ECONOMIC TRENDS • SHIPPING TRENDS • TRADE AND COMMODITY TRENDS • PRICING TRENDS • CAPACITY TRENDS

JOC INSIGHTS

SEPTEMBER 2012

From the desk of **MARIO O. MORENO**, *Economist, The Journal of Commerce*

THE U.S. ECONOMY REMAINS UNABLE to generate more than flat growth in merchandise imports. Inbound containerized trade posted another quarter of weak growth in 2Q12, with volumes edging forward by 2.9%. That was 0.4% above the previous forecast but the lowest 2Q expansion since a 19.5% plunge in Q2:2009.

U.S. consumers are simply unable or too afraid to spend on purchases that can be delayed until the economy provides more certainty. Underlying economic conditions for U.S. containerized imports were little changed from the previous quarter. Critical variables including income, employment, import prices, fuel costs and external economic shocks were unimproved. Meanwhile, the coming U.S. elections have increased uncertainty among investors. The Federal Reserve refrained from undertaking any additional stimulus measures during the second quarter, owing to growing concerns about debt and inflation. However, continued weakness in job markets prompted the Fed to undertake a third round of quantitative easing at the end of the third quarter, and to pledge to keep interest rates low until mid-2015. But while nominal and real interest rates remain at record lows, demand remains too weak to justify corporate expansion, particularly in light of external economic realities such as the recession in Europe and slowing growth in Asia. On the housing front, cheaper mortgage rates can boost home purchases and refinancing, but credit is still tight and the supply of homes is thin.

The disappointing economic fundamentals of 2Q have generally compelled forecasters to lower their expectations for full-year 2012 and beyond. The consensus projection published by the Federal Reserve Bank of Philadelphia now stands at 2.2%, compared to 2.3% predicted in 1Q. A more significant revision to 2.1% from 2.7% predicted for 2013. Forecasts for later years also have been reduced, to 2.7% for 2014 and 3.1% for 2015.

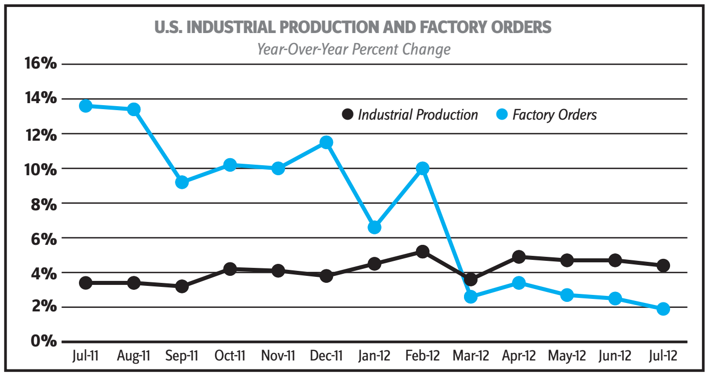
The forecast softness in U.S. economic conditions implies continued weakness in merchandise imports. Given the current outlook for economic conditions, the past forecasting performance and the current trajectory, I am leaving the 2012 import forecast virtually unchanged. I expect growth to reach 4.6% in 2012 compared to 4.1% projected in the June issue of the Container Shipping Outlook report.

This issue of JOC Insights presents my most updated import and export forecasts on the trans-pacific trade for 2012, and a special analysis of U.S. auto tires imports.

I hope you'll enjoy the latest issue of JOC Insights. JOCINSIGHTS

THE SHIPPING ECONOMY

- *U.S. manufacturing activity contracted in August for third successive month, while China manufacturing activity contracted for tenth successive month*
- *China's economic growth decelerated to 7.6% YoY, slowest rate of expansion since 1Q09*
- *U.S. ocean container trade advanced in June on strong exports; rail container shipments kept on expansion mode in July*
- *Sales of existing homes rebounded modestly in July*
- *Retail sales expand for the first time in 4 months*



Source: Commerce Department, Federal Reserve

INDUSTRIAL PRODUCTION UP 0.6% IN JULY; FACTORY ORDERS UP 2.8%

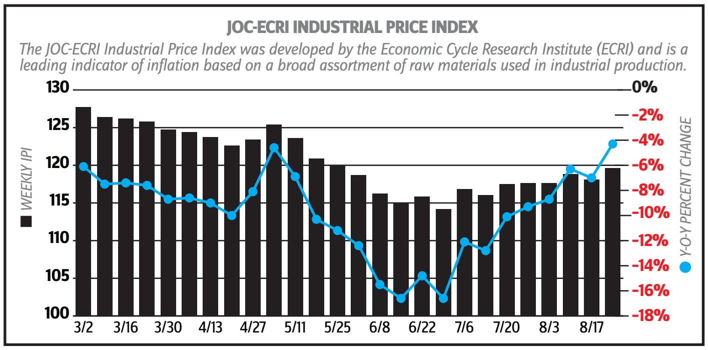
U.S. industrial production advanced in July for the 4th month running. Overall production rose 0.6%, following a downwardly revised boost of 0.1% in the prior month. Manufacturing expanded 0.5%, led mainly by motor vehicles which gained 3.3% following a 1.9% rebound in prior month. Outside of motor vehicles, manufacturing posted a modest 0.2% gain, following a 0.4% boost in June. Mining output expanded 1.2% while utilities output rebounded 1.3%.

Overall capacity utilization improved to 79.3 percent versus the 78.9 percent posted in the prior month.

The manufacturing sector looks OK in July and June, but challenges remain. On a year-over-year basis, industrial production advanced 4.4% in July, down from June's 4.7%.

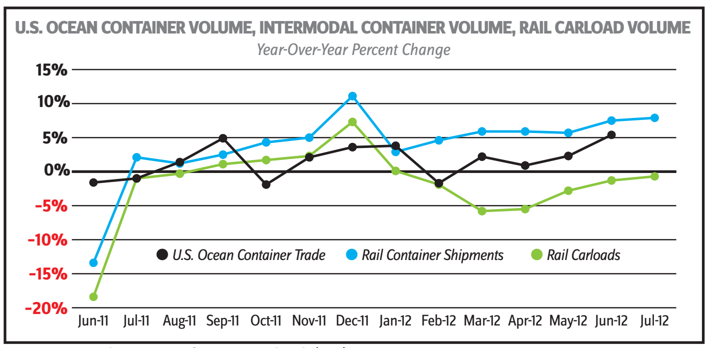
U.S. factory orders advanced 2.8% in July on strong durable goods orders, offsetting June's loss. Durables orders rose 4.1%, mostly reflecting marked increases in aircraft and motor vehicles. Excluding transportation, however, durables posted a respectable 0.7% gain. Non durables orders rose 1.5% led by petroleum and coal.

On a year-over-year basis, orders decelerated to 1.9% from June's 2.5%.



INDUSTRIAL PRICE INDEX UP 1.5 POINTS ON AUGUST 24 FROM PRIOR WEEK

On August 24, the JOC-ECRI Industrial Price Index gained 1.5 points over a week earlier to a reading of 119.6, and stood above its 4-week moving average for the 8th consecutive week. Year over year, the index is down 4.3%.

