



November 2018

Parsing the Latest Container Trade Numbers

A First Glance at October's TEU Counts

Surge. Peak. Call it what you want. October returns from Southern California's neighboring Ports of Los Angeles and Long Beach show a collective 17.7% jump from last October in the number of inbound loaded TEUs the two ports handled. Elsewhere, Hurricane Florence's mid-October visit to the Carolinas evidently did not much faze the Port of Savannah, which posted an impressive 9.3% increase in inbound loaded boxes over last October. Early reporters also include the Port of Oakland and Prince Rupert, which recorded gains of 7.4% and 8.8%, respectively, over last October.

With one huge exception, October outbound trades announced thusfar are uniformly down: Long Beach (-5.0%); Oakland (-8.2%); and Savannah (-6.2%). Even Prince Rupert saw an 8.9% drop in outbound loaded TEUs from last October. The outlier was LA, which saw its outbound loaded TEU count leap 20.5%, giving the San Pedro Bay ports a very respectable 8.6% year-over-year gain.

Parsing the September 2018 Loaded TEU Numbers

We now take a detailed look at September's loaded container traffic. Please note: The numbers here are not forecasts or even estimates but rather the actual TEU counts provided by individual North American seaports

	September 2018 - Inbound Loaded TEUs at Selected Ports					
	Sep 2018	Sep 2017	% Change	Sep 2018 YTD	Sep 2017 YTD	% Change
Los Angeles	414,282	388,670	6.6%	3,493,060	3,483,521	0.3%
Long Beach	357,301	366,298	-2.5%	3,040,318	2,859,245	6.3%
San Pedro Bay Totals	771,583	754,968	2.2%	6,533,378	6,342,766	3.0%
Oakland	82,123	79,135	3.8%	712,735	691,784	3.0%
NWSA	150,902	116,726	29.3%	1,062,673	1,039,284	2.3%
USWC Totals	1,004,608	950,829	5.7%	8,308,786	8,073,834	2.9%
Boston	10,411	10,271	1.4%	106,644	95,691	11.4%
NYNJ	304,125	287,753	5.7%	2,717,353	2,531,304	7.3%
Maryland	41,392	39,607	4.5%	383,398	353,491	8.5%
Virginia	108,981	109,716	-0.7%	975,950	934,721	4.4%
South Carolina	80,182	79,150	1.3%	744,316	717,555	3.7%
Georgia	173,691	166,885	4.1%	1,529,932	1,395,162	9.7%
Jaxport	30,346	24,064	26.1%	238,380	218,984	8.9%
Port Everglades	29,048	25,668	13.2%	275,595	268,233	2.7%
Miami	33,467	28,940	15.6%	309,798	293,276	5.6%
USEC Totals	811,643	772,054	5.1%	7,281,366	6,808,417	6.9%
New Orleans	9,239	9,541	-3.2%	92,516	84,991	8.9%
Houston	103,183	113,804	-9.3%	795,315	869,323	-8.5%
USGC Totals	112,422	123,345	-8.9%	887,831	954,314	-7.0%
Vancouver	166,591	151,635	9.9%	1,299,484	1,254,265	3.6%
Prince Rupert	55,287	44,216	25.0%	419,323	385,217	8.9%
British Columbia Totals	221,878	195,851	13.3%	1,718,807	1,639,482	4.8%
US/BC Totals	2,150,551	2,042,079	5.3%	18,196,790	17,476,047	4.1%

Source Individual Ports



Parsing the September 2018 Numbers Continued





Parsing the September 2018 Numbers Continued

we survey each month. Also note that the numbers in this analysis do not include empty containers.

