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

JOC INSIGHTS

FEBRUARY 2014

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

IN DECEMBER 2013, THE US Federal Reserve Bank began the long-awaited process of trimming its quantitative easing program with the goal of ending the program no later than December 2014.

Aside from its significant technical effects in the global bond, equities and currency exchange markets the Fed's winding down of its purchases sends an important signal to the markets that the US economy is ready to stand on its own two feet. It is a vote of confidence that conditions are in place for a return of the US economy to long-run trend rates of both actual output growth and potential output growth. It is in essence the Fed's "stamp of approval" on the U.S. economy that should provide a degree of certainty for firms deciding to undertake expansion plans.

On the fiscal side, December's disastrous rollout of Obamacare is now in the past with the program signing up 3.5 million persons by middle January. The fiscal impact of this program does not appear to be nearly as harmful as was predicted, and therefore will not hinder economic growth over the next year or more. More importantly, as in the case of Fed policy, the initiation of the program reduces uncertainty enabling firms to move forward with expansion plans. Meanwhile, tax revenues were up by 8 percent in fiscal year 2013, reflecting improving economic conditions in the private sector. The federal deficit was 4 percent of GDP and could fall to 3 percent during fiscal year 2014. It is not unreasonable, given the direction of past, current and expected conditions to project further narrowing of the budget deficit going forward. By some accounts, the federal government operating budget (excluding interest payments on debt) could achieve balance by FY 2015. This provides even more solid footing for investment and expansion among US firms.

Contributing positively to investor certainty was passage of the $1.1 trillion compromise spending bill by a wide 357-67 margin. The bill, which will go to the US Senate and is expected to be approved there as well, rolls back some past spending cuts and raises federal worker pay. But the particulars are less important for the economy than the spirit of compromise between the two governing political parties that hovered over the negotiations. Such cooperation supports increased business confidence in fiscal stability going forward and further strengthens the outlook for investment and expansion.

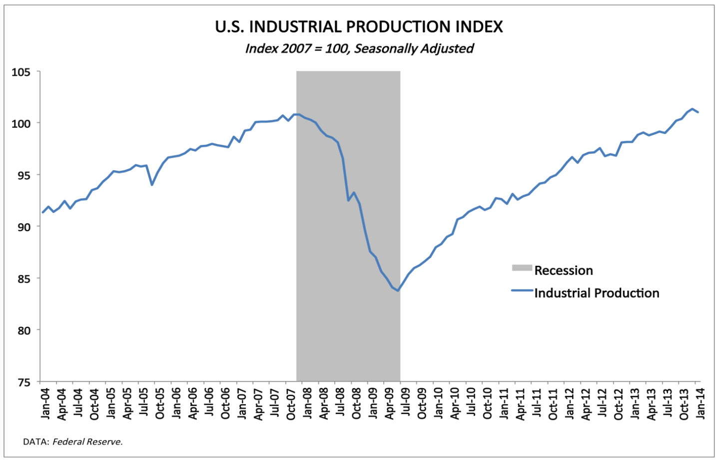
The above developments point to what should be the beginnings of a sustained and at-trend economic expansion in the U.S.

This issue of JOC Insights presents my most updated forecasts on the trans-pacific container trade, and a special analysis of U.S. imports of peppers.

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

THE SHIPPING ECONOMY

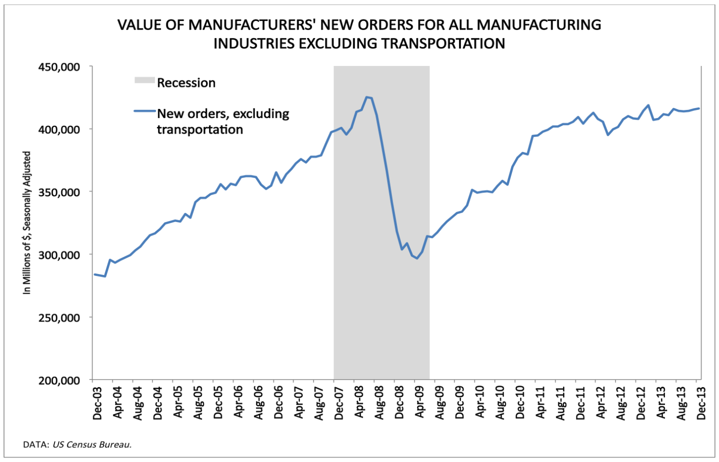
- *U.S. manufacturing sector grew in January at slower rate as new orders tumbled*
- *U.S. ocean container trade decelerated in December on falling exports*
- *Retail sales declined in January, likely linked to adverse weather*
- *Strong evidence sales of existing homes will cool this year*
- *China's manufacturing sector continues to face major headwinds*



JANUARY 2014: U.S. INDUSTRIAL PRODUCTION INDEX DOWN 0.3 PERCENT

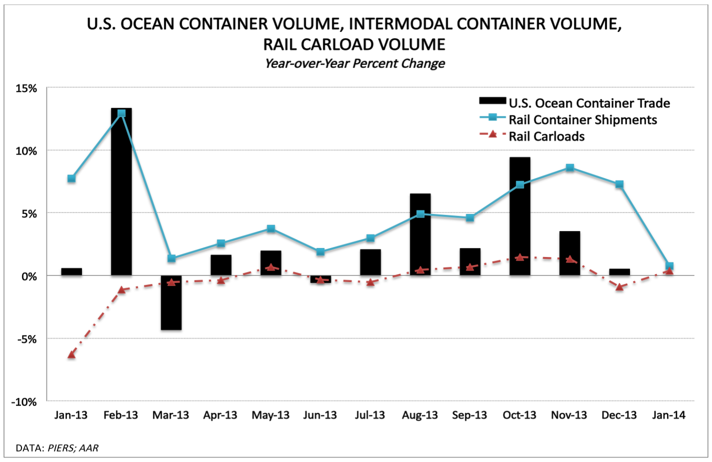
U.S. industrial production declined in January, mostly because of atypically adverse weather. Overall industrial production slid 0.3 percent, following a similar 0.3 percent gain in December. The manufacturing component contracted 0.8 percent in the month, but the utilities component offset some of the losses by jumping 4.1 percent. Excluding motor vehicles, manufacturing was still down.

January's industrial production report supports the expectation that first quarter GDP will be sluggish. Nevertheless, the Fed will likely continue tapering its massive quantitative easing stimulus as aggregate demand shows signs of improvement.



Factory orders declined 1.5 percent in December 2013 because of a decline in aircraft orders. Outside of transportation, new orders actually rose 0.2 percent following a boost of 0.3 and 0.1 percent in the prior two months. For all of 2013, orders excluding transportation expanded 1.9 percent, for a total close to $5.0 trillion — a new high.

Watching factory orders closely is important because orders ripple through the economy with a significant impact on trade and container traffic.



