

Trade & Economic Trends: Implications for Port Terminals

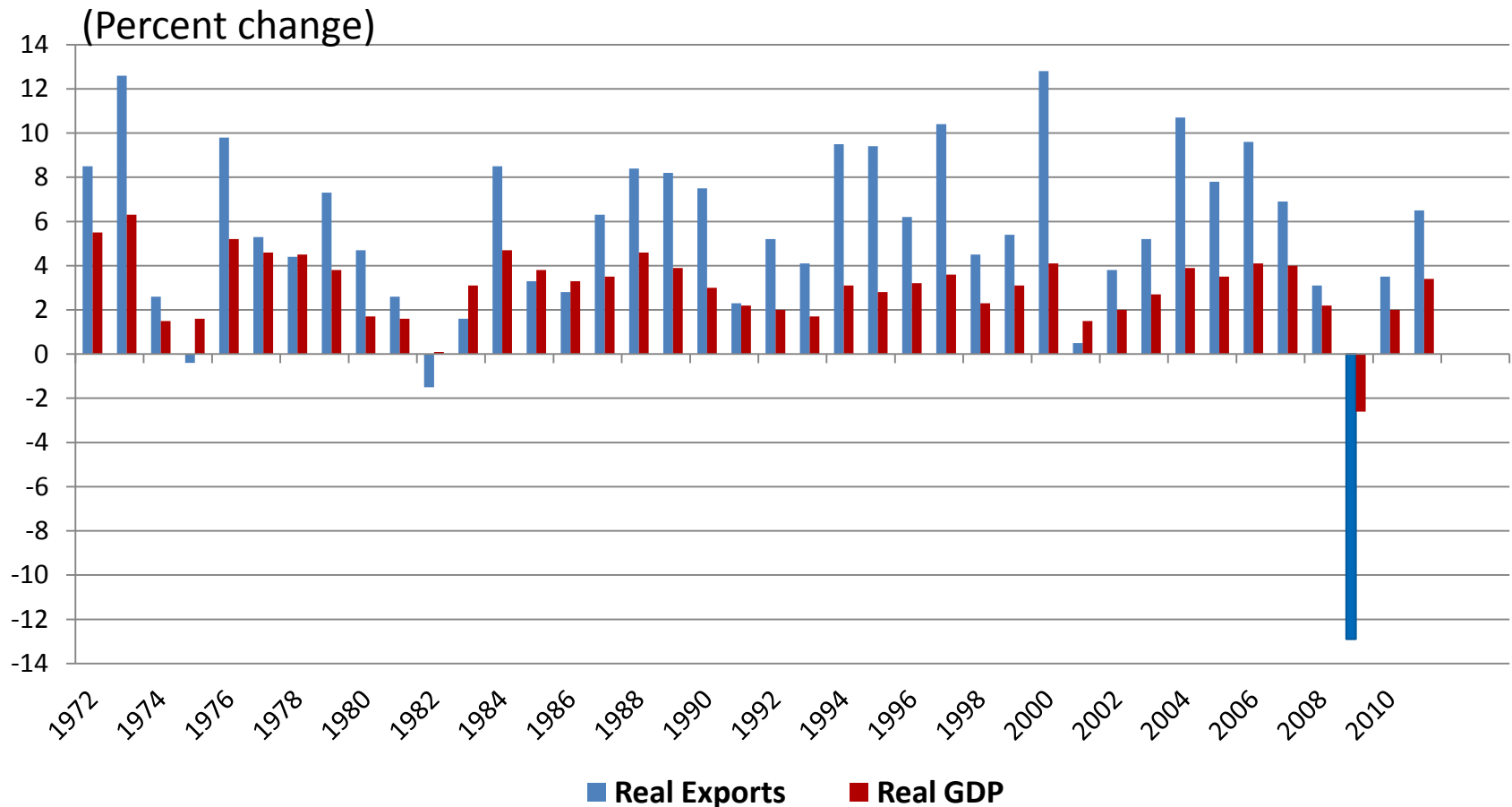
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World Trade Recovery: Pace Remains Less Than Pre-Recession Years



Marine Terminal Demand is Driven by Cargo Demand that Depends on the Strength of the Economy

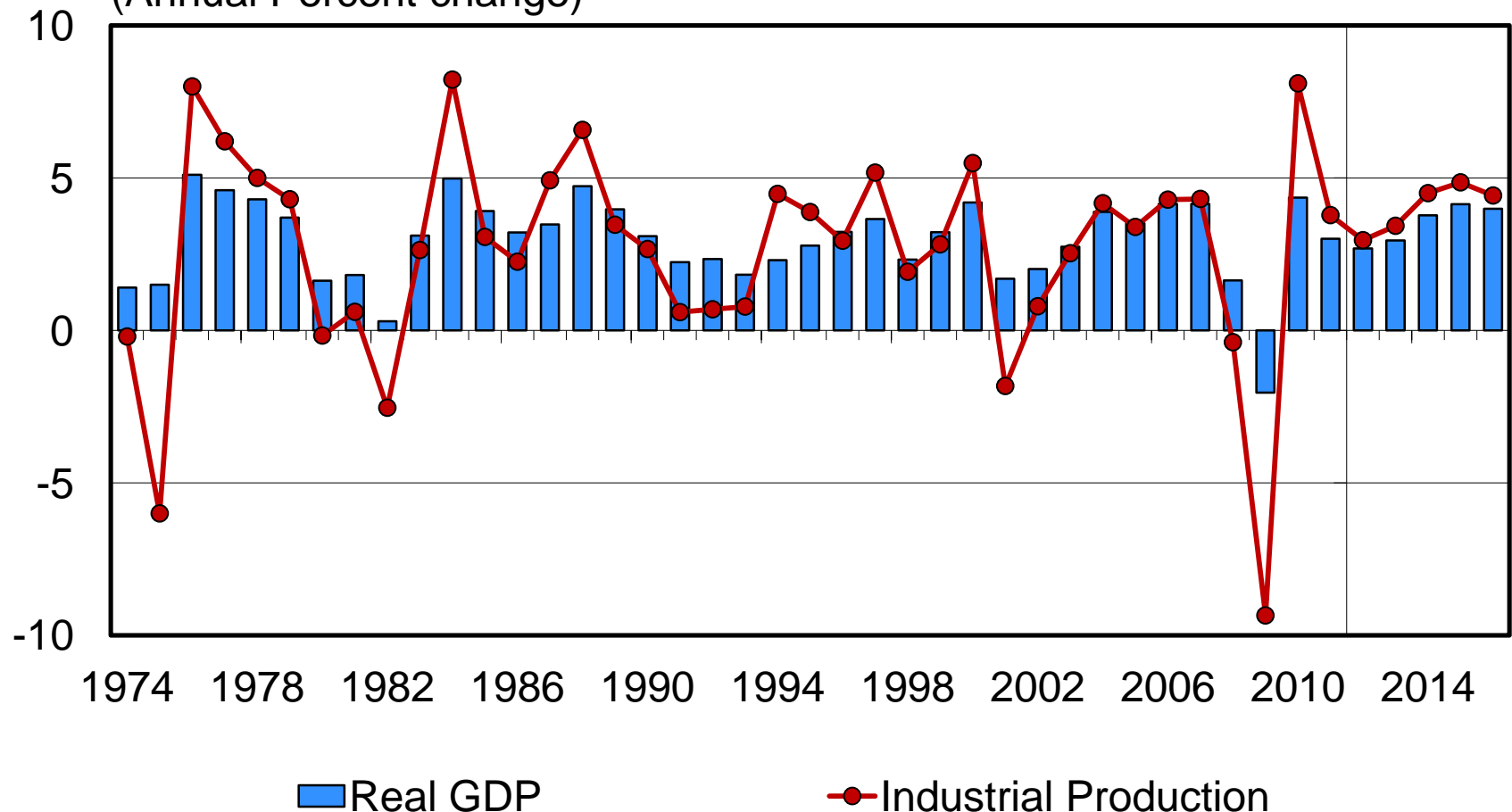
The World Economic Outlook is for Slow Growth

