

Global Re-balancing



*AAPA Port
Finance Seminar*



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Major Themes

- **The economy is recovering but**
Supply-side recessions are tougher than demand-side recessions. World economy is still struggling with the aftermath of the developed economies' credit crunch.
- **Risk aversion and competitive pressures remain high so**
Customers are still frugal. Importers are not willing or able to rebuild inventories. Risk of stock-out is balanced with risk of over-stock. Freight rates are higher, enough to cover variable and now fixed costs but not enough to fund investment.
- **Expect new arrangements**
Supply chain elements need to pool their efforts and resources in order to meet requirements of infrastructure improvements and high return on capital

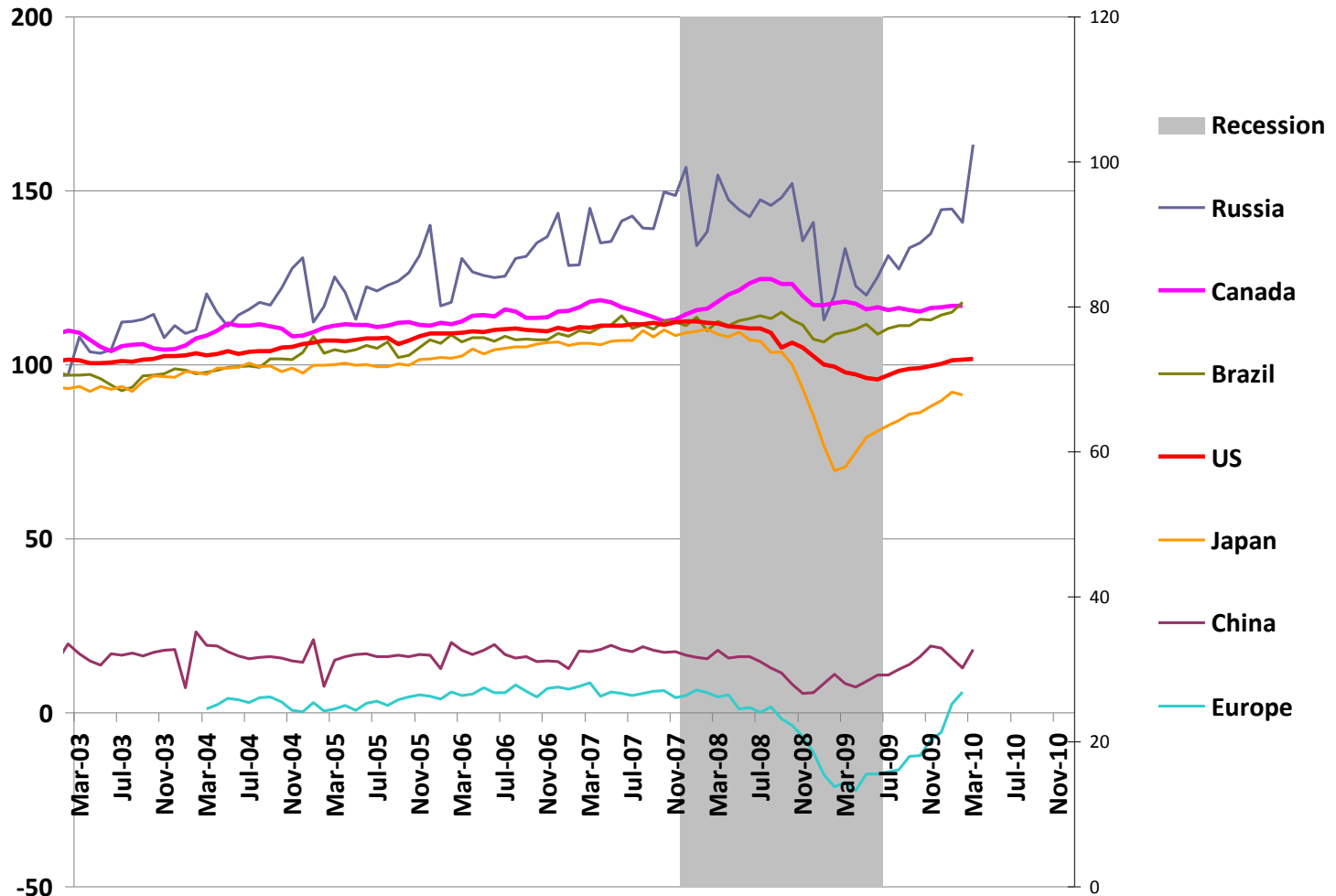
Low inventory and high ROC requirements are not a new normal... more balanced world trade would be a new normal

Outlook: Global Re-Balancing

Macroeconomic Trends

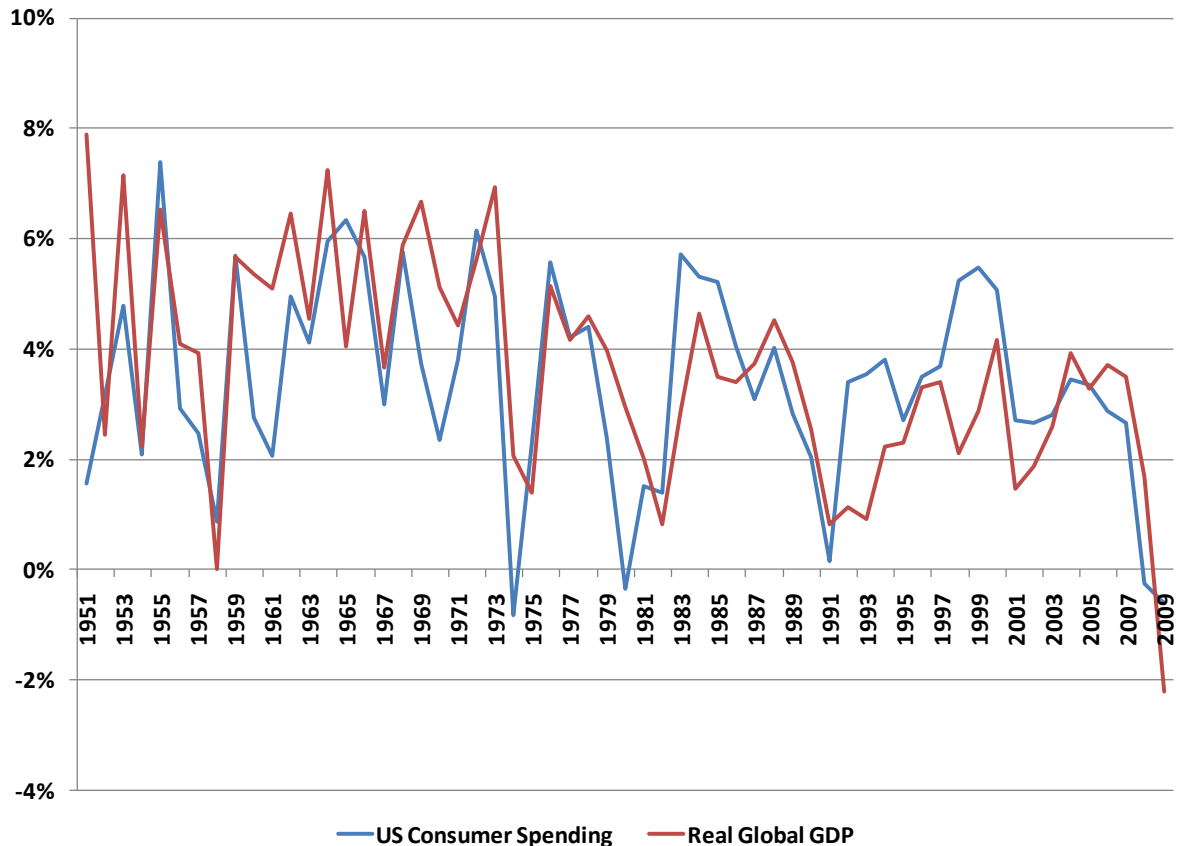
Globally Synchronized Recession and Recovery

Industrial Production Indexes



World Economy Recovery Depends On the US

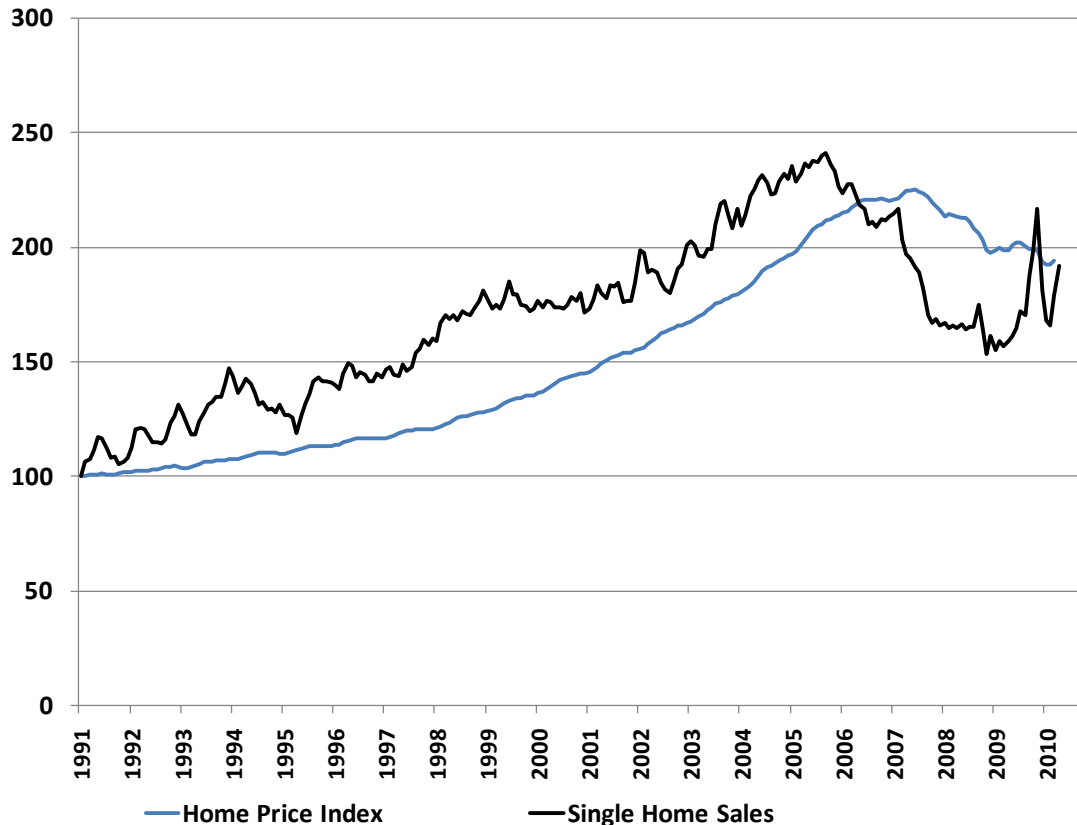
US Consumer Spending Leads Global Real GDP Growth



- **US consumers account for 17.5% of World GDP – global economic recovery depends on the US outlook**
- **The greatest threat to the global economy and trade is the Mediterranean debt crisis**

Where The Problems Began

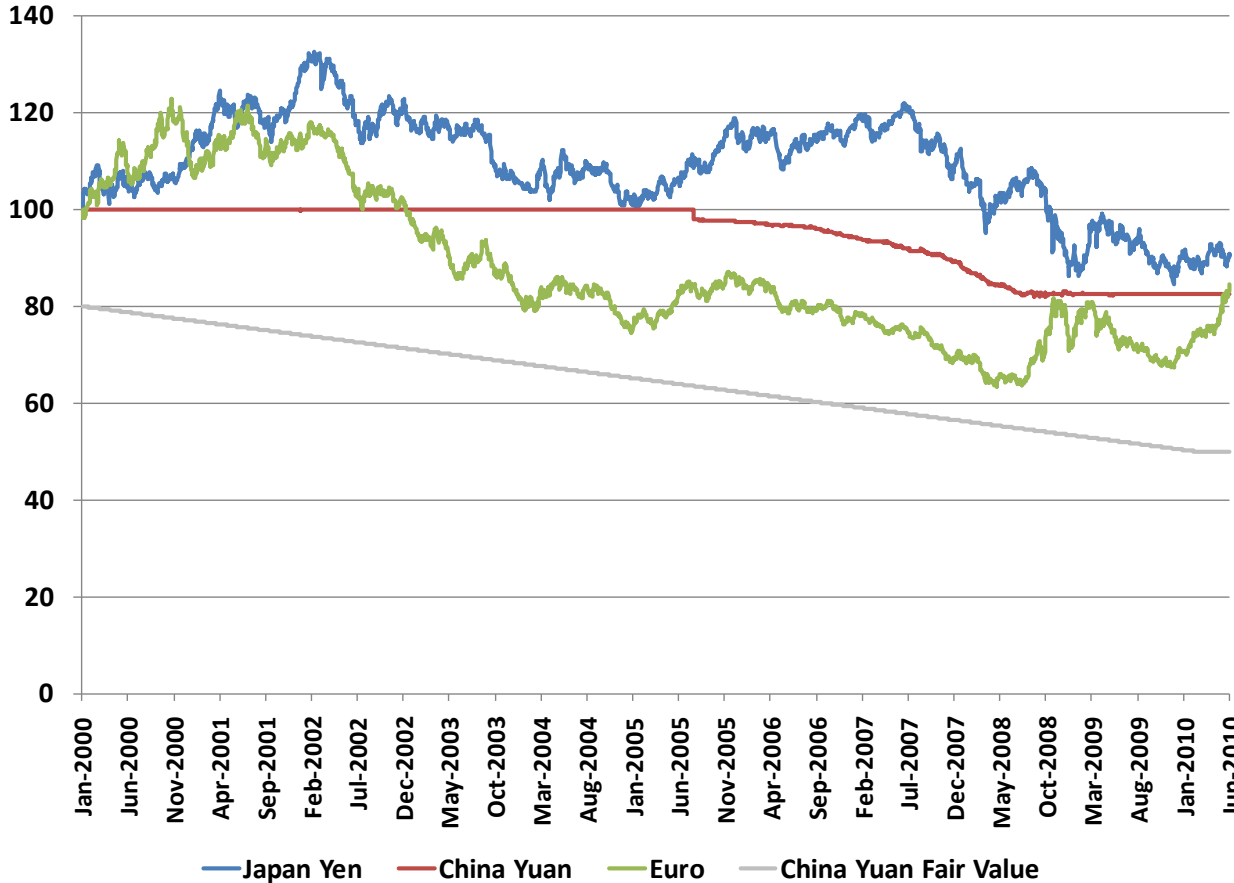
Home Prices and Sales Indexes



- US home prices increases began deviating from trend growth around 2000
- Falling long term interest rates during most of the decade were a significant but not sole cause

