

JOCINSIGHTS

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OCTOBER 2012

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

THE US ECONOMY IS GROWING MODESTLY, and so are containerized imports. Latest August import data was disappointing but not surprising. There was growing optimism in the early part of the year when monthly nonfarm payrolls were growing at +150,000 on average, prompting retailers to stock more goods on the shelves. Unfortunately, hiring quickly weakened in the second quarter of the year, but it was too late: the retail inventory to sales ratio increased steadily for 4 successive months to July, and reached a near 2-year high. This means that retailers stocked too many goods, or sales missed expectations. Retail sales did indeed fell for 3 successive months to June, but by looking at recent import data (a better than expected 2Q volumes, and a remarkable 10.5 percent YoY Jump in July) one could also argue retailers may have been a little more optimistic than previously. Imports quickly adjusted to reality in August and only edged up 0.6% YoY.

Auto parts demand is the biggest factor behind containerized imports growth this year, mainly because of continuing pent up demand for autos. Furniture and other home goods are also adding to the gains, and this is because of a continuing, albeit slow, recovery in the pace of home sales. Total containerized imports of furniture were up by nearly 5% through August. Imports of footwear and apparel, however, remain on the downtrend, reflecting the consumer's cautious stance.

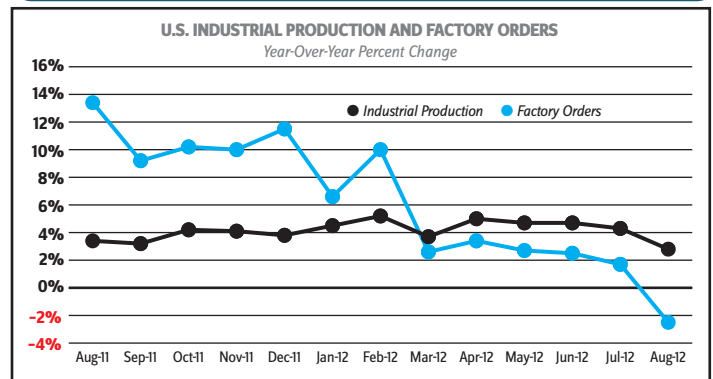
On the export side, things are not looking good. Containerized exports growth has decelerated this year on weakening demand from Europe, Southeast Asia, and parts of Latin America. Exports to China, however, are holding up nicely, driven partly by a strong recovery in pet & animal feeds since the antidumping probe case against US DDGS was dropped a few months ago. Pet & animal feeds exports were up by 94% through July, making it the fastest growing export this year among major commodities. I expect total exports will grow by 1-2 percent this year after growing by 6-7 percent in 2011.

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

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

THE SHIPPING ECONOMY

- ▶ U.S. manufacturing activity rebounds after 3 successive months of contraction, while China manufacturing activity contracted for 11th successive month
- ▶ US economic output in 2Q revised lower
- ▶ U.S. ocean container trade advanced in July on higher imports; rail container shipments kept on expansion mode in August
- ▶ Housing starts advanced discreetly in August
- ▶ Retail sales expand on higher gasoline prices



Source: Commerce Department, Federal Reserve

**AUGUST 2012: INDUSTRIAL PRODUCTION DOWN 1.2%;
 FACTORY ORDERS DOWN 5.2%**

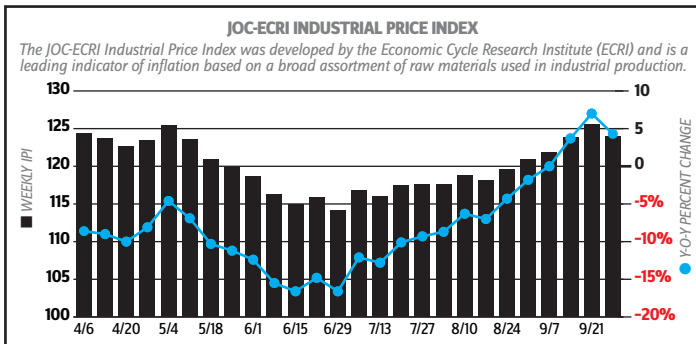
U.S. industrial production fell for the first time in 5 months as mining and utilities contracted sharply. Overall production dropped 1.2%, following a downwardly revised boost of 0.5% in the prior month. The last time we saw a drop of over 1% in overall production was in May 2009. Manufacturing fell 0.7%, dragged mainly by motor vehicles which contracted by 4.0% following a 2.7% rebound in prior month. Outside of motor vehicles, manufacturing was still soft, down 0.4%, following a 0.2% boost in July. Mining and utilities fell markedly, down by 1.8% and 3.6% respectively.

Overall capacity utilization weakened notoriously to 78.2% versus the 79.2% posted in the prior month.

The manufacturing sector lost steam in the month. On a year-over-year basis, industrial production slowed the pace to 2.8% in August, down from 4.3% in July.

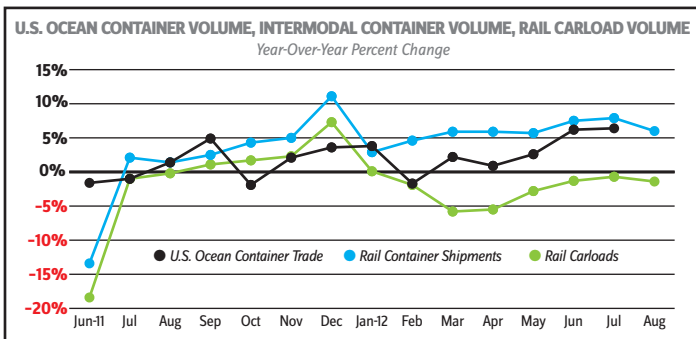
U.S. factory orders dropped 5.2% in August on sharp decline in aircraft orders. Excluding transportation, however, orders actually rose 0.7%. Non durables orders rose 2.2%.

On a year-over-year basis, orders declined 2.5% from July's 1.7% advance.



INDUSTRIAL PRICE INDEX DOWN 1.7 POINTS ON SEPTEMBER 28 FROM PRIOR WEEK

On September 28, the JOC-ECRI Industrial Price Index lost 1.7 points over a week earlier to a reading of 123.9, and stood above its 4-week moving average for the 13th consecutive week. Year over year, the index is up 4.3%.

