



The Importance of Ports for Trade and the Economy



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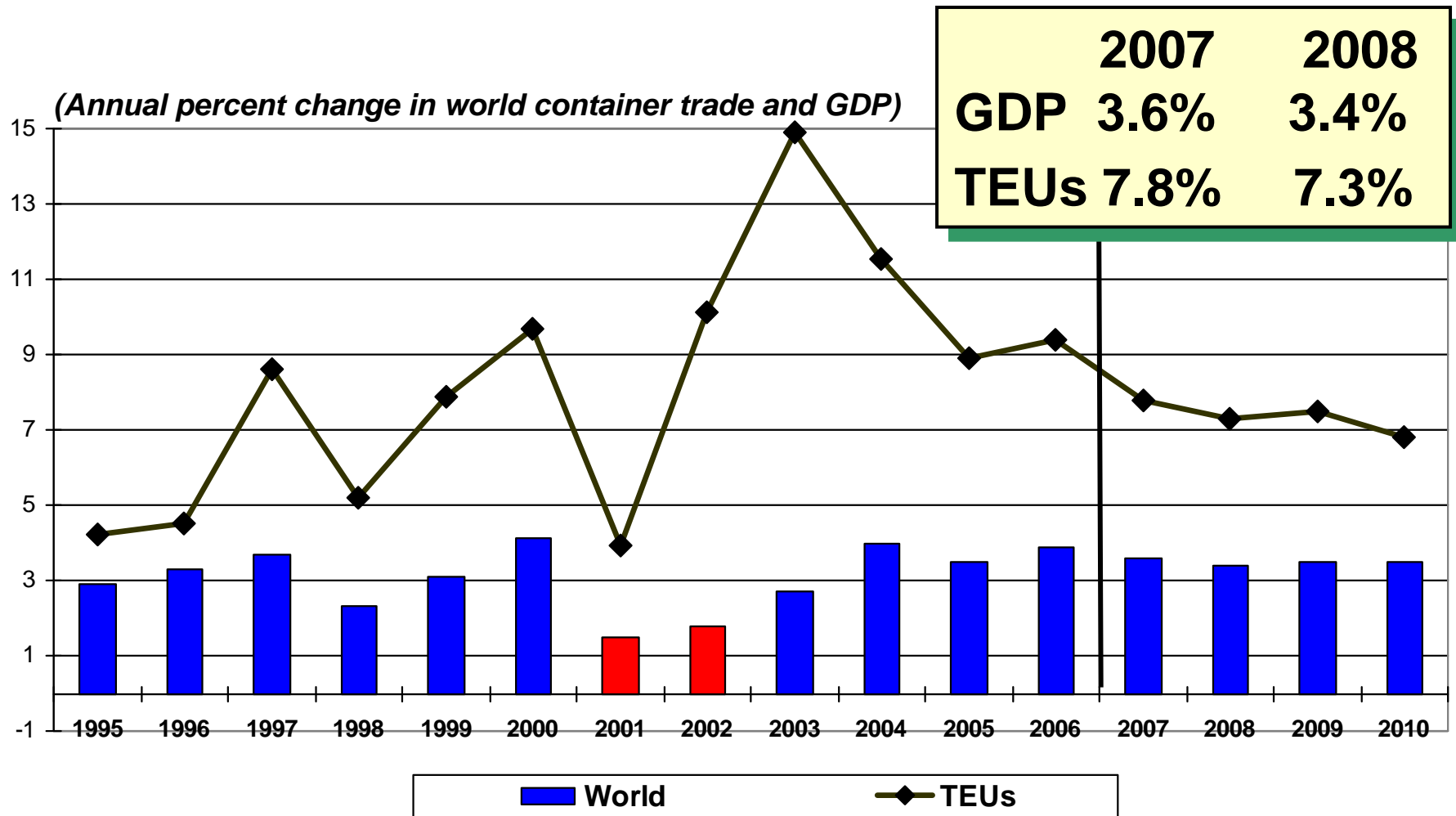
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What's the Point of Increasing Trade?