- **The U.S. economy grew in 2010-2011 and is still growing slowly despite the European recession this year**
- **Emerging market growth has slowed in 2012, but it is still more growth than in the developed countries**
- **Commodity prices have declined since early 2012 – inflation is not a problem in developed economies (due to remaining slack resources), but some food prices have risen recently**
- **The Euro crisis and cautious consumers and businesses have slowed growth, despite continued monetary stimulus**
- **Slower government spending, lingering unemployment and hesitant consumers and businesses restrain growth**

Pace of Growth in World Economy Slows in 2012 as European Recession Has an Impact

Port cargo demand reflects more volatile industrial production

(Annual Percent change)

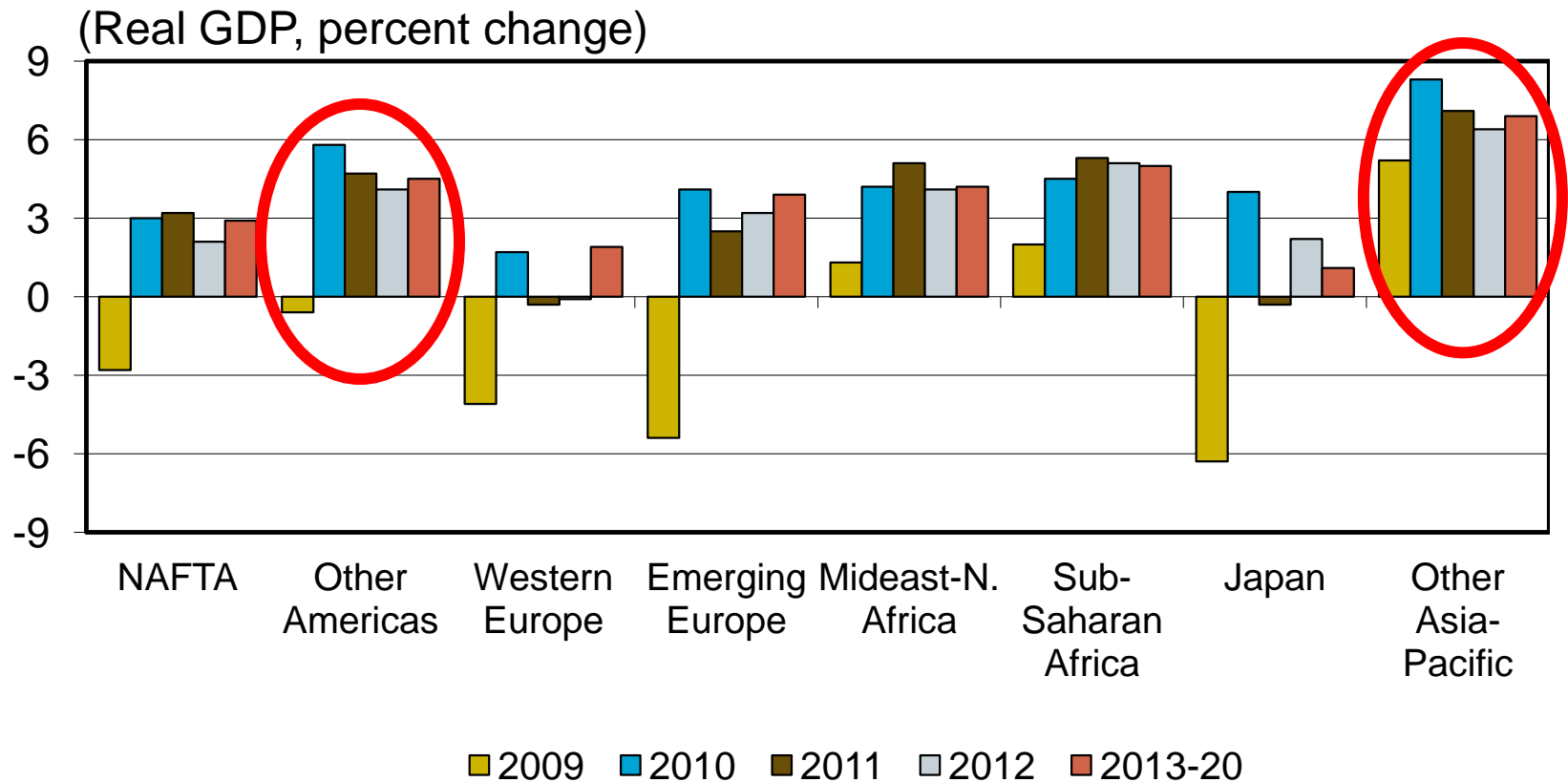


Further Growth in Trade Depends on the Economy Continuing to Grow

- **Maritime trade demand depends on business and household goods trade demand, part of consumption spending (about 70% of U.S. economy).**
- **Inventory rebuilding also affects trade growth. It was rapid in 2009-2010, slowed in 2011 and has increased recently.**
- **Maritime cargo demand also depends on the geography of production and consumption, linked by trade routes.**
- **The geography of ocean shipping is shifting as trade grows its share of the economy and where emerging market countries grow faster than advanced country economies.**
- **Expected world trade value growth of 5% in 2012 exceeds 3% world GDP growth forecast. This is not unusual.**

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

Geography of production / consumption is shifting as emerging markets grow 6% on average over the next decade vs. 2% for advanced countries.

