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Freight Transportation Market Risks

Rail Equipment Finance Meeting | March 2, 2020

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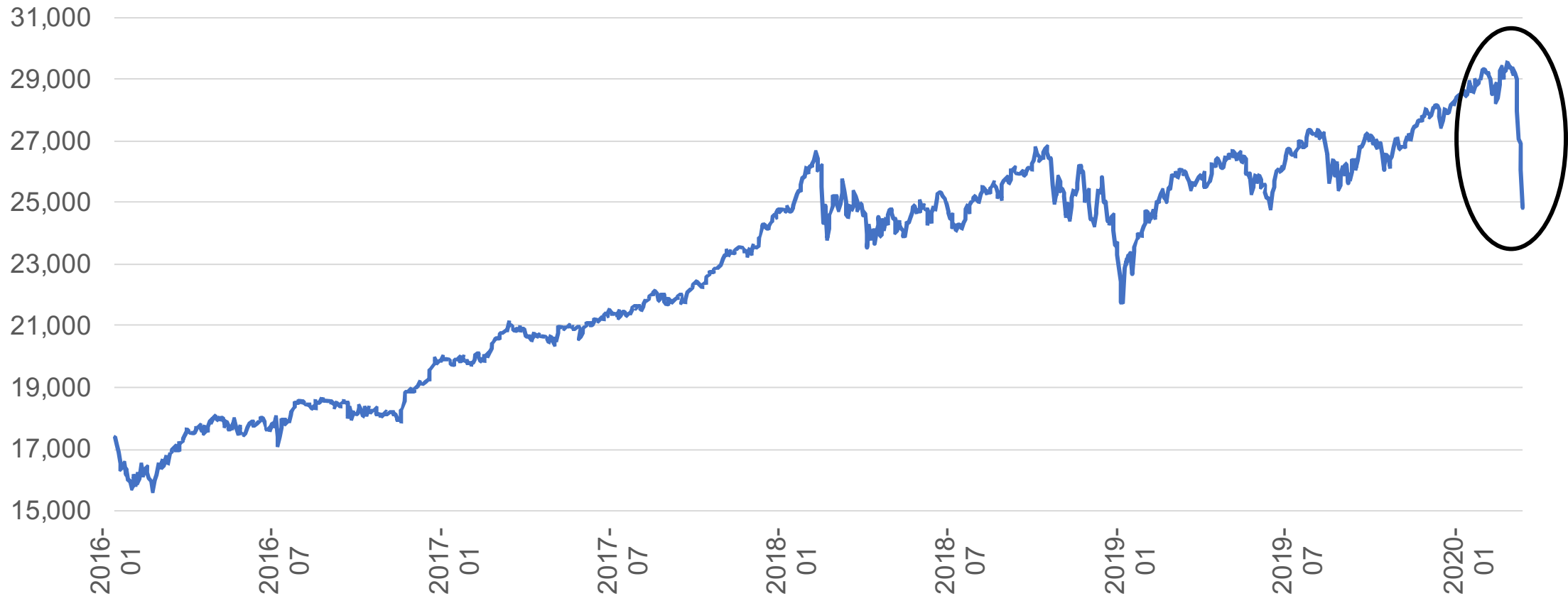
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Connecting the Dots... So You Can Plan for the Future

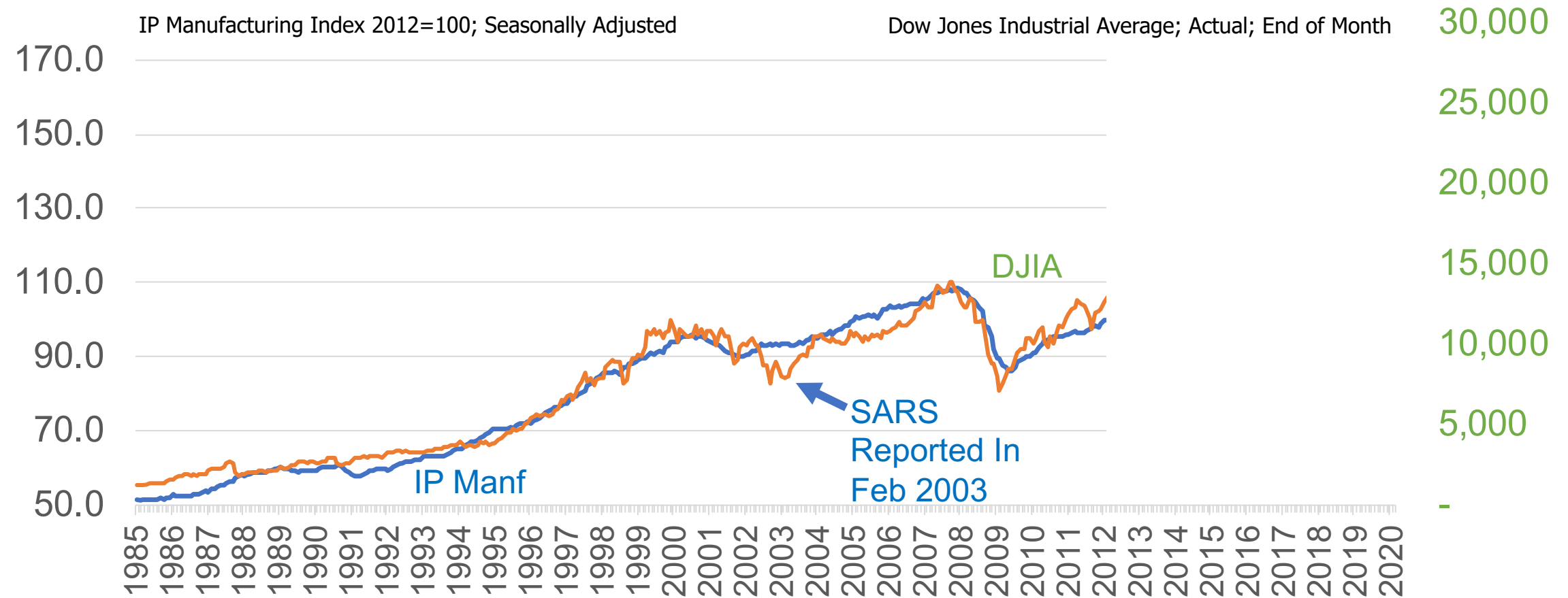
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Dow Jones Industrial Average: Should I Care?

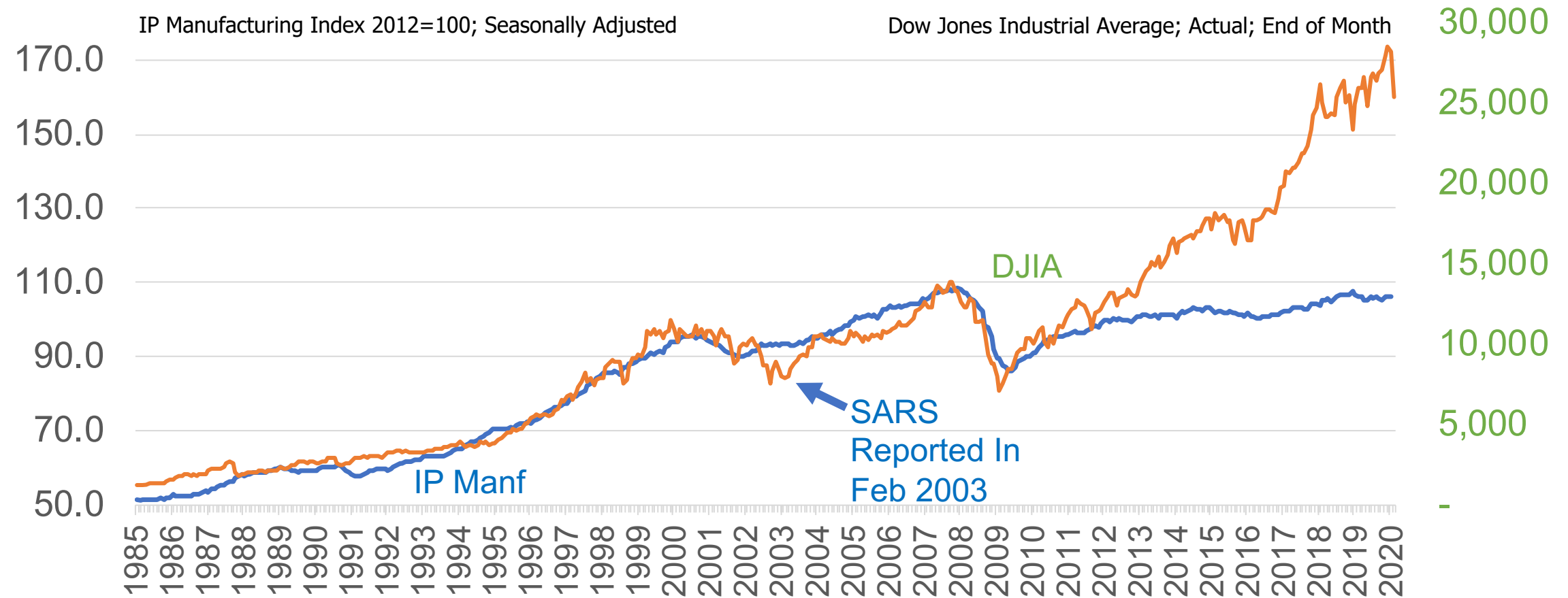


Are the Equity Markets a reflection of the health of the economy?

