Outlook for the Global Economy and Trade

American Association of Port Authorities

2016 Commissioners Seminar

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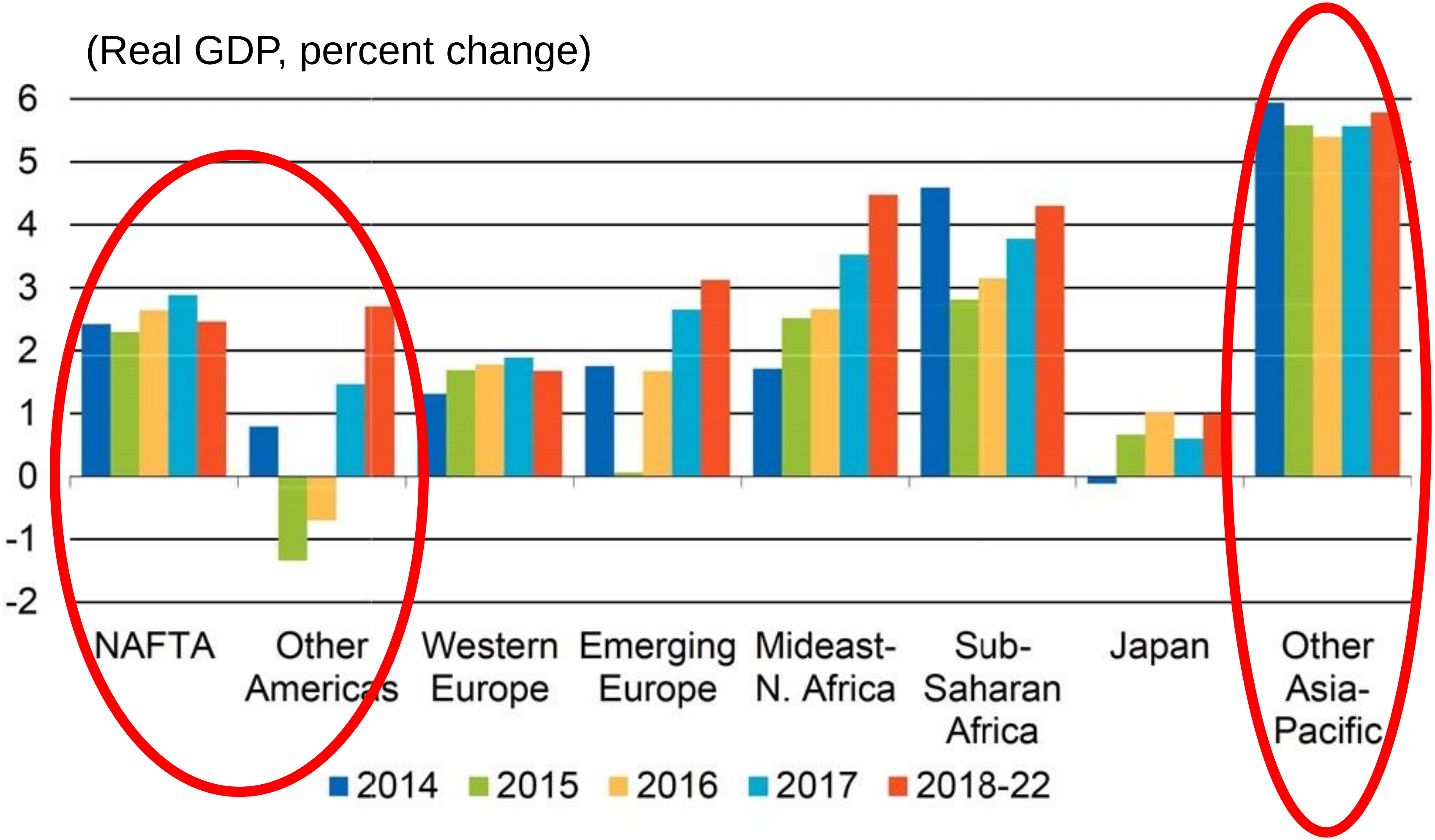
Port Cargo Volume is Driven by Goods Demand that Depends on the Strength of the Economy

The Economic Outlook is for Weak Growth in 2016

- U.S. economy avoids recession despite much trade partner weakness
- Increased U.S. government spending, slowly improving employment and consumer spending continues to support growth
- Commodity prices near bottom of cycle – inflation is not a problem due to overcapacity and slack resources in U.S. and worldwide
- European economic growth is weak, despite monetary policy stimulus
- Emerging market growth has slowed with drops in commodity prices
- Downside risks to forecast have increased and are substantial

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



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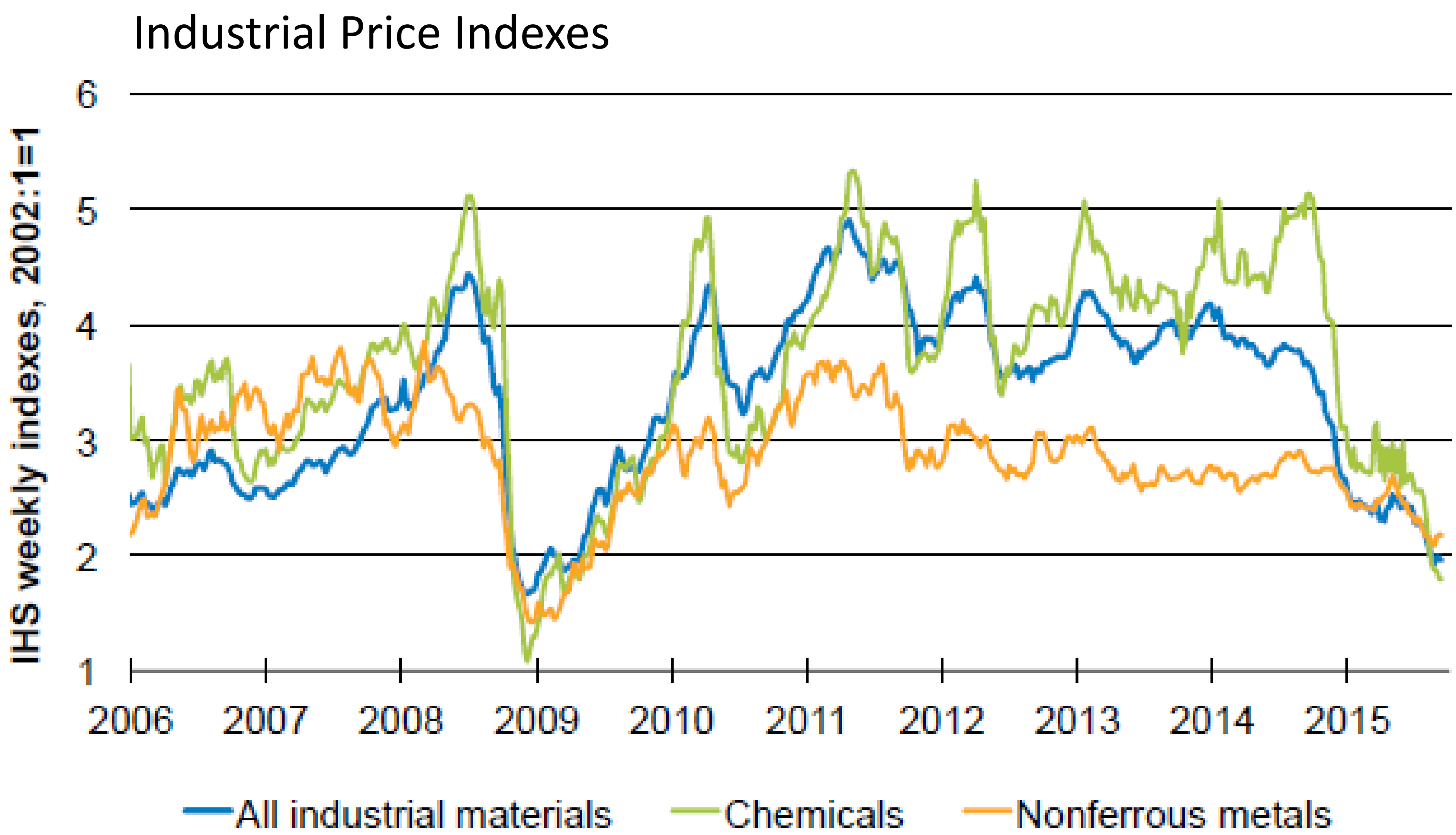
Source: IHS

