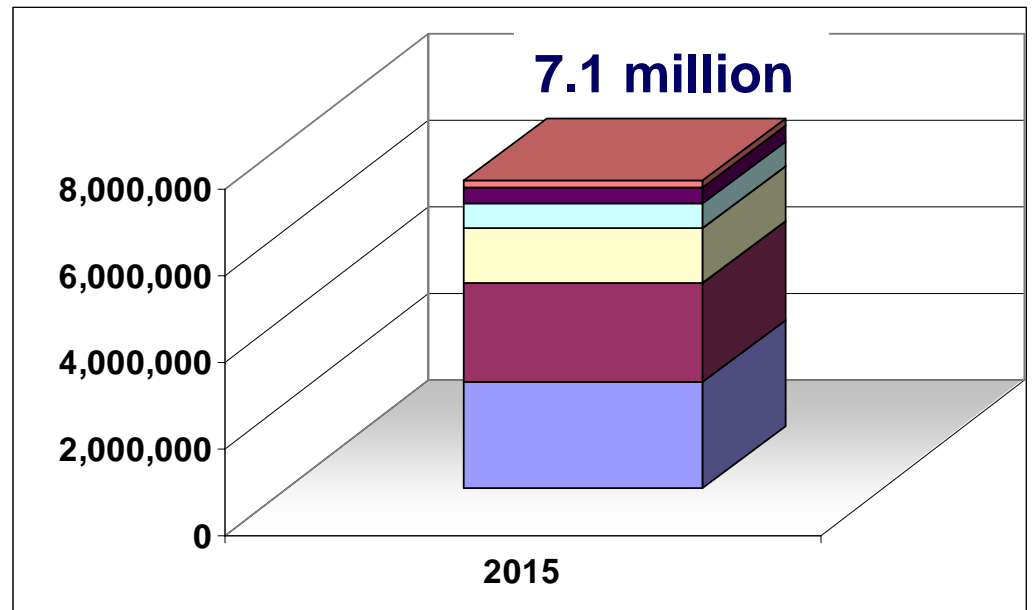
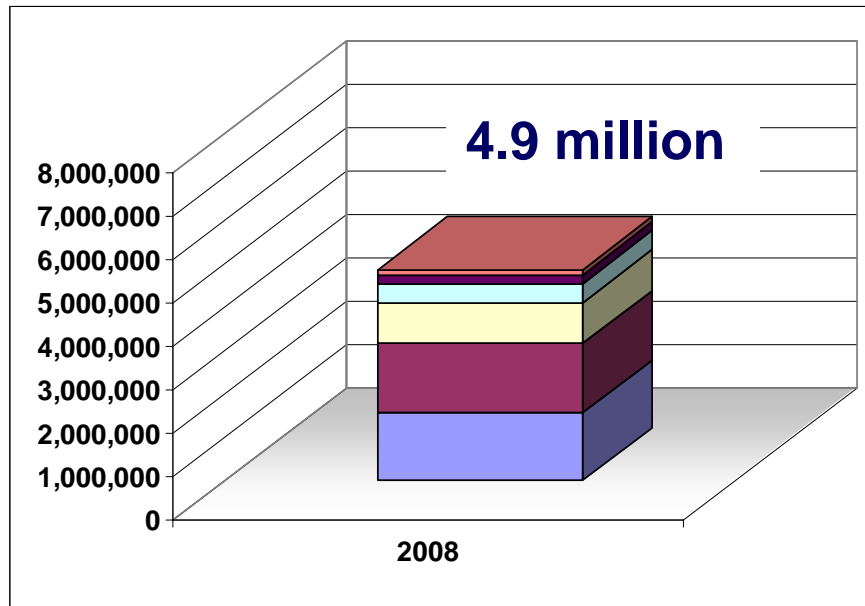


TEU imports into Gulf and S. Atlantic will grow.

