Trade and Economic Trends Implications for Marine Terminals

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Long Beach, CA   Oct 17, 2011

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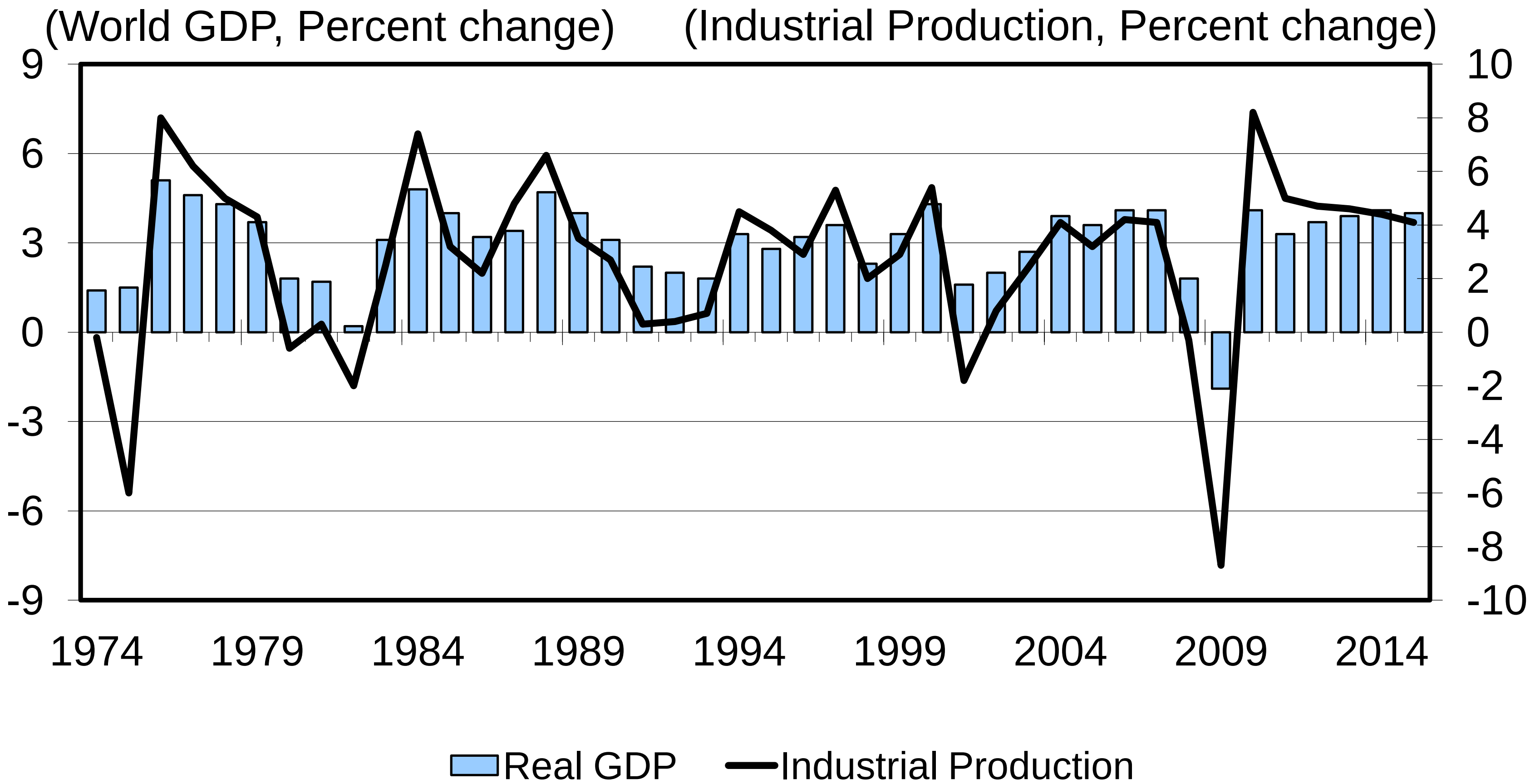
Marine Terminal Activity is Driven by Trade Demand Which Depends on the Economy

The World Economy is Struggling to Avoid a New Financial Crisis and Recession

- The U.S., European and Japanese economies all are growing slower in 2011 than in 2010.
- Consumer sentiment and equity markets have fallen.
- Emerging markets are also slowing, but still growing at a faster pace than the developed countries
- Overall commodity price increases have eased so inflation is limited in developed economies (there is much slack in most product and labor markets), but inflation is still a concern in the emerging market countries
- Interest rates will remain low in the big developed countries for a quite a while, but not so in the big developing countries

