

Trade and Economics

American Association of Port Authorities

2015 Marine Terminal Management Training

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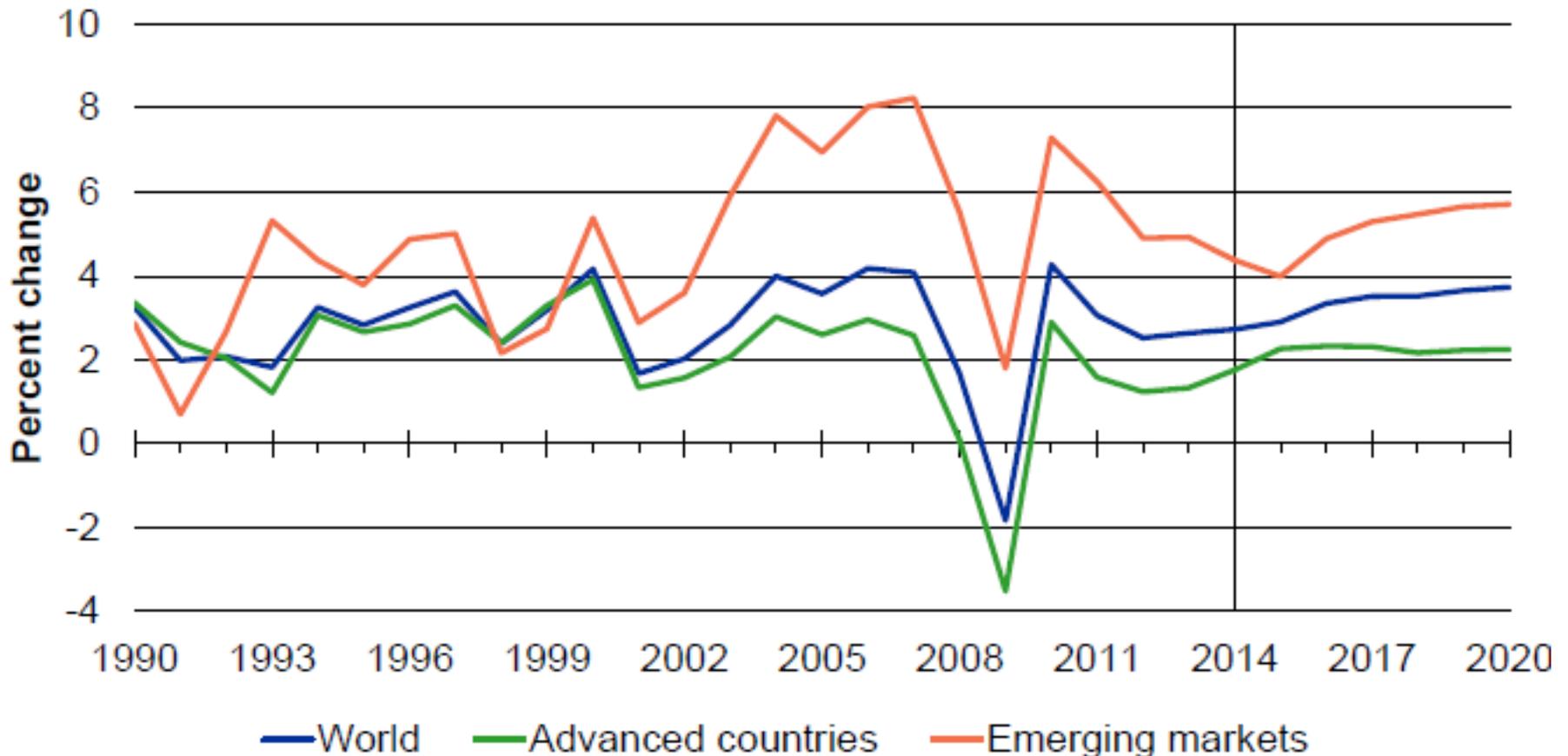
Marine Terminal Demand is Driven by Cargo Demand that Depends on the Strength of the Economy

The Economic Forecast is for Slow Growth in 2015; Slightly More in 2016

- U.S. economic growth moderate, despite many trade partner weaknesses.
- Emerging market growth has slowed, but still growing faster than average of the developed world.
- Commodity prices have fallen – inflation is not a problem due to overcapacity and slack resources in U.S. and the world
- European economies growing weakly, despite monetary policy easing
- Slow government spending, slowly improving employment and restrained consumers and businesses continue to temper growth
- Workforce demographics are a lingering drag on the economy

World GDP Growth Weak, Supported by U.S.; Growth in Emerging Markets is Slowing

(Real GDP, Percent Change)

