

Shifting International Trade Routes



15 January 2009

Norbridge

Agenda

Today's Objectives

Economic Situation

Supply Chain Assessment

The Global Container Fleet

North American Container Market

Shifting Trade Patterns

Questions for the Container Shipping Industry

I. Today's Objectives

Endeavor to provide a broad context for today's program by:

- ✓ Reviewing the North American economic situation and short-term outlook
- ✓ Touching on the affects of today's economy on shippers' supply chains
- ✓ Assessing the status of the global and North American container markets
- ✓ Providing some observations Asia-North American container routing alternatives

Most importantly, finish on time!

II. Economic Situation



The Darkest Hour is.....

Just before things go pitch black!

US Market Fundamentals

- The consumer is two thirds or more of the US economy
- When consumers sneeze, the economy catches the flu

The consumer is under substantial pressure



The U.S. market fundamentals

2002-2007

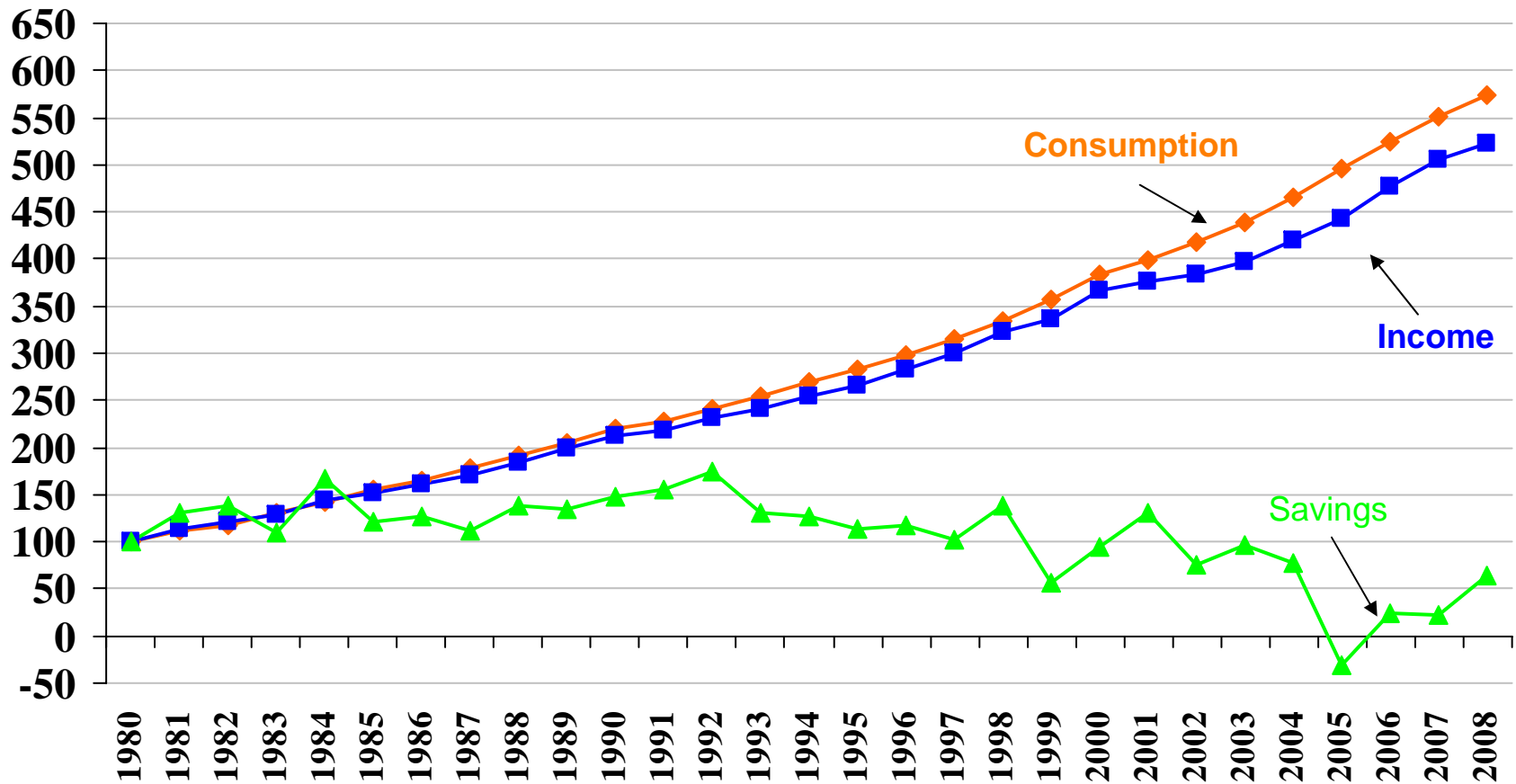
- Emergence of China
- Cheap and plentiful money
- Housing boom fueled consumption and negative savings rate
- Strong economic growth
- Unbridled optimism

Today

- Housing slump
- Financial crisis
- No money or unaffordable money
- Unemployment
- Confidence crisis
- Spreading to the global economy

U.S. income and consumption levels have grown steadily while savings have declined

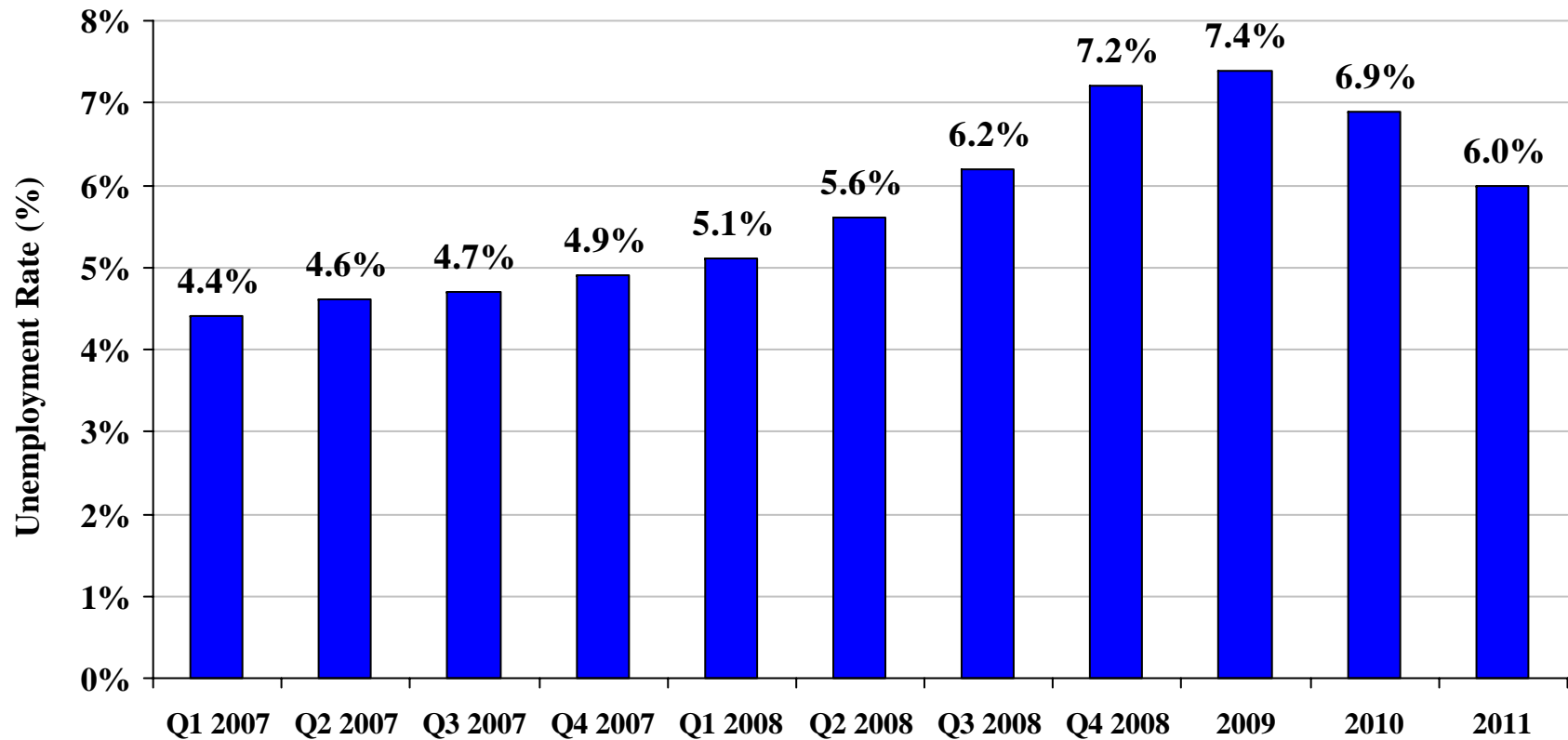
Index of US Personal Consumption, Personal Income, and Personal Savings (1980-2008; 1980=100)



