Senate Transportation Sub-Committee on California Ports & Goods Movement
Informational Hearing
Senator Alan Lowenthal, Chair

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

March 16, 2010
1:30 PM
State Capitol, Room 112

Background Paper

Introduction

In September of 2008 the rumblings of hyper-inflated financial market activity and behavior coupled with hyper-inflated housing prices helped to create the worst global recession in seven decades.

According to Paul Bingham, IHS Global Insight Managing Director for Global Commerce and Transportation, the world economy experienced a 6 percent peak-to-trough fall in real GDP growth; moreover, global industrial production fell much more than GDP, with a peak-to-trough decline of about 13% reflecting reduced demand and draw down of inventories.

These tectonic shifts in the global economy had a negative impact on the freight transportation and supply chain system. Ports experienced a significant decline in cargo volume and in some cases, including the ports of Los Angeles and Long Beach, a negative double digit impact. This severe economic downturn has had a dramatic impact on jobs, revenues, and incomes.

Overview – 1995-2008 Statistics and Trends

The U.S. Department of Transportation Research and Innovative Technology Administration Bureau of Transportation Statistic's June 2009 report, *America's Container Ports: Freight Hubs That Connect Our Nation to Global Markets Overview*, provides an overview of freight volume handled by U.S. container ports in 2008 and summarizes trends in maritime freight movement since 1995.

The principal findings of the report include the following:

- Maritime freight handled by U.S. container ports fell sharply towards the end of 2008. Total U.S. containerized cargo for December 2008 was down 18 percent compared with December 2007. The decline was severe at the nation's two leading container ports, Los Angeles and Long Beach, which experienced 13 and 25 percent drops, respectively.
- Overall in 2008, U.S. container ports handled 28.2 million loaded TEUs (20-foot equivalent units—a measure for counting containers), a 3 percent drop from the 29 million TEUs handled in 2007.
- In 2008, containerized freight throughput fell for each of the leading ports in the Pacific/west coast, Atlantic/east coast, and gulf coast regions. West coast ports had a 5 percent decline, east coast ports a less than 1 percent decline, and gulf coast ports a 3 percent decline.
- The consequences of the 2008 decline in container throughput at the nation's seaports reached beyond the marine ports and terminals, affecting containership fleet capacity, the railroads, and commercial trucks that service the seaports, and the inland warehouses and distribution centers that provide logistical support for the entire multimodal freight supply chain.
- In 2008, the decline in maritime containerized cargo impacted international intermodal containers handled by the nation's Class I railroads, which fell 7 percent from 2007. It also affected overall trucking activity, which saw record declines in the second half of 2008.
- Despite the 2007 to 2008 declines, today one container in every 10 that is engaged in global trade is either bound for or originates in the United States, accounting for 10 percent of worldwide container traffic.
- On a typical day in 2008, U.S. container ports handled an average of 77,000 TEUs, up from 37,000 TEUs per day in 1995.
- In 2008, the top 10 U.S. container ports accounted for 86 percent of containerized TEU imports and exports, up from 78 percent in 1995.
- In 2008, three U.S. ports, Los Angeles, Long Beach, and New York/New Jersey, ranked among the world's top 20 container ports when measured by TEUs, placing 16th, 17th, and 20th, respectively.

- In 2007, there were nearly 20,000 containership calls at U.S. seaports, accounting for 31 percent of the total oceangoing vessel calls made by all vessel types at U.S. ports.
- In 2007, there were about 12 million oceanborne container entries into the United States, down slightly from 2006 but still double those of 2000.

Overview of the Global Recession and Recovery

As the recession gained momentum, 2009 proved to be a dismal year for global economies and for the freight transportation and trade industry. Shipping industry providers and customers experienced one of the worst years in modern transportation history. The global impact of the recession on containerized volume contracted for the first time ever. According to a *Journal of Commerce* January 11, 2010 article, this global decline may reach 11 to 12 percent compared to 2008 volumes.

On February 3, 2010 *Cargo Business Newswire* provided a perspective on the global impact to California's major freight gateway when it reported that the nation's top import gateway, the Port of Los Angeles, experienced a 14.69 percent drop in container volume over the previous year; the Port of Long Beach registered a 17.80 percent decline over 2008.

