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Outlook for the Drivers and Rules of Global Trade

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Summary

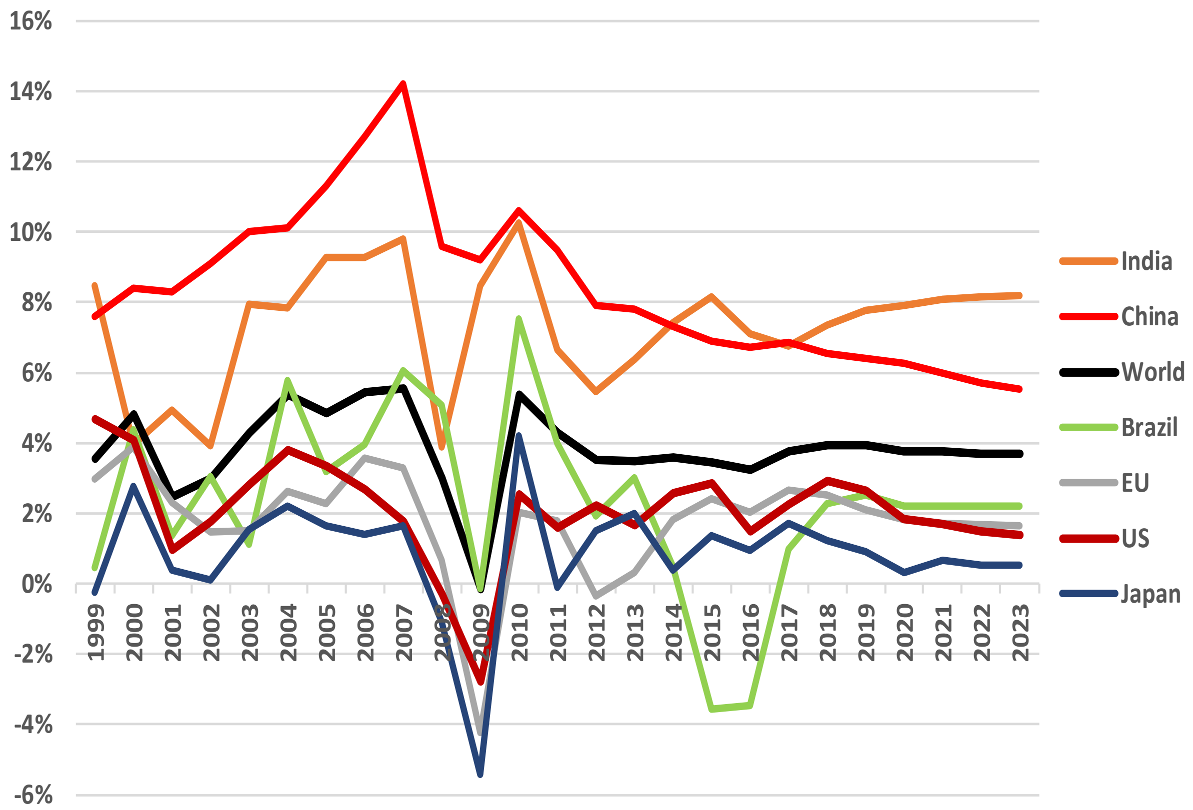
- *Darkest before dawn: Global economy is at the right phase of the business cycle to correct structural problems. Top priority is the world's largest economy, which has the world's largest trade deficit, which threatens medium to long-term global economic stability and prosperity.*

- *Emerging trade growth patterns: Eventual outcome is faster US export growth to North Asia and slower US import growth from North Asia. US import growth likely to be fastest from economies on the South Asia trade lane. Timing of the outcome is uncertain due to internal issues at US trading partners.*