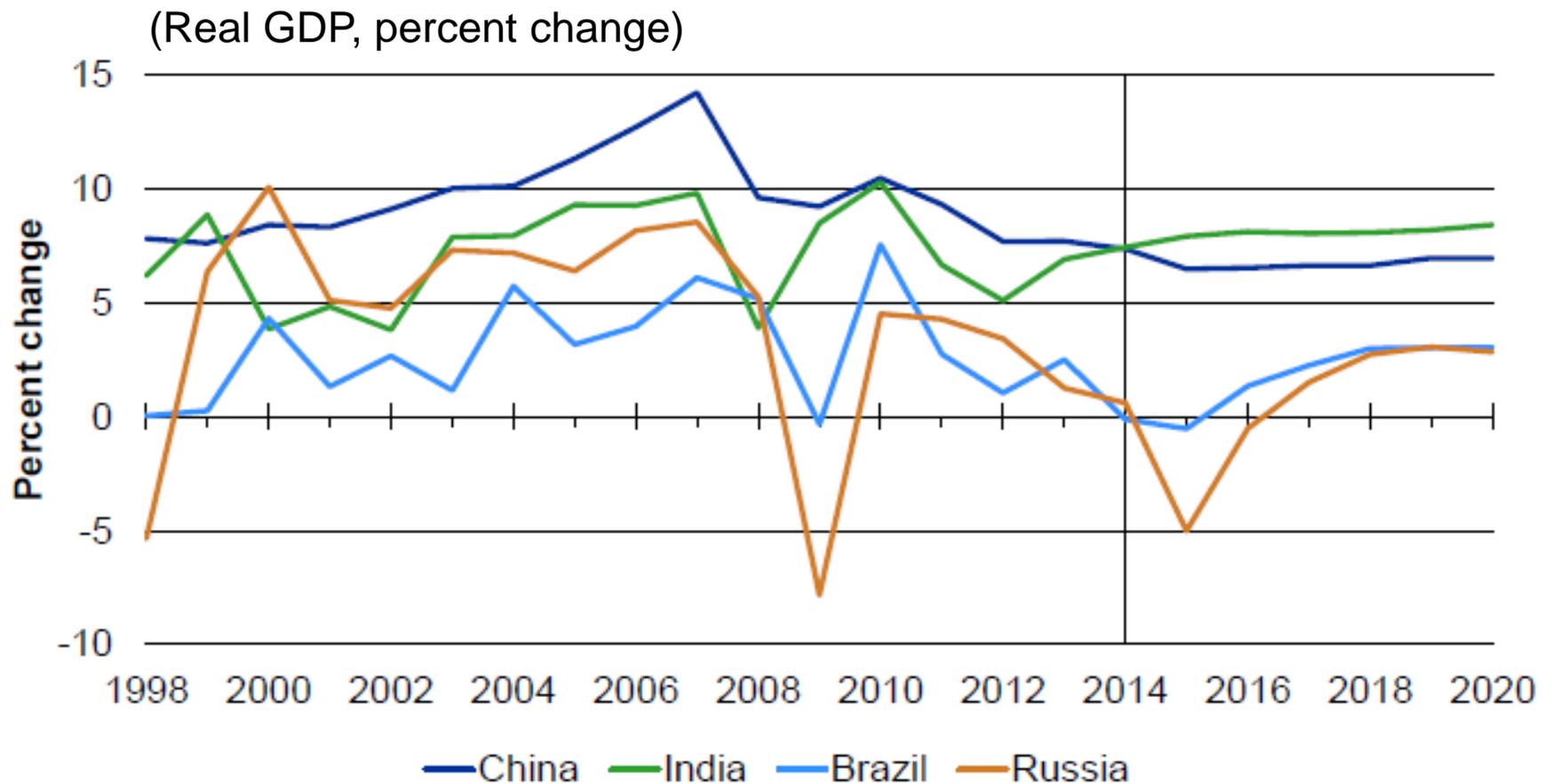


Emerging Market Leaders in Past Years are Now a Drag on Global Growth, Except for India

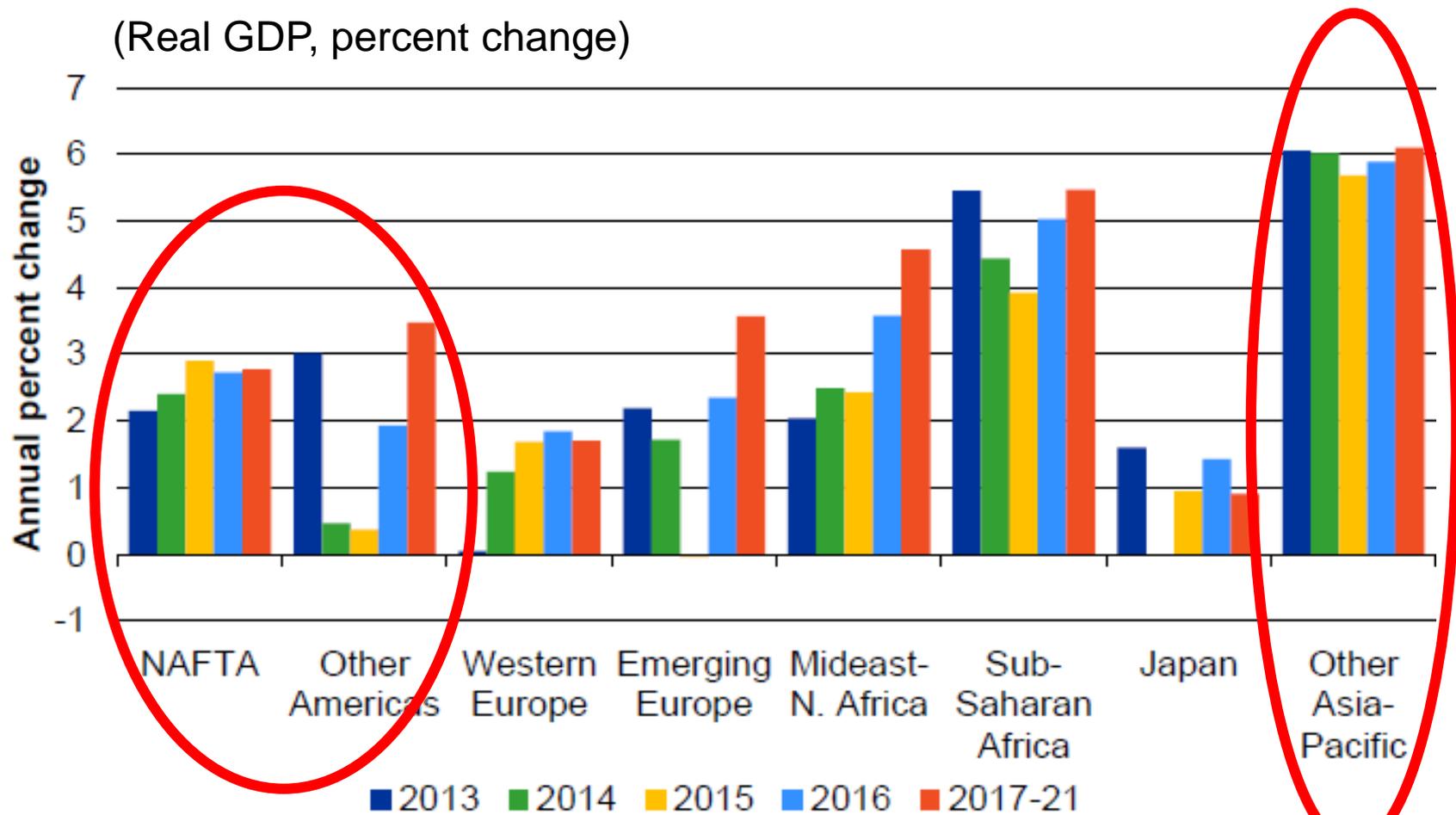
The outlook for the BRIC countries in the emerging markets is weak

- **Brazil's** economy continues to slow with drops in investment and consumer spending as political and fiscal crises impede growth.
- **Russia's** economy is expected to drop further due to low oil prices and trade sanctions.
- **India** with GDP growth of 7.6% in 2015 and over 8% in 2016, is growing faster than China and the strongest of these big four economies.
- **China's** growth slows to 6.5% for 2015 from housing, debt, and manufacturing challenges more than the equity market declines.