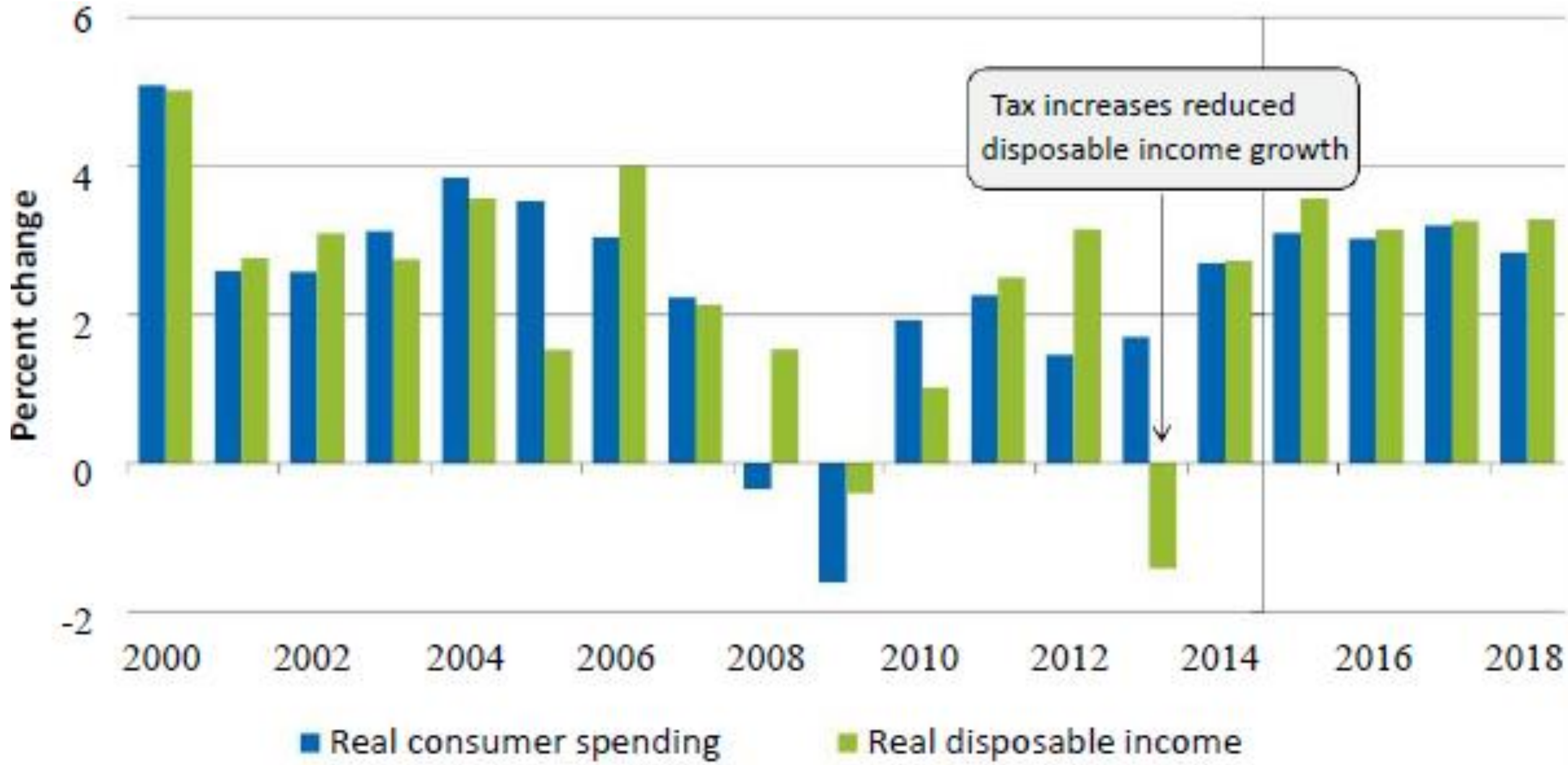
World Economy Adjusting to Commodity Price Declines That are Close to Recession Lows



Source: IHS

U.S. Real Consumer Spending Increases, Enabled by Increased Disposable Income

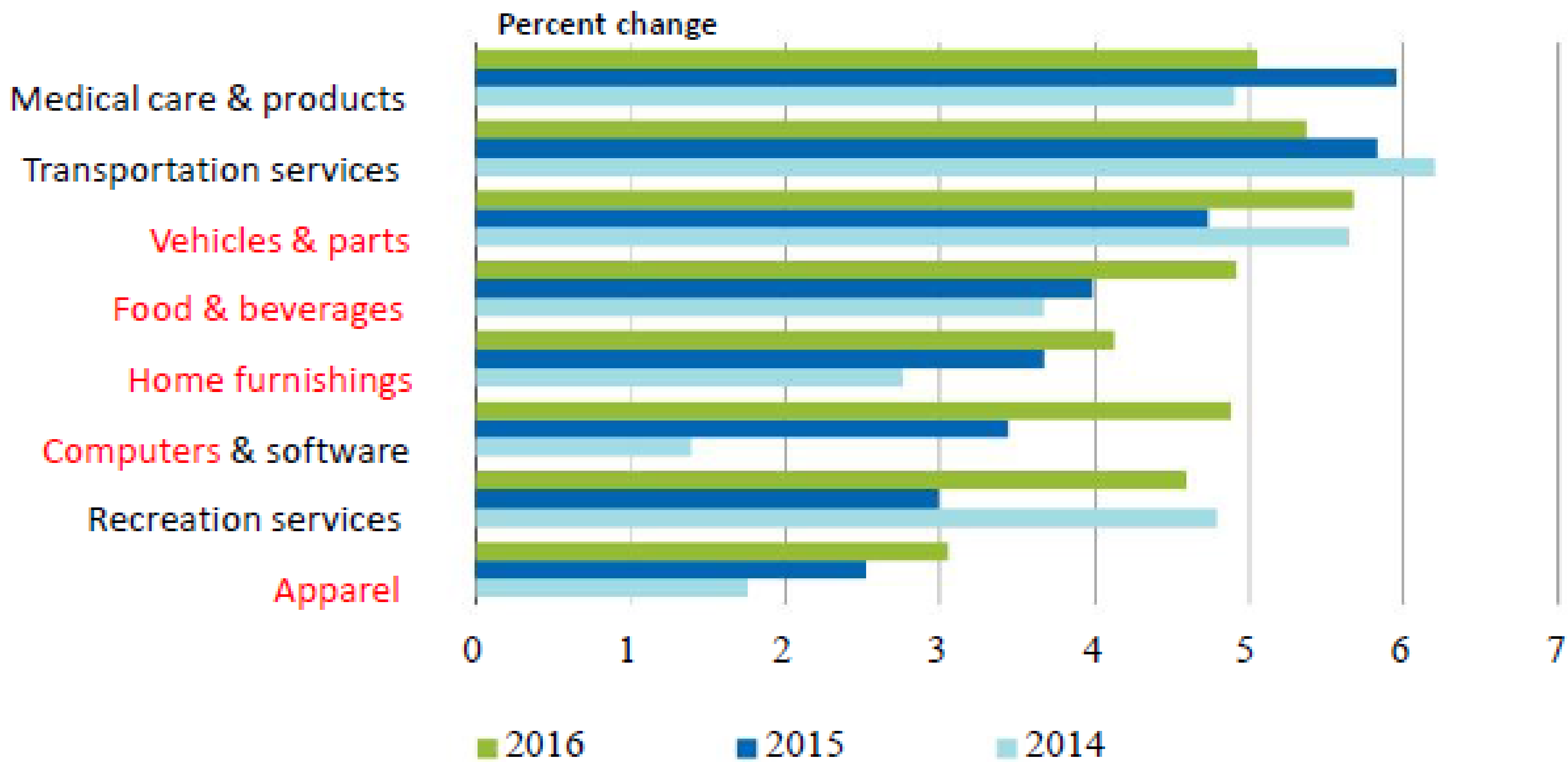
The key to the U.S. economy and trade demand is consumer spending.



