



# West Coast Container Traffic Trends

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For years, we have been developing for our own use quarterly statistics on the container traffic of the major ports on the West Coast of North America. The data is readily available from port authorities and unlike economic and trade data suffers from few measurement issues. We thought we would share this data because it may be of interest to others in this turbulent period. We also comment briefly on one indicator of the dry bulk trade, crude steel production.

Our expectations for 2009 are that total U.S. and Canada container traffic will decline by about 10% and that of the world by about 5%.

## Year-to-Date West Coast Container Volumes

Overall West Coast trends:

- Drop in container traffic from 5.5 million TEU in Q1 2008 to 4.4 million in Q1 2009.
- 20.4% decline for the coast as a whole, 21.5% fall in U.S. port traffic and 11.7% fall in Canadian port traffic.

Only the Port of Prince Rupert experienced growth:

- It has a new container terminal that began operations in late 2007.
- It has grown by becoming a port of call for existing services, one service at startup and a second in mid 2008.
- It handles about 1% of the total West Coast volume

Of the U.S. ports:

- The traffic decline was spread across the coast. Market shares changed little between the Pacific Northwest ports and those of California.
- The largest absolute and percentage decline was in the Port of Long Beach.
- The lower traffic declines, at 15%, were in the ports of Tacoma and Oakland.

The following table summarizes the container volumes of the main West Coast ports in the first quarter of 2009 and compares them with those of the first quarter of 2008. The U.S.

West Coast Container Volumes First Quarter 2008 and 2009

Port and Region	Container Traffic YTD March			Market Share	
	Traffic 2008 (TEU)	Traffic 2009 (TEU)	Percent Change (%)	YTD March 2008 (%)	YTD March 2009 (%)
Canadian Ports					
Port Metro Vancouver	582,097	491,519	-15.6	10.6	11.3
Port of Prince Rupert	21,041	41,043	95.1	0.4	0.9
Total Canada	603,138	532,562	-11.7	11.0	12.2
Pacific Northwest					
Seattle	431,101	329,274	-23.6	7.9	7.5
Tacoma	444,383	379,174	-14.7	8.1	8.7
Portland	65,565	48,634	-25.8	1.2	1.1
Total Pacific Northwest	941,049	757,082	-19.5	17.1	17.3
Oakland	545,702	459,865	-15.7	9.9	10.5
Southern California					
Los Angeles	1,849,885	1,527,402	-17.4	33.7	35.0
Long Beach	1,549,055	1,091,468	-29.5	28.2	25.0
Total Southern California	3,398,940	2,618,870	-23.0	61.9	60.0
Total USA	4,885,691	3,835,817	-21.5	89.0	87.8
Total West Coast	5,488,829	4,368,379	-20.4	100.0	100.0

port traffic includes domestic container movements such as the Alaskan and Hawaiian trades while the Canadian traffic is virtually all international.

For the coast as a whole, container port traffic declined from about 5.5 million TEU to 4.4 million TEU, or by about 20%. Most ports experienced declines of 15% to 30%.

In the following two pages, we take a closer look at trends in 2007 to 2009. While not necessarily predictive, container traffic volumes are a leading indicator of economic activity to some degree. We first spotted a subtle change in West Coast container traffic patterns in the first half of 2007. But we then had no idea of the scale of the economic crisis that this indicator was flagging.



## Monthly West Coast Container Traffic

We examine below the monthly container volumes from January 2007 to March 2009. These show the evolution of the traffic in detail. The seasonality of West Coast traffic is still evident in the data in spite of the major volume drops of late 2008 and early 2009.

The upper chart presents the monthly container volumes and the lower the year-to-year changes, such as March 2009 versus March 2008.

