World Economic and Trade Outlook Under Changes in Trade Policies

Paul Bingham

AAPA Spring Conference

20th March, 2018
World Economic Growth Increasing
Emerging Markets Grow Faster

(Annual Percent Change in Real Gross Domestic Product)

Source: IHS Markit
World Trade Growth of 4.9% Boosts 2018 Economic Growth; Manufacturing Strong as Industrial Production Up 3.6%

(Percent Change in World Real Gross Domestic Product, Industrial Production, Trade)

Source: IHS Markit
North American Economies
Growing Together Despite NAFTA Renegotiation

(Percent Change in US, Canada, Mexico Real Gross Domestic Product)
U.S. Dollar Exchange Rate Has Fallen Since Late 2016

U.S. Dollar Decline Boosted U.S. Export Competitiveness in 2017

(U.S. Dollar Trade-Weighted Foreign Exchange Index, 2009=1.0)

Source: IHS Markit
Trade Volumes Boosted by Strong Demand
Moderate Commodity Prices & Inflation

• Commodity price inflation forecast to be slower in 2018 in Latin America, except for Venezuela’s hyperinflation.
• Commodity prices globally are forecast to rise much more slowly in 2018, following 50% increase in 2016 and a 17% rise in 2017
• U.S. faces higher inflation, off a low base, with wages up and tight supply situations with tax cuts and fiscal stimulus.
• Consumption driving developed economy imports and resource exporting economy export volumes.
• Dry & liquid bulk, breakbulk, Ro/Ro and project cargo volumes all forecast to see volumes increase in 2018.
North American Container Imports Outlook

Forecast for 2018 Growth over 2017:

Total: +4.1%
East Coast: 4.0%  West Coast: 4.1%  Gulf Coast: 6.0%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2013

- Long Beach: 18%
- Los Angeles: 21%
- Oakland: 4%
- Prince Rupert: 2%
- Seaport Alliance: 7%
- Vancouver: 8%
- Montreal: 3%
- NYNJ: 15%
- Virginia: 5%
- Charleston: 3%
- Savannah: 6%
- Jacksonville: 1%
- Everglades: 2%
- Miami: 2%
- Houston: 3%

East Coast to West Coast Split:

- 38%
- 62%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2014

- Long Beach: 17%
- Los Angeles: 21%
- Oakland: 4%
- Seaport Alliance: 6%
- Vancouver: 7%
- Prince Rupert: 2%
- NYNJ: 15%
- Montreal: 3%
- Virginia: 5%
- Charleston: 4%
- Savannah: 7%
- Jacksonville: 1%
- Everglades: 2%
- Miami: 2%
- Houston: 4%

Growth over Previous Year: +6.9%

East Coast to West Coast Split:

39% - 61%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2015

Growth over Previous Year:
+5.5%

East Coast to West Coast Split:
41% - 59%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2016

Growth over Previous Year:
+2.7%

East Coast to West Coast Split:
41% - 59%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2017

Growth over Previous Year: +8.0%

East Coast to West Coast Split: 41% - 59%

Source: Hackett Associates Global Port Tracker
N. American Container Imports: 2017

+7.2% TEU vs 2016
West Coast
55.9% Share

+7.8% TEU vs 2016
East Coast
39.5% Share

+21.6% TEU vs 2016
Gulf
4.6% Share

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2013

East Coast to West Coast Split:

47% - 53%

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2014

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver</td>
<td>8%</td>
</tr>
<tr>
<td>Seaport Alliance</td>
<td>7%</td>
</tr>
<tr>
<td>Oakland</td>
<td>7%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>14%</td>
</tr>
<tr>
<td>Long Beach</td>
<td>12%</td>
</tr>
<tr>
<td>Houston</td>
<td>6%</td>
</tr>
<tr>
<td>Miami</td>
<td>2%</td>
</tr>
<tr>
<td>Everglades</td>
<td>3%</td>
</tr>
<tr>
<td>Prince Rupert</td>
<td>1%</td>
</tr>
<tr>
<td>Montreal</td>
<td>4%</td>
</tr>
<tr>
<td>NYNJ</td>
<td>10%</td>
</tr>
<tr>
<td>Virginia</td>
<td>8%</td>
</tr>
<tr>
<td>Charleston</td>
<td>5%</td>
</tr>
<tr>
<td>Savannah</td>
<td>10%</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>3%</td>
</tr>
<tr>
<td>Miami</td>
<td>2%</td>
</tr>
</tbody>
</table>

Growth over Previous Year: -1.4%

East Coast to West Coast Split: 48% - 52%

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2015

Growth over Previous Year:
-3.5%

East Coast to West Coast Split:
50% - 50%

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2016

Growth over Previous Year:
+3.4%

East Coast to West Coast Split:
48% - 52%

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2017

Growth over Previous Year:

+2.4%

East Coast to West Coast Split:

50% - 50%

Source: Hackett Associates Global Port Tracker
N. American Container Exports: 2017

- **West Coast**: 46.8% Share, +7.2% TEU vs 2016
- **East Coast**: 46.3% Share, +7.8% TEU vs 2016
- **Gulf**: 6.9% Share, +21.6% TEU vs 2016

Source: Hackett Associates Global Port Tracker
Hemispheric Trade Liberalization Continues Outside the United States

• American Hemisphere countries pursuing trade agreements apart from the U.S.

• The new Comprehensive and Progressive Agreement for Trans-Pacific Partnership signed in Chile by 11 Pacific Rim countries replaces the TPP minus the United States

• Mercosur (Argentina, Brazil, Uruguay, Paraguay) in several trade negotiations now including with The Pacific Alliance (Chile, Peru, Colombia, Mexico), the European Union and with Canada
U.S. Tariff Retaliation: China is **Not** the Most Affected by the New US 25% Steel Tariffs. Brazil is, after NAFTA Exemptions

(Top 2017 US Steel Import Source Countries, Percent of Volume)

Source: IHS Markit Global Trade Atlas, YTD through Sept 2017
Tariff Retaliation Outlook

• Retaliation coming after U.S. national security justification used for steel and aluminum tariffs, and likely new China import tariffs
• American Hemisphere trade partner Brazil most affected by metal tariffs, after Canada and Mexico exemptions
• Retaliation by trade partners are typically against high profile U.S. export commodities significant in U.S. politics (e.g. agriculture)
• Which ports are affected partly depends on which commodities are selected for retaliation. Overall impacts on U.S. port trade volumes likely limited in 2018
• Further downside risk if U.S. expands import tariffs to other commodities in response to retaliation
What Can We Conclude?

• Key drivers of port volumes, consumer and business import demand, are forecasted stronger in 2018 than 2017

• U.S. dollar exchange rates still below end-of-2016 peak, with little change in U.S. or trade partner trade competitiveness in 2018

• Strong consumer demand for imported finished products supports increases demand for trade in bulk and breakbulk intermediates and scrap.

• North American coastal container port shares nearly stable in 2018

• Retaliation against U.S. import tariffs unlikely to reduce Western Hemisphere port commodity volumes significantly in 2018

• Significant risks to the downside if trade retaliation increases back and forth, inflation prompts Fed to spike interest rates, and/or a sharp recession
Thank you!

Paul Bingham

paul@hackettassociates.com
+1(626) 538-4283