Trade and Transportation Trends 2007

AAPA Spring Conference
March 20, 2007

Washington, DC

Paul Bingham
Global Insight, Inc.
Agenda

• Global and U.S. economic outlook
• Implications for sea trade
• Conclusions
Key Global Issues and Trends

• Will higher oil prices derail recovery?    NO - Not at $70-75
• Will the dollar crash?                    NO, but . . .
• China: Hard or soft landing?             SOFT
• New and important players?               YES, longer term . . .
Has world economic growth peaked? -- 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 normally grows faster than the world economy, and 2006 saw healthy growth in both.

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
- Increasing freight traffic and congestion along 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

Source: Global Insight World Service
Growth is not uniform: Market shifts are coming and will affect U.S. trade and transportation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></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>
<td>India</td>
</tr>
<tr>
<td>U.K.</td>
<td>U.K.</td>
<td>Germany</td>
<td>India</td>
<td>Japan</td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>China</td>
<td>U.K.</td>
<td>Russia</td>
<td>Russia</td>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>France</td>
<td>India</td>
<td>U.K.</td>
<td>Brazil</td>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Italy</td>
<td>France</td>
<td>Germany</td>
<td>U.K.</td>
<td>U.K.</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>India</td>
<td>Russia</td>
<td>France</td>
<td>Germany</td>
<td>France</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Russia</td>
<td>Italy</td>
<td>Brazil</td>
<td>France</td>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>Brazil</td>
<td>Brazil</td>
<td>Italy</td>
<td>Italy</td>
<td>Italy</td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Insight World Service and Goldman Sachs
The U.S. economic expansion is in a new phase – the U.S. started to slow down in 2006

- The U.S. economy started 2006 with strong momentum
  - 5.3% in the first quarter 2006
  - Fell to just 2.4% by the last quarter of 2006
- Real GDP growth in 2007 will slip to 2.3% (below 3% trend)
- Home sales and construction are declining as affordability deteriorates; hurricane rebuilding will still cushion the fall
- Business investment is now leading the economy, supported by record profits and global market growth, especially Asia
- Non-residential construction is poised to grow
- Further dollar depreciation is expected, so exports will improve

A weak start and a faster finish in 2007
After the 2006 U.S. GDP slowing we’ll see modest improvement in 2007 – though slower than the world

Real GDP
2006: 3.3%
2007: 2.3%

Source: Global Insight U.S. Macroeconomic Forecast Service
Huge U.S. Current Account Deficits Continue

(Billions)

$200

$0

-$200

-$400

-$600

-$800

-$1,000


Source: Global Insight U.S. Macroeconomic Forecast Service
The U.S. dollar will depreciate further – steady declines through 2008, due to the current account deficits

This could be another 16% drop in the dollar.

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 will have a soft landing
- 1/3 of the world’s container trade is now intra-Asian
Agenda

- Global and U.S. economic outlook
- Implications for sea trade
- Conclusions
U.S. TEU imports will slow to 6.3% in 2007, and 8.3% in 2008. Chinese imports will grow fastest (10% on average).

China was 1/3 of US imports in 2000 and will be 1/2 by 2010.

Source: Global Insight World Trade Service
China’s U.S. market penetration in some sectors is reaching saturation ...

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

- Office and Computing Equipment
- Semi-conductors, Electronic parts, etc.

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
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

<table>
<thead>
<tr>
<th>Year</th>
<th>FEU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.2 million</td>
</tr>
<tr>
<td>2015</td>
<td>4.2 million</td>
</tr>
</tbody>
</table>

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
Agenda

• Global and U.S. economic outlook
• Implications for sea trade
• Conclusions
**Bottom Line**

- World economic growth peaked in 2006, and 2007 should see slower increases in growth, with the U.S. growth lagging the world.
- Asia and Eastern Europe will experience the strongest growth; Western European and Japanese growth will be very slow.
- U.S. trade will grow faster than in other developed countries, but slower than for the developing economies.
- Pressures from continued 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

Paul Bingham
(202) 481-9216 / (202) 481-9301 (fax)
paul.bingham@globalinsight.com
www.globalinsight.com
Panama Canal Expansion Allows the Canal’s Container Tonnage to Triple within 20 Years

Most probable

Container Share of Total Canal Tonnage Up from 34% to 59%

Source: ACP; Norbridge
Mexican Pacific port alternatives are being explored to feed the U.S. market as Asian trade growth continues

- Continued growth in container volumes
- US West Coast congestion could return
- All-water service cost increases
- Challenges remain