Growth rates: 2008-15

Far East	6.9%
Europe	4.2%
Africa	4.3%

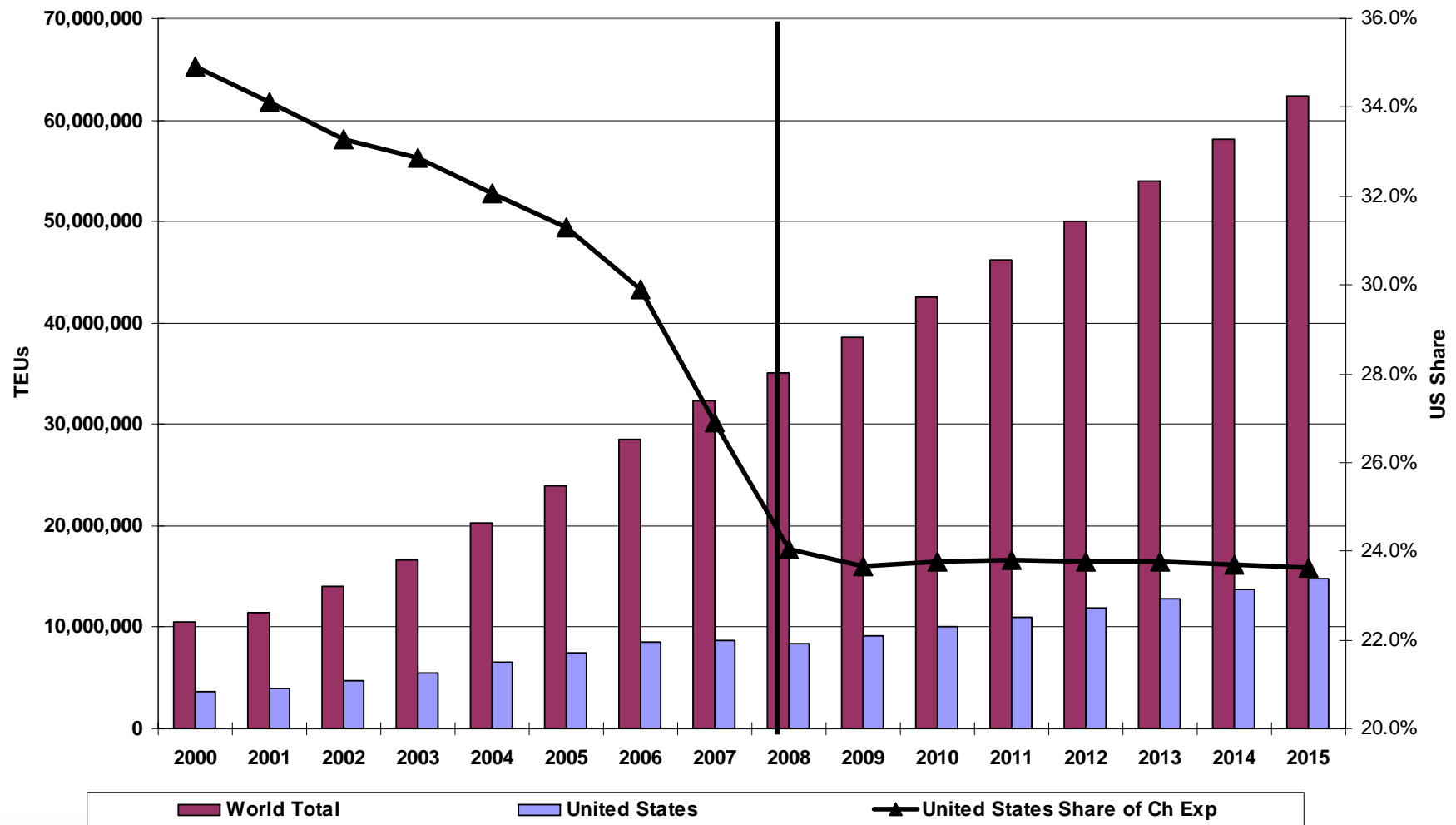
Latin America	5.3%
India	8.6%
Rest of World	3.9%



