



November Election Results Seem to Have Buoyed Up the Economic Outlook; Freight Volumes Held Steady Through Year-End; Rising Fuel Prices a Concern; Safety Regulations Likely to Soon Crimp Capacity; Pricing Outlook Remains Bright



Images courtesy of CSX, SAIA, NSC, KEX, WERN, and FDX

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All relevant disclosures and certifications can be found on pages 39-40 of this report.



- I. **The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections**
- II. Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011
- III. New Federal Regulations, Lack of Credit, and Strategic Shifts by Large Carriers Should Restrict Industry Capacity. A Resumption of the Economic Recovery Would Exacerbate the Already Tightening Supply/Demand Dynamic.
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- V. Conclusions – Market Forces Will Likely Further Tighten Supply & Demand and Continue Driving Price Up

# The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections



*Real Retail Spending Finished 2010 on a Positive Note; 1H11 Uncertain Given Lingering High Unemployment, High Savings Rate, and Limited Credit*

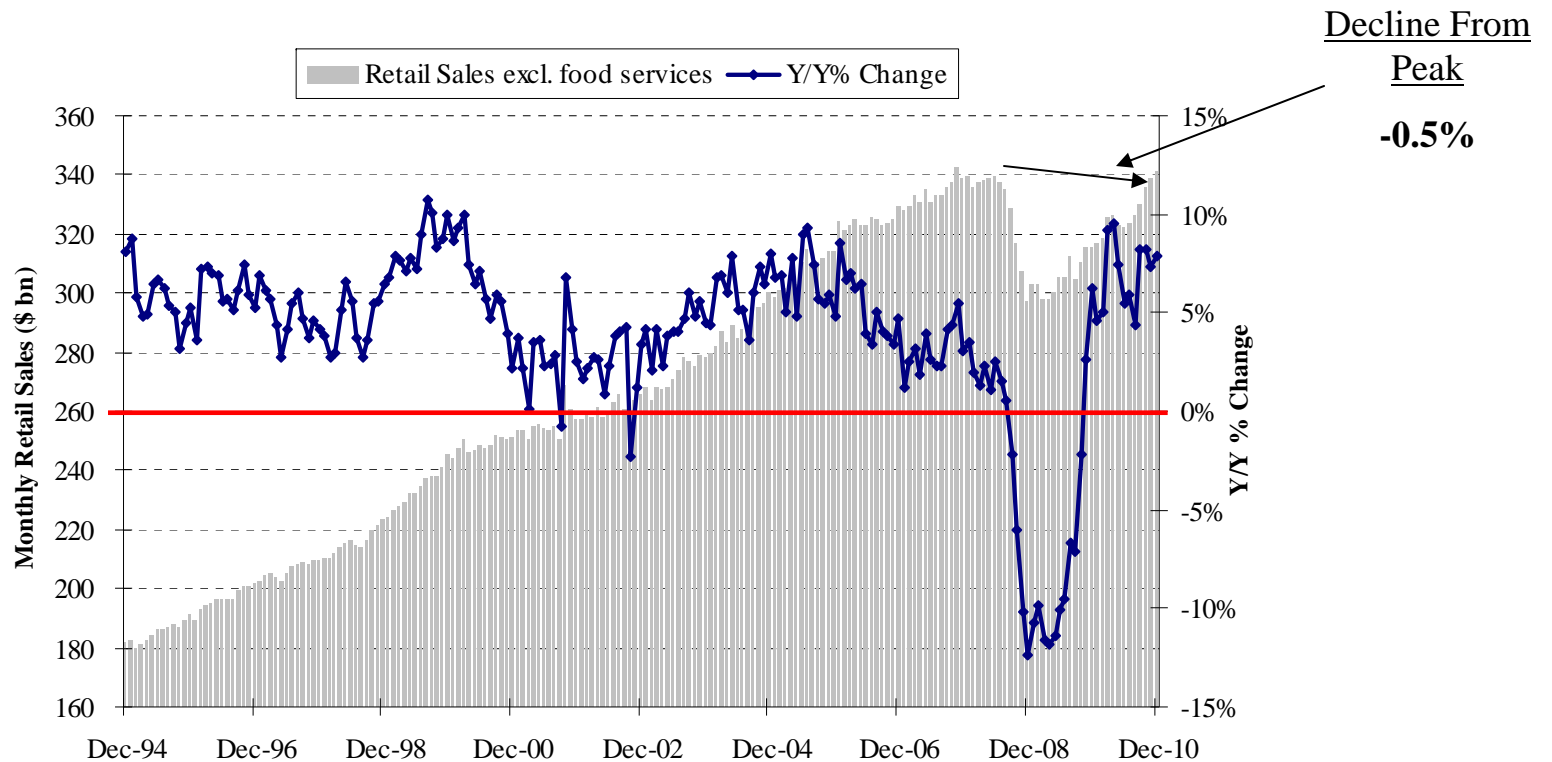
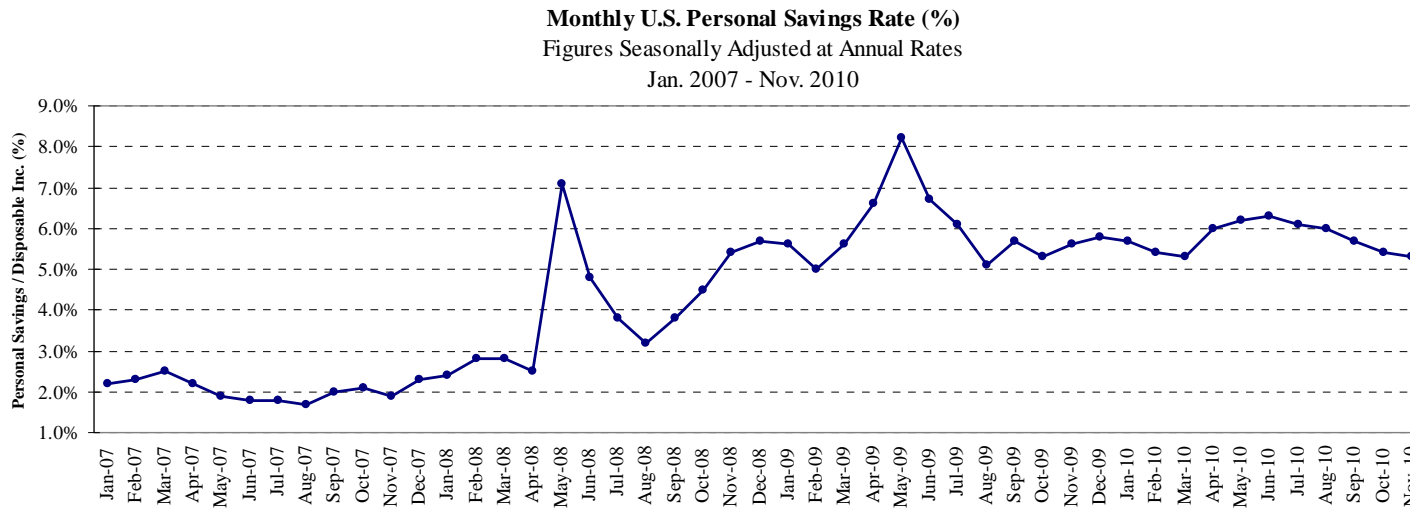
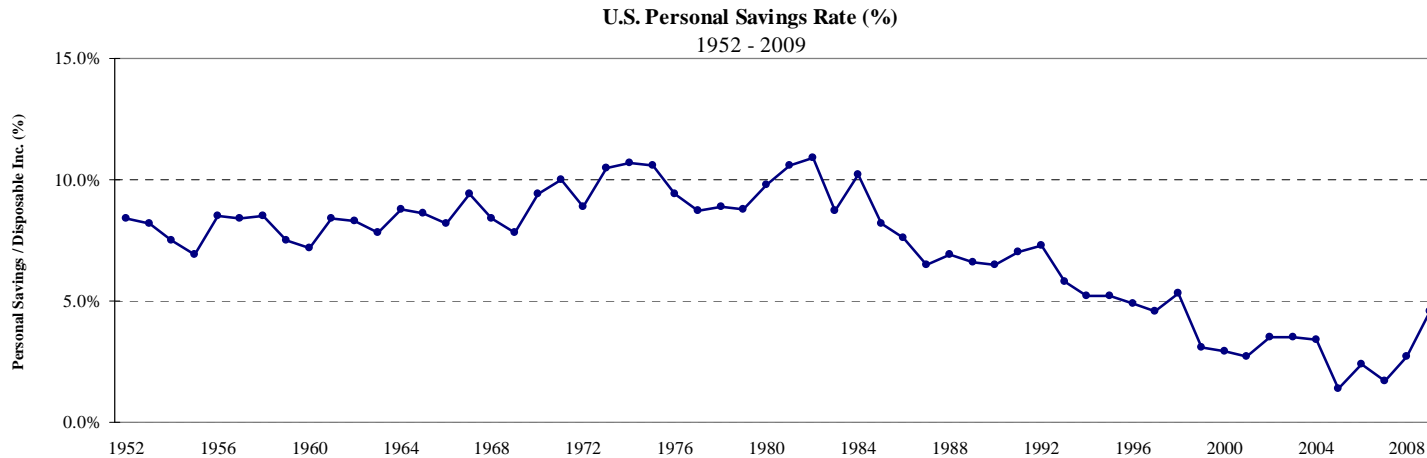


Chart displays seasonally adjusted data  
Source: U.S. Census Bureau

# The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections



*Increased Savings = Reduced Consumption; Is This a Permanent Change in Behavior?*

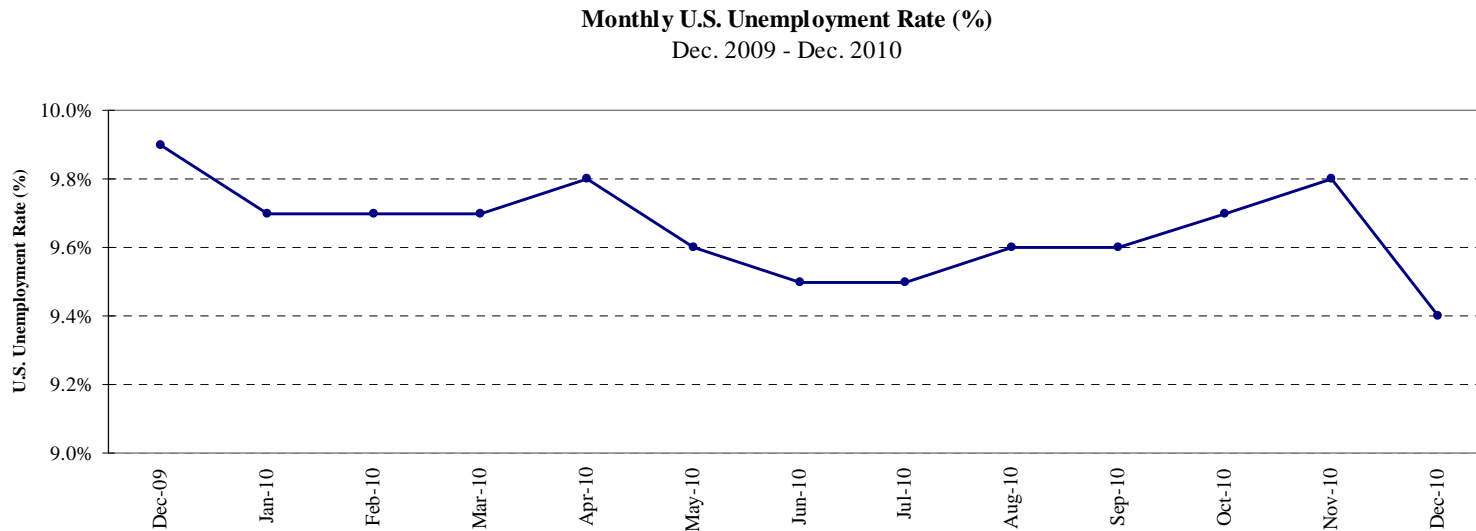


Source: Bureau of Economic Analysis

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*High Unemployment = Low Discretionary Spending*

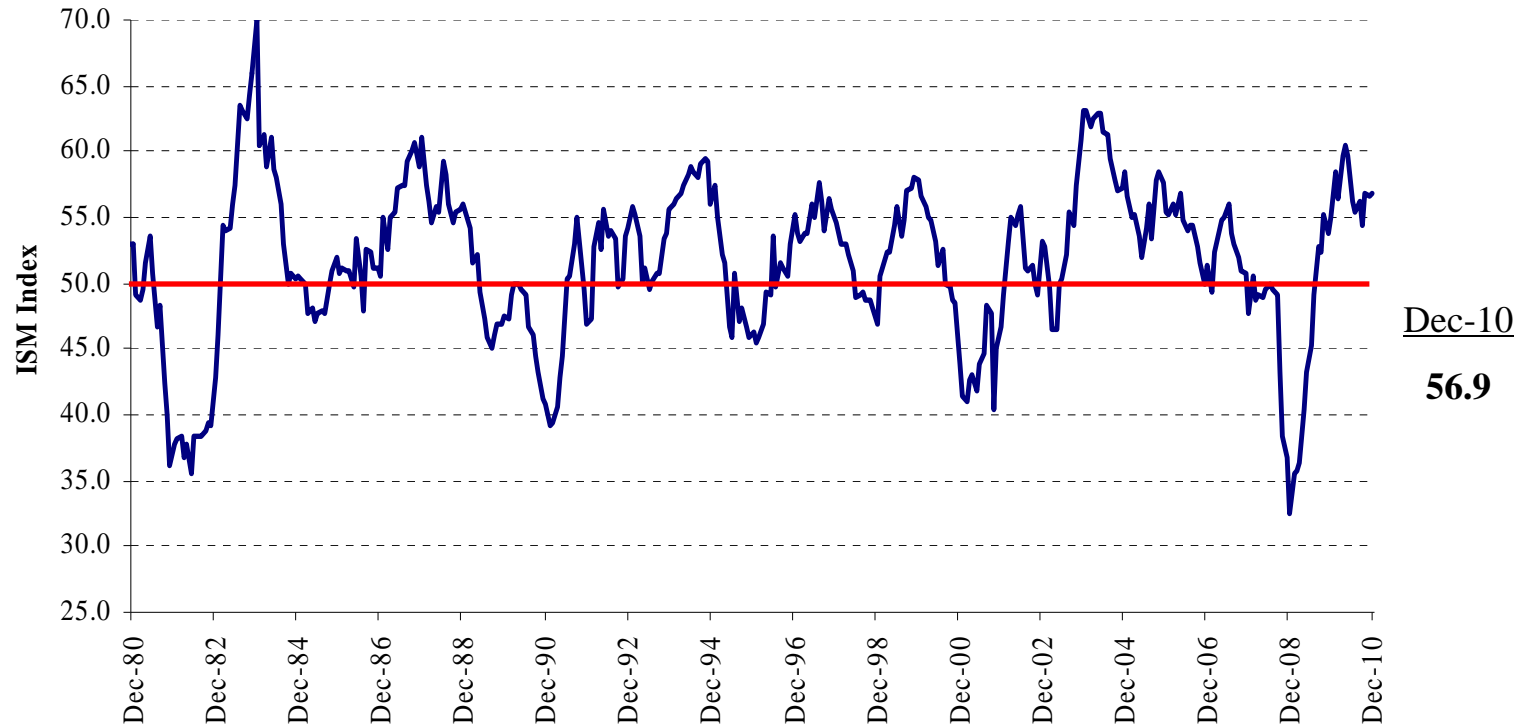


Source: Bureau of Labor Statistics

# The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections



*ISM Index in December Suggested Growth in the Manufacturing Economy  
For the Seventeenth Consecutive Month Since July '09; Growth in  
December Has Increased Slightly vs. November*

