What’s In Store For Freight Markets in 2022?

March 16, 2022

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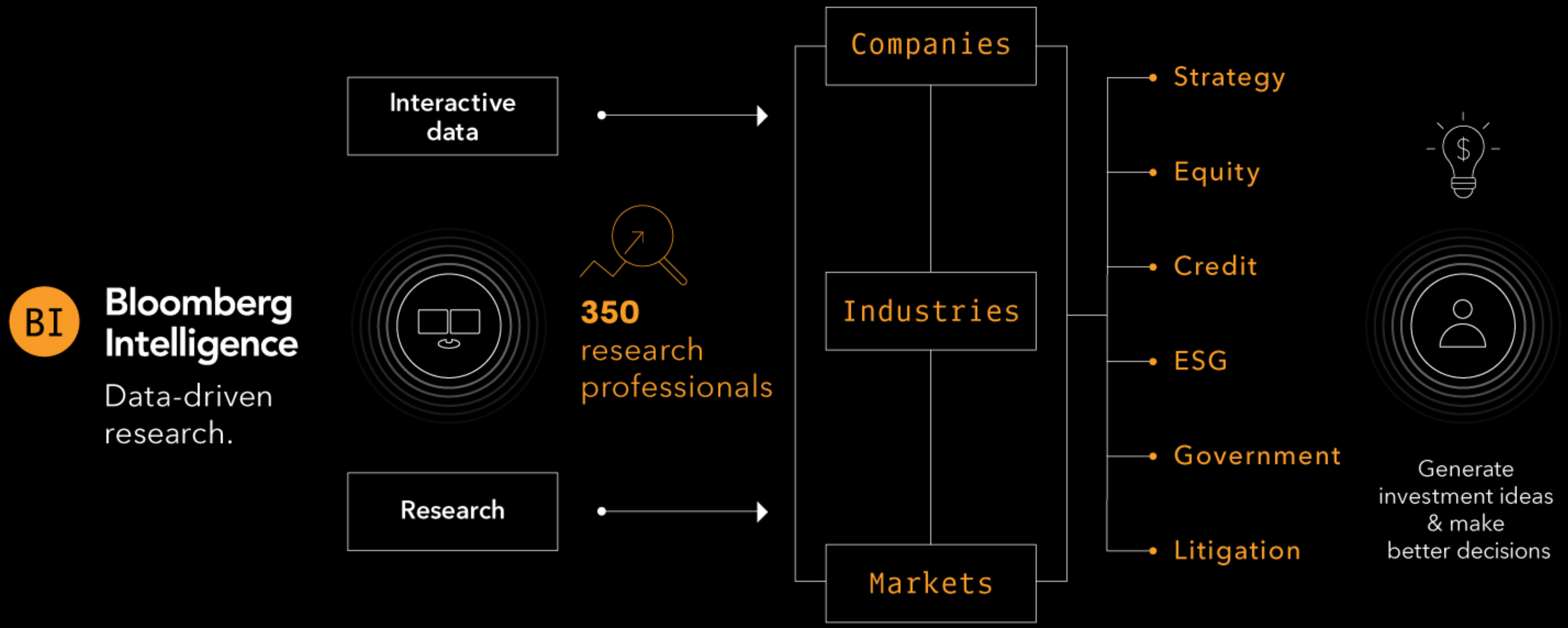

Freight Market Outlook

The Health Care & Personal Care Logistics Conference
Philadelphia, PA

March 16, 2022

Today's Speaker

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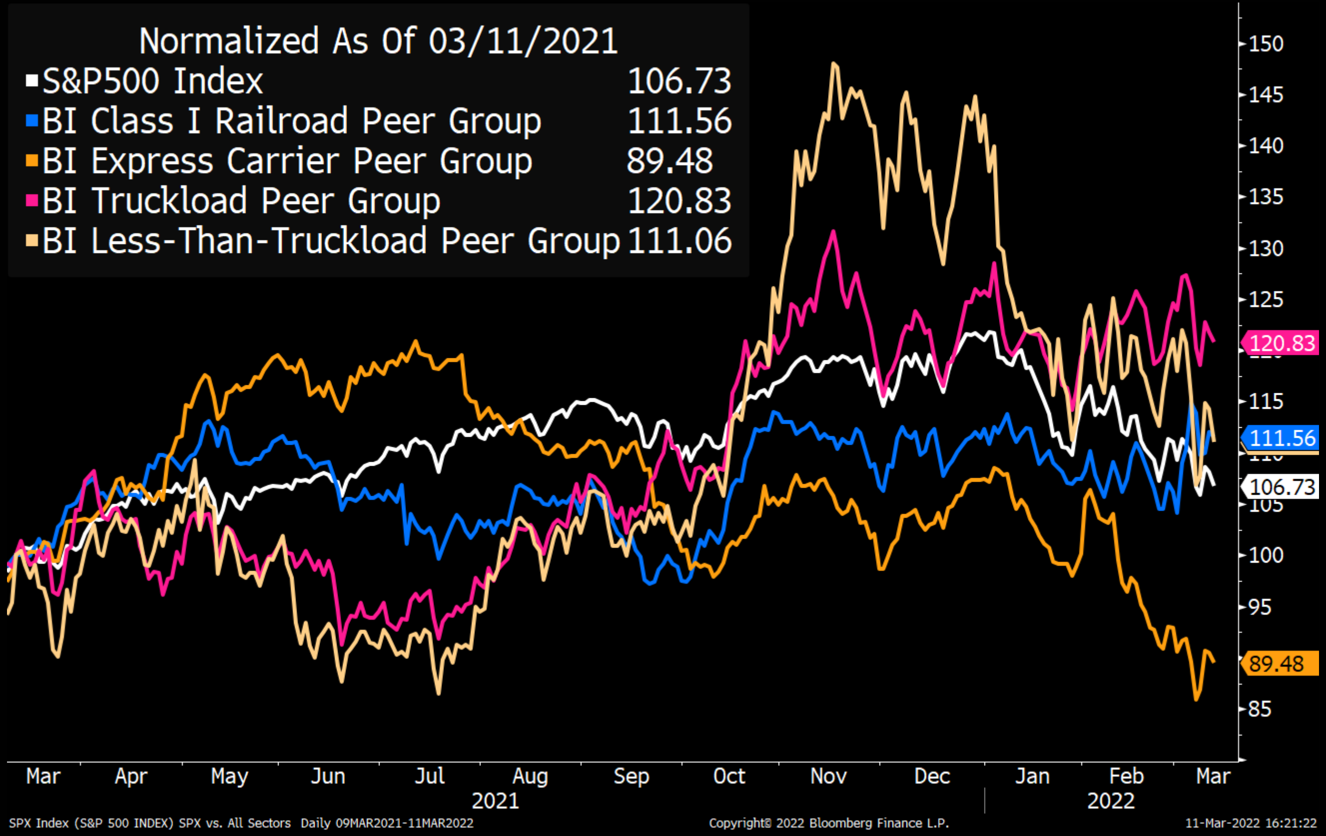
Trucking Stocks Get a Boost from High Rates – Last 12 Months Performance

BI's trucking peer groups have outperformed the broader market, while railroads and express carriers have lagged..



