

Welcome

West Coast ports are a major economic asset, serving as the nation's premier trade gateway. The Ports of Los Angeles and Long Beach alone handle 40% of all container cargo in the United States. These ports play critical roles supplying U.S. consumers with imported goods, handling exports from U.S. companies bound for other parts of the world, and providing jobs and economic benefits to the state and communities along the trade corridors. Critical facts about the West Coast ports provide information about larger issues such as international trade and the performance of the U.S. economy.

To provide greater insight about the West Coast ports, the Pacific Merchant Shipping Association (PMSA) will be producing the West Coast Trade Report, a new monthly publication which pulls relevant data from multiple sources and examines trends impacting the trade community and West Coast ports. With insightful analysis by international trade economist Jock O'Connell, the Report will also include commentary on a variety of subjects including the supply chain, legislative and regulatory issues, and other information to help inform both industry and public officials. PMSA staff and Mr. O'Connell bring decades of experience from the industry and government that will be reflected in this new monthly publication. We hope you will find this publication of interest.

John McLaurin
President
Pacific Merchant Shipping Association



Port of Oakland

Assessing July's Numbers

[Note: Unless otherwise specified, the terms container and TEU will be used interchangeably in the Report. Moreover, unless otherwise indicated, all references will be to loaded containers.]

July statistics posted by the Pacific Maritime Association for U.S. West Coast (USWC) ports were overall positive. For the month of July, PMA reports a total of 918,757 inbound TEUs were discharged at USWC ports, a 3.8% increase over July 2015. Outbound TEUs totaled 462,834, a 4.3% year-over-year gain. Year-to-date, USWC ports have handled 5,864,211 inbound TEUs, up 3.2%, while outbound containers totaled 3,132,866 for a 3.8% increase.

U.S. Census Bureau foreign trade data released on September 2 show that USWC ports held a 49.3% share of the declared value of containerized goods entering mainland U.S. ports in July. That was down from 50.2% in June, but up from 47.0% in July of 2015. The Census Bureau statistics also indicate that the USWC share of the declared weight of the contents of inbound containers was 40.7% in July, down from 41.5% in June, but up from 38.2% in July 2015.

Looking at the trade statistics posted by the ports, results were clearly very mixed in July. In Southern California, a robust 5.2% jump in TEUs at the Port of Los Angeles triggered premature expectations of a mid-Summer surge until, almost predictably, the returns from

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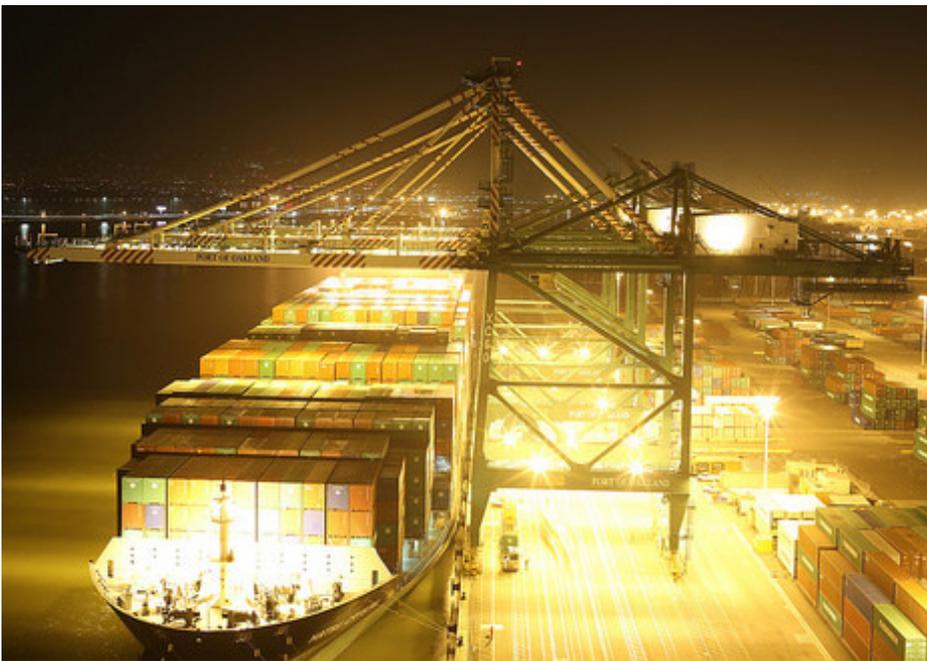
Assessing July's Numbers Continued