India Growth Now Higher as Other Big Emerging Markets Slow



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



South American Economic Growth is Slowed in 2015 by Large Country Policy Problems

Economic Growth Affects Regional Trade Growth

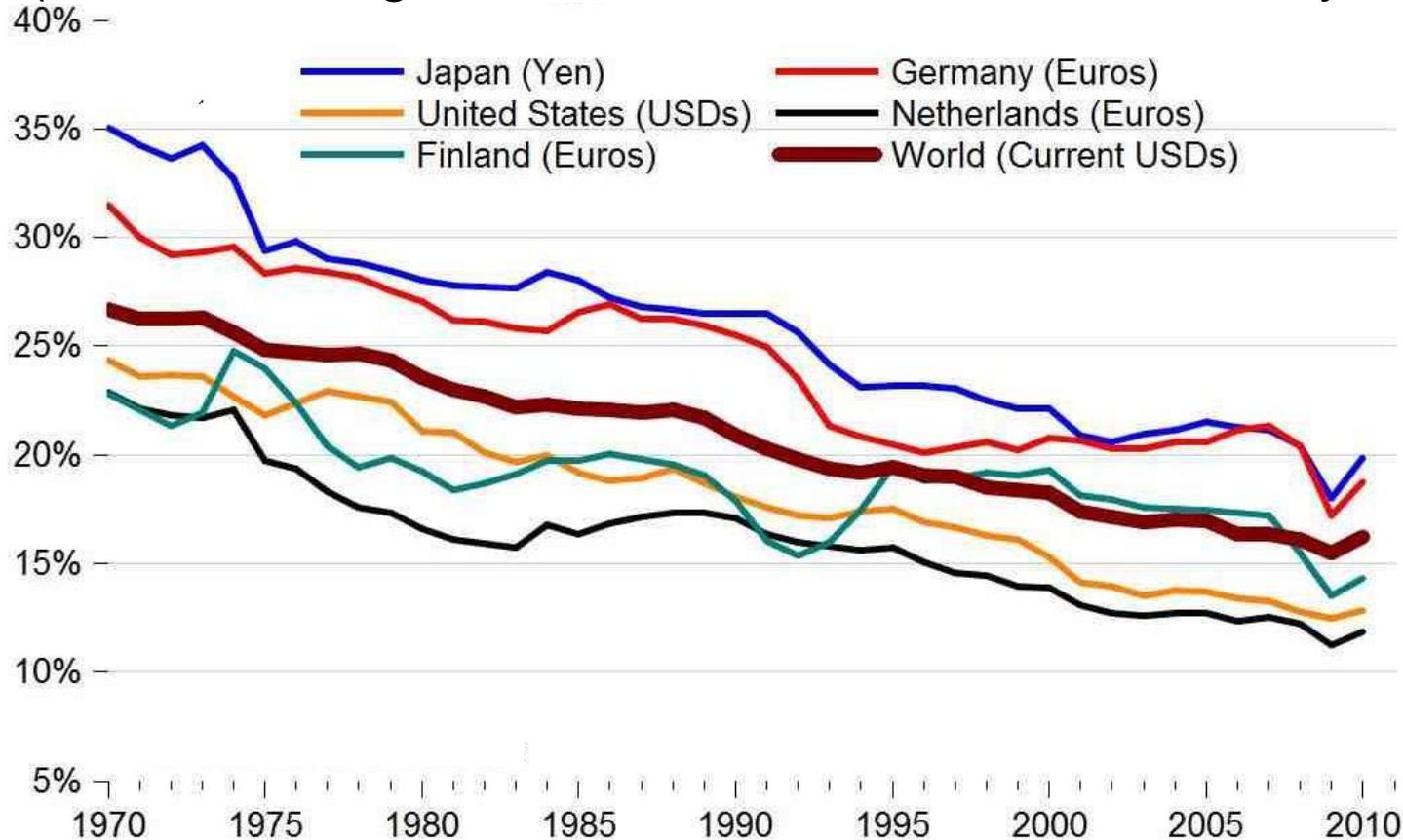
- South America's economic growth slowed in 2014 - 2015, reflecting weak economies in Argentina, Brazil and Venezuela
- Brazil suffers from high interest rates, uncompetitiveness, declining business and consumer sentiment
- Argentina's growth stalled due to policy problems, inflation, foreign-exchange controls, and import restrictions that have stifled investment.
- Venezuela's economy continues in a protracted recession due to high inflation, declining currency reserves, low oil prices and government intervention in many sectors.

Consumption in Developed Economies Still Key to Global Demand But Less Long-Term

- 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 37% 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., even as China's growth slows
- 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% this year from 38% in 2002.

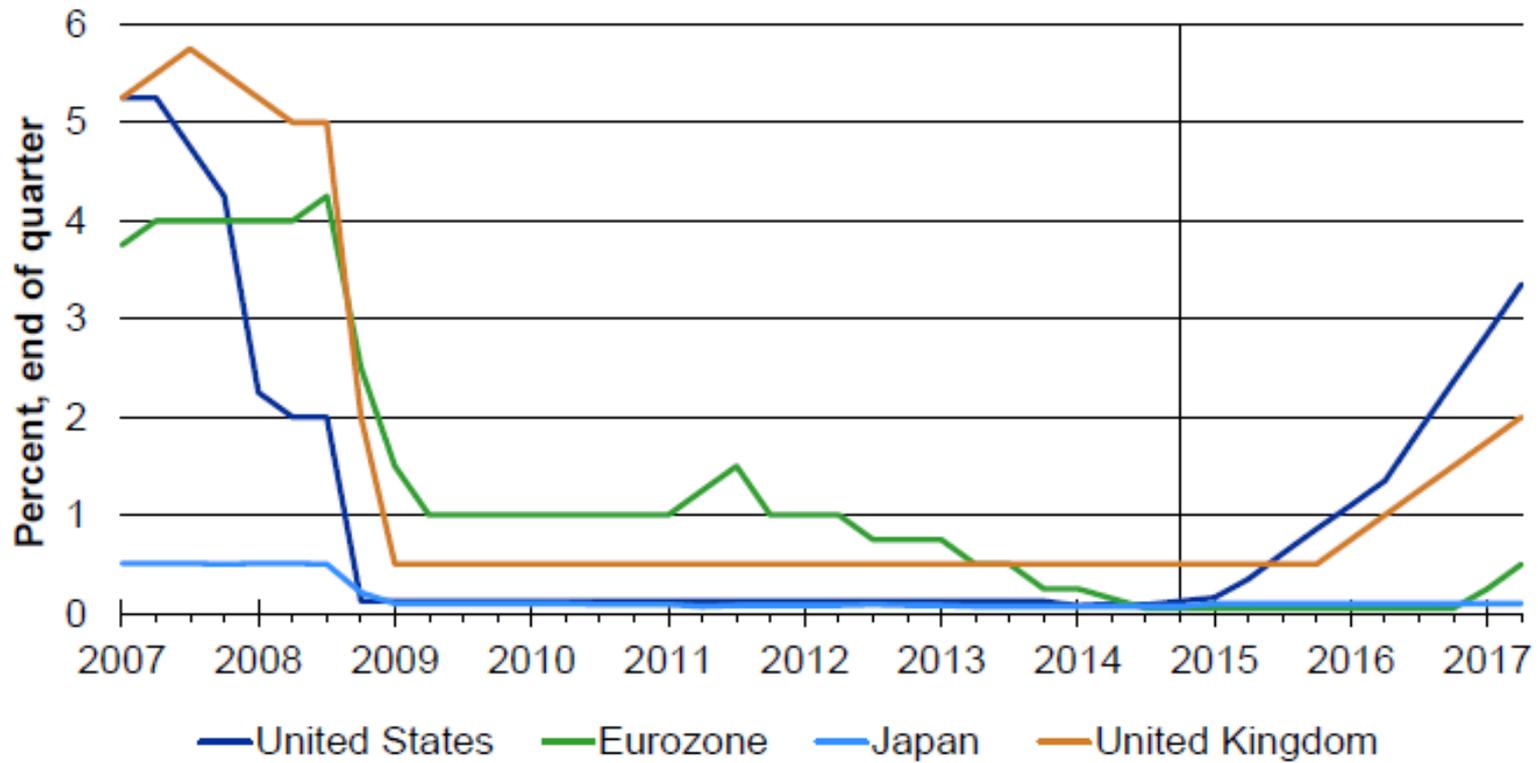
Manufacturing Decline Long-term in Share of the World Economy as Services Grow

