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The 3 Normals: Ugly, New and Good

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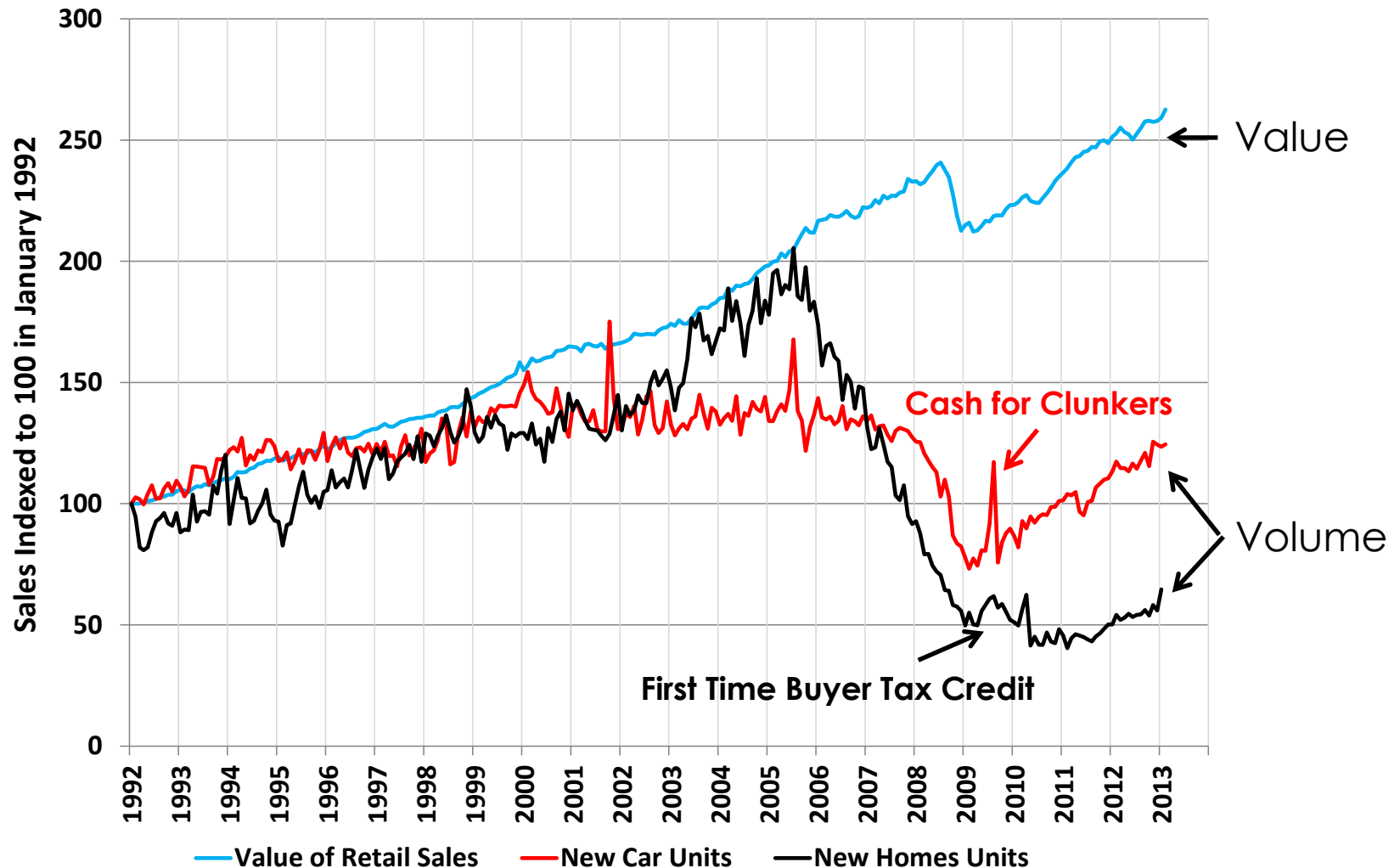


Summary

- **Stabilizing – not a weak recovery but a recovery to weakness**
- Outlook is still policy-driven - higher 2013 GDP growth is likely, hopefully not too high
- **Emerging new normal – to be defined by the “usual suspects”**
- Range of outcomes is very wide, reflecting macro and micro uncertainties
- **Without a lot of infrastructure investment things will get “ugly”**