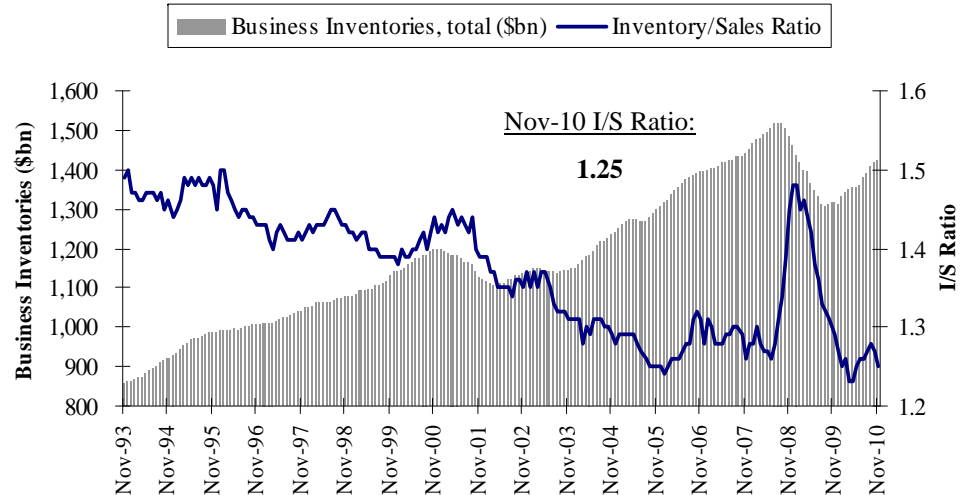
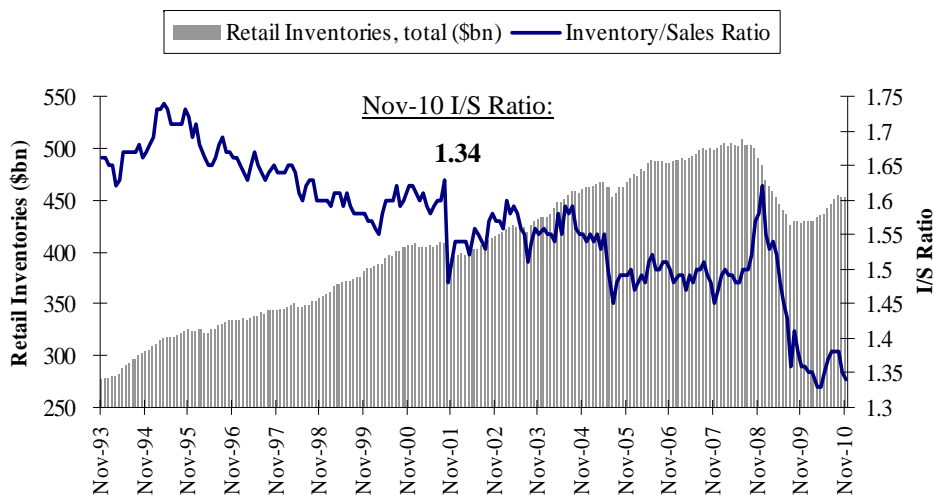
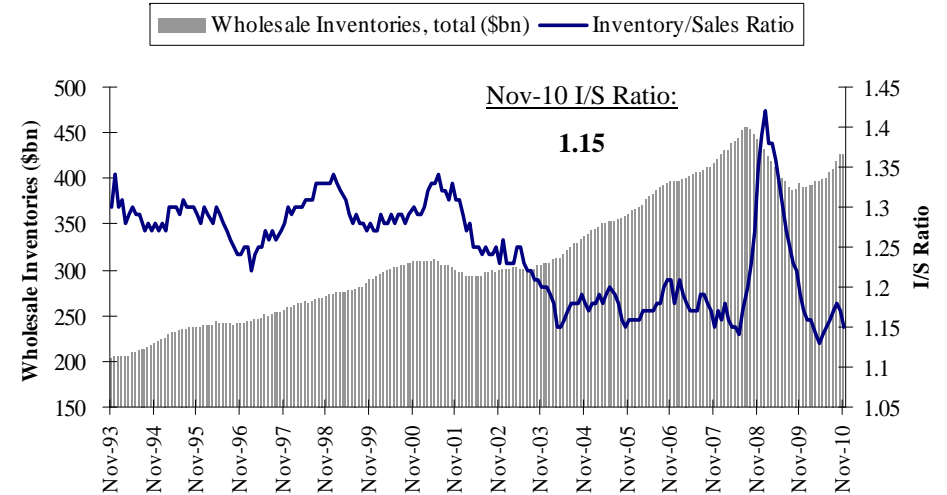
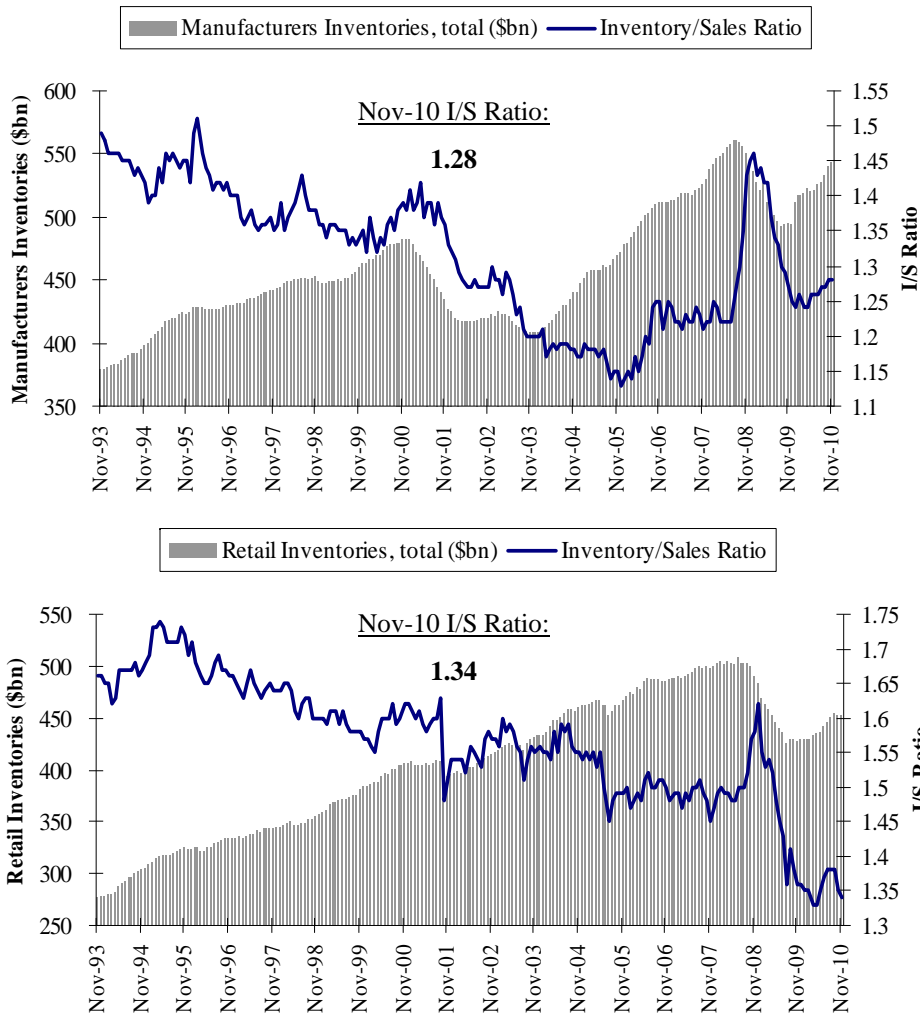


*ISM Index values over 50 indicate industrial growth while ISM Index values below 50 indicate industrial contraction.  
Source: Institute for Supply Management*

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*Inventory/Sales Ratios Have Recovered; Retail Inventory/Sales Ratio Likely to Remain Near Record Lows; Manufacturing Inventories Somewhat Bloated?*



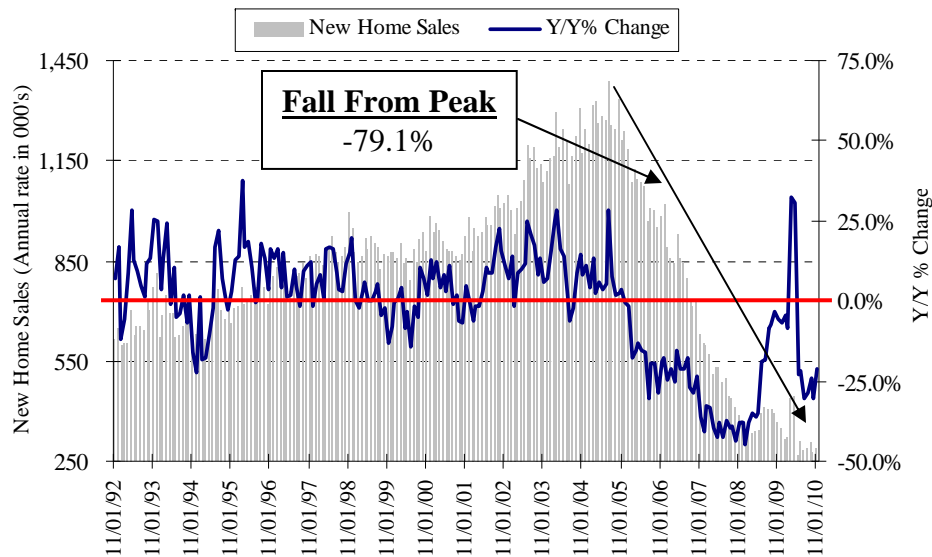
Source: U.S. Census Bureau

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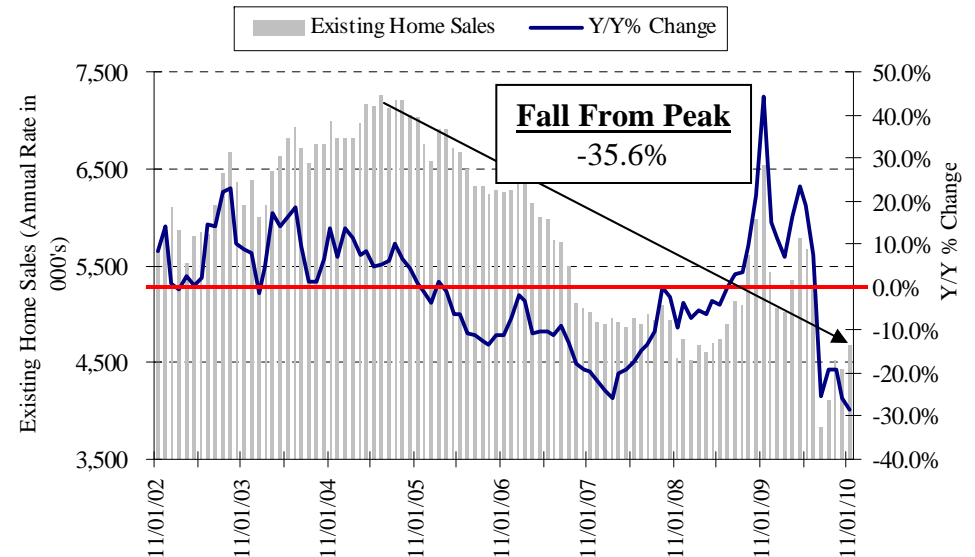


## Housing Markets Remain Weak

New Home Sales Have Not Recovered



Existing Home Sales Have Only Partially Recovered From The July 2010 Bottom



Left Graph current through November 2010, Right Graph current through November 2010

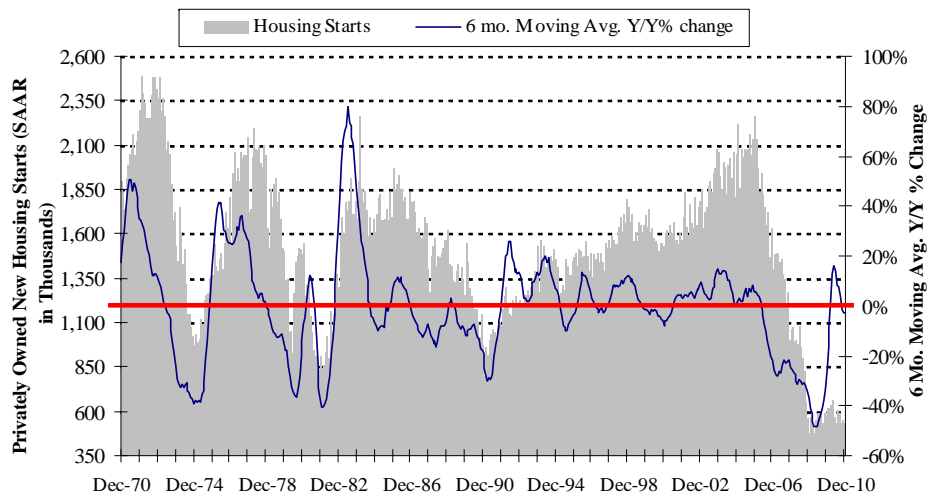
Sources: U.S. Census Bureau, National Association of Realtors