U.S. OCEAN CONTAINER TRADE UP 0.5 PERCENT IN DECEMBER

U.S. ocean container trade growth decelerated sharply in December as the exports trade faltered. Trade edged up 0.5 percent year-over-year, totaling 2.4 million TEUs.

Rail container shipments in January advanced only 0.8 percent year-over-year, while rail carloads saw a rebound of 0.4 percent.

GLOBAL MANUFACTURING

	JAN-14	DEC-13	MOM	DIRECTION, RATE OF CHANGE
US PMI	**51.3**	**56.5**	**-5.2**	**GROWING, SLOWER RATE**
NEW ORDERS	*51.2*	*64.4*	*-13.2*	*GROWING, SLOWER RATE*
INVENTORIES	*44*	*47*	*-3.0*	*CONTRACTING, FASTER RATE*
CHINA PMI	**49.5**	**50.5**	**-1.0**	**CONTRACTING**
GLOBAL PMI	**52.9**	**53**	**-0.1**	**EXPANDING, SLOWER RATE**

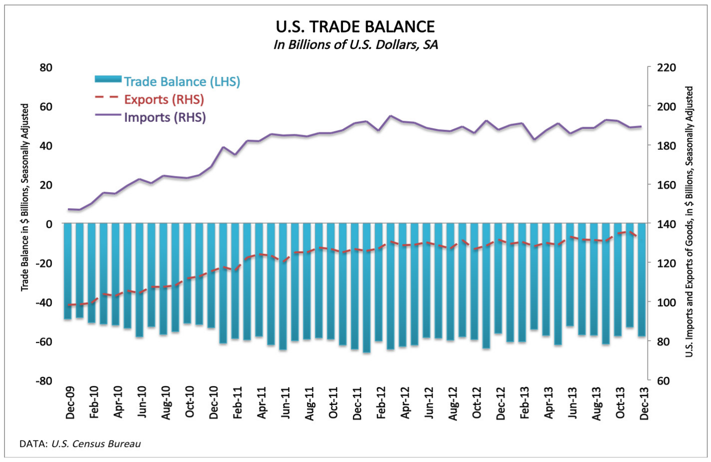
Source: Institute for Supply Management; Markit; HSBC; JPMorgan

U.S. MANUFACTURING IN EXPANSION FOR 8th STRAIGHT MONTH, BUT AT SLOWER RATE

The U.S. manufacturing sector continued to expand in January but at a much slower rate than in December, according to recent ISM manufacturing data. The PMI composite index gave a reading of 51.3, down 5.2 points over the prior month for its largest monthly drop since May 2011. The drop was, unfortunately, led by a steep decline in new orders, supporting views of a sluggish economy during first quarter. Hiring fell 3.5 points to a reading of 52.3 while inventories contracted at a faster rate.

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.

China's manufacturing sector contracted in January for the first time in six months, reflecting weaker expansion of both output and new orders. Total China ocean exports to the U.S. by TEU volume advanced 13 percent in December year-over-year, and closed the year up 9.4 percent despite economic challenges. Employment levels declined at the quickest pace since March 2009 on non-replacement of workers voluntarily leaving the workforce and reduced output requirements.

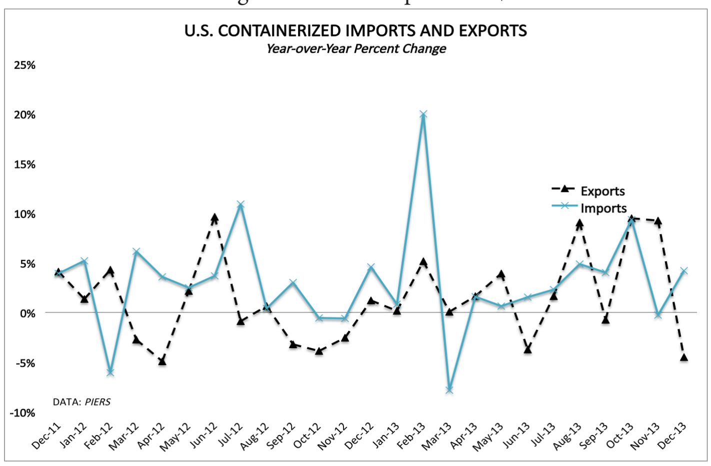


DECEMBER 2013: GOODS EXPORTS DROP; GOODS IMPORTS REBOUND

U.S. exports of goods in December declined 3.1 percent from November, representing the biggest contraction since October 2012. The contraction mostly reflected decreases in industrial supplies ($1.1 billion), capital goods ($1.1. billion), and other goods ($0.9 billion).

U.S. imports of goods, on the other hand, rebounded 0.2 percent in December after falling 1.8 percent in November. Gains in imports were mostly seen in consumer goods ($0.7 billion), and industrial supplies ($0.5 billion).

The U.S. trade deficit in goods widened 8.7 percent to $57.6 billion.



U.S. CONTAINER TRADE

	DEC-13	MOM	YOY	2013(E)	2014(F)
IMPORTS	**1,435**	**-0.5%**	**4.2%**	**3.2%**	**5.9%**
EXPORTS	**974**	**-6.9%**	**-4.5%**	**2.6%**	**1.8%**

Source: PIERS; JOC Container Shipping Outlook, March 2014

DECEMBER 2013: U.S. CONTAINERIZED IMPORTS UP 4.2 PERCENT; EXPORTS DOWN 4.5 PERCENT

U.S. containerized imports via ocean rebounded 4.2 percent year-over-year in December after dipping by one-third of a percent in the prior month.

Among the top 25 source countries, imports from Spain rose the most, up 25 percent year-over-year. Vietnam followed with a gain of 16 percent, while India gained 14 percent. On the downside, U.S. imports from Belgium declined the most, down 18 percent.

Leading the gains among the top 25 imports were fabrics, up 55 percent year-over-year; miscellaneous plastic products, up 42 percent;

and bags, up 17 percent. The largest declines were seen in non-alcoholic beverages, down 26 percent; menswear, down 25 percent; and miscellaneous fruits, down 18 percent.

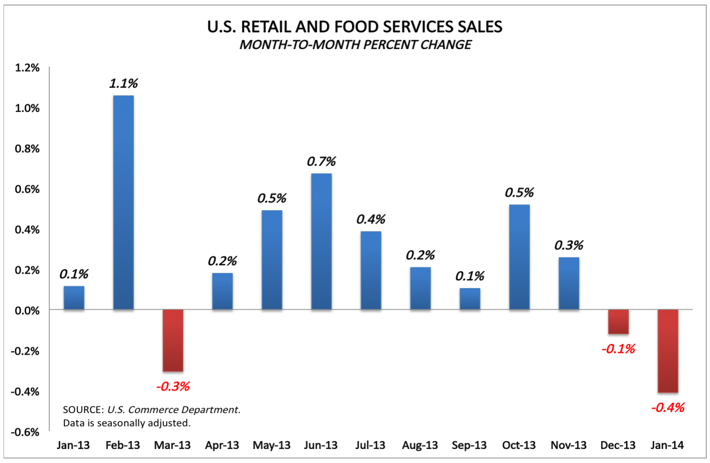
For all of 2013, imports totaled 17.9 million TEUs, up 3.3 percent versus JOC's forecast of 3.0 percent. While the U.S. labor market made large strides in 2013, a closer examination of the numbers reveals a disproportionate share of jobs created over the year were low-wage and low-skill. I am therefore maintaining the projection of 5.9 percent growth in containerized imports for 2014.

