

Global Recession: The Economic Impact on Goods Movement Past, Present and Future

Paul Bingham, Managing Director
Global Commerce and Transportation
IHS Global Insight

Senate Transportation
Sub-committee on California Ports and Goods Movement
Sacramento, CA
March 16, 2010



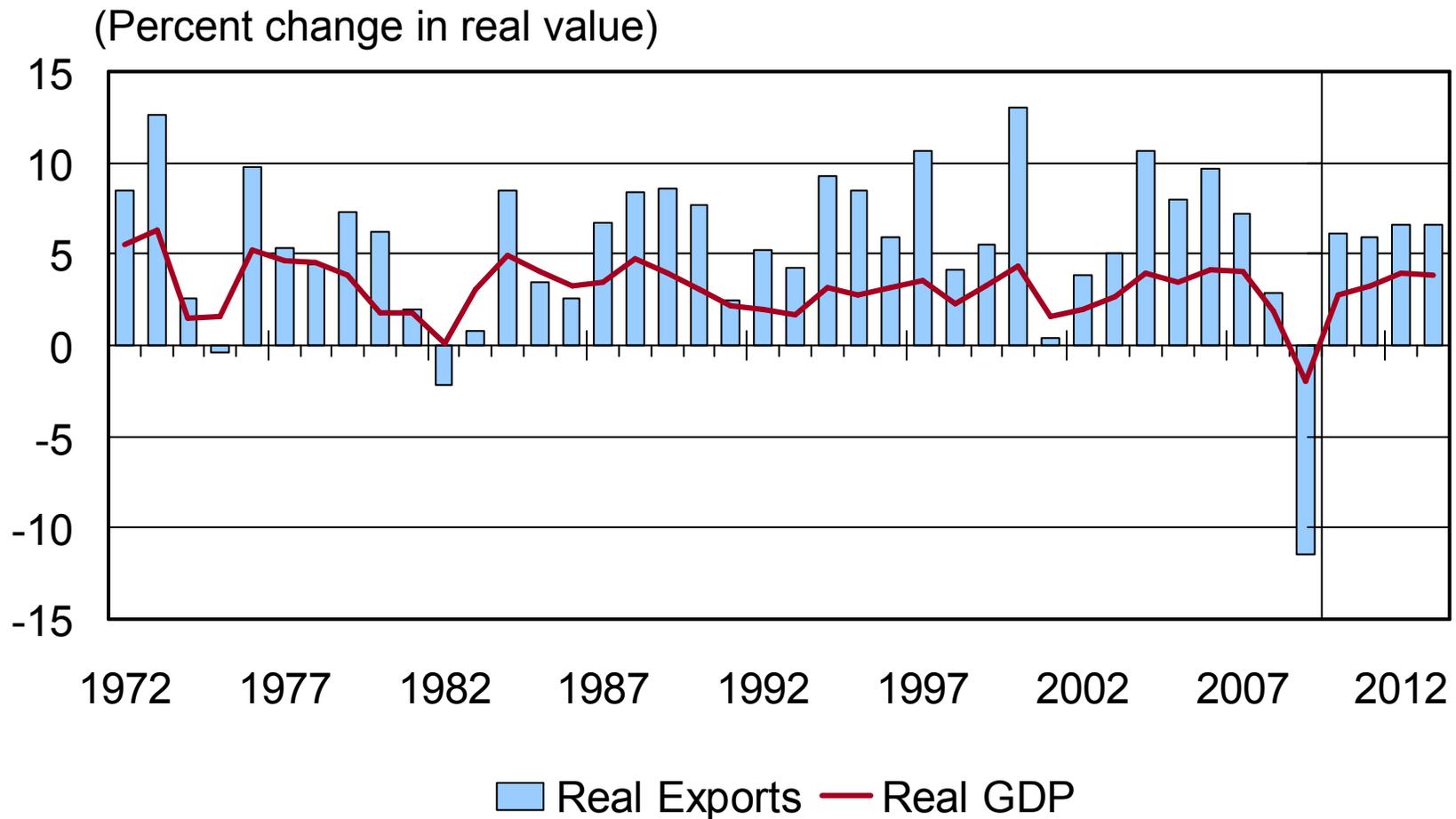
GLOBAL
INSIGHT

The Source for Critical Information and Insight™

The Global Macroeconomic View: Recovery from the Great Recession

- The recession is technically over and the recovery has begun – unfortunately this recovery doesn't feel much like one yet
- Strong tail winds (policy stimulus, improved financial conditions and pent-up demand) ...
- ... Are being partially neutralized by equally strong head winds (high unemployment, lingering hangovers from construction bubbles and the financial crisis, and the winding down of fiscal stimulus)
- Forecast global growth of 2.8% in 2010 is well below the 3.5% to 4% trend rate of the last two decades, a weak recovery

Worst Economic Downturn in 60 Years Sees Start of Recovery in the World Economy and Trade

