Shifts in Global Trade Patterns

Presented to:
AAPA
Shifting International Trade Routes and Planning for the Panama Canal Expansion
January 23, 2008
Port of Tampa

Presented by:
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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? Could fall to $75
- A “harder” soft landing
- 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%.

(Percent change, real GDP)
Container trade normally grows faster than the world economy. The age of double-digit growth is over.

<table>
<thead>
<tr>
<th>Year</th>
<th>World GDP%</th>
<th>TEUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>2008</td>
<td>3.4%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>
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>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Japan</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>U.S.</td>
</tr>
<tr>
<td>Germany</td>
<td>Germany</td>
<td>Japan</td>
<td>Japan</td>
<td>India</td>
<td>India</td>
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</tr>
<tr>
<td>U.K.</td>
<td>U.K.</td>
<td>Germany</td>
<td>India</td>
<td>Japan</td>
<td>Japan</td>
<td>Japan</td>
</tr>
<tr>
<td>France</td>
<td>China</td>
<td>U.K.</td>
<td>Russia</td>
<td>Russia</td>
<td>Brazil</td>
<td>Brazil</td>
</tr>
<tr>
<td>Italy</td>
<td>France</td>
<td>India</td>
<td>U.K.</td>
<td>Brazil</td>
<td>Russia</td>
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</table>

Source: Global Insight World Service and Goldman Sachs
The odds of a mild U.S. recession have risen

• U.S. growth in 2008 is likely to come in between 1% and 1.5%
• 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
• In the “danger zone” – recessionary or near-recessionary conditions 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 (to 3%)
• Bottom line: there is a 60/40 chance of a recession in early 2008
We are in the middle of the “slowdown” now.

Real GDP Annual Growth
2007: 2.2%  2008: 1.5%

Unemployment Rate
2007: 0.0%
The U.S. dollar will depreciate further – steady declines through mid-2008, due to the huge trade deficits ($800 billion).

A Euro costs $1.54

Another 2.3% drop against the Euro by mid-2008
• The weakening economic outlook

• Shifts in trade patterns after the Canal expansion

• Conclusions
## 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>9,925</td>
<td>10,895</td>
<td>13,295</td>
<td>4.3</td>
</tr>
<tr>
<td>Transpacific</td>
<td>24,615</td>
<td>28,360</td>
<td>39,129</td>
<td>6.8</td>
</tr>
<tr>
<td>U.S. Atlantic/Asia</td>
<td>5,380</td>
<td>6,161</td>
<td>8,379</td>
<td>6.5</td>
</tr>
<tr>
<td>Europe/Asia</td>
<td>22,287</td>
<td>25,964</td>
<td>35,449</td>
<td>6.9</td>
</tr>
<tr>
<td>Total</td>
<td>117,837</td>
<td>137,074</td>
<td>185,120</td>
<td>6.7</td>
</tr>
</tbody>
</table>

1/3 of world TEUs are Intra-Asia
U.S. TEU imports slowed in 2007 to 0.2%, but should grow 4.4% in 2008. Chinese imports will grow fastest (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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>9.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2008</td>
<td>6.6%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2009</td>
<td>5.3%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>
If there is enough capacity in the ports and railways, USWC ports should gain share, but . . .
TEU imports into Gulf and S. Atlantic will grow.

Growth rates: 2008-15

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<tr>
<th>Region</th>
<th>Growth Rate</th>
</tr>
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<tbody>
<tr>
<td>Far East</td>
<td>5.8%</td>
</tr>
<tr>
<td>Europe</td>
<td>3.8%</td>
</tr>
<tr>
<td>Africa</td>
<td>3.2%</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.2%</td>
</tr>
<tr>
<td>India</td>
<td>8.9%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

2008: 5.1 million

2015: 7.4 million
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.

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<th>2007</th>
<th>2008%</th>
<th>2007-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>6,737,075</td>
<td>6.5%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Exports</td>
<td>7,935,046</td>
<td>6.7%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
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

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.

Caribbean Transshipment Triangle
Panama – Suez Route Cost Comparison
Northeast China to USEC

Source: Panama Canal Authority

- Ship provision costs
- Fuel costs - sea
- Canal fees
- Fuel Costs - Port
- Port fees

Panama Fees
Suez Fees
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.

**$9 billion+**

- UP + Hutchison
- BNSF + Grupo Mexico
- MTC + Carlos Slim (IDEAL)

**SSA?**

**Ferrocarril Mexicano**

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

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Bottom Line

• U.S. is sliding into a “danger zone”

• 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 Suez traffic

• 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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