Consumer Spending Is Past The Worst Point

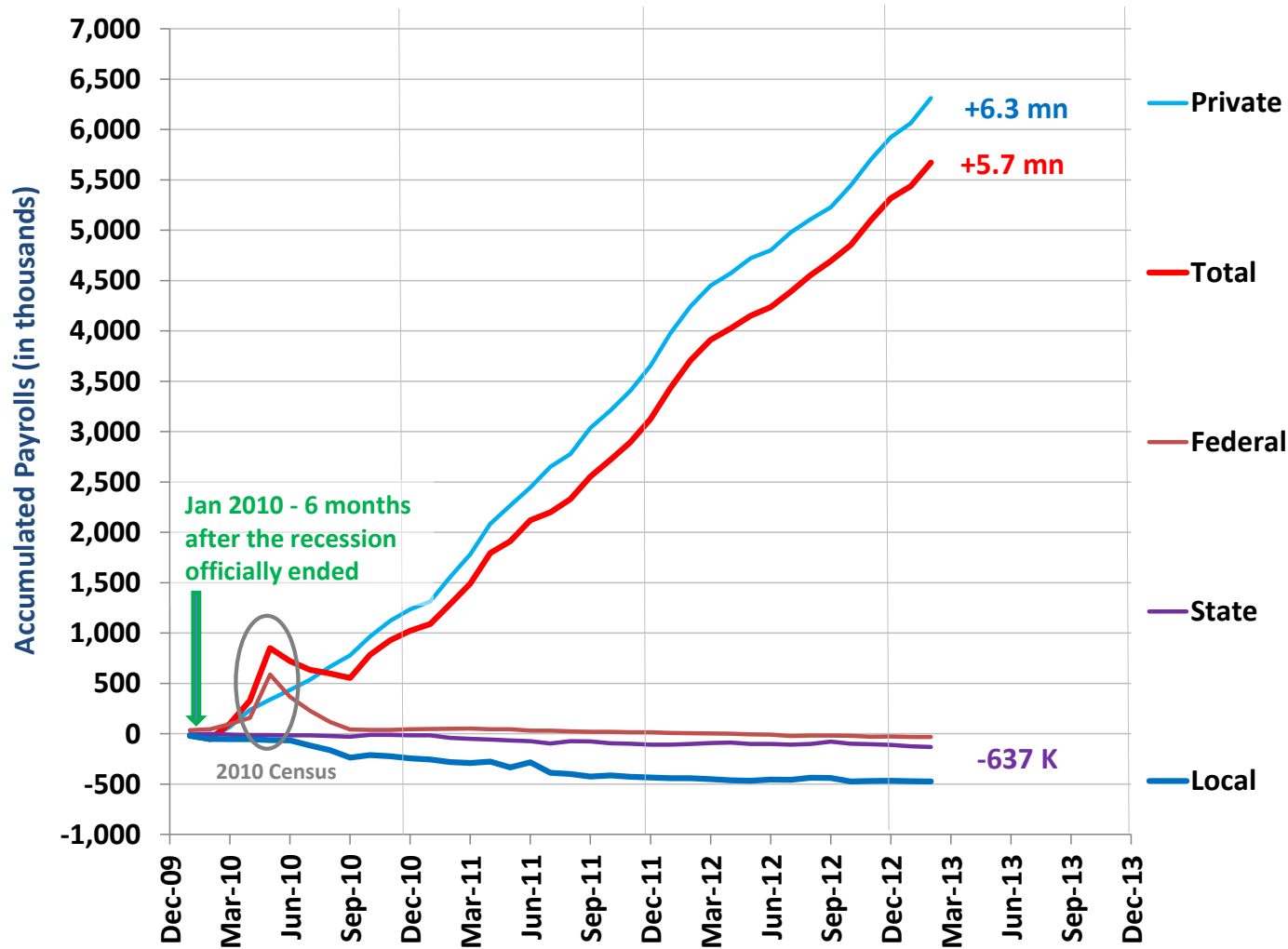
US Retail, Autos and Home Sales



- Sales are recovering but levels remain below trend... demand is pent up

Private Sector Has Led Employment Recovery

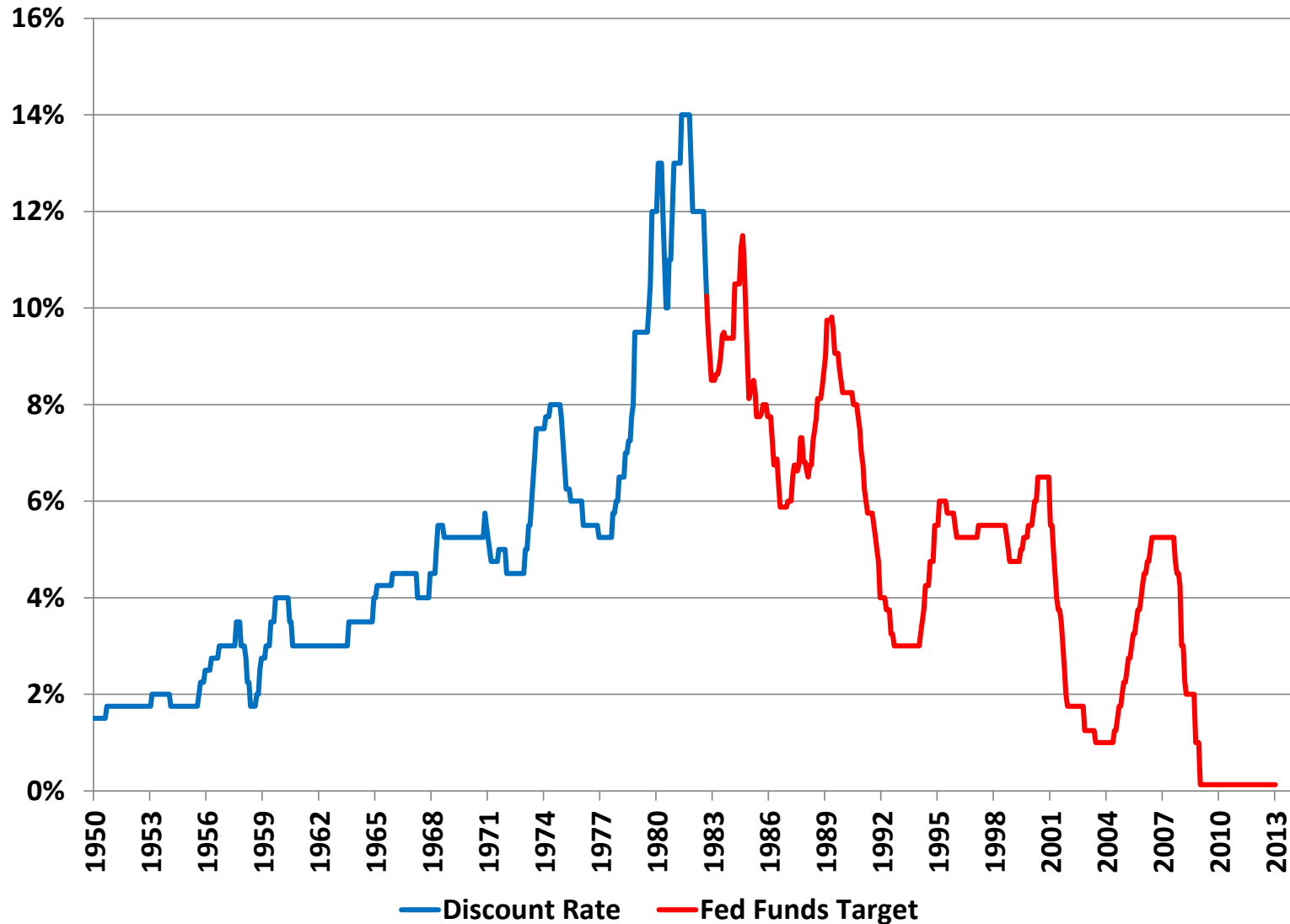
Changes In Employment Levels Since 2010 By Sector



- Private sector efforts were offset by public sector cutting 637K jobs since Jan 2010

Short Term Interest Rates At Historical Low

Federal Reserve's Federal Funds Policy Interest Rate Target



- Interest rates are at the lowest levels in at least 63 years

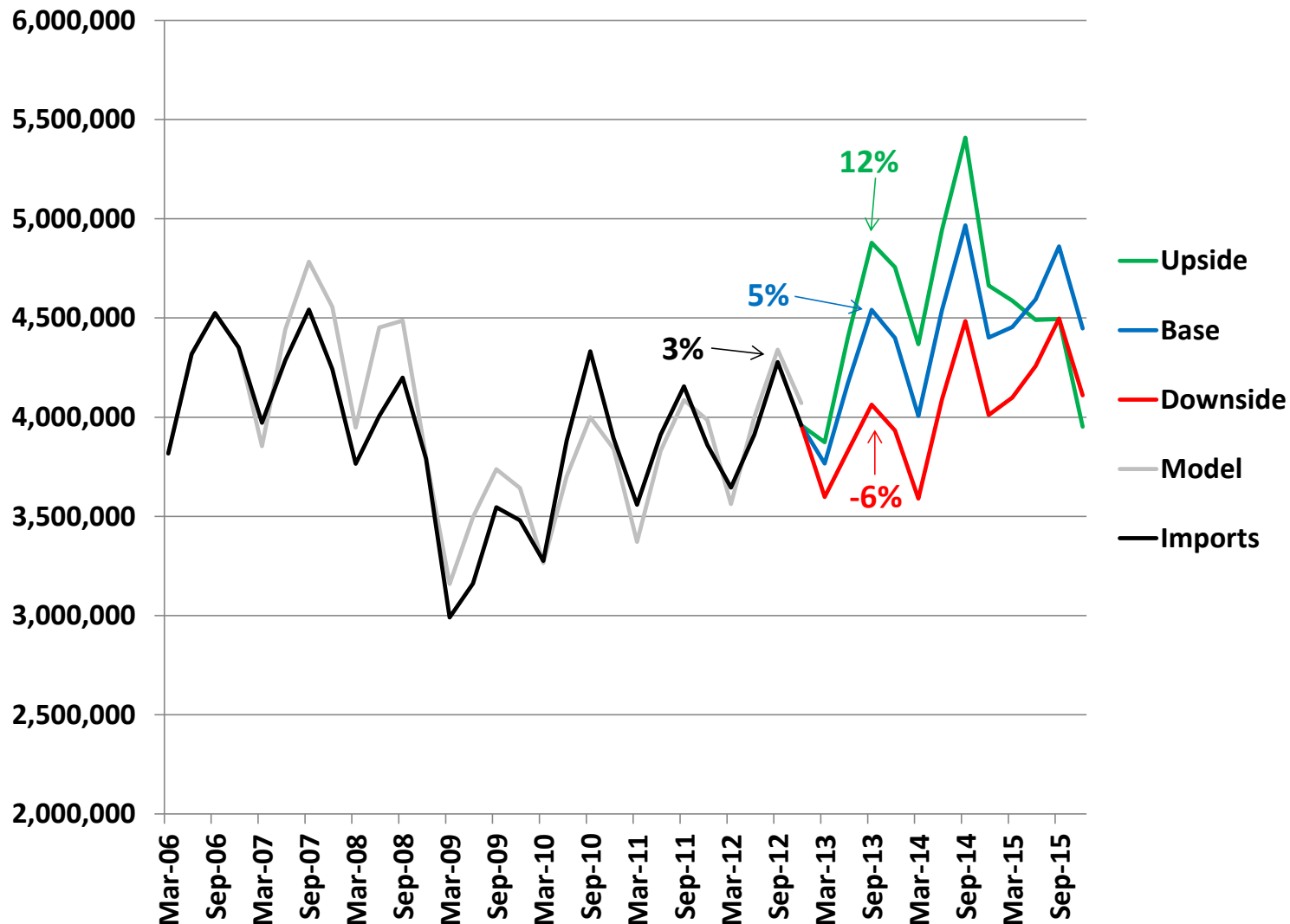
Scorecard: Higher GDP Growth in 2013, If...