# The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections



## *Housing Starts and Building Permits Offer Little Encouragement.*

**Monthly Privately Owned Housing Starts Decreased 2.9% Y/Y in December**



**Dec-10 Starts**

529,000

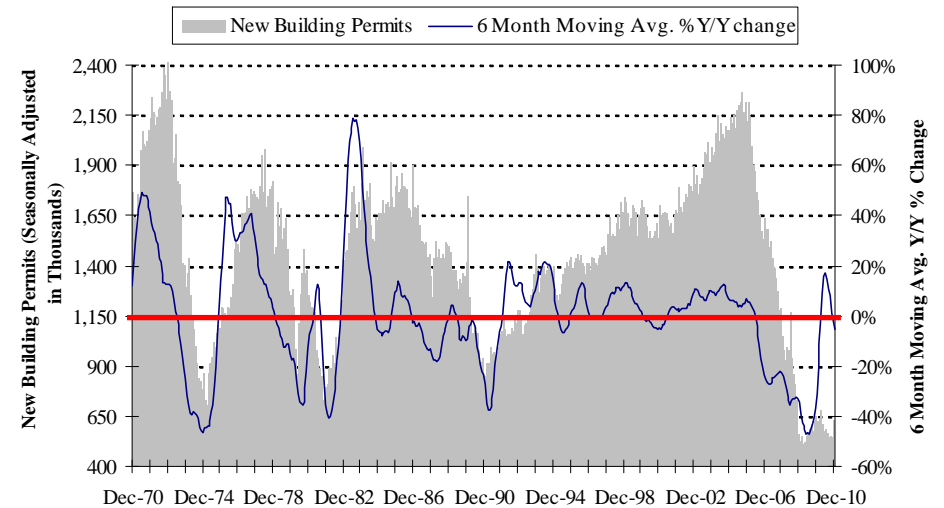
**Fall From Peak**

-78.8%

Data through December 2010

Source for all graphs: U.S. Dept. of Commerce

**Building Permits Decreased 5.2% Y/Y in December**



**Dec-10 Permits**

635,000

**Fall From Peak**

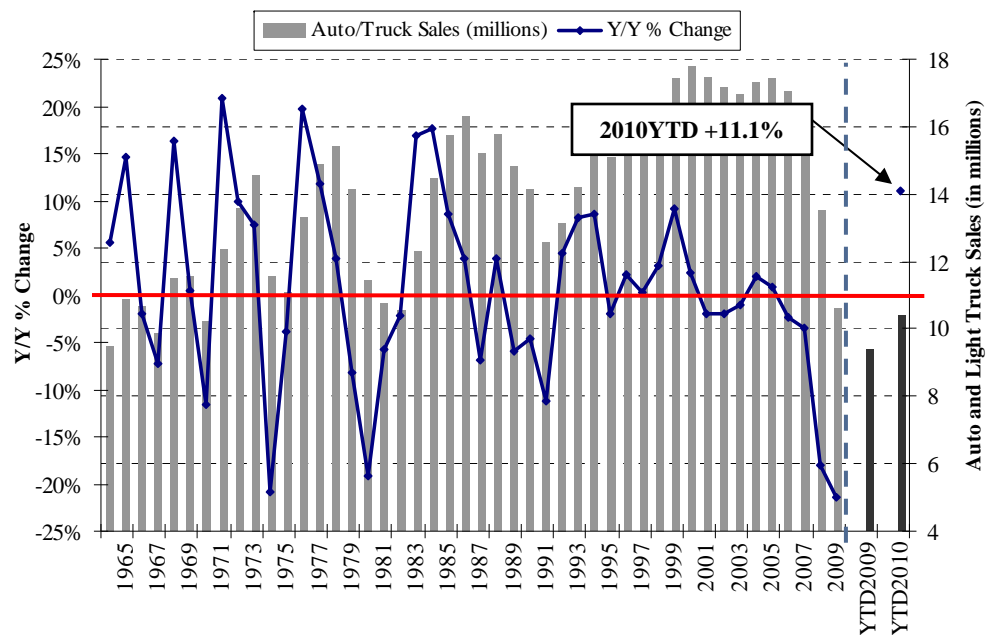
-73.7%

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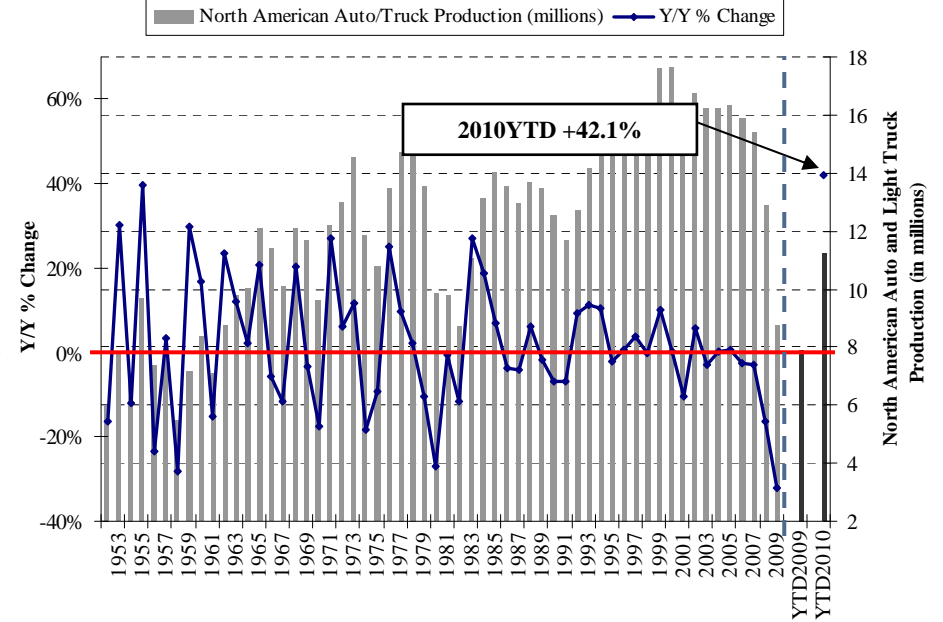


*Auto Sector has Partially Rebounded but Production can't Exceed Sales Much Longer.*

**Auto Sales Have Shown Recent Improvement Against Easy Comparisons**



**Auto Production Showing Improvement in 2010YTD After Two Years of Negative Comparisons**



Left chart 2010YTD through November 2010, right chart 2010YTD through November 2010

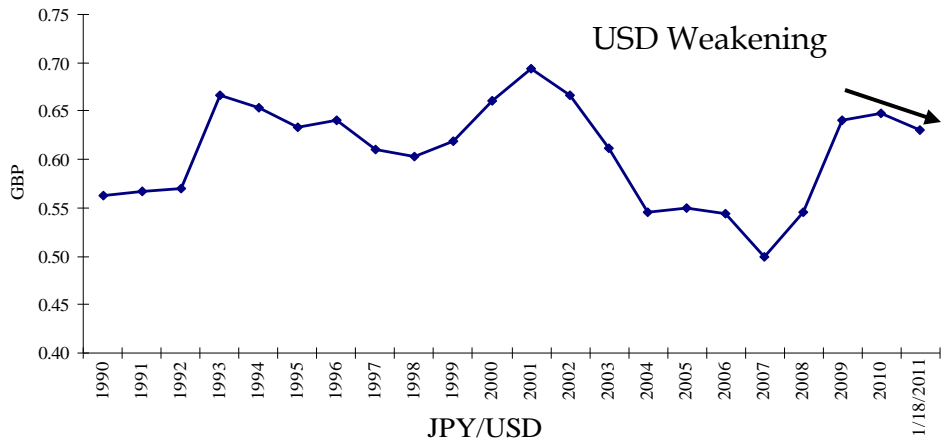
Source: Ward's Automotive Group

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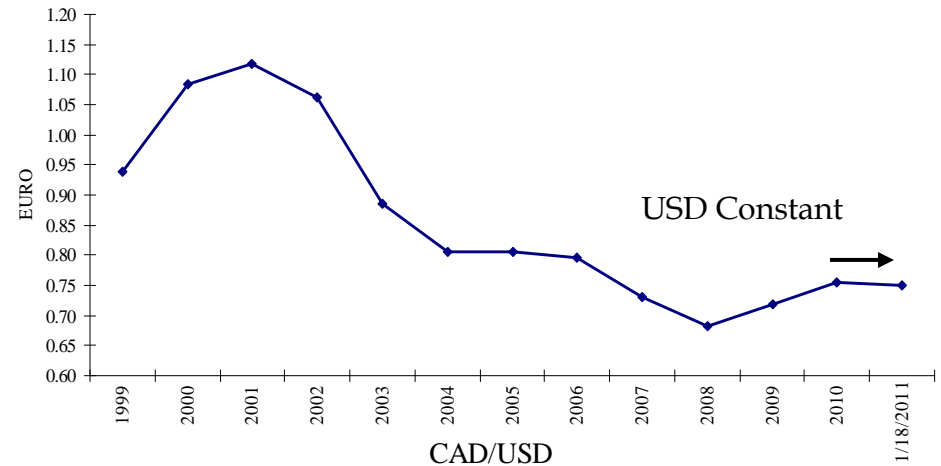


*Federal Deficit and Trade Deficit Continue to Pressure the U.S. Dollar; Good for Exports; Bad for Domestic Purchasing Power*

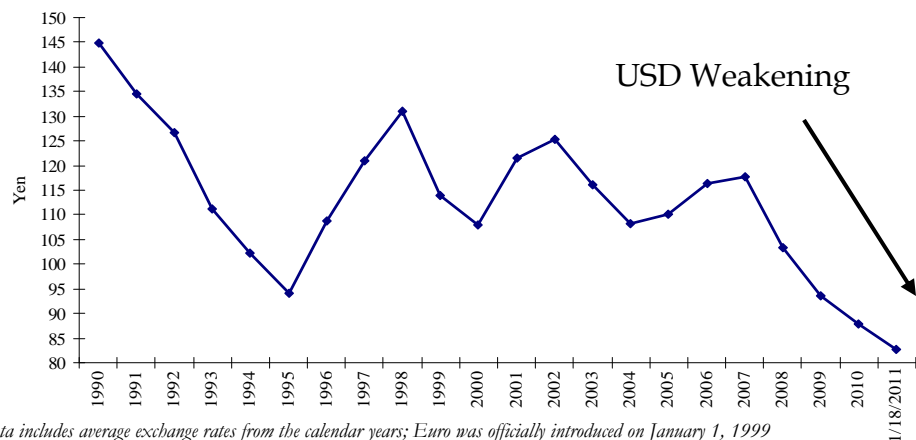
GBP/USD



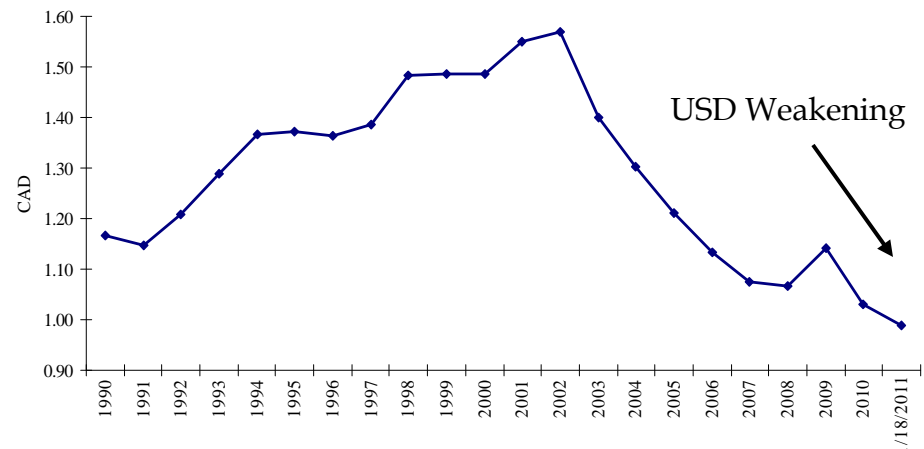
EURO/USD



JPY/USD



CAD/USD



Data includes average exchange rates from the calendar years; Euro was officially introduced on January 1, 1999

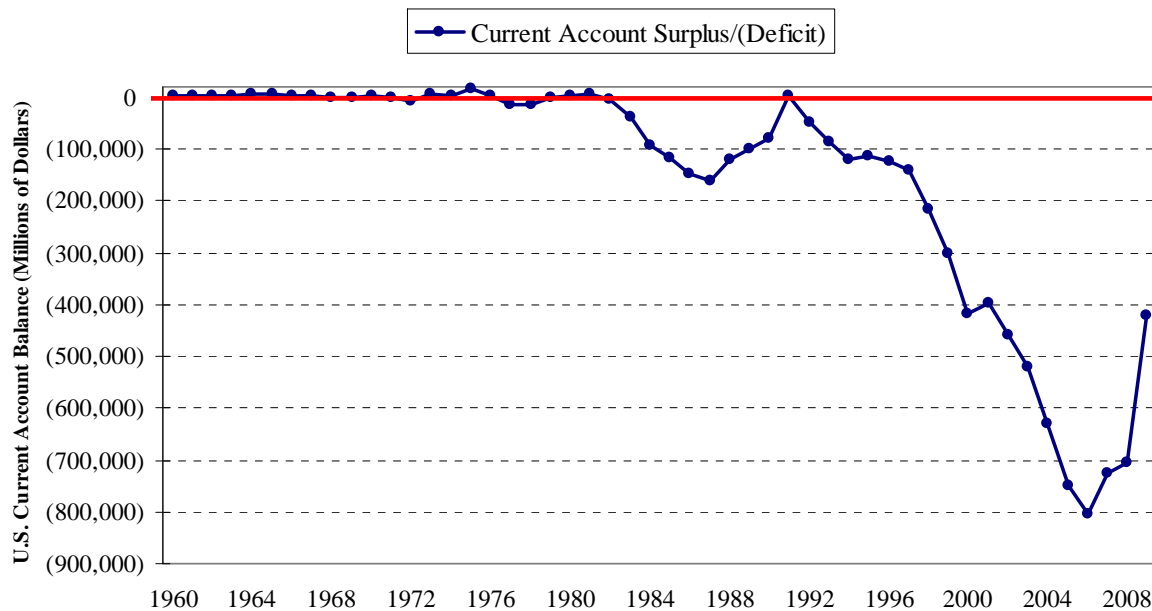
Source: Oanda

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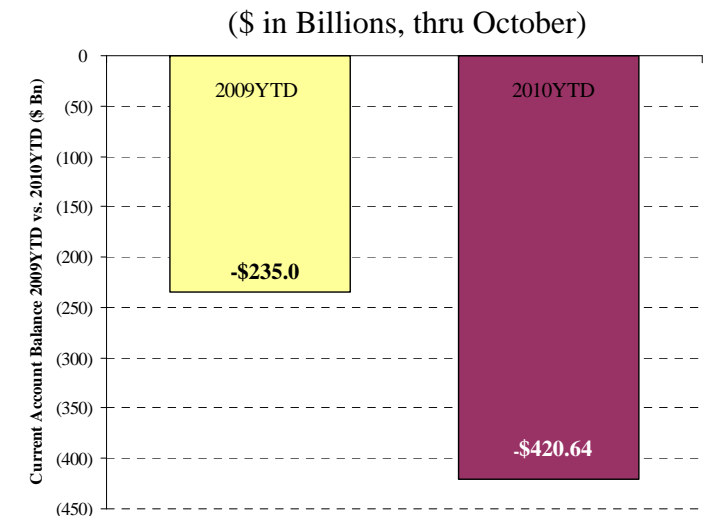


