

JOC INSIGHTS

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

THE IMPROVEMENT IN THE U.S. economy historically serves to lift the broader world economy through “repercussion effects.” The implication is that as the U.S. economy expands, its demand for imports from the rest of the world rises, raising global output and employment. This time, such an outcome is less apparent. The U.S. economic recovery is based partially but significantly on a weaker U.S. dollar that has made imports less attractive relative to domestically produced goods and exports more attractive to the rest of the world. Moreover, the U.S. dollar exchange rate has made feasible the “on-shoring” of production. While small in relation to the overall economy, it does suggest the beginnings of a broader trend. And while some measure of dollar strength will return, we do not foresee a dramatic uptick. The global economy cannot therefore depend on U.S. demand for its health, but must either seek other export markets or look inward.

Rising demand for the U.S. dollar in the first quarter and ongoing sluggishness in key emerging markets including China, Brazil and India held back the prevailing trends driving the U.S. containerized export market. With respect to exchange rates, the U.S. dollar gained 1.5 percent on a trade-weighted basis against a broad range of global currencies as investors purchase dollars and sell foreign exchange in anticipation that the onset of Fed tapering will boost returns on U.S. government securities.

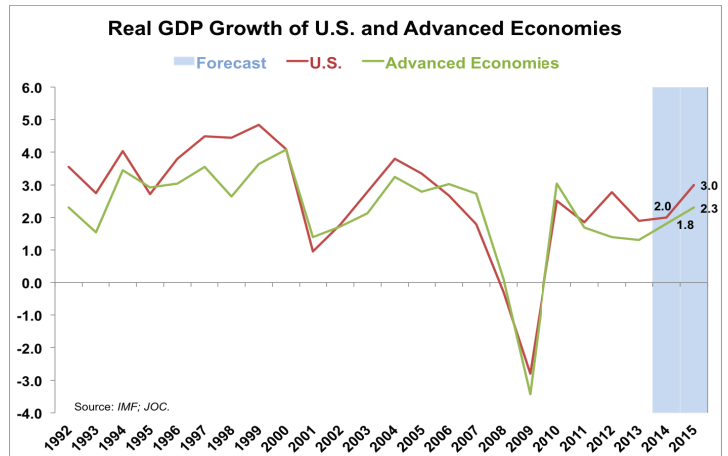
Global economic weakness, particularly in China, was an added burden for U.S. exporters. Output in China increased 7.4 percent in first quarter 2014, an overheated expansion for most countries, but a relatively poor performance for China. Although larger than forecast, China’s growth was 0.3 percentage points below the last quarter of 2013, suggesting further deceleration going forward. A sluggish performance in the first quarter is not unexpected for China as the Lunar New Year holiday briefly shuts down many businesses and factories. However, reports of weakness in the manufacturing and industrial sectors are raising fears that the Chinese economy is in for a prolonged slowdown.

This issue of JOC Insights presents my most updated forecasts on the North-South-North container trade, and a special analysis of U.S. computer imports. In the next issue of Insights, I will report on the trans-pacific container trade and new forecasts.

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

THE SHIPPING ECONOMY

- ◆ **IMF downgraded U.S. growth outlook, partly because of poor 1Q performance.**
- ◆ **Asia-Europe westbound trade expands further in April.**
- ◆ **Global manufacturing advanced in May on rising output.**
- ◆ **Housing market is adding to economic growth in second quarter.**
- ◆ **U.S. retail sales post further gains in May, while U.S. imports via ocean container expanded almost 6 percent year-over-year in May.**



IMF DOWNGRADES U.S. GROWTH PROJECTION ON POOR FIRST QUARTER PERFORMANCE

In a recent statement, the International Monetary Fund sharply downgraded its U.S. growth outlook for the year from 2.8 percent to 2.0 percent, partly because of poor first quarter activity. The U.S. economy is gaining momentum in the second quarter as evidenced by the strong industrial production numbers. However, the economy is not expected to return to full employment of close to 5 percent until the end of 2017. This is because the labor market still copes with persistent high long-term unemployment and low labor force participation. Under such a scenario, the Fed’s benchmark interest rate could stay near zero past the mid-2015 date previously estimated by the Fed. For 2015, the IMF kept its growth projection of 3.0 percent for the U.S.

While some countries (notably Belgium and the U.K.) have witnessed a modest improvement in economic growth in the region, overall consumer spending and business investment are growing at a slower pace now than one year ago. Moreover, a generally risk adverse environment combined with decelerating price growth in the EU have caused banks to hold back on lending and consumers to delay purchases of big-ticket items. In an effort to encourage new activity, spur target-range inflation and guard against the possibility of deflation, the European Central Bank recently introduced a negative overnight interest rate for bank deposits — a measure that met with mixed results when previously implemented in Sweden and Denmark.

For 2014 and 2015, advanced economies are projected to increase 1.8 and 2.3 percent, respectively.

GLOBAL MANUFACTURING

	MAY-14	APR-14	MOM	DIRECTION, RATE OF CHANGE
US PMI	55.4	54.9	0.5	GROWING, FASTER RATE
NEW ORDERS	56.9	55.1	1.8	GROWING, FASTER RATE
INVENTORIES	53	53.0	0.0	GROWING, SAME RATE
CHINA PMI	49.4	48.1	1.3	GROWING, FROM CONTRACTING
GLOBAL PMI	52.2	51.9	0.3	EXPANDING, FASTER RATE

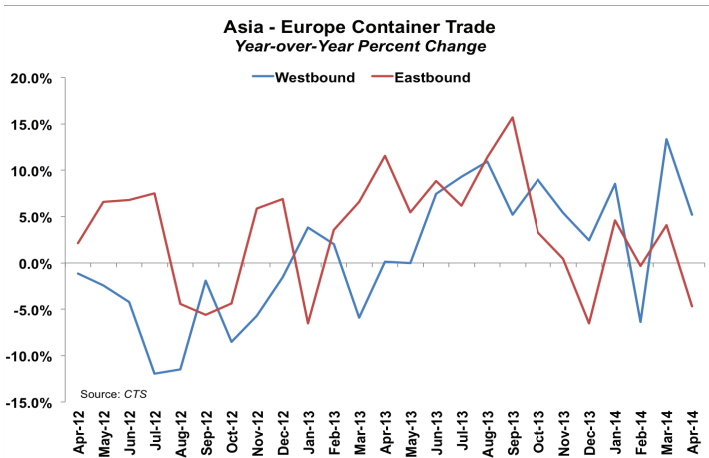
Source: Institute for Supply Management; Markit; HSBC; JPMorgan

GLOBAL MANUFACTURING ACTIVITY EXPANDED AT FASTER RATE

The global manufacturing sector expanded in May at a faster rate as output increased in response to rising new orders and international trade volumes. The U.S., the U.K., and the Czech Republic registered the sharpest rates of output growth in May, while the rate of increase in eurozone production stood solid. In Asia, production decline in China, South Korea and Japan, but advanced in India, Taiwan, Indonesia and Vietnam. Because of the strengthening of the sector, staffing levels rose in May for the 10th straight month.