Indicator	Score	Outlook
Monetary Policy	Positive	Low interest rates, ample liquidity (QE3)
Inflation	Positive	Maybe too low , but commodity prices are volatile due to non-US demand
Fiscal Policy	Negative	Budget/debt resolution overshadows near term fiscal policy outlook
Financial Sector	Positive	FDIC's watch list declining, consumer credit more available, slight rise in bond defaults but mostly in stagnant industries
Causes of Last Recession	Positive	Residential real estate sector has already begun the long process of recovery
Leading Industries	Positive	Industries likely to lead growth in this cycle are identifiable and have been investing
Production Costs	Positive	Low interest rates, wages, commodity prices
Labor Markets	Positive	Employment rising in expected industries
Global Economy	Neutral	European debt crisis stabilizing, Emerging Markets deploying expansionary policies

- ... if US can get past fiscal budget/debt ceiling politics
- Modest recession risk in 2015 as Fed begins to raise interest rates

Container Volume Imports Still Below 2007 Peak

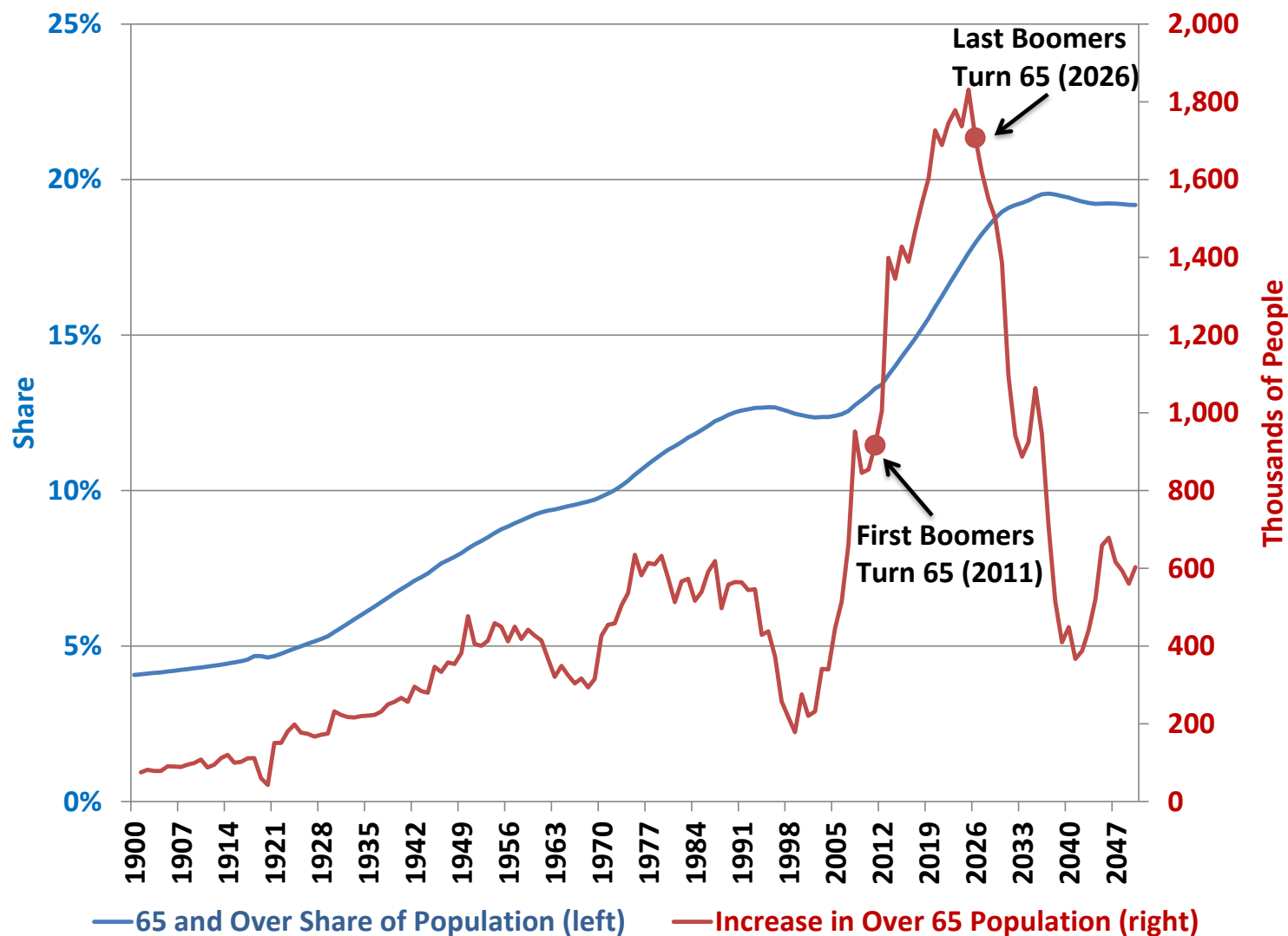
Import Volumes (TEUs) For 15 Largest US Container Ports



- 2013 GDP growth forecasts underlying the import forecasts range between 0.4% and 4.4% due to policy uncertainty

Unprecedented Grey Tsunami

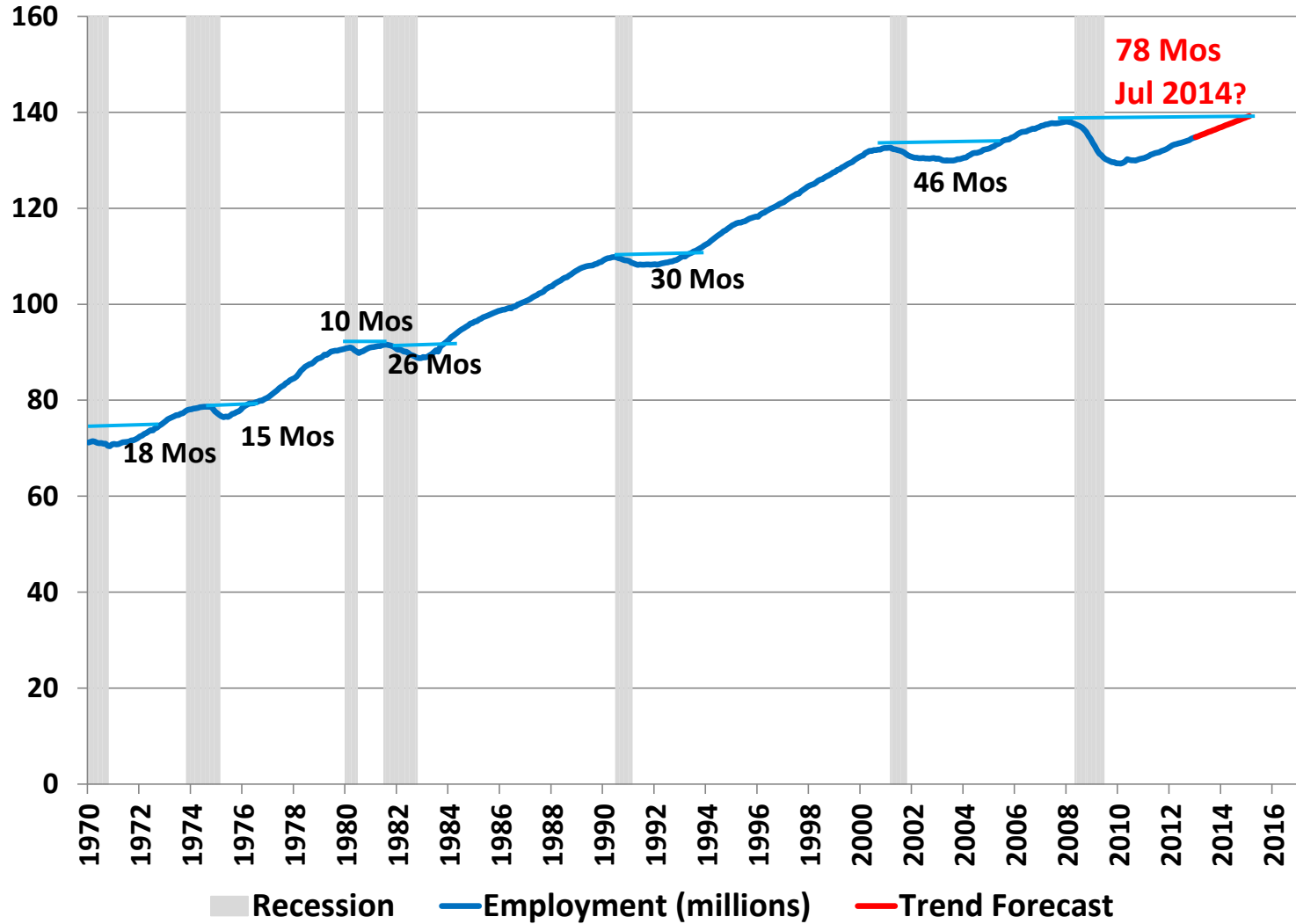
Number of People Turning 65 and Share of US Population: 1900 - 2050



