

Industrial Research

January 16, 2014

Global Freight Flows on the Mend

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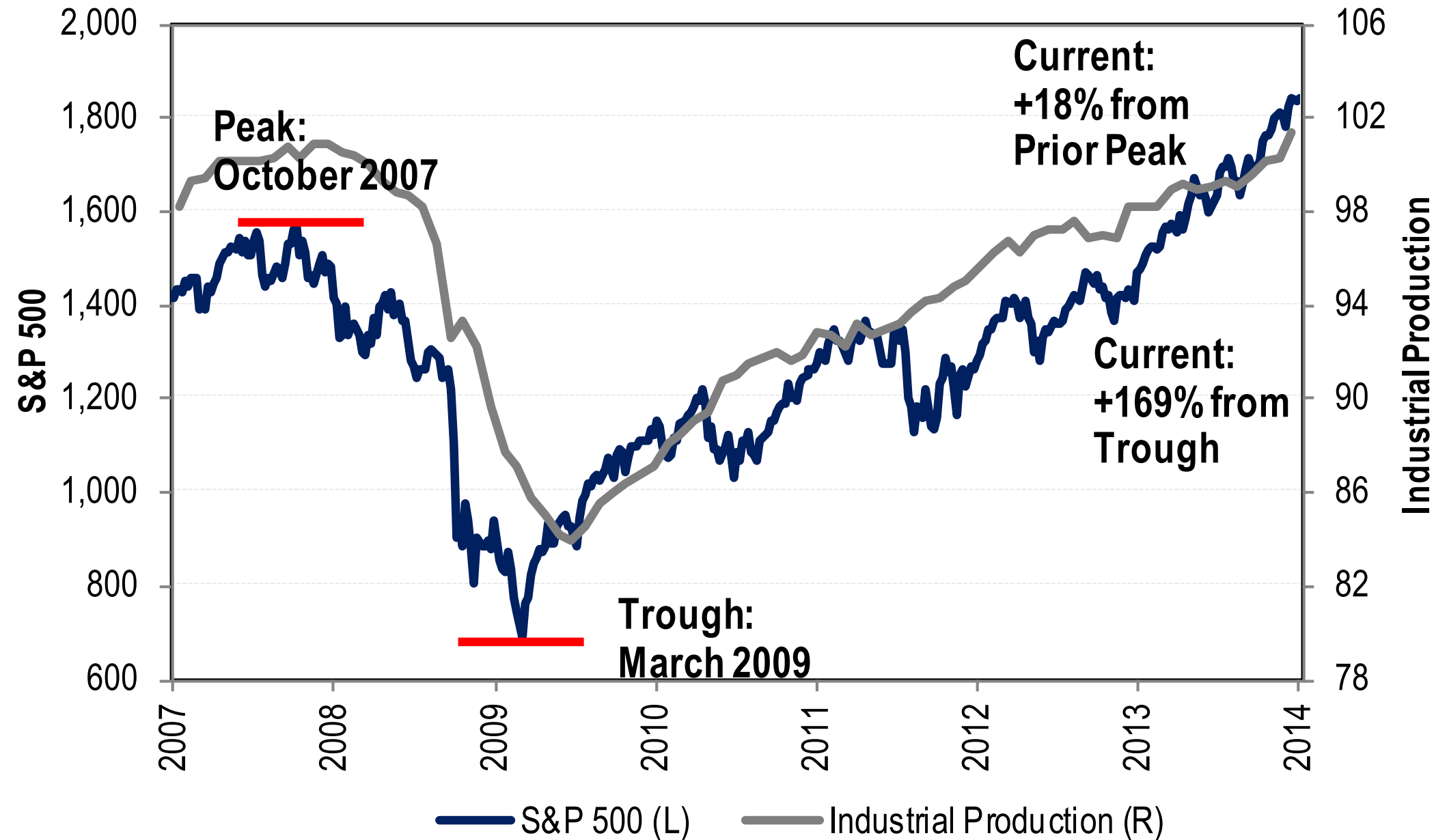


Global Freight Flows on the Mend

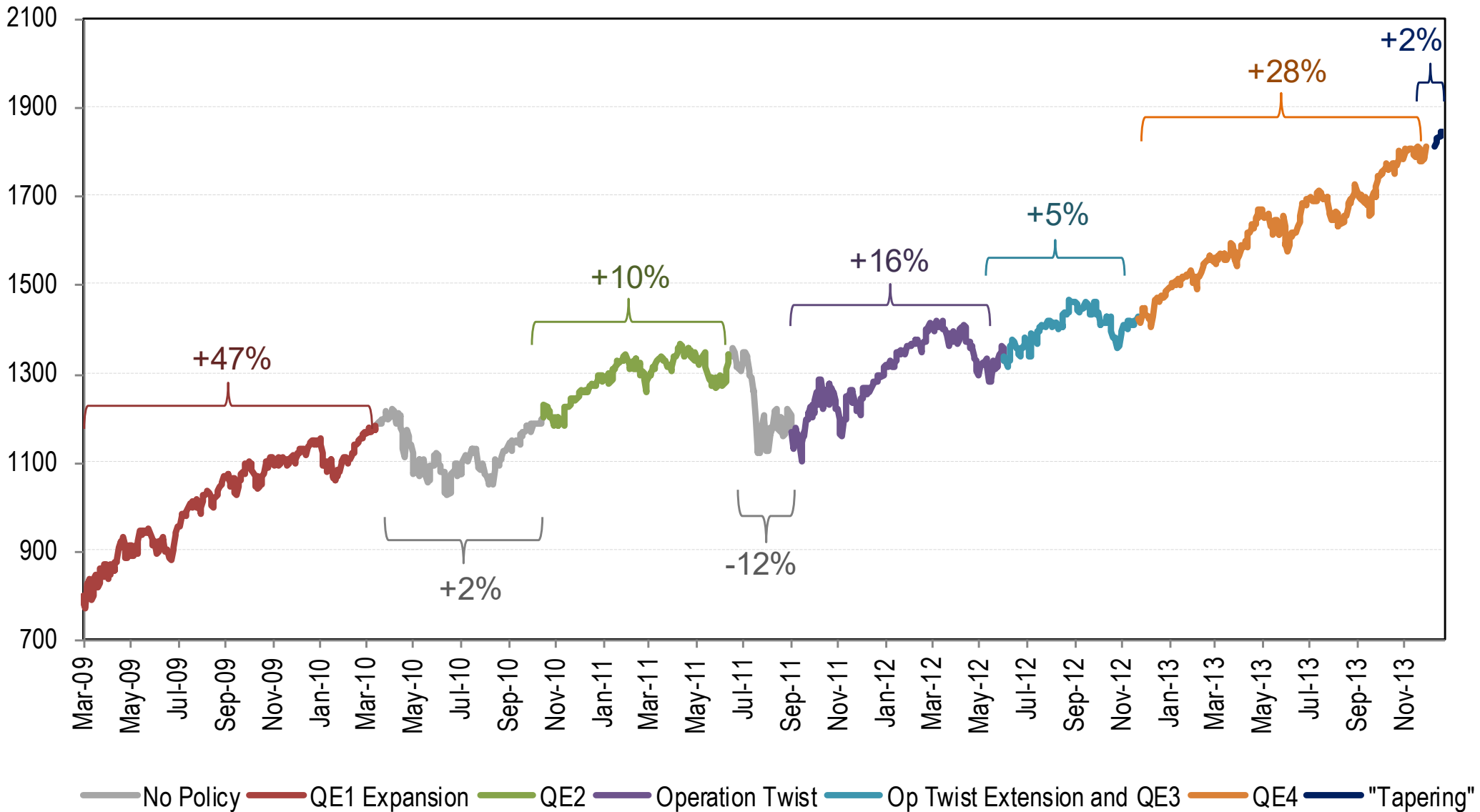
Focal points for 2014:

- We expect US and global growth to reaccelerate.
- US Industrial Production -- History suggests ~20% more upside this cycle.
- The US consumer is crucial to carrying the recovery. Demand remains soft, but some early signs of engagement are emerging.
- Bottom line: Federal Reserve actions have proven successful so far -- but the private sector must now carry the baton.

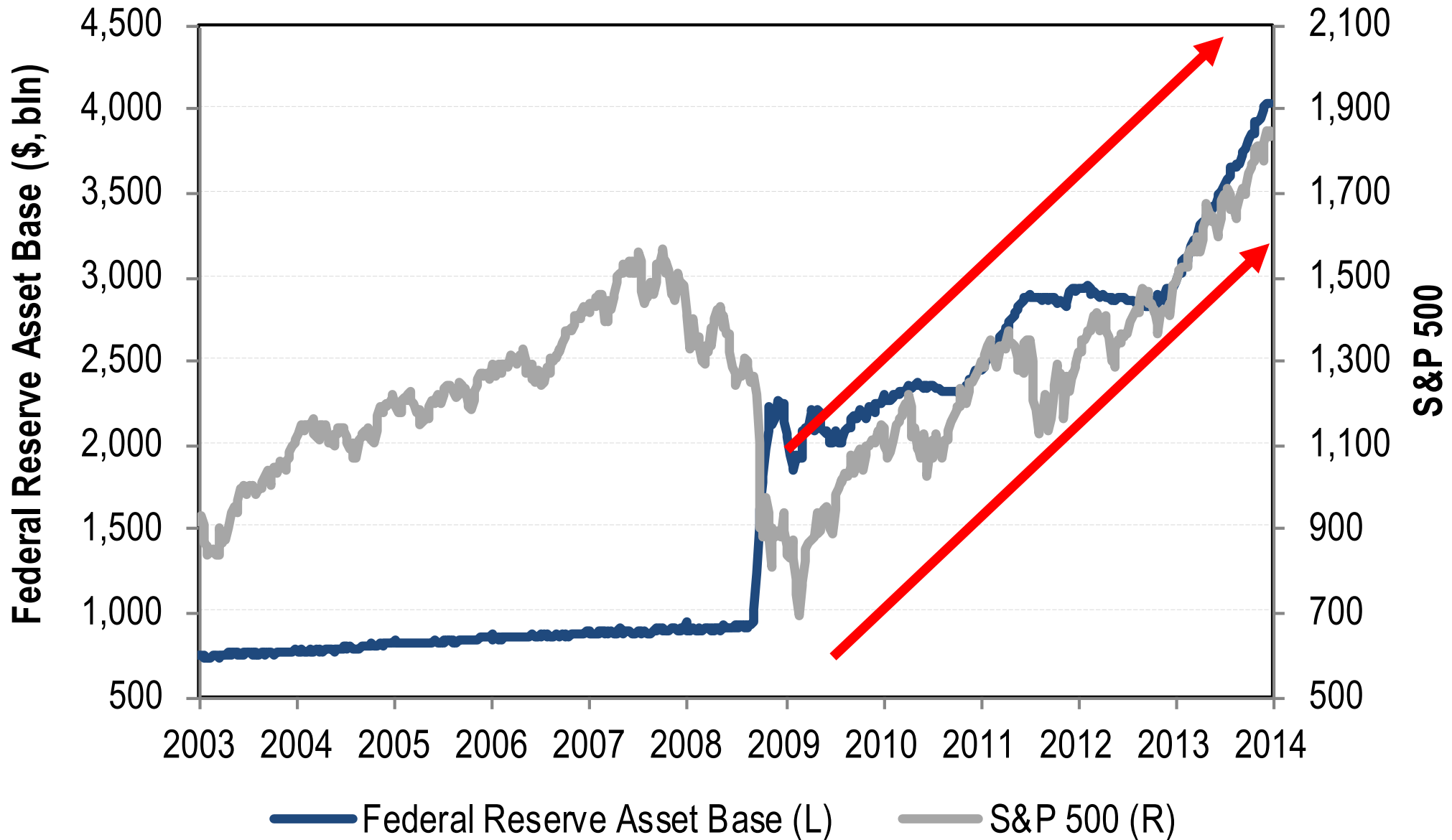
A Look Back At This Cycle



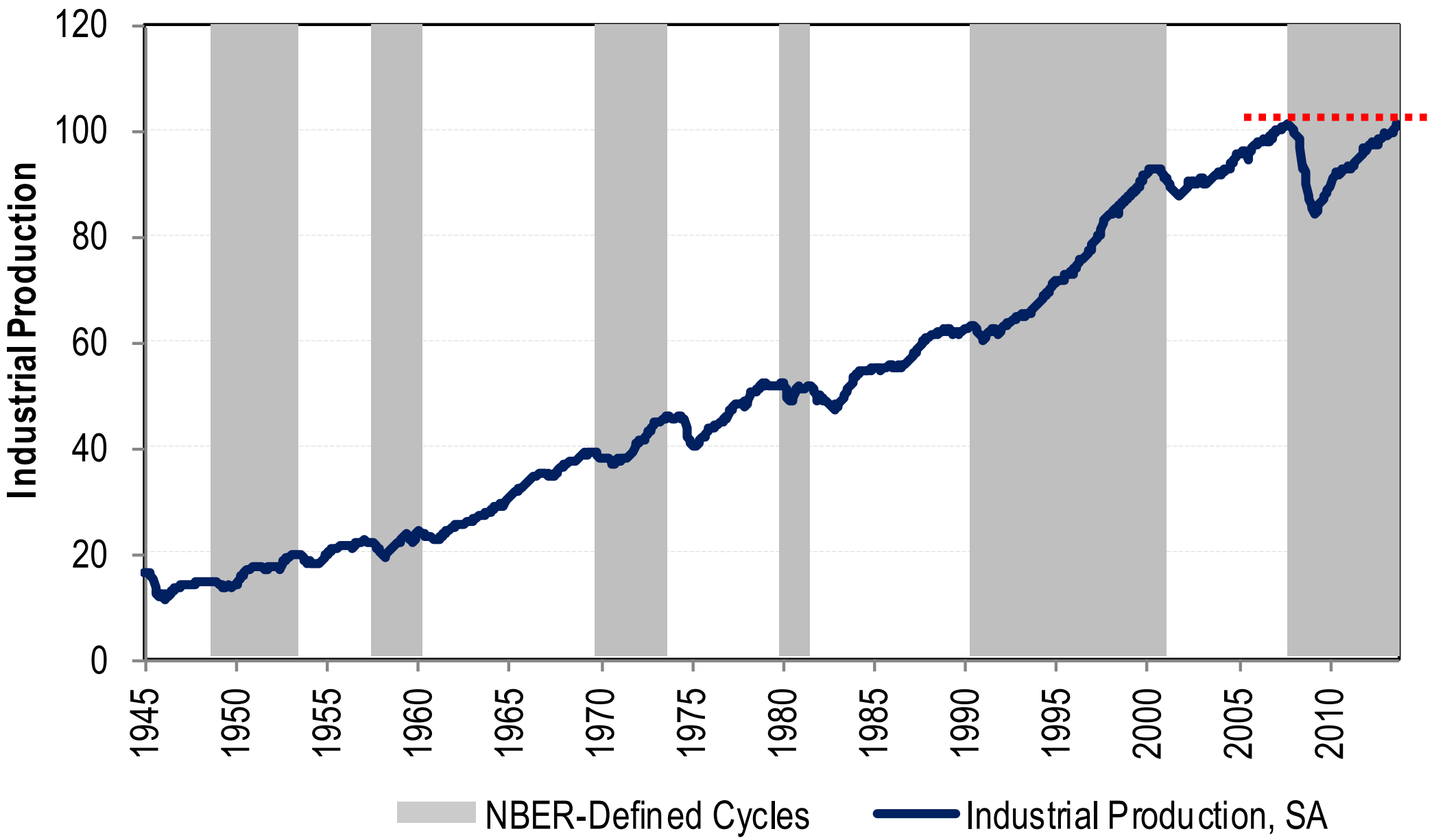
S&P 500 Returns From March 2009 Lows Fueled By The Fed



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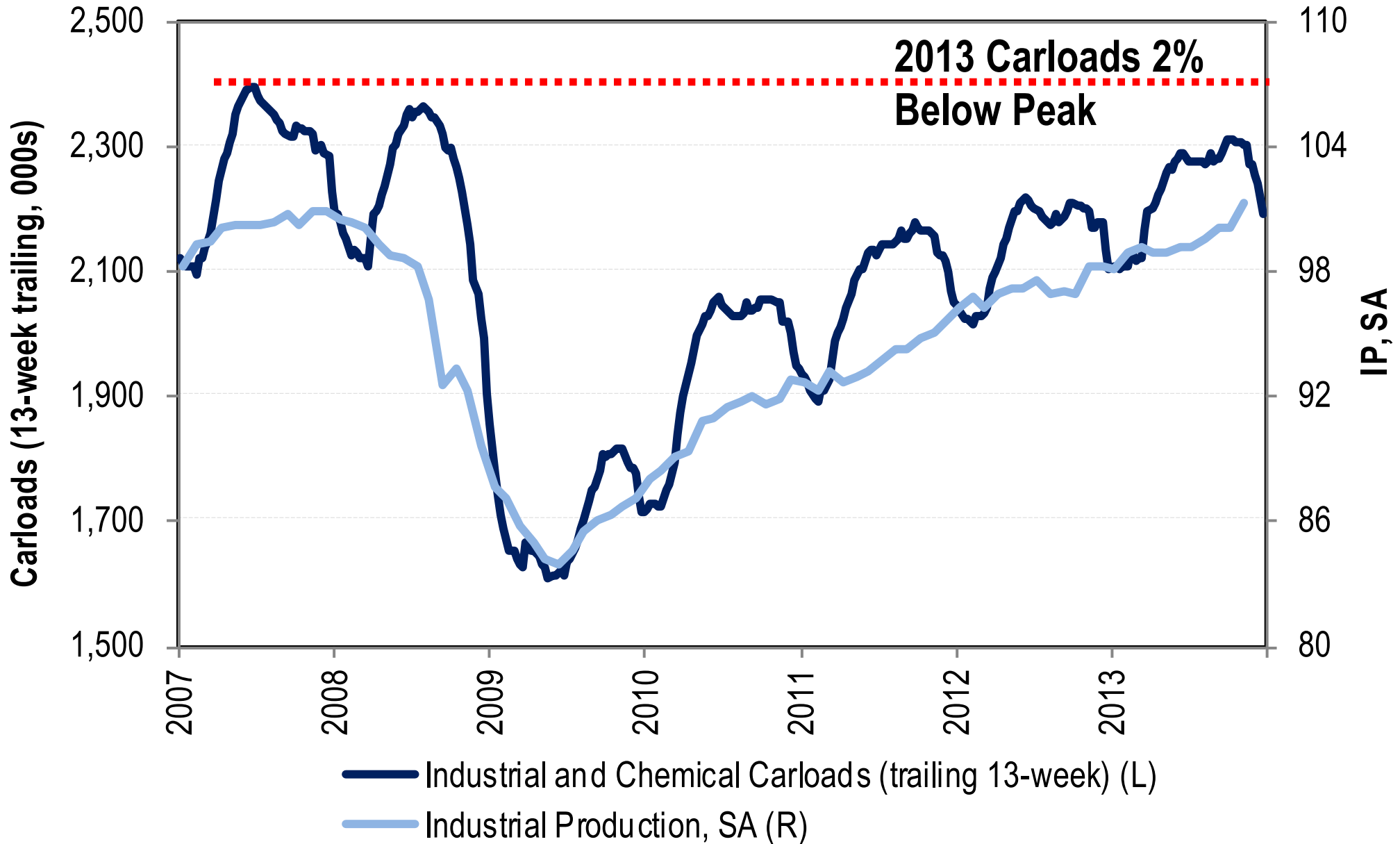


US Industrial Production Has Returned To Pre-Recessionary Levels...

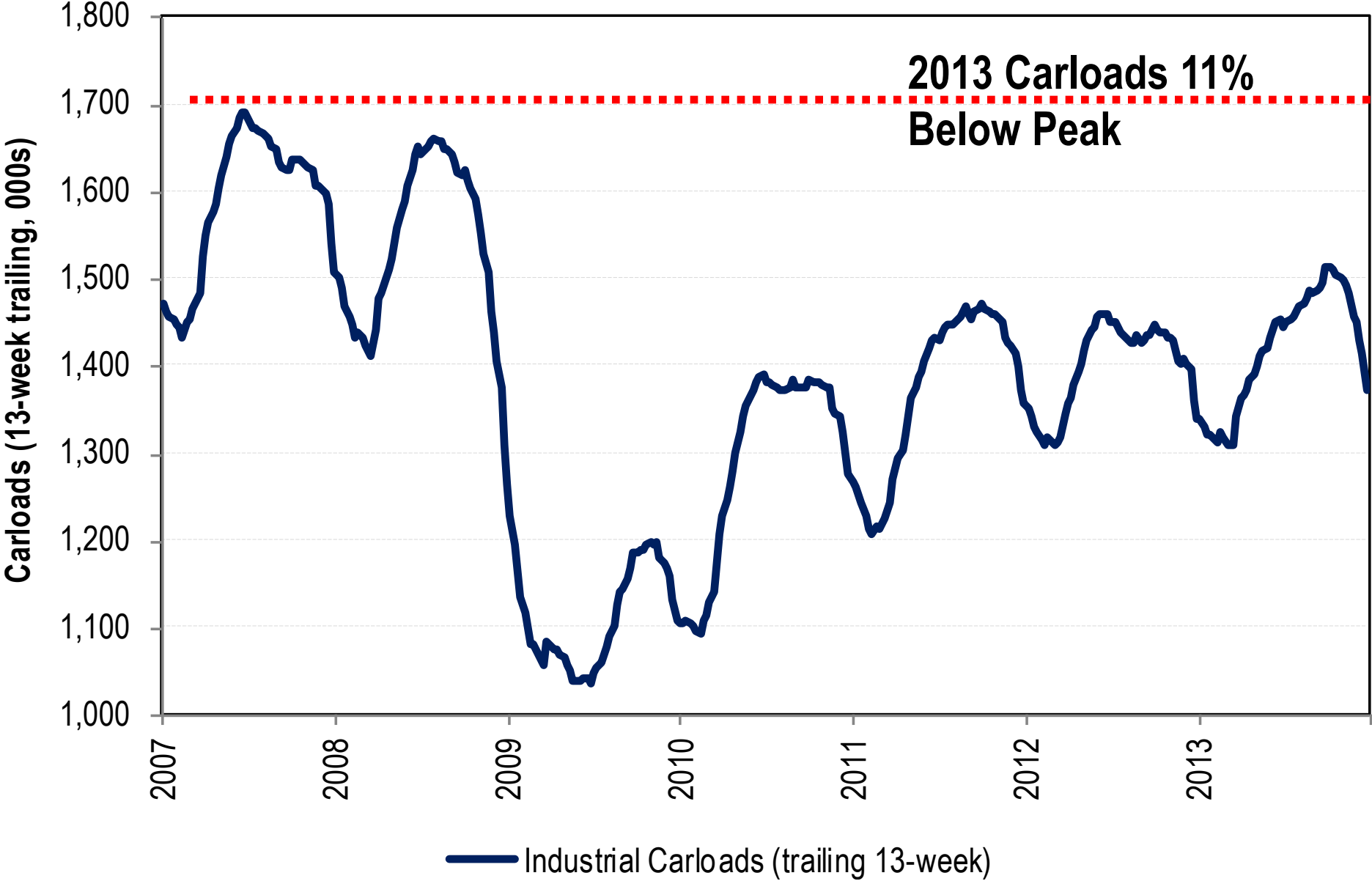


Source: Federal Reserve, NBER

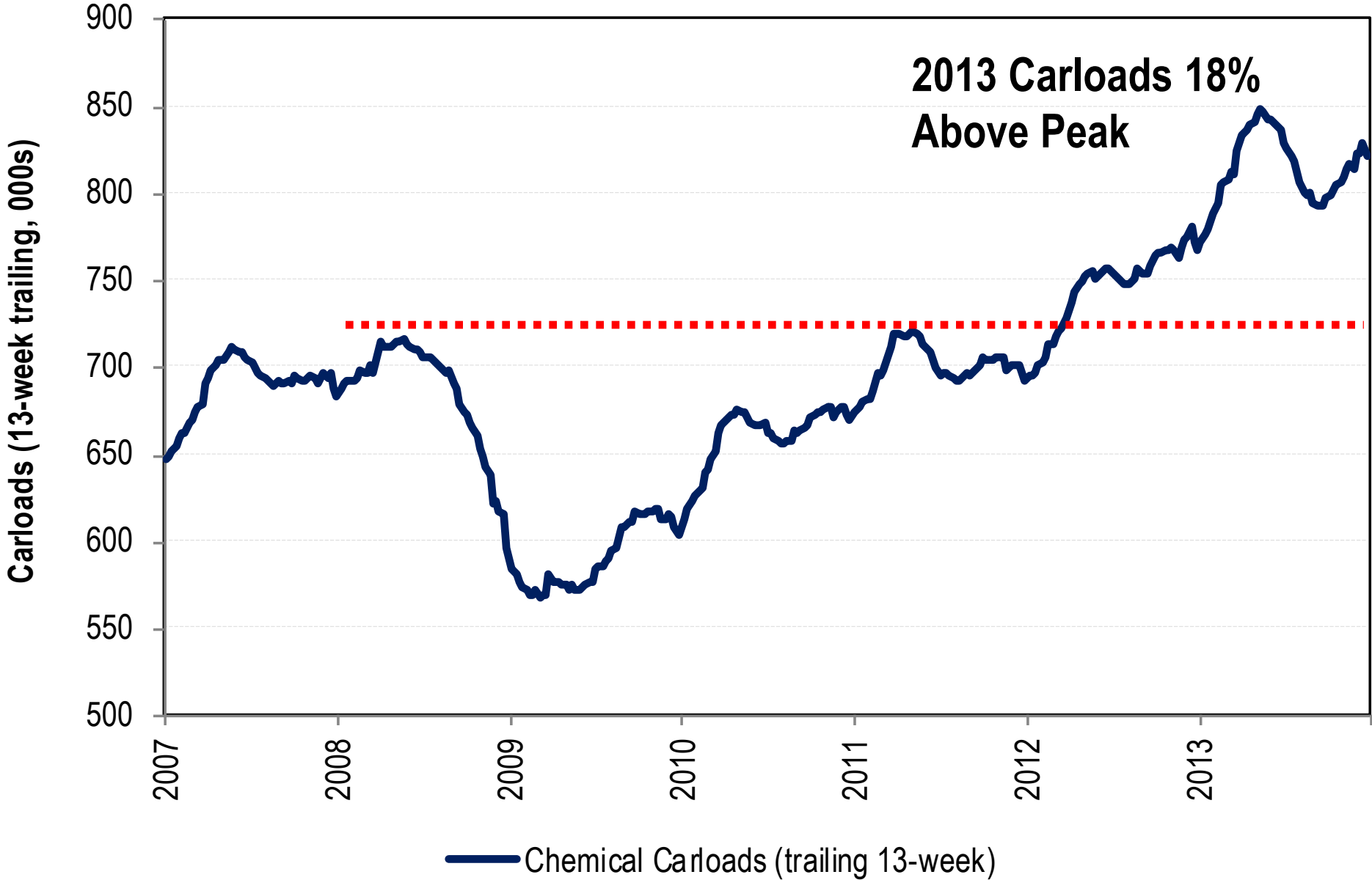
...While Industrial Rail Carloads Are Nearing Prior Peak