Long Beach arrived to completely offset LA's gains. Taken together, the nation's largest maritime trade complex handled 0.3% fewer TEUs than it did in July 2015. Up the coast, Oakland's inbound traffic nudged up a modest 1.0%. Even so, the Golden State's three major containers ports eked out a meager 0.2% increase over last July.

Further north, the story was markedly different as the Ports of Seattle and Tacoma (aka the Northwest Seaport Alliance) reported an 11.8% jump in inbound loaded TEUs. The difference in experience appears to be that the NWSA ports saw relatively steep increases in a couple of categories like Electric Machinery (which includes televisions and monitors) and Iron & Steel. Readers should be mindful that, because the two Washington State ports handle roughly one-seventh as many TEUs as the California ports, abrupt volume changes in one or two key commodities can produce higher overall highs and lower overall lows than their competitors to the south.

Year-to-date, the California ports recorded a 3.4% increase in inbound loaded TEUs than during the same period in 2015. That was ahead of the 2.6% gain by the Washington ports. However, comparisons with the troubled early months of last year are of little use in charting longer term ups and downs.

Continued



Port of Oakland

A Note on the Numbers

Maritime trade statistics are anything but hard and fast. Numbers posted on the websites of individual seaports are subject to revision as new or additional data become available to port authorities. Occasionally, the revisions are large enough to change initial observations. At the same time, organizations such as the Pacific Maritime Association and PIERS tap their own sources to collect data on containerized trade that are often at variance with statistics published by individual ports.

In this Report, we have chosen to focus on international trade data posted by the individual ports. Fortunately, all of the major Pacific Coast container ports from Prince Rupert in British Columbia to Lazaro Cardenas in Michoacán make monthly reports available on their websites. Complete comparisons with East and Gulf Coast ports are frustrated because several major ports do not publish TEU data on their websites. So in this Report, we go with what we got – namely TEU numbers from most of the busiest container ports in the United States.

The key to comparing and analyzing statistical information is consistency. That is what we seek to maintain, even though we expect some may quibble about this or that number in this or that month.



Assessing July's Numbers Continued

Exhibit 1 INBOUND LOADED TEUS AT SELECTED NORTH AMERICAN PORTS

Port	July 2016	July 2015	% Change	July 2016 YTD	July 2015 YTD	% Change
Los Angeles	368,697	350,628	5.2%	2,495,844	2,340,233	6.6%
Long Beach	325,608	345,912	-5.9%	1,990,085	2,023,443	-1.2%
Oakland	80,508	79,713	1.0%	515,415	474,668	8.6%
NWSA	111,739	99,949	11.8%	760,923	741,836	2.6%
NYNJ	275,337	295,865	-6.9%	1,818,826	1,871,562	-2.8%
Maryland	35,664	35,513	0.4%	247,783	228,335	8.5%
Virginia	100,106	96,919	3.3%	653,732	628,129	4.1%
South Carolina	81,120	75,666	7.2%	509,038	490,033	3.9%
Georgia	145,779	142,314	2.4%	947,893	961,785	-1.5%
Houston	80,056	67,252	19.0%	487,679	515,362	-5.4%
Vancouver	135,478	139,183	-2.7%	854,521	911,062	-6.2%
Prince Rupert	44,832	34,811	28.8%	264,969	253,186	4.7%
Manzanillo	67,425	70,416	-4.2%	450,091	468,218	-3.9%
Lazaro Cardenas	39,009	39,738	-1.8%	252,748	255,108	-0.9%

Source: Individual Port Websites

As for exports, a global economic slowdown and a strong dollar have been conspiring to restrain U.S. exports all year. In July, the value of all U.S. exports was down 6.5% from July 2015. That is certainly reflected in the July numbers for the Southern California ports, where outbound trade slipped by 1.8%. Oakland fared better with a 3.6% increase in outbound loaded TEUs due to an upswing in exports of Waste & Scrap paper and Fruits and Nuts. By contrast, the NWSA ports posted a huge 17.2% jump in outbound export TEUs on the strength of double and even triple-digit jumps in the declared export weights of a range of agricultural products.

