

Economic Trends: Implications for Port Terminals

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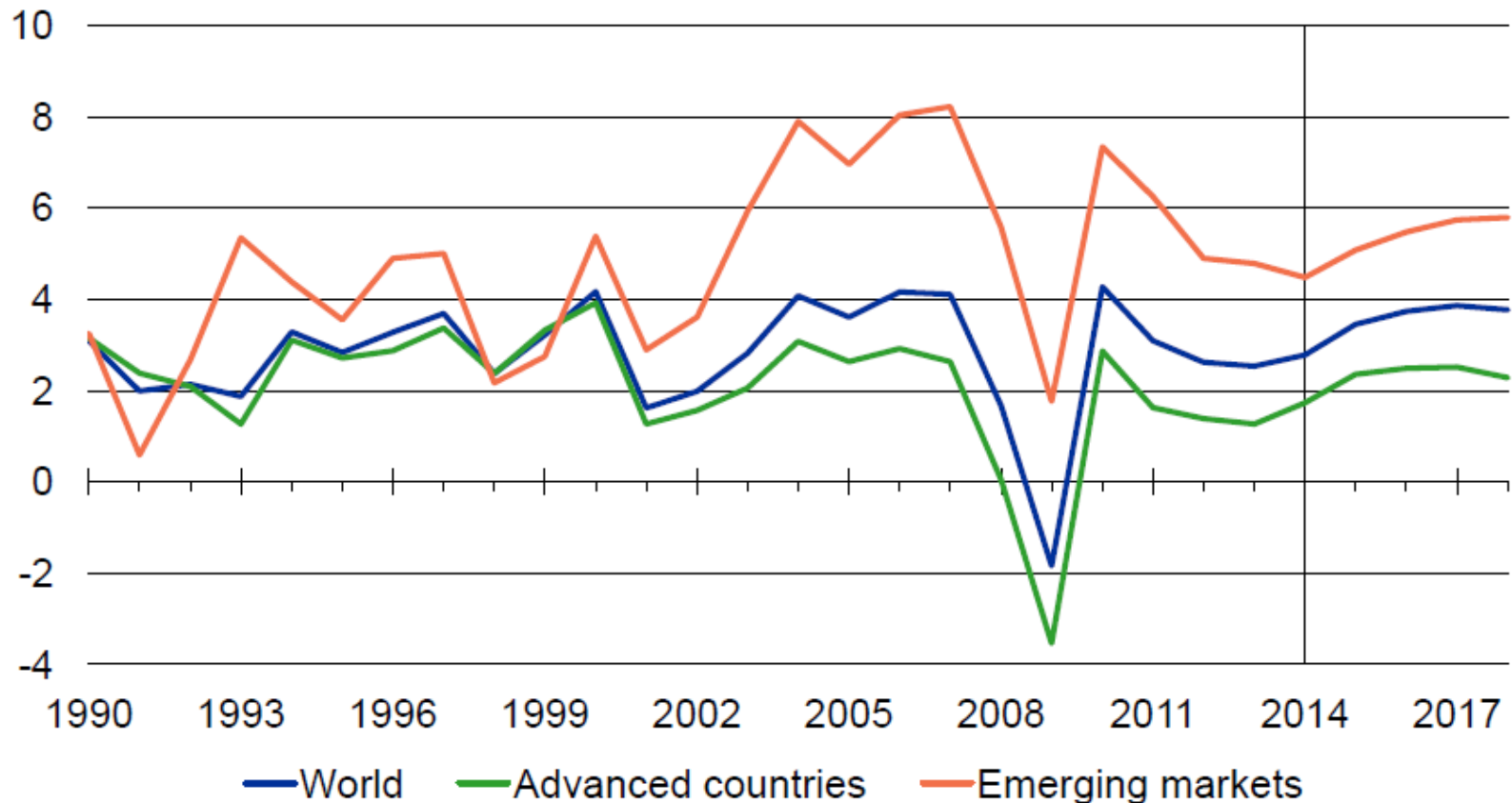
Marine Terminal Demand is Driven by Cargo Demand that Depends on the Strength of the Economy

The Economic Forecast is for Slow Growth 2015

- **The U.S. economy has grown moderately after post Recession 2010 rebound. This despite many trade partner weaknesses.**
- **Emerging market growth has slowed since 2010, but still growing faster than average of the developed world.**
- **Commodity prices mostly moderate – inflation is not a problem due to remaining slack resources in U.S. and the world**
- **European recovery dampened by crisis with Russia, despite better government fiscal health and monetary policy easing**
- **Slower government spending, slowly improving employment and restrained consumers and businesses all temper growth**
- **Workforce demographics are a lingering drag on the economy**

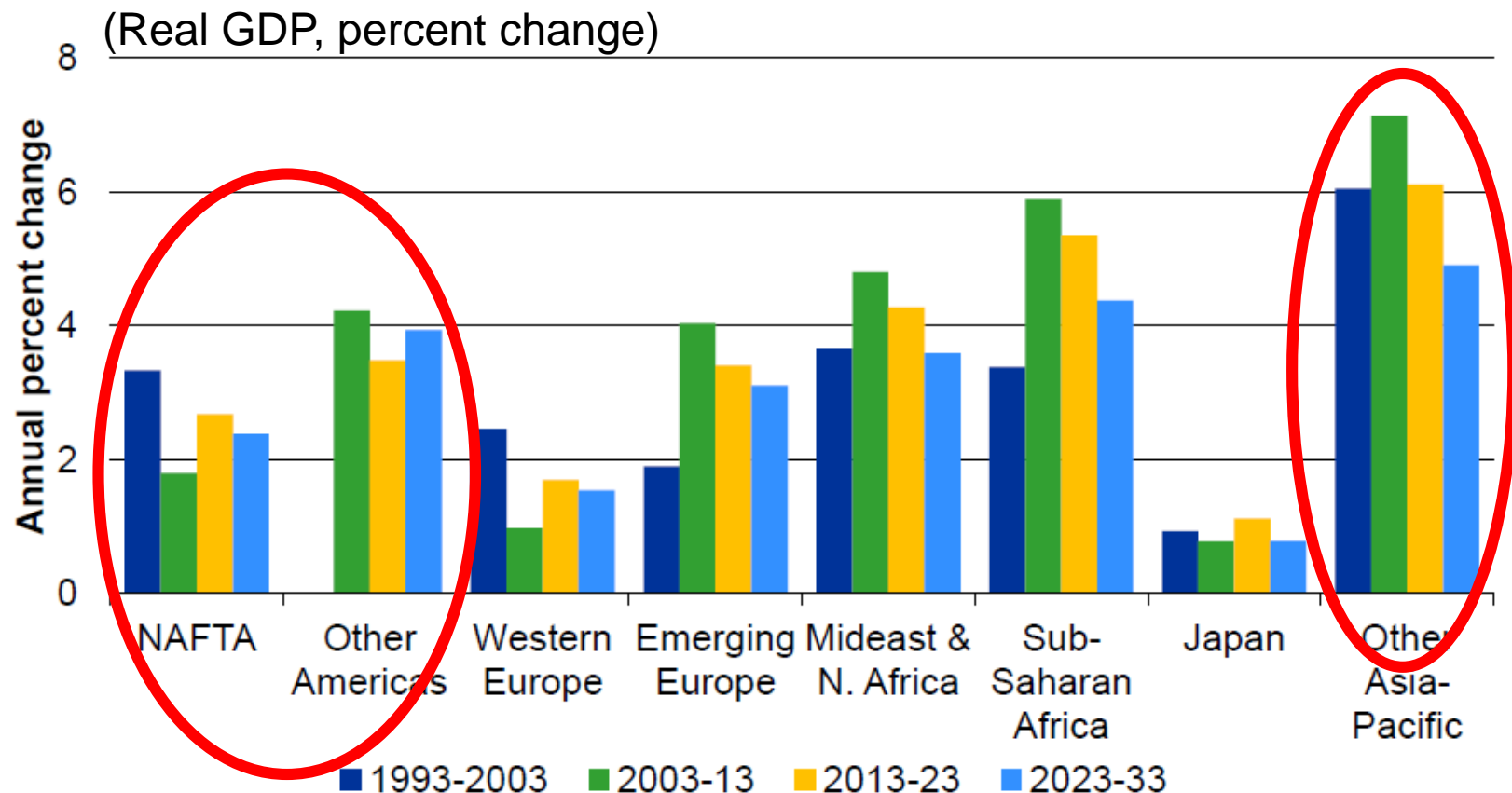
Pace of GDP Growth Increases Gradually From Now Into 2017 After 2013 Post Recession Trough

