

ten year HORIZONS

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U.S. GLOBAL CONTAINER TRADE OUTLOOK

Extremely rapid global growth of 4.4% in 2004, 5.6% in 2005, and 6.7% in 2006, and then move higher again for the first time in over 20 years. Leading the world were the U.S. with growth of 4.4% and China at 9.7%. But, Eastern European economies, other emerging economies, and South America all added to the robust performance. Individual standouts included Venezuela (17.9%), Argentina (9%), Turkey (8.9%), India (6.7%), and Vietnam (7.8%). Not surprisingly, the growth in containerized trade volumes benefited strongly from that fast pace of economic growth. Overall trade to and from the U.S. rose 11.2% in 2004 to a record 23.8 million TEUs, following growth of 8.1% in 2003 and 10.1% in 2002.

Although many factors worked against both economic and trade growth — high oil prices, the war in Iraq, and rising interest rates — relentless U.S. consumer spending stimulated by tax cuts, still low interest rates, and a surge in household net wealth fueled by gains in asset prices, particularly in housing, drove the U.S. expansion. In 2004 the U.S. personal savings rate sank to its lowest level (1.3%) since 1934 (1%) during the Great Depression, and by this May had fallen to 0.6%.

Robust U.S. domestic demand drove imports to 16 million TEUs, a 12.9% increase from 2003 after a gain of 7.8% the prior year. Meanwhile, strong growth in key trading partners and the weaker dollar pushed exports up 8.0% to 7.8 million TEUs following an increase of 8.9% in 2003. With growth in imports exceeding that of exports, the already huge trade gap and the accompanying external debt continued to mount.

Last year's rapid global growth is projected to moderate gradually to a still solid 3.0% in 2005/06. Less stimulatory fiscal and monetary policies, rising interest rates and reduced liquidity, and elevated oil prices are the key factors supporting this view. Both main engines of the world economy — the U.S. and China — are projected to slow moderately, while Europe is projected to continue its gradual recovery and the Euro area continues to struggle.

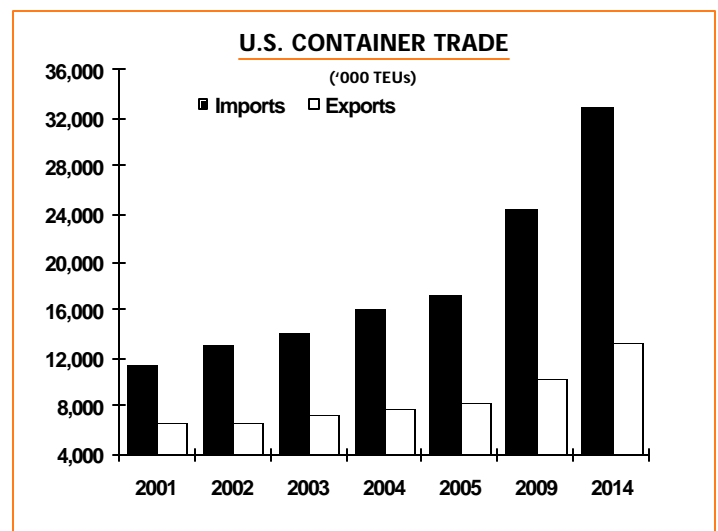
The performance of the U.S. economy will remain a significant factor driving global growth and liner-trade volumes. With the Fed continuing to tighten monetary policy as it moves toward a more neutral level of interest rates and with the likelihood that energy prices will remain high even as they fall back from recent record levels, U.S. growth is forecast to decelerate to 3.5% or so in 2005 and to 3% for the following few years before slipping to around 2.8% over the remainder of the forecast horizon. Our long-term forecasts are based on the assumption that U.S. growth will average 2.9% annually through 2014.

Over the forecast period, import prices are expected to rise in

For sample purposes only

prices are forecast to follow a continuous upward path. A renewal of the dollar's downward trend, rising import prices, and lower domestic demand will curtail import growth in the medium-to-longer term. Total U.S. imports are projected to grow 6.1% from 2010 to 2014 as compared with 9% from 2005 to 2009. In contrast, forecasts for U.S. export growth have been revised higher, to an average of 5.2% for both time periods, 2005-2009 and 2010-2014.

There is no shortage of risks to the outlook: a dollar crisis if



foreigners balk at funding the current-account deficit; loftier-than-expected oil prices; a correction in U.S. asset prices prompted by tighter monetary policy, which would negatively impact U.S. growth; a global recession that would reduce household net wealth as well as reduce federal budget deficits as the baby-boom generation ages; greater protectionism should China not revalue the yuan and make it more flexible, a development that could harm global growth and trade flows; spreading war in the Middle East; a nuclear confrontation; and a terrorist attack on the U.S. homeland. Meanwhile, transportation congestion at ports and on roads, railways, and bridges will need to be addressed over the forecast horizon. Greater efficiencies and improved productivity will serve to head off the problem for only so long. In the medium term, increased spending on relevant infrastructure — both public and private — will be required lest transportation considerations become a factor limiting trade growth.