CAGR (1980-2008)	Consumption	Income	Savings
	6.4%	6.1%	-1.5%

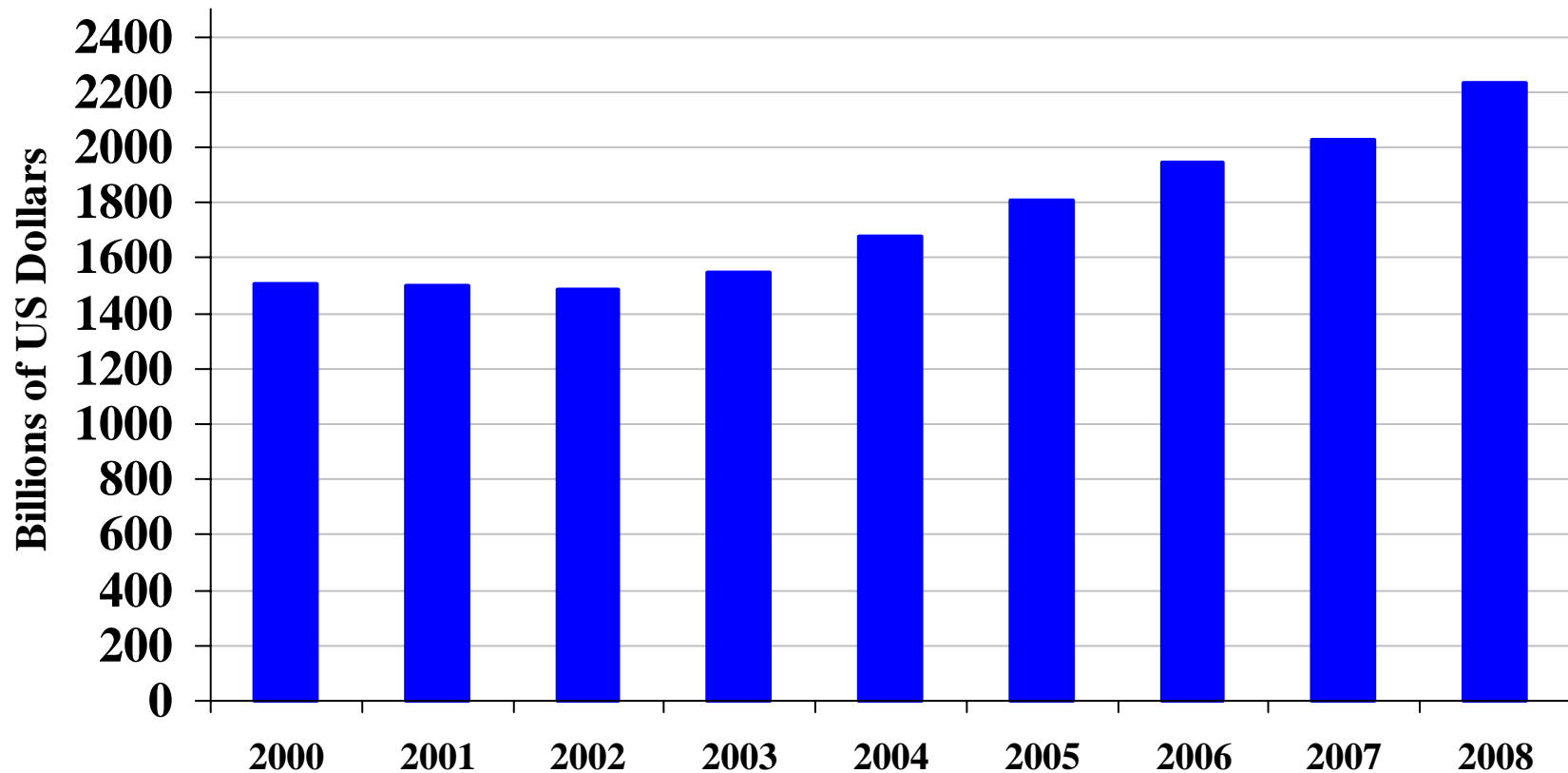
U.S. employment is increasing and expected to peak in 2009

U.S. Unemployment Rate History and Projections



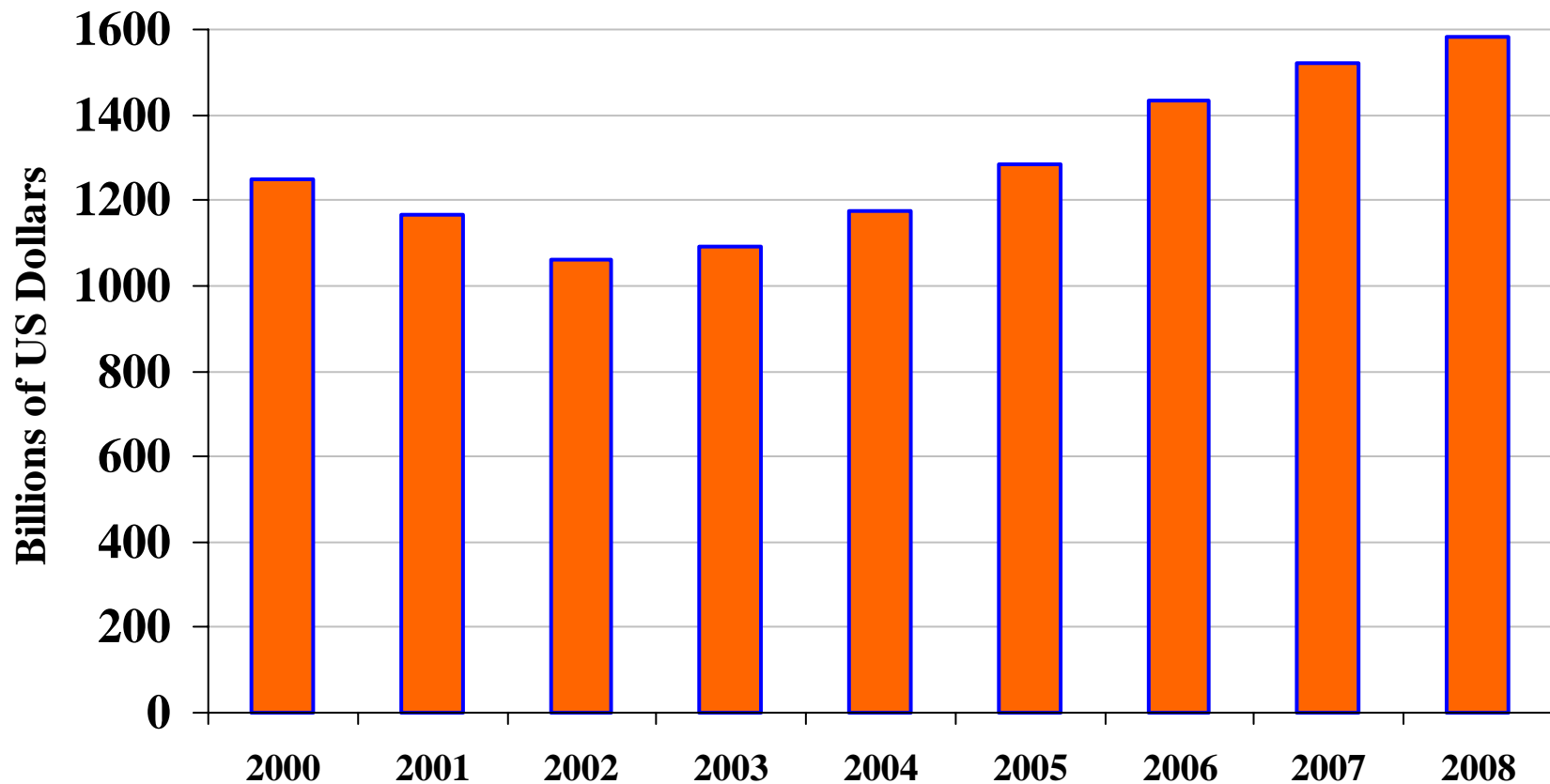
U.S. private inventories (non-government) have been growing steadily since 2003

U.S. Private Inventories (2000-2008)



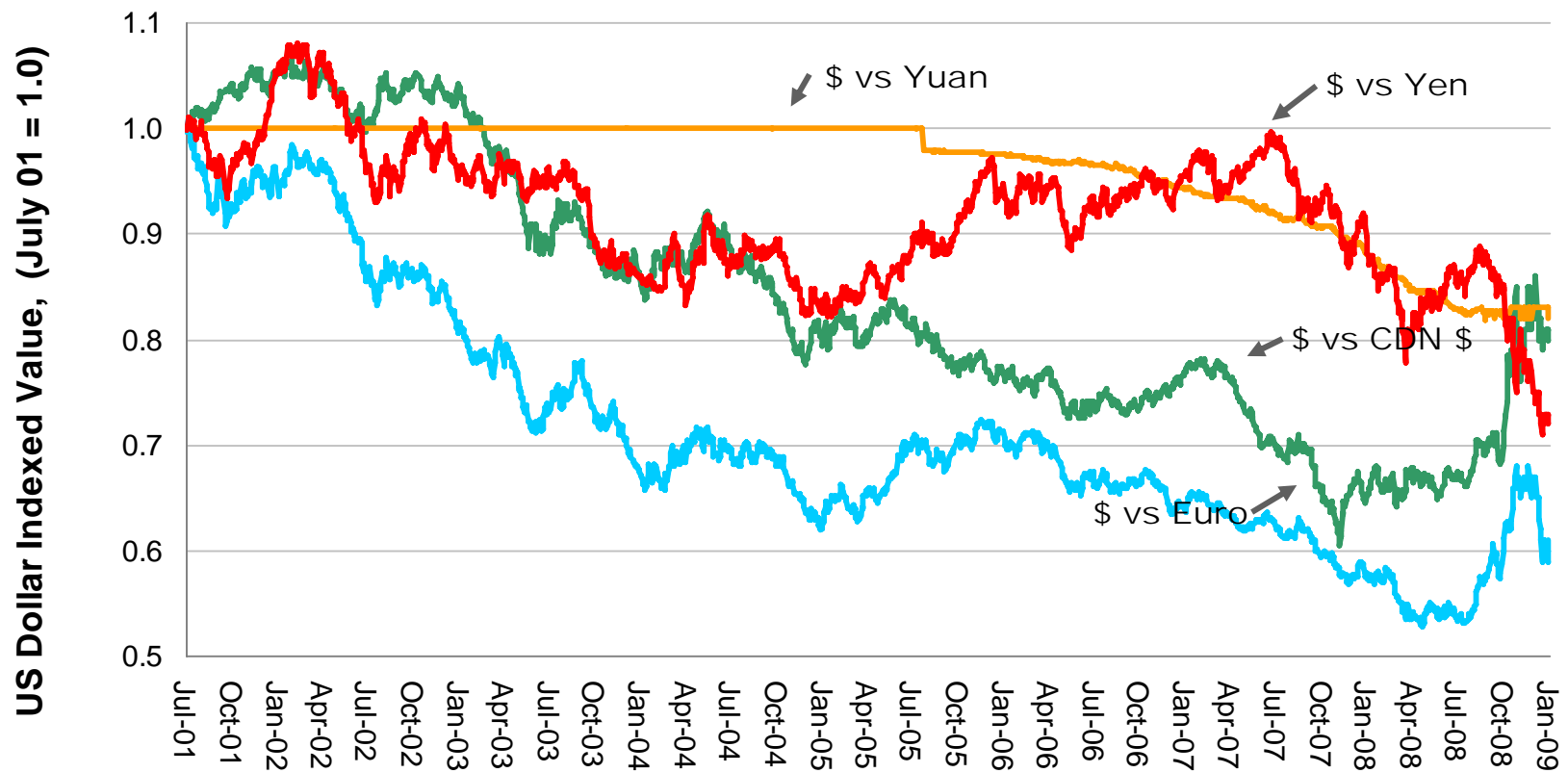
U.S. private fixed investment (non-residential) began to level off in 2008