**World GDP Growth about 2.5% in 2014 reaches 3.5% in 2015,
With emerging market growth leading developed world growth**

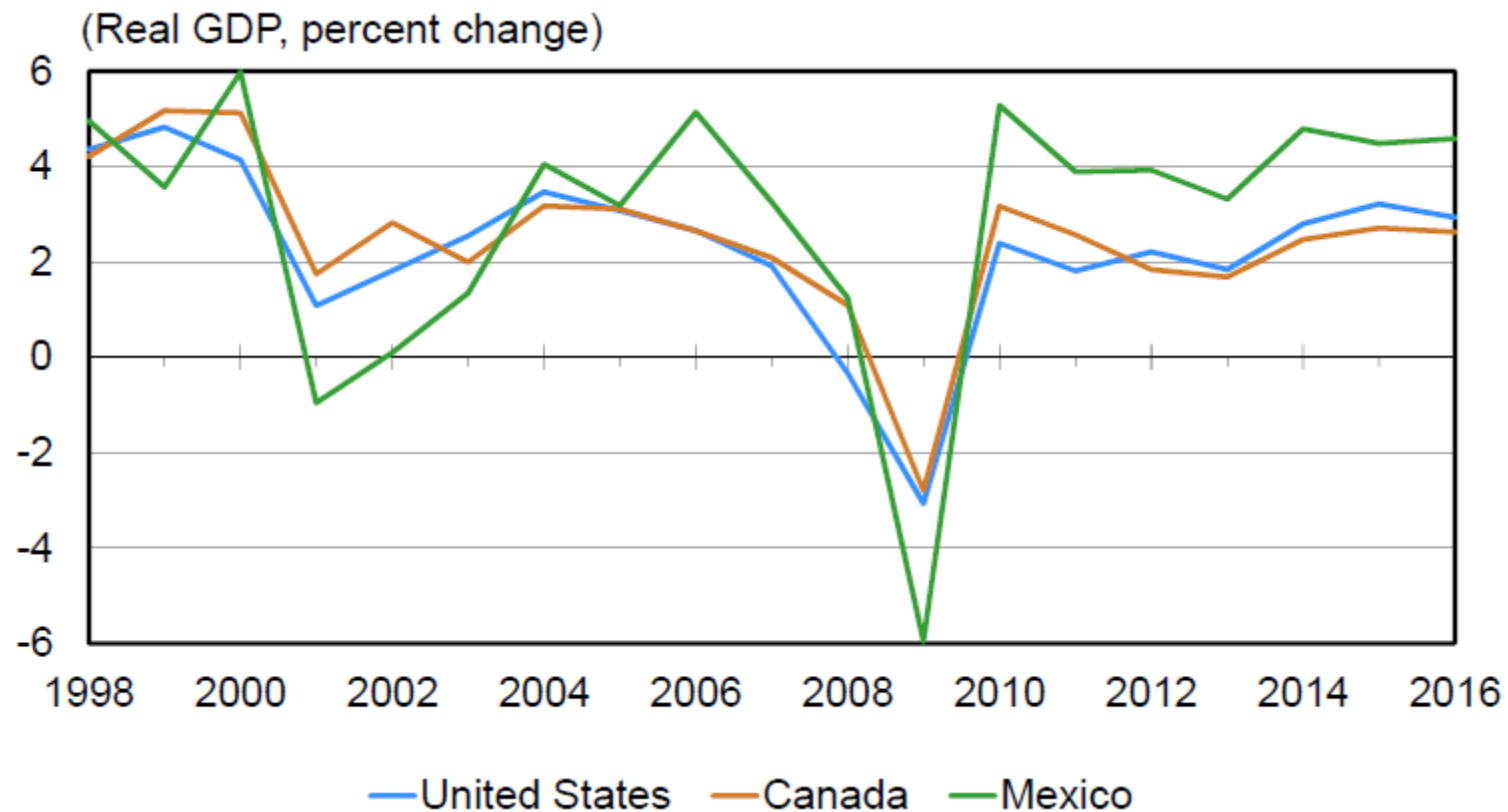


GDP Growth Rate Differences Affect Pace of Trade Growth, and Trade Volumes by Trade Partner Route

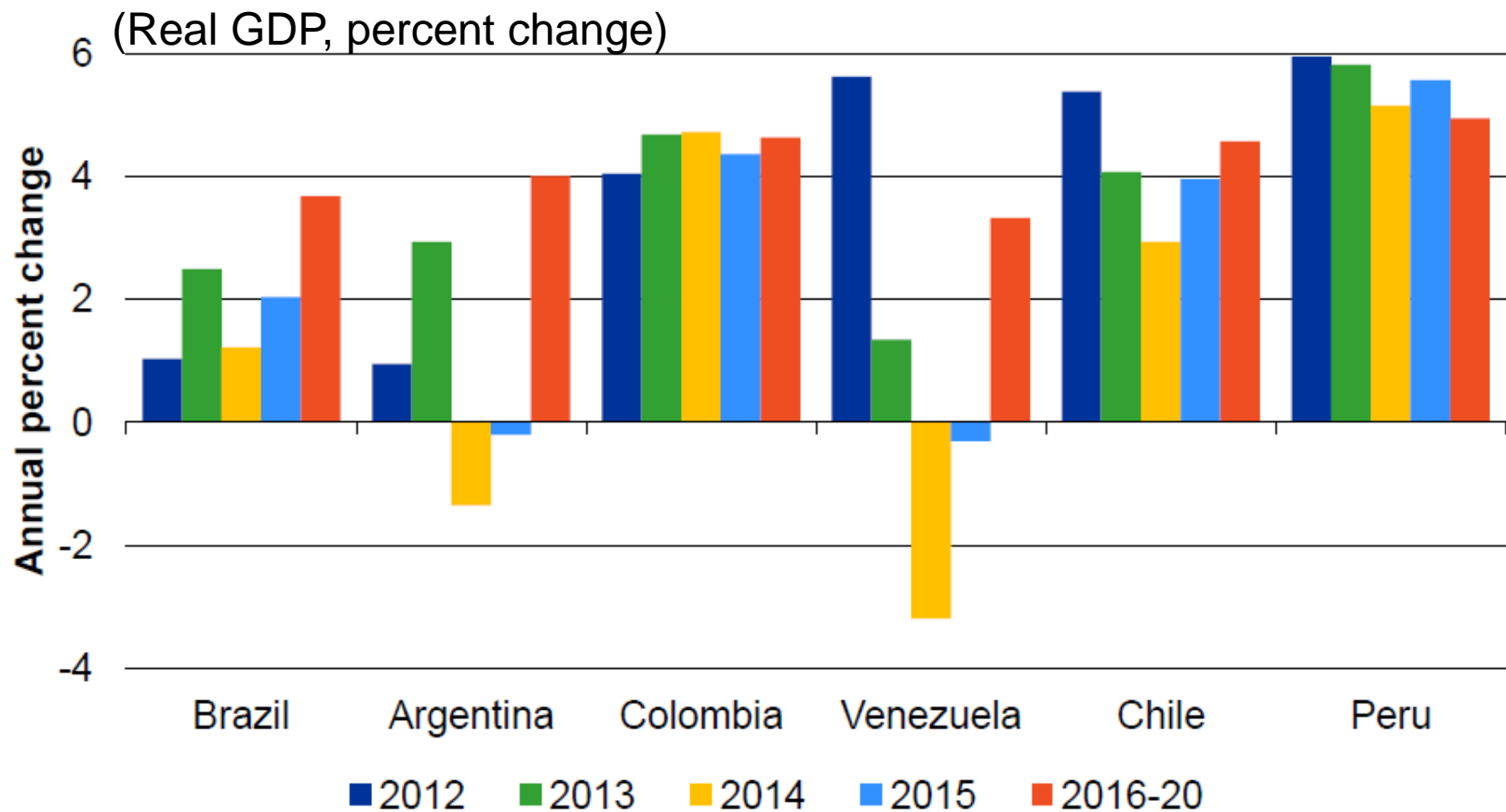
Geography of world production / consumption is shifting as emerging markets grow 5% on average through 2023 vs. 2% for advanced countries.



