



Photo courtesy of the Port of Long Beach

L’Affaire Hanjin: Weighing September’s Numbers

September 2016 will be remembered as the month Hanjin took the starch out of this year’s peak shipping season. The Korean shipping line’s August 31 bankruptcy filing would strand cargos worldwide, raise the maritime industry’s collective blood pressure, and give an army of high-priced maritime law and bankruptcy attorneys an early Christmas. The consequences are likely to be reflected in November’s trade statistics as well.

As **EXHIBIT 1** indicates, the Hanjin Affair contributed to an August-to-September fall-off in both inbound and outbound loaded containers at most of the major U.S. seaports. Among the 16 ports we monitor, the number of inbound loaded TEUs handled in September was down 6.4% from August levels. On the export side, the number of outbound loaded TEUs fell by 7.5% from August

Continued

Exhibit 1 DePeaking Trade: August-to-September Changes in Loaded TEU Traffic at Selected Ports

Port	Inbound Loaded TEUs			Outbound Loaded TEUs		
	Aug 2016	Sept 2016	% Change	Aug 2016	Sept 2016	% Change
Los Angeles	411,367	388,959	-5.4%	153,005	145,096	-5.2%
Long Beach	321,625	282,945	-12.0%	159,247	120,383	-24.4%
Oakland	78,429	70,307	-10.4%	83,063	70,307	-15.4%
NWSA	118,481	137,765	16.3%	82,933	88,056	6.2%
NYNJ	304,274	254,033	-16.5%	118,306	106,170	-10.3%
Maryland	38,266	33,059	-13.6%	19,514	18,154	-7.1%
Virginia	107,268	100,229	-6.6%	84,431	81,902	-3.0%
South Carolina	77,223	74,009	-4.2%	65,220	62,598	-4.0%
Georgia	152,341	146,552	-3.8%	109,218	103,217	-5.5%
Port Everglades	25,336	26,899	6.2%	33,570	38,651	15.1%
Houston	79,849	83,371	4.4%	76,507	72,335	-5.5%
Jaxport	20,765	25,756	24.0%	32,249	33,874	5.0%
Vancouver	139,375	132,375	-5.0%	92,293	91,075	-1.3%
Prince Rupert	38,884	35,368	-9.0%	13,907	11,947	-14.1%
Manzanillo	72,861	69,383	-4.8%	68,779	64,406	-6.4%
Lazaro Cardenas	47,578	46,228	-2.8%	33,768	34,031	0.8%

Source Individual Ports

Weighing September's Numbers Continued

to September. Not all the erosion can be attributed to Hanjin. Overall, U.S. exports inched up 0.6% in September, while imports edged lower by 1.3%. Still, the travails of the shipping line did certainly upset the normal flows of containerized trade during a normally critical period for U.S. imports and exporters.

Collectively, the principal USWC ports reported a 5.4% decline in inbound loaded TEUs from August to September but an 11.4% slip in outbound loaded TEUs. On a year-over-year basis, inbound loaded TEUs in September were down 3.5% from September 2015, while outbound loaded TEUs fell 4.5%. The Northwest Seaport Alliance (NWSA) was the most notable outlier.

EXHIBITS 2 AND 3 show how September's loaded TEU volumes fared with the same month a year earlier. Overall, inbound loaded TEUs were off by 1.0%, while outbound loaded TEUs were up by 1.8%. For their part, USWC ports fared worse, with inbound loaded TEUs down 3.5% year-over-year and outbound loaded TEUs off 4.5%.

EXHIBIT 4 accounts for the total number of TEUs, loaded and empty as well as inbound and outbound, that the ports have handed through September in this and the previous calendar years. We expect containers delayed by the Hanjin bankruptcy will inflate TEU counts for October.