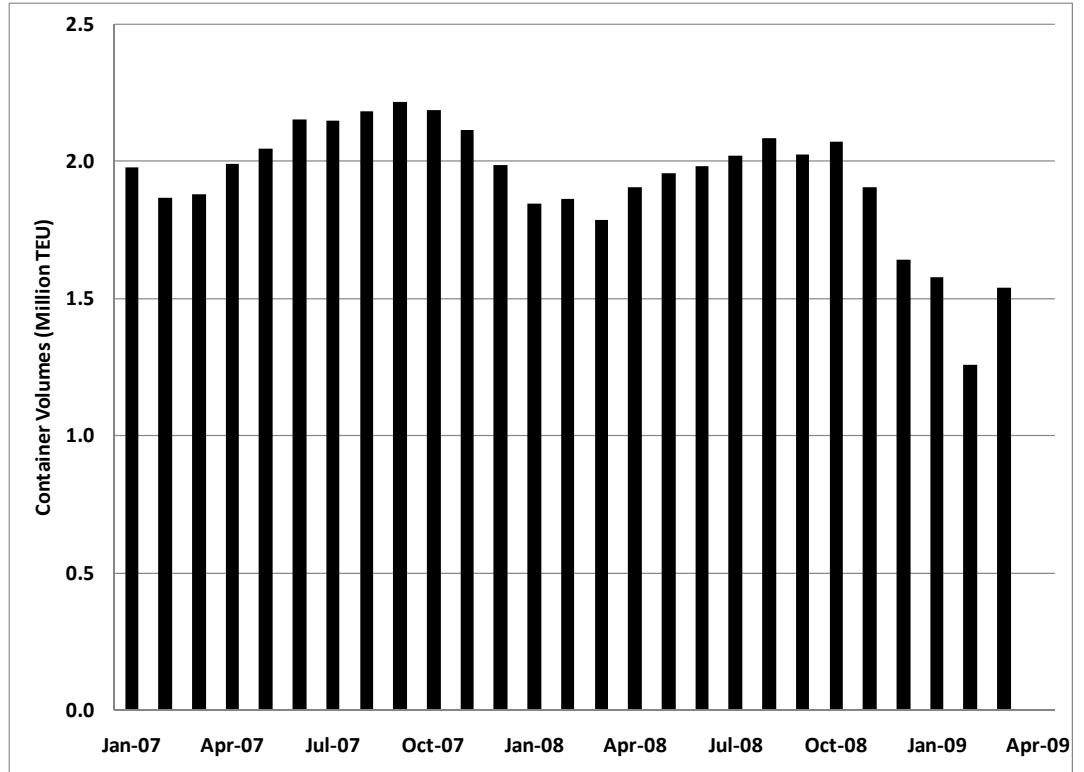
### Container Volumes by Month 2007 - 2009 (Million TEU)

