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

JOC INSIGHTS

OCTOBER 2013

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

THIS MONTH, AFTER PRESENTING at the JOC's Trans-Pacific Maritime conference event in Shenzhen, China, I had the opportunity to visit a major household appliances factory in Zhongshan, in China's Guangdong province. Although I was not permitted to tour the actual production plant, I was able to interview with the foreign trade shipping managers, and walk through the factory showroom and see all the types of household appliances they produce. It was an opportunity to gain a new perspective on the activity of China's high-value export industries.

In a lengthy conversation, shipping managers of the Galanz factory described their global export activity as uneven. They said shipments to the U.S. were holding up while shipments to Western Europe were still down from pre-recession levels. The U.S. represents approximately 20 percent of the export market, with top retailers such as Wal-Mart and Target as main customers. Eastern Europe has been the most resilient market for Galanz, while Australia is the softest. The shipping managers also noted strong demand for air conditioning units in Africa. Exports of these products to Africa are growing at a remarkable pace.

What's the effect of rising manufacturing wages? The factory's shipping managers said most workers are paid by the number of products they produce (piece work) instead of by the hour. There have been no marked shortages of labor at this factory, in contrast to the serious labor shortages problems faced by many manufacturers of low-value, labor-intensive goods such as footwear and apparel. At Galanz, some workers don't return to work after New Year's festivities end, but they are quickly replaced, the shipping managers said. The factory employs more than 20,000 people, a number that has remained roughly the same as five years ago. With overall production and export activity holding up, the company has no near-future plans to relocate farther west in China or to move production out of China.

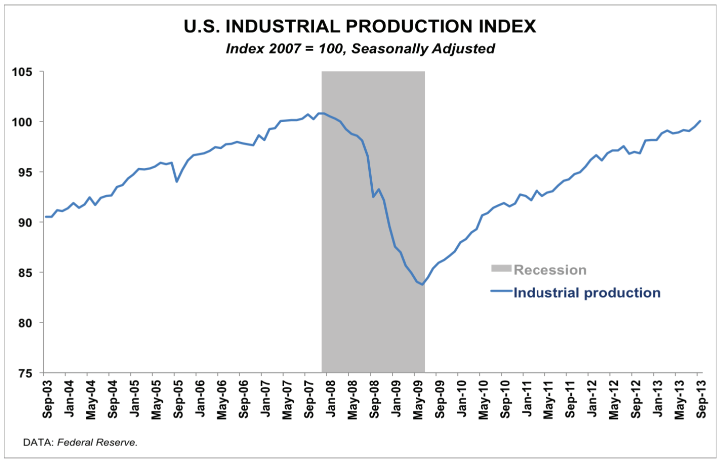
One challenge facing China's export industry is the fluctuation of currency values. Although Galanz charges its export goods in U.S. dollars, it pays its workers in Chinese Renminbi, which has appreciated against the U.S. dollar by 10 percent since mid-2010. The adverse conversion from dollar to Renminbi leaves Galanz with less Renminbi to pay its workers and cover other production costs, cutting into profit margins. Galanz reserves the right to increase prices if currency fluctuations are highly disadvantageous, but this can be done only once a year. Despite all this, the U.S. market appears to be holding up, further evidenced by the respectable growth of China exports of refrigerators and freezers to the U.S. this year (see page 8).

This issue of JOC Insights presents my most updated forecasts on the North-South container trade, and a special analysis of U.S. refrigerators & freezers imports.

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

THE SHIPPING ECONOMY

- ***ISM's manufacturing advances to highest level in 2 × years.***
- ***U.S. ocean container trade expands in August on higher-than-expected exports.***
- ***Retail sales edged down in September as expected***
- ***Existing home sales decline on higher mortgage rates, shaken consumer confidence.***
- ***As existing home sales rise by 1,000 units, furniture imports rise by 119 TEU.***



SEPTEMBER 2013: U.S. INDUSTRIAL PRODUCTION INDEX AT HIGHEST LEVEL IN MORE THAN 5 YEARS

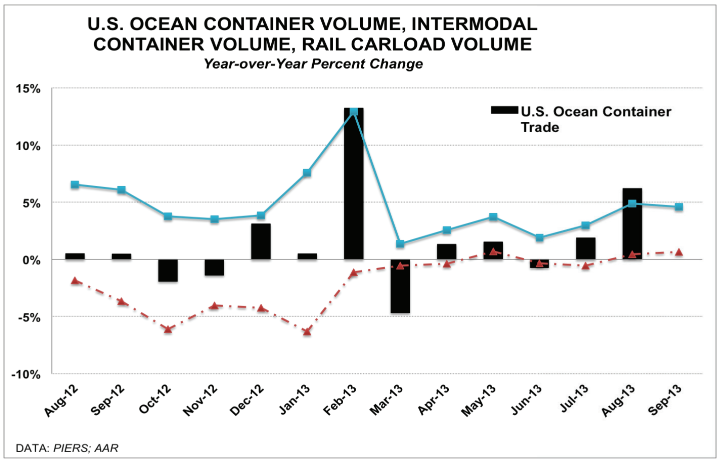
U.S. industrial production rose 0.6 percent in September, and reached its highest level in more than five years, mostly on the back of utilities production due to higher temperatures. The manufacturing component rose less than forecast, up only 0.1 percent and followed a 0.5 percent boost in August. Excluding motor vehicles, the manufacturing component stood flat after a 0.2 percent rebound in the prior month.

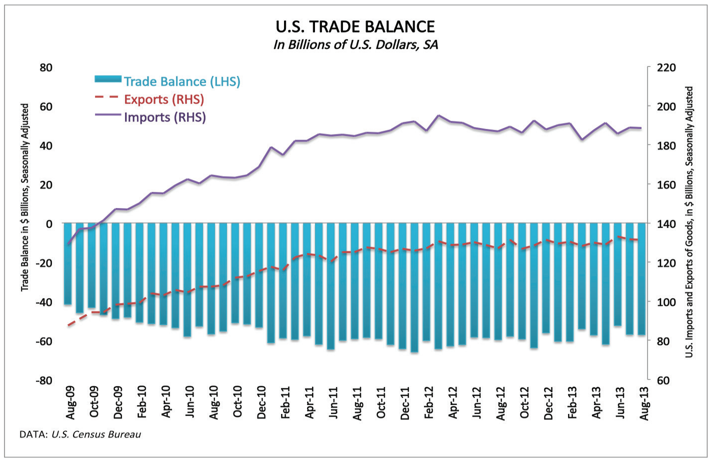
Durable goods production advanced 0.5 percent in September, while nondurables production declined 0.3 percent, for a third straight monthly decline. Capacity utilization rose to 78.3 percent from 77.9 percent in August, which was higher than expectations.

Although motor vehicle production continues to grow, overall manufacturing is sluggish. The Fed will make note of that for its upcoming October 28-29 policy meeting. The expectation here is that there won't be tapering action for the remainder of the year.

Due to partial government shutdown, the August data for factory orders will be released on November 4. As reported in the previous Insights report, factory orders declined 2.4 percent in July over June after growing for three consecutive months. Watching factory orders closely is important because orders ripple through the economy with a significant impact on trade and container traffic.

