

Trade & Economic Trends: Implications for Port Terminals

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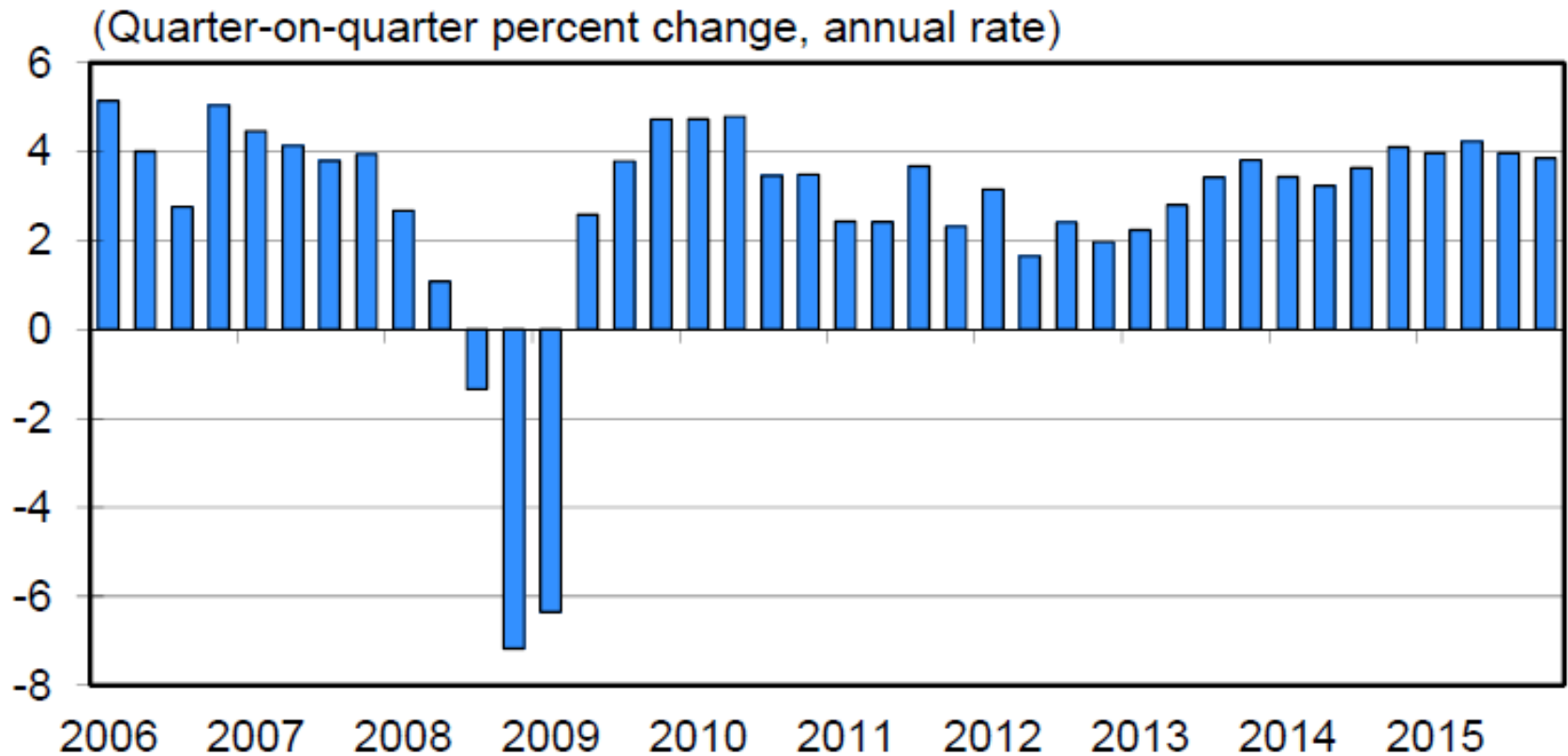
Marine Terminal Demand is Driven by Cargo Demand that Depends on the Strength of the Economy

The Economic Forecast is for Slow Growth 2013-2014

- The U.S. economy grew in 2010-2012 and is still growing, slowly. This despite continued 2013 trade partner weakness.
- Emerging market growth slowed in 2012, but faster growth than in the developed world.
- Commodity prices mostly moderate – inflation is not a problem due to remaining slack resources in U.S. and the world
- European recession and cautious consumers and businesses now less of a drag on growth, due to monetary stimulus
- Slower government spending, slowly improving employment and restrained consumers and businesses all temper growth
- Government fiscal problem is a lingering drag on the economy

Pace of GDP Growth Increases Gradually From Now Into 2015 After 2012 Post Recession Trough

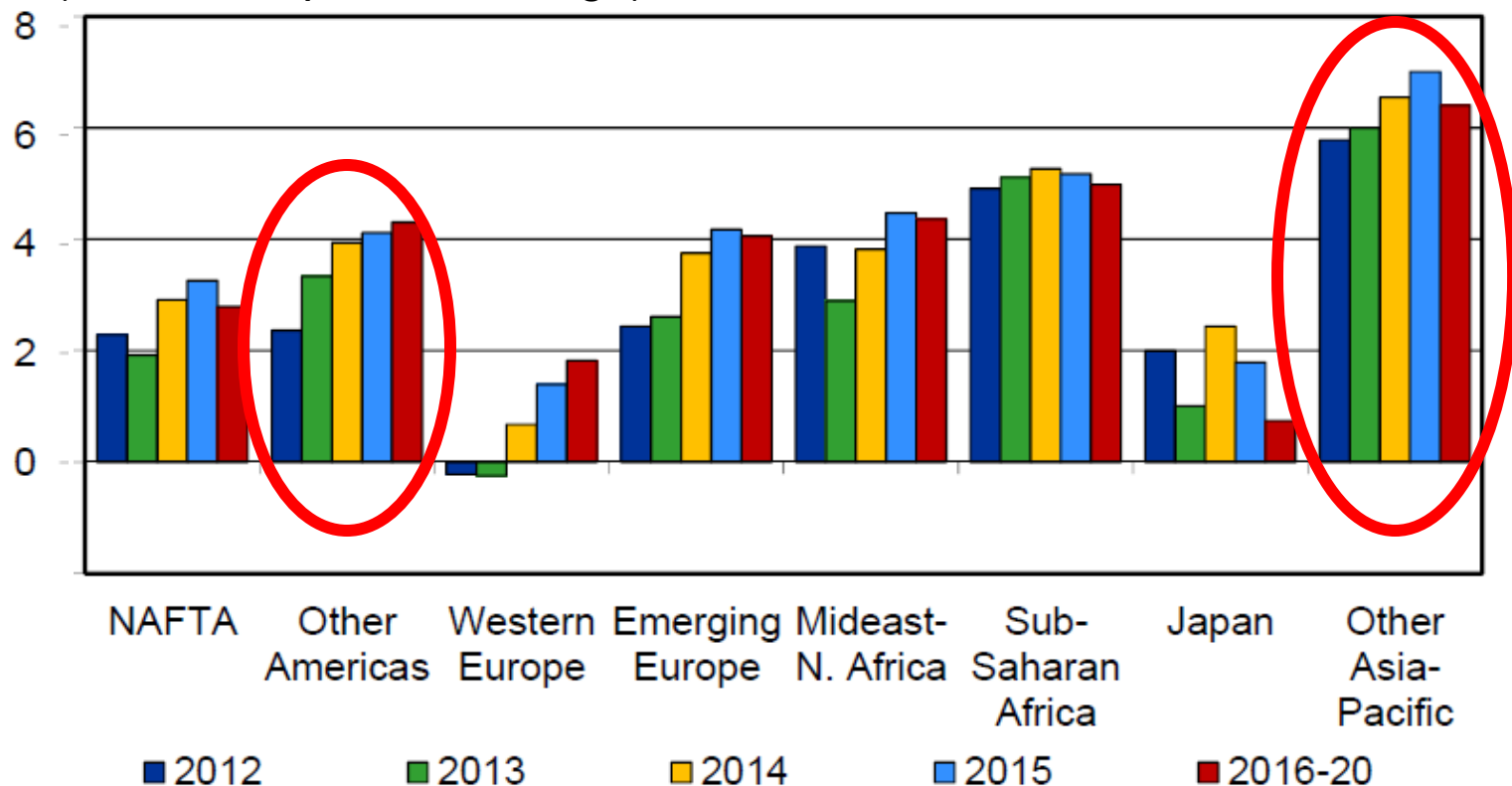
World GDP Growth about 1% higher in 2014 than the 2.5% in 2013, Led by Continued Recovery in the U.S. and Asia, including Japan



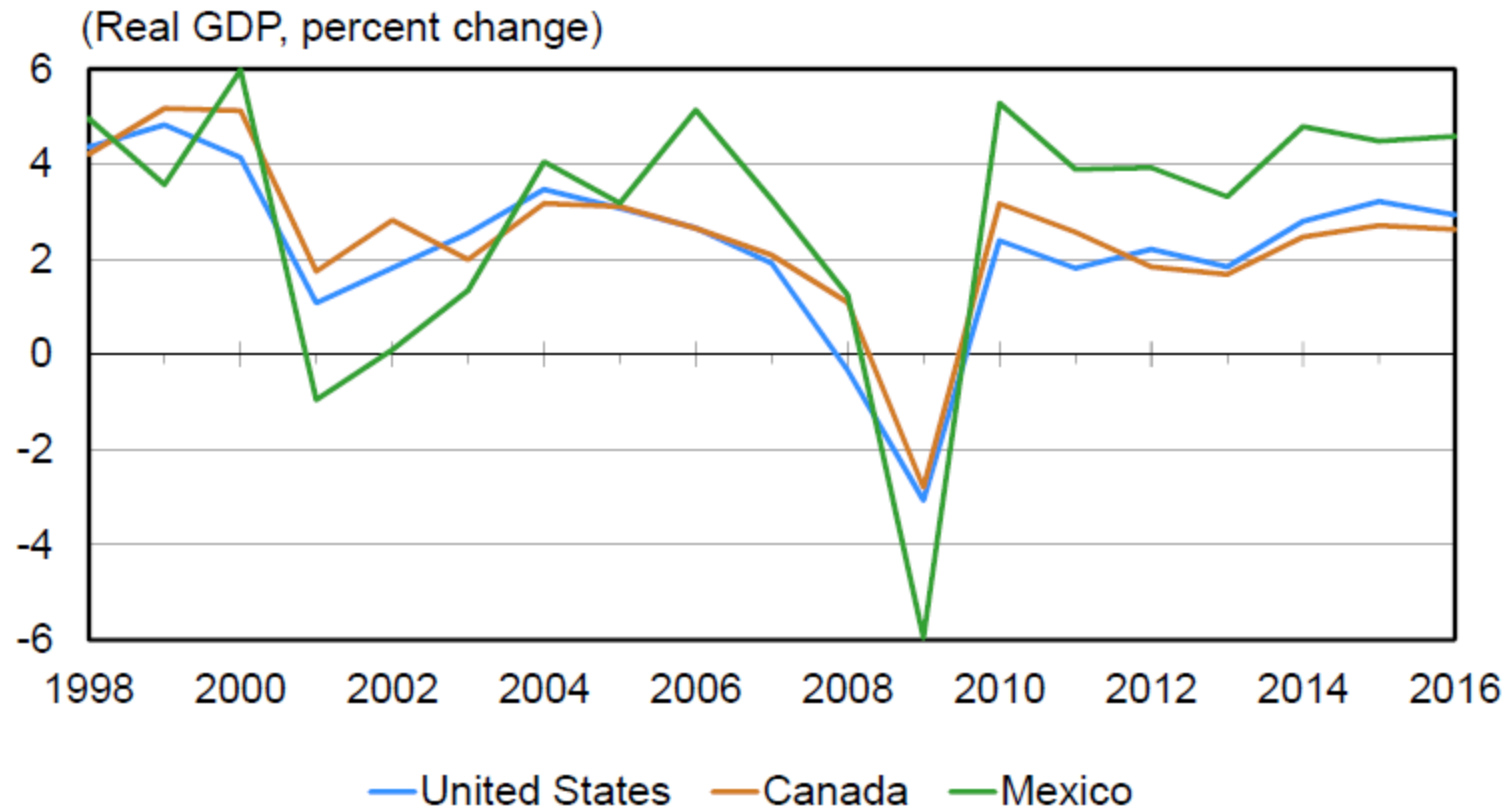
GDP Growth Rate Differences Affect Pace of Trade Growth, and Trade Volumes by Trade Partner Route

