

Trade & Transportation Outlook

Presented to:



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Presented by:

Paul Bingham, Principal

Global Insight, Inc. (formerly DRI-WEFA, Inc.)

202-481-9216

paul.bingham@globalinsight.com

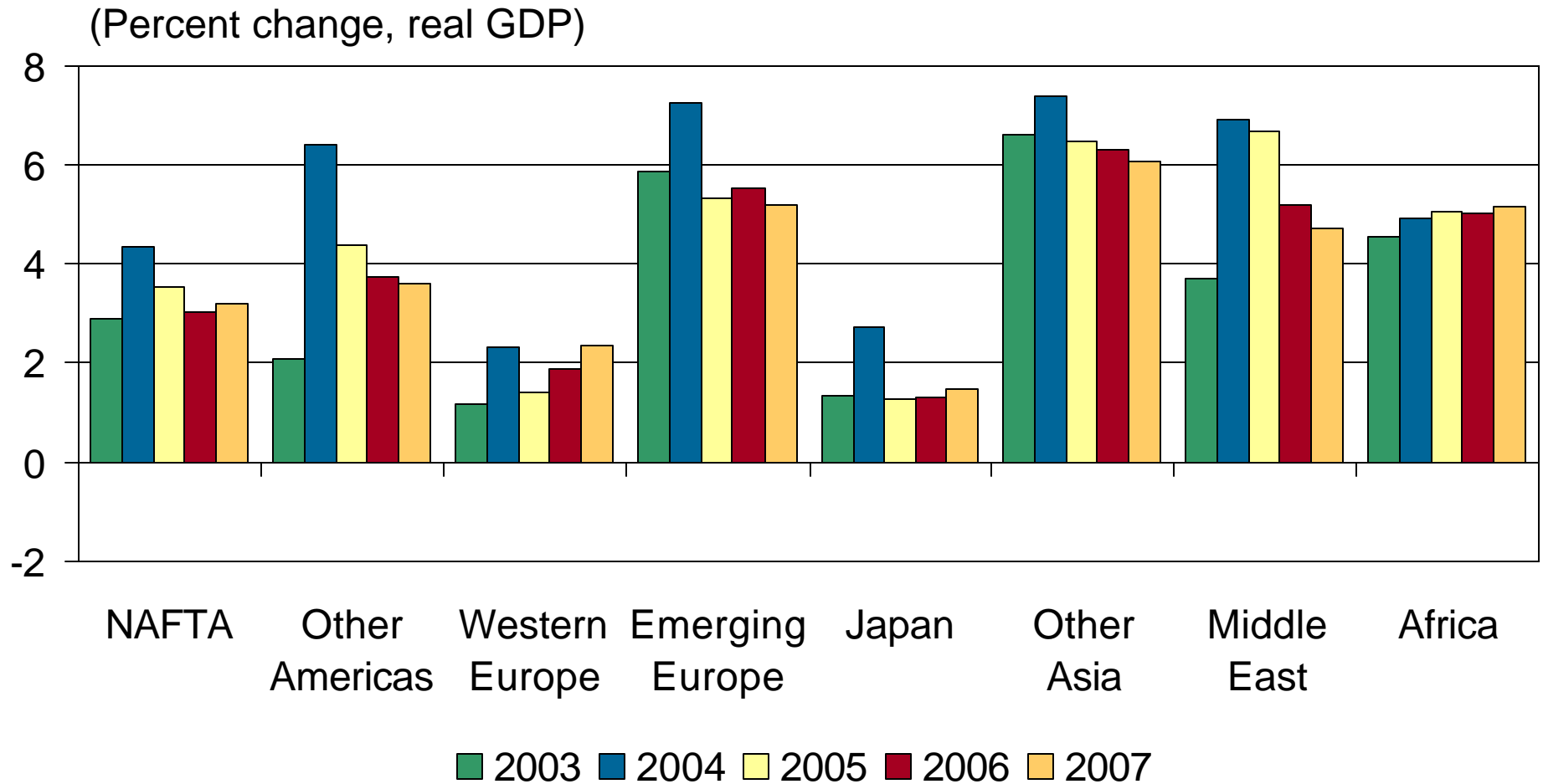
Agenda

- **Factors Affecting the Trade Outlook**
 - **Economic Factors**
 - **Infrastructure and Logistics Factors**
- **Trade Outlook**
 - **U.S. Trade Outlook**
 - **U.S. International Transport Mode Outlook**
- **Inland Distribution of Trade & Freight**
- **Conclusions**

A Mature & Vulnerable World Economy Expansion

- **Growth peak was 2004. The question now is not whether the global economy is slowing down, but how much**
- **High oil prices are exacerbating both the growth and current account imbalances, but inflation & interest rates are still low**
- **U.S. consumer spending growth is slowing, Chinese energy demand is decelerating, and a few countries (Germany, Italy, and Japan) are, once again, flirting with recession**
- **There is no shortage of risks**
 - **Even higher oil prices**
 - **Lopsided growth**
 - **Bubbles**
 - **High debt levels**
 - **Protectionism**
 - **More Terrorism**

