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TRANSPORTATION REPORT

It's the exports, stupid!

Over the long haul, exports will be the engine that drives the U.S. economy. But without the equipment properly positioned to get the goods from origin to port, the nation's exporters may lose out.

By Mark B. Solomon

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It's the dream of every U.S. politician and globally minded businessman: trillions of dollars of exports pouring into U.S. ports for lading onto ships bound for eager foreign hands.

The dream may be closer to reality than some think. Between 2009 and 2011, the total value of U.S. exports rose at an annualized rate of 15.6 percent, ahead of the 14.9-percent annual growth needed to meet President's Obama's goal (as stated in his 2010 State of the Union address) of doubling export values to about $3.15 trillion by the end of 2014, according to the Commerce Department's International Trade Administration (ITA).

In 2011, U.S. export value hit a record $2.1 trillion and is expected to exceed $2 trillion again in 2012, according to agency data. Export value in March totaled $186.8 billion, a 2.9-percent increase over February totals and an all-time record for any month since numbers have been tracked. Through the first quarter, export value totaled $549.2 billion, an 8.2-percent rise from year-earlier levels.

The beat has continued into 2012, albeit with some recent weakness as the crisis in Europe and slowing of China's growth have cooled U.S. export demand. Growth in export values fell 0.8 percent in April to $182.9 billion, after rising in March to $186.8 billion, which was an all-time record for any month since numbers were kept.

Since 2009, exports have supported the creation of 1.2 million American jobs, the ITA said. The administration's objective is for exports to support 2 million jobs by the end of 2014.

For President Obama, whose stewardship of the economy will likely be the central theme of the upcoming election campaign, the numbers are welcome news, particularly so since his January 2010 clarion call was initially met with skepticism. For example, a survey taken later that year of U.S. high-tech executives found that most believed the goal to be unachievable because it was too costly for companies to manufacture in the United States.

A jaundiced observer might note that the government's data excludes tonnage and shipments, and is skewed toward a metric—values—that is easily influenced by currency fluctuations. A weaker dollar makes U.S. exports less expensive and more competitive in international markets.

In addition, one of the most valuable U.S. exports last year was energy, as much a reflection of rising world oil prices as of the nation's competitiveness.

Still, even when volume figures are put into the data hopper, the outlook for U.S. exports appears bright. William L. Ralph, maritime economist at R.K. Johns & Associates, a New York-based maritime consultancy, said at a conference in Norfolk, Va., in April that he expects containerized U.S. exports to grow 8 to 9 percent this year as strength in Latin American markets—particularly Brazil and Chile—as well as in China offsets weakness in Europe, the destination for 20 percent of containerized goods moving off the East Coast.

Business executives say they are experiencing solid demand from traditional markets outside of Europe. There are also stories about emerging demand for unconventional items from places such as Saudi Arabia, which is importing tens of thousands of containers of water, and Iran, where food producers have a strong need for finished feedstock.

John Fornazor, president of Fornazor International, a New Jersey-based producer and exporter of feeds and

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grains, said at the Norfolk conference that he sees strong potential in Africa, where arid climates make it difficult for countries to grow their own foodstuffs. "We are very, very high on that part of the world," he said.

John R. Wainwright, head of international trade compliance for Leggett & Platt, a Carthage, Mo.-based manufacturer of residential, commercial, and industrial components, said international consumers' expanding wealth and consumption habits would be a major boon to U.S. exporters. "I am very encouraged about the growing middle class overseas," he told the conference.

WHERE THE BOXES ARE

However, much like the golfer who reaches the green of a par-4 hole in two strokes only to be sabotaged by his putter, all of this enormous export potential could mean nothing without the supply of properly positioned containers to haul the stuff.

Since the early 1990s, the quantities of container equipment—and where they flowed through U.S. commerce—have been pegged to the rapid growth of imports from Asia to the United States. However, the direction of loaded twenty-foot equivalent unit (TEU) container movements across the Pacific is as evenly balanced today as it has been for two decades, according to Walter Kemmsies, New York-based chief economist at Moffatt & Nichol, a global infrastructure adviser.

Each March for the past four years, the United States has come close to net exporting more loaded TEUs than it imported, according to Kemmsies. If the trend persists as Kemmsies expects it will, the United States will become a net exporter of loaded containers during a year's first quarter, while remaining a net importer during the traditional build-up leading into peak season.

But even during the traditionally strong seasonal cycle for imports, the directional imbalances will narrow as fast-growing Asian economies stoke year-round demand for U.S. capital equipment and foodstuffs, among other commodities, Kemmsies said.

Another factor likely to curtail Asian import activity is the growing practice of "near-shoring" production in Mexico and Central America. Near-shoring, designed to bring manufacturing closer to end markets in the United States, reduces demand for Asian-made goods because products can get to their destination in a few days instead of spending weeks on the water.