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

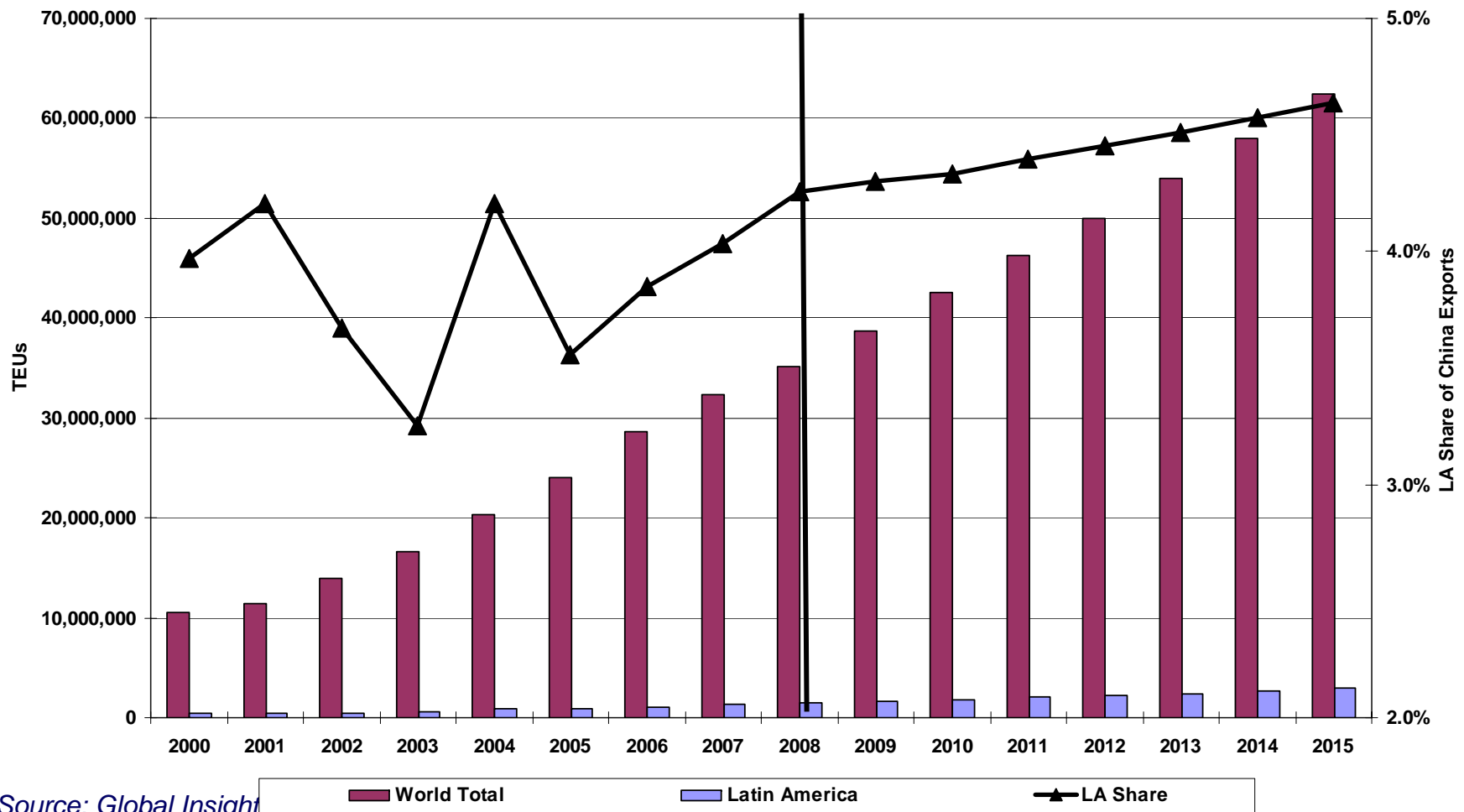
Source: Global Insight World Trade Model

US Share of China Exports



... could absorb 5% of China's container exports by 2015, with strong growth in consumer products.