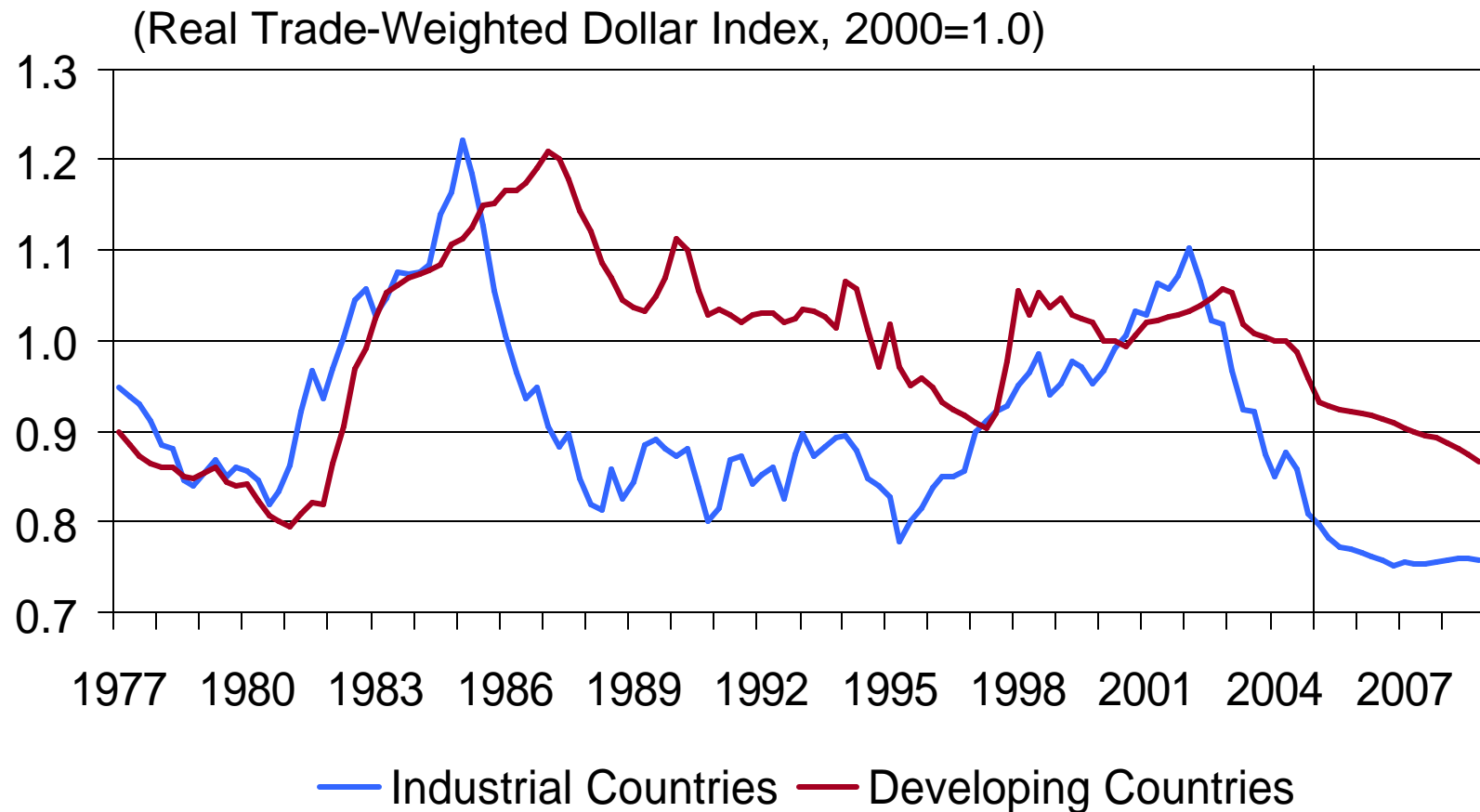
Growth Is Very Uneven Across the World



China's Export-led Trade Growth has been Fundamental to their Economic Success

	1980	2004
Real GDP (2003\$ billions)	181	1,597
Relative Real GDP (% of U.S. level)	3%	14%
Real GDP Growth in Previous 10 Years	5.3%	8.6%
Population (millions)	981	1,300
Real Per Capita GDP (2004 PPP\$)	810	5,400
Trade's Value Compared to GDP	15%	85%
Current Account Surplus (\$ billions)	1	14
Agriculture's Share in GDP	30%	15%
Urbanization	20%	33%

The Continued U.S. Dollar Depreciation Will Dampen U.S. Imports; Support Growth in U.S. Exports

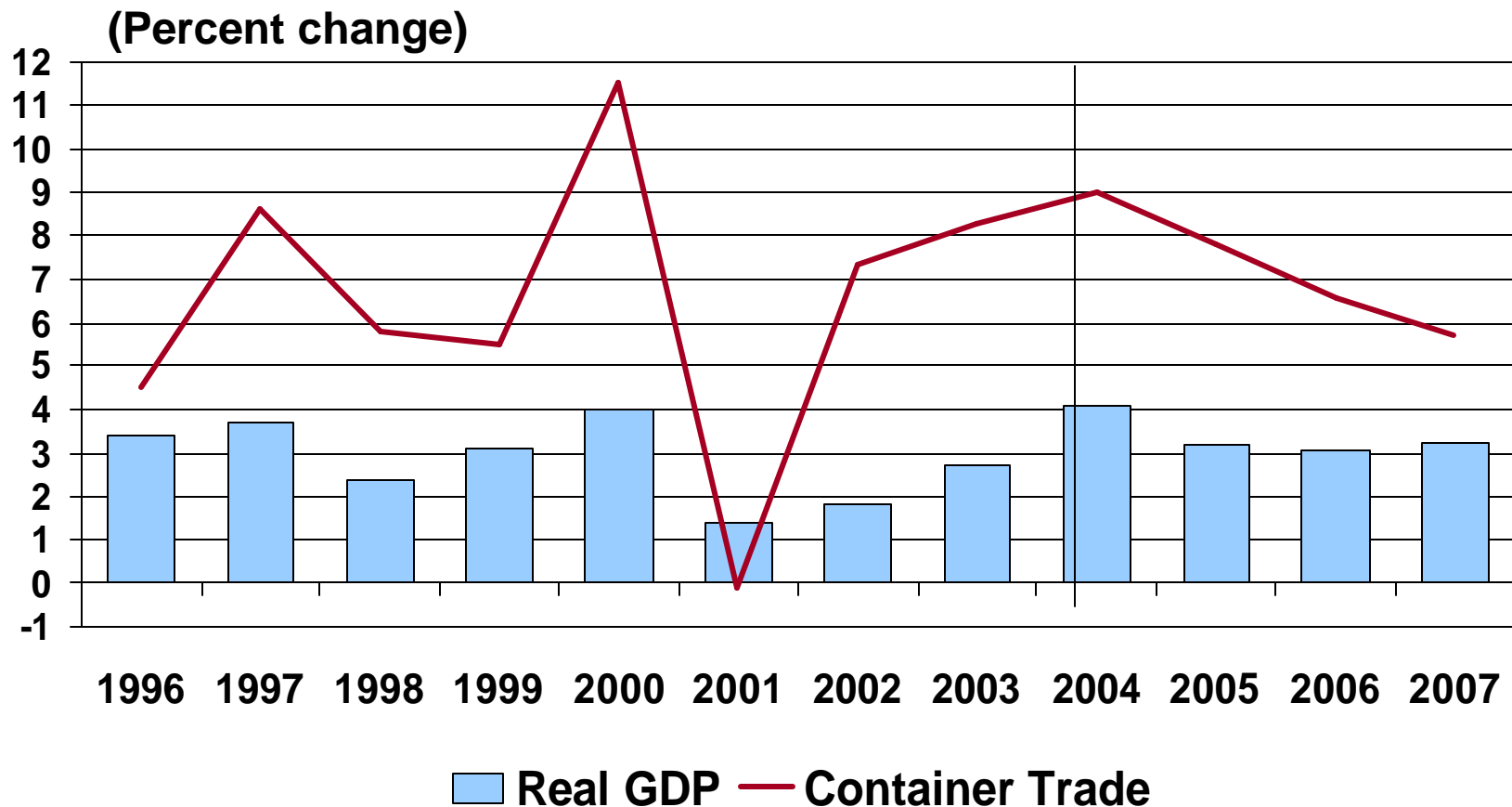


The U.S. Is Expanding Free Trade Agreements, Reducing Barriers To Increased Trade Long Term

U.S. FTAs in Force	Negotiations Underway or Completed
Israel (1986)	Bahrain
Canada (1988)	Panama
NAFTA (1992)	Thailand
Jordan (2000)	CAFTA (without Dom. Rep.)
Chile (2004)	S. African Customs Union
Singapore (2004)	Andean Countries
Australia (2005)	Oman and UAE
Morocco (TBD)	Free Trade Area of the Americas

The U.S. makes strong demands on labor and environmental issues but the U.S. will not truly open its agriculture sector.