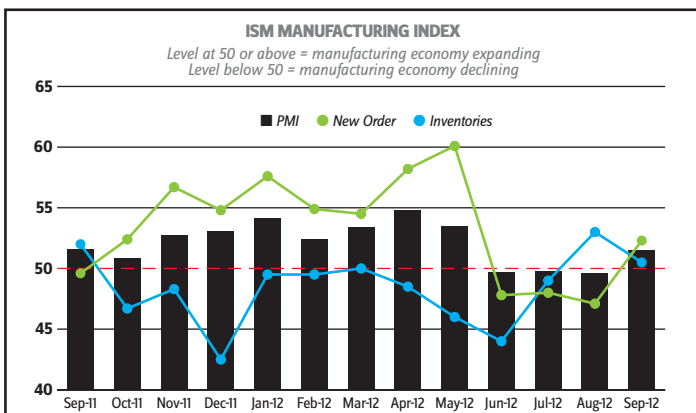


Source: PIERs and Association of American Railroads (AAR)

U.S. OCEAN CONTAINER TRADE UP 6.4% IN JULY

U.S. ocean container trade advanced 6.4% YoY in June on higher imports, and followed a 6.2% gain in the prior month. The trade totaled 2,541,820 TEUs in the month.

Rail container shipments expanded 6.0% YoY in August, following a 7.9% increase in the prior month, while rail carloads fell 1.4% in August, after slipping 0.7% in the prior month. Rail carloads have declined for 7 consecutive months through August on a year-over-year basis.



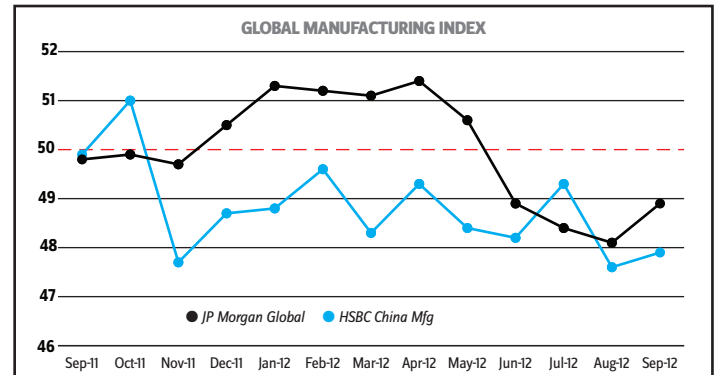
Source: Institute for Supply Management (ISM)

SEPTEMBER 2012: U.S. MANUFACTURING INDEX AT 51.5

U.S. manufacturing activity rebounded in September after 3 months of

contraction. The PMI index gave a reading of 51.5, up by 1.9 points, indicating growing from contracting. Of the 18 manufacturing industries, 11 reported growth in the month. New orders saw a big increase, up 5.2 points to a 52.3 level. Export orders are still in contraction mode, further evidenced by recent PIERs export figures which underline declining shipments to Europe and Southeast Asia. Employment picked up the pace, and gained 3.1 points to a 54.7 reading. Inventories grew at a slower pace while prices advanced at a faster pace.

Manufacturing activity is holding up, most likely due to resilient auto production.



Source: JP Morgan; HSBC

SEPTEMBER 2012: GLOBAL MANUFACTURING PMI ROSE TO 48.9; CHINA MANUFACTURING PMI ROSE TO 47.9

The JPMorgan Global PMI rose slightly in September to 48.9 (+0.8), signaling contraction at a slower rate. Production and new orders declined for the fourth straight month, while new export orders declined for the fifth straight month. Production declined in the US, the EU and Asia, but the rate of decline eased in the US and in the EU. Hiring rose for the first time in 3 months, with decent gains seen in the US, Germany, Japan, Canada, India, Mexico, and Russia among the largest industrial economies. Average input prices rose after declining for three successive months, likely tied to recent gains in global oil prices.

Manufacturing activity in China remained in contraction in September on falling new orders. The HSBC China Manufacturing PMI came in at a 47.9 level, up slightly from 47.6, indicating the rate of deterioration eased marginally. September marked the eleventh straight month-over-month descent in Chinese manufacturing activity. New exports activity declined at a stronger pace than that of overall new orders. Hiring declined for the second month in a row, however at a relatively modest pace. Purchasing activity decreased for the fifth straight month while stocks of purchases fell at the fastest pace since May. No surprise, input costs fell in the month for the fifth successive month.



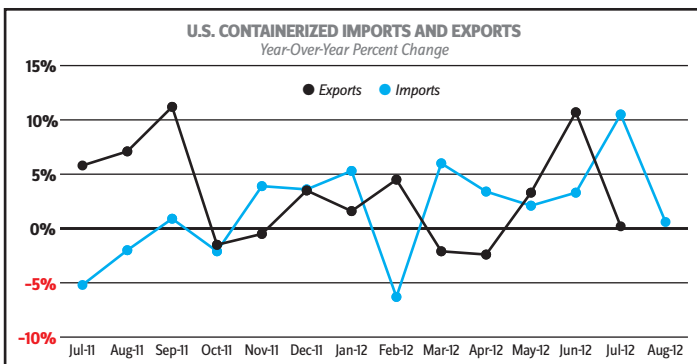
Source: US Department of Commerce

JULY 2012: U.S. GOODS EXPORTS DOWN 1.6%; GOODS IMPORTS DOWN 1.1%

U.S. exports of goods fell 1.6% in July over June, amounting to \$129.4 billion in the month. The decrease was led by industrial supplies (-\$2.4 billion); motor vehicles and parts (-\$0.6 billion); and other goods (-\$0.6 billion). Gains were registered in foods, feeds, and beverages (\$1.8 billion) and capital goods (\$0.1 billion).

U.S. imports of goods fell for the fourth straight month, down 1.1% in July over June, totaling \$186.1 billion. The contraction partly reflected decreases in industrial supplies (-\$2.1 billion); capital goods (-\$0.6 billion); and other goods (-\$0.4 billion).

The deficit of goods traded widened marginally by 0.1% to \$56.7 billion (census basis).



Source: PIERS

U.S. CONTAINERIZED IMPORTS UP 0.6% IN AUGUST; EXPORTS UP 0.2% IN JULY

U.S. imports decelerated sharply in August after jumping by 10.5% YoY in the prior month, according to advanced figures from PIERS. Overall U.S. containerized imports edged up 0.6% in August 2012 over August 2011 to a total of 1,541,378 TEUs. Month over month, overall imports declined 2.1% in August.