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

(Real GDP, percent change)



U.S. NAFTA Trade Partner Economies Still Moving with U.S. Economy

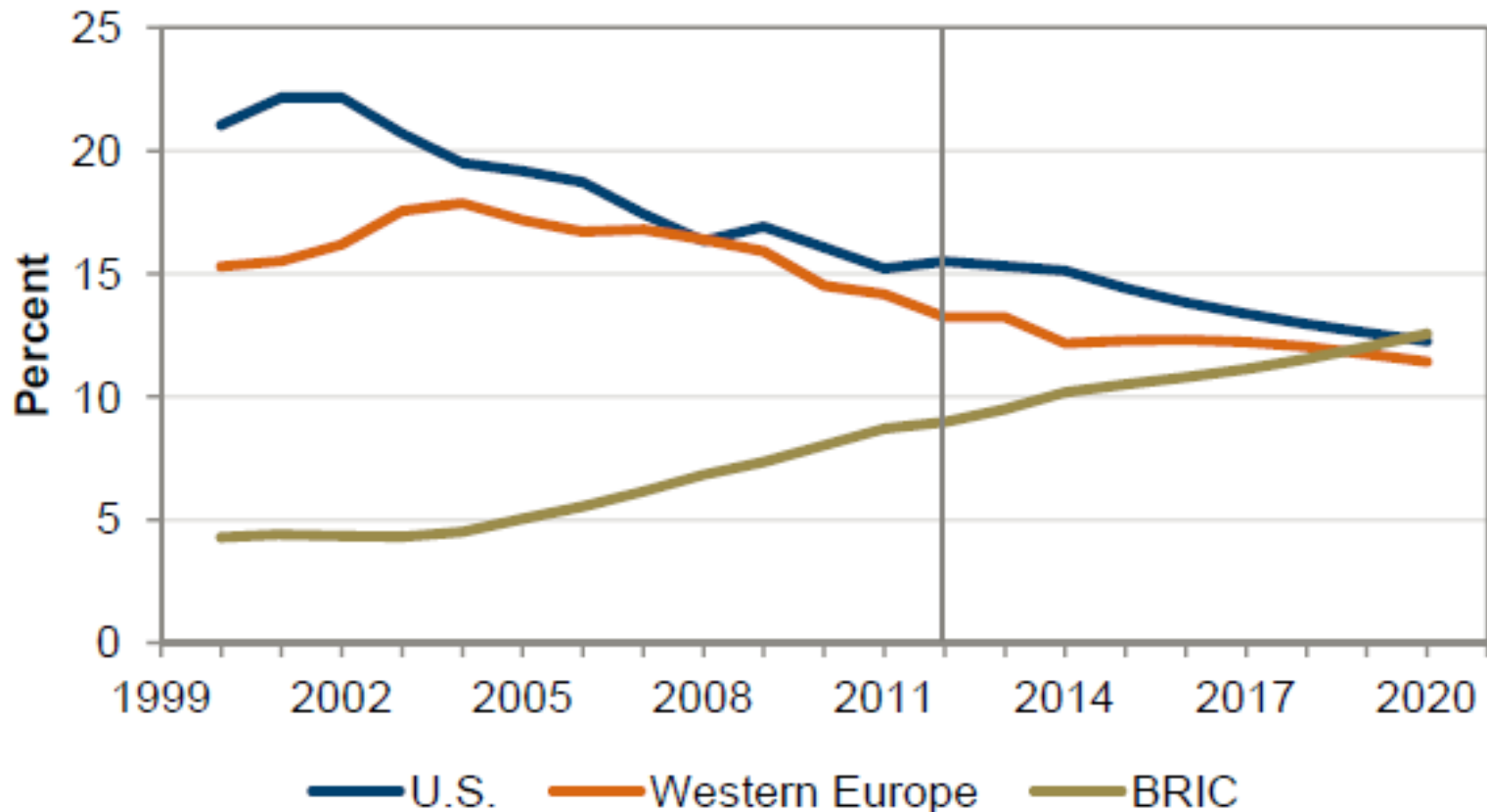


Consumption in Developed Economies Still Key to Global Demand But Less Each Year

- **Maritime trade demand depends on business and household goods trade demand, part of consumption spending (about 70% of U.S. economy; and 58% of Western Europe's economy.)**
- **China's policy is to increase their 35% consumption share of GDP; the share from trade to decrease, though challenge to shift employment from export focus to domestic focus**
- **China consumption growth post recession averaging over 5.5% annually compared to 2.1% growth in the U.S.**
- **U.S. consumption share of world GDP peaked at 22% in 2001. W. Europe's share reached almost 18% in 2004.**
- **IHS projects U.S. + Western European consumption share of world GDP falls to 27% by 2015 from 38% in 2002.**

Developed Country Consumption Less Important to World GDP

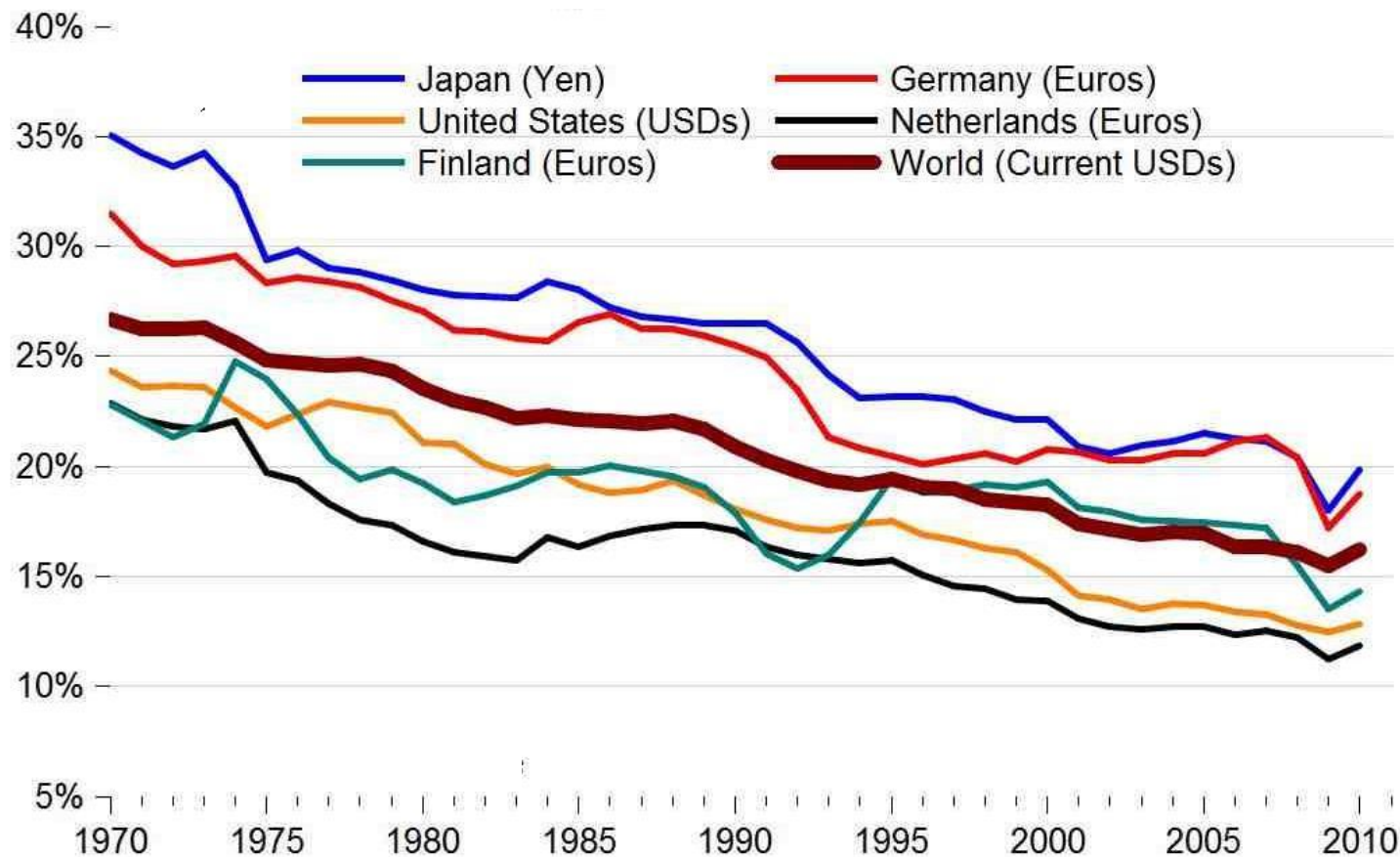
Domestic Consumption by Region as Share of World GDP