Year-to-date comparisons are again of dubious value given the unusual conditions of the first months of 2015. Export TEUs from the Southern California ports did show a 1.5% year-over-year increase. All things considered that wasn't too shabby. Oakland fared much better with a 9.1% increase, aided by large increases in shipments of Waste & Scrap, Fruits & Nuts, Meats, and Cereals. The NWSA ports – roughly equal to Oakland in TEU traffic – saw a 12.9% year-over-year growth in exported TEUs, growth that, as in the case of Oakland, was propelled largely by higher shipments of food and agricultural products.



Assessing July's Numbers Continued

Exhibit 2 OUTBOUND LOADED TEUS AT SELECTED NORTH AMERICAN PORTS

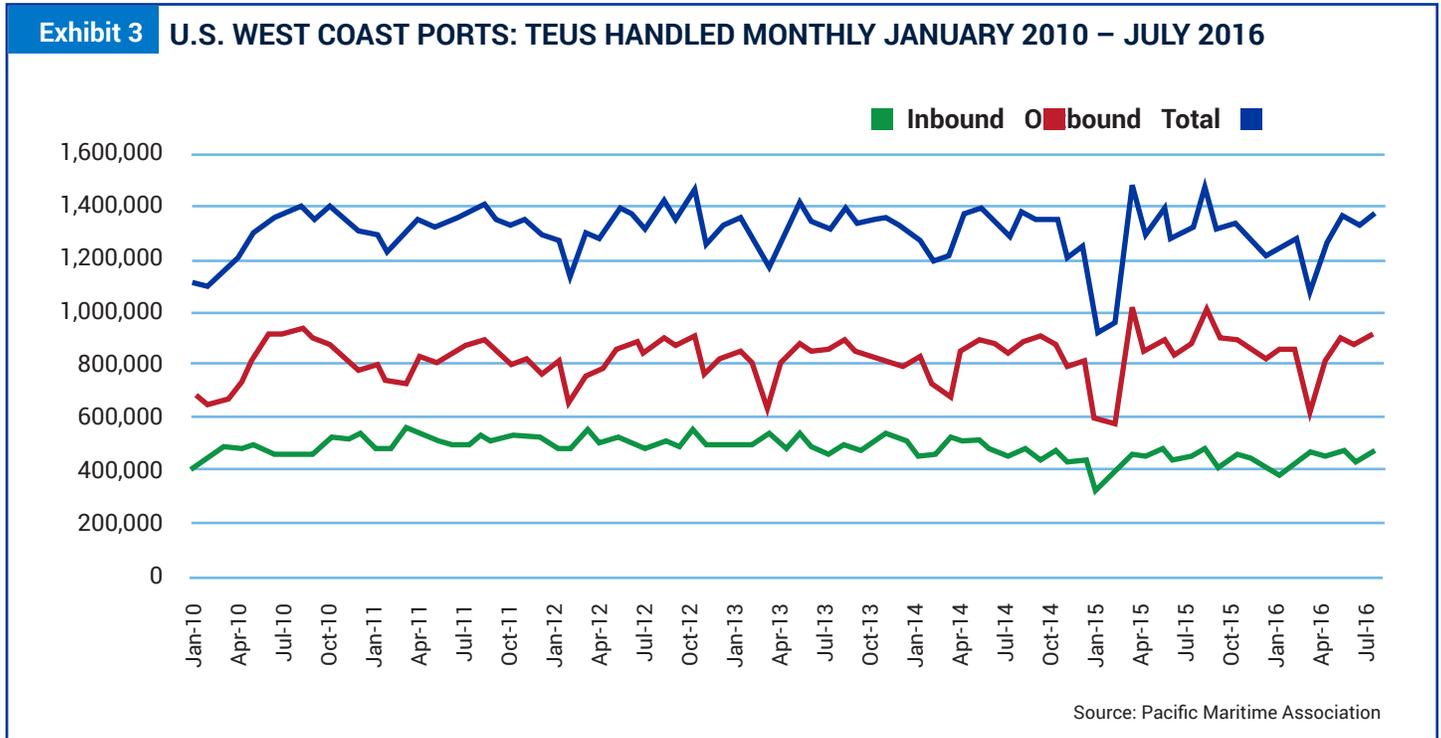
Port	July 2016	July 2015	% Change	July 2016 YTD	July 2015 YTD	% Change
Los Angeles	132,490	136,402	-2.9%	1,011,736	980,232	3.2%
Long Beach	142,812	143,875	-0.7%	879,269	882,009	-0.3%
Oakland	77,573	74,913	3.6%	535,045	490,333	9.1%
NWSA	73,403	62,626	17.2%	542,258	480,279	12.9%
NYNJ	109,204	120,736	-9.6%	785,523	819,982	-4.2%
Maryland	18,918	17,124	10.5%	137,363	128,362	7.0%
Virginia	77,174	83,438	-7.5%	569,916	605,235	-5.8%
South Carolina	62,160	60,038	3.5%	426,988	436,965	-2.3%
Georgia	103,322	100,176	3.1%	749,962	759,469	-1.3%
Houston	75,881	86,159	-11.9%	548,231	579,071	-5.3%
Vancouver	84,174	83,737	0.5%	624,812	622,367	0.4%
Prince Rupert	14,144	10,256	37.6%	97,431	93,483	4.2%
Manzanillo	71,759	69,531	3.2%	443,420	443,850	-0.1%
Lazaro Cardenas	32,192	33,017	-2.5%	205,955	200,536	2.7%