U.S. Industrial Production Manufacturing Vs The Dow



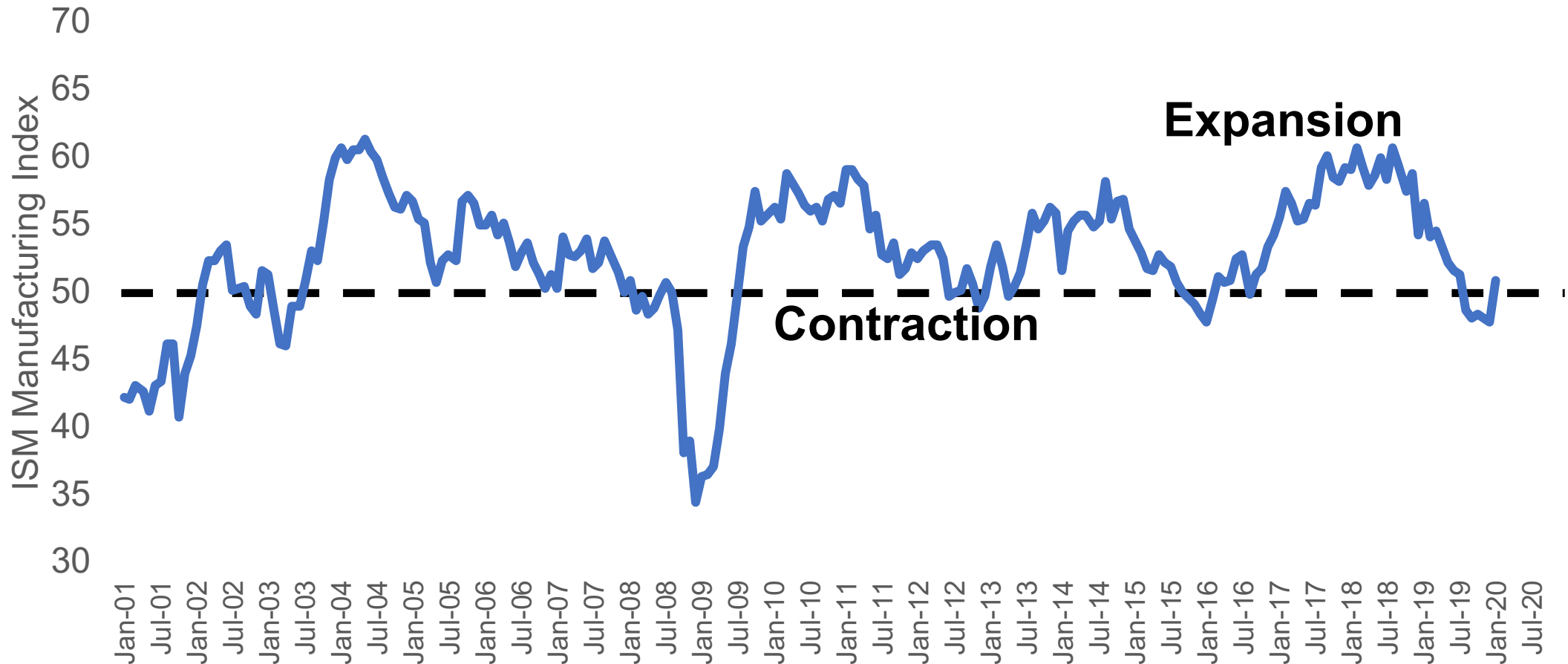
U.S. Industrial Production Manufacturing Vs The Dow



The Equity Market is not the
Economy...