- **Expanded markets for producers via exports; Reduced prices from importing goods and services; increased quality and choices available for consumers and business**
- **Importers benefit from foreign resources and investments**
- **Exporters benefit from larger, more open markets**
- **Job growth in the transportation and distribution sector**
- **Accelerated development of trade partners' economies**
- **Shifts in economic geography, inside and out of the U.S.**

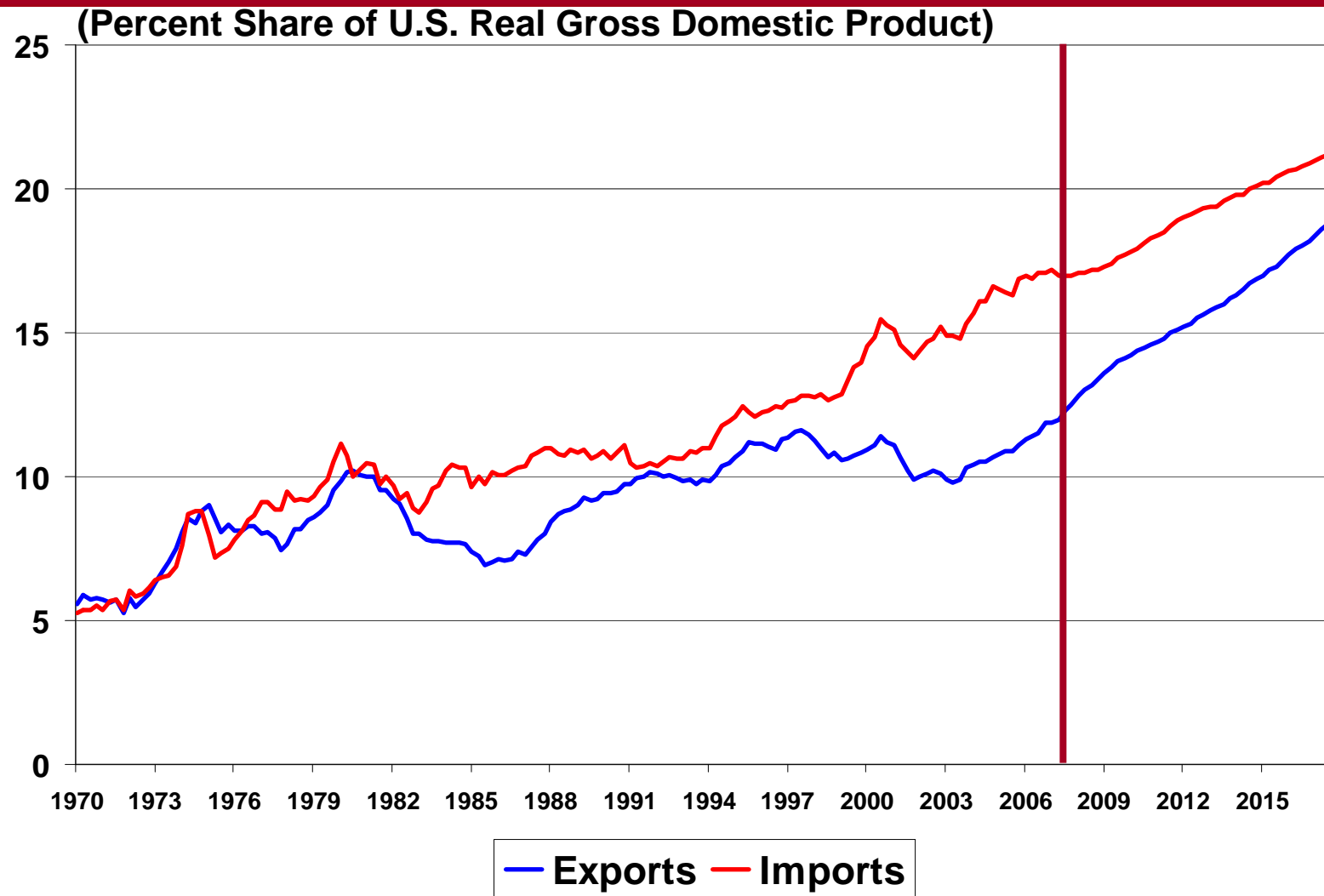
While maintaining the environment, safety and security