World Containerized Trade Volume Typically Grows Much Faster than the World Economy



Infrastructure And Logistics Enable Or Hinder Trade Growth With Many Sources of Problems

- **Ports and Maritime Terminals**
 - **Throughput capacity limited from operational and physical constraints**
- **Inland Rail and Truck Transport Infrastructure**
 - **Off-dock rail terminals near ports require truck drayage**
 - **Inland intermodal terminals**
 - **Expansion constraints and operational problems from high utilization**
 - **Railroad networks are not dynamic enough to adjust**
 - **In U.S. and Canada, Class I freight rail networks lack capacity**
 - **North American trucking industry capacity problems**
 - **Congestion and increased regulation (e.g. HOS, emissions) reduce productivity of existing truck fleets and drivers**
- **Lean logistics practices**
 - **Using trucks and terminal storage as warehousing; Cost shifting**

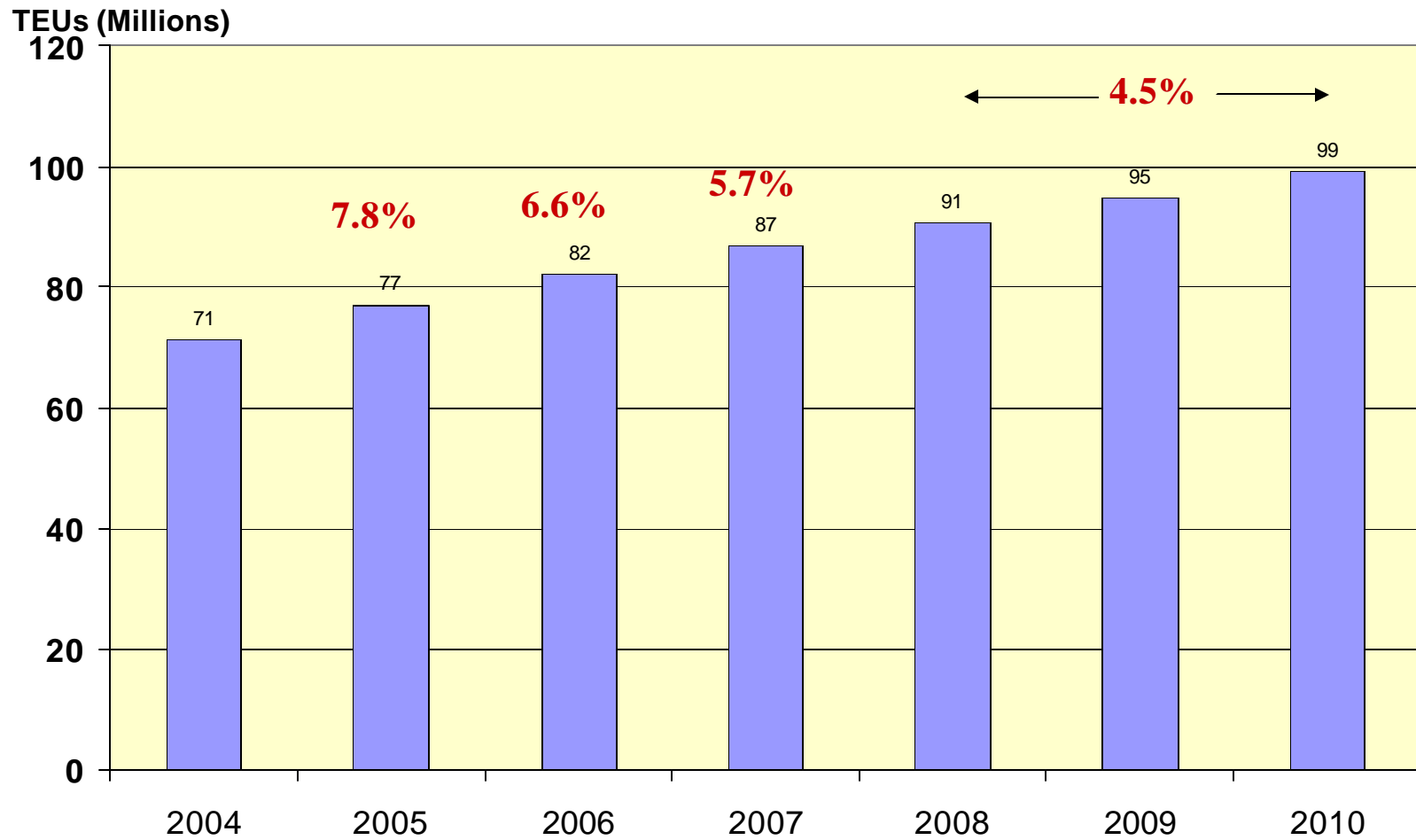
Consequences Of Transport And Logistics Problems For Merchandise Trade Growth

- **As the velocity of international supply chains slows, total delivered costs of the goods increase.**
- **Cost increases pressure retailers and other importers to re-align sourcing for cost minimization, including shifting between country-of-origin for supply, and distribution patterns within the U.S.**
- **Importer revisions to supply chains are incremental as many of the investments and resources already committed are not easy to change overnight, however large swings are possible year-to-year.**
- **Increased costs passed through to customers affect spending on imports and ultimately overall economic performance through changes in trade.**