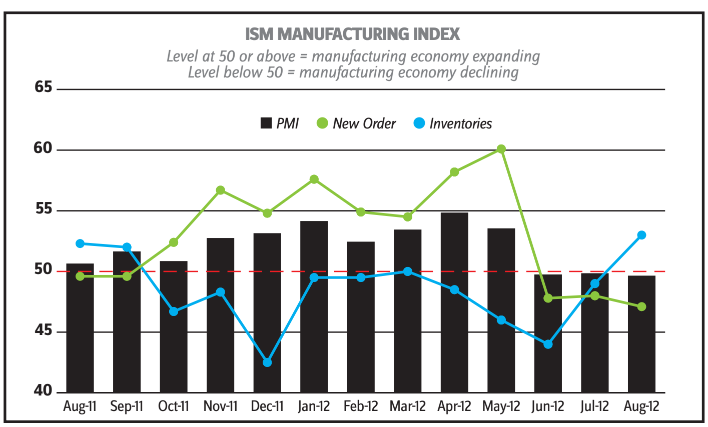


Source: PIERS and Association of American Railroads (AAR)

U.S. OCEAN CONTAINER TRADE UP 5.4% IN JUNE

U.S. ocean container trade advanced 5.4% YoY in June on higher exports, and followed a 2.3% gain in the prior month. The trade totaled 2,446,459 TEUs in the month.

Rail container shipments expanded 7.9% YoY in July, following a 7.5% increase in the prior month, while rail carloads dipped 0.7% in July, after declining 2.8% in the prior month. Rail carloads have declined for 7 consecutive months through July on a year-over-year basis.

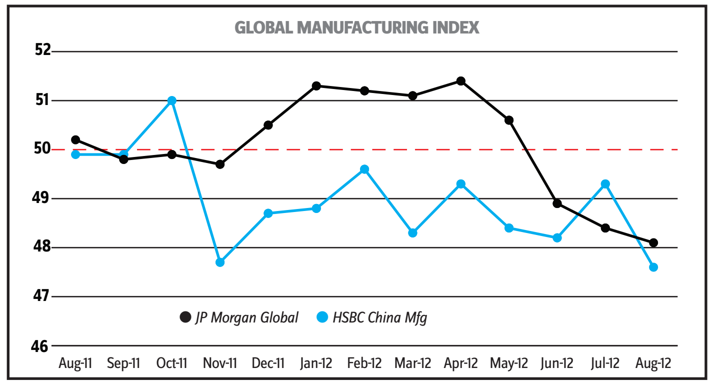


Source: Institute for Supply Management (ISM)

AUGUST 2012: U.S. MANUFACTURING INDEX AT 49.6

U.S. manufacturing activity contracted in August for the third successive month. The PMI index gave a reading of 49.6, down by 0.2 points, indicating contraction at a faster rate. Of the 18 manufacturing industries, 8 reported growth in the month. The index for new orders was again disappointing as it marked a reading of 47.1, down by 0.9 points. Export orders contracted at a slower pace. Declining new orders adversely impacted production which fell to a reading of 47.2, indicating contracting from growing. Employment grew at a slower rate, not surprising as new orders contract. Inventories rose above 50 for the first time since September 2011, evidencing weakness in manufacturing activity.

Manufacturing activity in the US continues to be challenged by a global economic slowdown.

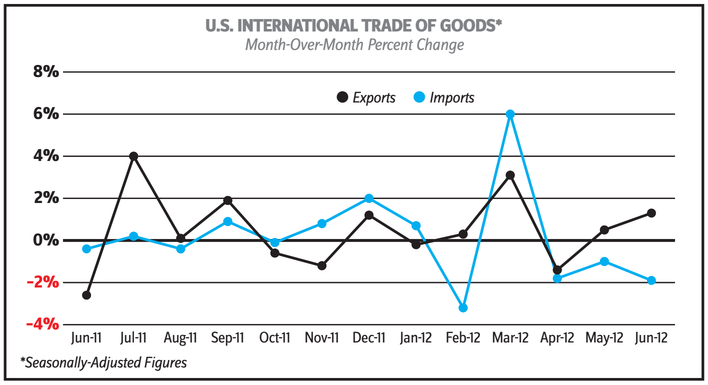


Source: JP Morgan; HSBC

AUGUST 2012: GLOBAL MANUFACTURING PMI FELL TO 48.1; CHINA MANUFACTURING PMI FELL TO 47.6

The JPMorgan Global PMI fell slightly in August to 48.4 (-0.3), signaling contraction at a faster rate. The headline index stood at its lowest reading since June 2009. Manufacturing production fell at the fastest pace in 39 months as new business levels and international trade flows weakened further. Production in the US contracted for the first time since May 2009 while conditions remained weak in Europe. On the upside, expansions were seen in Canada, India, Indonesia, Ireland, Mexico, Russia, South Africa and Turkey. New export business declined for the fourth straight month in August while employment declined for the second straight month. Average input prices fell for the third straight month but at slower rate. This is mainly due to higher oil prices and associated by-products.

Manufacturing activity in China deteriorated further in August as new business stood on a downtrend. The HSBC China Manufacturing PMI came in at a 47.6 reading, down from 48.2, indicating contraction for the tenth straight month. Output declined during August on lower levels of incoming new business. New orders declined at the fastest pace in 9 months while new export orders declined at the sharpest rate since March 2009. Companies diminished their work-in-hand volumes as incoming orders decreased further. Staffing levels decreased for the sixth straight month partly reflecting falling new order volumes. Average input costs fell further during the month on lower prices paid for a range of raw materials.



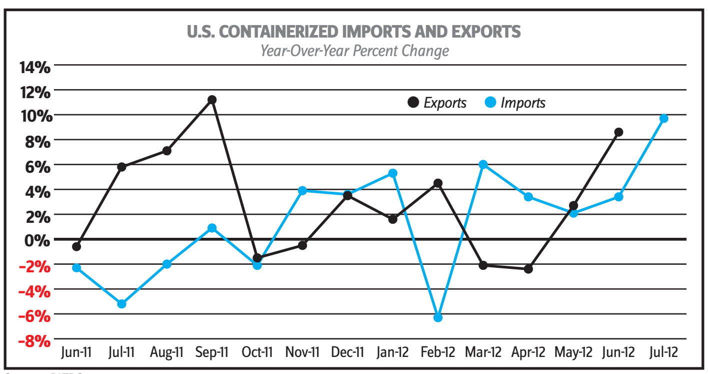
Source: US Department of Commerce

JUNE 2012: U.S. GOODS EXPORTS UP 1.3%; GOODS IMPORTS DOWN 1.9%

U.S. exports of goods rose 1.3% in June over May, amounting to $131.4 billion in the month. The increase was led by consumer goods ($0.9 billion); motor vehicles ($0.7 billion); and industrial supplies ($0.6 billion). A decrease was seen in foods, feeds, and beverages ($0.8 billion).

U.S. imports of goods fell for the third straight month, down 1.9% in June over May, totaling $188.3 billion. The contraction partly reflected decreases in industrial supplies (-$2.3 billion); capital goods (-$1.3 billion); and consumer goods (-$0.6 billion).

The deficit of goods traded narrowed by 8.6% to $56.9 billion (census basis).



Source: PIERS

U.S. CONTAINERIZED IMPORTS UP 9.7% IN JULY; EXPORTS UP 8.6% IN JUNE

Overall U.S. containerized imports surged 9.7% in July 2012 over July 2011 to a total of 1,562,235 TEUs, following a boost of 3.4% in the prior month. The US dollar is recovering against most major currencies, supporting the import trade. Nevertheless, the year-over-year comparison is a very easy one since imports in July 2011 declined by 5.2% YoY.