And the Economy is not the
Equity Market

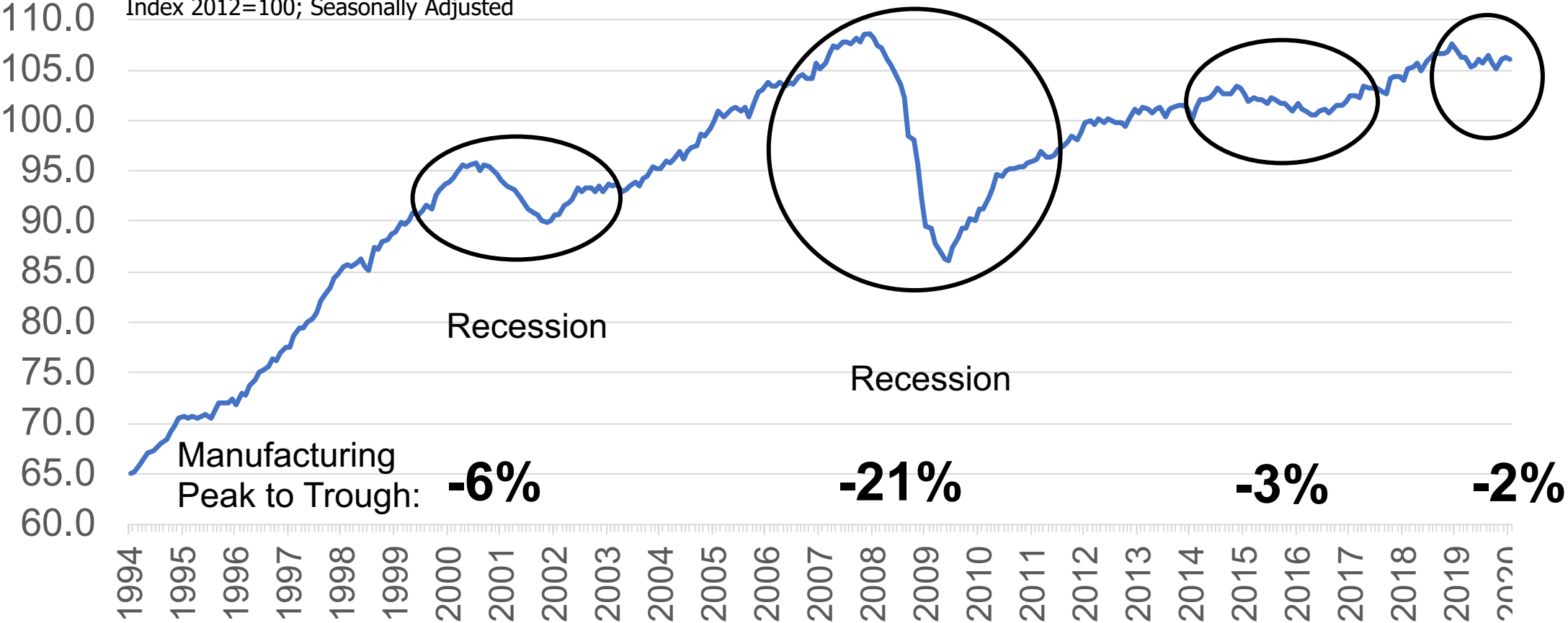
ISM Manufacturing index



Industrial production: Manufacturing

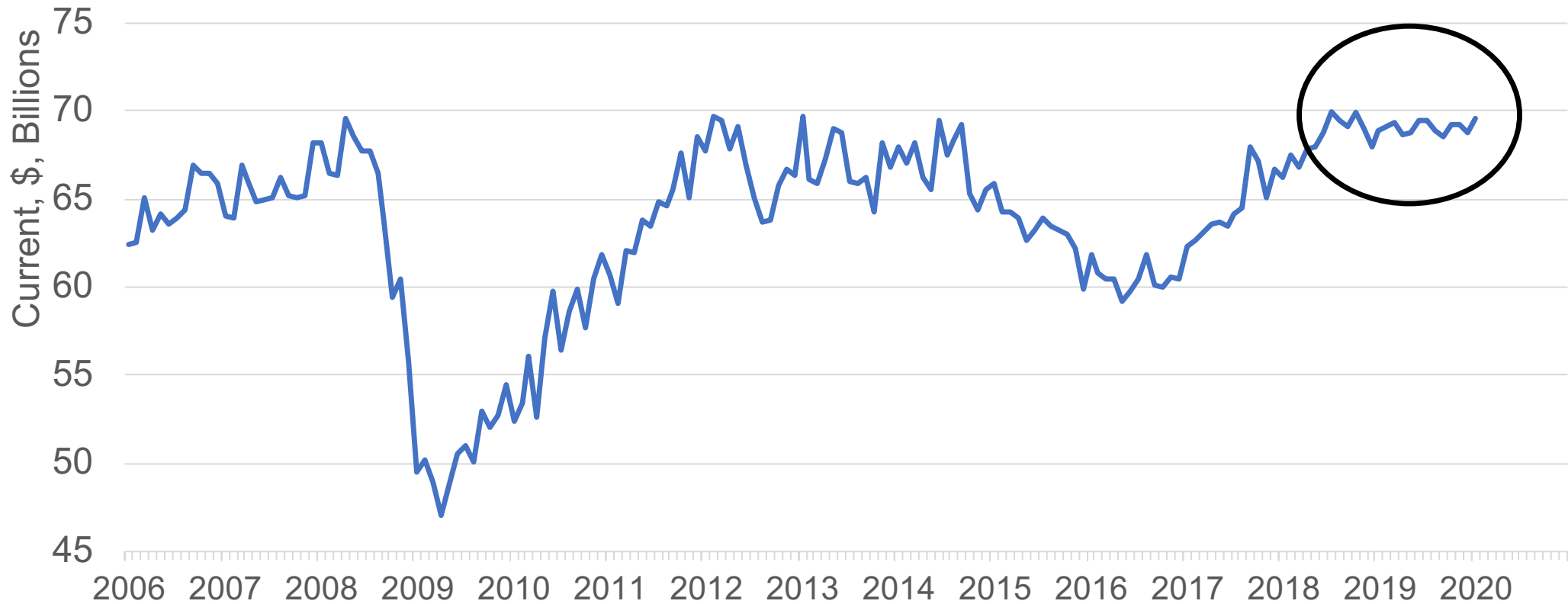
Industrial Production Index: Manufacturing

Index 2012=100; Seasonally Adjusted



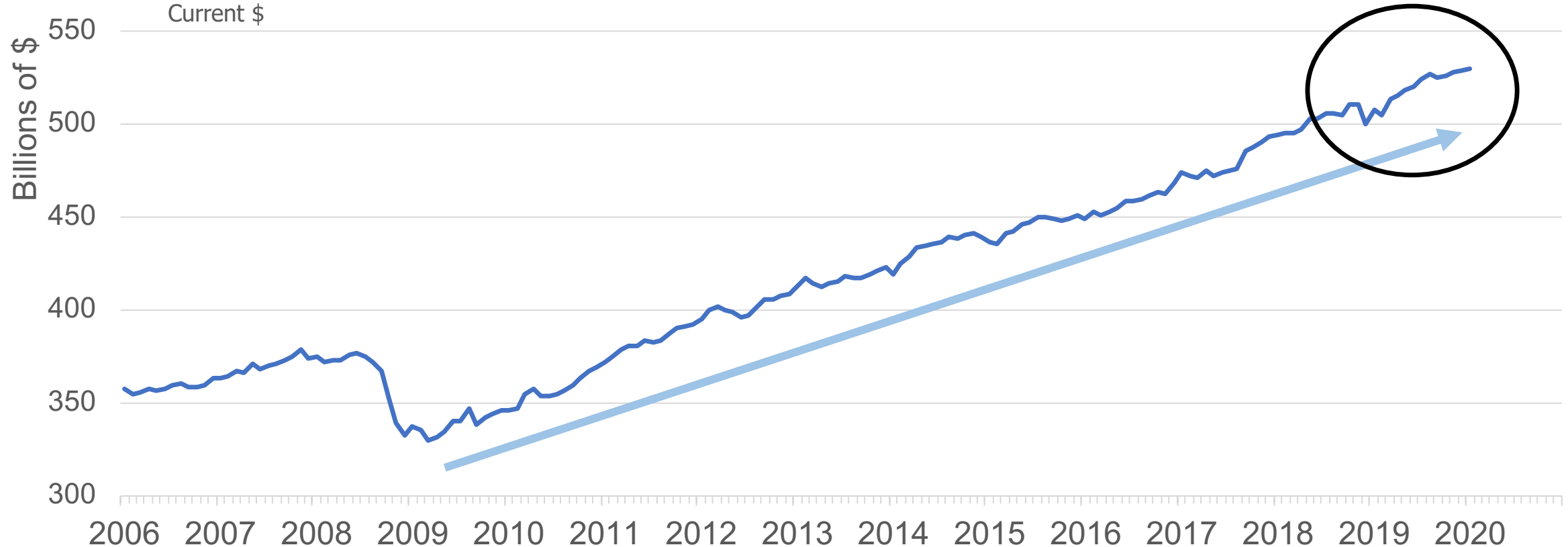
Business Activity is in a Hold Pattern – Neither Growing or Shrinking