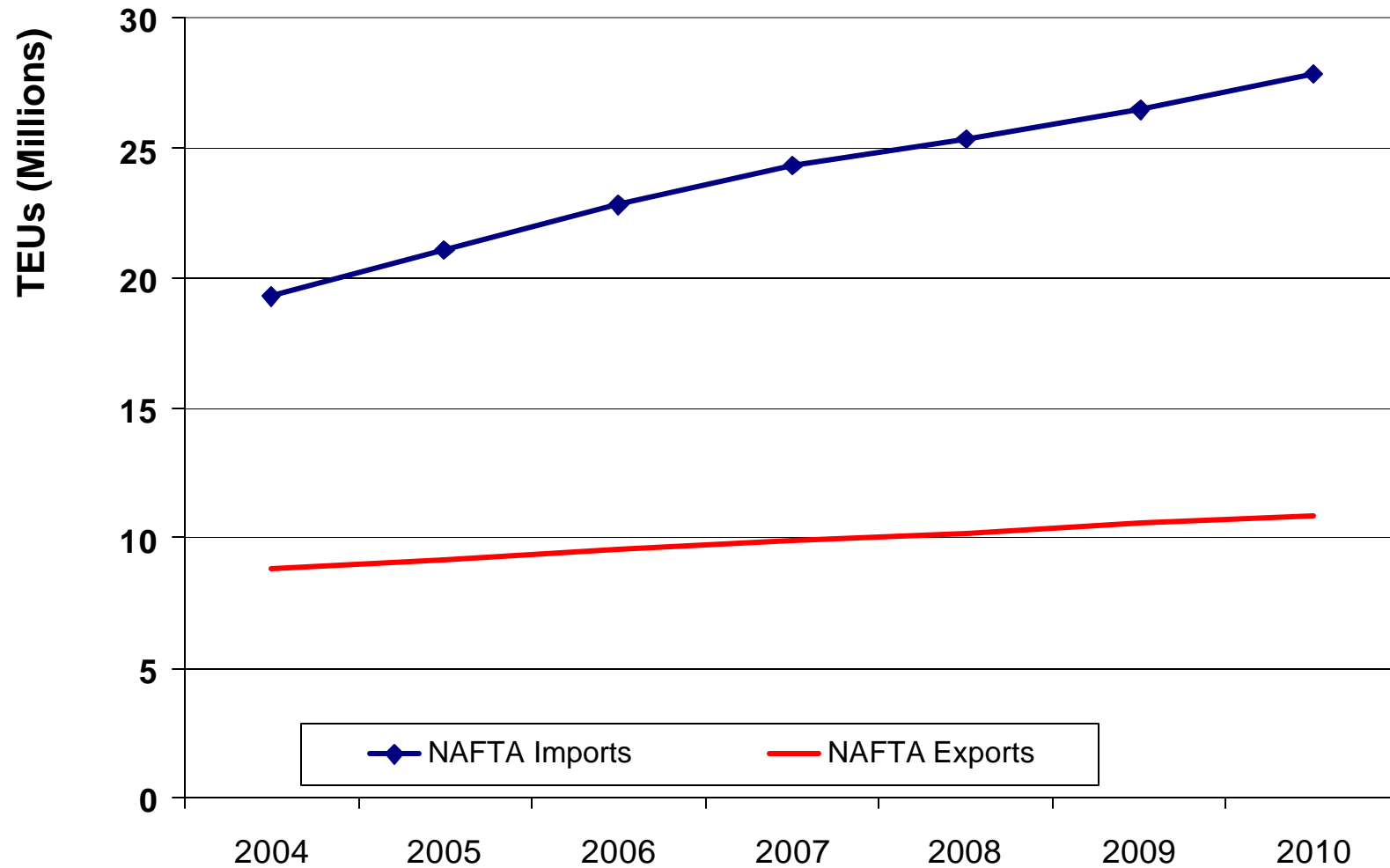
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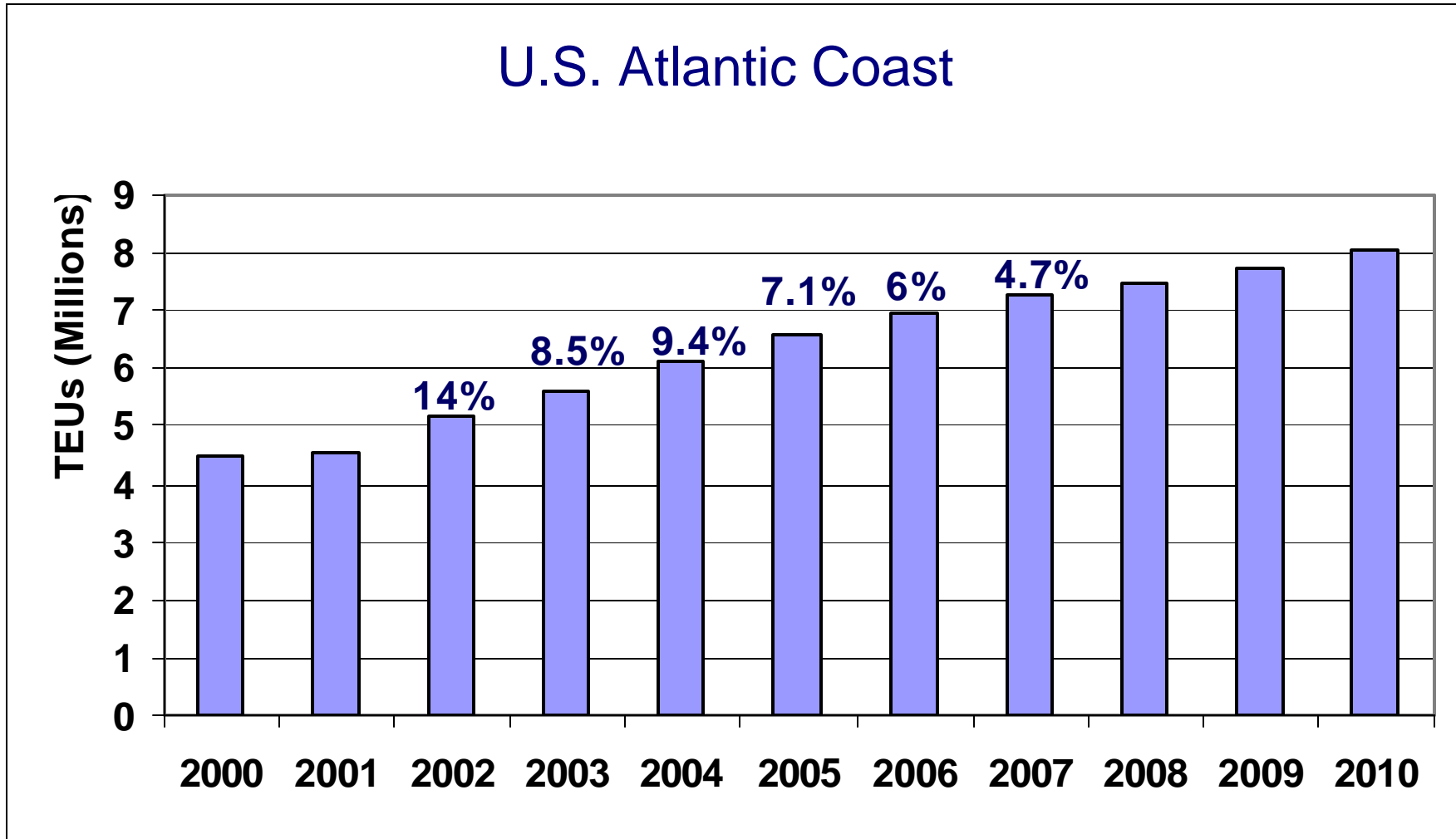
World Ocean Container Trade will Continue to Expand, Though More Slowly Than in 2004



Container Trade Remains Imbalanced for the NAFTA Region as a Whole



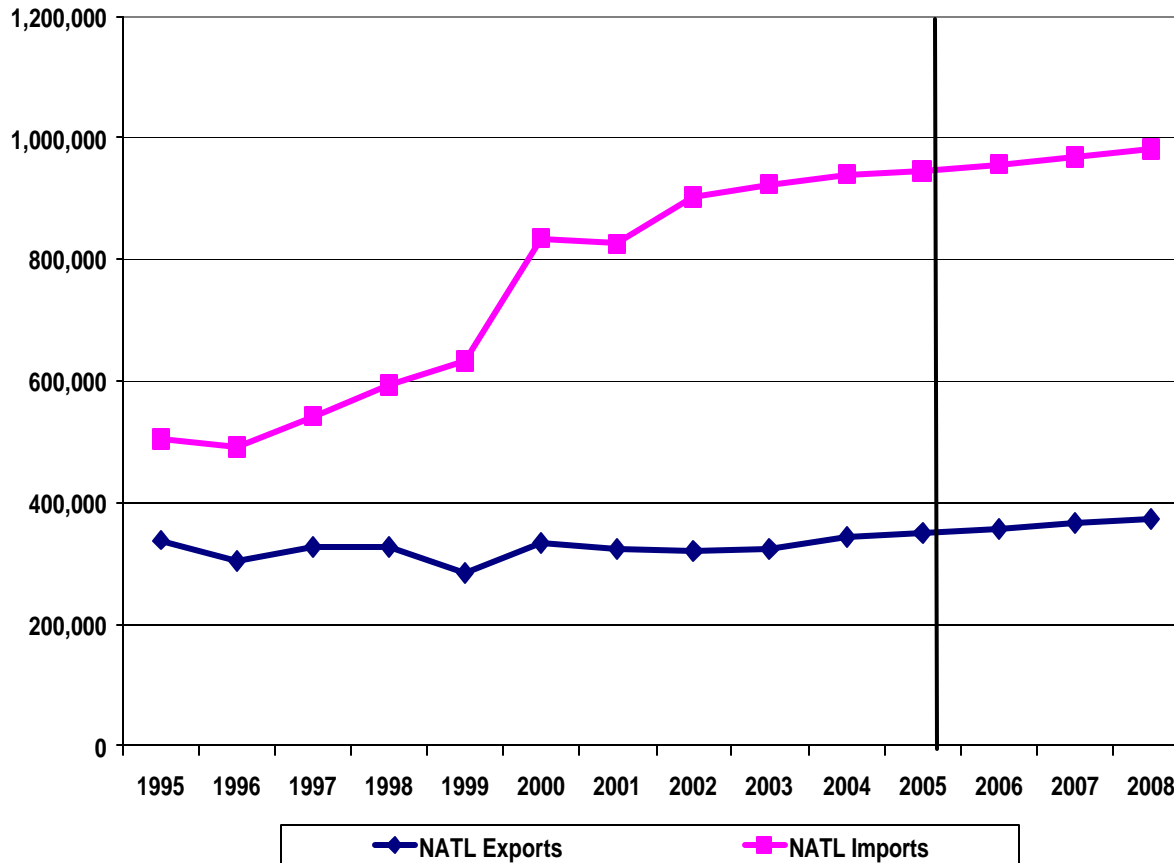
U.S. Atlantic Coast Containerized Trade Growth Has Been Very Strong Since 2002



Container Trade With Europe Reflects Their Economic Weakness As Well As The Weaker Dollar

North Atlantic Trade with Europe

Norfolk to Maine



	1995-2003	2003-08
NATL Exports	-0.5%	2.8%
NATL Imports	7.8%	1.2%

Container imports from Europe slow due to stronger Euro.