Exhibit 2 September 2016 - Inbound Loaded TEUs at Selected Ports

	Sept 2016	Sept 2015	% Change	Sept 2016 YTD	Sept 2015 YTD	% Change
Los Angeles	388,959	372,992	4.3%	3,296,170	3,121,029	5.6%
Long Beach	282,945	332,909	-15.0%	2,603,655	2,705,614	-3.8%
Oakland	70,307	73,420	-4.2%	664,630	630,580	5.4%
NWSA	137,765	132,790	3.7%	1,017,199	988,596	2.9%
NYNJ	254,033	286,354	-11.3%	2,377,133	2,443,750	-2.7%
Maryland	33,059	33,575	-1.5%	319,108	300,977	6.0%
Virginia	100,229	92,722	8.1%	861,229	813,895	5.8%
South Carolina	74,009	70,426	5.1%	660,270	631,286	4.6%
Georgia	146,552	139,774	4.9%	1,246,786	1,243,703	0.3%
Port Everglades	26,899	22,325	20.5%	251,155	245,160	2.4%
Houston	83,371	65,519	27.3%	650,899	650,696	0.0%
Jaxport	25,756	15,281	68.5%	189,486	170,434	11.2%
Vancouver	132,375	140,086	-5.5%	1,126,578	1,184,334	-4.9%
Prince Rupert	35,368	35,730	-1.0%	339,221	330,881	2.5%
Manzanillo	69,383	69,494	-0.2%	592,335	616,808	-4.0%
Lazaro Cardenas	46,228	50,010	-7.6%	346,554	348,066	-0.4%