## Recent Progress to Re-Balance Trade Took a Step Back in 2010

**U.S. Current Account Balance (\$ in Millions)**  
1960 - 2009



### Current Account Deficit Has Increased 79.0% in 2010YTD From 2009YTD



Current account balance defined as: exports of goods and services and income receipts net of imports plus net unilateral transfers

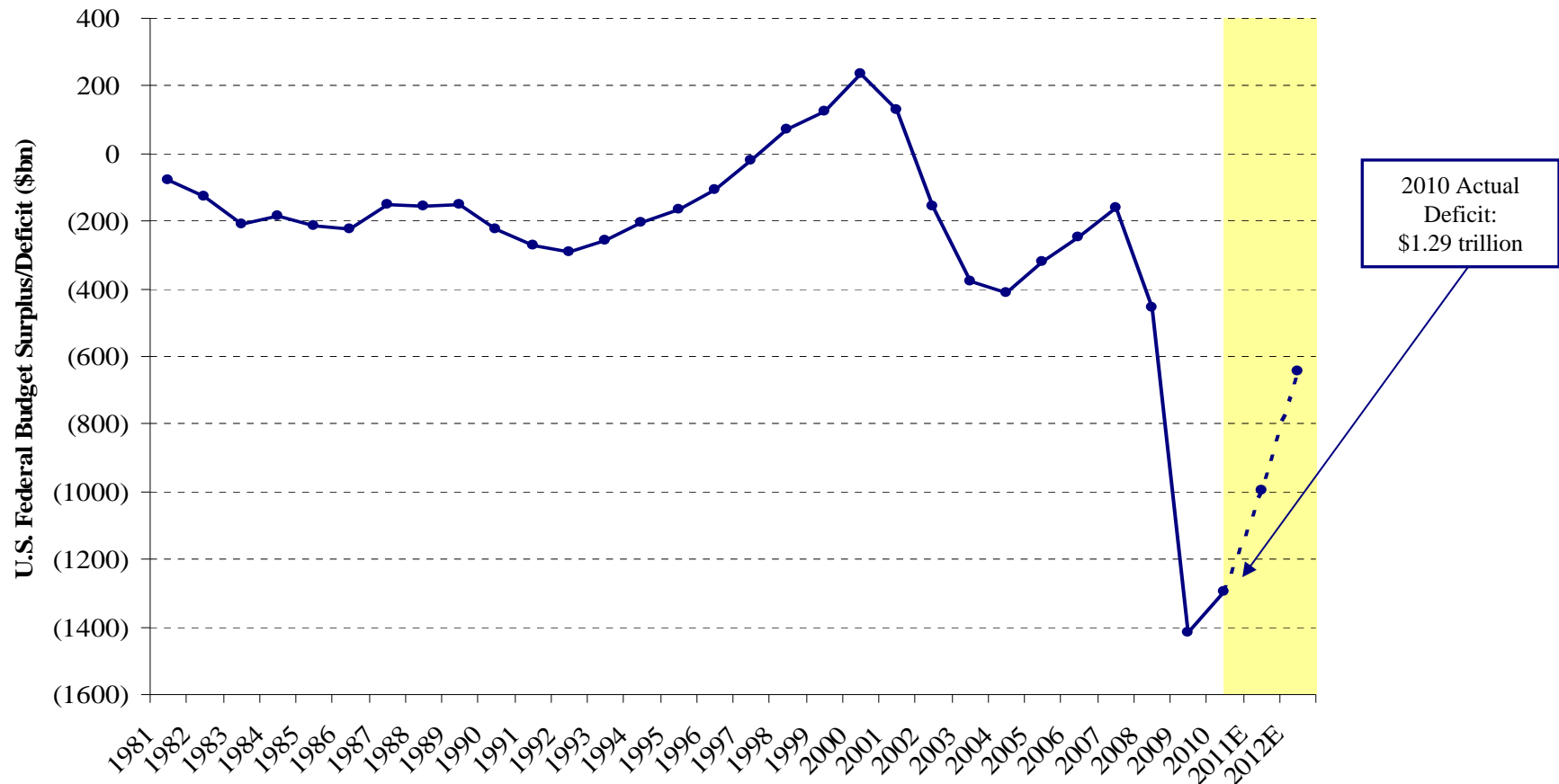
Source: Bureau of Economic Analysis

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*Federal Deficit Declined to \$162 Billion in FY2007, But Expanded to \$459 Billion in FY2008, \$1.4 Trillion in FY2009, and \$1.3 Trillion in FY2010*

**U.S. Federal Surplus/Deficit (\$ in Billions)**  
1981 – 2012E



Source: Bureau of Economic Analysis

Federal Fiscal Year ends September 30 of each year, 2011 – 2012 projections are issued by the Congressional Budget Office



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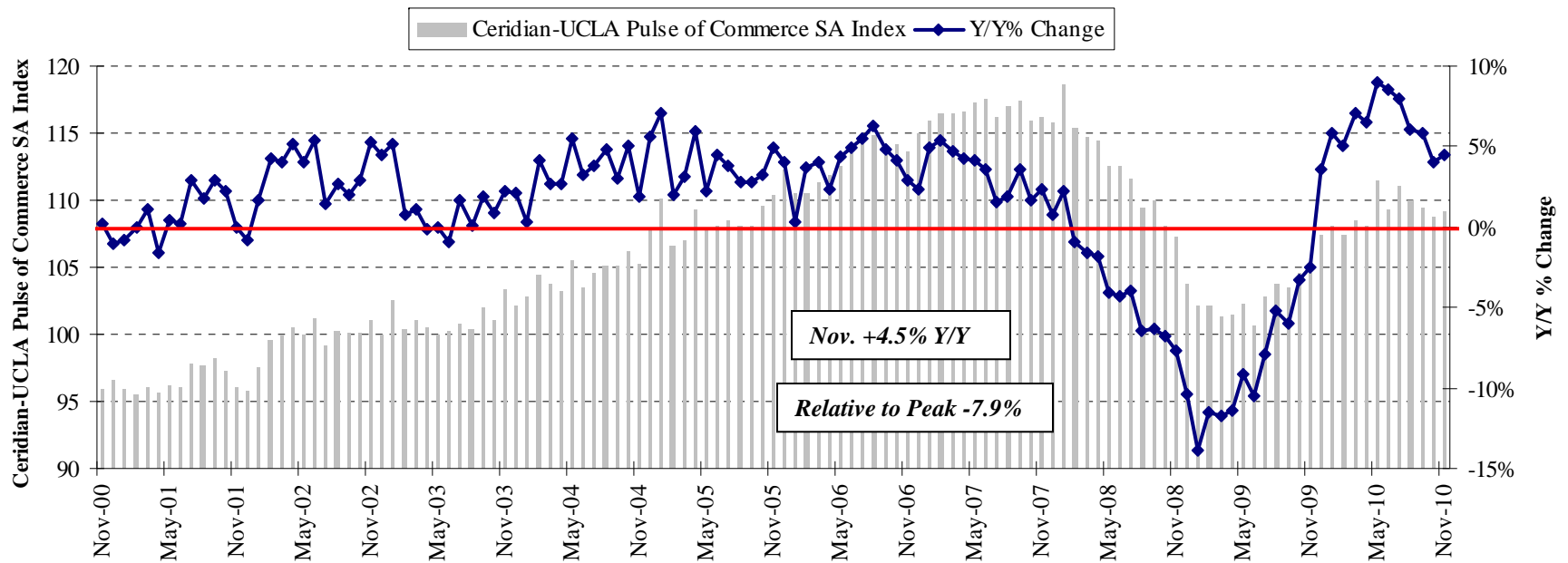
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# Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011



## Recovery Cooled in 2H10

Ceridian-UCLA Pulse of Commerce Index  
Nov. 2000- Nov. 2010



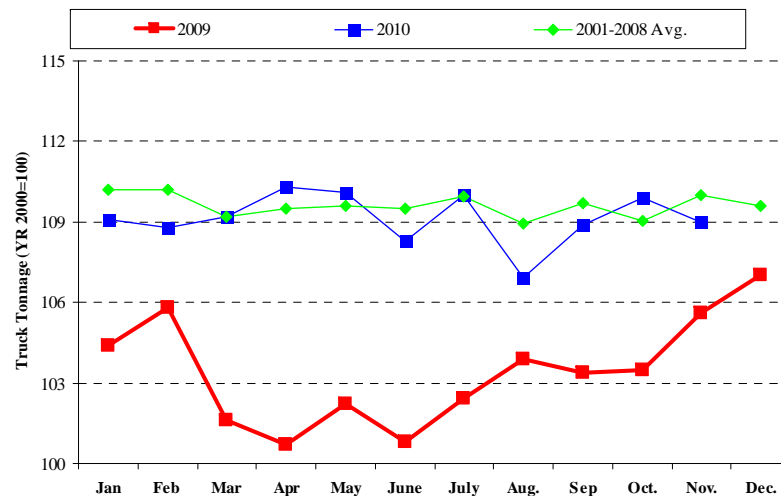
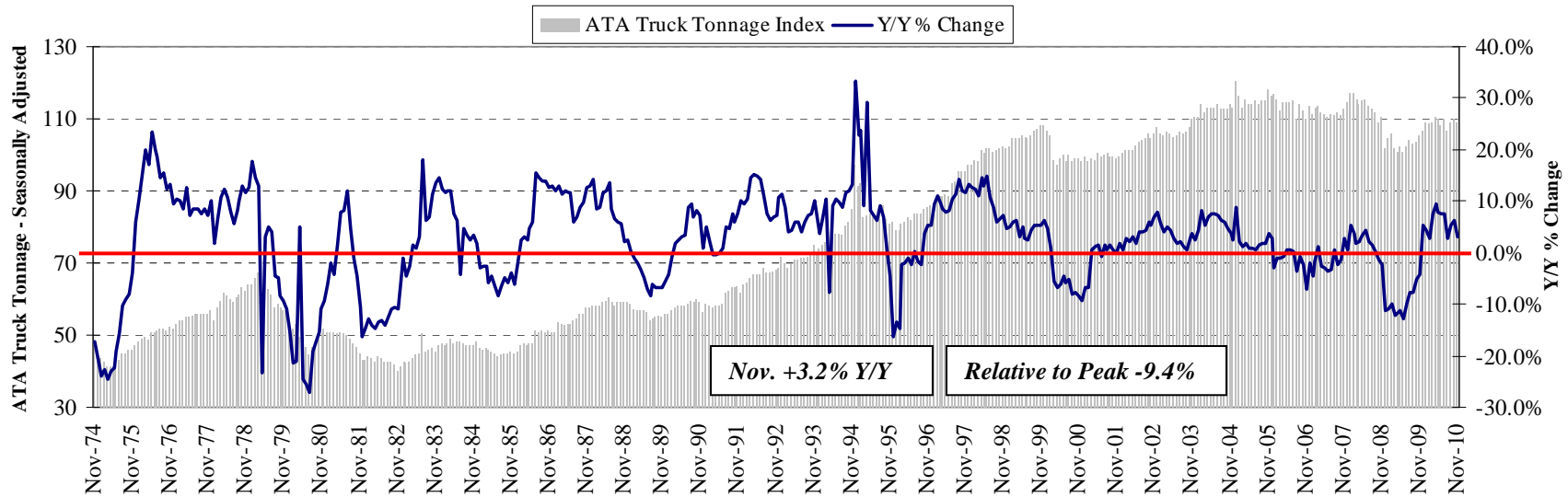
Data through November 2010

Source: Ceridian Corporation, UCLA Anderson School of Management, Charles River Associates

# Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011



## Seasonal Peak Absent from 2H10



Data through November 2010

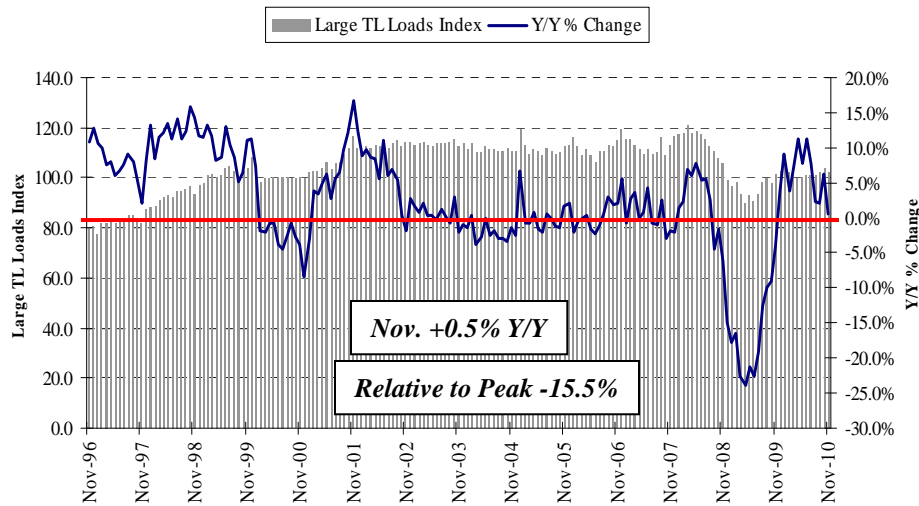
Source for all graphs: American Trucking Associations

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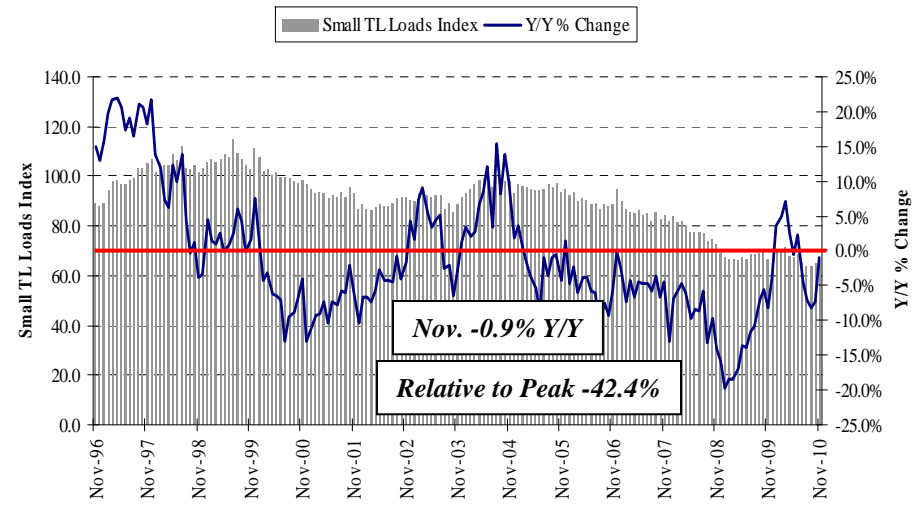