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



Uneven South American Economy GDP Growth Mostly Stronger Growth after 2015



South American Economic Growth is Slowed in 2014 by Large Country Policy Problems

Economic Growth Affects Regional Trade Growth

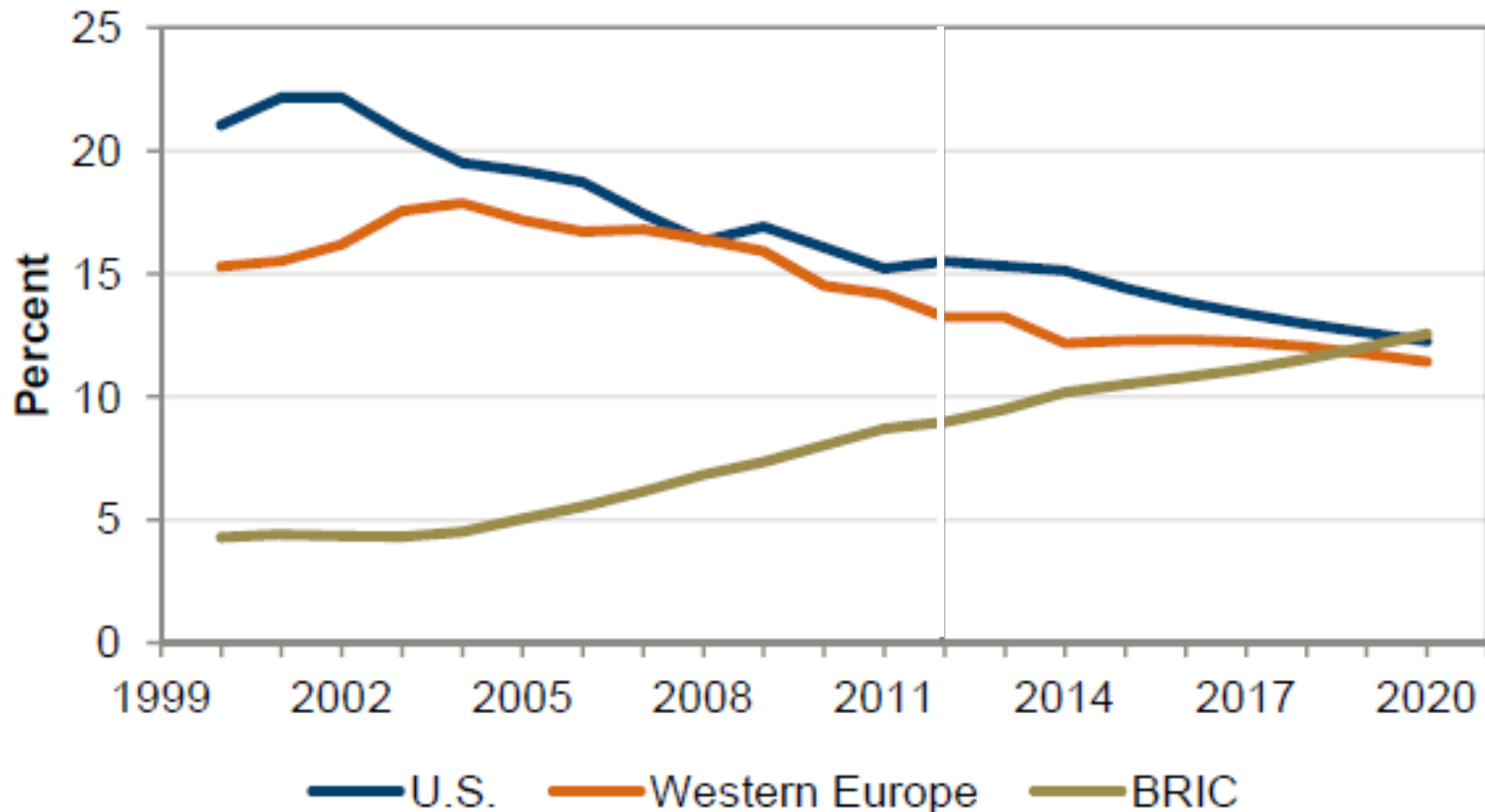
- **South America's economic growth has slowed in 2014, reflecting weak economies in Argentina, Brazil and Venezuela**
- **Brazil suffers from high interest rates, uncompetitiveness, declining business sentiment, and a drought**
- **Argentina's growth has stalled in 2014 due to policy problems, high inflation, foreign-exchange controls, and import restrictions that have stifled investment.**
- **Venezuela's economy continues in a protracted recession due to high inflation, declining currency reserves, and government intervention in many sectors.**

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. West 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

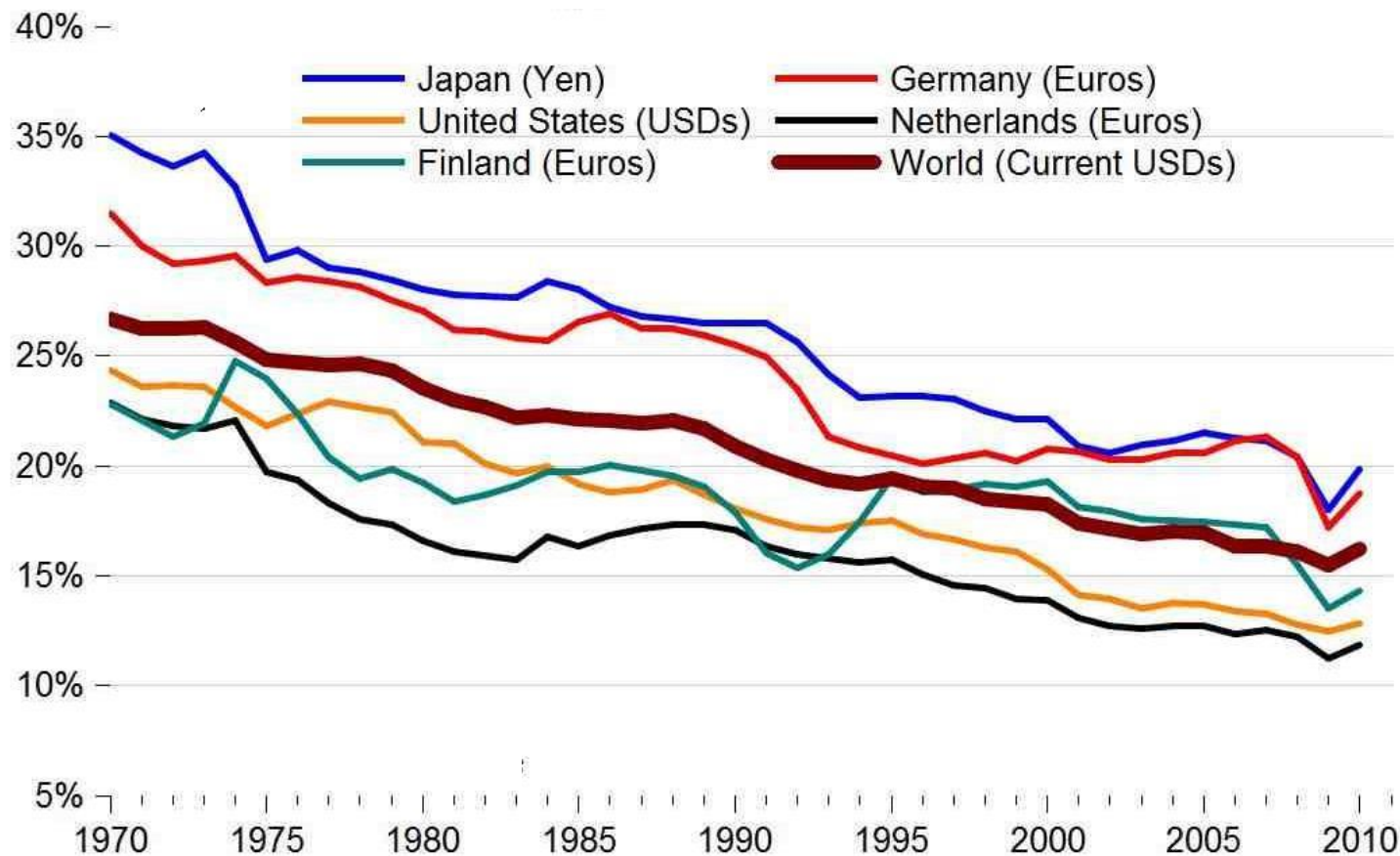
Domestic Consumption by Region as Share of World GDP