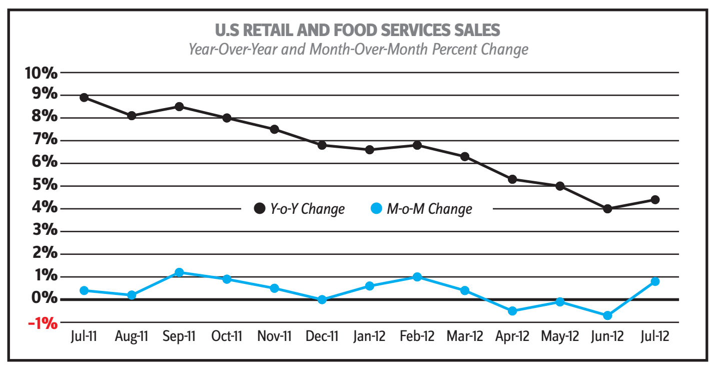
Leading the gains were auto parts, up 25% (or 12,846 TEUs); furniture, up 8% (or 11,827 TEUs); bananas, up 32% (or 8,512 TEUs); and toys, up 13% (or 5,433 TEUs). More modest gains were seen in refrigeration equipment, up 36%; miscellaneous plastic products, up 10%; and waste paper, up 15%. On the downside, demand for imported footwear continued the downtrend on rising import prices and poor demand outlook. Footwear imports declined 9% (or 3,772 TEUs) and totaled 37,727 TEUs. Other losses were seen in computers, down 5%; and auto tires, down 1%.

On a regional level, imports from Northeast Asia led the gains, up 6% (or 55,678 TEUs) to a total of 939,807 TEUs. Northern Europe followed with a 17% jump and totaled 154,010 TEUs, while imports from Southeast Asia gained 13% and totaled 151,254 TEUs. On the downside, shipments from the East Coast South America slid 0.2%.

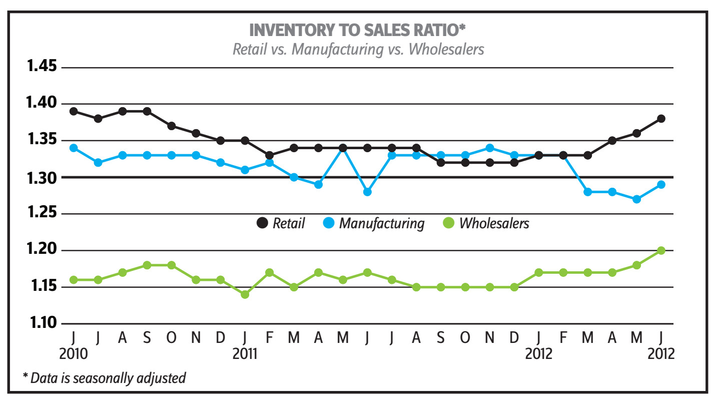
On a country level, shipments from China showed the highest jump, up 5% (or 34,782 TEUs) and totaled 733,463 TEUs. This is mostly owed to rebounding shipments of toys, furniture, and lamps & parts. Vietnam followed with a 29% jump, while imports from Korea surged 20%. Leading the losses were Thailand and Hong Kong, down 6% and 3% respectively.

On a month-to-month basis, overall imports advanced 6.2% in July, making the peak month so far this year. Year to date, through July, overall U.S. containerized imports were up 3.5%.

U.S. box exports jumped in June on easy year-over-year comparison. Overall U.S. containerized exports expanded 8.6% YoY in June to a total of 975,586 TEUs, following a rise of 2.7% in the prior month. Gains were led by paper & paperboard, up 17% (or 21,642 TEUs); pet & animal feeds, up 43% (or 16,182 TEUs); auto parts, up 40% (or 7,654 TEUs); and fabrics including raw cotton, up 31% (or 5,958 TEUs). On the downside, losses were seen in metal scrap, ferrous, pig iron (-31%); and grains & flour products (-25%).



Source: U.S. Commerce Department



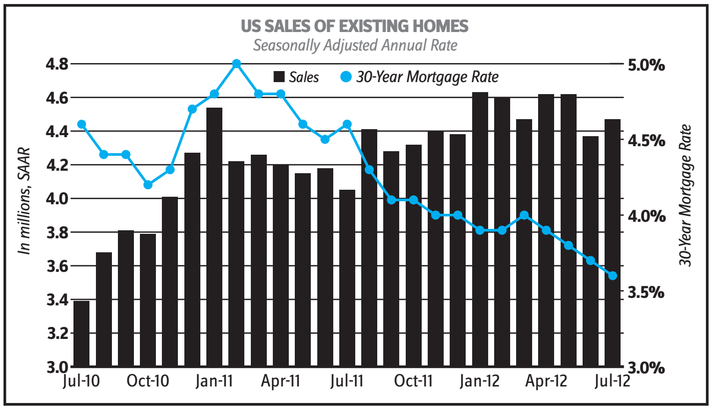
Source: Census Bureau

U.S. RETAIL SALES UP 0.8% IN JULY

Retail sales advanced in July for the first time in 4 months. Sales increased 0.8% in the month, following a 0.7% decline in June. Excluding autos, sales rose 0.8% for its strongest rise since February. Excluding autos and gasoline, sales rose 0.9% for its strongest pace since January. Gains were mostly seen in motor vehicles, health & personal care, general merchandise, furniture, restaurants, and clothing.

Sales returned to expansion in July as back-to-school season started, but also a very weak June made the comparison much easier. Year over year, overall retail sales stood at 4.5%, down from 4.8% in the prior month.

Seasonally adjusted retail inventory to sales ratio gave a reading of 1.38 in June, higher than May's 1.36 ratio, and higher than June 2011 1.34 ratio. The ratio for manufacturers rose to 1.29 from May's 1.27, while the ratio for wholesalers rose to 1.20 from May's 1.18.



Source: National Association of Realtors; Board of Governors of the Federal Reserve System System

U.S. SALES OF EXISTING HOMES UP 2.3% IN JULY

Sales of existing homes rebounded in July to partially offset June's sharp decline. Aided by lower mortgage rates and lower home prices, sales rose 2.3% MoM to a seasonally adjusted annual rate of 4.47 million homes. The median price slid 0.8% to $187,300 while supply relative to the sales rate ended up at 6.4 months, down from 6.5 months in June, suggesting tight supply is limiting sales. The 30-year mortgage rate averaged 3.55% in July, down from 3.68% in the prior month. As the Fed undertakes QE3, mortgage rates will likely go lower.

Year over year, sales of existing homes advanced 10.4% in the month, a faster rate than June's 4.5%.