(Manufacturing as Share of GDP, National Currency Units)



Monetary Policy Remains Loose Throughout the Developed World

(Policy Interest Rates, Percent End of Quarter)



U.S. FRB May Delay Expected 2015 Rate Increase

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

Fiscal policy is still addressing sovereign debt levels

- In the U.S., government fiscal policy has tightened the last four years;
- 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 with Greece adding to the strain on budgets

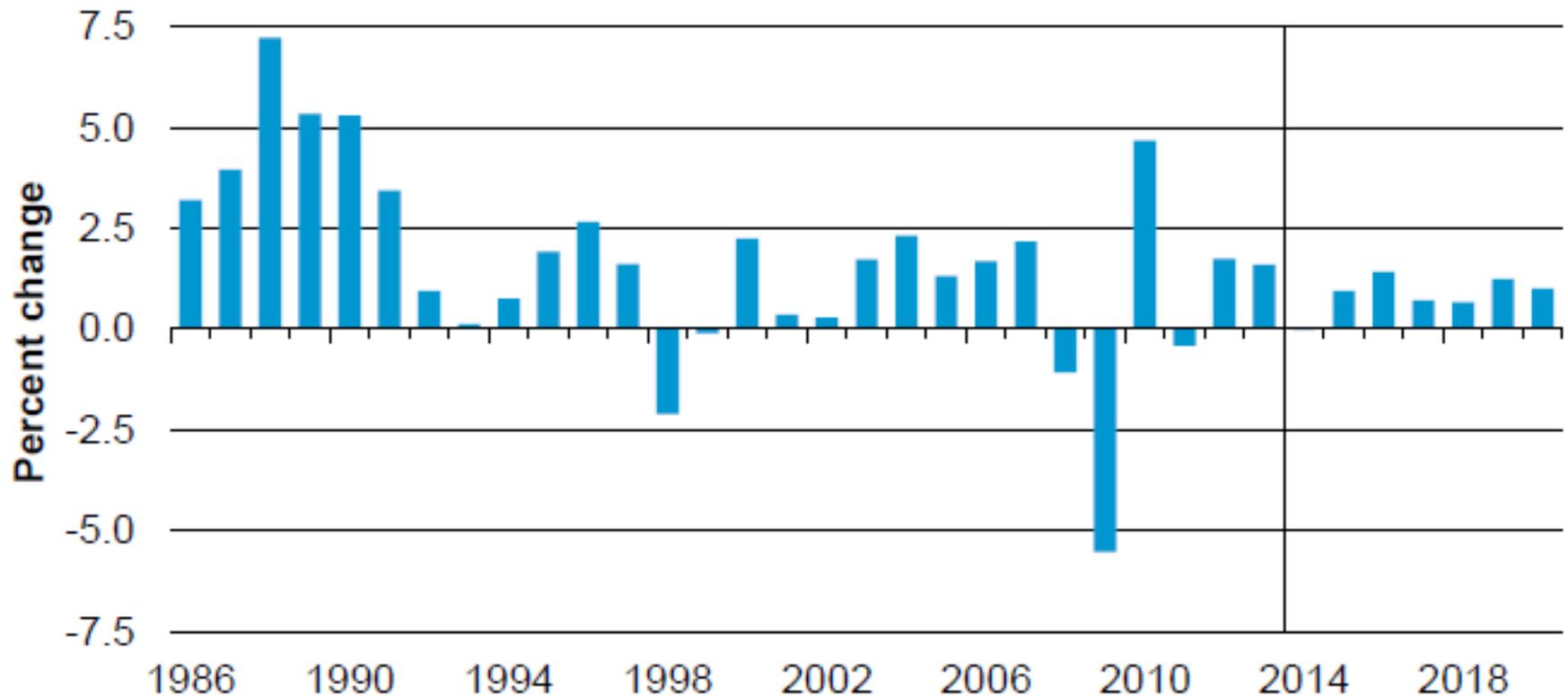
Japan's Policies to Stimulate the Economy, Fight Deflation and Boost Trade Haven't Worked Well

Stimulus Measures Fighting Recession Cycle Where Japan has had Four Recessions in Six Years

- Sustaining Japan's recovery will depend on export performance and how well the government implements further stimulus programs and structural reforms
- The Bank of Japan failing at reaching a 2% inflation target despite higher monetary stimulus
- Sales tax increase last year hurt consumption so that another tax increase has been delayed until 2017.
- GDP growth forecasted at only about 1% in 2015
- Long-term potential economic growth is limited

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

(Real GDP, Percent Change)