Tampering With The Foreign Exchange Market

US Dollar Exchange Rate Indexes



CNY 6.83 per US\$ 1

CNY 5.47 per US\$ 1

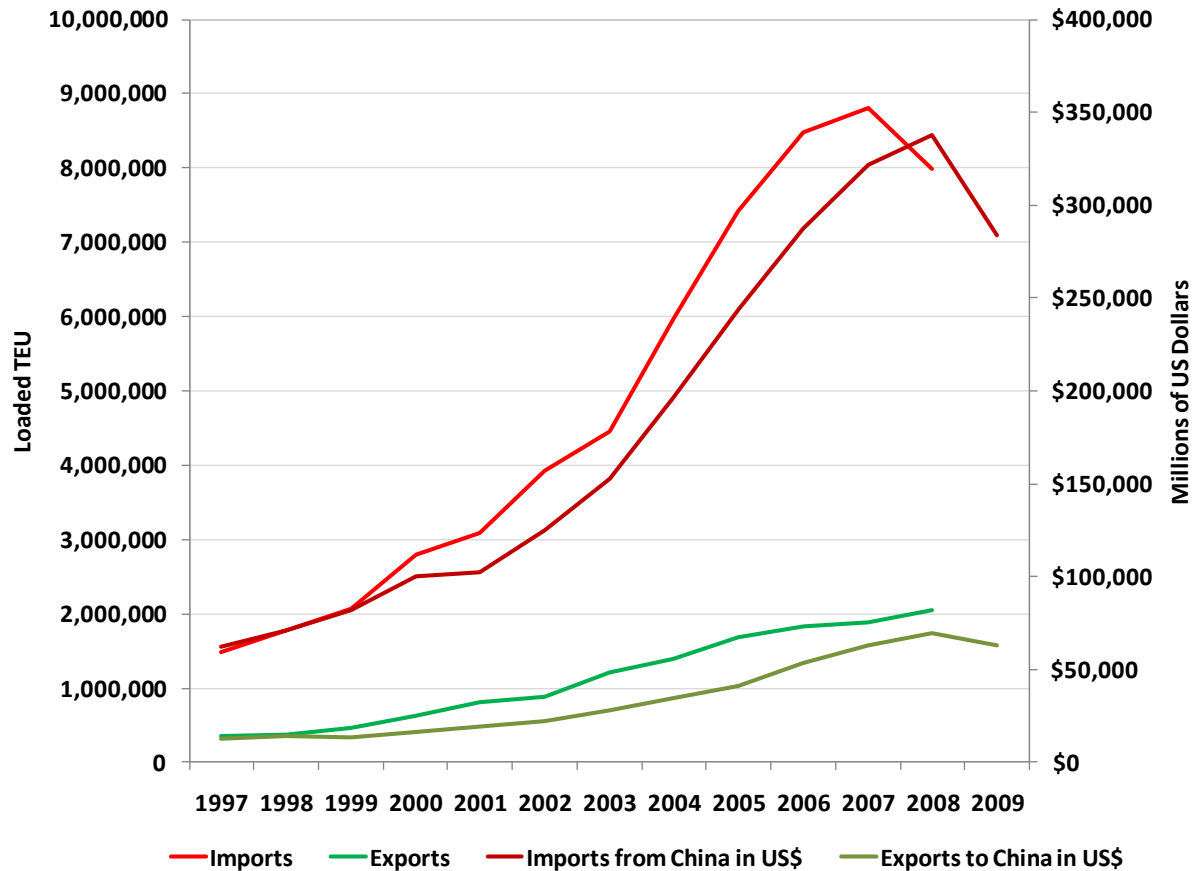
Average Real GDP Growth

	1999-2009	2009-2014
China	9.8%	9.6%
US	1.9%	2.3%
Japan	0.7%	2.0%
Euro Area	3.9%	1.4%

- The US has never officially accused China of manipulating its exchange rate
- The Renminbi may be under-valued by as much as 20% to 40%

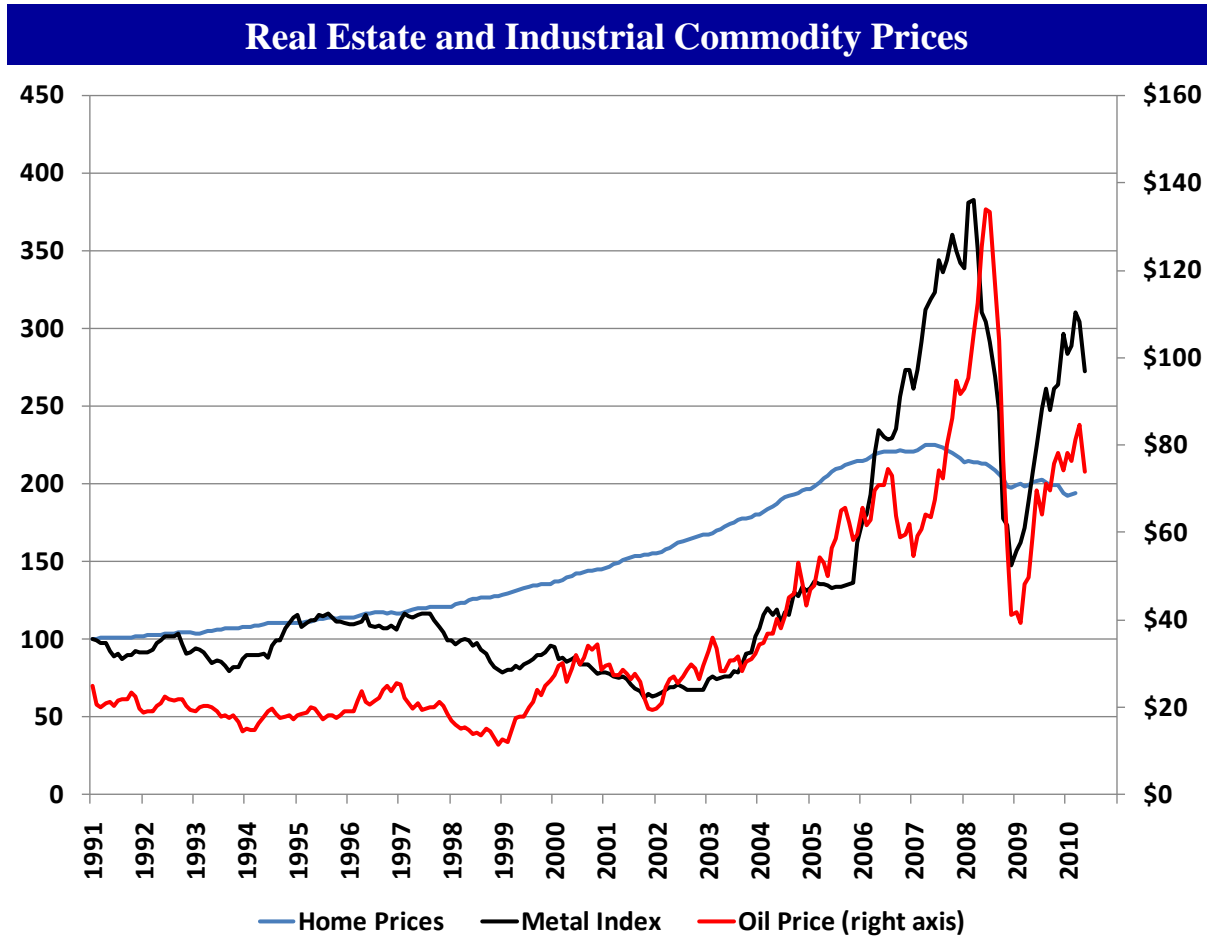
A Major Global Imbalance

US Trade With China



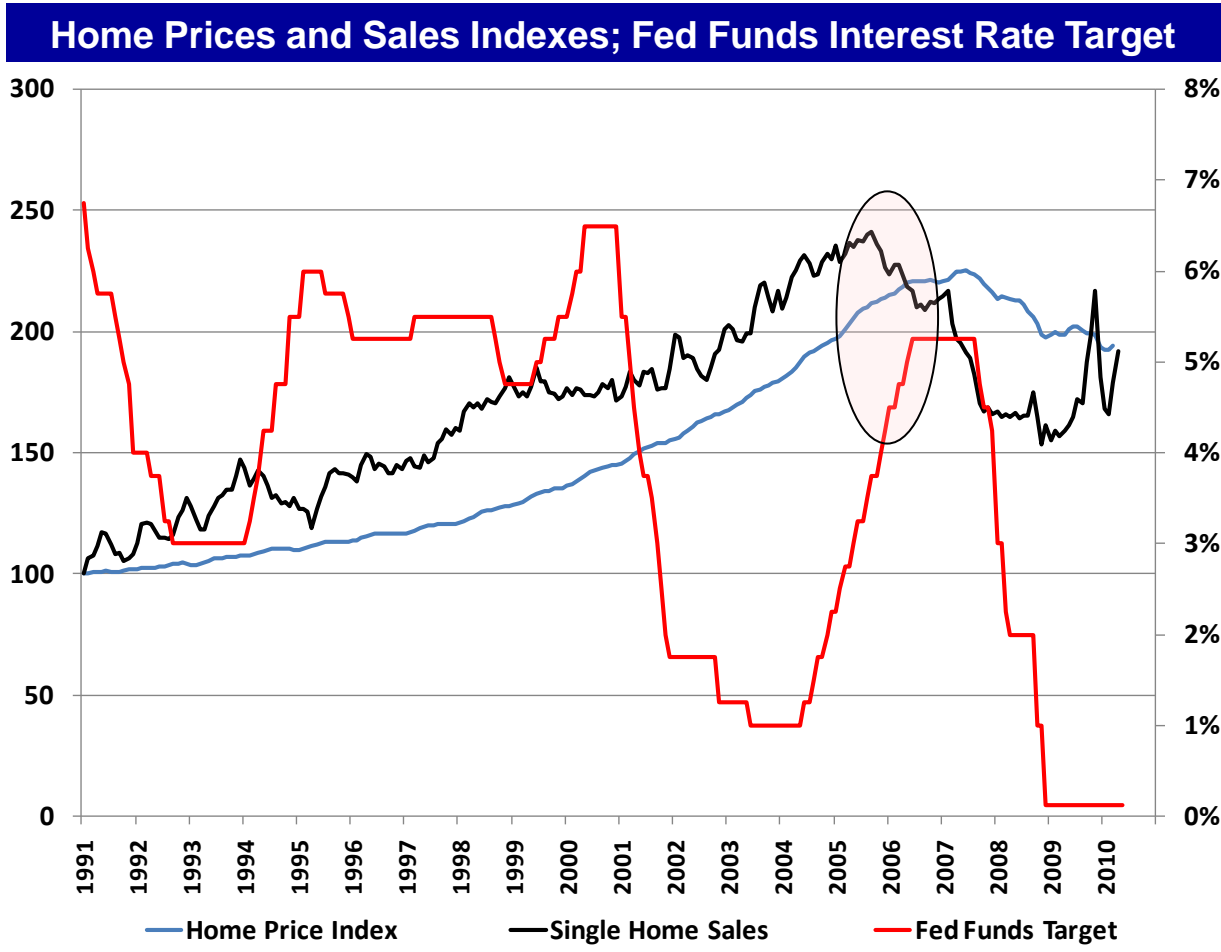
- China became the largest source of US imports and second largest export destination
- China's holdings of US treasuries increased in line with its trade surplus through Nov 2009
- US Treasury bond yields remained unusually low in the last decade

Twin Bubbles



- **China impacted the World and US economies in several ways**
 - **Excess demand for US treasuries contributed to a real estate boom**
 - **China's capacity expansion and US real estate booms drove commodity prices up**

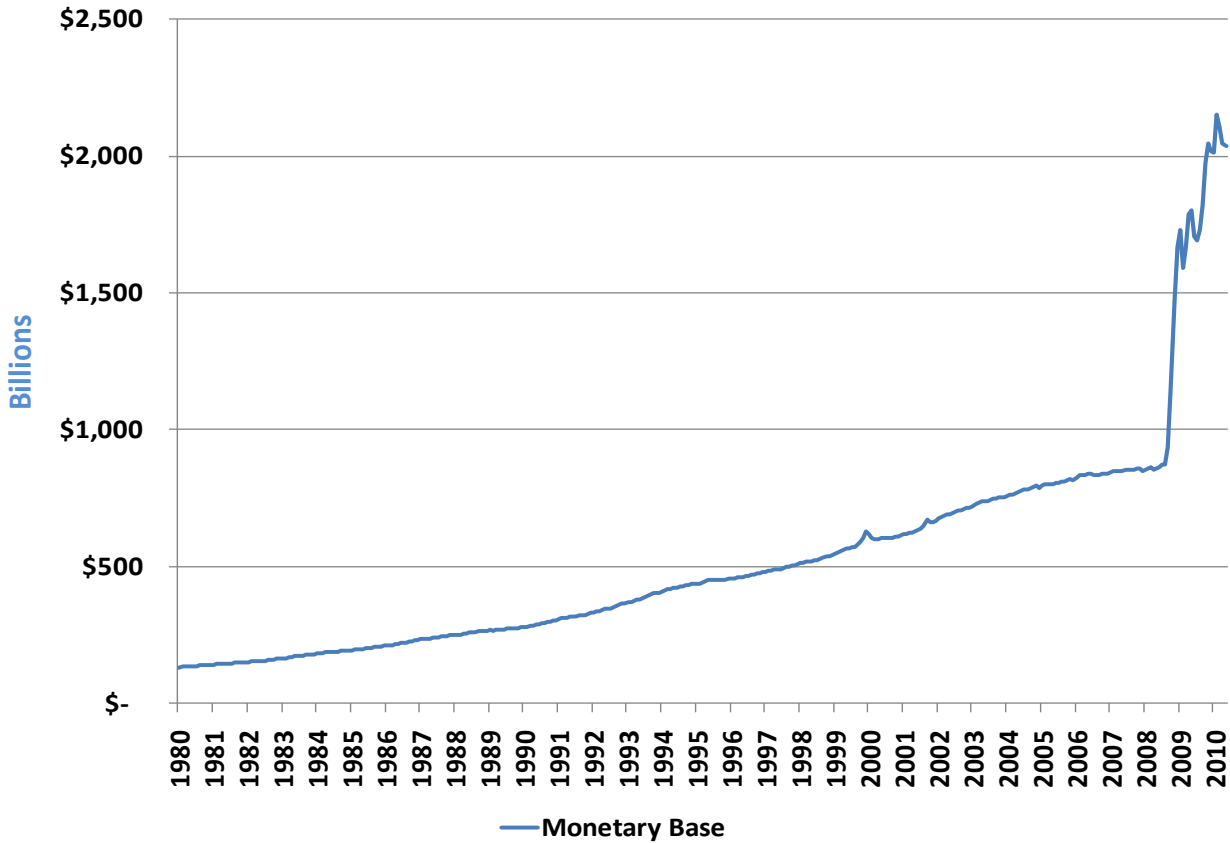
Monetary Policy Response



- Fed Funds policy interest rate was kept at a high level for an unusually long period
- Inflation was considered a greater risk than real estate finance