In the U.S., the manufacturing sector grew at a faster rate, according to the Institute of Supply Management, with new orders at a very solid 56.9 reading, up from 55.1, indicating faster manufacturing activity this summer. Employment is soft, while inventories stood unchanged at 53.0.

Tracking economic data such as the ISM manufacturing index is important because the manufacturing sector is a major source of cyclical variability in the economy, with tremendous influence over transportation and trade.



APRIL'S ASIA-EUROPE WESTBOUND TRADE CLOSE TO PROJECTIONS

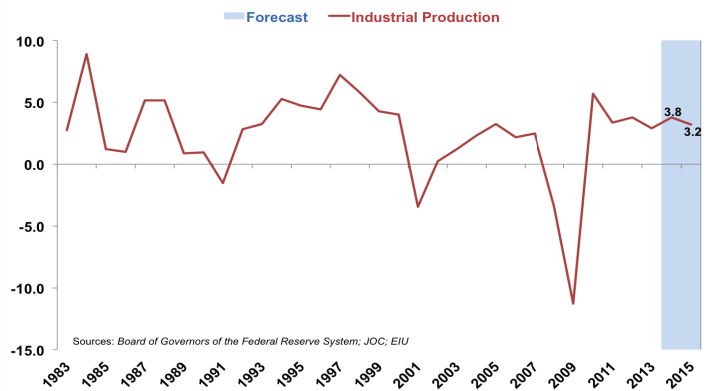
Asia exports to Europe in April were very close to forecast, up 5.2 percent year-over-year versus my projection of 5.8 percent growth. Year-to-date, through April, the westbound leg was up 5.8 percent and totaled 4.8 million TEUs.

Economic activity in the eurozone was positive in the first quarter, but at 0.7 percent annualized, it baffled expectations and marked a deceleration relative to the 1.0 percent pace at the end of 2013. In the westbound leg of the Asia-Europe trade, I am expecting year-over-year growth of 6.4 and 1.8 percent for May and June 2014, respectively.

Europe exports to Asia declined 4.7 percent in April year-over-year after expanding 4.1 percent in March. The contraction is partly attributed to the persistent weakness in China's economic activity.

Year-to-date through April, the eastbound trade was up only 0.9 percent. For May and June, I am projecting growth of 0.8 percent and a decline of 1.7 percent, respectively, year-over-year.

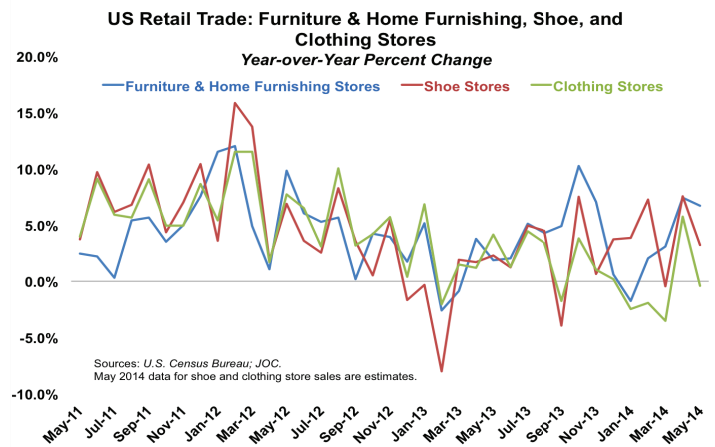
U.S. Industrial Production Outlook Annual Growth Rate



U.S. INDUSTRIAL PRODUCTION REBOUNDED IN MAY

U.S. industrial production rebounded in May, led by manufacturing and mining. Industrial production grew 0.6 percent in May, following an upwardly revised dip of 0.3 percent in April. By major components, manufacturing jumped 0.6 percent after dipping 0.1 percent in the prior month, and when excluding motor vehicles, manufacturing rose 0.5 percent. Mining rose 1.3 percent in May, while utilities dropped 0.8 percent. For all of 2014, industrial production is forecast to increase 3.8 percent, recently upgraded from 3.4 percent.

Capacity utilization in May rose to 79.1 percent from 78.9 percent in April.



U.S. RETAILERS SAW FURTHER GAINS IN MAY

U.S. retail and food services sales in May rose 0.3 percent from April seasonally adjusted, following an upwardly revised increase of 0.5 percent. Strong gains were seen in motor vehicles, which jumped 1.4 percent in the month; excluding motor vehicles, sales edged up 0.1 percent but followed an upwardly revised gain of 0.4 percent in April.

In the core, furniture sales expanded year-over-year in May for the fourth consecutive month as home sales modestly improved (page 3). U.S. furniture imports via ocean container rose 1.0 percent year-over-year in May after rising 4.0 percent in April. I estimate sales at shoe stores expanded 3.2 percent in May year-over-year after rebounding 7.6 percent in April. Meanwhile, sales at clothing stores may have slid in May after rebounding strongly 5.7 percent in the prior month. U.S. imports of women's and children's apparel dipped 1 percent in May year-over-year.

The retail inventory-to-sales ratio stood unchanged in April over March at 1.42, but was up by 0.02 points year-over-year.

U.S. HOUSING MARKET

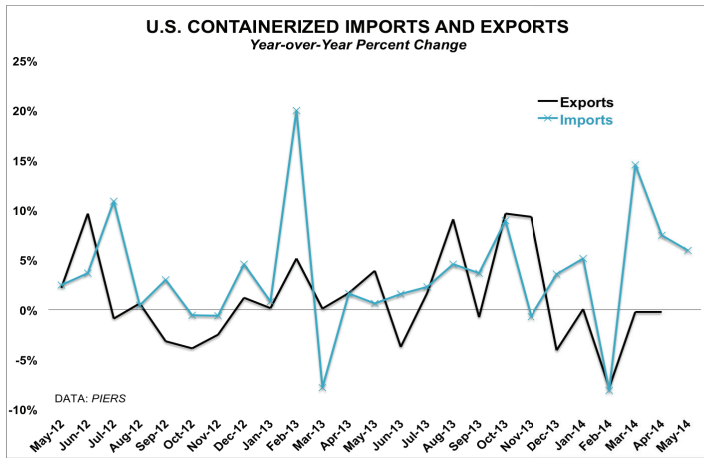
	MAY-14	MOM	YOY	YTD	2014(F)
EXISTING HOME SALES	4,890	4.9%	-5.0%	-6.0%	-6.0%
NEW HOME SALES	504	18.6%	16.9%	0.0%	9.0%
HOUSING STARTS	1,001	-6.5%	9.4%	5.0%	9.0%

Source: US Department of Commerce; NAR; JOC Forecast • *In Thousands of Units, Seasonally Adjusted Annual Rate

EXISTING HOME SALES IMPROVE, BUT 2014 OUTLOOK STILL LOOKS GRIM

Existing home sales strengthened further in May, suggesting the housing market is now adding to economic growth. Sales increased 4.9 percent in May on top of April's upwardly revised gain of 1.5 percent. Supply at the current sales rate eased a little in the month from 5.7 to 5.6 months; however, it still remains high by historical standards. Prices continued to increase, possibly linked to a contraction in distressed home sales; nevertheless, strong prices did not hold back sales in May. Despite solid gains in April and May, the outlook for existing home sales this year continues to look grim. However, I have modestly upgraded the 2014 forecast for existing home sales from minus-9 percent to minus-6 percent.