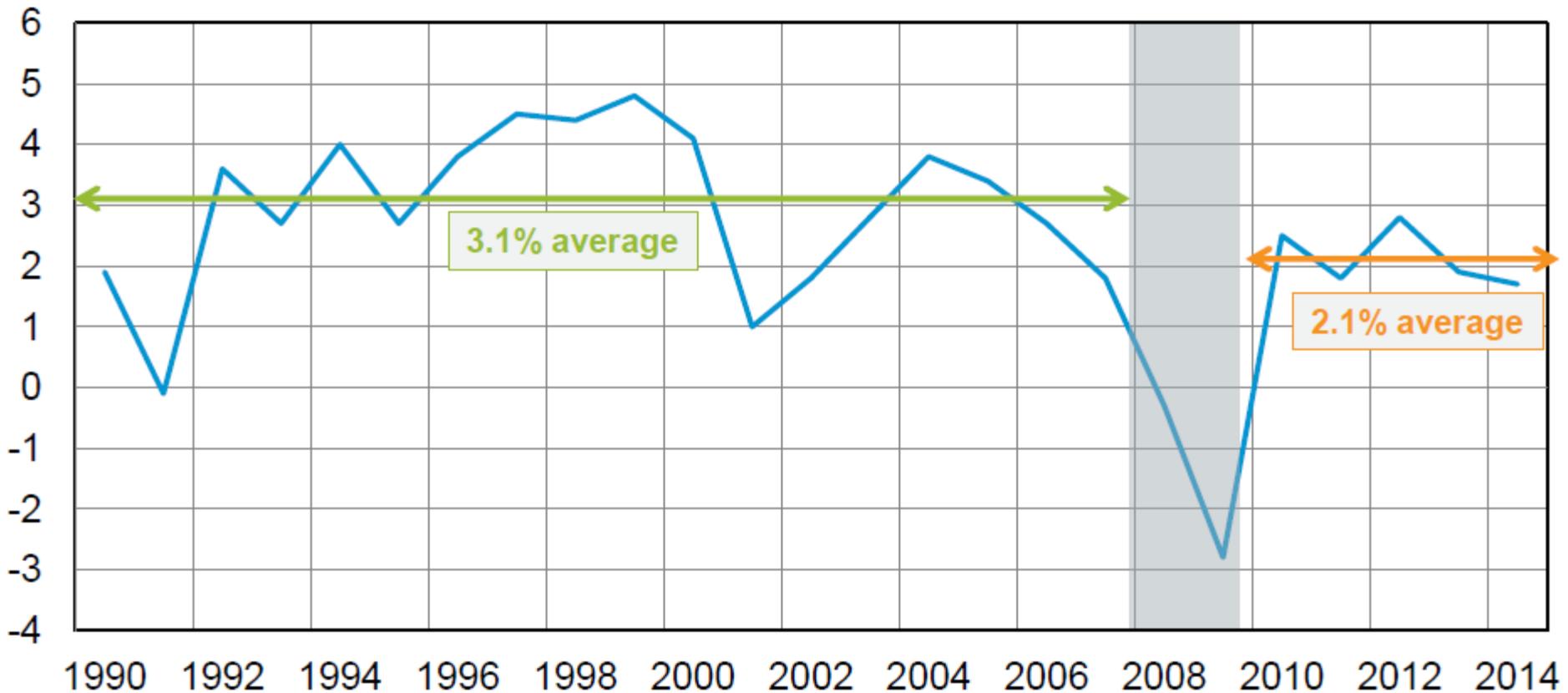


China's Economy is Still Extremely Important to World Trade as Strong Growth Slows

- China's recent burst of credit and stock market bubbles, raise concerns of broader vulnerabilities in real estate, banking, and local government
- Further fiscal stimulus likely to support growth, but exports are weaker
- The large government market intervention and monetary policy should limit severity of downturn, even as GDP growth falls below 7% annual growth target
- Fiscal stimulus and exchange rate declines will be supplemented by more trade promotion to increase export-related growth
- China's export-oriented growth model is at its limits; to sustain growth, China is shifting to focus on consumer demand, services and higher-value manufactures
- Downside risks if government and businesses panic lead to more disruption

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

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

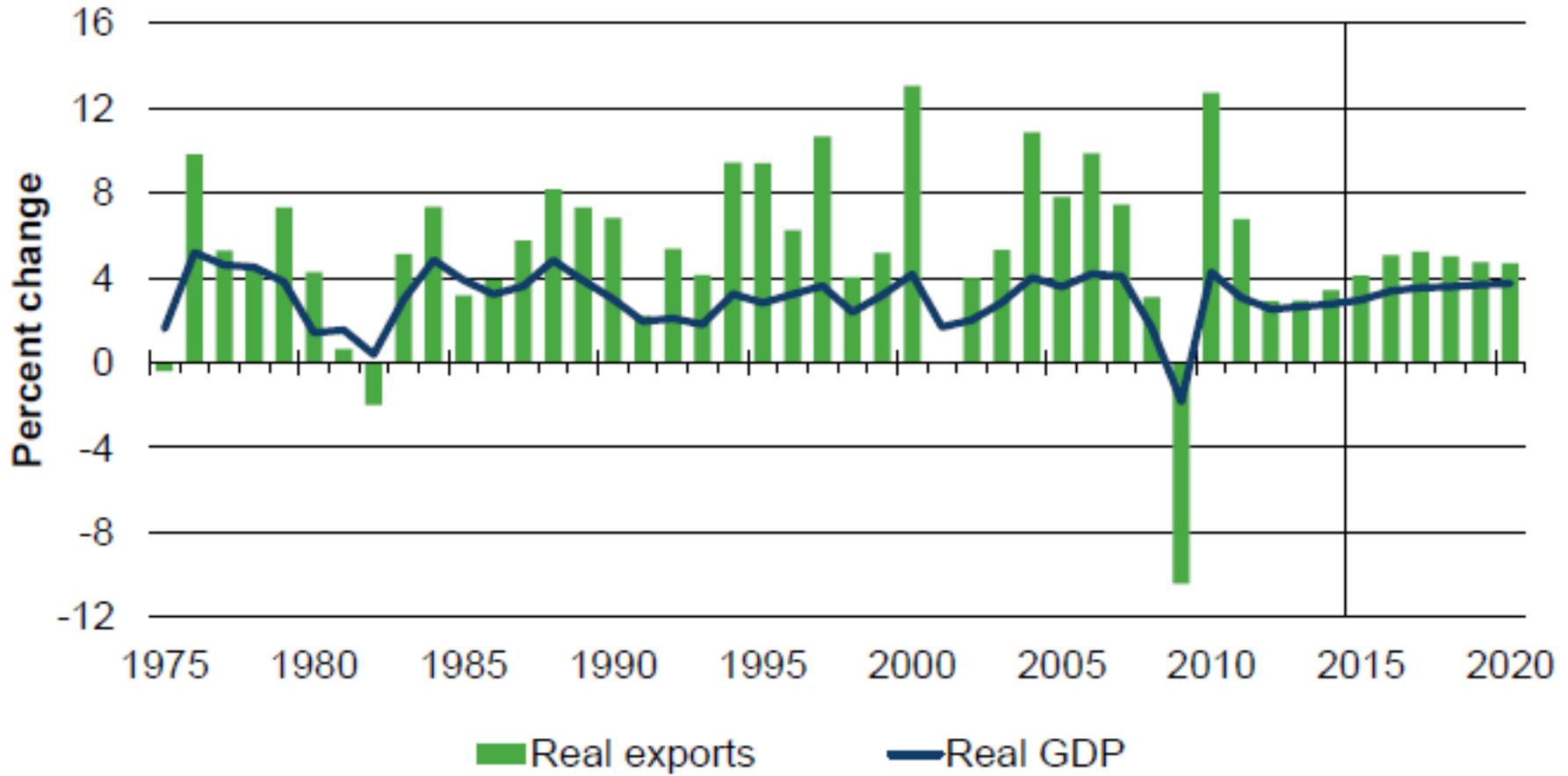


Growth In U.S. Trade Demand Is Coming From Growth in Consumption

- U.S. economic growth driven by the private sector generates more trade
- Net exports are contributing less to GDP growth as U.S. import demand grows while foreign demand for U.S. exports slows
- Consumer spending is up, thanks to improvements in employment and wealth effect. Energy sector weakening with lower oil prices. Oil 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, with pockets of weakness such as oil exploration, coal
- 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