On the inbound side, container trade at the Port of Long Beach in September was down by 2.5% (-8,997 TEUs) from September of last year. By contrast, trade was up by 6.6% (+25,612 TEUs) next door at the Port of Los Angeles. That left the San Pedro Bay maritime complex with a combined increase of 2.2% (+16,615 TEUs) from a year earlier. Meanwhile, the Port of Oakland reported a 3.8% (+2,998 TEUs) increase. Up at the Northwest Seaport Alliance (NWSA) Ports of Seattle and Tacoma, highly unusual circumstances involving sailing schedules produced a highly unusual 29.3% (+34,176 TEUs) surge in import traffic over last September. Summing up, the U.S. West Coast's five principal container ports handled 53,779 more inbound loaded TEUs than they had a year ago, a 5.7% gain.

That proved to be better than the 5.1% (+39,589 TEUs) year-over-year increase seen at the nine U.S. East Coast ports we survey. Of interest/concern, the Port of New York/New Jersey handled just 243 fewer inbound loaded TEUs in September than did the San Pedro Bay ports.

Up in British Columbia, both Vancouver (+9.9% or +14,956 TEUs) and Prince Rupert (+25.0% or +11,071 TEUs) saw substantial year-over-year gains from last September.

As we have previously observed, monthly comparisons of USWC container traffic with ports along the East and Gulf Coasts can often be skewed by weather, especially in those seasons where severe storms disrupt maritime operations. Along the Gulf Coast in September, the Port of Houston recorded 9.3% (-10,621 TEUs) in inbound loads, while New Orleans was off by 3.3% (-302 TEUs).

All told, the U.S. and Canadian inland ports which provide us with detailed container statistics reported a collective 5.3% (+108,472 TEUs) increase in inbound loaded traffic over September of last year.

The USWC share of inbound loaded container trade through our sampling of major U.S. mainland ports in September was 52.1%, up from 51.5% in September of last year.

Exhibit 4

USWC Port Regions' Shares of U.S. Mainland Container Trade, September 2018

	Sep 2018	Aug 2018	Sep 2017
Shares of U.S. Mainland Ports Containerized Import Tonnage from East Asia			
LA/LB	45.2%	44.6%	45.5%
Oakland	4.5%	4.3%	4.5%
NWSA	8.6%	7.7%	7.0%
Shares of U.S. Mainland Ports Containerized Import Value from East Asia			
LA/LB	53.7%	53.1%	53.8%
Oakland	4.3%	3.9%	3.8%
NWSA	10.2%	9.1%	9.1%
Shares of U.S. Mainland Containerized Export Tonnage to East Asia			
LA/LB	40.3%	38.4%	33.1%
Oakland	9.2%	8.6%	7.6%
NWSA	14.6%	14.1%	13.3%
Shares of U.S. Mainland Containerized Export Value to East Asia			
LA/LB	45.1%	45.3%	43.0%
Oakland	10.5%	10.1%	10.6%
NWSA	9.7%	9.4%	10.4%

Source: U.S. Commerce Department.

Census Bureau statistics on containerized tonnage from East Asia show USWC ports (including smaller ports such as San Diego, Hueneme, and Portland) with a 58.8% share of the inbound trade in September, an improvement over the 57.2% share USWC ports held a year earlier. In dollar terms, USWC ports handled 58.8% of containerized imports from East Asia in September, up from a 67.0% share in the same month last year.

On the outbound loaded container side of the ledger, trade was mixed along U.S. West Coast. The Port of LA saw a brisk 14.4% (+18,554 TEUs) jump in outbound loaded



Parsing the September 2018 Numbers Continued

traffic, while export moves slipped at Long Beach by 3.0% (-3,775 TEUs). That left the San Pedro Bay gateway with a combined outbound trade that was up 5.8% (+14,779 TEUs) ahead of September 2017. At the Port of Oakland, outbound trade was lower by 1.7% (-1,270 TEUs), while the NWSA ports posted a 7.6% gain (+6,269 TEUs). Altogether, outbound traffic at the five major USWC ports rose by 4.8% (+19,778 TEUs) from September of last year.

Outbound trades north of the border were more impressive. Vancouver posted a 10.9% year-over-year increase (+9,401 TEUs), while Prince Rupert saw its export business grow by 57.9% (+7,199 TEUs) from a year earlier.