Overall U.S. containerized exports via ocean declined 4.5 percent year-over-year in December to 973,975 TEUs, according to preliminary data from PIERS, the data division of JOC Group Inc.

Losses were seen in scrap metals and pig iron, down 42 percent year-over-year; edible nuts, down 31 percent; and household goods, down 30 percent. On the upside, year-over-year gains were seen in field seeds and bulbs, up 147 percent; and grains and flour products, down 132 percent.

Among the top 25 export markets, shipments to the Philippines fell the most in December, down 25 percent year-over-year. Shipments to Hong Kong and United Arab Emirates followed with losses of 22 percent each, respectively. On the upside, exports to the Philippines jumped 34 percent.

For all of 2013, overall U.S. containerized exports were up 2.6 percent, in line with JOC's forecast of 2.0 percent growth.



RETAIL SALES DOWN 0.4 PERCENT IN JANUARY

Retail and food services sales in January dropped 0.4 percent after a downwardly revised dip of 0.1 percent in December. The weakness in sales was found in motor vehicles and parts, which declined 2.1 percent after a 1.8 percent gain in December. Similarly, U.S. containerized imports of auto parts via ocean declined year-over-year in December for the second straight month. Nevertheless, the outlook for domestic sales of autos in 2014 is positive, which should support demand for auto parts imports this year.

Other declines were seen in furniture and home furnishings, clothing and sporting goods. Sales at furniture stores are struggling as home purchases cool from the strong pace of 2013.

The retail inventory-to-sales ratio increased in December to 1.45 from November's 1.44, pointing to retailers' optimism on Christmas sales. PIERS data supports this view as U.S. containerized imports from China increased 6.4 percent year-over-year in the fourth quarter of 2013, 1 percentage point higher than forecast.

U.S. HOUSING MARKET

	JAN-14	MOM	YOY	2013(E)	2014(F)
EXISTING HOME SALES	4620	-5.1%	-5.1%	-5%	-5%
NEW HOME SALES	468	9.6%	2.2%	2%	8%
HOUSING STARTS	880	-16.0%	-2.0%	-2%	5%

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

NEGATIVE OUTLOOK FOR EXISTING HOME SALES IN 2014

Existing home sales fell in five of the last six months on high prices, unattractive mortgage rates, and tight inventory. Sales dropped in January 5.1 percent, to a seasonally adjusted annual rate of 4.62 million units. Cold weather did have an impact over January sales, but other factors have contributed to the slowdown in the last six months. Supply of homes rose to 4.9 months from 4.6 months, but this was mostly tied to the drop in sales. Prices came down a bit but from high levels. The forecast for existing home sales calls for a contraction of 5 percent this year.

Housing starts contracted 16 percent year-over-year in January, following a decline of 4.8 percent in December. Given the tight supply of existing homes, I am forecasting a rebound in housing starts in the months to come, to close the year up 5 percent. Improved residential construction activity boosted the demand for several housing inputs including logs and lumber, granite, and rugs and floor coverings last year.

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

COUNTRY	Q4-2012	Q1-2013	Q2-2013	Q3-2013	Q4-2013(E)	2013(F)	2014(F)
U.S.	2.0	1.3	1.6	2.0	2.7	1.9	2.6
CHINA	7.9	7.7	7.5	7.8	7.7	7.7	7.2
JAPAN	-0.4	-0.1	1.3	2.4	2.7	1.7	1.7
U.K.	0.2	0.7	2.0	1.9	2.8	1.9	2.7
GERMANY	0.3	-0.3	0.5	0.6	1.4	0.5	1.4.4

** Growth rate compared to the same quarter of previous year, seasonally adjusted. All countries except China display seasonally adjusted quarterly data.*

Source: OECD; EIU forecasts; in-house forecast - updated as of February 24, 2014

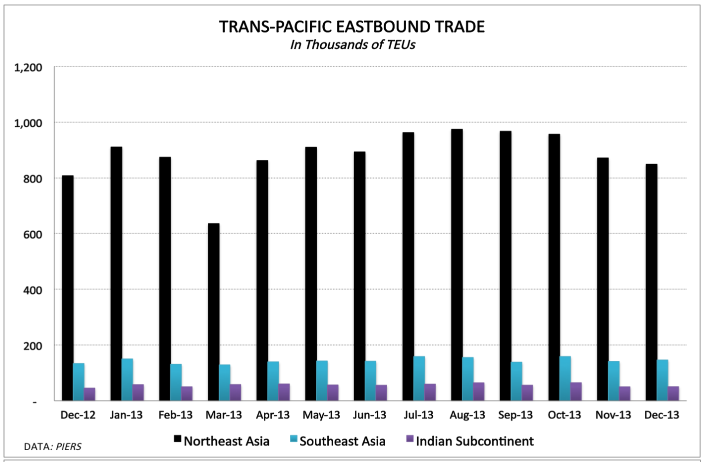
U.S. GDP skidded to just 1.9 percent growth in 2013, nearly a full percentage point below 2012 and well below the long-term trend. However, the second half of the year showed more promise than the first half and fueled accelerated though still mild growth in import volumes from July to December. The holiday shopping season was a bit sluggish as consumers kept a relatively tight limit on spending, and while the unemployment rate has dropped below 7.0 percent for the first time in years, a large proportion of the decline can be traced to discouraged workers who have simply dropped out of the labor market.

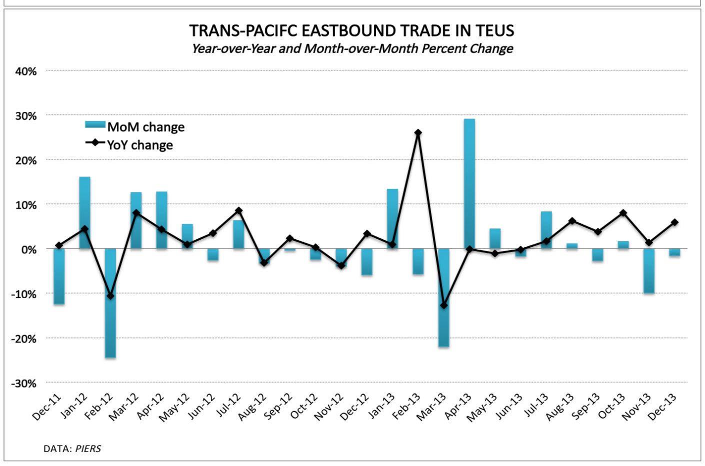
Moreover, a large proportion of jobs created in the second half of the year were low-wage service industry jobs in health, retail and education. The economy is still unable to generate a substantial and sustained increase in high-wage jobs such as in manufacturing, construction, etc. As a result, real wages remain stagnant, which is contributing to muted spending by consumers of containerized imports.

