PMSA

West Coast Trade Report

October 2016

Ports in Perspective – The Big Dogs Still Rule

The opening of a third set of locks at the Panama Canal on June 28 has focused attention on the degree to which the nation's ports are seeing increases or declines in the number of Twenty-foot Equivalent Unit (TEU's) being handled. For example, Virginia and Houston both saw impressive double-digit increases in the much-watched category of inbound loaded TEUs, while the three major California ports fared, well, poorly. Percentage metrics, however, can cause observers to lose sight of who the big dogs in maritime trade really are. So, without further comment, we offer **Exhibit 1** as a corrective.

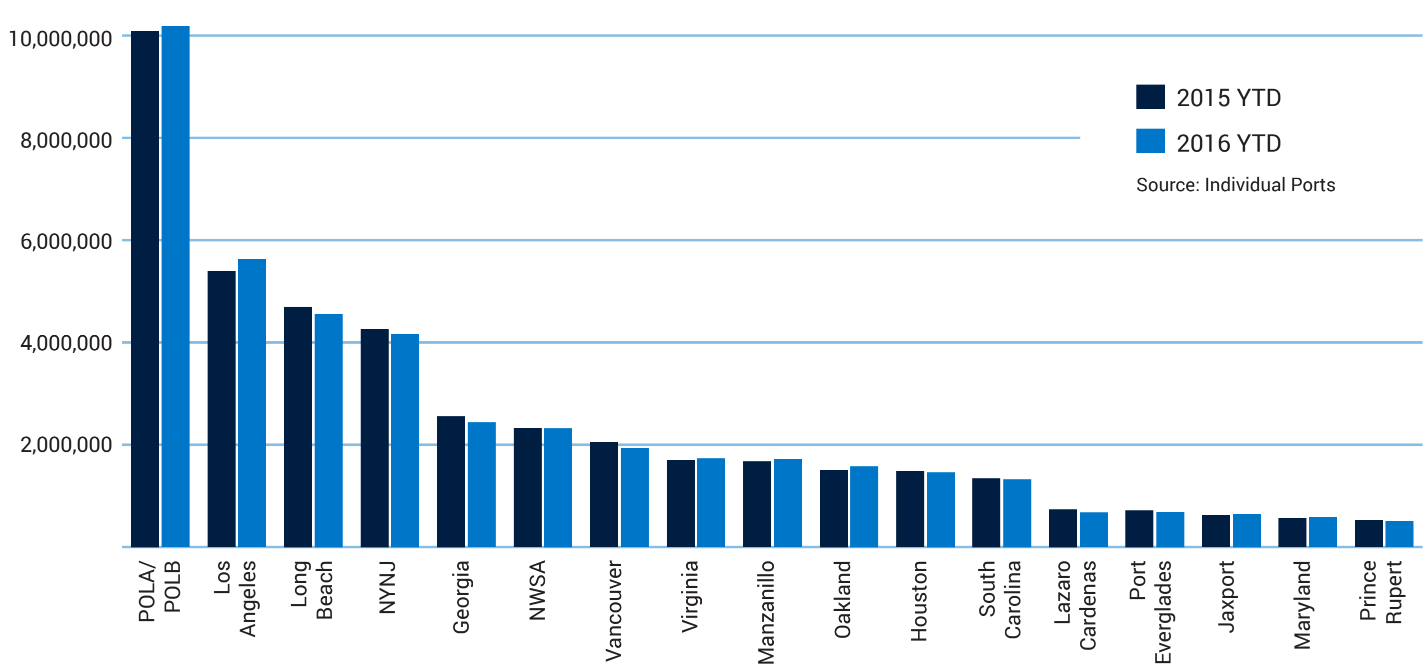
Assessing August's Numbers

August (effectively, the last month of the pre-Hanjin bankruptcy era) saw an overall uptick in both inbound and outbound TEU traffic at the largest North American ports. As **Exhibits 2 and 3** attest, the experience of individual ports varied considerably, however -- from a 10.2% year-over-year fall-off in inbound loaded TEUs at Long Beach to 15.3% gain at Virginia. Statistics from the large mainland ports we are tracking do show a 3.4% year-over-year decline in inbound loaded TEUs at U.S. West Coast (USWC) ports in August, while nearly all of the East and Gulf Coast ports saw healthy growth in their import trades.Things were different on the export side, with USWC ports collectively reporting a 10.6% jump in outbound loaded TEUs, while gains on other coasts were more modest.