Export traffic along the East Coast grew by 4.8% (+22,237 TEUs) from last September, despite sharp declines at Hampton Roads and Charleston. Along the Gulf Coast, both New Orleans and Houston posted robust increases.

For the month, the mainland U.S. ports we survey (which together account for all but around five percent of the nation's maritime container trade) handled 1,209,238 loaded outbound TEUs or 7.2% (+76,778 TEUs) more than they had in September 2017. The 430,070 outbound TEUs handled at the five major USWC ports gave those ports a 41.8% share of the nation's outbound loaded container trade.

Northwest Seaport Alliance. Statistics compiled by the Pacific Maritime Association show that September loaded imports at the Port of Seattle were up 15.2% (+8,093 TEUs) from last September, while outbound traffic fell by 6.5% (-2,544 TEUs). At the Port of Tacoma, import containers jumped by 16.1% (+10,383 TEUs), while outbound shipments were up by 3.5% (+2,045 TEUs). We hasten to add our usual caveat that PMA numbers often differ from those collected by the ports themselves.

The Soybean Saga. U.S. soybean exports to China continued to plummet in September. Last year, soybean shipments to China totaled 2,875,671 metric tons. This year, shipments totaled 67,446 metric tons, a 97.7% drop. All of the shipments went out of Kalama, Washington, where soybean shipments to China fell by 65.8% from last year. Meanwhile, such major gateways for U.S. soybean exports as New Orleans, Gramercy and Baton Rouge in Louisiana, Seattle, Tacoma, Longview and Vancouver in Washington State shipped no soybeans to China. Last year, all had handled at least a half million metric tons in soybeans going to China.

Ports like Kalama made up for the loss by substantially growing their corn export volumes. In the end, total export tonnage through Kalama was up 41.2% over last September as corn exports to Japan tripled.

The China Trade. Although most major U.S. ports saw more loaded containers arrive from China this September than last, maritime exports to China made for a different story. Census Bureau trade data show that containerized export tonnage from U.S. ports to China in September was off by 27.6% from the same month last year. The San Pedro Bay ports saw a more modest drop of 6.7%, while Oakland's China export trade was down by 8.9%. However, the Northwest Seaport Alliance ports saw a much sharper decline, with containerized tonnage bound for China off by 31.4% from last September.



Jock O'Connell's Commentary:

When Japan Was China

Talk of trade these days almost invariably focuses on China. And why not? The country's rapid emergence as a colossal economic power—and potential military foe—demands our attention. By some reckonings, especially those encouraged by Chinese President Xi Jinping, China will soon overtake the United States as the world's preeminent geopolitical power. That forecast obviously troubles an unashamedly nationalist administration in Washington, whose byword is not merely "America First" but "America Foremost".

President Xi's bold quest for global influence also worries American national security analysts like Harvard's Graham Allison. His 2017 book *Destined for War: Can America and China Escape Thucydides' Trap?* describes the tensions that have historically arisen whenever newly ascendant nations confront the existing dominant power. In most cases, Allison disturbingly concludes, the outcome is war.

Although an incident in the South China Sea could trigger an armed clash between American and Chinese naval forces, the immediate danger is that the two nations will lurch into a full-blown trade war.

So, what does all of this mean for those whose business it is to transport goods between the world's two biggest economies? After all, the future of U.S. West Coast ports is tightly wrapped up in the future of China. And that future is hard to discern.

At this point, let me indulge in a moment of *déjà vu*.

Back in 1991, a book titled *The Coming War with Japan* hit the best-seller list. Its authors sketched a scenario in which the implosion of the Soviet Union two years earlier would lead an economically ascendant Japan to challenge America for world supremacy. It is, of course, a plotline that looks fundamentally absurd...in retrospect. But it did not seem so daft at the time.