REGIONAL CONTAINER TRADE

- ***Eastbound trans-Pacific trade slightly upgraded for 2014***
- ***Westbound trans-Pacific trade to expand 1 percent faster in 2014***

TRANS-PACIFIC EASTBOUND TRADE





IMPORTS, DECEMBER 2013

TRADE LANE	TEUS	MOM	YOY	2013(E)	2014(F)	2015(F)
ASIA	**1,046,100**	**-1.6%**	**6.0%**	**3.1%**	**5.0%**	**5.9%**
NORTHEAST ASIA	849,002	-2.6%	5.1%	2.8%	3.9%	4.8%
SOUTHEAST ASIA	146,460	3.7%	9.4%	5.1%	10.1%	9.9%

Source: JOC-PIERS Container Shipping Outlook March 2014 issue

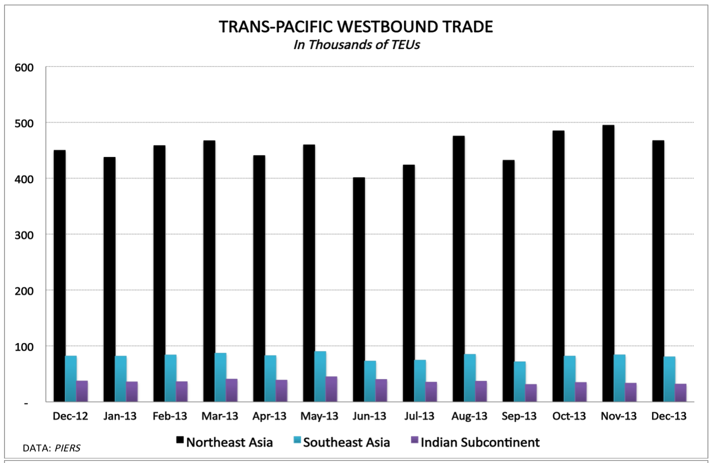
DECEMBER 2013: TRANS-PACIFIC EASTBOUND TRADE UP 6.0 PERCENT

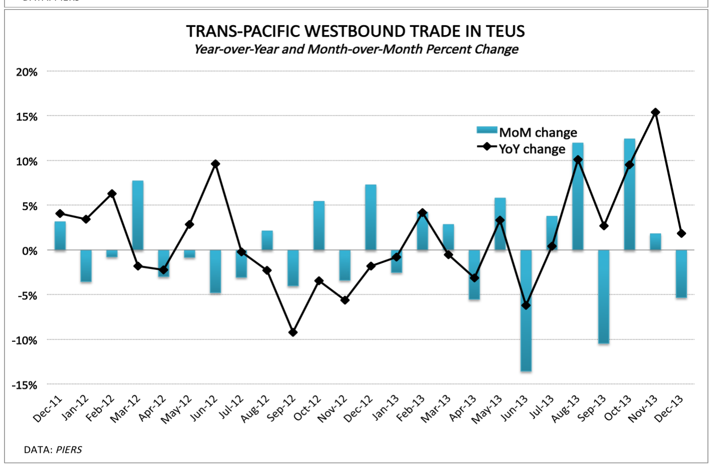
U.S. containerized imports via ocean from Northeast Asia rose in December for the sixth consecutive straight month on solid demand. Volumes from Northeast Asia totaled 849,000 TEUs in the month, up 5.1 percent over December 2012. Most gains were seen in plastic products and tires. Imports from China were up 6.0 percent year-over-year, totaling 784,427 TEUs.

Imports from Southeast Asia rebounded 9.4 percent year-over-year in December to a total of 146,460 TEUs. Imports from this region have increased in 15 of the last 16 months on a year-over-year basis. Imports from the Indian subcontinent jumped 11.2 percent year-over-year, totaling 50,638 TEUs.

The eastbound trans-Pacific trade rose 3.1 percent in 2013, in line with our prior forecast. Thus, I find no reason to materially alter the projections for the eastbound trade in 2014. While U.S. GDP forecasts are slightly lower than in the Fall, there will be sufficient compensation from the strengthening U.S. dollar, particularly with respect to the Japanese yen and the Korean won. Against the Chinese yuan, I am expecting a far less rapid pace of dollar appreciation in line with China's prior commitments. The auto parts trade will improve throughout the coming year, but traffic in toys will remain weak or negative until at least early 2015. Manufactured goods from China will continue to be challenged by producers in lower-wage countries, especially Vietnam and even Central America.

TRANS-PACIFIC WESTBOUND TRADE





EXPORTS, DECEMBER 2013

TRADE LANE	TEUS	MOM	YOY	2013(E)	2014(F)	2015(F)
ASIA	**579,796**	**-5.3%**	**1.9%**	**3.0%**	**4.1%**	**3.7%**
NORTHEAST ASIA	467,384	-5.5%	3.9%	3.0%	4.8%	3.7%
SOUTHEAST ASIA	80,603	-4.2%	-1.7%	4.0%	1.9%	2.7%

Source: JOC-PIERS Container Shipping Outlook March 2014 issue

DECEMBER 2013: TRANS-PACIFIC WESTBOUND TRADE UP 1.9 PERCENT

U.S. containerized exports via ocean to Northeast Asia rose year-over-year in December for the sixth successive month on stronger demand. Gains were led by field seeds, grains and flour products, and pet and animal feeds. Exports to China jumped 13 percent year-over-year, totaling 249,149 TEUs for the month.

Exports to Southeast Asia declined in December for the first time in six months, down 1.7 percent year-over-year. Losses were mostly driven by wastepaper, logs and lumber, and soybean products.

Exports to the Indian subcontinent declined in December for the second straight month, down 14.8 percent year-over- year, following a contraction of 1.3 percent in November. The decline was led by losses in outbound shipments of mixed metal scrap, fabrics including cotton, and paper and miscellaneous apparel.

For all of 2013, the westbound trans-Pacific trade rebounded 3.1 percent, double the rate forecast, supported by resilient demand for containerized goods from China. I have modestly upgraded the 2014 outlook for the westbound trade, but challenges remain. The International Monetary Fund predicts weak growth in Japan, while in China rising investment will be restrained by government efforts to curb price growth such that growth will settle at 7.5 percent through 2015. Growth in India will be supported by improving exports and structural reforms to encourage investment.