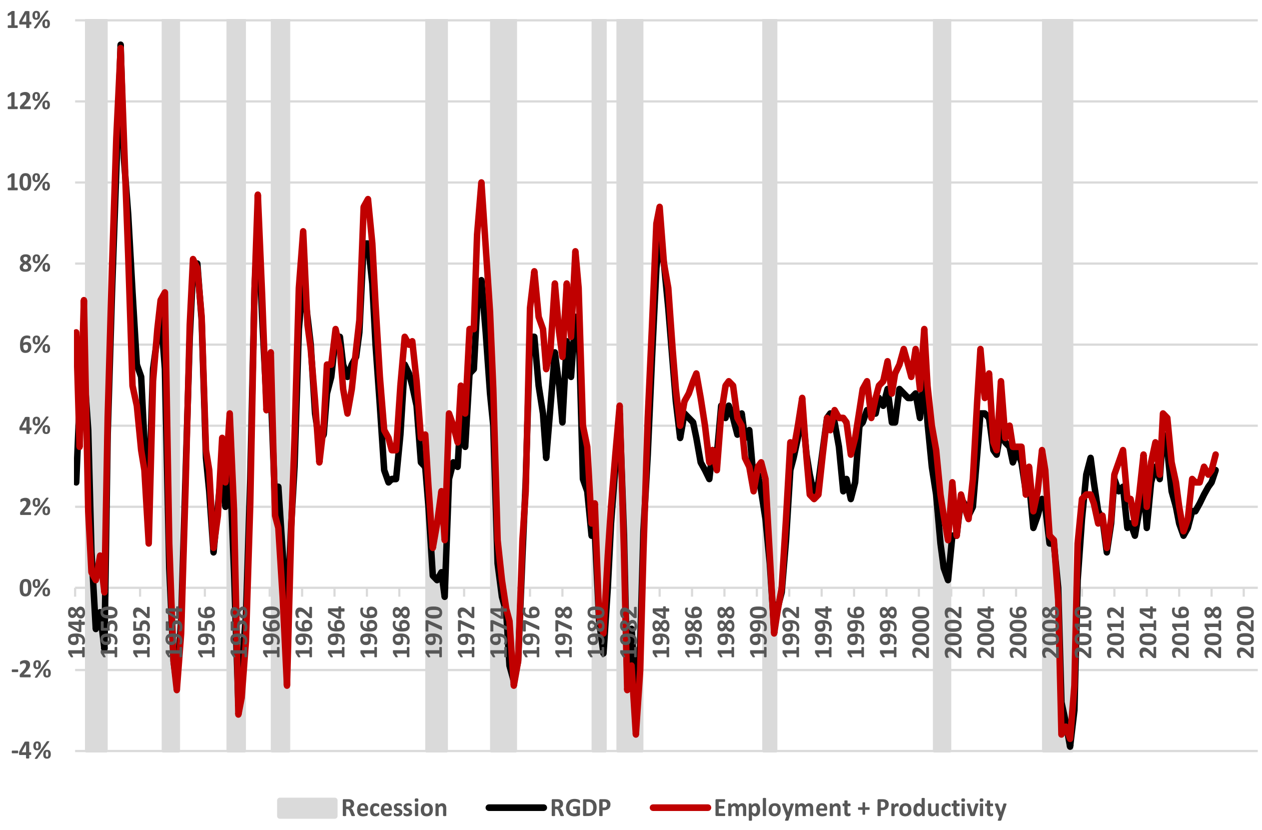
- *Greatest opportunity for the PNW gateway is export growth, to be balanced with import growth. Greatest risk is the US Midwest to Western Canada freight corridor.*

Best global economic environment in 20 years

ANNUAL REAL GDP GROWTH 2001 – 2018(E)