The Fed Made A Dramatic Effort As Liquidity Dried Up

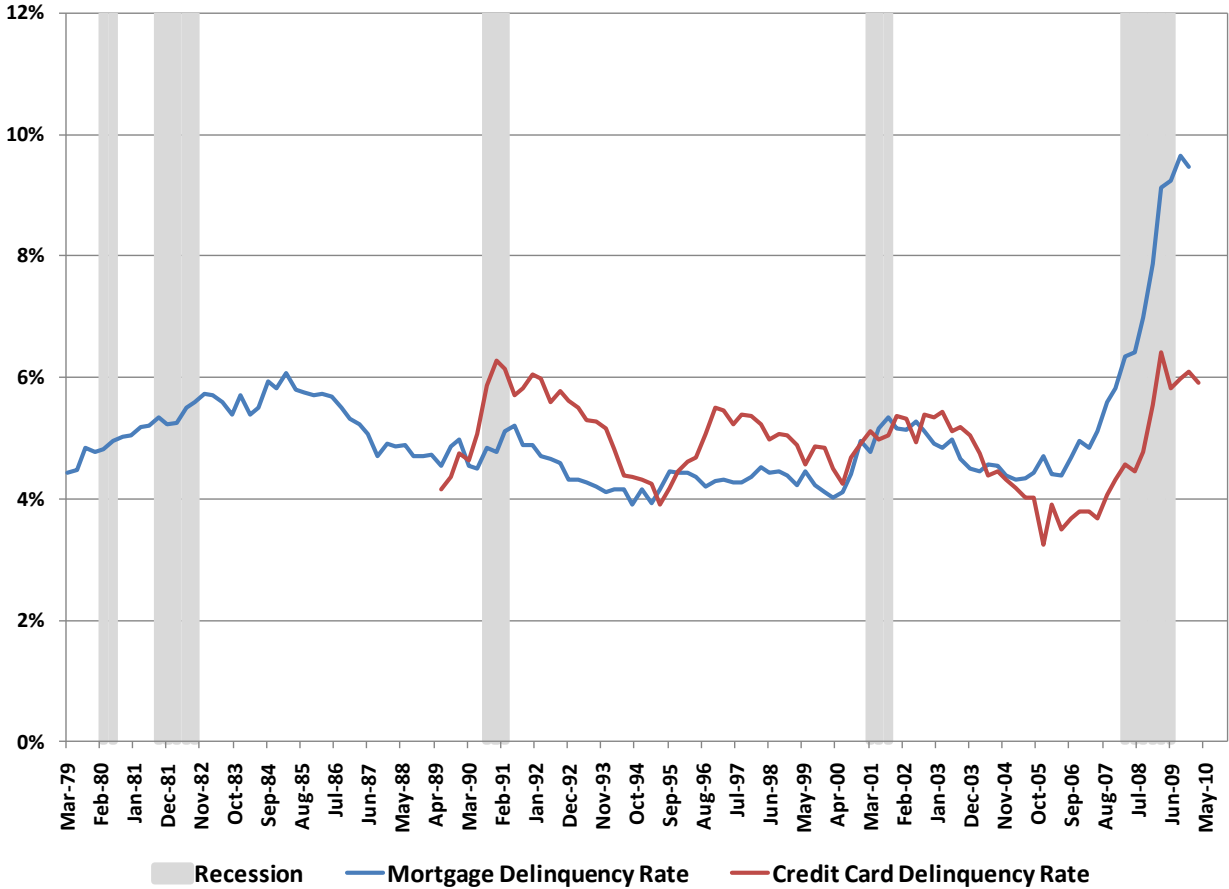
Adjusted Monetary Base And Business & Consumer Loans



- ◆ **The Fed’s response has been in proportion to the magnitude of the crisis**
- ◆ **Bank loans could double overnight if the Fed doesn’t pull back as the economy recovers**
- ◆ **Need to avoid too much money chasing too few goods**

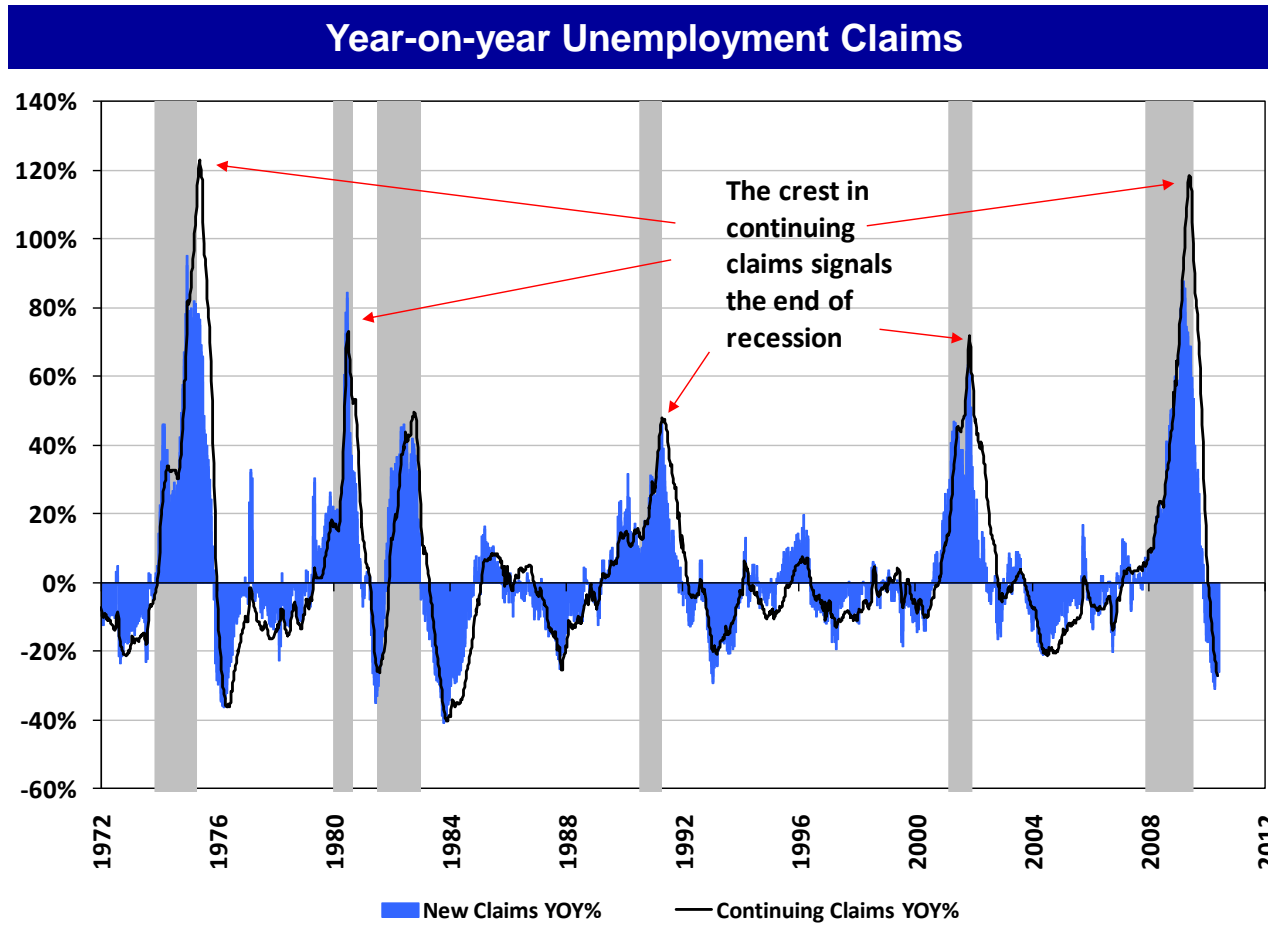
Household Debt Default Rates Are Peaking

Household Loan Delinquency Rates



- The “great recession” is rooted in consumer loan defaults following the real estate bubble
- House prices and sales are showing signs of stabilization and default rates are peaking
- The real estate and finance sectors are beginning to be less of a drag on recovery

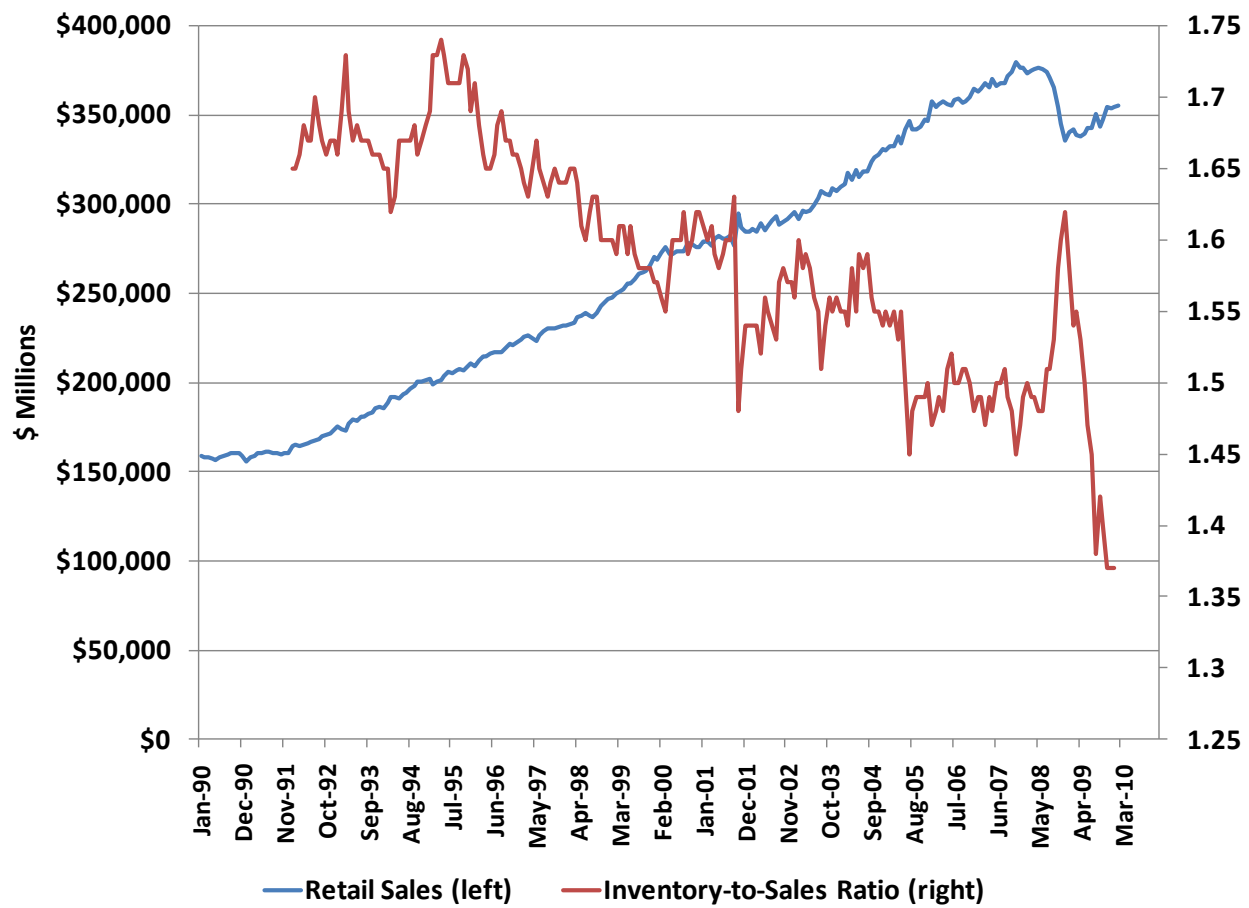
Early Signs of Recovery



- Unemployment insurance claims growth is declining
- Better labor markets will support consumer spending and self-sustaining growth

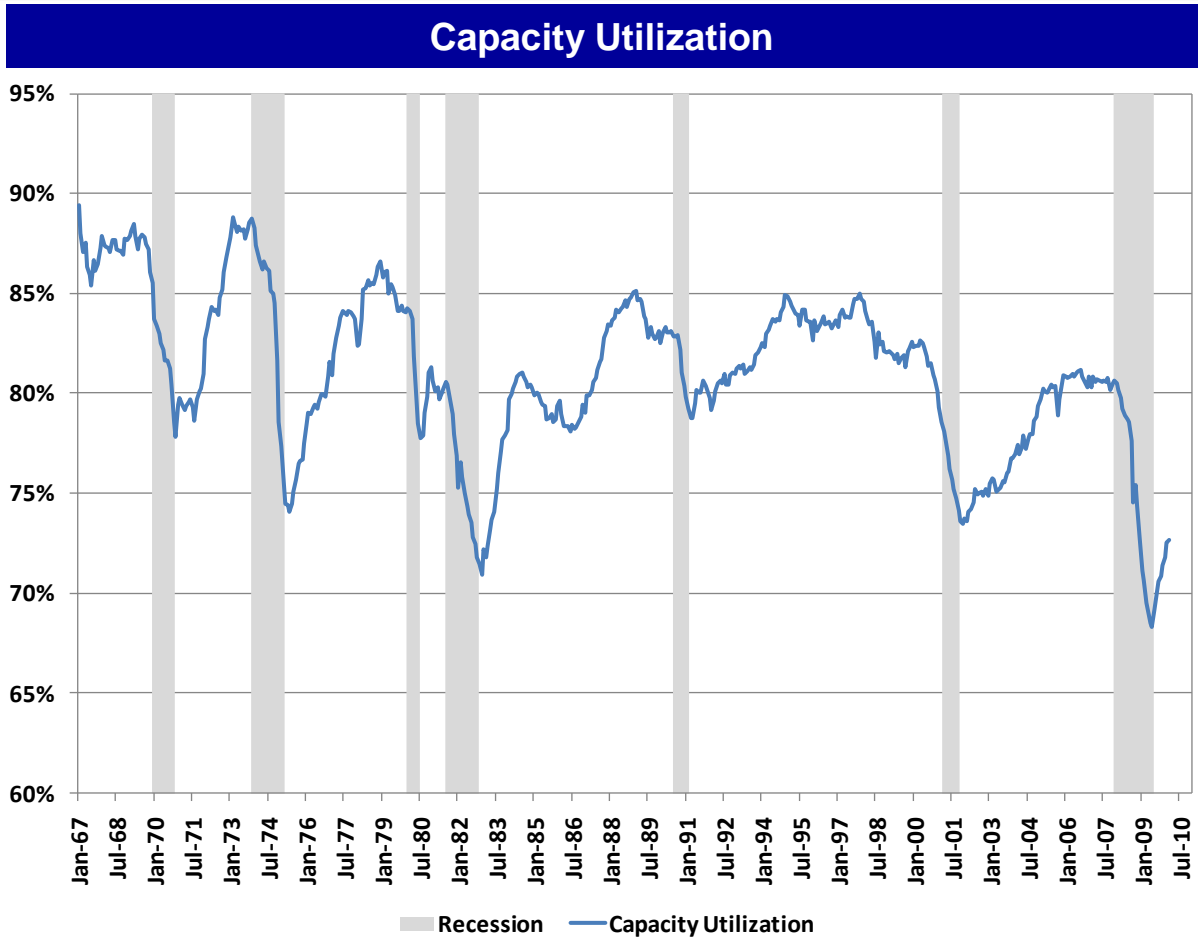
Retail Sales Are Recovering But Inventories lag

