“Welcome to the Joyless Recovery!”
Economist magazine, 10/29/09

Some thoughts on what the future holds for the Economy & our Ports

November 17, 2009

Bill Ralph
Are we Really There Yet?

- Technically, the 18-month recession probably ended in June
- In case you missed the turnaround – its government not private spending, foreign buying not domestic, and restocking not new sales
- De-leveraging takes years, not months (translation: economic hangover from too much debt & depleted wealth!)
- The media says less job losses sign of stability (or is it more accurate to say “not disastrous … just terrible)"  
- Inventory liquidation/snapback has jump started almost every post-war recovery, but is enough credit available to retailers AND are consumers still too “mall-phobic”?
- When our “consumer nation” awakens, will the impulse buying habits return, or will frugality rule the aisles?

“’It’s very difficult to predict anything related to this economic cycle. Bad economic cycles do end. Given our track record, the odds are we’re still underestimating it’’

M. Zandi, Moody’s Economy.com

“In April ’07 I warned that the recession was coming, in April of this year I suggested that the worst was over, and now [Nov.] I’m convinced the recovery is underway … our pedal is to the metal!”

J. Chambers, CEO Cisco
Coastal TEU Performance during Recessions

Indexed to 1980 = 100

Source: AAPA total port TEU, RK Johns forecast ’09–’10


Alliance of the Ports of Canada, the Caribbean, Latin America and the United States
If Indeed We Hit Bottom …
How Soon, How Fast & What Kind of Recovery Lies Ahead?

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>0.4%</td>
<td>-2.6%</td>
<td>2.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>3.8%</td>
<td>-0.4%</td>
<td>1.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.8%</td>
<td>9.2%</td>
<td>9.6%</td>
<td>8.9%</td>
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</tbody>
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Signs we are climbing the recovery ladder:

- Employment is a lagging indicator, BUT temp hiring will signal a turnaround
- Sell off in housing inventory (need a fairly big cut in “month’s supply”)
- 6-9 consecutive months gain in home price index (S&P/Case Shiller)
- Slower increase in the savings rate could breath some life into consumer spending (frugal spending fatigue!)
- A shrinking in the TED-spread should loosen credit and pave the way for consumer spending (it measures how bankers view each other’s risk)
- Continued uptick in the Economic Cycle Research Institute’s long-leading & weekly indices (economic forecasters that get it right almost every time!)
- Check out www.recovery.gov to see if the gov’t. spends $5 billion a week
Coincidence or Correlation: Housing may be best indicator of future import trends

Case-Shiller Price Declines from Peak (SA), Year and City

<table>
<thead>
<tr>
<th>City</th>
<th>through Dec 2007</th>
<th>through Dec 2008</th>
<th>through August 2009</th>
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<tbody>
<tr>
<td>Las Vegas</td>
<td>9.3%</td>
<td>10.5%</td>
<td>-15.2%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>-12.8%</td>
<td>-13.2%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Miami</td>
<td>-11.4%</td>
<td>-12.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>-12.0%</td>
<td>-12.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Tampa, FL</td>
<td>-7.4%</td>
<td>-7.4%</td>
<td>-7.4%</td>
</tr>
<tr>
<td>San Diego</td>
<td>-10.6%</td>
<td>-11.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Minneapolis-MN</td>
<td>-9.8%</td>
<td>-9.8%</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Washington</td>
<td>-12.0%</td>
<td>-12.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Chicago</td>
<td>-11.0%</td>
<td>-11.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>New York</td>
<td>-11.0%</td>
<td>-11.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Boston</td>
<td>-11.4%</td>
<td>-11.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Cleveland, OH</td>
<td>-11.8%</td>
<td>-11.8%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Charlotte, NC</td>
<td>-11.8%</td>
<td>-11.8%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>-11.8%</td>
<td>-11.8%</td>
<td>-10.8%</td>
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Change in Port Volume:

<table>
<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2009</th>
</tr>
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<tbody>
<tr>
<td>West</td>
<td>(9)%</td>
<td>(18)%</td>
</tr>
<tr>
<td>East</td>
<td>(2)%</td>
<td>(13)%</td>
</tr>
<tr>
<td>Houston</td>
<td>+1%</td>
<td>(8)%</td>
</tr>
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Christmas Bargains Plentiful, But Consumers More Likely To Window Shop

The “take-away” message: don’t count on a trade recovery until 2011
East Coast Container Trade Volume Forecast

(in million TEU, loaded containers only)

- Three tough years in 2008-2010, followed by a bounce-back
- Canal’s expansion by 2015 provides another boost
- Volume doubled 1998-2008, next doubling will take 17 years
The Canal Boost for East Coast Imports from Asia

5-year Compound Annual TEU Growth Rates, Imports from Asia
Source: RK Johns forecast

East Coast
- 2003-2008: 6.7%
- 2008-2013: 4.8%
- 2013-2018: 0.6%

West Coast
- 2003-2008: 4.6%
- 2008-2013: 3.8%
- 2013-2018: 0%

“The changes we are seeing in patterns of trade are fundamental … the West Coast ports are unlikely to go into long term decline … we do expect up to 25% of the West Coast ports’ present import cargo base could be lost to the East & Gulf ports in the decade to come”

Drewry, Sept. 2008
Asia All-Water Services
Forecast Fleet Deployment by Vessel Size

Assumption:
• each weekly vessel string deploys 8 ships, carriers attempt to minimize # of strings

Source: R. K. Johns
Some Concluding Thoughts …

- The new economic buzzword … “Patience”
- 2010 the Year of the Exports
- Retail importer support for more all-water services will continue, but DC restocking will take time
- With only a return to moderate market growth projected, port competition will be intense (West Coast ports may still only be at 80% capacity by 2025!)
- East Coast ports need to take necessary steps to be “ready” for larger ships after Panama Canal expansion – DREDGING IS A CRITICAL COMPONENT, as is TERMINAL PRODUCTIVITY & NEW DEVELOPMENT
Thank you!

Bill Ralph
R. K. Johns & Associates
226 Chestnut St. Roselle Park NJ
brrkja@aol.com
908-245-2181