- US has no policy to deal with the economic and financial implications of the Grey Tsunami

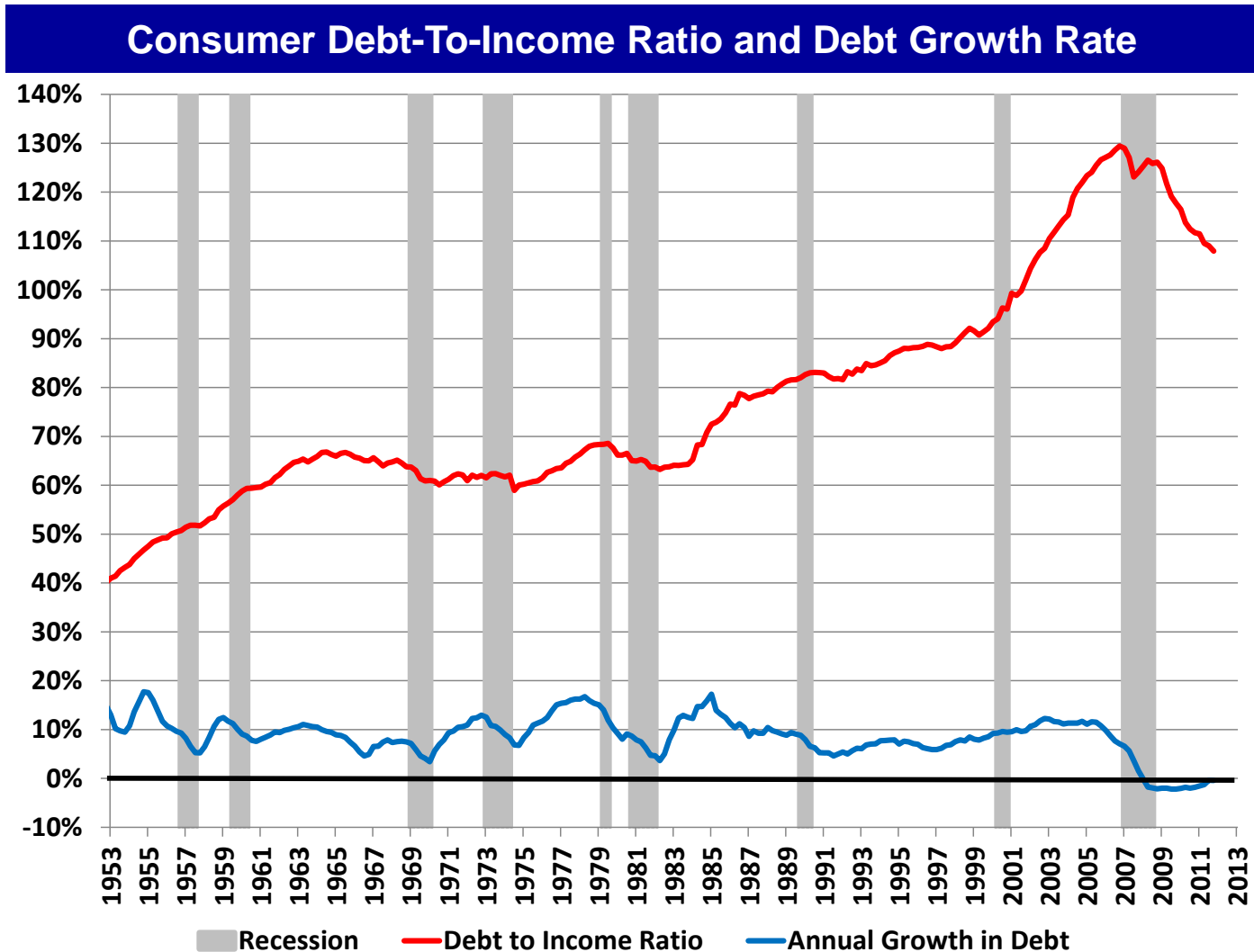
Longest Employment Recovery Period Since 1950

US Non-farm Payrolls 1970 – 2015 And Recovery Periods



- The current employment recovery cycle is the longest since data was first recorded
- Workers who lost jobs to outsourcing did not find jobs in export-oriented industries