Still-Increasing Importance of Trade: Trade Grows Faster than the Overall Economy

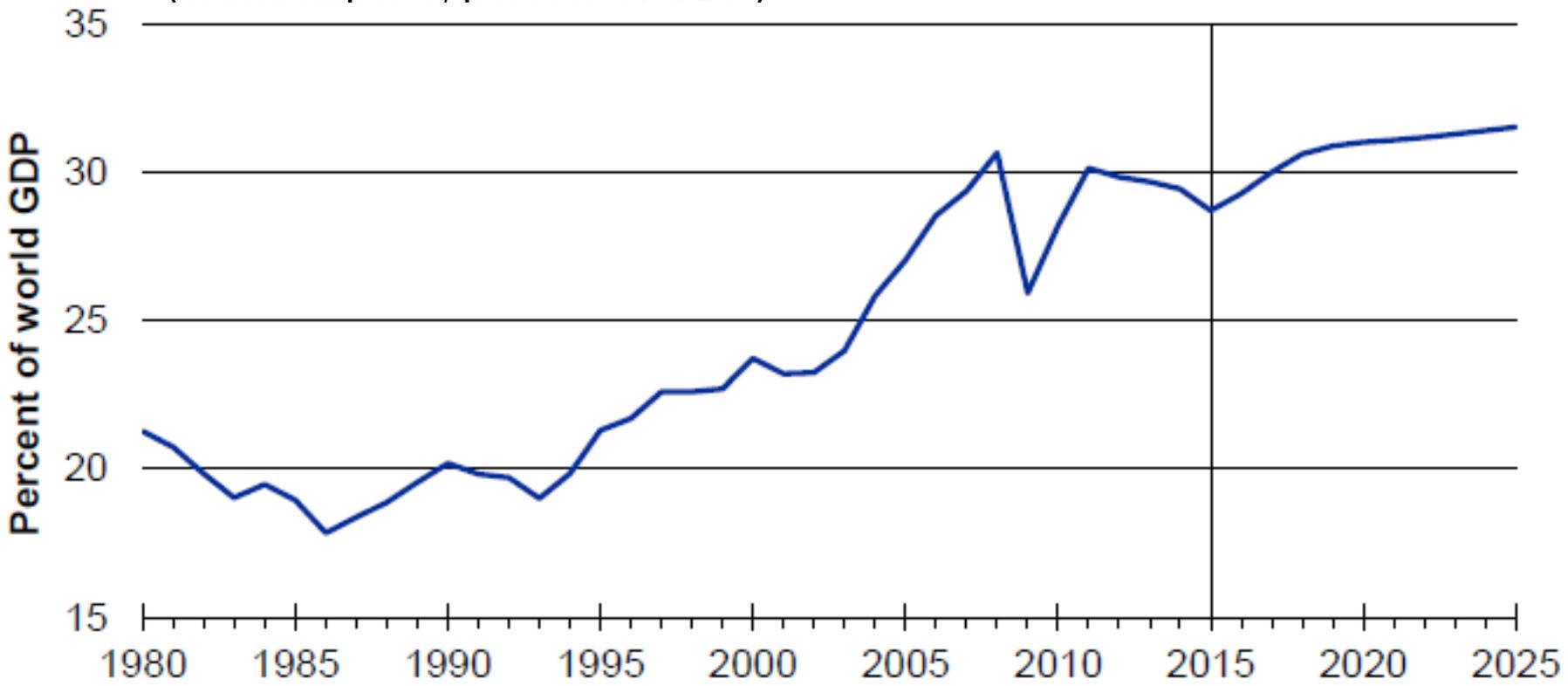
(Growth in World Exports, GDP)



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

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

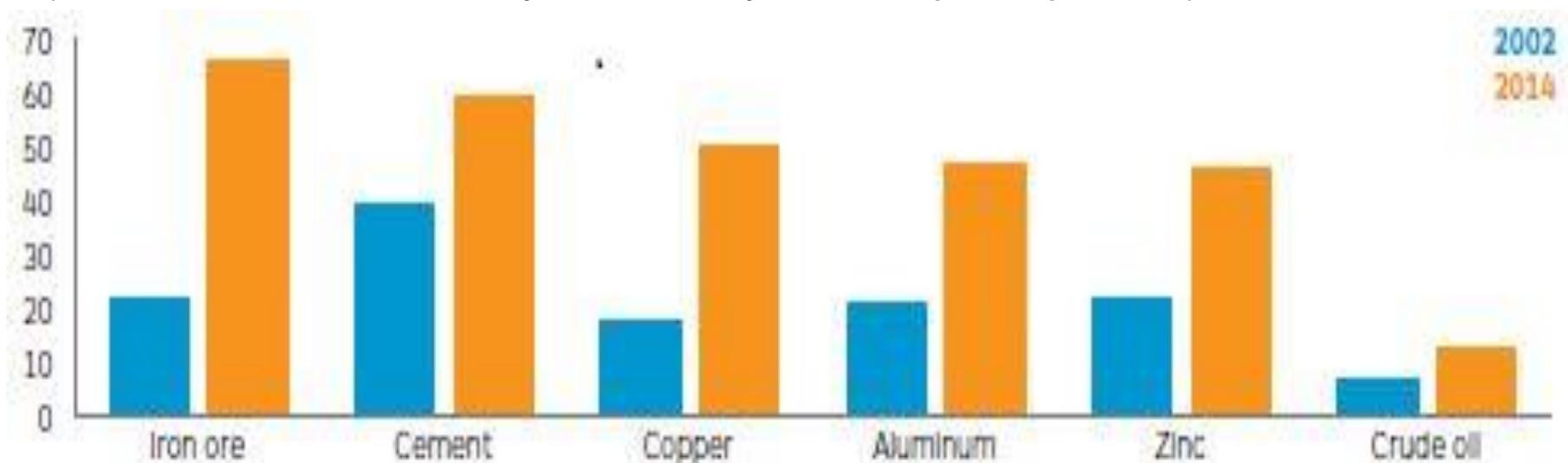
(World imports, percent of GDP)



World Resource Trade Since 2001 Boosted by China's Demand After Ascension to the WTO