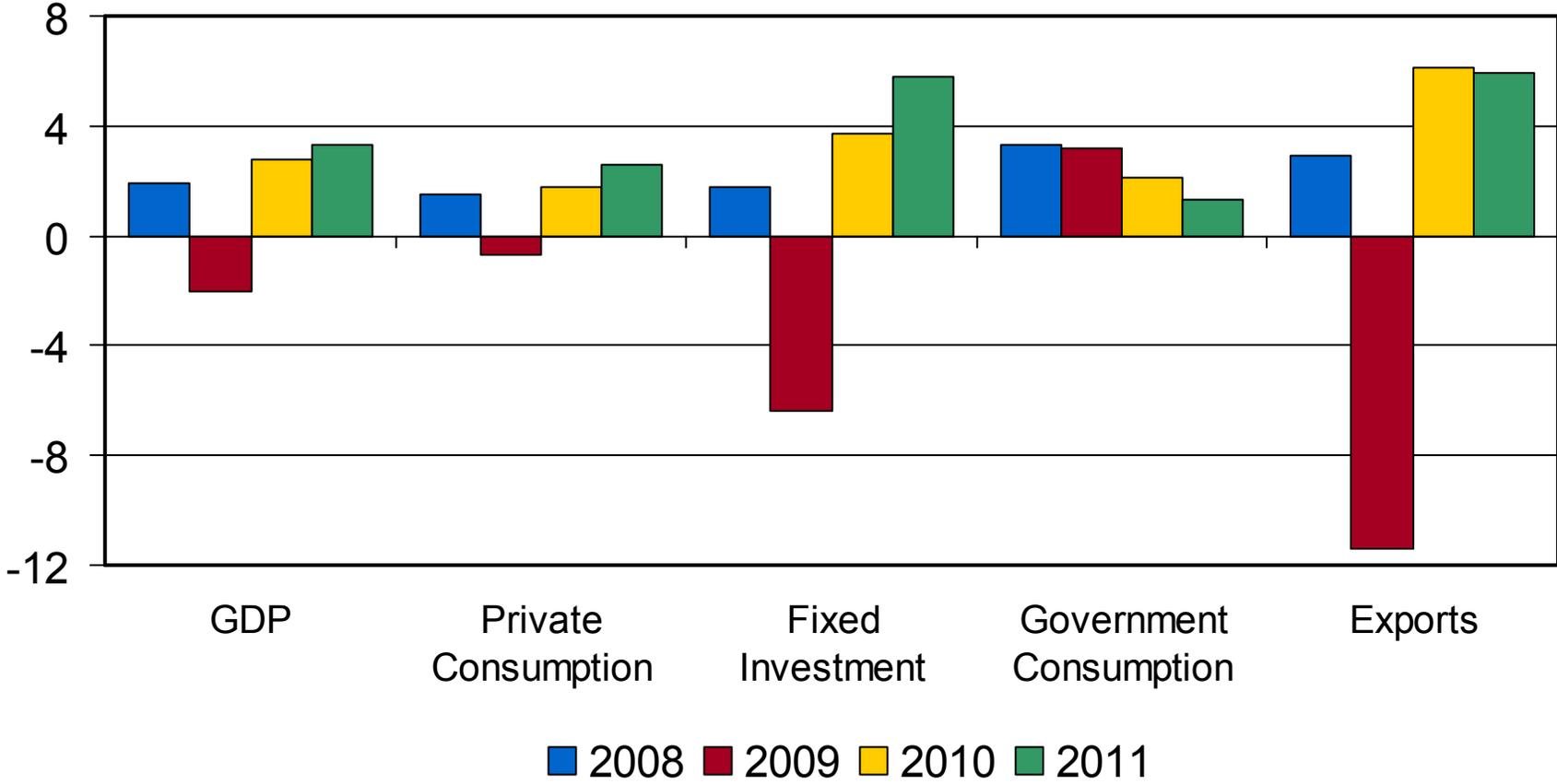


Source: IHS Global Insight Country Intelligence Service

Global Trade Fell the Most of the Major Sectors

The World's Real Economic Growth by Sector, 2008 - 2011

(Percent change)