Measures of TEU traffic offer one metric for gauging port activity. But they reveal nothing about the contents of those containers. For a different perspective on August's container trades, we turn to U.S. Commerce Department foreign trade data released on October 5

Continued

Exhibit 1 PORTS IN PERSPECTIVE: TOTAL TEUs HANDLED AUGUST YTD 2015 AND 2016



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Assessing August's Numbers Continued

Exhibit 2 INBOUND LOADED TEUS AT SELECTED NORTH AMERICAN PORTS

Port	August 2016	August 2015	% Change	Aug 2016 YTD	Aug 2015 YTD	% Change
Los Angeles	411,367	407,904	0.9%	2,907,210	2,748,037	5.8%
Long Beach	321,625	358,262	-10.2%	2,320,710	2,381,705	-2.6%
Oakland	78,429	82,492	-4.9%	593,844	557,166	6.6%
NWSA	118,481	113,972	4.0%	879,435	855,806	2.8%
NYNJ	304,274	285,834	6.5%	2,123,100	2,157,396	-1.6%
Maryland	38,266	39,067	-2.1%	286,049	267,402	7.0%
Virginia	107,268	93,044	15.3%	761,000	721,173	5.5%
South Carolina	77,223	70,827	9.0%	586,261	560,760	3.9%
Georgia	152,341	142,144	7.2%	1,100,234	1,103,929	-0.3%
Port Everglades	25,336	23,716	6.8%	224,256	222,835	0.6%
Houston	79,849	69,815	14.4%	567,528	585,177	-3.0%
Vancouver	139,682	133,186	4.9%	994,203	1,044,248	-4.8%
Prince Rupert	38,884	41,965	-7.3%	303,853	295,151	4.0%
Manzanillo	72,861	79,096	-7.9%	522,952	547,314	-4.5%
Lazaro Cardenas	47,578	42,948	10.8%	300,326	298,056	0.8%

Exhibit 3 OUTBOUND LOADED TEUS AT SELECTED NORTH AMERICAN PORTS

Port	August 2016	August 2015	% Change	August 2016 YTD	August 2015 YTD	% Change
Los Angeles	153,005	143,936	6.3%	1,164,739	1,124,168	3.6%
Long Beach	159,247	138,765	14.8%	1,038,515	1,020,774	1.7%
Oakland	83,063	77,657	7.0%	618,108	567,990	8.8%
NWSA	82,933	72,072	15.1%	625,523	552,349	13.2%
NYNJ	118,306	114,791	3.1%	903,829	934,773	-3.3%
Maryland	19,514	19,273	1.3%	156,877	147,635	6.3%
Virginia	84,431	77,388	9.1%	654,347	682,623	-4.1%
South Carolina	65,220	62,762	3.9%	492,207	499,728	-1.5%
Georgia	109,218	100,664	8.5%	859,180	860,133	-0.1%
Port Everglades	33,570	33,308	0.8%	265,996	282,700	-5.9%
Houston	76,507	77,596	-1.4%	624,738	656,677	-4.9%
Vancouver	93,293	81,134	15.0%	718,097	704,097	2.0%
Prince Rupert	13,907	11,520	20.7%	111,337	105,003	6.0%
Manzanillo	68,779	62,802	9.5%	512,199	506,652	1.1%
Lazaro Cardenas	33,768	27,103	24.6%	239,723	227,639	5.3%

Source: Individual Port Websites

Assessing August's Numbers
Continued

which describe the goods (along with their declared values and weights) contained in the TEUs moving through the nation's ports. Those numbers reveal little change in the distribution of the nation's container trade since the June 28 opening of the expanded set of locks at the Panama Canal. The data, based on information supplied by shippers to Customs and Border Protection, show that the declared value of containerized imports through USWC ports increased by 8.9% between July and August, while the declared weight of the contents of import containers rose by 9.6%.