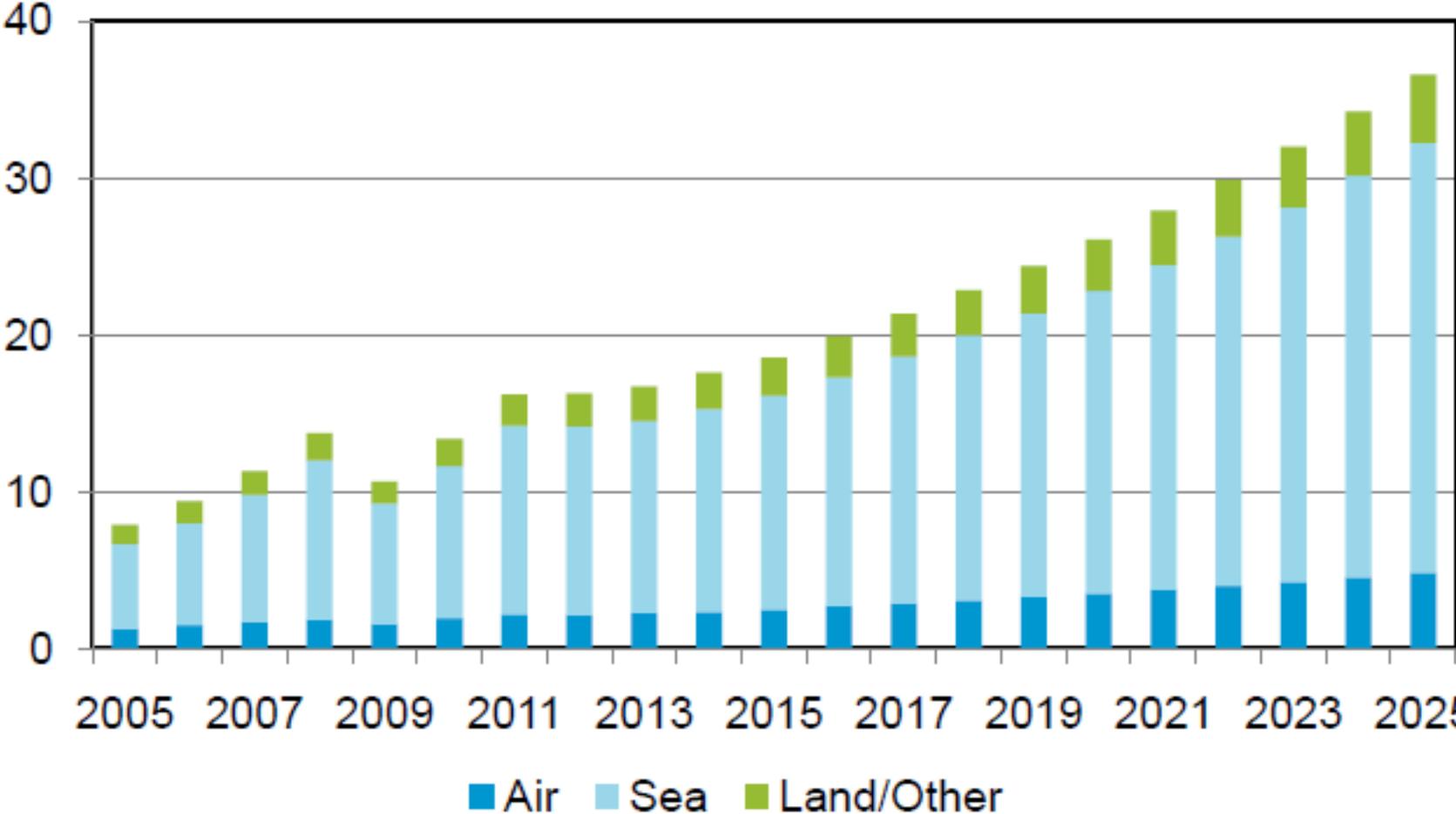
With China's growth slowing, trade prices and trade demand affected

(China share of World, Key Commodity Consumption, percent)



Sea Trade Dominates Global Trade Growth

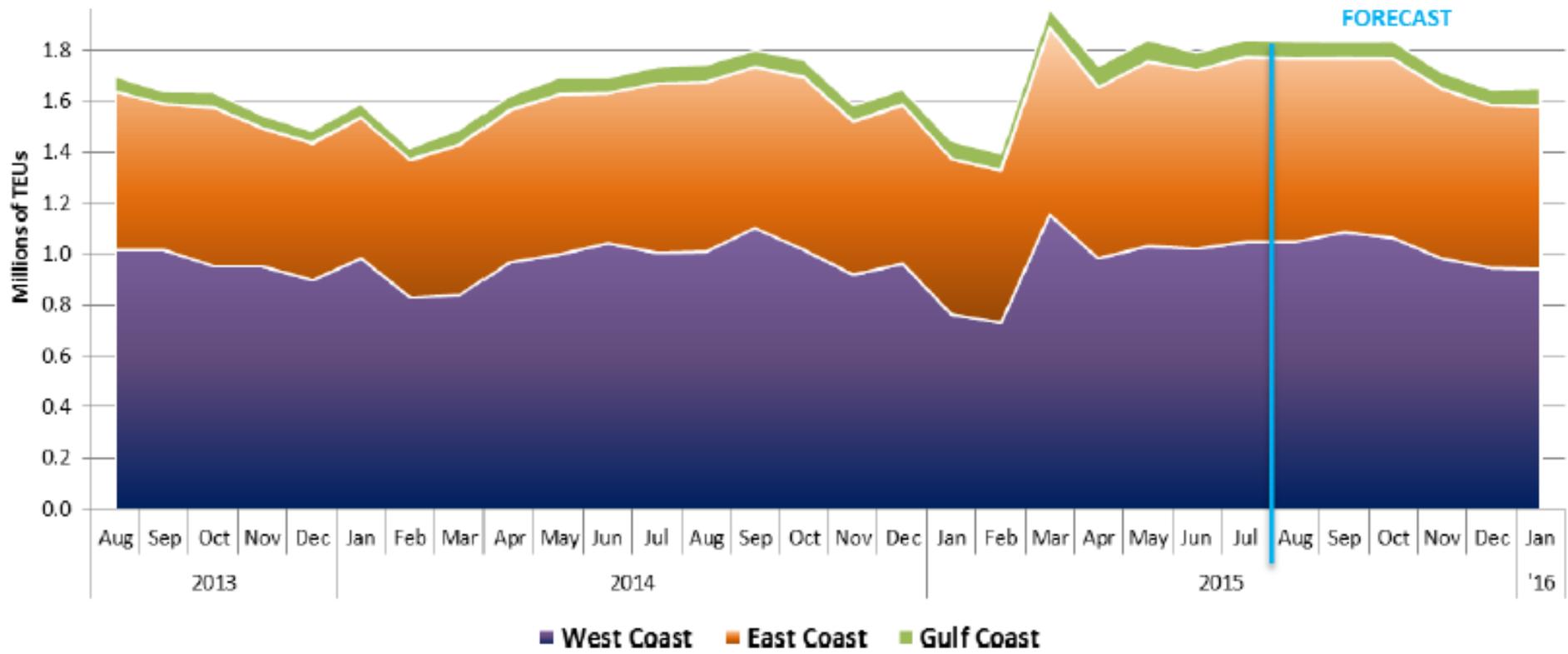
(Value of World Trade by Mode of Transport, Trillions of U.S. Dollars)