Although 2009 demonstrated that the global recession was deeper and more sustained, the year ended with some encouraging data. The National Retail Federation reported that U.S ports handled 1.09 million TEUs in December, representing a 2.6 percent increase over December 2008.

This momentum shift was further substantiated in the figures released by the Intermodal Association of North America (IANA), which stated that domestic container volume for the fourth quarter of 2009 increased 9 percent over the same period a year ago, pushing 2009's total volume to 2.9 percent over 2008's final numbers. Global signs of recovery remain mixed and give evidence that recovery will have uneven results for global economies. For example, the Intermodal Association of North America reports that December's domestic box volume was up 16.9 percent over last year's levels, while international container volume declined 12.3 percent during the fourth quarter of 2009.

Given the promising fourth quarter domestic figures for 2009, the new year began with both freight transportation and trade industry stakeholders and economists cautiously optimistic for a slow recovery. Evidence of 2010's slow recovery and its initial mixed results is reflected in following figures reported by *Pacific Maritime Online* regarding the ports of Long Beach and Los Angeles:

> Long Beach port officials reported that monthly box volumes handled in January increased by 7.4 percent to 428,805 TEUs compared to the same month in 2009. It was the second straight month of positive growth for Long Beach, after more than a year of negative volume numbers. Total loaded inbound volume increased to 217,925 TEUs, an 8.6 percent increase over January 2009. Total loaded outbound container volume also jumped up compared to the year-ago-period, ending the month up 27.9 percent at 113,183 TEUs.
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> The Los Angeles port, total container volume handled for the month fell to 2.4 percent to 572,969 TEUs, a 2.4 percent decrease over January 2009. Total loaded inbound container volume for January also dipped 6.7 percent, ending the month with 296,305 TEUs handled. On the other hand, total loaded outbound container volume for January jumped a sizable 35.2 percent compared to the same period last year and ending the month with 141,244 TEUs handled.

The February 8th *Global Tracker* report released by the National Retail Federation states that import cargo volume at the nation's major retail container ports will be 25% higher during the first half of 2010 compared with the same period a year ago. Furthermore, the report projects the estimated container volume at 1.19 million TEUs, a 17% increase over January 2009, and February, traditionally the slowest month of the year, is forecast at 1.1 million TEUs, up 30% from the previous year. March is forecast at 1.18 million TEUs, up 23% as retailers begin to stock up for spring and summer; April at 1.25 million TEUs, up 27%; May at 1.3 million TEUs, up 26%; and June at 1.38 million TEUs, up 36%. If those totals are realized, volume for the first half of 2010 will stand at 7.4 million TEUs, up 25% from last year's 5.9 million TEUs.

This positive forecast supports belief in an emerging and slow recovery and a gradual return to sustained growth. This is consistent the with Drewry Shipping Consultants projection of a 2.4 percent increase in global trade volume in 2010, and according to a January 16, 2010 *New York Times* article, most analysts feel that container traffic will probably not recover to pre-recession levels until 2012 or later.

Financial conditions, government stimulus investment, and increased consumer demand are giving momentum to the recovery. As a result of a weak U.S. dollar, exports are on the rise which lends potential for a better U.S. import-export trade balance.

High unemployment, continued impacts of the financial crisis, and sluggishness in the housing market and construction industry place a substantial drag on the recovery. The global supply chain will maintain lean inventories, which will drive up transportation and consumer costs. Ocean carriers for the all water routes from Asia will only increase capacity, three to four percent. As the global recession becomes a global recovery, changing trade trends will create keen competition. With the expanded Panama Canal, due to be completed in 2014, Canada, Mexico and U.S. ports will compete for the cargo and trade business in the new global trade landscape. A January 2010 *Cargo Business Newswire* article outlines an element of the domestic gateway competition that will result:

> East Coast ports will continue to grab market share from West Coast ports because of shippers' increasing preference for cheaper all-water routes. Philip Damas (*Drewry Supply Chain Advisors, division director)* says all-water routes now handle 27 percent of Asian cargo, up from 22 percent in 2006. John Martin, president of Martin Associates, calls the competition "a brawl" and says there is little or no time difference between landbridge and all-water services, such as Hong Kong to New York. Completion of Norfolk Southern's Heartland Corridor project by the summer will shave a day and a half off the transit time from Norfolk to Chicago.