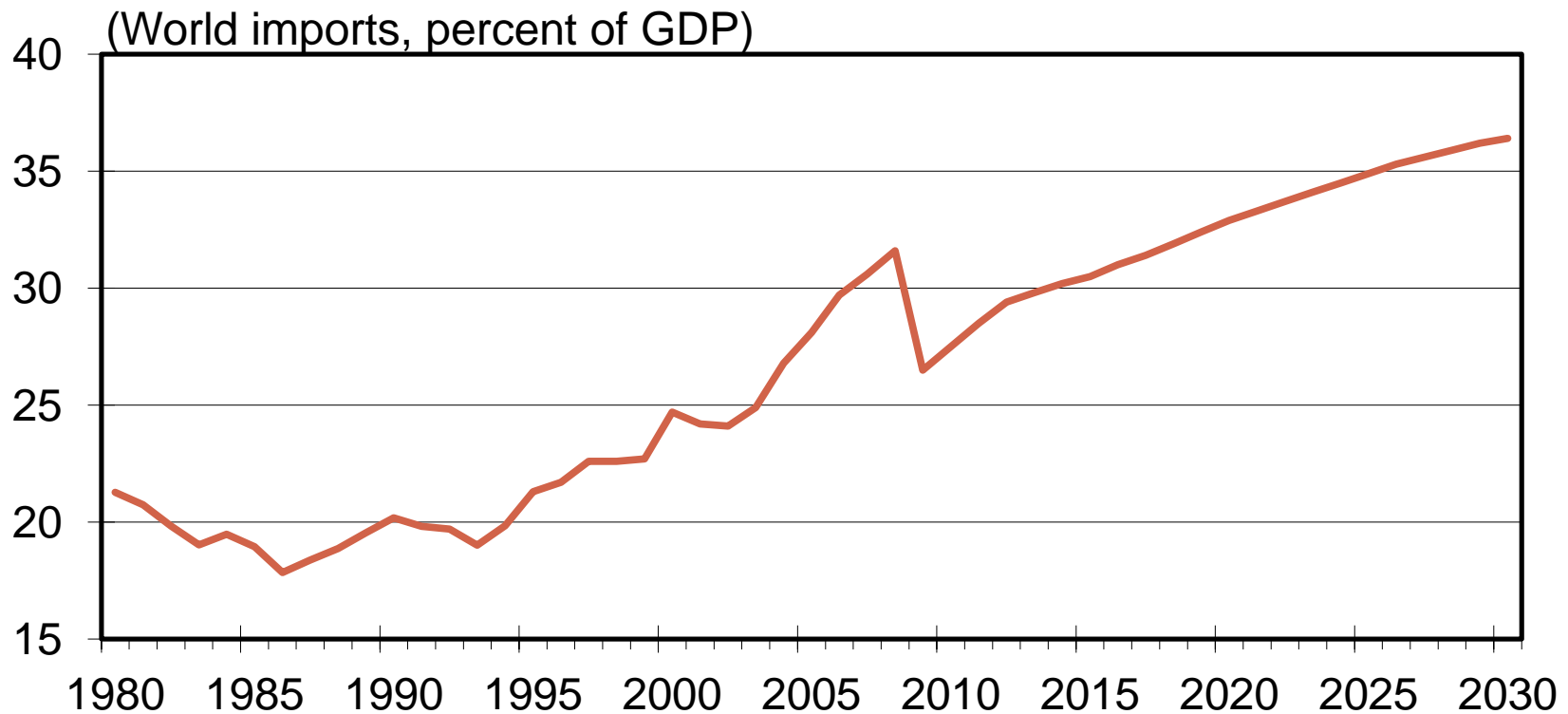


World Trade Growth with Economic Expansion

- Trade grows most on Asia routes, including China, now the #1 or #2 trade partner of many countries, not just among countries in Asia. Other Asian countries matter too.
- In the longer-term, from a commodity-by-commodity perspective, containerized trade in lighter weight, higher value goods will outpace growth in bulk commodities.
- Relative trade growth for transport modes will reflect underlying commodity growth rates, which will result in relatively greater demand for container shipping than other vessel service types and for port terminals that serve them.

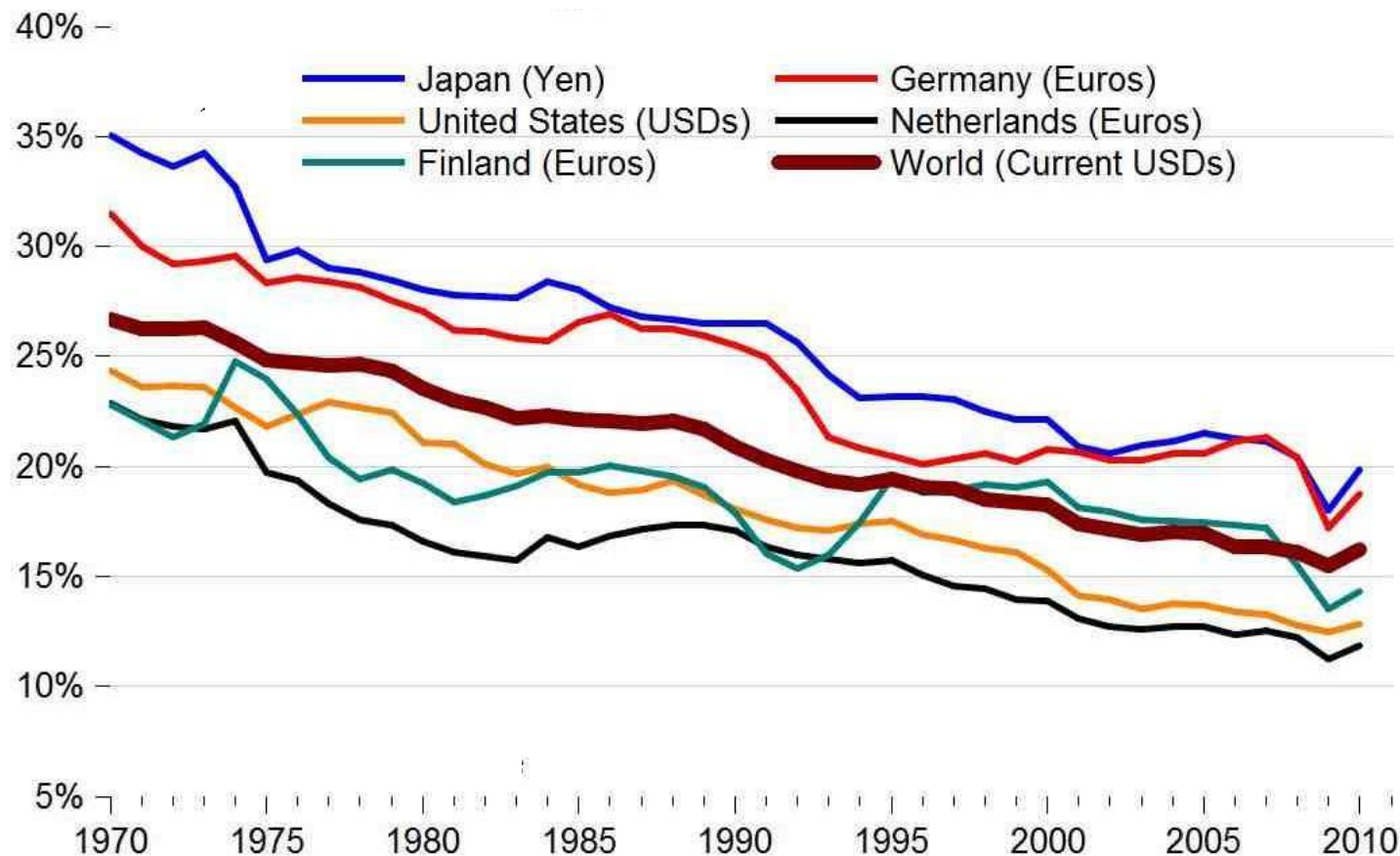
World Trade's Share of the Economy Grows Again After Temporary Decline