The trend toward "near-shoring to Mexico is more visible than we know," Kemmsies said.

OFF BALANCE?

The shift in demand patterns threatens to catch the U.S. export infrastructure flat-footed. A supply chain built around containerized imports of retail merchandise unloaded in densely populated commerce centers is often not geographically positioned to transload capital equipment, lumber, and agricultural products that may originate in more remote regions.

In addition, many ship lines calling on West Coast ports are focused on port-to-port business and don't have large-scale commitments with railroads to offer intermodal service to interior U.S. points at competitive rates. Thus, the boxes remain at or near the coast and beyond the reach of exporters.

Ted Prince, who runs a Richmond, Va.-based supply chain consultancy bearing his name, argued the problem isn't the quantity of equipment moving around the country, but the cost of getting boxes to the proper export locations. "There are 'empties' in Dallas and Memphis, but not in Chicago," Prince said. "There's plenty of equipment, but nobody wants to pay to get it in the right place."

Most U.S. exports do not consist of high-value goods because of the relatively high cost of domestic labor that goes into the production; this might explain why IT executives in the November 2010 survey were skeptical about the United States' doubling the value of its exports by the end of 2014. Instead, the nation's exports are predominantly what Prince classifies as "traded commodities," meaning they are of relatively low value and can't command the high per-unit selling prices of high-tech or electronic equipment.

For ocean carriers, it is often too costly to ship empty boxes from the original U.S. import destination to a subsequent export origin just to haul inexpensive commodities to a port. Unless inland shipping costs decline or westbound trans-Pacific rates increase—neither of which is likely for the foreseeable future—"it's just cheaper for the liners to move empty boxes back to the West Coast from their import origin points," Prince said.

"The surplus [of equipment] is in the cities, and the demand is in the hinterlands," said Phillip M. Behanna, senior vice president of International Asset Systems, an Oakland, Calif.-based firm that helps customers reposition containerized equipment.

Henry L. (Rick) Wen Jr., vice president, business development/public affairs for the U.S. arm of liner company Orient Overseas Container Line Inc., echoes that view. "Imports drive the locations where equipment is abundant, and large population centers like Los Angeles and New York-New Jersey have surplus equipment," Wen said in an e-mail. By contrast, exports from the Pacific Northwest and certain Midwest markets currently face equipment deficits, he said.

Since so much export traffic originates from remote locations, Wen said, "cost becomes a factor if carriers are expected to position empty equipment into demand areas for lower-valued cargo." Much of the time, he said, the expense isn't worth the effort.

Behanna of International Asset Systems takes a more optimistic view. He said that, for the first time in years, exporters and ocean carriers are concluding that ridiculously low westbound shipping rates are helping no one. Higher rates will encourage carriers to provide the equipment needed to get exports to the docks, and exporters will be more comfortable knowing that the boxes will be there when they need them, he said.

Behanna said that talk of a container shortage doesn't square with reality, adding that firmer shipping rates for carriers are the tonic needed to correct the imbalance. "If rates go up, the 'shortage' goes away," he said.

To be sure, it is premature to say that export containers are in chronic short supply. Fornazor, head of Fornazor International, said his company has no problem securing containers for its export traffic. Douglas W. Gray, general manager, international transportation operations for Caterpillar Logistics, the logistics arm of titan Caterpillar Inc., said Cat Logistics has contractual agreements that guarantee a specific level of container availability, and that the company's sizable import activity provides a cushion to protect against equipment imbalances.

"We are not generally struggling with getting containers today," Gray said in an e-mail.

Kemmsies, however, believes the future may tell a different tale. Under a scenario where export and import flows are evenly matched, global container positioning will be turned on its head. For years, fully loaded equipment from Asia entered U.S. commerce and would return empty for re-stuffing. In the future, it would not be surprising to see empty containers actually entering the United States from Asia to be filled with exports for the returning westbound move, Kemmsies said.

The worldwide supply chain has not modeled for such a profound change in equipment balance, Kemmsies said. "This then becomes a global logistics problem," he said.

Adding to the positioning issue is the potential of a general shortage of containers to move U.S. exports to their ports-of-departure. Although he doesn't have data to quantify it, Kemmsies said he suspects there will soon be shortages of refrigerated containers as well as twenty-foot containers. In addition, the ratio of container equipment in stock versus equipment in use is today about 2 to 1, down from the traditional 3 to 1 ratio, meaning there are fewer surplus boxes available if they're needed, according to Kemmsies.

"I would rather be a container manufacturer than anyone else right about now," he said. "We are going to need a lot more boxes, or someone is going to have to be real good at equipment positioning."

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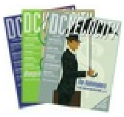

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