TOP COMMODITIES: ASIA

TOP U.S. IMPORTS FROM ASIA IN TEUS: FULL YEAR 2013

RANK	COMMODITIES	TEUS	MOM	YOY	2013 %
1	FURNITURE	1,678,137	11%	3%	3%
2	AUTO PARTS	555,328	1%	0%	3%
3	PLASTIC PRODS, MISC	449,314	4%	41%	24%
4	TOYS	481,747	-40%	-3%	-3%
5	FOOTWARE	439,350	8%	1%	15%
6	AUTO&TRUCK TIRE&TUBES	368,518	0%	11%	12%
7	WOMEN'S&INFANTWARE	360,959	-5%	-4%	-2%
8	ELEC&ELECTRONIC PRODS,MISC	257,457	-2%	5%	-2%
9	HARD WARE,MISC	242,653	3%	7%	4%
10	SHEETS,TOWELS,BLANKETS	274,218	-19%	-8%	4%

Source: PIERS

Last year, furniture shipments in the eastbound trade rebounded 3 percent because of strong demand for homes in the first half of the year. The sale of a home spurs consumption of home goods that include furniture, kitchenware and sheets.

TOP U.S. EXPORTS TO ASIA IN TEUS: FULL YEAR 2013

RANK	COMMODITIES	TEUS	MOM	YOY	YTD
1	PAPER&PAPERBOARD, WASTE	1,406,538	-7%	-18%	-2%
2	PET&ANIMAL FEEDS	638,699	-4%	51%	22%
3	LOGS&LUMBER	333,626	-20%	15%	21%
4	MIXED METAL SCRAP	285,701	-6%	-9%	-16%
5	WOOD PULP	257,542	3%	-11%	4%
6	SOYBEANS&PRODS	198,653	-26%	-4%	9%
7	FOAM WASTE&SCRAP	180,692	-12%	-15%	-9%
8	MEAT,CHIEFLY FRESH&FROZEN	150,326	3%	0%	6%
9	METAL SCRAP,FERROUS,PIG IRON	154,875	-14%	-42%	-20%
10	PLASTIC PRODS, MISC	96,337	4%	51%	18%

Source: PIERS

For all of 2013, animal feeds and soybeans shipments in the westbound trade rose markedly as they are used to feed China's livestock industry. Wastepaper and scrap metals declined, given the slowdown in manufacturing activity in the region.

PORT TRAFFIC

- *Port of Los Angeles was top U.S. port in 2013, with volume of approximately 5.7 million fully loaded TEUs*
- *Port of Shanghai was China's top port in 2013 with total traffic of nearly 33.6 million fully loaded and empty TEUs*

TOP 10 CONTAINER THROUGHPUTS OF U.S. MAJOR PORTS

In December 2013 Unit: 1000 TEU

RANK NAME OF PORT	CURRENT MONTH	YOY CHANGE (%)	TOTAL THOUGHTPUT IN 2013
1 LOS ANGELES	479	12.2%	5,660
2 LONG BEACH	399	2.6%	4,942
3 NEW YORK	330	-3.2%	4,184
4 SAVANNAH	184	0.6%	2,362
5 VIRGINIA PRTS	152	2.2%	1,836
6 OAKLAND	127	-6.2%	1,610
7 TACOMA	121	16.4%	1,563
8 HOUSTON	110	-11.1%	1,303
9 CHARLESTON	100	0.0%	1,294
10 SEATTLE	56	-32.2%	960

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

The top 10 ports handled 85.3 percent of the total U.S. international container traffic in 2013, down 0.2 percentage points from 2012.

Container traffic at top-ranked Port of Los Angeles jumped 12.2 percent year-over-year in December, while Port of Long Beach advanced only 2.6 percent.

TOP 10 CONTAINER THROUGHPUTS OF CHINA'S MAJOR PORTS

In December 2013 Unit: 1000 TEU

RANK NAME OF PORT	CURRENT MONTH	YOY CHANGE (%)	TOTAL THOUGHTPUT IN 2013
1 SHANGHAI (上海)	2,701	-2.2%	33,617
2 SHENZHEN (深圳)	1,982	5.0%	23,279
3 NINGPO ZHOUSHAN (宁波－舟山)	1,362	14.3%	17,351
4 QINGDAO (青岛)	1,144	-4.2%	15,522
5 GUANGZHOU (广州)	1,378	7.2%	15,311
6 TIANJIN (天津)	1,043	3.5%	13,012
7 DALIAN (大连)	949	26.7%	10,015
8 XIAMEN (厦门)	725	3.7%	8,008
9 LIANYUNGANG (连云港)	459	-0.9%	5,488
10 SUZHOU (苏州)	414	-32.0%	5,305

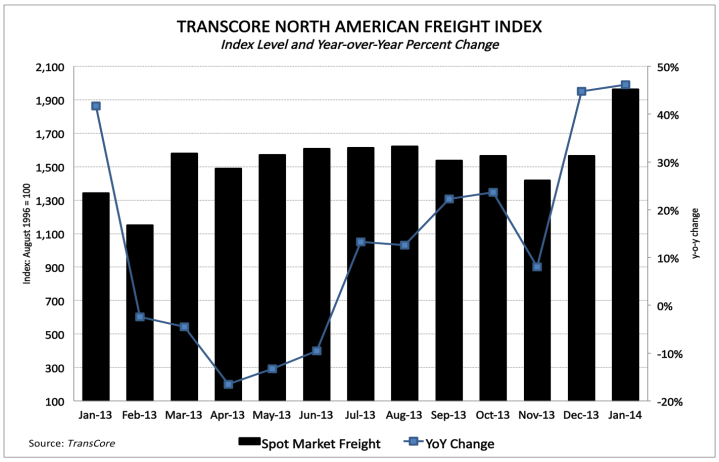
Source: Shanghai Shipping Exchange. Data represents fully-loaded and empty container figures. Data is refreshed frequently.

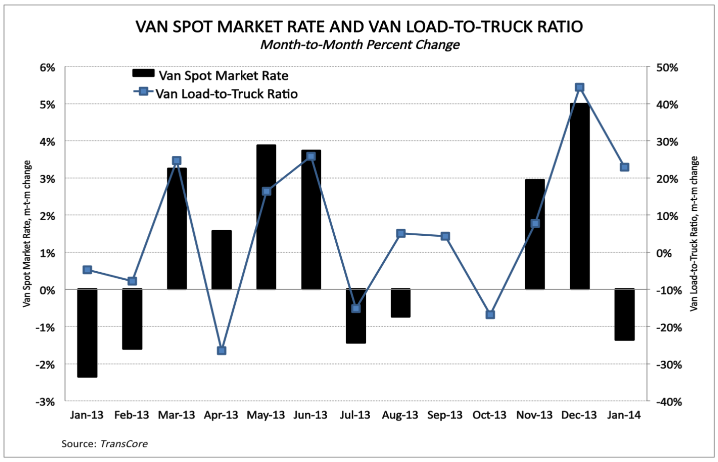
Container traffic at Port of Shenzhen expanded in December, up 5.0 percent year-over-year, while traffic at Shanghai declined 2.2 percent. Container traffic at Port of Ningbo jumped 14.3 percent year-over-year in December, and it continues trending up.