Source: IHS

What U.S. Consumers Spend Income On Matters; Goods Purchases Drive Import Trade Growth

U.S. consumer spending growth categories in red more tied to goods imports



Source: IHS

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

U.S. Dollar Appreciation Boosts U.S. Imports; Dampens U.S. Exports

Source: IHS

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U.S. Dollar Strength Varies By Trade Partner Country

- In the past 12 months the dollar has risen 121% against the Russian ruble, 76% against the Brazilian real, and 51% against the South African rand.

- Impacts are immediate. Example: after growing for 5 years, U.S. agriculture exports dropped 8.3% in 2015 as farm products lost price competitiveness.

- Brazil, Australia, Argentina, and Canada all took market share from U.S. exporters in 2015.

- U.S. trade deficit pulls dollar down, eventually.

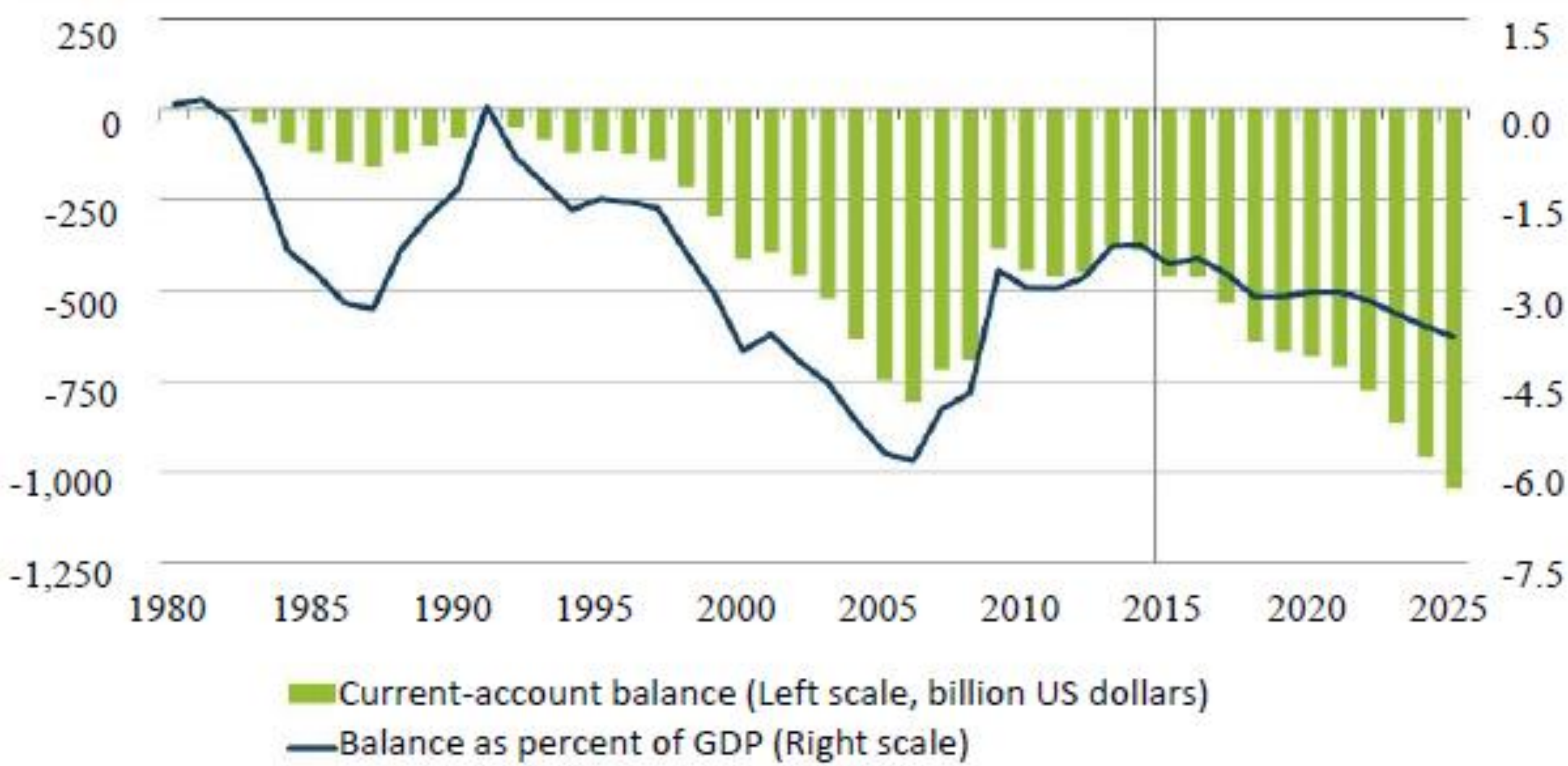
U.S. Manufacturing Weakness from Decline in Energy Exploration and Exports and High Inventories

U.S. industrial production is an indicator of the volatility of goods flow

Source: IHS

The U.S. Importing More and Exporting Less Will Increase the U.S. Trade Deficit Again

U.S. Current Account Balance Drops with Higher Imports, Slower Exports



Source: IHS

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

The outlook for the BRIC country emerging markets is weak

- **Brazil's** economy continues in recession with weak investment and consumer spending as political and fiscal crises impede growth.

- **Russia's** economy is expected to shrink more due to low oil prices and trade sanctions.

- **India** with GDP growth of 7.6% in 2015 and over 8% in 2016, benefits from low import prices. Growth now higher than China.

- **China's** growth of 6.5% for 2016 as construction, debt, and weak manufacturing challenge more than the equity market declines.