Globalization trend is long-term, shifting, not reversing



Manufacturing as a Share of the World Economy Declines Long-term as Services Grow

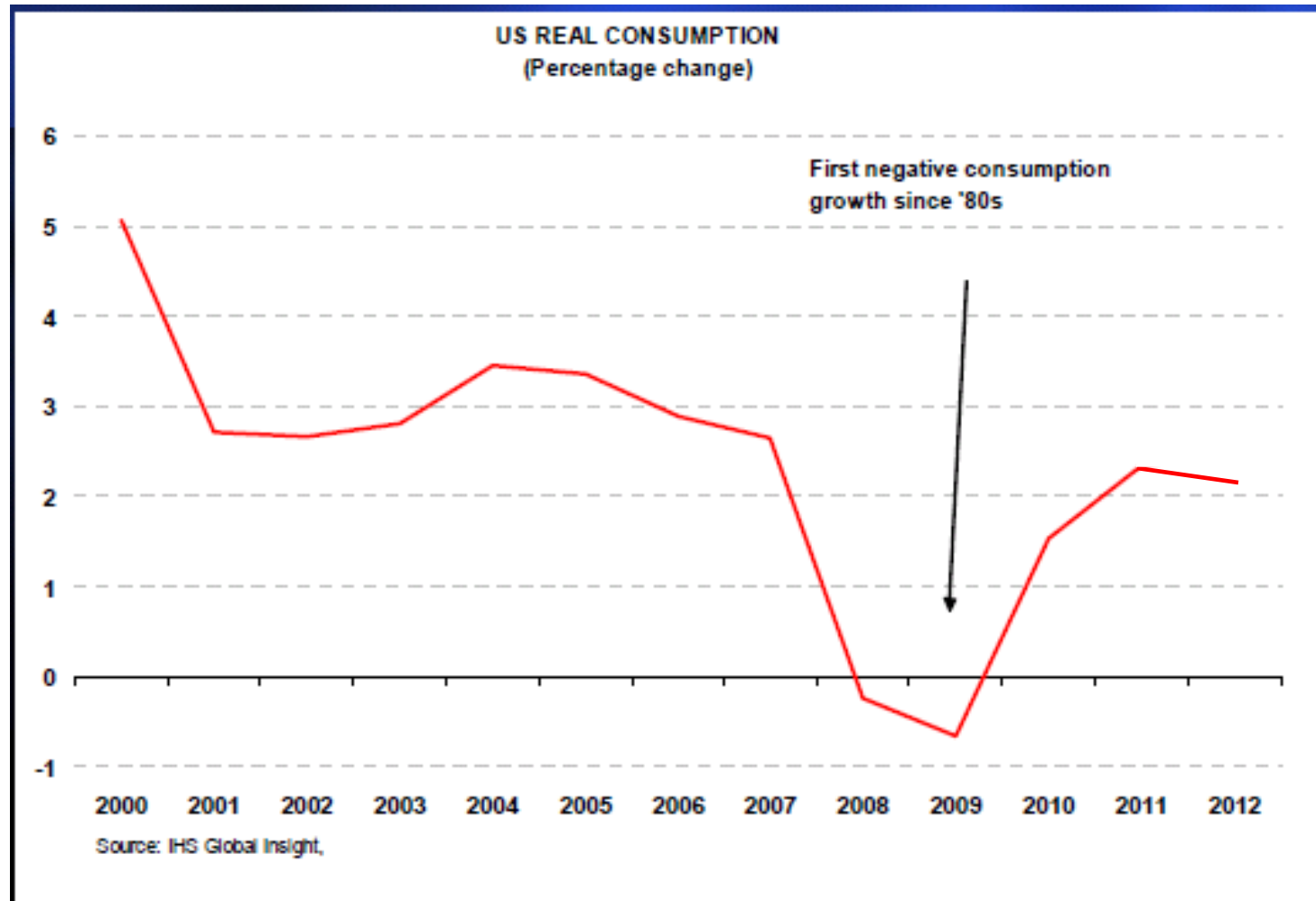
(Manufacturing as Share of GDP, National Currency Units)



Growth In U.S. Trade Demand Is Coming From Continued Slow Recovery in Private Sector