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IMPORT OUTLOOK

Total U.S. containerized imports for 2004 weighed in at nearly 16 million TEUs, a 12.9% increase, and only marginally (1.15%) above our forecast of 15.8 million TEUs. Inbound volume growth essentially met the rule-of-thumb used by liner-trade analysts — for every one-percentage point of GDP growth, import volume rises three percentage points. With U.S. real GDP growth at 4.4% in 2004, import-volume growth was nearly three times faster than the pace of GDP. Although liner-import volumes for 2005:Q1 grew 10% year-over-year, the recent intense, double-digit rate of growth in total import volumes is not expected to continue over the forecast horizon as global and U.S. economic growth gradually decelerate and a weaker dollar improves the competitiveness of producers operating in the U.S.

Looking ahead, we expect a slowdown in liner import growth as the U.S. expansion moderates. The housing boom, which created a large wealth effect and stimulated spending and imports both directly (for housing-related goods) and indirectly, is expected to cool down as the Federal Reserve keeps tightening monetary policy. Higher rates will force consumers to allocate more income toward servicing debt and less to spending, although the ongoing solid growth in jobs and incomes should limit the negative impact on expenditures. Also, the stimulus from the Bush administration's large tax cuts has abated. And, surprisingly high energy prices will act as a tax and constrain consumer spending.

Meanwhile, as U.S. manufacturers struggle to compete in an increasingly competitive, global marketplace, outsourcing will likely become more and more common and generate greater opposition to trade openness. The persistent swelling of the U.S. current-account gap, rising trade tensions with China, and the exodus of U.S. producers could shift the focus of trade policy from further liberalization to greater protectionism. Meanwhile, the likely revaluation of the Chinese yuan, while not expected to drastically alter prices or trade volumes, will still marginally hurt the competitive edge Chinese companies have long enjoyed.

Our 2005 forecast for U.S. liner import growth is 8.0%, with average growth of 7.4% over the 10-year horizon. Only twice in recent years — in 2001 with the terrorist attacks of September 11 and 2003 with the start of the war in Iraq — have import volumes not grown by double-digits. A long-term concern is the lack of resources being allocated to the development of infrastructure to address congestion, disruptions, and delays at ports and on the nation's roads and railroads. The problem is already driving up shipping costs and eventually could slow import volumes.

The top commodity imported into the U.S. in 2004 was furniture, accounting for 14.7% of all imports. As the U.S. housing boom loses steam with higher interest rates, furniture could slip in the rankings and constrain the overall growth of inbound liner trade. China remains the top source for U.S. liner imports, and our forecasts predict that it will bolster its position in the next 10 years, grabbing a 60% market share of all U.S. containerized imports by 2014, up from 39% in 2004. Import volumes from Eastern Europe are estimated to grow the fastest over the 10-year forecast horizon, with average annual growth of 15.7%, followed by the Middle East with 11.2% and Africa with 9.7%.

EXPORT OUTLOOK

U.S. containerized exports recorded robust growth of 8.0% in 2004 after an increase of 8.8% in 2003 and 0.8% in 2002. The impressive gain reflected robust global economic growth, which turned in the fastest performance in over 20 years. In addition, the depreciating dollar helped improve the competitiveness of U.S.-based producers in various sectors abroad.

The forecast for containerized exports calls for robust gains this year and next, although we see a cooling of the pace compared with recent years. Exports are expected to expand a solid 6.6% in 2005 and 7.0% in 2006, reflecting past and prospective dollar weakness and continued, albeit less robust, global growth. From 2007-2014, container export growth is expected to slow further, averaging 5.2% in both 2005-2009 and 2010-2014. That slower pace compared with recent times and the early years of the forecast period reflects the view that the U.S. dollar will stabilize in the short-term then partially recover its earlier losses. Meanwhile, global economic growth is expected to stay solid, averaging around 3% per year.

Exports to various countries will vary depending on regional growth, relevant exchange rates, the pattern of direct foreign investment, outsourcing, etc. Export trade growth to Asia will be solid, averaging 6.5% (6.9% for Northeast Asia, including a strong 11.5% for China) in the 2005-2014 period. Exports to India and the Subcontinent are also forecast to grow rapidly, by 7.6% per year on average. India will see 7.0%, Bangladesh 11.5%, and Vietnam 12.3%. Exports to Central America are projected to expand by 5.6%. In contrast, sluggish economies in Northern Europe will limit U.S. export growth there at 1.5% on average over 2005-2014. A bright spot will continue to be Eastern Europe, where export growth is seen averaging 6.2%.

Risks to the outlook are tilted to the upside. Our forecast that import growth (7.4%) will outpace export growth (5.3%) over the 2005-2014 period suggests an ever-bigger U.S. current-account gap and a further build-up of external debt. Such trends might not be sustainable. Thus, the dollar's anticipated weakness could turn into a crisis that drives U.S. interest rates higher, asset prices lower, and the economy into recession. That could severely curtail U.S. imports, while pushing U.S. exports higher than we currently foresee.