REAL GDP QUARTERLY GROWTH RATES ON A Y-O-Y BASIS, AND ANNUAL FORECASTS

Country	Q3-2011	Q4-2011	Q1-2012	Q2-2012(E)	2012 (F)	2013 (F)
UNITED STATES	1.6	2.0	2.4	2.3	2.1	1.9
CHINA	9.7	9.1	8.1	7.6	7.8	8.6
JAPAN	-0.7	-0.6	2.8	3.3	2.0	1.2
UNITED KINGDOM	0.5	0.6	-0.2	-0.5	-0.5	0.5
GERMANY	2.7	1.9	1.2	1.0	0.7	0.6

** Growth rate compared to the same quarter of previous year, seasonally adjusted. All countries except China display seasonally adjusted quarterly data.*
Source: OECD; EIU forecasts; in-house forecast; updated as of September 12, 2012

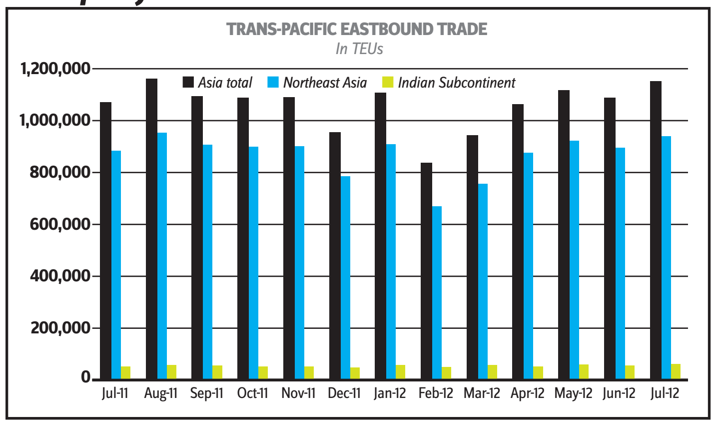
China's economic growth decelerated further in the second quarter of the year to 7.6% YoY, from 8.1% in the first quarter. Interest rates were cut in July but further monetary policy action seems unlikely. Instead, regulators have asked banks to boost lending for infrastructure projects to stimulate growth. China's exports fell in July and August, prompting the State Council to approve measures to support exporters, including faster payment of export tax rebates and advancing trade financing.

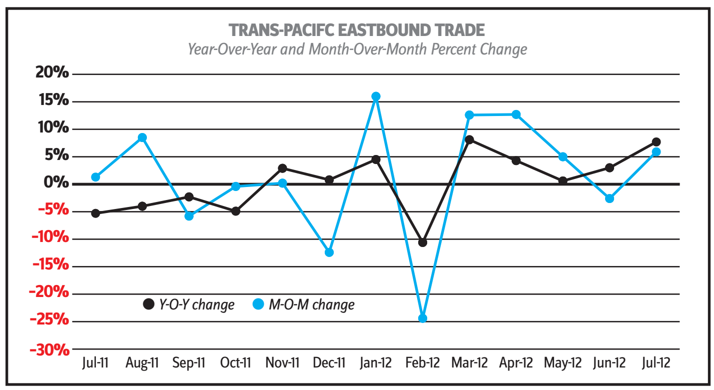
Fiscal support to the economy helped the Renminbi recover some value, up 0.2% in August over July.

REGIONAL CONTAINER TRADE

- *Exports to top-market China continues to show resilience*
- *Transpacific eastbound trade 2012 forecast upgraded; transpacific westbound trade 2012 forecast trimmed*

Transpacific Eastbound Trade





IMPORTS, JULY 2012

Trade Lane	TEUs	M-O-M	Y-O-Y	YTD	2012(F)
ALL ASIA	1,152,434	5.9%	7.7%	1.6%	3.5%
NORTHEAST ASIA	939,807	4.9%	6.3%	0.9%	3.0%
INDIAN SUBCONTINENT	61,372	10.8%	17.4%	3.4%	5.7%

Source: PIERS; JOC Container Shipping Outlook September 2012 issue

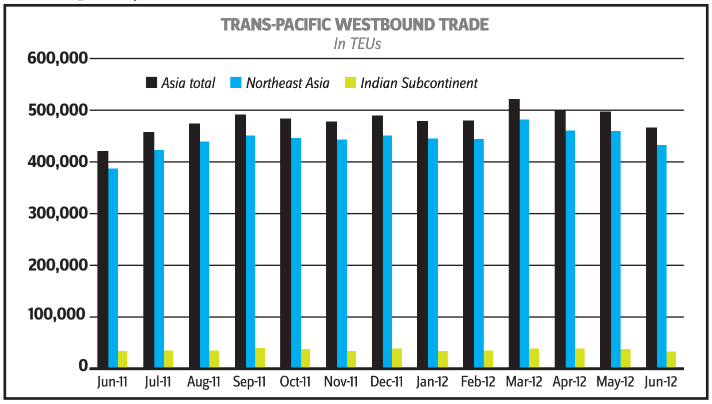
TRANSPACIFIC EASTBOUND TRADE UP 7.7% IN JULY

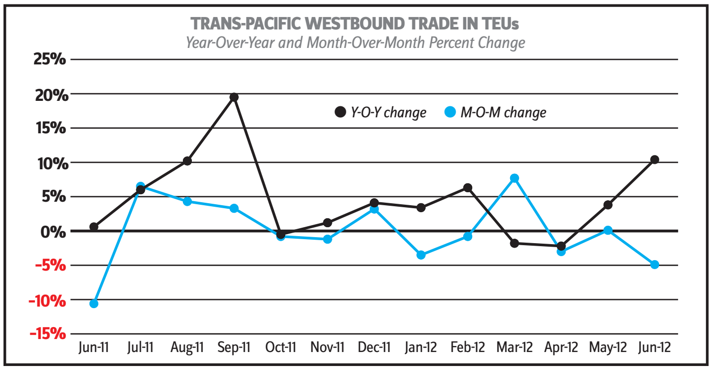
Containerized imports from Northeast Asia expanded 6.3% YoY in July following a rise of 2.6% in the prior month, and totaled 939,807 TEUs. Gains were led by auto parts, toys and furniture. Aided by a declining Yuan, imports from top source country China rose 5.0% YoY and totaled 733,463 TEUs.

Imports from Southeast Asia climbed 13.2% YoY in July to a total of 151,254 TEUs; mostly driven by furniture, women's and infant wear, and footwear. Imports from the Indian Subcontinent accelerated the pace, climbing 17.4% YoY and totaled 61,372 TEUs on account of rising demand for fabrics including raw cotton, furniture, and miscellaneous apparel.

I have recently upgraded the trans-pacific eastbound trade forecast to 3.5%, from 1.8%.

Transpacific Westbound Trade





EXPORTS, JUNE 2012

Trade Lane	TEUs	M-O-M	Y-O-Y	YTD	2012(F)
ALL ASIA	551,957	-4.9%	10.4%	3.0%	2.2%
NORTHEAST ASIA	432,902	-5.8%	11.8%	5.2%	3.4%
INDIAN SUBCONTINENT	33,637	-12.5%	-1.4%	-2.7%	-0.5%

Source: PIERS; JOC Container Shipping Outlook September 2012 issue

TRANSPACIFIC WESTBOUND TRADE UP 10.4% IN JUNE

Containerized exports to Northeast Asia expanded 11.8% YoY in June following a rise of 5.0% in the prior month, and totaled 432,902 TEUs. Gains were led by paper & paperboard, pet & animal feeds, fabrics (including raw cotton), and wood pulp. Export volume to top market China continues to show resilience, up 24% YoY in June and up 14% YoY in 2Q12.