1980s Trade Hysteria

Those of us who worked in public policy circles through the 1980s will recall the political histrionics that engulfed the nation as America's global pre-eminence was being

tested for the first time in the post-World War Two era. Just as today, the chief metric that policymakers used to evaluate the nation's competitiveness was the size of the merchandise trade deficit. As **Exhibit A** shows, trade was reasonably balanced at the start of the decade: exports totaled \$225.57 billion, while imports amounted to \$245.26 billion. By 1985, however, exports had slipped to \$218.82 billion, while imports grew to \$336.53 billion, resulting in a \$117.71 billion deficit. Just two years later, the deficit had swollen to \$152.12 billion.

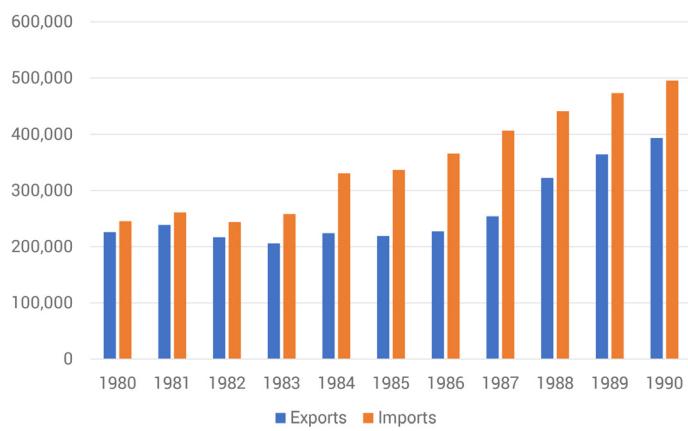
The numbers may seem modest by today's profligate standards, but they were high enough then to unnerve America's political leadership. At doubt was American industry's ability to compete in foreign markets while resisting the inroads foreign companies were making in American markets.

Exhibit A

U.S. Merchandise Trade 1980-1990

Source: U.S. Census Bureau, Foreign Trade Division

In Millions of Current Dollars



Individual states and cities across the country responded by revising public procurement regulations to favor American-owned suppliers. Several states, including California, opened export promotion offices abroad, under the peculiar notion that government bureaucrats were somehow uniquely gifted at stimulating business for exporters back home. But nowhere was the reaction to



Commentary Continued

the trade numbers more exaggerated than in Washington, D.C. There, politicians of both parties tended to ignore the macroeconomic causes of the deficit (a strong dollar, federal budget deficits, and a general propensity to spend rather than save) in favor of rounding up the usual suspects. And that was easy.

Parsing the rising trade deficit in the 1980s revealed that two nations accounted for almost half of the imbalance. One was West Germany, which accounted for about ten percent of the deficit at the highwater mark of the crisis in 1987. The other was Japan, which was responsible for a whopping 37% share. (By comparison, China alone accounted for 47% of the U.S. merchandise trade deficit last year.)

The unbalanced trade between the United States and Japan and Germany elicited a reaction in Washington that was even more acutely nationalistic than we see today.

That's because the leading U.S. policymakers at the time were all members of the "Greatest Generation" that had four decades earlier fought a real war against the Axis. To them, the idea that Japan and Germany (but especially Japan) had not only recovered from the devastation we had inflicted on them but had apparently outflanked us with presumably superior economic models was personally galling. A National Bureau of Economic Research whitepaper in 1988 explained the political context: "The bilateral relationship with Japan now dominates American thinking on the benefits and costs of foreign trade. Japan has become the model of all things modern and efficient, the standard against which the United States measures its own economy and finds itself wanting." Against a background of ever-increasing bilateral imbalances, protectionist rhetoric spiraled.

Sound familiar?

By the end of the next decade, we had ceased fretting so much about the Germans and the Japanese. Neither seemed to pose an existential threat to America. For their part, Germans soon turned inward to the challenge of integrating their East German cousins into the West and to nurturing the expansion of the European Union. Japan, meanwhile, stumbled into a prolonged period of economic

stagnation. No longer did its economic model seem so worthy of emulation. No longer were its diplomats heard to claim that the land under the Imperial Palace in Tokyo was worth more than all of the real estate in California.