Exports to Europe will grow more slowly than to most other markets due to weak demand.

China's seaborne trade is increasingly important . . .

Exports from North Atlantic

	2004	Share of Total	2008	Share of Total
China	265,668	22.3%	373,347	27.3%
United Kingdom	63,116	5.3%	69,529	5.1%
South Korea	51,082	4.3%	49,412	3.6%
Belgium	47,869	4.0%	53,530	3.9%
India	43,305	3.6%	46,685	3.4%
Netherlands	40,354	3.4%	44,753	3.3%
Germany	39,382	3.3%	43,794	3.2%
Japan	34,289	2.9%	36,659	2.7%
Hong Kong	33,901	2.8%	35,737	2.6%
Brazil	33,430	2.8%	36,487	2.7%

Europe represented 29% of N. Atlantic's container exports in 2004.

Europe will fall to 27% of N. Atlantic's container exports by 2008.

China's share of seaborne imports even larger . . .

Imports to the North Atlantic

	2004	Share of Total	2008	Share of Total
China	992,699	28.2%	1,534,616	35.9%
Brazil	267,266	7.6%	313,387	7.3%
Germany	200,924	5.7%	206,346	4.8%
Italy	154,394	4.4%	162,271	3.8%
Japan	100,448	2.9%	111,103	2.6%
India	95,361	2.7%	130,079	3.0%
United Kingdom	92,674	2.6%	95,095	2.2%
Central America	81,069	2.3%	91,461	2.1%
France	80,906	2.3%	82,487	1.9%
Taiwan	80,569	2.3%	76,380	1.8%

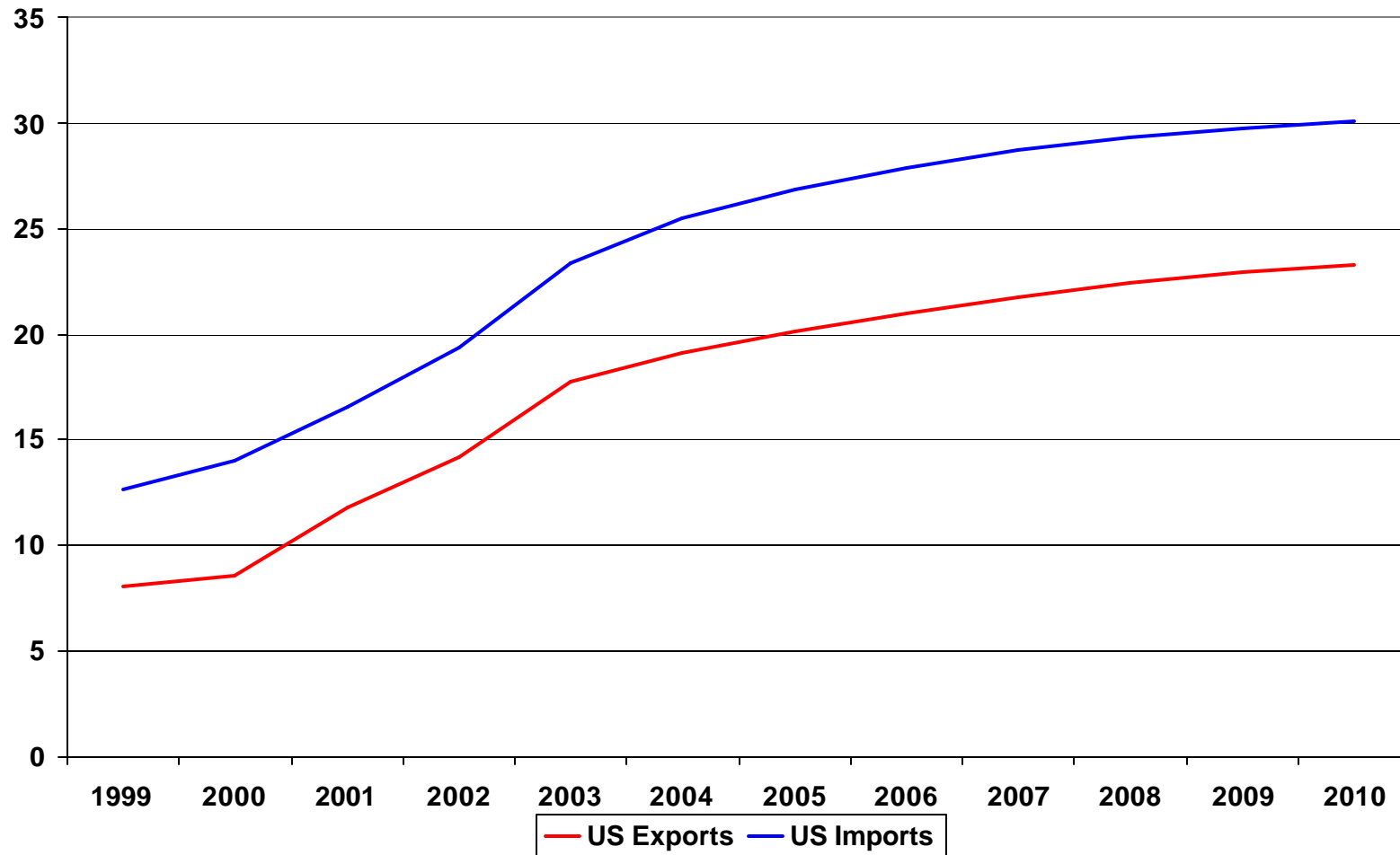
Europe's 28% share of N. Atlantic's container imports in 2004 ...

will drop to just 23% by 2008.

Only China and India actually gain share.