Source Individual Ports



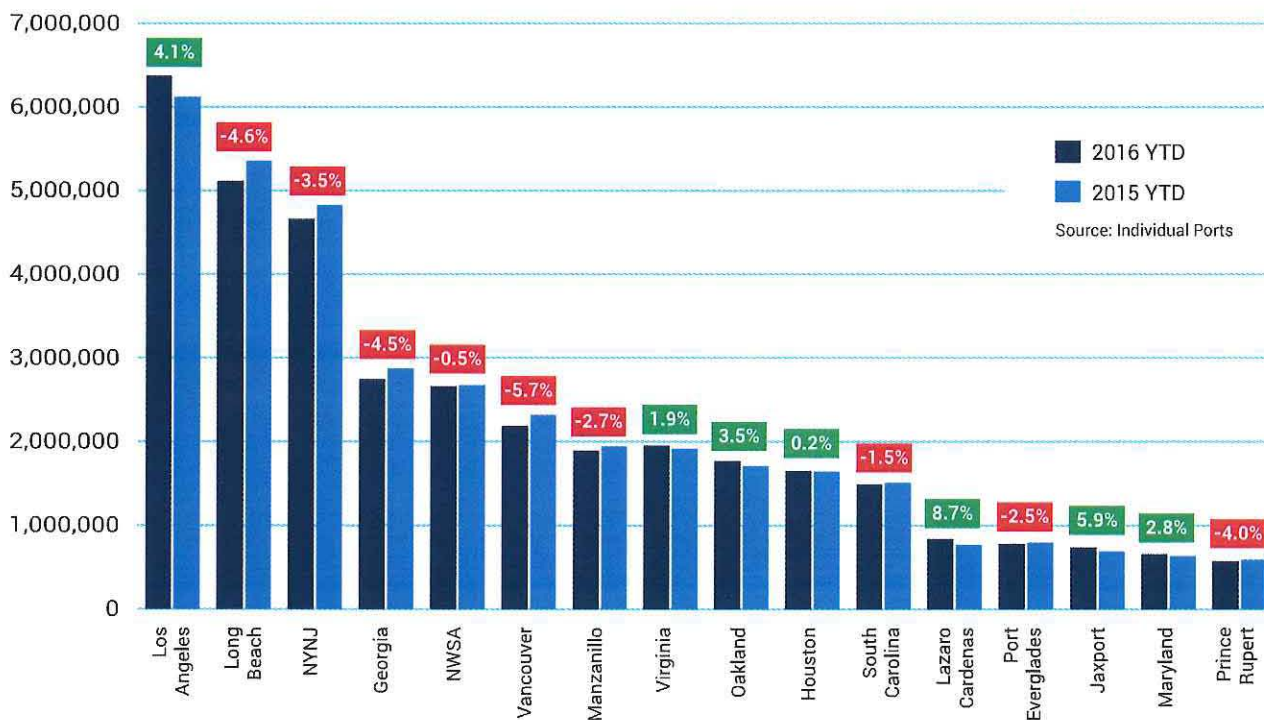
Weighing September's Numbers Continued

Exhibit 3 September 2016 - Outbound Loaded TEUs at Selected Ports

	Sept 2016	Sept 2015	% Change	Sept 2016 YTD	Sept 2015 YTD	% Change
Los Angeles	145,096	124,286	16.7%	1,309,835	1,248,454	4.9%
Long Beach	282,945	332,909	-15.0%	1,158,898	1,146,413	1.1%
Oakland	70,307	73,420	-4.2%	694,464	637,414	9.0%
NWSA	88,056	83,265	5.8%	713,579	635,614	12.3%
NYNJ	106,170	111,959	-5.2%	1,009,999	1,046,735	-3.5%
Maryland	18,154	16,355	11.0%	175,031	163,990	6.7%
Virginia	81,902	76,254	7.4%	736,249	758,877	-3.0%
South Carolina	62,598	60,504	3.5%	554,805	560,231	-1.0%
Georgia	103,217	100,681	2.5%	962,397	960,814	0.2%
Port Everglades	38,651	33,383	15.8%	304,647	318,083	-4.2%
Houston	72,335	70,853	2.1%	697,073	727,520	-4.2%
Jaxport	33,874	30,127	12.4%	285,895	273,249	6.1%
Vancouver	91,075	83,134	9.6%	809,171	787,279	2.8%
Prince Rupert	11,947	9,337	28.0%	123,284	114,340	7.8%
Manzanillo	64,406	74,061	-13.0%	576,605	580,713	-0.7%
Lazaro Cardenas	34,031	31,654	7.5%	273,854	259,292	5.6%

Source Individual Ports

Exhibit 4 September Year-to-Date Total TEUs (Loaded and Empty) Handled at Selected Ports



Source: Individual Ports

Jock O'Connell's Commentary:

The Past and Future of "Peak Trade"

Trumping Free Trade?

The commentary below on "Peak Trade" was largely drafted prior to last Tuesday's election. Like most of us – perhaps even including Donald Trump himself – I had discounted the likelihood that the real estate mogul would triumph. Wednesday morning brought the temptation to ditch the discourse on Peak Trade in favor of an assessment of what a Trump presidency will mean for America's maritime trade. But a glance at the media soon impressed upon me how much better others are at instantly penning works of raw supposition untethered to any clear sense of what Mr. Trump might be thinking now that he faces the somber reality of soon being President of the United States. So rather than hastily comment on policies now likely being devised in haste, I will opt to wait for the President-Elect's thinking about international trade relations to evolve.

Peak Trade – generally the belief that world trade has plateaued and that the volume of goods transported internationally will either remain flat or decline – has become a topic of mounting concern for a maritime trade industry already struggling with sub-zero profitability and surplus capacity.

Maybe we are not there yet, but the usual indicators are unsettling. In September, the World Trade Organization slashed its latest estimate of world trade growth this year to 1.7%. That would mark the first time in recent history that international commerce has lagged the pace of world economic growth. It certainly compares unfavorably with the 7.1% average annual growth rate of world trade during the twenty years prior to the onset of the Great Recession.

Peak Trade gained broad attention with the publication of reports nearly two years ago by the International Monetary Fund and the World Bank. The authors of those studies set out to assess whether the slowdown in global trade since the Great Recession had been cyclical or structural. They concluded that global trade is ebbing not only because global economic has been sluggish but also because the relationship between world trade and global GDP growth has changed. By IMF calculations, a one percent rise in world GDP yielded a 2.5% increase in global trade in the 1986-2000 period. The same one point increase in economic growth today is boosting trade by just 0.7%. What this implies is that, even if global GDP growth were to bounce back, we would likely not see the robust rates of trade growth witnessed in the 1990s and early 2000s.