World Economic Recovery from the Recession has Slowed in 2011

Marine trade demand reflects more volatile industrial production

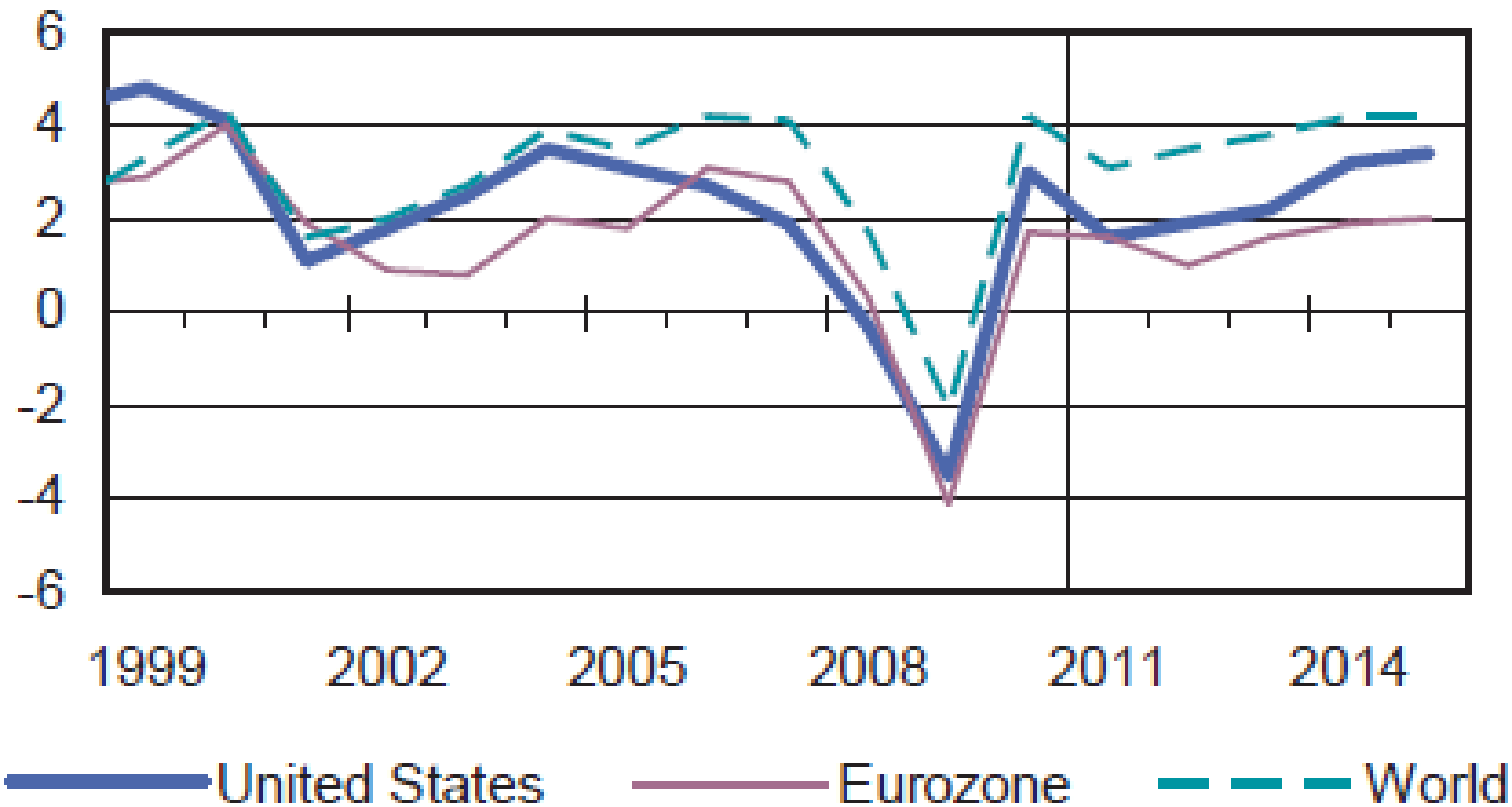


Source: IHS Global Insight

Why a Weaker World GDP Growth Forecast ?

Slow Growth in Europe and U.S. has slowed Global Growth

(Real GDP, Percent Change)



Source: IHS Global Insight

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European Outlook Uncertain

- European economies remain under great pressure
  - Big financial sector problems, both government and banks
  - Weak consumer and limited business spending
  - Housing market weakness in a number of countries
  - Slower growth in demand from key export markets
- Avoiding recession depends on the European Central Bank and political willingness to take further efforts to boost euro zone economic activity and prevent default in Greece
- Economic environment will remain uncertain and underlying demographic pressures hold little prospect of easy long-term fix
- Recession in Europe could easily pull world back into recession

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U.S. 2011 GDP Forecast is Weak 1.7% Growth With Near 2% Growth Forecast through 2013

U.S. is growing weakly in 2011, and the downside risks are many:
Sustained weakness makes the economy increasingly at risk

One shock could push the U.S. economy back into recession, including

- The intensifying, unresolved eurozone debt crisis
- Flattening consumer spending
- Reduced government spending (state and local, not just federal)

Risk of recession now up to about 40%, in Europe as well as in the U.S.

As long as unemployment stays high and housing doesn't recover, weakness will persist and risk of recession will stay significant.

Although the economy is still technically expanding, growth now is not fast enough to reduce unemployment, still at over 9 %

Source: IHS Global Insight

‘Double Dip’ Recession is Not Forecast (Yet)

- Oil prices have retreated, and for now are not a threat to economic growth.
- Corporate finances, especially profits, remain strong and consumer finances have improved in the last two years.
- Growth in emerging markets is likely to be sustained at fairly high levels, which means that both U.S. and European export strength will help support growth.
- Unlike 2008, U.S. banks are in pretty good shape and credit conditions are easing.

Biggest Risk to Economy is a Policy Mistake

- **The single-biggest risk facing the U.S. and European economies is a policy mistake—specifically, an intentional or inadvertent tightening of monetary / fiscal policy.**
- ***Uncertainty* about what policymakers are likely to do (faced with the twin challenges of weak growth and sovereign debt problems) is one of the biggest drags on growth.**

U.S. Public Finance Affecting the Economy

- **This summer's downgrade of U.S. government debt by Standard & Poor's was largely ignored by the markets.**
- **Large uncertainty remains about how the U.S. will cut its long-term debt - to - GDP ratio.**
- **The potential for more political standoffs is high into 2012.**
- **Extension of payroll tax cuts and extended unemployment benefits (worth about 1% of GDP) at the end of this year is a factor.**
- **Baseline forecast is that this added downward pressure to growth is avoided with Congress extending the fiscal stimulus.**
- **Federal Reserve won't tighten monetary policy until at least 2013.**

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Further Growth in Trade Depends on the Economic Recovery Continuing

- **Cargo trade demand depends on business and household goods trade demand, part of consumption spending.**
- **Inventory rebuilding also affects trade outlook. It was rapid in 2009-to-2010 recovery but slow now.**
- **Cargo trade demand also depends on the geography of production and consumption, linked by trade routes.**
- **The geography of global shipping is changing as trade grows its share of the economy where emerging market countries grow faster than advanced country economies.**
- **Expected world trade growth of 7-8% in 2011 is more than twice 3.3% forecast world GDP growth.**