Trade is Growing Faster than the Overall Economy



Source: Global Insight World Service and World Trade Service

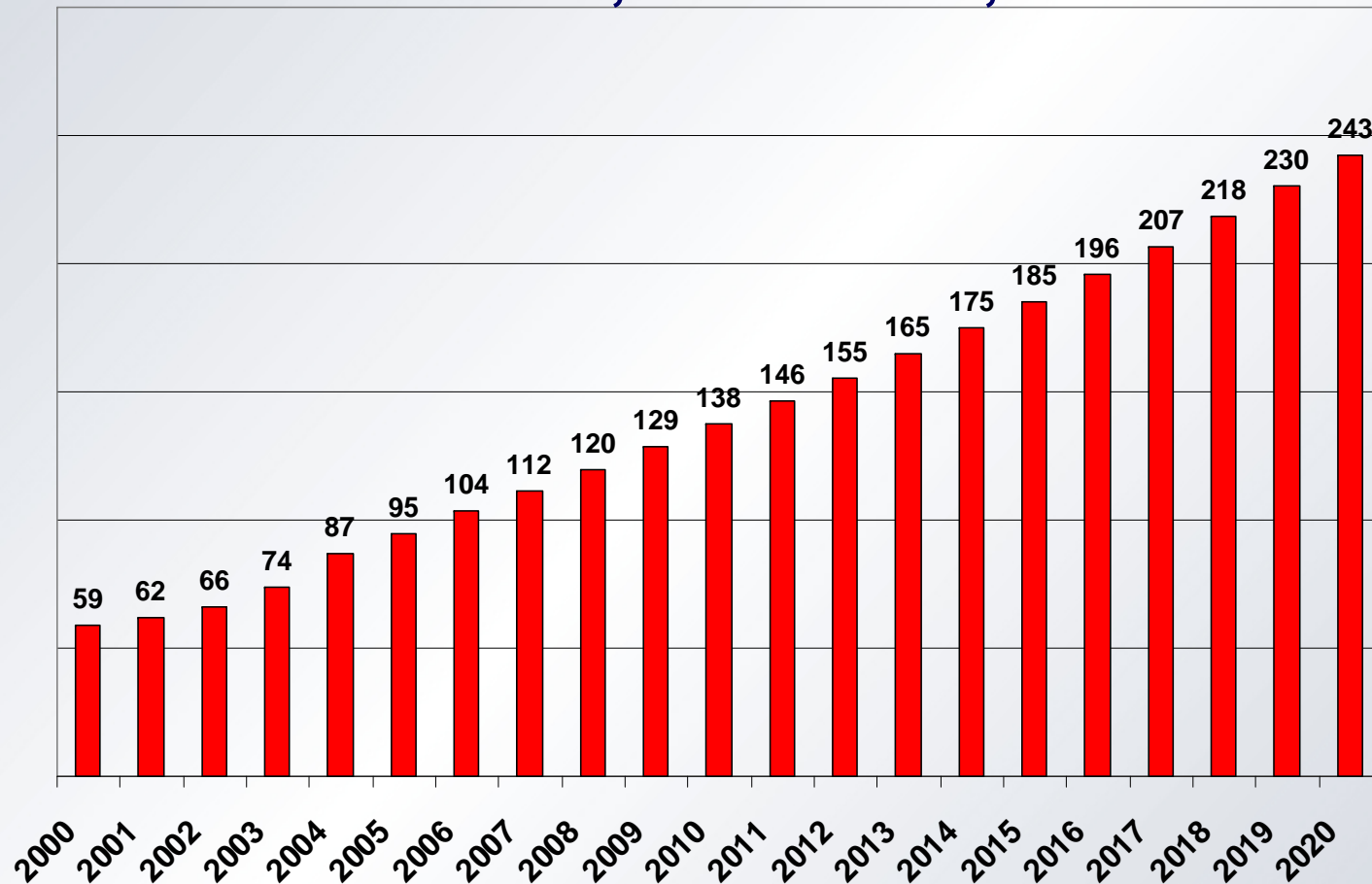
The Long-term Trend is for the Trade Share of the U.S. Economy to Continue to Increase