Retail Sales and Inventory-to-Sales Ratio



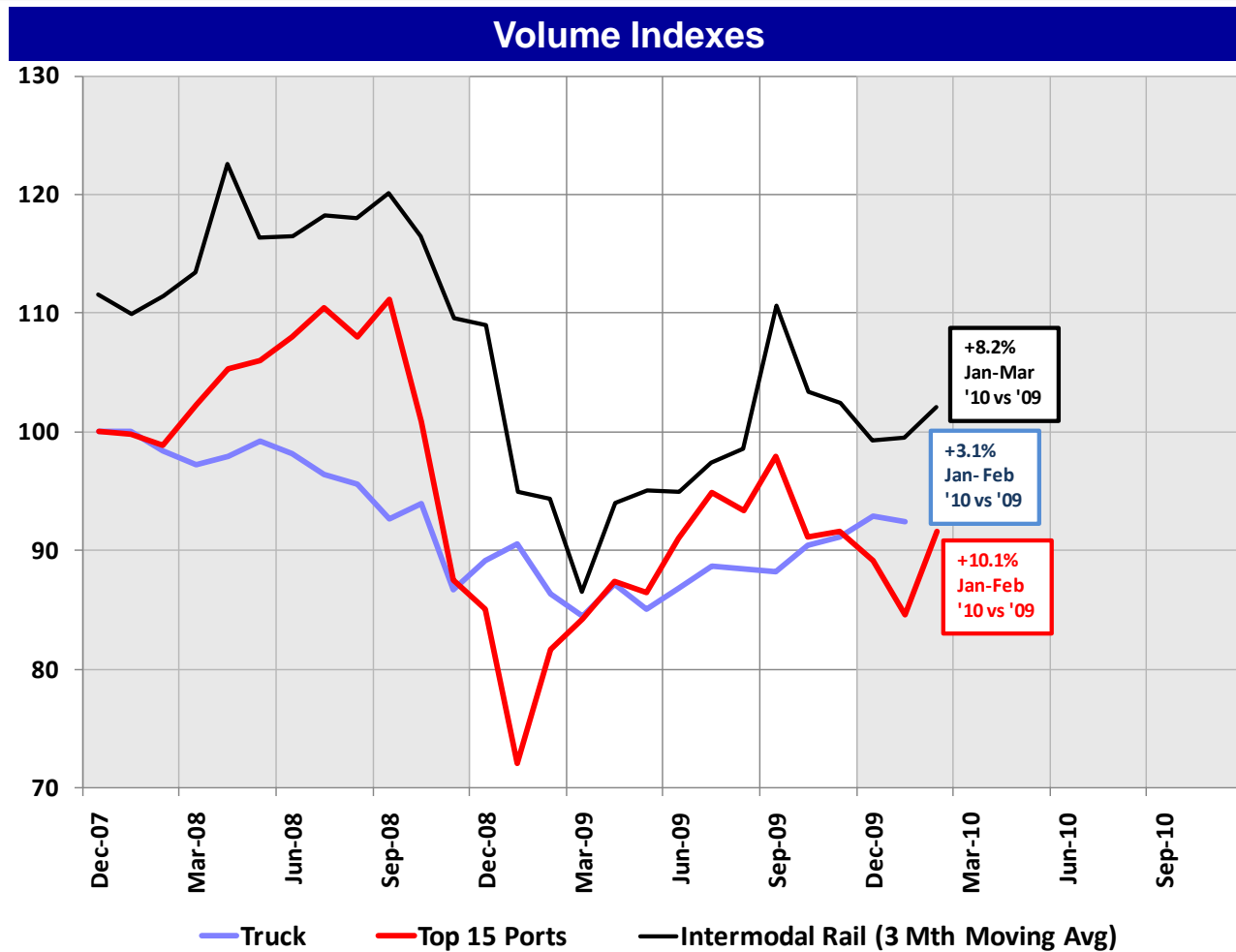
- Retail sales troughed in Q2-2009 despite continuing increases in unemployment
- Businesses are rebuilding inventories but not very quickly

US Manufacturing Is Recovering



- **US manufacturing capacity utilization fell dramatically between 2008 and 2009**
- **Low inventories and private sector spending are bringing US capacity back on line**
- **Capacity utilization and employment are not high enough to push inflation up**

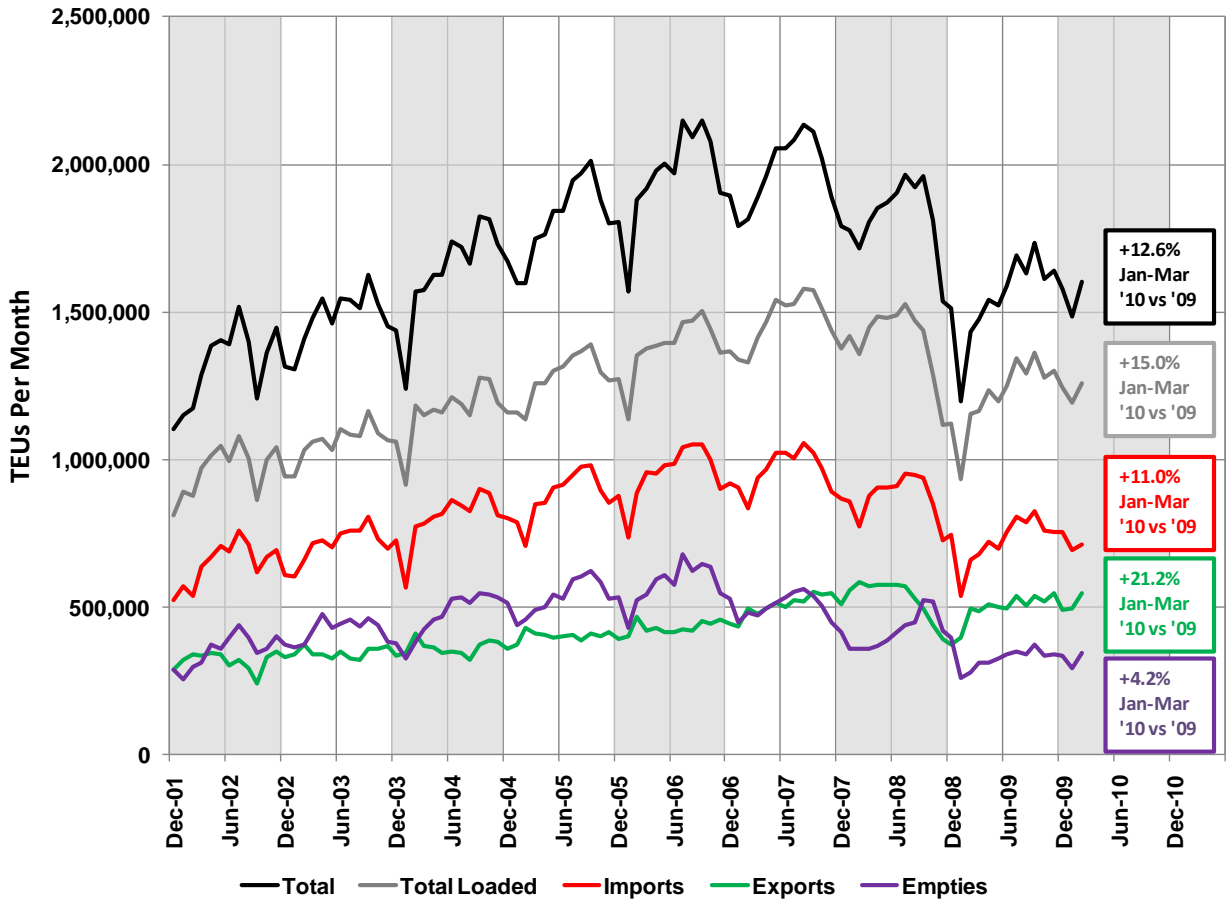
Rail, Truck and Port Volumes Are Recovering



- Truck and Intermodal Rail volumes bottomed in 2009-Q2
- Port volumes bottomed in 2009-Q1

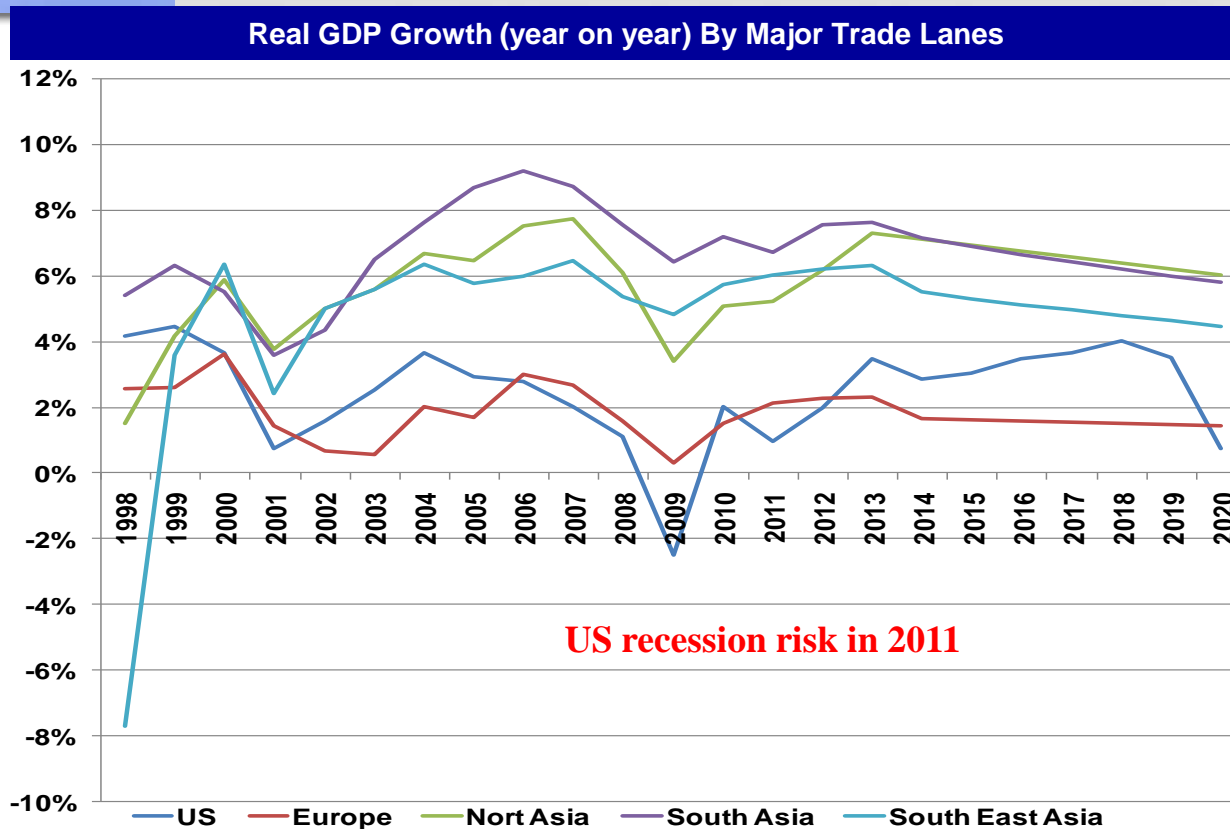
Port Volumes Sustained Recovery From 2009-H1

Monthly Int'l Container Volumes (in TEUs) For 6 Of The Largest US Ports



- **Export volumes have led overall growth and drive empties' volume lower**
- **Import volumes are recovering as US businesses rebuild inventories**
- **Both import and export volumes are expected to deliver double digit growth in 2010**

Economic Outlook for Major Trade Lane Economies



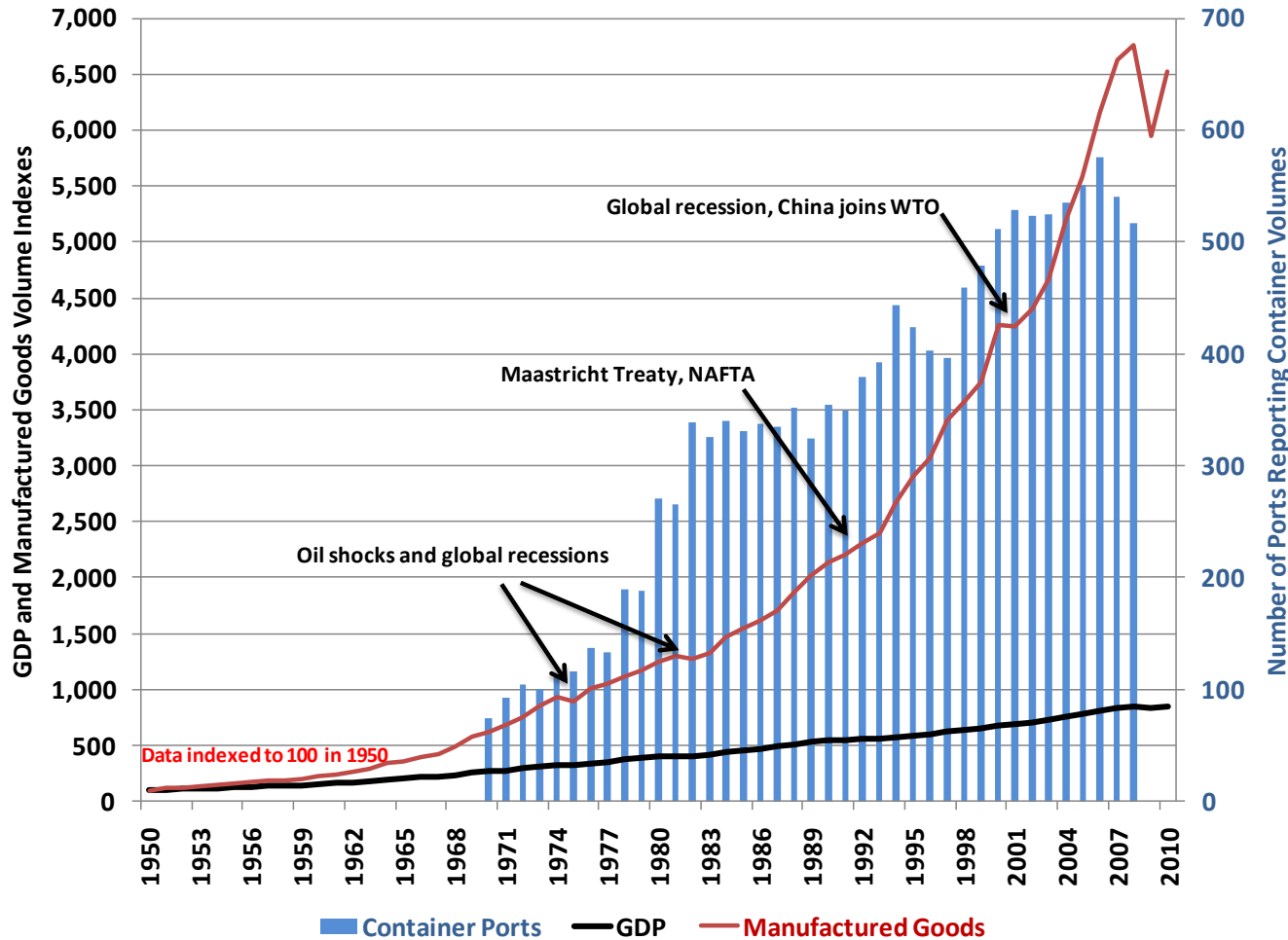
- Emerging Markets have higher population and productivity growth
- Near term is weak due to mature economies
- Policy withdrawal creates uncertainty - look for “all clear” in 2011-H2
- World trade patterns will change due to the changing relative size of emerging and mature economies over the forecast horizon