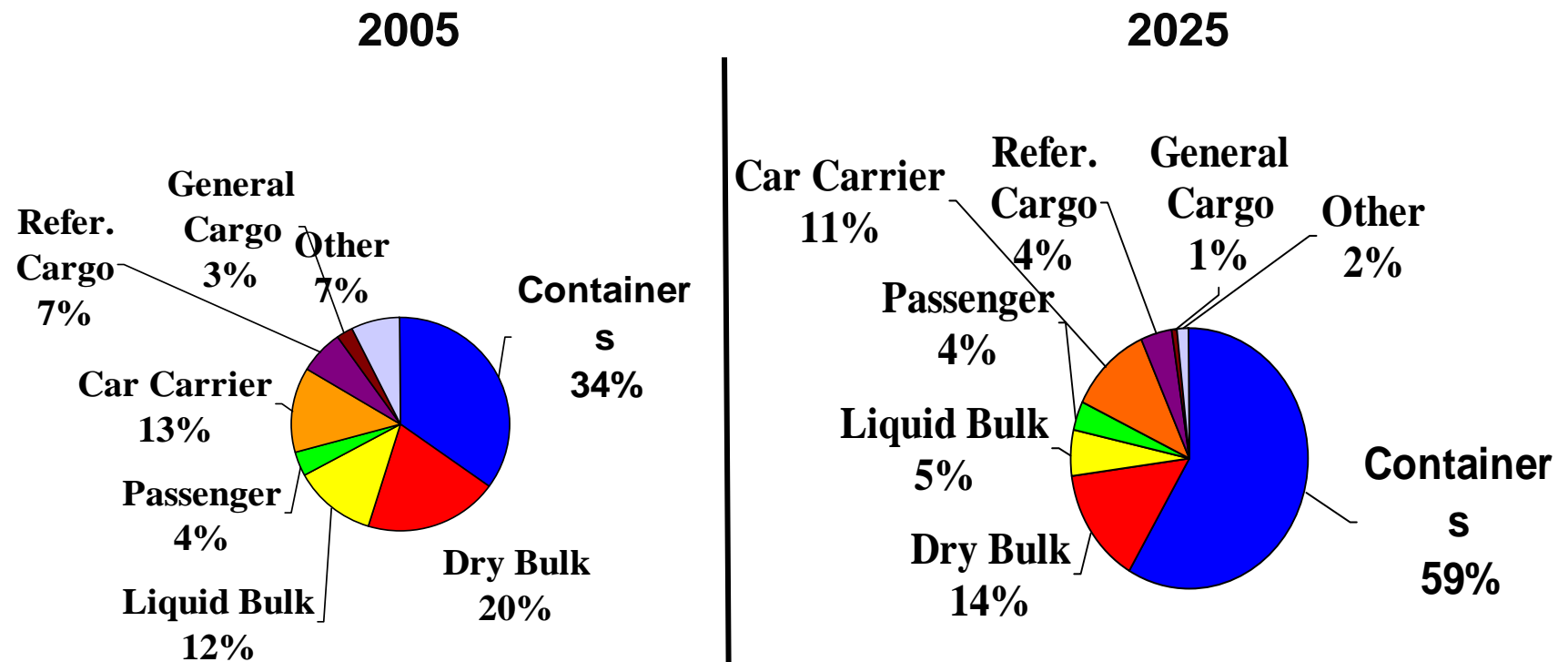
Latin America Share of China Exports



Source: Global Insight

With expanded capacity, container traffic will account for nearly 60% of all Canal tonnage in 2025.