Members (16)	Return
BI NA AB Truck Svs Val	-10.85%
All Members	
1) MARTEN TRANSPORT LTD	14.10%
2) DASEKE INC	12.25%
3) USA TRUCK INC	8.25%
4) HUNT (JB) TRANSPRT SVCS INC	-2.96%
5) P.A.M. TRANSPORTATION SVCS	-4.01%
6) SCHNEIDER NATIONAL INC-CL B	-6.21%
7) XPO LOGISTICS INC	-8.98%
8) WERNER ENTERPRISES INC	-11.58%
9) OLD DOMINION FREIGHT LINE	-14.51%
10) KNIGHT-SWIFT TRANSPORTATION	-15.70%
11) HEARTLAND EXPRESS INC	-16.17%
12) TFI INTERNATIONAL INC	-16.59%
13) COVENANT LOGISTICS GROUP INC	-17.06%
14) SAIA INC	-22.45%
15) ARCBEST CORP	-29.90%
16) YELLOW CORP	-40.43%

Members (5)	Return
BI NA Cls 1 RFT Val	-0.69%
All Members	
1) CANADIAN PACIFIC RAILWAY LTD	8.72%
2) UNION PACIFIC CORP	3.81%
3) CANADIAN NATL RAILWAY CO	3.60%
4) CSX CORP	-7.74%
5) NORFOLK SOUTHERN CORP	-10.20%

Members (4)	Return
BI GL Couriers Exp Top	-16.73%
All Members	
1) UNITED PARCEL SERVICE-CL B	-4.87%
2) YAMATO HOLDINGS CO LTD	-16.17%
3) FEDEX CORP	-17.58%
4) DEUTSCHE POST AG-REG	-24.03%

Source: Bloomberg L.P.

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Covid-19, War and Inflation May Limit Economic Growth

Economic growth, rising fuel costs, tight labor markets and supply chain constraints are creating inflationary pressures.

Headline CPI rose 7.9% in February, and core rose 6.4%. March reading might be even higher.

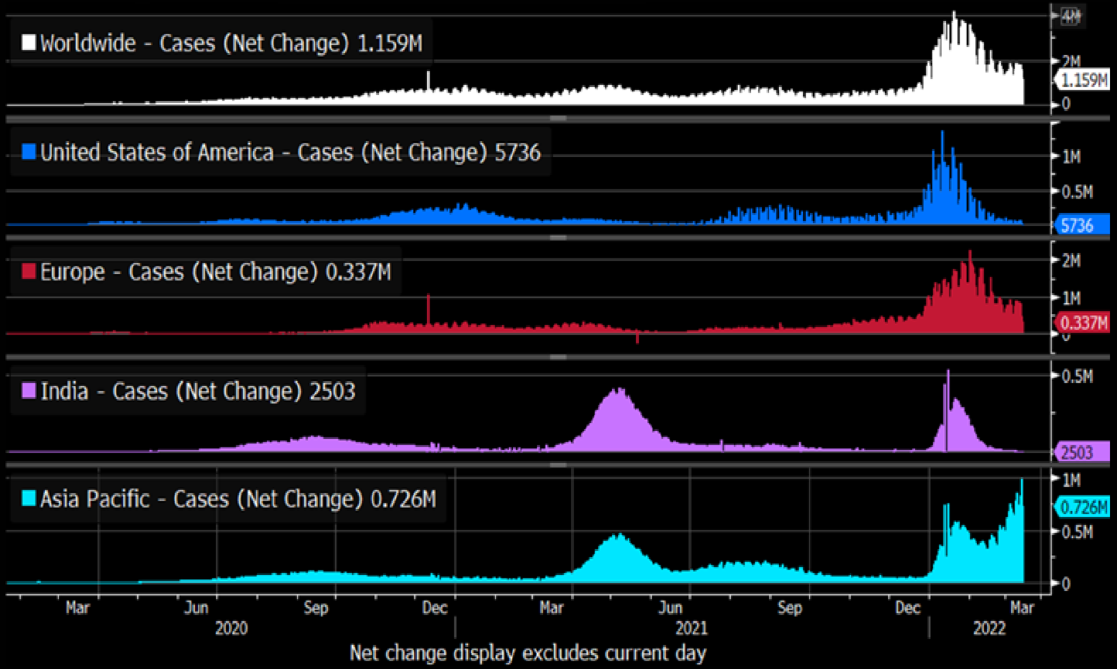
The biggest risk to the recovery is a resurgence in Covid-19 cases, new variants, war and inflation.

Surge in Covid-19 cases led to lock-downs in Shenzhen and Changchun, two manufacturing hubs

United States | Browse | Private | Official

Actual / Forecasts — Probability of Recession 20.0%

Indicator	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic Activity										
Real GDP (YoY%)	2.7	1.7	2.3	2.9	2.3	-3.4	5.7	3.6	2.4	2.1
Consumer Spending ...	3.3	2.5	2.4	2.9	2.2	-3.8	7.9	3.2	2.4	2.1
Government Spendin...	1.8	2.0	0.5	1.4	2.2	2.5	0.5	0.5	1.5	1.5
Private Investment ...	5.5	-1.0	4.0	5.7	3.4	-5.5	9.6	6.9	3.4	3.6
Exports (YoY%)	0.3	0.4	4.1	2.8	-0.1	-13.6	4.6	7.0	4.8	4.1
Imports (YoY%)	5.2	1.5	4.4	4.1	1.2	-8.9	14.0	7.0	3.7	3.4
Industrial Production (Yo...	-1.4	-2.2	1.3	3.2	-0.8	-7.2	5.6	4.1	2.4	2.1
Price Indices										
CPI (YoY%)	0.1	1.3	2.1	2.5	1.8	1.2	4.7	6.0	2.6	2.2
PCE Price Index (YoY%)							3.9	5.0	2.4	2.1
Core PCE (yoy%)	1.3	1.6	1.7	2.0	1.7	1.4	3.3	4.3	2.5	2.2
Housing Market										
Housing Starts (000s SAA...							1587	1618	1581	1512
New Home Sales (000s S...							770	795	826	792
Existing Home Sales (Mln...							6.1	6.2	5.9	6.0
Building Permits (000s S...							1698	1722	1680	1640



Source: Bloomberg L.P.