Source: Individual Port Websites

Census Bureau foreign trade show that the USWC ports handled 41.5% of the declared weight of contents of export containers sailing from mainland U.S. ports in July. That was down from 41.8% in June but up from 34.7% in July 2015. As for declared value of containerized exports in July, the USWC held a 32.3% share of all trade leaving mainland U.S. ports. That was a slightly higher share than in June (31.6%) and in July 2015 (28.5%).



Assessing July's Numbers Continued



Jock O'Connell's Commentary:

The "excessive inventories" whine has grown old

Over the past year or two, pundits weighing in on America's relatively tepid containerized import trade have regularly fingered "excessive inventories" for blame. Every month in which the number of imported TEUs are lower than a year earlier or when expected peaks fail to materialize, various trade analysts have obligingly trotted out the Census Bureau's latest retail inventory-to-sales ratio, as if to suggest that, had the nation's department stores and boutiques only kept fewer items in their stockrooms in May, the number of inbound TEUs that month would have been much higher.

But surely the ebbs and flows of America's import trade are a rather more intricate and inelastic matter than the "Waiter, I'm full; cancel my dessert order" model that is widely being peddled. The measures businesses take to manage their imports are significantly more complicated than a diner's sudden urge to skip the crème brûlée. Any month's import volume is, after all, the manifestation of decisions taken many weeks, if not months earlier. Trade statistics are fundamentally lagging economic indicators and shouldn't be interpreted – as often seems to be the case these days – with reference to contemporaneous data such as the latest inventory-to-sales ratio.



Commentary Continued

Still, bloated supply chains have been identified as the main culprit for import shortfalls ever since labor strife gummed up West Coast ports in the winter of 2014-15. The wonder is that both the claim and excessive inventories have both persisted for so long, despite an import volume that has languished well below what would have been expected for a nation with a growing economy and a strong currency. What, one might ask, comprises these inventories that seem so resistant to depletion? Video cassette recorders? iPhone 4s? Alex Rodriguez bobble-heads?

