The Uneven Outlook for Recovery from the Recession

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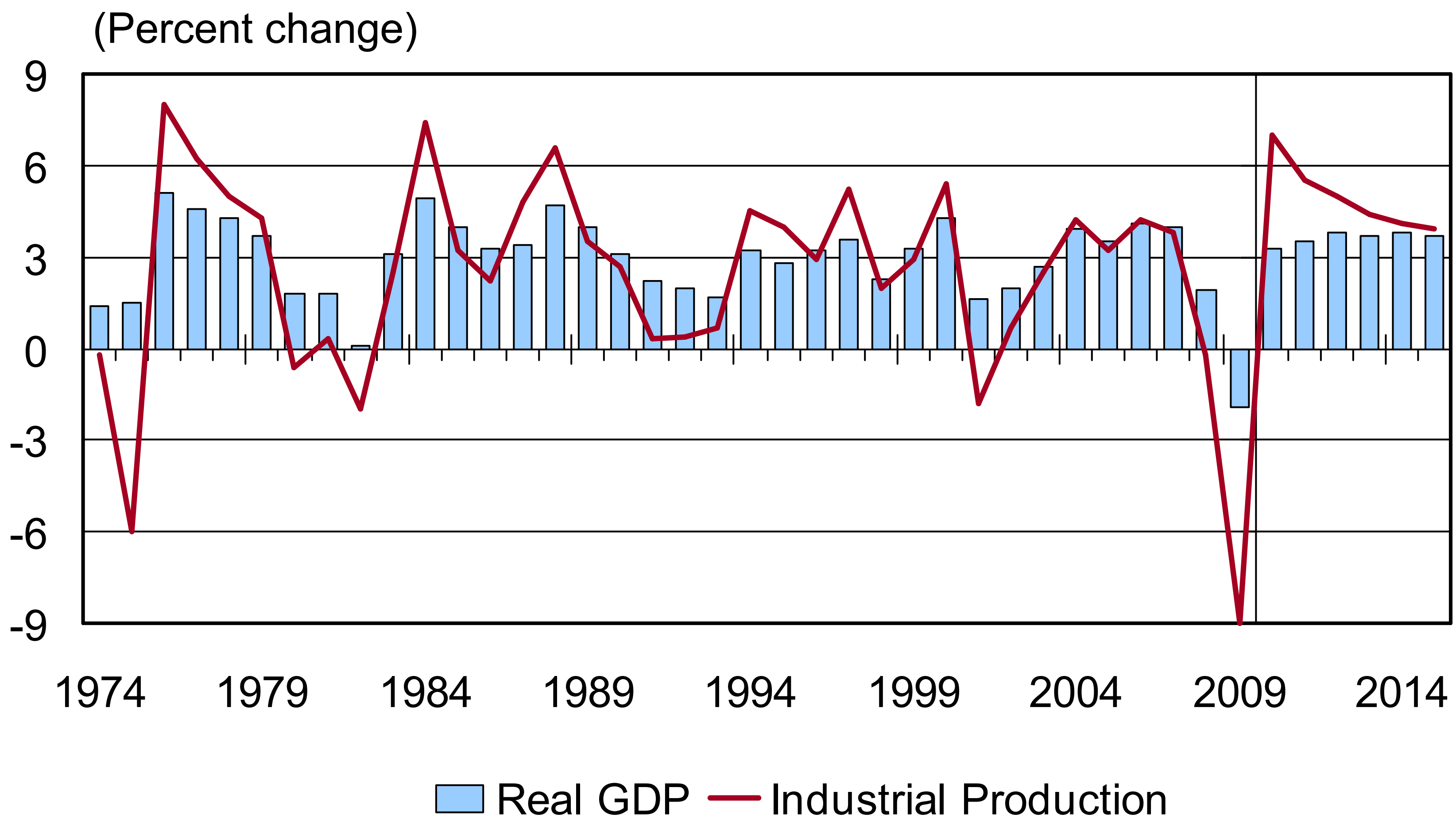
Recovery from the Global Recession is Underway