On the inbound side, gains in volume were led by increases in imports of furniture and bedding, industrial machinery, and televisions. Exports of wood pulp (generally scrap paper and cardboard) and oil seeds (principally soybeans) fueled the bump in outbound traffic.

Continued

Exhibit 4 **IMPORTS PEAKING: INBOUND LOADED TEUS AT SELECTED NORTH AMERICAN PORTS**

JULY-AUGUST 2016

Port	July 2016	August 2016	% Change
Los Angeles	368,697	411,367	11.6%
Long Beach	325,608	321,625	-1.2%
Oakland	80,508	78,429	-2.6%
NWSA	111,739	118,481	6.0%
USWC Ports	886,552	929,902	4.9%
NYNJ	275,337	304,274	10.5%
Maryland	35,664	38,266	7.3%
Virginia	100,106	107,268	7.2%
South Carolina	81,120	77,223	-4.8%
Georgia	145,779	152,341	4.5%
Port Everglades	25,425	25,336	-0.4%
Houston	80,056	79,849	-0.3%
Vancouver	77,968	79,426	1.9%
Prince Rupert	44,832	38,884	-13.3%
Manzanillo	67,425	72,861	8.1%
Lazaro Cardenas	39,009	47,578	22.0%

Source: Individual Port Websites

Hanjin Bankruptcy

By John McLaurin

The recent Hanjin bankruptcy negatively impacted thousands of businesses. I'll leave to others to discuss how the Hanjin bankruptcy came about and whether additional bankruptcies are on the horizon. However, with ocean carrier losses projected to be in the billions of dollars this year and the unknown effects of reconfigured vessel alliances coming into play in 2017, further consolidation by ocean carriers and marine terminal operators is probably inevitable. As Jimmy Buffett once wrote in his classic song, Off to See the Lizard, "Answers are the easy part, questions raise the doubt." The easy answers are found in reduced capacity, compensatory freight rates, better customer service, and transforming the current disjointed, pick-up and delivery of freight at marine terminals to one which is based on data integration, order and predictability. How those changes come about is in question – whether it will be the result of thoughtful leadership or be crisis driven.

The Northwest Seaport Alliance

Assessing August's Numbers
Continued

(Note: To gauge how U.S. container ports are faring against each other and what impact the expanded Panama Canal may be having on the distribution of the nation's containerized trade, this report calculates percentage shares of containerized trade with reference only to mainland ports.)

In terms of declared weight, the USWC share of containerized imports in August dipped to 39.7% from 40.6% in July. USWC ports held a larger 49.3% share of the declared value of containerized imports in August, up from 49.0% in the previous month.

Year-to-date, USWC ports' share of the declared weight of containerized imports in August was 40.0%, up from 38.9% at this point in 2015. USWC ports' share of the declared value of containerized imports stood at 48.7%, up from 45.8% last year.

On the export side, containerized shipments from USWC ports rose 8.4% in declared weight and 4.8% in declared value from July to August. (The disparity is due largely to the fact that August's boost in outbound shipments was led by relatively low-value but high-volume/weight commodities.) USWC share of the declared weight of the contents of containerized exports in August was 41.7%, up from 40.5% in July. USWC ports' share of the declared value of U.S. containerized exports in August was 35.0%, unchanged from July. Year-to-date, the USWC share was 33.7%, up from 31.1% last year.

On a year-over-year basis, the declared weight of containerized exports from USWC ports jumped 33.6%. Increasing shipments of wood pulp (+90.4%), oil seeds (+85.7%), iron and steel products (+55.8%), cereals (+54.5%) and meat products (+50.5%) drove the strong rebound in exports.