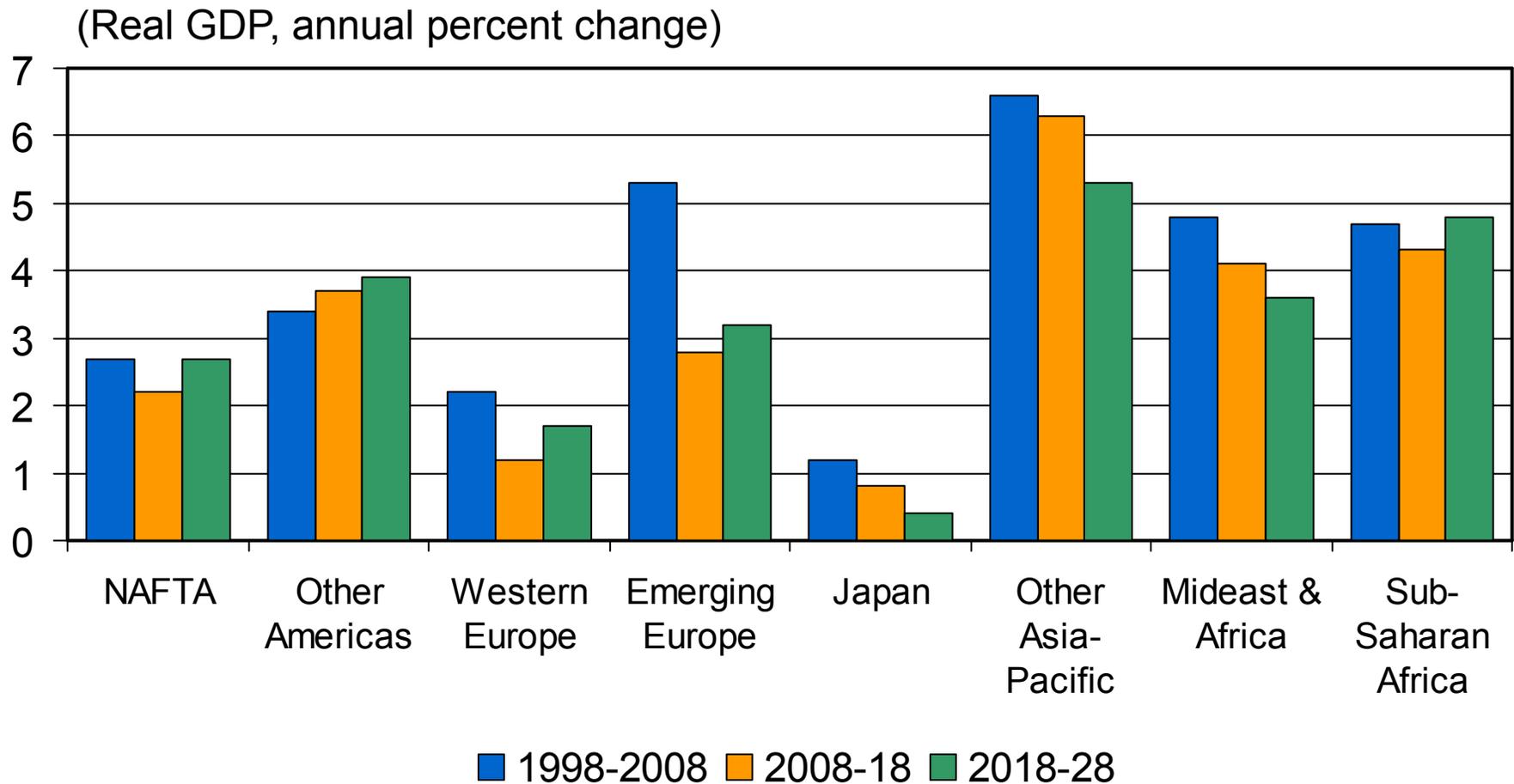


Source: IHS Global Insight Country Intelligence Service



Long-Term View of Economic Growth by Region