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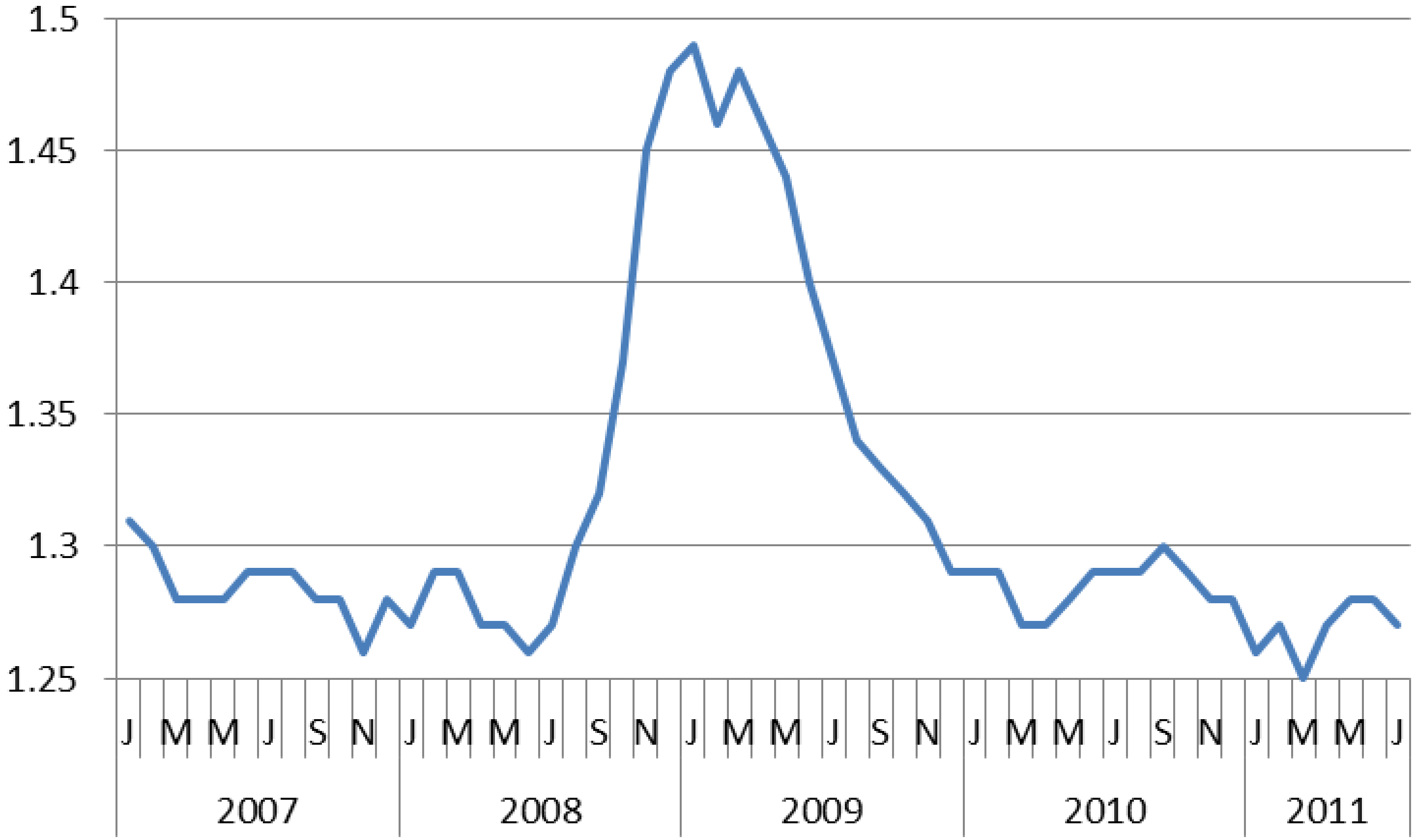
Inventory - to - Sales Ratio is Still Lean
No Further Boost of Marine Cargo Demand

Total U.S. Business Inventory to Sales Ratio



Source: U.S. Department of Commerce

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World Trade Growth Over the Long-Term

- **From longer-term commodity perspective, trade in lighter weight, higher value goods will outpace growth in bulk commodity categories.**

- **Relative trade growth for transport modes will reflect underlying commodity growth rates, which will result in relatively faster demand growth for containerized and Ro/Ro cargo vs. bulk commodities.**

- **Environmental pressures benefit maritime trade in contrast to less environmentally efficient modes of transportation.**

- **Trade grows fastest on Asia routes, especially with China, now the #1 or #2 trade partner of many countries, not just among countries in Asia**

- **Inter-developed country trade grows moderately; Inter-emerging market trade grow most rapidly; developed–emerging market trade in between, over the longer-term.**