Core Capital Goods Orders



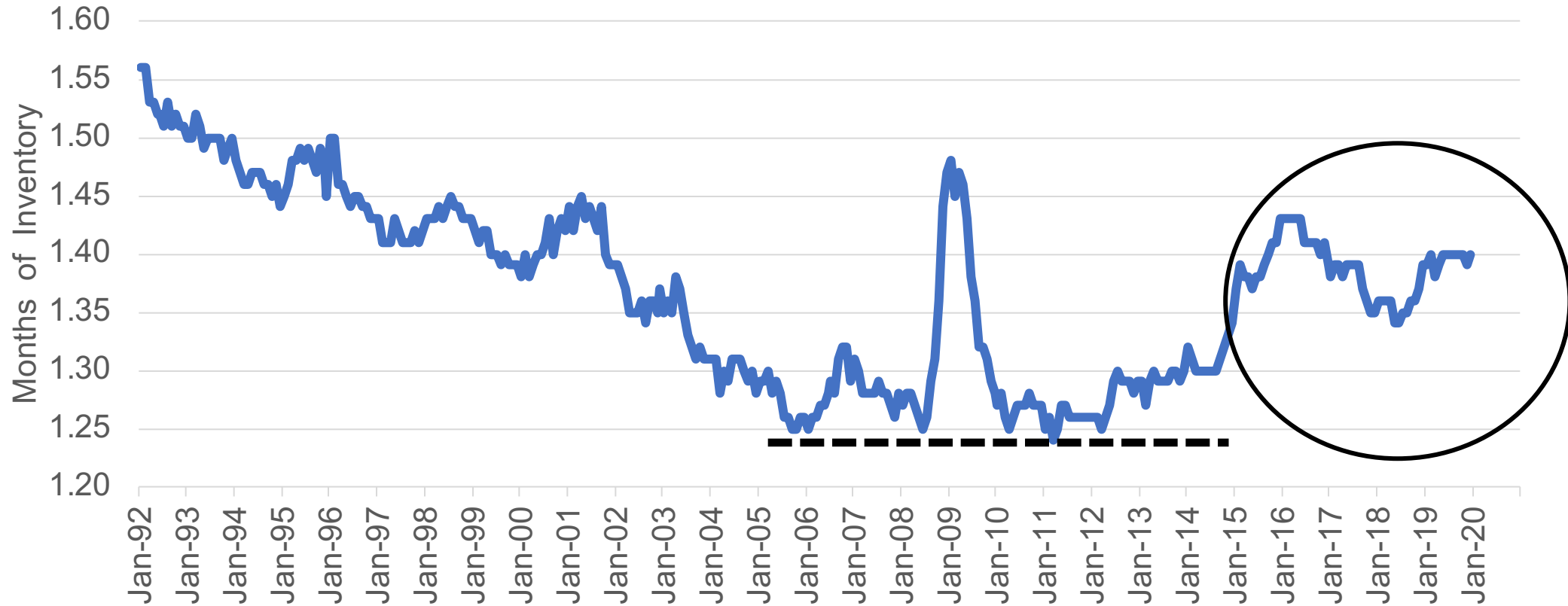
Retail Sales

Retail and Food Services Sales, Seasonally Adjusted



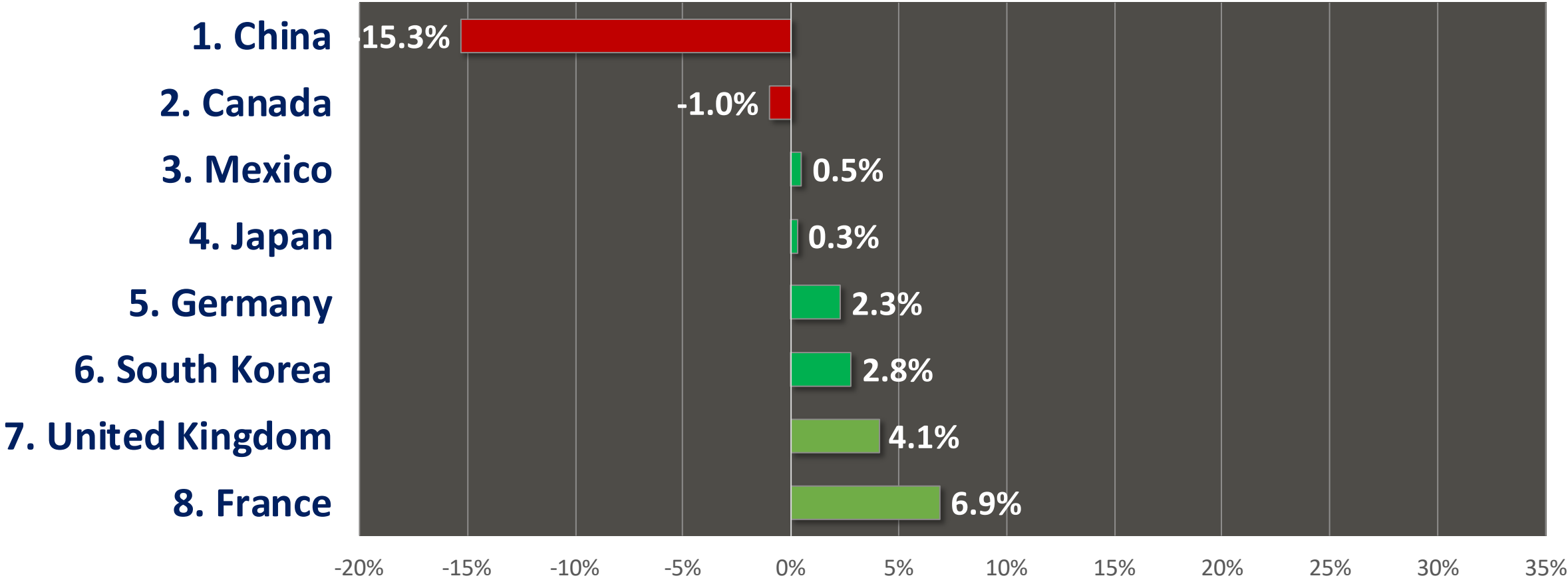
Total Business Inventories

Business Inventory/Sales Ratio



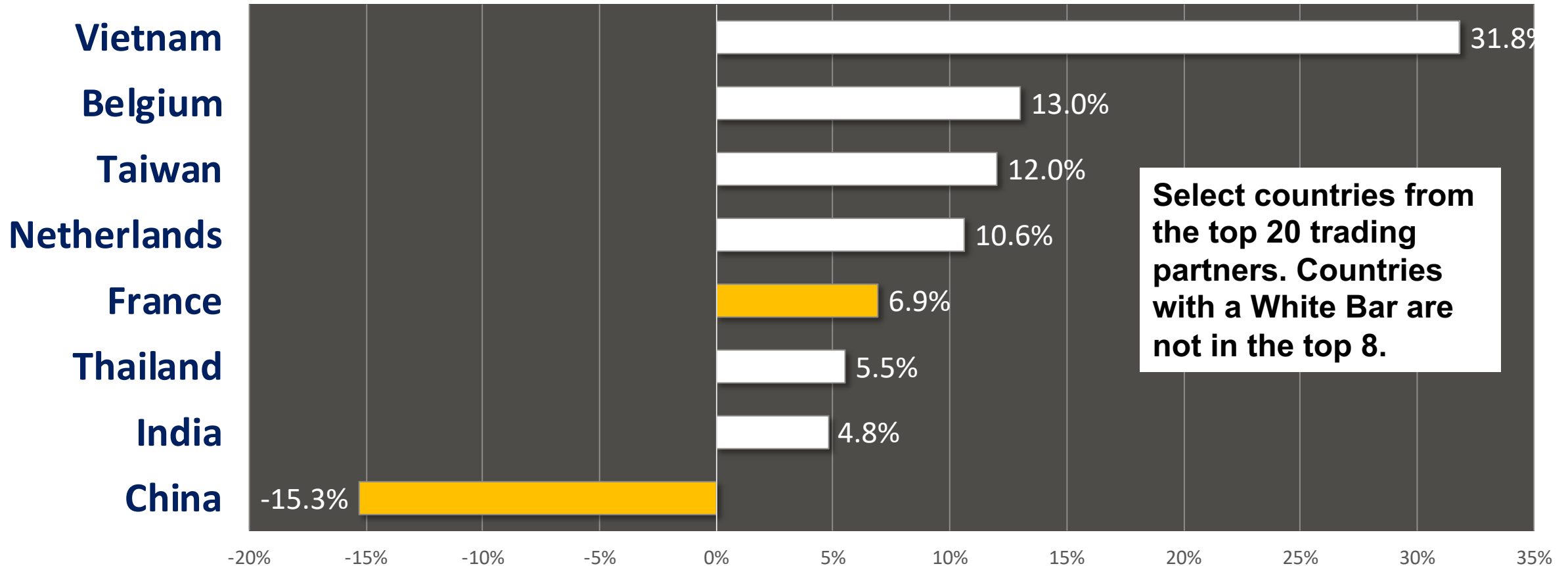
2019 CHANGE IN U.S. TRADE WITH TOP 8 TRADING PARTNERS