US Private Fixed Investment– Nonresidential (2000-2008)



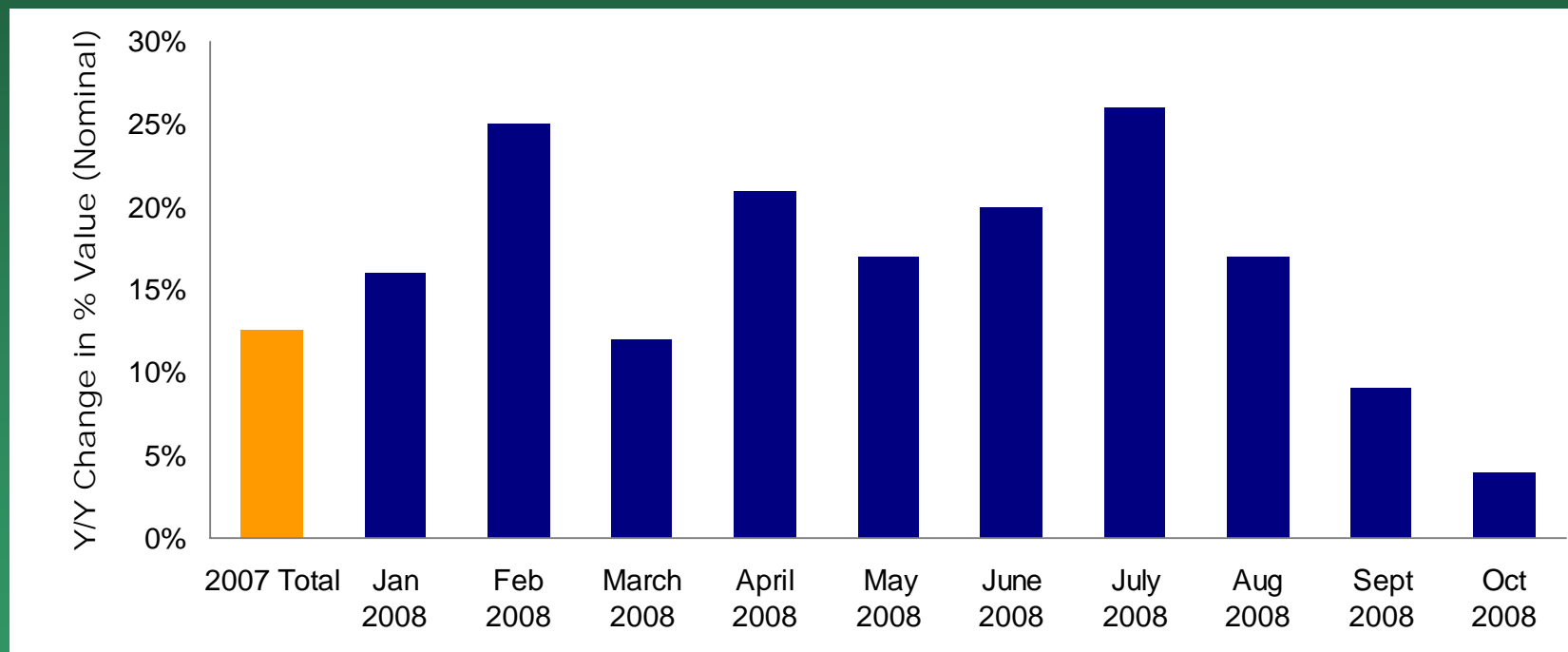
US Dollar's Long-term Decline

- Dollar down 39% vs Euro over 7 years



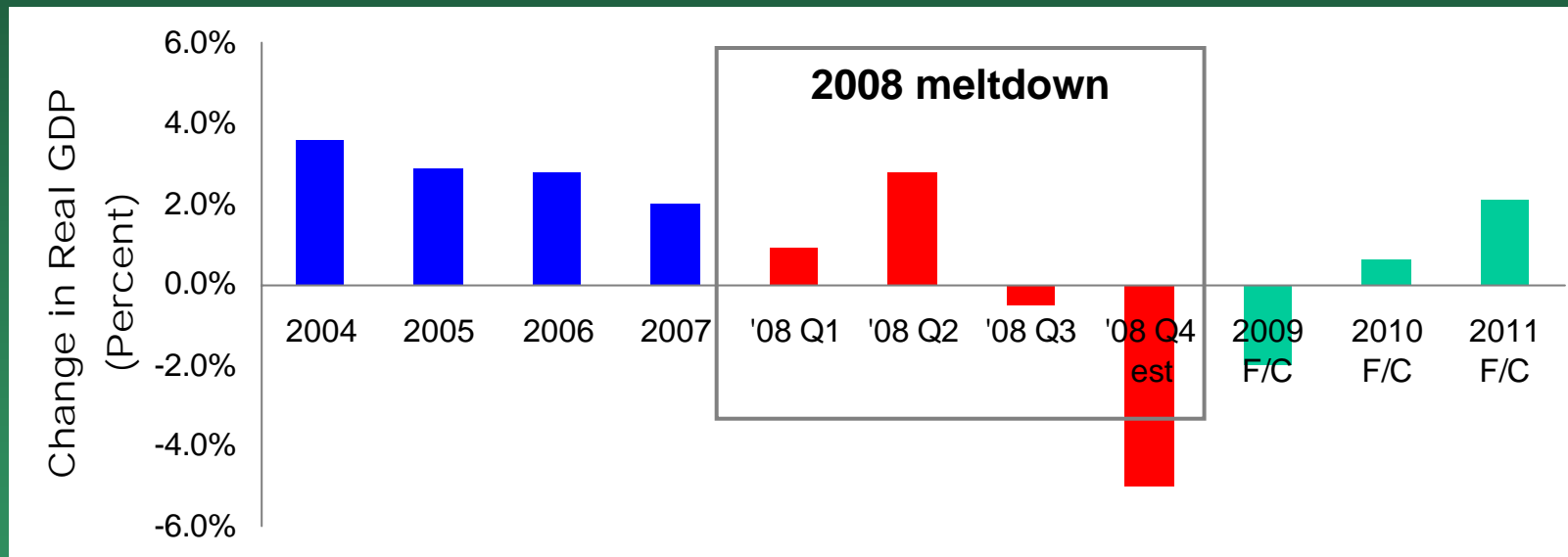
US exports – A Modest Bright Spot

U.S. Exports



The US economy is projected to struggle in 2009 and into 2010

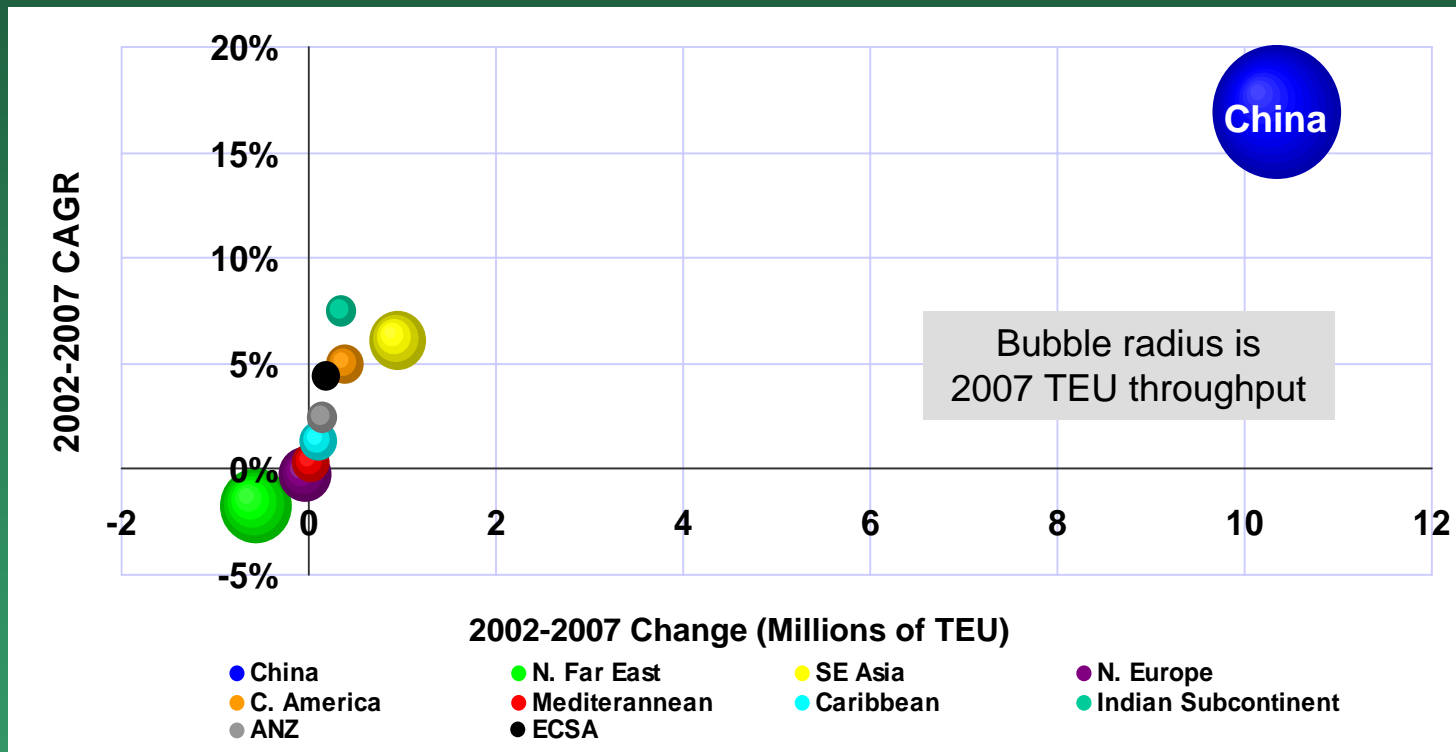
- US recession ...