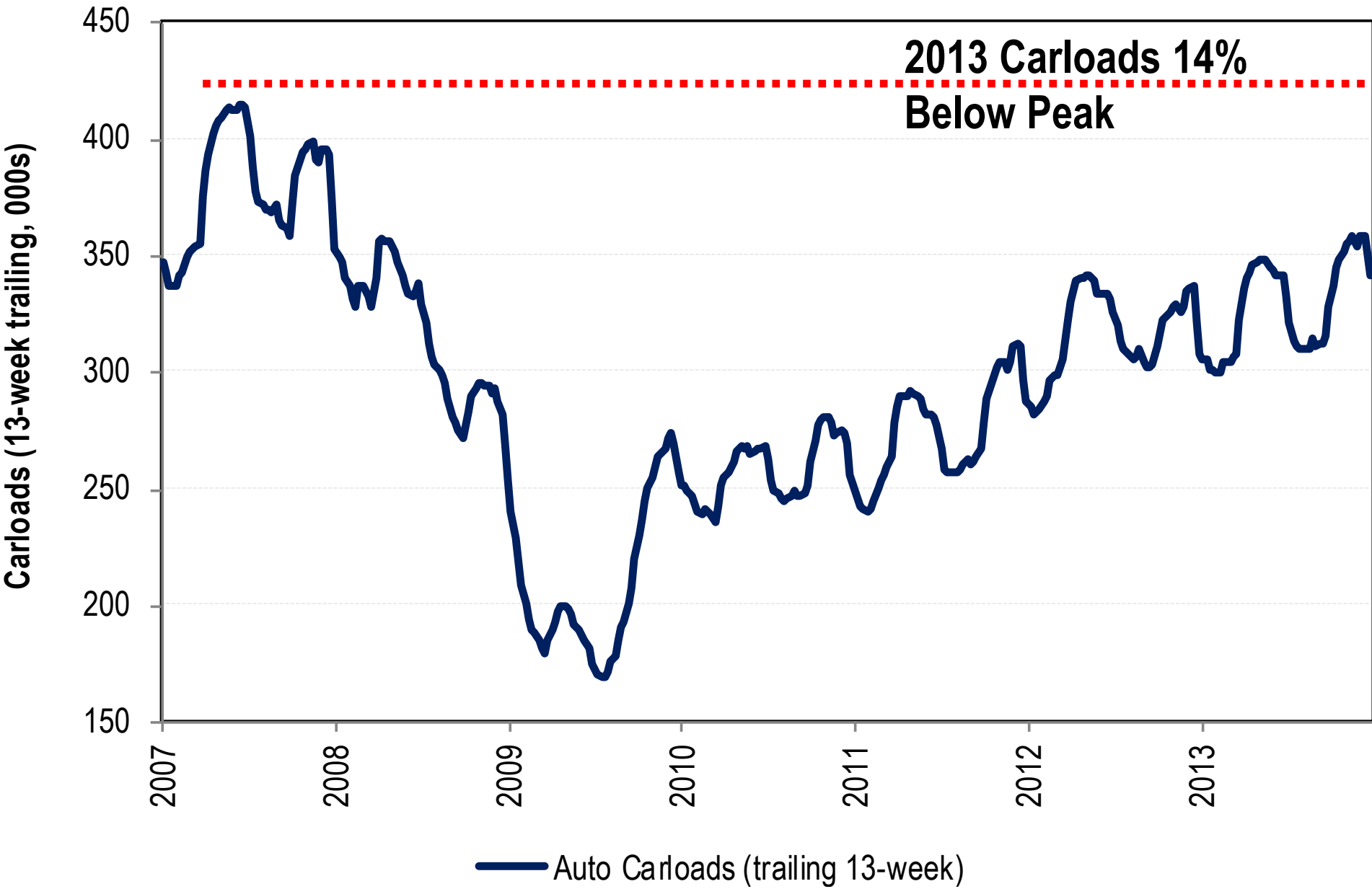
A Look at How Other Commodities Are Trending: Industrial



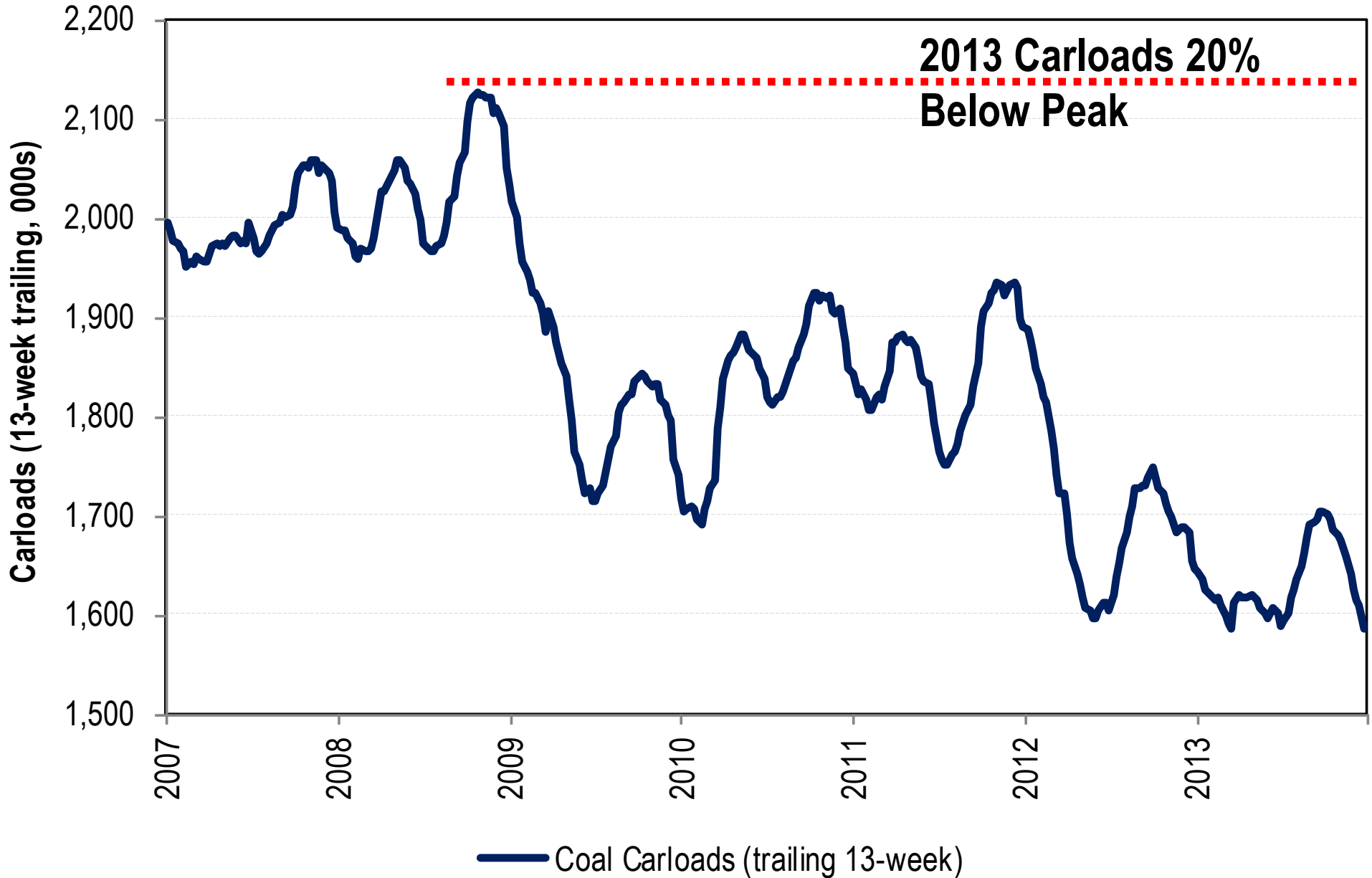
A Look at How Other Commodities Are Trending: Chemical



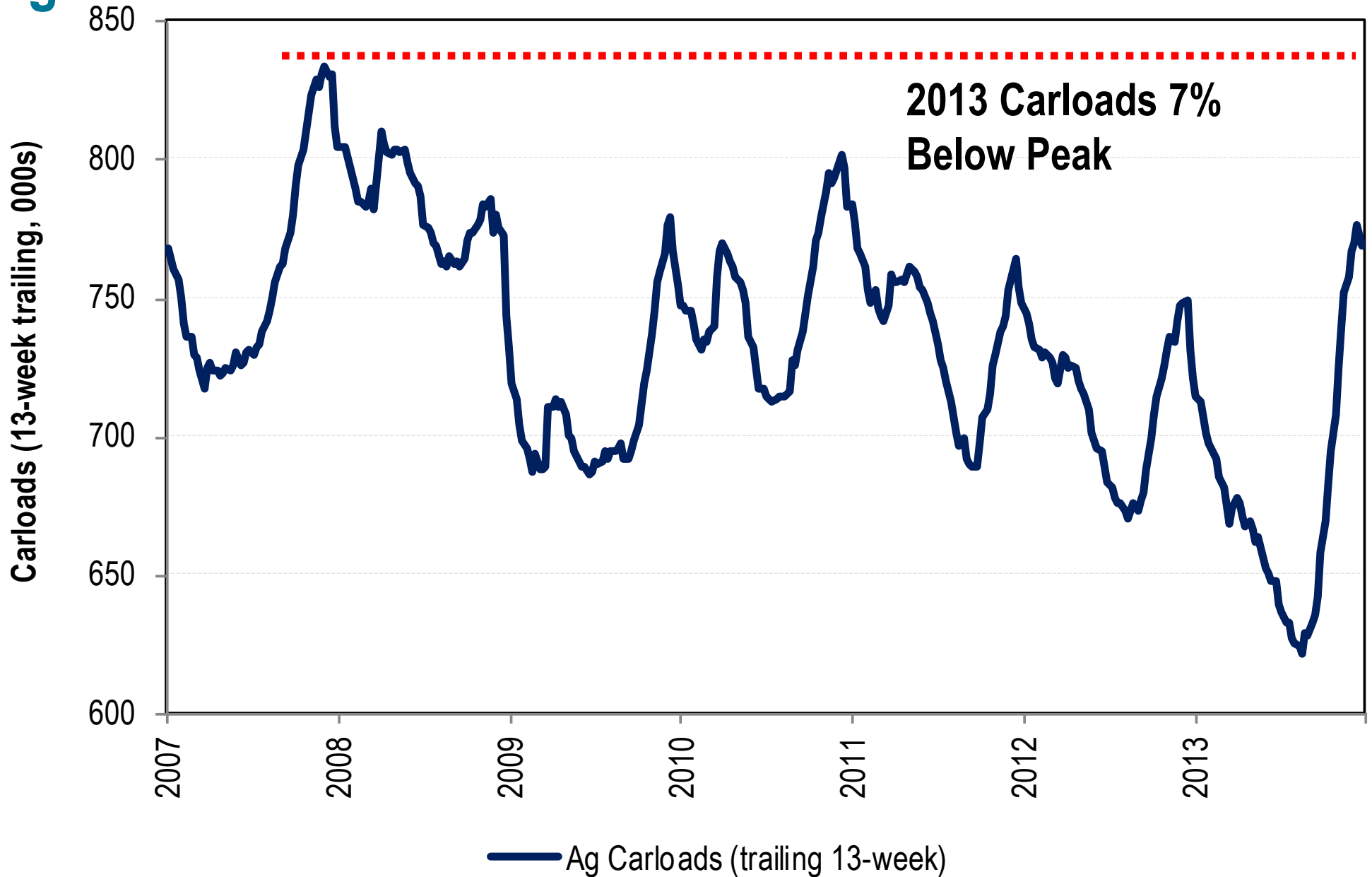
A Look at How Other Commodities Are Trending: Auto



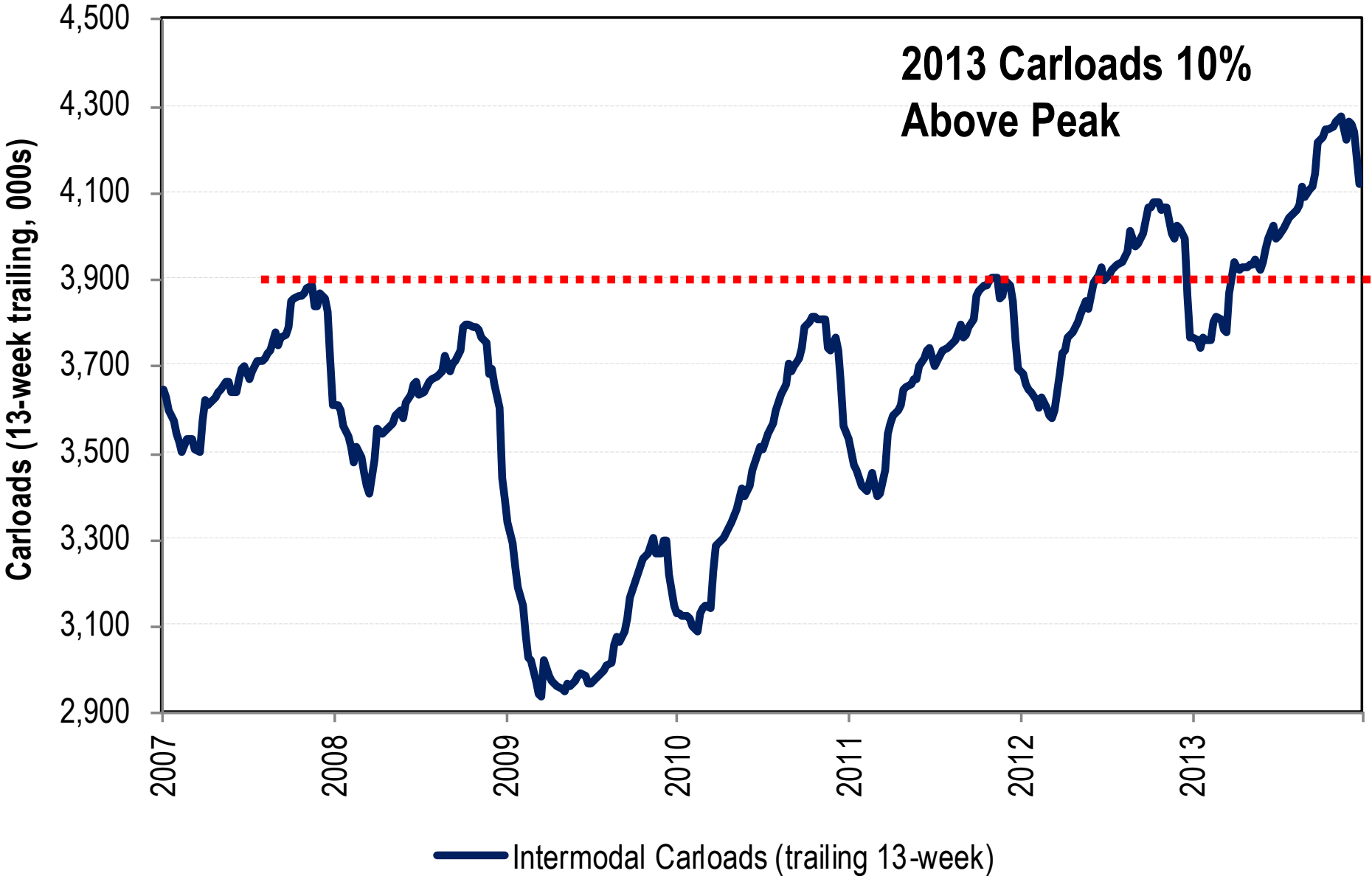
A Look at How Other Commodities Are Trending: Coal



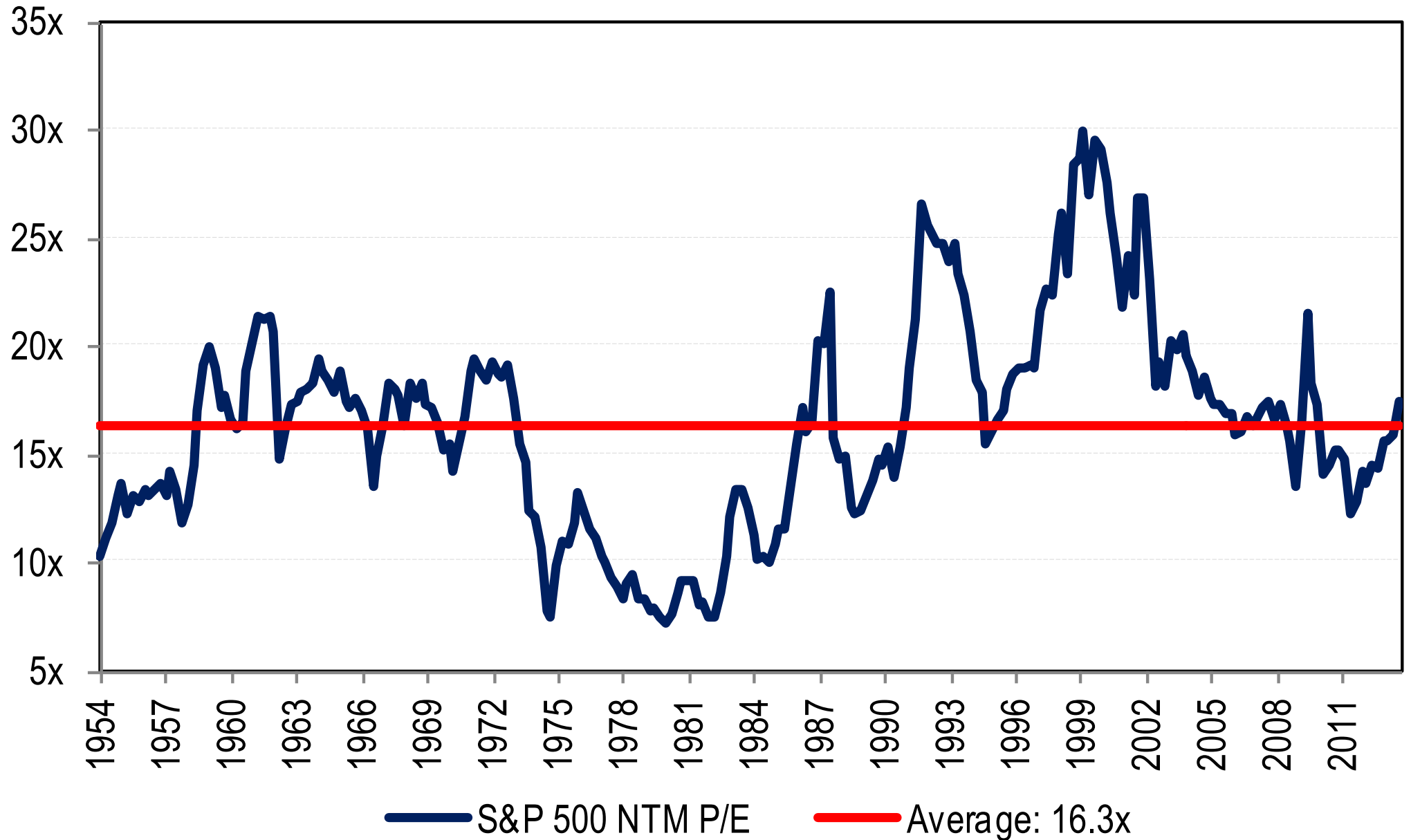
A Look at How Other Commodities Are Trending: Ag



A Look at How Other Commodities Are Trending: Intermodal



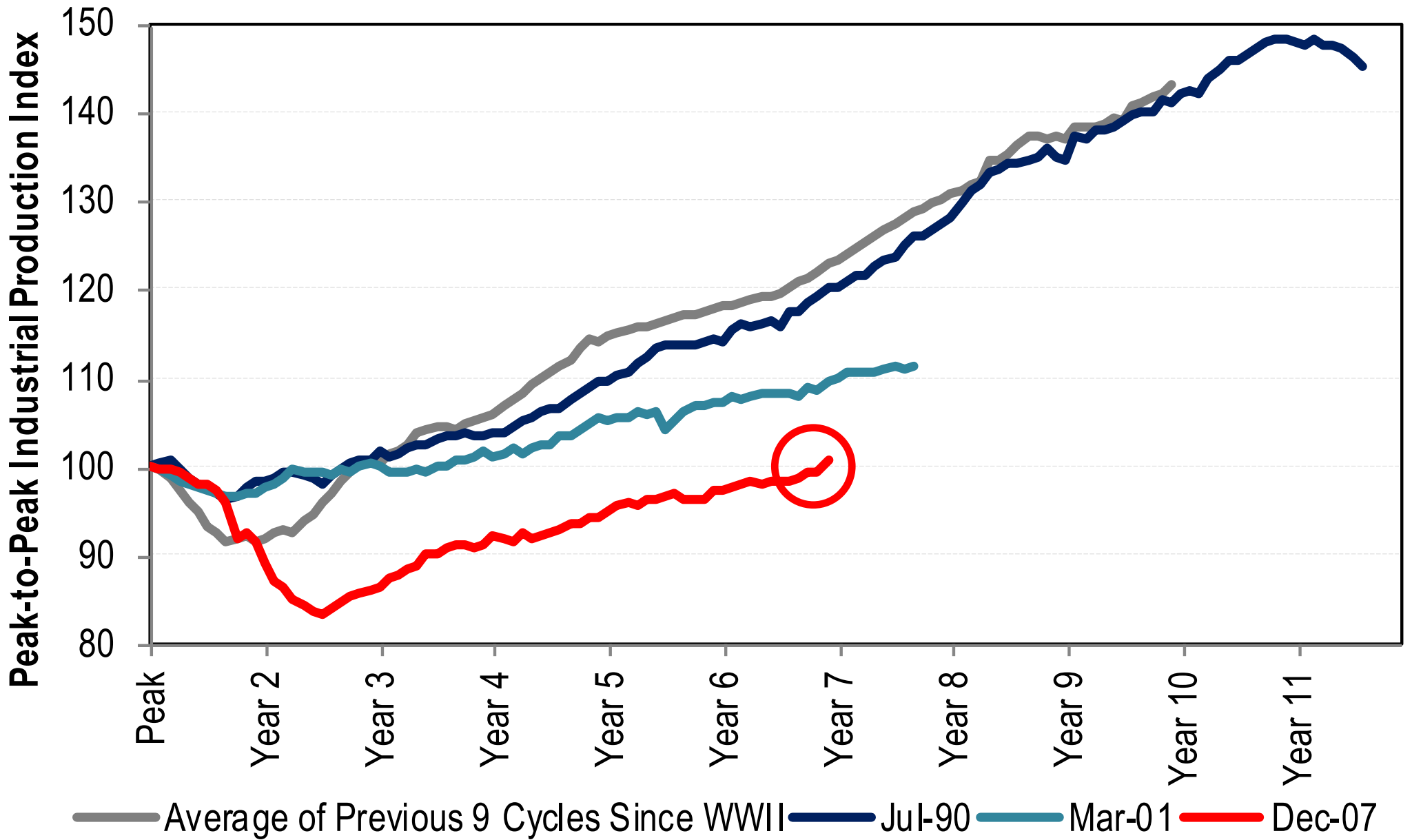
Market Multiples Remain Reasonable



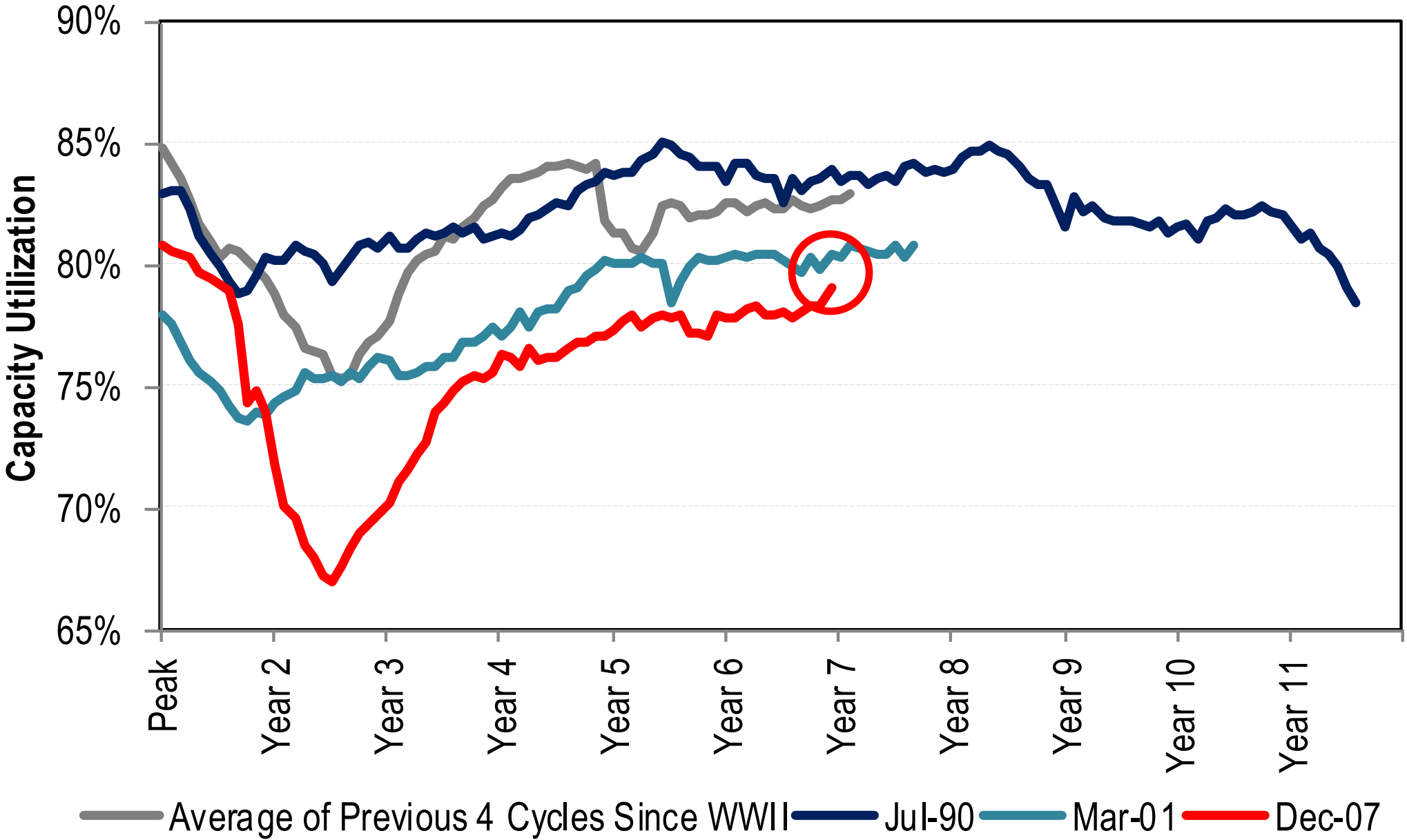
And Historical Cycles Suggest 20% More Growth