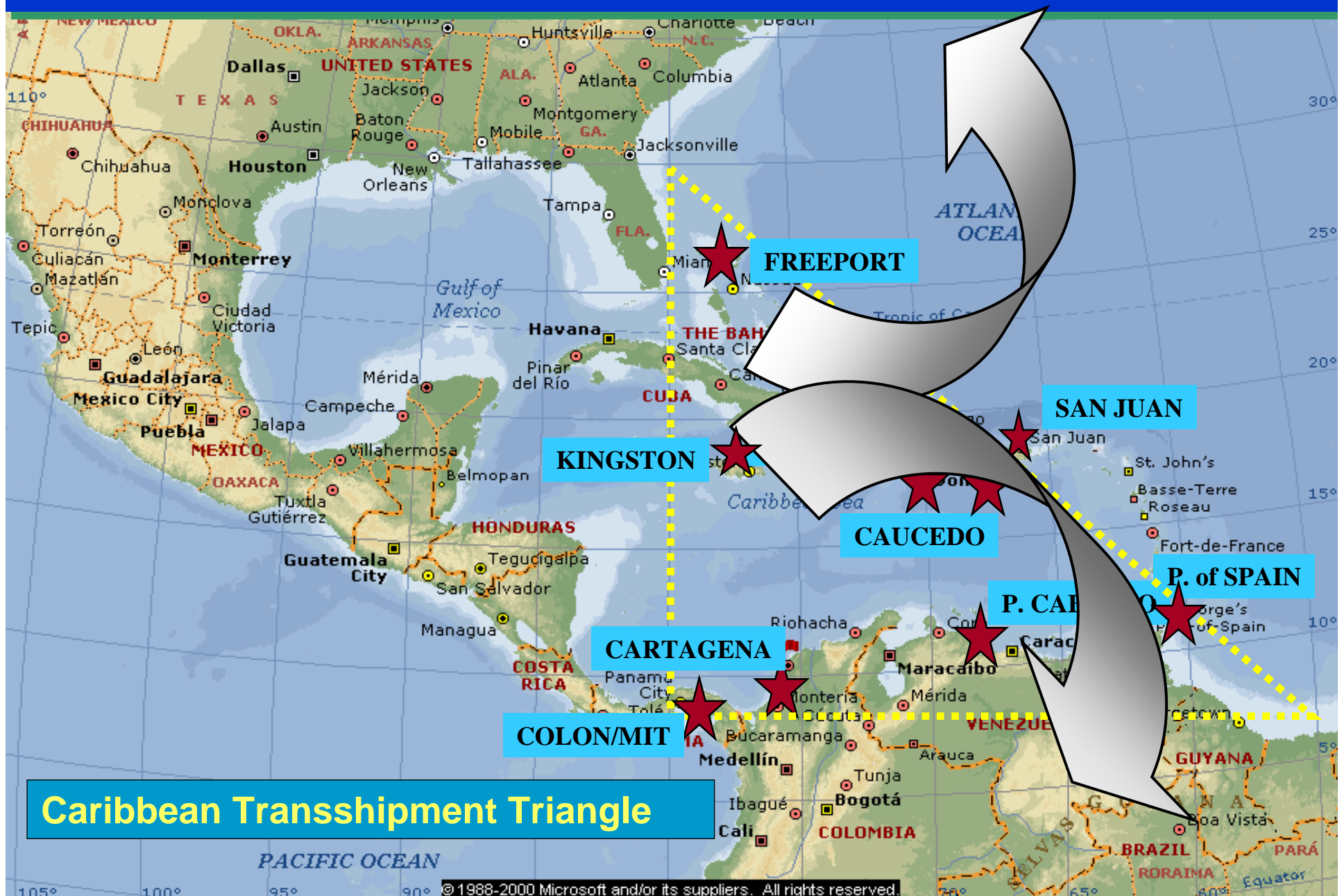
Panama Canal Tonnage: 2005 vs. 2025



After transiting the Canal, where will the big containerships go?