Housing starts contracted 6.5 percent in May but followed three consecutive monthly increases. The sector, however, is still trending upward with year-to-date growth of 5 percent. Overall permits also disappointed in the month, falling 6.4 percent but compared to a strong April gain of 5.9 percent. For all of 2014, I still expect housing starts will grow 9 percent, which is good for rail transportation of logs and lumber and overall economic activity.



	MAY-14	APR-14	YOY	YTD	2014(F)	2015(F)
IMPORTS	1,628	1,584	5.9%	4.8%	6.1%	7.0%
EXPORTS	N/A	1,018	-0.2%	-2.1%	-0.7%	3.5%

Source: PIERIS; JOC Container Shipping Outlook, June 2014 • *In Thousands of TEUs

SOLID GAINS FOR U.S. CONTAINERIZED IMPORT TRADE IN MAY

U.S. containerized imports via ocean advanced almost 6 percent year-over-year in May, partly because of fast-forwarding of shipments as beneficial cargo owners seek to avoid a potential disruption at West Coast ports tied to longshore labor negotiations.

Among the top 25 source countries, imports from Australia saw the biggest volume increase, up 35 percent or 2,468 TEUs year-over-year. Turkey and Spain followed with growth of 33 and 23 percent, respectively, while mainland China saw an increase of 8 percent. On the downside, U.S. imports from Brazil and Honduras contracted 19 and 14 percent,

respectively.

Gains among the top 25 imports were mostly seen in miscellaneous plastic products, up 44 percent; fabrics, including raw cotton, up 44 percent; and bags, up 32 percent. On the downside, losses were seen in menswear, miscellaneous apparel and sheets.

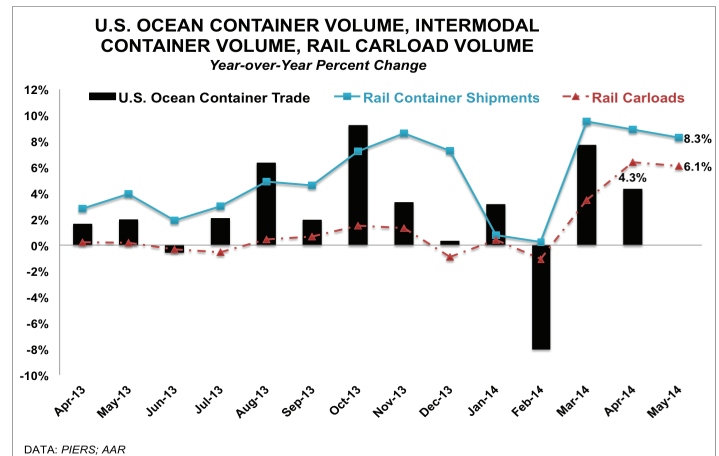
Imports continue to move upward as consumer spending improves and the economy keeps adding more jobs. For the second quarter of this year, I am expecting growth of 5.3 percent year-over-year, and for all of 2014, I am forecasting growth of 6.1 percent, for a total of 19.0 million TEUs — a new peak for containerized imports.

Overall U.S. containerized exports via ocean edged down 0.2 percent year-over-year in April to 1,018,484 TEUs on slower global demand.

Among the top 25 exports, most year-over-year losses were seen in medical equipment, industrial resins and fabrics. On the upside, year-over-year gains were seen in field seeds and bulbs, miscellaneous plastic products and furniture.

Among the top 25 export markets, shipments to Turkey and Brazil declined the most in March, each down 12 percent year-over-year. Hong Kong and Australian markets followed with losses of 10 and 6 percent, respectively. On the upside, exports to the U.K. and Belgium jumped 19 and 14 percent, respectively.

I've downgraded the 2014 outlook of U.S. containerized exports from plus-1.8 percent to minus-0.7 percent, partly because of poor first quarter volume. The recovery in the eurozone continues to be very fragile, while developing economies remain vulnerable to monetary policy normalization in advanced economies.



RAIL TRAFFIC ADVANCES MARKEDLY IN LIGHT OF IMPROVING ECONOMIC ACTIVITY

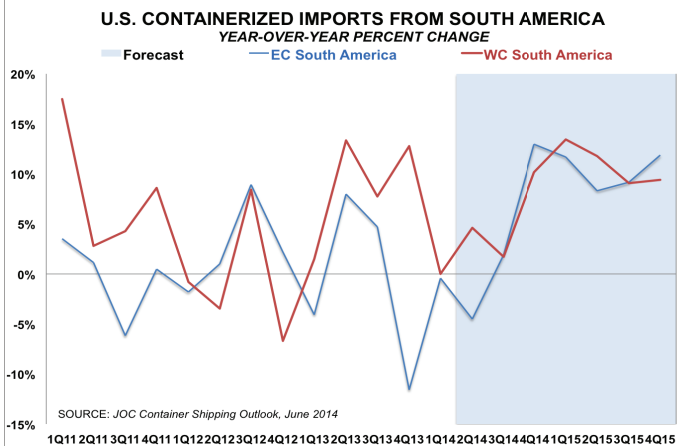
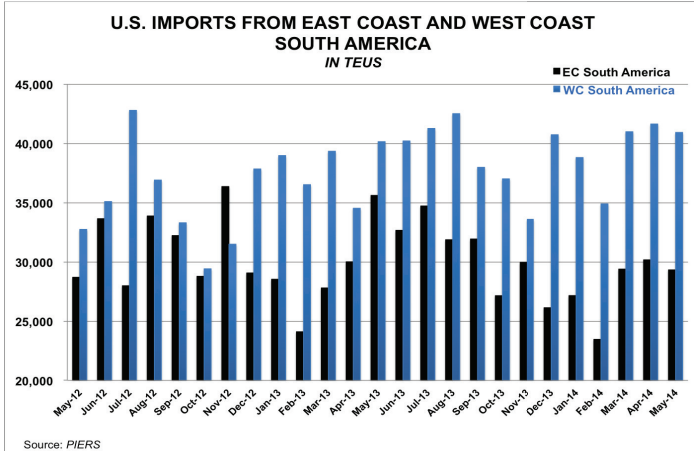
As expected, U.S. ocean container trade expanded further in April, mostly led by inbound traffic. I expect the trade to rise again in May, as suggested by the solid container traffic figures posted by the West Coast ports and May rail traffic.

Rail container shipments strengthened further in May, expanding 8.3 percent year-over-year, while rail carloads increased 6.1 percent in the same month. Rail and container traffic suggest economic activity has improved in the second quarter.

REGIONAL CONTAINER TRADE

- ◆ U.S. imports from east coast South America to grow almost 2.2 percent this year.
- ◆ U.S. exports to east coast South America declined for sixth straight month.