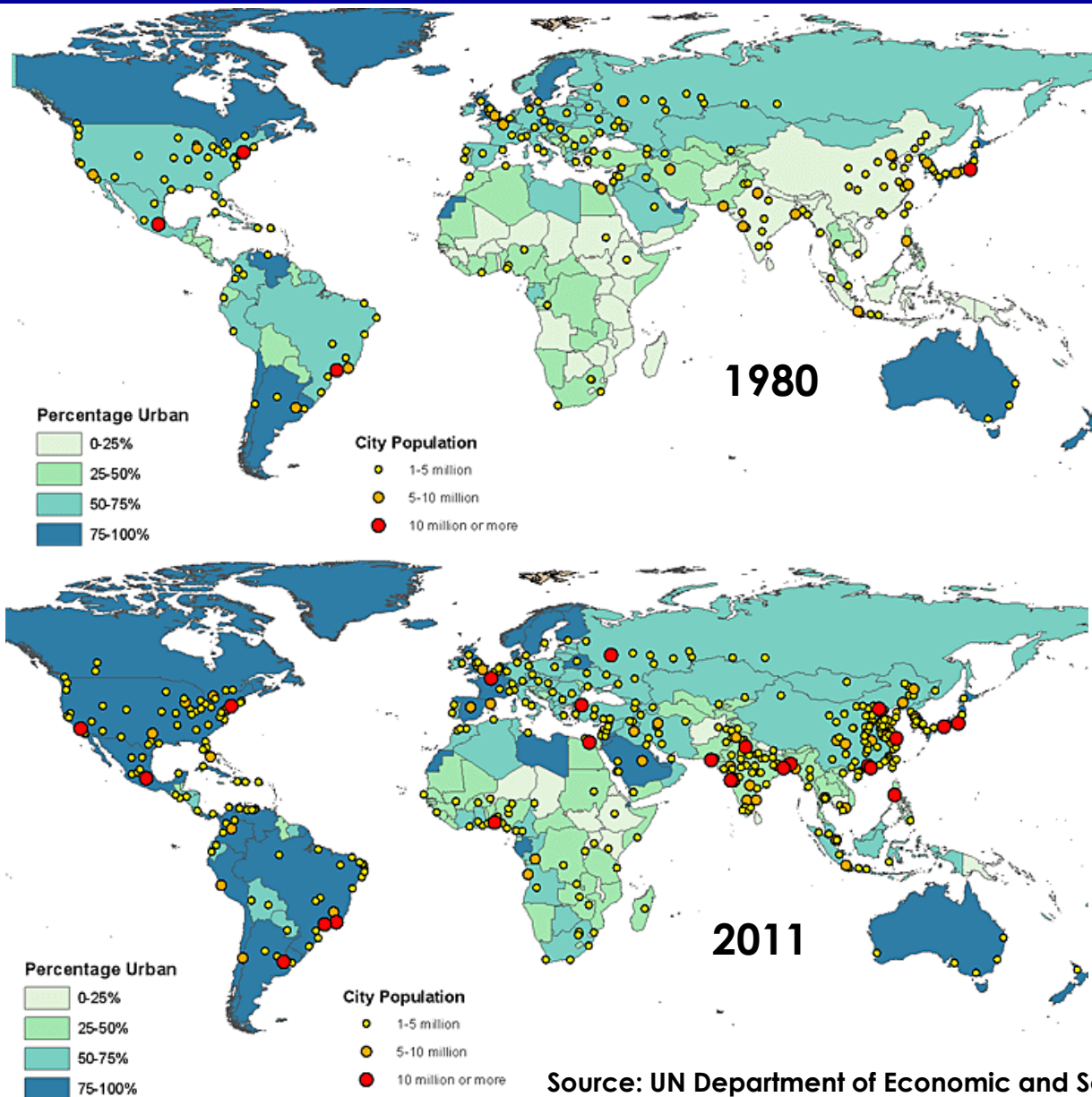
US Consumers Have Too Much Debt



- Between 2007 and 2012 the debt-to-income ratio declined 20% at this rate a “sustainable” level of 90% will not be reached until 2017
- But households are withdrawing funds from 401Ks to pay down debt

Increasingly Urbanized, Increasingly Congested

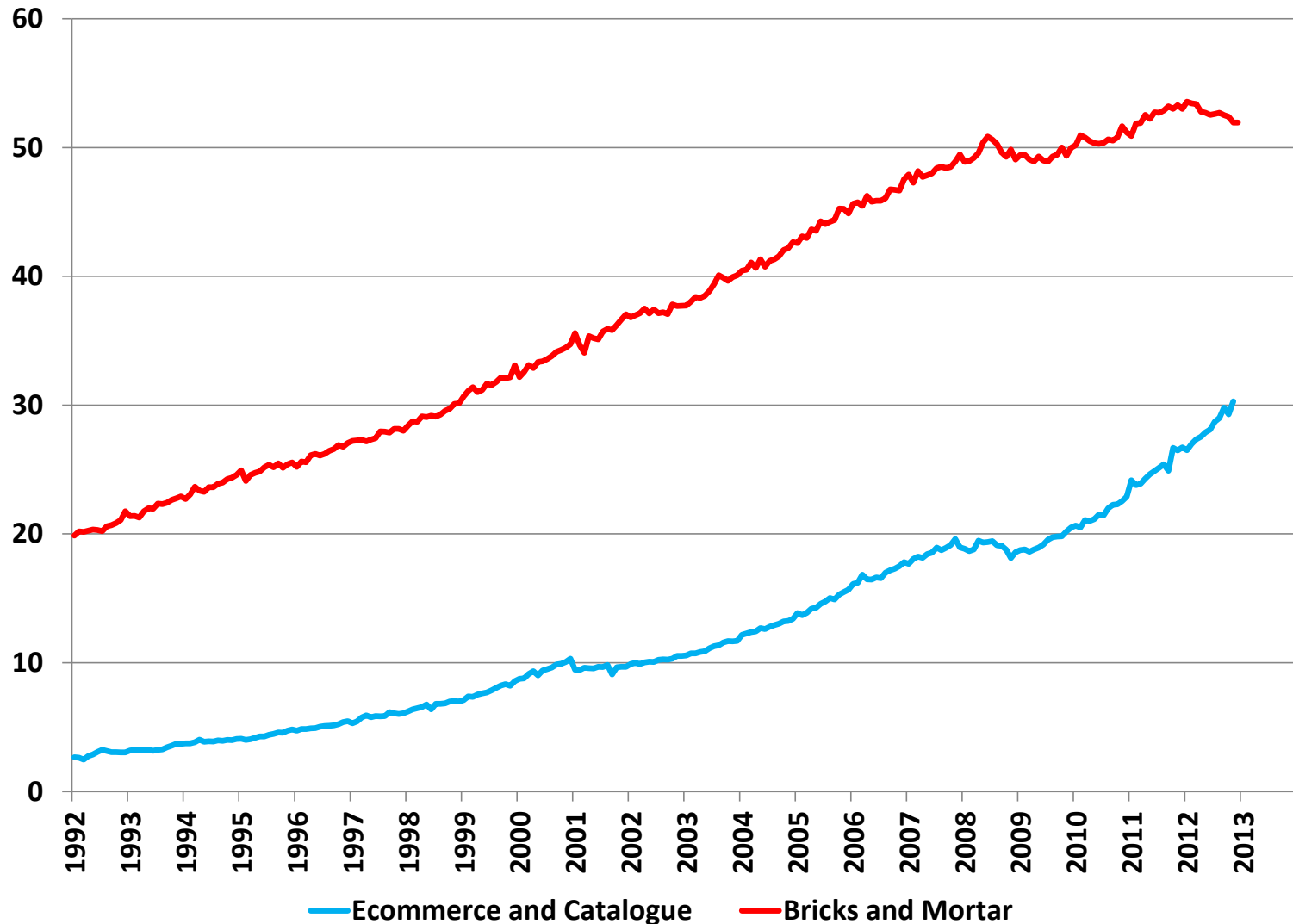
Percentage of urban population and agglomerations by size class



Source: UN Department of Economic and Social Affairs

The Internet Is Changing Consumers and Sellers

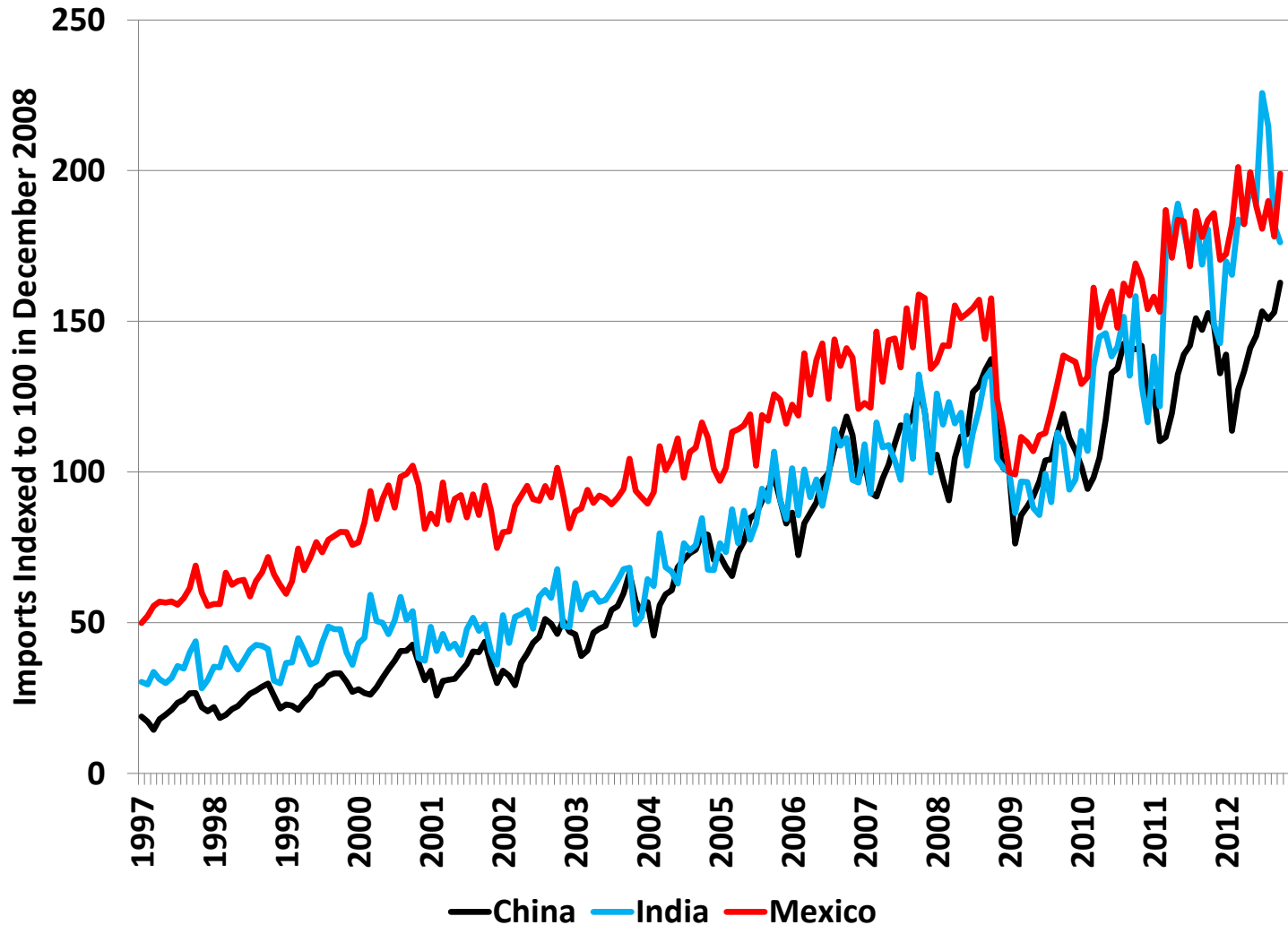
Retail Sales At General Merchandise and Electronic/Catalogue Stores