Peak	Trough	Peak-to-Peak Duration (months)	Peak-to-Peak Growth
February-45	October-45	45	-10%
November-48	October-49	56	36%
July-53	May-54	49	11%
August-57	April-58	32	8%
April-60	February-61	116	65%
December-69	November-70	47	18%
November-73	March-75	74	12%
January-80	July-80	18	-1%
July-81	November-82	108	21%
July-90	March-91	128	45%
March-01	November-01	81	11%
Average		69	20%
December-07	June-09	72	0%

This Recovery Doesn't Appear To Be Over

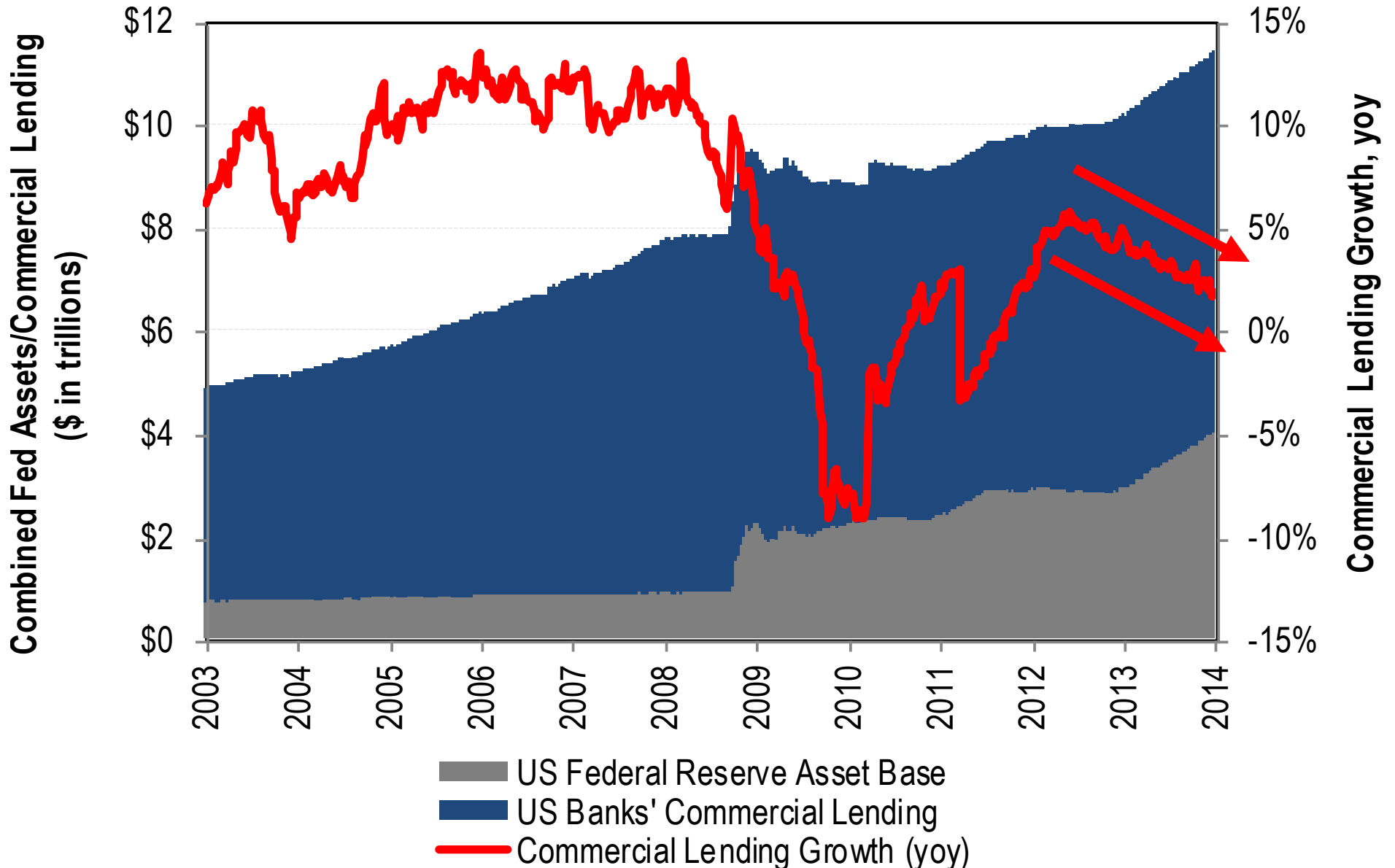


But Headwinds Remain: 1) Capacity Utilization Levels Remain Weak

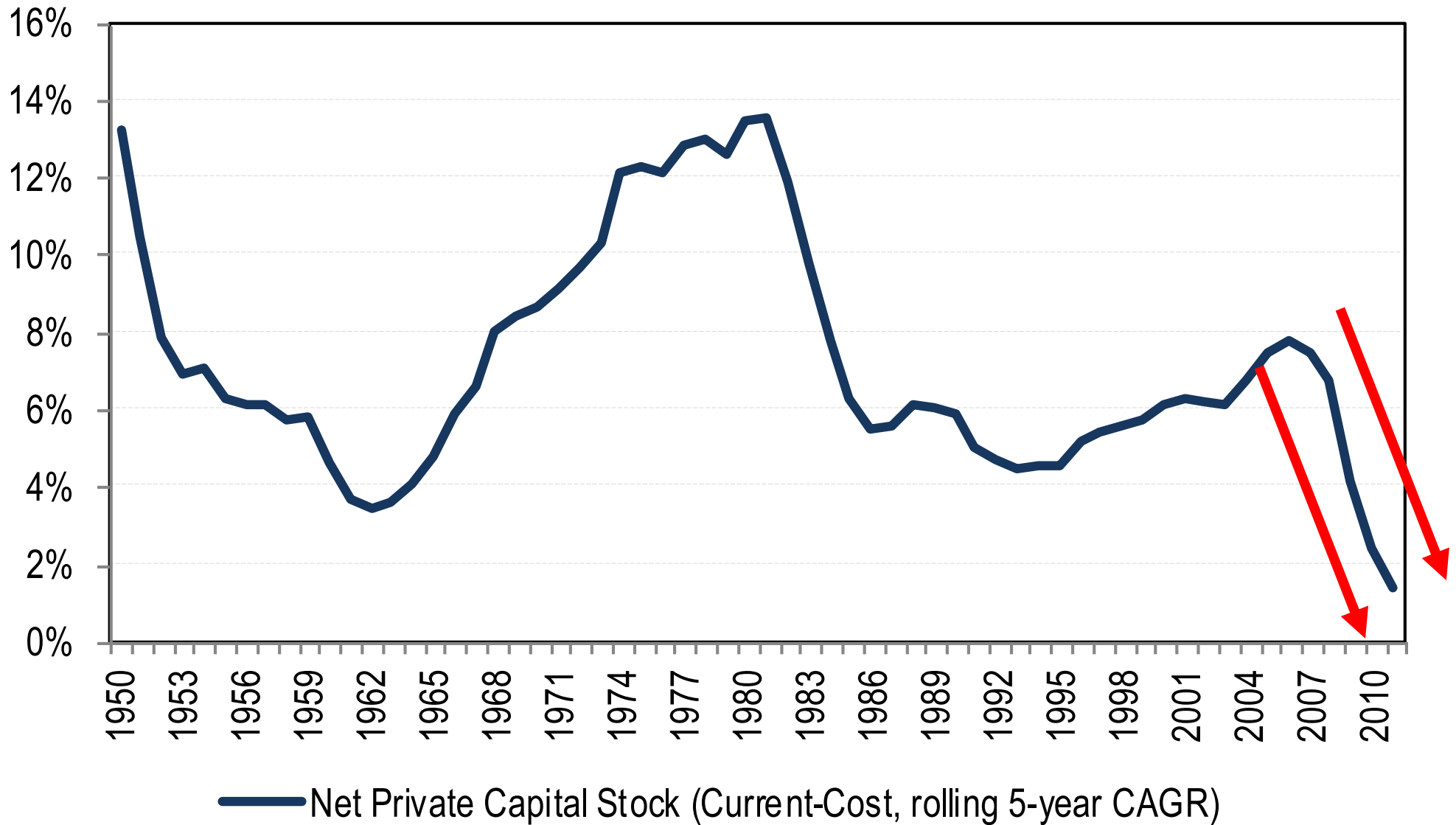


Source: Federal Reserve, NBER

But Headwinds Remain: 2) Commercial Lending Growth Is Slowing

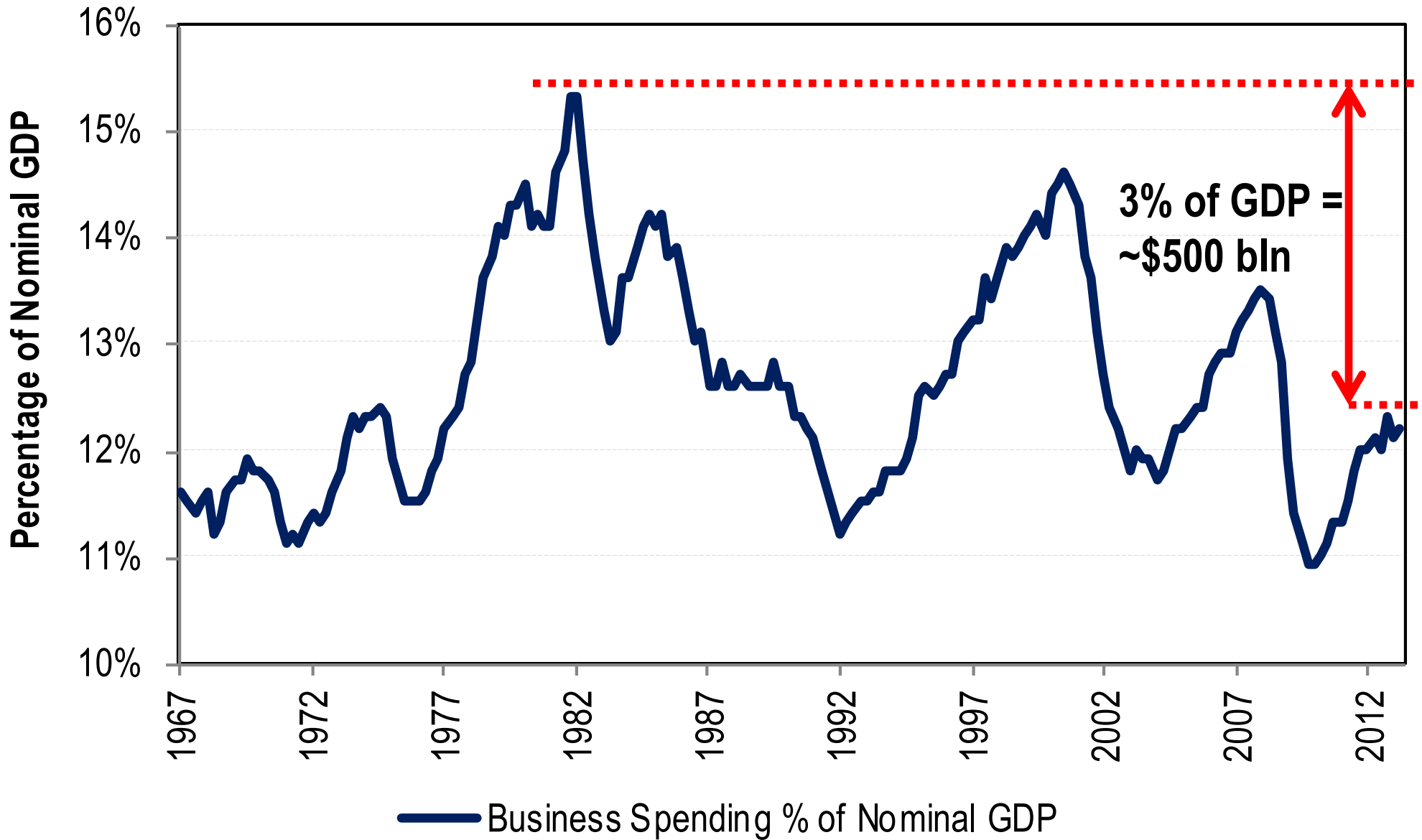


But Headwinds Remain: 3) As Is Net Private Capital Stock Investment Growth

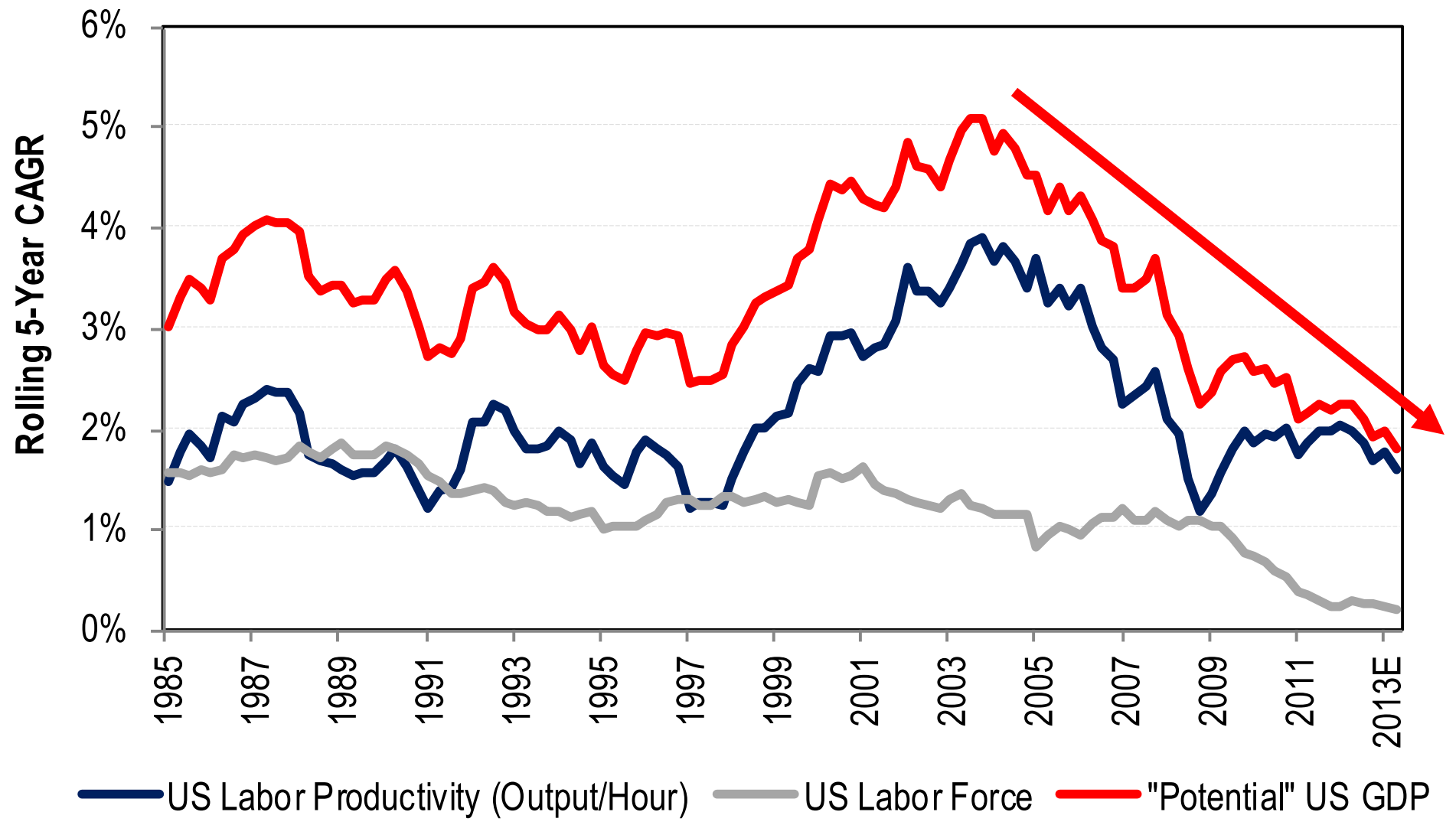


But Headwinds Remain:

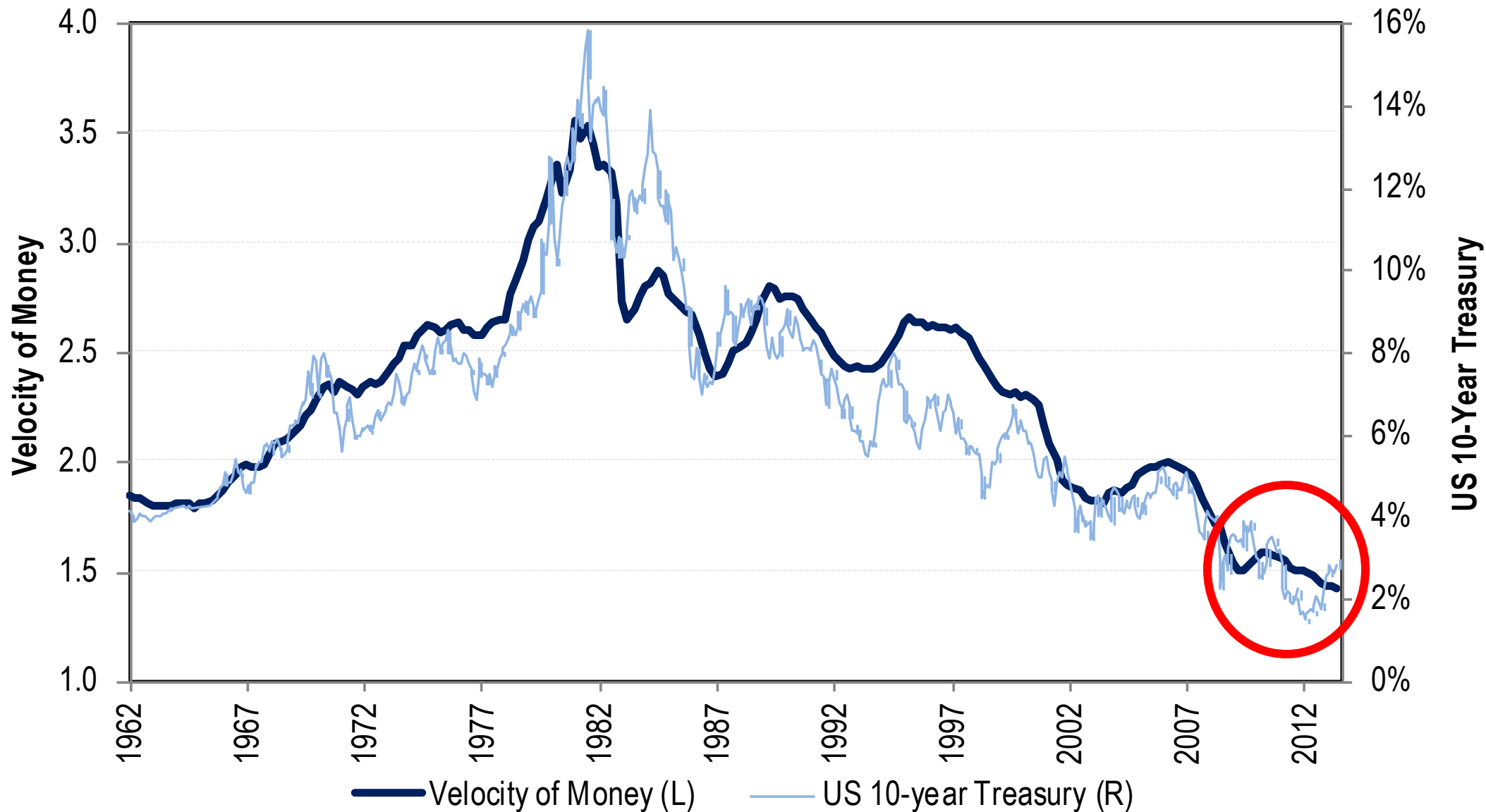
4) Business Spending Remains Well Below Prior Peaks



But Headwinds Remain: 5) And Slowing US Productivity & Employment Growth Limit "Potential" US GDP Growth