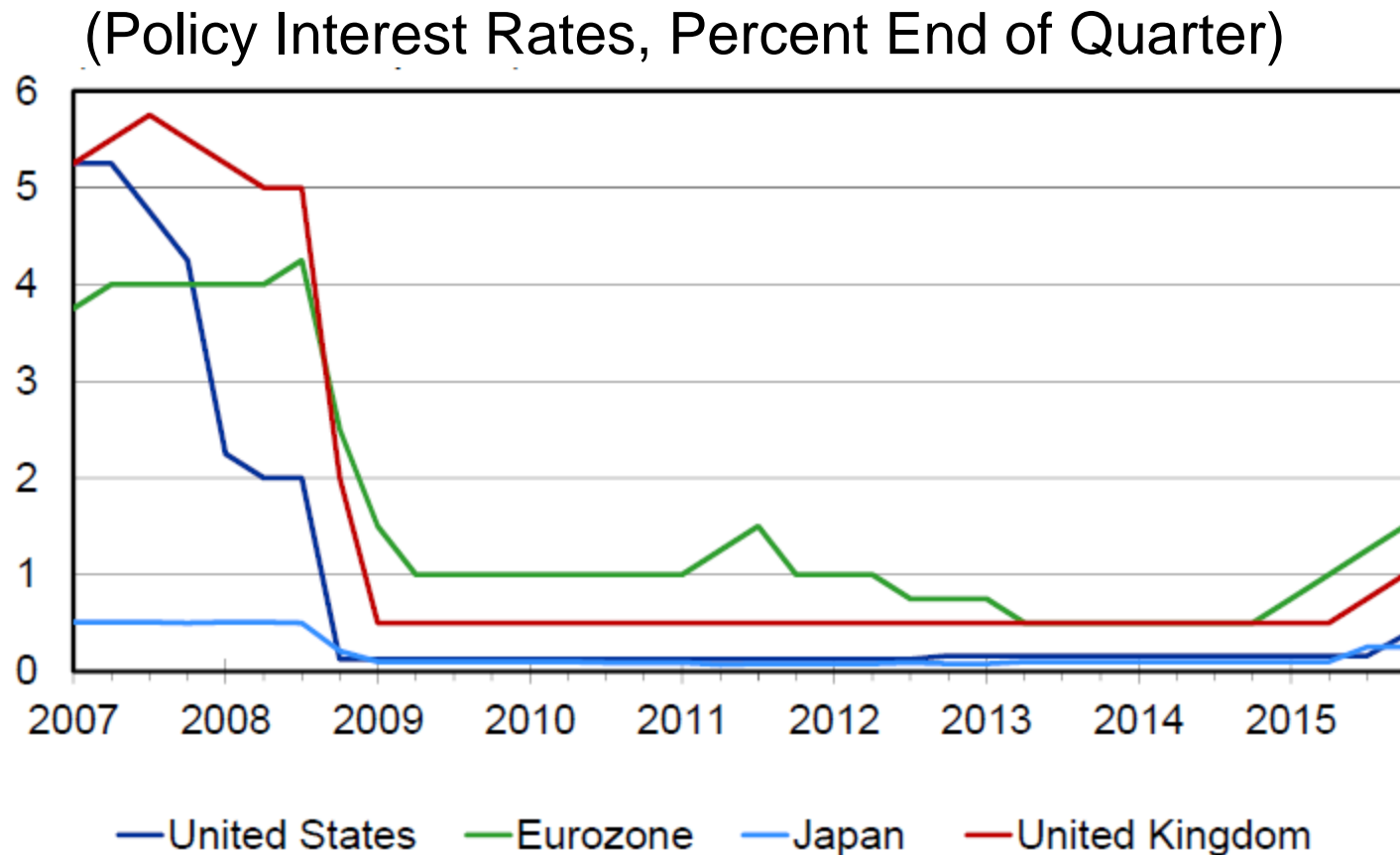
(BRICs are Brazil, Russia, India and China)

Manufacturing Decline Long-term in Share of the Economy as Services Grow

(Manufacturing as Share of GDP, National Currency Units)



Monetary Policy Remains Loose Throughout the Developed World

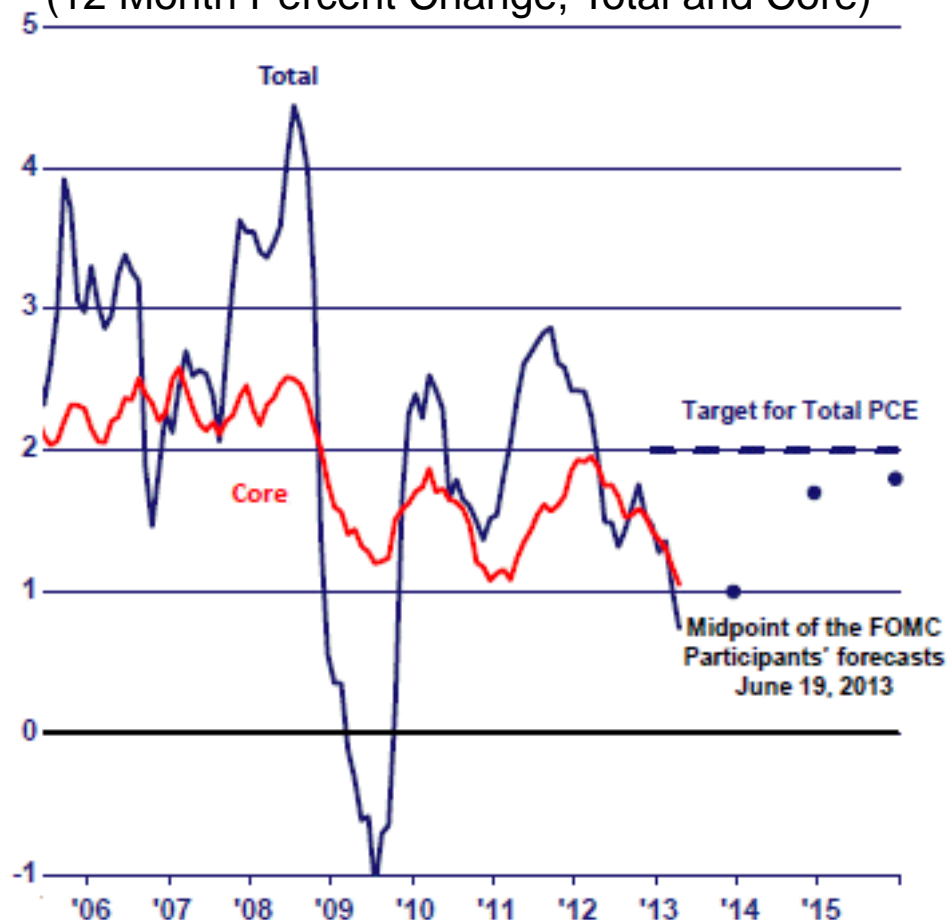


U.S. FRB Not Close to (Un)Employment Target Yet

Inflation Has Been Falling in the U.S. Below Fed Target But Forecast to Grow

Price Index for U.S. Personal Consumption Expenditures

(12 Month Percent Change, Total and Core)



Fiscal Policy Is A Drag on the Economy in the U.S. and in Europe

Fiscal policy is addressing sovereign debt levels

- The U.S. government fiscal policy has tightened in the last two years, with largest impact this year
- The U.S. deficit reduction, including the budget cuts in 2011, the increased taxes in January, and the sequester, totals almost \$3 trillion
- This is 3 / 4 of the way towards stabilizing the U.S. government debt ratio, but at short term cost of slower economic growth
- Fiscal policy in Europe is also tighter, despite political reactions and their recession.

Japan Trying New Policies to Stimulate the Economy, Fight Deflation and Boost Growth

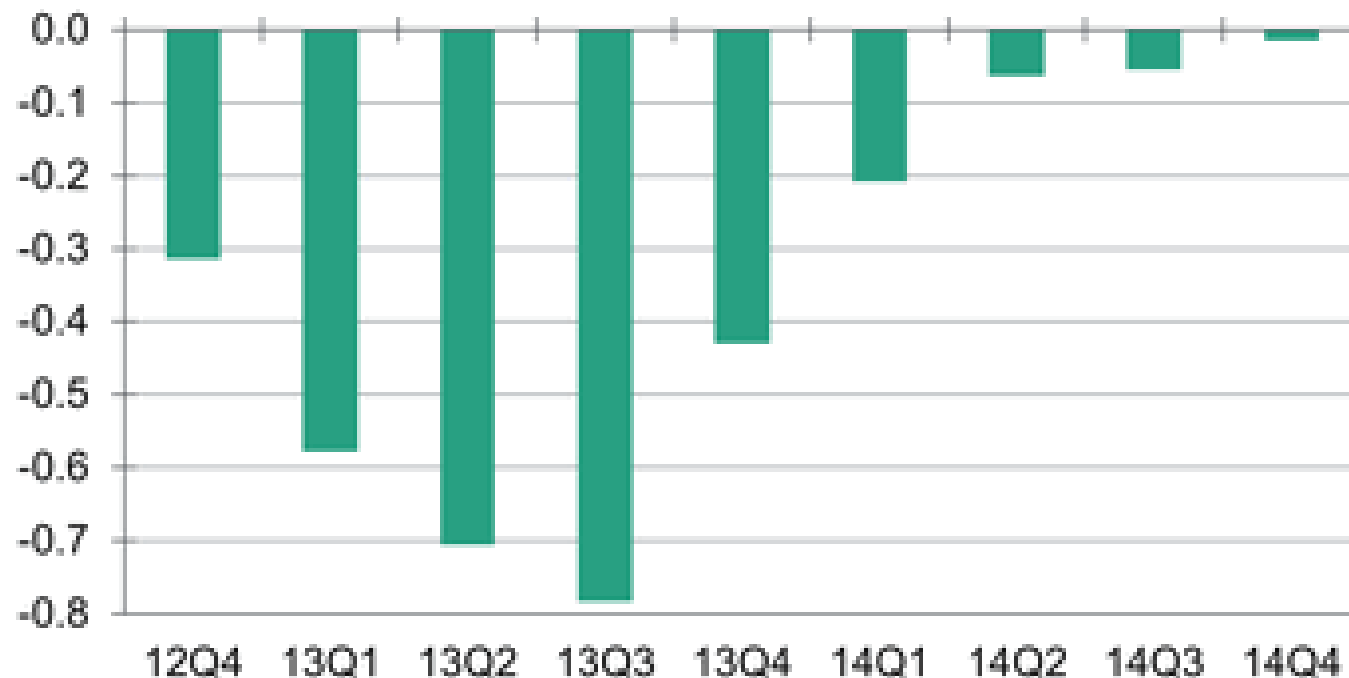
New Stimulus Measures to Break Recent Recession Cycle Where Japan had 3 Recessions in 5 Years