China's Importance as U.S. Trade Partner Jumps

China's Share of U.S. Merchandise Trade with Asia, Percent of Value



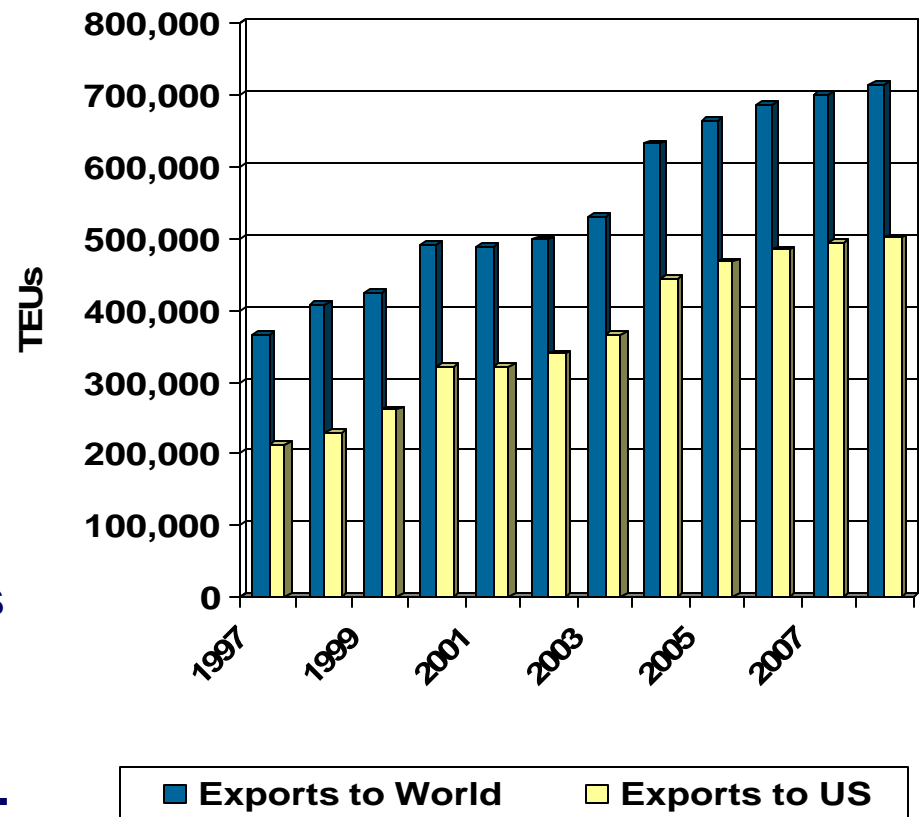
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U.S. trade with Central America: U.S. imports over 70% of Central America's containerized exports.

With textile and apparel quotas gone, China has gained share but with constraints to capturing the U.S. market.

- India and Central America benefit.
- Mexico already gave up the textile industry.
- Central America has supplied about 1/2 the U.S. textile & apparel market.
- Refrigerated products and light industry make up most of the region's containerized exports, many to Phila.
- Through 2008, TEUs exported to the U.S. grow an average of 5.5% per year.

Central America to/from US



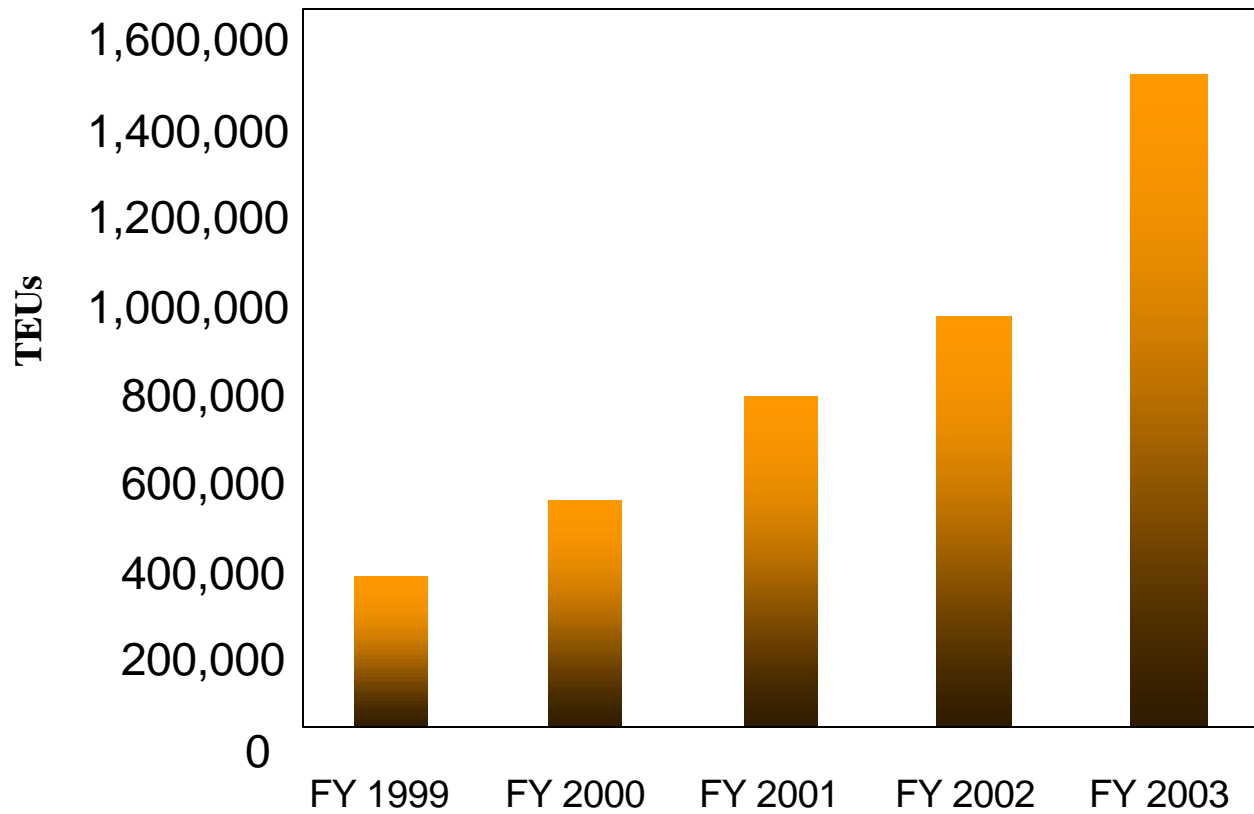
Mexico as U.S. Trade Gateway: Potential competition for handling U.S. imports from Asia via mini landbridge



- **U.S. West Coast port and rail congestion promotes use of alternative routings.**
- **Eastern U.S. container imports will continue to grow from Asian suppliers.**
- **All-water service cost may go up. Panama Canal tolls are going up for intermodal cargoes; Suez is option**