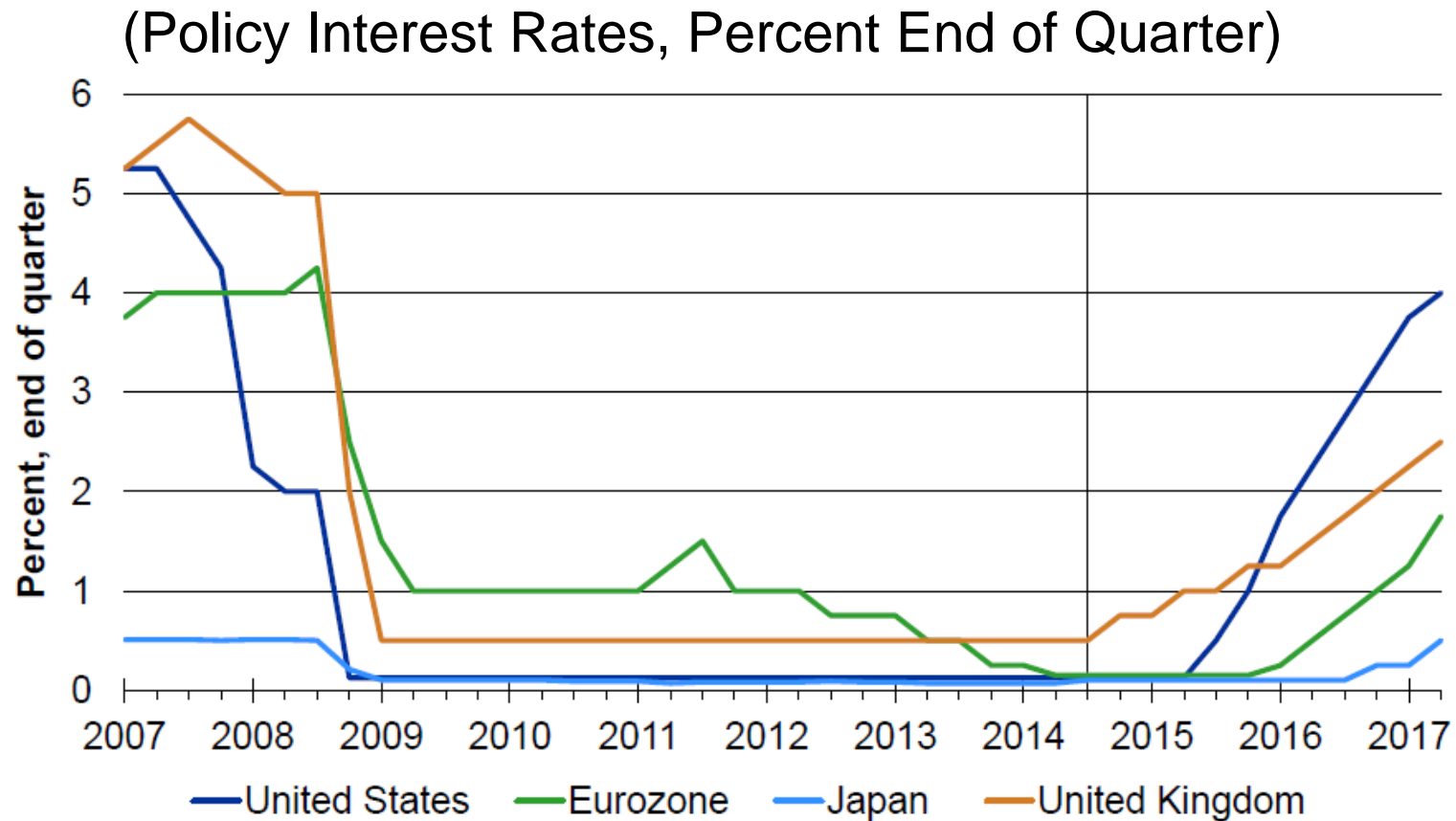
(BRICs are Brazil, Russia, India and China)

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 Beginning Rate Increases Yet

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

Fiscal policy is addressing sovereign debt levels

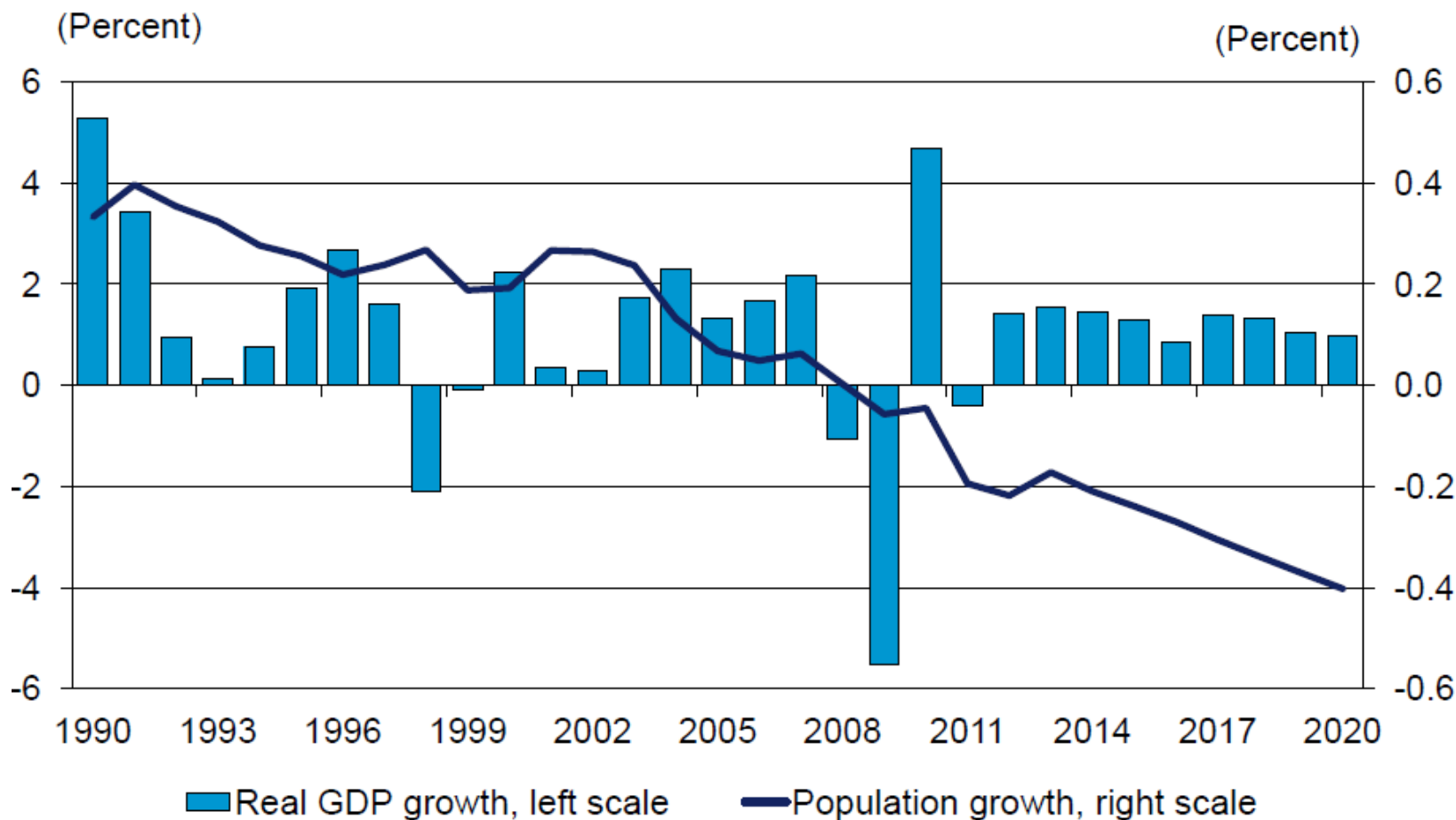
- **The U.S. government fiscal policy has tightened in the last three years; largest impact was last year**
- **The U.S. deficit reduction is reflected in lower government spending contribution to GDP in short term**
- **Policy has the U.S. most of the way towards stabilizing the government debt ratio, but at the short term cost of slower economic growth**
- **Fiscal policy in Europe is looser than last year, with longer time to meet fiscal targets, despite linger spending constraints, yet still a drag on their economy**