- **The strength of Japan's recovery will depend on export performance and how well the government implements stimulus programs and structural reforms**
- **The Bank of Japan aims to reach its 2% inflation target in two years by doubling bond purchases and the monetary base**
- **Anticipation of monetary stimulus has contributed to a sharp yen depreciation in 2013 against major trade partner currencies**
- **Sales tax, scheduled to increase from 5% to 8% in April 2014 and to 10% in October 2015, will dampen consumer spending**
- **GDP growth forecasted at 1.0% this year, rising to 2.5% in 2014**

Impact on U.S. Economy of Federal Sequester is About 0.5% Lower 2013 GDP Growth

Sequester Is a Significant Weight on Growth

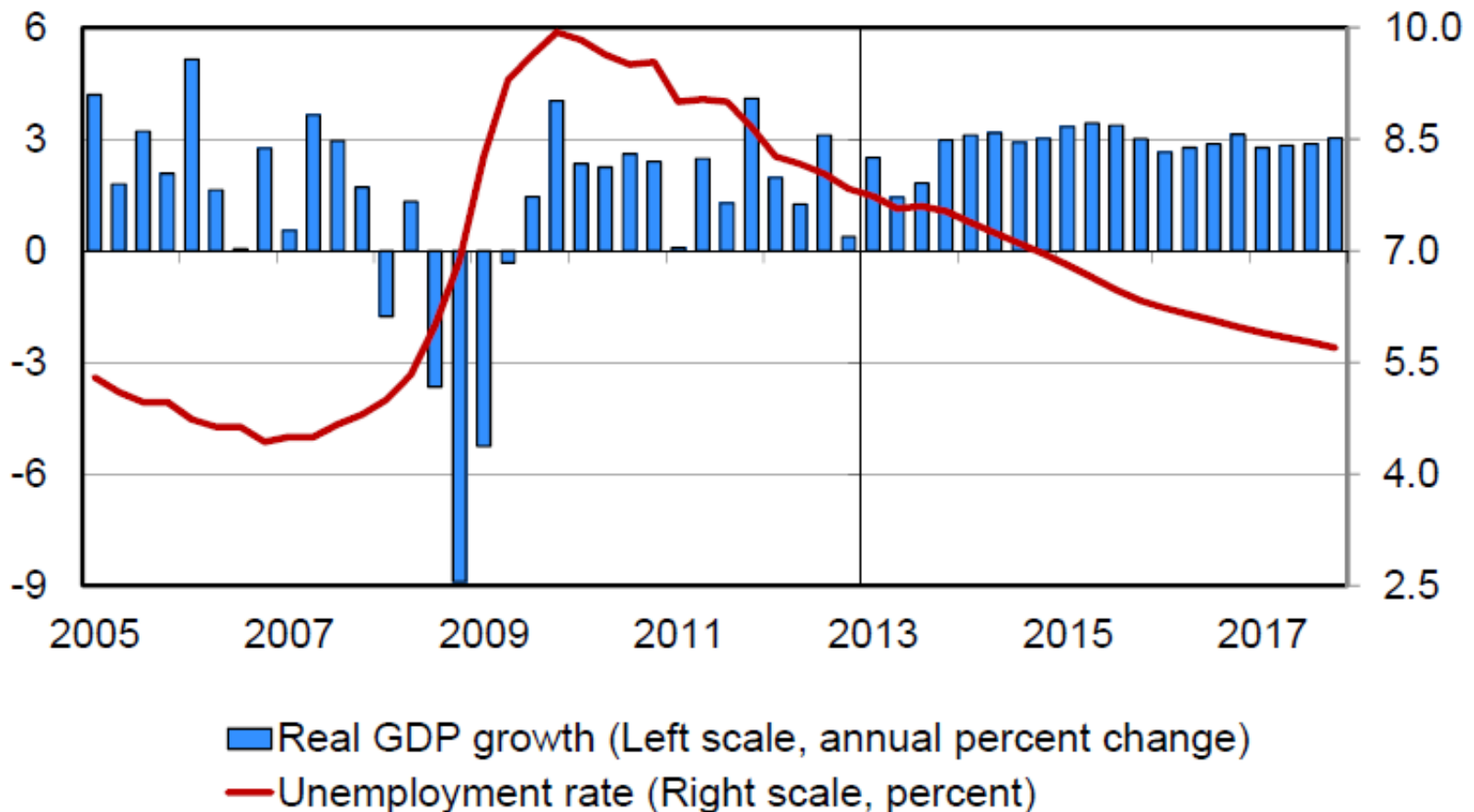
Real GDP growth impact of full sequester, ppts



Source: Moody's Analytics

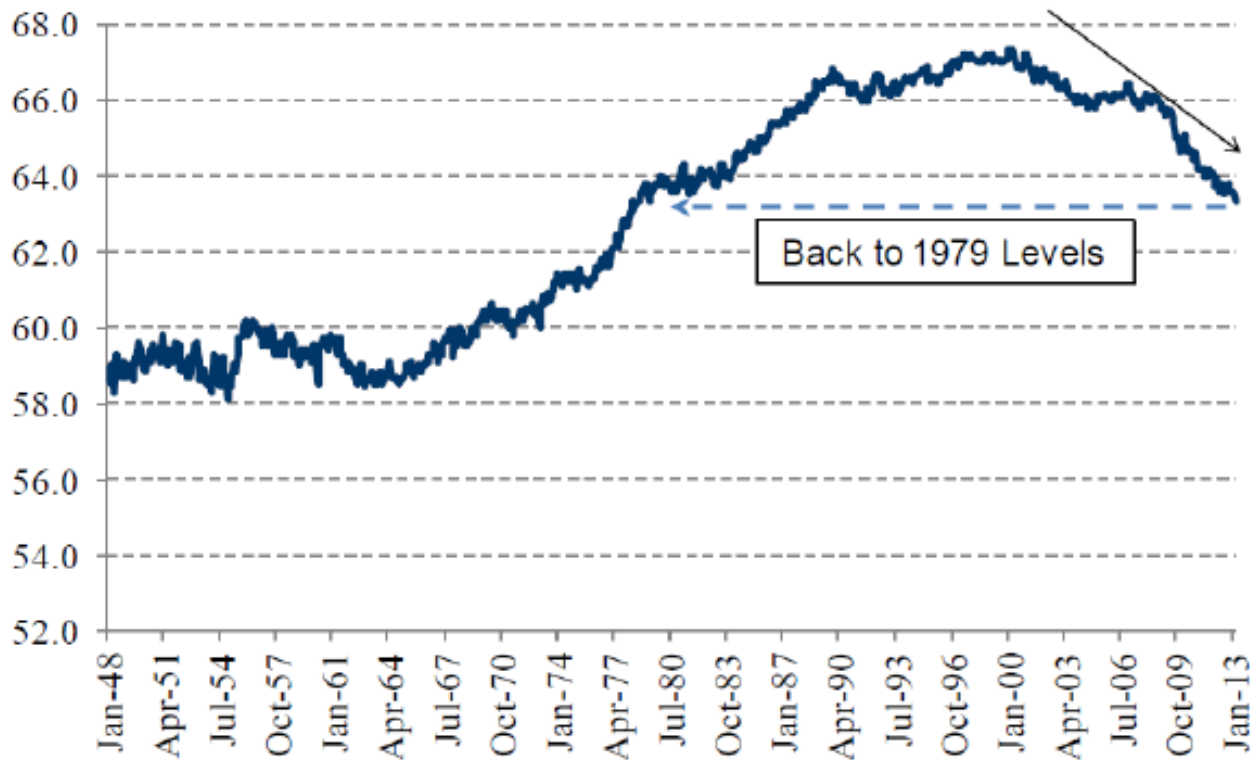
U.S. GDP Growth Also Tempered By Slow Employment Growth

Real GDP Growth and Unemployment by Quarter



U.S. Unemployment In Context: Less of the Population Is In the Workforce

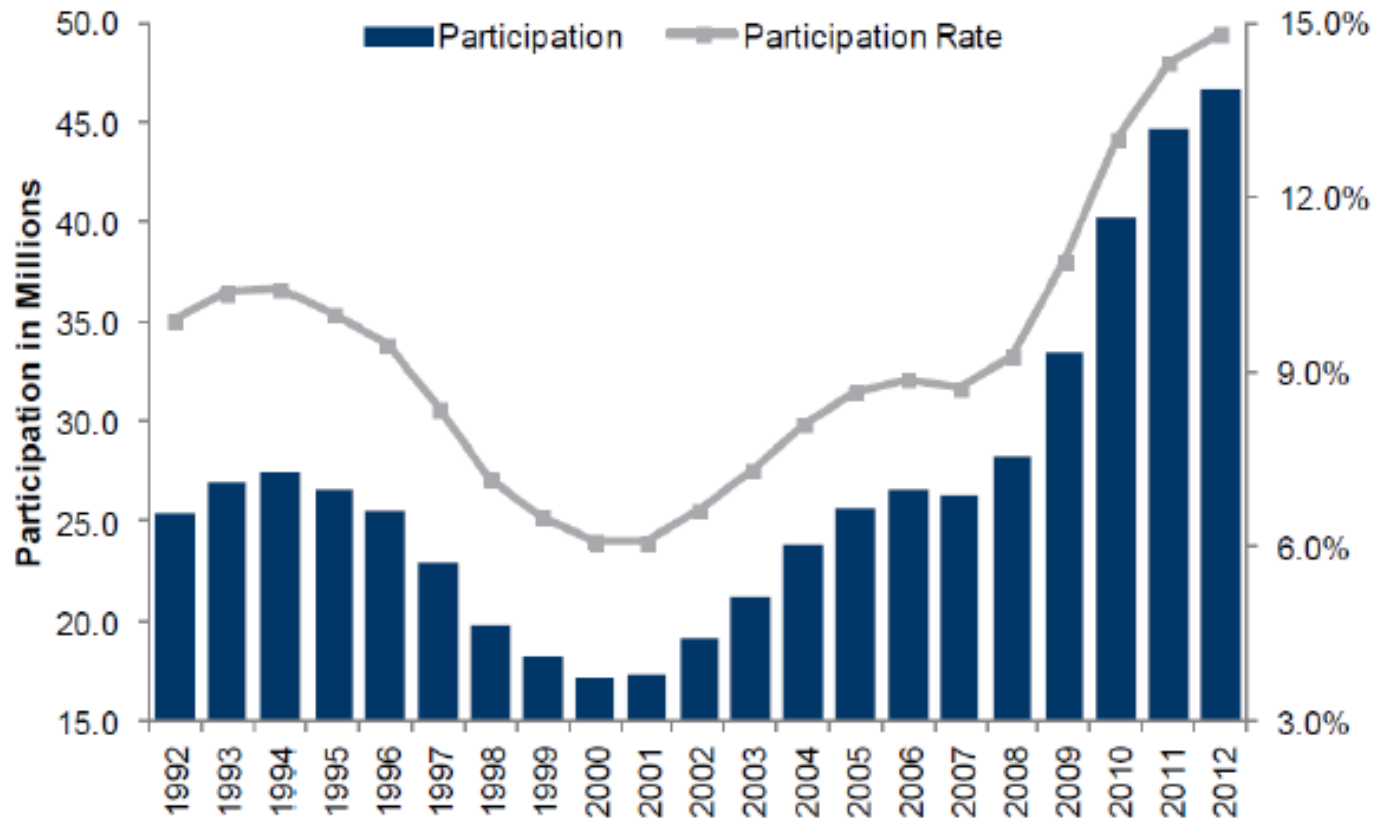
U.S. Workforce Participation Rate, Percent