#### Monthly volumes:

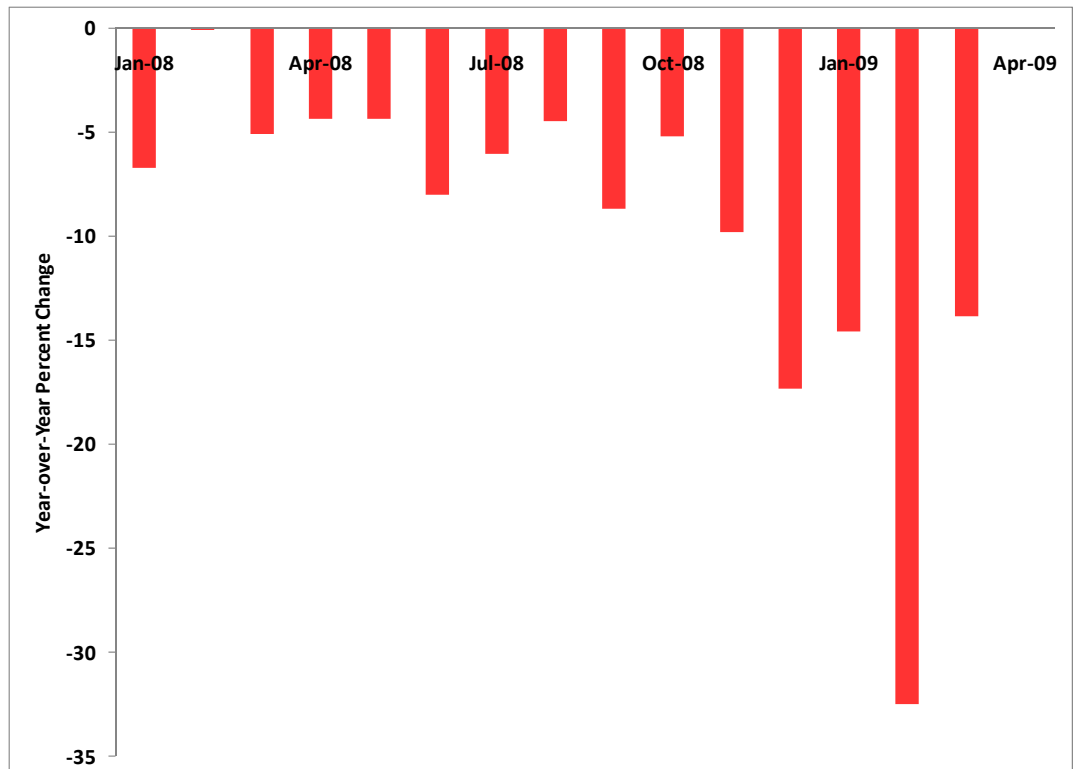
- The peak container volume was about 2.2 million TEU in mid to late 2007.
- The volumes in late 2008 and early 2009 were typically around 1.5 million TEU.
- There is distinct seasonality with January to March typically slow months and peaks in the late summer to early fall.

#### Year-over-year percent changes:

- All changes in this period were negative. There was no month in 2008 or 2009 that had a greater container volume than that of the month a year previous.
- There was an acceleration in the declines starting in November 2008.
- The largest decline was in February 2009. This large decline may have resulted in part from Chinese New Year in late January, which would have reduced loadings in Chinese ports in this period.