Leading the gains were auto parts, up 16%; decorations, up 12%; still wines, up 17%; and paper & paperboard, up 6%. Leading the losses were footwear, down 30%; auto tires, down 14%; and computers, down 15%, all compared to August 2011.

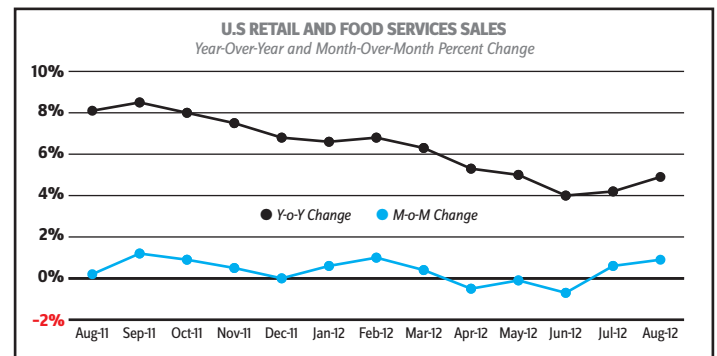
On a regional level, imports from Mediterranean led the gains, up 20%, and totaled 81,178 TEUs. Northern Europe followed with a gain of 8%, and totaled 154,153 TEUs. On the downside, shipments from Northeast Asia dropped 4%, and totaled 913,028 TEUs, while shipments from Southeast Asia fell 2%, and totaled 145,497 TEUs. Imports from all of Asia declined 4% in the month.

On a country level, shipments from Brazil showed the highest expansion, up 39%, and totaled 26,628 TEUs. Italy follows with a gain of 19%, while Germany advanced by 10%. On the downside, China and Hong Kong declined by 5% and 18%, respectively. Shipments from China totaled 716,344 in the month.

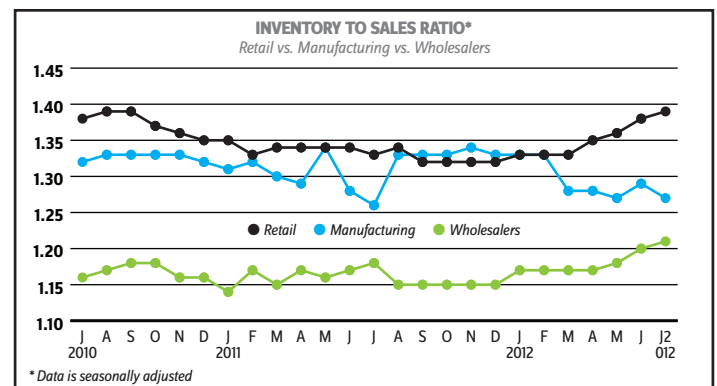
Year to date, through August, overall U.S. containerized imports were up 3.2%.

U.S. box exports decelerated sharply in July on falling shipments to Oceania, East Coast South America, and Europe. Overall U.S. containerized exports edged up 0.2% YoY in July to a total of 967,371 TEUs, following a rise of 10.7% in the prior month. Gains were led by pet & animal feeds, up 17%; paper & paperboard, up 5%; auto parts, up 23%; and fabrics including raw cotton, up 22%. On the downside, losses were seen in grains & flour products (-27%); motor vehicles (-10%); and metal scrap, ferrous, pig iron (-13%); and foam waste & scrap (-14%), all compared to July 2011.

Year to date, through July, exports were up by 2.0%. Our full year forecast for 2012 is +1.7%, downgraded from +2.3%.



Source: U.S. Commerce Department



Source: Census Bureau

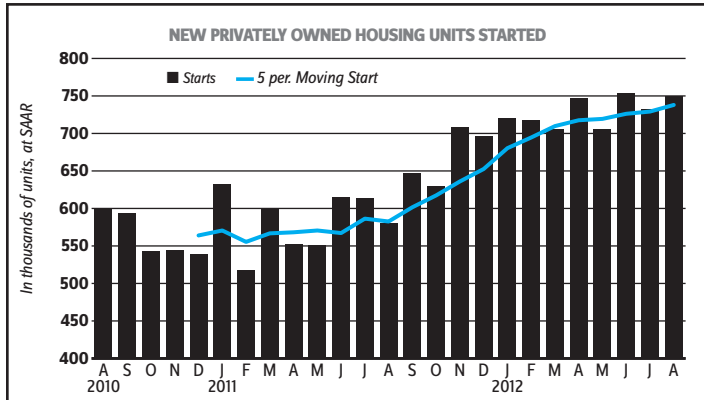
AUGUST 2012: U.S. RETAIL SALES UP 0.9%

Retail sales advanced markedly in August on rising gasoline prices. Sales increased 0.9% in the month, following a downwardly revised 0.6% boost in July. Excluding autos, sales rose 0.8% after rising by an equal percent in the prior month. Gasoline sales jumped 5.5%, following a 0.4% boost in July. Excluding autos and gasoline, sales rose by just 0.1%. Gains were also seen in building materials and food services & drinking places.

Excluding gasoline, overall retail sales look very soft. A much stronger recovery in the labor market is needed to get more consumers back to the

stores. Year over year, overall retail sales stood at 4.9%, up slightly from 4.2% in the prior month.

Seasonally adjusted retail inventory to sales ratio gave a reading of 1.39 in July, higher than June's 1.38 ratio, and higher than July 2012 1.33 ratio. The ratio for manufacturers declined to 1.27 from June's 1.29, while the ratio for wholesalers rose to 1.21 from June's 1.20.



Source: US Department of Commerce; Census Bureau

AUGUST 2012: U.S. HOUSING STARTS UP 2.3%

Housing starts advanced modestly, suggesting a discreet recovery in the housing market continues. Starts rose 2.3% in August, following a decline of 2.8%, to a seasonally adjusted annual rate of 0.750 million units. On a regional level, gains were led by a 20.7% advance in the Midwest and a 3.7% boost in the South. Units started in the Northeast and the West declined by 12.6% and 4.3% respectively. Year over year, housing starts jumped 29.1% from 19.4% in the prior month. The trend line is still pointing up.

Housing permits declined 1.0% after growing by 6.7% in July.

REAL GDP QUARTERLY GROWTH RATES ON A Y-O-Y BASIS, AND ANNUAL FORECASTS						
COUNTRY	Q3-2011	Q4-2011	Q1-2012(e)	Q2-2012(e)	2012 (f)	2013 (f)
UNITED STATES	1.6	2.0	2.4	2.1	2.1	2.1
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	0.7	-0.1	-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.