- ... Spreading worldwide
 - US recession expected to be relatively deep and long
 - Consumption (70% of US GDP) expected to recover slowly
 - Europe and Asia also impacted

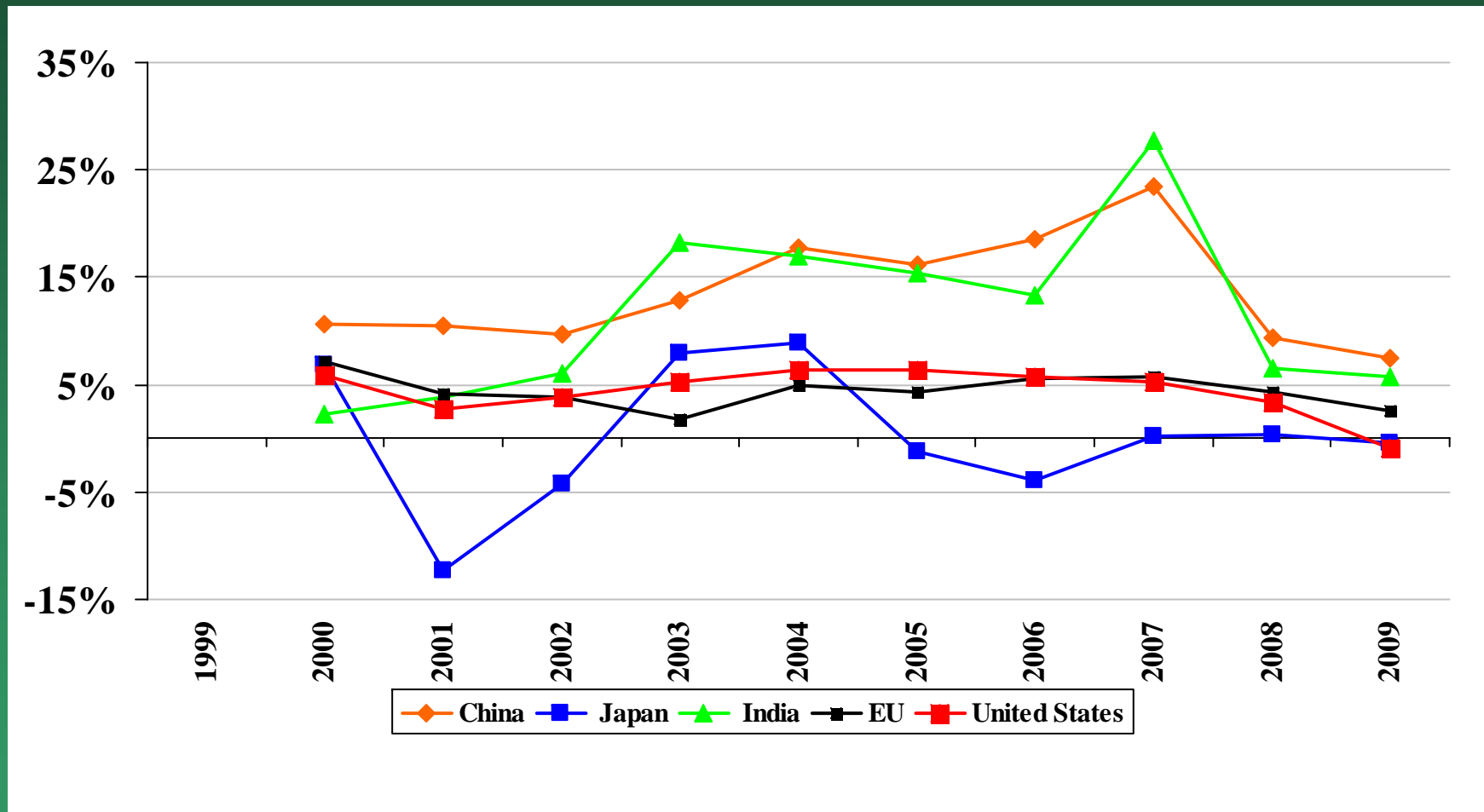
China dominates North American container trade

Size and Growth of North America Container Trade Regions (1997-2007)



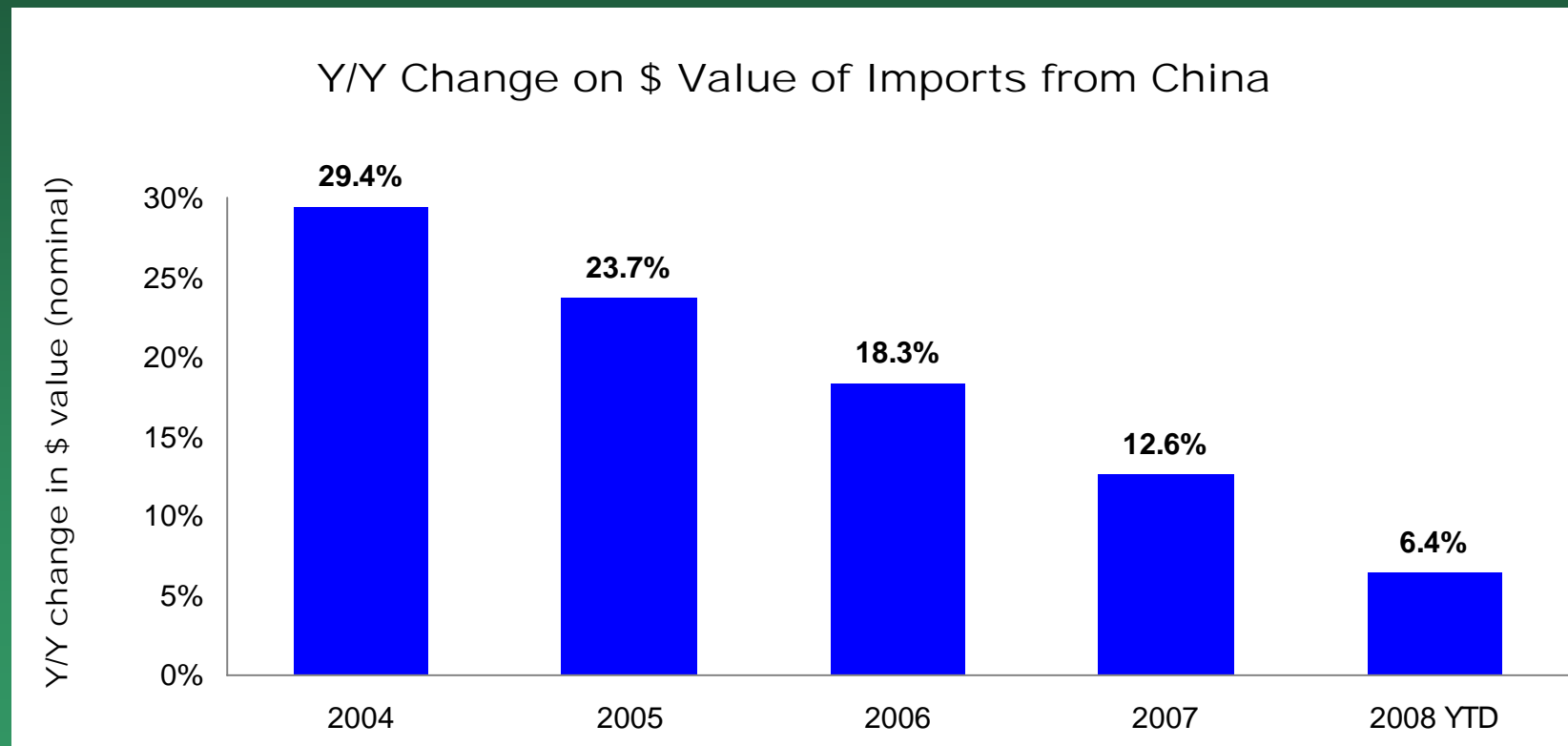
China and India rapid GDP growth has come to at least a near-term end . . .

Year-over-Year China, Japan, India, and EU Historical and Projected GDP Growth



US imports from China are decelerating

- US import growth from China is down sharply



So How Full is the Glass?

Hall Full

- The severity of the challenges is universally recognized
- The Federal Government appears committed to turning the tide
 - Fed actions
 - Financial bail out???
 - Auto bail out????
 - Infrastructure spending
 - Acquiring toxic debt

Half Empty

- The lead indicators have probably not bottomed out
- Consumers are saving, not spending
- The Federal Government deficit spending will take time to make a difference
- Bankruptcies will continue
- Unemployment will rise
- It is not a question of if the economy will improve, but when

So when is when?