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Impact of War Beyond Russia-Ukraine Borders

Monthly Spreads | Mov Avg | Performance | AVAT vs 10d | %Chg 1M | USD

Commodity	2Day	Price	Norm Chg	%Chg	Time	%1M	%1MCur
Energy							
NYM WTI Crude		109.33	+3.31	+3.12%	03/11/22	+17.43%	+17.43%
ICE Brent Crude		112.67	+3.34	+3.05%	03/11/22	+19.30%	+19.30%
ICE ARA Gasoil		1,012.00	+7.50	+0.75%	18:00	+22.33%	+22.33%
NYM NYH Gasoline		331.21	+15.54	+4.92%	03/11/22	+20.94%	+20.94%
NYM NYH Heating Oil		341.76	+12.14	+3.68%	03/11/22	+17.41%	+17.41%
NYM HH Nat Gas		4.72	+0.09	+2.03%	03/11/22	+19.89%	+19.89%
ICE NBP Nat Gas		311.06	+14.17	+4.77%	13:02	+67.36%	+60.86%
Metals							
LME Aluminum		3,427.50	+86.50	+2.59%	03/10/22	+5.45%	+5.45%
LME Copper		10,117.00	+115.50	+1.15%	03/10/22	-1.34%	-1.34%
Spot Gold		1,988.46	-15.53	-0.77%	03/11/22	+6.98%	+6.98%
DCE Iron Ore		808.00	-8.50	-1.04%	10:00	-2.43%	-2.20%
LME Nickel		48,033.00	-15.00	-0.03%	03/10/22	+104.17%	+104.17%
Spot Silver		25.87	-0.15	-0.56%	03/11/22	+9.69%	+9.69%
SHF Steel Rebar		4,868.00	-26.00	-0.53%	10:00	-1.98%	-1.75%
Agriculture							
CME Live Cattle		132.95	+0.50	+0.38%	03/11/22	-3.22%	-3.22%
ICE Coffee		221.95	-2.25	-1.00%	03/11/22	-11.40%	-11.40%
CBT Corn		762.50	+6.75	+0.89%	03/11/22	+17.43%	+17.43%
ICE Cotton		121.03	+4.17	+3.57%	03/11/22	-3.39%	-3.39%
CBT Soybeans		1,676.00	-10.25	-0.61%	03/11/22	+6.81%	+6.81%
ICE Sugar		19.24	+0.14	+0.73%	03/11/22	+5.37%	+5.37%
CBT SRW Wheat		1,106.50	+19.50	+1.79%	03/11/22	+36.63%	+36.63%

Russia and Ukraine account for about 25% of wheat and 20% of corn exports in addition to being the largest sunflower oil exporters.

Russia accounted for about 17% of seaborne coal trade and is the second largest exporter behind Saudi Arabia.

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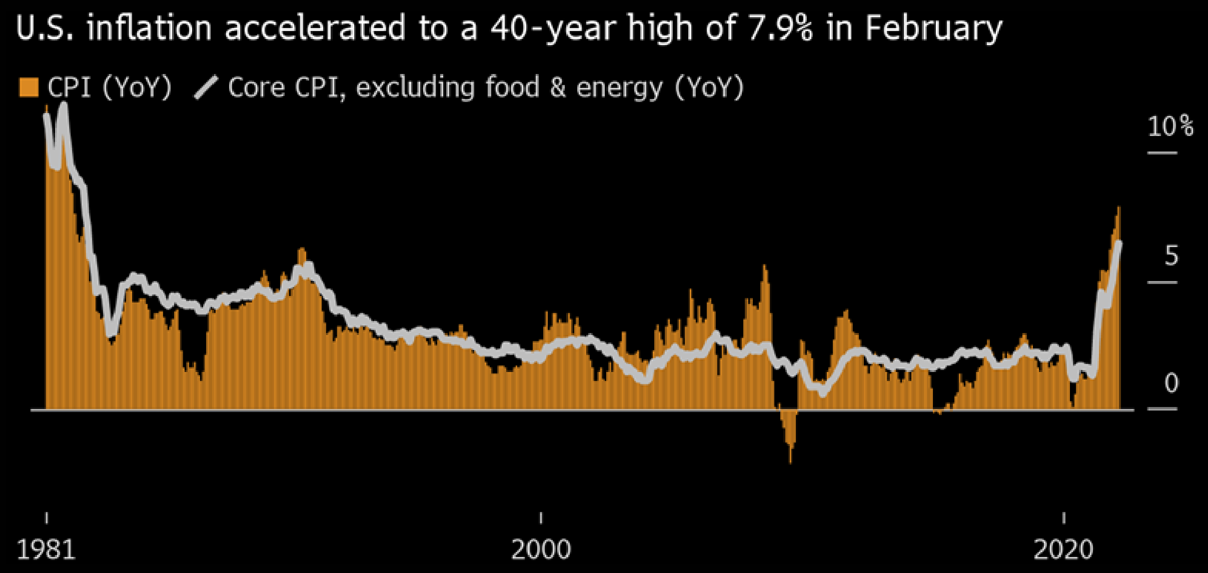
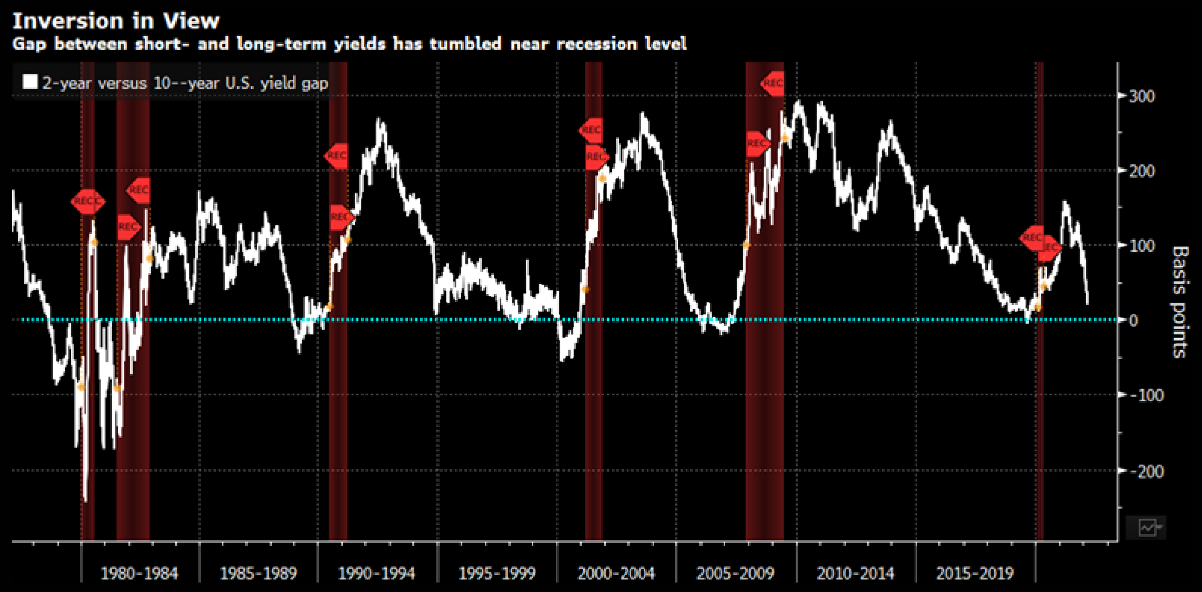
Source: Bloomberg L.P.