Asia Leads; Developed Countries Lag



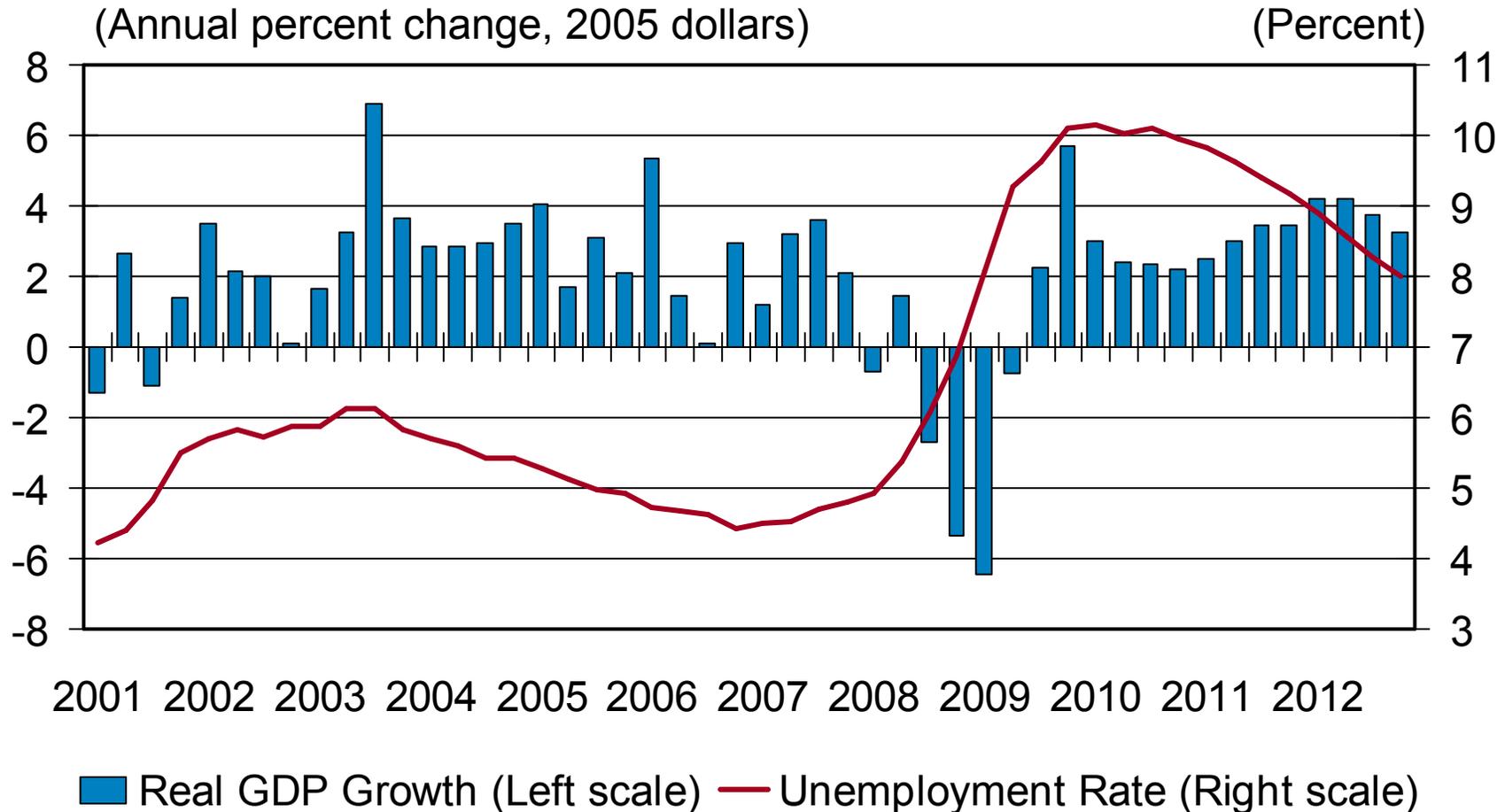
Source: IHS Global Insight Country Intelligence Service

