THE STATE OF FREIGHT: RAIL AND INTERMODAL
Railtrends Conference
Nov 19, 2015
www.FTRintel.com
DISCUSSION OVERVIEW

- Economic Indicators
- State of Freight
  - Rail Carload
  - Intermodal (with a truck detour)
- Fearless Forecast
MANUFACTURING IS STILL (BARELY) POSITIVE
ISM MANUFACTURING VS IP MANUFACTURING

ISM Manufacturing Index
(>50 = Growth)

Industrial Production: Manufacturing
(2012=100)

BUSINESSES: STUCK IN THE MUD
ORDERS & INVENTORIES

Core Capital Goods Orders

Inventory-to-Retail Sales Ratio

Source: FTR, ISM, Federal Reserve

Source: Census Bureau
CONSTRUCTION: ROOM TO GROW
RESIDENTIAL VS. BUSINESS

Business Spending back to pre-recession peak, long way to go for Residential

GDP – RECOVERY LENGTH

Source: FTR, Census Bureau

Source: FTR Associates
Rail Carload

RAIL CARLOADS HAVE BEEN WEAK SINCE LATE WINTER

Source: AAR
H2 TO DATE N.A. CARLOADS (EXCL. IM) VERSUS SAME PERIOD 2014

EXCLUDING SPECIALS (GRAIN, COAL, CRUDE) INDUSTRIAL ECONOMY STILL LOOKS WEAK
SERVICE RECOVERY IS TAKING HOLD – AVERAGE TRAIN SPEED

4-Week Avg. Train Speeds - Total Network

SERVICE RECOVERY IS TAKING HOLD – YARD DWELL

4-Week Avg. Yard Dwell - Total Network
TOTAL VOLUME REMAINS WELL BELOW 2006 ALL-TIME PEAK (EVEN WITH IM)

PLUNGING FUEL SURCHARGE HAS OFFSET INCREASES IN BASE RATES
POSSIBLE SOURCES OF IMPROVEMENT

- Lumber (Strengthening residential construction outlook)
- Chemicals (Petrochemical investment fueled by low prices – late 2016 and beyond?)
- Intermodal

_Probably not enough to fill the hole._
Intermodal

TRUCK LOADINGS FORECAST

- Modest freight growth expected going forward

U.S. Truck Loadings Originated

Dry van will be even lower!

Source: FTR Trucking Update Report
THE CUMULATIVE EFFECT OF REGULATIONS WILL BE SEVERE

Additional Driver Hires Per Quarter Required By Regulation

- Electronic Stability Controls
- Speed Limiters
- Training Provisions
- OSHA Worker Protection
- Minimum Insurance
- Safe Harbor
- Entry Proficiency
- Drug & Alcohol Data Base/Hair testing
- Prohibition Of Coercion
- Pattern Of Violation
- Independent Contractor Rules
- Safe Food Transportation
- Motor Carrier Protection Act
- HOS
- ELD
- Health Regulations and Treatment
- Immigration Effects
- Mexico
- Regional Equipment
- CSA

TRUCKING RATES OUTLOOK

Rate Outlook: Total Truckload

Source: FTR; Copyright 2015
INTERMODAL HEADLINES

- Domestic intermodal faces headwinds
- International returns to “normal”
- Import diversion continues
- Service recovery begins to take hold
- Overcapacity crisis on the water

VOLUME HAS STABILIZED SINCE THE END OF THE USWC MELTDOWN

Total Intermodal: Rev. Moves - Actual (000's)

Sources: IANA ETSO, GTC, FTR Copyright 2015
INTERMODAL GROWTH HAS SLOWED

Total Intermodal: Year/Year % Change

- Total +3.2% YTD (Left Axis)
- Domestic +3.3% YTD (Right Axis)
- International +3.2% YTD (Right Axis)

Sources: IANA ETSO, GTC, FTR Copyright 2015

SEASONAL ADJUSTMENTS SHOW DOMESTIC NOT GROWING

Seasonally Adjusted Rev. Moves (000)

- International (Right Axis)
- Domestic (Right Axis)
- Total (Left Axis)

Sources: IANA ETSO, GTC, FTR Copyright 2015
**OCTOBER WAS SEASONALLY NORMAL FOR DOMESTIC BUT NOT INT’L**

Seasonality - International - October

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>0%</td>
<td>4%</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
<td>12%</td>
<td>14%</td>
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</table>

Seasonality - Domestic - October

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Oct</td>
<td>1.9%</td>
<td>4%</td>
<td>6.6%</td>
<td>10.3%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**INTERMODAL SERVICE IS IMPROVING**

4-Week Avg. Intermodal Train Speeds - Total Network

Week: 1, 5, 9, 13, 17, 21, 25, 29, 33, 37, 41, 45, 49, 53

4-Week Moving Average Intermodal Train Speed - MPH

- Average 2000-2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
NORTH AMERICAN IMPORTS ARE UP
EXPORTS ARE NOT

Sources: Port Reports, FTR

INTERMODAL CONTINUES TO GAIN MARKET
SHARE OF U.S. LONG-HAUL DRY VAN

Sources: GTC, FTR, IANA ETSO Data
DOMESTIC STILL IS FACING A NUMBER OF HEADWINDS

- Slowing growth in demand for long-haul dry van transport
- Ample truck capacity available – for now
- Lower fuel prices erode intermodal cost advantage

ISSUES ABOUND ON THE OCEAN

- Substantial over-capacity due to overbuilding
  - Lower prices but lower service reliability due to blanked voyages
- Port congestion continues
- Some progress on chassis front but still problematic
- Panama Canal expansion schedule still a question
- No ILA Contract will be signed this year
- Port cartage under stress
  - Independent contractor model is under threat
  - Port congestion issues causing productivity loss
  - Driver availability/cost a big concern
### RAIL INTERMODAL RATES

**Rate Outlook: Intermodal**

<table>
<thead>
<tr>
<th>Y/Y % Change</th>
<th>2015 Q1</th>
<th>2015 Q2</th>
<th>2015 Q3</th>
<th>2015 Q4</th>
<th>2016 Q1</th>
<th>2016 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>0.6%</td>
<td>6.8%</td>
<td>4.0%</td>
<td>6.0%</td>
<td>9.9%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Domestic</td>
<td>5.6%</td>
<td>2.2%</td>
<td>2.7%</td>
<td>2.9%</td>
<td>2.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Total</td>
<td>3.1%</td>
<td>4.5%</td>
<td>3.4%</td>
<td>4.4%</td>
<td>6.3%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

**Source:** FTR, Copyright 2015

### INTERMODAL GROWTH IS PROJECTED TO CONTINUE, BUT AT A SLOWER PACE

<table>
<thead>
<tr>
<th>Y/Y % Change</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>International</td>
<td>4.4%</td>
<td>4.4%</td>
<td>4.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Domestic</td>
<td>5.1%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Total</td>
<td>4.8%</td>
<td>3.9%</td>
<td>3.9%</td>
<td>5.6%</td>
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**Source:** FTR Freightcast
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Or download at www.ftrintel.com/Railtrends
Thanks!

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