Japan's Policies to Stimulate the Economy, Fight Deflation and Boost Growth Have Boosted Growth

Stimulus Measures Broke Recent Recession Cycle Where Japan had 3 Recessions in 5 Years

- **Sustained 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 a 2% inflation target in another year through higher bond purchases and the monetary base**
- **Sales tax increase in April 2014 and another in October 2015, have temporarily dampened consumer spending**
- **GDP growth forecasted at 1.6% this year, fading to 1.5% in 2015**
- **Long-term potential economic growth is limited**

Japan's Economy: Long-term Struggle Against Consequences of Shrinking, Aging Population

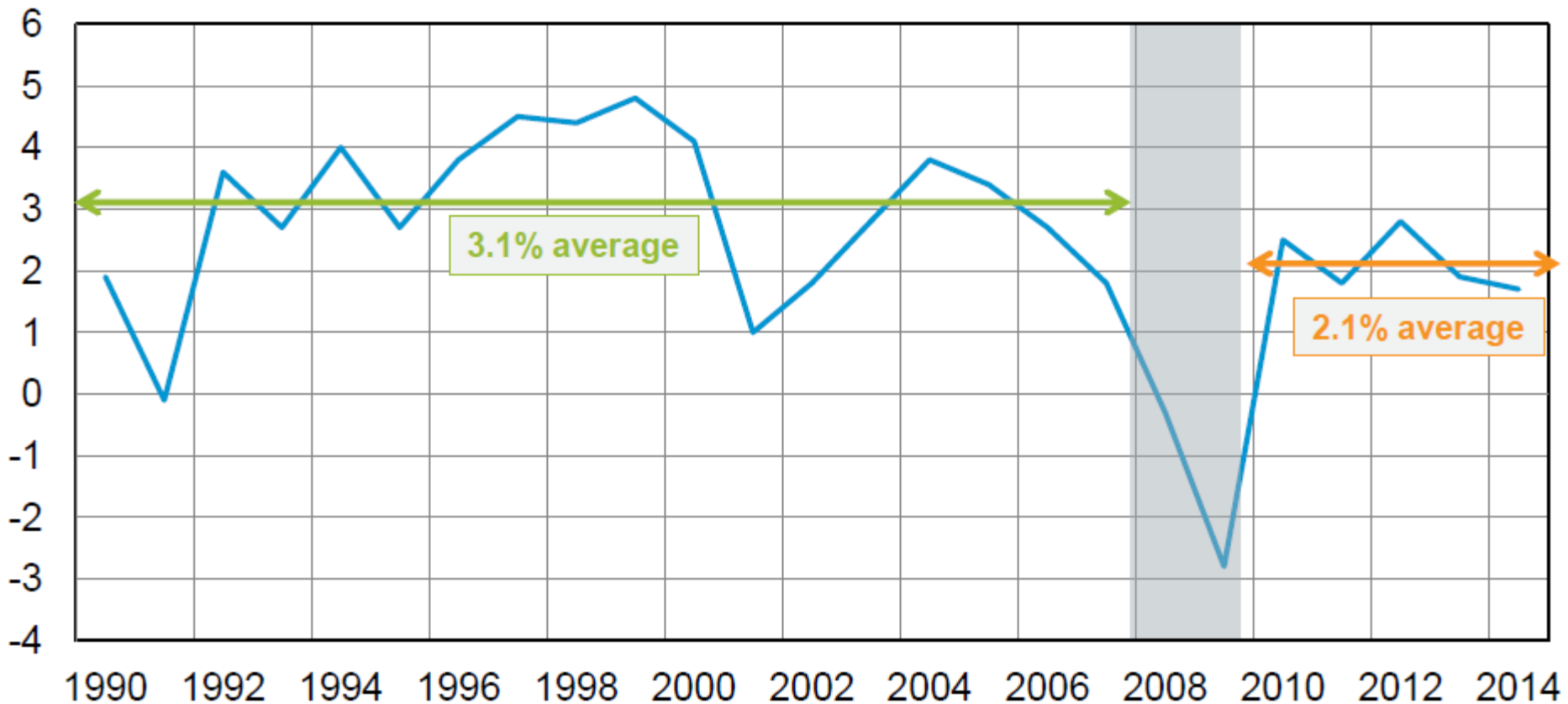


China's Economy is Still Extremely Important to World Trade But Growth is At Risk

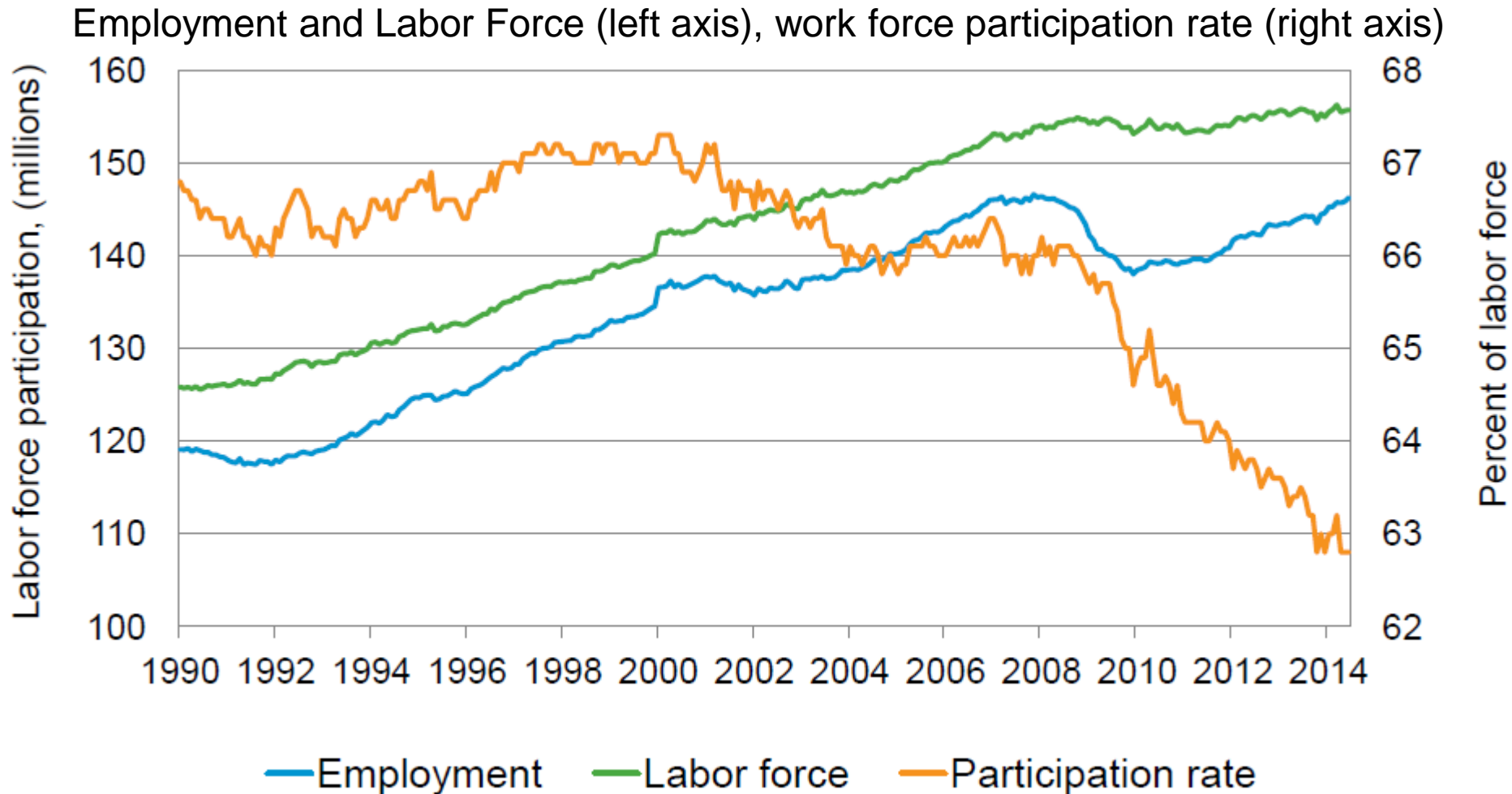
- **China's rapid credit expansion has created vulnerabilities in real estate, banking, and local government**
- **Fiscal stimulus is supporting growth, but exports are weaker**
- **The central bank's monetary policy is partly adopted to stem shadow-banking activities, which pose systemic risks**
- **Fiscal stimulus and trade promotion are being used to keep economic growth near the 7.5% target**
- **China's export-oriented growth model has reached its limits; to sustain growth, China trying to focus more on consumer demand and moving up the manufacturing value chain**
- **Protests in Hong Kong may signal more disruption to come**