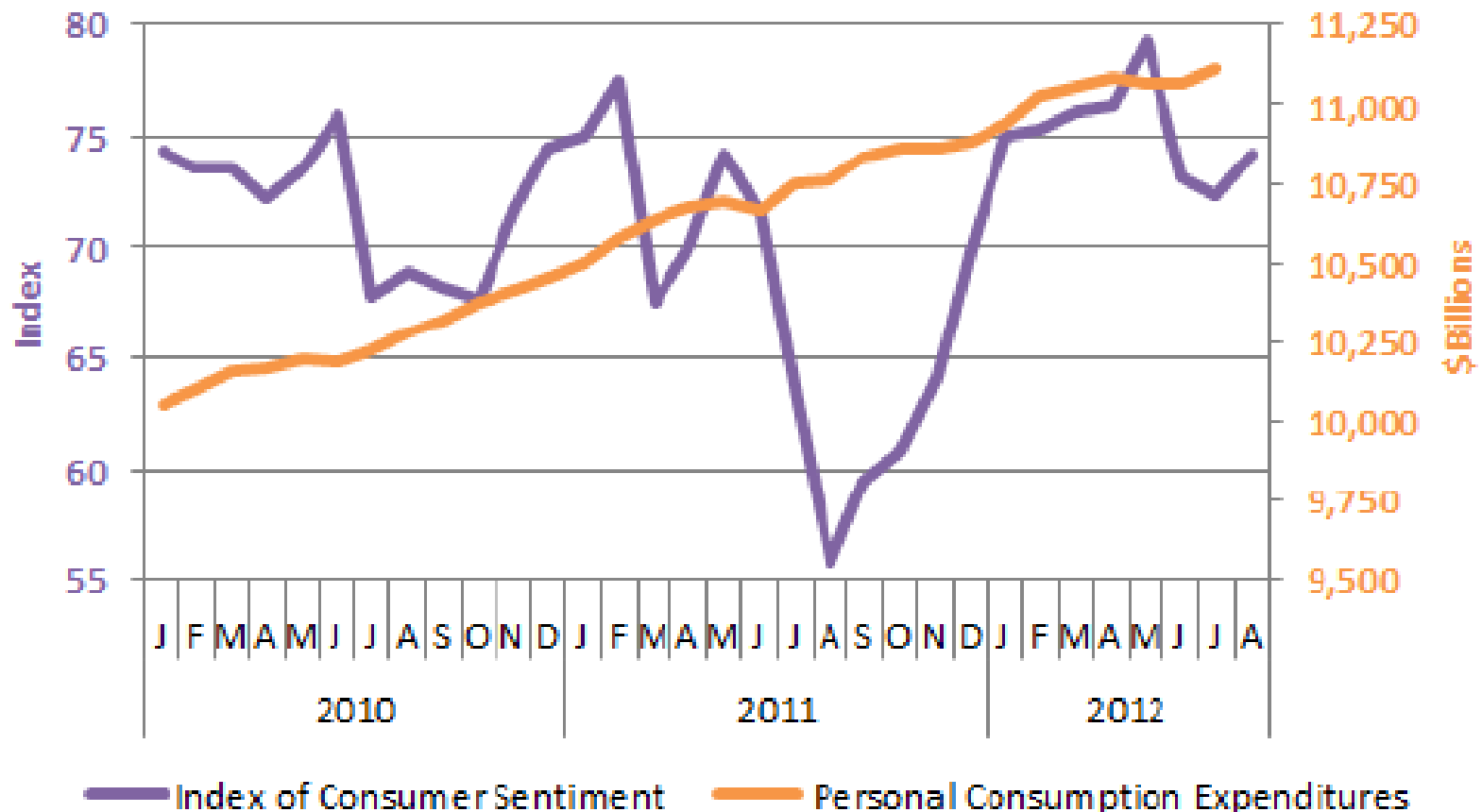
- **U.S. recovery has spread through more sectors in 2012**
- **Net exports are contributing less to growth. Construction has begun recovery; but with a long way to go, varying regionally**
- **Consumer spending is up a little, thanks to small improvement in employment in most states. Spending on oil spiked again yet less maritime oil import growth due to more domestic oil.**
- **Business is generally doing OK, and despite uncertainties, cash flow remains good for most of the private sector**
- **The 2012 U.S. recovery is not government fiscal stimulus-related, but still boosted by continued monetary stimulus.**
- **U.S. GDP growth the next few years will average 1.9% to 3.5%, likely near the low end in 2012 due mostly to weak Europe**
- **Yet business and consumer spending has driven port cargo demand to surpass the 2007 pre-recession volumes**

Consumer and Business Spending, Comprising 70% of U.S. Economy, is Still Recovering



Consumer Spending Has Grown Slowly While Consumer Sentiment Has Been More Volatile

Consumers Influenced By Debt Position as Well as Income



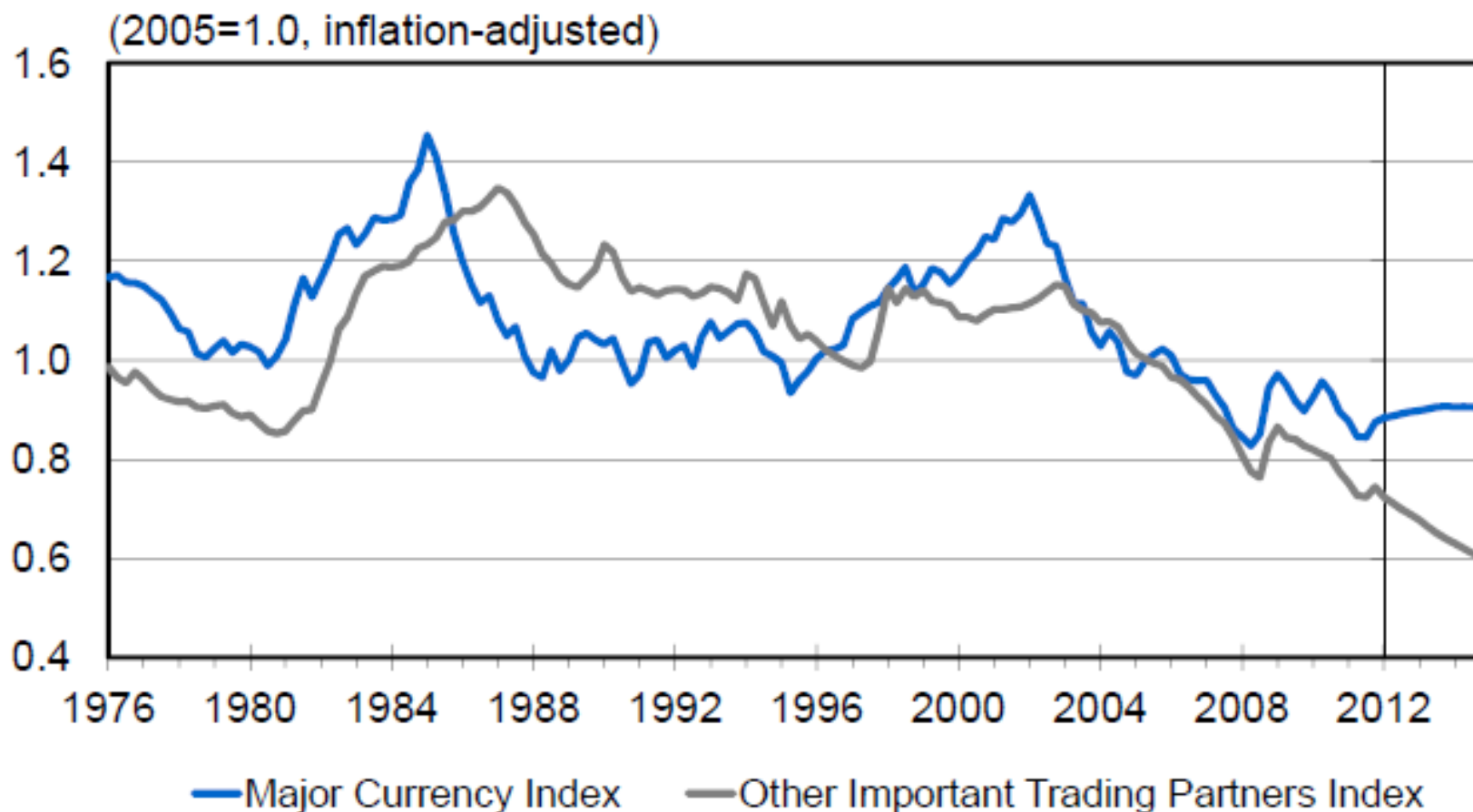
U.S. 2012 Export Growth Slowing as Demand & World Growth Are Slower