Overall U.S. Workforce Participation Rate Lowest in 34 Years

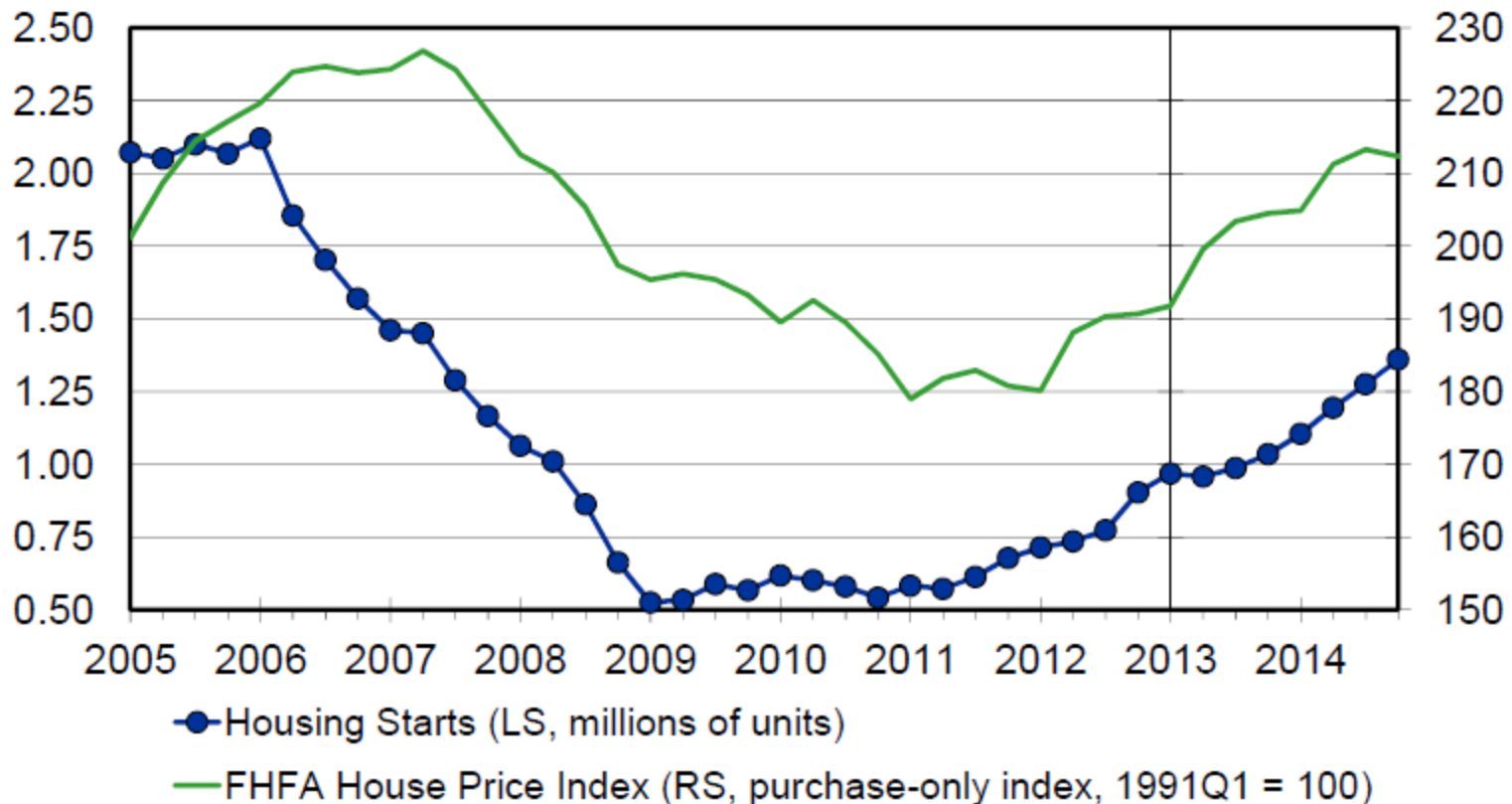
U.S. Unemployment In Context: Food Stamp Use At Record High

U.S. Food Stamp Program Participation, Number, Percent



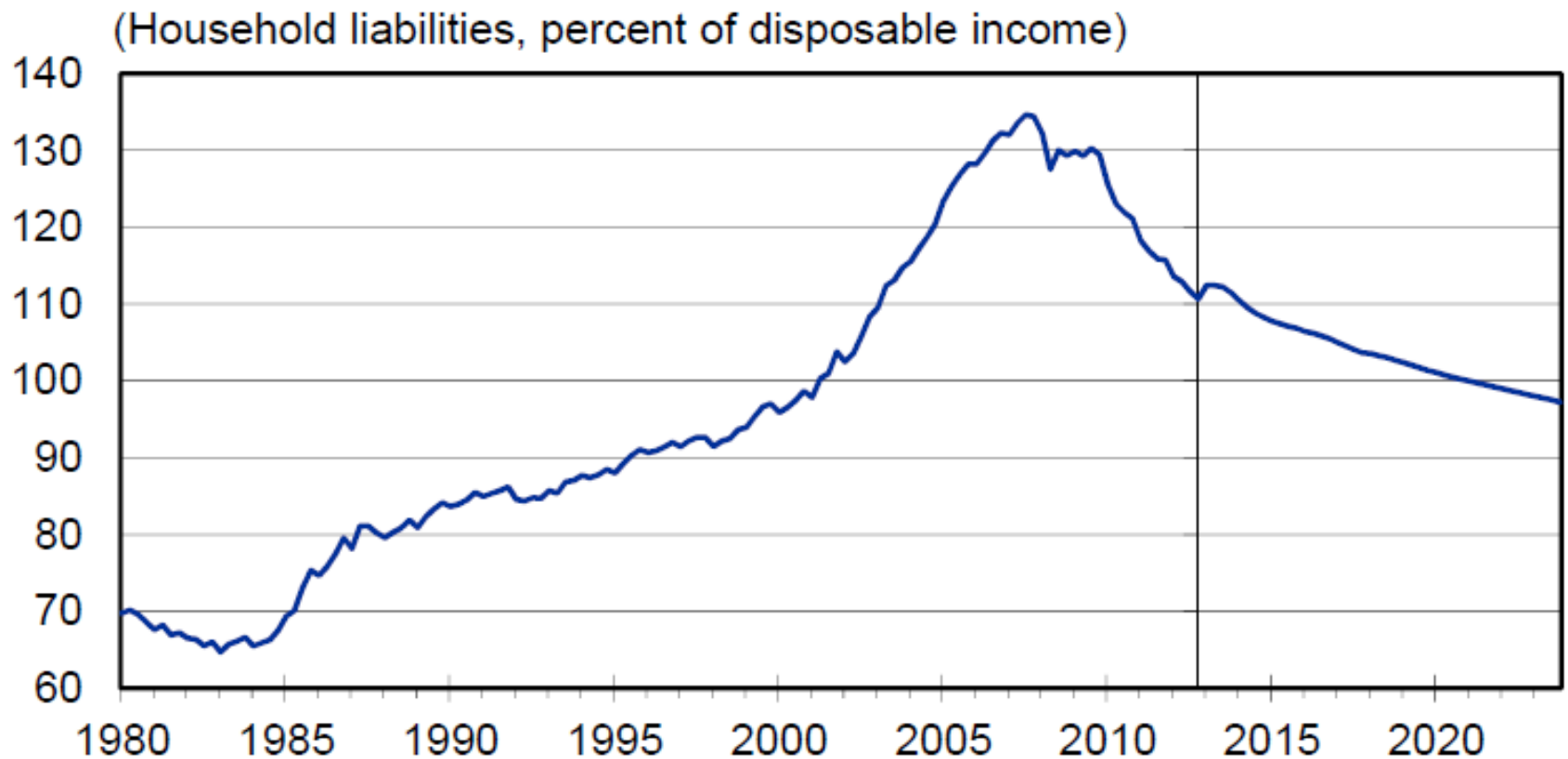
Home Prices and Home Building are Increasing, Though Growth Varies By City

Housing is coming back from recession



U.S. Households Have Been Deleveraging, Partly Due to Tighter Credit, Not Discipline