- Ecommerce needs same day delivery to gain share from Bricks and Mortar
- Logistics managers/companies are re-thinking their models – will “4 corners” matter?

China Is Losing Share of US Imports

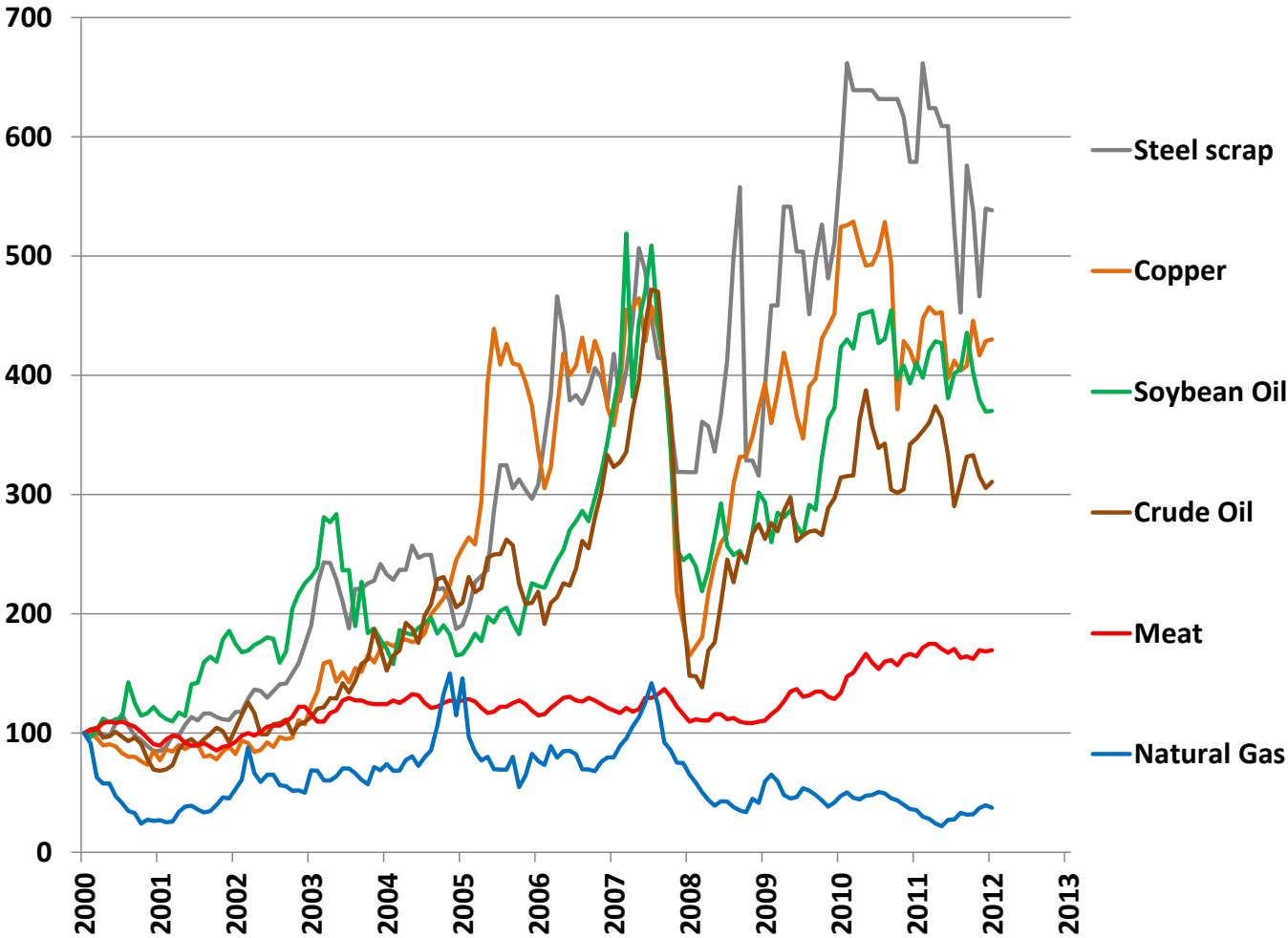
Index of Value of US Imports From China, India and Mexico



- Rising wages in China make other locations more attractive for outsourcing
- Automation could offset outsourcing trends

Raw Materials Demand Growing Faster Than Supply

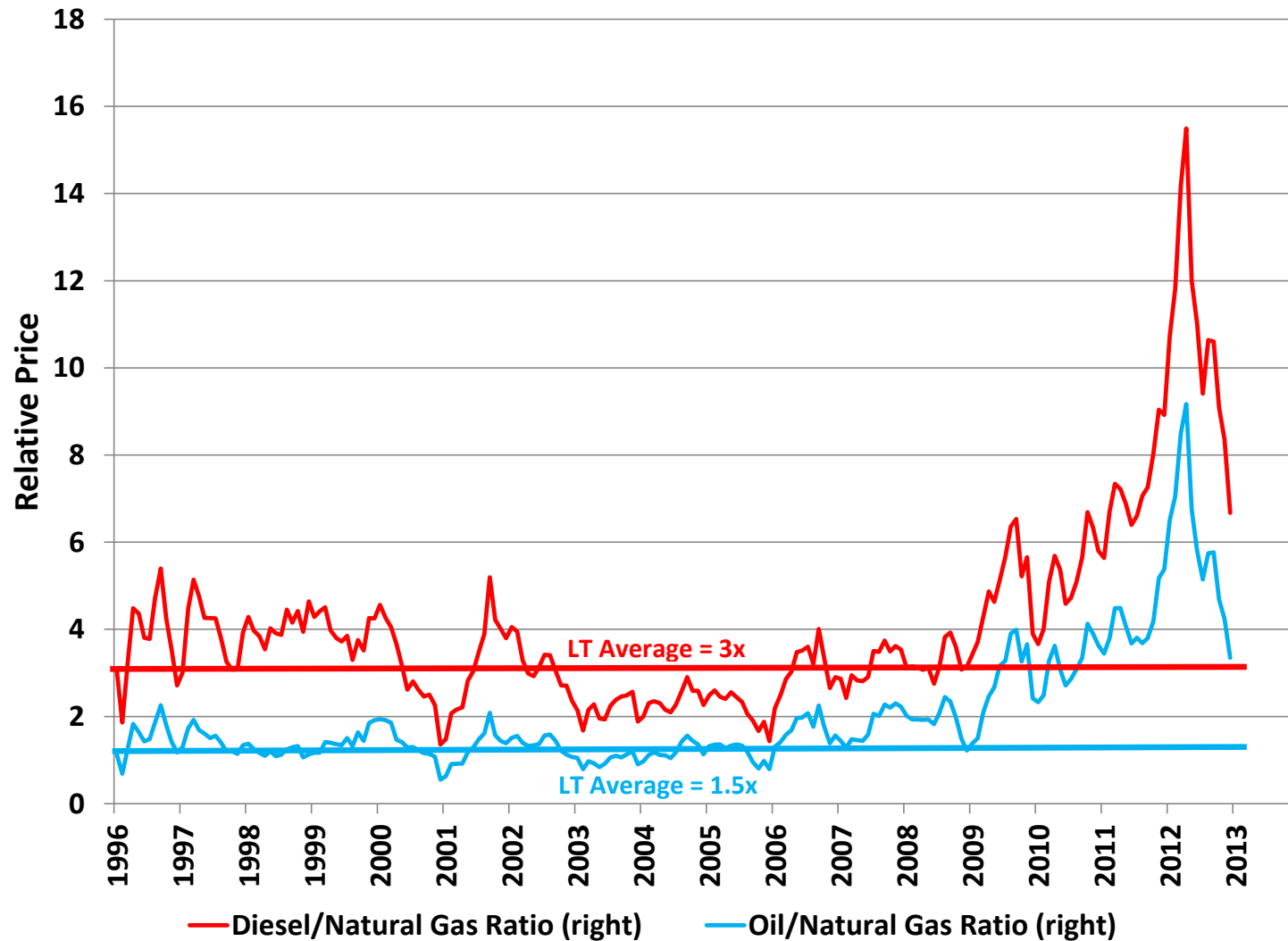
Major Commodity Price Indexes (2000 = 100)