US ANNUAL REAL GDP, PRODUCTIVITY AND EMPLOYMENT GROWTH



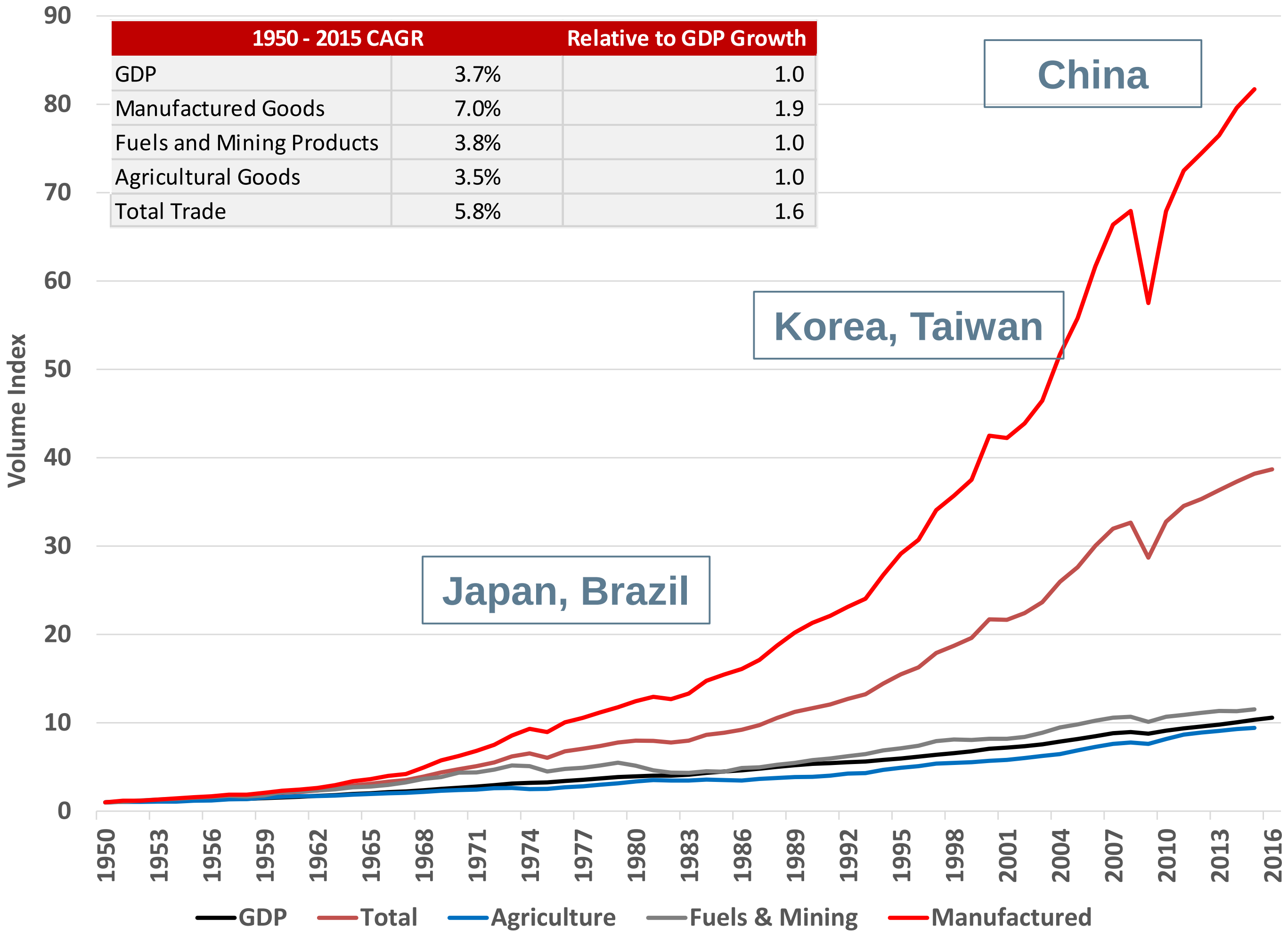
Source: Oxford, JLL

The best time to correct structural problems is after a crisis is resolved

Manufactured goods lead global trade volume growth

WORLD REAL GDP AND TRADE INDEXES 1950-2015E

1950 - 2015 CAGR		Relative to GDP Growth
GDP	3.7%	1.0
Manufactured Goods	7.0%	1.9
Fuels and Mining Products	3.8%	1.0
Agricultural Goods	3.5%	1.0
Total Trade	5.8%	1.6



Trade is driven by:

- **Resources** – better to worse endowed countries
- **Demographics** – manufacture in low cost, high demand growth countries
- **Trade Agreements** – no barriers or burdens
- **Infrastructure** – road, rail, ports, fleets
- **Technology** – information and communication