Y/Y change in value of exports + imports, Total 2019 vs. Total 2018

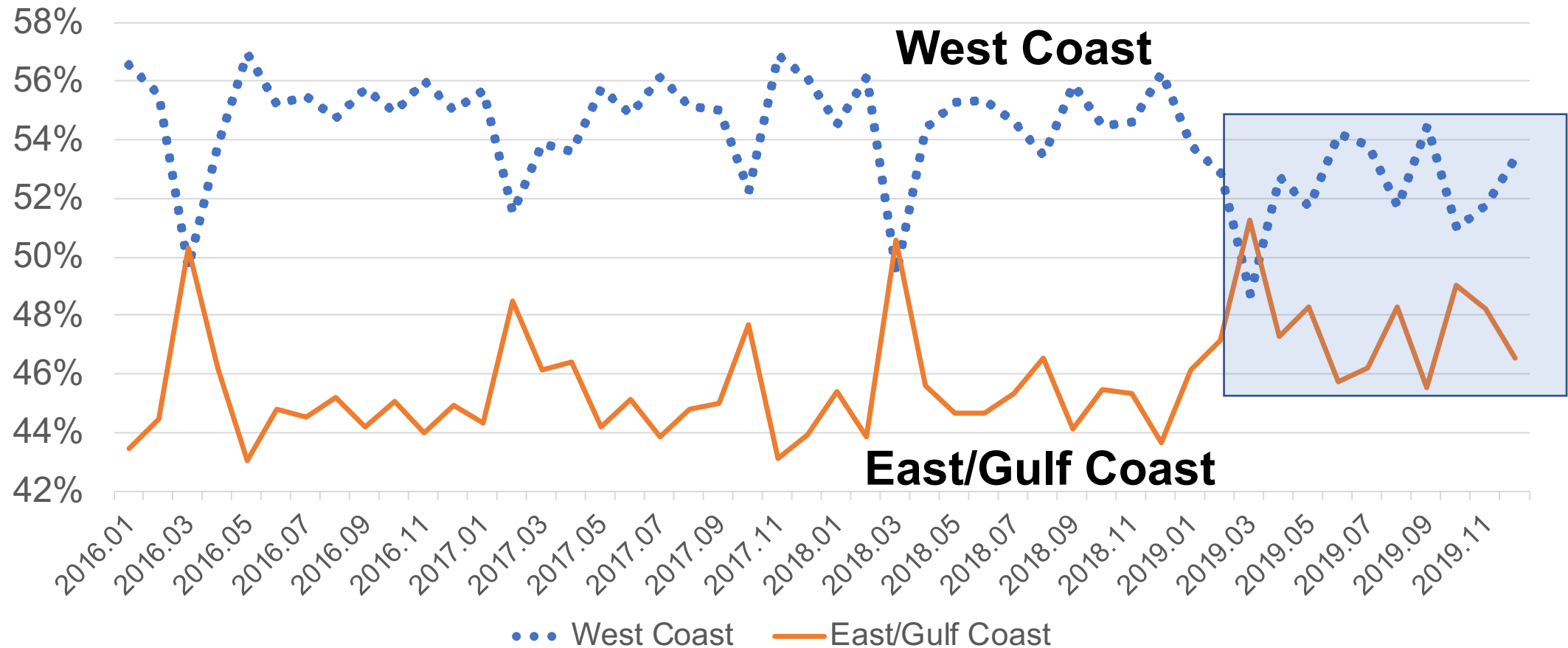


U.S. TRADE WITH SELECT COUNTRIES

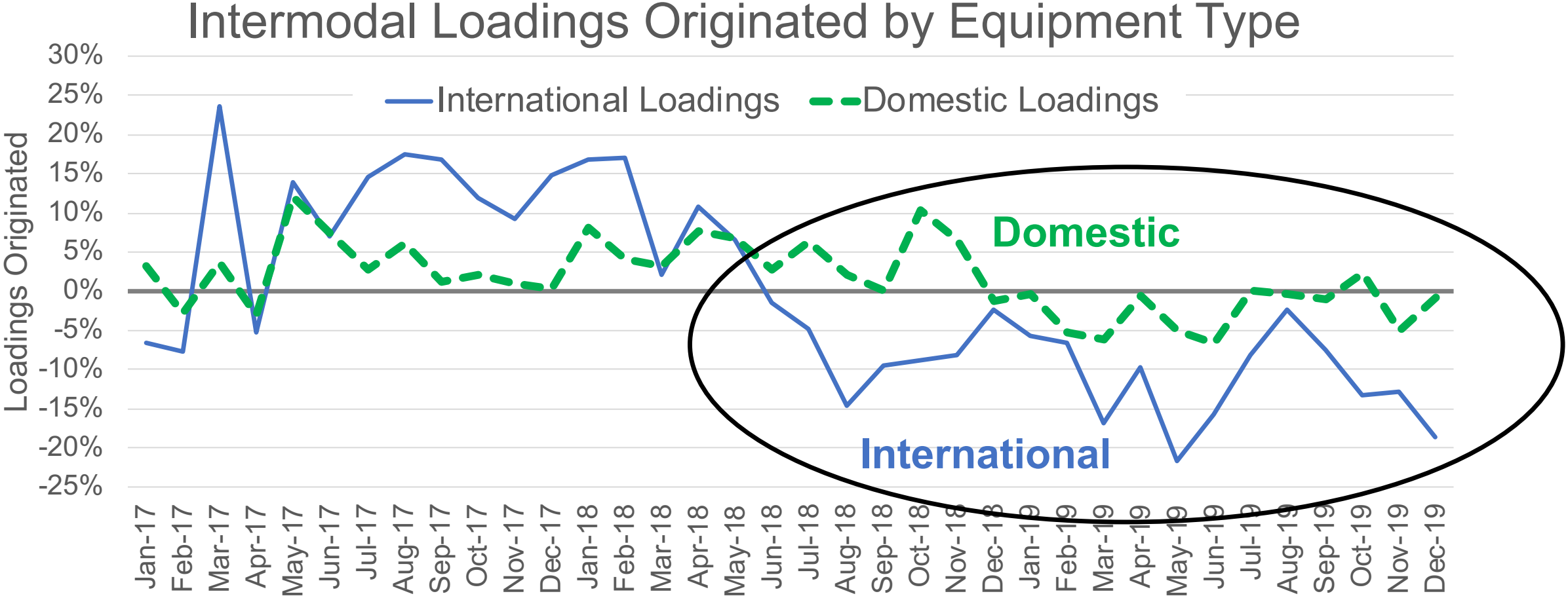
Y/Y change in value of exports + imports, Total 2019 vs. Total 2018



TEU Imports – Port Share



Inbound Intermodal from Southwest to Midwest

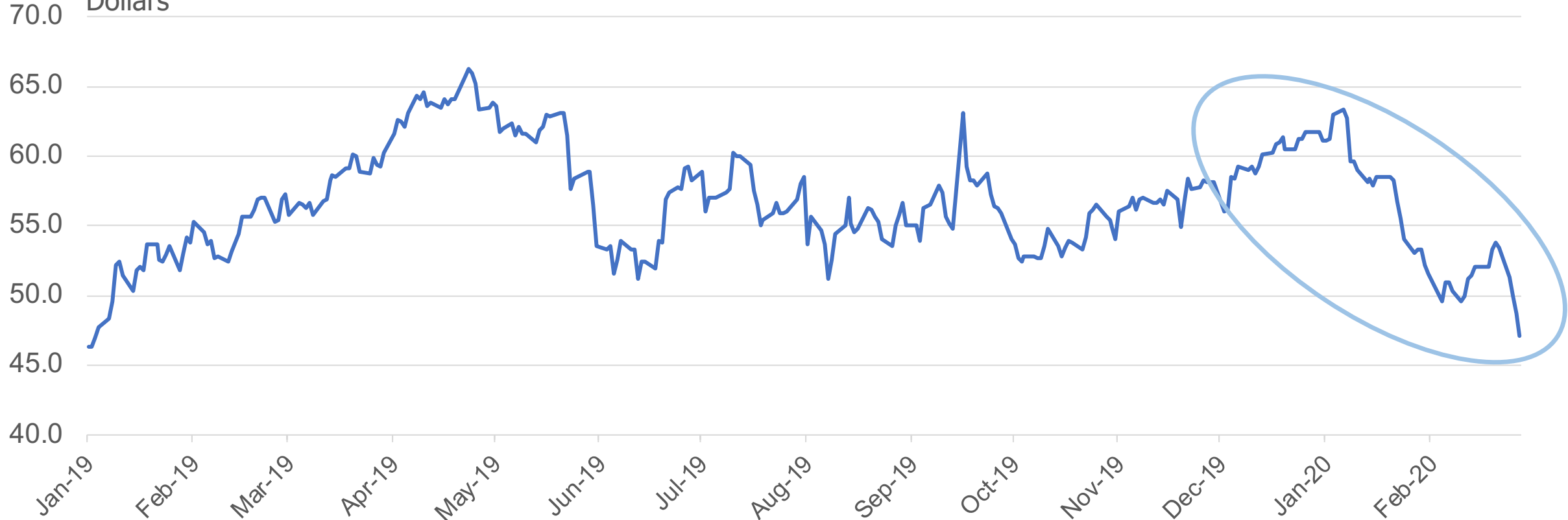


TRADE DISRUPTION TAKE-AWAYS

- Global supply chains are in transition
- Movement towards smaller trading partners to fill the gaps
 - This is impacting Asia and Europe
- Pros:
 - This may make the COVID-19 virus impact not as severe as it could have been due to changes in supply chains from the trade war
- Cons:
 - Near-shoring does not appear to be taking hold
 - Smaller trading partners do not have the infrastructure to handle all of the shift in supply chain demands
 - Shifting towards moving more TEUs through East and Gulf ports
 - This is having a noticeable impact on rail intermodal business