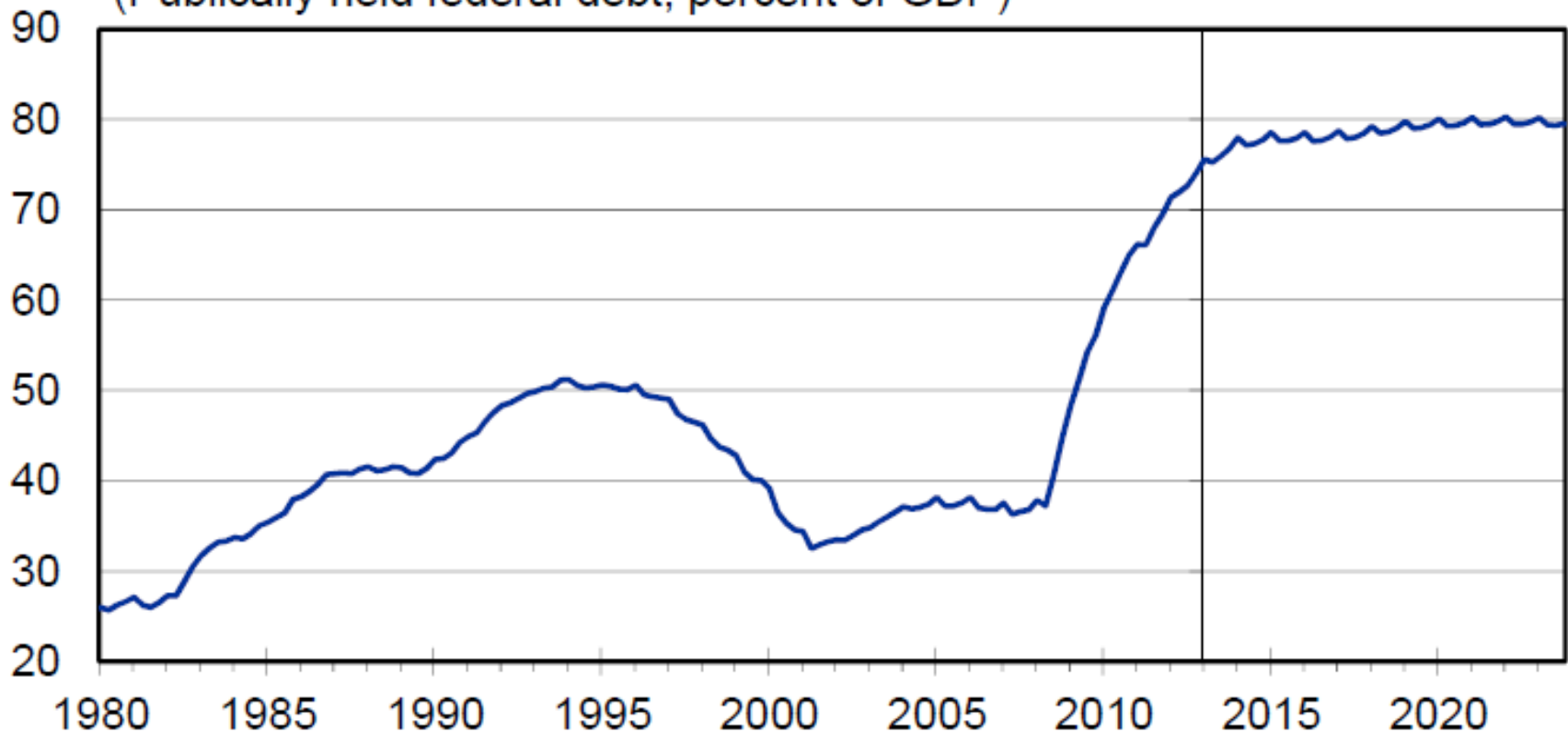
Household Debt Lower, Yet Still Higher Than Before 2003



U.S. Government Not Deleveraging But Slowing Debt Share Growth With Fiscal Policy

Not a Reduction to Pre-Recession Levels

(Publically held federal debt, percent of GDP)

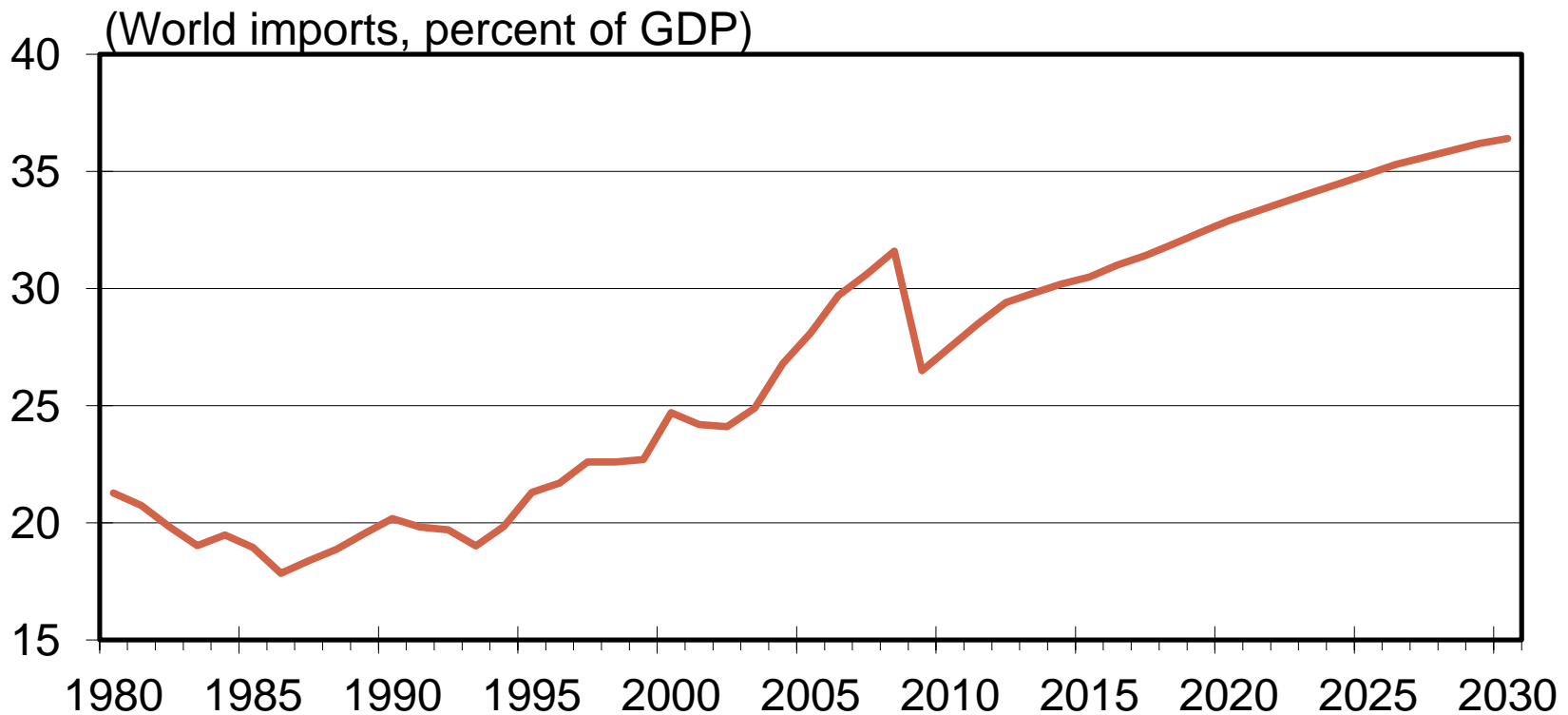


Growth In U.S. Trade Demand Is Coming From Continued Slow Recovery in Private Sector

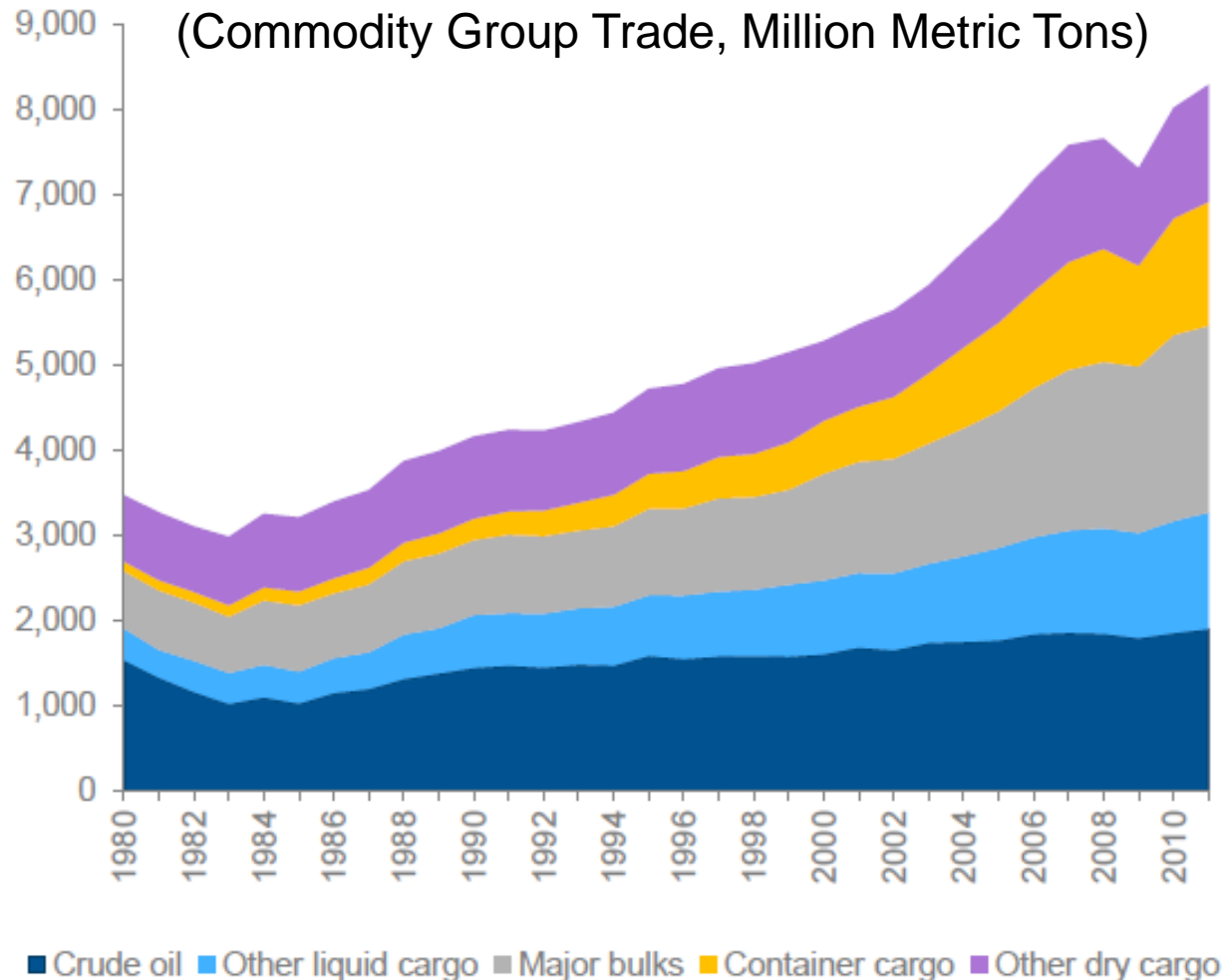
- **U.S. recovery has spread through more sectors in 2013**
- **Net exports are contributing less to growth. Construction has begun recovery; but with a long way to go, varying regionally**
- **Consumer spending is up a little, thanks to improvements in employment and wealth effect. Spending on oil spiked 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 2013 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 2.3% to 3.5%, likely near the lower end in 2013**
- **Yet business and consumer spending has driven port cargo demand to surpass the 2007 pre-recession volumes**

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

Globalization trend is shifting, not reversing, long-term.