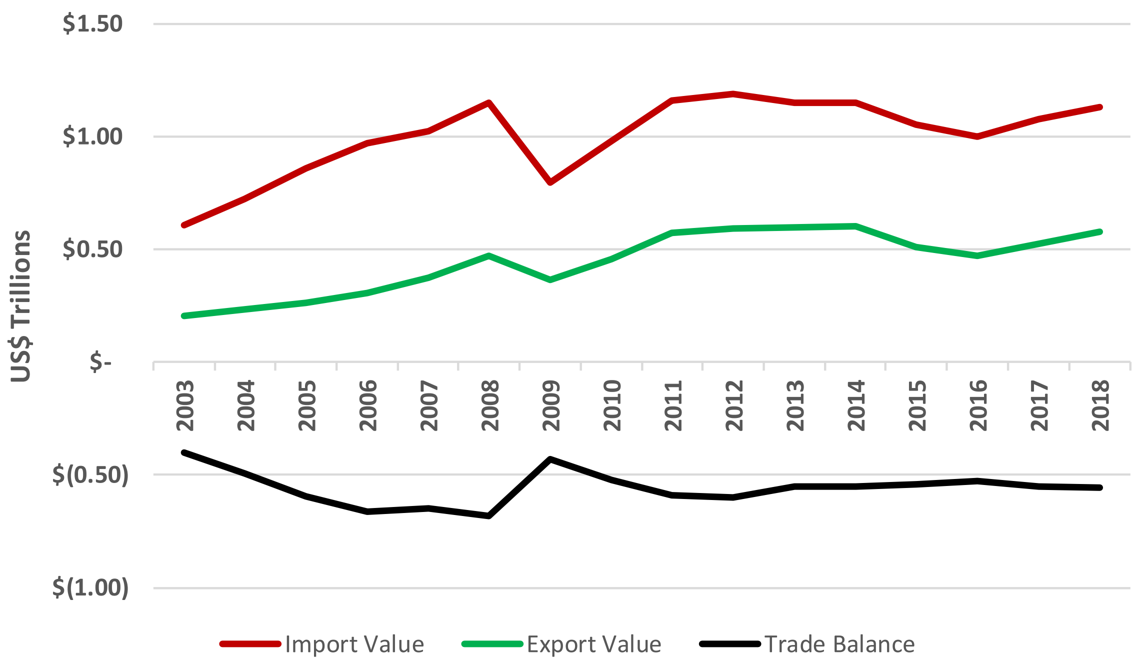
- It is not surprising that trade in raw materials has lagged because trade agreements have been focused on manufactured consumer goods

- US has a history of diversifying its import sources if they become too concentrated in one country