Crude Oil Prices – WTI - Daily

Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma
Dollars



Falling Oil Prices...Leads you down a rabbit hole

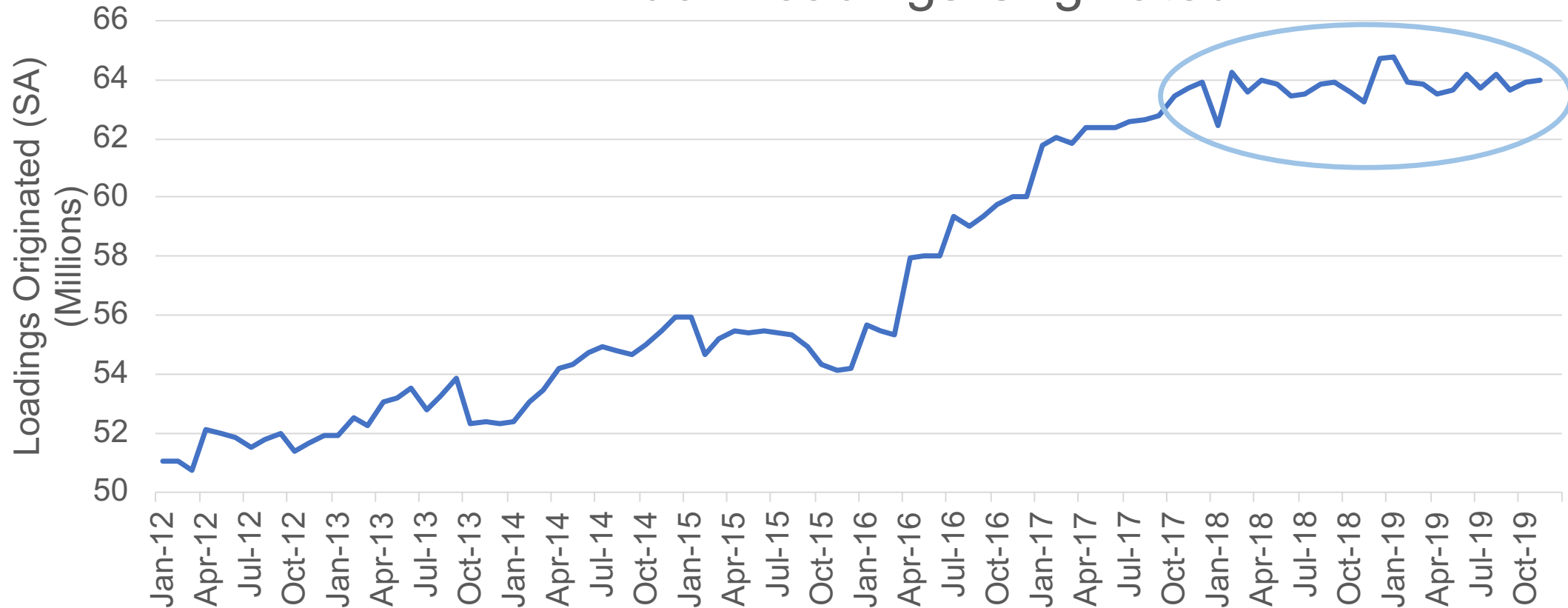
1. Indicates concerns of slowing global growth
 - ✓ If so, there would be less pressure for domestic production
2. A lower pricing point also puts pressure on domestic producer's pocketbooks
 - ✓ Move towards local brown sand to save money
3. Either slowing global growth, or lower prices for domestic oil...
 - ✓ May lead to less Domestic Crude Oil production
 - ✓ **Less sand needing to be moved by Rail**
 - ✓ **Less crude oil needing to be moved by Rail**

USMCA OPPORTUNITIES FOR RAIL

- United States Mexico Canada Agreement (USMCA)
 - Ratification created certainty in the market for business
 - Companies are now willing to move forward with investment in Mexico that had been previously put on hold
 - Opportunities for Growth
 - Auto & Auto Parts
 - Refined Petroleum Product
 - Bulk Commodities & Grain