TRUCKING

◆ *Freight volumes rose in January to level not seen since October 2005*

DOMESTIC TRUCKING PRICING





JANUARY 2014: FREIGHT INDEX UP 46 PERCENT YEAR-OVER-YEAR

Spot market freight availability rose 24 percent in January, exceeding December levels for only the second time since the DAT North American Freight Index was launched in 1996. More freight flowed to the spot market in both December and January, as shippers and their contracted carriers struggled to meet capacity challenges caused by extreme weather.

Year-over-year freight volumes were exceptional, up 46 percent to a record level not seen since October 2005, when pent-up demand drove volume to an all-time high in the aftermath of Hurricane Katrina. Van freight increased 52 percent; refrigerated ("reefer") loads added 83 percent; and flatbed freight nearly doubled, with a 93 percent increase.

Compared to December, load availability in January rose 21 percent for both vans and reefers, while flatbed loads increased 33 percent.

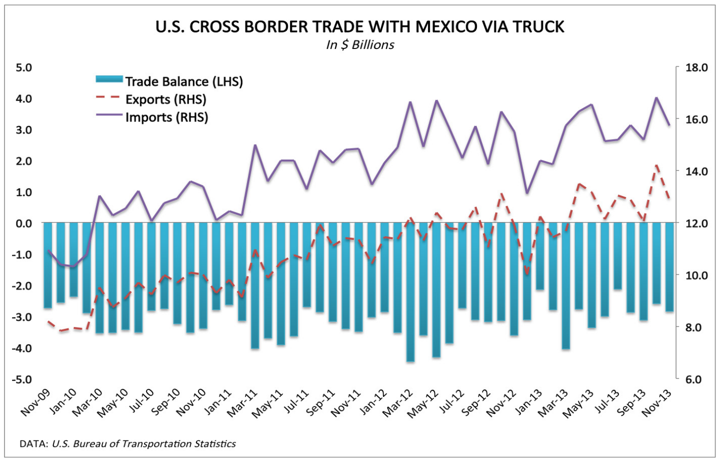
Rates in the spot market also remained unusually high in January, despite a slight decline from December's rate surge. Rates dipped 1.4 percent for vans, 0.6 percent for reefers, and 5.5 percent for flatbed, month-to-month. Compared to January 2013, rates rose 16 percent for vans, 4.7 percent for reefers and 4.0 percent for flatbeds.

DAT RateViewTM recorded a 2-cent (1.4 percent) month-to-month decline in the national average spot market line-haul rate for dry vans in the U.S. in January, not including fuel surcharges. The fuel surcharge for vans increased from 47 to 48 cents during the period, so the total rate lost only one penny, dropping from $1.94 to an average of $1.93 per mile, including fuel.

The dip in rates was accompanied by a month-to-month increase of 21 percent in load availability and a 1.9 percent drop in truck capacity on the company's DAT Load Boards. This yielded a 23 percent increase in the load-to-truck ratio for dry vans on the spot market, from 3.6 available loads per truck in December to 4.5 in January.

On a year-over-year basis, load volume rose 52 percent for vans in January, while capacity contracted 17 percent. The resulting load-to-truck ratio increased 83 percent, from 3.6 to 4.5, compared to January 2013.

Van spot market rates rose 20 cents (16 percent) compared to January 2013, not including fuel surcharges, which remained unchanged for that period. The total rate, including the surcharge, increased 12 percent, from $1.73 to $1.93 per mile.



U.S. TRADE DEFICIT WITH CANADA VIA TRUCK WIDENED TO $2.5 BILLION IN NOVEMBER

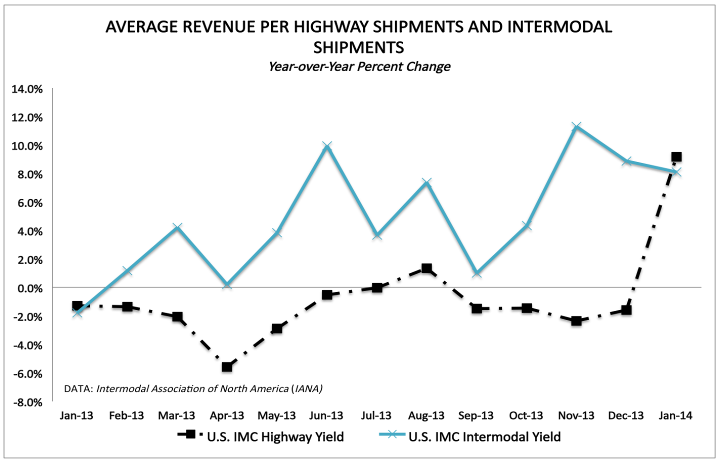
U.S. exports to Mexico via truck expanded 8.4 percent in November year-over year, and totaled $12.9 billion. Exports to the U.S. southern neighbor have expanded year-over-year for eight consecutive months despite a sluggish economy. Year-to-date, from January through November, exports to Mexico via truck were up 6.4 percent, which compares unfavorably with the 11.6 percent expansion seen over the same period in 2012. Mexico's economy grew only 0.7 percent in the fourth quarter for a full-year growth of 1.1 percent.

U.S. imports from Mexico via truck increased 1.5 percent year-over-year in November, totaling $15.7 billion. A stronger performance of the U.S. economy in the second half of 2013 boosted higher demand for Mexican goods. Year-to-date, from January through November, U.S. imports from Mexico increased 1.0 percent. This compared unfavorably with the 10.0 percent expansion seen during the same period in 2012.

The U.S. trade deficit with Mexico widened to $2.85 billion in November from $2.60 billion in October.

RAIL

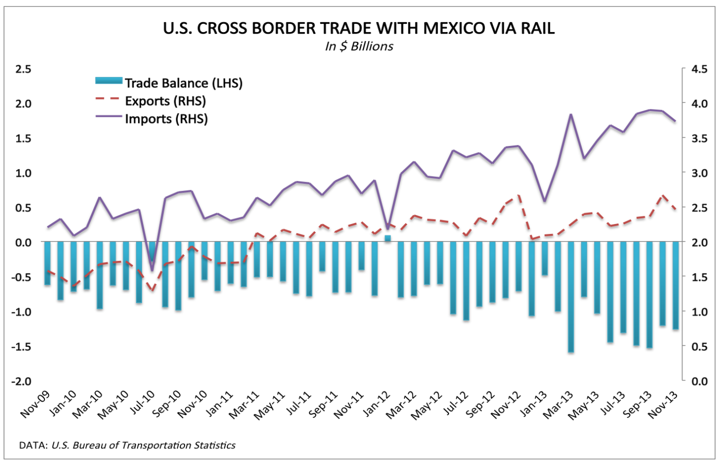
- **U.S. exports to Mexico via rail fell in November for the first time in five months**
- **U.S. rail transportation of chemicals and metals fall as manufacturing faces slowdown**



JANUARY 2014: AVERAGE REVENUE PER HIGHWAY SHIPMENTS UP 1.6 PERCENT; AVERAGE REVENUE PER INTERMODAL SHIPMEMTS UP 8.1 PERCENT

The average revenue per highway load rebounded year-over-year in January after 4 consecutive months of contraction. The yield rose 9.2 percent year-over-year to $1,573. From December to January 2014, the average revenue increased 6.6 percent (or $98).