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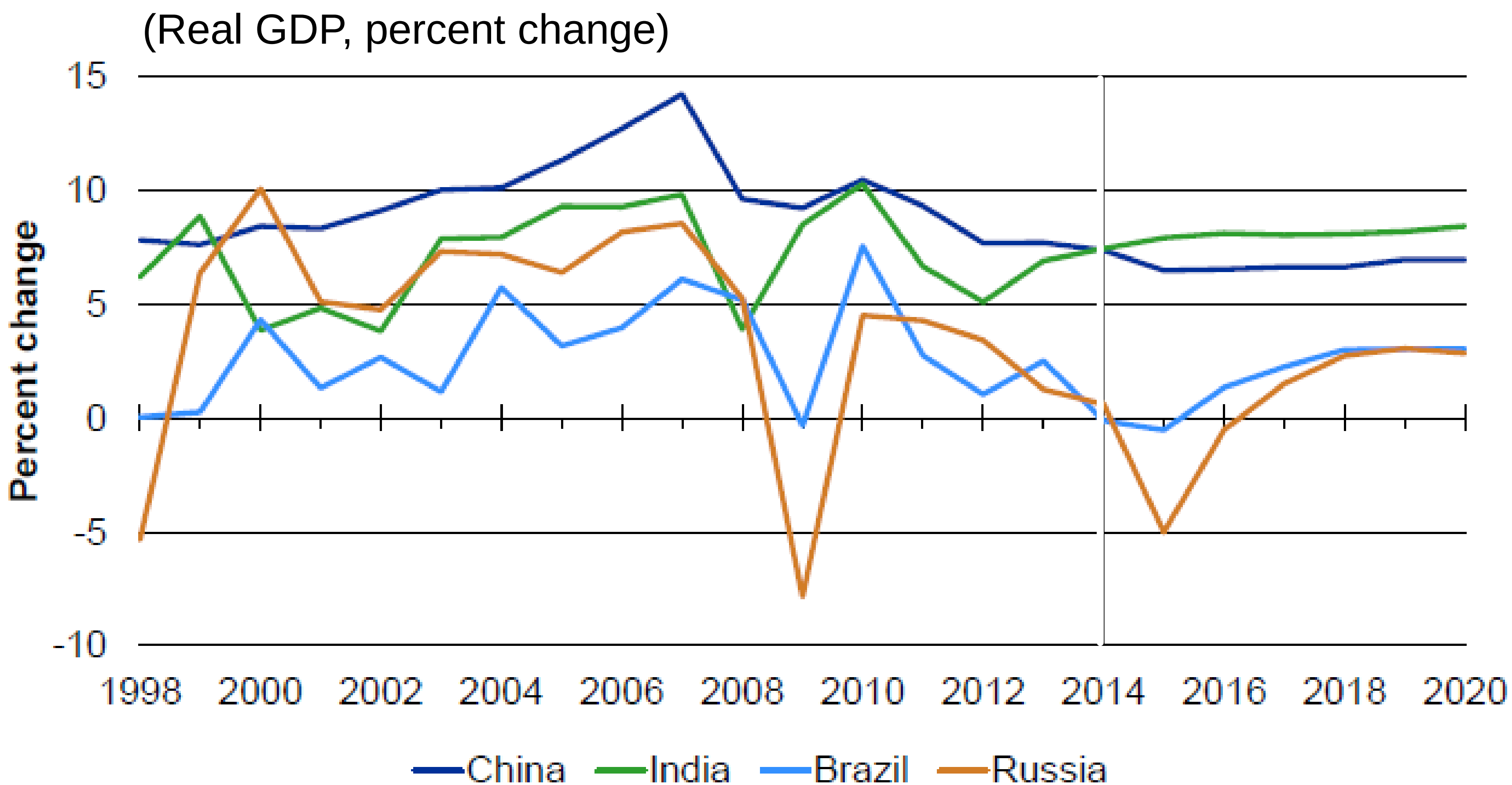
Source: IHS

India Growth Now Higher as Other Big Emerging Markets Have Slowed



Source: IHS

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South American Economic Growth is Slowed in 2016 by Continued Larger Country Policy Problems

Economic Growth Affects Regional Trade Growth

- South America's economic growth was slow in 2014 - 2015, reflecting weak economies in Argentina, Brazil and Venezuela. Further contraction in 2016.
- Brazil suffers from high interest rates, uncompetitiveness, weak business and consumer sentiment and weak demand for exports.
- 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 even after the election

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

- Port 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.)

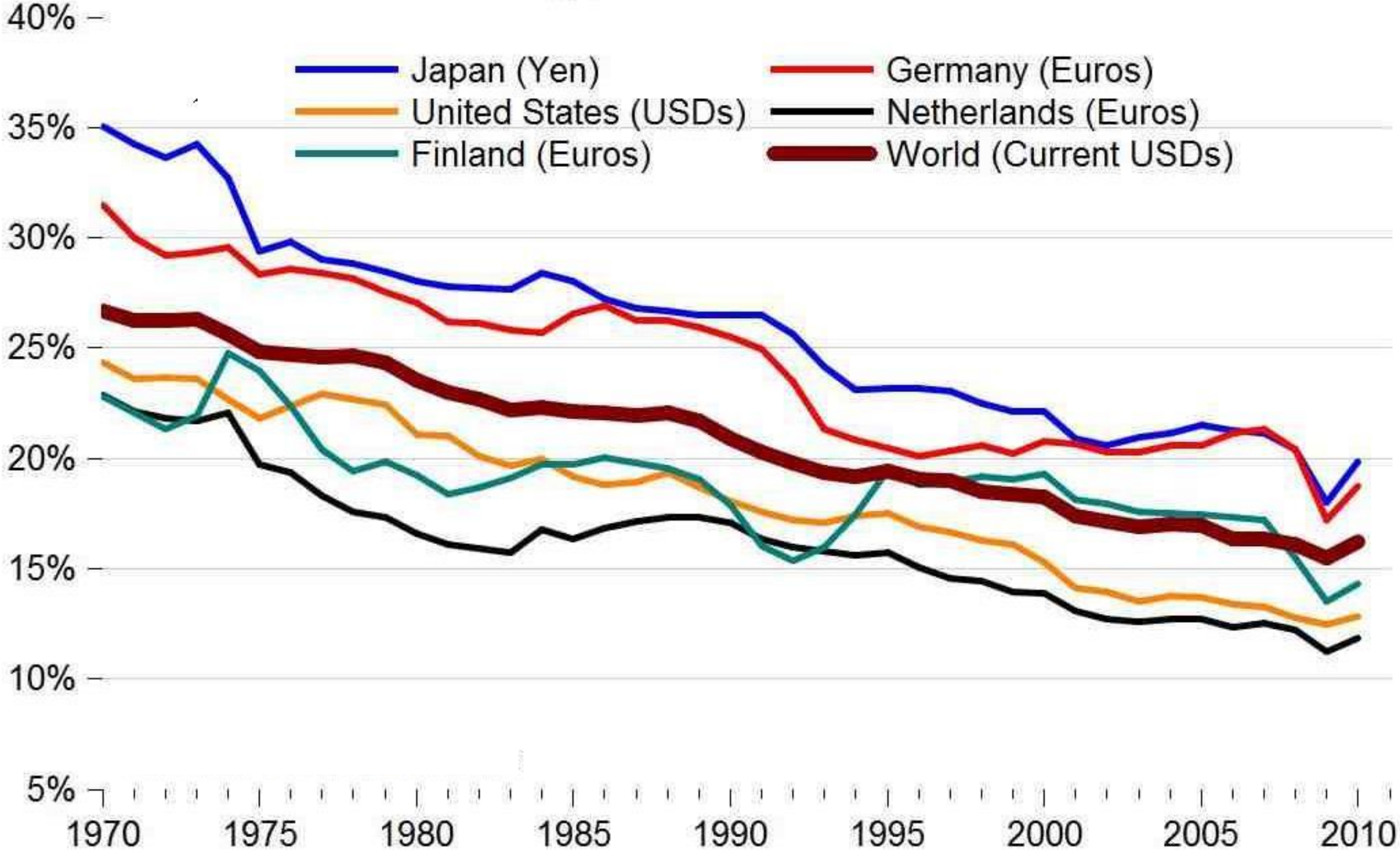
- China's policy is to increase their 37% consumption share of GDP; the share from trade to decrease, though big challenges shifting structure of employment from export focus to domestic focus

- China consumption growth since 2009 averaging over 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.