IMPORTS FROM SOUTH AMERICA



IMPORTS, MAY 2014

TRADE LANE	TEUS	MOM	YOY	YTD	2014(F)	2015(F)
EC SOUTH AMERICA	29,338	-2.8%	-17.7%	-4.5%	2.2%	10.2%
WC SOUTH AMERICA	40,949	-1.7%	1.9%	4.1%	4.0%	10.9%

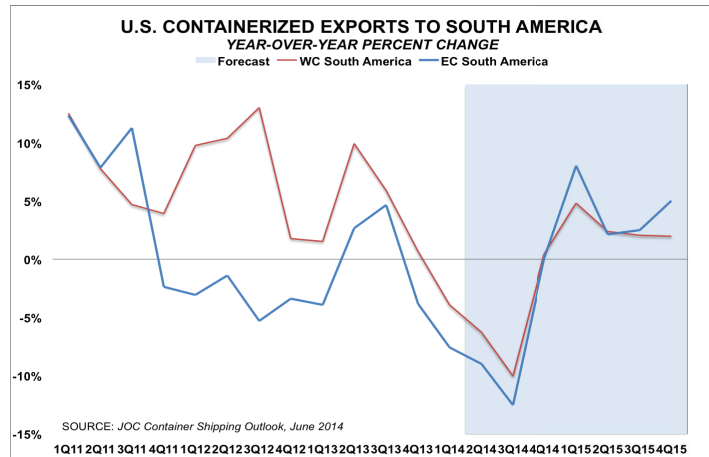
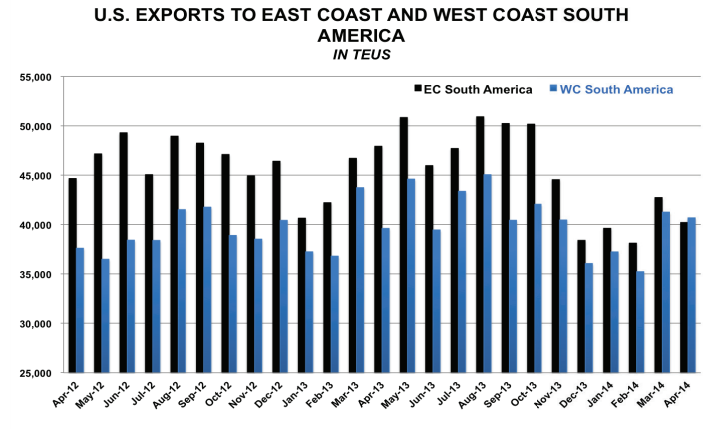
Source: JOC-PIERS Container Shipping Outlook June 2014 issue

Inbound trade from the east coast of South America totaled 29,338 TEUs in May, down 17.7 percent year-over-year. Losses were mostly seen in granite, wood pulp and scrap paper. Year-to-date through May, imports were down 4.5 percent.

Based primarily on the better-than-expected first quarter performance for this trade, and secondarily on the stronger U.S. dollar, I am revising higher my predictions for growth during the remainder of the year, but reducing the 2015 forecast. This trade will continue to be restricted by poor coffee output in Brazil, unresolved political unrest in Venezuela and slower than expected, though still robust, U.S. housing and auto sales. Growth in auto parts will remain negative, but we now expect modest growth in forest products and other housing construction inputs.

Imports from the west coast of South America advanced year-over-year in May for the third consecutive month. Year-to-date, imports were up 4.1 percent and totaled 197,358 TEUs.

EXPORTS TO SOUTH AMERICA



EXPORTS, APRIL 2014

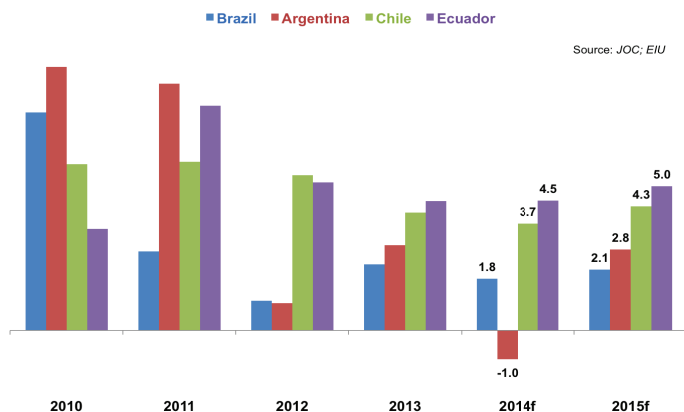
TRADE LANE	TEUS	MOM	YOY	YTD	2014(F)	2015(F)
EC SOUTH AMERICA	40,225	-5.9%	-16.1%	-9.5%	-7.4%	4.3%
WC SOUTH AMERICA	40,698	-1.4%	2.7%	-1.9%	-5.1%	2.8%

Source: JOC-PIERS Container Shipping Outlook June 2014 issue

Southbound shipments to the east coast of South America declined in May year-over-year for the sixth consecutive month. Industrial resins and auto parts led losses. Year-to-date through April, exports were down 9.5 percent and totaled 160,738 TEUs. Increasingly sluggish output growth in this region will impose strict limits on the southbound container trade through the remainder of 2014. Moreover, the boost in trade to Brazil, derived from World Cup-related inputs, will end in the second quarter, leaving no choice but to revise lower the projection for the region. I am now predicting a 7.4 percent decline in traffic to the east coast of South America during 2014, 5.0 percentage points below the March 2014 forecast. I expect a modest recovery in 2015, but economic conditions in the region will remain relatively unfavorable for U.S. exporters.

Exports to the west coast of South America rose in April year-over-year after declining for two consecutive months. Year-to-date, exports were down 1.9 percent.

GDP Forecasts for Brazil, Argentina, Chile, and Ecuador



The Brazilian real will begin to lose value against the U.S. dollar toward the end of 2014. While the Argentine peso will continue to struggle with falling confidence during the year, I am expecting that policy intervention will restore some of its value in 2015 and lead the trade to a stable expansion beginning that year.

Chile's open economy is exposed to global developments, and as the Chinese economy decelerates, growth demand will slow and soften prices of Chile's mineral exports.