JOCINSIGHTS





U.S. OCEAN CONTAINER TRADE EXPANDED 6.2 PERCENT IN AUGUST

U.S. ocean container trade made a significant leap in August as the shipping peak season was under way and exports surprisingly picked up the pace. Trade rose 6.2 percent year-over-year, totaling 2.7 million TEUs.

Rail container shipments picked up 4.6 percent year-over-year in September, while rail carloads edged up 0.7 percent in the same month.

GLOBAL MANUFACTURING

	SEP-13	JULY-13	MOM	DIRECTION, RATE OF CHANGE
US PMI	**56.2**	**55.7**	**0.5**	**GROWING, FASTER RATE**
NEW ORDERS	60.5	63.2	-2.7	GROWING, SLOWER RATE
INVENTORIES	50.0	47.5	2.5	UNCHANGED, FROM CONTRACTING
CHINA PMI	**50.2**	**50.1**	**0.1**	**EXPANDING, FASTER RATE**
GLOBAL PMI	**51.8**	**51.6**	**0.2**	**EXPANDING, FASTER RATE**

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

U.S. MANUFACTURING INDEX AT HIGHEST LEVEL IN 2.5 YEARS

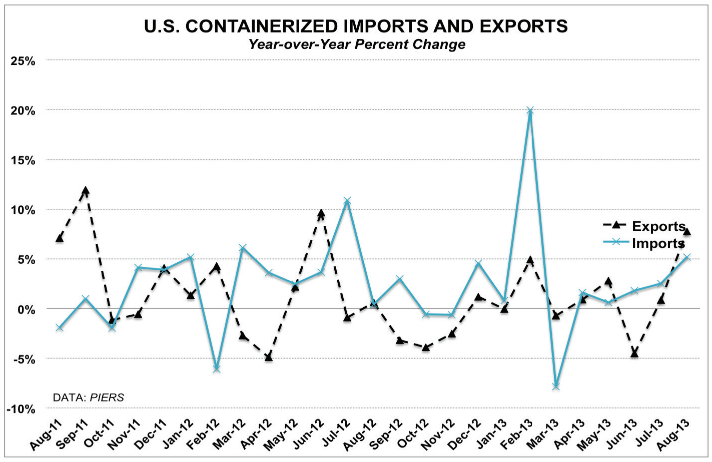
ISM's manufacturing rose in September for the fourth straight month to its highest level in 2 1/2 years. New orders, the lifeblood of manufacturing activity, dropped 2.7 points to a reading of 60.5, but still a very strong rate of monthly growth. New export orders slowed but still show respectable strength, further evidenced by the remarkable jump in U.S. containerized exports in August (See page 3). Inventories are unchanged from contracting while delivery times slowed, consistent with continuing production strength.

China's manufacturing sector in September saw a slower rise in manufacturing output. At 50.2, operating conditions improved fractionally over the prior month. Stronger demand from the U.S. and Europe sparked the first increase in new business in six months. Total China exports to the U.S. via ocean container jumped 10 percent in August year-over-year. Purchasing activity and backlogs of work have increased for two straight months.

AUGUST 2013: U.S. TRADE DEFICIT IN GOODS AT THREE-MONTH HIGH

U.S. exports of goods slid 0.2 percent in August, following a drop of 1.1 percent in July. The contraction mostly reflected decreases in industrial supplies and foods, feeds and beverages. U.S. imports of goods edged down 0.1 percent, but followed a strong July. Losses in imports were mostly seen in consumer goods, and motor vehicles and parts.

The U.S. trade deficit in goods widened modestly by 0.3 percent, to $57.1 billion.



U.S. CONTAINER TRADE

	AUG-13	MOM	YOY	YTD	2013(F)	2014(F)
IMPORTS	**1,619**	**0.0%**	**5.2%**	**2.8%**	**4.0%**	**6.1%**
EXPORTS	**1,069**	**10.7%**	**7.7%**	**1.5%**	**1.0%**	**1.7%**

Source: PIERS; JOC Container Shipping Outlook, September 2013

AUGUST 2013: U.S. CONTAINERIZED IMPORTS UP 5.2 PERCENT; EXPORTS UP 7.7 PERCENT

U.S. containerized imports via ocean picked up the pace in August with the peak shipping season under way. Overall U.S. containerized imports expanded 5.2 percent in August year-over-year, totaling 1,619,343 TEUs. Month-to-month, overall containerized imports were flat.

Among the top 25 source countries, China gained the most, up 71,611 TEUs, or 10 percent year-over-year. Vietnam followed with a gain of 4,563 TEUs, while Indonesia gained 3,872 TEUs. On the downside, U.S. imports from Japan declined 5,875 TEUs, or 11 percent.

Leading the gains among the top 25 imports were plastic products, up

17,279 TEUs year-over-year; auto/truck tires and tubes, up 9,845 TEUs; and footwear, up 22 percent. The largest declines were seen in menswear, down 7,049 TEUs; decorations, down 4,017 TEUs; and miscellaneous apparel, down 3,786 TEUs.

Inbound trade in August was supported primarily by a rebound in the U.S. housing market and ongoing robust sales of autos and light vehicles. Meanwhile, import prices fell one-third of a percent sequentially during the third quarter, supporting the trade gains seen in the prior two months.

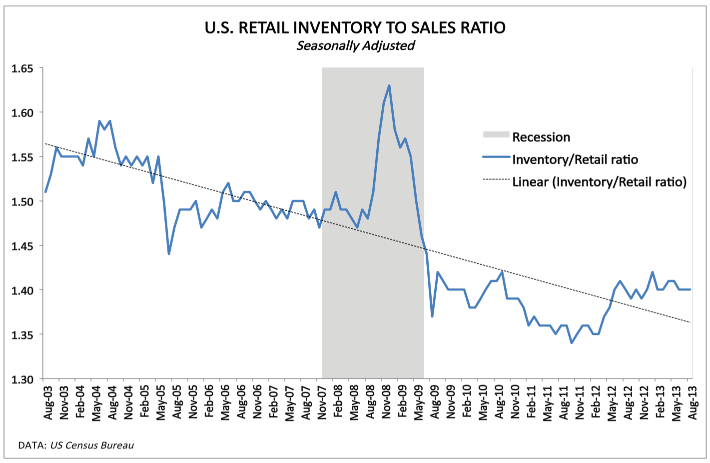
Forecast for third quarter imports call for growth of 4.7 percent year-over-year.

Overall U.S. containerized exports via ocean jumped 7.7 percent year-over-year in August to 1,069,081 TEUs, according to preliminary data from PIERS. Gains were seen in plastic products, up 6,485 TEUs, or 44 percent year-over-year; grains and flour, up 5,393 TEUs; and logs and lumber, up 4,280 TEUs.

On the downside, year-over-year losses were seen in paper and paperboard, down 12,591 TEUs; and mixed metal scrap, down 6,340 TEUs.

Among the top 25 export markets, shipments to China rose the most in August, up 54,874 TEUs, or 25 percent year-over-year. Shipments to Brazil and Belgium followed with gains of 3,427 TEUs and 3,371 TEUs, respectively. On the downside, exports to Hong Kong declined 5,195 TEUs, or 17 percent.