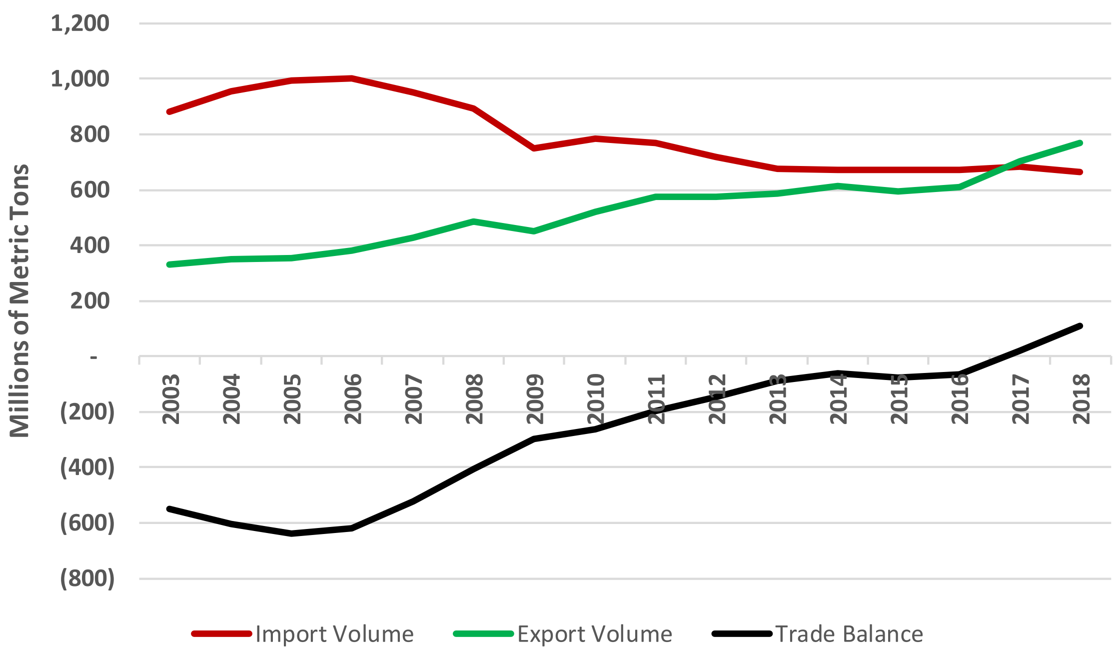
Source: WTO, JLL

The trade deficit value gap

Goods trade deficit measured in us dollars: 2003 – 2018e



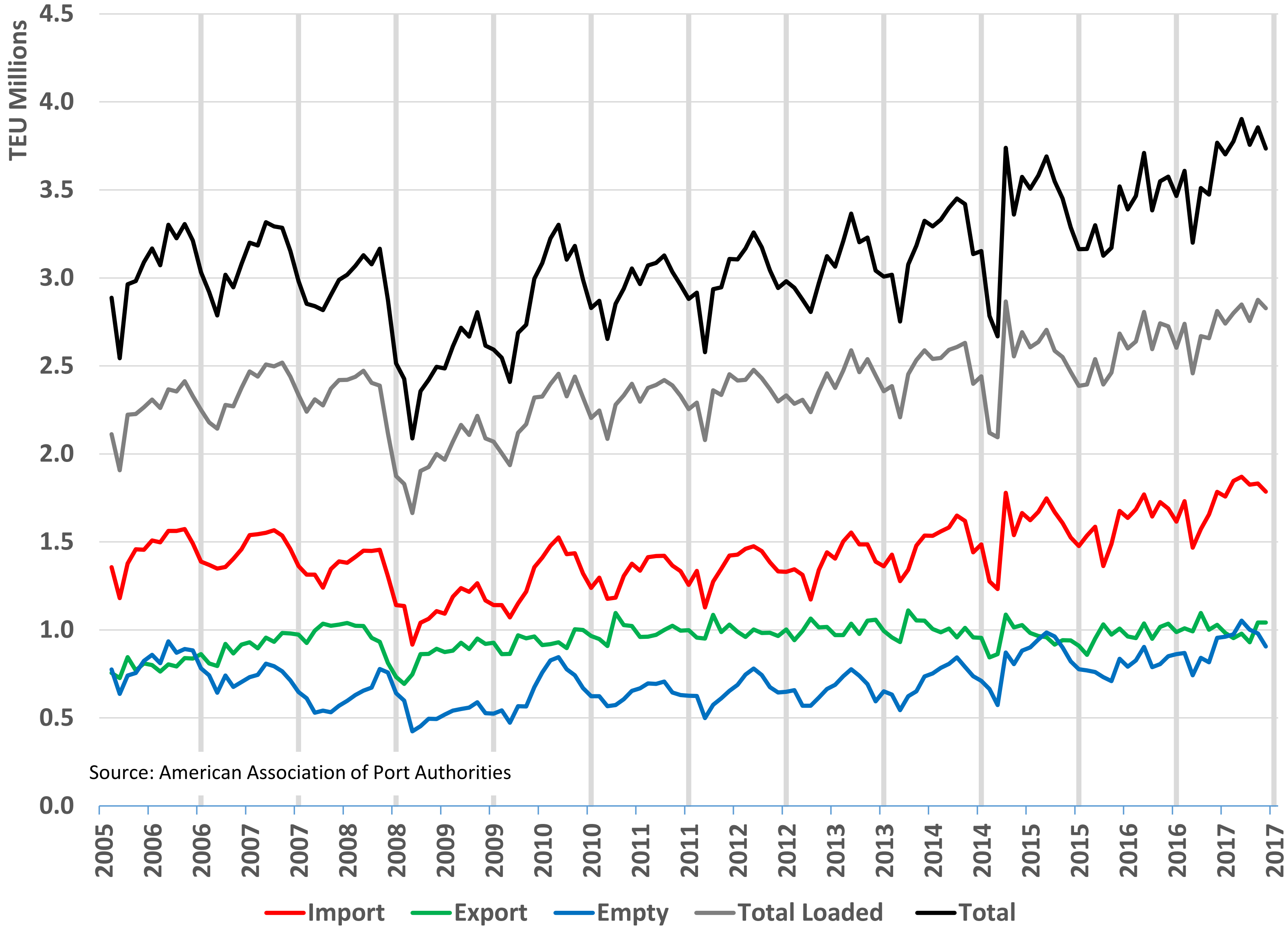
Goods trade deficit measured in metric tons: 2003 – 2018e



- US has a trade deficit when measured in dollars and a surplus when measured in tons
- US imports high value-per-ton consumer and industrial goods and exports low value-per-ton industrial goods and raw materials
- Trade agreement renegotiations are focused on US Agriculture, Capital goods/manufacturing inputs and Energy exports

US containerized trade has recovered to new high levels

Container Volume Trends – Monthly 2006 to 2016 (12 of largest 14 container ports)