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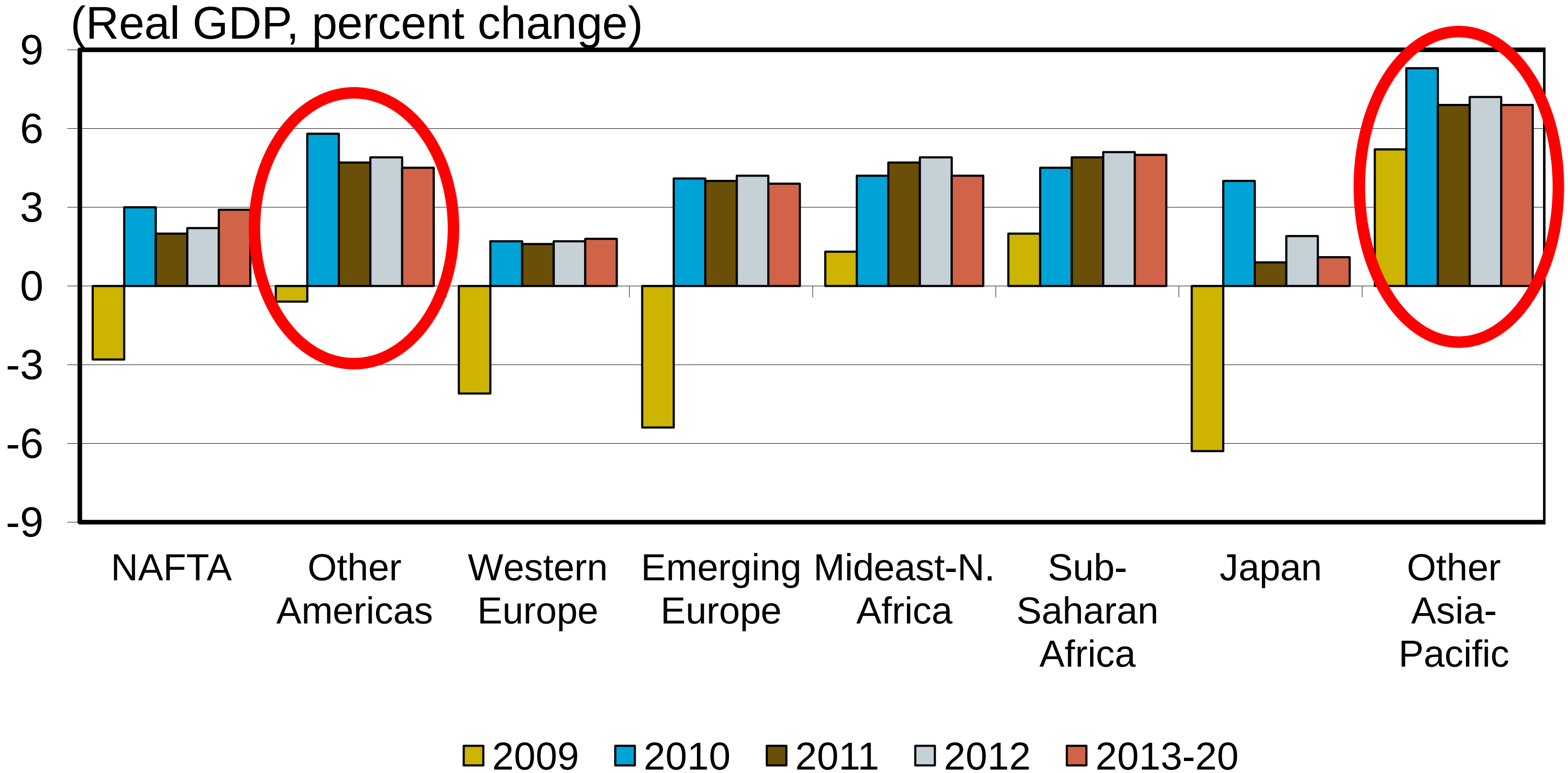
GDP Growth Rate Differences Affect Pace of Trade Growth, and Trade Volumes by Trade Partner Route

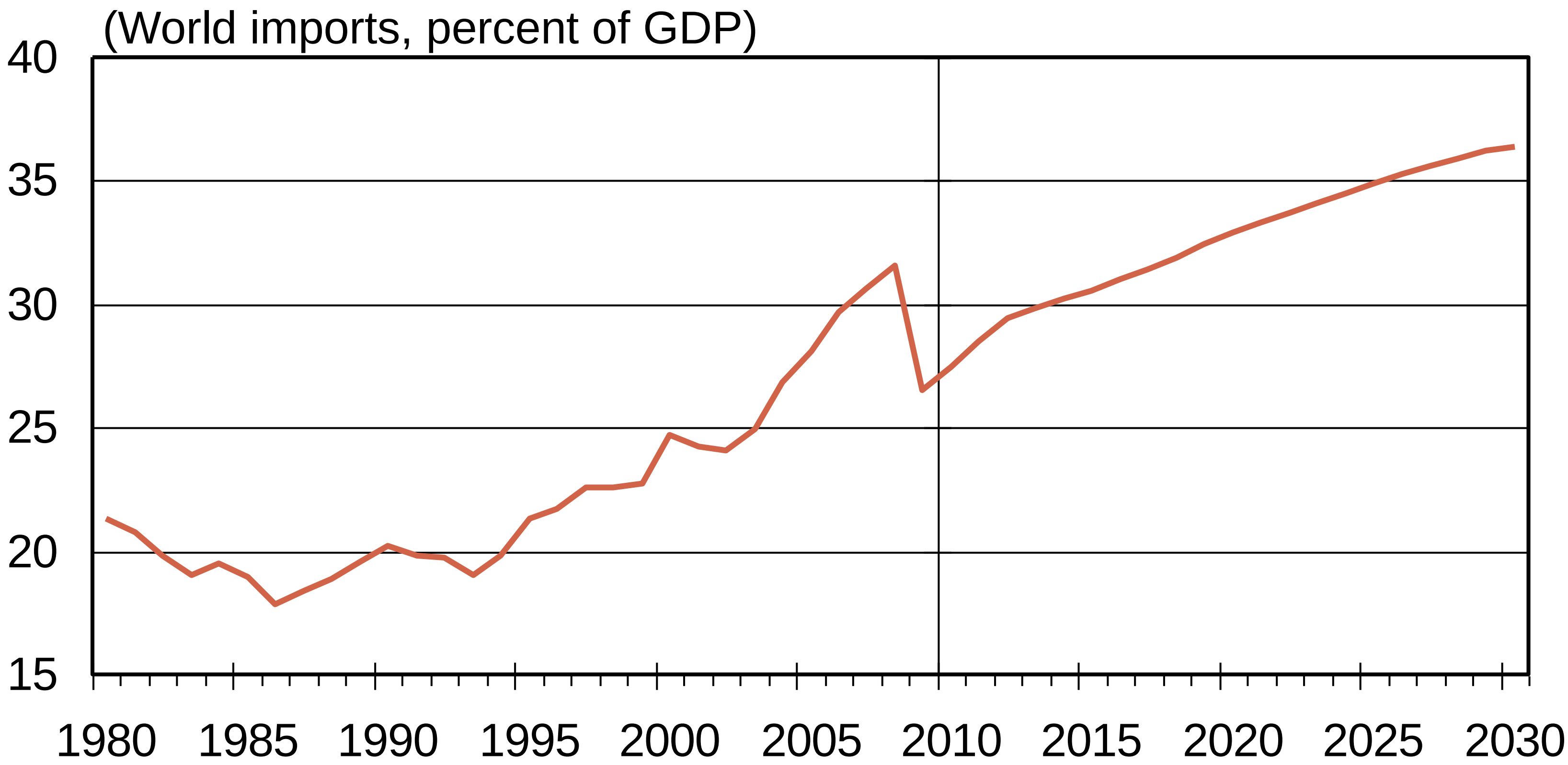
Geography of production / consumption is changing as emerging markets grow 6% on average over the next decade vs. 2.1% for advanced countries.