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

(Manufacturing as Share of GDP, National Currency Units)



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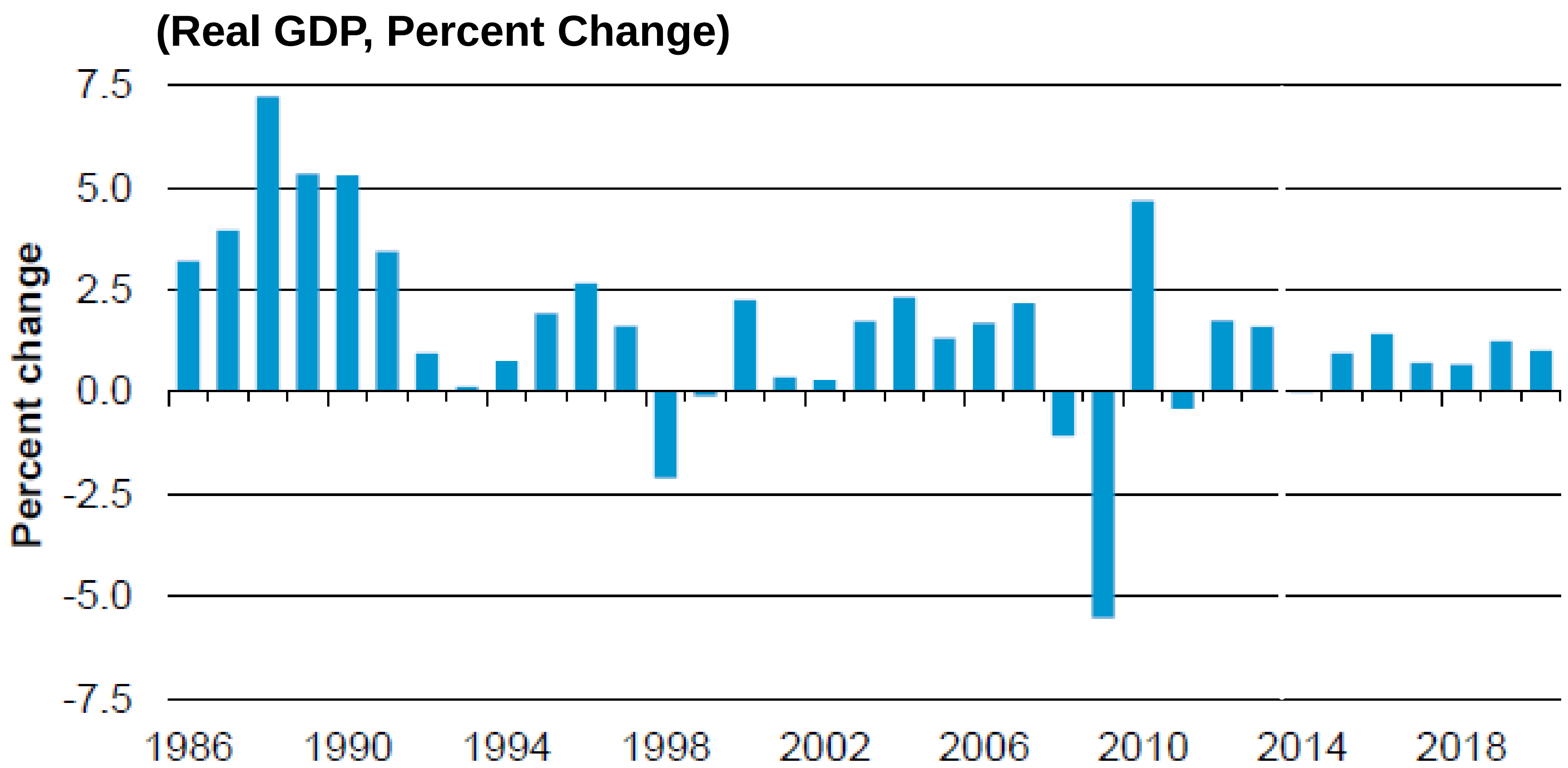
Source: United Nations

Japan's Policies to Stimulate the Economy, Fight Deflation and Boost Trade Persist against Weakness

Stimulus Measures Fighting Recession Cycle Where Japan had Four Recessions in Seven 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, now negative interest rates
- Sales tax increase in 2014 hurt consumption so that another tax increase has been delayed until 2017.
- GDP growth forecasted at about 1% in 2016
- Long-term potential economic growth is limited

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



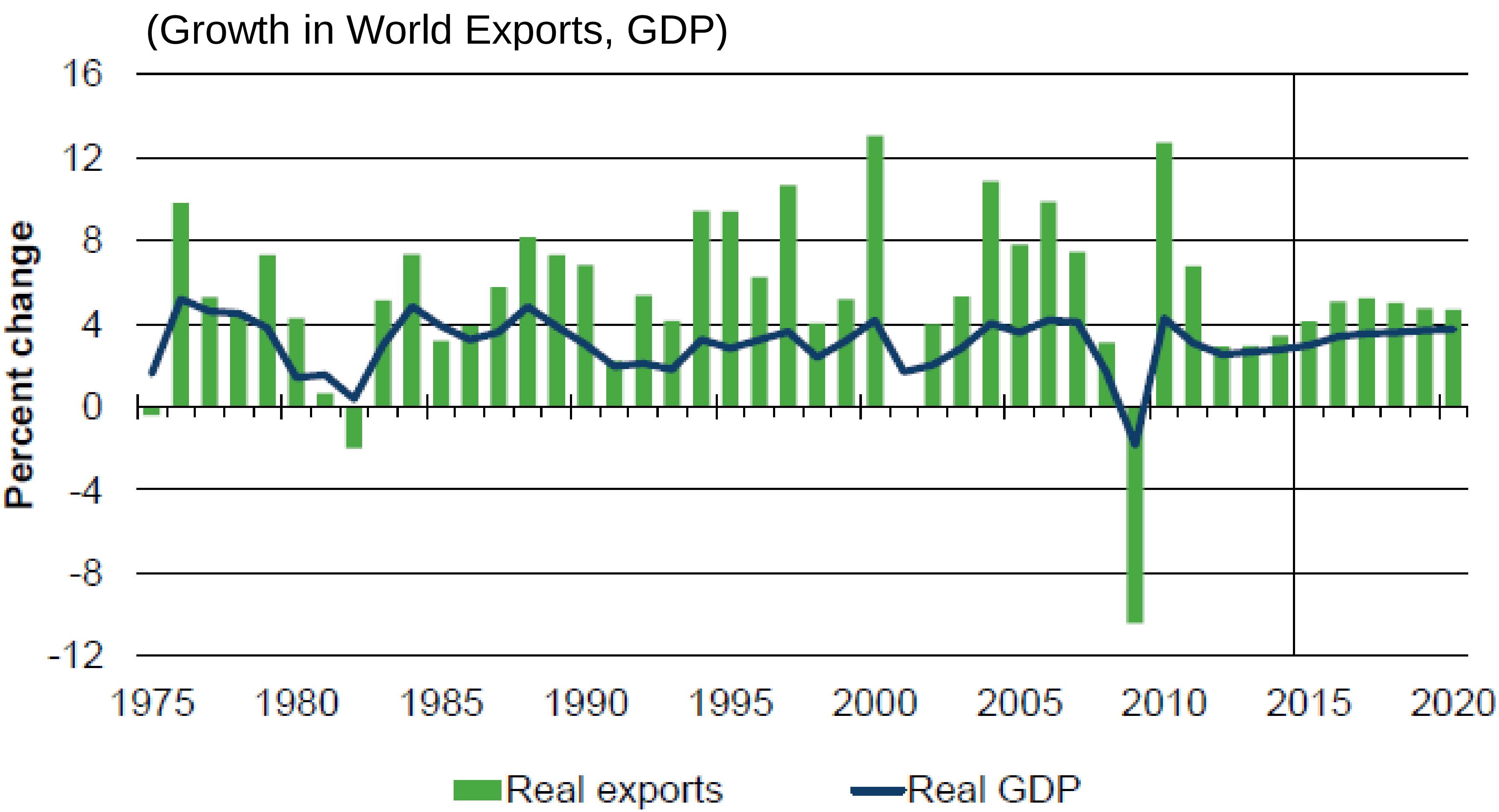
China's Economy is Still Very Important to World Trade as Growth Slows Further