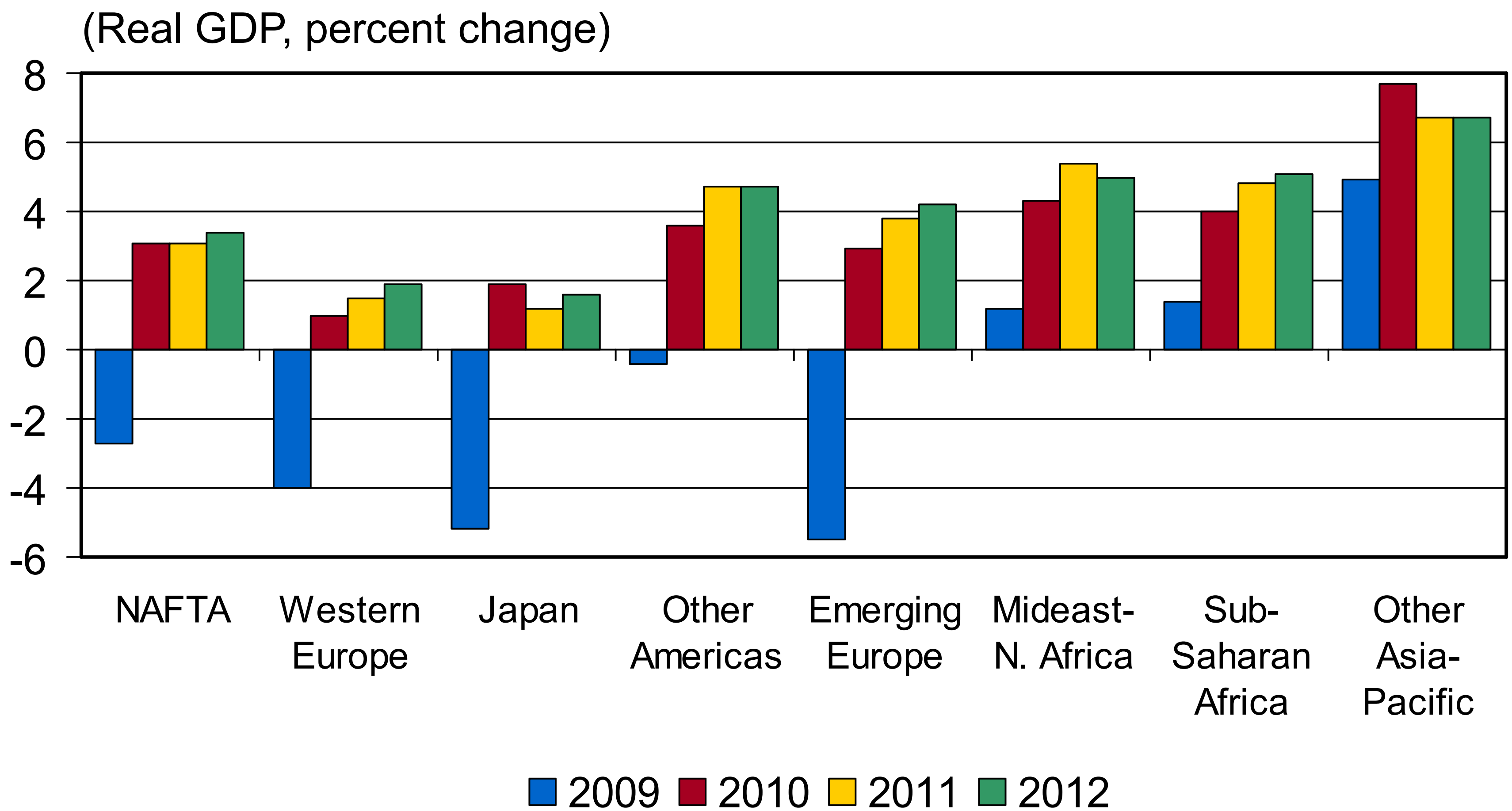
- A multi-speed world – Asia in the fast lane, Europe in the slow lane, and the U.S. in between, with upside and downside risks remaining
- Debt levels influence the speed and shape of the recovery by region and country, while for most of 2010, U.S. interest rates remain low
- Asia will be playing an increasingly greater role in generating global growth and this will be evident in Asian exports and imports
- The dollar could appreciate further against the euro, but is likely to depreciate against many other currencies
- Commodity prices have been rising (mostly due to non-fundamental forces), but inflation will not be a problem, thanks to excess production capacity and labor in the economy, with some exceptions
- Deployed transport equipment capacity is affecting shipping rates