TOP COMMODITIES: SOUTH AMERICA

TOP U.S. IMPORTS FROM SOUTH AMERICA IN TEUS: MAY 2014

RANK	COMMODITIES	TEUS	MOM	YOY	YTD
1	BANANAS	8,000	2%	-9%	-5%
2	FRUITS,MISC	5,763	-17%	-22%	-5%
3	LOGS&LUMBER	3,434	-5%	-6%	-1%
4	COFFEE	2,884	14%	-12%	-3%
5	STILL WINES	2,525	6%	-3%	4%
6	AUTO&TRUCK TIRE&TUBES	2,306	9%	12%	6%
7	VENEERS&PLYWOOD	2,232	35%	1%	3%
8	PAPER&PAPERBOARD,W/WASTE	1,761	-11%	-29%	-2%
9	GRANITE	1,706	-3%	-47%	-34%
10	BOARDS	1,547	-4%	17%	13%

Source: PIERIS

TOP U.S. EXPORTS TO SOUTH AMERICA IN TEUS: APRIL 2014

RANK	COMMODITIES	TEUS	MOM	YOY	YTD
1	PAPER&PAPERBOARD,W/WASTE	5,496	-8%	-13%	-2%
2	AUTO PARTS	3,549	3%	-29%	-31%
3	PLASTIC PRODS, MISC	2,833	0%	29%	32%
4	SYNTHETIC RESINS,NSPF	2,494	-20%	-33%	-18%
5	VINYL ALCOHOL,PVC RESINS	2,467	1%	-31%	-20%
6	WOOD PULP	2,413	-15%	6%	3%
7	PETROLEUM/CRUDE&FUEL OIL	1,735	-13%	568%	724%
8	GROCERY PRODS,MISC.	1,605	1%	-9%	-7%
9	PE,MELAMINE,UREA RESINS	1,499	0%	-47%	-47%
10	UNCLASSIFIABLE CHEMICALS	1,496	4%	-21%	-18%

Source: PIERIS

PORT TRAFFIC

- ◆ Port of Los Angeles was the top U.S. port through April, with laden volume expected to grow moderately faster this year.
- ◆ Port of Shanghai was China's top port through April with total volume of approximately 11.2 million (fully loaded and empties) TEUs.

TOP 10 CONTAINER THROUGHPUTS OF U.S. MAJOR PORTS

RANK	NAME OF PORT	In April 2014		Unit: 1000 TEU		
		CURRENT MONTH	YOY CHANGE (%)	YTD	2014 (F)	2015 (F)
1	LOS ANGELES	514	10.8%	1,912	5,960	6,322
2	LONG BEACH	412	0.2%	1,554	5,068	5,363
3	NEW YORK	349	0.1%	1,332	4,341	4,609
4	SAVANNAH	201	2.4%	814	2,483	2,624
5	VIRGINIA PRTS	163	10.8%	619	1,923	2,029
6	OAKLAND	140	6.9%	526	1,651	1,735
7	HOUSTON	137	4.0%	524	1,594	1,675
8	CHARLESTON	122	14.1%	460	1,342	1,412
9	TACOMA	117	11.4%	435	1,374	1,448
10	SEATTLE	70	-19.8%	264	890	940

Source: PIERIS. Figures are rounded. Data represents fully-loaded container figures. Data is refreshed frequently.

Top 10 ports handled 85.2 percent of the total U.S. international container traffic through April, up 0.3 percentage points from 2013.

Container traffic at top-ranked Port of Los Angeles jumped 10.8 percent year-over-year in April as shippers moved goods early ahead of the July 1 expiration of the International Longshore and Warehouse Union contract.

For all of 2014, I expect laden volume growth of 4.1 percent at Los Angeles for a total TEU count of approximately 5.96 million.

TOP 10 CONTAINER THROUGHPUTS OF CHINA'S MAJOR PORTS

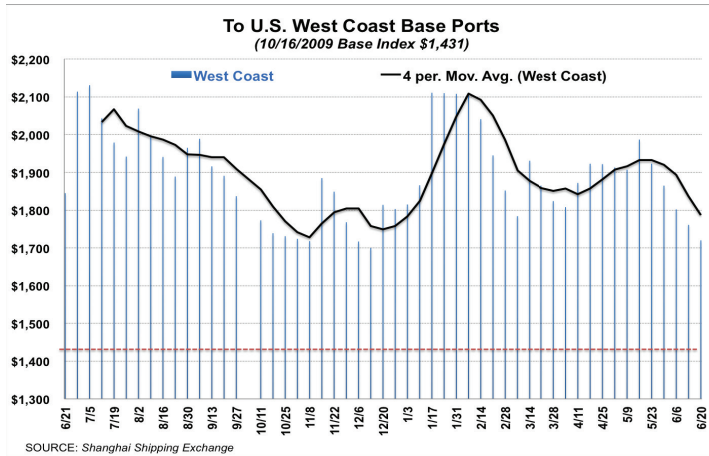
RANK	NAME OF PORT	In April 2014		TOTAL THOUGHTPUT IN 2014
		CURRENT MONTH	YOY CHANGE (%)	
1	SHANGHAI (上海)	3,022	6.9%	11,188
2	SHENZHEN (深圳)	1,885	2.1%	7,082
3	NINGPO ZHOUSHAN (宁波-舟山)	1,644	20.4%	6,166
4	QINGDAO (青岛)	1,446	3.9%	5,599
5	GUANGZHOU (广州)	1,425	7.5%	4,939
6	TIANJIN (天津)	1,232	6.8%	4,407
7	DALIAN (大连)	812	6.6%	2,962
8	XIAMEN (厦门)	724	9.9%	2,590
9	LIANYUNGANG (连云港)	430	-5.3%	1,744
10	SUZHOU (苏州)	352	-33.8%	1,306

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

Container traffic at Port of Shanghai expanded in April, up 6.9 percent year-over-year, while traffic at Port of Shenzhen saw a year-over-year gain of 2.1 percent.

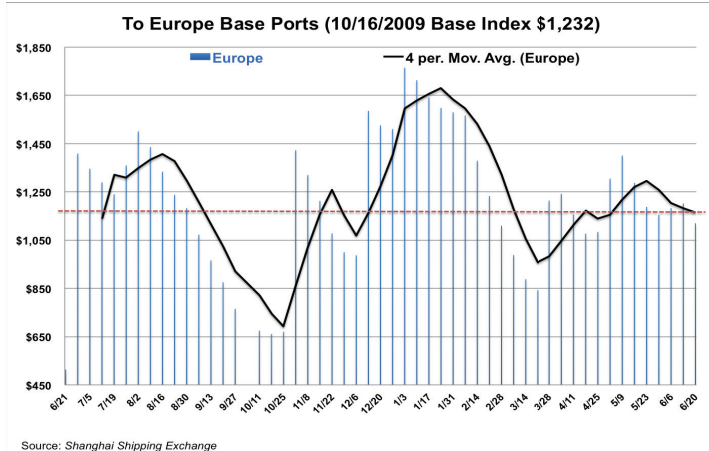
INTERNATIONAL SHIPPING PRICES

◆ **Despite decent volume increases in Shanghai-U.S. West Coast trade, downward pressure on freight rates persists.**



SHANGHAI-U.S. WEST COAST INDEX TRENDING DOWN

In the week ending June 20, the freight rate for the voyages from Shanghai to base ports on the U.S. West Coast was \$1,720 per FEU, down 2.3 percent (or \$41) from the prior week, and that followed four consecutive weeks of contraction as the May 15 general rate increase turned out to be unsuccessful. Transpacific Stabilization Agreement members have recommended a \$400-per-FEU peak season surcharge to be implemented at end of June. Rates from Shanghai to U.S. East Coast ports in the week ending June 20 declined 1.7 percent (or \$54) from the prior week, to \$3,214 per FEU.