Source: IHS Global Insight

World Trade's Share of the Economy Grows Again After Temporary Decline

Globalization trend is long-term and has not reversed or stopped



Source: IHS Global Insight

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Globalization Continues, With Shifts

- **High energy prices in 2008, low demand with 2009 recession saw reduced trade volumes, but that was not reverse globalization**
- **Globalization continues: importers still benefit from foreign resources and labor, consumers enjoy lower prices and variety**
- **Exporters benefit from access to larger, more open markets**

  . . . *If* firms are world-class competitive
- **Shifts in economic geography, and the search for low cost production continues to affect trade. Production shifts within Greater Asia (Vietnam, India) are a natural progression as China develops. Trade patterns and cargo demand remain dynamic.**
- **Pressure for global sourcing continues, complicated by stronger emphasis on environmental footprints, energy use, and risks.**

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“Reverse” Globalization

- Some analysts argue that high oil prices plus impacts on the environment of trade lead to a paradigm shift where the higher costs are reversing globalization.
- Evidence of overall trade declines with large-scale substitutes of domestic for traded goods is lacking.
- Examples of ending off-shore production, or “inshoring,” are limited and are not evidence of end to trade growth, even with exceptions (fresh food).
- Transport cost influence on trade patterns is real and some domestic producers and near-neighbor trade partners stand to benefit when oil prices are high, but the impacts should not be exaggerated.

The U.S. Dollar Will Decline Against Most Currencies, With the Exception of the Euro

- **The multi-speed world and still-large global imbalances are having a predictable effect on exchange rates – downward pressure on the currencies of slow-growing economies and upward pressure on the currencies of faster-growing economies**
- **In particular, the U.S. dollar will fall against most currencies, long-term especially those of emerging markets – such as China, except during periods of fear-driven "flight to safety"**
- **On the other hand, the sovereign debt problems in Europe may further strengthen the dollar relative to the euro**
- **If U.S. dollar loses status as world reserve currency, the dollar would fall further**

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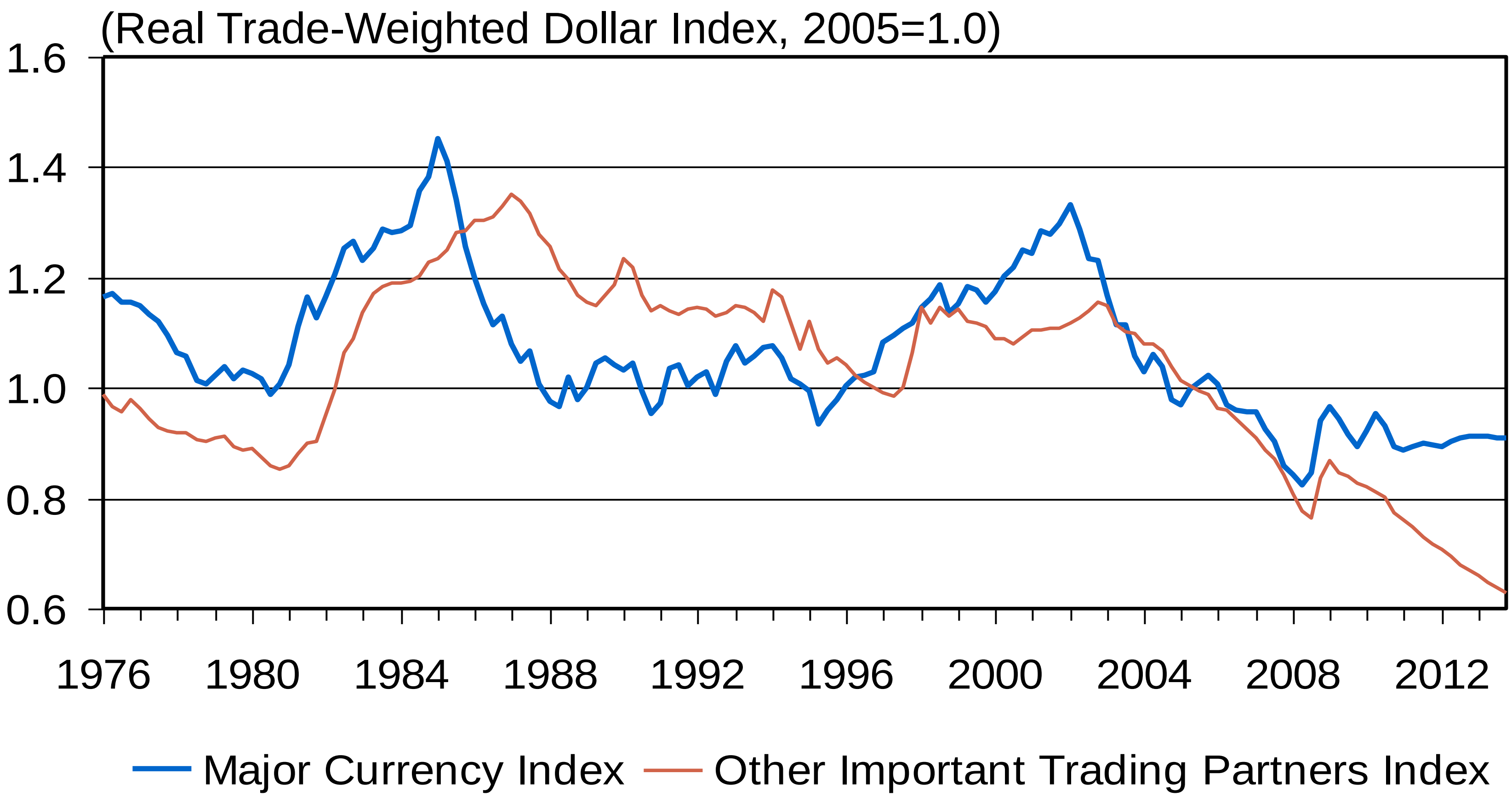
The U.S. Dollar Will Depreciate Against Emerging Market Currencies the Most