- 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
- Large government market intervention, exchange rate, and monetary policy to fight collapse. Lower GDP growth target in new plan.
- The fiscal stimulus and exchange rate devaluation is supplemented by more trade promotion to increase export-related growth
- China's export- and investment-oriented growth model is at its limits; to grow further, China must focus on consumer demand, services and higher-value manufactures
- Downside risks if government and businesses panic, leading to more disruption with potential further impacts on China's trade partners

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

- U.S. economic growth driven by the private sector generates more trade than government-spending driven economic growth.
- Net exports are a drag on U.S. GDP growth as U.S. import demand grows while foreign demand for U.S. exports has slowed
- Energy sector trade is weak in dollar terms due to lower prices. Oil has boosted the economy by reducing imports offset by domestic production, for now
- Apart from the energy sector and exporters, U.S. business is benefitting from lower input prices, unless exposed to stronger competition from imports
- Business and consumer spending in this 7^{th} year of recovery has driven port trade demand to surpass the 2007 pre-recession volumes
- Trade growth rate remains above overall U.S. GDP growth, though more imbalanced towards imports with the growing trade deficit again

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



Source: IHS

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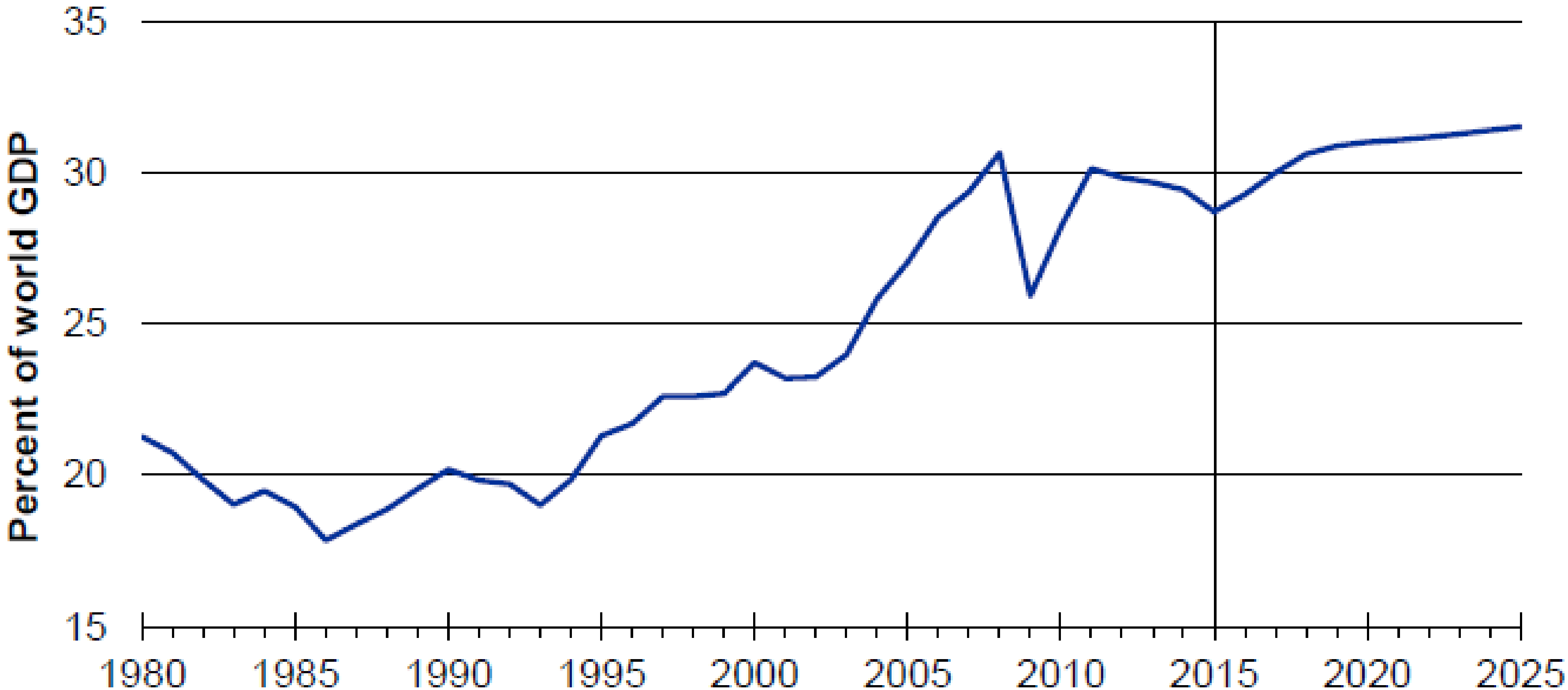
World Trade's Share of the Economy Grows Again After Temporary Decline

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

(Value of world imports, percent of GDP)