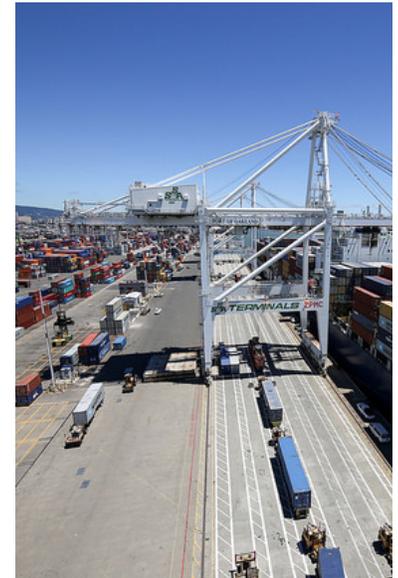
Mistaking correlation for causation is but one flaw in the “excessive inventory” dodge. Analyses of the container import trade commonly begin and all too frequently end with the condition of supply chains serving the retail sector. Shippers such as Amazon, Wall-Mart, Target, Ikea, Home Depot, and other national retailers accordingly play leading roles in the import TEU narrative. Seriously dissed, by comparison, are the containerized imports that are destined for factories, offices, schools, and other institutions.

The U.S. Census Bureau helpfully disaggregates merchandise imports into several end-use categories. The chief groupings are: Consumer Goods; Industrial Supplies and Materials; Capital Goods; Automobiles, Parts and Engines; and Foods, Feeds, and Beverages.

Through July of this year, U.S. imports totaled \$1.26 trillion, down \$67.1 billion from the same period in 2015. But just 7.2% of that fall-off was due to a decline in imports of the two categories – Consumer Goods and Foods, Feeds, and Beverages – that would include items most apt to wind up in retail supply chains. By contrast, imports of Industrial Supplies and Materials slumped \$51.0 billion, while imports of Capital Goods dropped \$12.6 billion. In short, it’s not all about furniture and fashion.

Unfortunately, the near obsession with retail inventory levels leads to a potentially unwarranted expectation, namely that containerized imports will surge once the current retail inventory-to-sales ratio subsides. But it is quite plausible that a different scenario will play out in which the seasonally-adjusted retail inventory-to-sales ratio (1.50 at the end of June) will become the new standard, not merely because of the rapid emergence of e-commerce but because Amazon has bred a new kind of consumer whose impatience borders on the psychotic. If, during the period of American Greatness in the middle of the 20th Century, my mother saw a desirable item in the Sears catalog, she’d mail an order form along with a check to Chicago and then stoically wait weeks for delivery. Her son is now given to frequently monitoring the progress of an order placed online yesterday. E-commerce retailers may have little choice but to stockpile a broad selection of merchandise in more locations than was necessary in the old brick-and-mortar era. So expecting the retail sector’s inventory-to-sales ratio to drop may be as productive as praying for the demise of rap music.

In future issues of this Report, we will examine a number of the more compelling factors behind America’s sluggish containerized import trade. For now, let’s just all agree to give “excessive inventories” a rest.



