Trade Trends & Economic Outlook: Implications for Port Operations

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World Trade Recovery: Pace Remains Less Than Pre-Recession Years

(Percent change)

Source: IHS Global Insight
The World Economic Outlook is for Slow Recovery

- The U.S. economy gained strength in 2010 and is growing faster than the weak economies of Europe and Japan in 2011
- Emerging market growth is slowing a little, but still growing much more rapidly than the developed countries
- Commodity prices have increased – inflation will not be a problem in developed economies (due to remaining slack resources), but are a concern in the emerging markets
- Middle Eastern unrest and Japan earthquake / tsunami impacts combine to slow world growth, not reverse it in 2011
- High oil prices, slower government spending and persistent high unemployment still restrain pace of growth and recovery
Pace of Recovery in World Economy Slows in 2011

Port cargo demand reflects more volatile industrial production

(World GDP, Percent change)  (Industrial Production, Percent change)

Source: IHS Global Insight
Further Growth in Trade Depends on the Economy Continuing to Recover

• Port trade demand depends on business and household goods trade demand, part of consumption spending (70% of U.S. economy).

• Inventory rebuilding also affects trade outlook. It was rapid in 2009-2010 recovery but slower now.

• Port cargo demand also depends on the geography of production and consumption, linked by trade routes.

• The geography of ocean shipping is shifting as trade grows its share of the economy and where emerging market countries grow faster than advanced country economies.

• Expected world trade value growth of 8% in 2011 is twice the 4% world GDP growth forecast. This is not unusual.
GDP Growth Rate Differences Affect Pace of Trade Growth, and Trade Volumes by Trade Partner Route

Geography of production / consumption is shifting as emerging markets grow 6% on average over the next decade vs. 2.3% for advanced countries.

Source: IHS Global Insight
• Trade grows fastest on Asia routes, especially with China, now the #1 or #2 trade partner of many countries, not just among countries in Asia.

• In the longer-term, from a commodity-by-commodity perspective, containerized trade in lighter weight, higher value goods will outpace growth in bulk commodities.

• Relative trade growth for transport modes will reflect underlying commodity growth rates, which will result in relatively greater demand for container shipping than other vessel service types and the port operations to serve them.
World Trade’s Share of the Economy Grows Again After Temporary Decline

Globalization trend is long-term and has not reversed or stopped

(World imports, percent of GDP)

Source: IHS Global Insight
U.S. 2011 GDP Forecast is Modest Growth, Slower than the World Average of 4.4%

The U.S. is Growing Faster than Other Developed Markets; A Risk to Outlook is Higher Commodity Prices, Especially Oil

(2011 GDP Growth Forecast, percent)

Source: IMF, 2011
Growth In U.S. Trade Demand Is Coming From The Recovery Slowly Spreading

- U.S. sees recovery spreading through more sectors in 2011
- Net exports will contribute to growth. Construction should begin recovery; but with a long way to go, varying regionally
- Consumer spending is up mildly, thanks to small improvement in employment in most states. Spending on oil is up the most and remains a headwind for stronger growth
- Business is generally doing well, and despite uncertainties, cash flow remains good for most of the private sector
- Much of the 2011 U.S. recovery is not government stimulus-related
- U.S. GDP growth the next few years will average 2.8% to 3.5%, likely near the low end in 2011 due to Japan and high oil prices
- Recovery in business and consumer spending drives port cargo demand to near pre-recession volumes
Manufacturing Indexes Show Expansion
Useful Indicators of Port Cargo Demand

Purchasing Managers Index and Manufacturing Indexes

Source: Manufacturing ISM Report On Business
Consumer and Business Spending, Comprising 70% of U.S. Economy, is Still Recovering

US REAL CONSUMPTION
(Percentage change)

First negative consumption growth since ’80s

Source: IHS Global Insight
Consumer Spending Components: Durable Goods Most Volatile, Direct Influence on Trade Volumes

(U.S. Consumer Spending, Percent change, chained 2005 dollars)

Source: IHS Global Insight
The U.S. Dollar Will Depreciate Against Emerging Market Currencies the Most

Dollar Decline Boosts U.S. Export Competitiveness; Dampens Imports

(Real Trade-Weighted Dollar Index, 2005=1.0)

Source: IHS Global Insight
World Container Trade Volume Growth 2011-2014 is Not Double Digit

(Percent Change in Volume of Container Trade, in TEUs)

Source: IHS Global Insight WTS
World Container Ship Fleet and Demand Excess Capacity Lingers As Trade Recovers

Source: Drewry’s
Ocean Container Trade Outlook: Large Vessel Supply Leads to Port Service Changes

- Asia – North America container TEU volume growth in 2011 of 8.8% eastbound and 9.1% westbound is forecasted by Drewry.

- New big ships are going into Asia-Europe trades with displaced ships moving onto other routes such as N. America. With declining vessel utilization, new capacity has seen transpacific and Asia-Europe spot container rates fall 40%–50% or more since 2010 peak.

- Redeployment of large container vessels, ‘cascading’ onto North–South routes and into other services will add supply, and with reduced load factors will continue to provide pressure for containerization of additional trade.

- This supply pressure in the containership sector will continue as the orderbook of new containerships for delivery still represents over 25% of world containership capacity already operating. Other vessel types (e.g. dry bulk) also have large orderbooks.
West Coast Now Has a 62% Share of Containerized North American Import Volumes

Source: Global Port Tracker
### West Coast TEU Import Growth
Slower in 2011 After High Growth in 2010

<table>
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<tr>
<th>Year</th>
<th>Quarter</th>
<th>Percent Change vs Prior Quarter</th>
<th>Percent Change vs Prior Year</th>
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<td>2012</td>
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Source: Global Port Tracker
East Coast TEU Import Growth
Moderate Growth in 2011 After 2010 Rebound

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Source: Global Port Tracker
What Can We Conclude?

- Economic conditions are still key to port cargo trade demand. Relatively slow growth continues, likely for years. Imbalances shifting.

- In the U.S. consumer demand is key to trade, yet vessel supply and port operations matter.

- Environmental factors (fuels, alternative marine power, emissions control areas, slow steaming) increasingly affect trade and ports.

- Ocean shipping rates, pressured by supply demand imbalances (and oil prices) long-term affect port choices and sourcing.
Thank you!

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