Outbound containerized trade was surprisingly strong in August, partly attributed to China's growing demand for consumer goods, notably food products. Looking ahead, U.S. exports of grains and flours to China are expected to turn around over the 2013-2014 forecast period as severe flooding earlier this year has cut into China's reserves at a time when demand for high quality wheat is on the rise.



RETAIL SALES SLID IN SEPTEMBER AS EXPECTED; RETAIL INVENTORY TO SALES RATIO UNCHANGED IN AUGUST

Retail and food services slid 0.1 percent in September after a boost of 0.2 percent in August. This modest decline was expected, as reported in the prior issue of Insights. Motor vehicle sales fell 2.2 percent following a 0.7 percent rebound in August. Outside of motor vehicles, retail sales advanced 0.4 percent after edging up 0.1 percent in August. Outside of motor vehicles and gasoline, retail sales advanced 0.4 percent, which is a very good number.

Within the core, gains were driven by food & beverage stores, food services & drinking places, and electronics & appliances stores. Gains were also seen in furniture & home furnishings. U.S. imports of furniture via ocean container rose 3 percent in August, year-over-year. Losses were mostly seen in clothing & accessory stores. U.S. imports of menswear via ocean container fell 25 percent in August, year-over-year.

The retail inventory to sales ratio stood unchanged in August at 1.40, and stood above its trend line for over a year. The eastbound trans-Pacific trade picked up the pace in August, up 6.5 percent over August 2012, as retailers prepare for the holidays

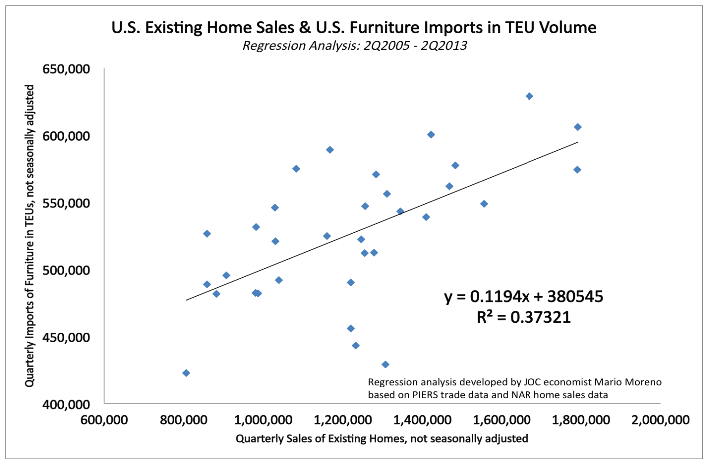
U.S. HOUSING MARKET

	SEP-13	MOM	YOY	2013(F)	2014(F)
EXISTING HOME SALES	5,290	-1.9%	10.7%	11%	1%
NEW HOME SALES	NA	NA	NA	17%	1%
HOUSING STARTS	NA	NA	NA	15%	1%

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

2014 OUTLOOK FOR EXISTING HOME SALES REVISED DOWNWARD

Existing home sales declined 1.9 percent in September to a seasonally adjusted annual rate of 5.29 million units. The decline followed a downward revision to the prior month, and reflected adverse effects of higher mortgage rates and shaken consumer confidence, as warned in the September report of JOC Insights. The 15-days-long government shutdown dented business confidence that could imply not only slower hiring but also slower residential construction activity over the next few months. The debt-ceiling debacle has not been solved but postponed until February 2014, and although this implies the Fed is likely to put on hold any tapering ideas while keeping downward pressure on mortgage rates, consumer's optimism about the near future is tampered. Thus, I have downgraded my 2014 outlook for existing home sales from plus-4 percent down to plus-1 percent.



IF QUARTERLY SALES OF EXISTING HOMES RISE BY 1,000 UNITS, QUARTERLY FURNITURE IMPORTS RISE BY 119 TEUS

Despite the correction seen in September existing home sales, we can't ignore the fact that on a year-over-year basis, sales are up a strong 10.7 percent. The home sales market recovery continues with positive effects over furniture imports — the top-ranked commodity by TEU volume.

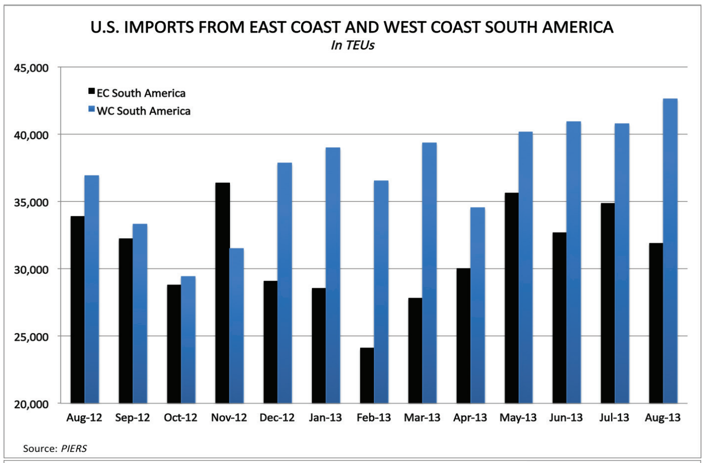
The chart above shows the positive linear relationship between existing home sales and furniture imports by TEU volume. When quantifying the effects of existing home sales over furniture imports, I have found that if quarterly sales of existing homes go up by 1,000 units, expected quarterly imports of furniture rise by approximately 119 TEUs. This parameter is between 63 to 176 TEUs, with 95 percent confidence. The regression equation shown in the above chart also explains about 37 percent of the variation in furniture imports by TEU volume.

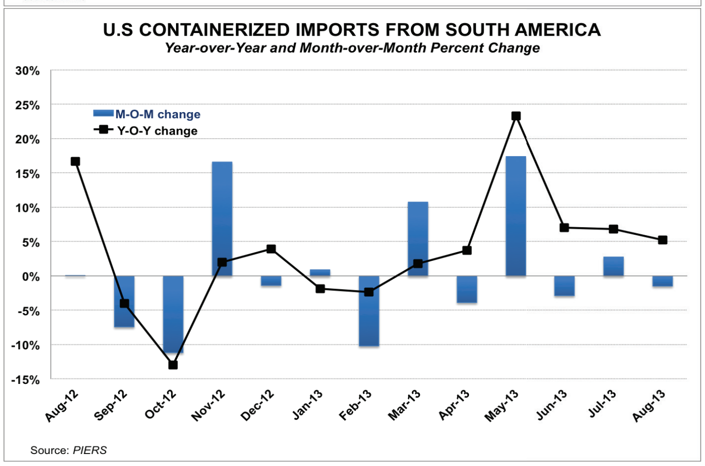
The ongoing recovery for the home sales market is highly important for the maritime import trade. Existing home sales are forecast to grow by 509,000 units this year.