Source: Global Insight U.S. Macroeconomic Forecast Service

World Container Trade Volumes Double by 2020

Containerized Trade, Million TEU, 2000 - 2020



Note: Fully loaded containers traded (without port handling double counting); Source: Global Insight

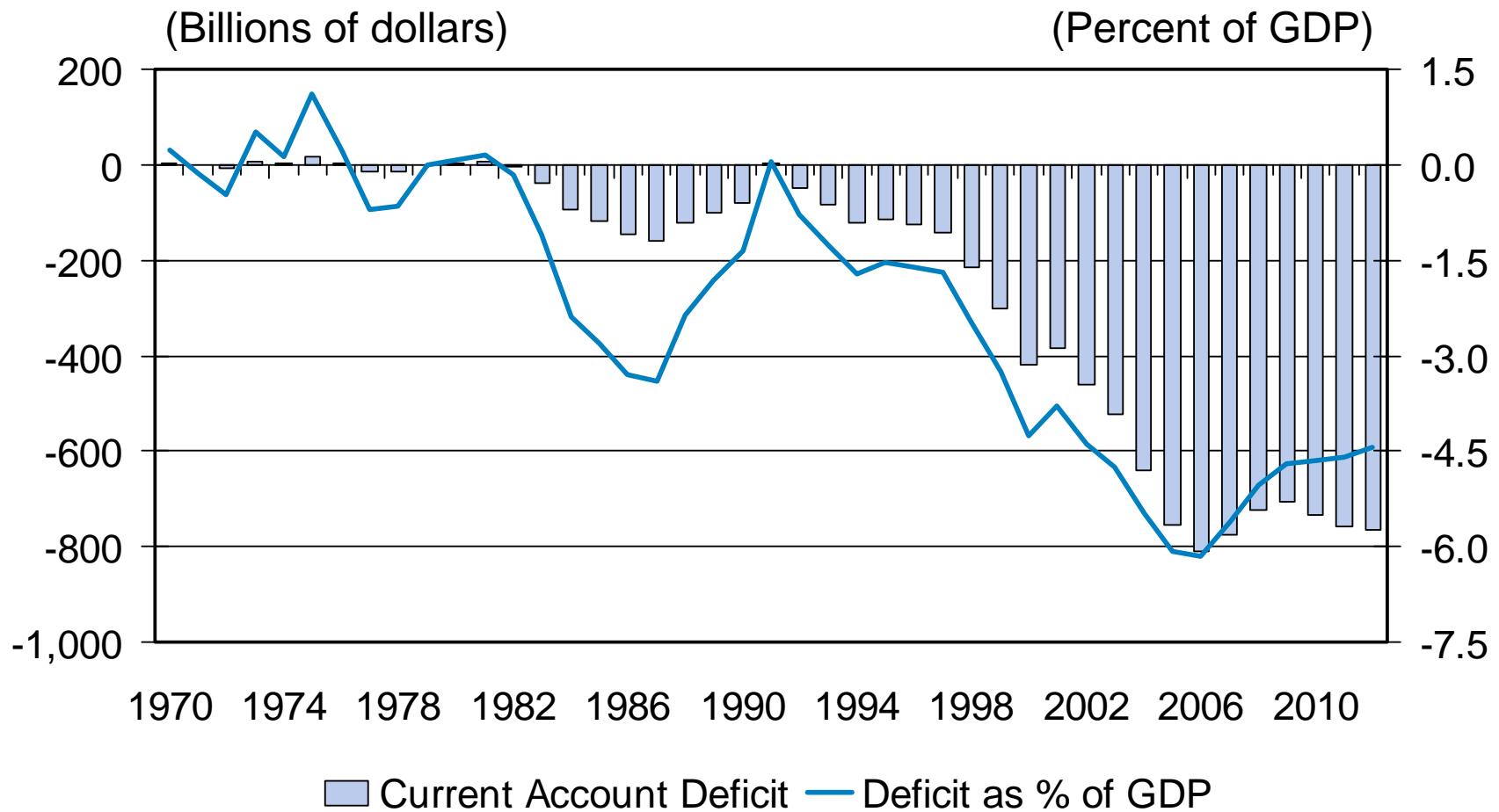
Global Economic Conditions Affect Port Trade