Congestion at U.S. W. Coast Container Port Led to Market Shares Shift To East & Gulf Coasts

West Coast Share Loss Under 5%, Partially Re-gained

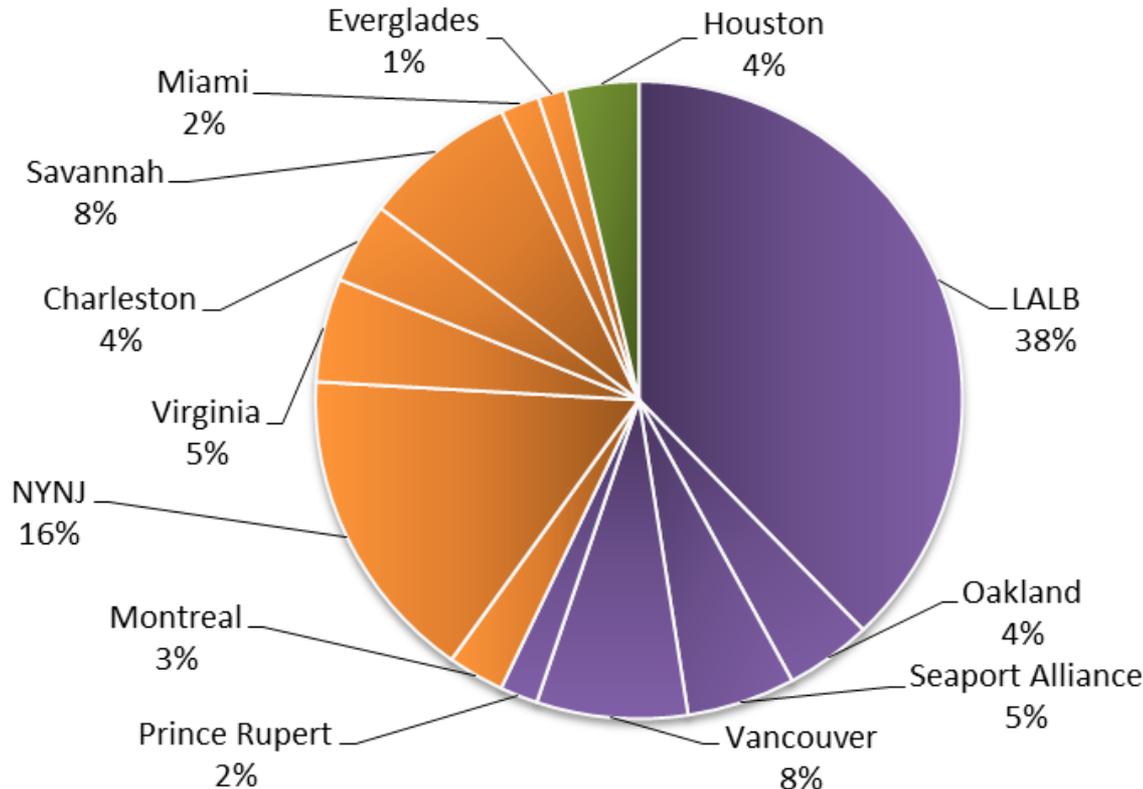
(North American Containerized Imports, TEU share, percent)



North American Container Traffic Shares Concentrated at a Few Large Ports

West Coast Still Dominant, East Coast Growing

(North American Containerized Imports, port volume TEU share, percent)



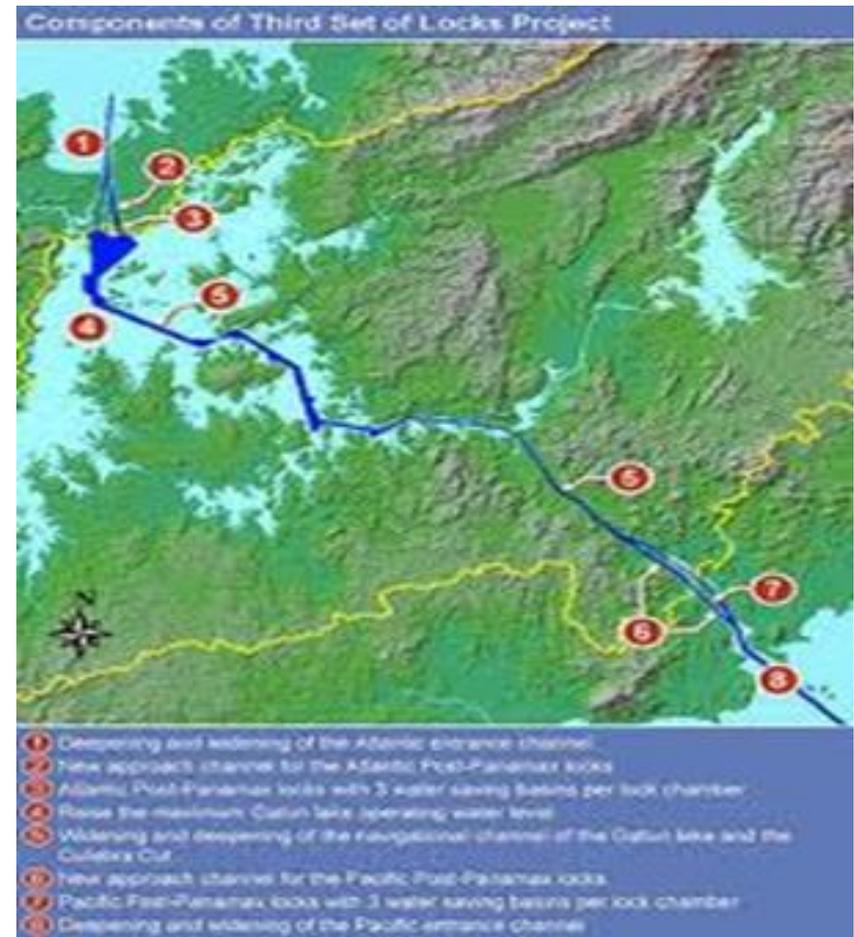
U.S. Dollar Exchange Rate Impact on Trade Affected by Weaknesses in Other Economies

Recent Dollar Strengthening Boosts U.S. Imports; Dampens Exports



Panama Canal Expansion Trade Impacts

- Much of world fleet size and North American distribution center relocation impact already felt
- Toll increases mean Panama captures a share of the potential economies-of-scale savings
- Rapid increase in number of New Post-Panamax ships that will not fit through new locks limits world impact
- Strong competition from North American railroads and newly-expanded Suez route alternatives
- Potential hemispheric-impact on Americas-trade costs



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. exports now facing weak demand
- 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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