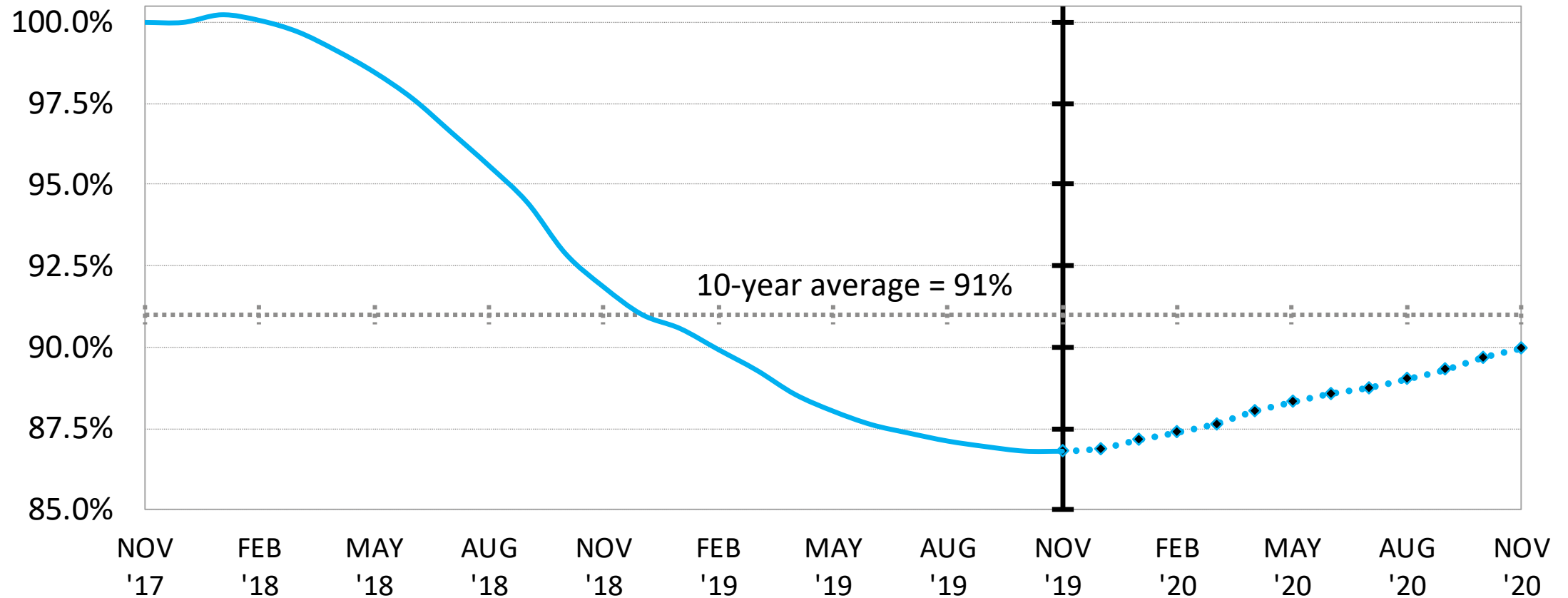
Truck Monthly Freight Loadings

FTR Truck Loadings Originated



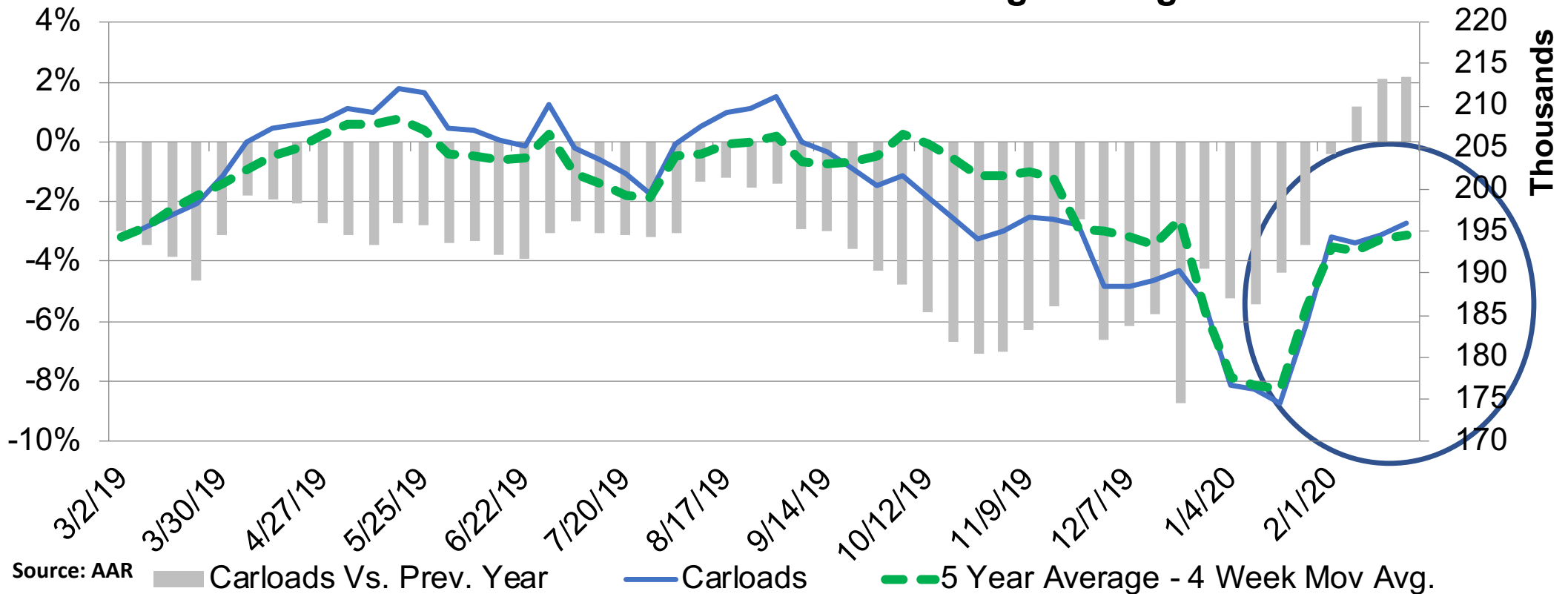
Active Truck Capacity

Seated trucks in use, monthly, seasonally adjusted



“ECONOMICALLY SENSITIVE” RAIL FREIGHT IS SITTING AT 5 YEAR AVERAGE

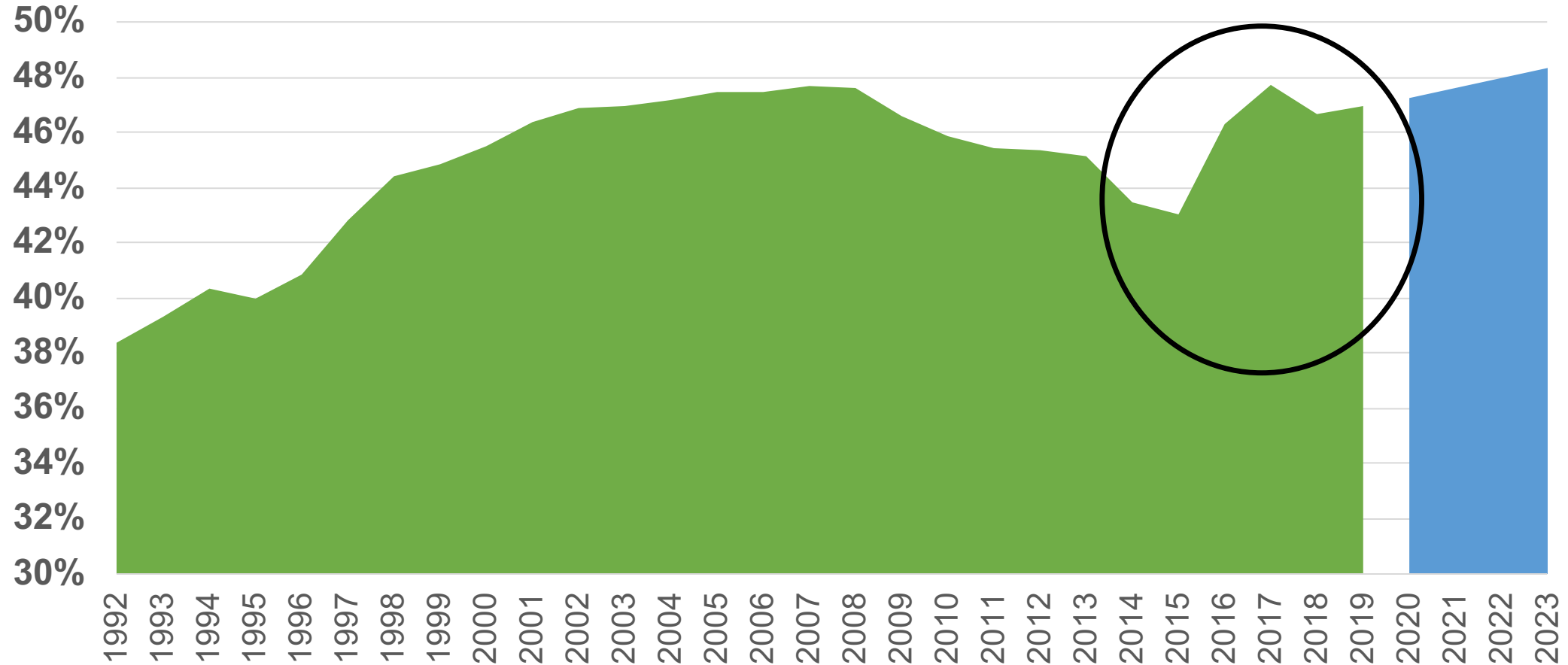
N.A. Selected Commodities Carloads 4 Week Avg. Ending 02/22/20



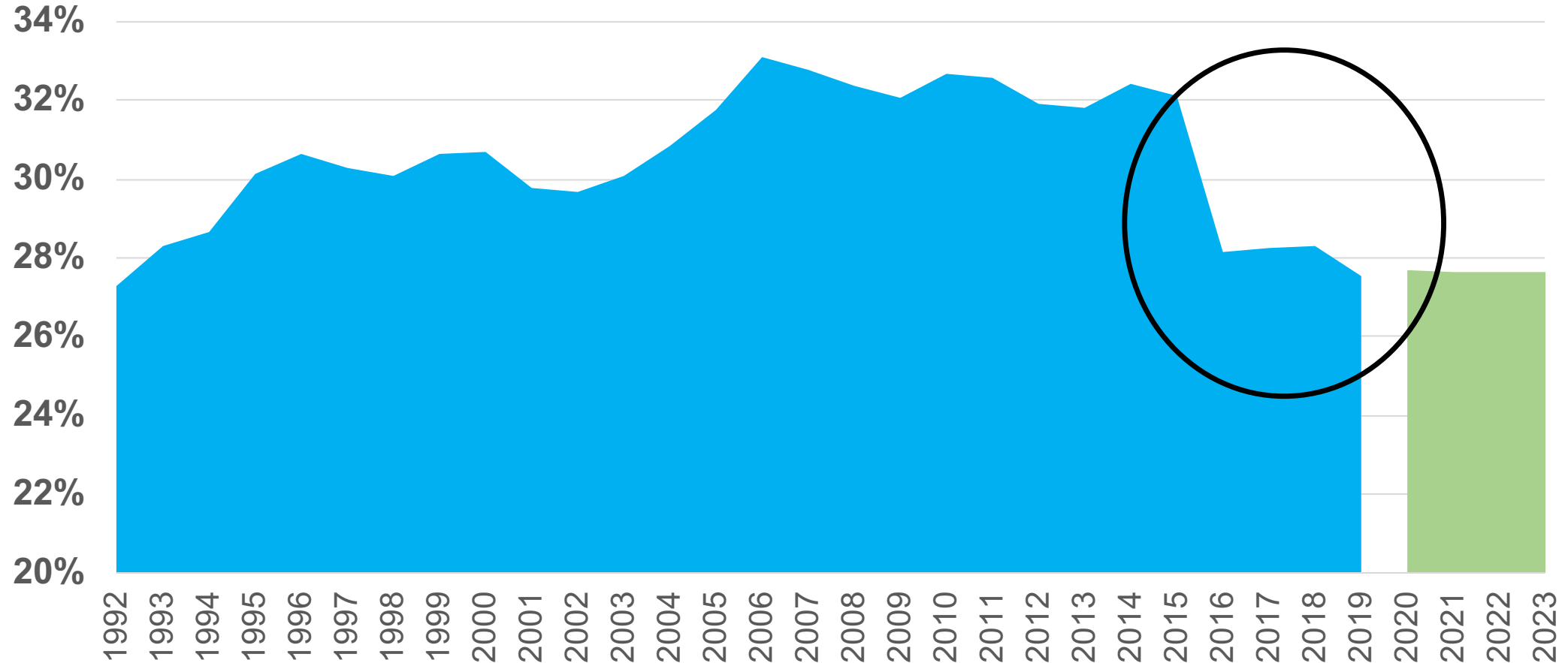
So...