- **Macroeconomic factors at work affecting port volumes right now:**
 - **Weaker U.S. consumer and business spending**
 - **Increased energy prices**
 - **Weaker U.S. dollar**
 - **The U.S. housing market recession**
- **With the dollar's drop, strong growth in trade partner economies in Asia and Europe have resulted in strong U.S. export growth**
- **Further dollar exchange rate weakening is forecast in 2008 promoting U.S. exports and dampening U.S. import demand, though the dollar's further weakening ends after 2008**
- **U.S. continues to run a trade deficit, especially in goods trade**

Imbalanced U.S. Container Trade is a Reflection of the U.S. Trade Deficit and Global Interdependency

- **The U.S. is dependent on lending and investments from foreigners to finance its huge trade deficit**
- **Trading partners are dependent on the U.S. consumer for the demand to keep them employed**
- **The global trade imbalance requires a global solution:**
 - **Higher U.S. savings, including federal deficit reduction and the cooling of housing and consumer markets**
 - **Faster domestic growth in Western Europe and Asia**
 - **U.S. dollar depreciation; Asian currency appreciation**
- **The trend is positive for reduction in the U.S. trade deficit, at least as a share of GDP**

U.S. Current Account Deficit: Peaking at Last

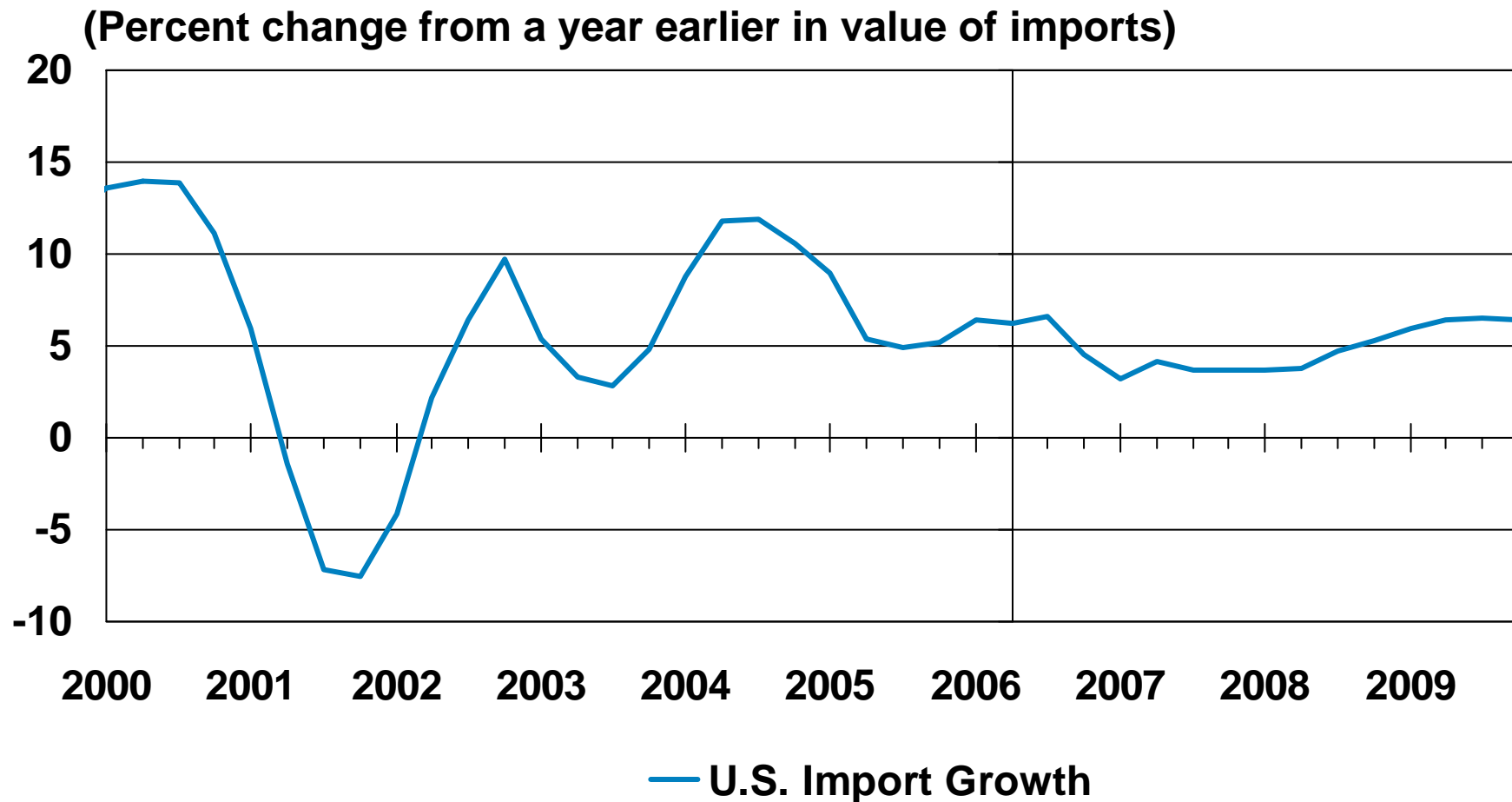


Source: Global Insight U.S. Macroeconomic Forecast Service

The Port Outlook: Relentless Long-Term Growth

- **Except for oil, U.S. spending on imports is increasingly focused on container imports from Asia, especially China**
- **The 2002 W. Coast port lockout and the 2004 W. Coast port congestion increased shippers' consideration of alternative North American gateway ports, while weak demand has led to slow 2007 import volume growth**
- **... however San Pedro Bay ports' proximity to Asia and the huge local market provides long-term network advantages that are compelling for importers**
- **U.S. import growth rates will rebound with the eventual recovery in the U.S. economy. Asia will continue to dominate as the largest source imported container goods**

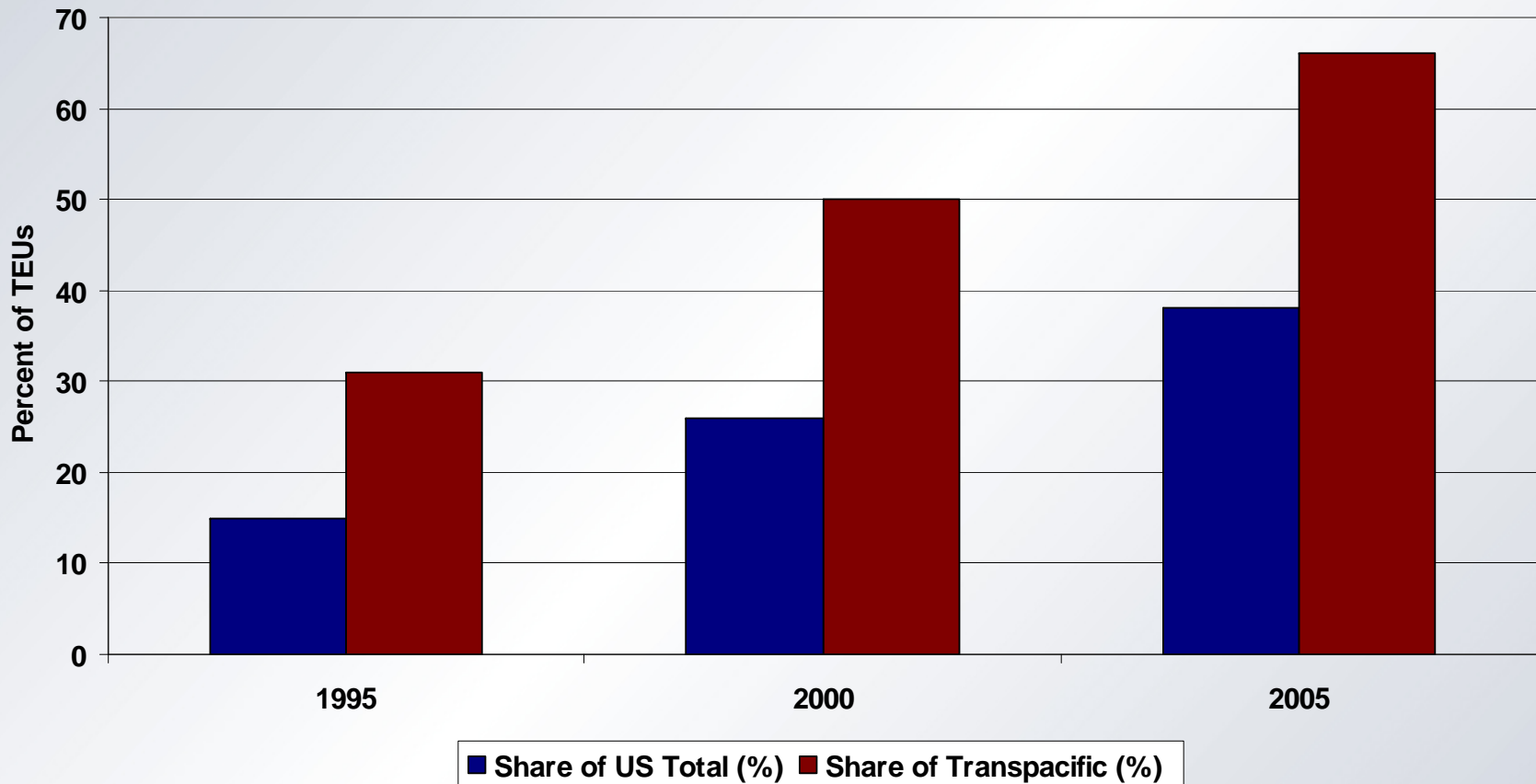
Slow U.S. Import Growth Will Rebound When Domestic Demand Growth Recovers By 2009