Overall U.S. Export Growth in 2012 Forecasted 2.5% Slower than 2011

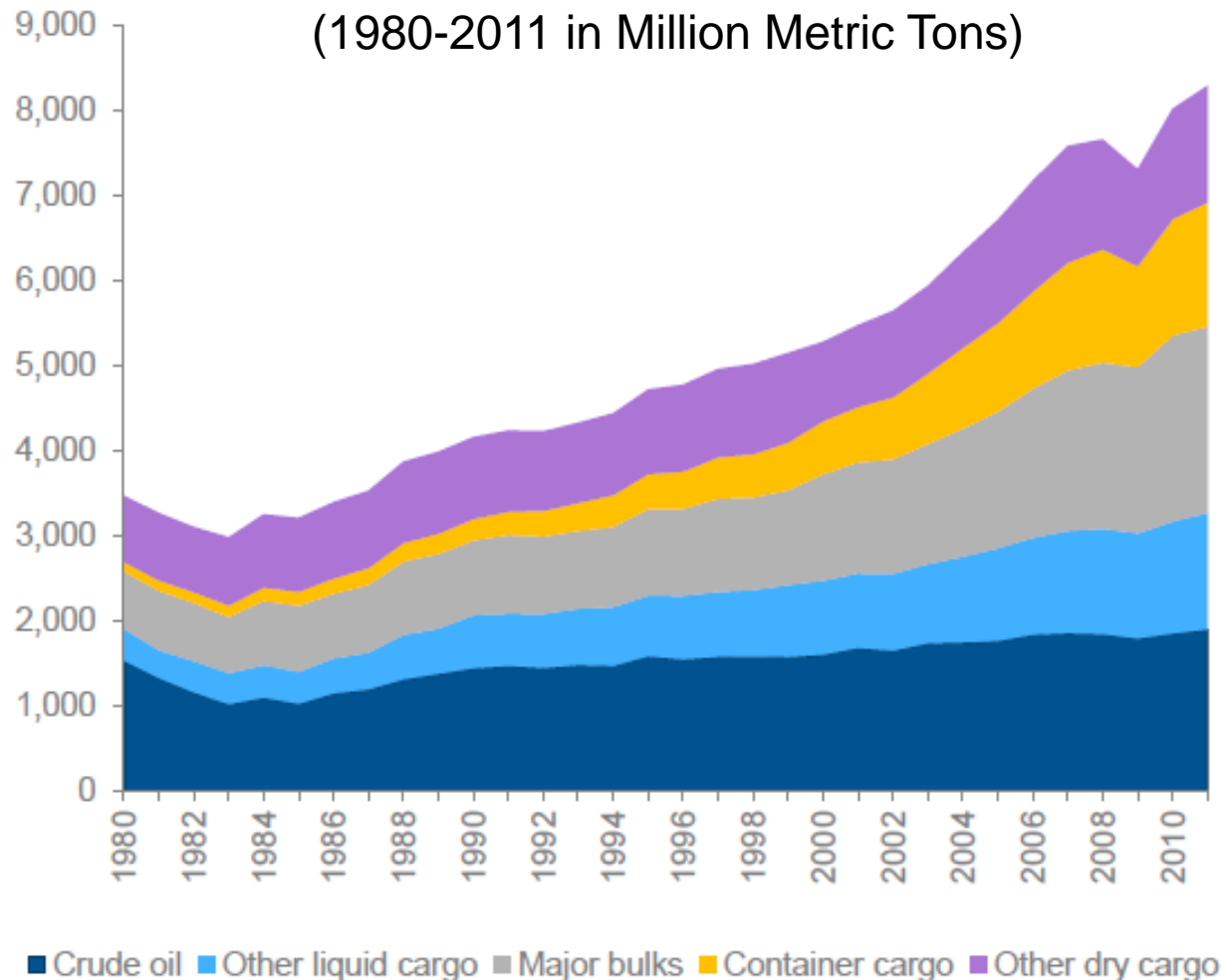
U.S. Dollar Exchange Rate Impact on Trade Affected by Weak Europe in 2012