- Metals and agricultural prices have risen faster than energy prices
- Household incomes rising so consumers are willing and able to improve nutrition

Energy Consumption Patterns Will Change

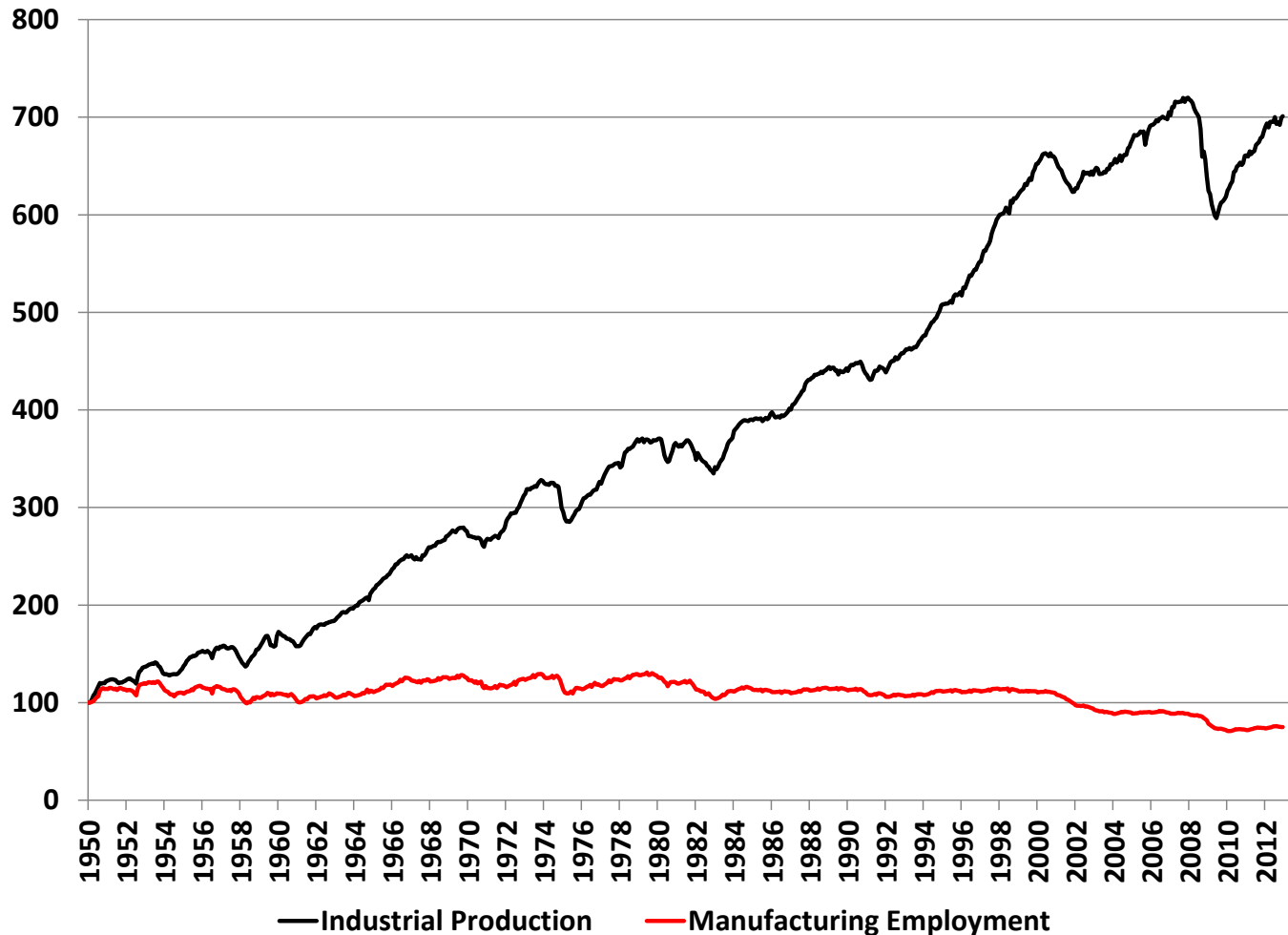
Natural Gas Spot and Relative Prices Per 1 Million BTU



- Horizontal drilling has significantly changed energy price dynamics
- Several companies are installing natural gas fuel stations across the US

Manufacturing Continues To Change

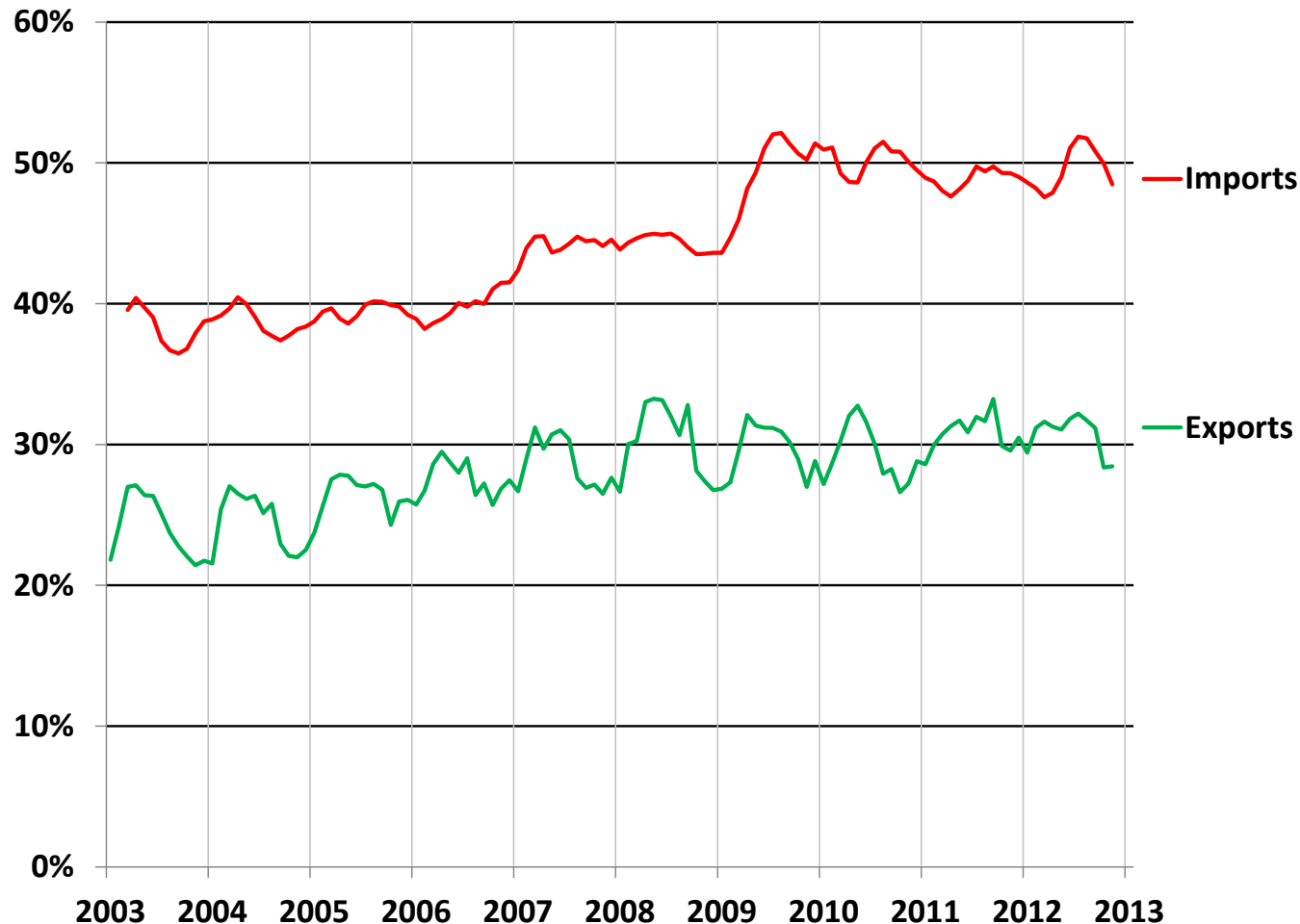
Manufacturing Production and Employment Indexes (1950 = 100)