So Continue To Expect An Accommodative Fed

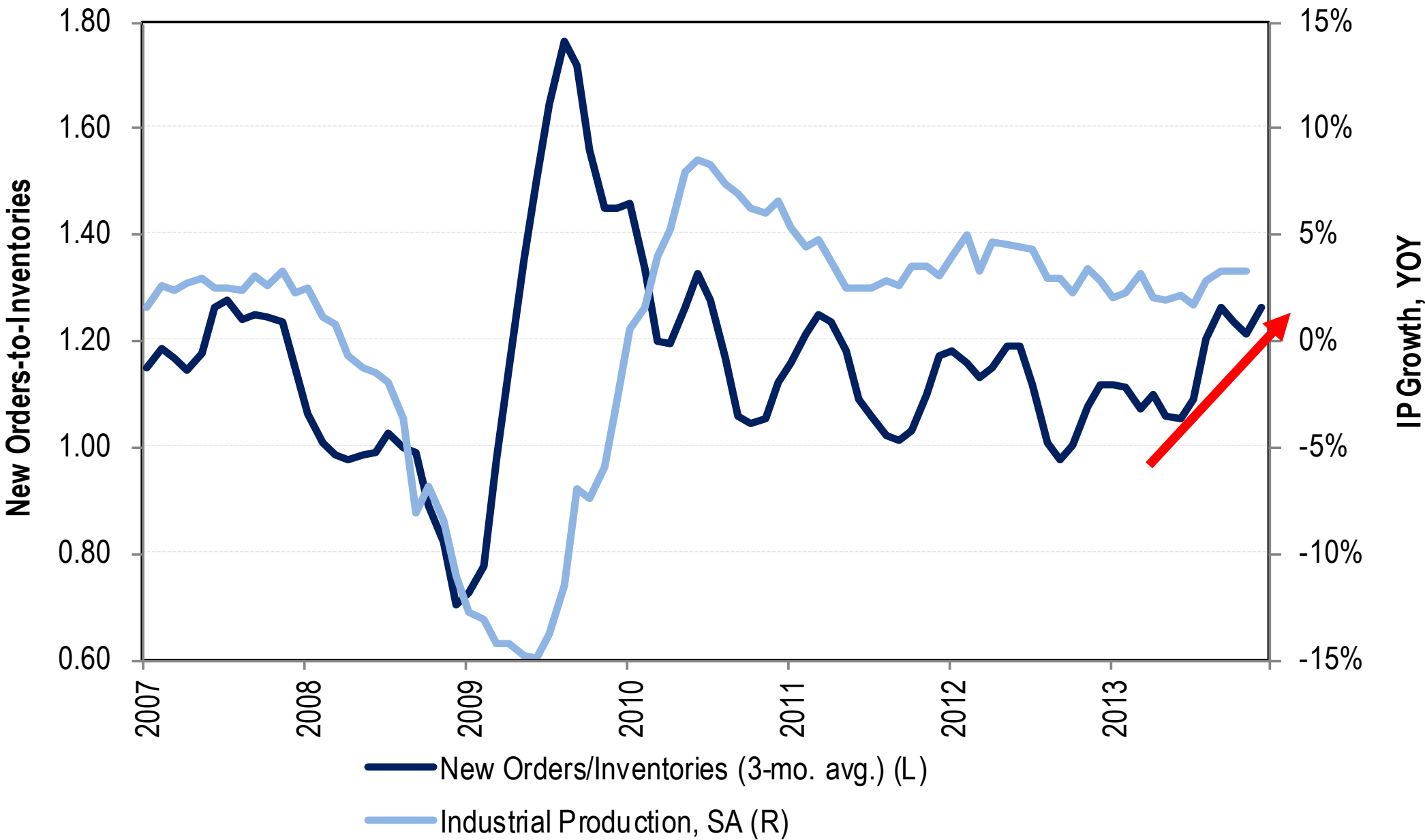


Watch the 10-Year



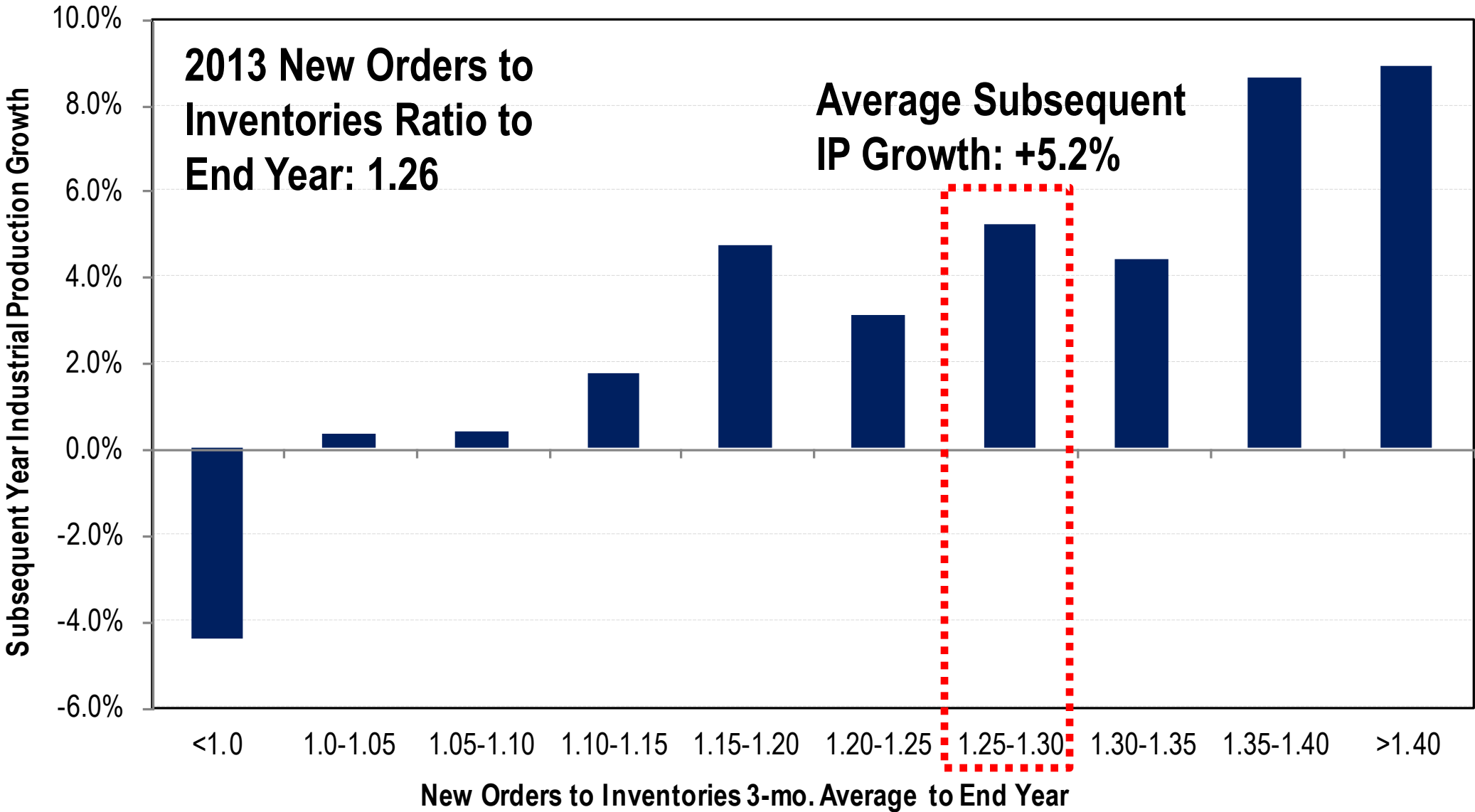
Source: FactSet

But, Recent Industrial Order Data Suggest A Strengthening Recovery

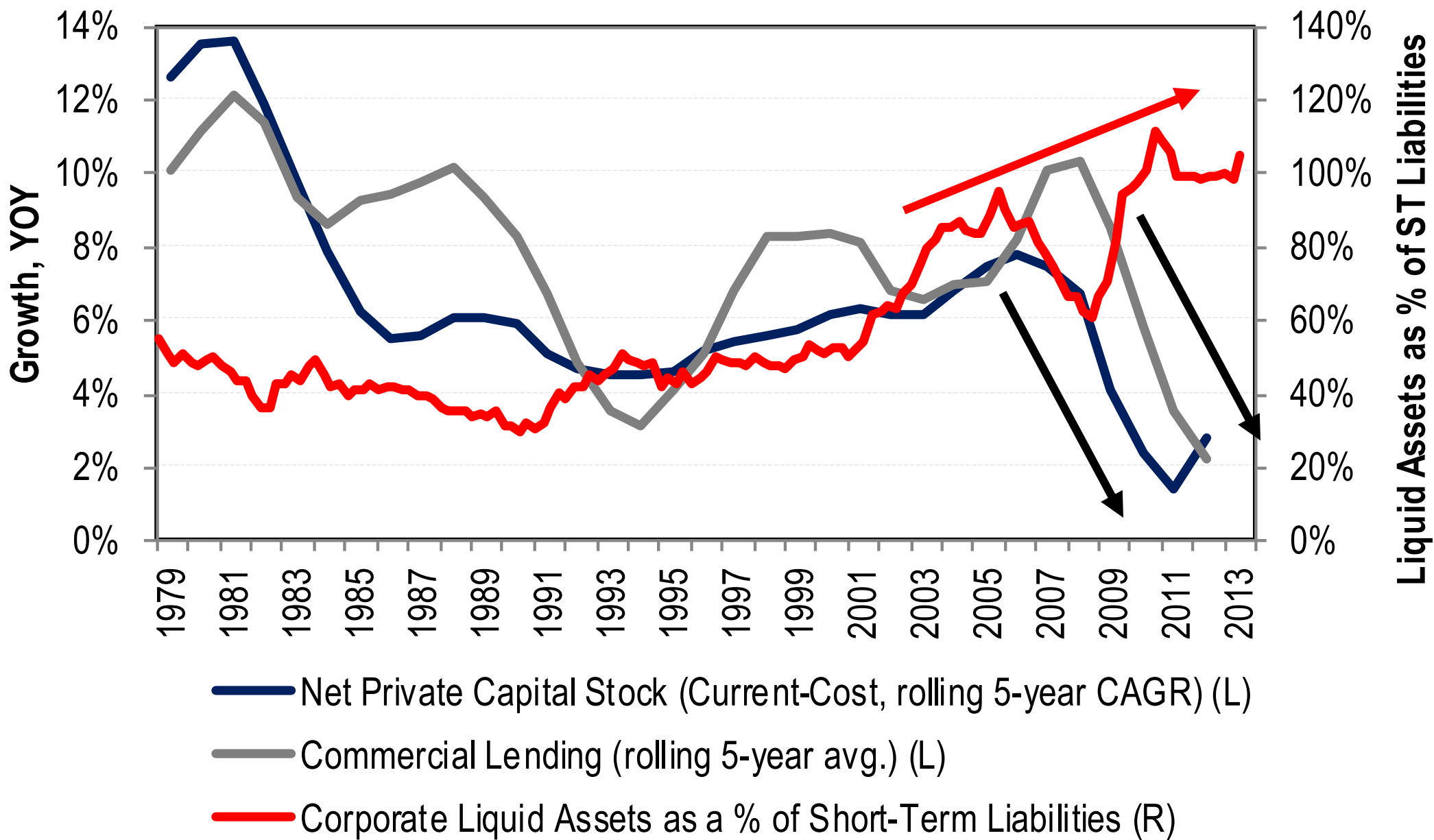


Source: Institute for Supply Management, Federal Reserve

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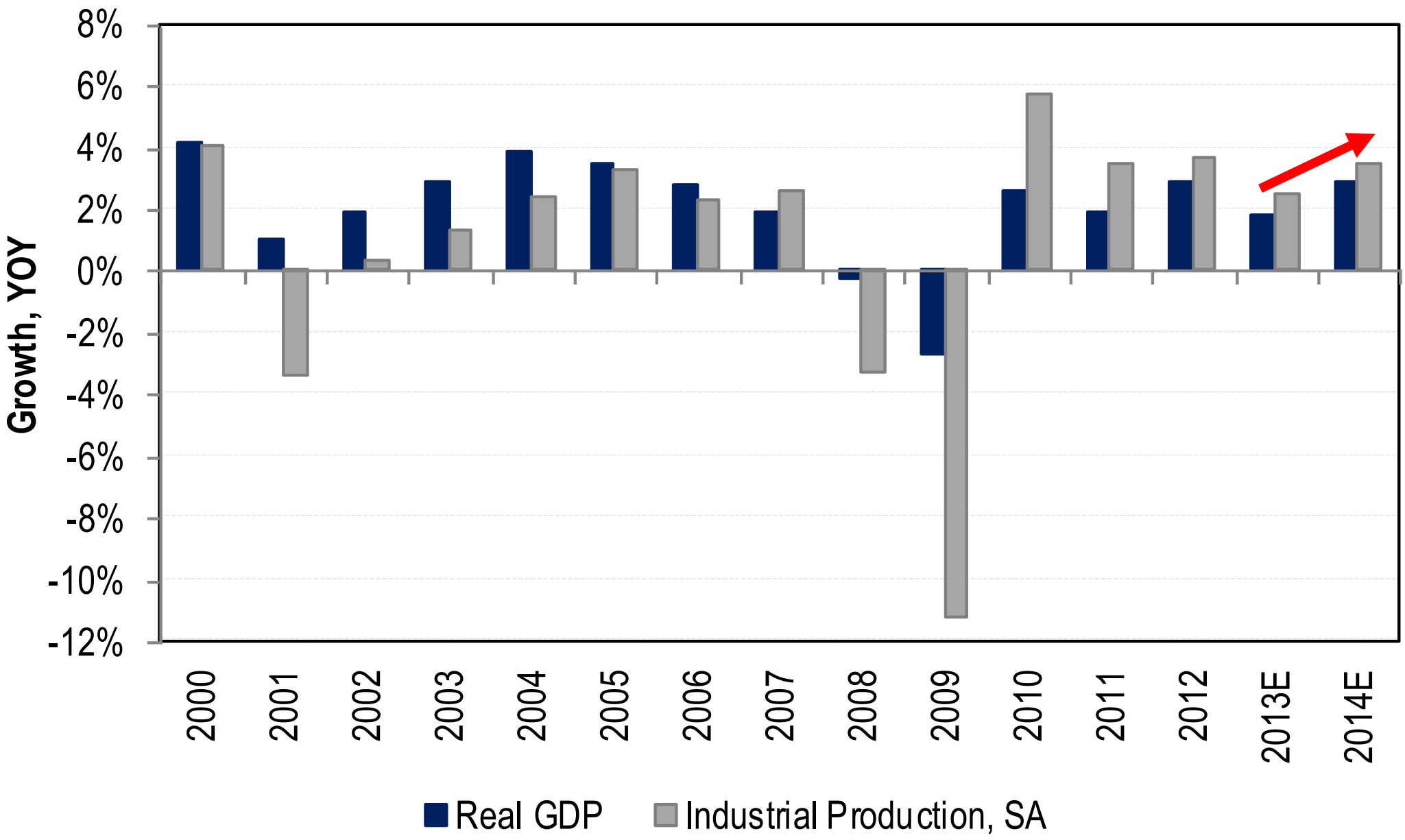


Though Business Investment Has Been Sluggish, Ample Capacity for Private Sector Lending Exists

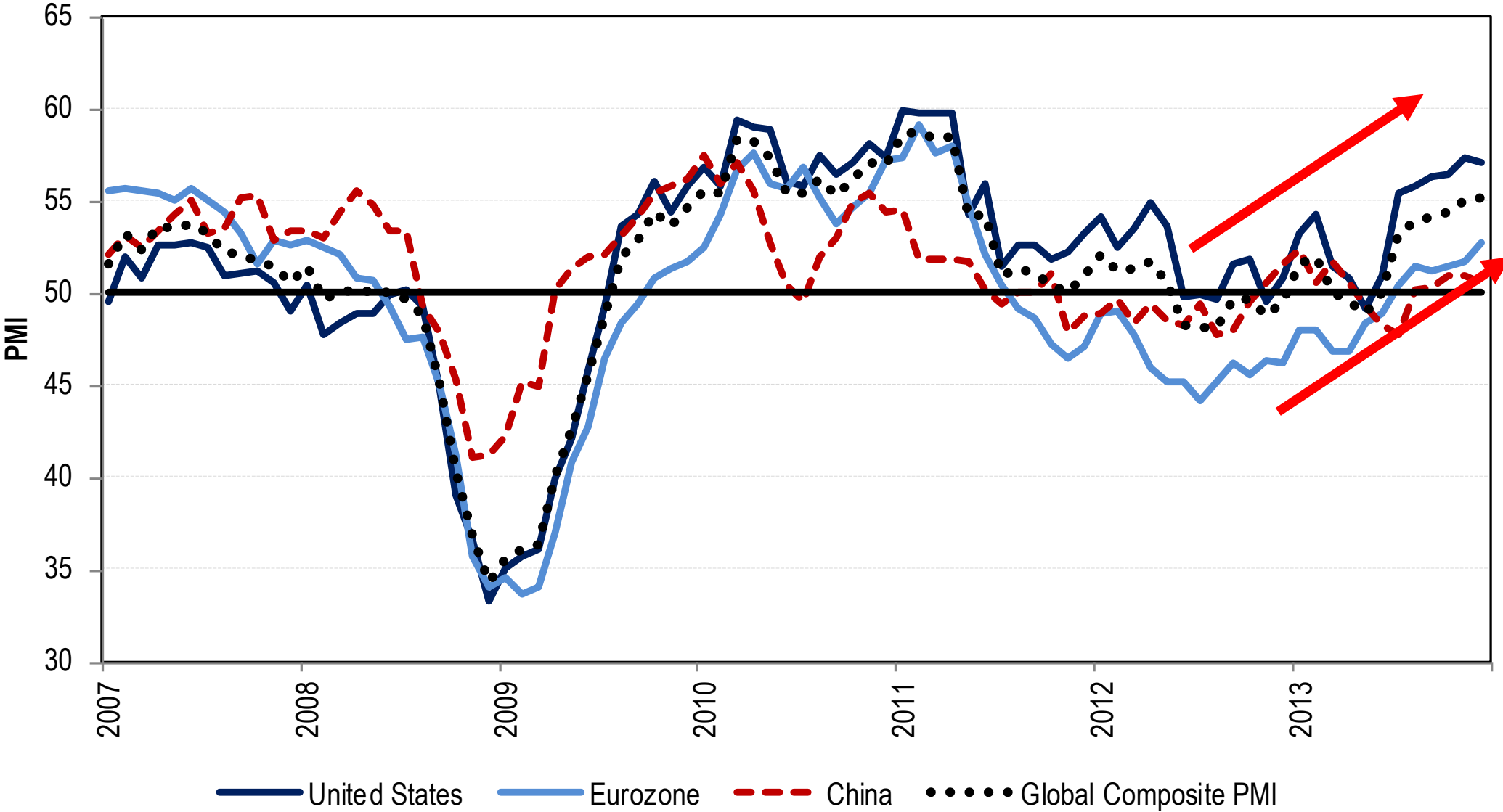


Source: Federal Reserve, BEA, Baird estimates

2014 Growth Likely To Be The First Year Of Reaccelerating Growth Since 2010

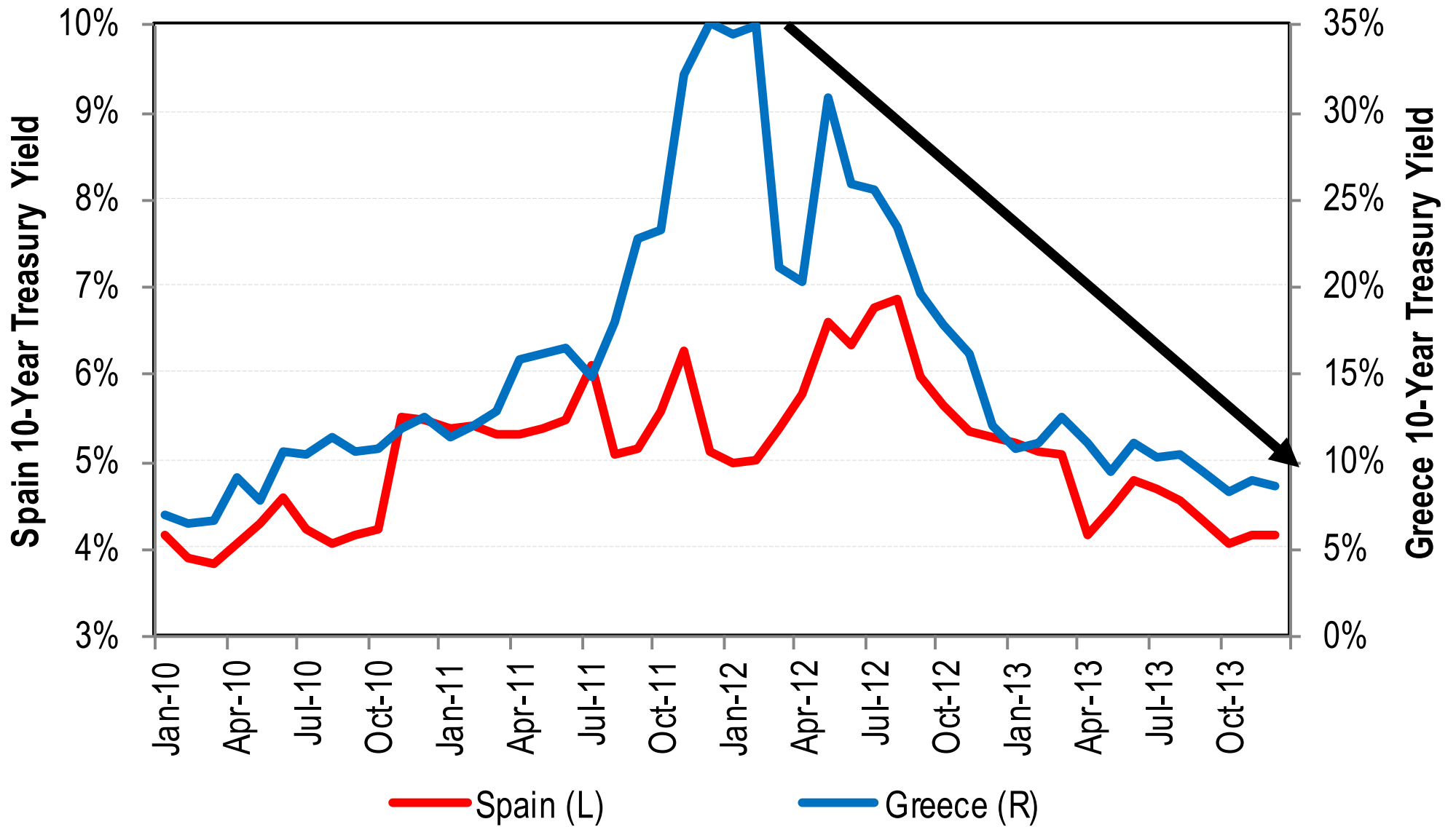


Global Data Suggests Similarly Strengthening Demand

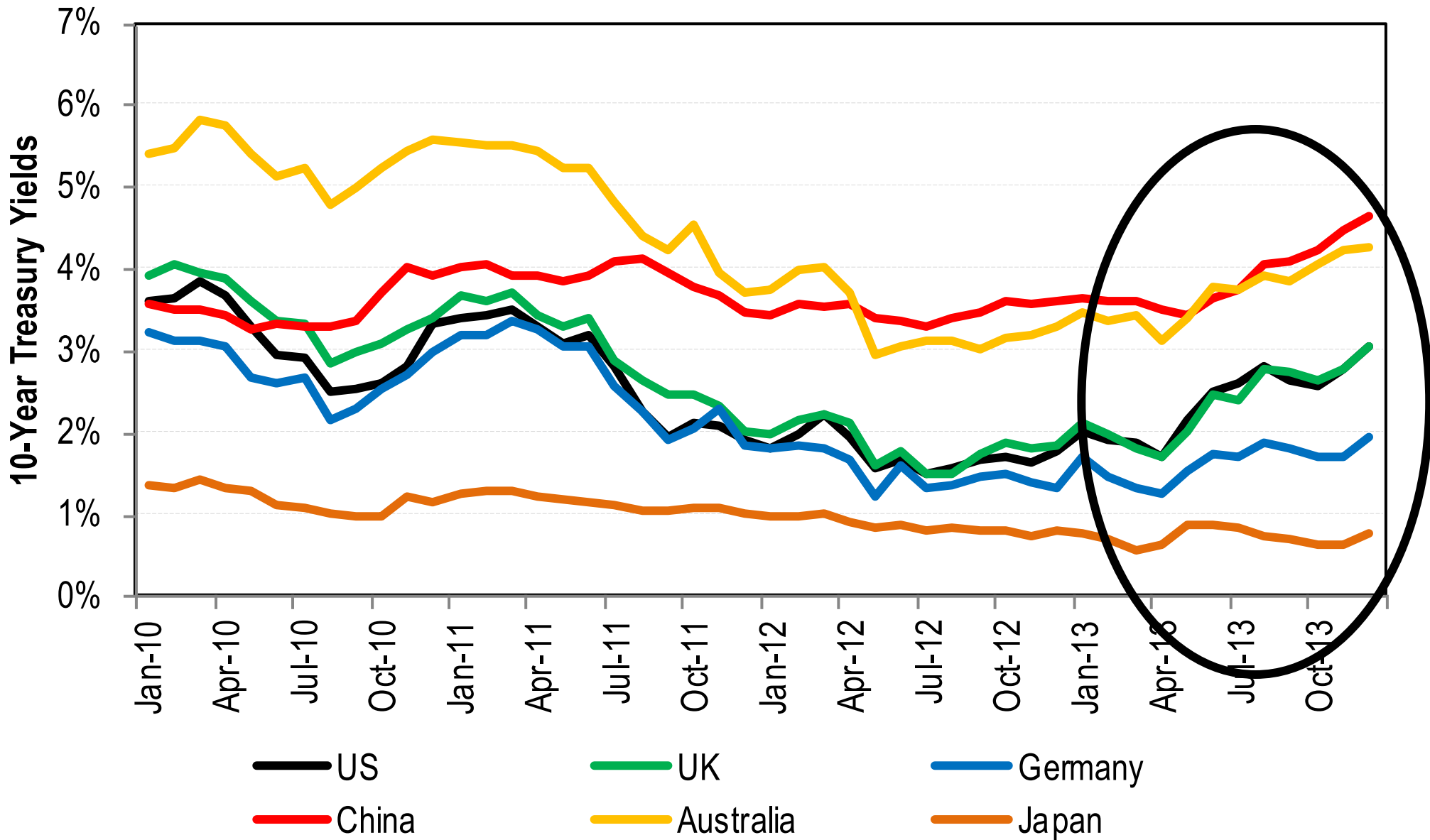


United States Eurozone China Global Composite PMI

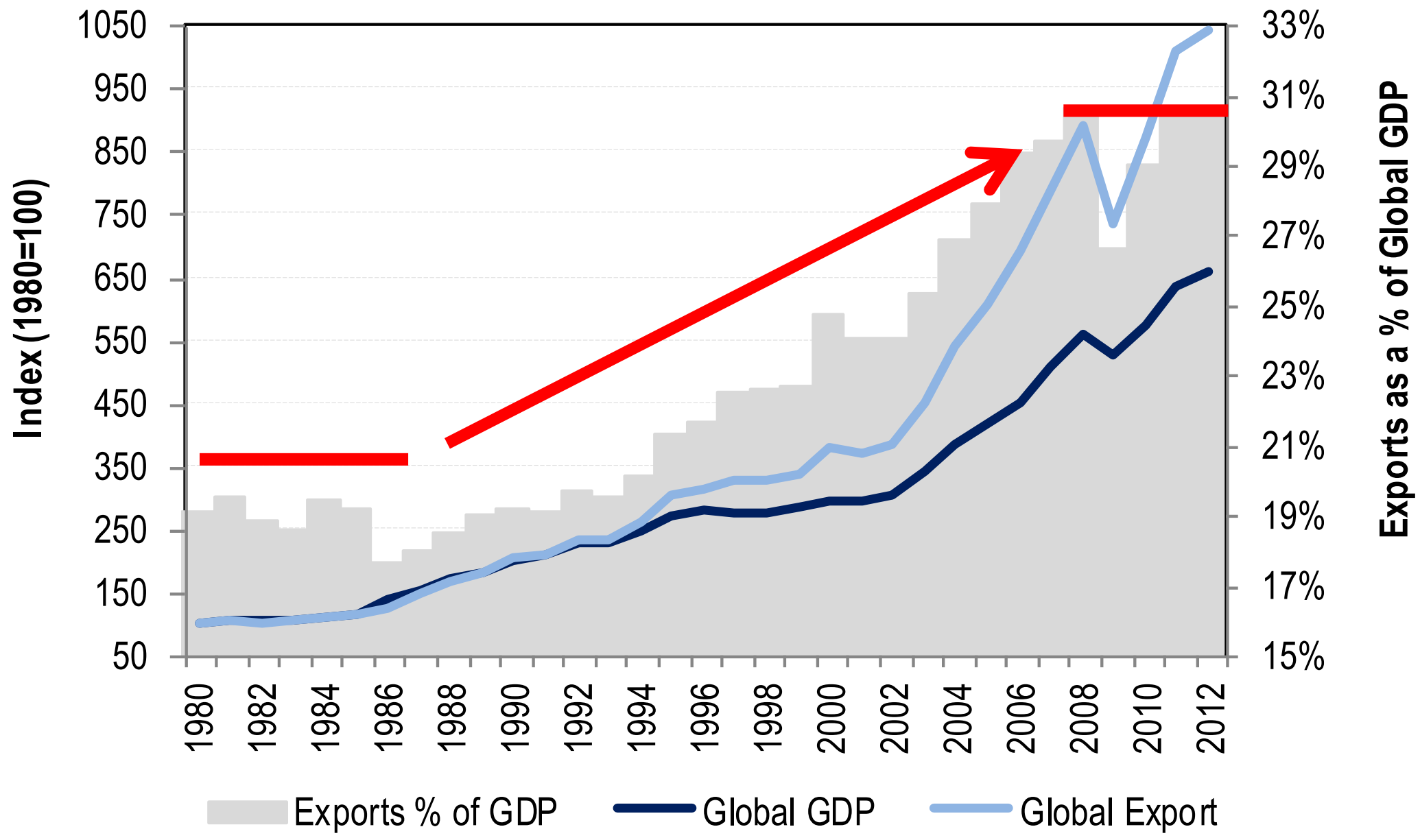
Eurozone Crisis Fears Lingered But Abating