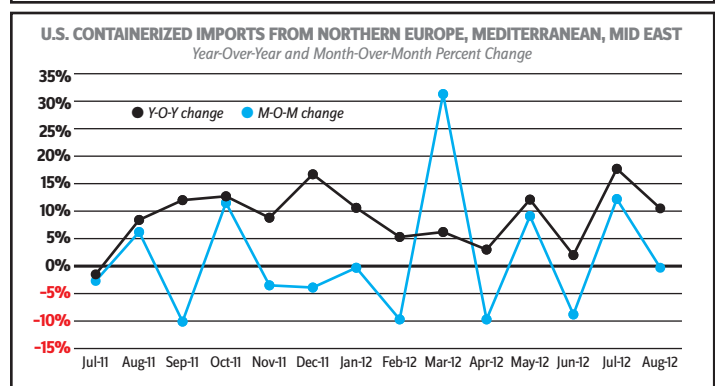
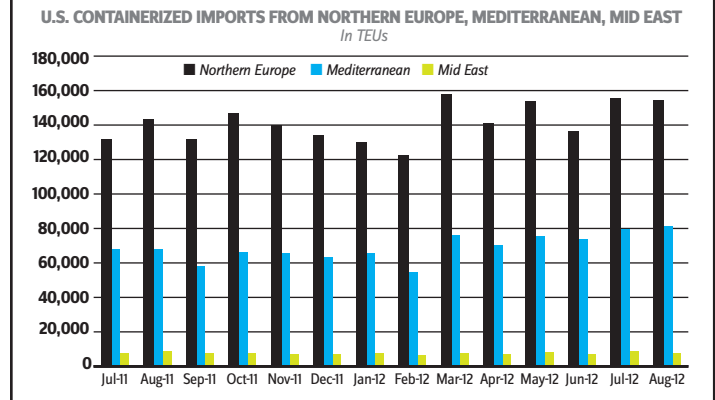
Source: OECD; EU forecasts; in-house forecast; updated as of October 10, 2012

The US economic output in the second quarter of the year was revised lower from 1.7% to 1.3%, mainly reflecting the adverse effects of the worst drought in half a century. Farm inventories dropped \$5.3 billion in 2Q, following a \$1 billion decline in 1Q. Furthermore, consumer and business spending growth showed weaker rates than previously estimated, while estimates on residential construction outlays were revised lower. We expect a cautious stance in the consumer and business sectors going forward as they closely watch developments of the fiscal cliff issue.

REGIONAL CONTAINER TRADE

- ▶ Imports from Northern Europe rising on strong demand for auto parts and non alcoholic beverages
- ▶ 2012 projections for container trade with Northern Europe downgraded

Imports from Europe and the Mid East



TRADE LANE	IMPORTS, AUGUST 2012				
	TEUs	M-O-M	Y-O-Y	YTD	2012(f)
NORTHERN EUROPE	154,153	-0.8%	7.7%	8.0%	7.0%
MEDITERRANEAN	81,178	2.1%	19.3%	10.5%	10.9%
MID EAST	7,783	-12.8%	-10.9%	-2.2%	3.7%

Source: PIERS; JOC Container Shipping Outlook September 2012 issue

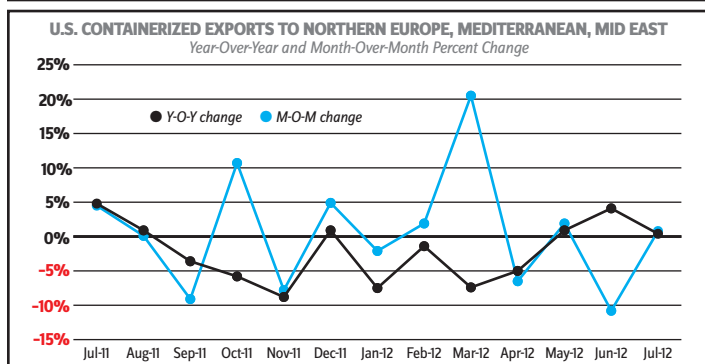
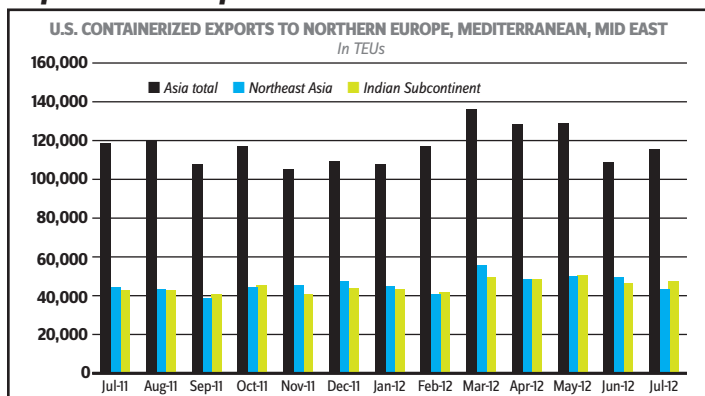
AUGUST 2012: IMPORTS FROM EUROPE AND MID EAST UP 7.7%

Inbound trade from Northern Europe totaled 154,153 TEUs in August, up 7.7% from August 2011. The jump was mostly driven by sharp gains in auto parts and non alcoholic beverages. Imports from the Mediterranean region rose 19.3% in the month, to a total of 81,178 TEUs, led by gains in wines, auto parts, and furniture. Imports from the Middle East declined 11% on falling shipments of steel and iron pipes, and women's and infant wear.

After expanding by 17.7% YoY in July, total imports from Europe and Mid East stood at 10.5% in August, and totaled 243,113 TEUs. On a month-to-month basis, imports from these regions edged down 0.3%.

September's Fed action will put downwards pressure on the Greenback and thus reduce the competitiveness of European goods beginning in 4Q12. Under these conditions and in light of ongoing weakness in U.S. income growth, we are revising our containerized imports forecast lower for Northern Europe, from 10.3% to 7.0%.