Source: Global Insight U.S. Macroeconomic Forecast Service

China's Role in U.S. Imports is Hard to Overstate

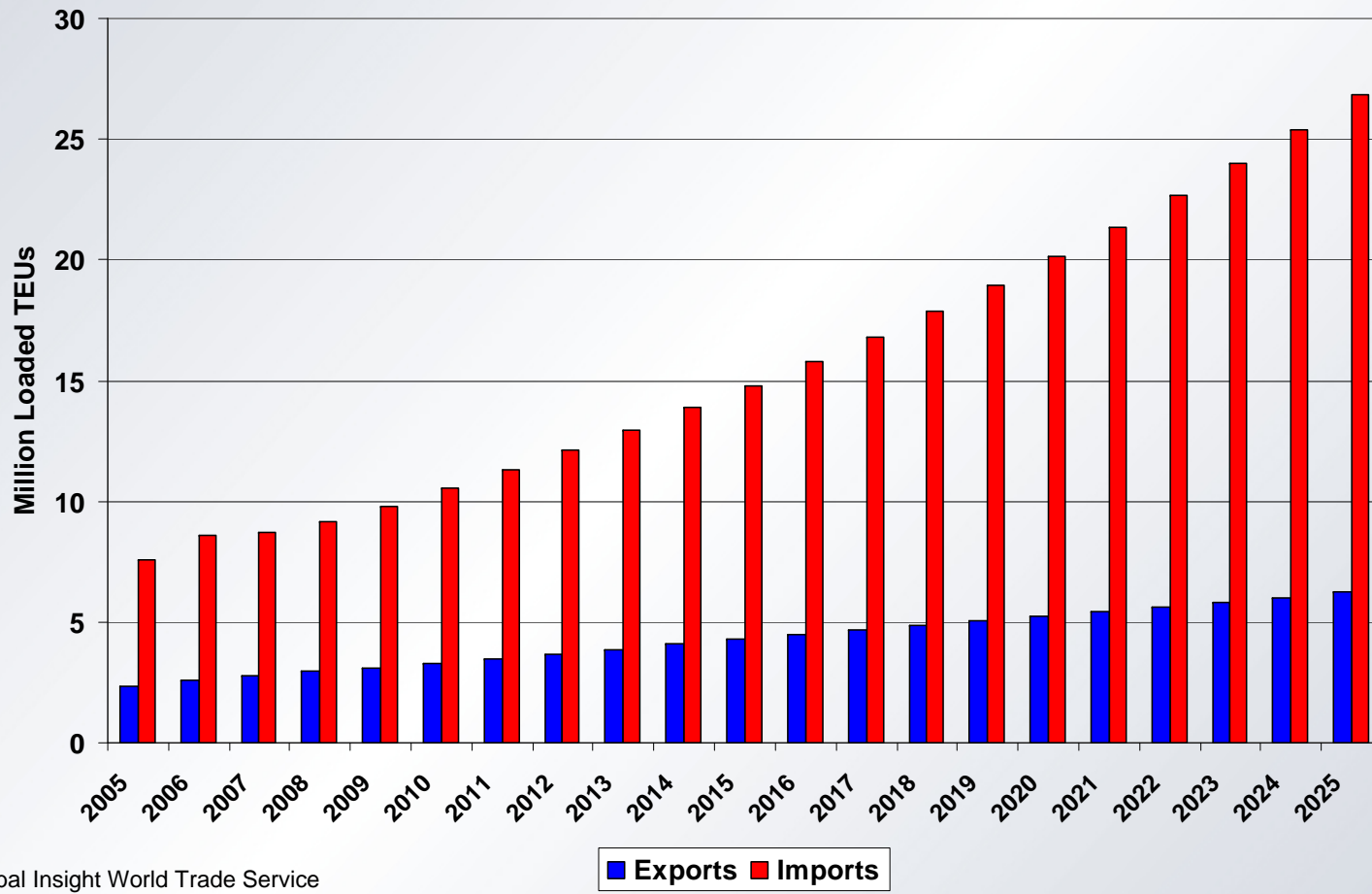
Percent of U.S. Containerized Import TEUs, 1995 - 2005