### Year-over-Year Percent Change by Month: 2008 – 2009

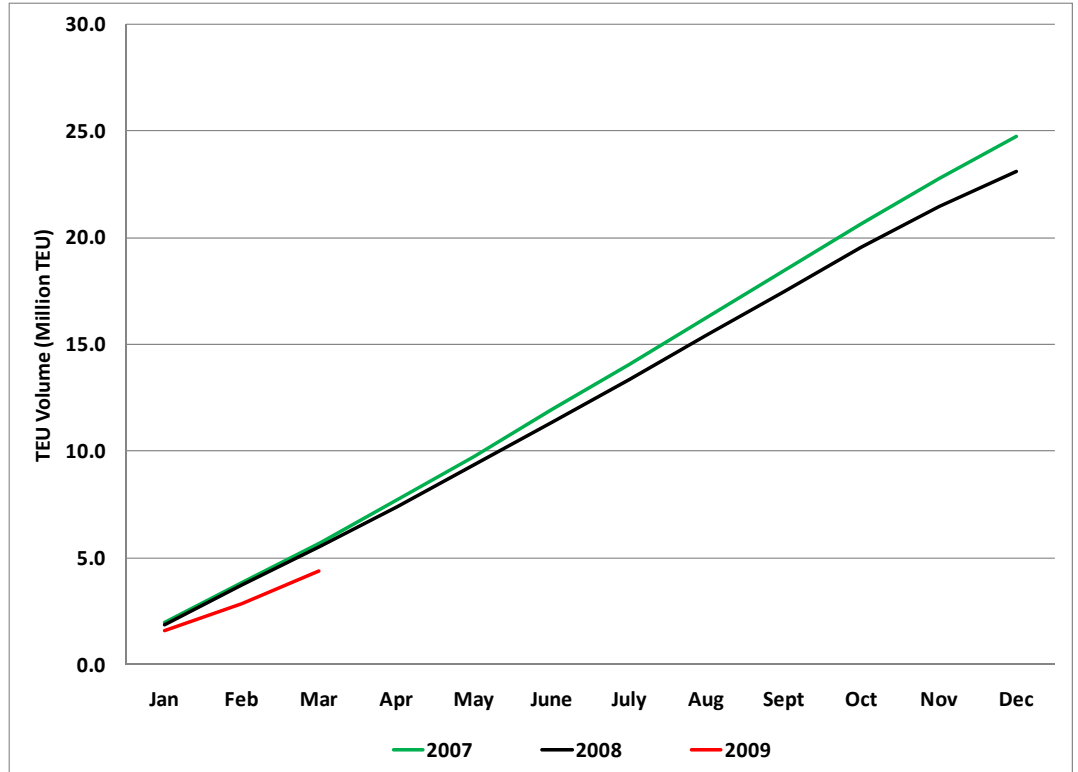




## Cumulative Monthly West Coast Container Traffic

This page addresses cumulative container volumes by month. The upper chart shows the buildup by month of annual container volumes for 2007 and 2008, and the buildup to March 2009. The lower chart shows the percent annual change in cumulative container volumes by month for 2008 versus 2007 (in red) and 2009 versus 2008 (in yellow). By mid year, cumulative trends can be reasonable predictors of full years. For example, the decline of cumulative volumes by June 2008 had reached 5%; in spite of all the year-end turmoil, the figure for the year was -7%.

### Cumulative Container Volumes 2007 - 2009 (TEU)



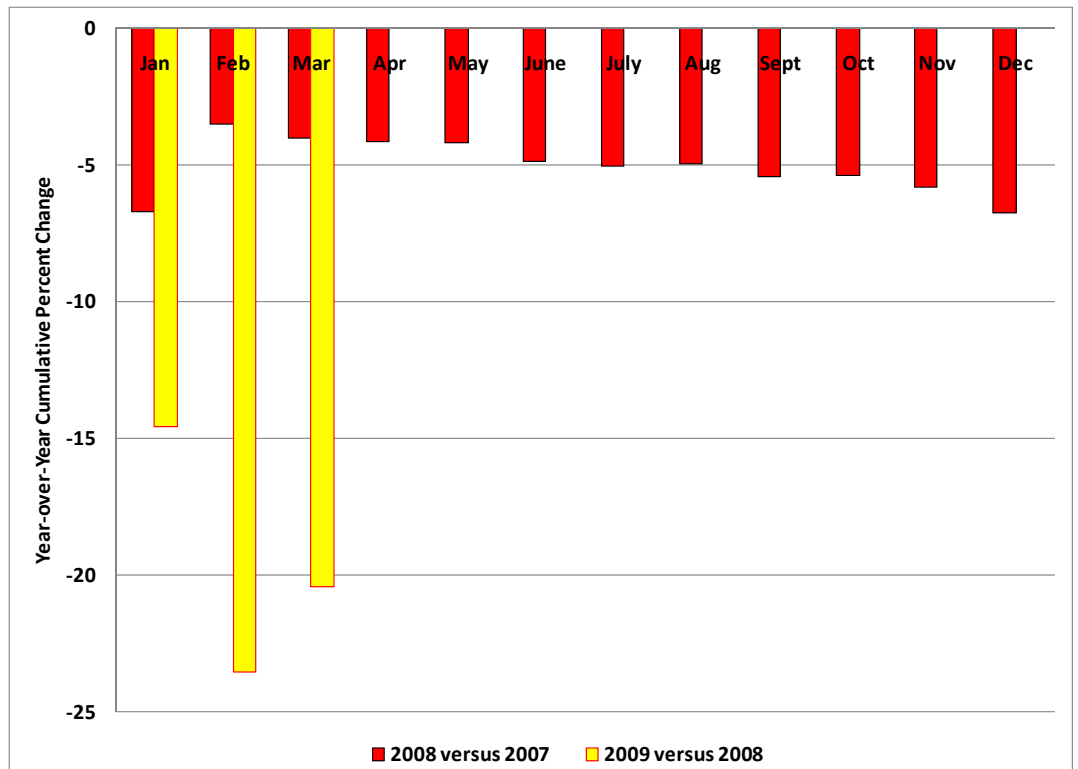
#### Cumulative container volumes:

- The 2007 and 2008 lines show that 2008 started as a somewhat slower year and that only by the fall did trends diverge in a major way.
- The traffic in January to March 2009 is well below that of 2008 and 2007.

#### Year-over-year change:

- The cumulative year-over-year changes increased slowly in the first half of 2008 to reach -5% by June and remained at this level to August.
- The decline became much more pronounced by the fall of 2008.
- The data for 2009 is too volatile to indicate any trends although this may change by mid year.
- We expect total continental U.S. and Canada container volumes (West, Gulf and East Coasts) to decline by about 10% in 2009.
- We expect 2009 West Coast volumes to decline by more, probably in the 10% to 15% range.
- We do not expect the 2009 West Coast declines to be as great as the 20% in the year to March.

### Year-over-Year Cumulative Percent Change by Month: 2008 – 2009





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### Not shown on the graphs:

- Up to about 2000, world steel production increased at some 2% a year.
- Between 2000 and 2007, world production increased at 5% to 10% in most years.
- Crude steel production increased from about 0.85 billion tonnes (Bt) in 2000 to reach a peak of 1.34 Bt in 2007 (2008 was 1.33 Bt).
- Most of the production increase was in China where growth rates of 20% a year were typical in 2000–2007.

### Annualized world steel production 2008-09:

- Peaked at 1.4 Bt in mid 2008.
- Has been around 1.0 Bt in recent months.
- Slight uptick in March 2009 to 1.1 Bt.

### Annualized China steel production:

- Peaked at 0.6 Bt in mid 2008.
- Declined to a 0.4 Bt trough in October–December 2008.
- Has drifted up to about 0.55 Bt in March 2009.

The recent increase in Chinese steel production explains virtually all of the increase in world steel production. Steel production in the rest of the world has been essentially constant in recent months.

The trends in steel production largely parallel those of the Capesize market: a peak in mid 2008, a trough in late 2008 and a slight upturn in 2009.

## A Dry Bulk Market Indicator

While we focus on the container trades, we do watch the dry bulk market to some degree. The Baltic Dry Index (BDI), which is based on a compilation of charter rates for several typical voyages of Capesize, Panamax and Handysize vessels, declined by some 90% from its peak in mid 2008 to a trough in December 2008. Since December, it roughly doubled but in recent weeks has been drifting up and down.

The Capesize vessels (generally between 100,000 and 250,000 deadweight tonnes, although some ore carriers are larger) are the simplest to follow because virtually all of these ships transport only iron ore and thermal and metallurgical coal. The smaller dry bulk ships transport a multitude of cargoes and many forces affect their supply-demand balances.

The seaborne iron ore and coal trades are about equal in tonnage, with thermal coal making up about 3/4 of the coal trade. There was almost as much deadweight capacity of Capesize ships on order in early 2009 as in the world fleet. While a number of these new ships may be cancelled or postponed, there is likely to be a substantial increase in this fleet and an oversupply of ships.

One indicator we like to follow regarding the market for Capesize ships is world crude steel production (see chart below). While steel mill inputs include scrap steel, we consider crude steel production a reasonable proxy for the demand for Capesize ships. Like West Coast container port volumes, crude steel production is unambiguous and readily available.

While Chinese crude steel production has been at an annual rate of about 500 million tonnes in recent months, we have read that steel demand in the country is closer to 400 million tonnes. If this proves to be true, one can expect a very soft market for Capesize ships to evolve.

### Annualized Crude Steel Production 2008–2009 (Billion Tonnes)