While Rising Yields In Developed Nations Suggest Signs Of Reflation Expectations

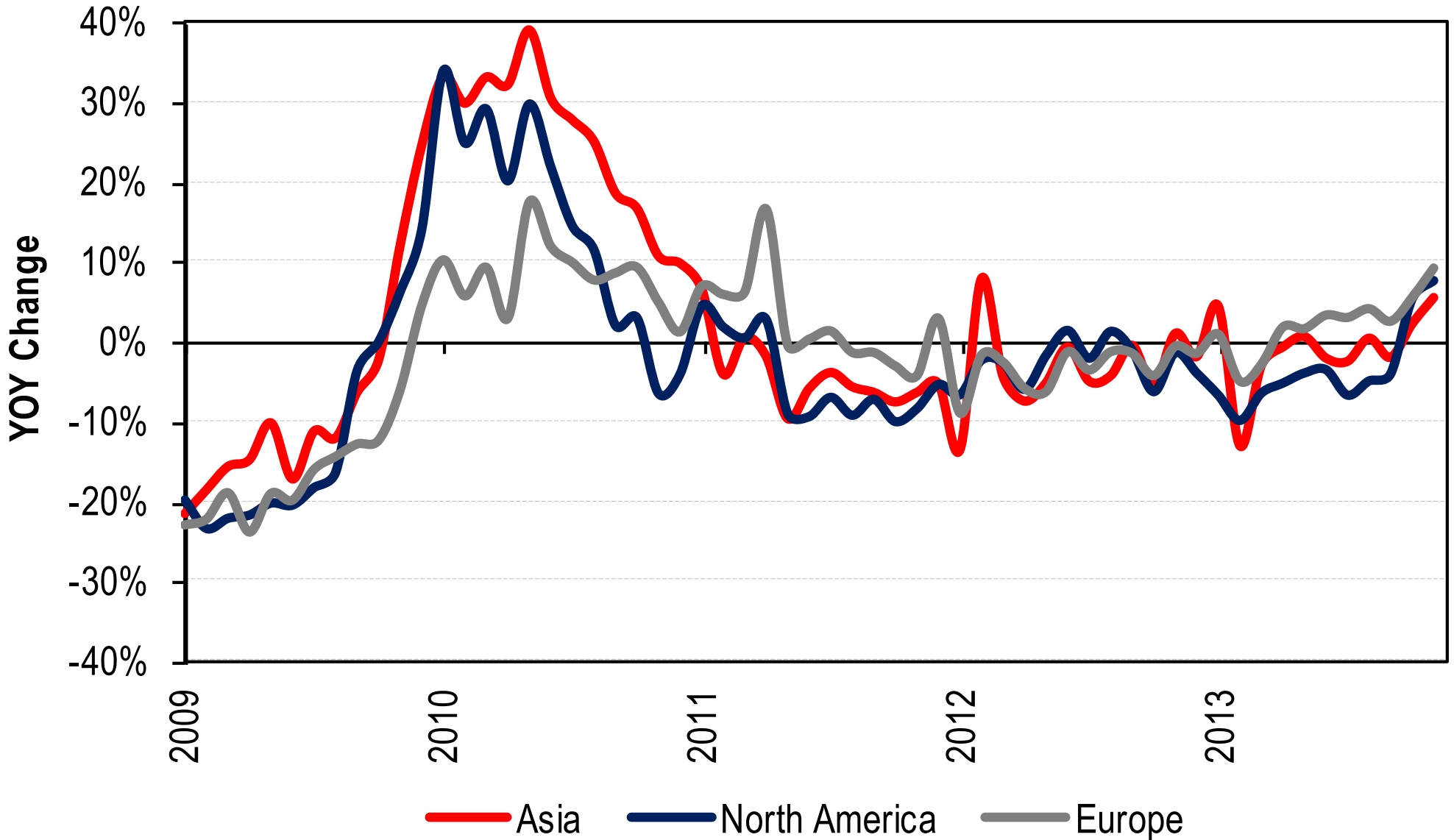


Airfreight Volume Growth Will Be Structurally Slower Than During Prior Cycles

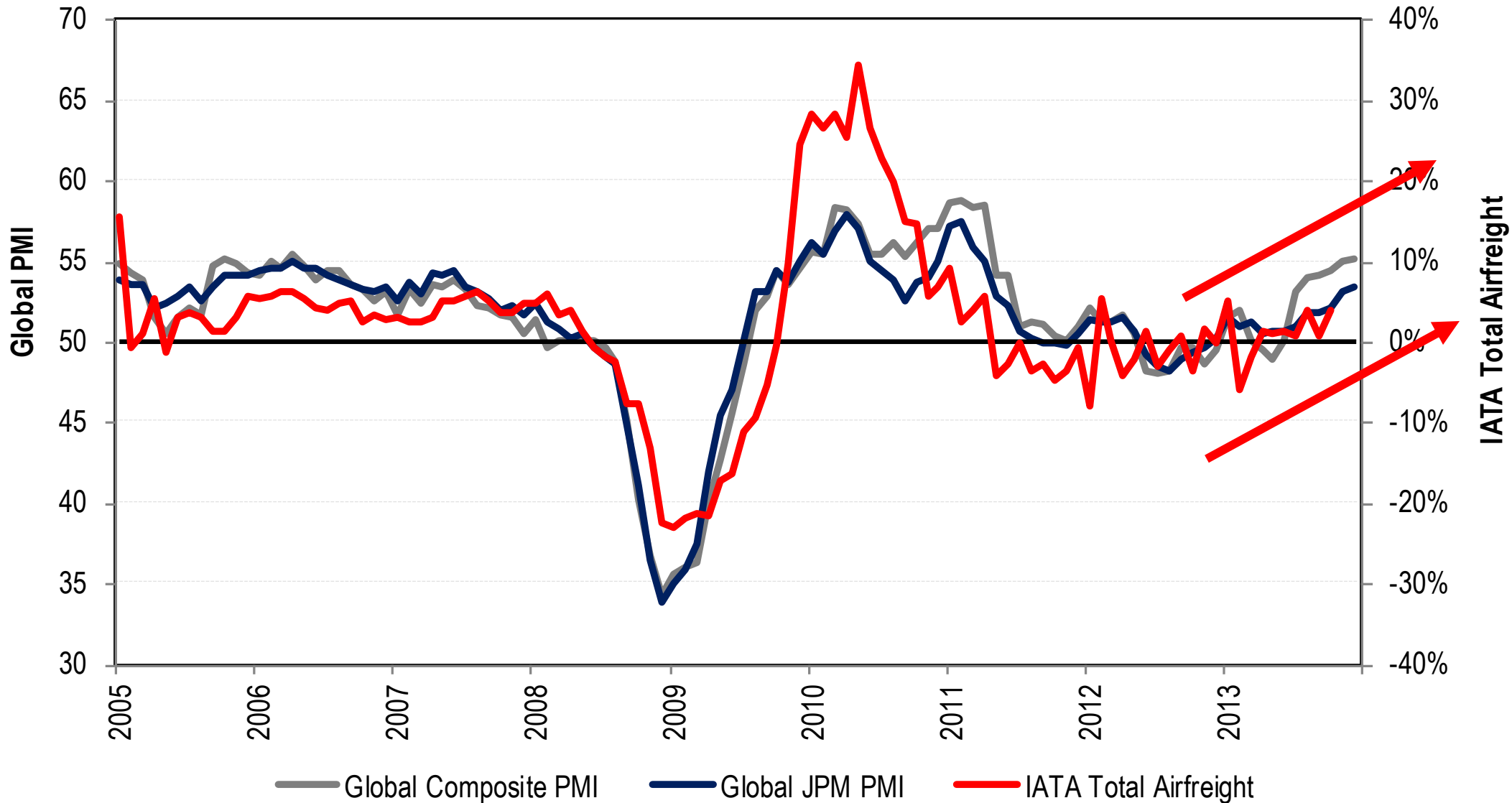


Source: World Bank, Baird estimates

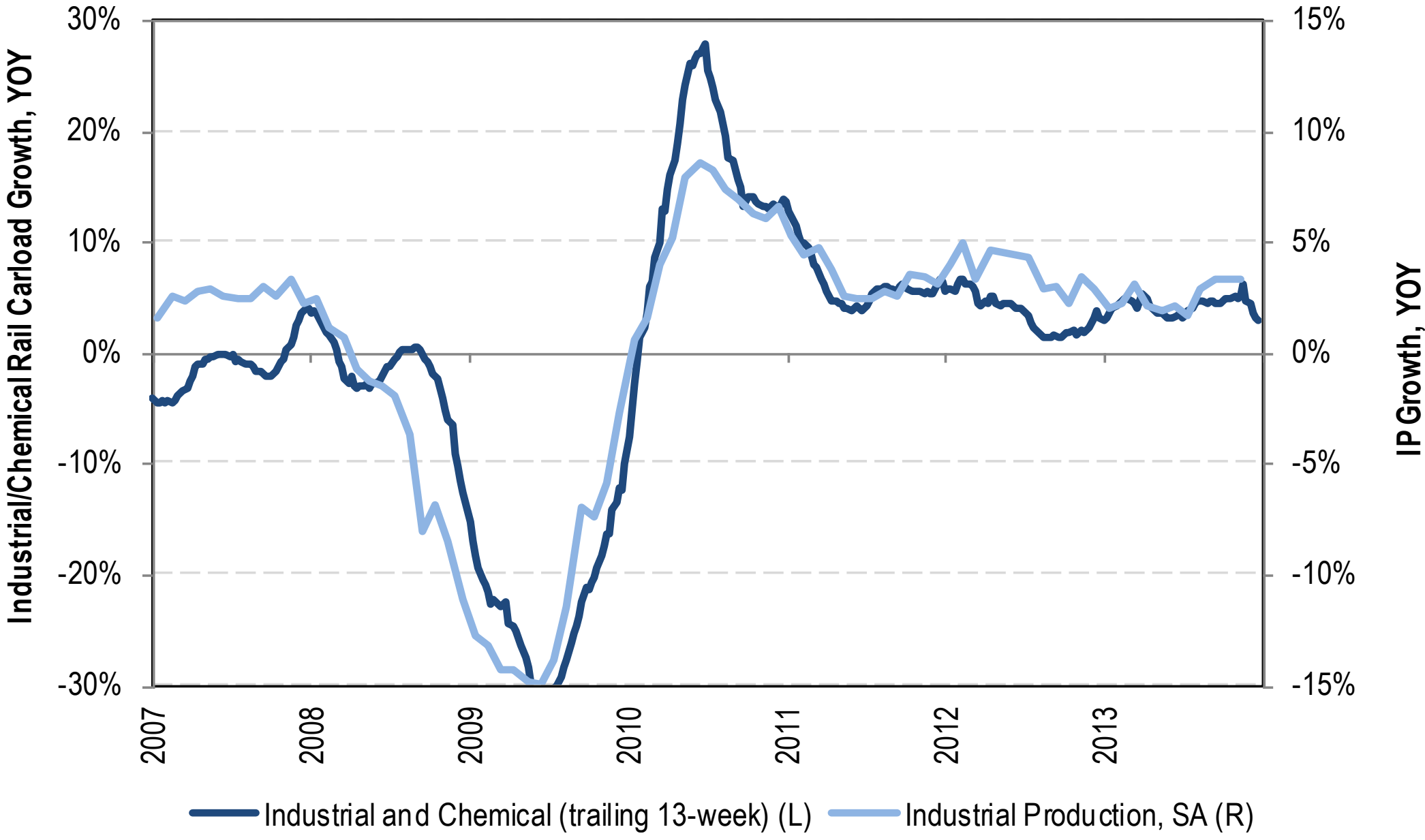
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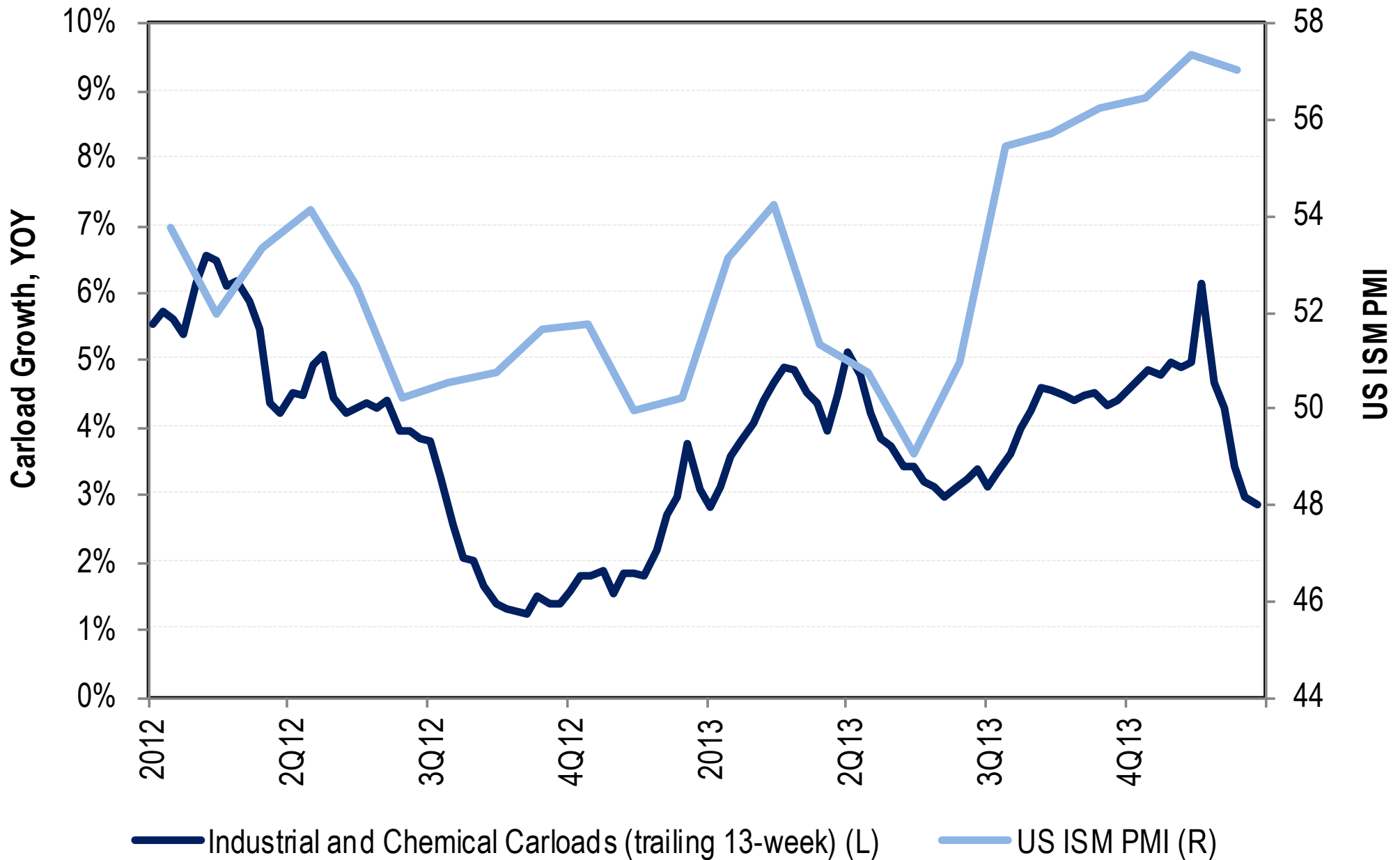
But Stabilizing Global Growth Puts A Floor Beneath AF Volume Growth



Accelerating US Industrial Production Should Support Accelerating Industrial Freight Growth (Logically...)



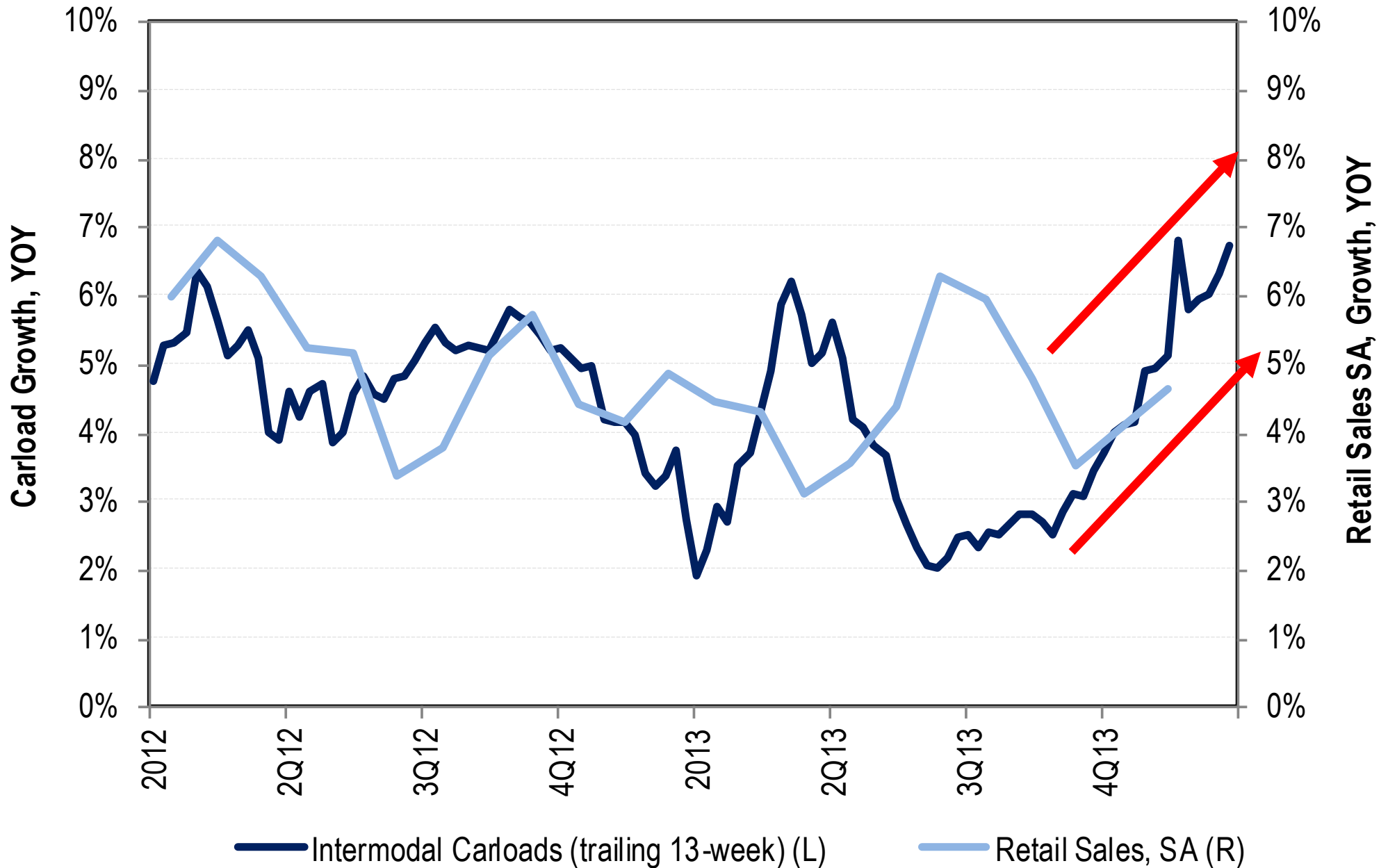
But the Recovery Is Still Tenuous



Industrial and Chemical Carloads (trailing 13-week) (L)

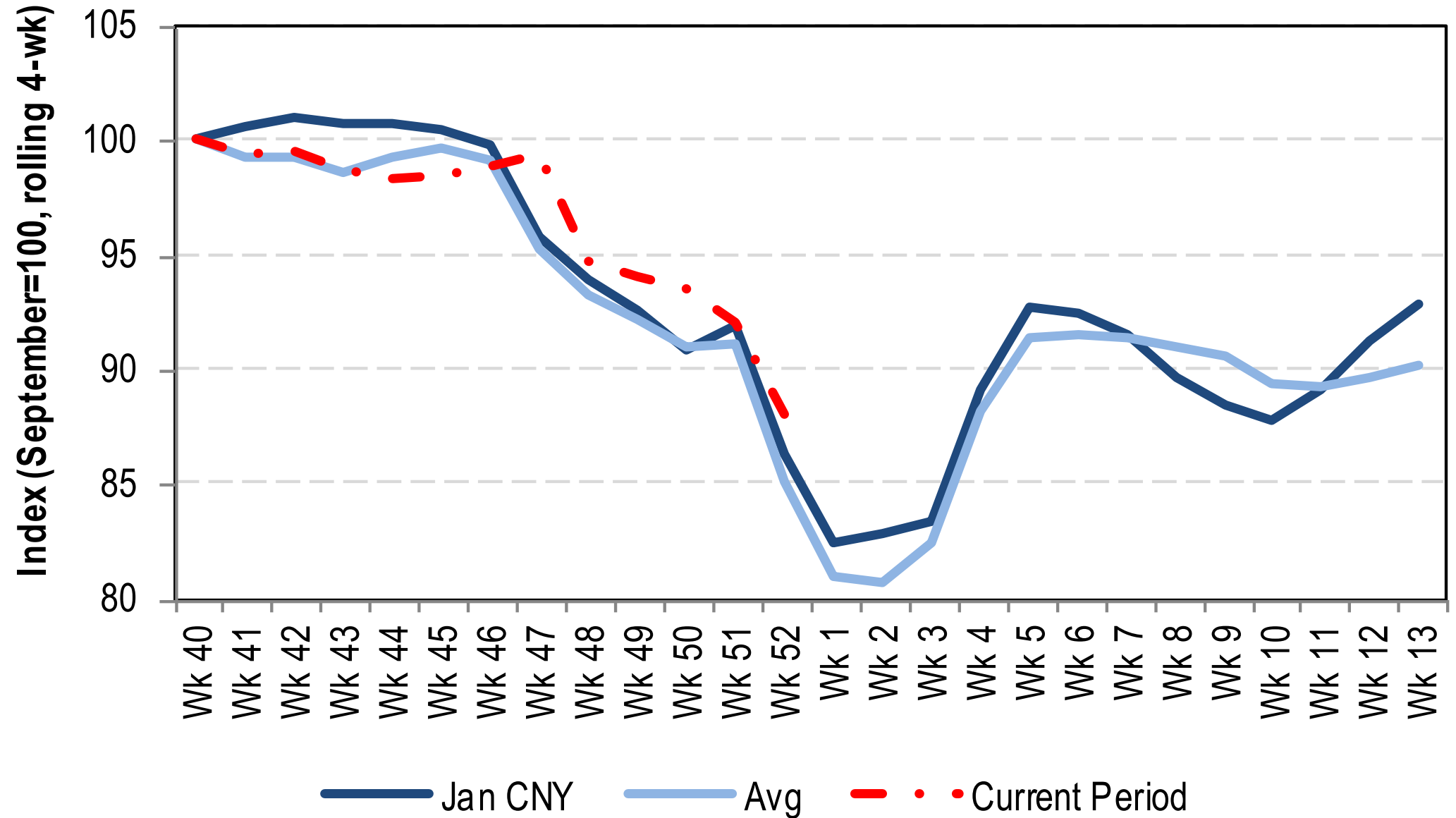
US ISM PMI (R)

Recent Signs Of Life From The Consumer, Which Contrasts Against Weak Holiday Sales Data