Exports to Southeast rose 8.6% YoY in June to a total of 85,418 TEUs; mostly boosted by soybeans, fabrics including raw cotton, and logs & lumber. Exports to the Indian Subcontinent declined 1.4% YoY and totaled 33,637 TEUs on account of falling shipments of ferrous & pig iron, newsprint, and wood pulp.

Quarterly, exports to Asia rose 2.6% in 2Q12 over 2Q11, modestly below my forecast of 4.0%. Mainly because second quarter results were lower than expected and Europe's fiscal woes continue to act as a drag on Asia's output growth, I downgraded the trans-pacific westbound trade forecast for 2012 to 2.2%, from 3.0%.

EExports forecast to Northeast Asia for 2012 were trimmed to 3.4% from 4.2%; while to the Indian Subcontinent trimmed to -0.5% from 2.9%.

PORT TRAFFIC

- *Port of Los Angeles is U.S. top port year to date, with a total of 3.0 million fully loaded TEUs*
- *Port of Shanghai is China's top port year to date, with a total of 18.7 million TEUs*

TOP 10 CONTAINER THROUGHPUTS OF U.S. MAJOR PORTS IN JUNE 2012
Unit: 1000 TEU

Rank	Name of Port	Container Thoughput: Current Month	Container Thoughput: YOY Change (%)	Total Thoughtput in 2012
1	LOS ANGELES	511	7.4%	2,984
2	NEW YORK	370	9.5%	2,145
3	LONG BEACH	366	-4.8%	2,070
4	SAVANNAH	196	8.8%	1,178
5	VIRGINIA PRTS	133	15.5%	787
6	OAKLAND	130	2.1%	772
7	HOUSTON	119	1.5%	711
8	SEATTLE	123	18.9%	689
9	CHARLESTON	94	-0.2%	597
10	TACOMA	72	15.0%	449

Source: Shanghai Shipping Exchange. Data represents fully-loaded and empty container figures. Data is refreshed frequently.

- Top 10 ports handled 86% of the total U.S. container trade in June
- Container traffic at top-ranked Port of Los Angeles rose 7.4% YoY in June, and totaled 511,000 fully-loaded TEUs. Northeast Asia shipments accounted for 77% of the port traffic in the month, while Southeast Asia accounted for 15%.

TOP 10 CONTAINER THROUGHPUTS OF CHINA'S MAJOR PORTS IN JULY 2012
Unit: 1000 TEU

Rank	Name of Port	Container Thoughput: Current Month	Container Thoughput: YOY Change (%)	Total Thoughtput in 2012
1	SHANGHAI (上海)	2,843	-1.8%	18,708
2	SHENZHEN (深圳)	2,059	-0.5%	12,848
3	NINGPO ZHOUSHAN (宁波—舟山)	1,465	3.4%	9,487
4	QINGDAO (青岛)	1,212	16.2%	8,462
5	GUANGZHOU (广州)	1,158	-9.3%	8,147
6	TIANJIN (天津)	1,074	8.0%	6,933
7	DALIAN (大连)	720	32.6%	4,342
8	XIAMEN (厦门)	629	10.5%	3,839
9	SUZHOU (苏州)	492	17.7%	2,974
10	LIANYUNGANG (连云港)	411	-9.3%	2,850

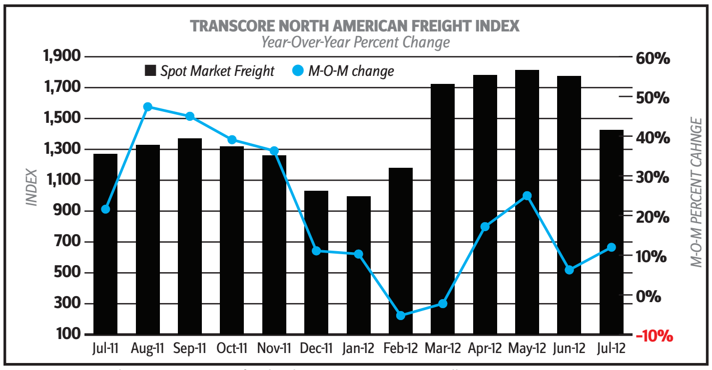
Source: Shanghai Shipping Exchange. Data represents fully-loaded and empty container figures. Data is refreshed frequently.

- Container traffic at top-ranked Port of Shanghai declined 1.8% YoY in July, and totaled 2.8 million TEUs, including empties.

TRUCKING

▶ *Freight volume on historic highs, up in July by 12% YoY*

Domestic Trucking Pricing

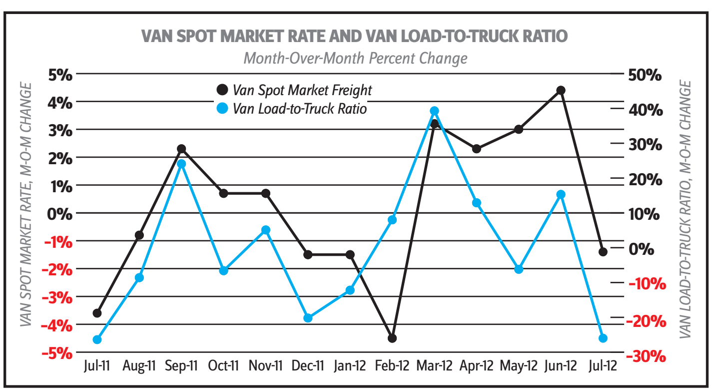


Source: Transcore, http://www.transcorefreightsolutions.com/Resource/Trendlines.aspx

FREIGHT INDEX UP 12% IN JULY

In July 2012, TransCore's DAT Freight Index reflects common themes for 2012: record same-month freight volumes and a double-digit increase on a YoY basis. July marked the fifth instance of a same-month record in 2012 and the DAT Index outpaced July 2011 levels by 12%, but lagged June 2012 by 20%; the decline follows a consistent pattern seen since the Index began in 1996.

Truckload freight rates on the spot market also followed historic, seasonal patterns, beginning their decline in mid-July. Rates for dry vans declined 1.4% compared to June, while refrigerated ("reefer") van rates slid 2.8%. Flatbed rates rose in the first half of July before giving back their gains in the second half, resulting in a flat month compared to June. Despite the month-over-month variances, rates were up from this time last year: 6.8% for vans, 11% for reefers and 3.4% for flatbeds. Rates are derived from DAT Truckload Rate Index, and do not include fuel surcharges. Spot market rates are paid by brokers and 3PLs to the carrier.



Source: Transcore, http://www.transcorefreightsolutions.com/Resource/Trendlines.aspx

JULY 2012: VAN SPOT MARKET RATE DOWN $0.02; LOAD-TO-TRUCK RATIO DOWN 26%

TransCore's DAT Truckload Rate index recorded a $0.02 (1.4%) decline in the national average spot market line haul rate for dry vans in the U.S. in July compared to June, not including fuel surcharges. The fuel surcharge for vans remained stable at $0.45 during the same period, so the average total rate per mile slipped from $1.88 to $1.86. Spot market rates are paid by freight brokers and other intermediaries to the carrier.

The softening rate was accompanied by a 26% decline in load availability and stable truck capacity, month over month, on the company's DAT Load Boards. The result was a 26% dip in the load-to-truck ratio for dry vans on the spot market, from 4.0 available loads per truck in June to 3.0 in July. This change is typical for the season.