Why?

One major reason is that world trade accelerated during the 1990s as the production of goods fragmented internationally into global supply chains but then decreased in the 2000s as this process (seen as outsourcing from an American perspective) decelerated. While reshoring has brought some manufacturing activity back to the United States, one important factor in the recent trade slowdown has been a profound shift in the sourcing practices of Chinese manufacturers.

China, which has accounted for as much as 40% of world GDP growth over the past two decades, is seeing a fall-off in its economic growth rate. That development has been the subject of much legitimate attention but it has also obscured an even more important trend: Chinese manufacturers have been relying less on imported raw materials and components. As the IMF and World Bank studies note, Chinese manufacturers have slashed their use of foreign inputs from 60% in the mid-1990s to less than 35% today.

In addition to developments in China and their effects on the economies of China's trading partners, Peak Trade proponents can point to a distressingly long list of factors that threaten to discourage increases in the volume of goods being shipped internationally, especially by sea. For example, while consumer spending in the U.S. has been climbing, more of what is being purchased appears to be shifting away from goods to services. Baby Boomers are allocating more of their reduced spending power income to health care and recreation, while Millennials are postponing household formation



The Past and Future of “Peak Trade” Continued

and spending a larger share of disposal income on experiences rather than possessions. At the same time, low levels of public and private investment in the U.S. (especially on public infrastructure) have diminished the need for imported equipment and materials.

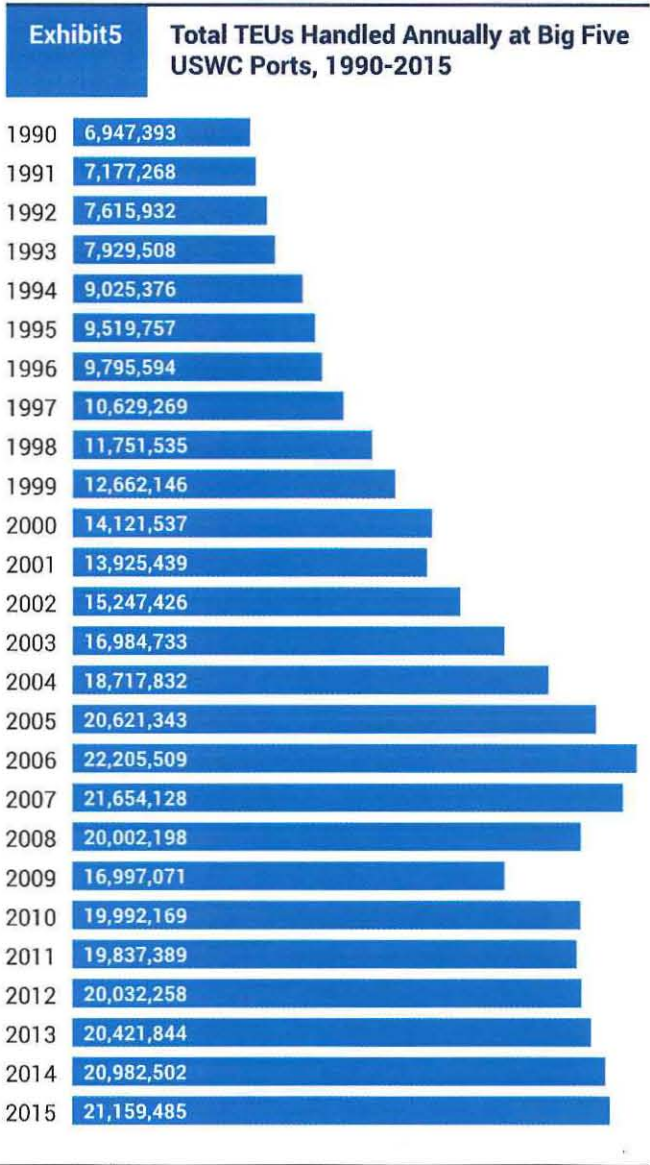
What does this imply for U.S. West Coast ports?