Outlook: Global Re-Balancing

Long Term Trends

Global Trade Has Exceeded GDP Growth

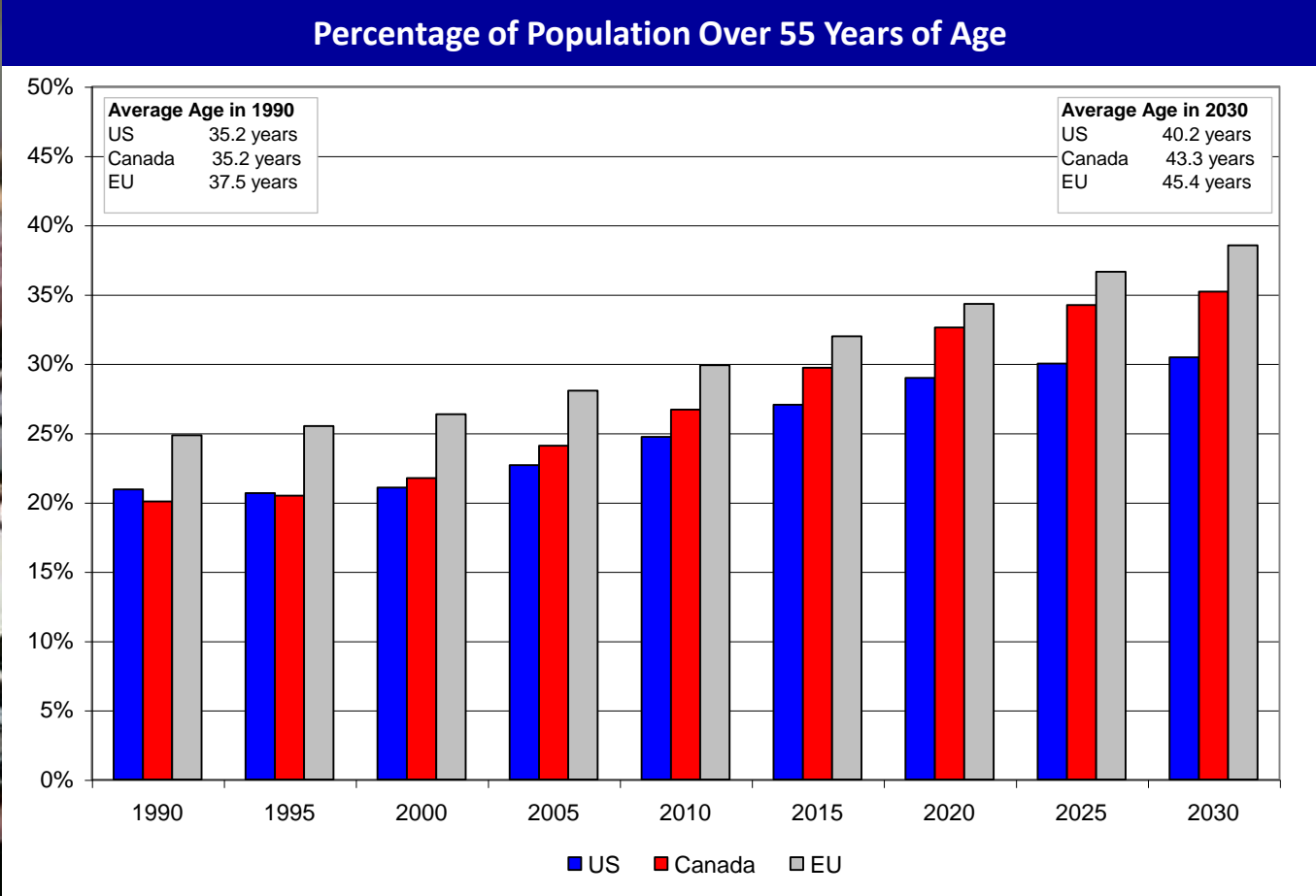
World Trade and GDP Volume Indexes



- ◆ **Cyclical Drivers**
 - Trade has grown faster than GDP
 - Macro shocks have not impacted trends

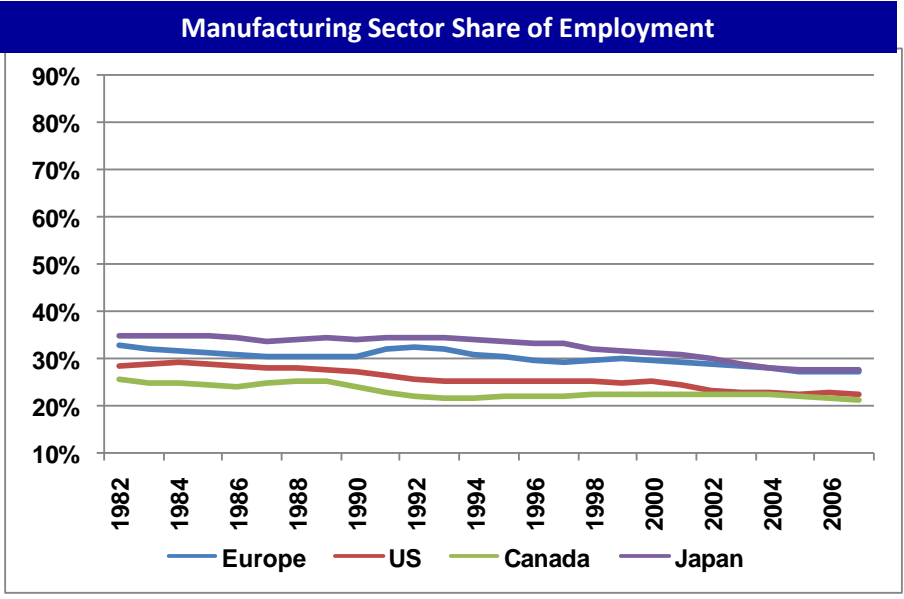
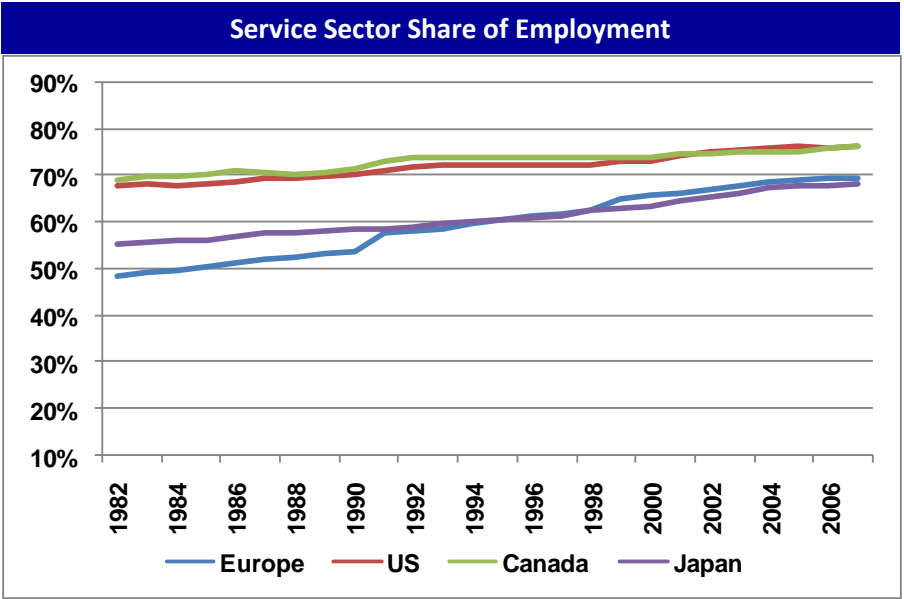
- ◆ **Structural Drivers**
 - Containerization; lowers freight cost
 - Trade Agreements; lowers trade costs
 - World Wide Web; allows “globalization”
 - Demographics; drives off-shoring/import substitution

Demographics



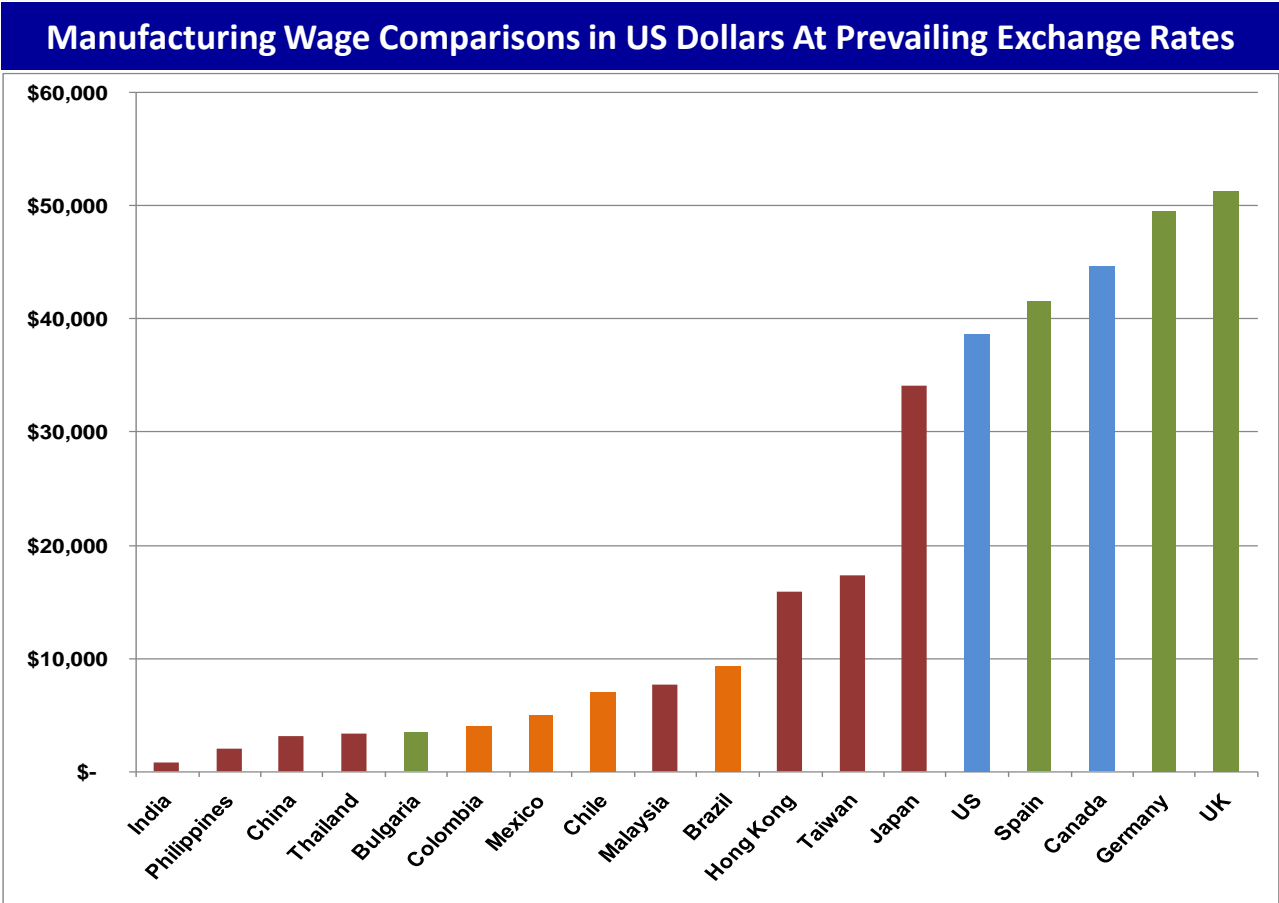
- **Aging industrialized nations' populations is not news, but the significant rise in their elderly populations over the next 20 years will reinforce the consequences already evident in the structure of their economies.**
- **Without immigration and trade, these economies face an output shortfall**

Maturing Industrialized Economies Are Increasingly Service Intensive



➤ **Developed economies are becoming more service-intensive and less manufacturing-intensive, as a function of domestic and international demographic change**

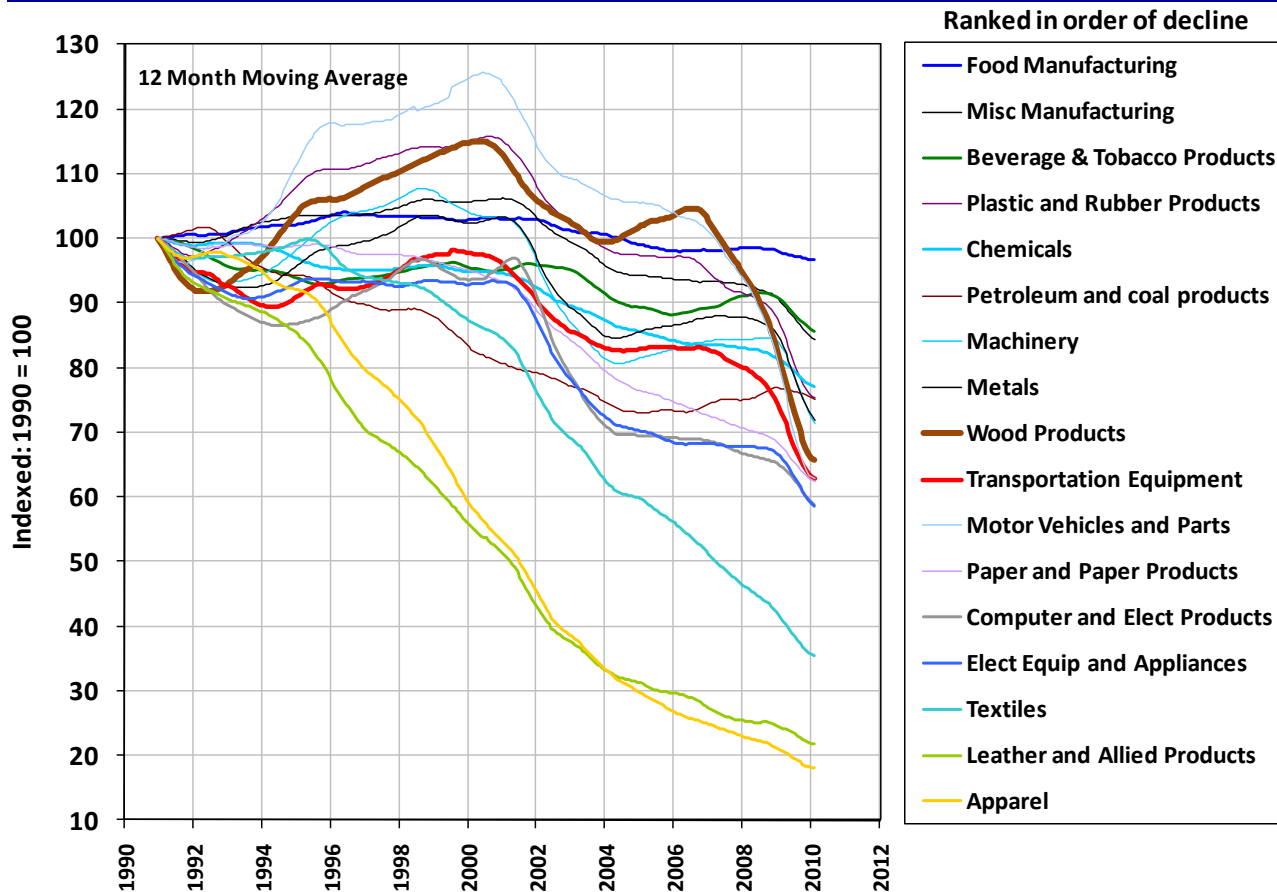
Manufacturing Industry Wage Comparisons



- **Low wages in emerging markets are partly due to their younger populations**
- **Outsourcing services maturing markets more cheaply and accesses growing markets**
- **Low wages in Latin America indicate they are prime locations for manufacturing “near-sourcing”**