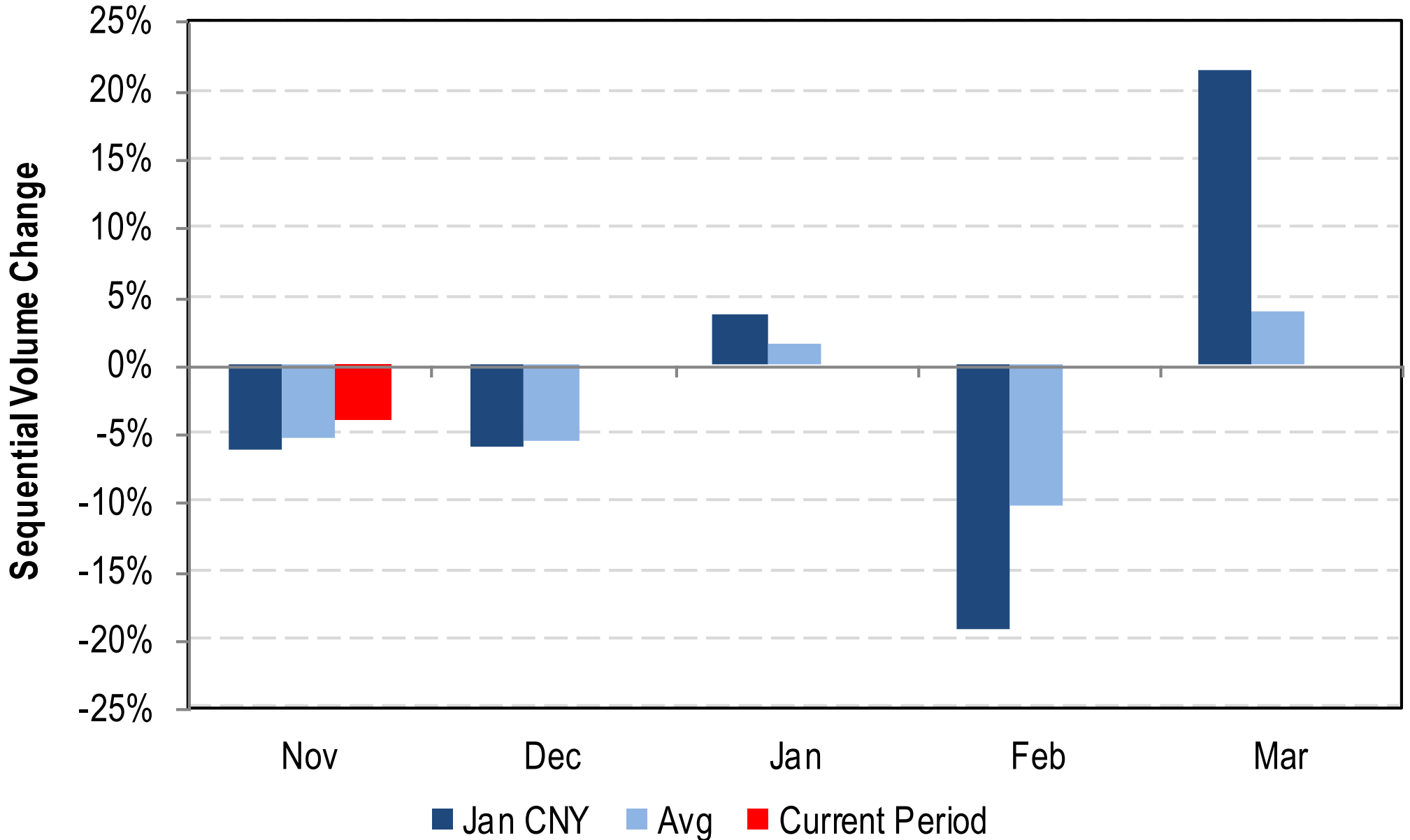
1Q14 Trends Expected To Be Volatile

West Coast Railroad Intermodal Volume

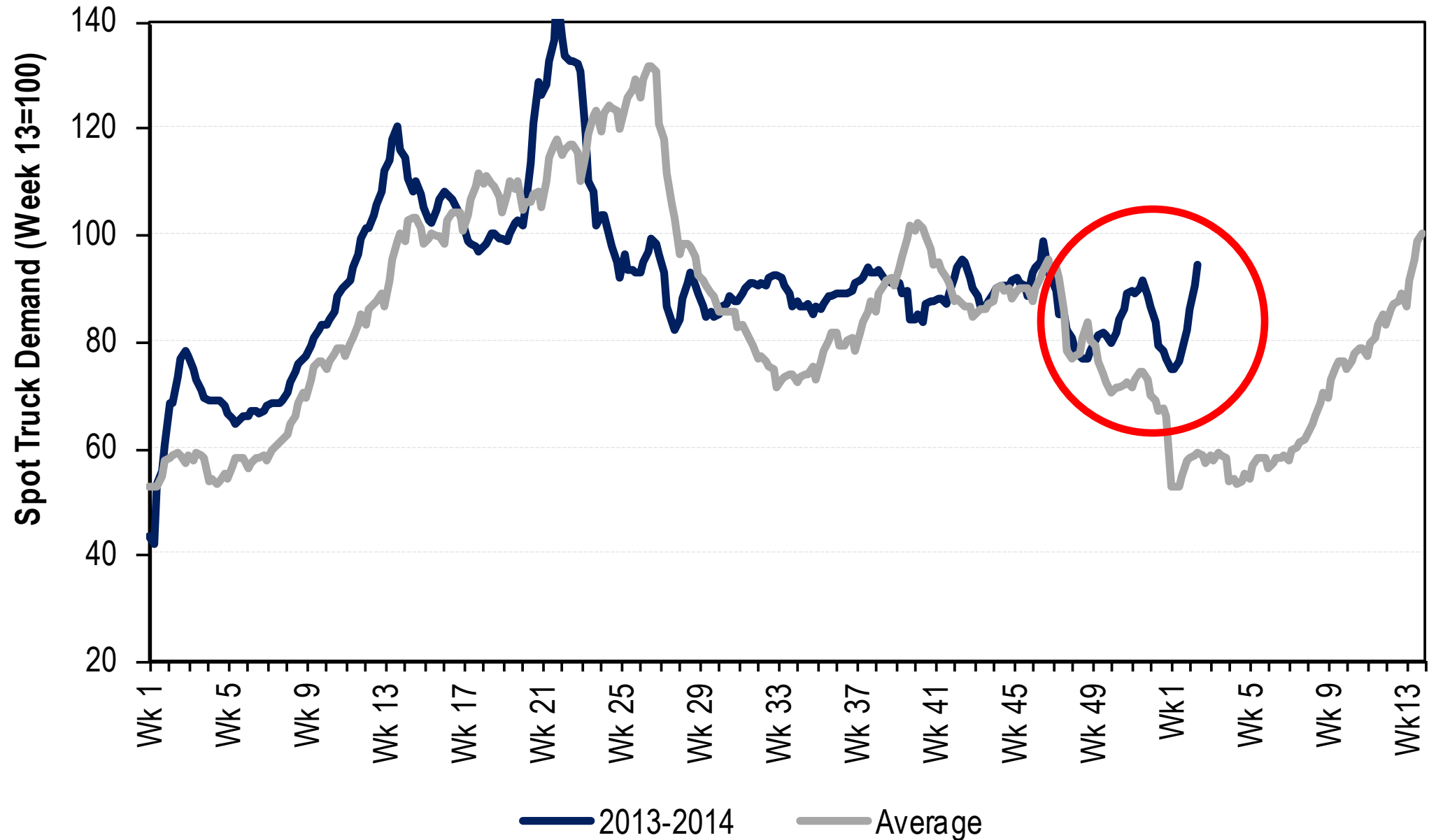


1Q14 Trends Expected To Be Volatile

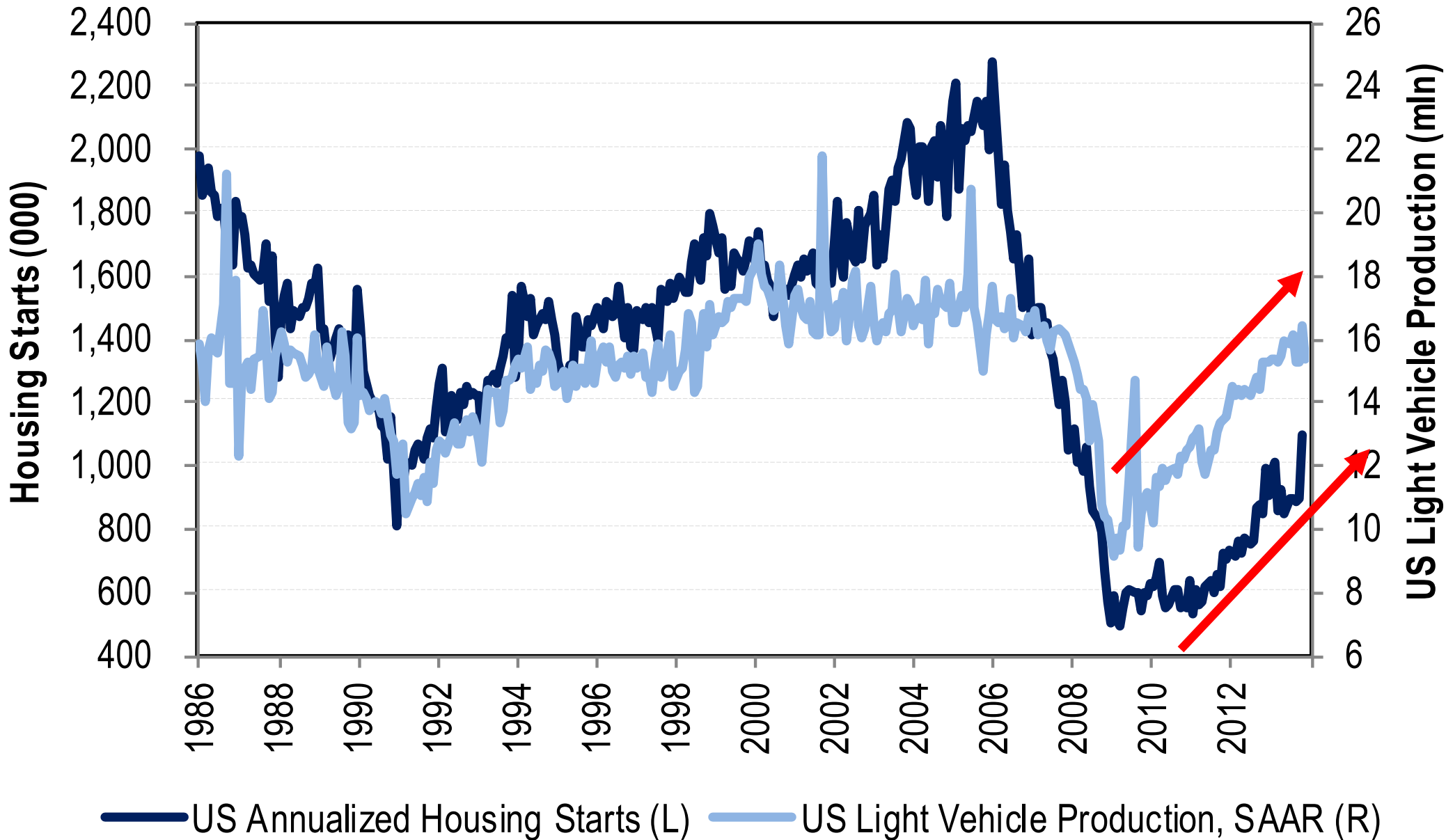
West Coast Ocean TEU Imports



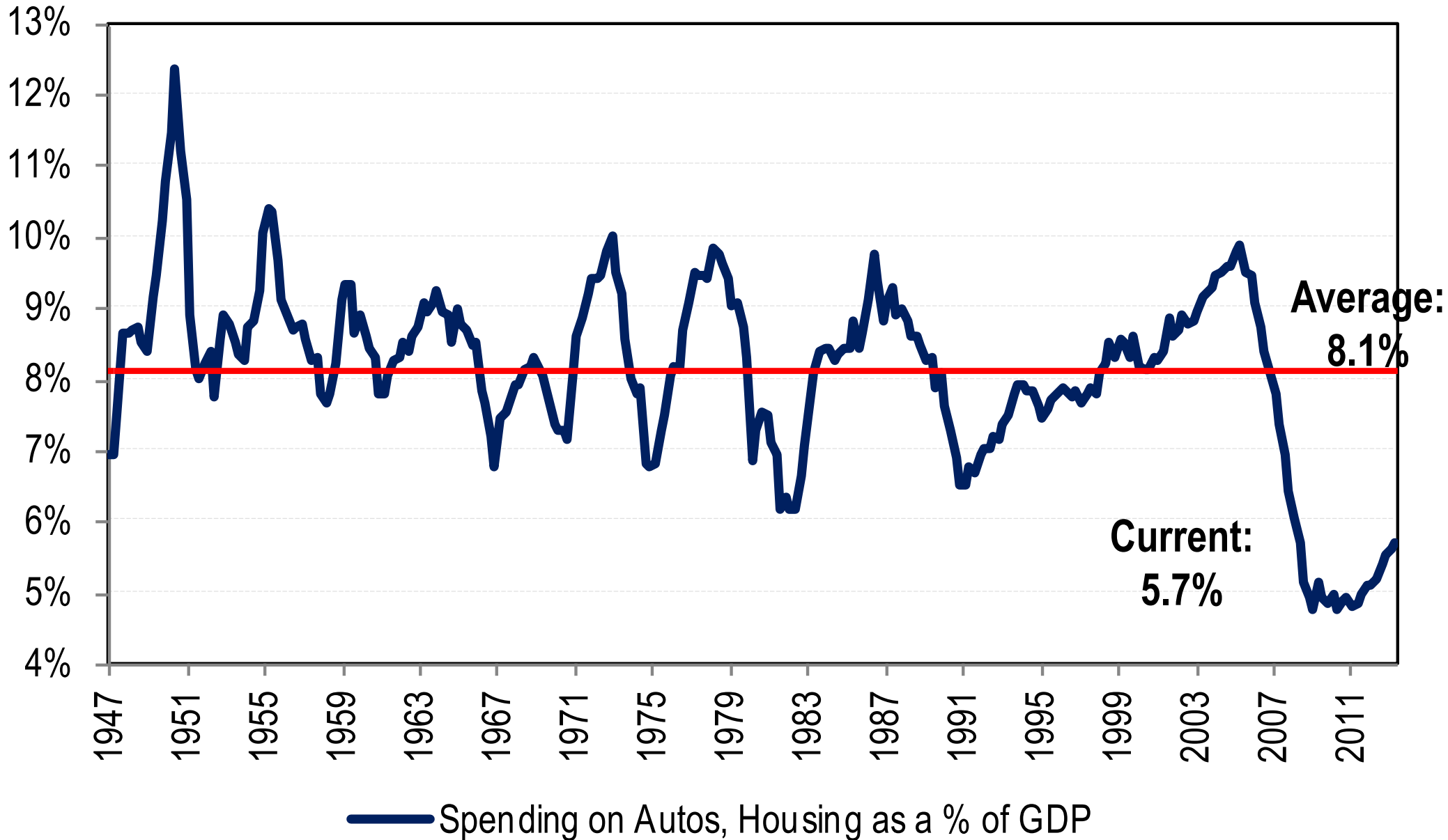
Above-Seasonal Spot Demand in 4Q13 – A Harbinger Of Things To Come, Or Just Blame It On The Weather?



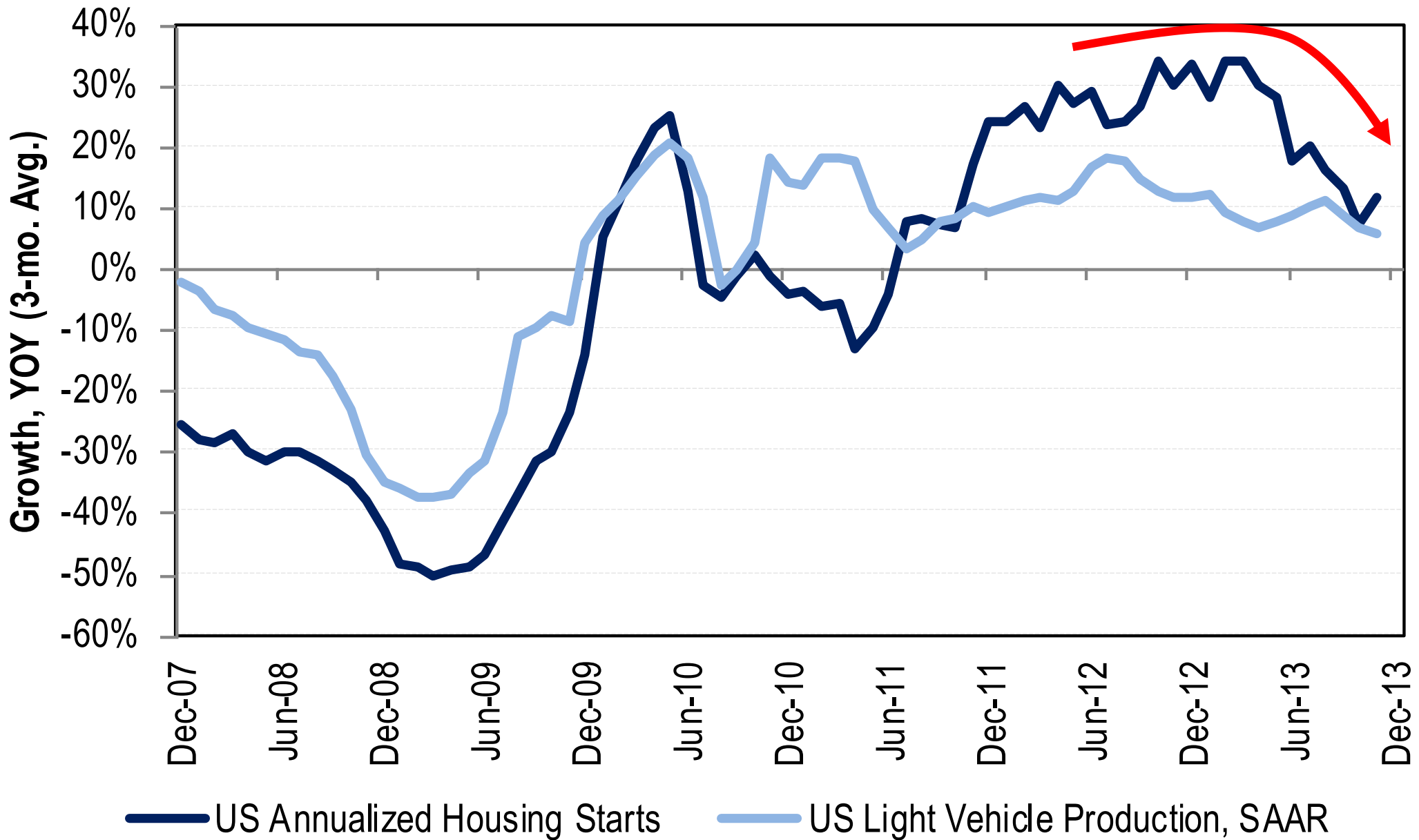
Auto & Housing's Recovery Have Had Leadership This Cycle...



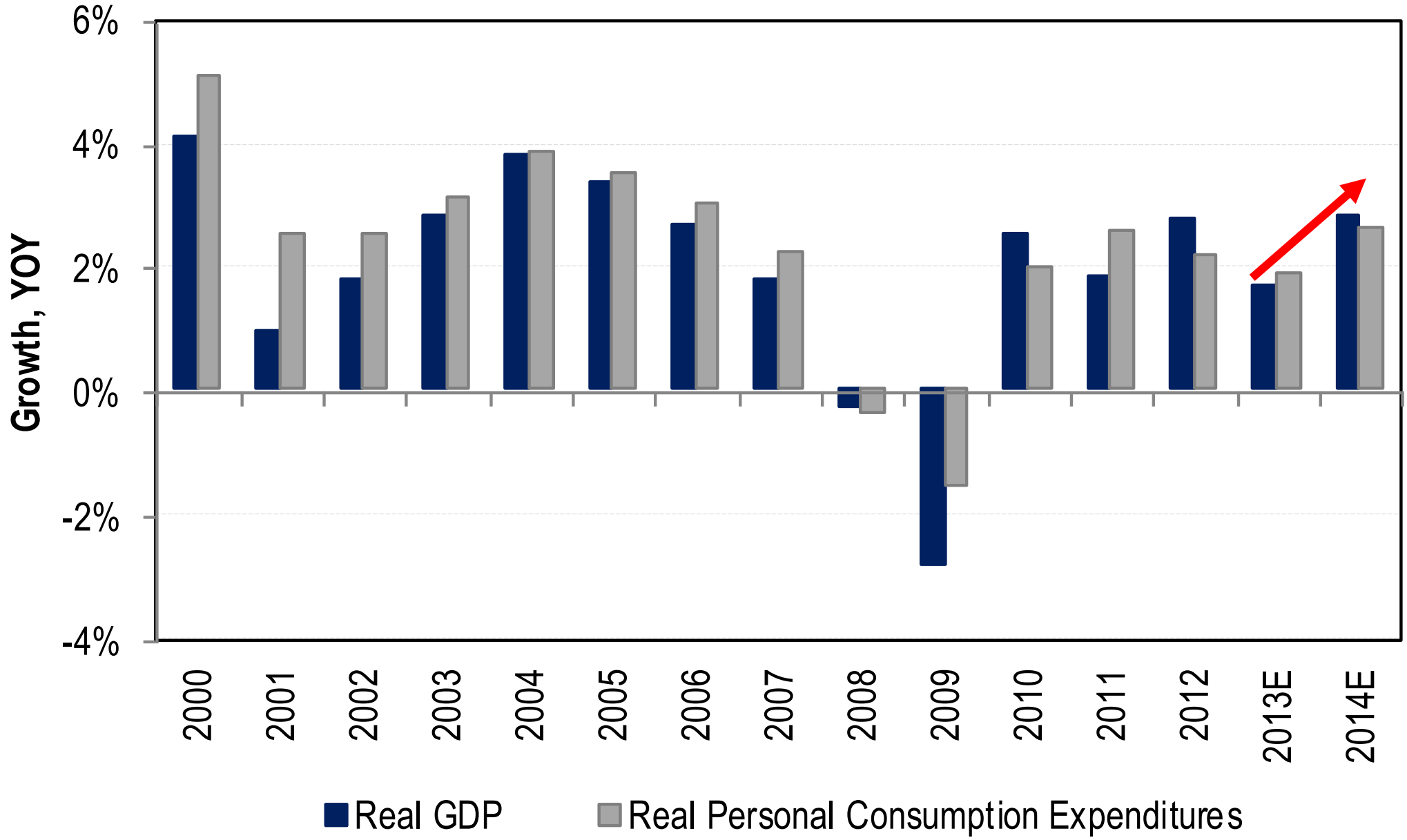
...And Their Contribution To US GDP Remains Below Trend...