The following is an overview of the recession and recovery process, as outlined in a July 2009 report produced for the ports of Los Angeles and Long Beach by consulting firms Tioga Group and IHS Global Insight:

> Recovery will be slow, without the sharp rebound that has characterized some previous recessions. Most previous recessions have had specific root causes (e.g. the dot com bust, or the 9/11 terrorist attacks), and ended when those issues were resolved. In those cases pent-up demand resulted in rapid short-term growth, and a quick return to trend. This recession has multiple causes, and has been greatly exacerbated by failure of the financial industry. These multiple causes will be resolved slowly over time, and not necessarily on the same timetable. The housing industry, for example, will take years to work off the inventory of unsold property. The auto industry will likewise take years to reorganize and recover.
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> The San Pedro Bay ports have lost share as well as absolute volume. The share loss has been more modest than is implied by alarmist trade journal articles. It appears that most of the threats to abandon Southern California have not yet been carried out. Yet there has been a pendulum swing in favor of the East and Gulf Coast ports for at least three underlying reasons beyond the influence of Los Angeles and Long Beach.

- Reduction in transloading on the West Coast, and more intact movement of goods via the Panama Canal.
- Development of multiple import supply chains using ports on all three coasts.
- Growth in trade with regions such as Europe and Latin America that favor the East or Gulf Coast ports.

Conclusion

Although 2010 has begun with positive signs of economic recovery, a recessionary hangover of ongoing struggles and restructuring plagues the trade and transportation industry and could linger into 2011 and beyond. In addition, developing and new trade trends present the potential for a transformation in the international trade and transportation industry.

Port of Long Beach Executive Director, Dick Steinke, in his 2010 State of the Port address made the following observation on the recession and recovery and future impact on the goods movement and trade industry:

> "Because as we emerge from this recession, I believe we have a key adversary that poses a major threat, and that's competition. Port cities throughout North America are looking for business and jobs, like what we have here at the Port of Long Beach. We are certainly not afraid of competition, but we need to take it very seriously. There is a real urgency here."

Questions

The Subcommittee may want to consider the following questions.

1. When the U.S. emerges from the recession, how will the economy have changed?

2. Once global economies have stabilized, will new consumer markets emerge, such as, Brazil, Southeast Asia, and India?

3. Will this have a favorable impact on U.S. exports?

4. What impact will the serious competition posed by U.S. ports, the Panama Canal, the Suez Canal, Canada and Mexico have on California jobs and the its economy?

Witnesses

The Subcommittee hearing will hear from the following economists.

Paul Bingham, - Mr. Bingham is IHS Global Insight Managing Director for Global Commerce and Transportation. He has over 25 years of experience conducting trade and transportation economic analysis. He manages consulting projects applying the company's international trade market analysis and forecasting capabilities for business planning and government policy making.

Currently Mr. Bingham serves as Freight Systems Group Chair overseeing the freight transportation committees of the National Academy of Sciences' Transportation Research Board. He serves on the board of directors the International Trade Data Users group and the National Council of the Transportation Research Forum.

Jon Haveman Ph.D. – Dr. Haveman is a founding partner of Beacon Economics. Dr. Haveman is an expert in goods movement, international trade policy, and labor market issues. He has authored a number of special reports on transportation and security issues at California's seaports, business outsourcing, and trade in technology products. He has been a senior economist with the President's Council of Economic Advisers.

John Husing Ph.D – Dr. Husing is the principal of Economic and Politics, Inc. He is a research economist specializing in the study of Southern California's growing economy. He is a leading authority on the impact of the goods movement industry on the region, and in particular its role as a provider of upward economic mobility to blue collar workers. Dr. Husing also served as the economist reviewing and recommending methodologies for the Clean Truck Program at the ports of Los Angeles and Long Beach.

Marney Cox – Mr. Cox is the Chief Economist, San Diego Association of Governments (SANDAG). He represents SANDAG by participating in local and state-wide discussions on proposed public policy actions that influence the economy; including actions to improve the long-term competitiveness of the local and state economies. Mr. Cox is a Board member of the San Diego Regional Economic Development Corporation and the East County Economic Development Council.