Plenty of Outsourcing Left

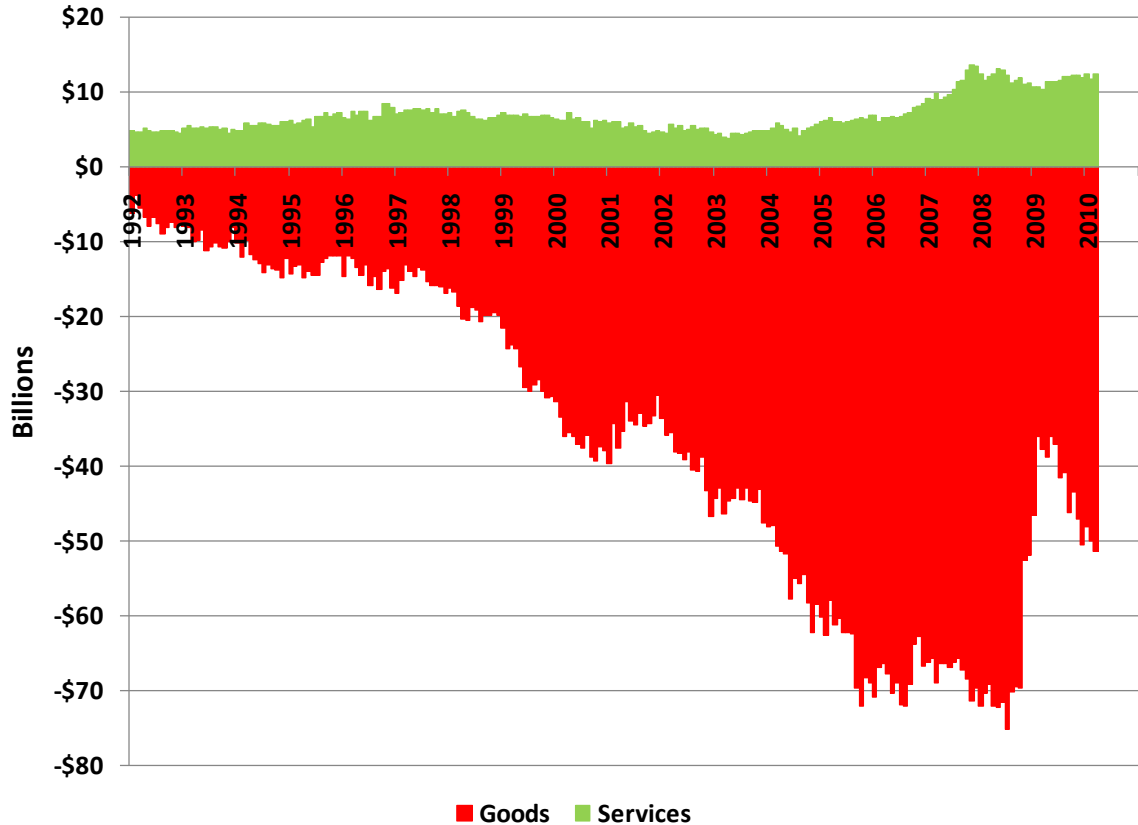
US Manufacturing Employment Trends By Industry



- Autos and housing-related sectors lagged other industries in terms of outsourcing due to strong demand for their products... until recently
- Similar expectations have been expressed by analysts at the US Dept of Labor

Eventually The US Will Have To Balance Its Trade

US Goods and Services Trade Balances

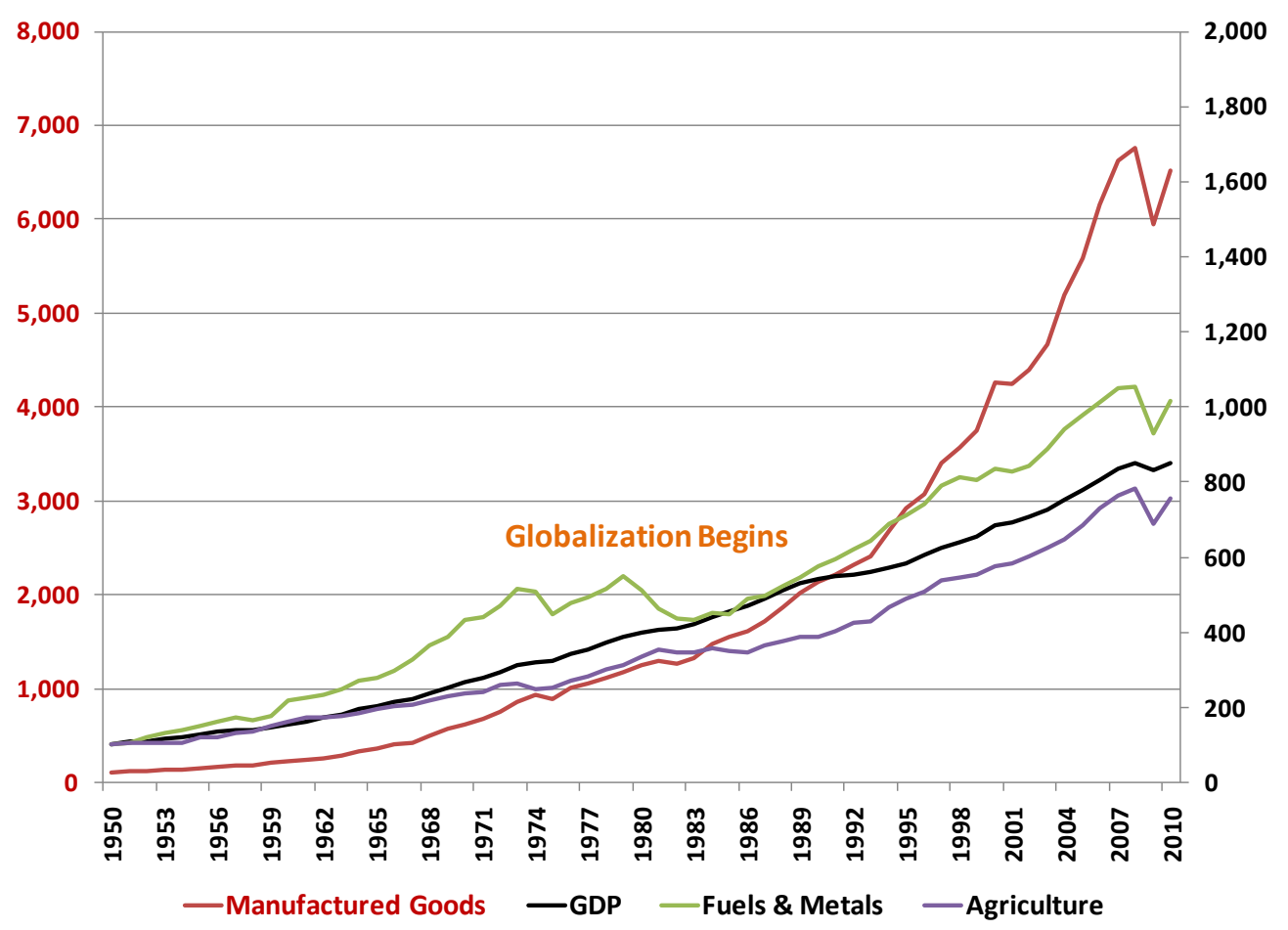


About 55% of the goods deficit is due to oil imports

- It is unlikely that the service sector will ever offset the goods trade deficit
- The US will have to reduce dependency on fuel imports and start selling goods, or the dollar will cease to be the world's reserve currency

Global Trade Commodities Lag Manufactured Goods

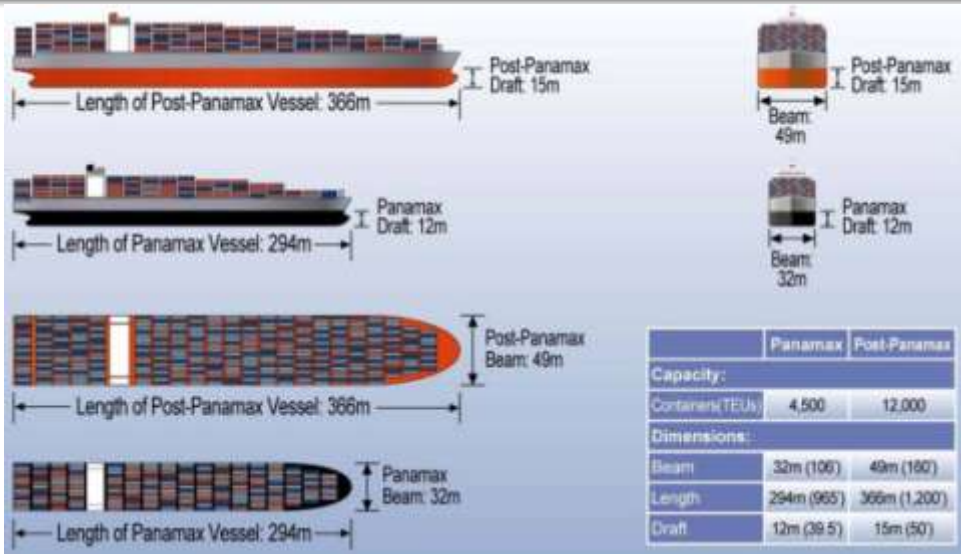
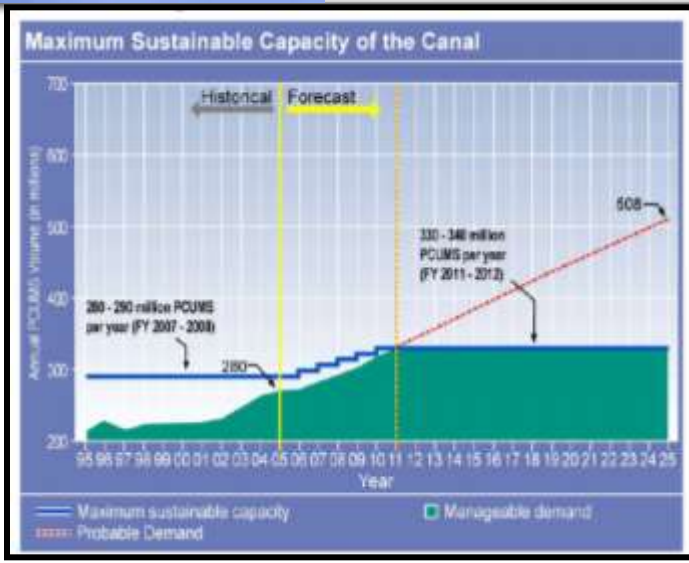
World Trade and GDP Volume Indexes



- ◆ **Manufactured goods and non-agricultural products trade have grown faster than GDP**
- ◆ **Agricultural products trade has lagged GDP and other products**
- ◆ **Gap between manufactured goods and other products trade must narrow**
- ◆ **Bulk commodity trade depends on manufactured goods trade and other structural factors**

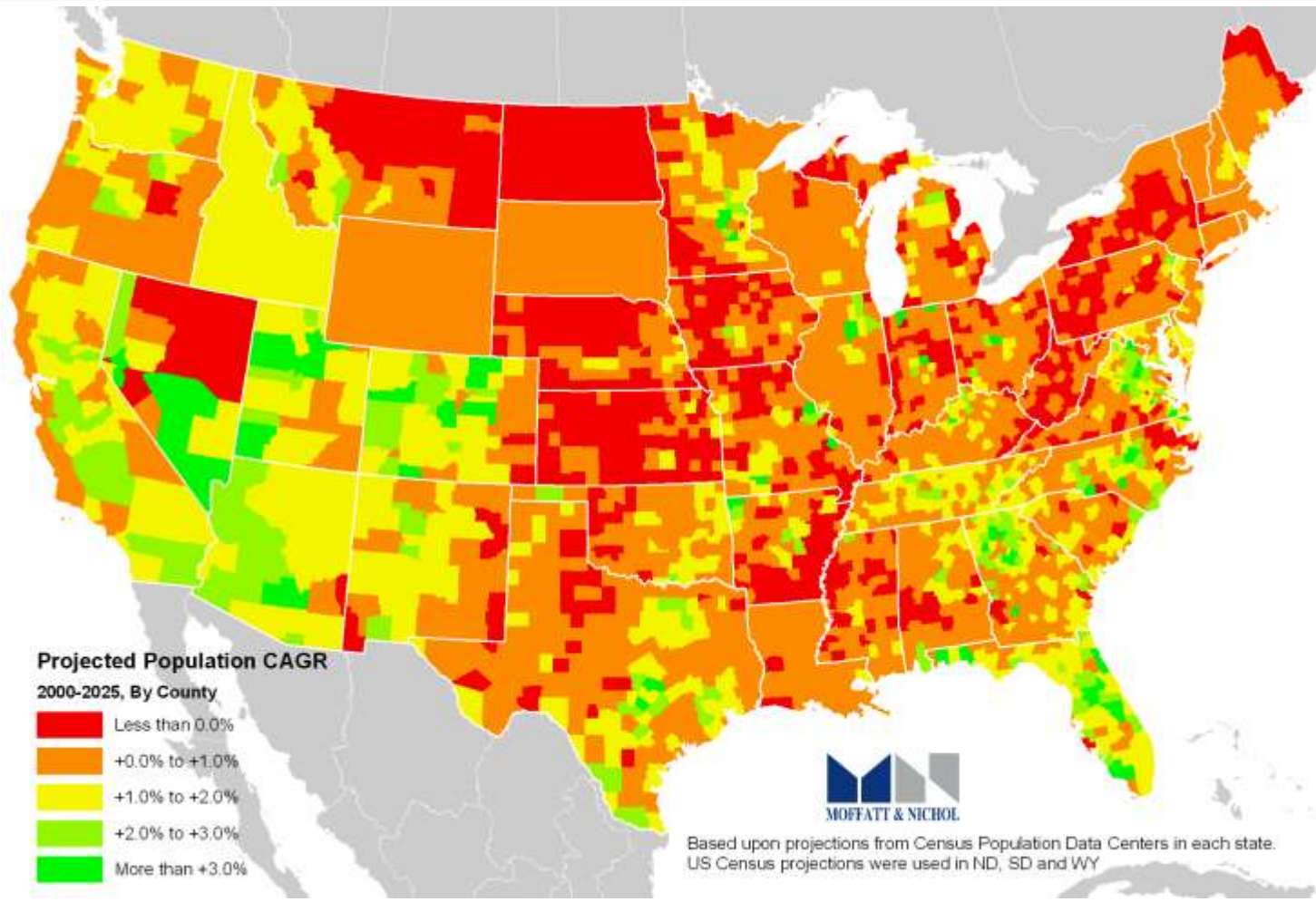
Transportation Infrastructure Issues

Global Infrastructure Change: Panama Canal Expansion



- **Some ports will eventually have to increase channel or air draft**
- **Ocean carriers will eventually have to adapt their fleets**