## Large Carriers Displacing Small Carriers in Niche Markets

ATA Loads Index For Large Truckload Carriers



ATA Loads Index For Small Truckload Carriers



Length of Haul<sup>(1)</sup> for Large TL Carriers Generally Decreasing



Length of Haul<sup>(1)</sup> for Small TL Carriers Generally Increasing



(1) Length of Haul is Miles index/Loads Index; Miles index includes empty miles, Both Indexes are Seasonally adjusted  
Source for all graphs: American Trucking Associations

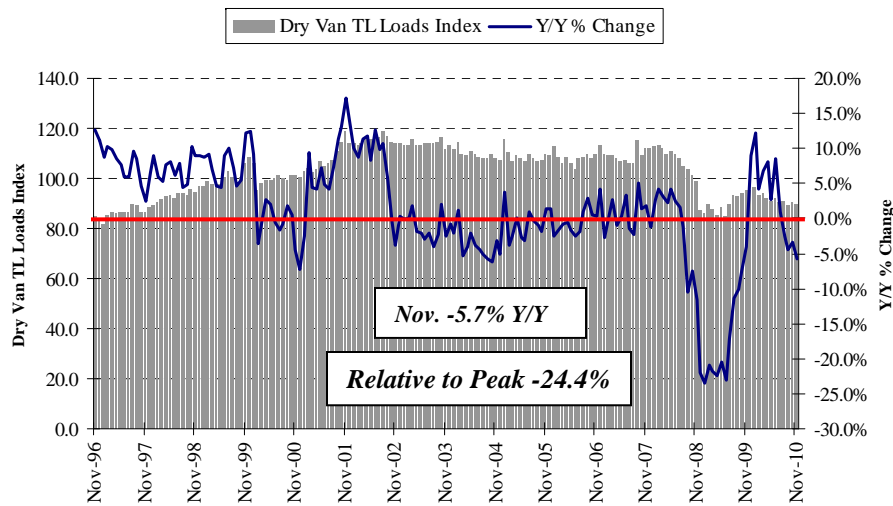
Large truckload fleets defined as carriers with greater than \$30 million in annual revenue  
Small truckload fleets defined as carriers with less than \$30 million in annual revenue

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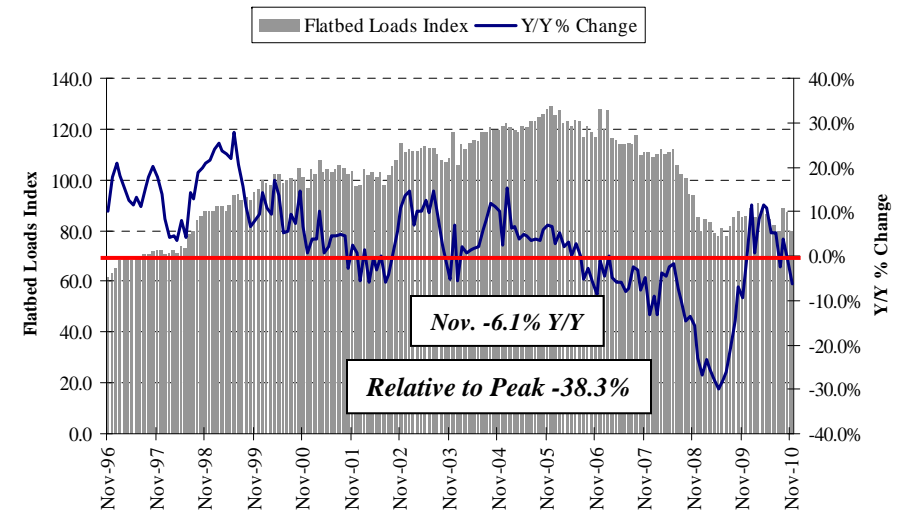


## Volumes Still Weak Compared to "Old Normal" Levels

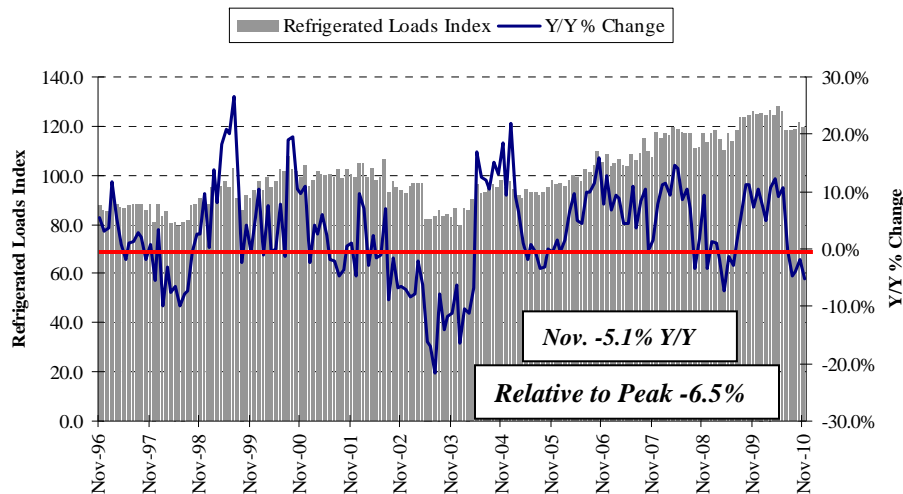
ATA Loads Index For Dry Van Truckload Carriers



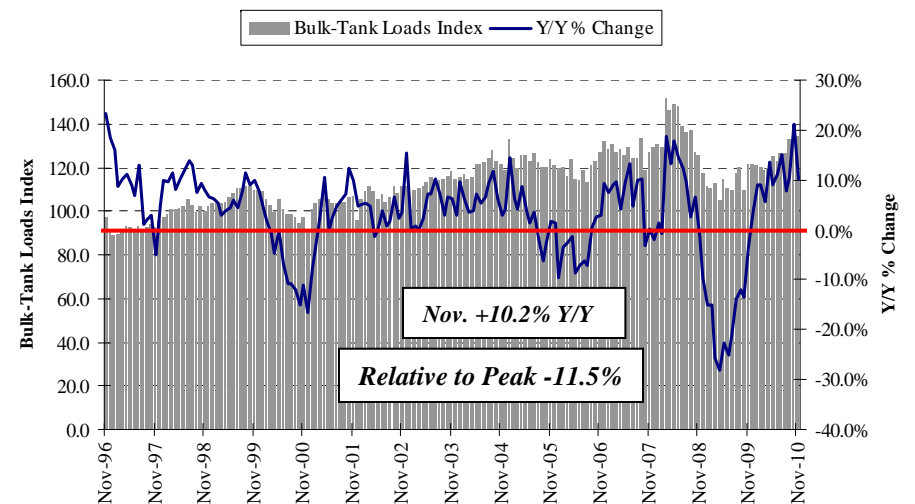
ATA Loads Index For Flatbed Carriers



ATA Loads Index For Refrigerated Carriers



ATA Loads Index For Bulk-Tank Carriers

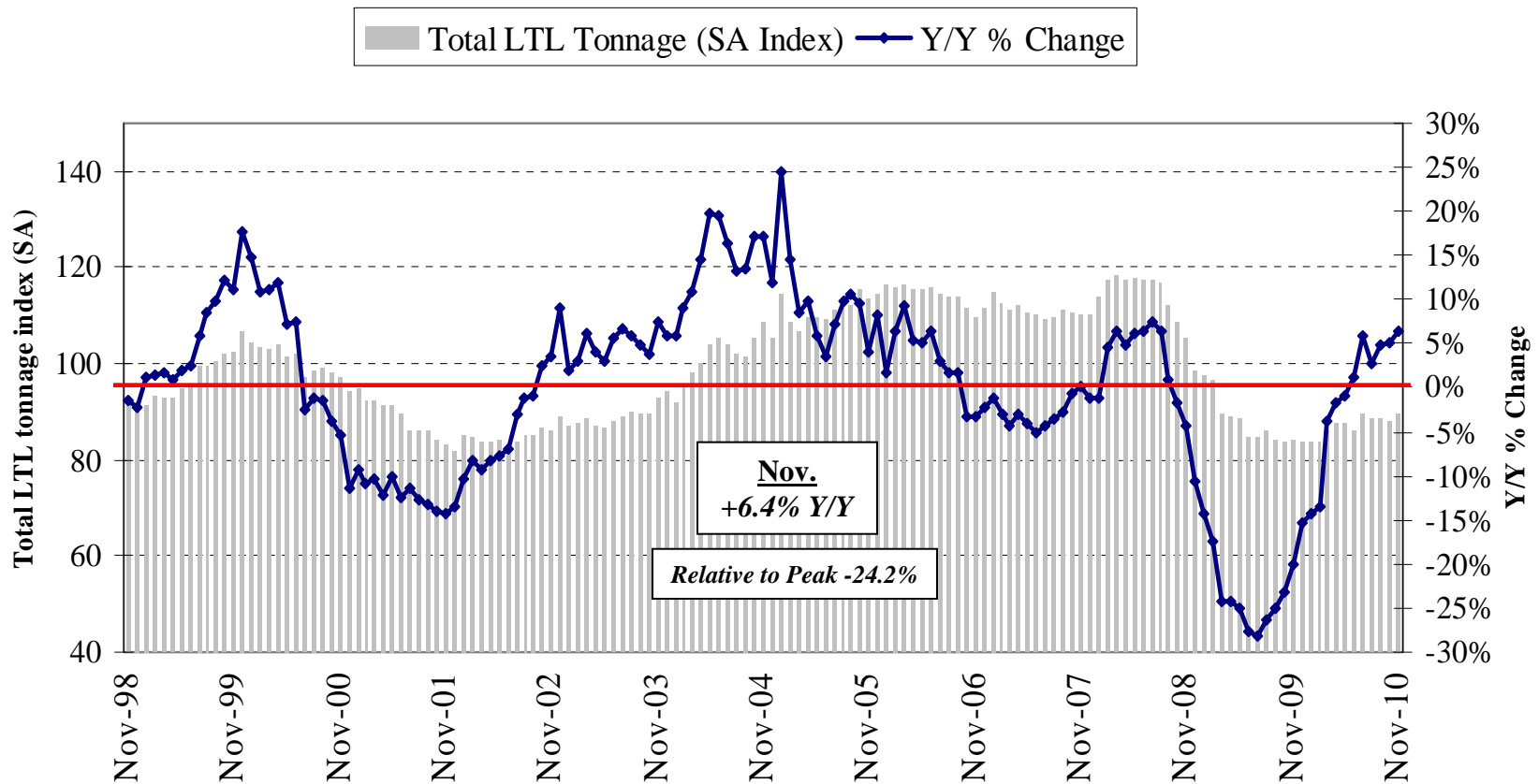


Source for all graphs: American Trucking Associations

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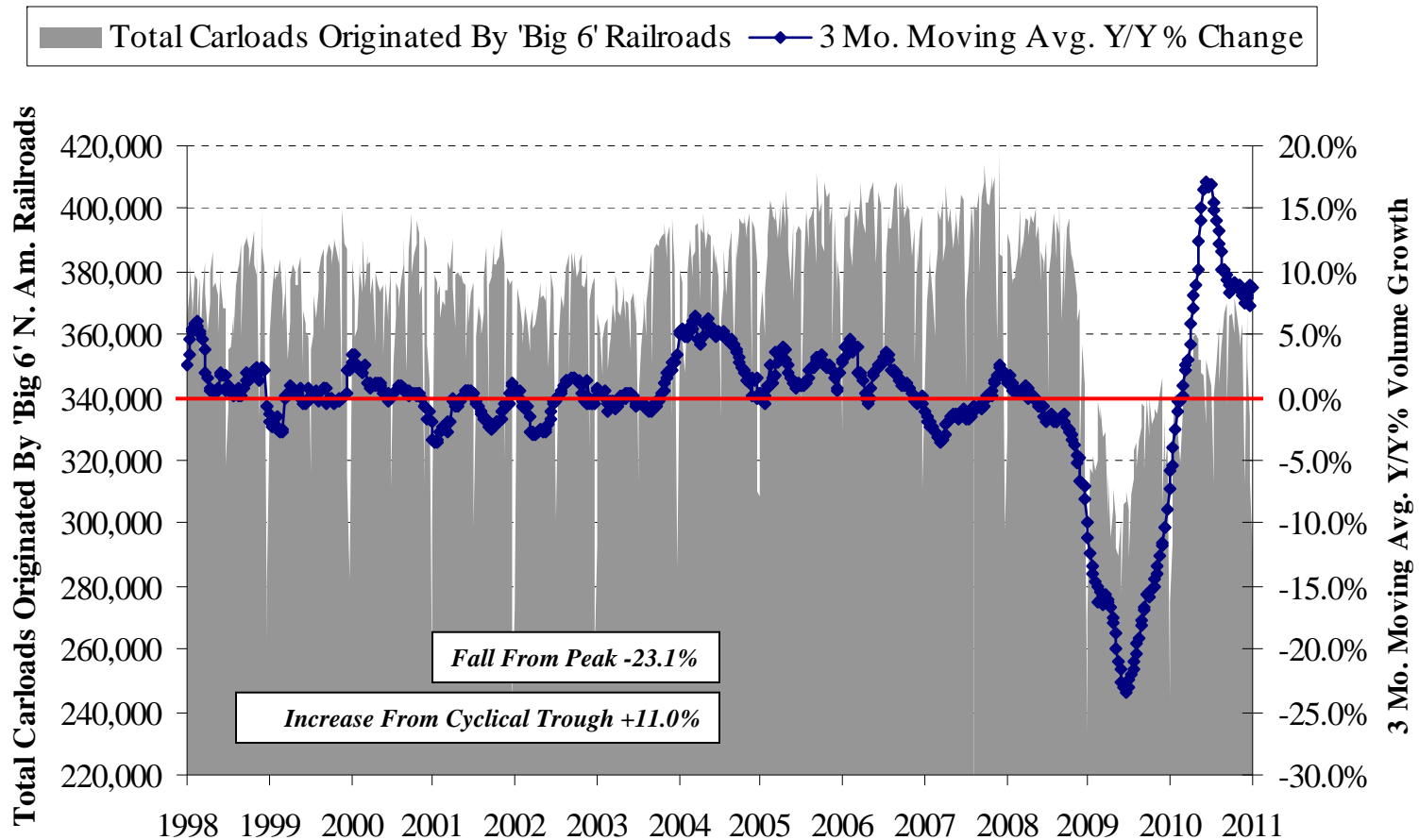
*LTL Recovery is Muted with Weak Housing Recovery and as Market Share Losses to TL, Intermodal, and Parcel Continue*