- ✓ 2009 will be a very difficult year
- ✓ The economy will likely to begin recovering in 2010
- ✓ It will likely be 2011 before the global economy and trade are back on the tracks



III. Supply Chain Implications



We live in challenging times

- Addressing risk in the global supply chain
- How to live with congestion, high fuel prices, driver shortages, volatile exchange rates, disease, political uncertainty
- Fuel, in the longer-term threatens to rewrite supply chain economics

Supply Chain Responses

Tough, shifting environment

Supply chain moves

- **Sourcing**
- **Making**
- **Moving**
- **Integrating**



Twelve Key Responses

Sourcing	Making	Moving
<ul style="list-style-type: none"> ✓ Balance supply and demand by world regions ✓ Find sources closer to home ✓ Seek situations where “far-shoring” still works ✓ Mitigate risk 	<ul style="list-style-type: none"> ✓ Maximize plant utilization ✓ Move closer to market ✓ Increase exports 	<ul style="list-style-type: none"> ✓ Downshift modes—slower sailing ✓ Revise DC network and flow paths ✓ Create a more agile distribution system
Integrating		
<ul style="list-style-type: none"> ✓ Raise visibility and collaboration across the supply chain ✓ Promote sustainability that drives productivity 		

Agility is needed to confront today's challenges

Dual sourcing on key items

Plant and DC redundancy

Postponement strategies

Ops analytical team

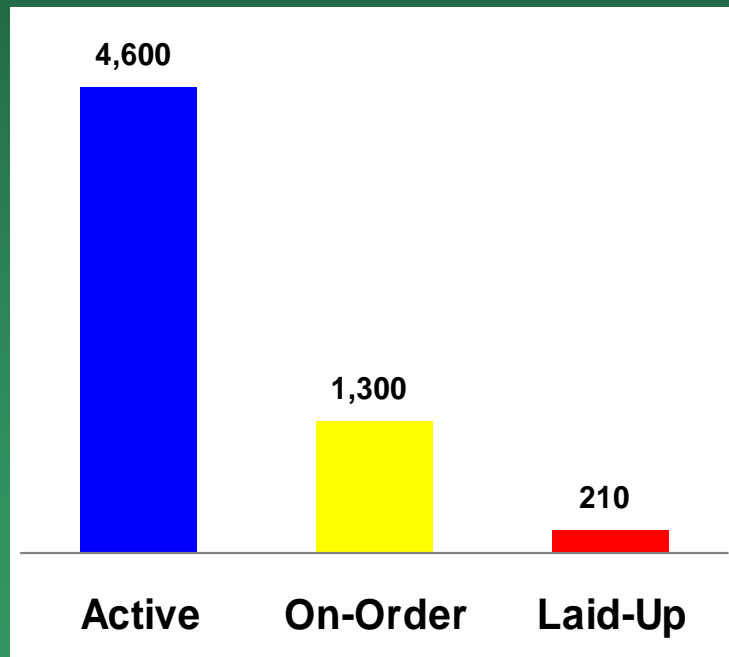


Global Container Fleet Trends

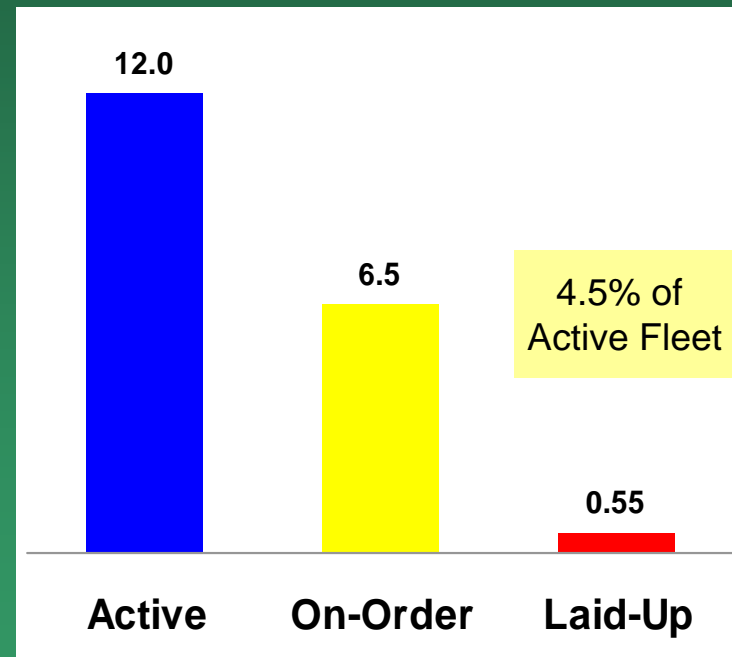


The increasing supply of large container ships poses challenges

Number of Vessels



Vessel Capacity
(TEUs, millions)



Container shipping industry responses

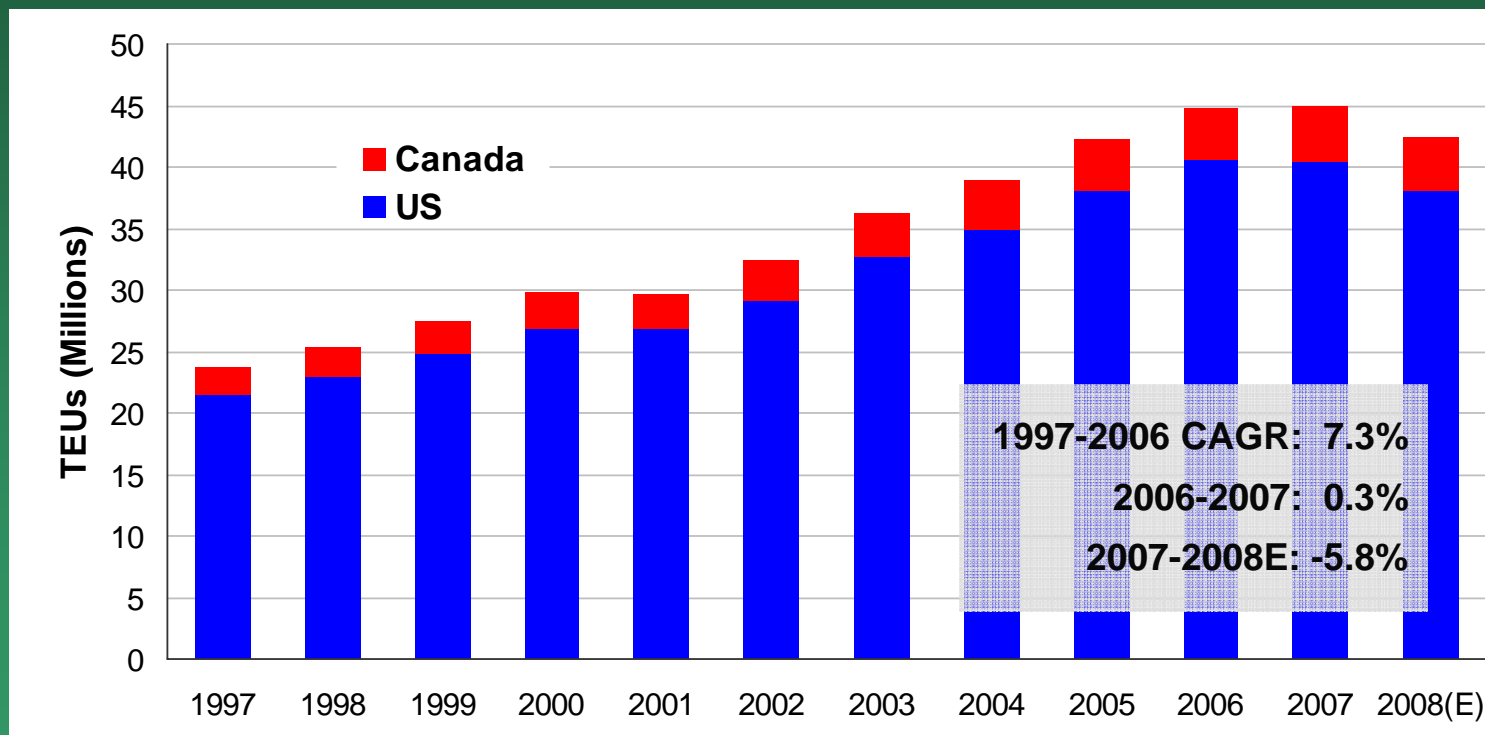
- ✓ More partnering
- ✓ Slow steaming: originally to reduce fuel costs, now to absorb capacity
- ✓ Lay-ups
- ✓ Postponing deliveries
- ✓ New deployment strategies: potentially web networks with more port to port operations

North American Container Market



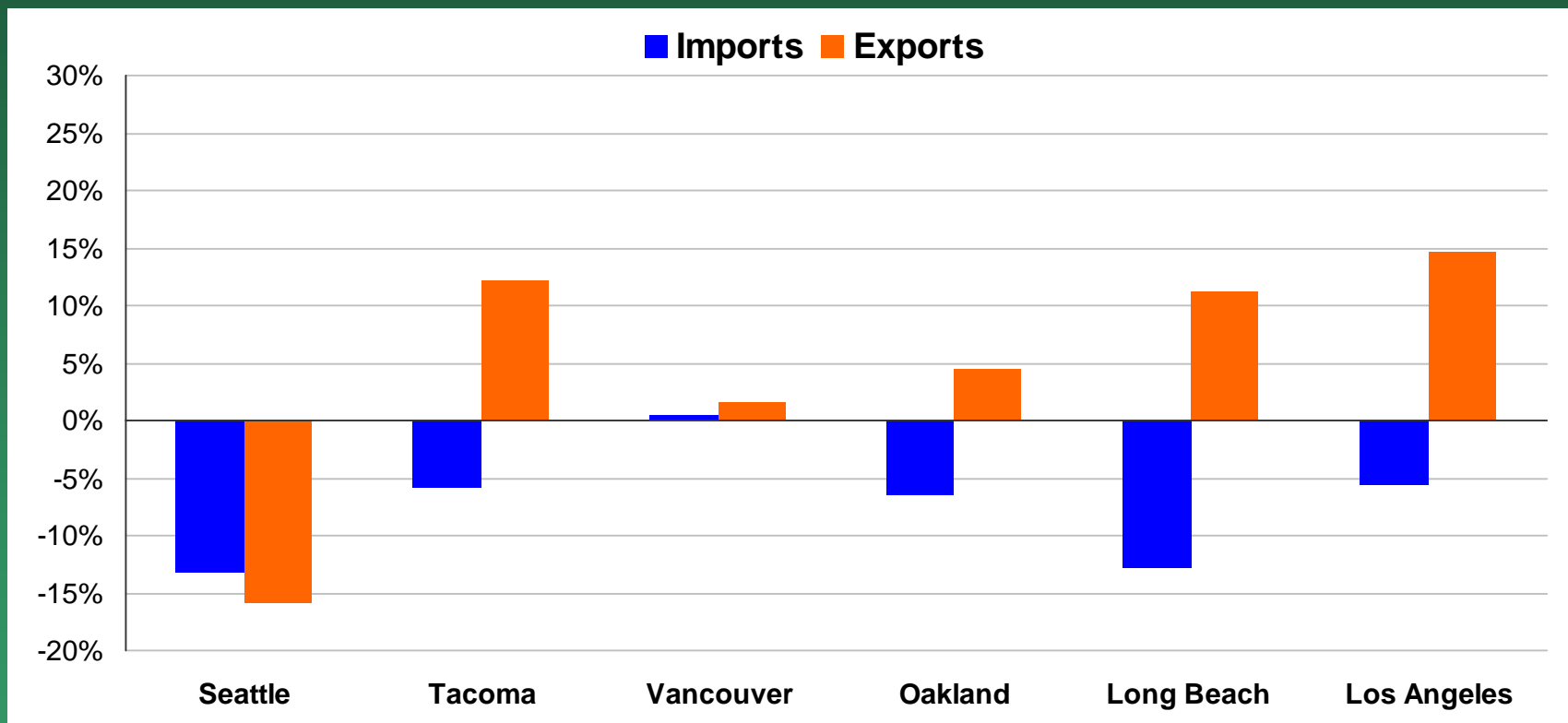
North American container traffic has reversed sharply