Exports to Europe and Mid East



EXPORTS, JULY 2012					
TRADE LANE	TEUs	M-O-M	Y-O-Y	YTD	2012(f)
NORTHERN EUROPE	115,663	6.1%	-2.6%	-4.2%	-1.7%
MEDITERRANEAN	43,187	-12.3%	-2.4%	-8.2%	-3.1%
MID EAST	47,591	2.2%	11.5%	9.3%	10.8%

Source: PIERIS; JOC Container Shipping Outlook September 2012 issue

JULY 2012: EXPORTS TO EUROPE AND MID EAST UP 0.4%

Exports to Northern Europe totaled 115,663 TEUs, a YoY contraction of 2.6% as shipments of motor vehicles declined markedly. Shipments to the Mediterranean region declined in 12 of the last 13 months. Trade to the Mediterranean totaled 43,187 TEUs in the month, a YoY drop of 2.4% on falling shipments of paper & paper-board, edible nuts, and logs & lumber. Trade to the Middle East expanded 11.5%, and totaled 47,591 TEUs, following a surge of 17.8% in the prior month.

Total exports to Europe and the Middle East edged up 0.4% YoY in July, to a total of 206,441 TEUs. On a month-to-month basis, exports to these regions rose by 0.8%.

There is little reason to expect a bounce back in European demand during the forecast period. There are no simple solutions to the current debt crisis, and while recent action by the European Central Bank has reduced uncertainty, the underlying fundamentals remain weak. At the same time, Russia's economic expansion, while healthy by comparison, has begun to slow, and the economies of Hungary and the Czech Republic are in recession. Therefore, the export projections for full year 2012 to Northern Europe and Mediterranean have been downgraded from -0.3% to -1.7% and from +1.2% to -3.1%, respectively.

PORT TRAFFIC

- ▶ Port of Los Angeles is U.S. top port year to date, with a total of 3.5 million fully loaded TEUs
- ▶ Port of Shanghai is China's top port year to date, with a total of 31.3 million fully loaded and empty TEUs

TOP 10 CONTAINER THROUGHPUTS OF U.S. MAJOR PORTS IN JULY 2012				
Unit: 1000 TEU				
RANK	NAME OF PORT	CURRENT MONTH	CONTAINER THROUGHPUT YOY CHANGE (%)	TOTAL THROUGHPUT IN 2012
1	LOS ANGELES	518	3.2%	3,505
2	NEW YORK	397	12.9%	2,542
3	LONG BEACH	376	0.4%	2,447
4	SAVANNAH	189	-3.7%	1,370
5	VIRGINIA PRTS	141	11.2%	930
6	OAKLAND	127	1.0%	900
7	HOUSTON	137	29.3%	850
8	SEATTLE	102	-7.5%	789
9	CHARLESTON	105	13.7%	702
10	TACOMA	104	45.0%	556

Source: PIERIS. Data represents fully-loaded containers only, and is refreshed frequently.

- Top 10 ports handled 92% of the total U.S. container trade in July
- Container traffic at top-ranked Port of Los Angeles rose 3.2% YoY in July, and totaled 518,000 fully-loaded TEUs. Northeast Asia shipments accounted for 76% of the port traffic in the month, while Southeast Asia accounted for 16%.

TOP 10 CONTAINER THROUGHPUTS OF CHINA'S MAJOR PORTS IN AUGUST 2012				
Unit: 1000 TEU				
RANK	NAME OF PORT	CURRENT MONTH	CONTAINER THROUGHPUT YOY CHANGE (%)	TOTAL THROUGHPUT IN 2012
1	SHANGHAI (上海)	2,606	-7.1%	21,314
2	SHENZHEN (深圳)	2,239	3.6%	15,086
3	NINGPO ZHOUSHAN (宁波 - 舟山)	1,336	-1.1%	10,823
4	QINGDAO (青岛)	1,209	NA	9,671
5	GUANGZHOU (广州)	1,387	5.5%	9,534
6	TIANJIN (天津)	1,093	10.7%	8,026
7	DALIAN (大连)	738	26.5%	5,080
8	XIAMEN (厦门)	640	9.4%	4,479
9	SUZHOU (苏州)	537	28.1%	3,511
10	LIANYUNGANG (连云港)	413	-4.6%	3,263

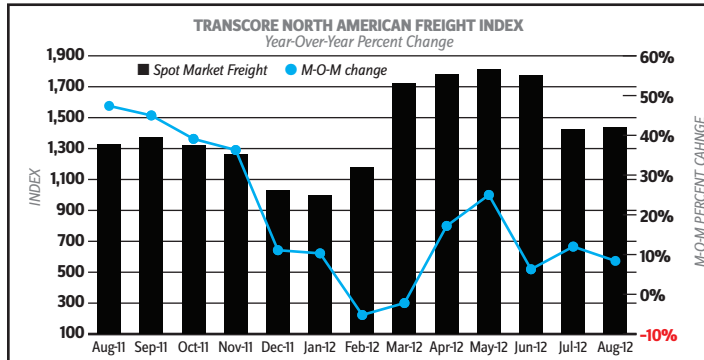
Source: Shanghai Shipping Exchange. Data represents fully-loaded and empty container figures. Data is refreshed frequently.

- Container traffic at top-ranked Port of Shanghai declined 7.1% YoY in August, and totaled 2.6 million TEUs, including empties.

TRUCKING

► Freight volume exceeding prior year levels six times in 2012

Domestic Trucking Pricing



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

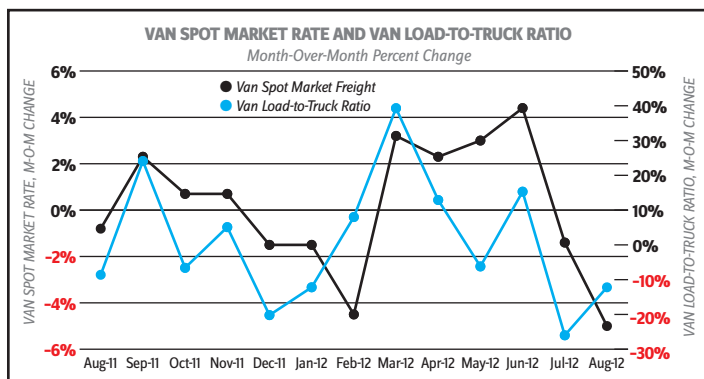
TRANSCORE
Freight Solutions

AUGUST 2012: FREIGHT INDEX UP 8.4%

In August 2012, TransCore's DAT Freight Index outpaced August 2011 levels by 8.4 percent. This is the sixth time in 2012 volume has exceeded prior year levels. Freight volume on the spot market, month-over-month, edged above July 2012 by 1.1 percent. Freight volume typically increases modestly on the spot market from July to August during non-recessionary periods.