Japan's humbling funk came as a new Asian player emerged, and this would have profound implications for transpacific maritime trade.

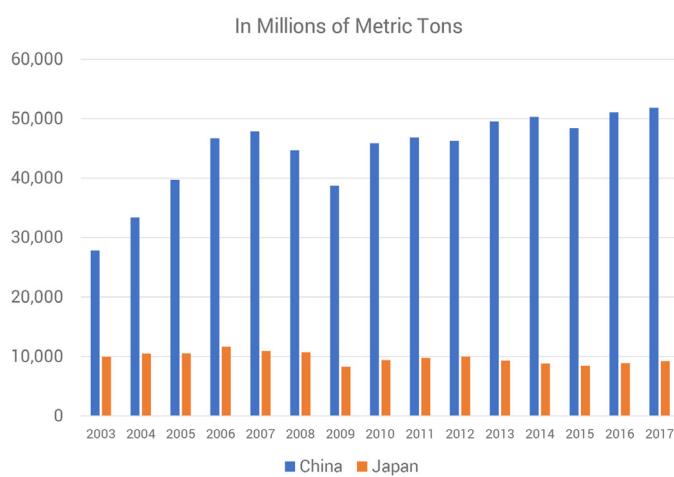
In 1980, when Deng's economic reforms were just getting underway (and when I first visited China), Japan dominated America's maritime trade. According to MARAD statistics, Japan accounted for 23.3% of our entire containerized trade with the world that year. Second place Netherlands held a 10.4% share. If there was a China trade that year, it involved Taiwan and Hong Kong, which respectively accounted for 8.4% and 7.8% of America's oceanborne containerized trade. The People's Republic of China does not even appear on MARAD's list of the nation's top 40 trading partners for 1980.

Today, of course, China accounts for a dominant share of U.S. containerized trade, 45.9% in 2017, while Japan's share has fallen to 8.2%. As for trade between China and Japan and U.S. West Coast seaports, **Exhibit B** shows containerized tonnage levels over the past fifteen years.

Exhibit B

USWC Containerized Trade with China and Japan: 2003-2017

Source: U.S. Census Bureau, Foreign Trade Division



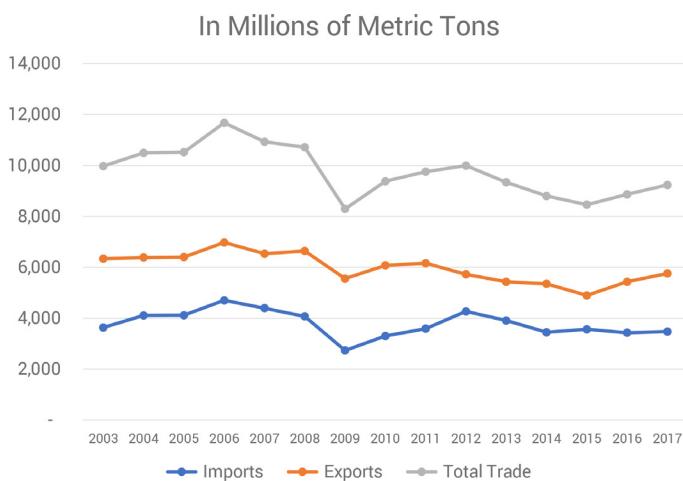


Commentary Continued

As Exhibit B shows, the volume of containerized trade between Japan and USWC ports has not been growing. Partly, this has been due to Japanese investments in manufacturing plants in North America that had the effect of reducing imports. Still, one of the more interesting (and no doubt counterintuitive) findings from a closer assessment of U.S. maritime trade with Japan is that, while the U.S. continues to run an overall merchandise trade deficit with Japan (\$68.88 billion last year), that deficit is not reflected in the volume of seaborne trade between the two countries.

As **Exhibit C** reveals, the U.S. ships more containerized tonnage to Japan by sea than Japan ships to us. That is because U.S. exports to Japan are dominated by agricultural produce and raw or unfinished materials, Japan's exports to the U.S. run heavily to manufactured goods. For example, where the category of Industrial Machinery (including computers) is Japan's leading export to the USWC ports, our top export to Japan is Oil Seeds (soybeans).