REGIONAL CONTAINER TRADE

- *2013 forecast for imports from the east coast of South America upgraded on higher first half volumes*
- *2013 forecast for exports to the east coast of South America upgraded on better economic news from top market Brazil*

IMPORTS FROM SOUTH AMERICA





IMPORTS, AUGUST 2013

	TEUS	MOM	YOY	YTD	2013(F)	2014(F)
EC SOUTH AMERICA	**31,890**	**-8.5%**	**-5.9%**	**3.7%**	**7.2%**	**10.1%**
WC SOUTH AMERICA	**42,630**	**4.5%**	**15.4%**	**6.7%**	**8.7%**	**10.5%**

Source: JOC-PIERS Container Shipping Outlook September 2013 issue

AUGUST 2013: IMPORTS FROM SOUTH AMERICA UP FOR SIX CONSECUTIVE MONTHS

Inbound trade from the east coast of South America totaled 31,890 TEUs in August, down 5.9 percent from August 2012. Losses were mostly seen in tobacco, auto tires and auto parts. Imports from the west coast of South America rose 15.4 percent in August to a total of 42,630 TEUs, boosted by gains in bananas, auto tires and mandarin oranges.

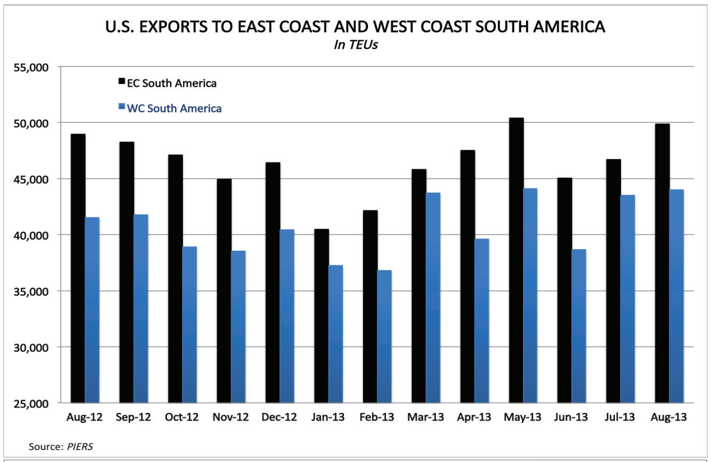
Total container imports from South America advanced 5.2 percent in August after rising 6.8 percent in July, and totaled 74,520 TEUs. Shipments from the region are up for six consecutive months on a year-over-year basis. Month-to-month, imports from South America declined 1.5 percent in August.

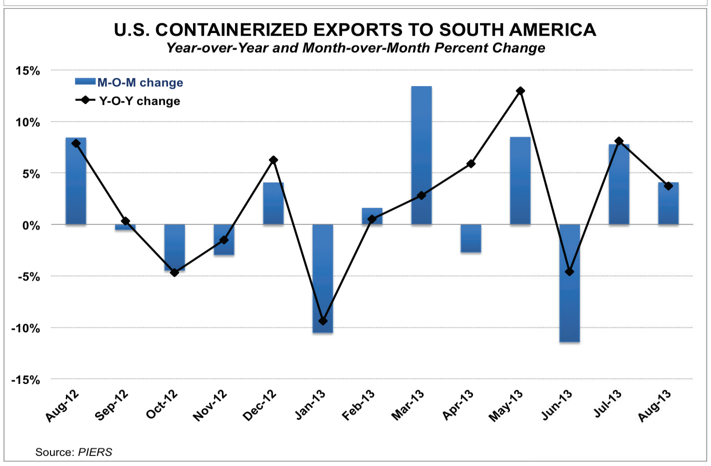
The upward forecast revision for 2014 is partially based on improvements in the U.S. housing industry that are drawing increasing levels of regionally produced inputs. Construction inputs such as granite, forest products and tiles will be the primary beneficiaries. Although I am wary of a predicted rise in U.S. interest rates during the coming year, I do not believe it will substantially limit U.S. housing construction in the near-term.

In terms of agricultural products, it appears the coffee trade is back on track. Although I am cautious of its longevity, forecasts for Brazilian coffee output are generally upbeat. In spite of July frosts that have depressed output in the Brazilian state of Parana, Brazil's overall coffee output is expected to swing upward again next season, as trees make their biennial shift to high from low production.

With respect to exchange rates, the U.S. dollar continued to make strides against both the Brazilian real and the Argentine peso.

EXPORTS TO SOUTH AMERICA





EXPORTS, AUGUST 2013

	TEUS	MOM	YOY	YTD	2013(F)	2014(F)
EC SOUTH AMERICA	**49,879**	**6.8%**	**1.9%**	**-0.8%**	**-0.1%**	**5.2%**
WC SOUTH AMERICA	**44,008**	**1.1%**	**6.0%**	**6.3%**	**0.3%**	**0.0%**

Source: JOC-PIERS Container Shipping Outlook September 2013 issue

AUGUST 2013: EXPORTS TO SOUTH AMERICA ROSE IN SEVEN OF THE LAST NINE MONTHS

Southbound shipments to the east coast of South America totaled 49,879 TEUs in August, up 1.9 percent from a year earlier. Gains were led by agricultural machinery and PVC resins. Southbound trade to the west coast of South America increased 6.0 percent year-over-year to a total of 44,008 TEUs, mostly because of rising demand for petro products, wood pulp and raw cotton.

Trade to South America advanced 3.7 percent year-over-year in August totaling 93,887 TEUs, after an 8.1 percent gain in July. On a month-to-month basis, exports expanded 4.1 percent.

Growth in containers to the east coast of South America is expected to be basically flat in 2013 (minus-0.1 percent). This is an improvement from the previous forecast, which called for a 5.0 percent contraction. Recent economic news from Brazil has been somewhat encouraging, with second quarter GDP growth at the fastest pace in more than two years. In addition to agricultural output, investment was also stronger, which should help drive demand for U.S. industrial inputs.

Going forward, I am cautiously optimistic about 2014 and 2015, with export demand forecast to expand by an average of 4.0 percent annually. Brazil will remain at the forefront of growth. While the value of the real will continue to limit the price competitiveness of U.S. products, new intervention policy by the Brazilian central bank should minimize currency volatility, thereby aiding investment and export demand.

TOP COMMODITIES: SOUTH AMERICA

TOP US IMPORTS FROM SOUTH AMERICA IN TEUS, AUGUST 2013

RANK	COMMODITIES	TEUS	MOM	YOY	YTD
1	BANANAS	8,176	4%	16%	2%
2	FRUITS,MISC	3,903	-31%	3%	13%
3	LOGS&LUMBER	3,286	-12%	-10%	9%
4	GRANITE	3,257	-6%	31%	33%
5	COFFEE	2,892	6%	6%	19%
6	AUTO&TRUCK TIRE&TUBES	2,472	5%	27%	3%
7	STILL WINES	2,301	40%	3%	-10%
8	ORANGES	2,142	71%	11%	10%
9	VENEERS&PLYWOOD	1,953	13%	23%	29%
10	MANDARIN ORANGES	1,606	-7%	52%	3%

Source: PIERS

U.S. imports of certain housing inputs such as granite and veneers continued to grow as housing demand recovers. Imports of top-ranked bananas jumped 16 percent in August year-over-year, but year-to-date banana imports are up only modestly by 2 percent.