Pace of U.S. GDP Growth Below Its Potential Since 2008-2009 Recession

Real U.S. GDP Growth Before and After the Recession

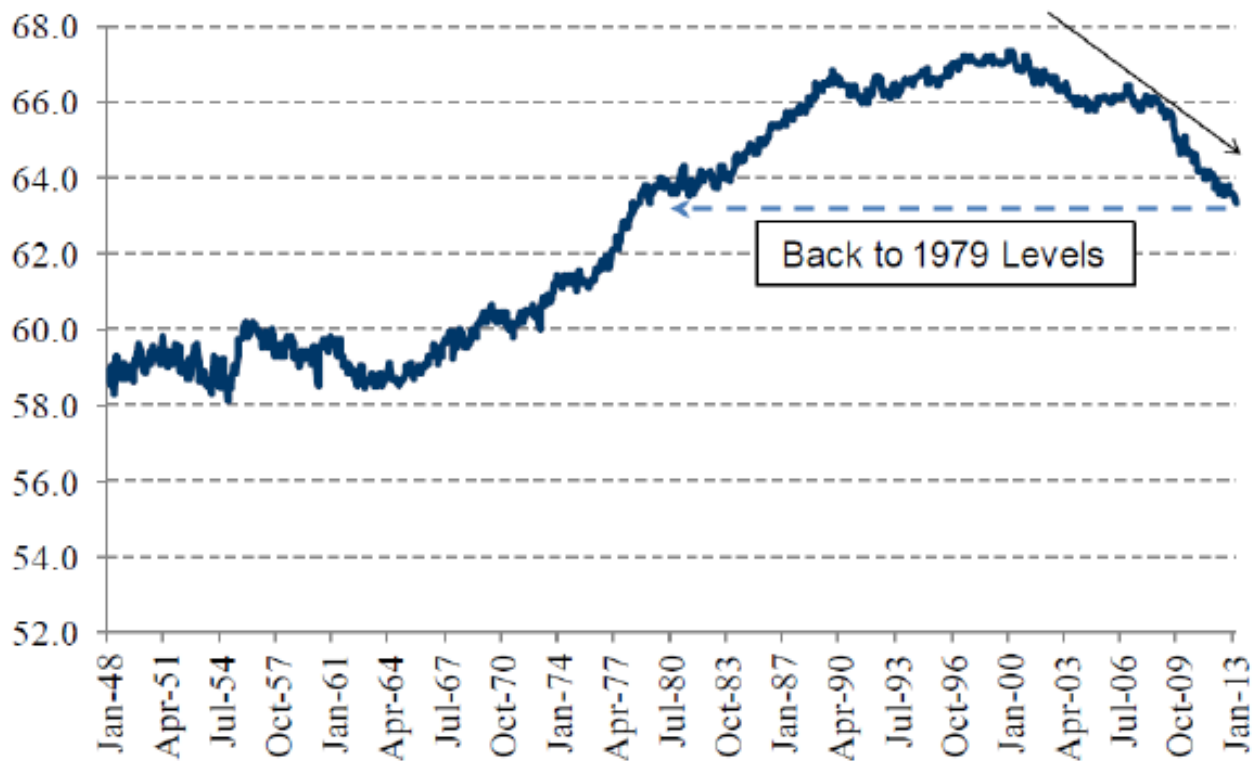


U.S. Unemployment: About 3% of Work Force Has Left the Job Market



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

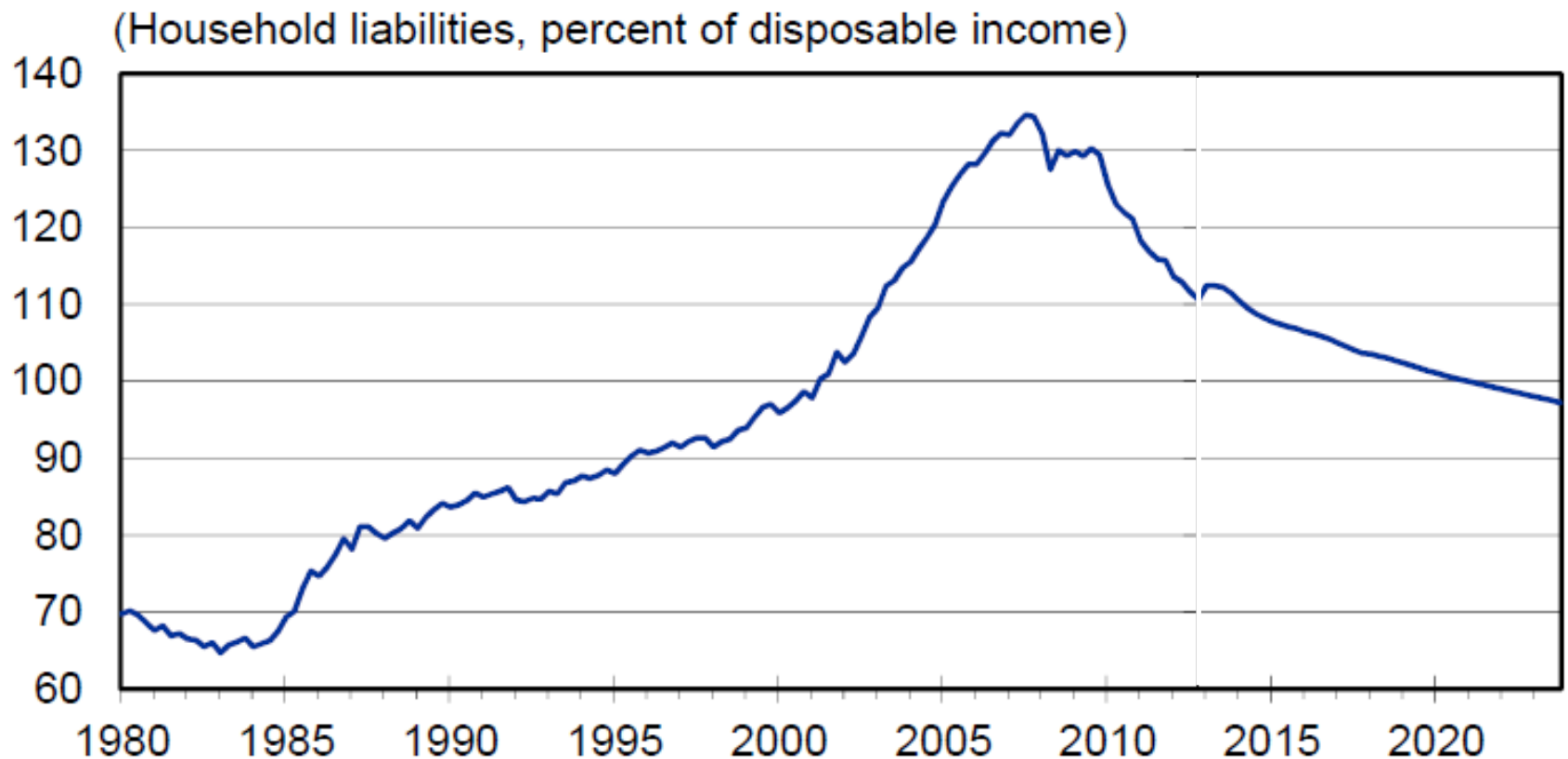
U.S. Workforce Participation Rate, Percent



