Trade Growth - Fundamental Driver of Port Operations and Development Strategies

Marine Terminal Management Training Program
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Agenda

• Economic and trade outlook

• Implications for ports
World Outlook – Weaker Near-term Performance

- U.S. – A “harder” soft landing, without recession
- Europe – Less immune to the U.S. economic problems
- Japan – Weaker growth; more political uncertainty
- Asia – Vulnerable to financial turmoil and a Chinese slowdown
- U.S. dollar exchange rate – Still more to fall
- World recession risk – Still fairly low
- Globalization – continues to increase trade
Did world economic growth peak? -- yes, but…

The world economy is in recession when real GDP growth is below 2%

(Percent change, real GDP)

Source: Global Insight World Service
World container trade has been growing faster than the world economy, even while slowing and the gap shrinking.

Source: Global Insight World Service and World Trade Service
Trade growth is influenced by factors beyond the underlying demand for consumption goods

- Global logistics sourcing by industry
- Emergence of global trading blocks
- Growth of regional trade facilitation
- Harmonization of trade and regulatory policies
- Trade security standards and information flows
- Impedance of freight traffic through trade corridors and at ports and border crossings

While all regions have increased trade, growth is uneven
Trade is linked to GDP growth – though uneven across the world; emerging markets are growing fastest

(Real GDP, percent change)
Growth is not uniform: Market shifts are coming and will affect U.S. trade and transportation

(Country GDP Rank in Billions of Real (2003) U.S. Dollars)

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<tr>
<th>2000</th>
<th>2010</th>
<th>2020</th>
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Source: Global Insight World Service and Goldman Sachs
The U.S. economy is in a slowdown – not recession, but with downside risks increasing.
The U.S. Dollar Will Depreciate Further, Boosting Export Competitiveness and Dampening Import Demand Growth

(2000=1.0, inflation-adjusted)

Major Currency Index
Other Important Trading Partners Index
U.S. Export Performance Has Tracked the U.S. Dollar Exchange Rate

(Percenage points) (FRB broad index, March 1973=100)

- U.S. Export Growth Less World Import Growth (Left scale)
- Real Exchange Rate (Right scale)
U.S. Imports Dampened By Decline in Home Furnishings Sales Due to the Housing Downturn

(Percent change, year-over-year, real dollars)

- Consumer Spending (Furnishings ex. computers and software)
- Residential Fixed Investment
U.S. Current Account Deficit: Shrinking at Last

(Billions of dollars)

(Percent of GDP)


Current Account Deficit  Deficit as % of GDP

Source: Global Insight U.S. Macroeconomic Forecast Service
The U.S. was the engine of world growth, but in 2006 this shifted to Asia, which is now supporting the world economy.

- Inflation remains under 4% in most of Asia (exceptions include Indonesia, India, and the Philippines)
- High saving rates mean Asian economies will continue to be capital exporters – and potential investors in ports and transportation infrastructure
- China’s economic boom should have a soft landing
- 1/3 of the world’s container trade is now intra-Asian
- North American trade with China is changing
China’s U.S. market penetration in some sectors is reaching saturation …

Footwear

Electrical Appliances

Textiles

Source: Global Insight World Trade Service
China has additional U.S. commodity market segments yet to penetrate

Source: Global Insight World Trade Service
As China broadens its markets, the U.S. becomes less important, even while U.S.-China trade volume triples.

US Share of China Exports

Source: Global Insight World Trade Service
India’s Growth Lags China’s, though Still Strong

- India’s annual population growth is 1.5%; Real GDP 6.8% in 2006
- India’s container trade TEU growth averages 8% through 2010
U.S. Import Growth Within the Hemisphere

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<td>2007</td>
<td>3.2 million</td>
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<td>2015</td>
<td>4.2 million</td>
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U.S. sees almost 4% average annual growth from Latin America.

Compare to Latin American exports to the Far East averaging growth of 6% per year and reaching 1.4 million TEUs by 2015.
U.S. Export Growth Within the Hemisphere

2007  1.5 million TEUs
2015  2.0 million TEUs

U.S. averages 3% annual export growth to Latin America

Compare to Latin American imports from the Far East averaging growth of 7.1% per year reaching 2 million TEUs by 2015
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Port Development to Handle Cargo Growth

Demand on North American ports for additional cargo throughput is still increasing, as well as for the connecting network infrastructure

• Economic geography, inside and out of the U.S., drives the geographic patterns of increased transportation system demand
  ➢ affected by relative costs, performance and productivity of the available route & service options for delivering to end markets

• Supply chain demands affect gateway sea ports, inland freight corridors and warehousing / distribution center space needs
  ➢ logistics choices are influenced by the combined efforts to minimize costs and risk and maximize reliability of delivery
Inventory Cost Share Down vs. Transportation

- Shippers think about logistics costs, not transportation costs
- As % of GDP, logistics costs have decreased 30% since 1985

Source: M. Turnquist, Cornell University
Carrier’s Reactions to Sustained Trade Growth

• Increased utilization of physical assets and people

• Increased energy consumption management
  More optimization

• Increased complexity of operations

Source: M. Turnquist, Cornell University
Demands on Ports to Adapt to Trade Growth

- Global trade expanding at a declining rate, yet a multiple of global GDP
  - Domestic flows increasingly linked to movements through ports and border crossings
- Shippers are reconfiguring their logistics networks for more international shipments, overseas control
  - Location, inventory and transport decisions
  - Benefits some ports yet others lose share
- Coordinated decisions across the supply chain
  - Among firms, not just within firms
  - Sharing data

Source: M. Turnquist, Cornell University
Conclusions
**Bottom Line**

- World economic growth and trade growth are trending slower yet trade outpaces overall economic growth, reflecting globalization.

- Asia, East Europe and Latin America will experience the strongest growth; Western European and Japanese growth will be slow.

- U.S. trade will grow faster than in other developed countries, but slower than for the developing economies.

- Pressures from growth in container traffic builds as it continues to outpace growth in the U.S. economy.

- Ports benefit from increased exports and more balanced trade but providing the infrastructure and productivity to handle relentlessly growing trade will remain a significant challenge.
Thank You

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