Exhibit C **USWC-Japan Containerized Trade 2003-2017**
Source: U.S. Census Bureau, Foreign Trade Division



Japan Today and Tomorrow

Japan, of course, remains a formidable economic power. Yet it no longer engenders the kind of fear it did in the 1980s. The nation's economy underwent a growth spurt that saw its GDP triple between 1980 and 1990. But growth peaked in 1995 and, according to World Bank statistics, Japan's GDP is less now in real terms than it was then. GDP growth rate in Japan between 1980 and this year averaged an anemic 0.5%. Japan tomorrow is even less likely to pose a threat to U.S. interests, although certain trends point toward a continued fall-off in trade between the USWC ports and Japan.

One key reason is that Japan, like China, is among the major economic powers that are shrinking in population. The Japanese Health Ministry reports that 946,060 babies were born in Japan in 2017, the fewest number of births since official statistics began in 1899. The Japanese population had grown steadily throughout the 20th century, from around 44 million in 1900 to 128 million in 2000. The gains were primarily due to increased life expectancy but were also buoyed by families that typically had at least two children. However, beginning in the late 1970s, birth rates started to crash. By 2100, according to the consensus of demographic forecasters, there could be nearly 40 million fewer Japanese than there now are. In both Japan and China, populations are also aging, limiting the size of workforces and increasing the burden of caring for elderly residents. At the same time, consumption patterns should shift, perhaps dramatically, as people typically consume fewer goods but more services once they pass retirement age.

Fewer people buying fewer goods is not a recipe for growth in merchandise trade.



Does the left hand know what the right hand is doing?

By Michele Grubbs

Vice President, Pacific Merchant Shipping Association

California, along with the City and Port of Long Beach, are moving forward to reduce greenhouse gas emissions. At the Port of Long Beach, billions of dollars will be spent towards a goal of zero emissions by 2030, even though the Port's marine terminal's greenhouse gas contributions are measured in terms of fractions of one percent of the State's overall greenhouse gas inventory.

At the same time, reports by various state agencies warn of rising sea levels due to climate change – and the need for coastal communities to protect themselves from sea level rise and more extreme weather events. Last week, the California Coastal Commission approved an updated Sea-Level Rise Policy Guidance document warning coastal cities that they should be prepared for the possibility that oceans will rise between 3 and 10 feet by 2100, resulting in the loss of as much as two-thirds of Southern California beaches.

Ironically, the efforts of the Port of Long Beach to achieve zero emissions in order to mitigate the effects of climate change could be washed away by another effort to remove or modify the Long Beach Breakwater. In September, the City of Long Beach and the US Army Corps of Engineers released six alternatives they are evaluating with regard to the Breakwater in order to restore and improve the harbor's aquatic ecosystem structure. Two of the alternatives include removing thousands of feet of the protective structure.

Because of the swells last month created by Hurricane Sergio, which was hundreds of miles from Long Beach, lines snapped from a vessel at berth, placing waterfront and vessel personnel in danger, while at the same time, seven foot sand berms and round the clock efforts were taken to protect waterfront homes on the Long Beach Peninsula.

The problems due to Hurricane Sergio highlight the complex work of the US Army Corps of Engineers, who are

evaluating changes and modifications to the Long Beach Breakwater. The US Army Corps of Engineers is using science and wave modeling to determine the potential impacts of removing a significant portion of the protective structure that has been in place for approximately seventy years.