Note: Journal of Commerce PIERS

Demand for S. California Port Throughput Grows

U.S. S. Pacific Coast Loaded Container Trade Demand



Source: Global Insight World Trade Service

Port Capacity and Congestion Outlook is Mixed

- In the near-term, U.S. and San Pedro Bay port and related inland infrastructure capacity will be adequate for the forecast trade volume. No infrastructure-related congestion is forecast through next year.
- In the longer-term the situation is less certain. Further into the future, it is less obvious where the throughput capacity to maintain overall system performance will come from, with trade demand, especially for Asian trade, growing.
- Longer-term, growth of equipment size (container ships, train lengths) will temper decentralization to smaller ports that lack infrastructure to handle the larger equipment and volumes, so pressures on the key gateways remain.

Inland Transport System Capacity Matters Too

Challenge:

Container trade growth remains faster than the growth of U.S. land-side freight system capacity linking seaports, terminals, railroads, trucking, warehousing and labor

(Partial) Solutions:

- **International trade will be increasingly integrated with inland transport; less W. Coast transloading; more “hub and spoke” (inland) distribution; more ‘bulk’ import distribution centers**
- **Smaller and more frequent shipments favors truck vs. rail; intermodal container vs. intermodal rail trailer**
- **Improved (double-stack) intermodal rail service captures more line-haul long-distance trucking**
- **However, sustained trucking growth swamps other inland mode alternatives with trucking remaining the default service**

Current Long-term Infrastructure Capacity Needs

Consequences of inadequate infrastructure include:

- **Worsening congestion; urban slack capacity used up**
- **Deteriorating travel times and delivery time reliability**
- **Increasing costs (e.g., freight rates, ancillary fees, ...)**
- **More community NIMBY opposition to freight activity**
- **Increasing mismatch in scope and scale of shipper and carrier networks and government jurisdiction / interests**
- **Future demands on public finance for ‘catch-up’ investments for infrastructure, operations and maintenance**

Bottom Line

- **Trade is increasingly important for the continued growth of the U.S. economy**
- **Adequate infrastructure to handle trade through the ports is not assured**
- **Consequences of inaction or delay in improving trade-related infrastructure will have real costs to the economy**
- **Southern California and its ports are critical to the continued growth in U.S. trade**



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Thank You

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