Recession Probability Increases in the U.S.





Biggest factors that push the U.S. economy into a recession:

1. Inverted Yield Curve (i.e., short-term rates exceed longer-term rates)
2. Commodity Shock
3. Federal Reserves Tightening

The risk of U.S. economy going into a recession is about 20%, according to consensus estimates

Source: Bloomberg News, Bloomberg L.P.

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Transports Earning Growth Moderates From Robust 2021

	2021 Revenue Growth	2021 EPS Growth	2022E Revenue Growth	2022E EPS Growth	2023E Revenue Growth	2023E EPS Growth
North American Class I Railroads	11.8%	21.5%	8.5%	29.1%	5.0%	11.0%
North American Truckload Carriers	24.7%	72.9%	13.1%	12.9%	1.5%	-5.8%
North American Less-Than-Truckload Carriers	28.3%	82.3%	17.1%	22.8%	3.5%	10.5%
Global Integrated Logistics Providers	16.8%	36.9%	37.7%	15.3%	0.3%	5.6%

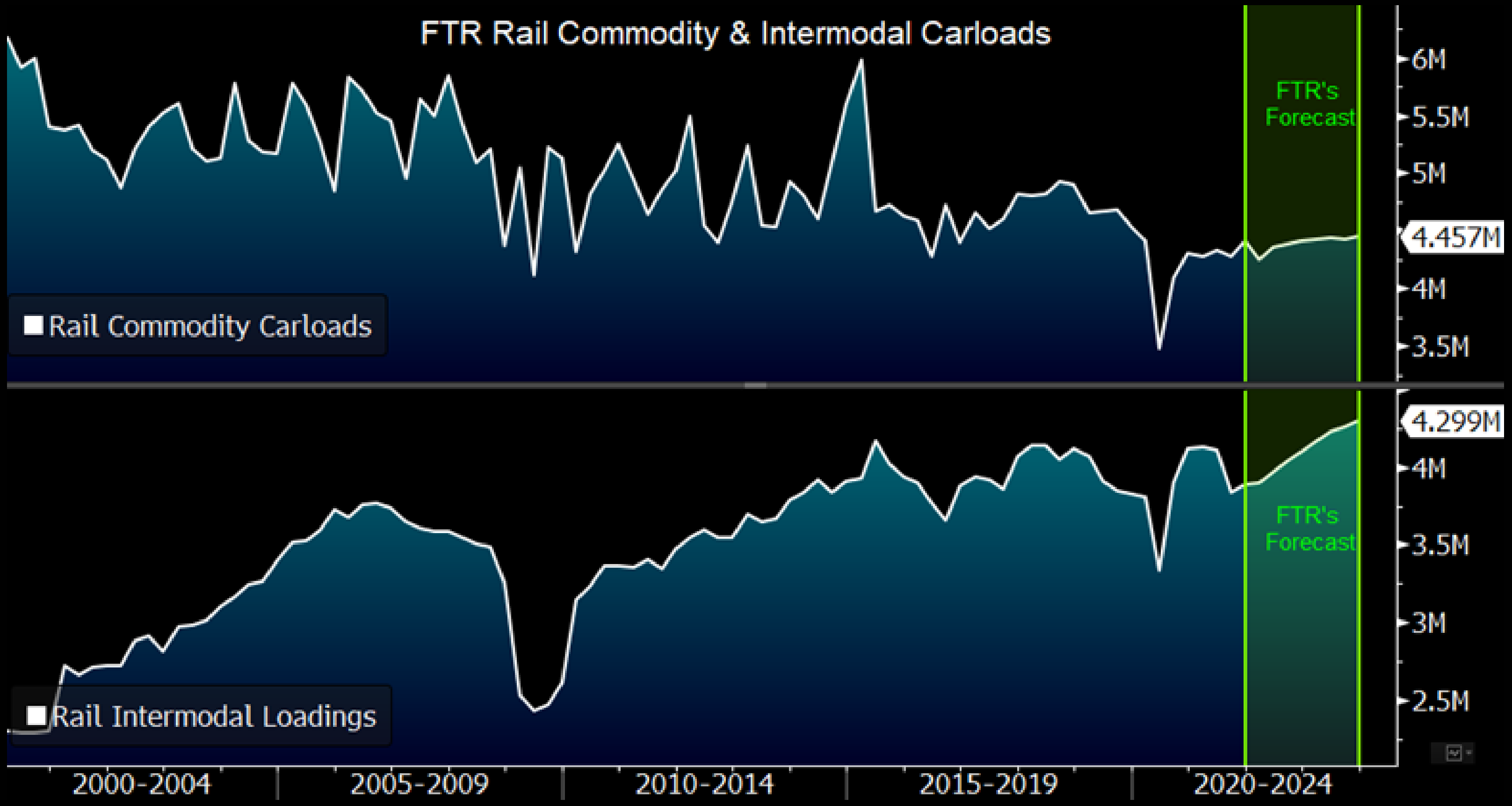
Key drivers for revenue and earnings growth in 2022:

- Rails – Automotive rebound, tougher coal comparisons, strong incremental margins from precision scheduled railroading productivity gains and rates
- Truckload – Robust pricing environment, load growth
- Less-Than-Truckload – Strong pricing coupled with tonnage growth
- Parcel Carriers – Density and rate-driven margin gains
- Shipping – Liners' strength moderates, infrastructure bodes well for dry bulk demand, while tanker market will be driven by a recovery in global oil demand

Source: Consensus Estimates, Bloomberg L.P.

Mix Bag for Railroads in 2022

- After two consecutive years of volume declines, North America rail traffic may increase by mid-single digits in 2021 and moderate to low-single digits next year, in our view.
- Increased competition from a tighter trucking market has provided rails with growth opportunities that could carry into 2022, in our view.
- FTR expects U.S. intermodal traffic to decline 0.9% in 2022, well below GDP expectations, and below the 0.9x 10-year average ratio to GDP.
- Commodity carloads may rise 0.7% higher according to FTR forecasts, driven by motor vehicles and chemical traffic.
- Coal will continue its long-term secular decline despite it rebounding by about 10% in 2021.