Recent Against-Trend Recovery in the Dollar Boosts Imports; Dampens Exports



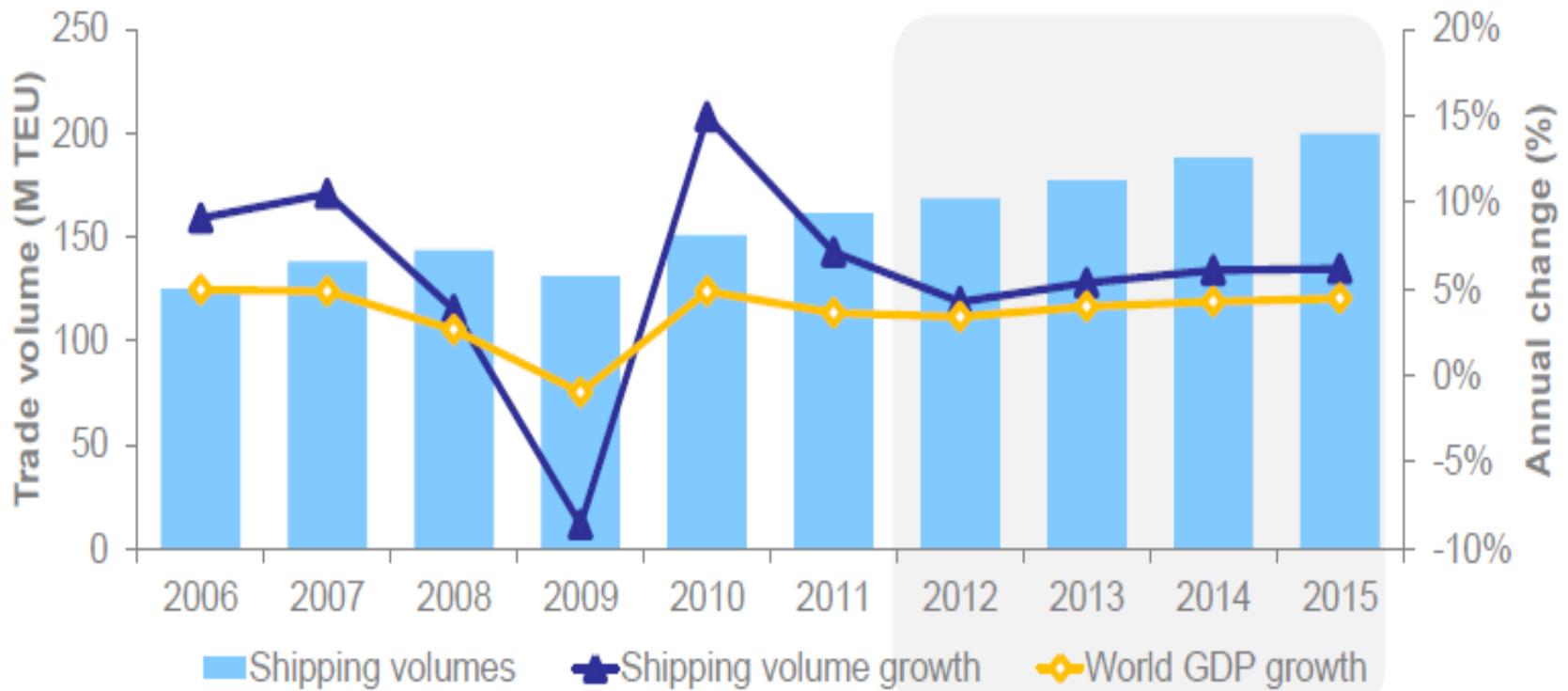
Composition of World Seaborne Trade

Growth Faster 2001-2011 than in the 1980s

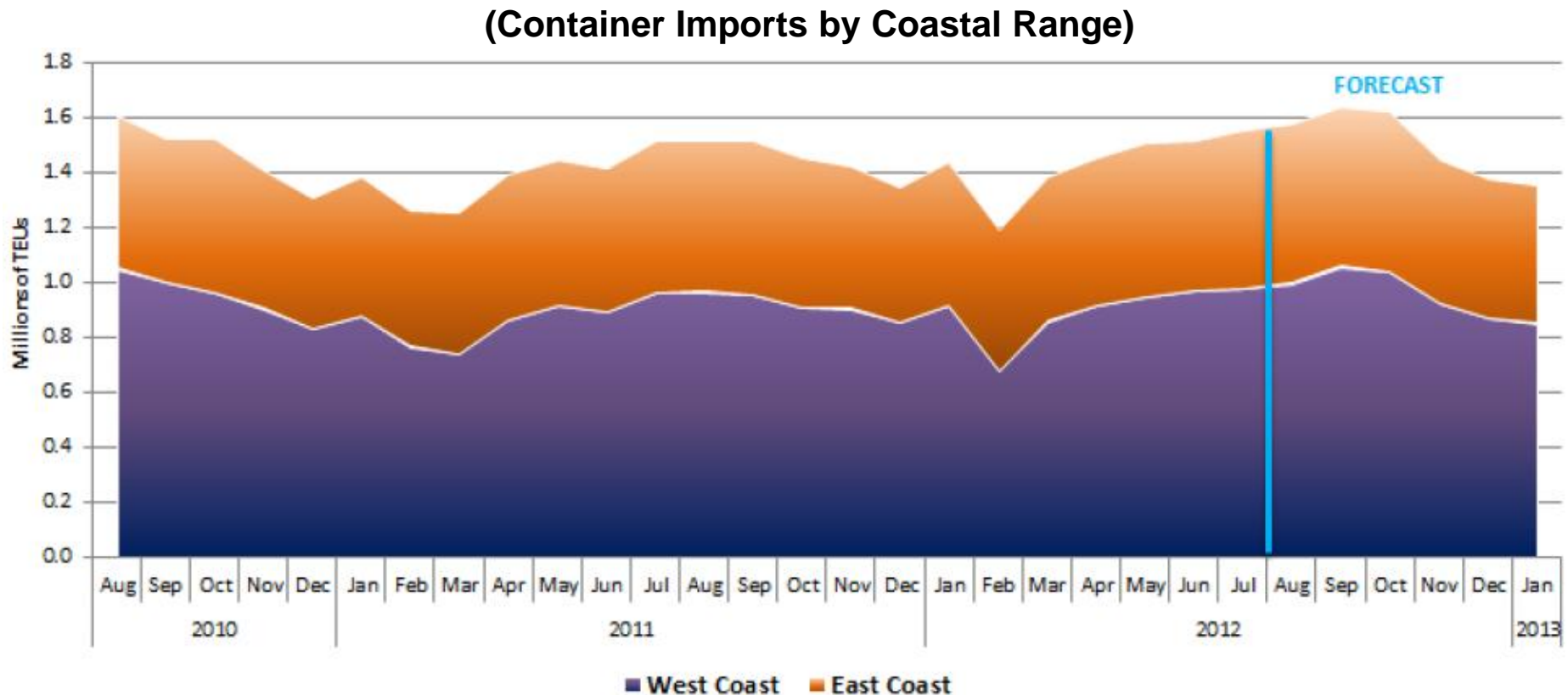


World Container Trade Volume Growth Slows, Close to GDP Rate

(Levels and Percent Change in Container Trade, in M TEUs; GDP %)



N. America West Coast Now Has a 62% Share of Containerized North American Import Volumes



N. America West Coast TEU Import Growth Higher in 2012 After Weak 2011

		Percent Change			
			vs Prior Quarter		vs Prior Year
ACTUAL	2010	Q1	↘ -7.6%	↗ 11.6%	
		Q2	↗ 22.1%	↗ 26.0%	
		Q3	↗ 12.5%	↗ 25.0%	
		Q4	↘ -11.7%	↗ 12.1%	
	2011	Q1	↘ -11.8%	↗ 6.9%	
		Q2	↗ 12.3%	↘ -1.6%	
		Q3	↗ 7.7%	↘ -5.9%	
		Q4	↘ -7.5%	↘ -1.3%	
	2012	Q1	↘ -7.9%	↗ 3.0%	
		Q2	↗ 15.2%	↗ 5.7%	
FORECAST	2012	Q3	↗ 7.2%	↗ 5.2%	
		Q4	↘ -6.6%	↗ 6.2%	
	2013	Q1	↘ -10.4%	↗ 3.4%	
		Q2	↗ 13.3%	↗ 1.7%	