Panama Canal's Container Traffic on the Asia – U.S. East Coast Route is Booming

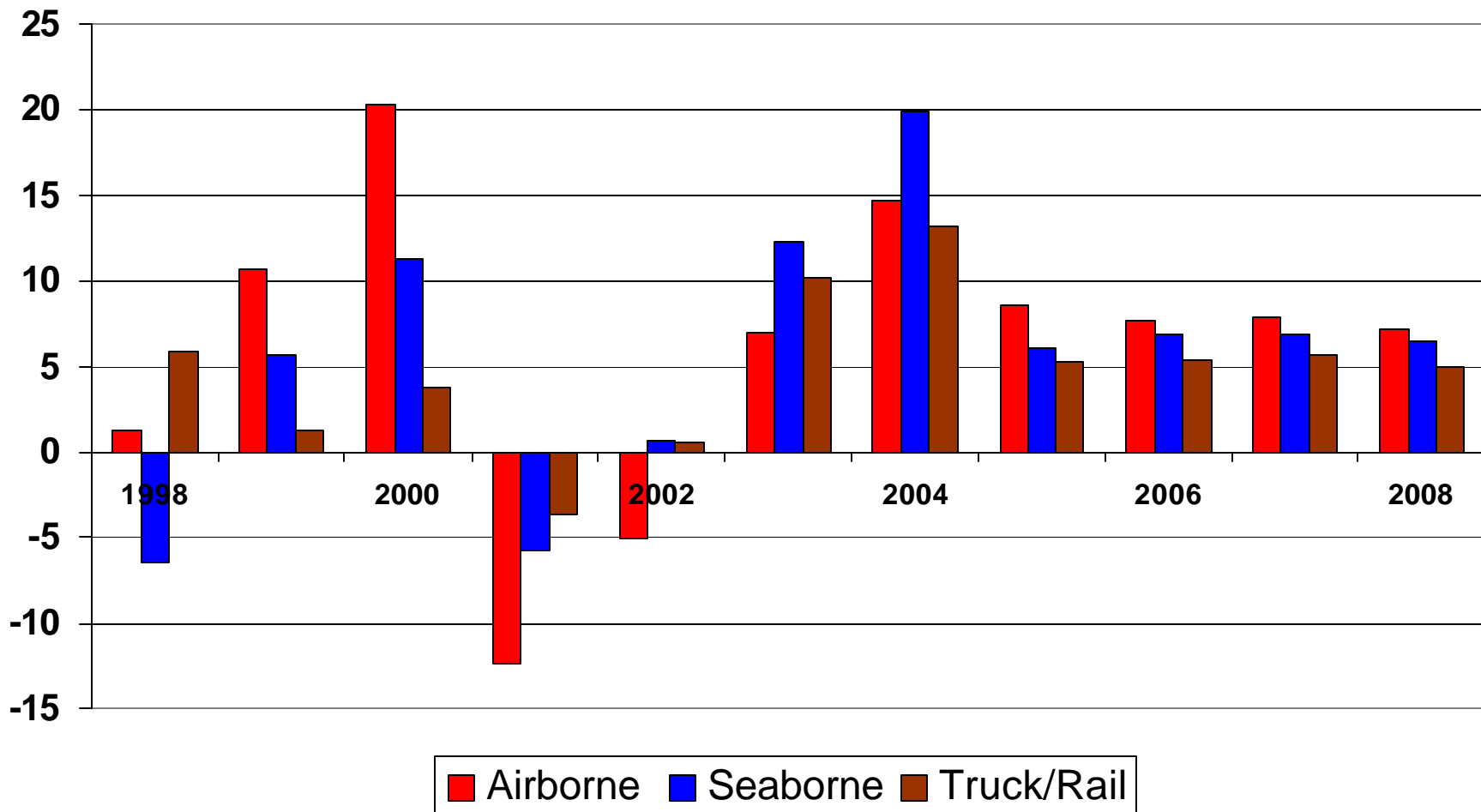
Asia – U.S. Canal Container Volumes Have Increased at a Compound Annual Growth Rate of 30% in Last Five Years



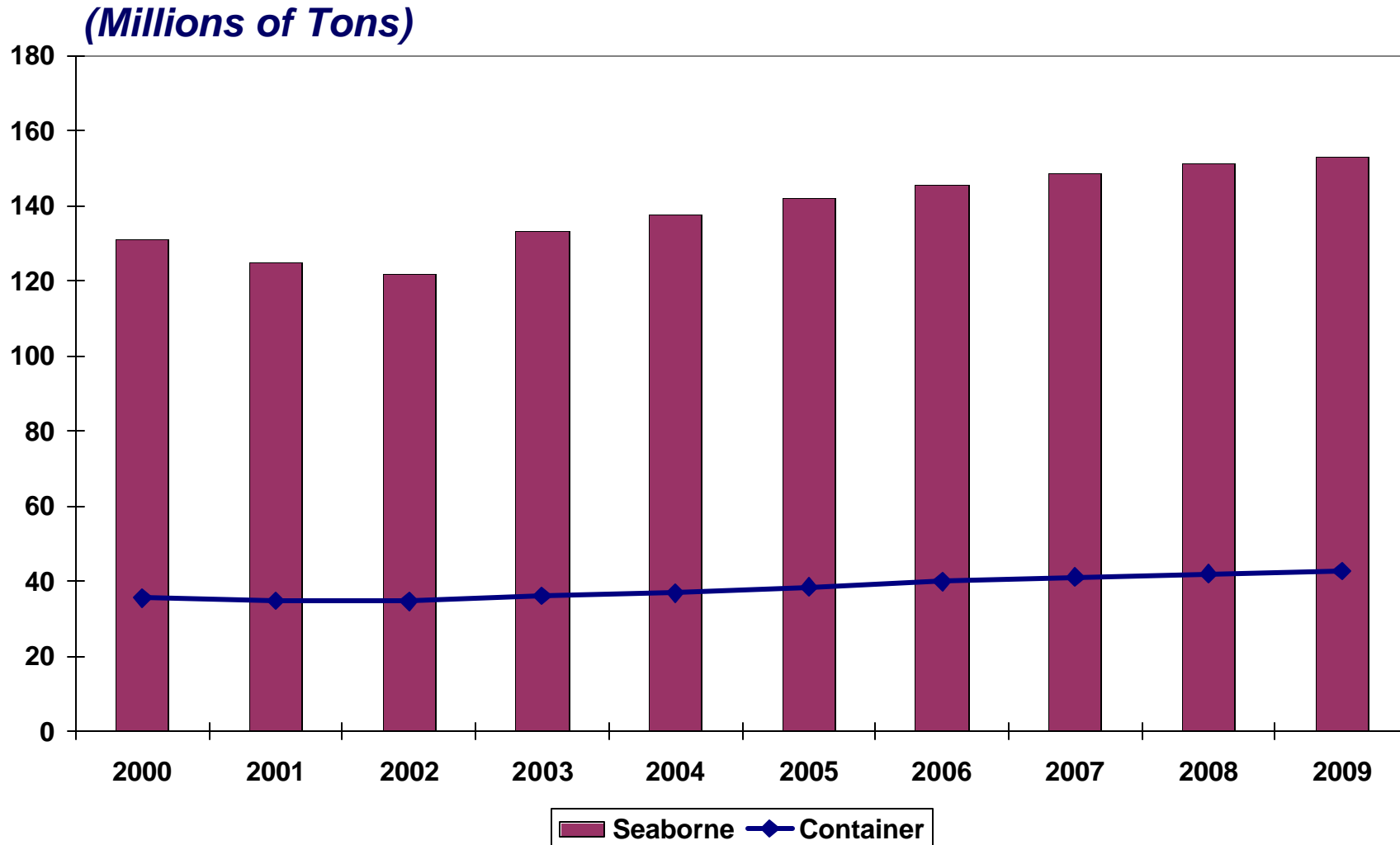
Source: ACP

Primary Mode of Transport of Trade: Airborne trade will see most rapid growth after sea trade growth peak

(Percent change in value of world trade by transport mode)