TOP US EXPORTS TO SOUTH AMERICA IN TEUS, AUGUST 2013

RANK	COMMODITIES	TEUS	MOM	YOY	YTD
1	PAPER&PAPERBOARD W/WASTE	6,634	-5%	-1%	0%
2	AUTO PARTS	4,801	22%	-4%	-18%
3	VINYL ALCOHOL,PVC RESINS	3,442	3%	22%	22%
4	WOOD PULP	3,124	-4%	13%	-2%
5	PLASTIC PRODS, MISC	2,501	15%	-3%	-10%
6	SYNTHETIC RESINS,NSPF	2,327	-6%	-49%	-21%
7	PE,MELAMINE,UREA RESINS	2,274	-2%	-6%	33%
8	FABRICS,INCL.RAW COTTON	1,649	13%	34%	33%
9	PETRO PRODUCTS NSPF	1,637	1%	857%	227%
10	GROCERY PRODS,MISC.	1,633	21%	-6%	-1%

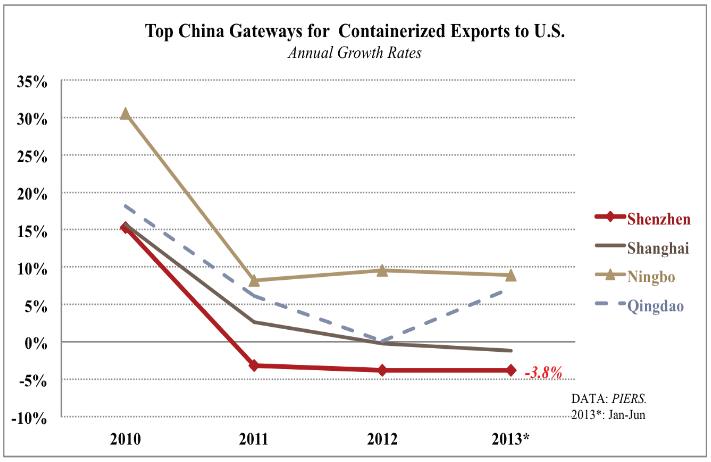
Source: PIERS

Demand for paper and paperboard is basically flat through August, while demand for synthetic resins is down sharply, underscoring a bit of weakness in investment activity. Nevertheless, demand for petro products is up markedly by 227 percent through August.

PORT TRAFFIC

- *China exports to U.S. via Shenzhen port in contraction, while exports via Ningbo, Qingdao ports show resilience*
- *Shenzhen port has highest exposure to exports of major labor-intensive consumer goods to U.S. than any other China port*

TPM ASIA 2013 SPECIAL



SHENZHEN IN CONTRACTION; OTHER PORTS SHOW RESILIENCE

Rising productions costs in China has shifted sourcing within the Asian region, and this has mostly impacted the country's labor-intensive exports, which China has historically dominated. This shift exerts pressure on traffic at China's top ports for U.S. containerized exports: Shenzhen, Shanghai, Ningbo and Qingdao.

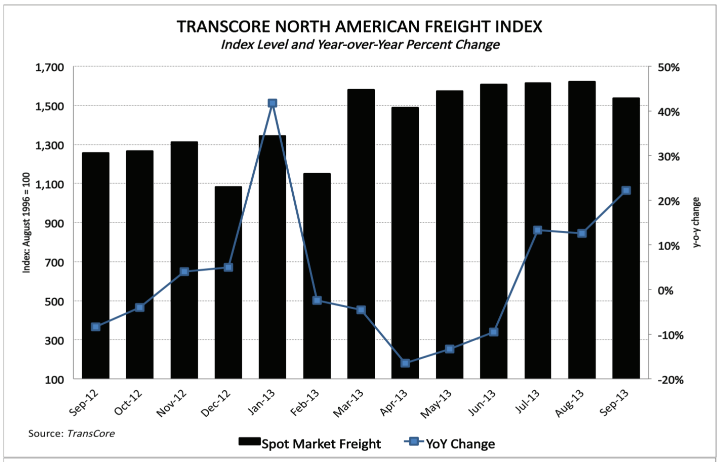
PIERS data shows that while the Port of Shenzhen is in contraction and Shanghai somewhat struggles to stay above water, Ningbo and Qingdao are holding up. The Port of Hong Kong is also in contraction, and just the like Shenzhen it appears that Hong Kong will end 2013 with less volume than it had the year before for the third consecutive year.

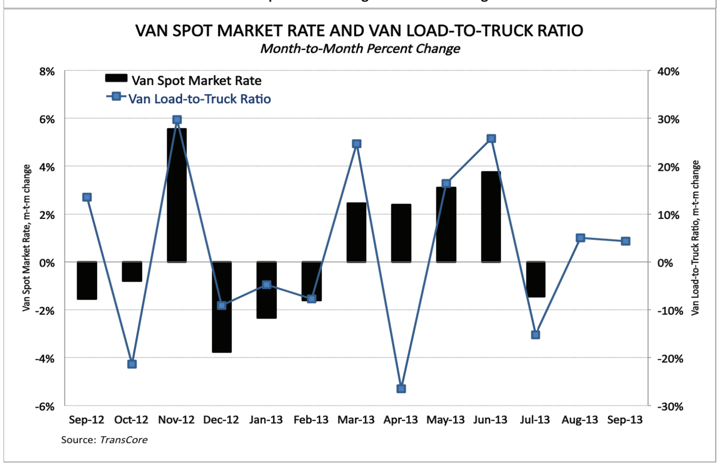
The Port of Shenzhen has the highest exposure to exports of major labor-intensive consumer goods to the U.S. than any other China port, and these goods include furniture, footwear, apparel and accessories, handbags and wallets. In 2007, 50 percent of all exports to the U.S. via Shenzhen included these major consumer goods. But because of the effects of the global recession, volumes from the special economic zone to the U.S. tumbled, and the share of all exports dropped 5 percentage points by 2012 to 45 percent. Rising wages in the coastal region of Guangdong province prompted factory owners to relocate west. The distance from the center of Sichuan to the mid-coast ports and some northern ports is actually somewhat shorter than to Shenzhen port, further supporting the resilience of outbound traffic to the U.S. via mid-coast, northern ports such as Ningbo and Qingdao.

TRUCKING

◆ *Freight index reached highest level recorded for month of September.*

Domestic Trucking Pricing





SEPTEMBER 2013: FREIGHT INDEX UP 22 PERCENT YEAR-OVER-YEAR

A shift in seasonal trends drove spot market freight volumes down 5.3 percent in September, as reported by the DAT North American Freight Index. Freight volumes remained stable throughout much of the third quarter, instead of a more typical decline in July that is followed by mixed trends in August and September. Compared to August, September load availability declined 1.6 percent for vans and 4.6 percent for flatbeds, but increased 1.1 percent for refrigerated ("reefer") trailers.

Third quarter volume was up 13 percent compared to the same period in 2012, but the second quarter lagged Q2 2012 by 16 percent. Year-to-date volume is 1.8 percent higher in 2013. These trends yielded a delayed, flattened peak that extended through Q3, as severe weather earlier in the year postponed agricultural and construction seasons and related freight movements.

Compared to September 2012, the index increased 22 percent, reaching the highest level recorded for the month of September since the index was established in 1996. Van freight volume rose 12 percent, flatbed loads increased 43 percent and freight designated for reefers added 30 percent.