Source: American Trucking Associations



*Rail Carload<sup>1</sup> Origination Comparisons Remain Positive*



<sup>1</sup>Carloads exclude intermodal  
 Data through January 1, 2011

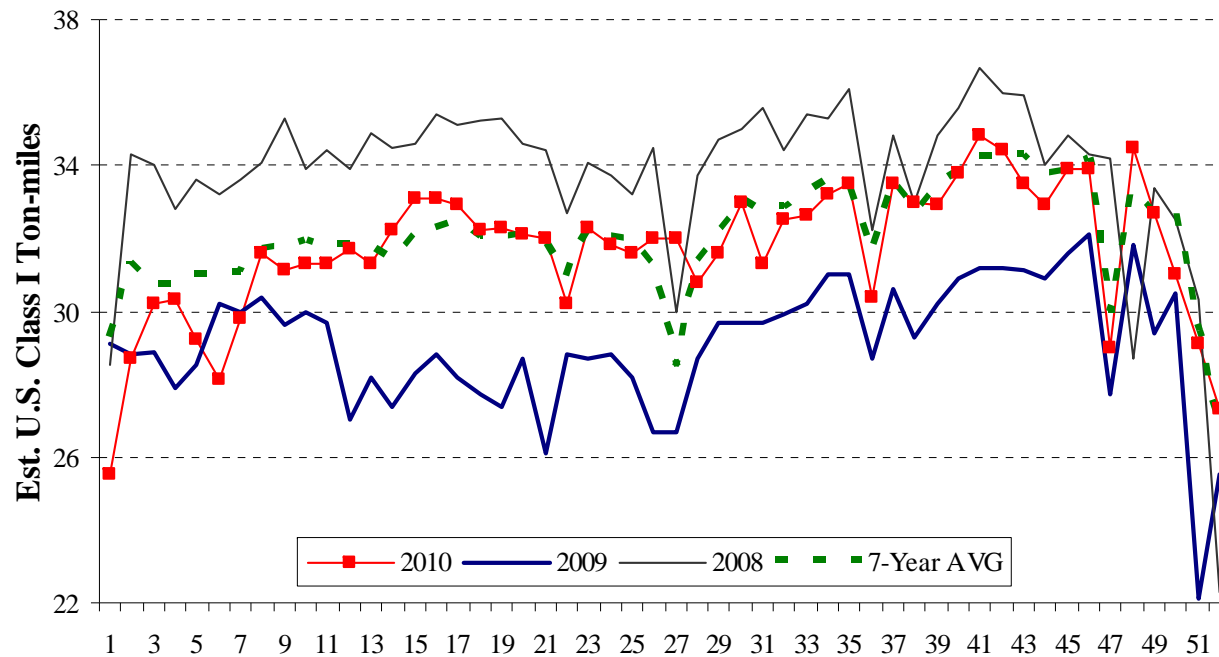
Source: Association of American Railroads

# Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011



*2010 Class I Estimated Ton-Miles Continue to Track the 7-Year Average*

**U.S. Est. Class I Ton-miles Are Now Trending With 7-Year Average ('03-'09)**



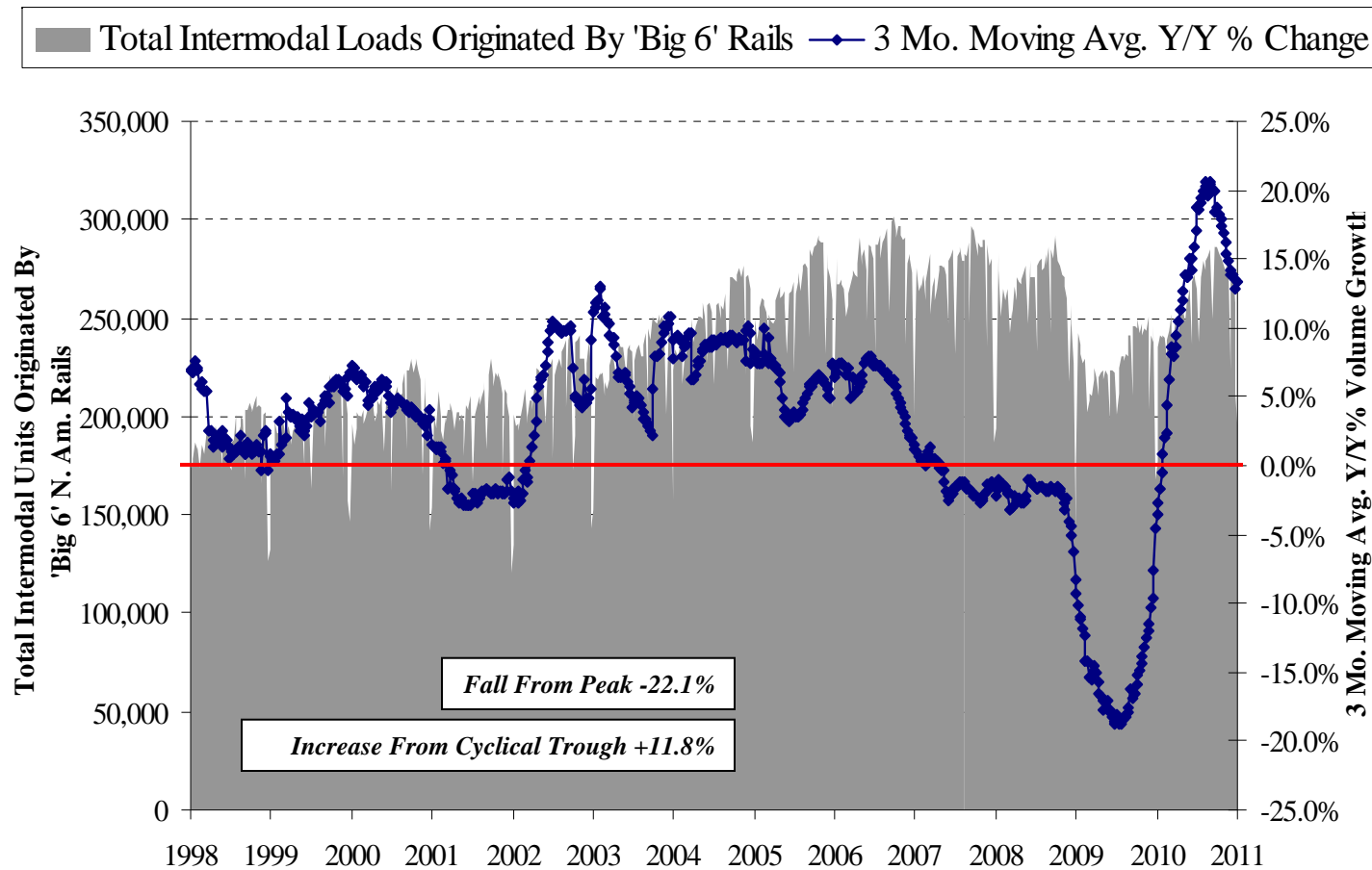
Data through January 1, 2011

Source: Association of American Railroads

# Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011



*Intermodal Volumes Have Strongly Rebounded; Will Container Shortage or Slower Consumer Spending and Replenished Inventories Soon Cap the Intermodal Recovery?*



Data through January 1, 2011

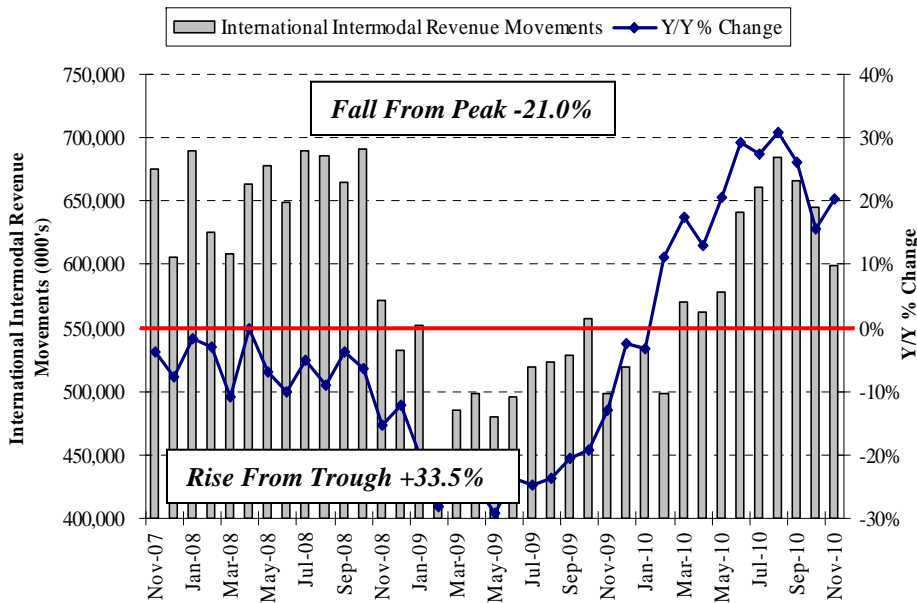
Source: Association of American Railroads

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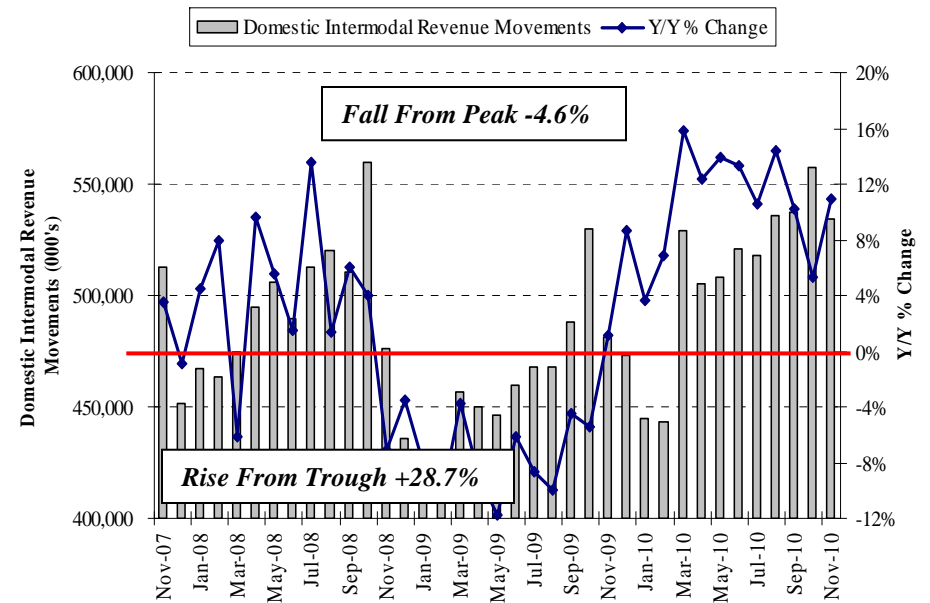


*Truck/Rail Partnerships Driving Much of the Domestic Intermodal Growth; Inventory Replenishment, “Early Peak” Season, and Early Chinese New Year Have Driven Strong International Intermodal Growth*

**North American Intermodal Loadings**



**North American Intermodal Loadings**

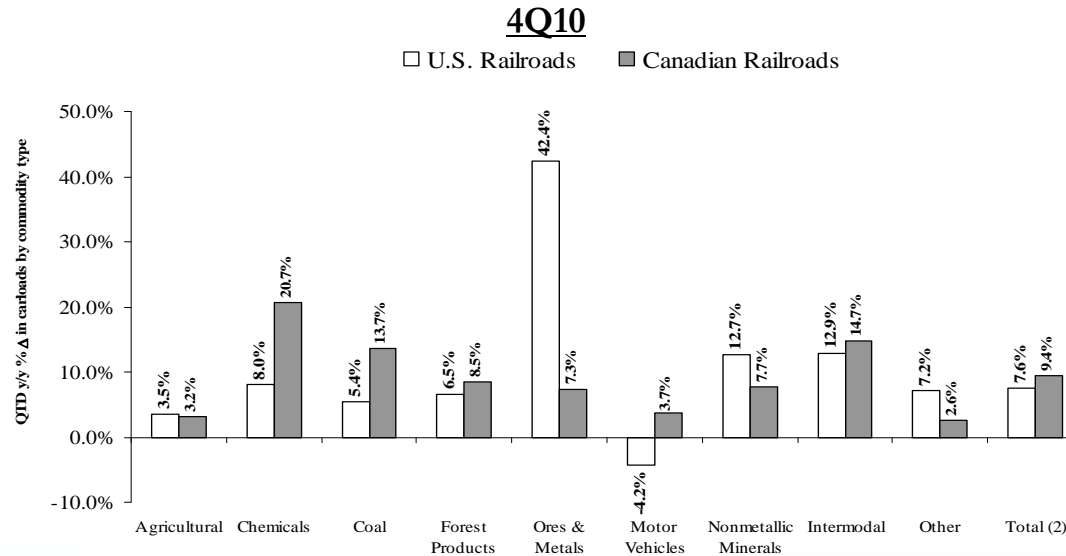
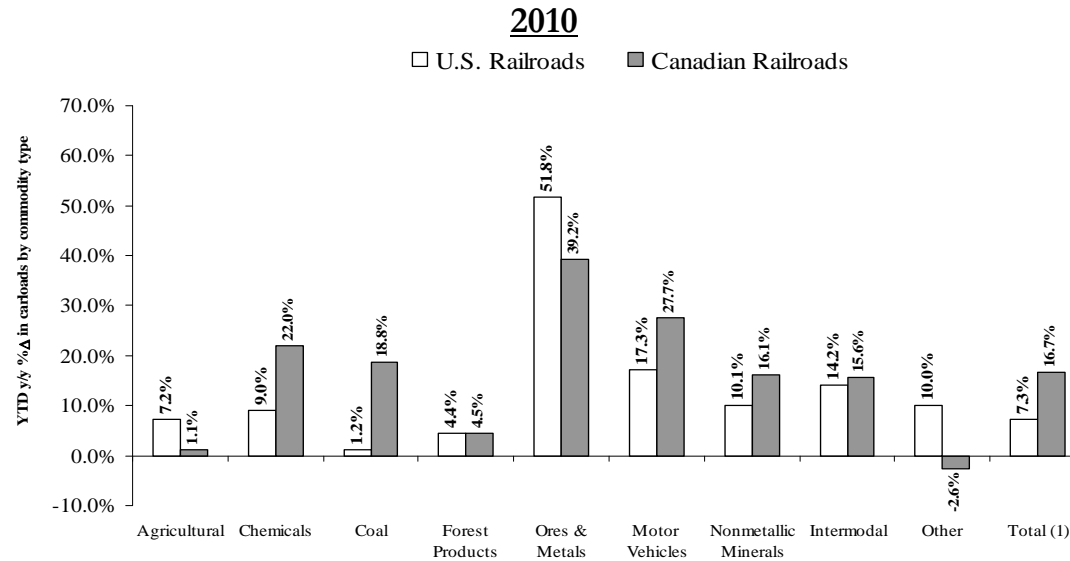


Source for both graphs: Gross Transportation Consulting, FTR Associates

# Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011



## Volume Growth Slowing Against Tougher Comps.



<sup>1</sup>Total carloads excludes intermodal  
Carloads are originations 2010 full year  
through January 1, 2011

<sup>2</sup>Total carloads excludes intermodal  
Carloads are originations for 4Q10 through  
January 1, 2011