The average revenue per intermodal load advanced 8.1 percent to $2,757, after rising 8.9 percent in the prior month. From December to January 2014, the intermodal yield fell 5.2 percent (or $152).



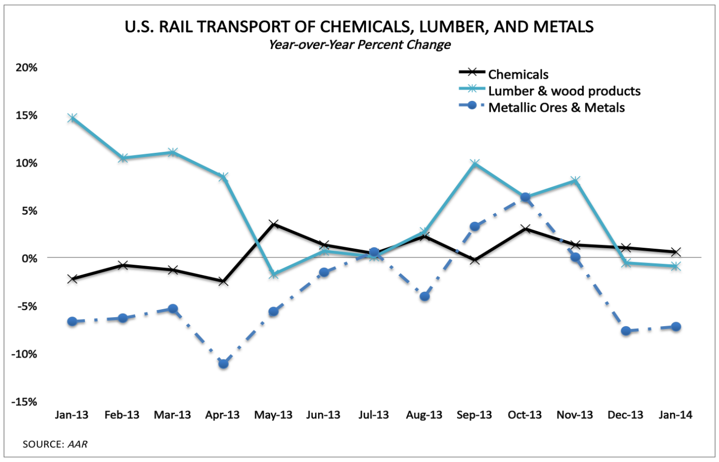
U.S. TRADE DEFICIT WITH MEXICO VIA RAIL WIDENED TO $1.26 BILLION IN NOVEMBER

U.S. exports to Mexico via rail fell for the first time in five months on a tough year-over-year comparison. The trade declined 7.6 percent in November year-over-year, for a total of $2.5 billion. Year-to-date, from January through November, exports to Mexico via rail were unchanged year-over-year. This compared unfavorably with the 12.4 percent year-over-year expansion seen in the same period in 2012.

U.S. imports from Mexico via rail expanded 10.3 percent year-over-year in November, totaling $3.7 billion. Imports from Mexico have increased for 22 straight months, evidencing the growing preference of rail transportation over truck. Year-to-date, from January through November, U.S. imports from Mexico via rail were up 14.6 percent year-over-year, similar to the 14.9 percent year-over-year expansion seen in the same period in 2012.

The U.S. trade deficit with Mexico via rail widened to $1.26 billion in November from $1.21 billion in October.

The U.S. trade deficit with Canada via rail widened to $3.38 billion in October from $2.83 billion in September.



JANUARY 2014: CHEMICALS UP 0.6 PERCENT; LUMBER DOWN 0.9 PERCENT; METALS DOWN 7.2 PERCENT

U.S. chemical carloads edged up 0.6 percent year-over-year in January to total 147,280, underscoring the softness in this industry.

U.S. lumber and wood products carloads dipped in January by 0.9 percent year-over-year after sliding 0.6 percent in the prior month. The slid reflected a setback in the home construction market.

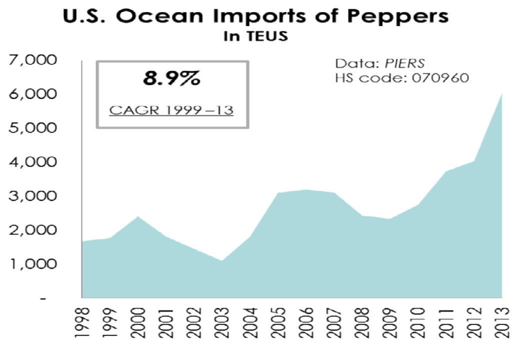
Rail transportation of metallic ores and metals declined 7.2 percent in January after contracting 7.7 percent in December.

COMMODITY SNAPSHOT

- ***U.S. containerized imports of peppers via ocean grew 8.9 percent a year (CAGR) between 1999 and 2013***
- ***Canada gained most sourcing share of U.S. peppers imports in the last 15 years***

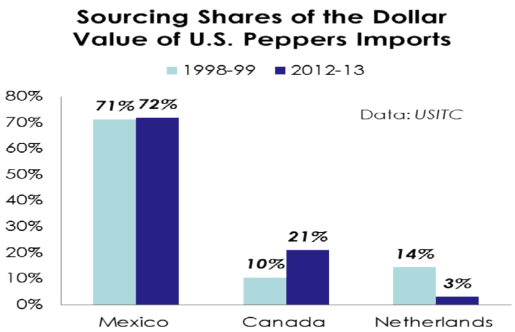
SELECTED COMMODITY: *PEPPERS*

U.S. ocean imports of peppers (HS code 070960) via reefer container jumped 50 percent in 2013, totaling 6,049 TEUs. The volume of pepper imports has grown exponentially in the last 15 years at an annual rate of 8.9 percent, partly because of a growing Hispanic population. According to a recent Census study, over the last 20 years, Hispanics (and Asian Americans) have consistently increased their share of the U.S. population, and by the end of 2060, Hispanics will represent 31 percent of the U.S. population, up from 17 percent in 2012.



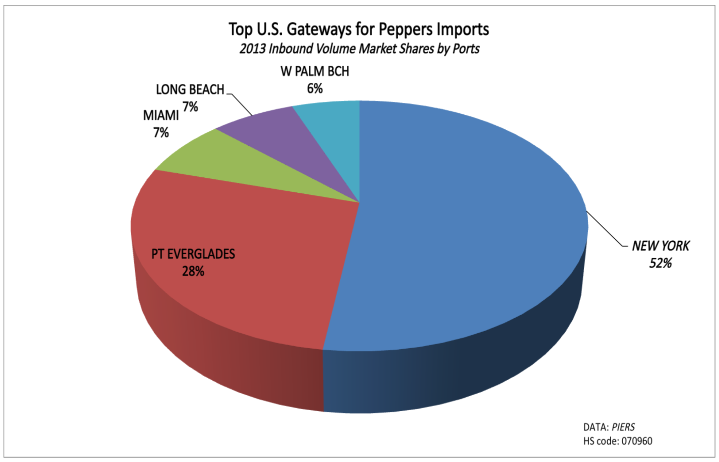
PEPPER IMPORTS VIA REEFER CONTAINER EXPAND 8.9 PERCENT A YEAR, 1999-2013

The U.S. population is currently facing a changing ethnic makeup, and in the long run this is definitely favorable to fresh produce consumption because Hispanics and Asian Americans consume fruits and vegetables at higher rates than African Americans and whites, according to a 2010 study.