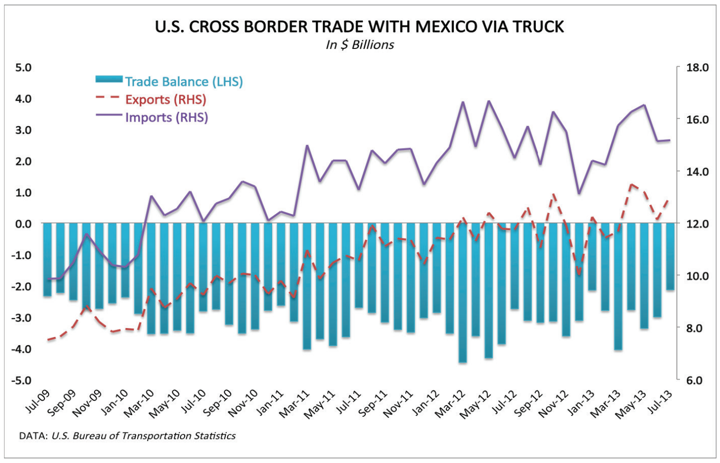
Spot market rates rose for vans and reefers but declined for flatbeds, on both a month-to-month and year-over-year basis. Compared to August, van rates rose 0.7 percent and reefer rates gained 1.9 percent, while flatbed rates declined 8.1 percent. Compared to September 2012, van rates increased 3.8 percent and reefer rates rose 4.5 percent, but rates declined 8.1 percent for flatbeds.

DAT RateViewTM recorded no change in the national average spot market line-haul rate for dry vans in the U.S. in September compared to August, not including fuel surcharges. The fuel surcharge for vans added $0.01 to $0.49 during the period, boosting the total rate from $1.84 to $1.85 per mile for the month.

The rate stability was accompanied by a month-to-month decline of 1.6 percent in load availability and a 6.6 percent decline in truck capacity on the company's DAT Load Boards. This yielded a 5.3 percent increase in the load-to-truck ratio for dry vans on the spot market, from 2.7 available loads per truck in August to 2.8 in September.

On a year-over-year basis, load volume rose 12 percent for vans in September, while capacity expanded 10 percent. The resulting load-to-truck ratio rose 1.6 percent compared to September 2012.

Van spot market rates rose 4 cents (3.0 percent) compared to September 2012, not including fuel surcharges, which declined 3 cents (5.8 percent) in that period. The total rate, including the surcharge, increased 1 cent (1.1 percent) from $1.74 to $1.75 per mile.



U.S. TRADE DEFICIT WITH MEXICO VIA TRUCK NARROWED IN JULY FOR SECOND STRAIGHT MONTH

U.S. exports to Mexico via truck expanded 11.1 percent in July year-over-year, and totaled $13.04 billion. Exports to the U.S. southern neighbor have expanded for 4 consecutive months. Year-to-date, from January through July, exports to Mexico via truck were up 6.0 percent, which compares unfavorably with the 15.0 percent expansion seen over the same period in 2012.

U.S. imports from Mexico via truck rebounded 4.8 percent in July year-over-year, and totaled $15.2 billion. A slowing U.S. economy and the growing preference of rail transportation over truck are key factors behind lower imports. Year-to-date, from January through July, U.S. imports from Mexico edged down 0.1 percent. This compares unfavorably with the 12.9 percent expansion seen over the same period in 2012.

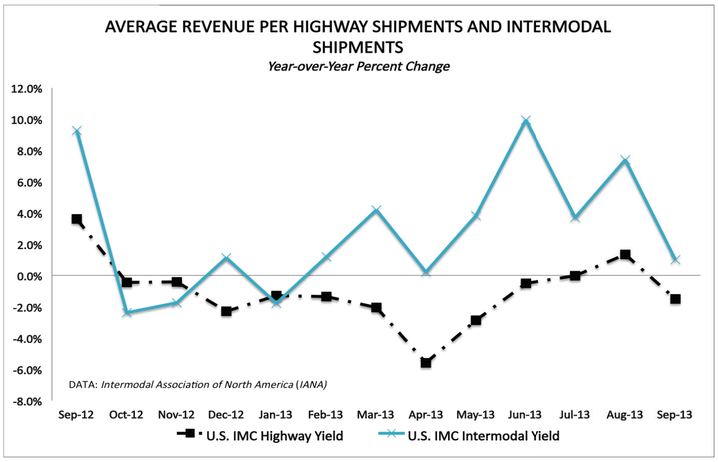
U.S. trade deficit with Mexico narrowed to $2.14 billion in July from $3.0 billion in June.

RAIL

◆ *U.S. imports from Canada via rail grow at the expense of truck transportation*

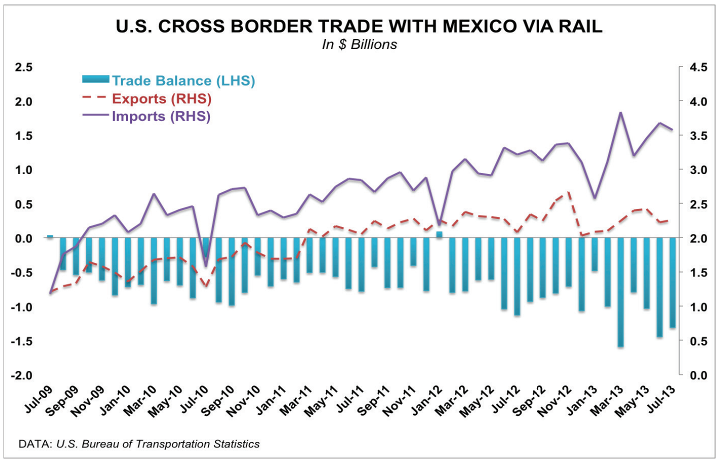
◆ *U.S. rail transportation of lumber gathers steam as construction spending rises*

The average revenue per highway load declined in September by 1.5 percent year-over-year to $1,473, following a boost of 1.3 percent in August. From August to September, the average revenue rose 5.2 percent (or $72).



SEPTEMBER 2013: AVERAGE REVENUE PER HIGHWAY SHIPMENTS DOWN 1.5 PERCENT; AVERAGE REVENUE PER INTERMODAL SHIPMEMTS UP 1.0 PERCENT

The average revenue per intermodal load advanced 1.0 percent to $2,804, after rising 7.4 percent in the prior month. From August to September, the average revenue rose 1.5 percent (or $40).

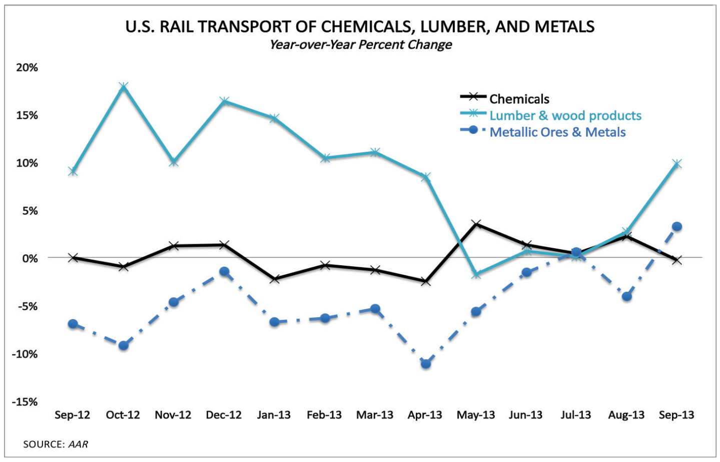


U.S. TRADE DEFICIT WITH MEXICO VIA RAIL NARROWED IN JULY

U.S. exports to Mexico via rail rebounded 8.4 percent in July year-over-year, totaling $2.3 billion. Rail exports to the southern neighbor have expanded in three of the last four months, reflecting the strengthening of the Mexican economy starting in the third quarter. Year-to-date, from January through July, exports to Mexico via rail were down 0.3 percent year-over-year. This compares unfavorably with the 13.8 percent year-over-year expansion seen in the same period in 2012.