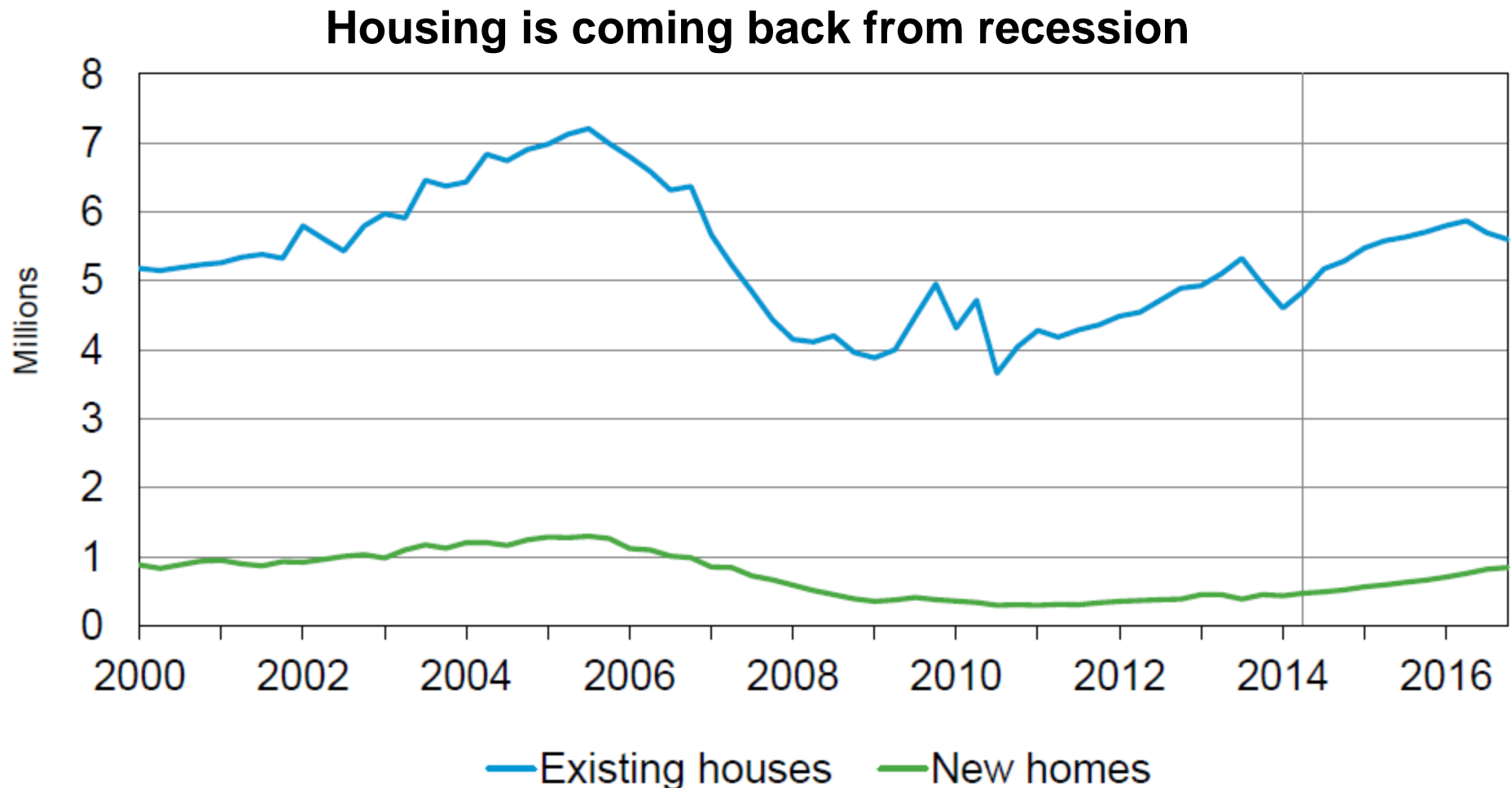
Overall U.S. Workforce Participation Rate Lowest in 34 Years

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

Household Debt Lower, Yet Still Higher Than Before 2003



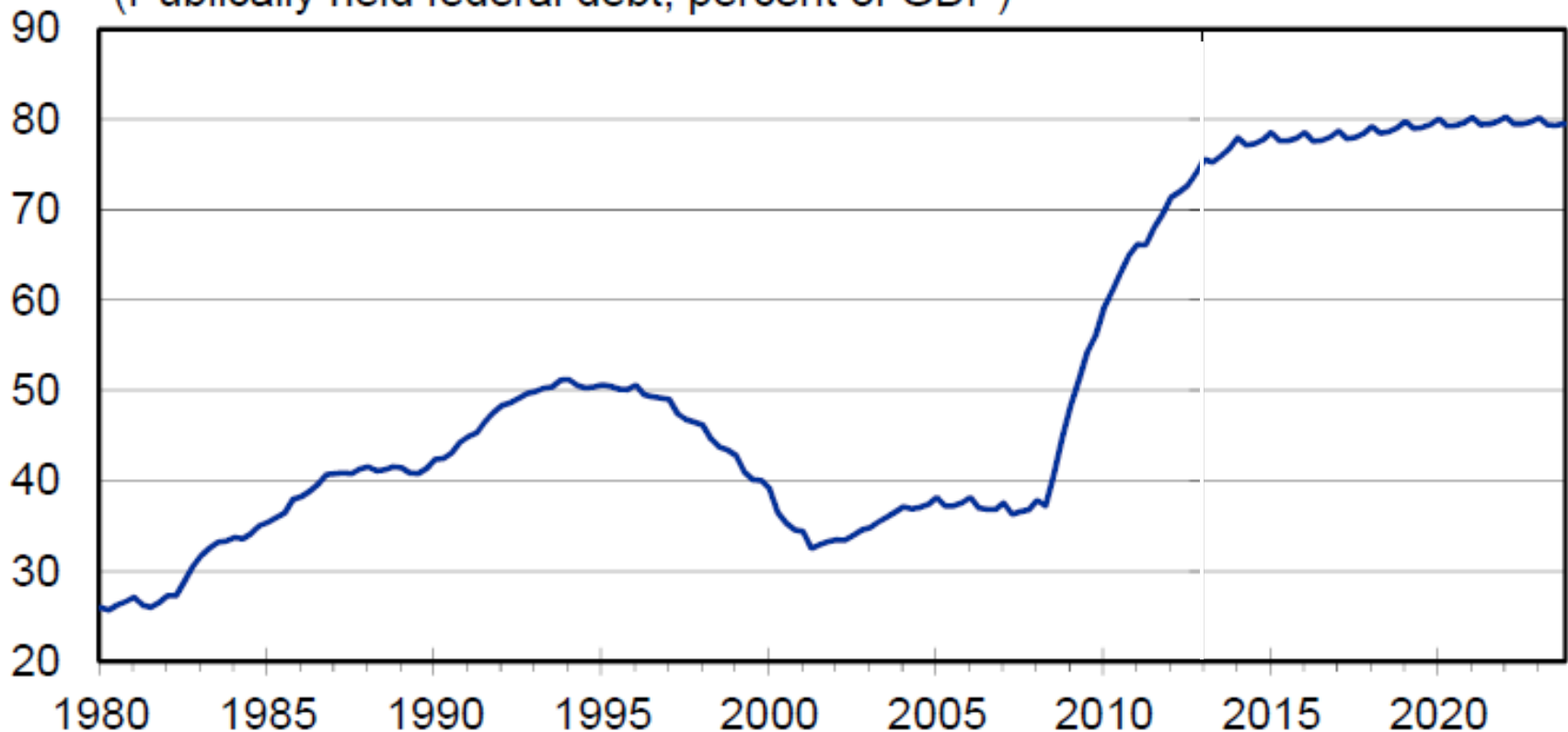
Home Sales are Recovering, Though Not To Pre-Boom Levels. This Affects Trade Flows.