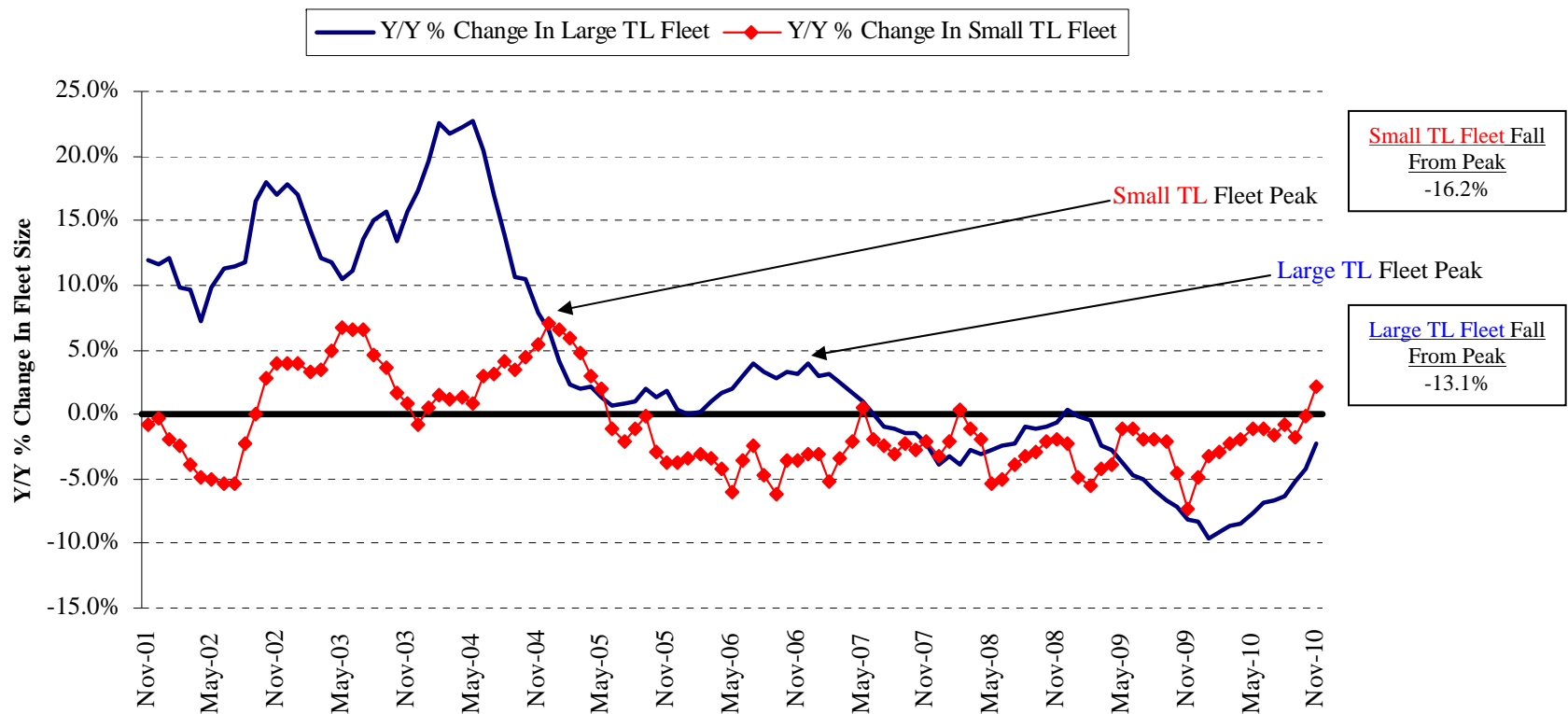
Source: Association of American Railroads



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*Small Fleets Have Been Downsizing for Roughly the Last 5 Years (Since Mid-2005), Whereas Large Fleets Have Declined Only Since Mid-2007*



Data through November 2010

Large truckload fleets defined as carriers with greater than \$30 million in annual revenue

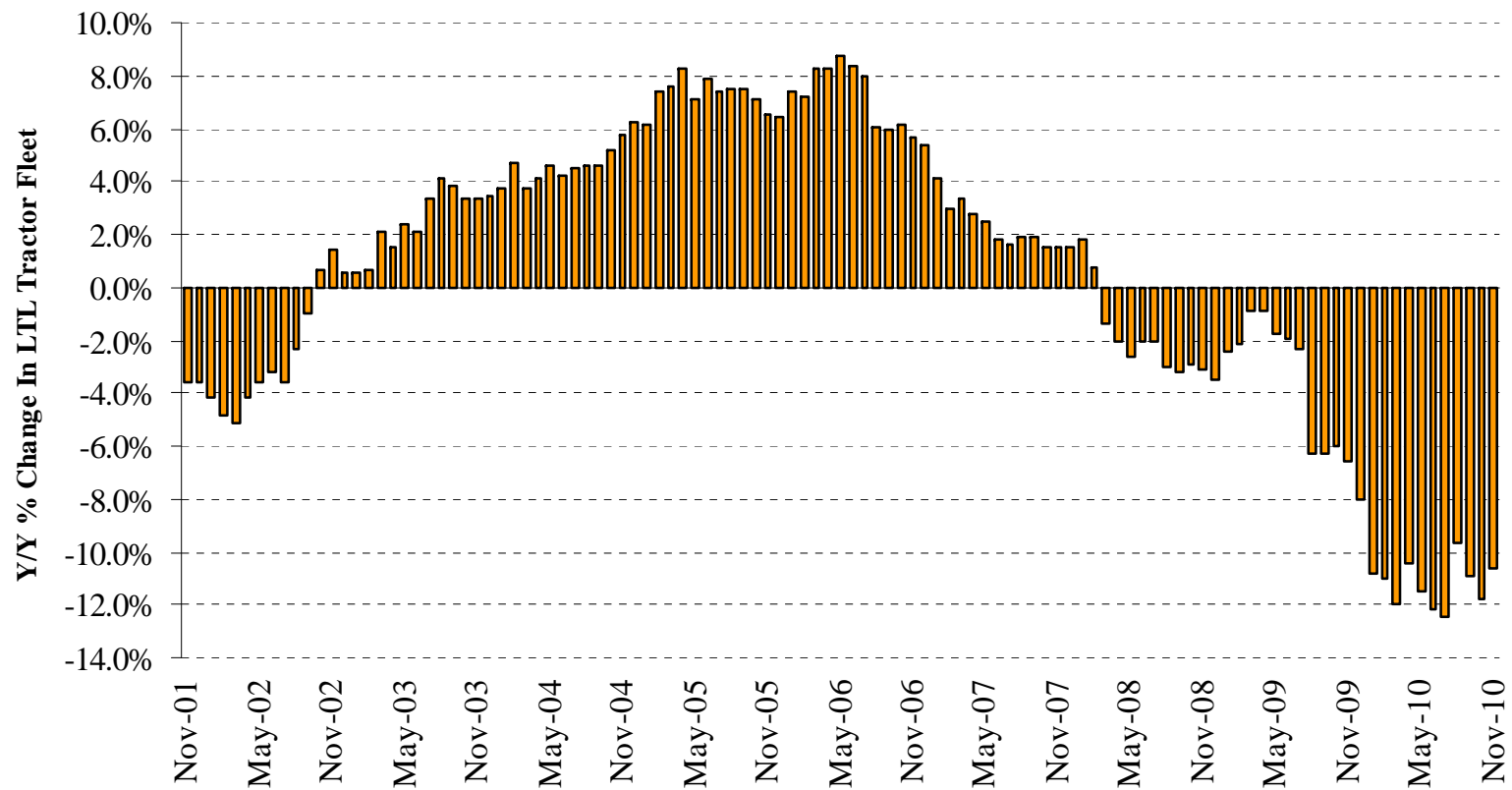
Small truckload fleets defined as carriers with less than \$30 million in annual revenue

Source: American Trucking Associations

New Federal Regulations/Lack of Credit/Strategic Shifts by Large Carriers Should Restrict Industry Capacity. Resumption of Economic Recovery Would Exacerbate Supply/Demand Dynamic



*LTL Equipment Showed Y/Y Decline of 10.6% in November*



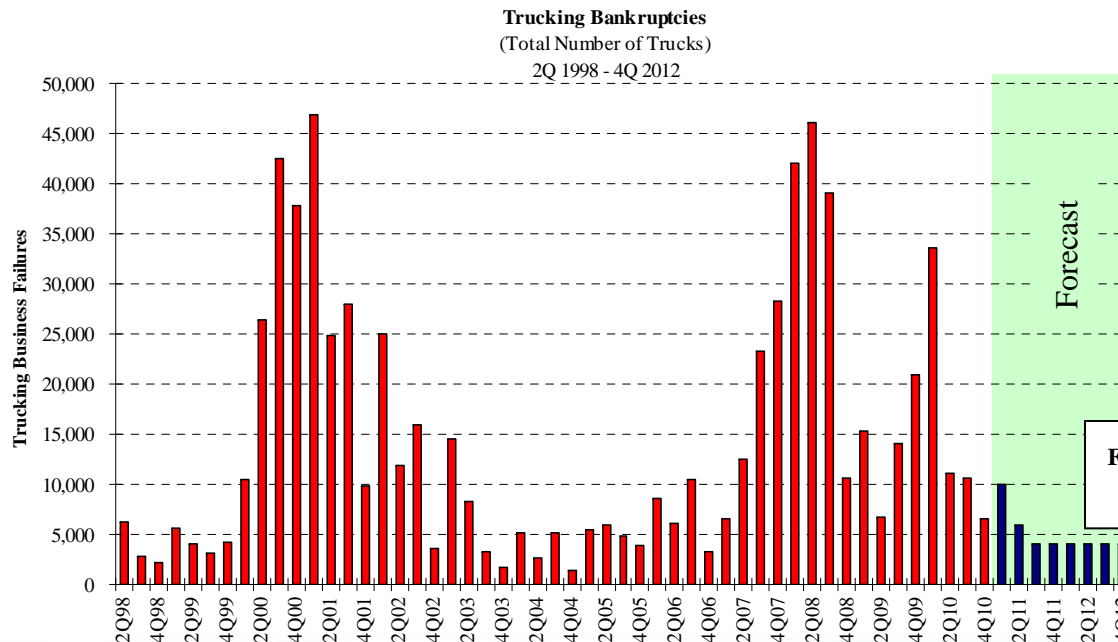
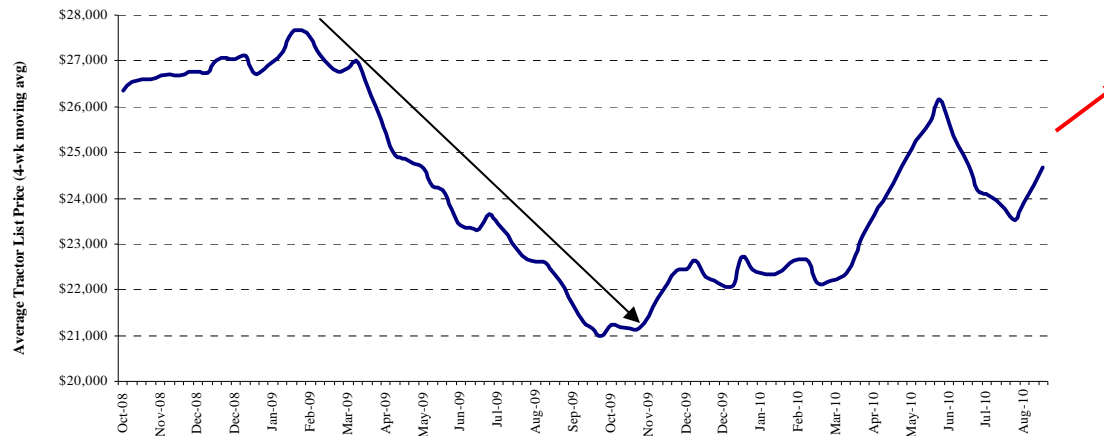
Data through October 2010

Source: American Trucking Associations

New Federal Regulations/Lack of Credit/Strategic Shifts by Large Carriers Should Restrict Industry Capacity. Resumption of Economic Recovery Would Exacerbate Supply/Demand Dynamic



*Depressed Used Truck Values Slowed Fleet Liquidations; Will Rebound in Used Equipment Prices Accelerate Fleet Failure Rate?*

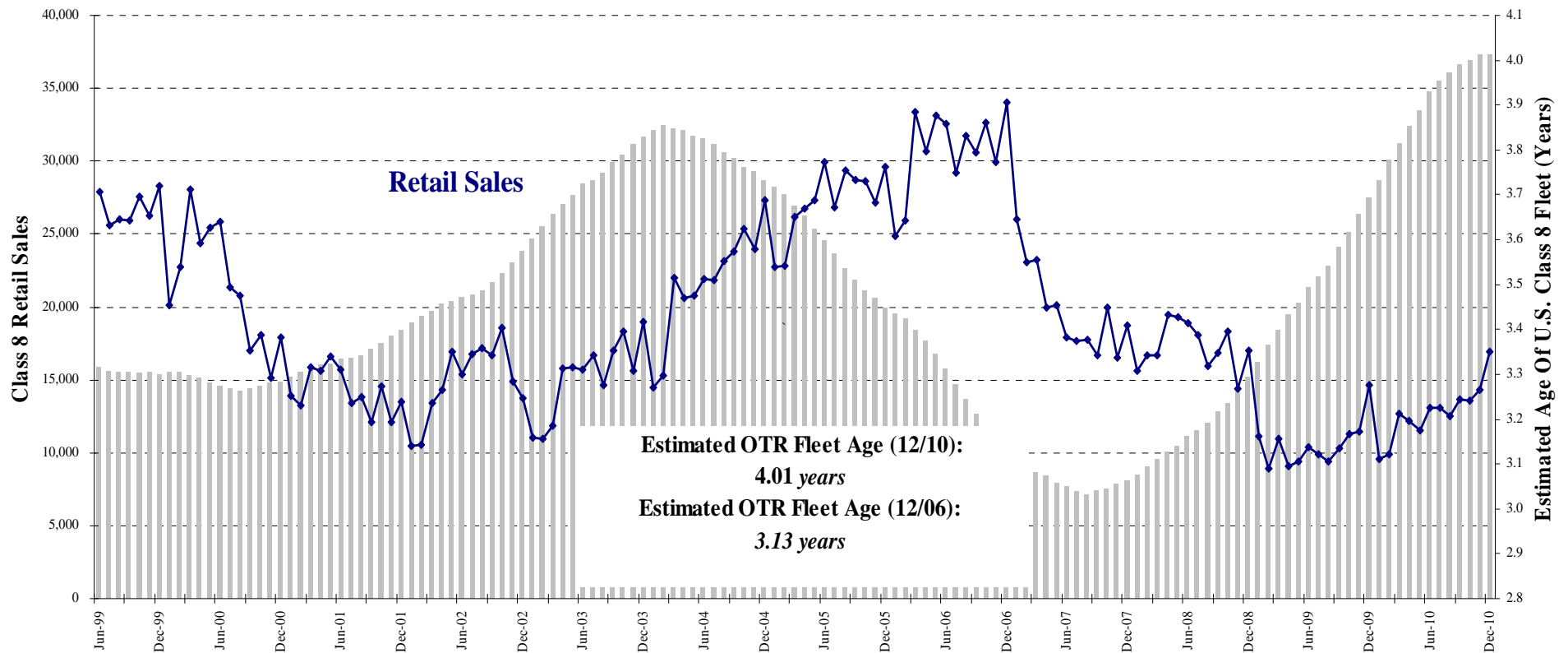


Source:  
Top graph – Ryder System, Inc.  
Bottom graph – Avondale Partners/FTR



*Average Fleet Age Rising; Should Drive Significant Replacement Sales in 2011 and 2012*