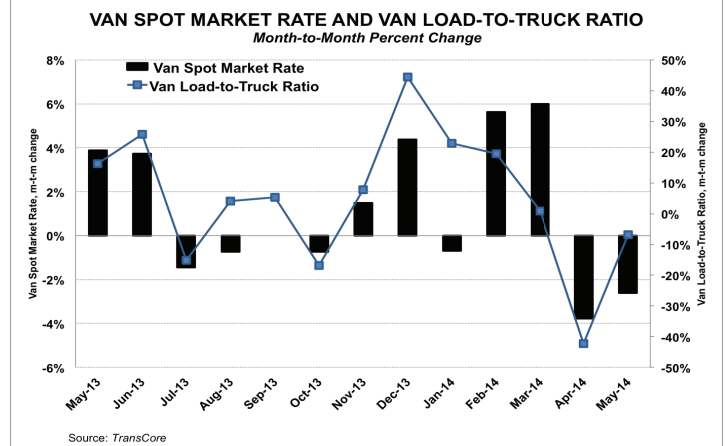
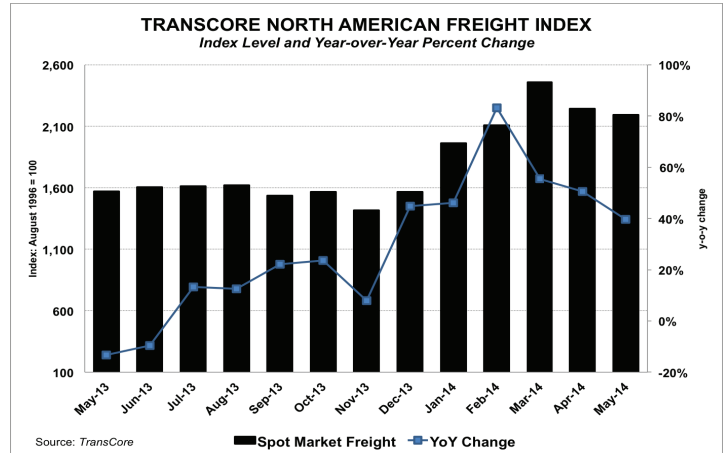
ASIA-EUROPE RATES TRENDING DOWN

On the Asia-Europe lane, the index rate from Shanghai to northern European ports fell 6.8 percent (or \$82) to \$1,120 in the week ending June 20, but followed two consecutive weeks of increases. Persisting overcapacity on this lane continues to exert downward pressure on freight rates, with carrier utilizations for the week at about 85 percent across the board. A number of carriers have announced a July GRI.

TRUCKING

◆ **Trucking freight volume at record highs.**

◆ **U.S. trade deficit with Mexico via truck widened to 17-month high.**



FREIGHT INDEX UP 39.7 PERCENT YEAR-OVER-YEAR IN MAY

Spot market freight availability as measured by the DAT North American Freight Index has run high since July 2013 because of various factors, including extraordinary weather events, regulatory changes and driver shortages. May 2014 numbers extend the trend; May was the 11th consecutive month for a year-over-year record high with a 40 percent increase over May 2013. Month-to-month, May freight volumes declined 2.1 percent from April.

Freight for vans, the predominant equipment category, was up 25 percent, refrigerated (reefer) freight increased 18 percent, and flatbed freight volume rose 85 percent compared to May 2013. Month-to-month van freight availability was fairly stable with a 1.0 percent decline, while reefer freight dropped 4.8 percent and flatbed volume lost 1.6 percent.

The increase in freight, together with capacity constraints, added pressure to rates. Compared to May 2013, van rates rose 18 percent, reefers added 20 percent and flatbeds commanded a 12 percent increase. Month-to-month, rates declined 2.0 percent for vans while reefers got a 3.4 percent rate increase and flatbed rates rose 1.1 percent.

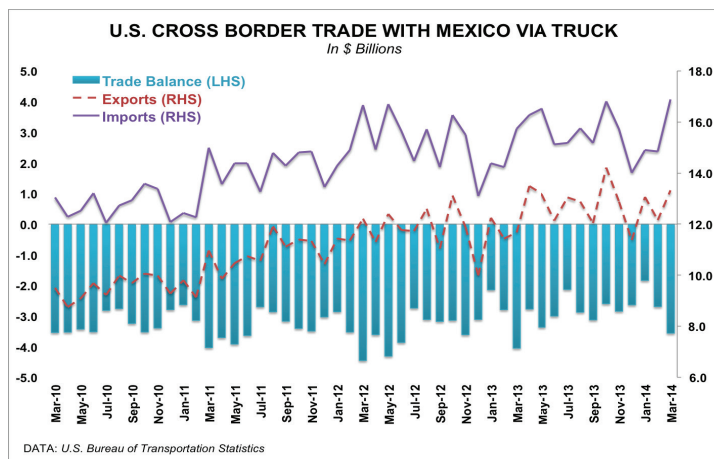
Van rates declined 4 cents (2.6 percent) month-to-month in May, re-

turning national average spot market rates closer to seasonal norms. Rates are derived from DAT RateView™, and do not include fuel surcharges. The average surcharge remained stable at 49 cents, so the total rate dropped 2.0 percent from \$2.02 to an average of \$1.98 per mile, including fuel.

Truckload freight availability dropped 1.0 percent, and capacity expanded 7.2 percent on the company's DAT Load Boards. This led to a 6.9 percent decline in the load-to-truck ratio for vans on the spot market, from 3.1 available loads per truck in April to 2.9 in May.

On a year-over-year basis, however, load volume rose 25 percent for vans in May, while capacity increased 4.8 percent. This combination indicates continuing strong demand in 2014, as the load-to-truck ratio was 20 percent higher than the 2.4 ratio of May 2013.

Van spot market rates rose 15 cents (11 percent) year-over-year, excluding fuel surcharges, which increased 2 cents (4.3 percent) during that period. The total rate, including the surcharge, increased 9.4 percent, from \$1.81 to \$1.98 per mile.



U.S. TRADE DEFICIT WITH MEXICO VIA TRUCK WIDENED IN MARCH TO 17-MONTH HIGH

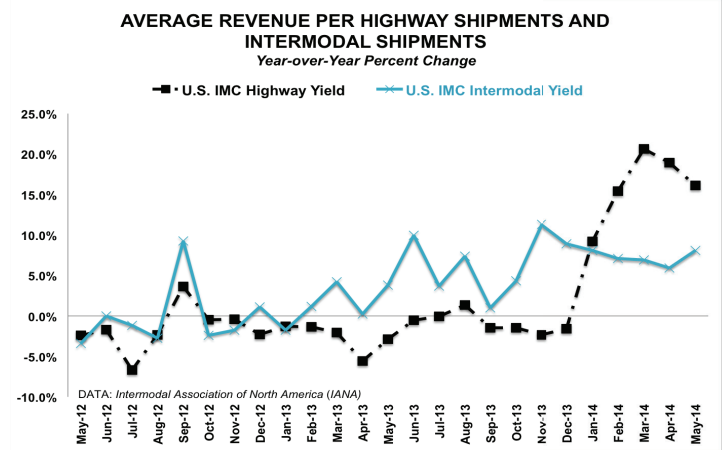
U.S. exports to Mexico via truck jumped 14.1 percent in March year-over-year, and totaled \$13.3 billion. Exports to the U.S. southern neighbor have expanded year-over-year for 12 consecutive months, reflecting the rebound in the Mexican economy that began in the third quarter. Year-to-date, through March, exports to Mexico via truck were up 9.0 percent.