U.S. imports from Mexico via rail jumped 11.1 percent in July year-over-year, and totaled $3.8 billion. Imports from this nation have increased for 18 straight months. Year-to-date, from January through July, U.S. imports from Mexico via rail were up 13.2 percent year-over-year, similar to the 13.4 percent year-over-year expansion seen in the same period in 2012.

The U.S. trade deficit with Mexico via rail narrowed to $1.3 billion in July from $1.45 billion in June.



SEPTEMBER 2013: CHEMICALS DOWN 0.3 PERCENT; LUMBER UP 9.8 PERCENT; METALS UP 3.2 PERCENT

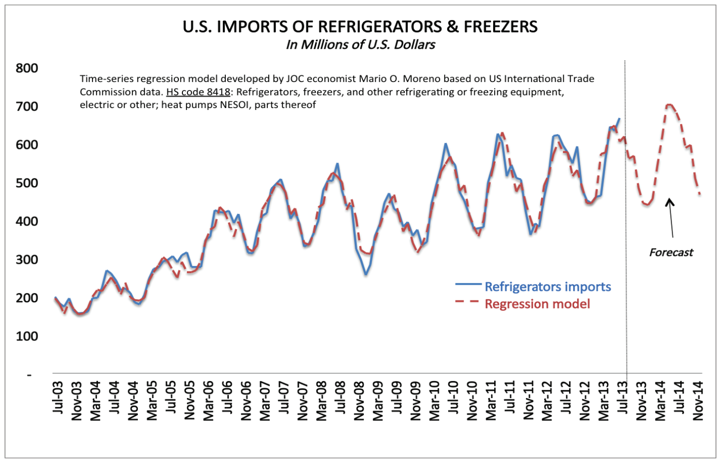
U.S. chemical carloads fell for the first time in five months, down 0.3 percent year-over-year in September to total 116,823. U.S. lumber and wood products carloads jumped 9.8 percent in September year-over-year, totaling 13,377. It appears rail transportation of lumber is picking up speed as construction spending hit a near 4 ½-year high in August.

Growth in metallic ores and metals carloads rebounded 3.2 percent in September after a 4.1 percent decline in August.

COMMODITY SNAPSHOT

- *U.S. imports of refrigerators and freezers by dollar value doubled during the last seven years. Current trend: UPWARD*
- *Seasonality: Imports historically peak in May, June and July*

REFRIGERATORS & FREEZERS IMPORTS



REFRIGERATORS & FREEZERS IMPORTS ON MARKED UPTREND

The last housing crisis had a severe impact on imports of major household appliances. In 2009, imports of refrigerators and freezers (HS code 8418) tumbled 11 percent, but imports rebounded strongly the next year, growing 22 percent as the home sales market started its recovery driven by ultra-low mortgage rates. Since then, imports of refrigerators and freezers have expanded annually by 6 percent as the home sales market recovery continued but at a more moderate pace. For the first seven months of 2013, total refrigerator and freezer imports were up 8 percent; for all of 2013, imports are expected to advance by a respectable 5 percent and total $6.5 billion.

The trend for U.S. refrigerator and freezer imports is clear: upward.

By volume, seaborne imports are actually down 3.8 percent year-to-date through August for a total of 83,767 TEUs. Between 2007 and 2012, imports by volume have grown at a compound annual growth rate of 5.0 percent.

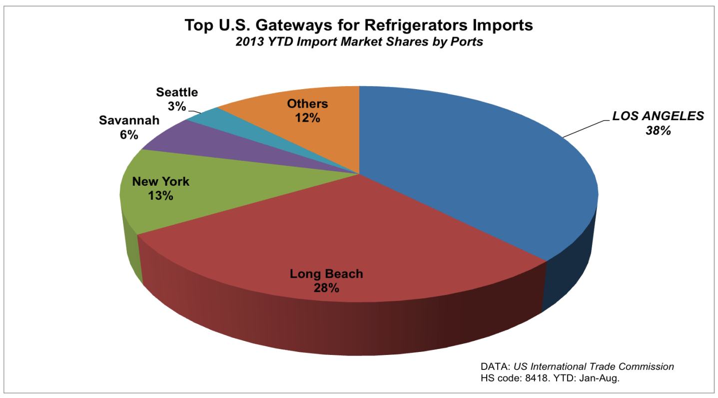
SHARE OF U.S. REFRIGERATORS IMPORTS AND ANNUAL GROWTH RATES (CONSTANT U.S. DOLLARS)

	SHARE OF IMPORTS			ANNUAL GROWTH RATES		
	2011	2012	2013YTD	2011	2012	2013YTD
MEXICO	0.538	0.520	0.528	4%	2%	10%
CHINA	0.156	0.178	0.194	12%	21%	20%
KOREA	0.176	0.173	0.155	10%	4%	-5%
CANADA	0.032	0.032	0.033	11%	7%	9%
ITALY	0.013	0.012	0.014	7%	-6%	39%
JAPAN	0.013	0.014	0.011	8%	10%	-22%
TURKEY	0.007	0.010	0.011	-8%	45%	18%
GERMANY	0.013	0.010	0.009	4%	-16%	1%
AUSTRIA	0.004	0.005	0.004	-5%	9%	9%
UNITED KINGDOM	0.004	0.004	0.004	11%	1%	-10%

Source: U.S. International Trade Commission; Author's own calculations
YTD: January through July. HS code: 8418

CHINA GAINS SOURCING SHARE WHILE MEXICO, KOREA LOSE

Mexico is by far the largest supplier of refrigerators and freezers to the U.S., but its sourcing share has declined in the last two years while China's share has increased. In my recent trip to China, I visited Galanz, a major manufacturer and exporter of electrical appliances located in the city of Zhongshan, Guangdong province. The factory, which specializes in the making of refrigerators and other major household appliances, exports about 20 percent of its products to the U.S. and 30 percent to Europe, Asia and Africa. Foreign trade managers at Galanz said exports to the U.S. are soft, but to Europe are softer. The competition for the U.S. household appliances market among Asian suppliers is intense, but China has been able to increase its sourcing share in the last two years as factories specialized in these high-value products have been able to deal with high annual salary raises, and more importantly shortages of semi-skilled and high-skilled workers in this industry is much less severe than in low-value, labor-intensive industries.