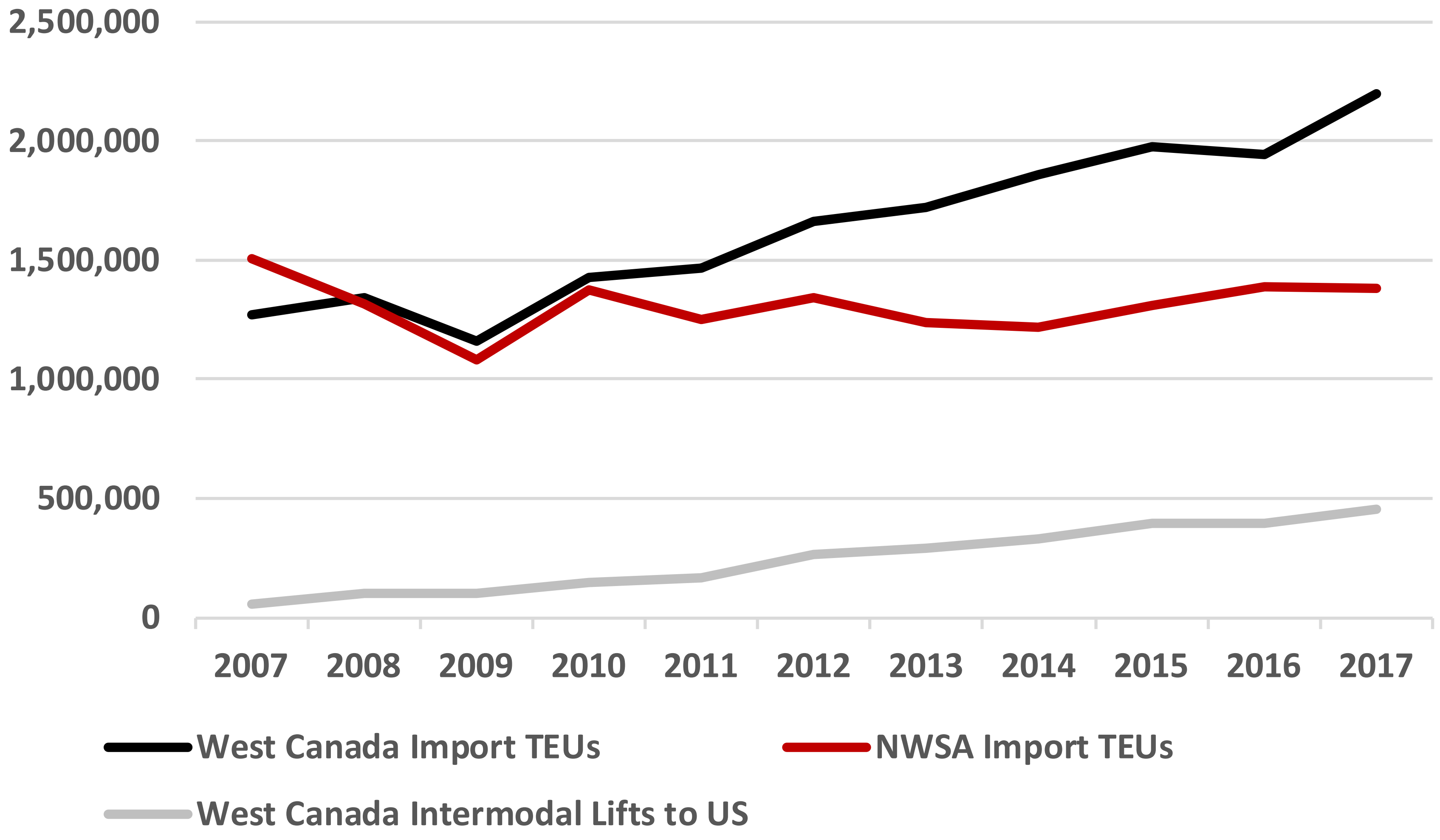


Year	Int'l Volumes	Change	Growth
2005	37,912,734		
2006	40,291,297	2,378,563	6%
2007	**40,867,520**	576,223	1%
2008	38,664,705	(2,202,815)	-5%
2009	33,597,661	(5,067,044)	-13%
2010	38,593,130	4,995,469	15%
2011	39,244,570	651,440	2%
2012	39,919,197	674,627	2%
2013	**40,816,094**	896,897	2%
2014	42,622,719	1,806,625	4%
2016	44,265,397	1,642,678	4%
2017	47,368,071	3,102,674	7%

The four largest ports (Los Angeles + Long Beach, New York/New Jersey, Savannah and Seattle - Tacoma) handled 30.5 million TEUs or 65% of the national total