Truckload freight rates on the spot market continued their expected seasonal decline in August from their June peak, however, rates across all equipment types were higher year-over-year.

Rates for dry vans declined 5.0 percent compared to July but were up 2.3 percent versus August 2011; Refrigerated van ("reefer") rates slid 4.7 percent but increased 5.8 percent year-over-year; Flatbed rates dipped 1.1 percent but rose 2.9 percent when compared to the same month last year. Reference 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>

TRANSCORE
Freight Solutions

AUGUST 2012: VAN SPOT MARKET RATE DOWN \$0.07; LOAD-TO-TRUCK RATIO DOWN 12.2%

TransCore's DAT Truckload Rate index recorded a \$0.07 (5.0%) decline in the national average spot market line haul rate for dry vans in the U.S. in August compared to July, not including fuel surcharges. The fuel surcharge for vans rose from \$0.45 to \$0.49 during the same period, so the average total rate

per mile slipped only three cents, from \$1.86 to \$1.83. Spot market rates are paid by freight brokers and other intermediaries to the carrier.

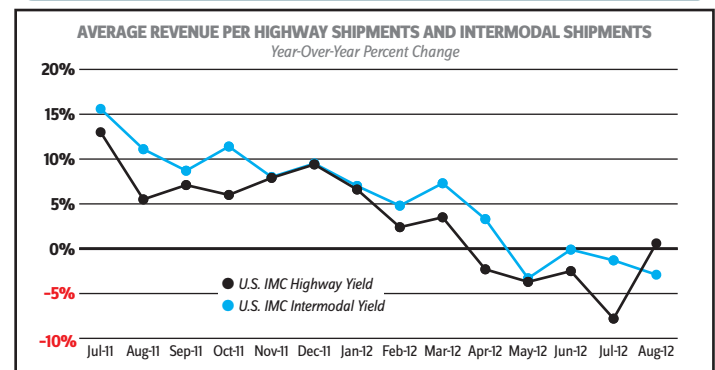
The softening rate was accompanied by a 2.5% increase in load availability and a 17% decline in truck capacity, month over month, on the company's DAT Load Boards. The result was a 12% dip in the load-to-truck ratio for dry vans on the spot market, from 3.0 available loads per truck in July to 2.6 in August. This change is typical for the season.

On a year-over-year basis, load volume for vans in August was up 22% compared to the corresponding month of 2011, while capacity increased 20%. The resulting load-to-truck ratio rose 1.7% compared to August 2011.

Spot market rates rose \$0.03 (2.3%) compared to August 2011, not including fuel surcharges. When fuel is included, the total rate increased by \$0.05 (2.8%) from \$1.78 in August 2011 to \$1.83 last month.

RAIL

- U.S. rail intermodal traffic advanced in August for the 33rd straight month
- U.S. rail transportation of lumber jumps on modest housing market recovery



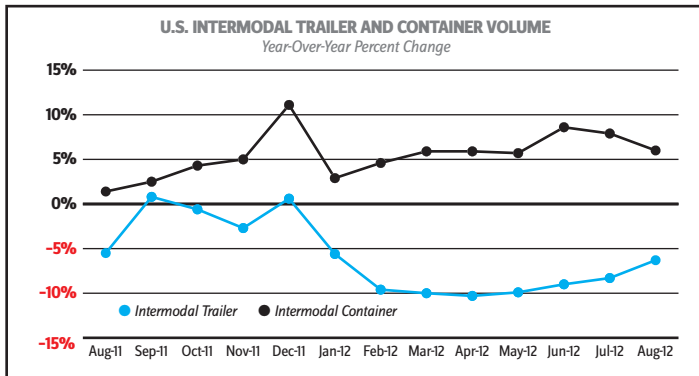
Source: Intermodal Association of North America (IANA)

AUGUST 2012: AVERAGE REVENUE PER HIGHWAY SHIPMENTS UP 0.6%; AVERAGE REVENUE PER INTERMODAL SHIPMENTS DOWN 2.9%

The average revenue per highway load edged up by 0.6% YoY to \$1,431, following a decline of 7.8% in the prior month. This marks its first YoY increase in the last 5 months in average revenue per highway load. From July to August, the average revenue edged up 0.2% (or \$3).

The average revenue per intermodal load fell in August YoY for the 4th successive month, down 2.9% to \$2,571. From July to August, the average revenue declined 2.1% (or \$56).

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

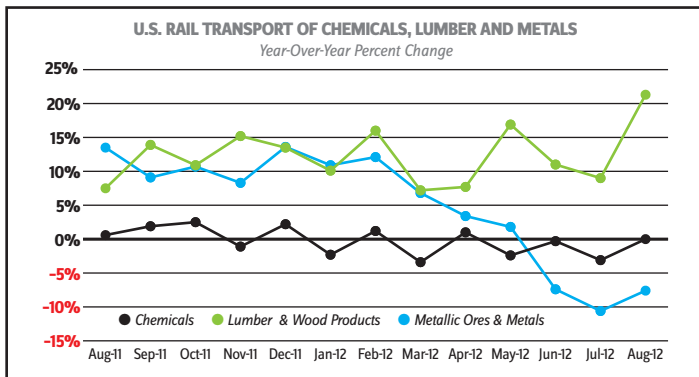


Source: Association of American Railroads (AAR)

AUGUST 2012: INTERMODAL TRAILERS DOWN 6.3%; INTERMODAL CONTAINERS UP 6.0%

U.S. railroads originated 150,112 trailers and 1,080,880 containers in August. Intermodal containers expanded 6.0% YoY, following an advance of 7.9% in July. Intermodal trailers dropped 6.3% YoY after falling by 8.3% the prior month. Intermodal trailers have now declined for 8 consecutive months to August.

Intermodal traffic grew 4.3% (51,145 containers and trailers) in August 2012 over August 2011, marking its 33rd successive year-over-year monthly increase. On a seasonally adjusted basis, U.S. rail intermodal traffic slid 0.4% in August over the prior month.



Source: Association of American Railroads (AAR)

AUGUST 2012: LUMBER UP 21.3%; CHEMICAL FLAT; METALS DOWN 7.6%

U.S. chemical carloads stayed flat YoY in August, to a total of 146,678 following a drop of 3.1% in the preceding month.

Growth in U.S. lumber and wood products carloads jumped 21.3% YoY in the month, to a total of 16,371, marking its 16th consecutive year-over-year monthly advance.