Exhibit 5 TOTAL TEUS HANDLED AT SELECTED NORTH AMERICAN PORTS: AUGUST YTD 2015-2016

Port	2015 YTD	2016 YTD	% Change
Los Angeles	5,389,317	5,620,400	4.3%
Long Beach	4,700,316	4,563,321	-2.9%
NYNJ	4,257,254	4,159,051	-2.3%
Georgia	2,554,698	2,433,933	-4.7%
NWSA	2,326,846	2,322,999	-0.2%
Vancouver	2,051,705	1,935,653	-4.8%
Manzanillo	1,942,548	1,889,702	-2.7%
Virginia	1,699,773	1,731,501	1.9%
Oakland	1,509,849	1,579,796	4.6%
Houston	1,482,979	1,461,074	-1.5%
South Carolina	1,342,608	1,324,243	-1.4%
Lazaro Cardenas	670,070	737,927	10.1%
Port Everglades	717,118	687,229	-4.2%
Jaxport	621,256	645,686	3.9%
Maryland	565,374	585,592	3.6%
Prince Rupert	527,035	507,889	-3.6%

Source: Individual Port Websites

The Northwest Seaport Alliance

The Outlook

There is an emerging consensus, fed in part by a brace of glum forecasts issued in late September by the World Trade Organization and the Organization for Economic Cooperation and Development, that international trade will see at best tepid growth through the end of this year and well into next. The WTO now estimates that global trade will expand by only 1.7% in 2016, compared with its April projection of 2.8 per cent. Just a year ago, the WTO was guessing that trade would grow by 3.9% this year. Imports among the world's 20 largest economies have fallen as a share of GDP for four consecutive years now, according to the *Wall Street Journal*. Not surprising, some mainstream economists have been joining their abnormally more dystopian colleagues in suggesting that, especially with the current outburst of antipathy toward free trade and globalization among voters, international trade may have peaked.

A future that promises stagnant or declining volumes of containerized trade is certainly not welcomed by shipping lines whose profitability is already challenged by over-capacity. Nor is it comforting to terminal operators, port authorities, and everyone else whose livelihoods are linked to the movement of goods through the nation's seaports. Still, sluggish economic growth abroad, a smattering of re-shoring or near-shoring, emerging technologies enabling localized manufacturing, changing consumer spending patterns at home, hesitant business investment in new plant and equipment, and an ideologically driven refusal of federal, state and local governments to spend on needed infrastructure all point to at least a short-term malaise for the maritime shipping industry.

By the time we next go to print, we will know the identity of our next President. In that context, we will examine the prospects for peak trade in next month's edition of this newsletter.

Jock O'Connell's Commentary:

What "Weakening Dollar"?

Back when I was a graduate student in the early 1970s, the Sunday New York Times published a wrap-up of Latin American news under the provocative headline "Bolivia's Coup Is Late This Year." (Since gaining independence from Spain in 1825, the South American republic had experienced over 150 coups or attempted coups.)

I remember the headline not only because it was so uncharacteristically flip for the otherwise staid newspaper but because of how it found its way on to an NBC Nightly News broadcast the following evening. That Monday saw the Dow fall an appreciable number of points for no apparent reason, as it is periodically wont to do. But a network news reporter, feeling an obligation to provide some context for the Dow's dip, came up with: "Stocks were down today on fears of political unrest in Bolivia."

I imagine the connection sounded reasonable enough to a television news reporter and no doubt to millions of viewers around the country, some of whom may even have consulted an atlas or spent the night fretting about whether furtive troop movements were underway near La Paz. Meanwhile, economists watching the program doubtless scoffed at the notion that events in a landlocked Andean nation of 5 million would send the bears rampaging down Wall Street.

I dredge up this example of dubious journalism now because of the regularity with which ups and downs in containerized trade are being ascribed – with great conviction -- to single factors. Last month, this column took issue with the insistence of some that excessive inventories have been stifling U.S. containerized imports. This month, the belief that a "softening dollar" was behind August's 12.3% surge in container exports from U.S. West Coast ports gets a critical look.

Continued

Commentary Continued

To be sure, a weaker currency is generally a boon to exporters and a bane for importers, all other things being equal. Countries wishing to boost their export trades have often resorted to measures aimed at driving down the value of their currencies.