Western Canada has gained at NWSA's expense

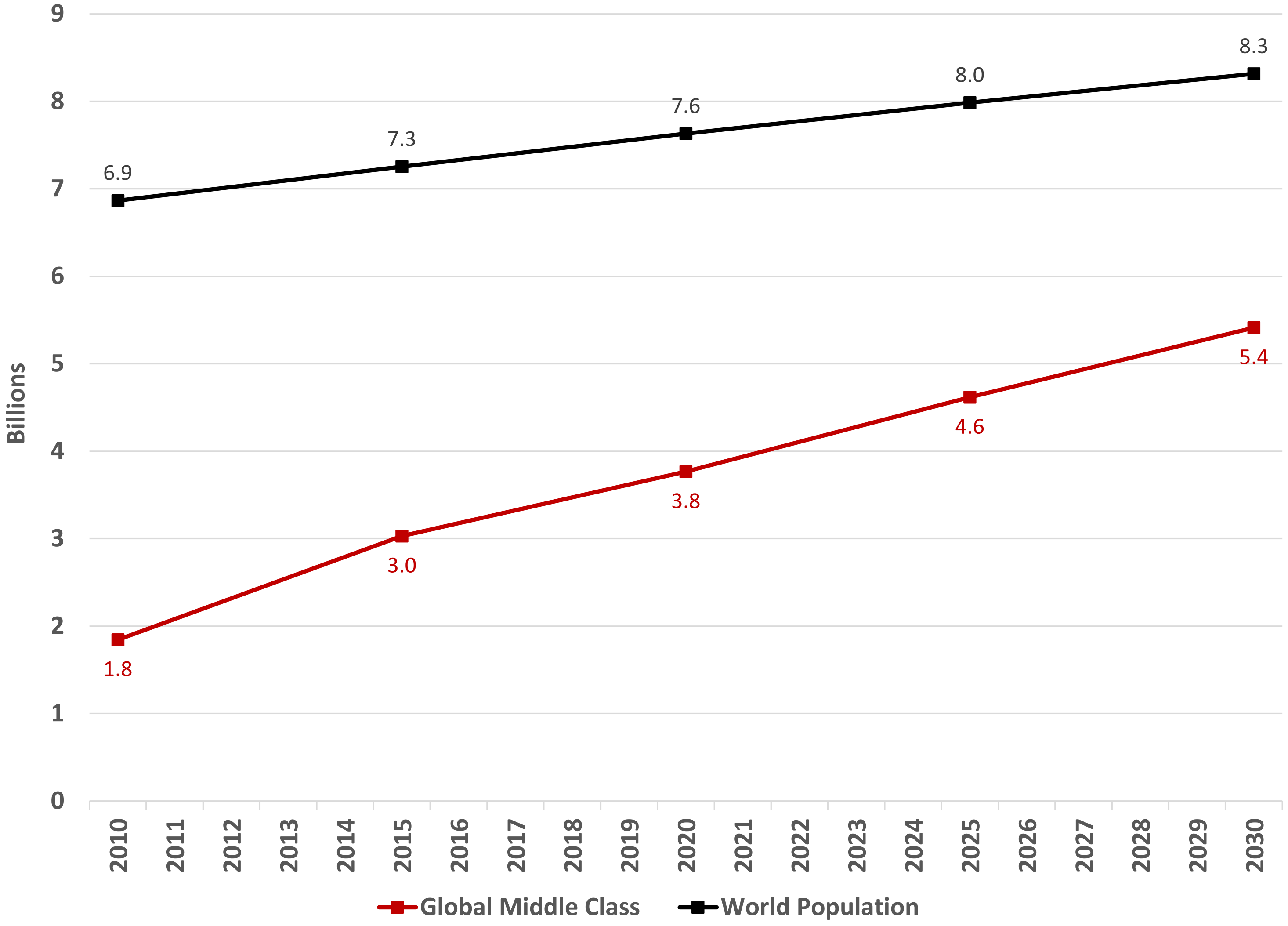
PNW Containerized Imports and West Canada US-bound Intermodal Lifts



Canadian ports have benefitted from depreciation of the Canadian dollar and coordinated investments with railroads