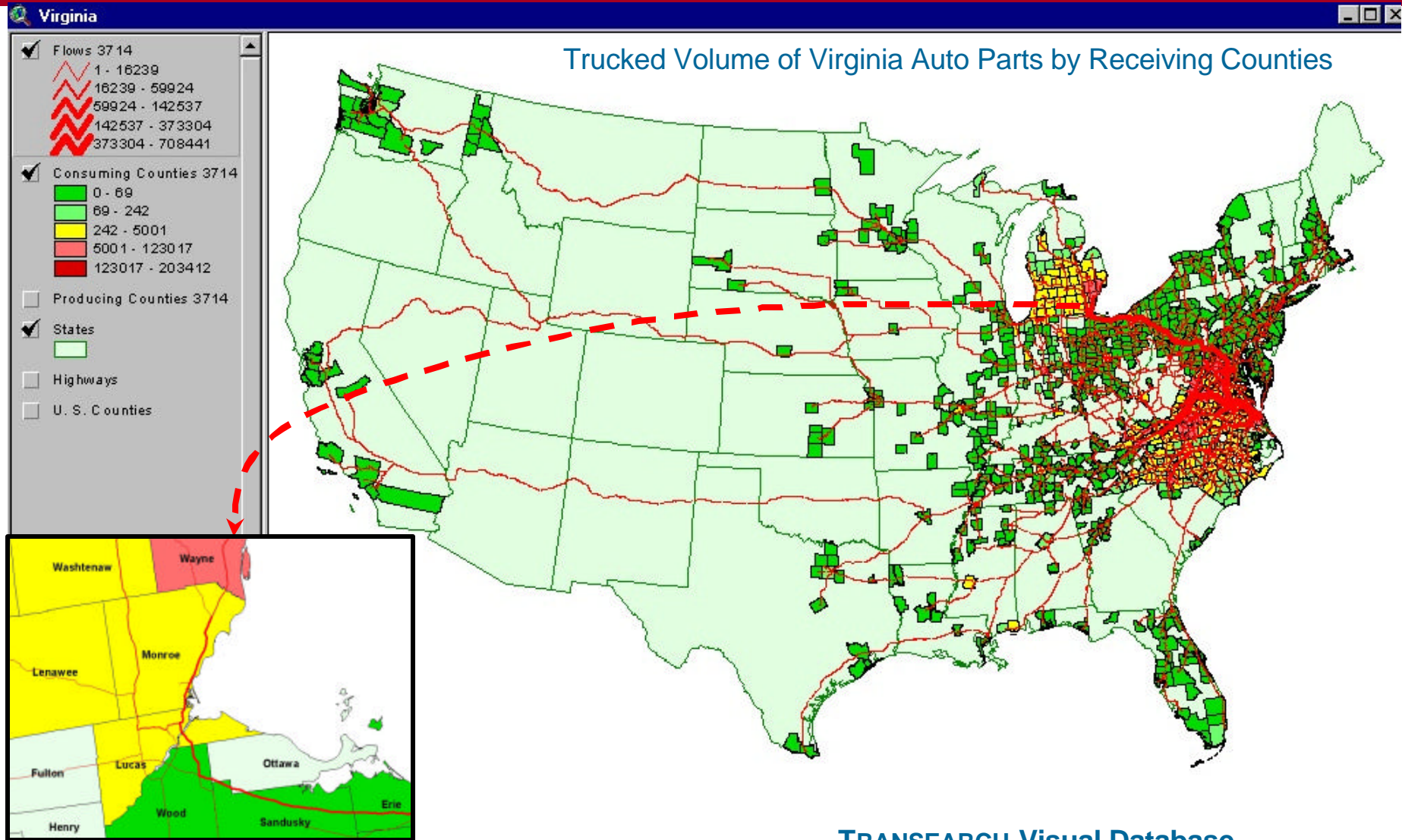
North American Exports to Asia are Primarily Not Containerized as Bulk Tonnage Dominates



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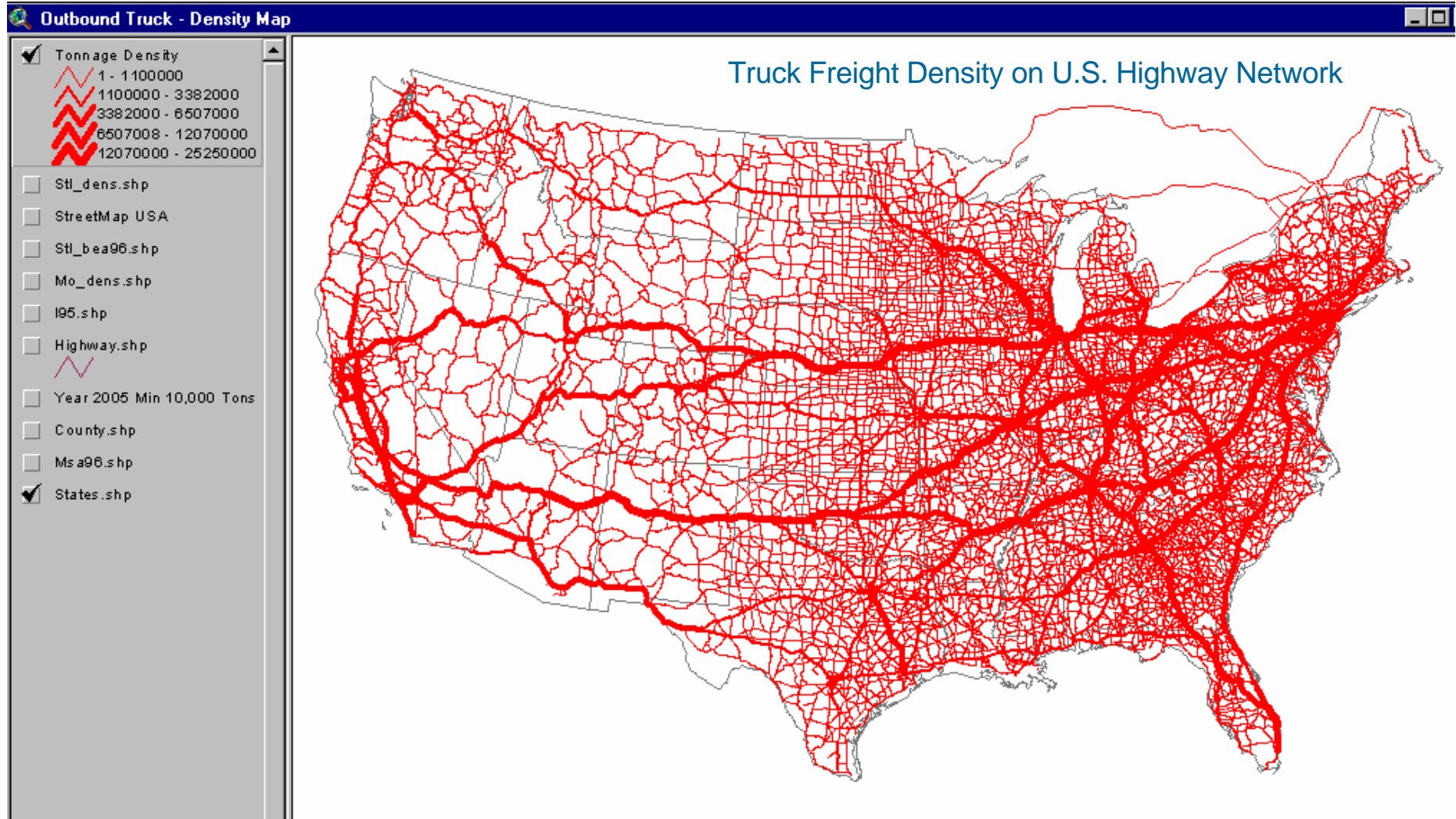
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Where do imports end up inland and how do they get there? Global Insight's TRANSEARCH data and forecasts tell you



TRANSEARCH Visual Database

FHWA's Freight Analysis has been built from Global Insight's TRANSEARCH data and TRANSEARCH Insight forecasts



TRANSEARCH Insight Forecast

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Bottom Line – *Trade growth milder in 2005*

- **Trade growth is a result of economic growth and globalization.**
- **Exchange rates and foreign country slowness temper U.S. trade growth in 2005, though oil prices boost total value of imports.**
- **China remains key for continued import demand and export supply.**
- **2005 will still be a relatively strong year for most countries' imports and exports – but not as good as 2004.**
- **Transportation infrastructure and logistics problems that impede trade flows force adjustments in supply chains.**
- **Trade in lighter weight, higher value products will outpace growth in bulk commodity categories, meaning more containerized trade, and more pressure on container ports and intermodal transport.**
- **Modal demand growth reflects commodity mix in trade growth.**

Contact:
Paul Bingham
Principal
Global Trade & Transportation
Global Insight
202-481-9216
610-490-4000 (Main)
paul.bingham@globalinsight.com
800 Baldwin Tower
Eddystone, PA 19022