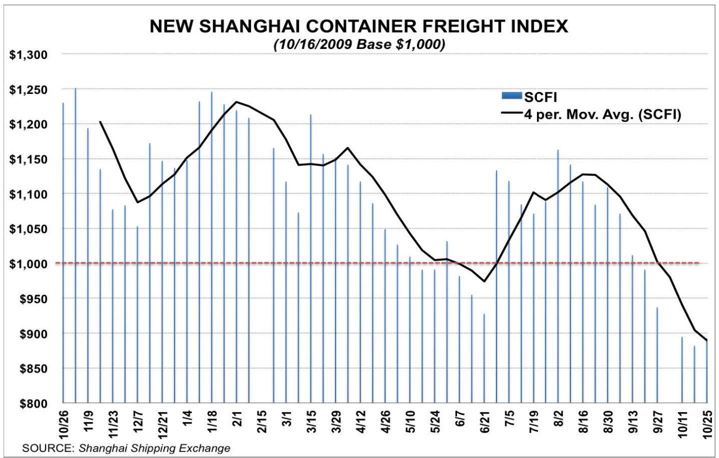


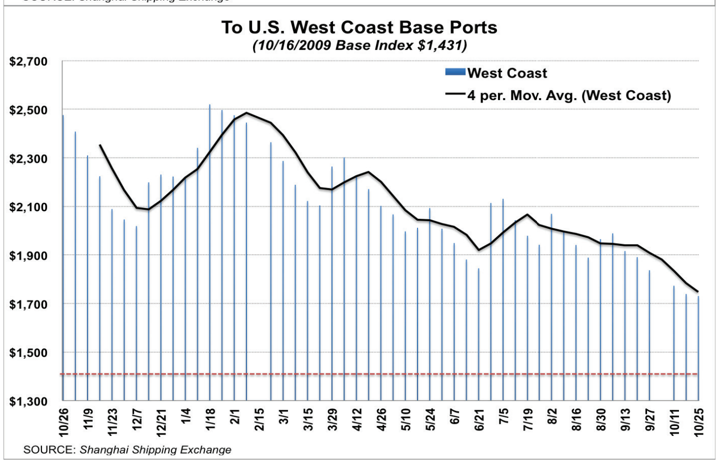
PORT OF LOS ANGELES HANDLED MOST INBOUND TRAFFIC YTD

Year-to-date through August, Port of Los Angeles handled 38 percent of all refrigerator and freezer imports, down 2 percentage points from a year earlier, while the Port of Long Beach handled 28 percent of all imports, down 1 percentage point from a year earlier.

INTERNATIONAL SHIPPING PRICES

◆ ***General rate increase of $400 per FEU for all Asia-U.S. lanes announced for Nov. 1***





THE SHANGHAI CONTAINERIZED FREIGHT REBOUNDS AFTER SIX WEEK DECLINE

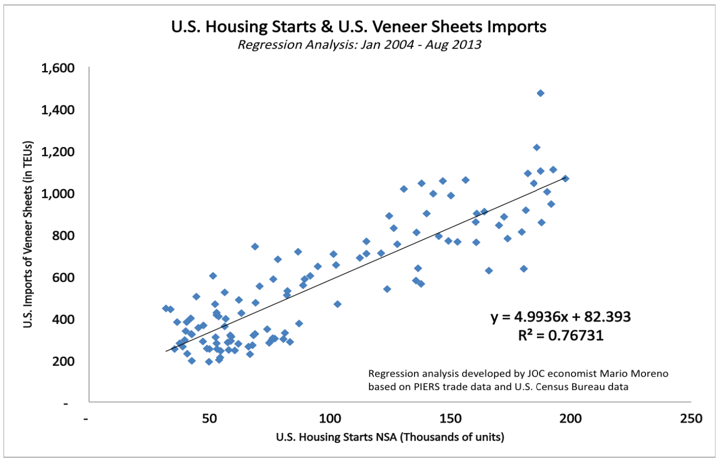
The Shanghai Containerized Freight Index, which measures average export spot rates, rose 1.2 percent on Oct. 25 from the prior week to $892.47. The rebound is mostly attributed to gains in the Shanghai-Europe trade lanes.

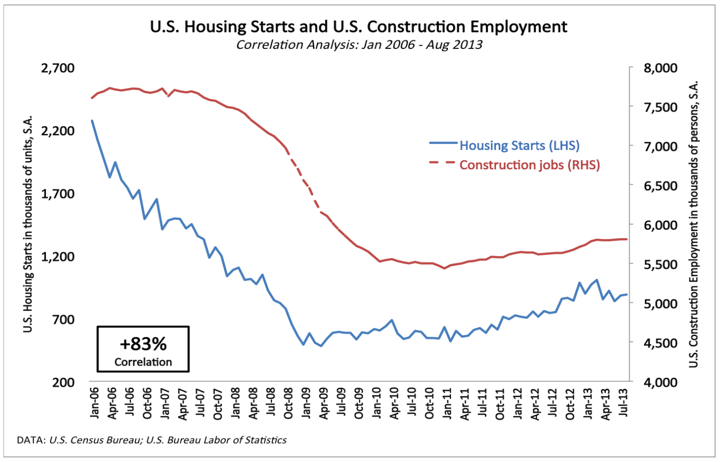
On Oct. 25, the freight rate for the voyages from Shanghai to base ports on the U.S. West Coast was $1,731 per 40-foot-equivalent unit, down $8 from the preceding week. The freight rate has declined for six straight weeks, which could point to weakness in volumes as the peak season winds down. China's containerized exports to the U.S. were up strongly in August, by 10 percent year-over-year.

The Transpacific Stabilization Agreement suggested an increase of $400 per FEU in all Asia-U.S. lanes, set for Nov. 15. Carriers such as OOCL and Hapag-Lloyd have already announced similar increases.

Rates from Shanghai to the Mediterranean edged up 0.4 percent (or $3) from the prior week to $708 per 20-foot-equivalent unit. Several carriers have announced GRIs for Nov. 1 on the Asia-Europe lanes. OOCL, Hapag Lloyd, United Arab Shipping Co., Zim Integrated Shipping Services, Evergreen, CMA CGM and ANL have all proposed increases of between $750 and $1,000 per TEU, while Maersk Line set a minimum increase of $600 per TEU.

CORRELATIONS





IF HOUSING STARTS RISE BY 1,000 UNITS, VENEER SHEETS IMPORTS RISE BY 5 TEUS

Is there any linkage between home construction and imports? Home construction drives a solid demand for lumber and wood products, and although the United States is a major producer of lumber and wood products, foreign and domestic demand for these products somewhat outpaces production growth. Containerized imports of veneer sheets, for instance, were up 17 percent through August, while housing starts were up 25 percent. The correlation between the two variables is very strong, and a regression analysis gives an interesting estimation: if monthly housing units started goes up by 1,000, expected monthly imports of veneer sheets goes up by approximately 5 TEUs. This parameter is between 4 and 6 TEUs, with 95 percent confidence. Housing starts are forecast to grow by 118,000 units this year.

STRONG POSITIVE LINEAR RELATIONSHIP BETWEEN HOUSING STARTS AND CONSTRUCTION EMPLOYMENT

The recovery in home construction is not only highly important for the import trade but also for employment. As housing starts rise, demand for construction workers also rise, which is excellent for the overall economy.

The above chart shows there exists a fairly strong positive correlation between housing starts and construction jobs, measured at plus-83 percent. While housing starts were up 175,000 units (or 24 percent) through August, the construction industry added 159,000 jobs. The 2013 outlook for housing starts is highly respectable (See page 3), but next year housing starts are forecast to decelerate as interest rates rise spurred by the long-awaited Fed's bond buying taper move.

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

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