The global middle class is a significant opportunity for NWSA

World population and OECD global middle class projections

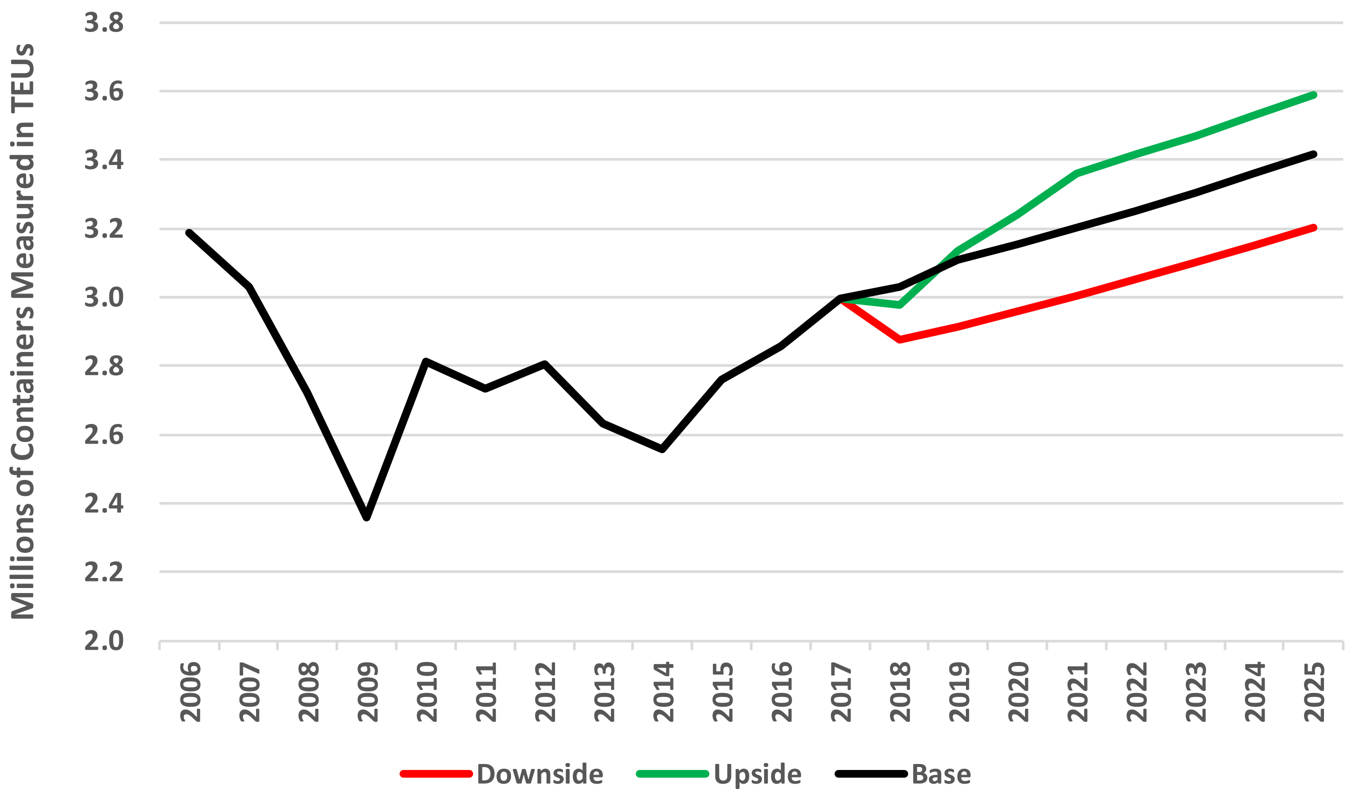


For US GDP growth to be sustained above 3% it will be necessary to sell into this market

US exports are the focus of the current national economic policy

NWSA international container volume forecasts

NWSA international container volume projections



Base case assumes US GDP growth to slow from 3% in 2018 to 2% in 2023-2025 and NWSA benefits from congestion at competing West Coast ports

Downside case assumes some loss of volumes with China in 2018 and a larger permanent loss as of 2019, offset by growth with other North and South Asia trade lanes

Upside case assumes that trade renegotiations are successfully concluded by early 2019 with China imports resuming their previous levels and growth and additional export growth to China

Additional “outside the gates” investment could substantially boost NWSA volume growth. This is not included in the trend forecasts shown here.

Source: JLL PAGI

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- *Eventual outcome is faster export growth from the US to North Asia and slower import growth. US import growth likely to be fastest from economies on the South Asia trade lane. Timing of the outcome is uncertain due to internal issues at US trading partners.*

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Source: Oxford, JLL

Strategic implications

- *Export cargo growth – focus on NWSA's strengths*
- *Infrastructure investment – identify and invest in infrastructure needed to support both imports and exports*
- *Supply chain enhancements – support and stimulate investment in infrastructure outside NWSA's port-owned property*

Source: Oxford, JLL