North America Ocean Container Traffic Growth (1997-2008E)



West Coast container imports are down

Major West Coast Port Container Traffic Growth
(YTD 2008 vs 2007)

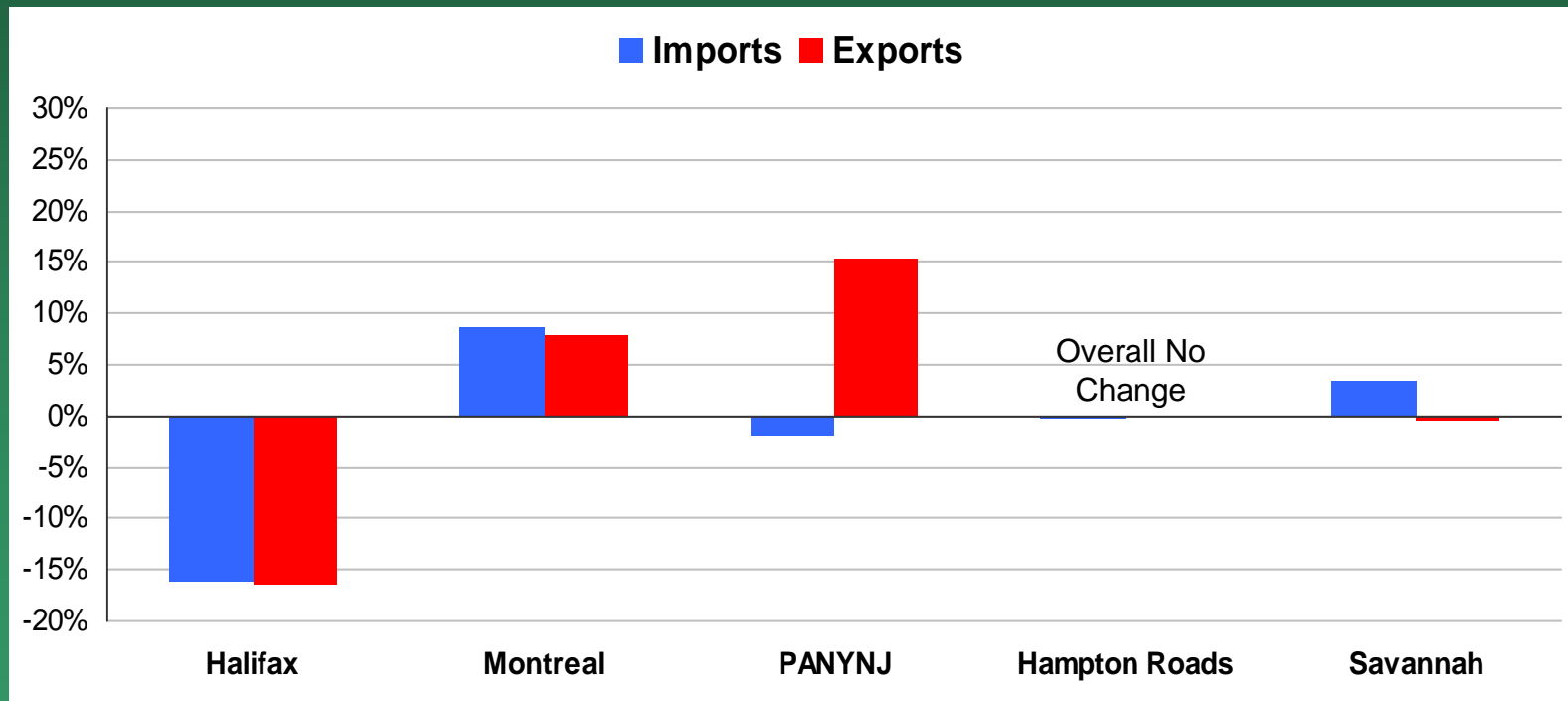


Note: Seattle is January to October data (International containers only). Tacoma is January to November data (International full containers only). Vancouver is January to November. Los Angeles is January to November (full containers only). Oakland and Long Beach is January to October data (full containers only).

Source: Journal of Commerce; Port authorities; Norbridge analysis

East Coast container traffic: Mixed in 2008

Major East Coast Port Container Traffic Growth (YTD 2008 vs 2007)

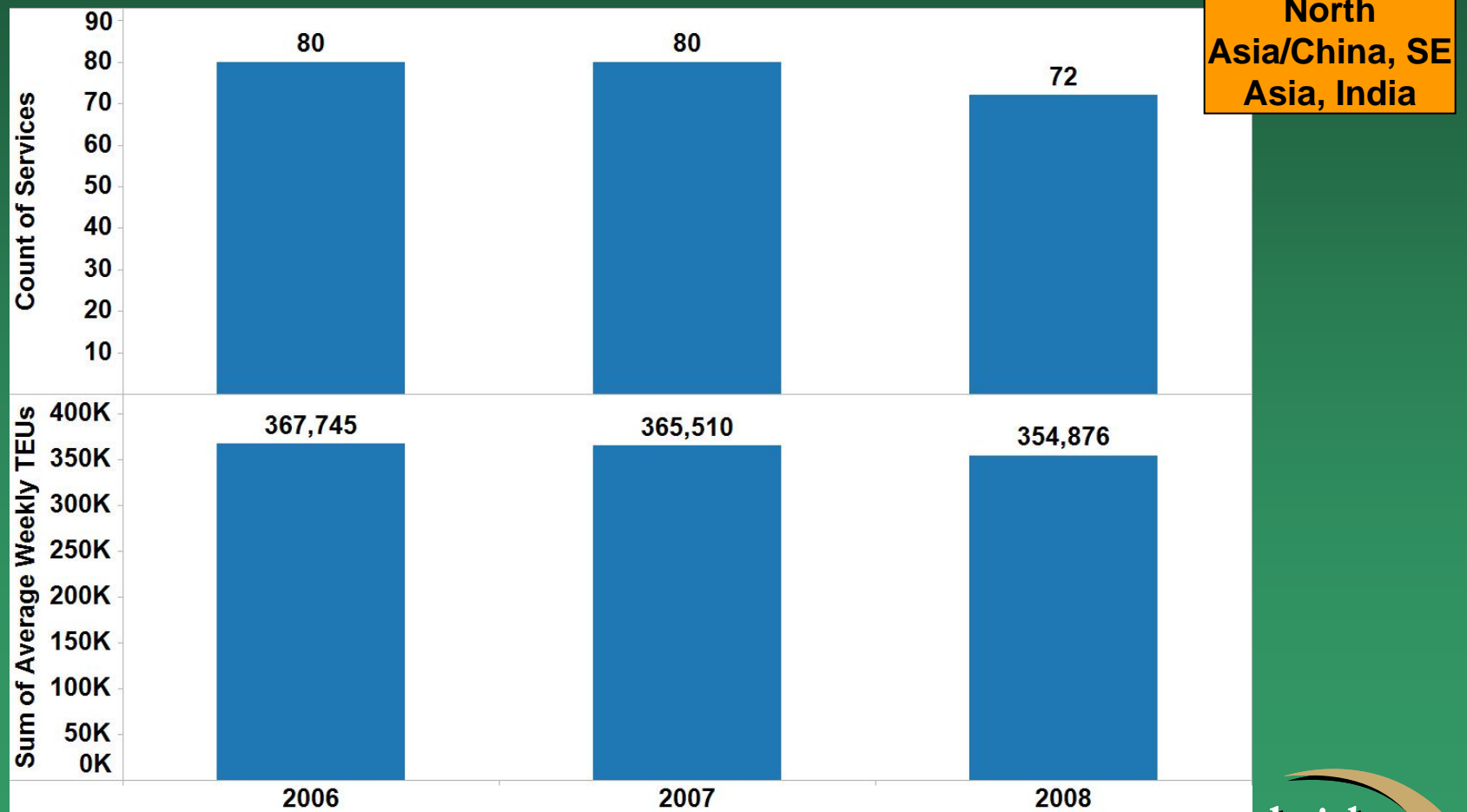


Are Trade Patterns Shifting?