Source: FTR, Bloomberg L.P.

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Precision Driving Operating Leverage

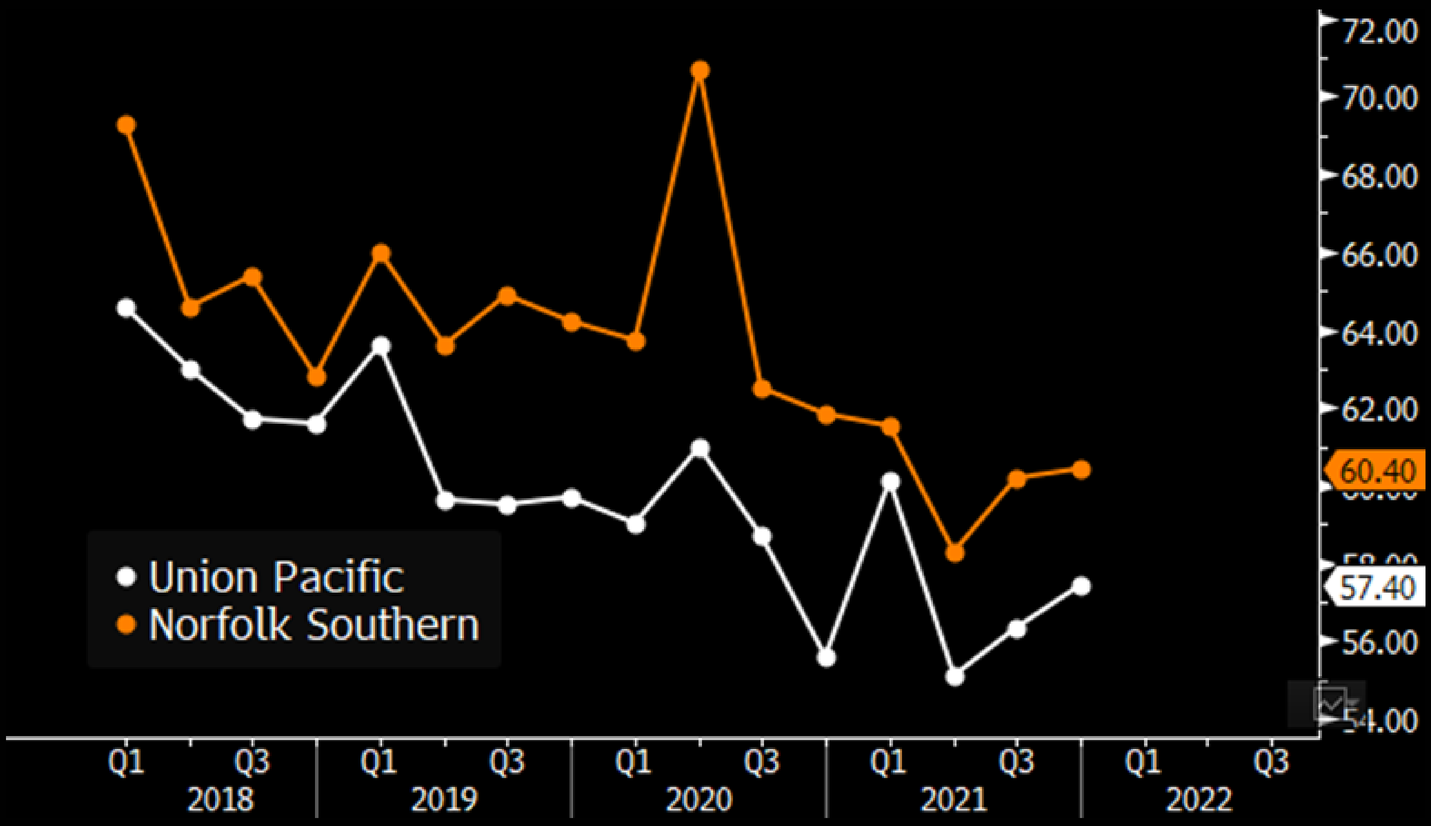
Precision scheduled railroading (PSR) could drive further margin improvement and profitability improvements in 2022, now that all public Class I railroads are employing the operating philosophy on their networks.

Norfolk Southern, Union Pacific and KC Southern are in the early innings and have the most to gain. Canadian National refocused back to margins from profitable growth.

Operating ratios may improve by 270 bps in 2022 according to consensus estimates. This would bring the median public Class I rails' operating ratio into the mid 50s.

Pandemic fueled supply chain disruptions and volume growth have hampered rail service. Fluidity metrics deteriorated around 7% last year.

Adjusted Operating Ratio (%)



Source: Bloomberg L.P.

Spot Truckload Conditions Ripe For Rates

Truckstop.com MDI Index measures relative tightness in the truckload spot market.

The MDI index remains high even after moderating from its May 2021 peak.

Demand has outstripped supply as qualified drivers became harder to find due to:

- Economic recovery
- Increased employment opportunities
- Covid-19 related delays in getting drivers on the road (i.e., DMV and driving schools)
- New Drug & Alcohol Clearinghouse has put over 60,000 drivers on prohibited status, according to the FMCSA

Rates excluding fuel surcharges have climbed 31% in 2021 and are 13% higher this year.

Truckstop.com North American Trucking Market Demand Index

Source: Truckstop.com, U.S. DOE, Bloomberg Intelligence

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Robust Spot Market Pushing Contractual Rates Higher

Strong spot market is translating into rising contractual truckload rates.

Truckload contractual rates increased 9.1% in 2021, on 10% higher dry-van rates.