Where does additional rail freight come from?

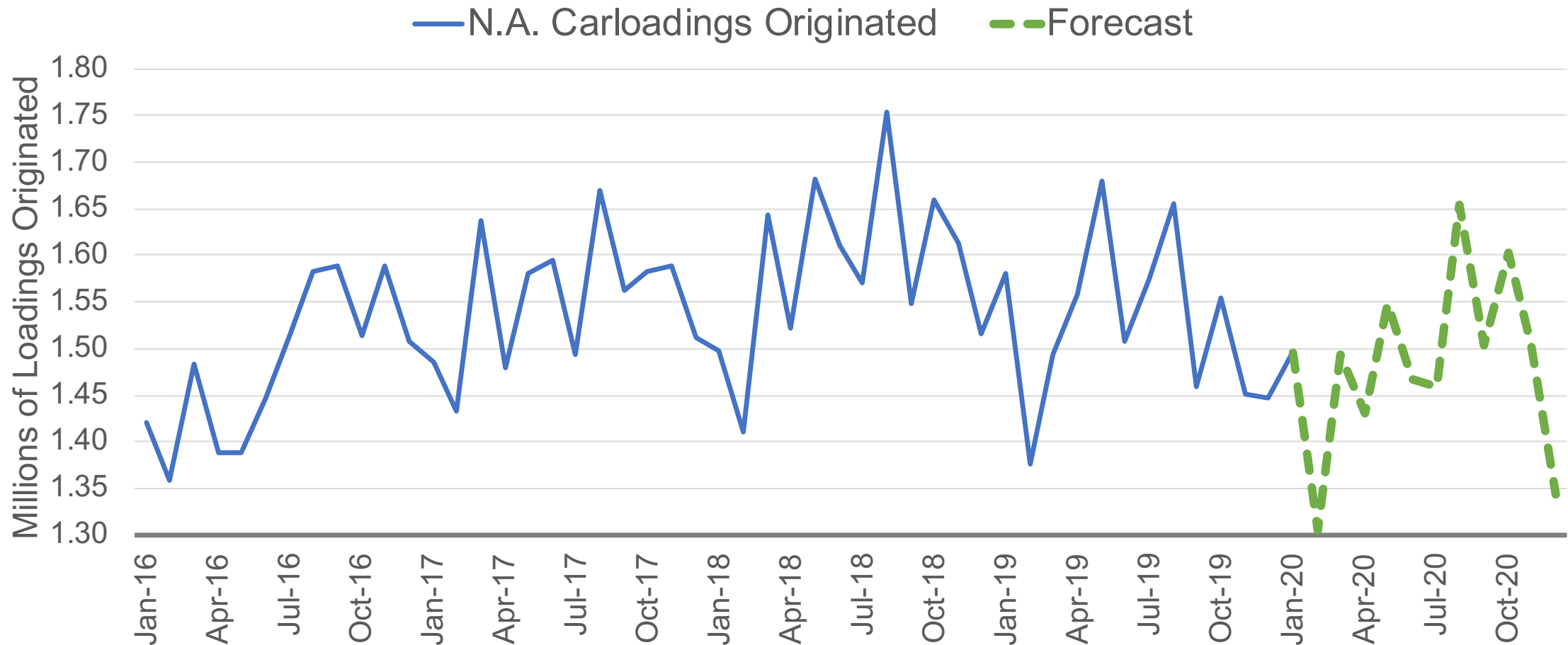
Total Truck U.S. Market Share - Tonmiles



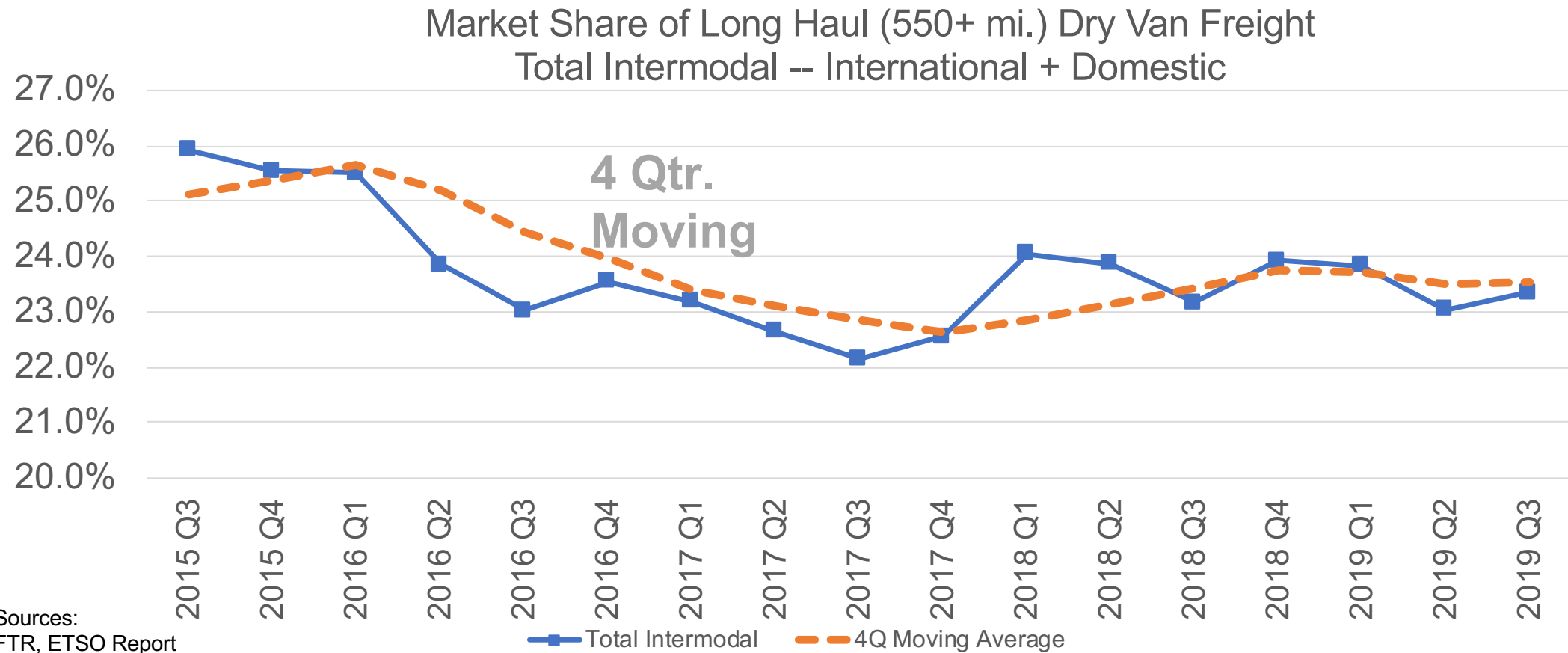
Total Rail U.S. Market Share - Tonmiles



N.A. Rail Carloadings Originated Forecast



Total Intermodal Market Share of Total U.S. Long-Haul Dry Van Freight



Risk Summary

Known Items

- Roughly Next 2 months will remain weak due to global supply chain disruptions

Upside Opportunity Surge

- Supply chain disruption will run down inventories that will need to be replenished
- Base demand will need to be backfilled
- This could lead to a surge in freight demand by late Q2

Downside Risk

- Coronavirus is not contained by mid-summer and there is no bounce back
- Global Demand weakens further

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