Predicting the Future: Shifts in Global Trade Patterns

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Agenda

• The weakening economic outlook

• Shifts in trade patterns after the Canal expansion

• Conclusions
World Outlook – Looking very shaky all of a sudden

The Topic
- Subprime crisis
- Oil prices
- U.S.
- U.S. dollar
- Europe
- China
- India
- Other emerging markets
- World recession risk
- Implications for trade

The Outlook
- A global problem
- How big of a threat? $100+
- We are in a recession
- Still headed down
- No longer immune to U.S. economic problems
- Risk of a hard landing after the Olympics
- Relatively insulated from global shocks
- Happy days may finally be over, LA looks strong
- Still fairly low
- Not too negative & shift to exports in the U.S. and no China hard landing
World economic growth has peaked and is slowing . . .

The world economy is in recession when real GDP growth is below 2%.
Container trade normally grows faster than the world economy. The age of double-digit growth is over.

2007 2008
GDP 3.9% 3.1%
TEUs 8.8% 6.5%

(Percent change)
Trade is linked to real GDP growth - uneven across the world – and emerging markets grow fastest.
Europe in the long term – a great museum?

... and the visitors will come from China!
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)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
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<tbody>
<tr>
<td>Japan</td>
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Source: Global Insight World Service and Goldman Sachs
The U.S. *recession* is here!

- U.S. growth in 2008 is likely to come in at a weak 1.2%
- The main culprits are still the housing/subprime crisis and high oil prices – the “double-shock” economy
- Consumer spending will slow significantly, as employment growth grinds down
- Capital spending growth will be lackluster
- The only saving grace will be net exports. January was a blockbuster!
- We are in a (comparatively) mild, saucer-shaped recession in the first half of this year, with a high vulnerability to another shock
- The Fed will have to cut rates by another 50+ basis points today
- Bottom line: we are decreasing our economic output now, but will turn the corner in the second half, thanks to the Fed and Government stimuli
We are in a recession now. The snap-back is a bit artificial.
The U.S. dollar will depreciate further – steady declines through mid-2008, due to the huge trade deficits ($800 billion).

Another 1.2% drop against the major currencies by mid-2008

A Euro costs $1.56 and will probably hit $1.60
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## Containerized Trade Movements

(Thousands of TEUs)

<table>
<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2010</th>
<th>2015</th>
<th>2008-2015 CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transatlantic</td>
<td>6,137</td>
<td>6,758</td>
<td>8,065</td>
<td>4.0</td>
</tr>
<tr>
<td>Transpacific</td>
<td>19,880</td>
<td>23,025</td>
<td>30,982</td>
<td>6.5</td>
</tr>
<tr>
<td>U.S. Atlantic/Asia</td>
<td>4,572</td>
<td>5,277</td>
<td>7,029</td>
<td>6.3</td>
</tr>
<tr>
<td>Europe/Asia</td>
<td>22,958</td>
<td>26,691</td>
<td>36,413</td>
<td>6.8</td>
</tr>
<tr>
<td>Rest</td>
<td>46,072</td>
<td>52,535</td>
<td>69,864</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123,668</strong></td>
<td><strong>142,331</strong></td>
<td><strong>190,770</strong></td>
<td><strong>6.4</strong></td>
</tr>
</tbody>
</table>

1/4 of world TEUs are Intra-Asia
U.S. (full) TEU imports decreased in 2007 by -0.5%, and will continue decreasing in 2008 by -2.1%. Chinese imports will grow fastest 6.8% on average through 2015.

China was 1/3 of US imports in 2000 and will be 1/2 by 2014.

On the USWC, China was 1/2 of imports in 2000 and will be 2/3 by 2011.
For the U.S., TEU growth has shifted to exports.

Exports and Imports Growth:

- 2007: Exports 17.9%, Imports -0.5%
- 2008: Exports 11.3%, Imports -2.1%
- 2009: Exports 7.8%, Imports 5.9%

Share of 2008 Exports:

- Synthetic Resins: 13%
- Waste Paper: 11%
- Paper and Paperboard and Products: 6%
- Animal Feed: 4%
- Grain: 4%
- Scrap: 4%
- Cotton: 4%
- Meat/Dairy/Fish Requiring Refrigeration: 4%
- Organic Chemicals: 3%
- Stone, Clay and Other Crude Minerals: 3%
- Chemical Products, nec.: 3%
- Cork and Wood: 3%
- Pulp: 3%
TEU imports into Gulf and S. Atlantic will grow.

Growth rates: 2008-15

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<thead>
<tr>
<th>Region</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far East</td>
<td>6.9%</td>
</tr>
<tr>
<td>Europe</td>
<td>4.2%</td>
</tr>
<tr>
<td>Africa</td>
<td>4.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.3%</td>
</tr>
<tr>
<td>India</td>
<td>8.6%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

- **2008**: 4.9 million
- **2015**: 7.1 million
As China expands its markets, the U.S. becomes less important. But Latin America --

Source: Global Insight World Trade Model
. . . could absorb 5% of China’s container exports by 2015, with strong growth in consumer products.

Source: Global Insight World Trade Model
With expanded capacity, container traffic will account for nearly 60% of all Canal tonnage in 2025.

Panama Canal Tonnage: 2005 vs. 2025

### 2005
- Container: 34%
- Car Carrier: 13%
- Liquid Bulk: 12%
- Passenger: 4%
- Dry Bulk: 20%
- General Cargo: 3%
- Other: 7%
- Refer. Cargo: 7%

### 2025
- Container: 59%
- Car Carrier: 11%
- Liquid Bulk: 5%
- Dry Bulk: 14%
- General Cargo: 1%
- Other: 2%
- Refer. Cargo: 4%

After transiting the Canal, where will the big containerships go?

Source: ACP; Norbridge, Global Insight forecasts
After the expansion, this is where the action will be.
Panama – Suez Route Cost Comparison

Northeast China to USEC

Source: Panama Canal Authority
Some Mexican alternatives are being discussed – to feed the US market, in case there is a capacity squeeze.

- Container volumes will continue to grow.
- USWC port and rail congestion could return – 5 years?
- All-water service costs will go up.
- But there are wrinkles to iron out in Mexico.

- MHFM Transport (Mexico)
- SPV (Japan)
- Arias Asia (China)

$9 billion+
UP + Hutchison, still?
BNSF + Grupo Mexico, still?
MTC + Carlos Slim (IDEAL)
SSA? DP World?
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Bottom Line

• U.S. is in recession now.

• Once the Expanded Canal is open, there will be a boom in transshipment in the Caribbean.
  • Feeding North and South America

• If manufacturing shifts into Vietnam and India (for export), the USEC will see a lot more direct Suez traffic, increasing its share of US container imports.

• Despite the economic slowdown, container traffic growth within the next 5 years will push many ports to their full capacity limits, before the Canal is expanded – the search for more extreme alternatives is on!
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If there is enough capacity in the ports and railways, USWC ports should gain share, but . . .

U.S. Coastal Shares - Demand Driven

UPDATED, NOT MUCH CHANGED!

USEC Share

USWC Share
Latin America’s sea trade is expected to grow in line with general world sea trade growth. Exports will outpace imports, but the trade will be fairly well-balanced.

Please check title as exports are no longer Growing faster than Imp.