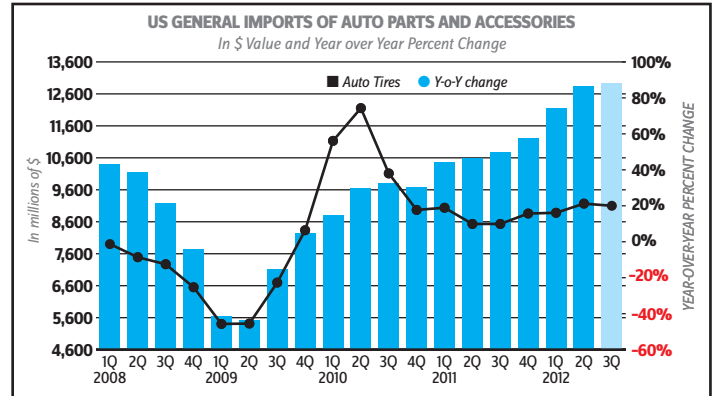
Growth in metallic ores & metals carloads contracted for the third running month, down 7.6% YoY in the month after a drop of 10.6% in July.

A slowly recovering housing market is boosting transportation of lumber.

COMMODITY SNAPSHOT

- ▶ Auto parts imports on the uptrend, driven by manufacturing
- ▶ Mexico is largest supplier by dollar value; China is largest supplier by volume

Selected Commodities: Auto Parts



Source: US International Trade Commission

AUTO PARTS IMPORTS UP FOR 3 CONSECUTIVE YEARS

US general imports of auto parts by dollar value have expanded for 12 consecutive quarters year over year to 2Q12, and we estimate 20.0% YoY growth for 3Q12 imports. For the first half of 2012, imports were up by 18.7%, which compared favorably with the first half of 2011 growth of 14.2%.

The largest supplier of auto parts to the US in dollar value (2005 prices) is Mexico, with \$9.4 billion in trade through July and holding a sourcing share of 28%, unchanged from 2011. Japan follows with a 18% share, up by 3 percentage points from 2011 helped by easy year-over-year comparison due to supply disruptions resulting from the March 2011 earthquake. Canada ranked number three, with a sourcing share of 16%, down by 1 percentage point, while China ranked number four, with a sourcing share of 11%, down by 1 percentage point.

In TEUs, from January through August, China is the largest supplier, with a total of 140,000 fully loaded containers and a sourcing share of 26%, down by 1 percentage point from 2011.



Source: US International Trade Commission

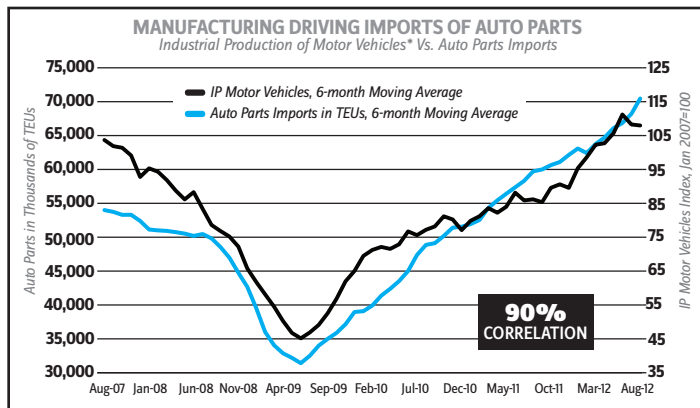
CHINA RAPIDLY ASCENDED IN THE RANKING OF AUTO PARTS SUPPLIERS TO THE US

On September 17, the United States filed a complaint against China for assisting its auto parts exporters with at least \$1 billion in subsidies during the

years 2009 through 2011. The data shows that China rapidly ascended in the supplier rankings, from the 8th place in 2000 to the 5th place in 2003 to the 4th place in 2007. China is still today the fourth largest supplier of auto parts in dollar value to the U.S., after Mexico, Japan, and Canada.

The reason behind this unusual growth is that many domestic parts manufacturers that produced low-value added products, such as filters and brakes, have outsourced these activities to foreign firms since it's highly challenging to compete with low-wage producers like China. Most Chinese auto parts exported to the US include wheels and brakes.

In the last 10 years to 2011, auto parts imports from China expanded at a compound annual growth rate of 26%.



PIERS; US Federal Reserve

MANUFACTURING: KEY DRIVER OF AUTO PARTS IMPORTS

The graph above shows the existing strong correlation between industrial production of motor vehicles and containerized auto parts imports in the last 5 years. At 90% correlation, one could argue that a large slice of the import trade pie is used for motor vehicle production while the smaller slice is used for aftermarket needs. PIERS as well as government data don't make references in regards to the uses, but it's clear that the manufacturing sector is a major driver of auto parts imports.

And what drives motor vehicle manufacturing?: domestic sales and exports. Although auto exports have slowed, most notably to Europe, domestic auto sales continue posting solid gains due to pent-up demand. Edmunds.com estimates autos and light truck sales will grow by 13% in 2012 to a total of 14.4 million units, and projects growth of 4.2% in 2013 to a total of 15 million units. Nevertheless, the projections are still well below the peak, seen in 2000 when

sales totaled 17.3 million units, according to US Department of Commerce data.

Given the positive outlook on autos sales, and assumptions on exchange rates, oil prices, and other variables, auto parts imports in dollar value are projected to grow by 18% in 2012 and 3% in 2013. Containerized auto parts imports are projected to expand by 16% in 2012 and 5% in 2013.

Top Commodities: Europe

TOP IMPORTS FROM NORTHERN EUROPE AND MEDITERRANEAN, AUGUST 2012					
RANK	COMMODITIES	TEUs	MoM	YOY	YTD
1	AUTO PARTS	13,695	-9%	-14%	-7%
2	BEER & ALE	8,532	-6%	15%	2%
3	FURNITURE	6,789	-20%	-22%	-34%
4	STILL WINES	6,244	42%	-2%	-5%
5	NON ALCOHOLIC BEVERAGES	4,793	1%	14%	3%
6	PAPER & PAPERBOARD, INCL WASTE	4,566	9%	3%	-7%
7	HOUSEHOLD GOODS	4,410	29%	42%	-12%
8	VEGETABLES	3,815	0%	123%	90%
9	AUTO & TRUCK TIRE & TUBES	3,697	1%	21%	-39%
10	MACHNRY MISC, CASSETTE PLAYERS	2,986	21%	27%	7%

Source: PIERS

Top U.S. Imports from North Europe and Med in TEUs: August 2012

'Auto parts' was the top containerized import commodity from Northern Europe and Mediterranean in August 2012, totaling 15,856 TEUs, up 25% from August 2011.