Demographic Trends Are Changing The Economy's Structure



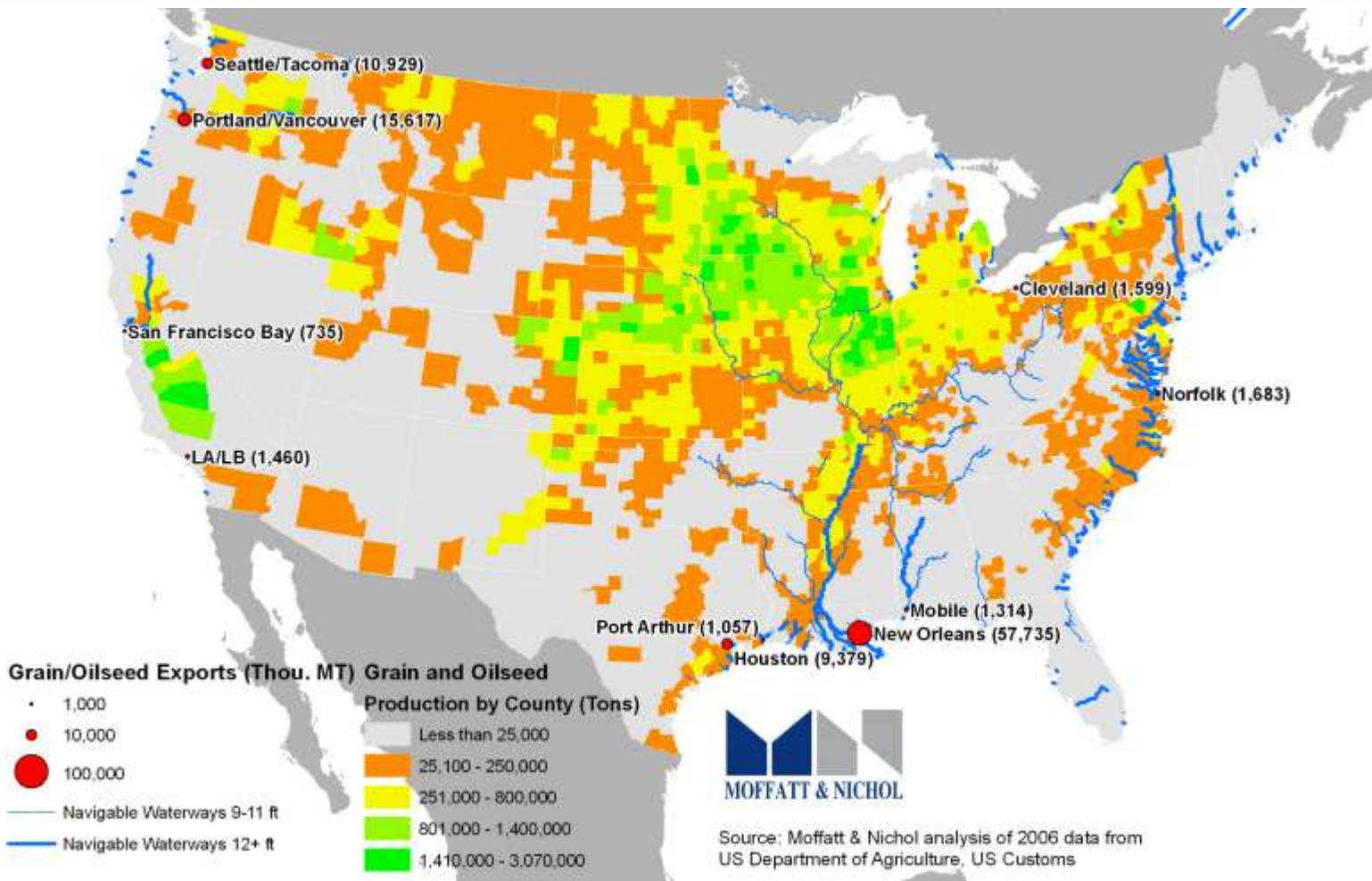
- **US population is moving to urban, coastal and Southern locations**
- **Its not just baby boomers retiring to the south, but mostly younger people to work in those growing markets**

Competitive US Export Candidates

- ◆ **Relative to faster growing Emerging Markets, the US has**
 - ◆ **Lower cost of capital, higher cost of labor**
 - ◆ **More advanced biotechnology**
 - ◆ **More reliable quality control and surveillance of compliance**
 - ◆ **Relative abundance of scarce resources such as water**

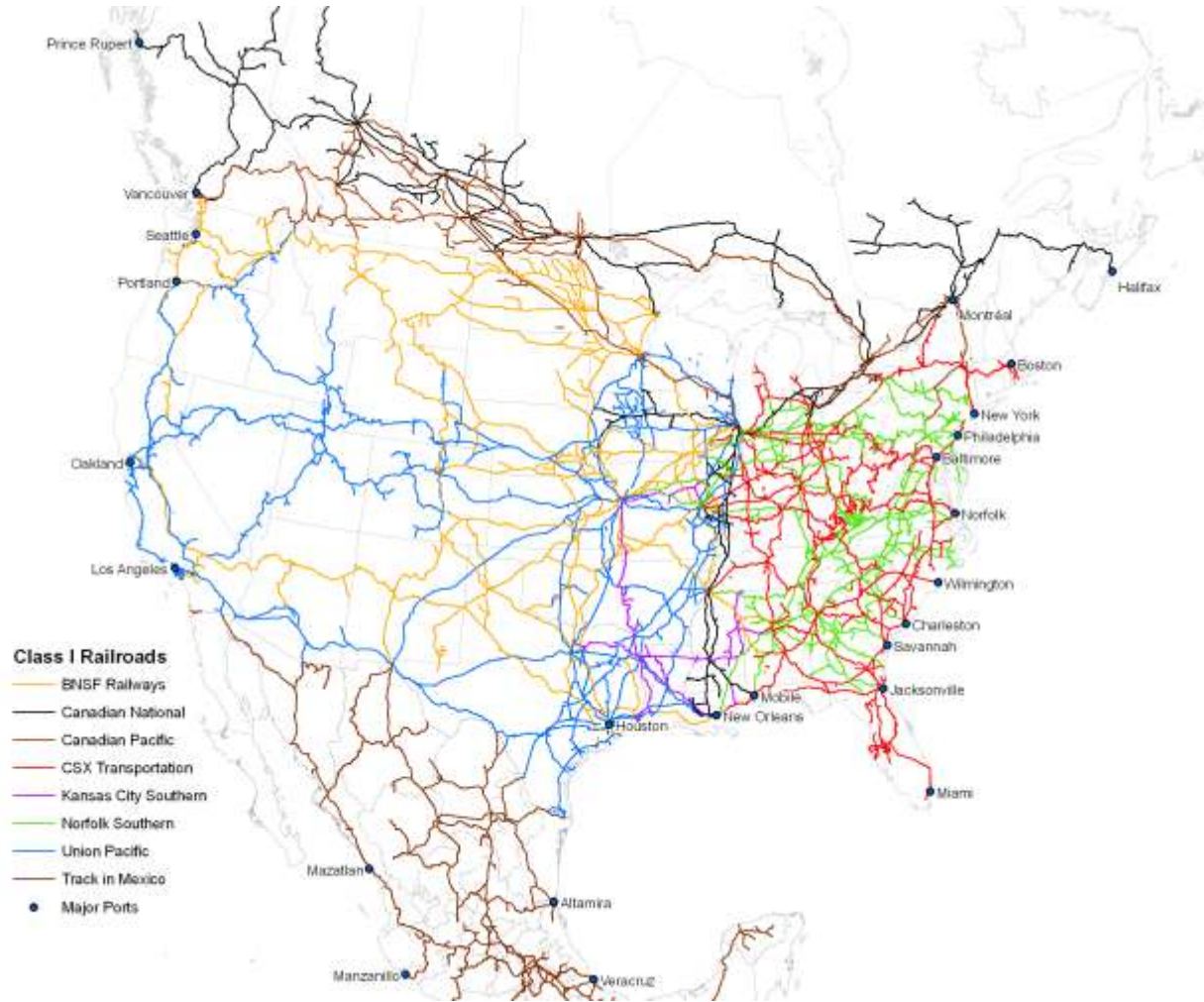
- ◆ **A partial list of high potential exports fitting these advantages:**
 - ◆ **Low labor-content capital goods**
 - ◆ **Grain and oilseed**
 - ◆ **Meat**
 - ◆ **Wood pellets**

America Is The World's Bread Basket



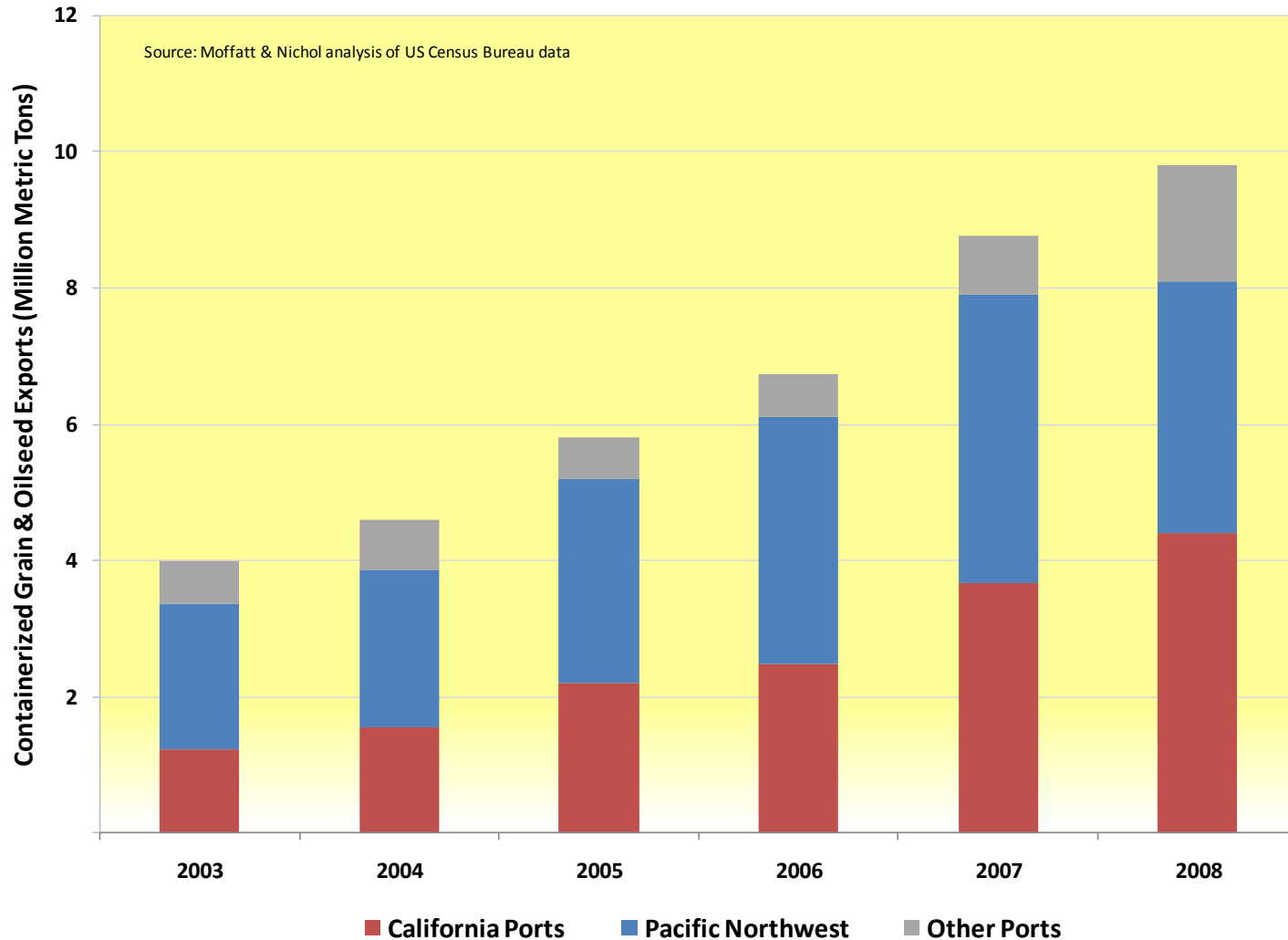
➤ Lack of investment in inland waterway infrastructure is a significant bottleneck

Connecting The US and World Economies



➤ **The rail network can handle agriculture exports in place of the inland waterway system**

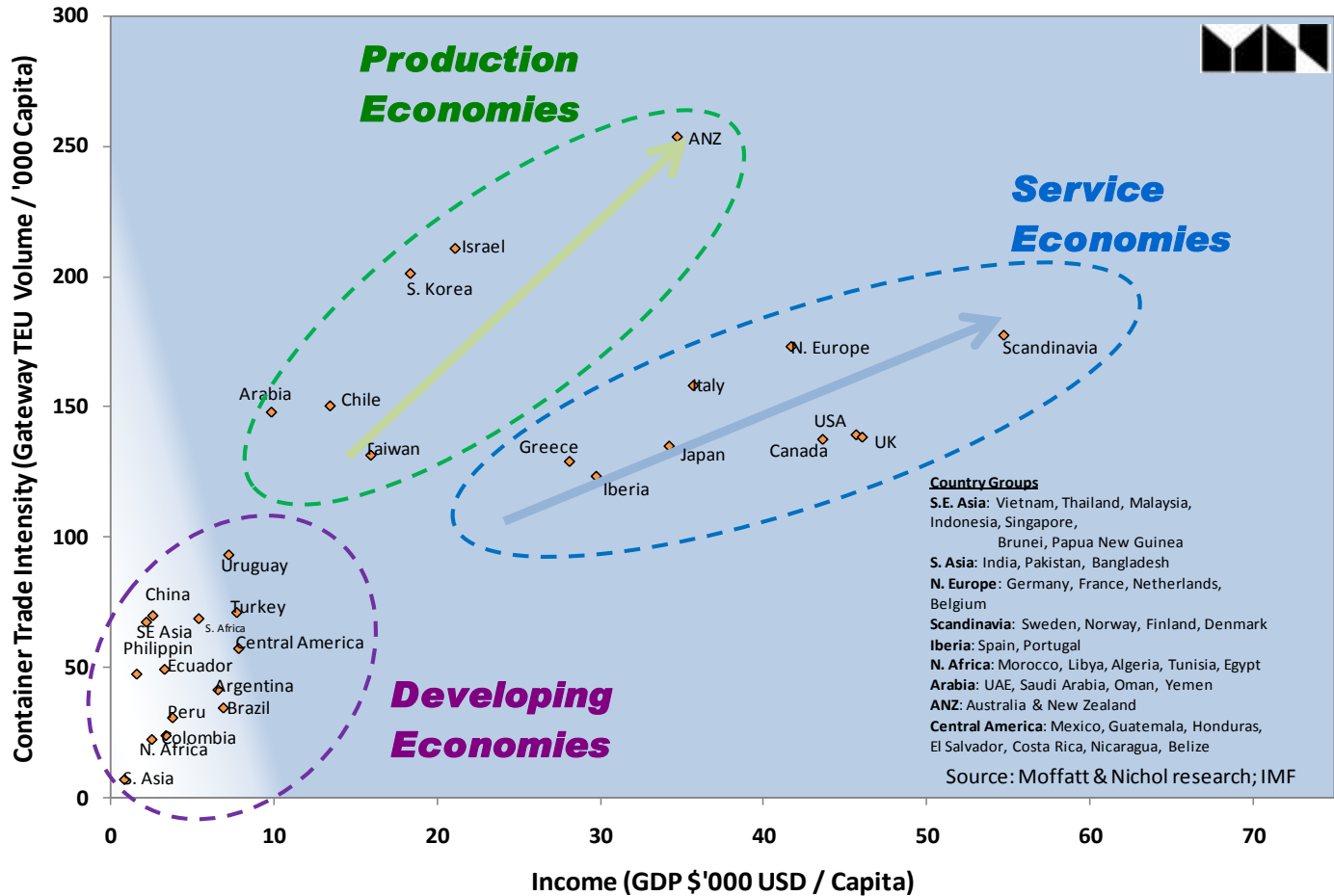
West Coast Ports Are Gaining Share of Grain Exports



◆ West Coast ports have gained share of agricultural exports aided by containerization