U.S. imports from Mexico via truck increased 7.4 percent year-over-year in March, totaling \$16.9 billion. Imports have now increased for nine consecutive months year-over-year. Year-to-date through March, imports from Mexico via truck were up a surprising 5.2 percent, given the U.S. economy slid in the first quarter. The U.S. economy is expected to expand 2.4 percent in the second quarter of 2014.

The U.S. trade deficit with Mexico widened to \$3.56 billion in March from \$2.70 billion in February.

RAIL

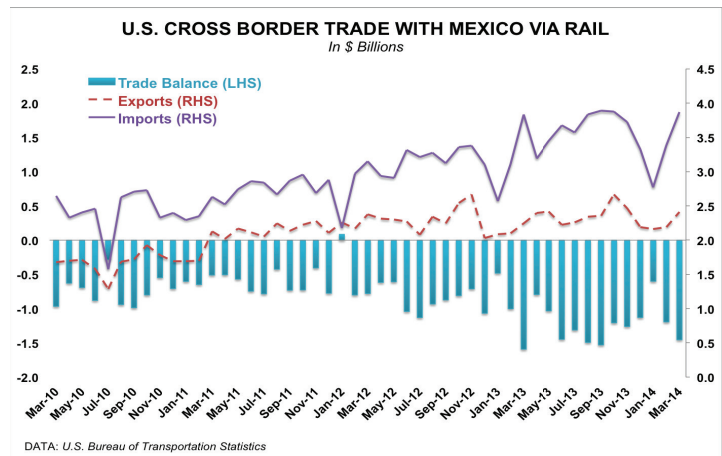
- ◆ U.S. trade deficit with Mexico via rail widened to six-month high.
- ◆ U.S. rail transportation of lumber up for three straight months as housing starts recover.



AVERAGE REVENUE PER INTERMODAL SHIPMENTS UP 8.1 PERCENT IN MAY

The average revenue per highway load expanded in May by 16.1 percent year-over-year to \$1,627. From April to May, the average revenue declined 2.3 percent (or \$38).

The average revenue per intermodal load advanced 8.1 percent to \$2,907, after rising 5.9 percent in the prior month. From April to May, the intermodal yield rose 3.3 percent (or \$92). The latest figures reflect the recovery in U.S. economic activity in the second quarter.

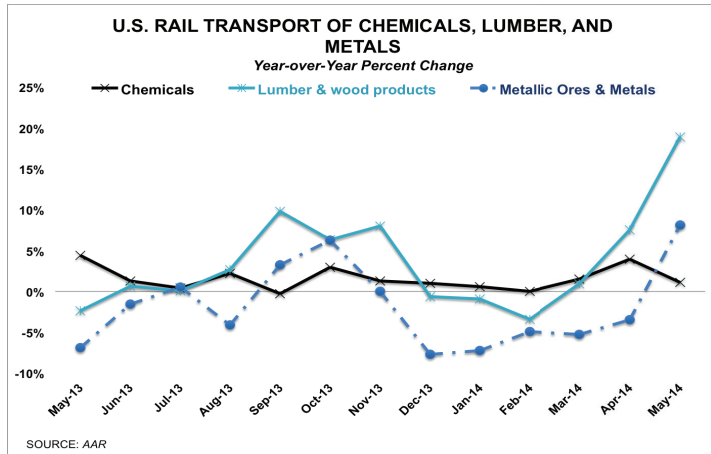


U.S. TRADE DEFICIT WITH MEXICO VIA RAIL WIDENED TO SIX-MONTH HIGH

U.S. exports to Mexico via rail expanded 7.5 percent year-over-year in March, totaling \$2.4 billion. Rail exports have expanded for four consecutive months year-over-year. Year-to-date through March, exports were up 5.4 percent.

U.S. imports from Mexico via rail edged up 0.8 percent in March year-over-year, totaling \$3.9 billion. Rail imports from Mexico have increased for 26 straight months, evidencing the growing preference of rail transportation over truck and near-sourcing activity effects. Year-to-date through March, imports were up 5.4 percent.

The U.S. trade deficit with Mexico via rail widened to \$1.46 billion in March from \$1.20 billion in February.



RAIL TRANSPORTATION OF LUMBER STRENGTHENED MARKEDLY IN MAY

U.S. rail transportation of chemicals rose 1.0 percent year-over-year in May, totaling 122,069 carloads. May marked the third consecutive monthly increase for chemicals rail transportation, year-over-year.

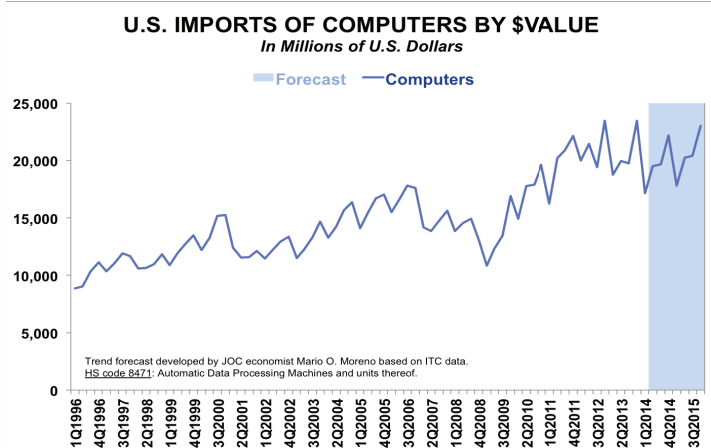
U.S. lumber and wood products carloads jumped 18.9 percent year-over-year in May, despite a contraction in housing starts (page 3).

Rail transportation of metallic ores and metals rebounded 8.1 percent year-over-year in May after contracting in the prior five months.

COMMODITY SNAPSHOT

- ◆ U.S. computers imports expected to decline in 2014 for second consecutive year but rebound in 2015.
- ◆ Vietnam is rapidly gaining share of the U.S. computers imports market.

U.S. COMPUTER IMPORTS



U.S. COMPUTERS IMPORTS TO REVERSE DOWNWARD TREND IN 2015

U.S. imports of computers by dollar value declined 2.7 percent in 2013 as real growth in disposable income per capita remained stagnant for the year. In the first quarter of 2014, imports declined 8.5 percent year-over-year after edging up 0.1 percent in the fourth quarter of 2013. For all of 2014, I am projecting a contraction of 4.1 percent. The downward trend will not reverse until 2015 when imports will have rebounded by 3.7 per-

cent and totaled approximately \$81.5 billion.