The Drop in the Dollar Boosts U.S. Export Competitiveness; Dampens Imports



Source: IHS Global Insight

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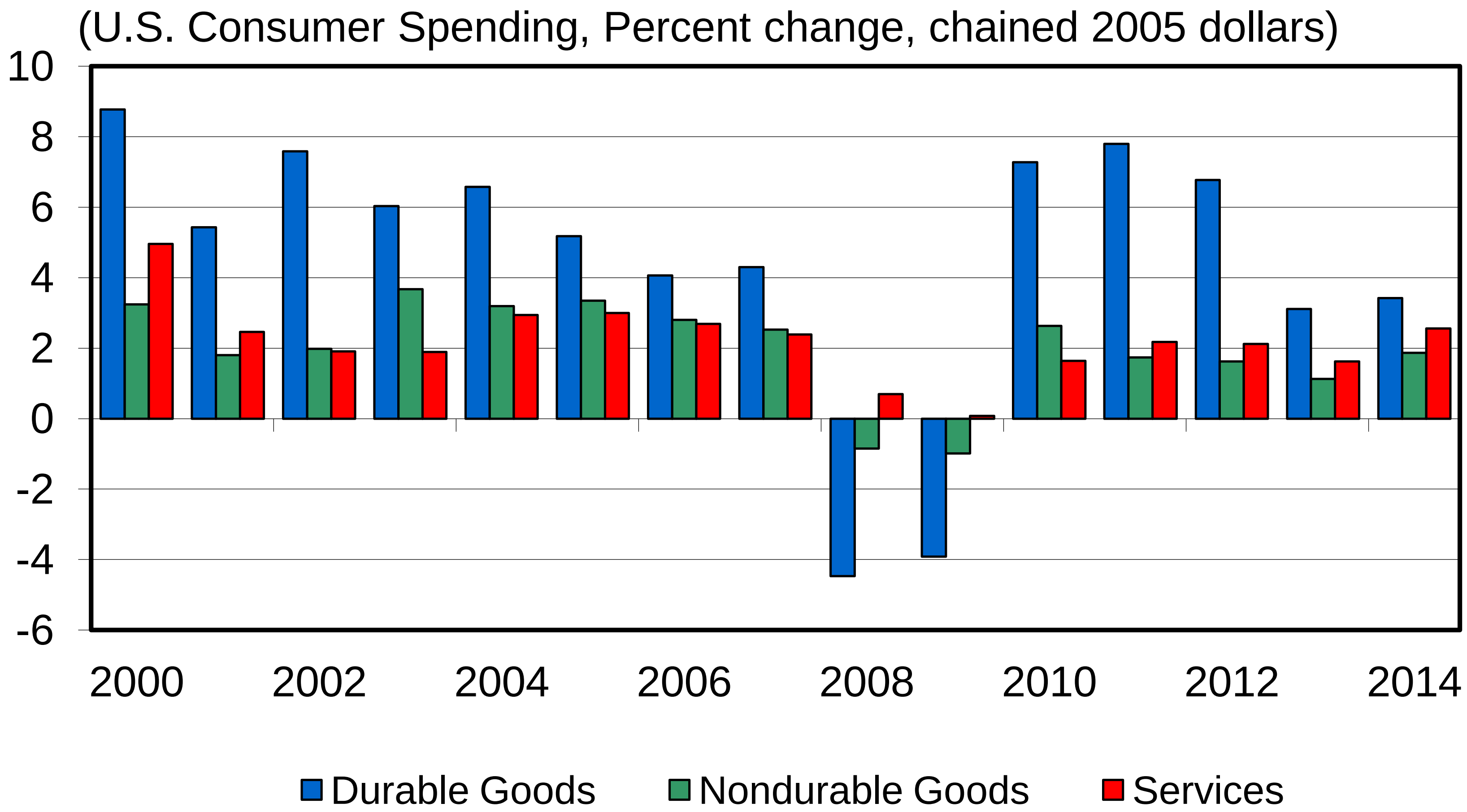
Consumer Spending Components: Durable Goods Most Volatile, Direct Influence on Trade Volumes



