

Ports poised to lead economic recovery

Author: Mary Carr Mayle

With the worst of the economic downturn over, global commerce is starting to look forward again.

But where, exactly, is it headed?

In a panel discussion in Savannah earlier this month, the director of Georgia's ports, an Atlanta businessman specializing in port and industrial real estate and a nationally-known maritime economist offered their takes on the downturn, where we are now and what we can expect down the road.

How bad was 2009 for the shipping industry? Georgia Ports Authority Executive Director Curtis Foltz can sum it up in one sentence.

"Last year was the first year since the container came into wide use in 1956 that global trade actually declined," he said. "Clearly, we were in a time none of us had experienced before."

For ocean carriers, the downturn created something of a perfect storm - the sudden convergence of historically low rates and weak demand with the culmination of a decades' worth of investment in new ships.

"So these vessels start coming out of the shipyards at a time when trade is in its worst slump since World War II," Foltz said. "And the shipping lines respond by idling vessels, reducing staff, cutting the number of sailings and slow steaming - something that was almost unheard of in an industry that values speed."

That's the bad news. The good news is two-fold: The industry has clearly begun to recover, and Savannah - once again - is leading the pack.

In 2010, according to both the Wall Street Journal and the Journal of Commerce, carriers should expect to see global cargo volumes increase 3 percent to 5 percent. Carriers, in turn, will manage capacity to leverage rates, helping them to improve somewhat.

"Rates won't be back to where they were, but they will be moving in the right direction," Foltz said.

And that tracks with other positive indicators the national economy in general is on the mend, he said.

Among them:

- The housing market is getting better.
- Interest rates remain low for now.
- The labor market seems to be stabilizing. "The huge losses have slowed down, and we're not seeing the shedding of jobs like we were," Foltz said.
- Consumer confidence is increasing, causing retail sales to improve somewhat.
- U.S. manufacturing is recovering, and business sentiment is turning more optimistic.

Bouncing back

As for Savannah, the recovery appears to be in full bloom.

After following years of solid growth with a 9.9 percent dip in container volume in 2009, Georgia Ports bounced back to solid, double-digit growth for the first three months of this year.

Even with negative numbers for last year, the Port of Savannah has grown 196 percent between 1999 and 2009.

"The first quarter of 2010 was the best on record for GPA," Foltz said. "We're expecting more of the same in the next three quarters."

Georgia Ports' volume of 20-foot containers for 2010 is projected to be up at least 10 percent, Foltz said, with exports continuing to be strong and imports rebounding.

In March alone - the fourth straight month of double-digit growth - GPA moved a total of 227,860 TEUs, up 32.5 percent from March 2009. Exports totaled 115,628 TEUs, up 22 percent, while imports - at 112,233 TEUs - were up 45.3 percent.

A TEU is one 20-foot container. A 40-foot container is counted as two TEUs.

At Savannah's neighboring port to the north, volume was also bouncing back.

Charleston's total container volume of 113,750 TEUs was up 22 percent last month from March 2009, with exports up 14 percent and imports up 30 percent.

A countrywide trend

Across the nation's major retail container ports, import cargo volume is expected to be up 8 percent this month compared with April 2009. Solid increases are expected to continue through the summer as the U.S. economy improves, according to a Global Port Tracker report released earlier this month by the National Retail Federation and Hackett Associates.

"Retail sales are starting to improve, and retailers are importing merchandise in the quantities they need to meet that demand," said NRF Vice President for Supply Chain and Customs Policy Jonathan Gold. "We expect these numbers to continue to climb as merchants and their customers move away from the recession and back toward normal shopping habits."

U.S. ports handled 1.01 million TEUs in February, the latest month for which actual numbers for all ports are available. That was down 6 percent from January, as shipping hit its traditional slow point for the year, but up 20 percent from the unusually low numbers seen during February 2009.

February was also the third month in a row to show a year-over-year improvement after December broke a 28-month streak of year-over-year monthly declines.

March was expected to come in slightly higher at 1.02 million TEUs, a 6 percent increase over last year as spring products began to head for store shelves.

April is forecast at 1.07 million TEUs, up 8 percent from last year; May at 1.12 million TEUs, up 7 percent; June at 1.18 million TEUs, up 17 percent; July at 1.24 million TEUs, up 12 percent; and August at 1.32 million TEUs, up 15 percent.

The first half of 2010 is expected to total 6.5 million TEUs, up 10 percent.

"Port volumes have begun to rebound, and we expect growth to continue going forward," said Ben Hackett, founder of Hackett Associates. "Retailers were maintaining lean inventories during the recession but are carefully building back up."

The monthly Global Port Tracker covers the U.S. ports of Long Angeles/Long Beach, Oakland, Seattle and Tacoma on the West Coast; New York/New Jersey, Hampton Roads, Charleston and Savannah on the East Coast, and Houston on the Gulf Coast.

Filling warehouse space

One area where Savannah is not faring as well - at least on paper - is in port-related real estate. According to Steve Grable of Jones Lang LaSalle in Atlanta, 7.8 million of the Savannah port market's 42.7 million square feet of industrial space was empty at the end of 2009.

That's an 18.4-percent vacancy rate, compared with an average 11.8-percent rate in the Southeast port market.

"But that should start filling in as the boxes come back," Grable said. "At the rate Savannah's container volume is bouncing back, I wouldn't worry too much about that."

Grable is putting his money where his mouth is.

Jones Lang and LaSalle is currently marketing Phase I of RiverPort, a new business park in Jasper County designed to serve both Georgia Ports and, later, the planned Jasper Ocean Terminal.

Developed by the Stratford Co., a Dallas-based land investment firm, the first phase of RiverPort will add 3.5 million square feet of available space to the Savannah port's industrial inventory.

Grable's projection that the area will absorb available space and need more is based on more than just a hunch.

"The Department of Transportation projects U.S. freight flows to increase by more than 50 percent by 2020, while the volume of international container traffic is anticipated to more than double," he said.

The game changer

For East Coast ports, the opening of the expanded Panama Canal in 2014 will significantly boost imports from Asia, said maritime economist Bill Ralph.

He has researched and published global trade forecasts and analyses of container transportation for domestic and international ports, carriers and government agencies.

Ralph, president of R.K. Johns & Associates in New Jersey and a former publisher of the Journal of Commerce, cited a 2008 report from London-based Drewry Shipping Consultants that indicated fundamental changes in trade patterns were on the horizon.

"The West Coast ports are unlikely to go into long-term decline," the report stated, "(but) we do expect up to 25 percent of the West Coast ports' present import cargo base could be lost to the East and Gulf ports in the decade to come."

Ralph concurred, adding that ports on the East Coast should expect to pick up significant market share once the canal expansion opens.

"With only a return to moderate market growth projected, port competition will be intense," he said. "West Coast ports may still only be at 80 to 85 percent capacity through the end of this decade."

That said, Ralph added that East Coast ports need to take the necessary steps to be ready for the larger ships that will be coming through the canal.

"Dredging is a critical component, as is efficient terminal productivity and new development," he said.

In Savannah, dredging is the only piece of the equation Savannah is still missing, Ralph said, calling Georgia Ports "the model port for the rest of the country." "Not only does this port have an almost unprecedented level of cooperation and commitment from state leadership, it enjoys an excellent working relationship with the maritime community," he said.

"Port leadership has taken the long view, recognizing that it's not just all about boats - it's about courting the cargo owners, updating the infrastructure and streamlining the supply chain to improve efficiencies. "Once Savannah gets its deeper water, this port will have

everything it needs to come booming out of the recession."