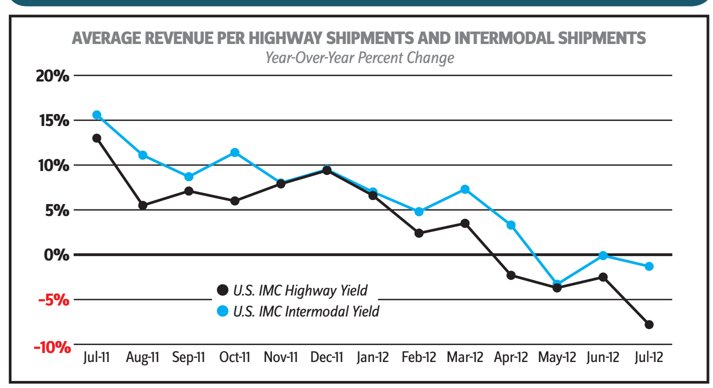
On a year-over-year basis, load volume for vans in July was up 14% compared to the corresponding month of 2011, while capacity increased 7.2%. The resulting load-to-truck ratio rose 6.0% compared to July 2011.

Spot market rates rose $0.09 (6.8%) compared to July 2011, not including fuel surcharges. When fuel is included, the total rate increased by $0.06 (3.3%) from $1.80 in July 2011.

RAIL

▶ ***U.S. rail intermodal traffic advanced in July for the 32nd straight month***

▶ ***U.S. rail transportation of metals declined in July for the second straight month***



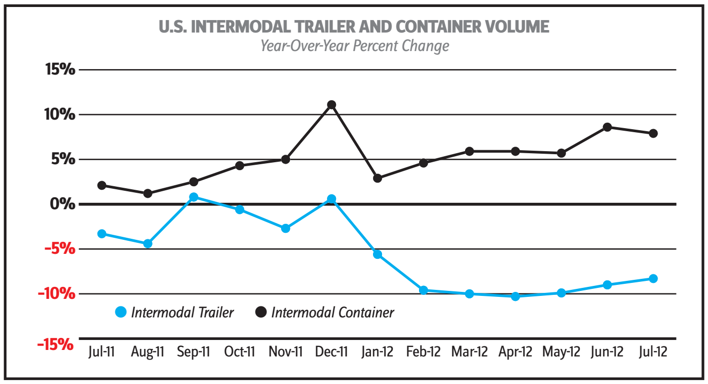
Source: Intermodal Association of North America (IANA)

JULY 2012: AVERAGE REVENUE PER HIGHWAY SHIPMENTS DOWN 7.8%; AVERAGE REVENUE PER INTERMODAL SHIPMENTS DOWN 1.3%

The average revenue per highway load fell in July by 7.8% YoY to $1,428, following a decline of 2.5% in the prior month. This marks its fourth YoY successive decline in average revenue per highway load. From June to July, the average revenue declined 2.9% (or $43).

The average revenue per intermodal load fell in July YoY for the third successive time in at least 2 years, down 1.3% to $2,627. From June to July, the average revenue increased 2.4% (or $69).

A slowing economy continues to take its toll on highway and intermodal shipments.

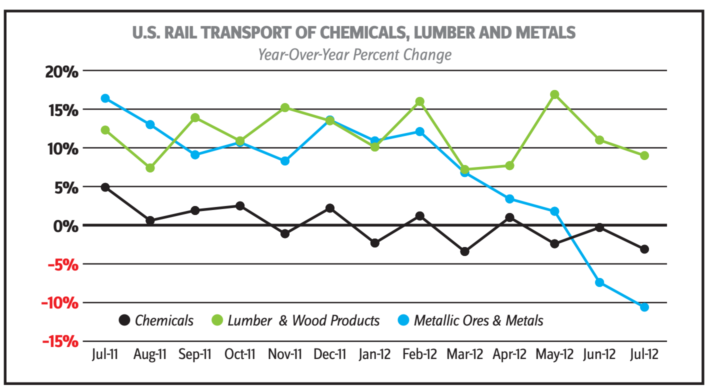


Source: Association of American Railroads (AAR)

JULY 2012: INTERMODAL TRAILERS DOWN 8.3%; INTERMODAL CONTAINERS UP 7.9%

U.S. railroads originated 113,100 trailers and 832,971 containers in July. Intermodal containers expanded 7.9% YoY, following an advance of 8.6% in June. Intermodal trailers dropped 8.3% YoY after falling by 9.0% the prior month. Intermodal trailers have now declined for seven consecutive months through July.

Intermodal traffic grew 5.6% (50,431 containers and trailers) in July 2012 over July 2011, marking its 32nd successive year-over-year monthly increase. On a seasonally adjusted basis, U.S. rail intermodal traffic fell 2.5% in July over the prior month, mainly because of a strong June 2012 base.



Source: Association of American Railroads (AAR)

JULY 2012: LUMBER UP 9.0%; CHEMICALS DOWN 3.1%; METALS DOWN 10.6%

U.S. chemical carloads declined 3.1% YoY in July, to a total of 115,028 following a 0.3% dip in the preceding month.

Growth in U.S. lumber and wood products carloads expanded 9.0% YoY in July, to a total of 12,148, marking its 15th consecutive year-over-year monthly advance.

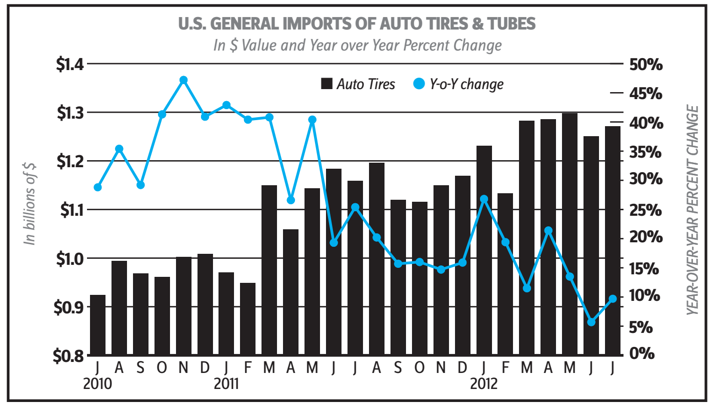
Growth in metallic ores & metals carloads contracted for the second time in almost 3 years, down 10.6% YoY in the month after a drop of 7.4% in June.

Contracting overall manufacturing activity is adversely impacting transportation of metals and chemicals.

COMMODITY SNAPSHOT

- ***Auto tires imports grew for 31 consecutive months to July 2012***
- ***China is largest supplier of US auto tires, holding a 22.4% share***

Selected Commodities: Auto Tires

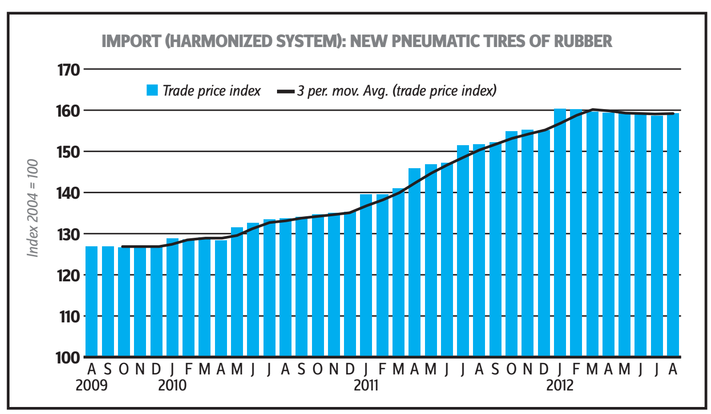


US International Trade Commission

AUTO PARTS IMPORTS ON THE UPTREND

Demand for foreign auto tires keeps rising, albeit at a more modest pace. Led by rebounding motor vehicle production in the aftermath of the Great Recession of 2008-2009, general imports of auto parts have expanded for 31 successive months to July 2012, year over year. Year to date, through July, imports were up by 15% and totaled $8.7 billion. Imports account approximately 45% of total domestic demand, according to some estimates.