The U.S. Economy is in Recovery

This is Not a Return to the mid-2000s Boom

- During much of 2010, growth will be stuck in the 2.4% to 2.7% range
- Consumer spending is being held back by the strong headwind of high unemployment – still near its peak this quarter
- The housing recovery, business spending on equipment and inventory rebuilding are boosting growth...
- ...While non-residential real estate, construction and state-and-local spending will be a drag on the recovery
- Despite strong growth in exports, net trade will become a negative factor for the economy as imports start to grow faster

U.S. Real GDP Is Recovering Unemployment Peaks this Year and Falls Slowly



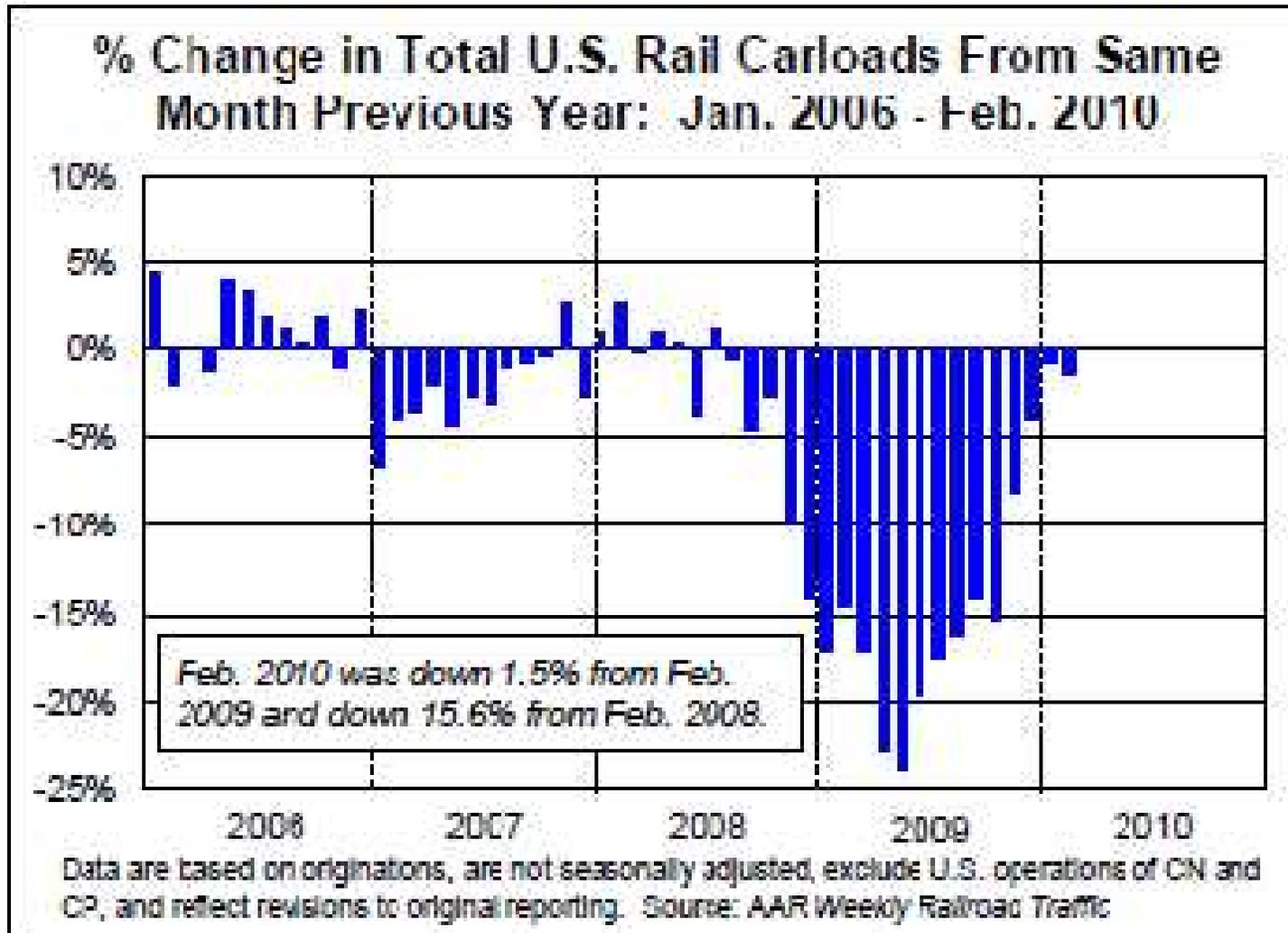
Source: IHS Global Insight U.S. Macroeconomic Service