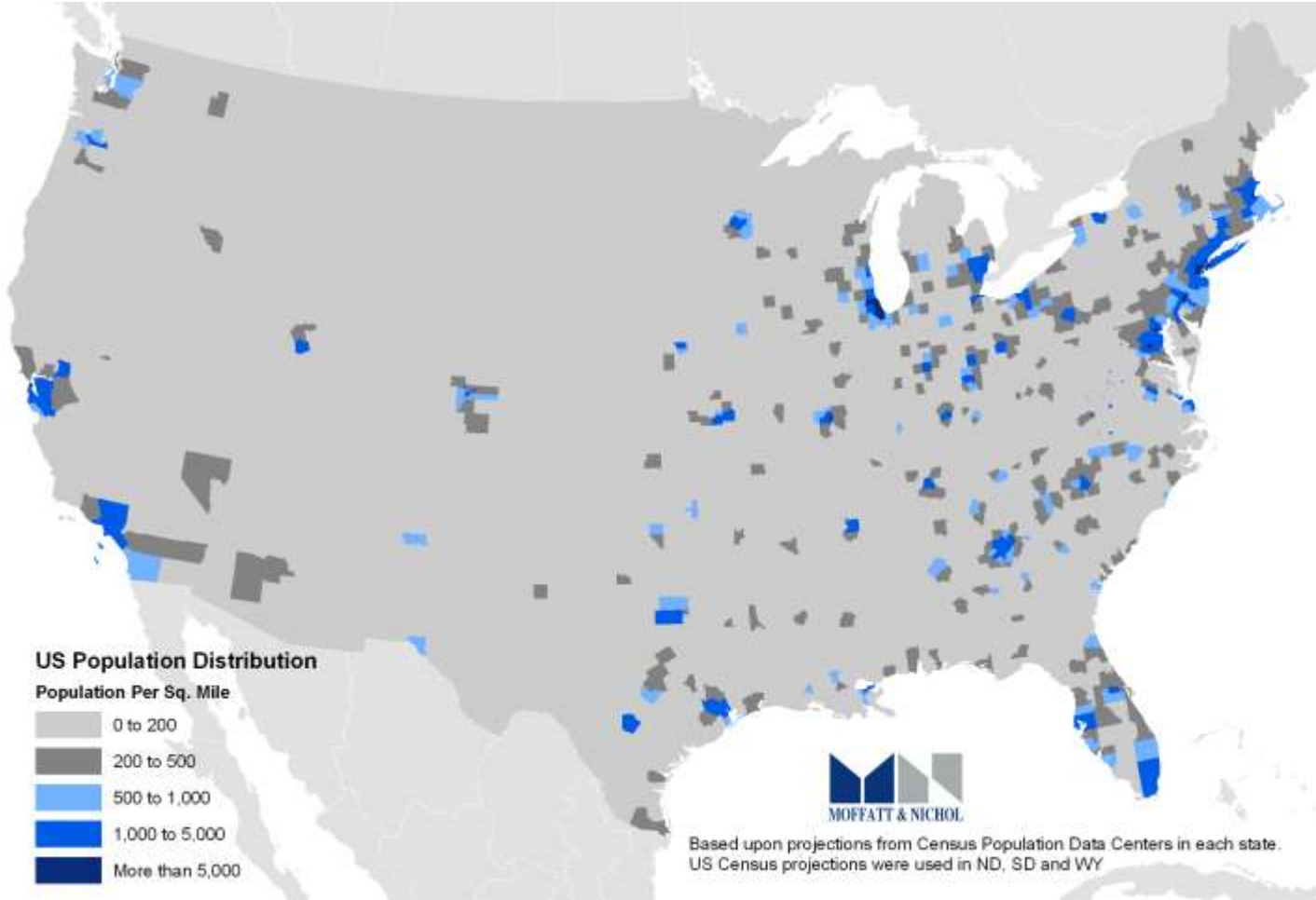
Low Container Trade Intensity in Emerging Markets

International Comparison of Gateway Container Trade Intensity



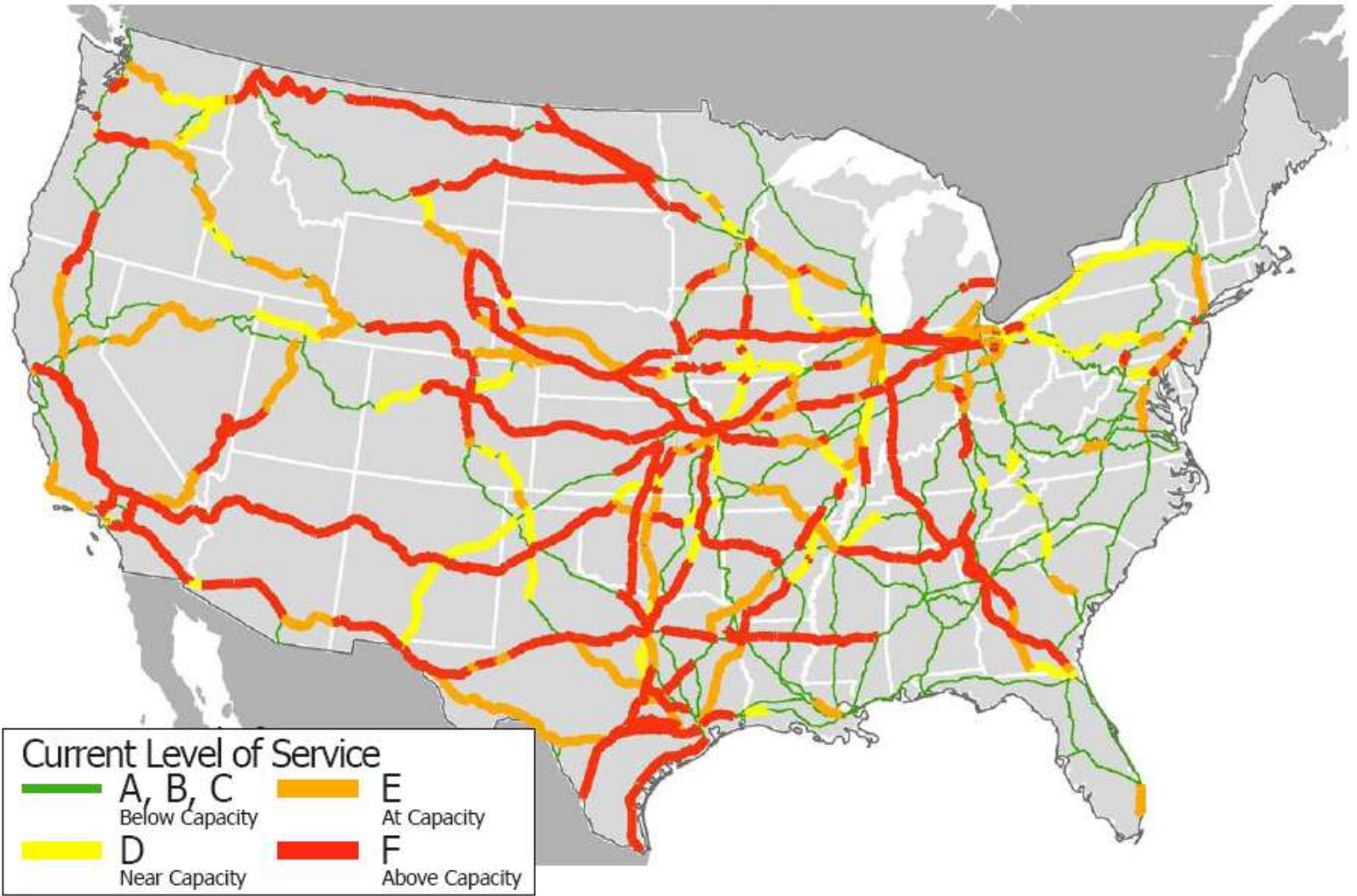
➤ As incomes rise in emerging markets, the trade intensity of these economies will catch up with those of more developed economies

Containers Concentrate In Population Centers

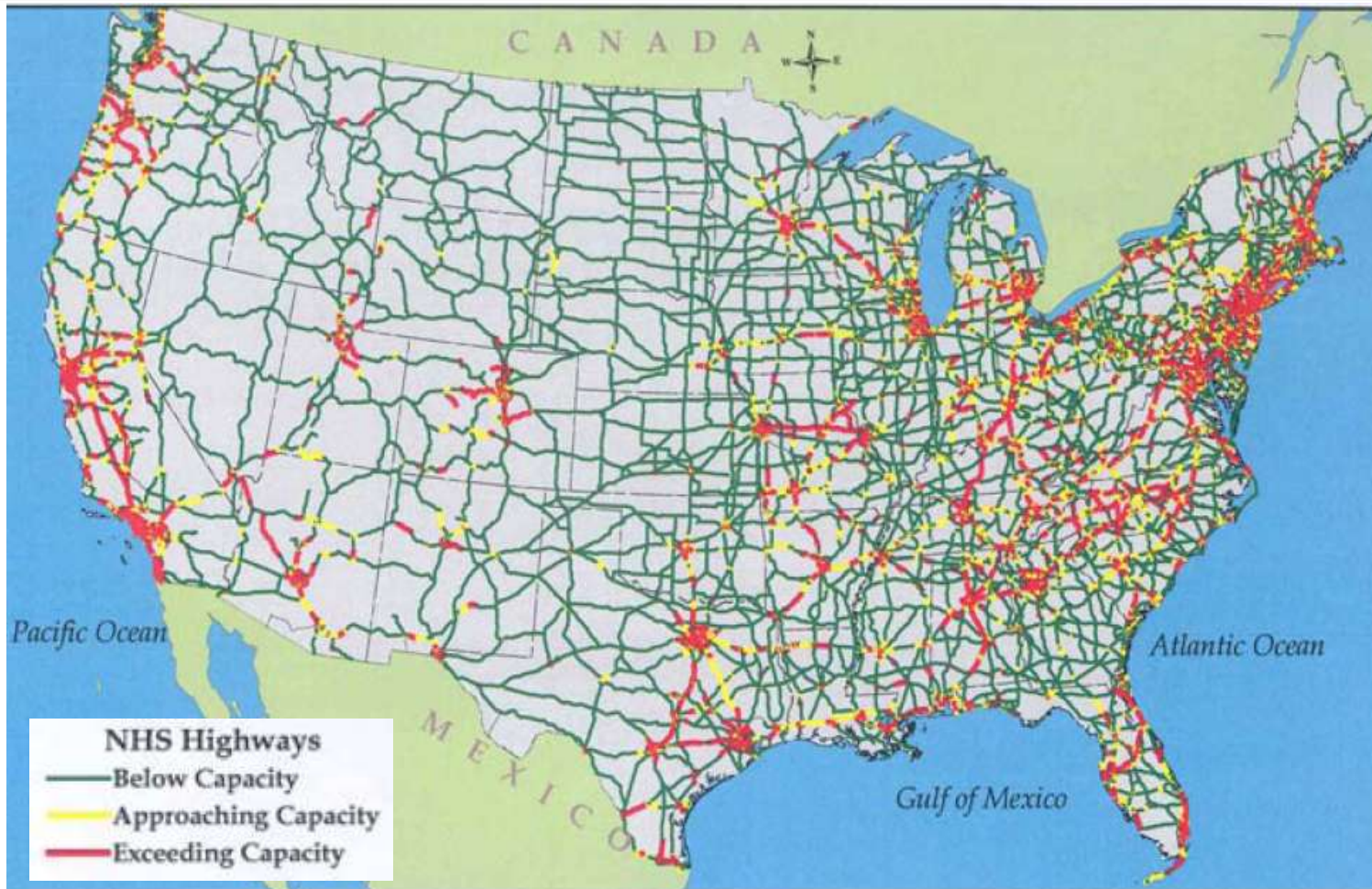


- **These are the locations where the bulk of consumption takes place**
- **Containers are increasingly retained near ports**

Rail Capacity in 2035 Without Improvements



Potentially Congested Highways (2020)

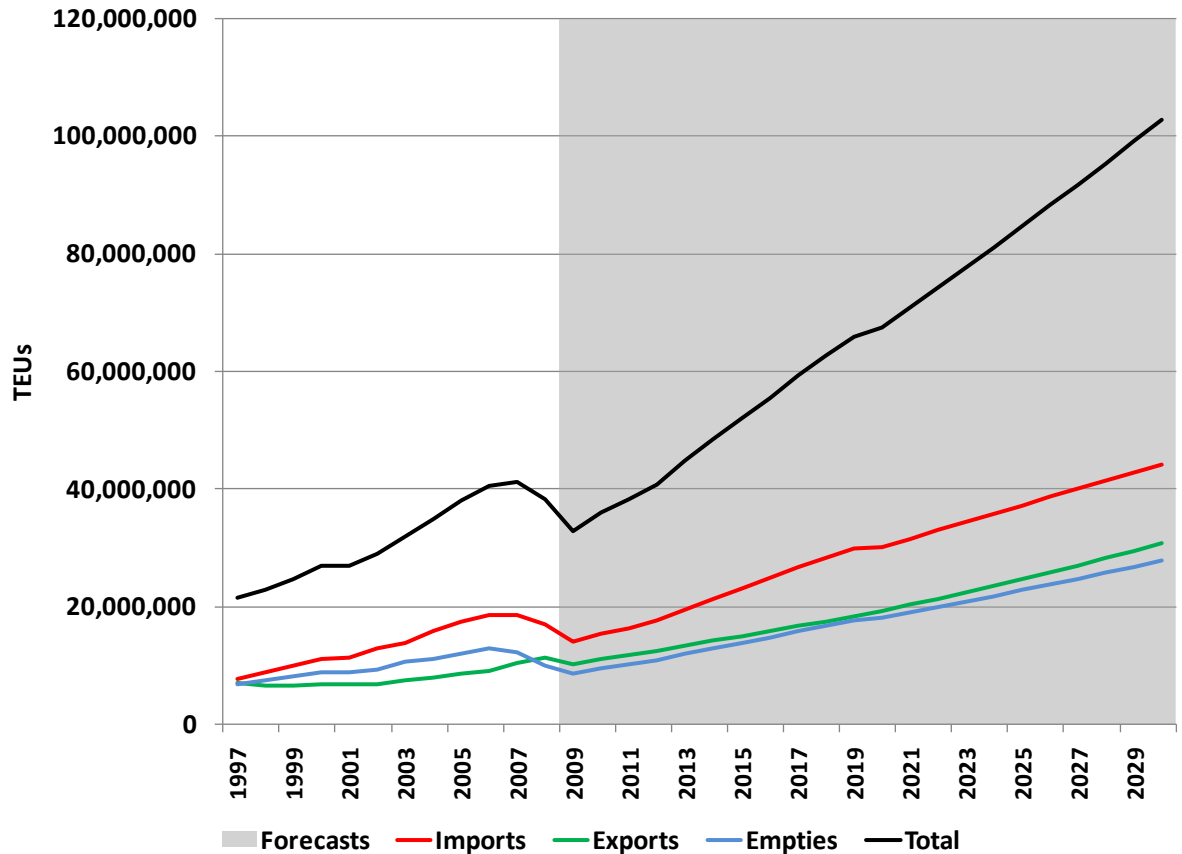


- **At the end of 2007, the US had 4,048,529 miles of public roads**
- **Highways need expansion and repairs – AASHTO estimates \$140 billion to repair and modernize the nation's 600,000 bridges**

Container Trade Forecasts

Long Term Outlook For US Container Volume Trade

US International Maritime Container Volume Trade



- Global macroeconomic trends remain supportive of trade growing faster than GDP
- China is expected to moderate its currency stance and increase the consumer's share of GDP
- International policy is expected to further remove trade barriers and reduce the environmental impact of economic activity

Takeaways

- ◆ **The recovery is on the verge of self sustaining, negative growth risks remain but continue to moderate – policymakers are aware of these risks**
- ◆ **Global rebalancing is the new normal – outsourcing, not debt-fueled consumer spending will drive imports, US exports have to grow to pay for imports.**
- ◆ **Low inventory and high ROC are not the new normal, but new arrangements are partnerships will be**
- ◆ *Transportation is a first-mover advantage industry. The time to make investment decisions is now. The winners are those who acted when others were afraid to look.*

Thank you for your time