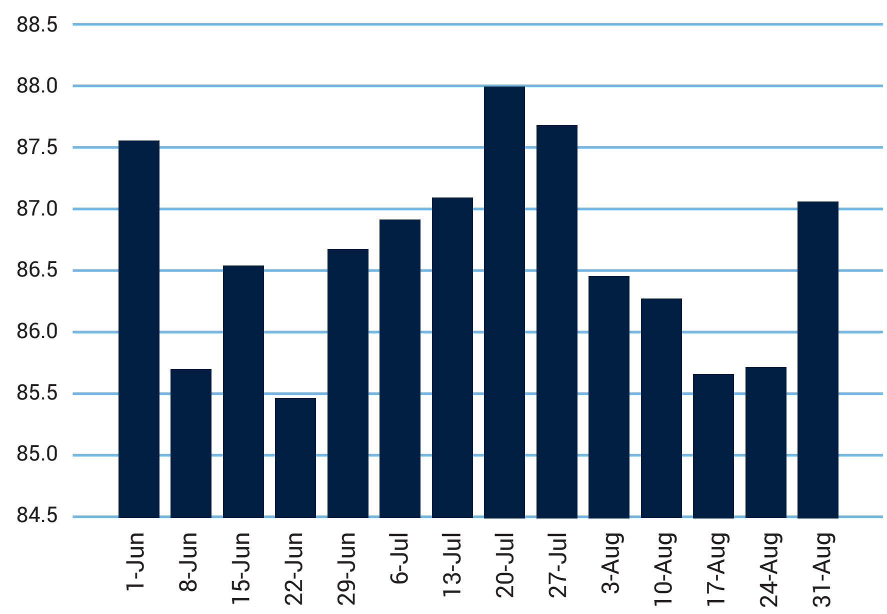
But does a weaker dollar explain the August leap in outbound loaded TEUs? Indeed, did the greenback actually weaken during the summer of 2016?

The dollar's value is commonly defined in relation to other major currencies or to a basket of currencies. The Wall Street Journal, for instance, publishes an index of the dollar's value relative to 16 foreign currencies. As Exhibit 6 indicates, the WSJ dollar index has fluctuated since June 1, peaking in tandem with the June 23 Brexit vote in the United Kingdom and then declining through the middle of August, when it began a series of spastic gyrations upwards. If, at any point this past summer, analysts felt that the dollar's value was ebbing, some development would have risen up to confound them.

Short-term fluctuations in currency values mean infinitely more to arbitragers betting billions on minute currency movements than to most exporters and importers. Indeed, the amounts traded on currency exchanges are far in excess of what is needed to finance international trade in goods and services. For their part, U.S. exporters and importers are typically much more interested in how the dollar is trending in relation to the currencies of the countries with which they do business. American exporters, therefore, would normally be more attuned to how the greenback is faring against the currencies of our principal export markets rather some basket of currencies. In order, those currencies are Canada's dollar, Mexico's peso, Europe's euro, China's yuan, and Japan's yen. Yet, of these currencies the yen is the only one against which the dollar has lost value "in recent weeks." So crediting a weakening dollar for increased container shipments in August looks a bit of a stretch.

More critically, the flaw in attributing an expanding or contracting merchandise export trade to currency movements is not that the two are unrelated but that observers frequently get the timing all wrong. Too often, the model that seems to underlie

Exhibit 6 **WALL STREET JOURNAL U.S. DOLLAR INDEX**
JUNE 1 - AUGUST 31, 2016



Commentary Continued

trade analyzes is the process initiated when a consumer buys a product from Amazon, where a decision made today results in a delivery tomorrow or the day after. But that's hardly how things work in maritime trade.

In all likelihood, goods that were physically exported in August were contracted for weeks or months earlier. Even if an exporter can fill a foreign order from stock on hand, containers must still be obtained, trucking must be arranged, and space must be booked on an outbound vessel. So the value of the dollar on the day the ship sails is pretty much irrelevant.

To illustrate the fallacy of linking a particular month's rise or fall in exports to whatever the value of the currency was at that time, look to the United Kingdom's experience in July, the month after its vote to leave the European Union. The pound's value plunged from $1.48 on the morning of the balloting to $1.32 by July 31. But, according to Her Majesty's Revenue & Customs, UK exports to the U.S. in July were actually down by 17.4% from the previous month. Go figure. As for the August bump in the number of loaded TEUs steaming out from USWC ports, blame it not on what the dollar was worth but on a resurgent Asian appetite for pennies-a-pound waste paper and soybeans.

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