The Muted Recovery in the U.S. is Affected by Several Factors

- U.S. inventory adjustments are quite advanced already
- Household spending is limited by higher savings rates as a result of reduced net worth and tighter credit
- Housing markets come back slowly from great depths
- Commercial real estate is a drag on recovery
- Interest rates remain low but pressures to address Federal government deficit spending will increase
- U.S. dollar exchange rate likely to continue its long-term decline due to sustained U.S. trade deficits

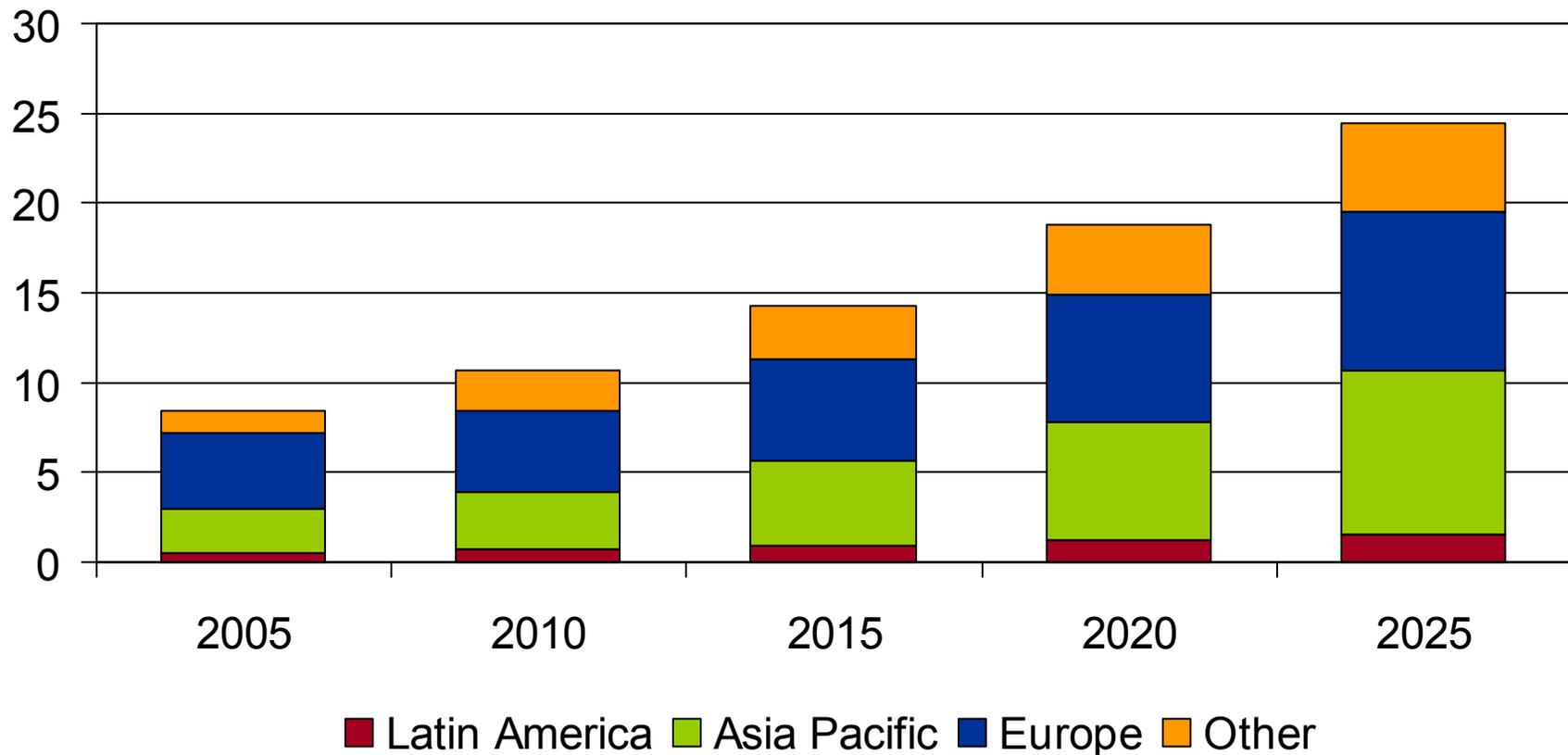
Sharply Lower U.S. Goods Movement in 2009

There is a Long Road to Recovery in Traffic



Trade Impact: Asia has Performed Relatively Well, U.S. Pacific Trade Partner Share Gains Continue

(Regional Exports, trillions of U.S. dollars)