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

Not a Reduction to Pre-Recession Debt Levels

(Publically held federal debt, percent of GDP)



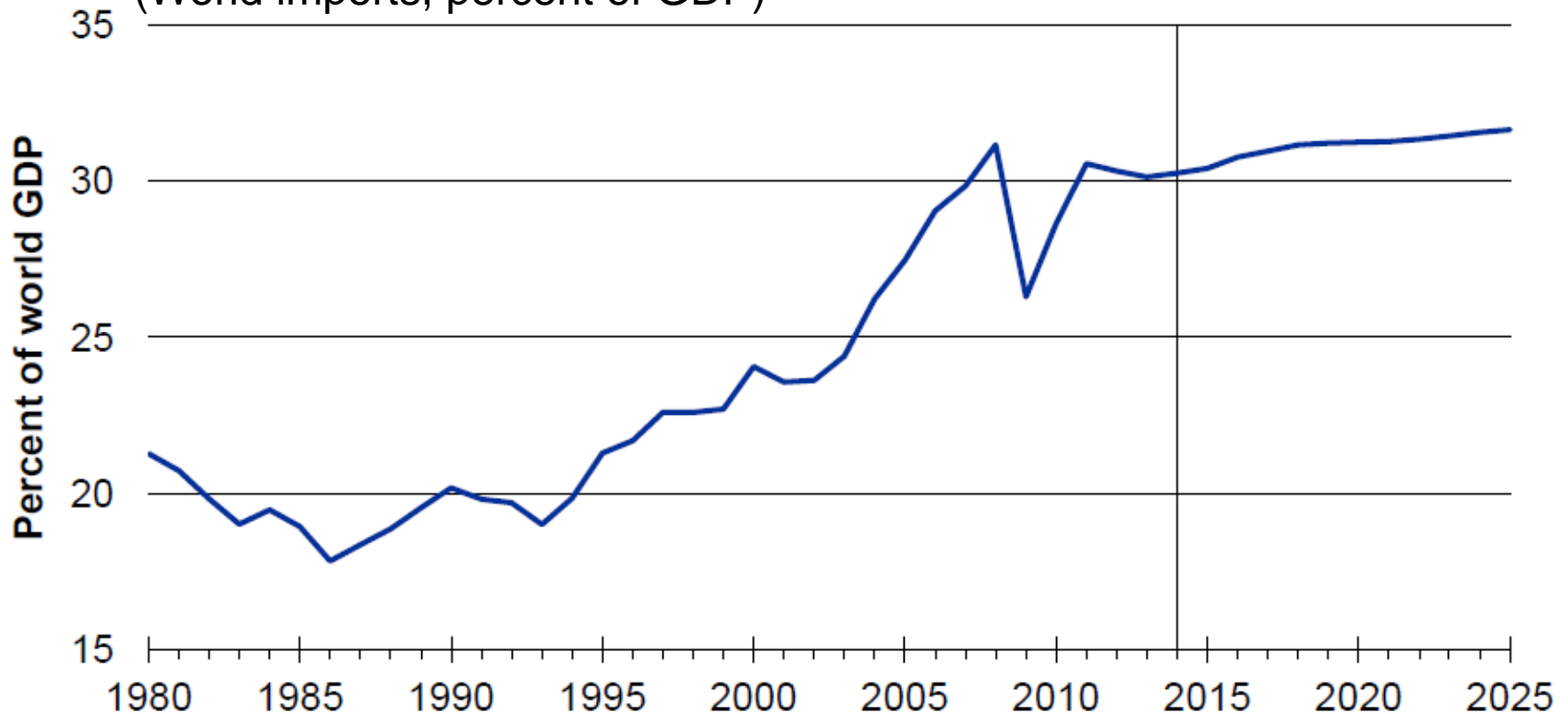
Growth In U.S. Trade Demand Is Coming From Continued Recovery in Private Sector

- **U.S. recovery shift towards private sector drives more trade**
- **Net exports are contributing less to growth as U.S. import demand grows while foreign demand for U.S. exports slows**
- **Consumer spending is up a little, thanks to improvements in employment and wealth effect. Energy sector boosts the economy from lower imports with greater domestic production.**
- **Business is doing well, despite uncertainties, cash flow remains good for most of the private sector**
- **U.S. import growth this year up 3.2% from 1.4% in 2013; U.S. export growth 2.5% in 2014 vs. 2.7% growth in 2013. Both should see over 5% annual growth in 2015**
- **Business and consumer spending has driven port trade demand to surpass the 2007 pre-recession volumes**
- **Trade growth rate remains above overall U.S. GDP growth**

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

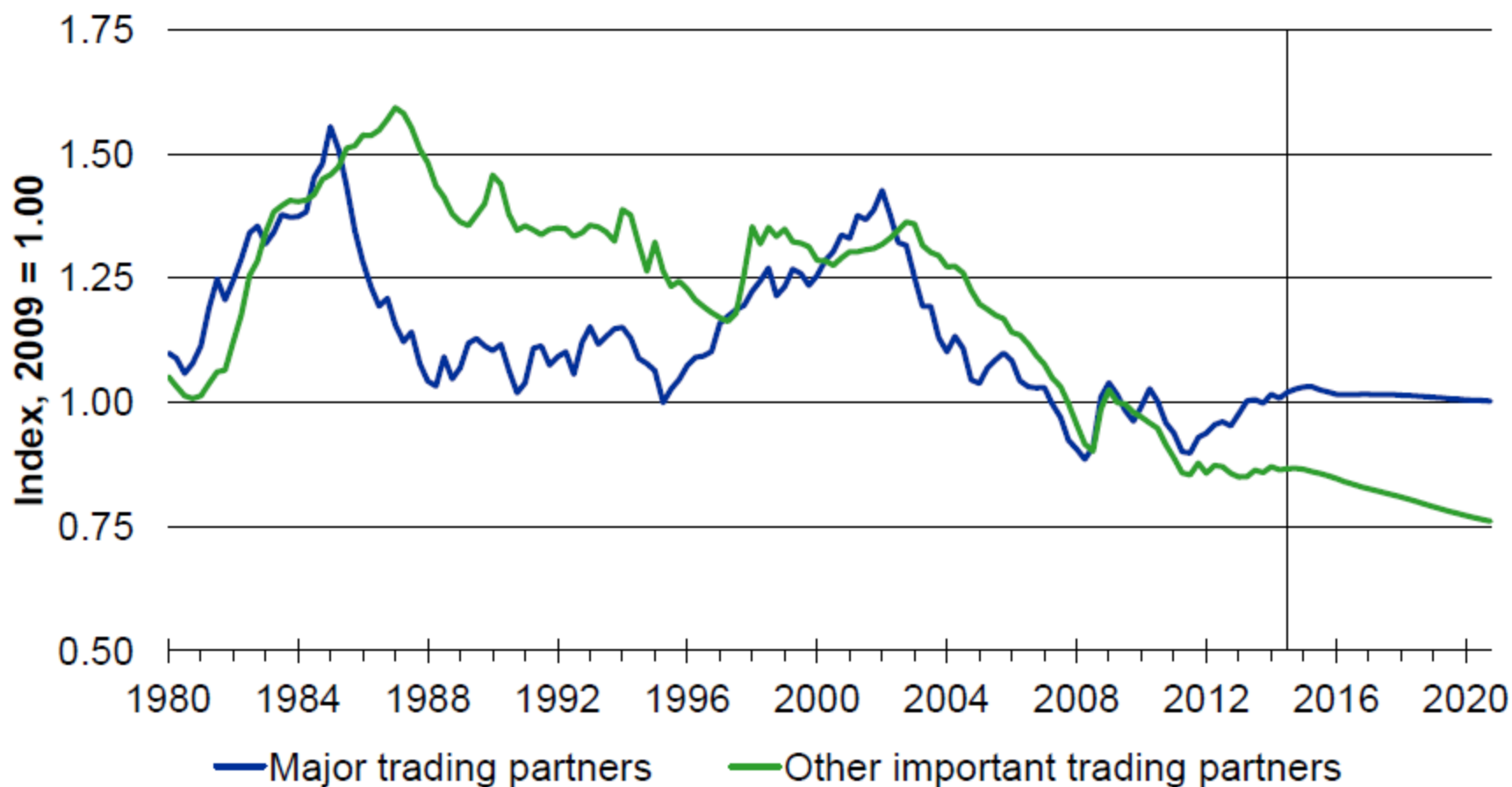
Globalization trend is slowing, not reversing, long-term.

(World imports, percent of GDP)



U.S. Dollar Exchange Rate Impact on Trade Affected by Europe and Japan Since Recession

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 still key to trade yet U.S. export growth potentially faster**
- **Policy factors (fiscal, monetary, trade, security, environmental) significantly affect trade.**
- **Increasing importance of trade to hemispheric economic growth will add to ports' business**

Thank you!

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