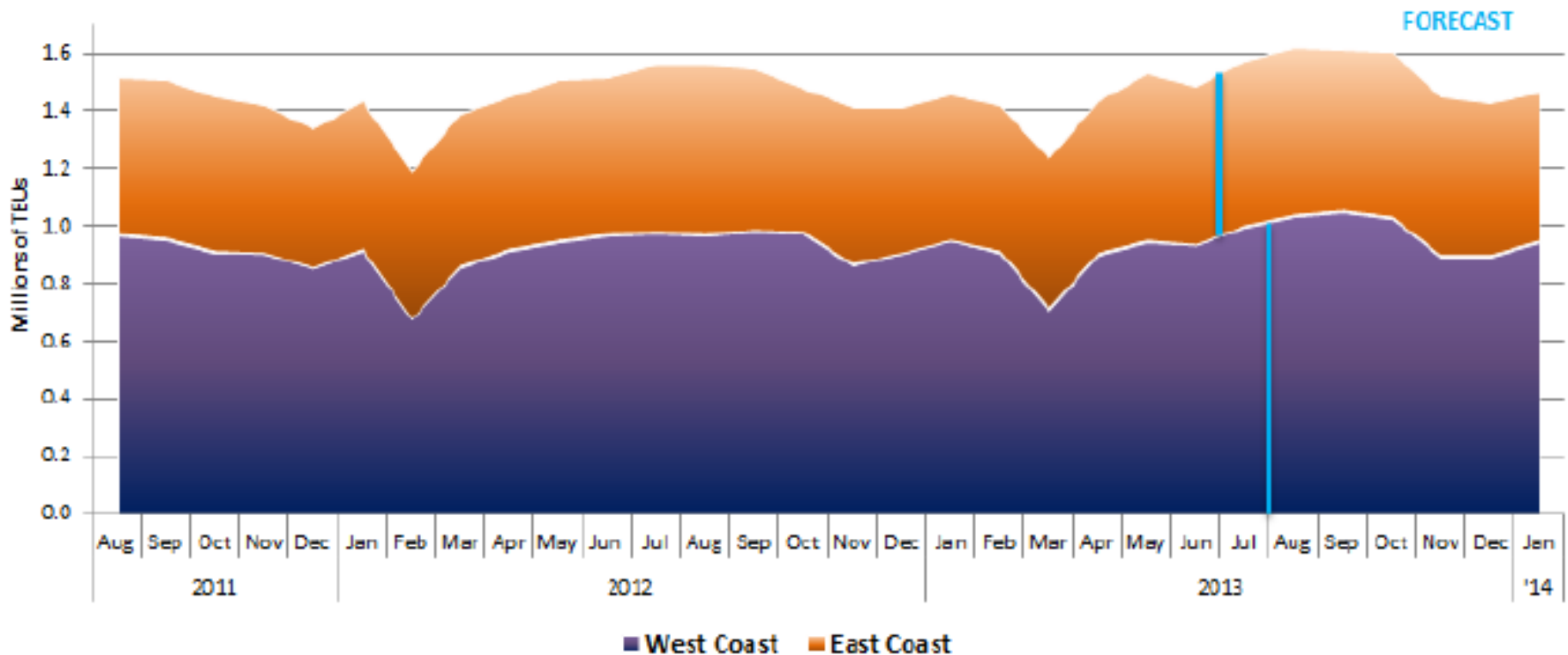


Composition of World Seaborne Trade; Recent Growth Faster than in the 1980s



U.S. Container Trade: West Coast Still Dominates North American Import Container Trade

North American Container Import Volume, By Coast



Overall 2013 2.4% Forecast is from 1.6% East Coast, 2.7% West Coast Growth

N. America West Coast TEU Import Growth Higher in 2nd Half 2013 Than 1st Half

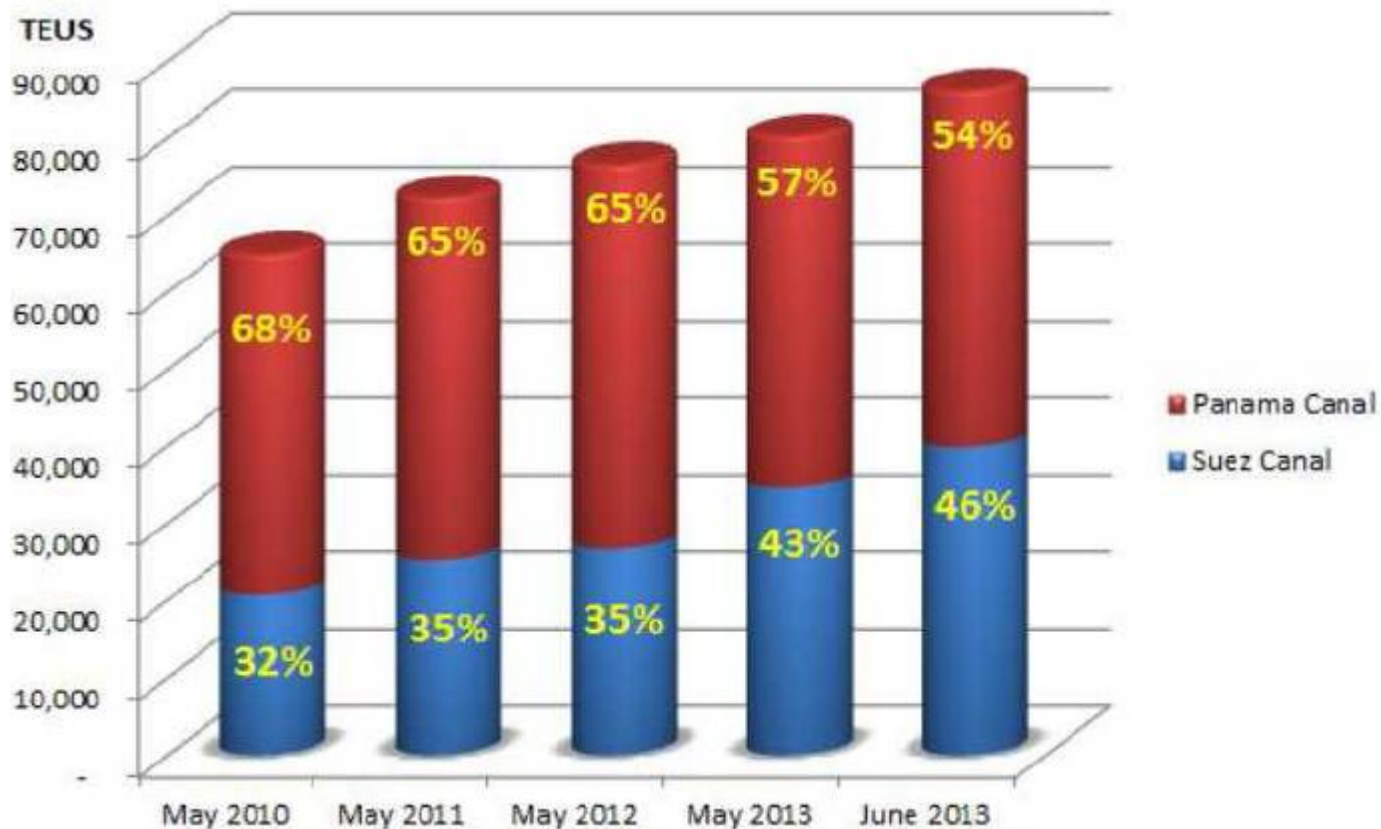
		Percent Change					
		vs Prior Quarter		vs Prior Year			
ACTUAL	2011	Q1	↓	-11.8%	↗	6.9%	
		Q2	↑	12.3%	↘	-1.6%	
		Q3	↗	7.7%	↘	-5.9%	
		Q4	↘	-7.5%	↘	-1.3%	
	2012	Q1	↘	-7.9%	↗	3.0%	
		Q2	↑	15.2%	↗	5.7%	
		Q3	↗	3.6%	↗	1.7%	
		Q4	↘	-6.2%	↗	3.0%	
	2013	Q1	↘	-6.6%	↗	4.5%	
		Q2	↗	8.5%	↘	-1.6%	
	FORECAST	2013	Q3	↑	10.9%	↗	5.3%
			Q4	↘	-8.7%	↗	2.6%
2014		Q1	↘	-9.0%	↘	-0.1%	
		Q2	↑	14.3%	↗	5.3%	

N. America East Coast TEU Import Growth 2014 Growth Starts Faster than 2013

		Percent Change					
		vs Prior Quarter		vs Prior Year			
ACTUAL	2011	Q1	↓	-1.5%	↑	11.5%	
		Q2	↑	4.0%	↑	3.1%	
		Q3	↑	5.9%	↑	1.1%	
		Q4	↓	-6.5%	↑	1.5%	
	2012	Q1	↑	0.9%	↑	3.9%	
		Q2	↑	5.7%	↑	5.6%	
		Q3	↑	5.6%	↑	5.3%	
		Q4	↓	-10.1%	↑	1.2%	
	2013	Q1	↓	-1.1%	↓	-0.7%	
		Q2	↑	7.9%	↑	1.3%	
	FORECAST	2013	Q3	↑	3.7%	↓	-0.5%
			Q4	↓	-3.9%	↑	6.4%
2014		Q1	↓	-4.6%	↑	2.7%	
		Q2	↑	7.6%	↑	2.4%	

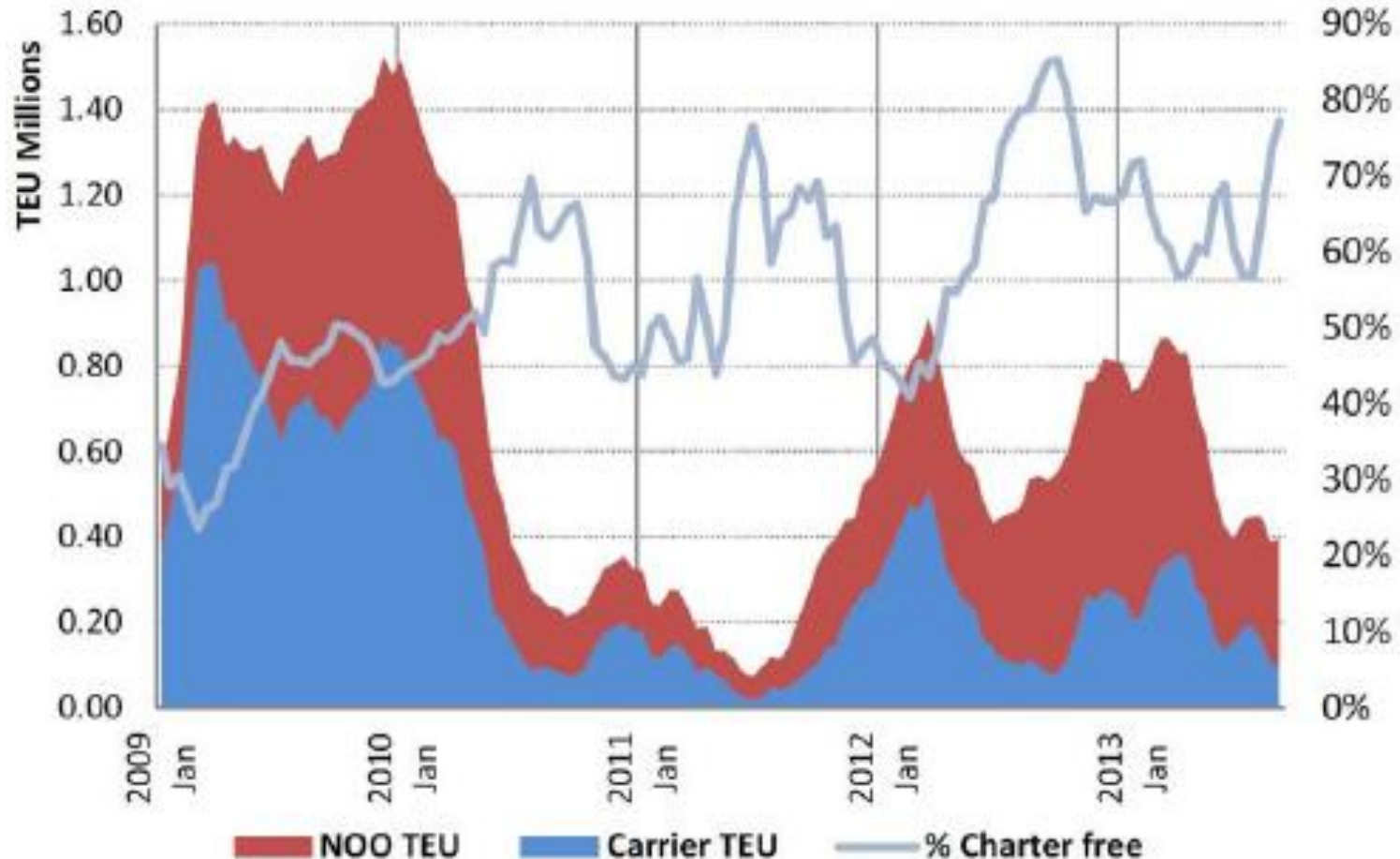
Suez Canal Route Share of East Coast Containerized Asian Imports is Up