Meanwhile, direct foreign investment and outsourcing will play a vital role in the geographical distribution of container trade. Government statistics indicate that a large portion of trade takes place between multinational corporations and their overseas affiliates and subsidiaries. Indeed, some 42% of all U.S. trade in goods in 2004 occurred between units of the same companies, including U.S.-based firms trading with their foreign divisions as well as foreign companies trading with their U.S. operations. Worth watching is the progress of CAFTA. Passage will result in greater exports from the U.S. to CAFTA countries of yarn and fabric as well as a host of consumer and industrial products that would become duty-free under the agreement. Also, U.S. agricultural exports should benefit from the likelihood that the ban by Asia on U.S. beef exports will be lifted fairly soon. Finally, China, a huge potential market, must eventually liberalize its home market for agricultural goods as required by WTO regulations.

U.S. CONTAINERIZED IMPORTS FROM THE WORLD IN TEUS

	TRANS-PACIFIC EASTBOUND			TRANS-ATLANTIC WESTBOUND				OTHER WORLD						TOTAL IMPORTS	
	NE-ASIA	SE-ASIA	TOTAL	N-EUR	MED	E-EUR	TOTAL	CN-AMR	CARIB	S-AMR	MIDEAST	IND/OTH	AFRICA		OCEANIA
1999															
GROWTH															
2000															
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2010															
2014															
AVERAGE GROWTH: 2005-2009															
AVERAGE GROWTH: 2010-2014															
AVERAGE GROWTH: 2005-2014															

U.S. CONTAINERIZED EXPORTS TO THE WORLD IN TEUS

	TRANS-PACIFIC EASTBOUND			TRANS-ATLANTIC WESTBOUND				OTHER WORLD						TOTAL EXPORTS	
	NE-ASIA	SE-ASIA	TOTAL	N-EUR	MED	E-EUR	TOTAL	CN-AMR	CARIB	S-AMR	MIDEAST	IND/OTH	AFRICA		OCEANIA
1999															
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AVERAGE GROWTH: 2005-2009															
AVERAGE GROWTH: 2010-2014															
AVERAGE GROWTH: 2005-2014															

Summer 2005

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US CONTAINERIZED TRADE WITH AFRICA

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IMPORTS (IN TEUS)													
	HISTORY					FORECAST					AVG GROWTH RATE		
Year	2000	2001	2002	2003	2004	2005	2006	2009	2010	2014	00-04	05-09	10-14
Egypt	16,662	17,242	19,807	22,611	23,391								
Ghana	3,102	4,698	5,597	5,583	5,322								
Ivory Coast	6,569	4,939	5,683	5,811	8,742								
South Africa	44,121	46,464	54,200	61,273	65,572								
Others*	18,904	22,346	22,311	29,920	32,205								
Total	89,358	95,689	107,598	125,199	135,231								

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EXPORTS (IN TEUS)													
	HISTORY					FORECAST					AVG GROWTH RATE		
Year	2000	2001	2002	2003	2004	2005	2006	2009	2010	2014	00-04	05-09	10-14
Egypt	32,611	34,407	35,846	44,231	43,165								
Ghana	5,998	4,790	5,089	6,952	7,753								
Ivory Coast	7,634	10,326	9,575	14,662	14,321								
South Africa	35,837	33,278	30,920	35,928	44,594								
Others*	36,173	39,512	40,892	57,833	65,424								
Total	118,253	122,313	122,322	159,606	175,257								

* Other Africa includes all other countries on the African continent.

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US CONTAINERIZED TRADE WITH SCANDINAVIA

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IMPORTS (IN TEUS)													
	HISTORY					FORECAST					AVG GROWTHRATE		
Year	2000	2001	2002	2003	2004	2005	2006	2009	2010	2014	00-04	05-09	10-14
Denmark	52,619	51,546	49,111	47,882	43,398								
Finland	25,616	26,255	28,955	28,331	31,213								
Norway	23,632	22,000	21,809	20,178	19,808								
Sweden	75,857	66,337	70,187	68,919	71,474								
Others*	85,086	92,381	89,287	88,847	96,384								
Total	262,810	258,519	259,350	254,157	262,277								

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EXPORTS (IN TEUS)													
	HISTORY					FORECAST					AVG GROWTHRATE		
Year	2000	2001	2002	2003	2004								
Denmark	13,537	13,056	11,556	13,565	14,361								
Finland	16,365	14,216	15,754	23,014	29,865								
Norway	10,286	9,501	8,644	9,606	10,483								
Sweden	29,449	25,562	23,355	25,176	27,546								
Others*	30,018	24,693	23,251	26,898	29,428								
Total	99,655	87,028	82,560	98,259	111,683								

* Imports and Exports: Other Northern Europe comprises Austria, Iceland, Ireland and Switzerland.

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