Tire manufacturers have dealt with marked input price pressures during the economic recovery, most specifically in rubber and synthetic rubber. As a result, manufacturers have raised tire prices to sustain profit margins while expanding outsourcing activities in emerging markets to take advantage of cheaper labor. This is further evidenced by China's share of imports having grown by a compound annual growth rate of 25.1% between 2001 through 2011.



Source: U.S. BLS

TRADE PRICE INDEX OF AUTO TIRES IMPORTS LEVELING OFF

The major drivers of U.S. auto tires imports are demand from motor vehicle manufacturing and price competitiveness. Industry firms operate in a competitive and globalized market; thus, variations in exchange rates can greatly impact price competitiveness.

The trade price index of auto tires imports appears to be leveling off in 2012, after growing markedly in 2010 and in 2011. Stable prices have held up demand for tires imports, which were up 15% year to date, through July. The index has stood below its 3-month moving average in 5 of the last 6 months. In August 2012, the index was up by 59.3% over December 2004.

AUTO TIRES IMPORT TRADE, YEAR TO DATE FIGURES (JAN-JULY)
in millions of $

Top Source Countries	2012 YTD	Chg over 2011 YTD (%)	2012 YTD Share	Chg over 2011 YTD (Share)	CAGR (2001-2011)
CHINA	1,940	18.3%	22.4%	0.6%	25.1%
CANADA	1,219	2.5%	14.1%	-1.7%	5.0%
KOREA	1,021	19.9%	11.8%	0.5%	16.6%
JAPAN	988	-1.7%	11.4%	-1.9%	7.2%
THAILAND	596	24.5%	6.9%	0.5%	35.3%
MEXICO	430	25.6%	5.0%	0.4%	19.2%
INDONESIA	305	7.5%	3.5%	-2.0%	29.9%
GERMANY	265	19.2%	3.1%	0.1%	11.8%
BRAZIL	260	13.4%	3.0%	0.0%	12.5%
TAIWAN	226	-0.1%	2.6%	-0.4%	8.8%
OTHERS	1,418	32.6%	16.4%	2.2%	9.2%
TOTAL	**8,668**	**15.0%**	**100%**		**12.3%**

Source: US International Trade Commission. HS Codes: 4011; 4012

CHINA IS TOP SUPPLIER OF U.S. AUTO TIRES IMPORTS

China is the largest source of U.S. auto tires imports, accounting for a 21 percent share in 2011, according to U.S. International Trade Commission (ITC) estimates.

Year to date, auto tires imports from Mexico grew at the fastest pace, up 25.6%, followed by Thailand (+24.5%), Korea (+19.9%), Germany (+19.2%), and China (+18.3%).

Over the last 10 years to 2011, imports from Thailand grew at the fastest rate, up 35.3% on a compound annual growth rate basis. It is followed by Indonesia (29.9%), and China (25.1%). Mainly because of its large labor force and low wage costs, China has been able to expand its tires shipments to the US over the years. A 35% tariff imposed on Chinese imported tires in September 2009 had an adverse effect in China's sourcing share. In 2009, China held a sourcing share of 27.4%; today they hold a sourcing share of 22.4%.

Canada is second largest tire supplier to the US, followed by Korea and Japan, according to year-to-date estimates.

Top Commodities: Asia

TOP IMPORTS FROM ASIA, JULY 2012

Rank	Commodities	TEUs	MoM	YOY	YTD
1	FURNITURE	139,786	-2%	8%	5%
2	AUTO PARTS	47,857	9%	22%	16%
3	TOYS	45,345	41%	12%	0%
4	WOMEN'S & INFANT WEAR	37,772	32%	6%	-3%
5	FOOTWEAR	36,613	18%	-10%	-12%
6	PLASTIC PRODS, MISC	33,790	6%	8%	4%
7	AUTO & TRUCK TIRE & TUBES	29,907	6%	-2%	-4%
8	APPARELS, MISC	25,501	24%	3%	-2%
9	SHEETS, TOWELS, BLANKETS	24,436	10%	2%	0%
10	EDP, NUMBER, ADDRESS, MACHINERY	24,267	-5%	-5%	-4%

Source: PIERS

TOP U.S. IMPORTS FROM ASIA IN TEUS: JULY 2012

A modest improvement in the pace of home sales combined with favorable exchange rates has supported a modest recovery in the furniture import trade. Auto parts imports continue to post remarkable gains. The top 10 commodities shown above accounted for 39% of the total box import trade from Asia.

TOP EXPORTS TO ASIA, JUNE 2012

Rank	Commodities	TEUs	MoM	YOY	YTD
1	PAPER & PAPERBOARD, INCL WASTE	117,432	-4%	17%	7%
2	PET & ANIMAL FEEDS	47,289	-1%	42%	24%
3	MIXED METAL SCRAP	30,834	2%	16%	11%
4	LOGS & LUMBER	21,800	-13%	0%	-3%
5	WOOD PULP	18,912	-8%	19%	16%
6	METAL SCRAP, FERROUS, PIG IRON	16,338	-6%	-29%	-14%
7	FABRICS, INCL. RAW COTTON	15,584	-35%	62%	3%
8	SOYBEANS & PRODS	15,072	13%	58%	14%
9	FOAM WASTE & SCRAP	14,881	-8%	7%	8%
10	MEAT, CHIEFLY FRESH & FROZEN	10,831	-9%	0%	1%

Source: PIERS

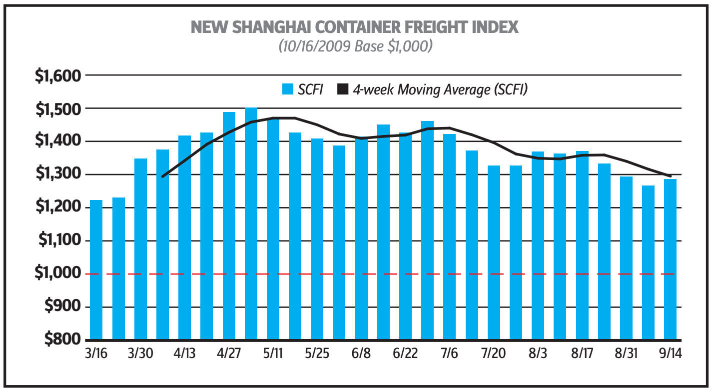
TOP U.S. EXPORTS TO ASIA, IN TEUS: JUNE 2012

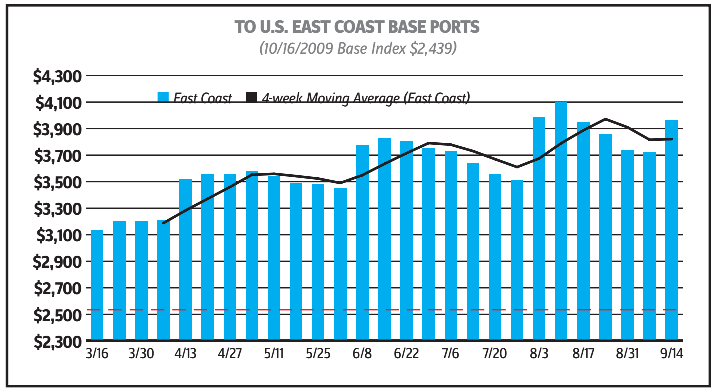
Demand for second-ranked pet & animal feeds continues to show a remarkable recovery, up 42% YoY in July, and up 24% year to date. Demand for logs & lumber was flat in July, and down 3% year to date. The top 10 commodities shown above accounted for 56% of the total box exports to Asia in the month.