To an overwhelming extent, the story of the rise of USWC ports has been the story of the emergence first of Japan, followed by the so-called Asian Tigers (South Korea, Taiwan, Hong Kong, and Singapore) and ultimately of China as major American trading partners. For better or for worse, the future of the USWC ports have been linked with the economies of the Far East. With the recent slowdown in China’s economic growth rate coupled with uncertainty over the quality of China’s economic leadership, that linkage has become fraught with greater risk.

Still, it is important to note that, for USWC ports, the peak is past. **EXHIBIT 5** displays the total number of loaded and empty TEUs handled at the West Coast’s top five container ports (Los Angeles, Long Beach, Oakland, Seattle and Tacoma) since 1990. The volume of container traffic grew rapidly, as U.S. trade with China soared until peaking just prior to the onset of the Great Recession in 2006 at 22,206,509 TEUs. The recession took an obvious toll, but growth since the recovery began has been tepid. The number of TEUs handled last year was still some 4.7% below the total number of TEUs these same ports handled in 2006. (Through September 2016, total TEU counts at these ports are up only 0.3% over last year’s level.)

Switching metrics from TEUs to the declared weight of the containers’ contents, the story is similar. USWC trade with Asia Pacific region in 2015 was down 0.7% from 2006, while overall U.S. container trade with the same region rose 16.9%. Accordingly, the USWC share of U.S. container trade with the economies of the Asian Pacific region declined from 70.8% in 2006 to 60.4% in 2015.

The key question then is whether these trends will continue or whether USWC ports will succeed in reaching the volumes of TEUs they had handled just a decade ago. As most analysts believe, the Panama Canal expansion will not result in a significant loss of discretionary cargo to East and Gulf Coast ports. Any losses may, to some



extent, be balanced out by increased all-water trade with Europe and the eastern coast of South America.

More likely is that the factors governing trade flows in the short-term will be political in nature. Which brings us back to Mr. Trump and his espousal of protectionist positions not seen in mainstream American politics in decades. How much of his campaign rhetoric finds its way into his administration’s agenda is probably being decided, as we speak.

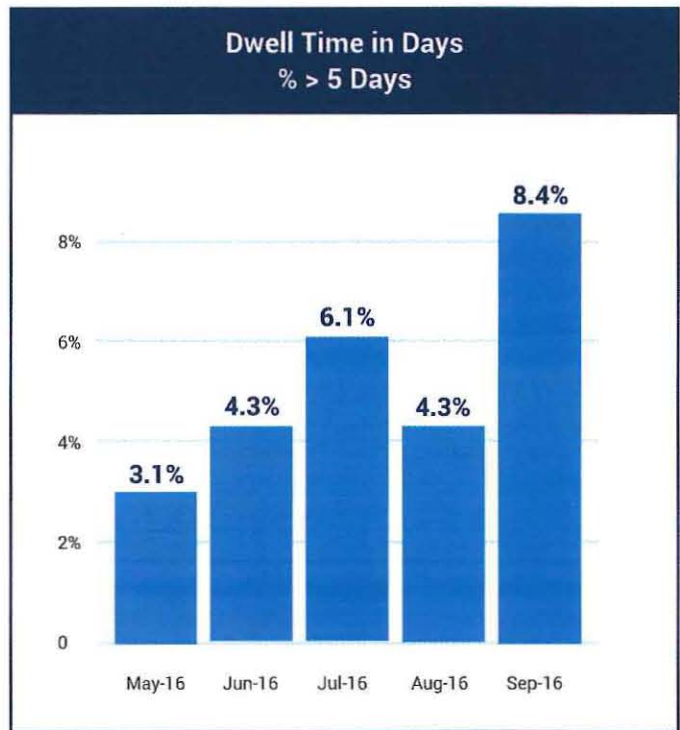
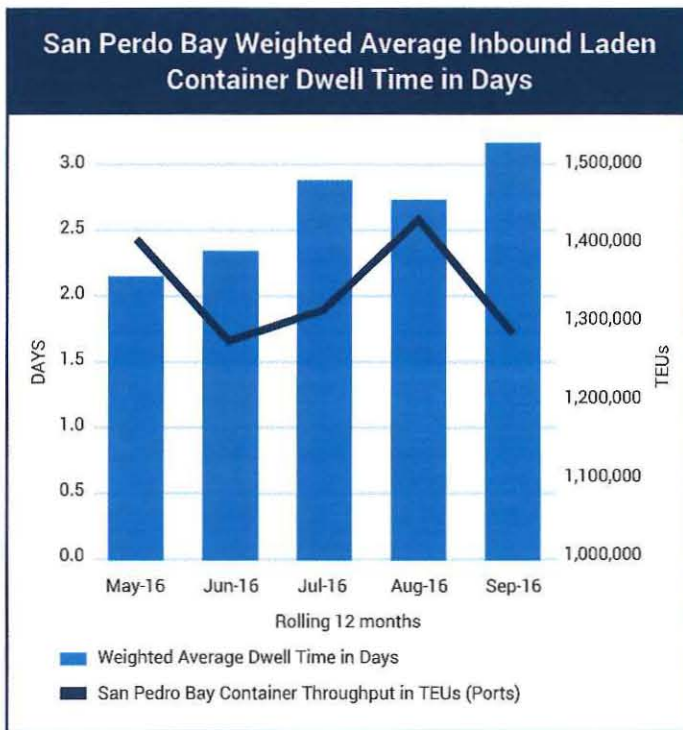
SoCal Container Dwell Time Study