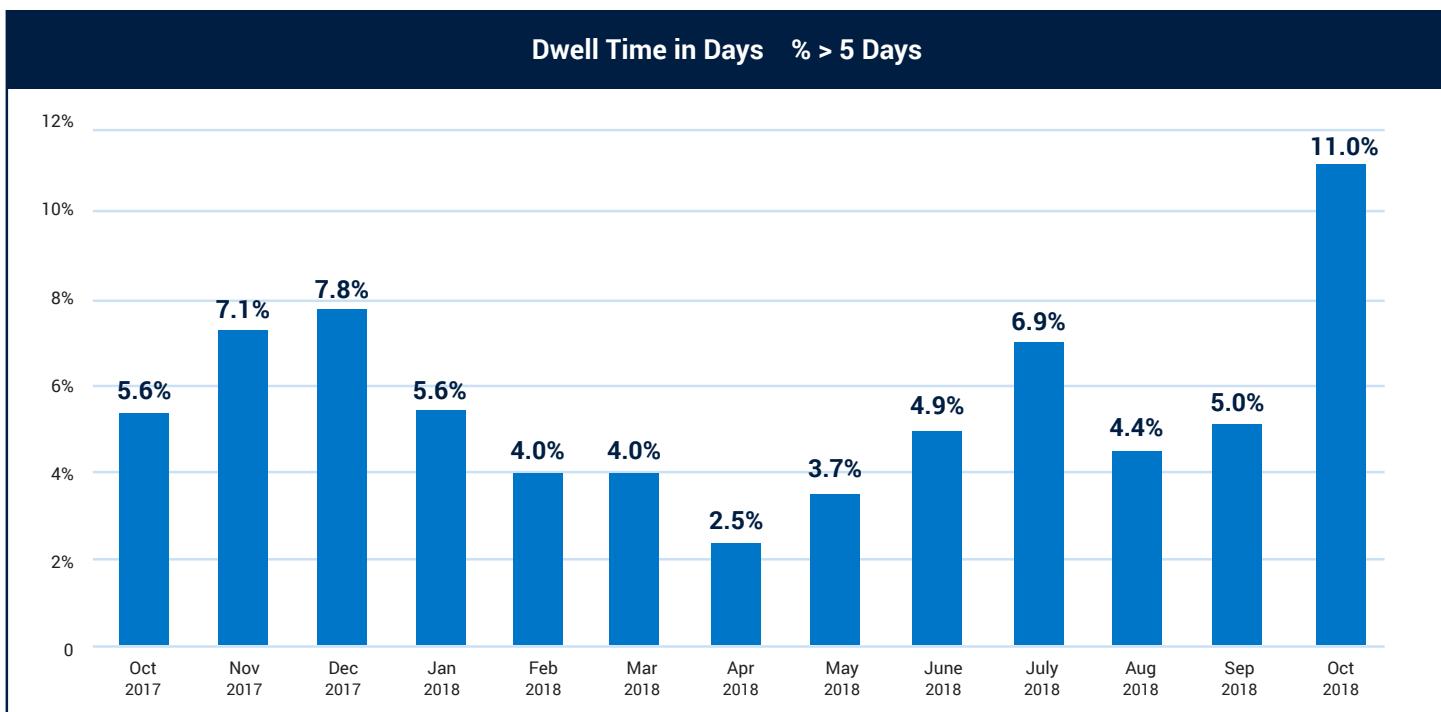
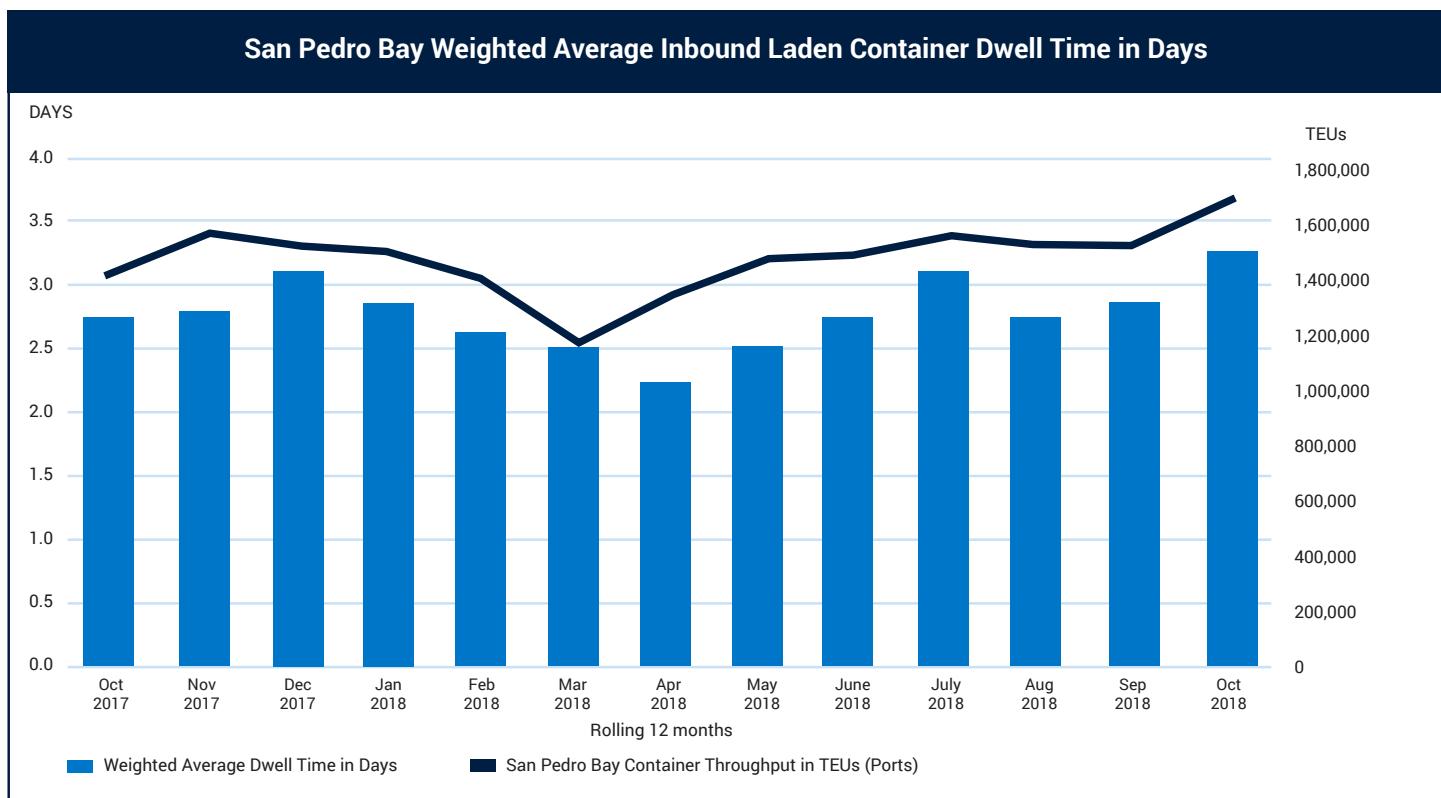
The City of Long Beach is also part of this evaluation process – one that must balance protection of life and property of port workers, Long Beach residents and homeowners, while attempting to improve the ecosystem and create waves for recreational activities.

Since the creation of the Long Beach Breakwater, billions of dollars have been invested on infrastructure and thousands of jobs have been created because of the protection it provides. The Port of Long Beach container operations employ thousands of highly skilled workers, Carnival Cruise Line attracts thousands of passengers to the City, oil islands were created providing needed revenue and most importantly Naval operations are still being conducted protecting our national security. All of these operations are dependent upon a calm and protected harbor. Adding wave energy would severely risk their ability to perform safe operations.

As the US Army Corps of Engineers prepares to release their evaluations of these six alternatives in early 2019, the newly approved State of California Seal Level Rise Guidance should be incorporated in their environmental review process. This guidance provides science-based methodology for governments to analyze and assess the risks with sea-level rise. Based on this new guidance, a seventh alternative should be examined – one that would raise the breakwater instead of removing it to allow the structure to continue doing what it has done for the past seventy years – protect our jobs, infrastructure, homes and shoreline.



October Dwell Time Numbers Are Up





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