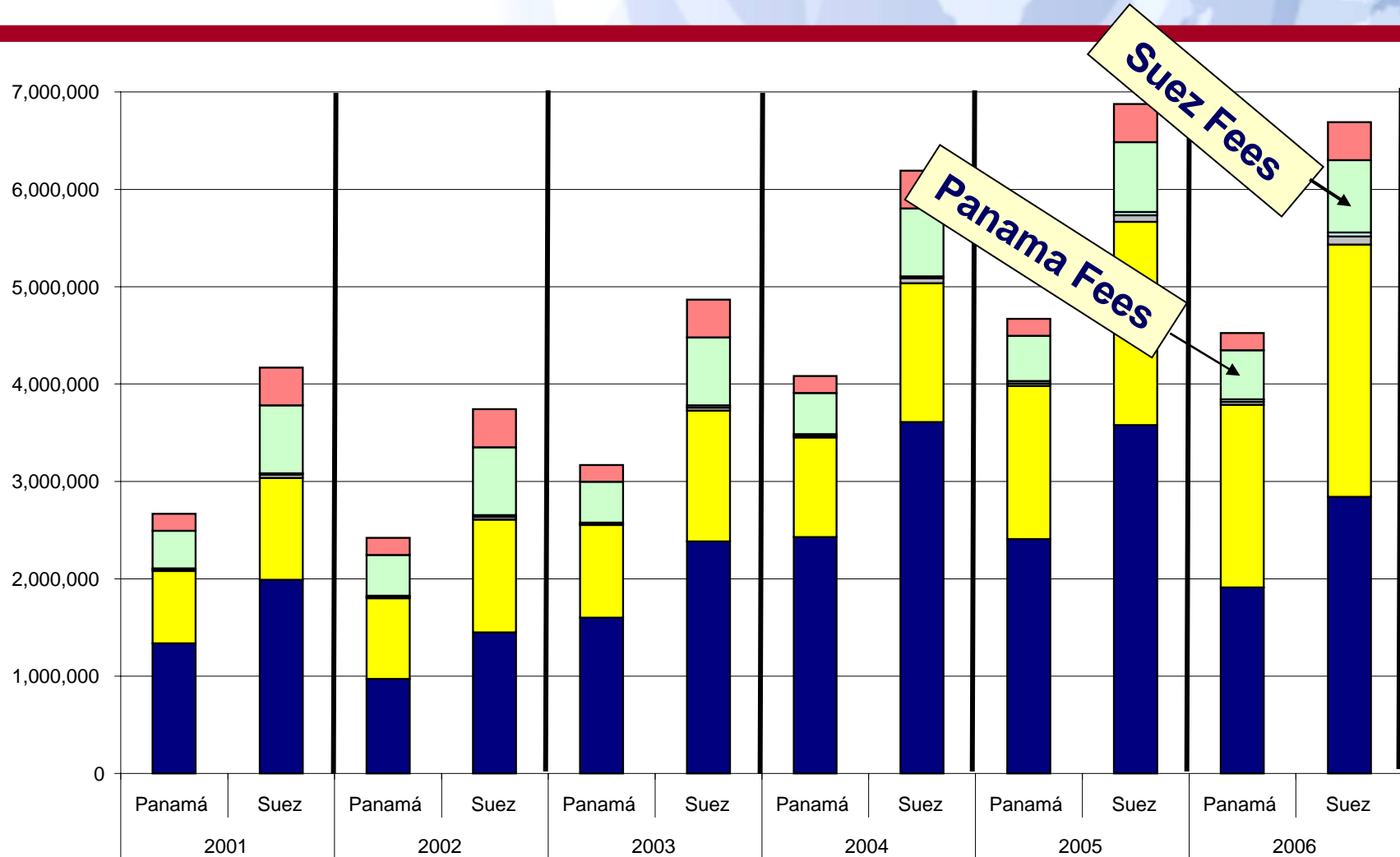
Source: ACP; Norbridge, Global Insight forecasts

After the expansion, this is where the action will be.



Panama – 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

Sol
the

\$9 billion+
UP + Hutchison, still?
BNSF + Grupo Mexico, still?
MTC + Carlos Slim (IDEAL)
SSA? DP World?

*being discussed – to feed
a capacity squeeze.*

Punta Colonet



**Ferrocarril
Mexicano**

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

Manzanillo
Lazaro Cardenas

Oceano
Pacífico

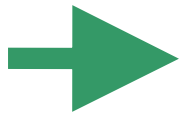
**Alfa-Omega Line
(Tehuantepec)**

- Container volumes will continue to grow.
- USWC port and rail congestion could return – 5 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)

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- Conclusions

Bottom Line

- **U.S. is in recession now.**
- **Once the Expanded Canal is open, there will be a boom in transshipment in the Caribbean.**
 - **Feeding North and South America**
- **If manufacturing shifts into Vietnam and India (for export), the USEC will see a lot more direct Suez traffic, increasing its share of US container imports.**
- **Despite the economic slowdown, container traffic growth within the next 5 years will push many ports to their full capacity limits, before the Canal is expanded – the search for more extreme alternatives is on!**