Source: IHS Global Insight

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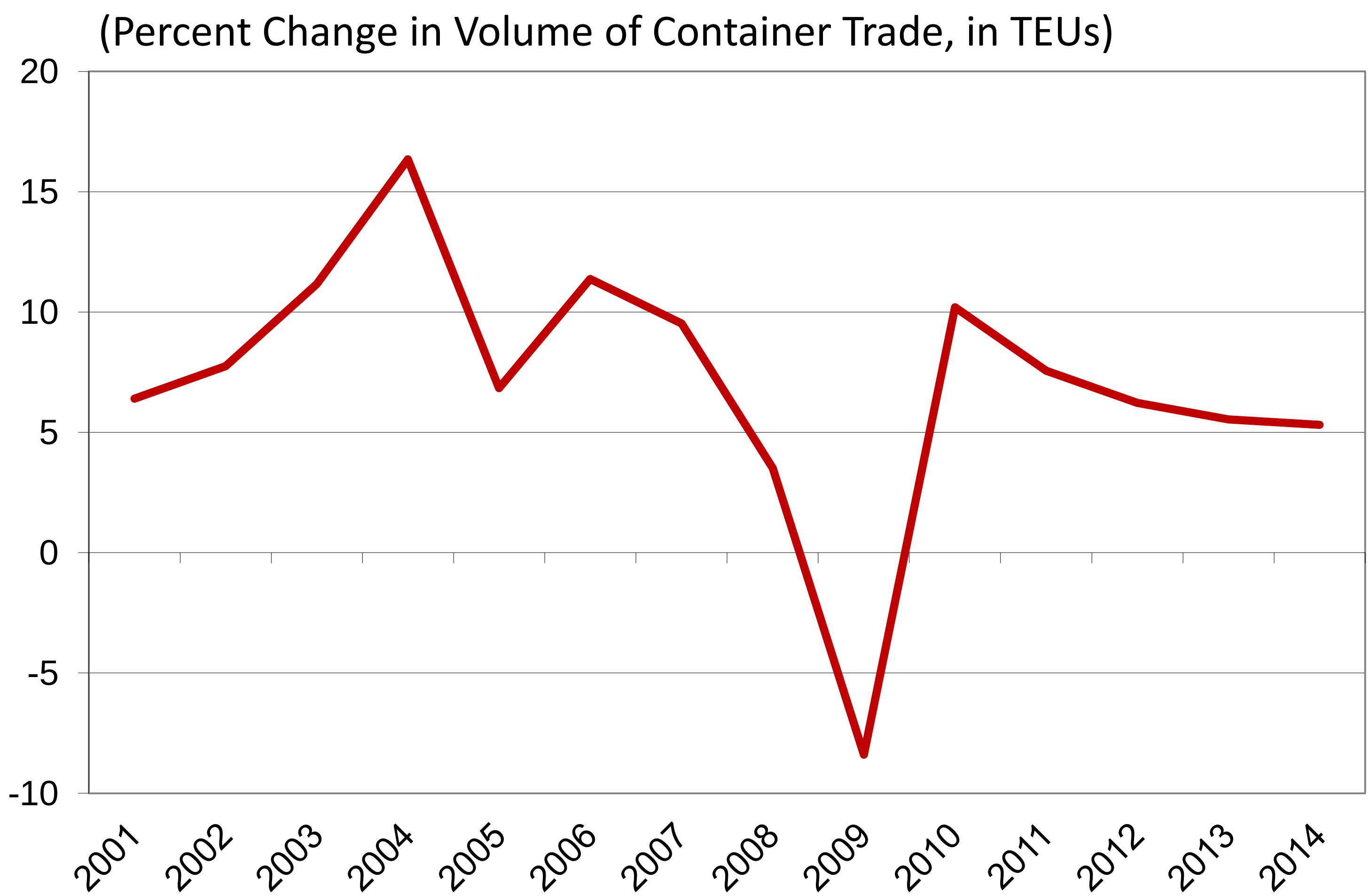
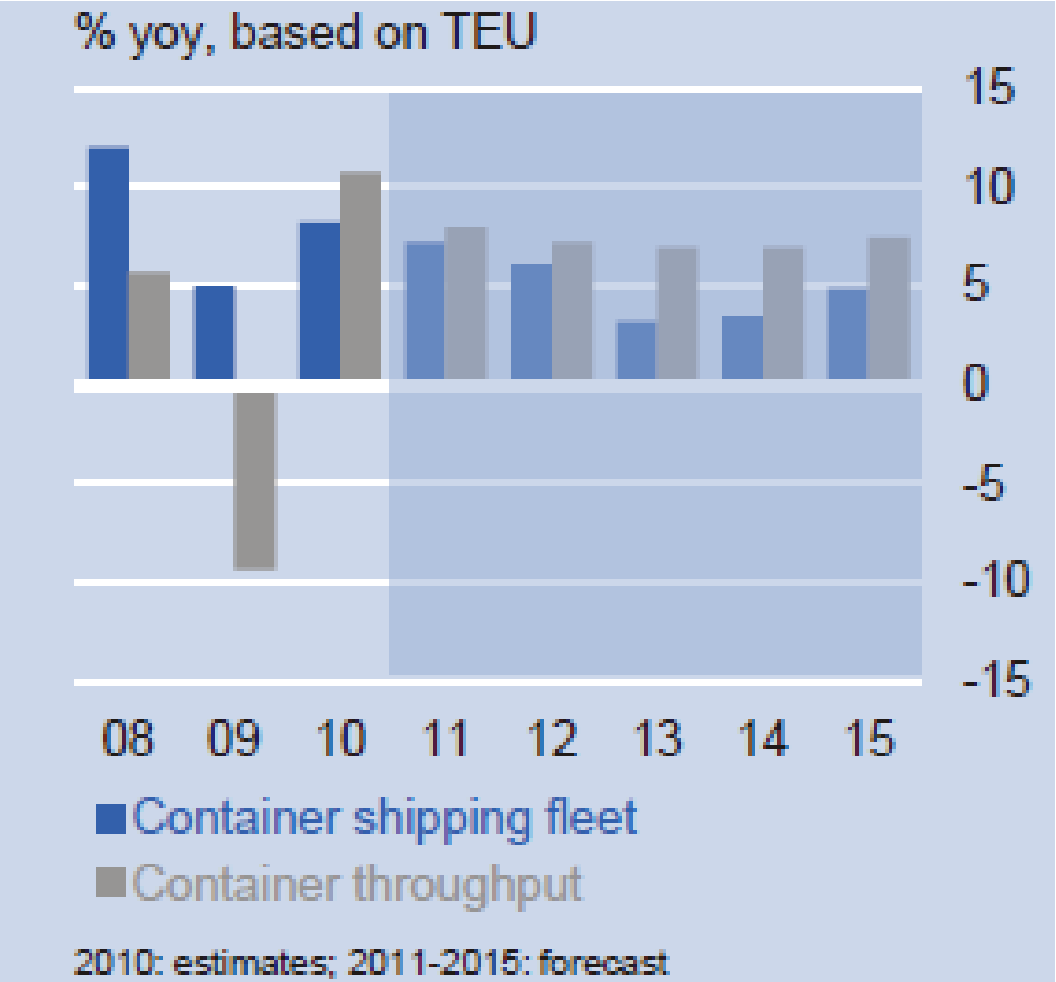
World Container Trade Volume Growth 2011-2014 is Not Double Digit