TOP US EXPORTS TO NORTHERN EUROPE AND MEDITERRANEAN, JULY 2012					
RANK	COMMODITIES	TEUs	MoM	YOY	YTD
1	PAPER & PAPERBOARD, INCL WASTE	13,695	-9%	-14%	-7%
2	WOOD PULP	8,532	-6%	15%	2%
3	AUTOMOBILES	6,789	-20%	-22%	-34%
4	HOUSEHOLD GOODS	6,244	42%	-2%	-5%
5	AUTO PARTS	4,793	1%	14%	3%
6	SYNTHETIC RESINS, NSPF	4,566	9%	3%	-7%
7	VINYL ALCOHOL, PVC RESINS	4,410	29%	42%	-12%
8	POULTRY, CHIEFLY FRESH & FROZEN	3,815	0%	123%	90%
9	FABRICS, INCL. RAW COTTON	3,697	1%	21%	-39%
10	UNCLASSIFIABLE CHEMICALS	2,986	21%	27%	7%

Source: PIERS

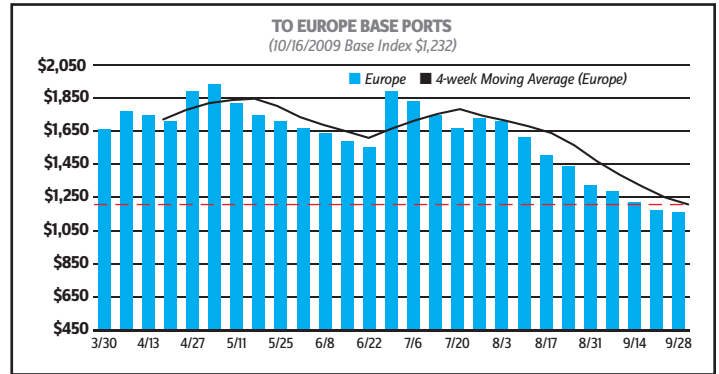
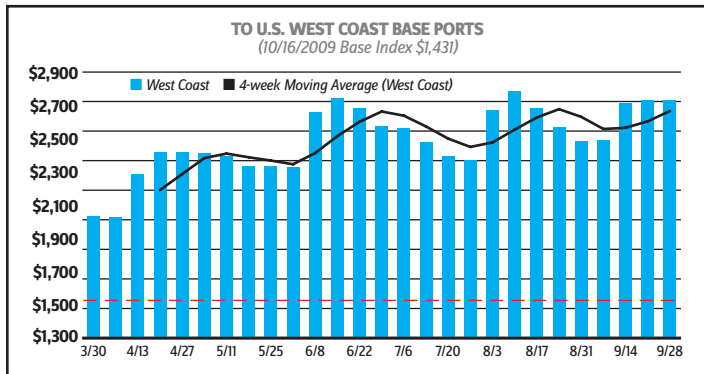
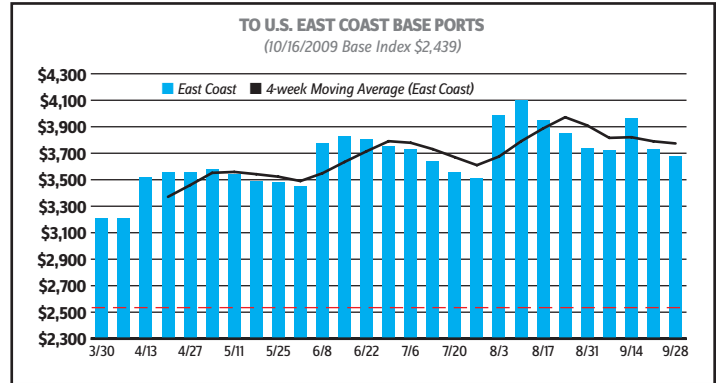
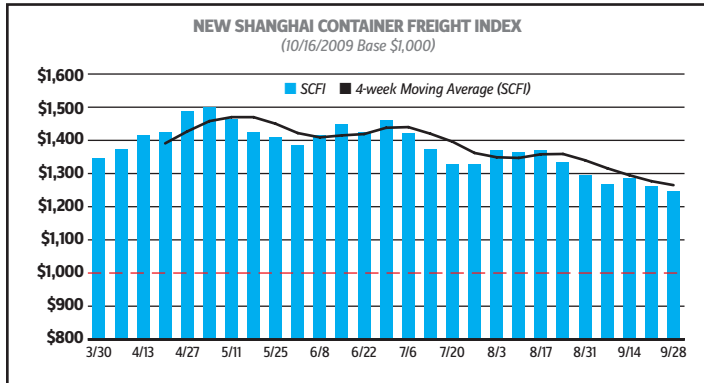
Top U.S. Exports to North Europe and Med, in TEUs: July 2012

Paper & paperboard (inc. waste) was the top containerized export commodity to Northern Europe and Mediterranean in July 2012, totaling 13,695 TEUs.

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, SAUDI ARABIA, SYRIA, UNITED ARAB EMIRATES, YEMEN **OCEANIA** AUSTRALIA, FRENCH PACIFIC IS, NEW ZEALAND, OTHER PACIFIC IS, PAPAUA 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 decline on weaker East Coast volumes, Europe

THE SHANGHAI CONTAINERIZED FREIGHT INDEX DOWN 1.0% ON SEPTEMBER 28 FROM PRIOR WEEK

The Shanghai containerized freight index, which measures export average spot rates, fell 1.0% on September 28 over the prior week to 1,247.34 points. The index stood below its 4-week moving average for 6 consecutive weeks, mostly owed to declining East Coast and Europe volumes.

On September 28, 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 \$2,730/FEU and \$3,677/FEU, up by \$3 and down by \$55 from the preceding week, respectively. U.S. containerized imports from Asia dropped 3.6% YoY in August, after jumping by 7.7% YoY in July.

In the Europe service, freight rates fell for the 9th straight week as economic conditions in Europe remain fragile. On September 28, the freight rate for the voyages from Shanghai to base ports in Europe fell 1.2% (or \$14) over the preceding week to \$1,158. **JOCINSIGHTS**

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