U.S. East Coast Imports from Asia By Route, Percent



Container Rates and Trade Affected by Vessel Supply and Deployment

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



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, since carrier's high profits in 2010, they have struggled, 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 adds supply, and with reduced load factors continues 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 over 20% of world containership capacity already operating. Other vessel types (e.g. bulks) also have large order books.**
- **Panama Canal Expansion also has an influence on vessels already.**

Double U.S. Exports in Five Years? Good Stretch Goal But Not Achievable

President Obama's **National Export Initiative** is over three years old:

“So tonight, we set a new goal: We will double our exports over the next five years”

President Obama, State of the Union Address, January 27, 2010

Improve trade advocacy and trade promotion efforts on behalf of U.S exporters.

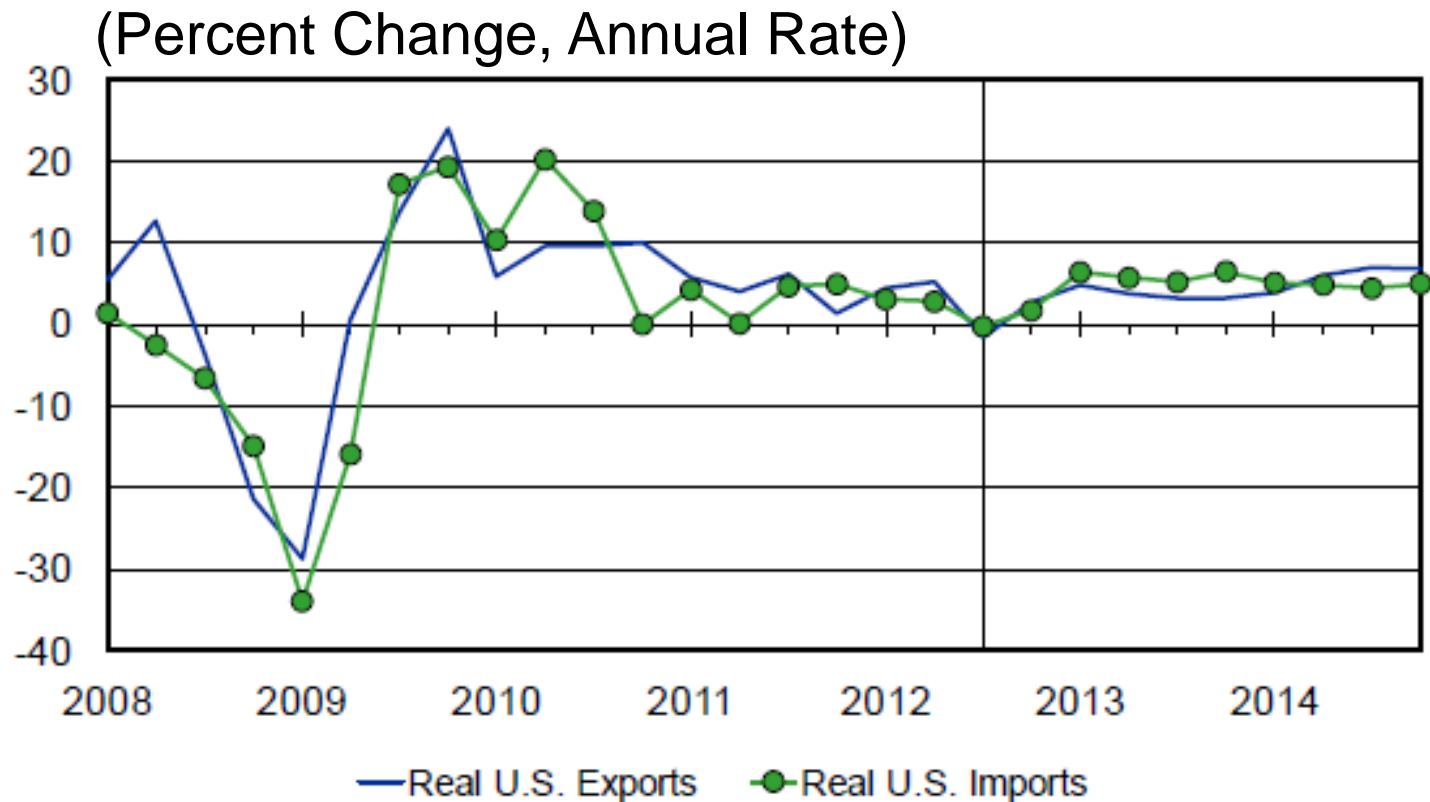
Increase access to export financing to ensure good opportunities do not fall through the cracks.

Reduce trade barriers in order to open as many new markets as possible.

Robustly enforce trade rules to ensure our trading partners live up to their obligations.

Promote policies that lead to strong, sustainable and balanced economic growth.

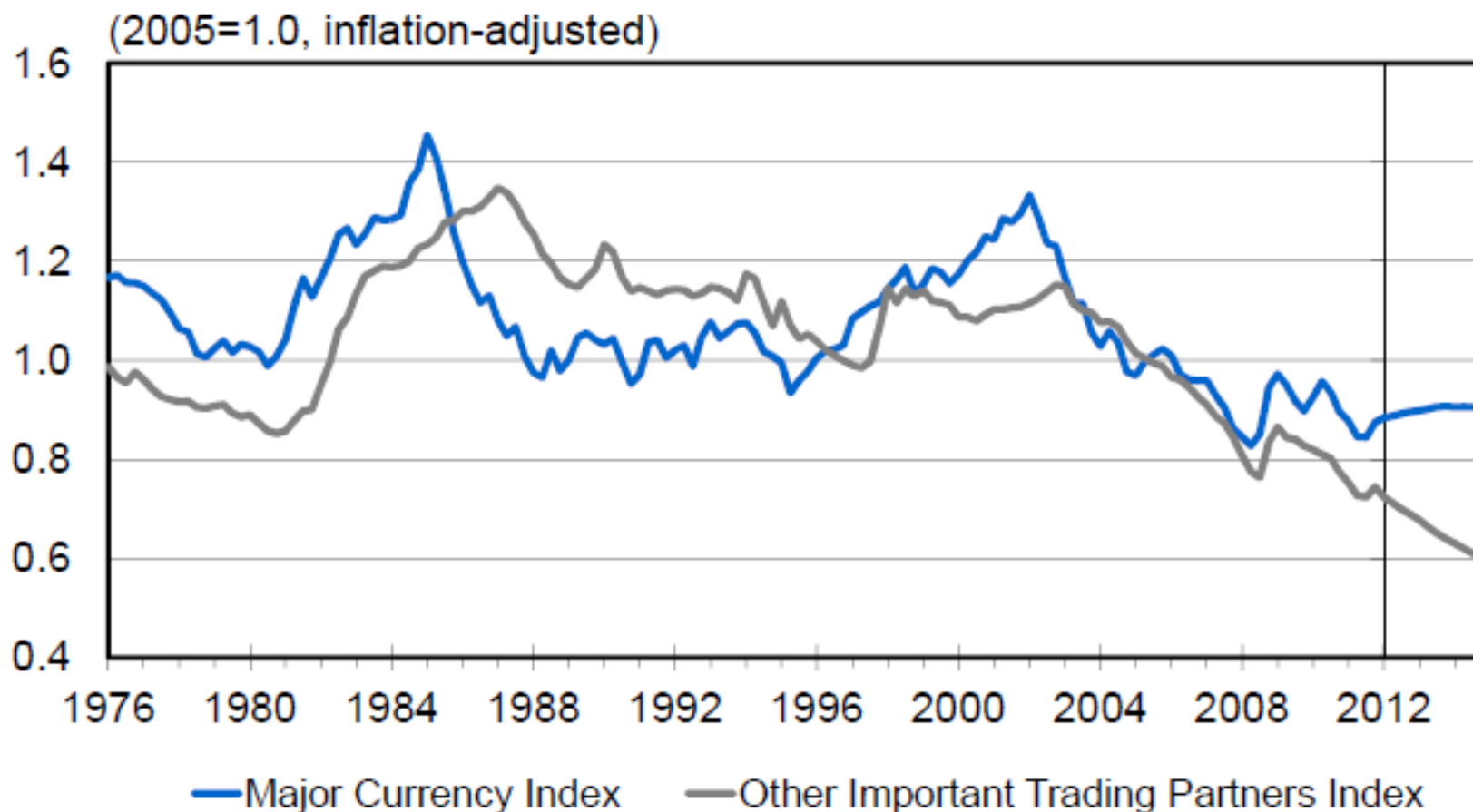
U.S. Export Growth Exceeds Import Growth Again by End of 2014



Overall U.S. Export Growth in 2013 Forecast Slower Than Imports

U.S. Dollar Exchange Rate Impact on Trade Affected by Europe and Japan in 2013

Recent-Year Against-Trend Dollar Strength Boosts Imports; Dampens Exports



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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