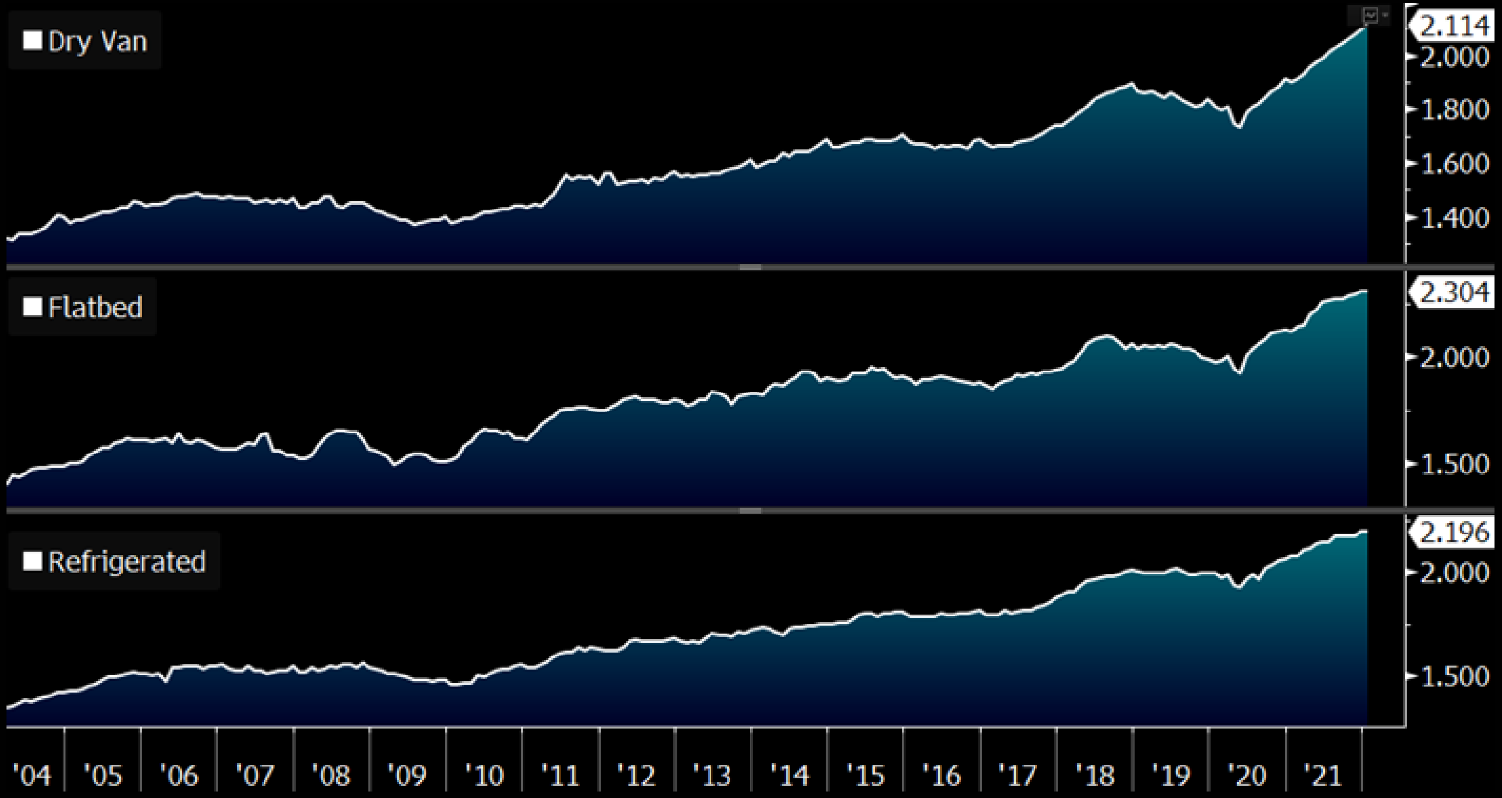
Rate growth will be fueled by capacity constraints, restocking activity and improving economic conditions, which could provide support for higher rates in 2022.

We expect rates to grow by high-single digits in 2022.

We believe consensus estimates through 2022 for asset-based truckload carriers are underappreciating the strength and duration of the rate cycle.

Increased infrastructure spending should be an additional boon to trucking demand and rates, pushing revenue estimates higher.

Revenue per Mile Excluding Fuel Surcharge ($)



Source: TruckloadRate.com, Bloomberg Intelligence

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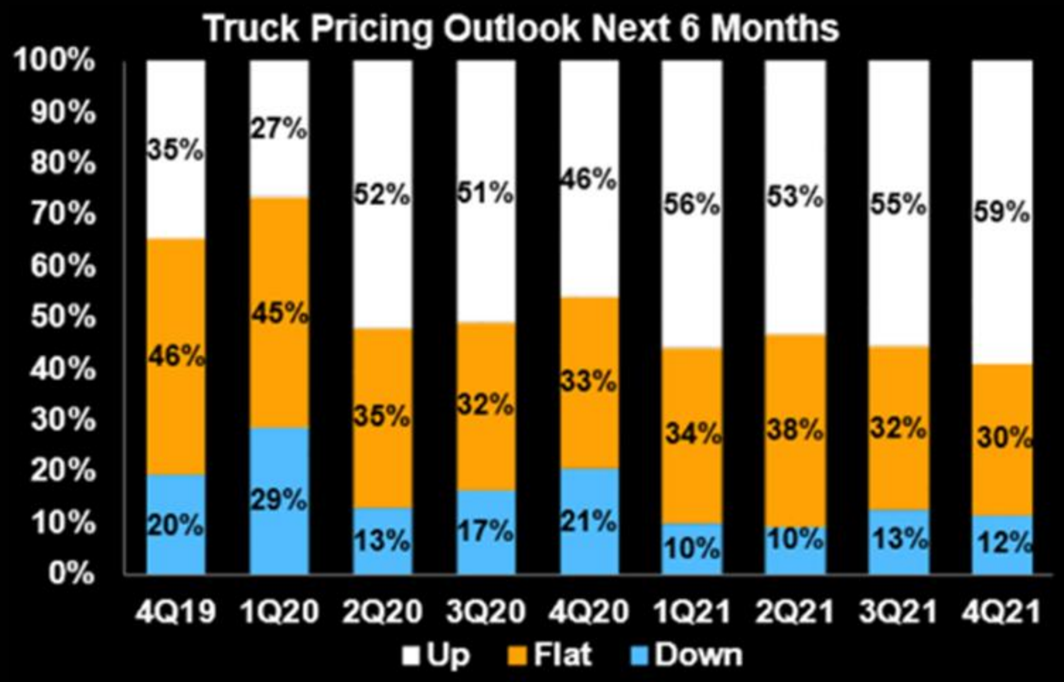
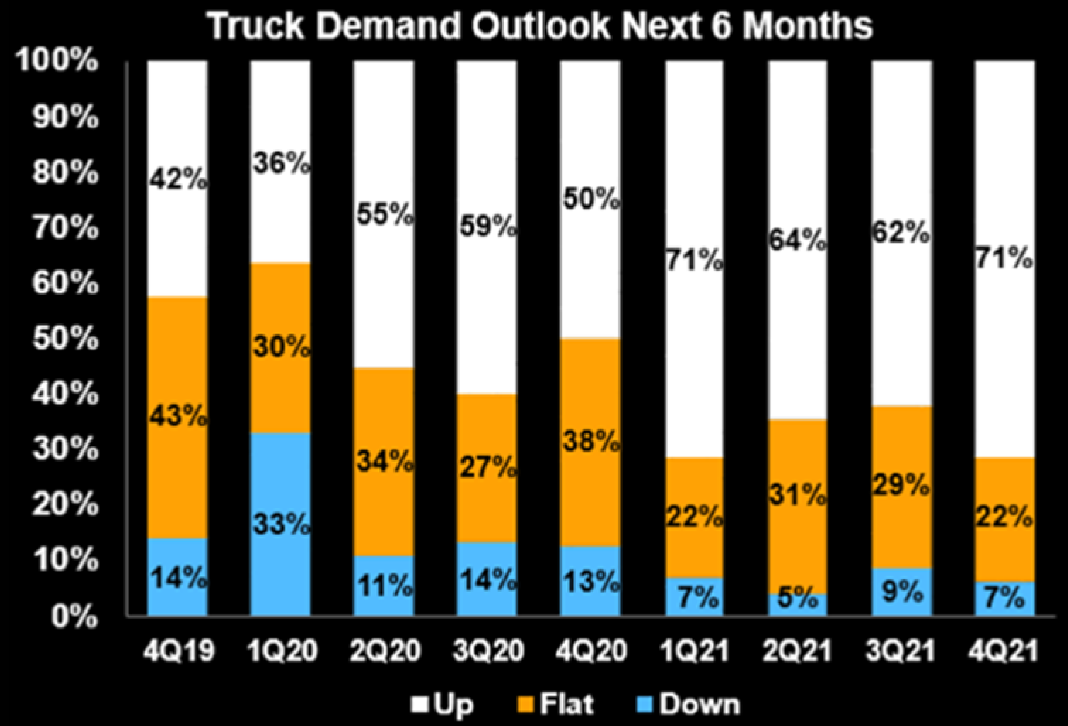
Bloomberg Intelligence | Truckstop.com Truckload Survey