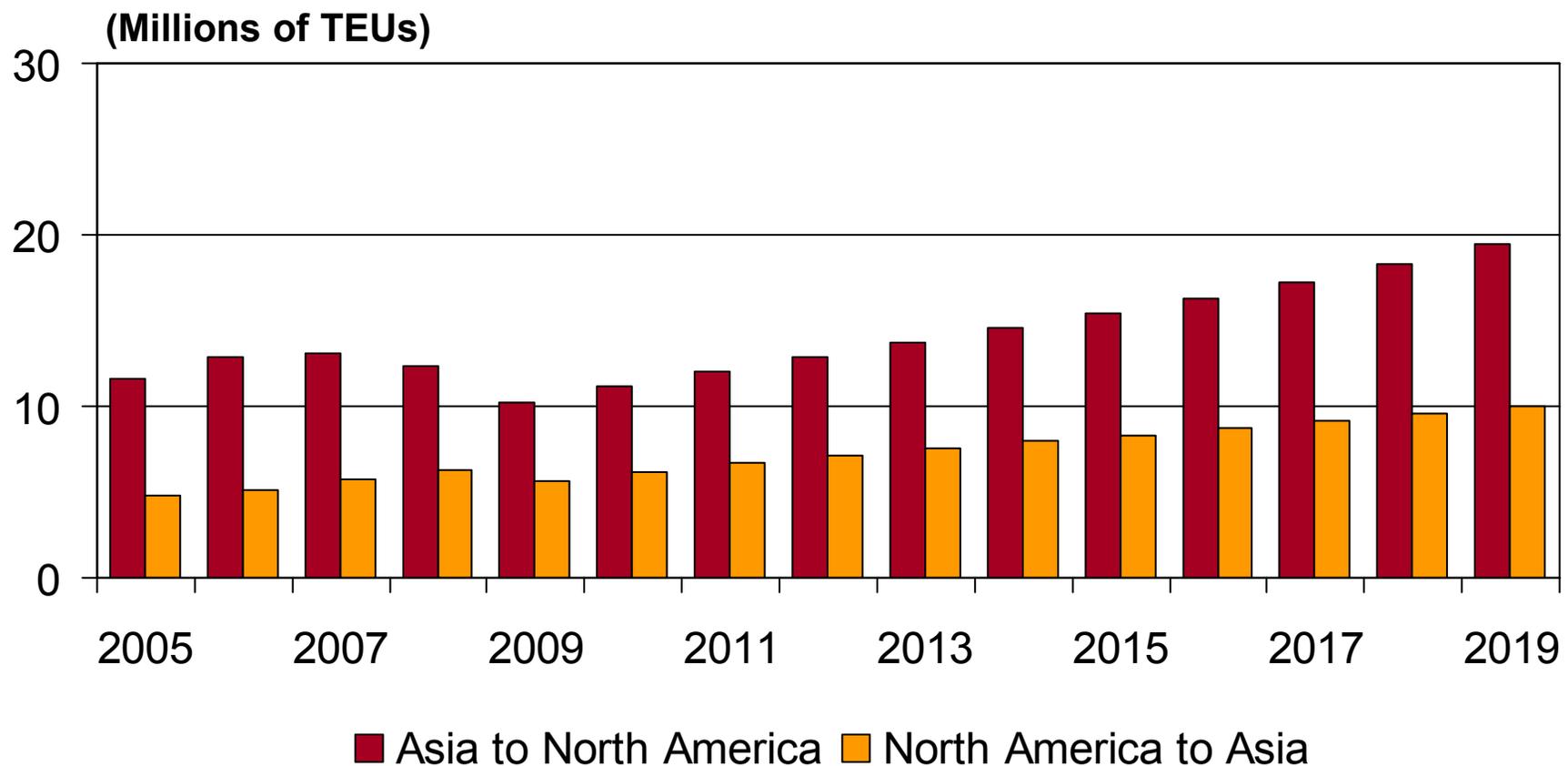


Source: IHS Global Insight World Trade Service

Trade Route Competition to California is Real

- Reduction in U.S. trade saw ocean container carriers reduce services, affecting most N. American gateway ports.
- Port volume declines were not consistent: LA/LB and Oakland declined more than New York; less than Tacoma or Charleston in 2009
- Longer-term competition from Prince Rupert, Mexican ports and Panama and Suez routes has real combined potential but subject to constraints in each case.
- The recession has not advanced the competitiveness of any of these alternatives to California gateways. The surplus capacity has eliminated any short-term congestion concerns of shippers using California ports. Slow-steaming favors closer ports.

Depth of Recessionary Drop in Trade Means Transpacific Container Trade Recovery Will Take Years



Source: IHS Global Insight World Trade Service

Risks to Forecast Recovery Both Up and Down

- **Downside Risks**

- Private demand not ready to take over when stimulus ends (perhaps a policy error is made)
- Productivity keeps booming—household incomes suffer, firms save the profits
- Commercial real estate woes reignite financial crisis
- Collapse of new commodity / asset bubbles in China, elsewhere

- **Upside Risks**

- Fiscal and monetary stimulus still in the pipeline
- Remaining pent-up demand after the “panic” spending cuts during the end-2008/early-2009 economic free-fall could be substantial
- Prolonged growth surge in Asia, weak dollar boost U.S. exports more than expected (though that would hurt imports)

Implications for California

- The trade recovery underway is sustainable
- Maritime trade recovery eventually leads to new record volumes
- Jobs return quite slowly, lagging the overall economy
- Bottom line: it will get better but not rapidly
- Extended, yet temporary, drop in goods movement activity is time to plan for eventual recovery needs

Thank you!

Paul Bingham

paul.bingham@ihsglobalinsight.com

(202) 481-9216



The Source for Critical Information and Insight™