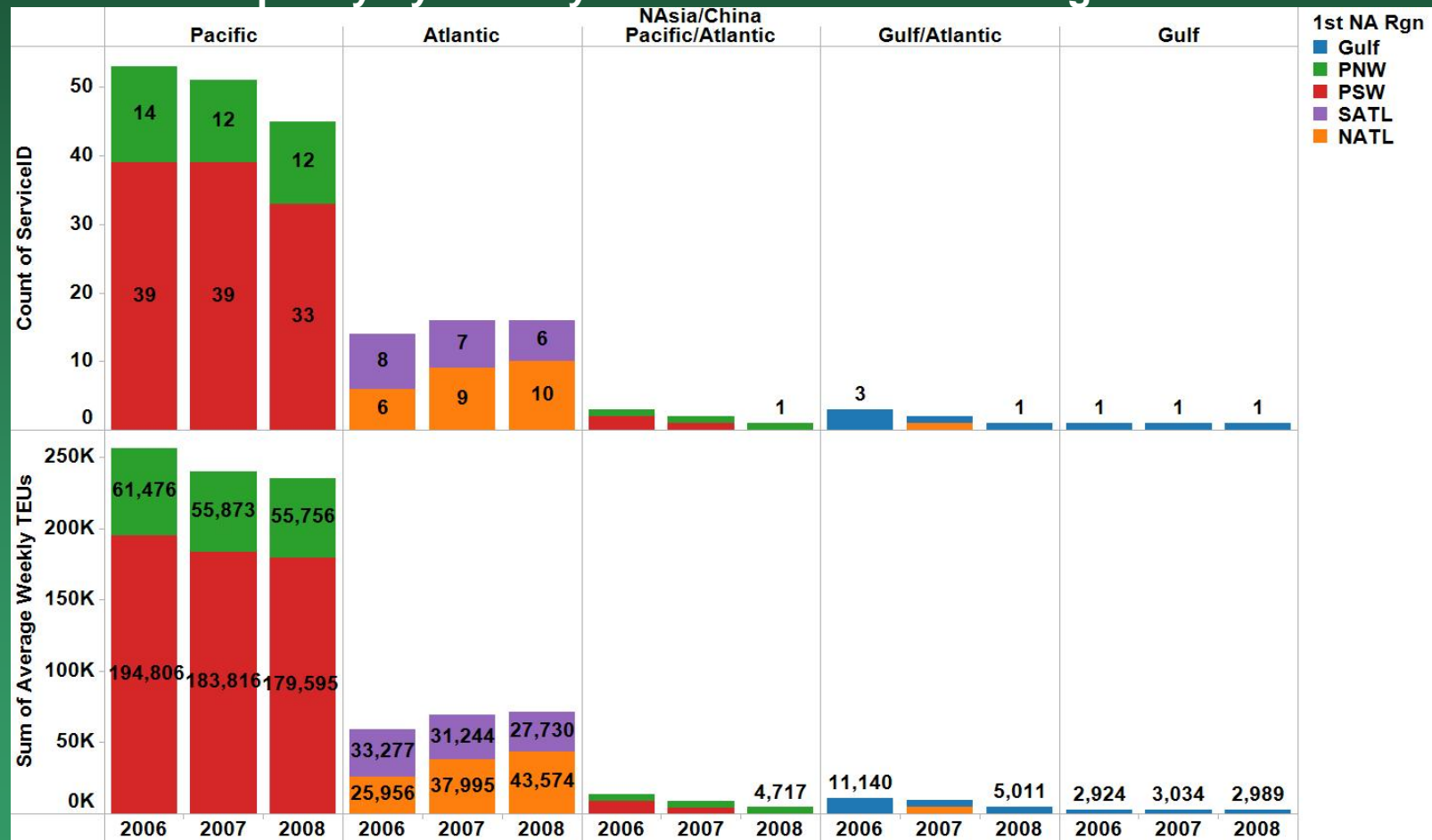
There were 72 services between Asia/India and North American during 3Q08

Total Number of Services & Average Weekly TEU Capacity by Year to North America from India, SE Asia, N Asia, and China



The Pacific Coast remains the dominant gateway for Asia-North American Traffic

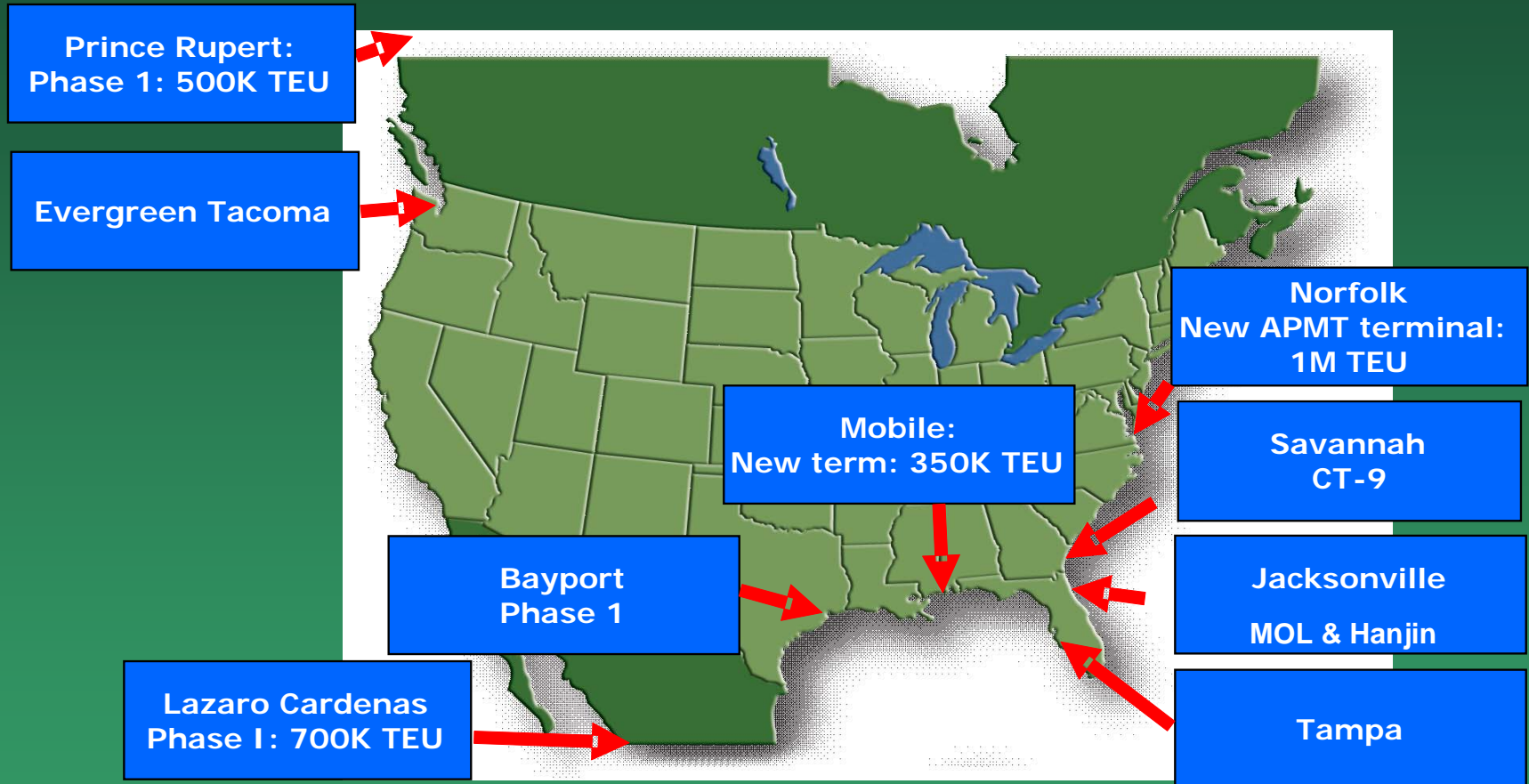
North Asia/China Number of Services & Average Weekly TEU Capacity by Year by First North American Region of Call



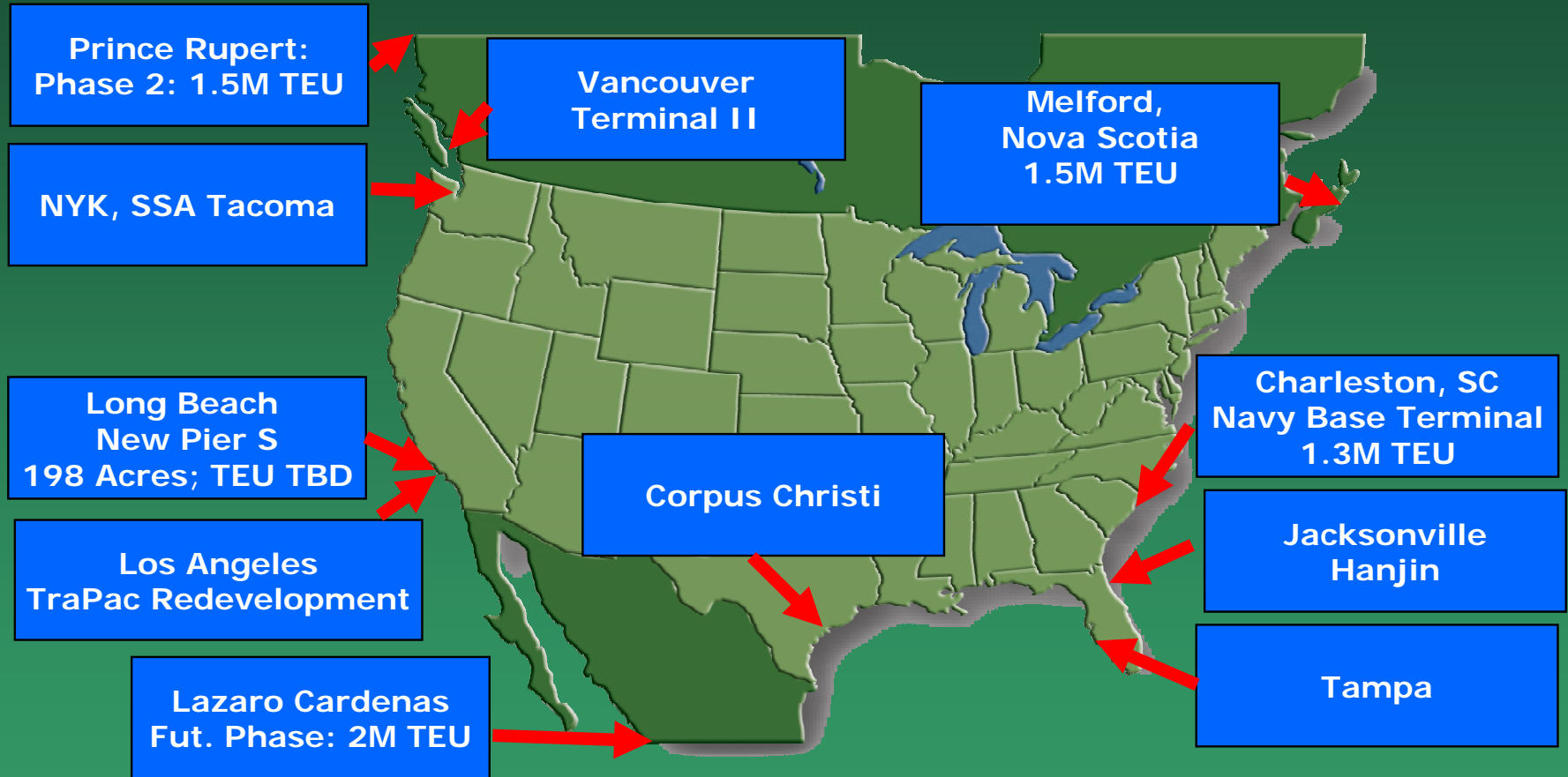
In 2005, the U.S. container port industry was viewed as nearing capacity