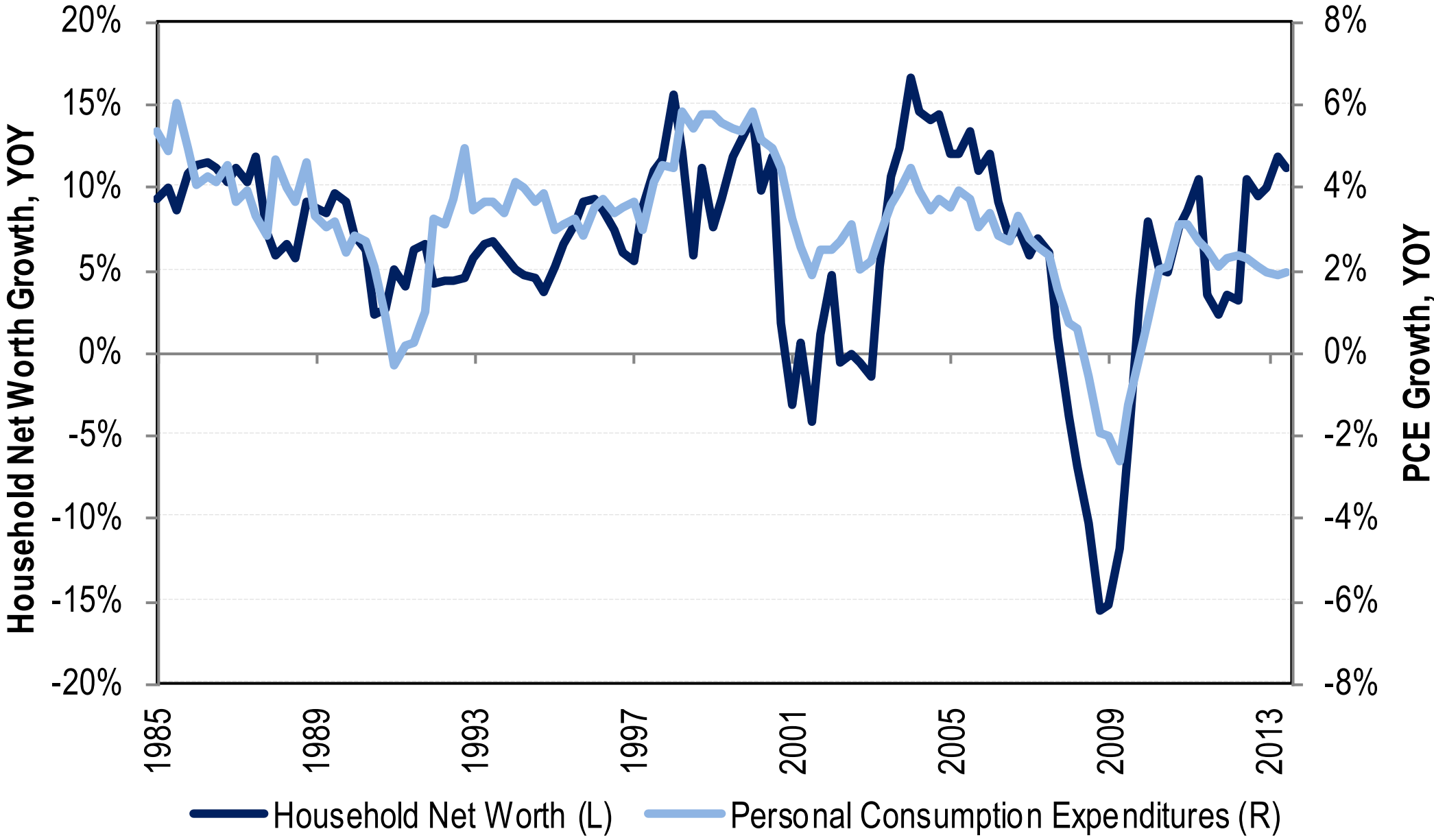
...But Growth Is Slowing



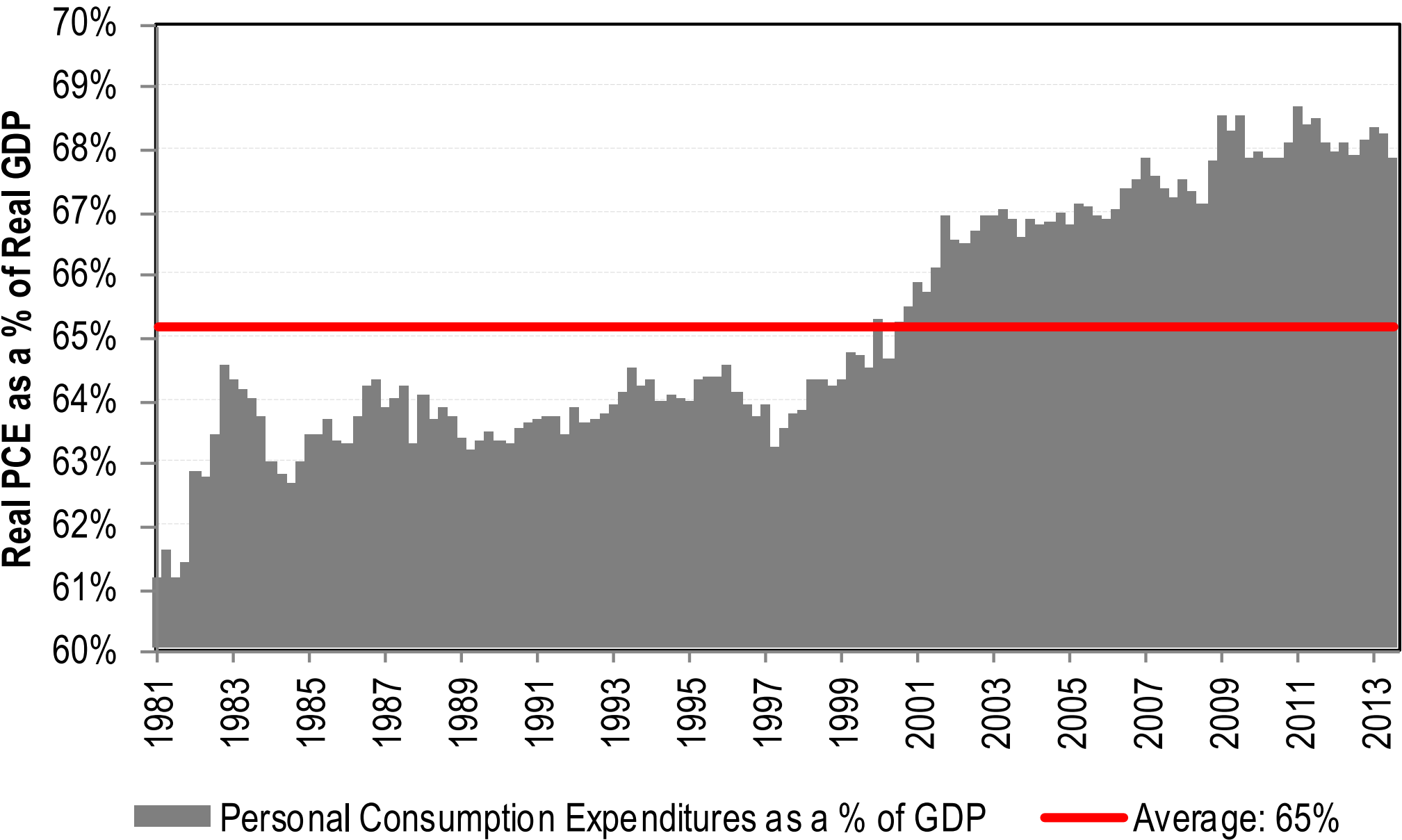
What Drives The Next Leg Of Expansion? The Recovery Needs Engagement From The Consumer



The Housing/Equity Market Recovery Should Support Improved Consumer Demand

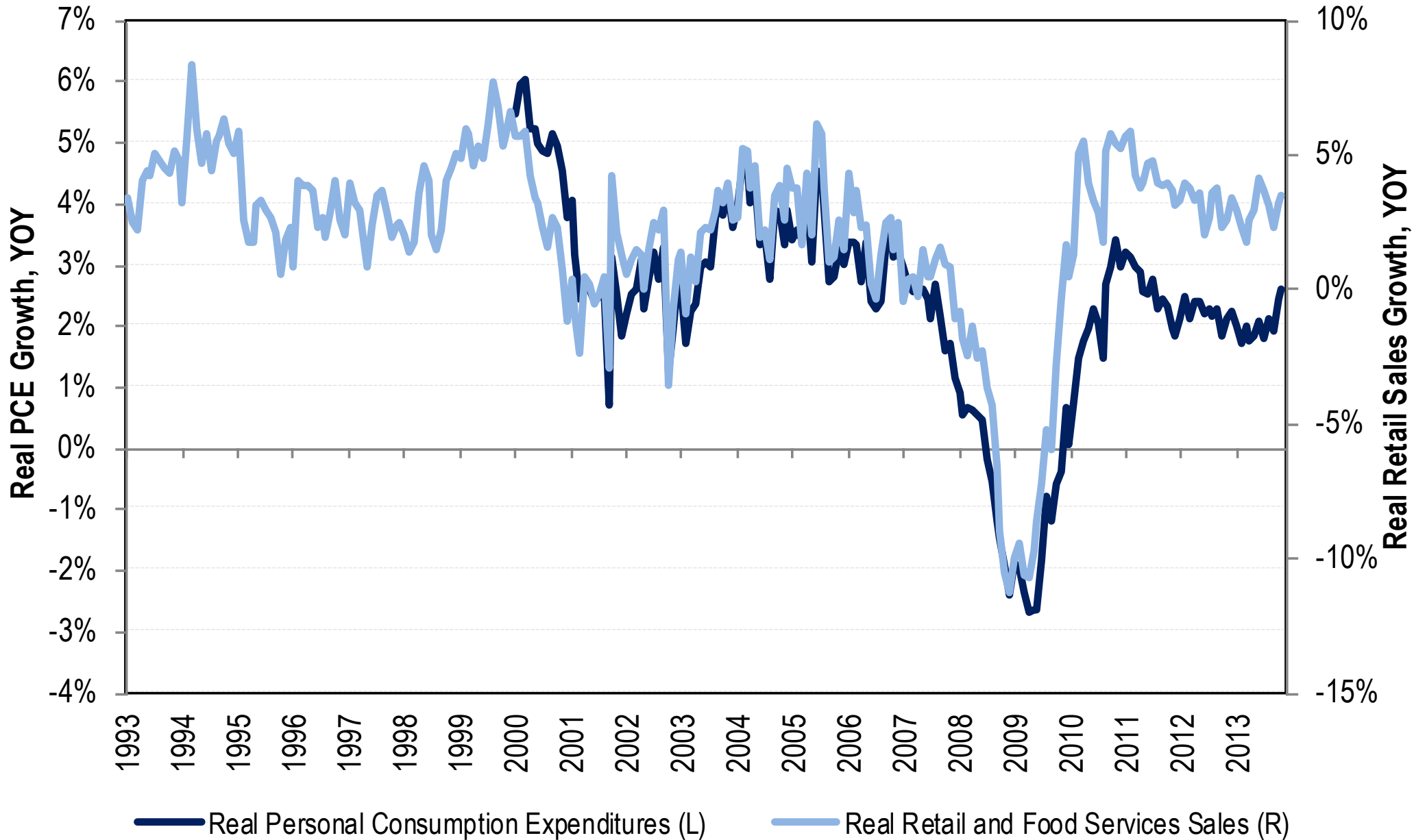


Consumption Still Drives US GDP Growth

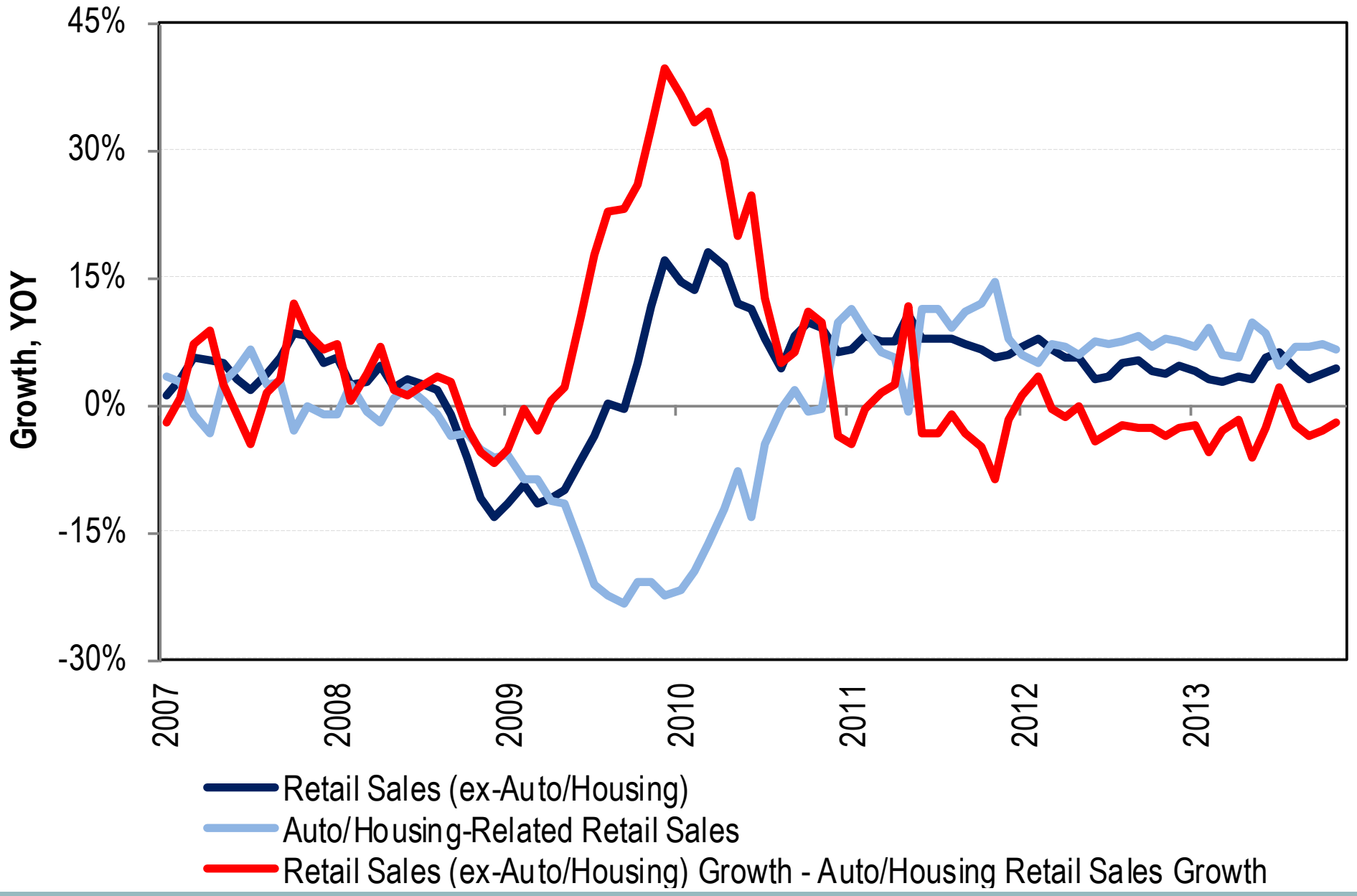


Source: BEA

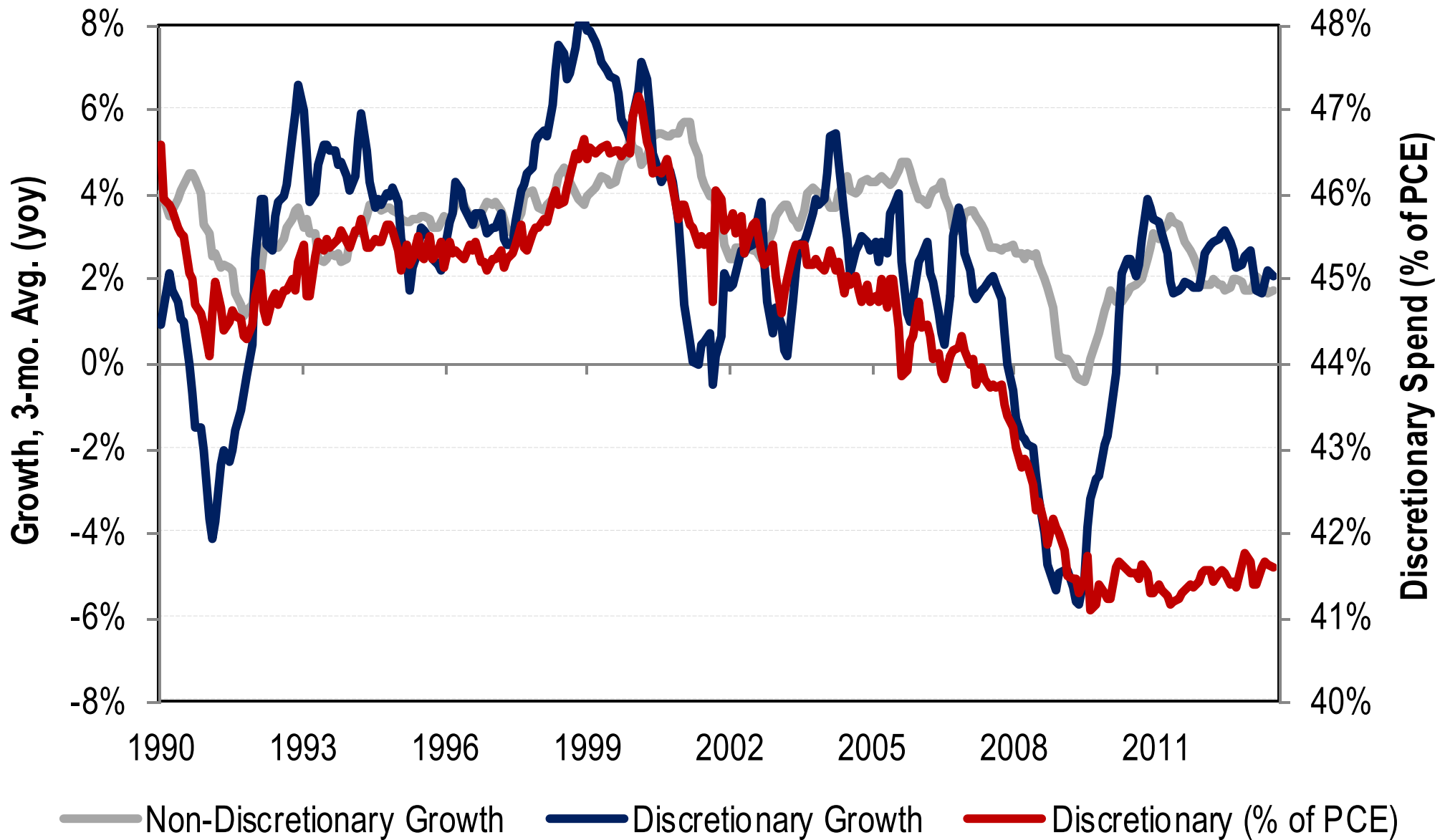
And Consumption Drives Retail Growth



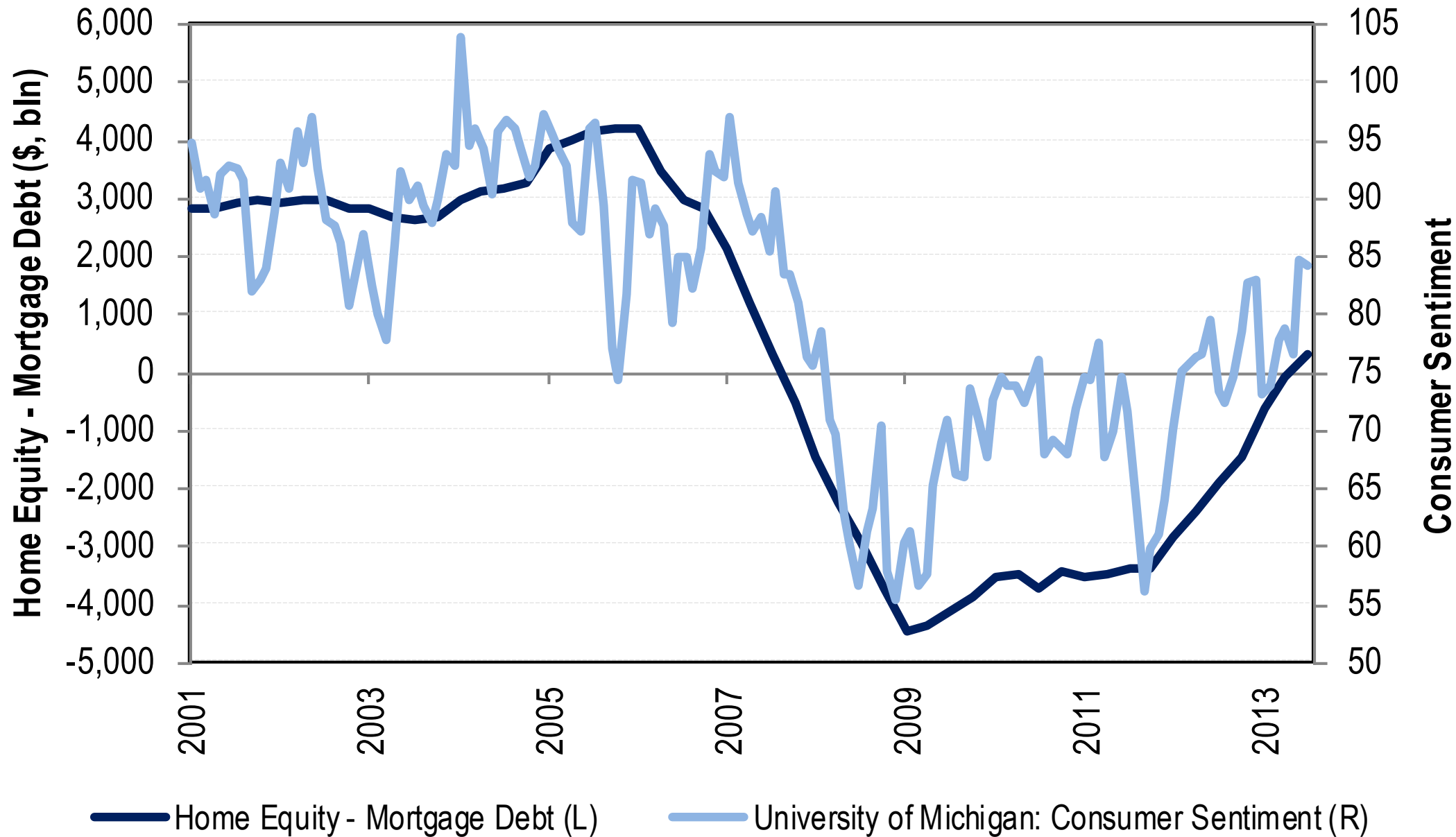
Slowing Housing/Auto Spend A Tailwind To Other Retail?



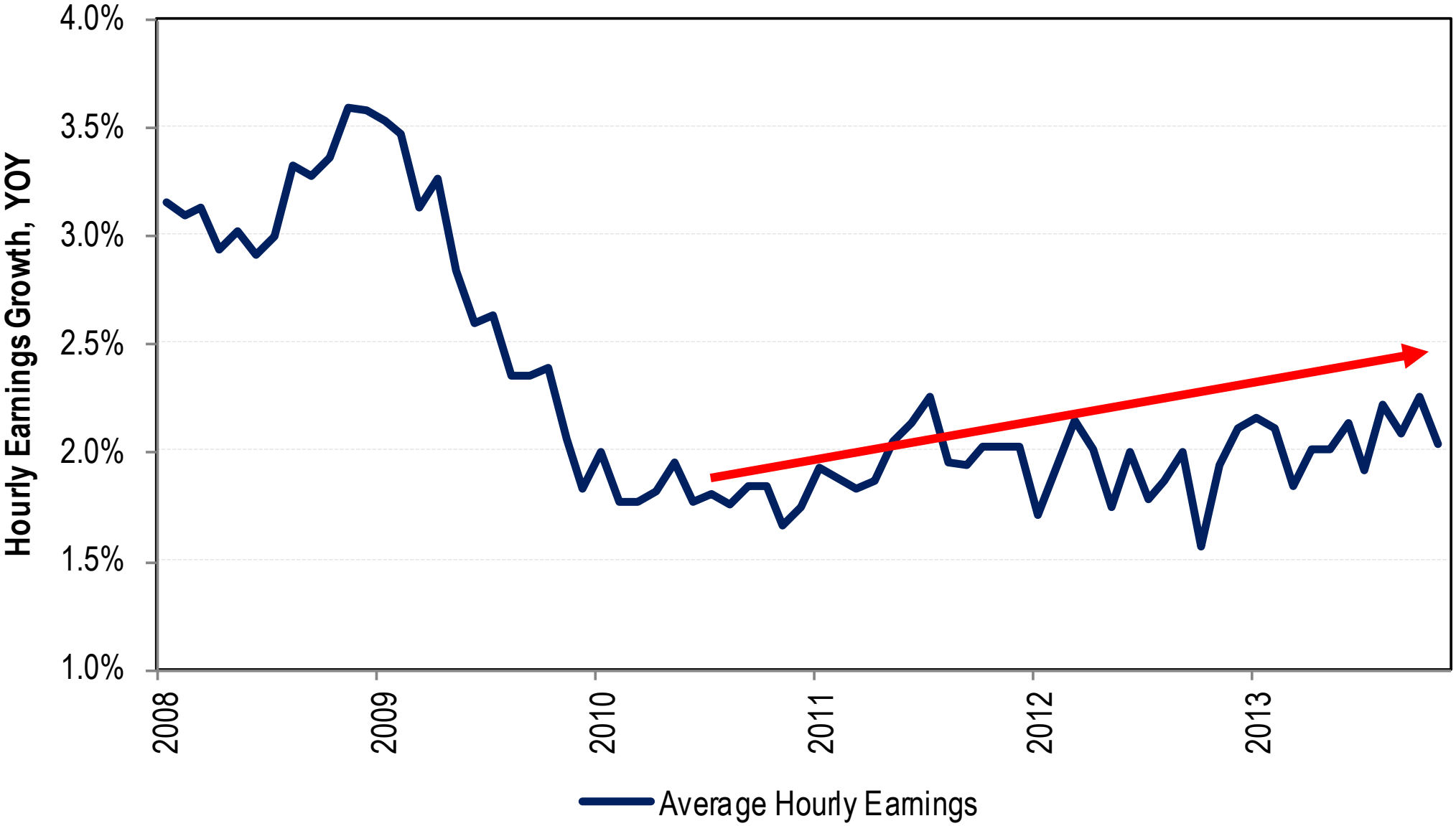
Resumption Of Discretionary Spending Also Needed



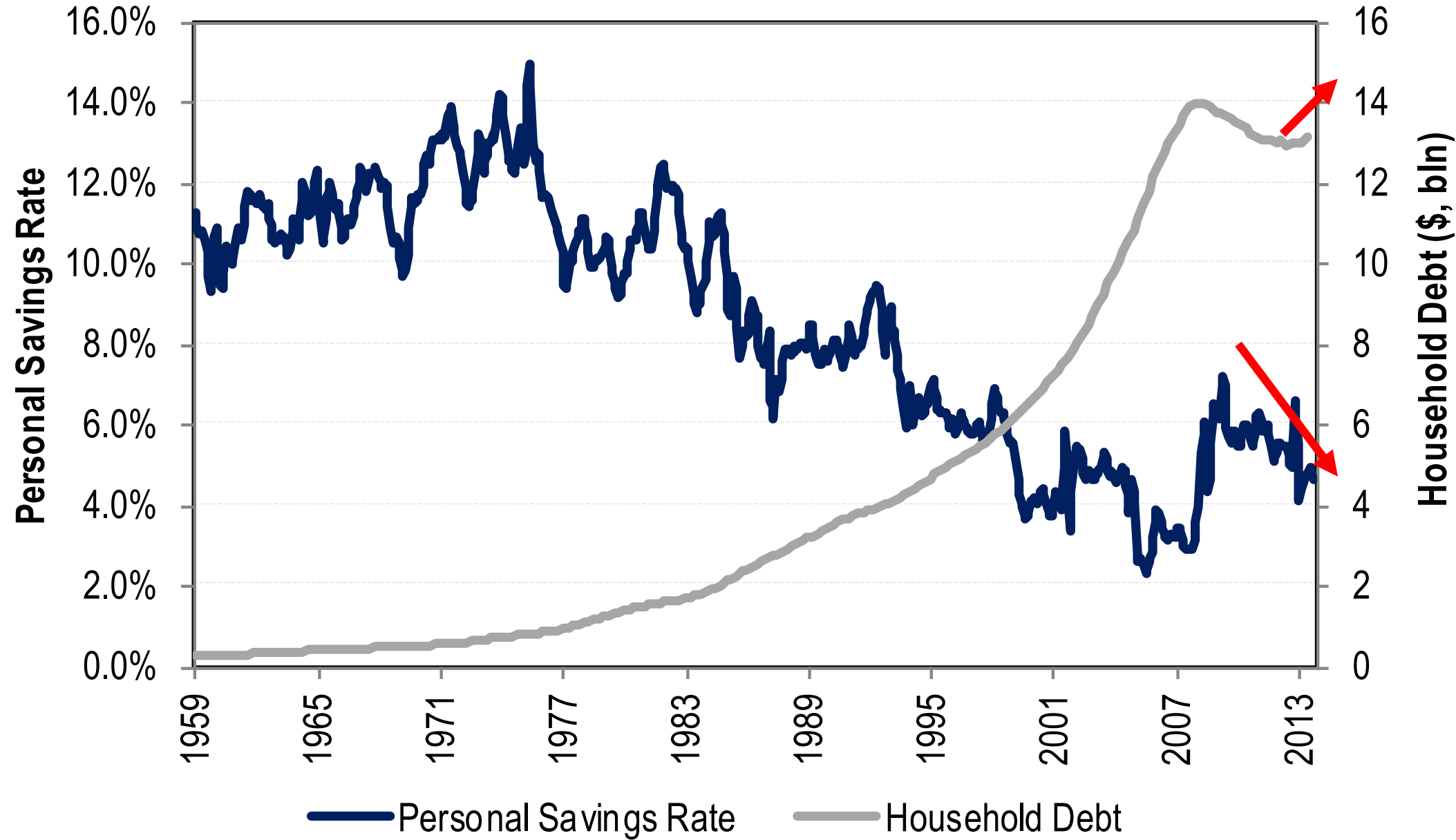
Some Indication Of An Improving Consumer