By Thomas Jelenić
Vice President, PMSA

“Congestion” is a dirty word that is regularly thrown around at the San Pedro Bay port complex. When someone in Southern California’s supply chain has a problem, it is often chalked up to ever-present “congestion” plaguing the ports of Long Beach and Los Angeles. But as one port executive recently noted, this industry suffers from a paucity of data and has a habit of relying on anecdotes to understand a complex system. At PMSA, we decided that we needed to start shining a light on supply chain data. Since the primary concern regarding congestion is the delivery of imports to their inland destination, PMSA has started to look at import container dwell time: the amount of time that a loaded import container spends on a terminal from the first shift the container is available for pick-up after vessel discharge to the time it is actually picked up by a drayage truck. While this is not a comprehensive look at Southern California’s

supply chain, it will give the logistics industry a sense of what happens with the container once it arrives at the marine terminal.

PMSA retained SC Analytics to collect data from San Pedro Bay marine terminals and analyze and aggregate container dwell time for complex-wide perspective. The current analysis includes data from all 12 international container terminals in San Pedro Bay. The analysis examines the weighted average dwell time in both days and longshore shifts. In addition, where more detailed data are available (11 of 12 terminals), the analysis examines the number of containers that are delivered to a drayage truck in one day, two days, three days, and so on. So far, PMSA has collected five months of data from terminals. While still too early to identify any kind of trend, it is interesting that the average weighted dwell time for



SoCal Container Dwell Time Study *Continued*

imports is three days. Equally interesting, there is a small but long tail with thousands of containers sitting on-dock in excess of 10 days. Marine terminals operate just like airports where passengers must depart quickly to allow space for the next flight arriving. Containers that remain on the terminal will be buried once the next vessel arrives.

The data also raises some interesting questions: do a minority of boxes that remain on a marine terminal for extended periods consume a disproportionate amount of terminal resources (lifts that require equipment and labor)? And data in the coming months may reveal if container dwell time varies as we move through the peak season: could peak season demand from shippers push dwell time down? Future data may also reveal if the Hanjin bankruptcy impacted container dwell time: and will we even be able to discern such trends?

We hope that as PMSA continues this effort and develops more data the effort will provide a fact-based assessment of terminal operations and congestion. PMSA expects to continue this effort as long as it has value for supply chain participants. If the data prove to be less than revealing, PMSA could also move on and turn its spotlight to another aspect of the supply chain on the waterfront.

If you have questions regarding this study, please contact: mgrubbs@pmsaship.com.



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