MEXICO IS TOP SUPPLIER BUT CANADA DOUBLES SOURCING SHARE

As measured by import value, Mexico is by far the largest supplier of peppers to the U.S., holding 72 percent of the market in 2012-13, merely unchanged from 1998-99. The warm climate, long growing season, and proximity to the United States give Mexico advantages over its rivals. Membership in the North American Free Trade Agreement also boosted Mexico's increasing presence in the U.S. fresh vegetables import market. Under NAFTA, tariffs for horticultural products were reduced and eventually eliminated in 2003. Naturally, NAFTA favored Canada as well. In 2012-13, Canada sourced 21 percent of all U.S. pepper imports, up from 10 percent in 1998-99.

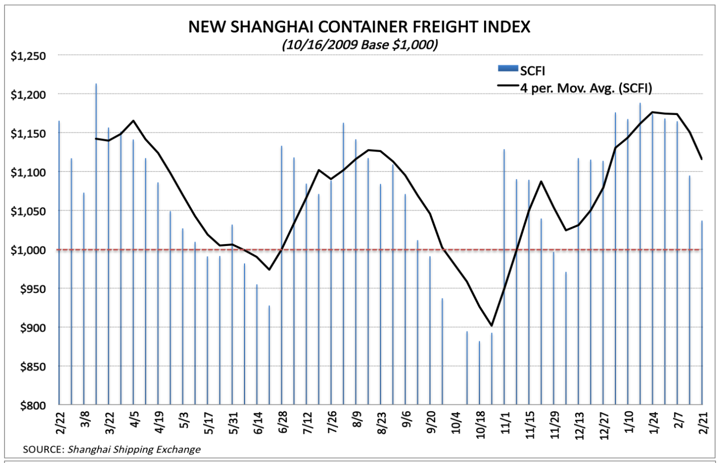


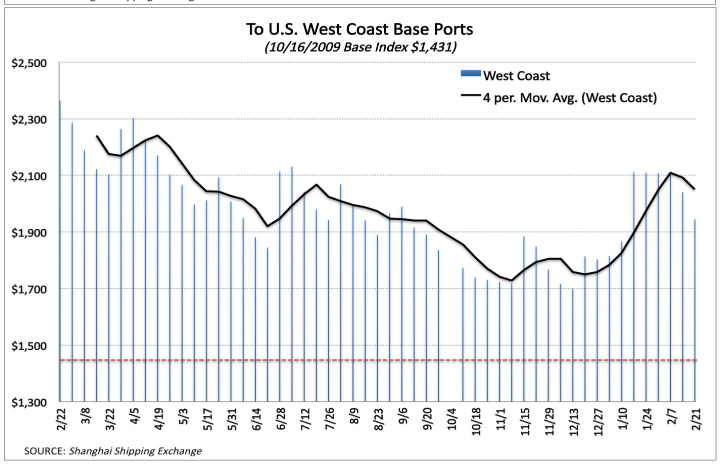
PORT OF NEW YORK GAINED MOST IMPORT TRAFFIC OF PEPPERS IN 2013

In 2013, Port of New York and New Jersey handled 52 percent of the total TEU volume of U.S. pepper imports, up 14 percentage points from a year earlier, while Port Everglades handled 28 percent of pepper imports, up 1 percentage point from 2012. Port Miami gained 1 percentage point of the pepper import traffic in 2013 over a year earlier, while the Port of Long Beach lost 4 percentage points in pepper import traffic during the year.

INTERNATIONAL SHIPPING PRICES

◆ ***Shanghai-to-U.S. Spot Rates largely on decline***





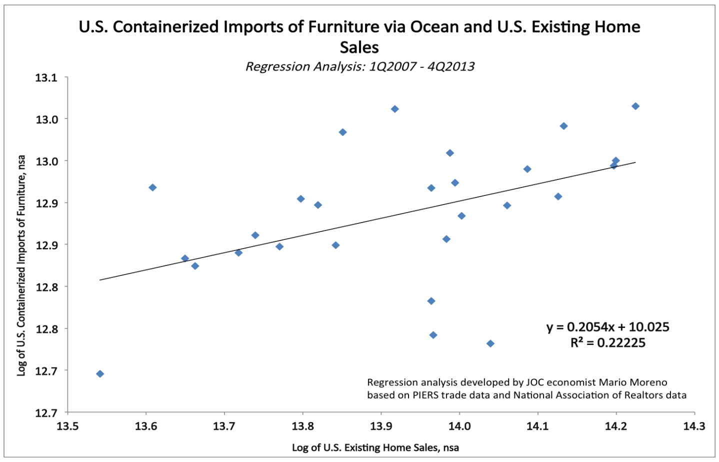
THE SHANGHAI CONTAINERIZED FREIGHT INDEX REVERSED UPWARD TREND

The Shanghai Containerized Freight Index, which measures average export spot rates, declined on Feb. 21 for the sixth straight week, with losses across all major trade lanes. The index is now trending down, and stood below its four-week moving average for the fifth straight week.

On Feb. 21, the freight rate for the voyages from Shanghai to base ports on the U.S. West Coast was $1,945 per 40-foot-equivalent unit, down 4.7 percent (or $96) over the prior week. Rates from Shanghai to the U.S. East Coast ports declined 2.1 percent (or $69) in the week ending Feb. 21 from the prior week to $3,294 per FEU.

Transpacific Stabilization Agreement carriers plan to hike the freight rate by $300 per FEU in mid-March, and impose a further hike on May 1 by an amount that has not yet been determined.

CORRELATIONS



FOR EVERY 1 PERCENT CHANGE IN EXISTING HOME SALES THERE'S A 0.2 PERCENT CHANGE IN FURNITURE IMPORTS

Due to an improving labor market, cheap mortgage rates, and affordable prices, the existing home sales market experienced a notorious rebound in the last 2 years. With that, came a similar notorious rebound in the furniture import trade.

But in 2014, the trade will face a significant challenge. Sales of existing homes sharply decelerated in the 4th quarter of last year to its slowest pace since 2011 mostly due to tight supply (not many sellers out there), and higher mortgage rates.

By constructing an econometric model, I determined that for every 1 percent change in quarterly sales of existing homes, we can expect, on average a 0.2 percent change in the volume of furniture imports via ocean container. Unfortunately, the outlook for the existing home sales market is negative. I am expecting a contraction of 5% this year.

Furniture is a top import commodity. By itself, it accounts approximately for 10% of the total U.S. containerized import trade, with Asia supplying more than 90% of all U.S. furniture imports.

An improved housing market boosted demand for other home goods as well, for instance cooking appliances and laundry machines, as well as some housing inputs such as granite, and rugs & floor coverings.

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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