### Class 8 Monthly Retail Sales vs. Estimated Class 8 Fleet Age

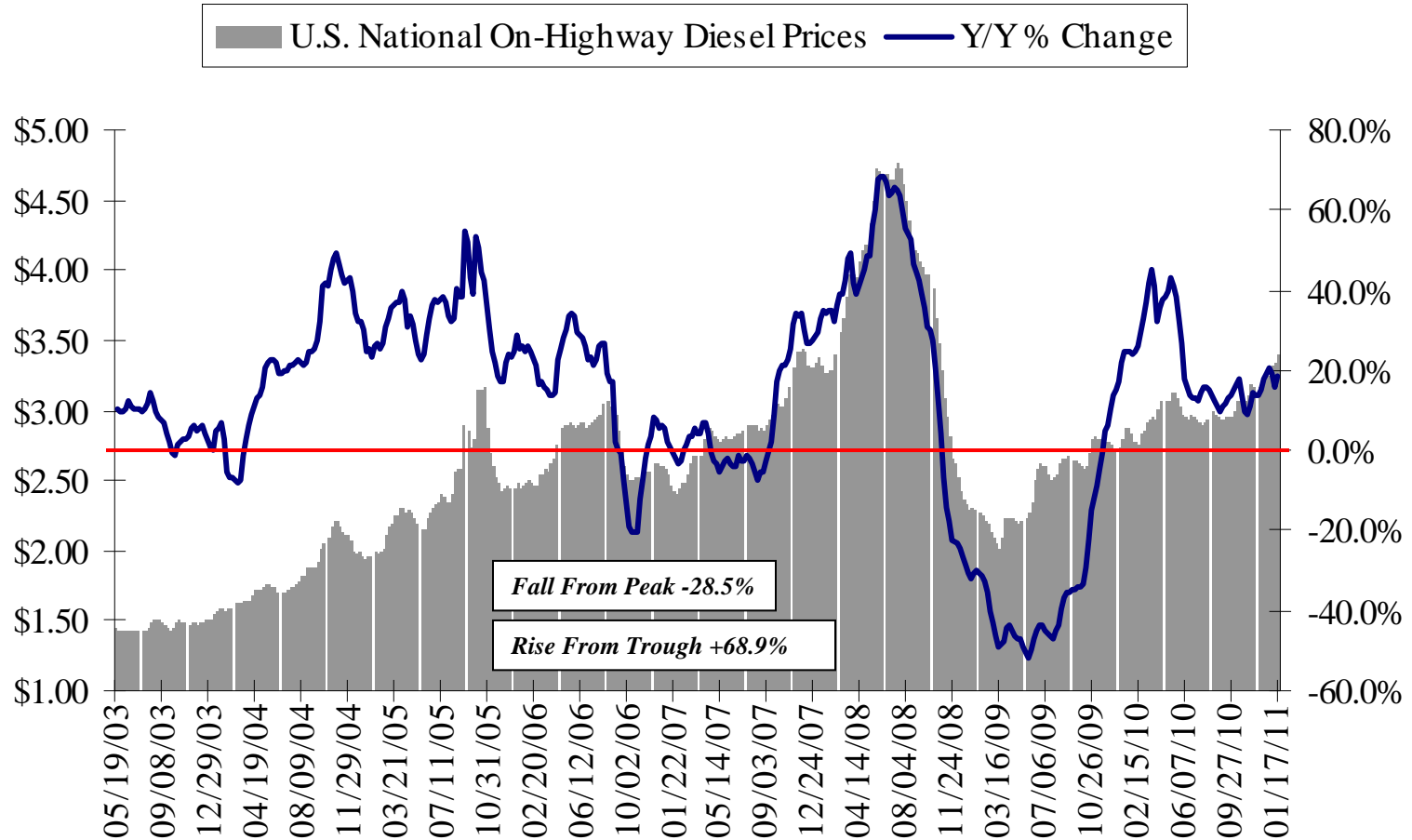


Data through December 2010

Source: A.C.T. Research



*Rising Diesel Prices a Potential Issue for 2011*

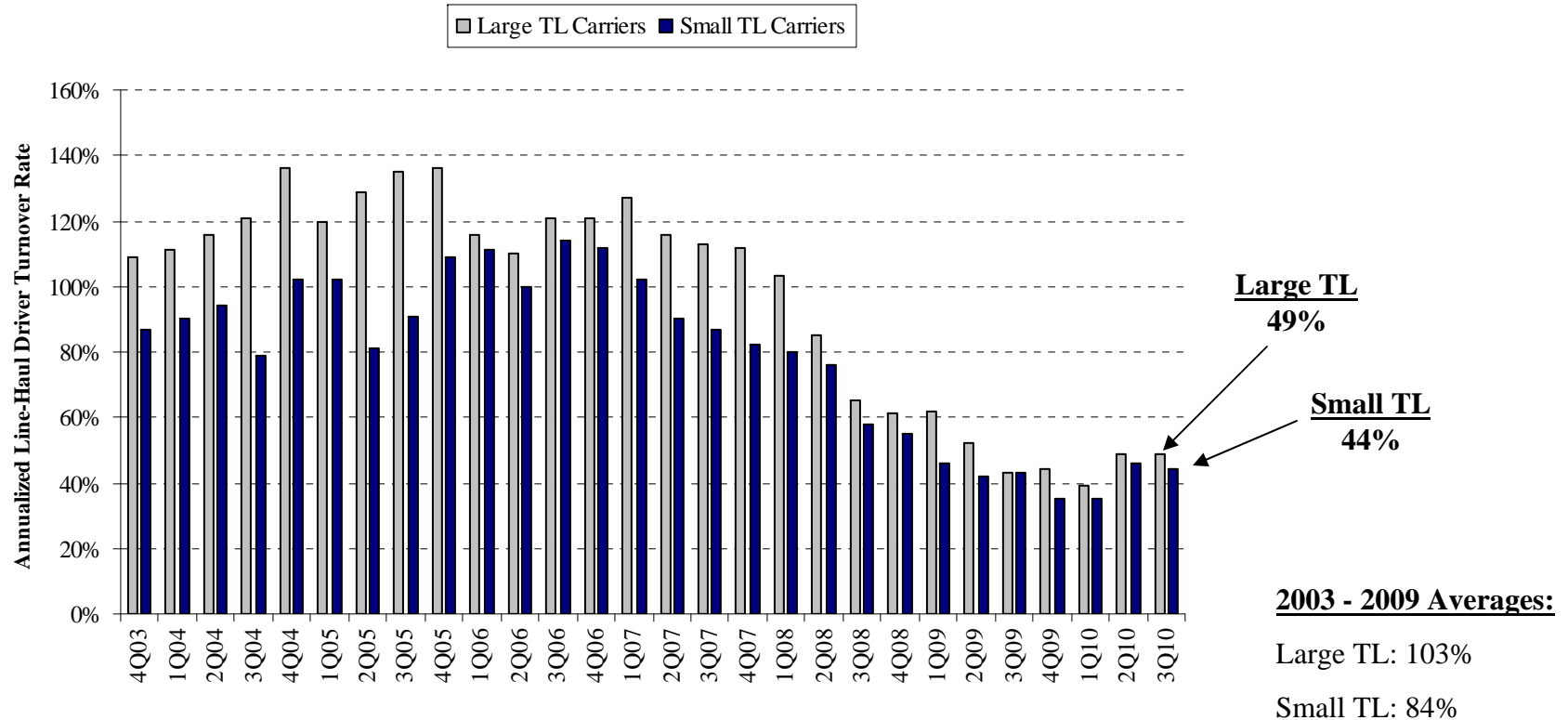


Data through January 17, 2010

Source: Energy Information Administration



*Driver Turnover Has Potential to Rebound to Historical Levels with CSA 2010, HOS Rules Changes, and EOBR's*



**Notes:**

CSA 2010 = Comprehensive Safety Analysis 2010

HOS = Drivers' Hours-of-Service

EOBR's = Electronic On-Board Trip Recorders

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Source: American Trucking Associations



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# Truckload Sector Themes



*4Q10 finished stronger than expected as retail sector gained momentum*

- Capacity remained flat in 4Q10 as few carriers are adding new equipment given rising life cycle costs and new driver regulations that will further trim the driver supply.
- Many shippers built sizeable rate increases into their budgets for 2011.
- Carriers remain focused on retaining most of the operational efficiencies implemented during the depths of the freight recession.
- Rising fuel prices are a concern but most fuel surcharges offset the bulk of the adverse impact.
- Domestic intermodal serves a limited number of long haul, high density lanes. Capacity was sold out for much of 2010 and, as a result, provides less of a competitive threat to trucking (than is often believed).

# Less-Than-Truckload Sector Themes



## *LTL pricing improving; YRC still seeking financial white knight*

- Y/Y tonnage growth rates are slowing, as we expect difficult comps ahead the next couple of quarters.
- Pricing comps are getting easier, as the price war peaked in 4Q09, and most carriers are gaining traction with rate increases, as active capacity is being held somewhat in check while volumes improve.
- Diesel fuel prices rising through 4Q09 likely held down realized base rate increases some, and those carriers with the fewest fuel surcharge caps will be best insulated from a fuel-related margin squeeze.
- We do not expect much hiring or other capacity additions in the industry until pricing significantly improves, as carriers would rather turn away volume than haul at unsustainable rates.
- YRC Worldwide is attempting another out-of-court restructuring, but can it be done? We are unsure where the company gets the necessary \$300mm in new equity investment by February 28th (after the deadline was extended from 12/31/10), given its multi-billion dollar pension liability, lack of competitive advantage in the LTL business, union workforce, aging equipment, and an asset base that belongs to the banks and pension funds. New CEO search also likely challenged until a restructuring is completed.

## Logistics Sector Themes



STIFEL  
NICOLAUS  
Equity Research

*Truck broker margins squeezed, relative to the year-ago quarter, as asset-based carriers raising rates with tightening in supply-demand*

- Truck broker margins likely experienced pressure in 4Q10, relative to one year ago, as capacity was relatively scarce; however, we believe brokers' gross margins remain above the low points experienced in 2Q10.
- Air cargo market has remained fairly tight, although some of the price pinch felt by forwarders has been offset by strong volumes. These rate increases should ultimately be passed onto customers. Ocean carriers brought back capacity in 2H10 after strong 1Q10 only to find volumes disappoint, so overcapacity in ocean should help international ocean forwarder yields.
- Truck brokerage operations continue to grow (and grow in numbers) as asset-based carriers and privately-held brokers endeavor to replicate C.H. Robinson's success. Intermodal and intermodal brokerage operations seem to be further consolidating around few even larger players as railroads prefer to deal with large, well-capitalized, sophisticated players that have access to large container fleets.
- 4Q10 small package volumes were strong due to significant increase in B2C/e-commerce business over the holidays. With a leaner industry structure, the U.S. parcel market (both Air and Ground) should see significant rate increases in 2011 to the benefit FedEx and UPS.
- Near-shoring trend should continue to play out with longer-term prospects of more stringent security requirements, higher energy prices, focus on sustainability, and supply chain redesign.
- Outsourced logistics management gaining traction, as managers look to cut costs and reduce overhead. Private fleet outsourcing should also continue.

# Intermodal Sector Themes



## *Intermodal volumes remained strong in 4Q10; intermodal rates continue to rise*

- Intermodal volumes, as reported by the AAR, improved 13.3% y/y in 4Q10 for the Class I North American rails; sequential intermodal volume decline of 3% (from 3Q10 to 4Q10) was less severe than many had feared.
- Most domestic intermodal companies and Class I railroads plan to expand container fleets in 2011; container fleet growth in the industry, net of disposals, may be as high as 10%; volume growth may be constrained above that level due to lack of container availability.
- U.S. rails Norfolk Southern and Union Pacific implemented intermodal rate increases which began on May 1 and June 1, respectively; in 3Q10, intermodal providers were seemingly able to pass price increases on to customers.
- Intermodal companies have generally been pleased with the rail service they have received this year, with improvement evident in container utilization statistics (i.e., number of monthly container turns).
- We believe shippers' modal preference between intermodal and truckload does not appear to shift quickly with small fluctuations in fuel prices.
- Push into shorter-haul, typically Eastern U.S. markets, has been successful for a few big intermodal players.
- Many drayage companies currently experiencing high levels of economic pain; sufficient capacity may be unavailable should volumes rapidly recover and as additional ports adopt the LA/Long Beach mentality with respect to drayage truck emissions and as CSA 2010 has taken hold; look for intermodal companies to continue to expand their in-house drayage capacity.



- I. The Economic Recovery Appears to Be Gaining Some Momentum Since the November '10 Elections
- II. Volume Recovery Stalled in 2H10; Resumption of Economic Growth Should Drive Additional Recovery in 2011
- III. New Federal Regulations, Lack of Credit, and Strategic Shifts by Large Carriers Should Restrict Industry Capacity. A Resumption of the Economic Recovery Would Exacerbate the Already Tightening Supply/Demand Dynamic.
- IV. Industry Sector Snapshots Highlight Differences Across Sector Outlooks
- V. Conclusions – Market Forces Will Likely Further Tighten Supply & Demand and Continue Driving Price Up**

# Conclusions



- Supply and Demand are close to equilibrium; Will 2011 be the beginning of the “Mother of all capacity shortages?”
- Inventories have generally adjusted to new normal demand. Replenishment to new normal, gradually growing demand should create steady demand growth in 2011.
- Weak dollar combined with Asian economic recovery should create new opportunities for exporters. Do we have sufficient export infrastructure to support this trend?
- Product, packaging, and supply chain redesign should not be overlooked – freight saved is freight gone forever.
- Accommodative monetary policy should remain in place for the foreseeable future; fiscal policy stimuli have not been terribly effective, but their expiration could limit further growth.
- Biggest question mark: Will Republicans and newly centrist administration shift to a pro-business stance soon enough? Pent-up hiring demand and pent-up capital spending could drive upside surprise to economic growth projections, if unleashed.

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