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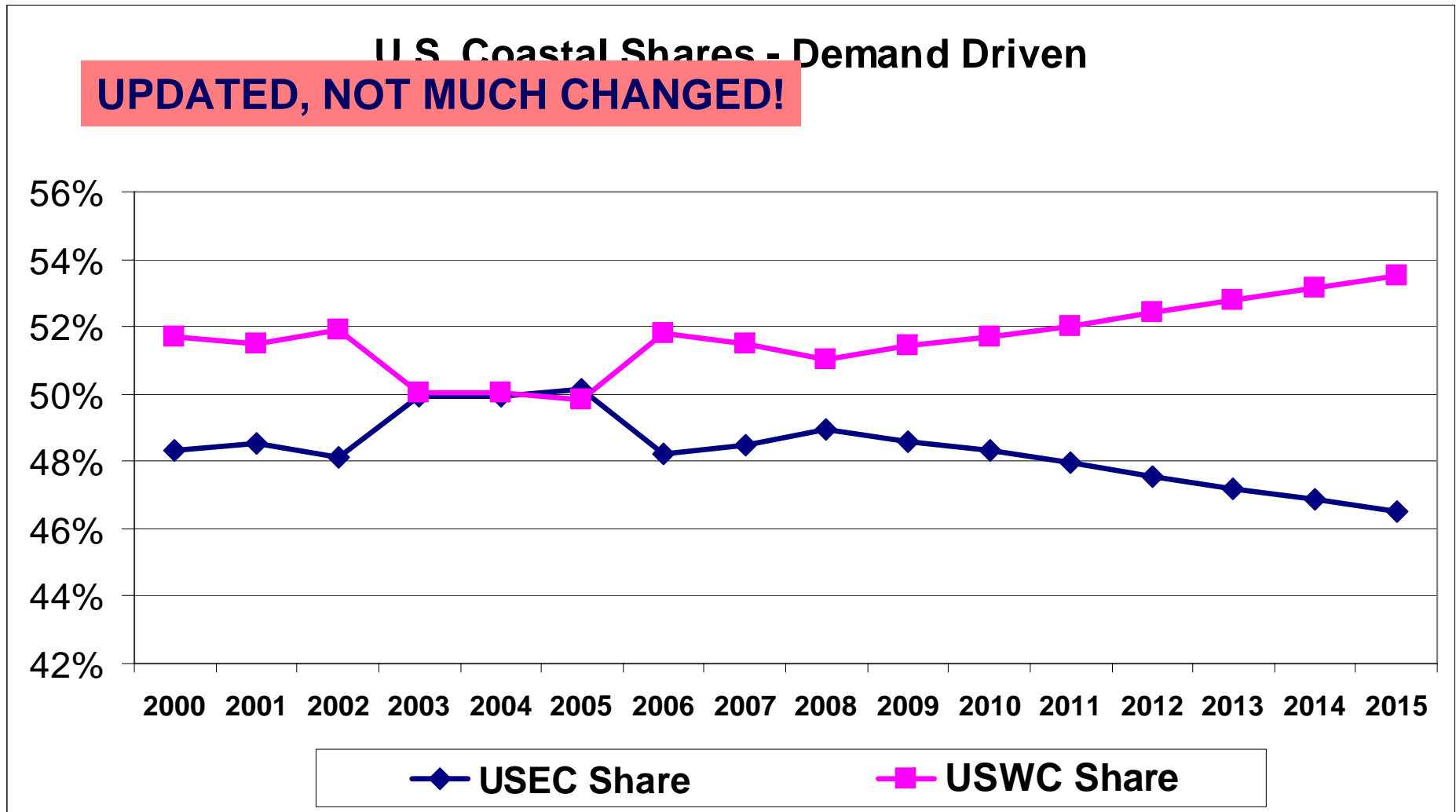
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***If there is enough capacity in the ports and railways,
USWC ports should gain share, but . . .***



Latin America's sea trade is expected to grow in line with general world sea trade growth. Exports will outpace imports, but the trade will be fairly well-balanced.