Source: Truckstop.com, Bloomberg Intelligence

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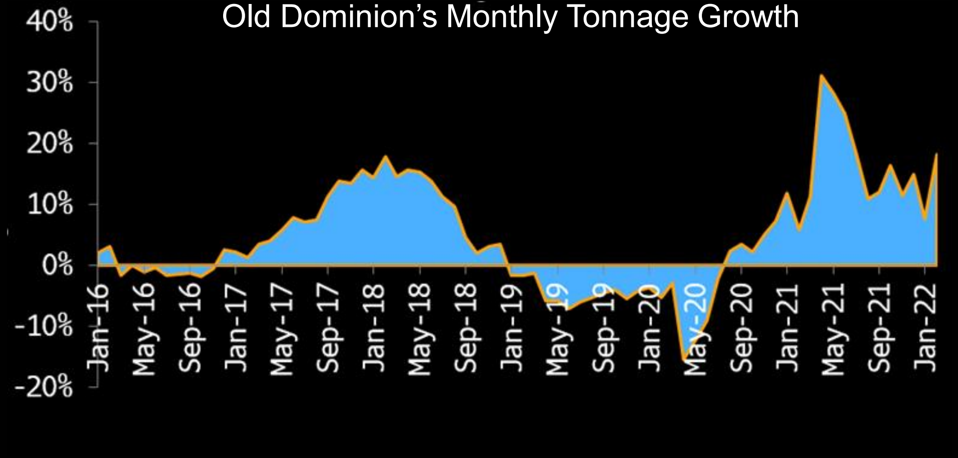
Economic Recovery Fueling LTL Demand

Less-than-truckload (LTL) carrier 4Q21 commentary on accelerating contractual-pricing growth is encouraging and reflects momentum in what has already become one of the best freight markets in a generation.

Truckload spillover, broad-based economic recovery and capacity expansion could accelerate demand vs. more challenging comparisons in 2022.

Operating metrics from public LTL carriers in 4Q.

- Shipments -0.4%
- Tonnage +0.1%
- Revenue per Hundredweight Ex-FSX +12.1%



Old Dominion's Monthly Tonnage Growth

Source: American Trucking Associations, Bloomberg Intelligence

ATA Seasonally Adjusted Shipments and Tonnage

Pricing remains rational, and carriers are more apt to walk away from freight that doesn't generate an appropriate ROI.

Old Dominion's revenue per hundredweight, excluding fuel surcharges, increased 16.8% during the first two months of 1Q

Old Dominion's shipments growth accelerated to 19.8% in February from 10.2% in January.

Saia's shipment growth also accelerated in February to 15.8% from 1.3% in January.

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Pandemic Pulled Forward B2C Penetration for Parcel

Parcel volume growth will likely ease to low- to mid-single digits in 2021-2022, in our view, following last year's pandemic-fueled demand surge.

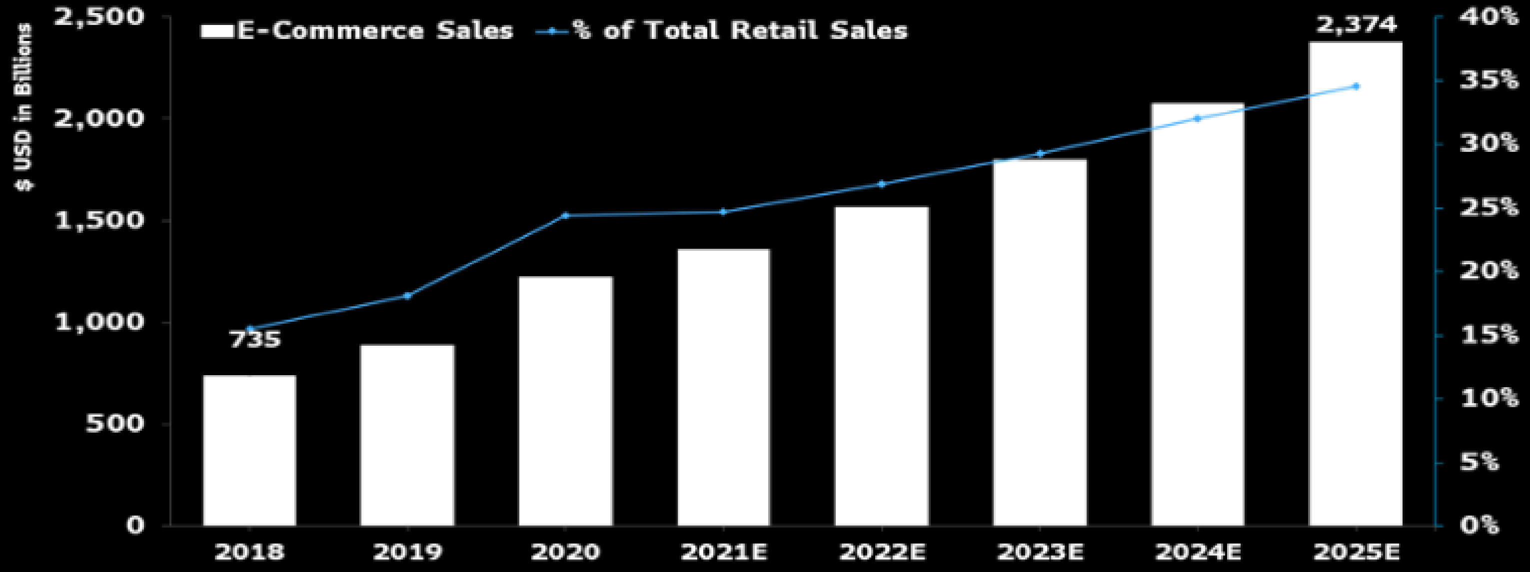
Gains should be led by business-to-business (B2B) volume as coronavirus vaccines are rolled out, which should fuel strong GDP growth this year. We believe a shift toward more B2B volume will push parcel margins higher.