- Trade was growing at 7+%
- LA/LB had experienced a “reported meltdown
- The western U.S. railroads faced major bottlenecks: power, crews, track capacity
- Industry growth reportedly equated to one new container port per year

Since numerous projects have come on-line or are in progress

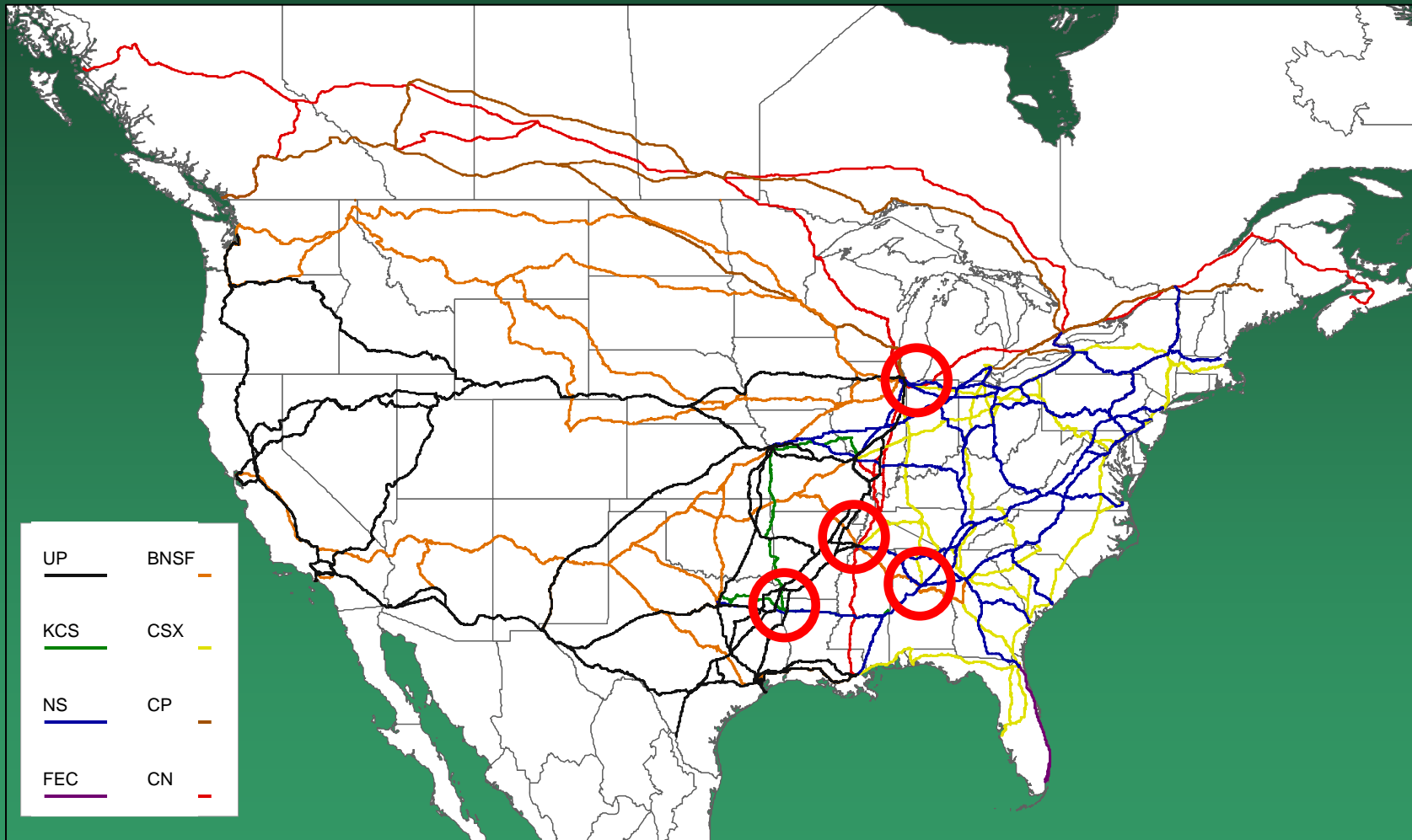


There are numerous projects currently in the planning stage



The North American rail industry continues to spend \$4-\$6 billion per year on infrastructure and capacity

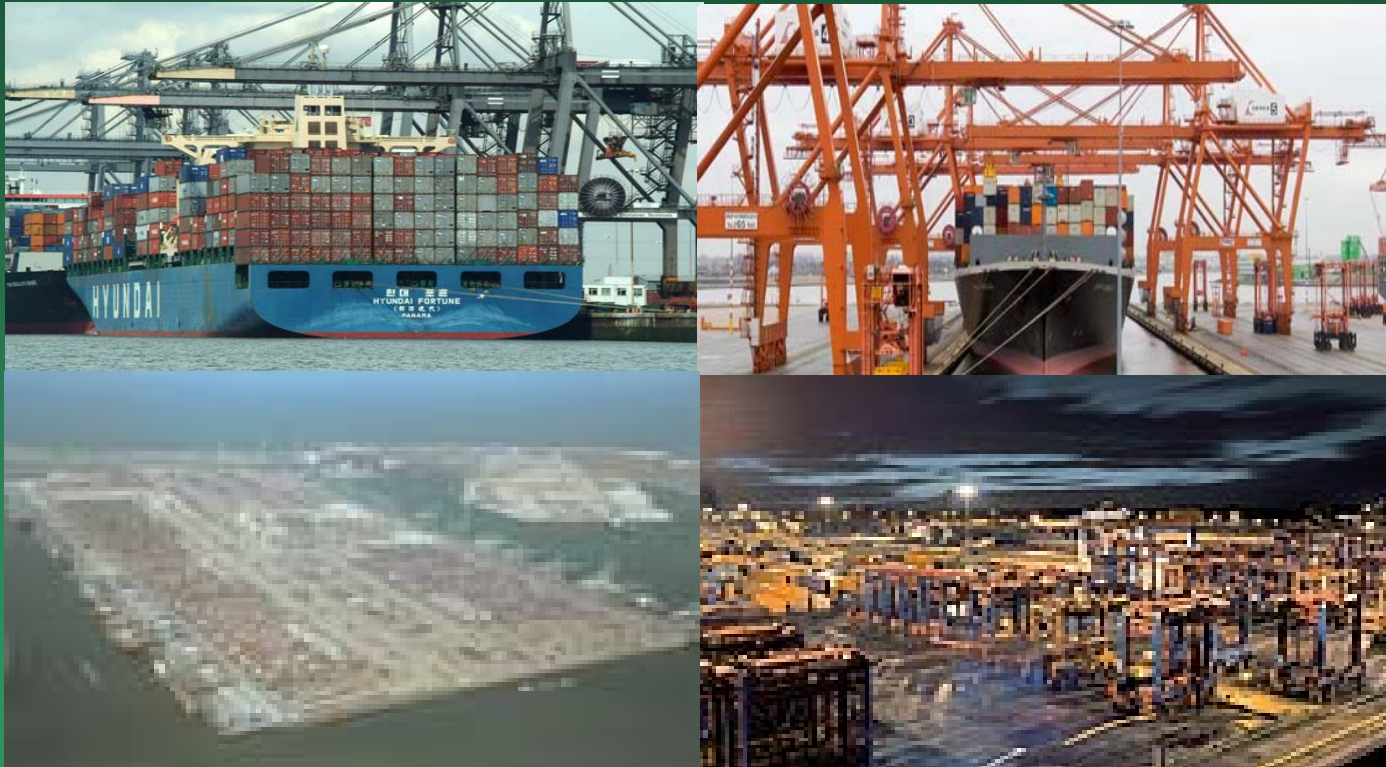
North American Intermodal Network



Asia-US Atlantic Trade

- 2008 volume of nearly five million TEU is a peak
- Handled by 15 major shipping lines through six major gateways
- Six strings of 10,000 TEU ships could handle what sixteen strings carry today
- Twelve strings could handle the 2018 volume at an average 5 percent growth per year

Container Shipping Industry Questions



- Will the US container trades return to 7% annual growth or is 4-5% the new norm?
- How will shippers' supply chain strategies evolve?
- What will the container shipping industry look like in 2012?
- What will the North American rail network look like in 2014?

