

Association of American Port Authorities

Infrastructure Development and Financing Seminar in San Diego March 9-10, 2016

Economic and Capital Markets Panel

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Purpose: To provide a brief assessment of current economic conditions here and abroad and an extended outlook more consistent with the needs of long-term infrastructure planning.

- Most analysts see U.S. economy expanding this year at about 2.5%. There is low expectation of an imminent recession. Job growth has been strong, but wage growth has lagged.
- The U.S. is just about the only bright light in the global economy.
 - China has gone wobbly. Worse, the quality of its economic leadership is suspect, and its demographic advantages are receding.
 - Developing economies, especially those which had thrived on supplying China with raw materials and food supplies, have faltered.
 - Europe faces an unprecedented immigration problem on top of its existing economic and financial challenges.
 - Britain may vote in June to leave EU.
- Longer-term outlook and the perils of prophecy.
 - Importance of looking back before looking ahead.
 - If forecasting out 25 years, go back 25 years and identify those key developments that could not reasonably have been anticipated.
 - Question the utility of using GDP growth to forecast cargo volumes
 - Latest cargo forecast for the Port of Los Angeles and Long Beach anticipate 4.0% AAGR through 2040; U.S. GDP at 2.45% AAGR.
 - But in a period characterized by widening disparities in the distribution of the nation's wealth, how useful is GDP in predicting future volumes of trade?
 - Cautionary tale of uniformly robust 2000 air cargo forecasts.
- The rise of West Coast ports parallels the rise of Northeast Asia as the world's factory.
- Fate of West Coast ports will hinge in large part on the future of those economies
 - Nervous right now: whither China? Signs of panic (6 interest rate cuts in past year)
 - Chinese leadership petrified by normal market forces, reins loosened reluctantly
 - Does China follow Japan?
 - Real value of US trade with Japan 2015=1985 level
- More specifically, migration of manufacturing to other world regions
 - To Southeast Asia, the Indian Ocean, Africa
 - Or North America (reshoring to southeastern states; near-shoring to Mexico; custom 3-D manufacturing)
- Will CMA CGM deployment of six 18,000-TEU vessels in May break the Port of Los Angeles and Long Beach?

- **Demographic Change.**
- The UN expects there to be 2.4 billion more people on this planet by 2015. Since they will need goods to sustain them and since you all are in the business – one way or another – of moving goods, population growth should be great news.
- About half that growth will occur in Africa and one-quarter in Asia. By contrast, there are expected to be 92 million fewer Europeans by mid-century.
- That shift will fundamentally alter world trade routes.
- **Rising Sea Levels and Air Quality Mandates**
- California Assembly Select Committee report (2014) indicates that the state's ports are vulnerable, especially with storm surges and king tides
- Pacific Institute (Oakland-based) study identified 3500 miles of roadways and 250 miles of rail that would be placed at risk.
- But in the short-run, maritime trade may be affected less by physical disruption associated with rising tides or stormier storms than by the politics of climate change.
- Regulations likely to be announced later this year by the California Air Resources Board to stave off increases in emissions of greenhouse gasses and other toxic materials will impose enormous compliance costs on the transportation industry. (Moffat & Nichol study for PMSA).
- Those regulations are likely to be more draconian here in California than elsewhere, but they can be expected to be emulated in other jurisdictions.

Thank you.