Source: IHS

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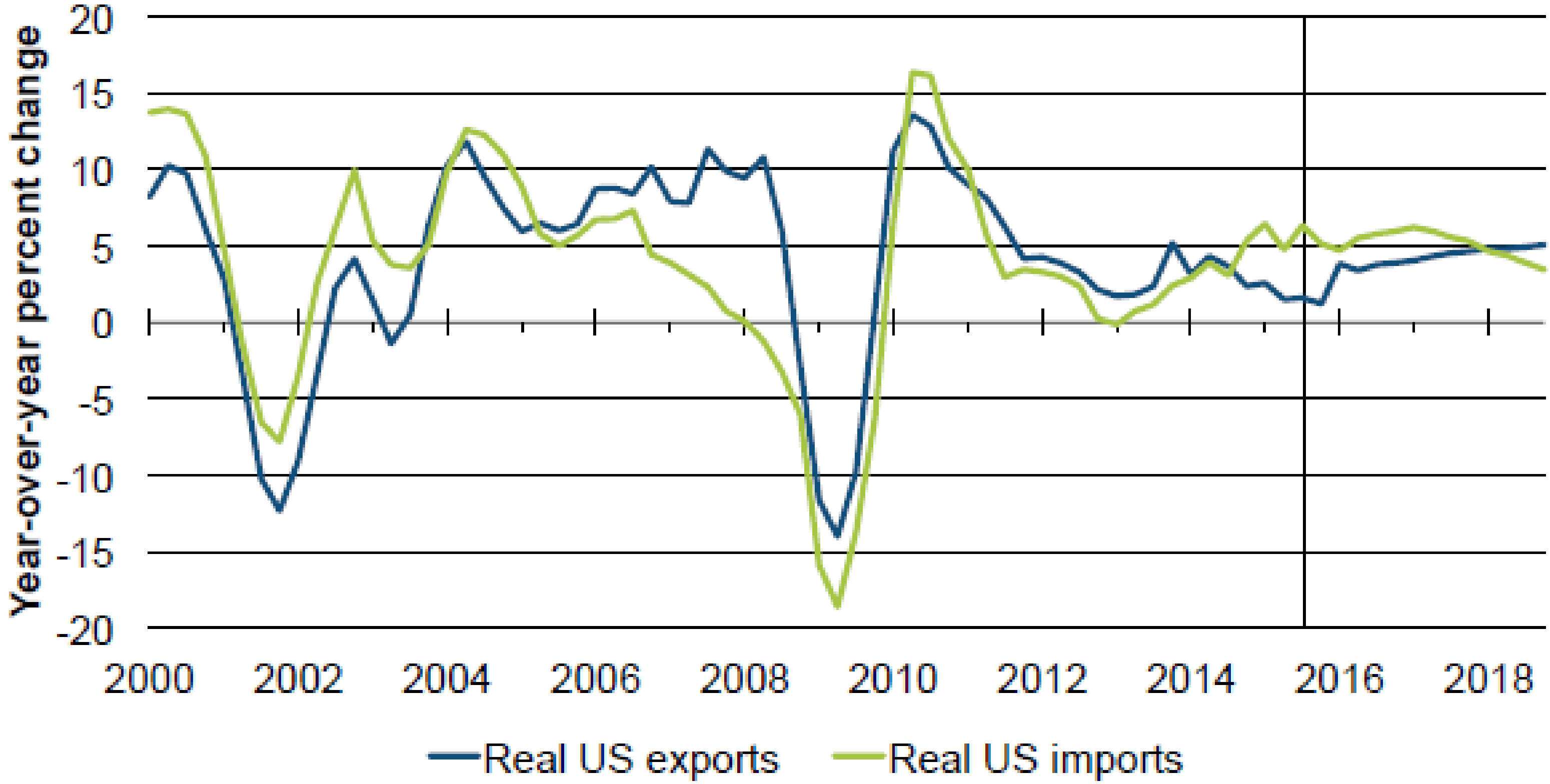
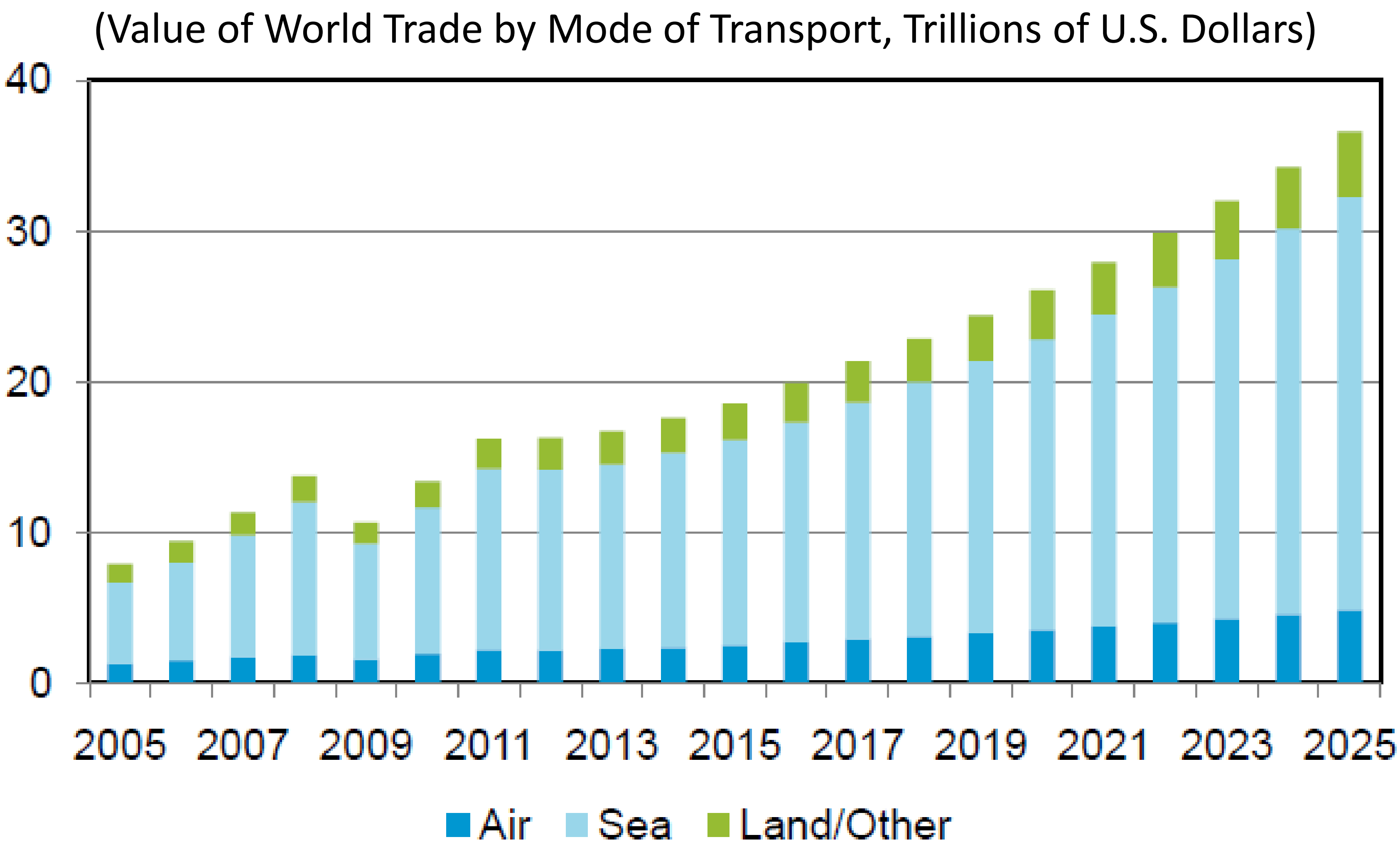
U.S. Trade Growth Less Imbalanced After 2016; Growth Slower than Decade Before Recession