SHARE OF U.S. COMPUTERS IMPORTS AND ANNUAL GROWTH RATES (\$ VALUE)

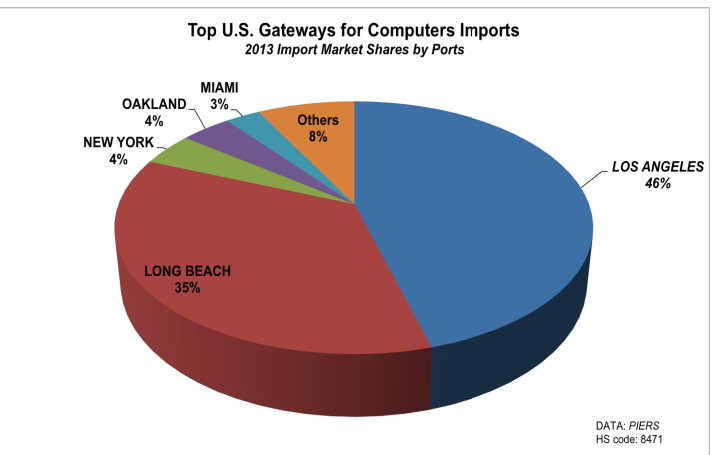
	SHARE OF IMPORTS			ANNUAL GROWTH RATES		
	2012	2013	2014(YTD)	2012	2013	2014(YTD)
CHINA	0.650	0.659	0.658	4%	-1%	-10%
MEXICO	0.182	0.167	0.165	11%	-11%	-4%
THAILAND	0.050	0.054	0.055	50%	5%	-6%
TAIWAN	0.019	0.019	0.019	-12%	-2%	7%
VIETNAM	0.002	0.015	0.009	383%	779%	185%
MALAYSIA	0.018	0.015	0.017	-6%	-21%	-18%
SINGAPORE	0.016	0.013	0.014	1%	-19%	-28%
KOREA	0.014	0.011	0.015	27%	-24%	-35%
JAPAN	0.011	0.011	0.012	-6%	-9%	-23%
PHILIPPINES	0.008	0.007	0.007	37%	-10%	13%

SOURCE: US International Trade Commission; author's own calculations · YTD: Year to Date through April

VIETNAM GAINING SIGNIFICANT SHARE OF U.S. COMPUTERS IMPORTS

As measured by dollar value, China is the largest supplier of computers to the U.S., holding 65.9 percent of the market in 2013, up 0.9 percentage point from 2012. However, imports from China are now declining, possibly linked to increased competition from other computer manufacturing countries, and currency appreciation. The yuan appreciated 2.6 percent against the U.S. dollar last year and is up 25 percent since 2005.

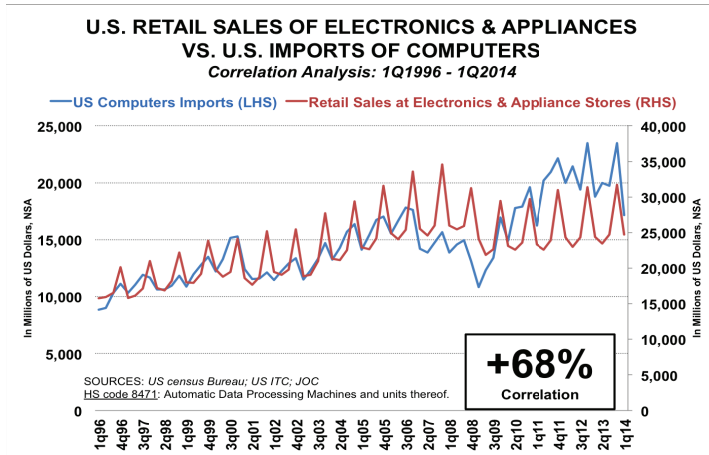
Global competition in the sector has markedly increased, as well. Vietnam, for instance, increased its sourcing share of 0.2 percent held in 2012 to 1.5 percent in 2013. That was a significant jump for Vietnam, whose computer shipments to the U.S. jumped 383 and 779 percent in 2012 and 2013, respectively. Year-to-date through April, computer imports from Vietnam were up 185 percent, while those from China were down 10 percent. It appears then that the global industry's continued development prompted the leading manufacturers to diversify production facilities in Asia, finding Vietnam to be a cost-effective location.



PORT OF LOS ANGELES HANDLED MOST INBOUND TRAFFIC OF COMPUTERS IN 2013

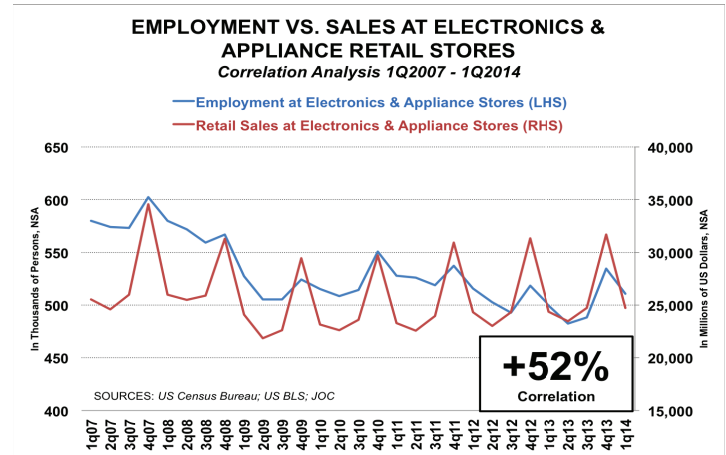
In 2013, Port of Los Angeles handled 46 percent of all computer import traffic via ocean container, down 1 percent from 2012, while the Port of Long Beach handled 35 percent of all computers imports, down 2 percentage points from 2012. The Port of New York and New Jersey handled 4 percent of all computer imports traffic, up 1 percentage point from 2012.

CORRELATIONS



POSITIVE LINEAR RELATIONSHIP BETWEEN RETAIL SALES AT ELECTRONICS & APPLIANCE STORES AND COMPUTERS IMPORTS

Sales of electronics and appliances at retail stores have been sluggish in recent years. Last year, sales totaled \$104.3 billion but that's only 94 percent of the sales achieved back in 2007 – the peak year. One component of electronic sales is computers, and the import demand for it has increased in recent years but took a step back in 2013 as real growth of disposable income per capita stayed flat. From 1996 to the first quarter of 2014, the correlation between retail sales at electronics & appliance stores and U.S. computers imports was measured at plus 68 percent, which is a solid correlation coefficient. As sales of electronics (including computers) rise, demand for imported computers rise as well.



POSITIVE LINEAR RELATIONSHIP BETWEEN RETAIL SALES AT ELECTRONICS & APPLIANCE STORES AND STORE EMPLOYMENT

Although retail sales at electronics & appliance stores are slowly recovering, employment at these stores is not growing not even at the same pace, with 2013 employment figures at 501,000 which is only 86 percent what it was back in 2007 – the peak year. From 2007 to the first quarter of 2014, the correlation between retail sales at electronics & appliance stores and employment at these stores was measured at plus 52 percent, which is not a very strong correlation coefficient. Retailers are reluctant to increase hiring at the current level of sales growth.

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, 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

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