Port of Oakland



Successfully Moving Towards Clean Air

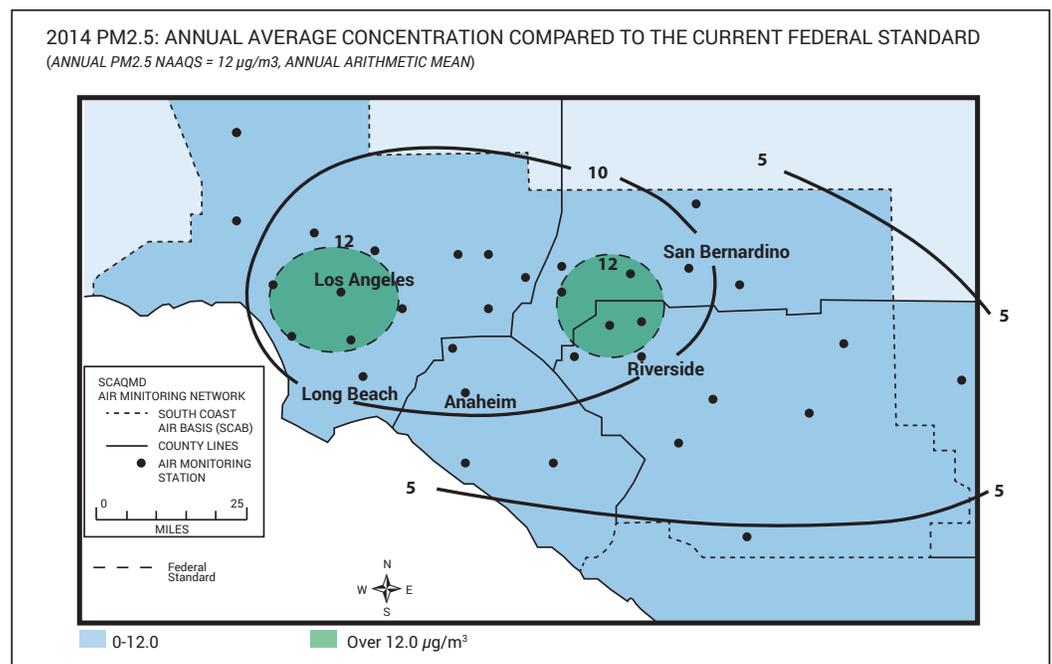
Thomas Jelenić
Vice President
Pacific Merchant Shipping Association

As the reports of another smog season come in this summer and Southern California recommits itself to improving air quality throughout the region, it is also a good moment to reflect on what has been accomplished.

For those of us concerned about the health (both environmentally and economically) of the ports of Long Beach and Los Angeles, the past decade represents an era of tremendous challenges and successes. Back in 2006, under community and political pressure to address impacts from growth, the ports adopted the Clean Air Action Plan (CAAP). The CAAP not only transformed the ports relationships with its tenants and their surrounding communities – it was an unprecedented cooperative policy effort between the two ports. While some complained that it was too stringent and others too lenient, the CAAP had two admirable characteristics, it set clear goals based on achievable technology and provided a roadmap that, to some degree, removed uncertainty for the ports' tenants regarding the long-term environmental goals.

As the ports launched the initial implementation of the CAAP with the Clean Trucks Program, the Great Recession struck. In the midst of this economic crisis, it was not clear that the ports would maintain course and see the Clean Trucks Program to completion and continue the other programs outlined in the CAAP. But the ports did. And the marine terminal operators and vessels operators stepped up and met the challenge, investing billions of dollars to significantly reduce emissions and continue operations, despite the economic hardship of the Great Recession.

Ten years later, we can see the improvement. Since 2005, diesel particulate matter emissions have been cut over 80%, sulfur oxides by 97%, and nitrogen oxides by nearly 50%. A great deal of these emission reductions has been achieved by the deployment of terminal equipment and trucks sporting advanced emission control technologies. Better yet, a recent study by the Health Effect Institute and funded by the U.S. Environmental Protection Agency and California Air Resources Board evaluated



Source: Draft 2016 Air Quality Management Plan, South Coast Air Quality Management District, June 2016



the emissions from these advanced emission control technologies (Health Effects Institute, The Advanced Collaborative Emissions Study (ACES), Executive Summary, p. 20, <http://pubs.healtheffects.org/view.php?id=447>). Their conclusion? “The key observation was that these emissions did not increase lung tumors or have substantial toxic effects.” We should be thrilled that the technologies required by regulators and requiring billions of dollars to implement have worked as promised, improving health and air quality for all of us.

These reductions from the two ports, along with reductions from a multitude of other sources have led to steady improvement in the region’s air quality. While there is more to do for the region as a whole to meet federal air quality standards, few people realize that if the coastal communities of Los Angeles and Orange counties were their own air district that they would already meet federal air quality standards. This is something we should trumpet even as we begin the work of finding solutions to improve air quality for the entire region. And as the ports prepare to release their latest update to the CAAP, they should take stock of their success and take heed of the strength that made the past versions of the CAAP as a success: goals based on achievable technology and providing a stable regulatory framework that can hold over the next decade that their tenants can invest in.