U.S. Export Growth Exceeds Import Growth by end of 2018



Source: IHS

Sea Trade Dominates Global Trade Growth

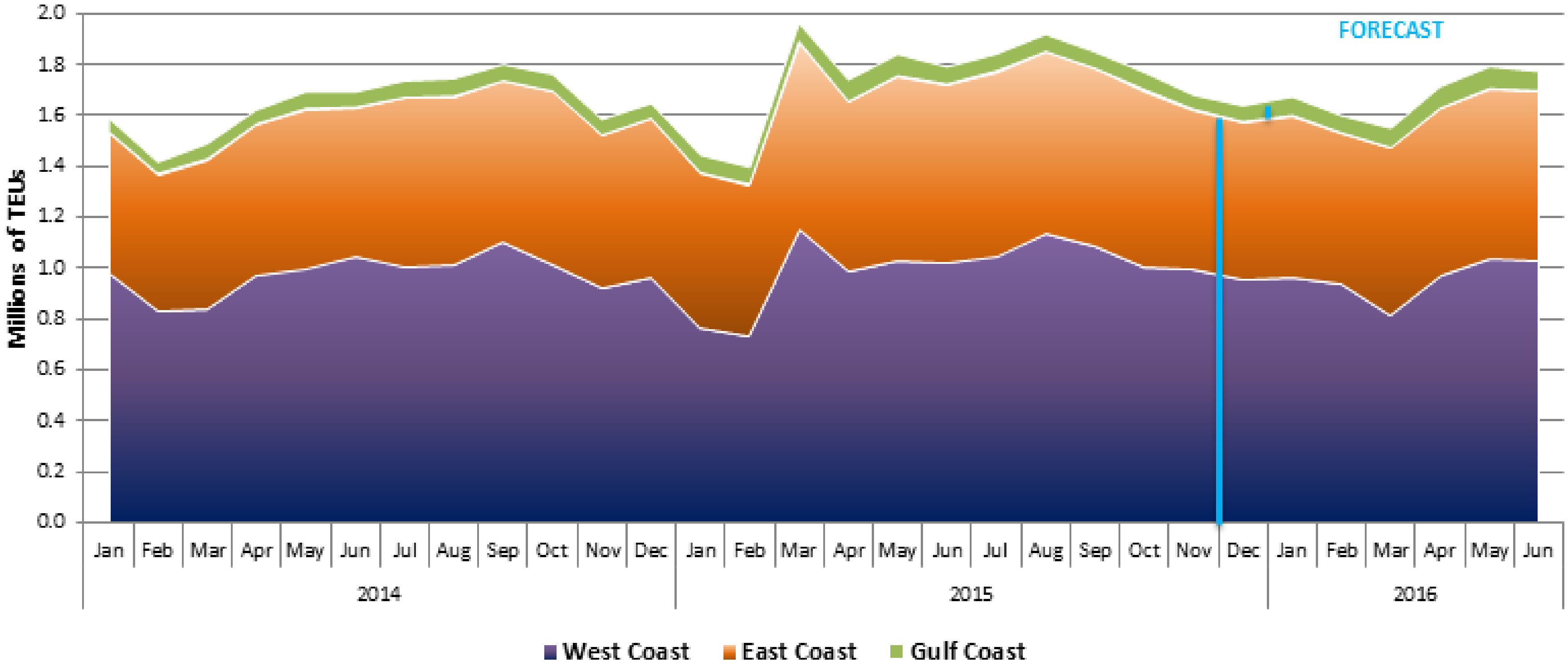


Source: IHS

Congestion at U.S. W. Coast Container Ports Led to Market Shares Shift to East/Gulf Coasts

West Coast Share Loss in 2015 about 5%, Partially Re-gained

(North American Containerized Imports, Millions of TEUs)



Source: Hackett Associates for National Retail Federation

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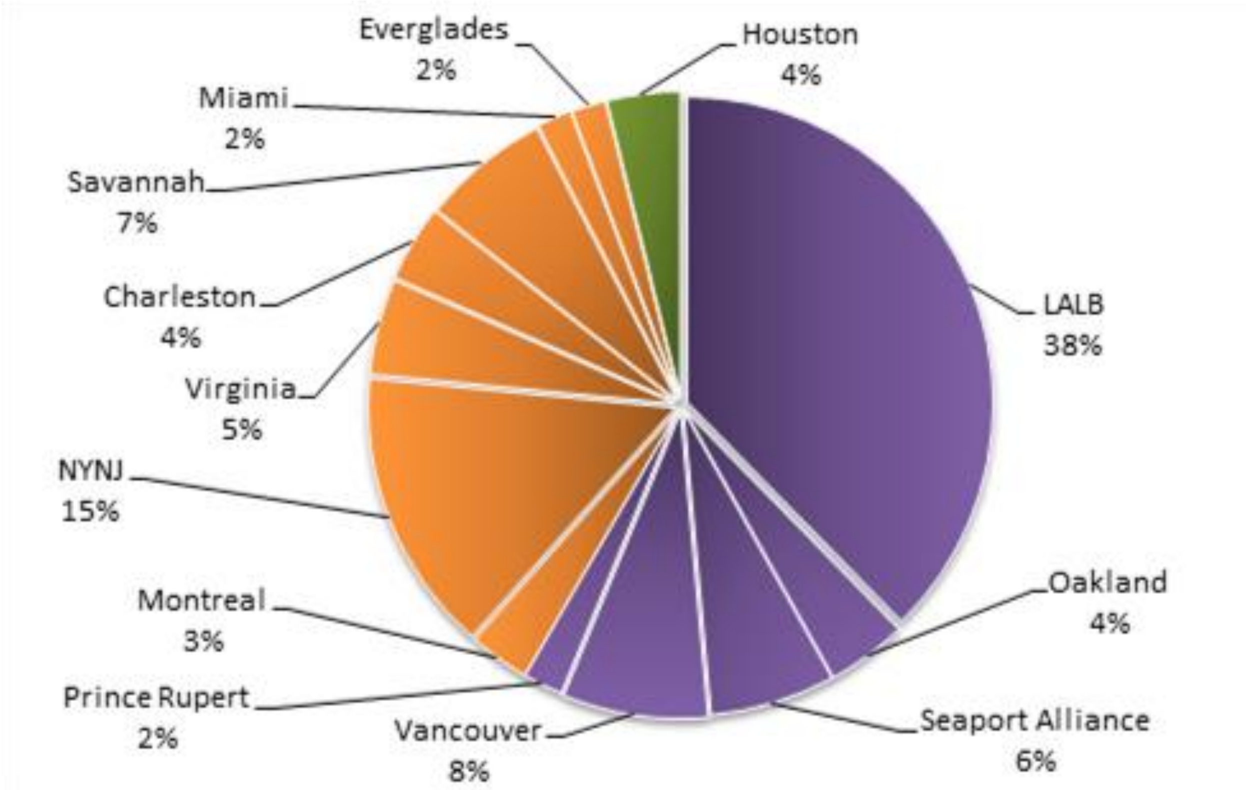
North American Container Traffic Shares Concentrated at a Few Large Ports

West Coast Still Dominant, East Coast Grew More in 2015

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



Source: Dec 2015 Key retail ports from Hackett Associates for National Retail Federation

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Panama Canal Expansion Trade Impacts

- Much of world fleet size and North American distribution center re-location 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

Source: Panama Canal Authority

What Can We Conclude?

- Economic conditions are still key to port trade demand. Relatively slow growth continues, likely for years. Imbalances shifting.
- U.S. consumer demand is still key to dominant imports while U.S. exports face both weak foreign demand and strong dollar exchange rate
- Policy factors (fiscal, monetary, trade, security, environmental) can significantly affect trade.
- Increasing importance of trade to economic growth will add to ports' business

Thank you!

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