- US manufacturing output has risen 7-fold since 1950 while employment fell 25%
- Capital-labor substitution (automation) and shifts towards higher-end capital goods
- US exports are driven by comparative and competitive advantages

Containerization of Freight Is Increasing

Percentage of Non-fuel Containerized Marine Freight

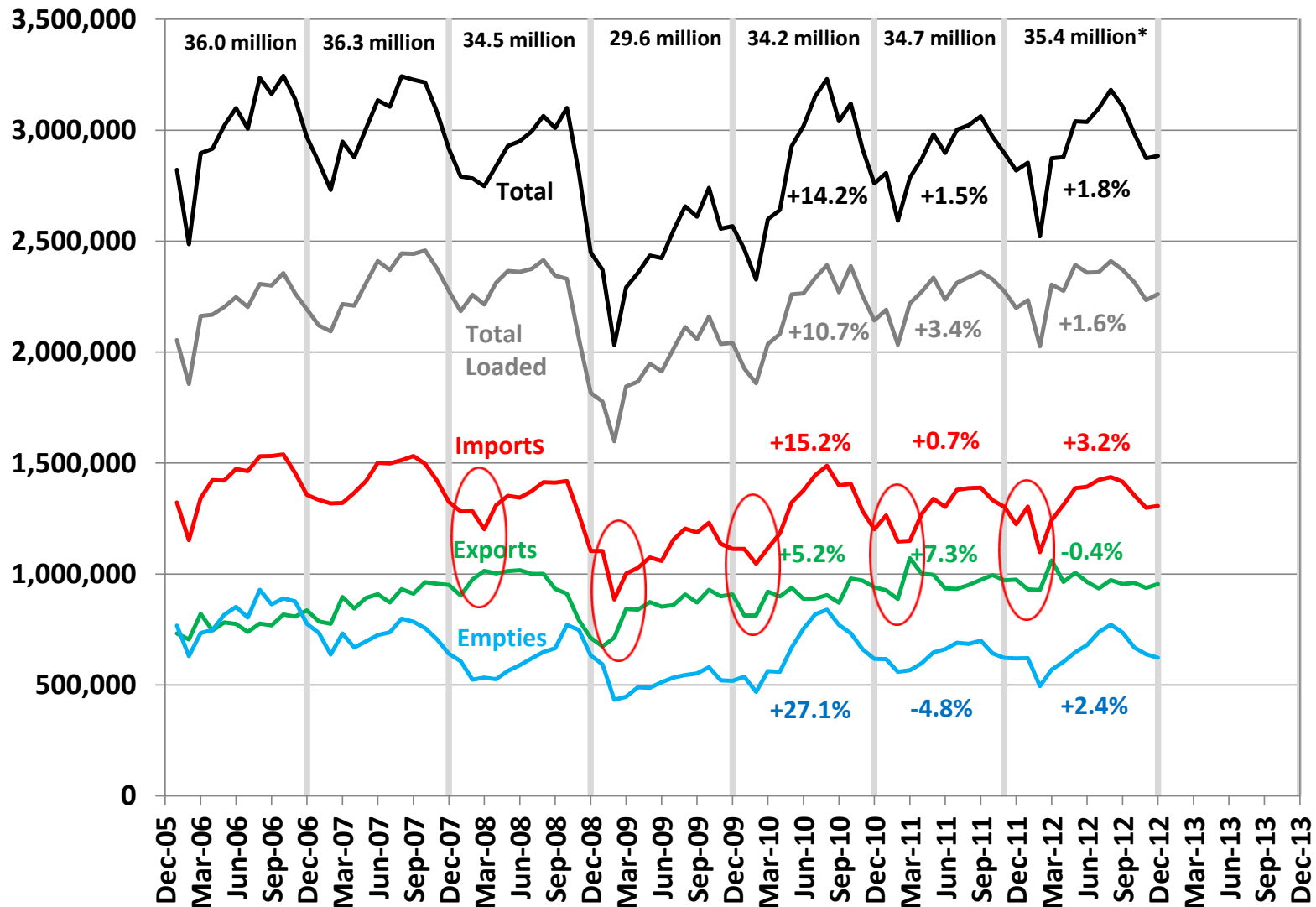


- US commodity exports, particularly agricultural goods, are increasingly containerized
- Carriers need to turn equipment efficiently which constrains agriculture exports



New Equipment Management Patterns

US International Container Volumes By Type



- Slowing global economic growth and the national drought negatively impacted US exports in 2012

US Really Needs To Repair and Build Infrastructure

TABLE 2 ★ Cumulative Infrastructure Needs by System Based on Current Trends Extended to 2020 and 2040 (Dollars in \$2010 billions)

INFRASTRUCTURE SYSTEMS	2020			2040		
	TOTAL NEEDS	EXPECTED FUNDING	FUNDING GAP	TOTAL NEEDS	EXPECTED FUNDING	FUNDING GAP
Surface Transportation	\$1,723	\$877	\$846	\$6,751	\$3,087	\$3,664
Water/Wastewater	\$126	\$42	\$84	\$195	\$52	\$144
Electricity	\$736	\$629	\$107	\$2,619	\$1,887	\$732
Airports*	\$134	\$95	\$39	\$404	\$309	\$95
Inland Waterways & Marine Ports	\$30	\$14	\$16	\$92	\$46	\$46
TOTALS	\$2,749	\$1,657	\$1,092	\$10,061	\$5,381	\$4,681

*Airport needs and gaps include anticipated cost of NextGen: \$20 billion by 2020 and \$40 billion by 2040.

Source: ASCE "Failure to Invest"

- "The aggregate loss of GDP from the U.S. economy is expected to be \$3.1 trillion cumulatively over the years 2012-2020, and an additional \$18 trillion from 2021 through 2040."
- "By 2020, the economy is expected to lose almost 3.5 million jobs, and mounting impacts from underinvestment in infrastructure will result in nearly 7 million jobs lost by 2040"

In Summary...

- **Recovering to the former (ugly) normal**
- **Freight environment is changing: equipment management, distribution strategies, urbanization, fuel shifts**
- **The long term outlook is dire due to “inadequate” infrastructure**
- **Thank you for your attention**

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