Stay-at-home orders helped pull forward e-commerce penetration by 3-5 years. BI's e-commerce scenario analysis projects online adoption of 25% in 2021 and as high as 35% by 2025, vs. 18% in 2019.

A gradual economic recovery would energize business-to-business volume, which is more profitable than home delivery.

About 45% of DHL Express’ volumes were B2C in 2021, up from 35% in 2019.

Total U.S. Retail Sales Digital Penetration



Source: U.S. Census Bureau, Bloomberg Intelligence

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Container Liner Rates Peaked in 3Q, Remain Robust

Supply-demand dynamics will likely result in one of the best years for the containerliner industry in 2021 and put it on strong footing for a profitable 2022, in our view.

Spot container liner rates from China are 195% higher on average in 2021, while contract rates have increased roughly 175%.

Volume is up about 8% though October.

The possible economic fallout from a resurgence in coronavirus cases is the biggest risk to our optimistic outlook.

Rates will face structural headwinds from increased ordering activity. The orderbook stands at 20% of the fleet, a level not seen since 2014.

Supply growth has outpaced demand growth 15 out of the last 21 years, according to Clarksons.

Container Rates (USD per FEU)

Source: Drewry's WCI , Bloomberg Intelligence

Air Freight Rates Sky High

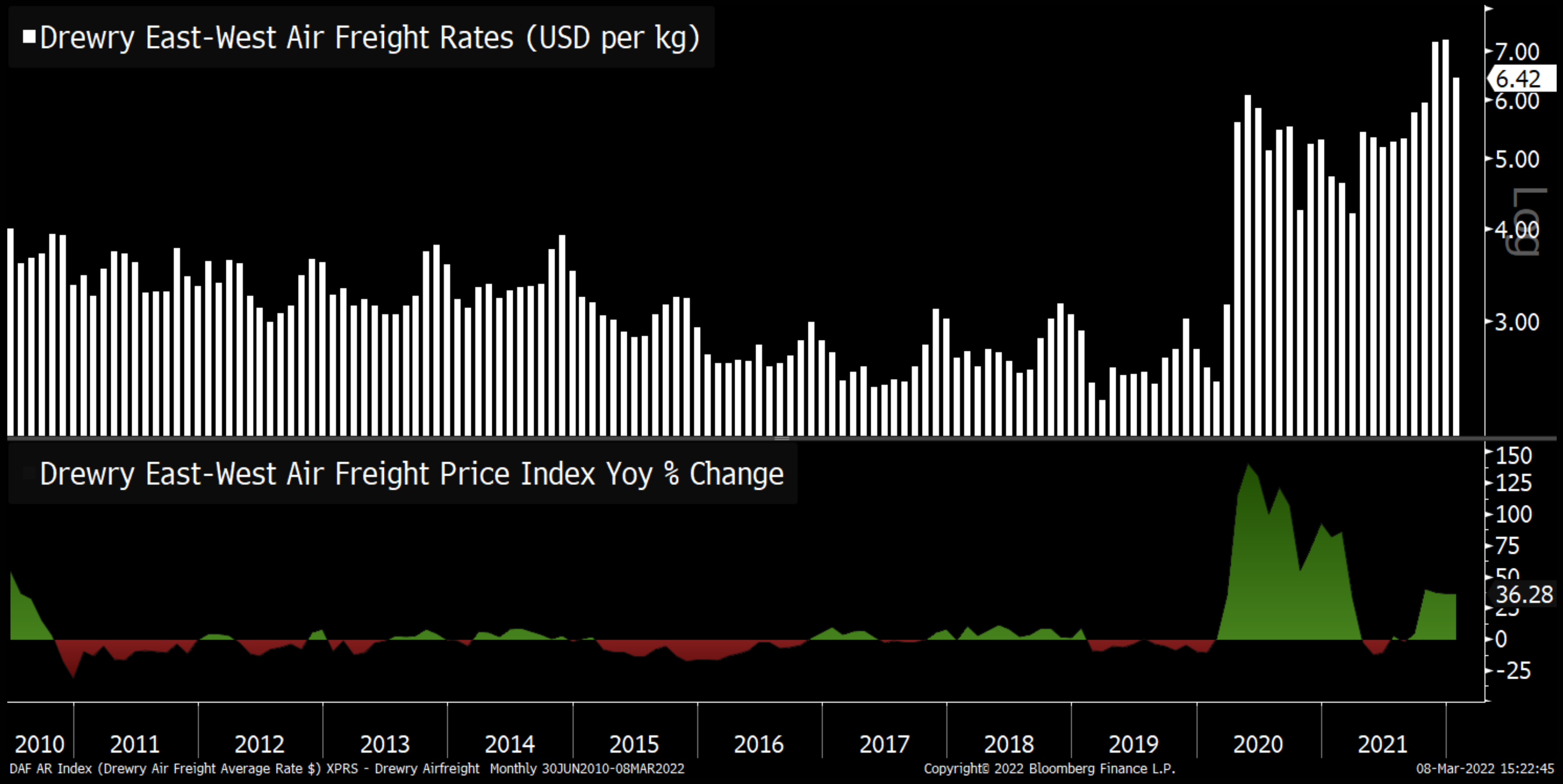
Restocking tailwinds, supply-chain bottlenecks and capacity constraints should keep air freight spot pricing well above norms into 2022.

International air cargo capacity was up 16% in October, according to IATA data. Demand was up 7% in 2021, while capacity was 13% lower. A full recovery of capacity may not occur until 2024.

January international demand increased 9% on 7% less capacity according to IATA.

Average air freight spot pricing on key trade lanes is north of elevated 2020 levels and about double the prior five-year mark through September, according to Drewry data.

Russia impact to air cargo may be immaterial since it accounted for just 0.6% of the global cargo carried by air in 2021, according to IATA.



Source: Drewry, Bloomberg Intelligence

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Q&A

Thank you

Contact the Bloomberg Intelligence Analyst

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Let's connect!!

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