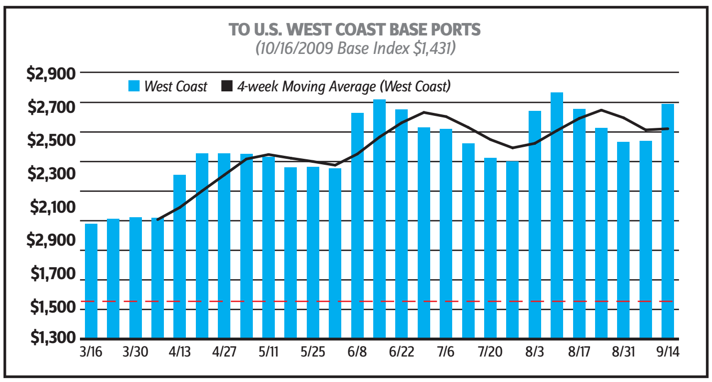
REGION CATEGORIES

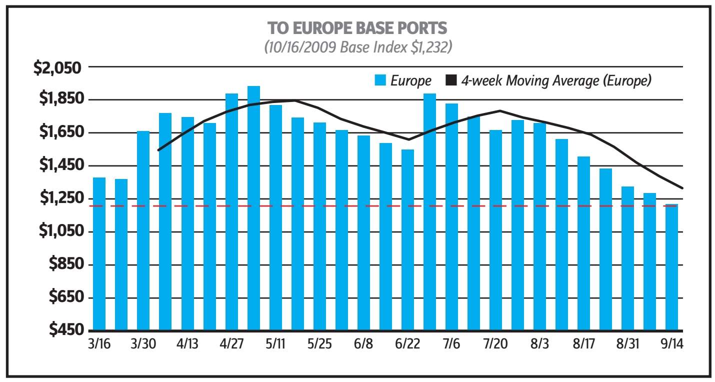
NORTHEAST ASIA HONG KONG, JAPAN, MACAU, MONGOLIA, NORTH KOREA, PEOPLES REP OF CHINA, REPUBLIC OF KOREA, TAIWAN **SOUTHEAST ASIA** BRUNEI, CAMBODIA, INDONESIA, LAOS, MALAYSIA, MYANMAR, PHILIPPINES, SINGAPORE, THAILAND, VIETNAM **NORTHERN EUROPE** AUSTRIA, BELGIUM, CZECHOSLOVAKIA, DENMARK, ESTONIA, FINLAND, GEORGIA, GERMANY, HUNGARY, ICELAND, IRELAND, LATVIA, LITHUANIA, N FRANCE, NETHERLANDS, NORWAY, POLAND, RUSSIA, SWEDEN, SWITZERLAND, UNITED KINGDOM **MEDITERRANEAN** ALBANIA, AZORES, BULGARIA, CYPRUS, EGYPT, GIBRALTAR, GREECE, ISRAEL, ITALY, MALTA, MOROCCO MED, PORTUGAL, ROMANIA, S FRANCE, SPAIN, TURKEY, UKRAINE, YUGOSLAVIA **CENTRAL AMERICA** BELIZE, COSTA RICA, GUATEMALA, EL SALVADOR, HONDURAS, MEXICO, NICARAGUA, PANAMA **CARIBBEAN** BAHAMAS, BARBADOS, BERMUDA, CAYMAN IS, CUBA, DOMINICAN REPUBLIC, FRENCH WEST INDIES, HAITI, JAMAICA, LEEWARD & WINDWARD, NETHERLANDS ANTILLES, TRINIDAD & TOBAGO, TURKS CAN CAICOS **WEST COAST SOUTH AMERICA** CHILE, COLOMBIA, ECUADOR, PERU **EAST COAST SOUTH AMERICA** ARGENTINA, BOLIVIA, BRAZIL, FRENCH GUIANA, GUYANA, PARAGUAY, SURINAM, URUGUAY, VENEZUELA **MIDDLE EAST** AFGHANISTAN, BAHRAIN, IRAN, IRAQ, JORDAN, KUWAIT, LEBANON, OMAN, QATAR, SAUDI ARABIA, SYRIA, UNITED ARAB EMIRATES, YEMEN **OCEANIA** AUSTRALIA, FRENCH PACIFIC IS, NEW ZEALAND, OTHER PACIFIC IS, PAPUA NEW GUINEA, WESTERN SAMOA **INDIAN SUBCONTINENT** BANGLADESH, INDIA, NEPAL, PAKISTAN, SRI LANKA **AFRICA** ALGERIA, ANGOLA, BENIN, CAMEROON, CANARY IS, CONGO, DJIBOUTI, EQUATORIAL GUINEA, ETHIOPIA, GABON, GAMBIA, GHANA, GUINEA, IVORY COAST, KENYA, LESOTHO, LIBERIA, LIBYA, MADAGASCAR, MALAWI, MAURITIUS, MOROCCO (ATLANTIC COAST), MOZAMBIQUE, NAMIBIA, NIGERIA, REP OF SOUTH AFRICA, SENEGAL, SIERRA LEONE, ST. HELENA, SUDAN, SWAZILAND, TANZANIA, TOGO, TUNISIA, UGANDA, WESTERN SAHARA, ZAMBIA

INTERNATIONAL SHIPPING PRICES









Source: Shanghai Shipping Exchange
Note: The index was not published on October 7, 2011 and on January 27, 2012

▶ ***Average freight rates from Shanghai rebound on TSA-backed surcharges***

THE SHANGHAI CONTAINERIZED FREIGHT INDEX UP 1.5% ON SEPTEMBER 14 FROM PRIOR WEEK

The Shanghai containerized freight index, which measures export average spot rates, rose 1.5% on September 4 over the prior week to 1,285.63 points, following three straight weekly declines. The index stood below its 4-week moving average for 4 consecutive weeks, mostly owed to declining Europe volumes.

On September 14, the freight rate for the voyages from Shanghai to base ports in U.S. west coast and U.S. east coast services came out at $2,711/FEU and $3,966/FEU, both up by $221 and $246 from the preceding week. U.S. containerized imports from Asia accelerated the pace to 7.7% YoY in July from 3.0% YoY in June.

In the Europe service, freight rates fell for the seventh straight week as economic conditions in Europe remain fragile. On September 14, the freight rate for the voyages from Shanghai to base ports in Europe fell 5.1% over the preceding week to $1,218. **JOCINSIGHTS**

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