N. America East Coast TEU Import Growth

Moderate Growth in 2012 Despite Strike Threat

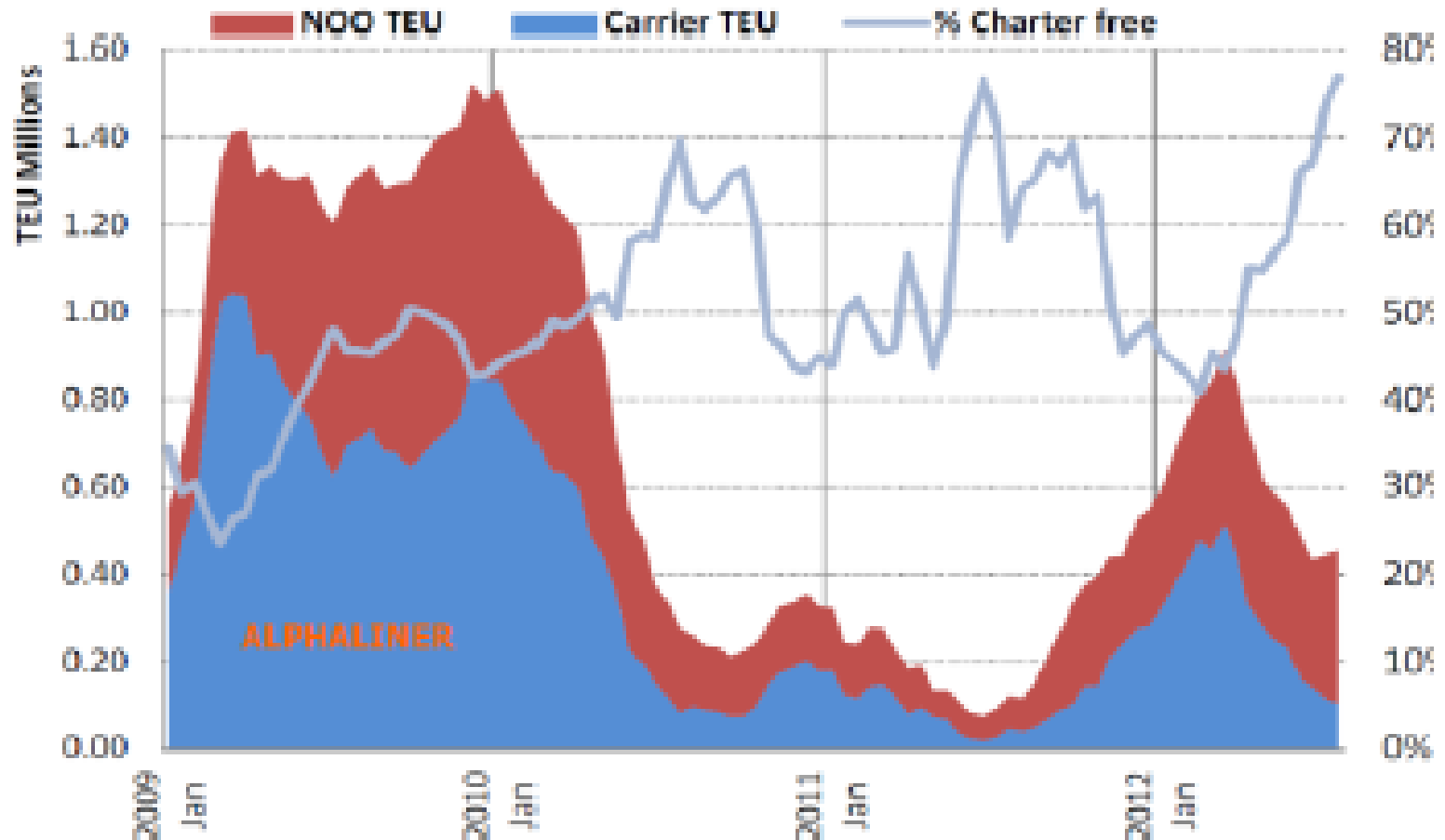
		Percent Change			
			vs Prior Quarter		vs Prior Year
ACTUAL	2010	Q1	↘ -0.4%	↗ 9.3%	
		Q2	↗ 10.5%	↗ 18.2%	
		Q3	↗ 7.4%	↗ 15.9%	
		Q4	↘ -6.4%	↗ 10.7%	
	2011	Q1	↘ -1.0%	↗ 10.0%	
		Q2	↗ 3.8%	↗ 3.3%	
		Q3	↗ 5.9%	↗ 1.8%	
		Q4	↘ -6.7%	↗ 1.5%	
	2012	Q1	↗ 0.3%	↗ 2.8%	
		Q2	↗ 5.4%	↗ 4.4%	
	FORECAST	2012 Q3	↗ 6.0%	↗ 4.5%	
		2012 Q4	↘ -7.2%	↗ 4.0%	
	2013	Q1	↘ -4.9%	↘ -1.4%	
		Q2	↗ 4.1%	↘ -2.7%	

Ocean Container Trade Outlook Affected By Vessel Supply Leading to Port Service Shifts

- **New big containerships have gone first into Asia-Europe trades with displaced ships moving onto other routes such as N. America. With weak vessel utilization, carriers went from profits in 2010 to losses in 2011 and have been challenged to deploy, lay-up, scrap capacity to restore container rates. Slow-steaming has been one result.**
- **Redeployment of large container vessels, 'cascading' onto North – South routes and into other services will add supply, and with reduced load factors will continue to provide pressure for containerization of additional, marginal trades.**
- **This supply pressure in the containership sector will continue as the orderbook of new containerships for delivery still represents about 25% of world containership capacity already operating. Other vessel types (e.g. dry bulk) also have large order books.**
- **Panama Canal Expansion also has an influence on vessels already.**

Container Rates and Trade Affected by Vessel Supply and Deployment

(Idle Containership Fleet, Carrier and Non-Operator Owner and Percent Charter-Free)



What Can We Conclude?

- **Economic conditions are still key to marine terminal 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 marine 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 commodity sourcing.**

Thank you!

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