Source: IHS Global Insight WTS

World Container Ship Fleet and Demand Excess Capacity As Trade Growth Lags



Source: Drewry's

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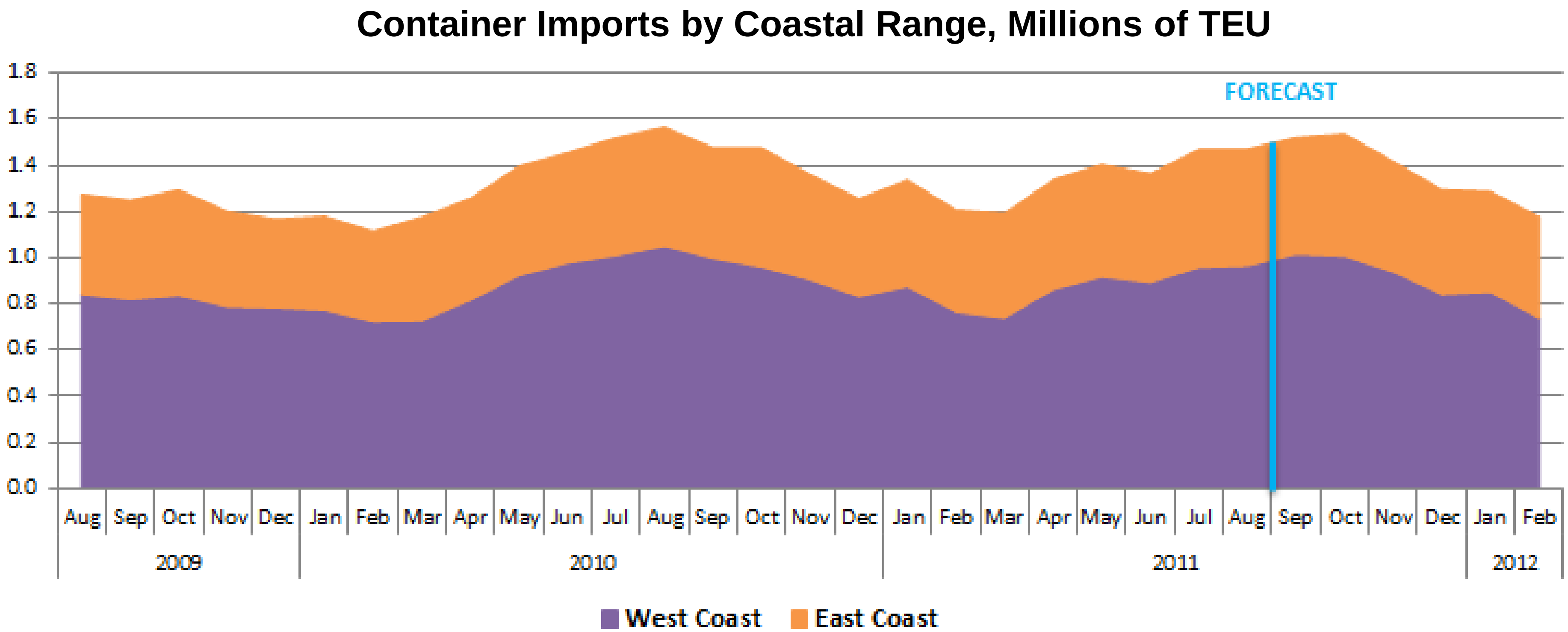
Ocean Container Trade Outlook: Large Vessel Supply Leads to Port Service Changes

- **New big ships are going into Asia-Europe trades with displaced ships moving onto other routes such as N. America. With declining vessel utilization, new capacity has seen transpacific and Asia-Europe spot container rates fall 40 %- 50 % or more since 2010 peak.**

- **Redeployment of large container vessels, ‘cascading’ onto North – South routes and into other services added supply, and with reduced load factors will continue to provide pressure for containerization of additional trade.**

- **This supply pressure in the containership sector will continue as the orderbook of new containerships for delivery still represents over 25% of world containership capacity already operating. Other vessel types (e.g. dry bulk) also have large orderbooks.**

West Coast Now Has a 66% Share of Containerized North American Import Volumes



Source: Global Port Tracker

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What Can We Conclude?

- **Economic conditions are still key to marine cargo trade demand. Relatively slow growth continues, likely for years. Imbalances shifting.**
- **In the U.S. consumer demand is key to trade, yet vessel supply and port terminals matter.**
- **Environmental factors (fuels, alternative marine power, emissions control areas, slow steaming) increasingly affect trade and ports.**
- **Ocean shipping rates, pressured by supply demand imbalances (and oil prices) long-term affect port choices and sourcing.**

Thank you!

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