Some Indication Of An Improving Consumer

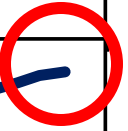
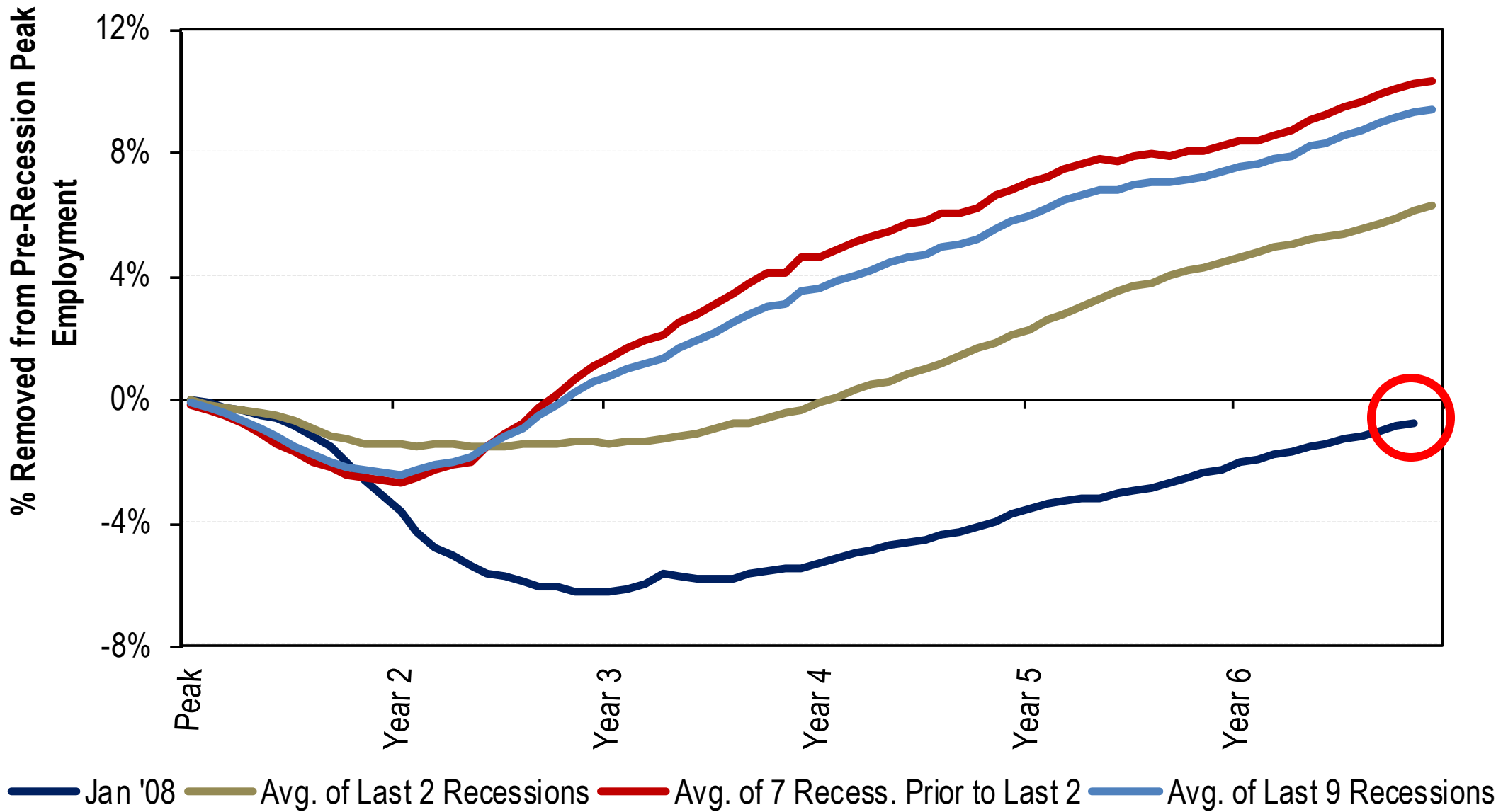


The Consumers' Wallets Are Opening Again...



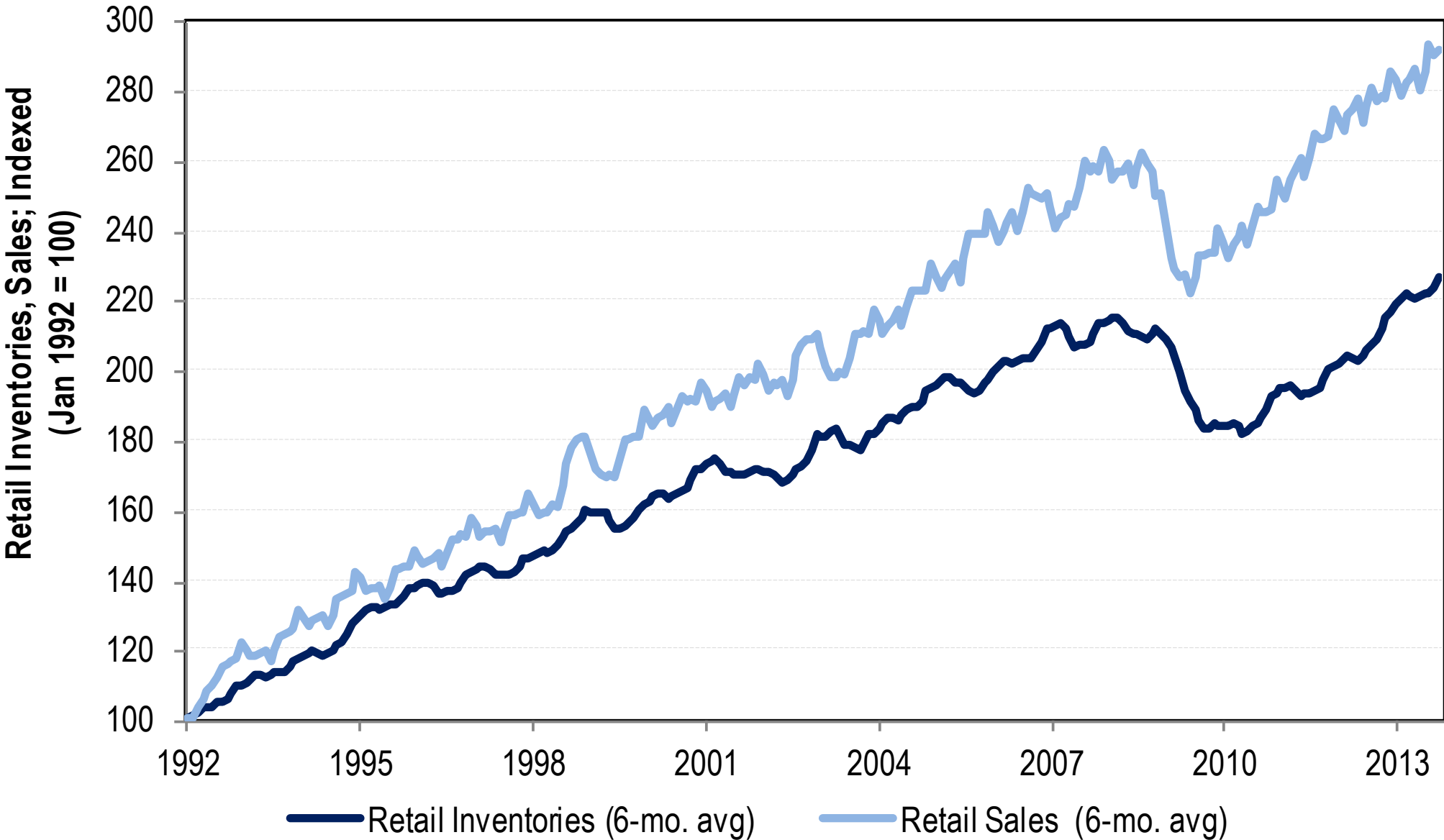
Source: Federal Reserve, BEA

US Unemployment At/Near Prior Peak Levels



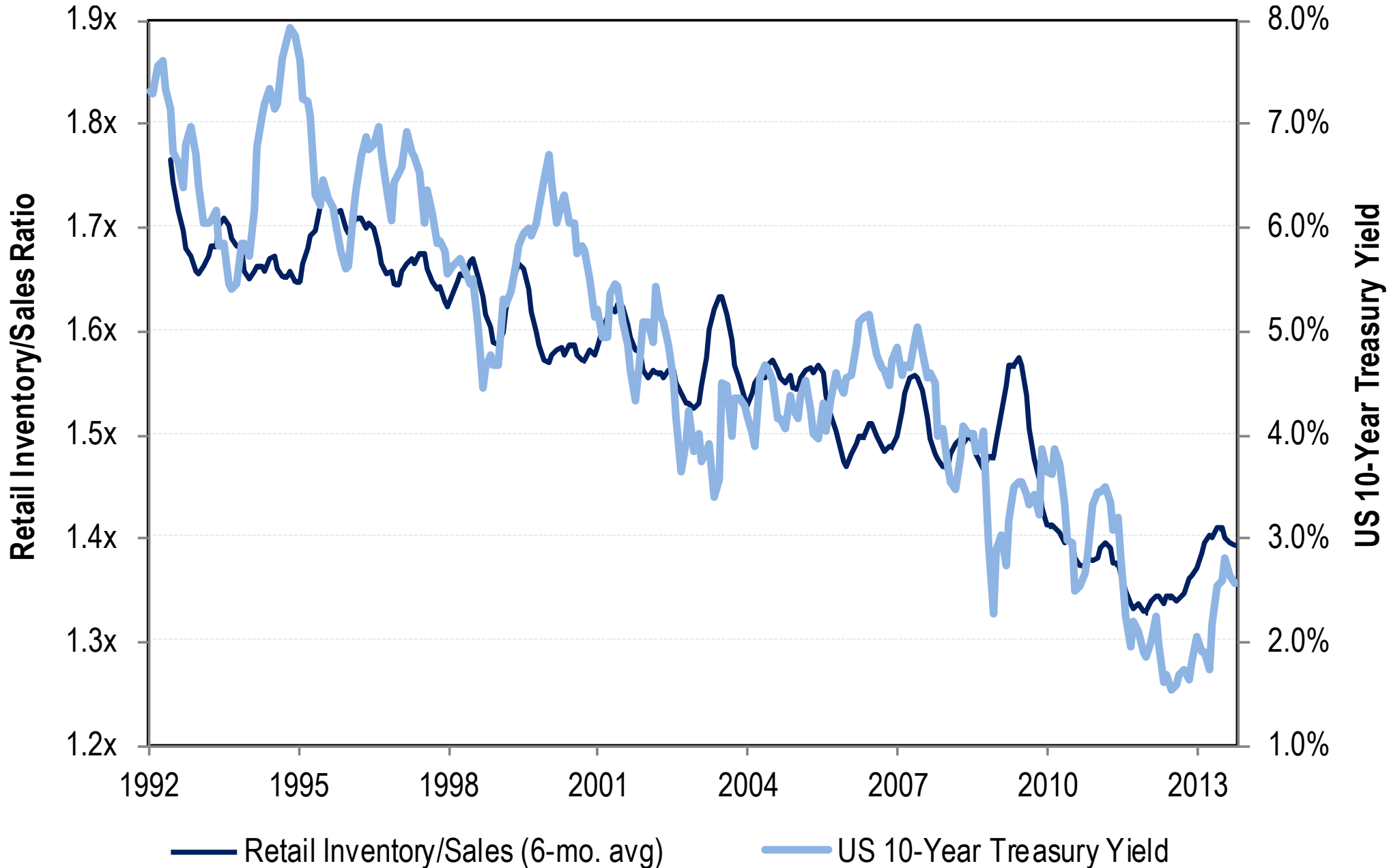
Jan '08 Avg. of Last 2 Recessions Avg. of 7 Recess. Prior to Last 2 Avg. of Last 9 Recessions

Retail Inventories Remain Lean



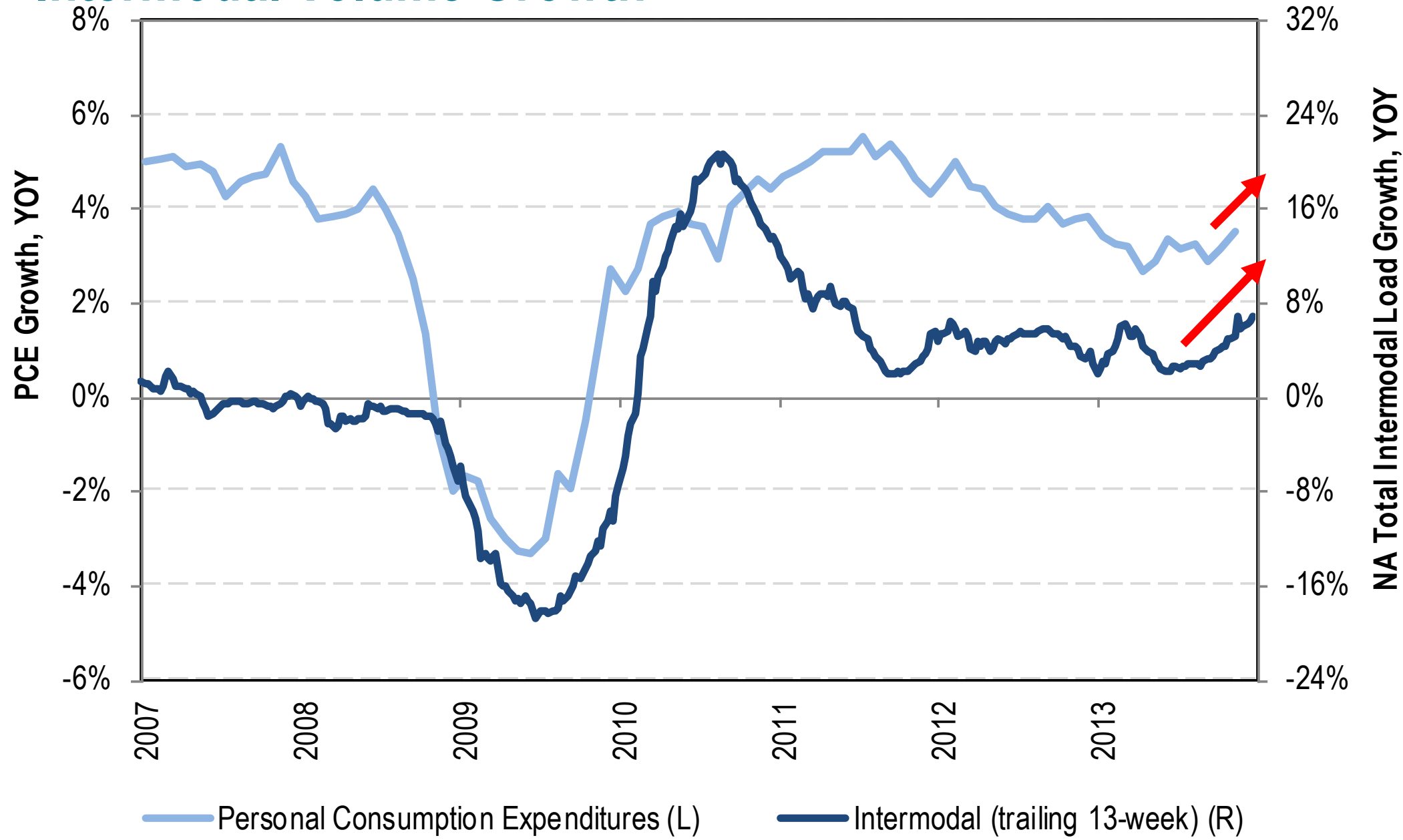
Source: US Census Bureau

A Restock, Or Weaker-Than-Expected Demand?

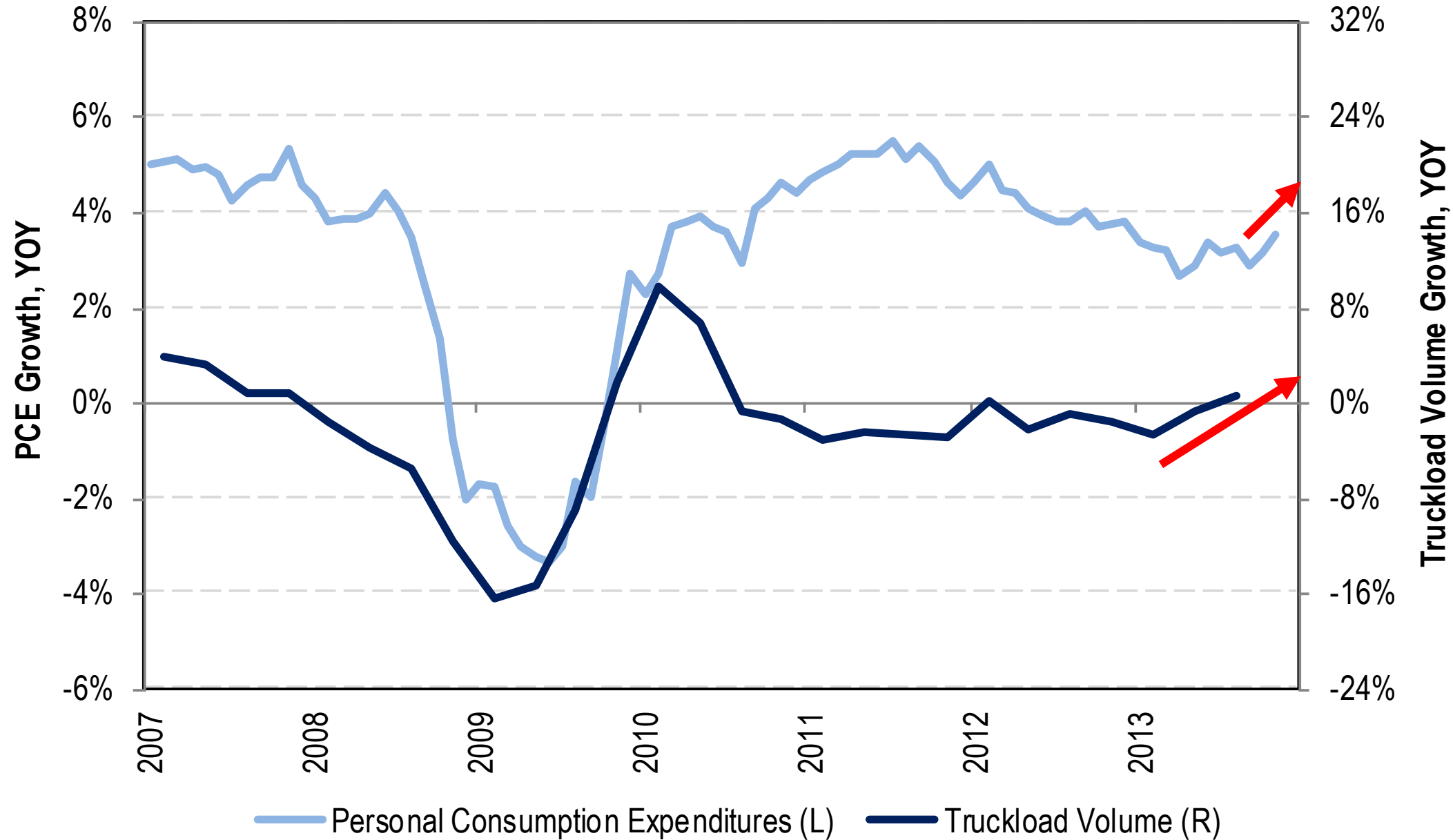


Source: US Census Bureau, FactSet

Consumer Spending Matters...To Intermodal Volume Growth

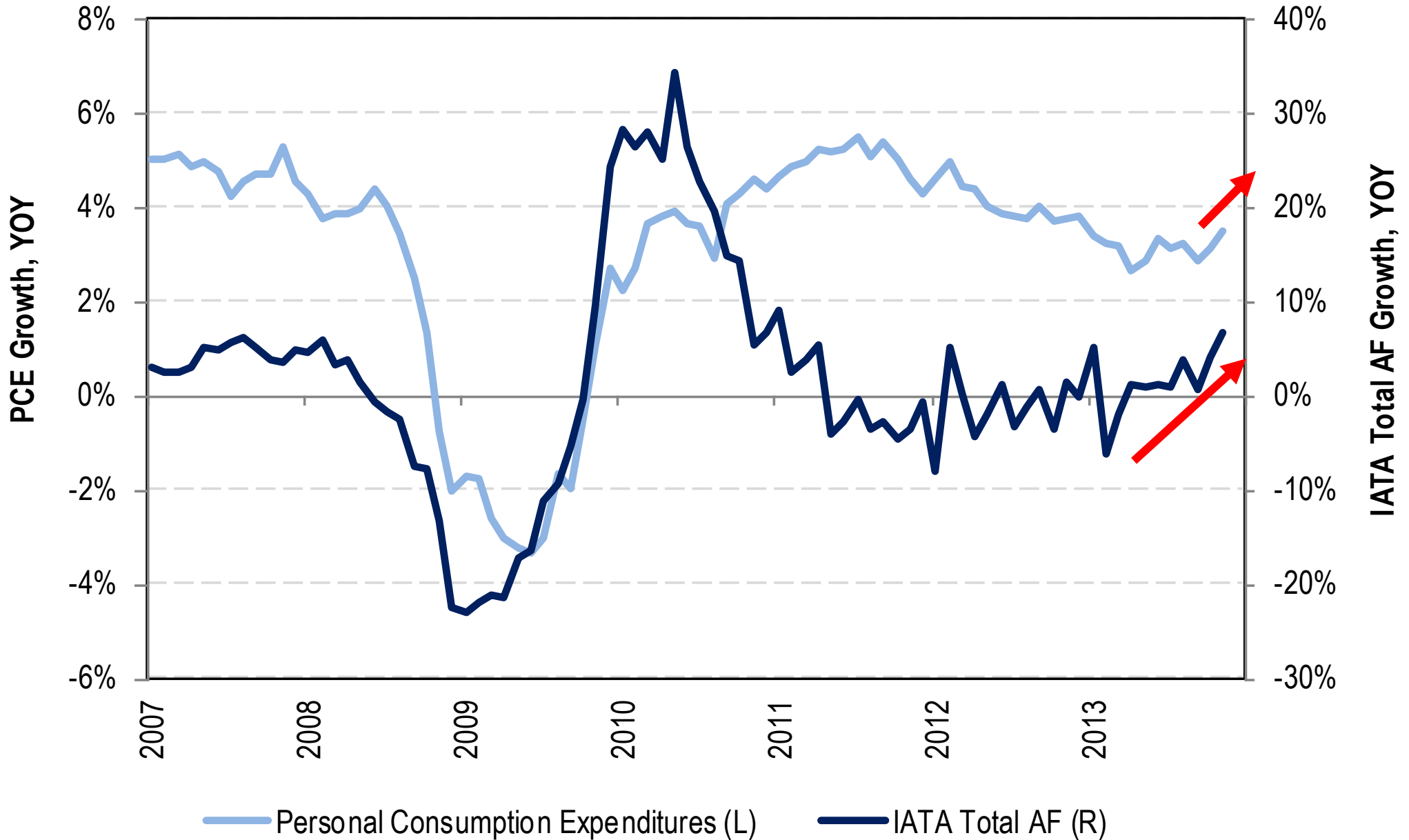


Consumer Spending Matters...To Truckload Volume Growth



Source: BEA, Company data

Consumer Spending Matters...To Airfreight Volume Growth



Global Freight Flows on the Mend

2014 headed toward more "normalized" growth, both in the US and globally.

Positive sources of growth:

- Structural gains from energy (both crude and petrochemical), domestic intermodal
- Changing sourcing patterns (i.e., B2C) an opportunity for some
- Agricultural volumes should recover following 2012's drought
- Reindustrialization of US/North America should support continued growth in US Industrial Production this cycle
- The US consumer is healing; and US business investment has yet to fully engage this cycle
- Rising consumption in emerging global markets (Asia, South America, Eastern Europe, Africa)

Risks and headwinds to growth:

- Regulatory changes
- Structural declines in certain industries (coal, paper)
- Freight growth impediments from digitalization
- Geopolitical risks and macro shocks

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