Recovery for the World Economy from the Worst Recession of the Postwar Era is Well Underway



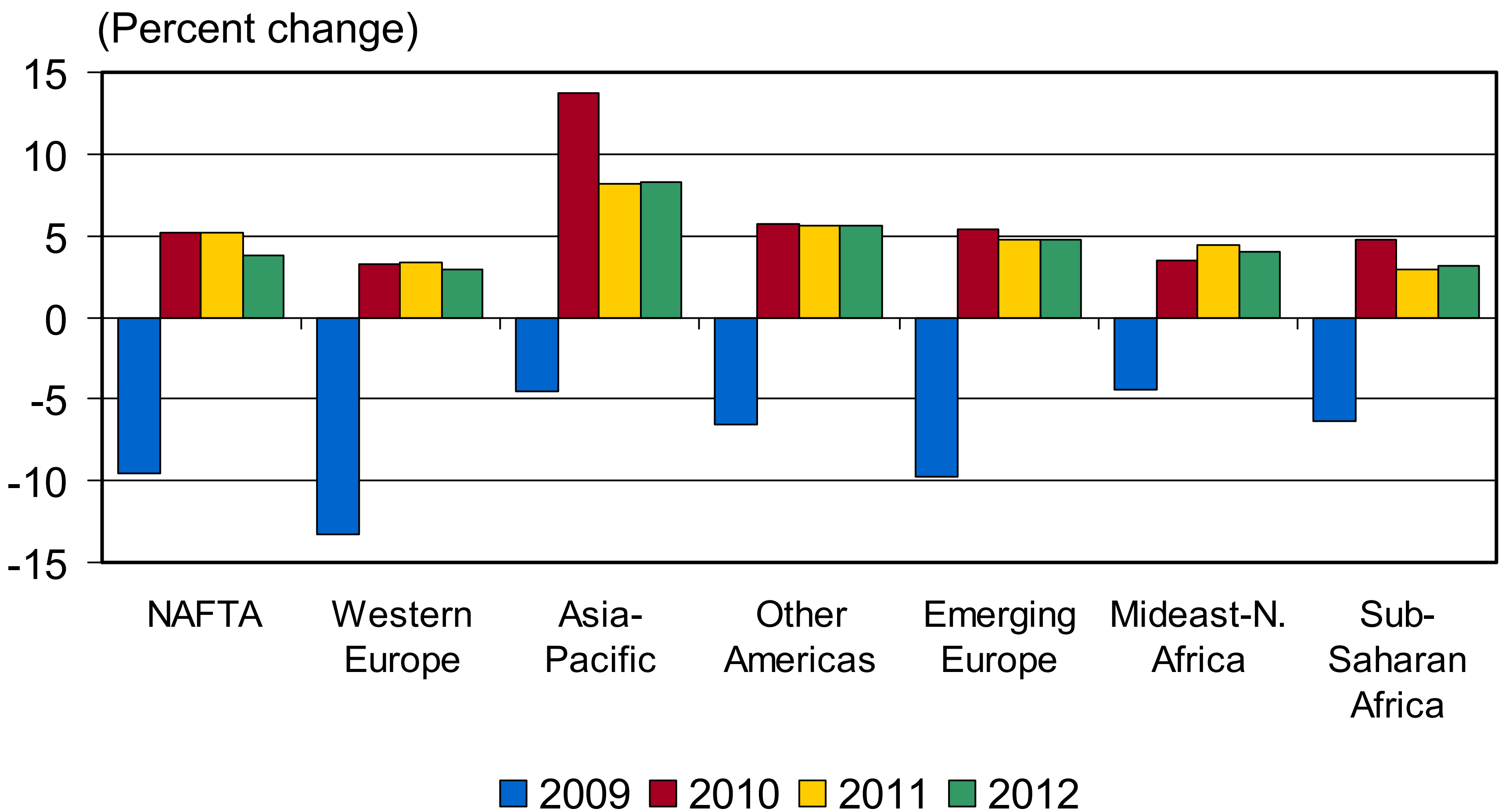
Source: IHS Global Insight

Big Variations in Economic Growth by Region



Source: IHS Global Insight

Asia Leads the Recovery in Industrial Production, an Indicator of Shipping and Trade Demand

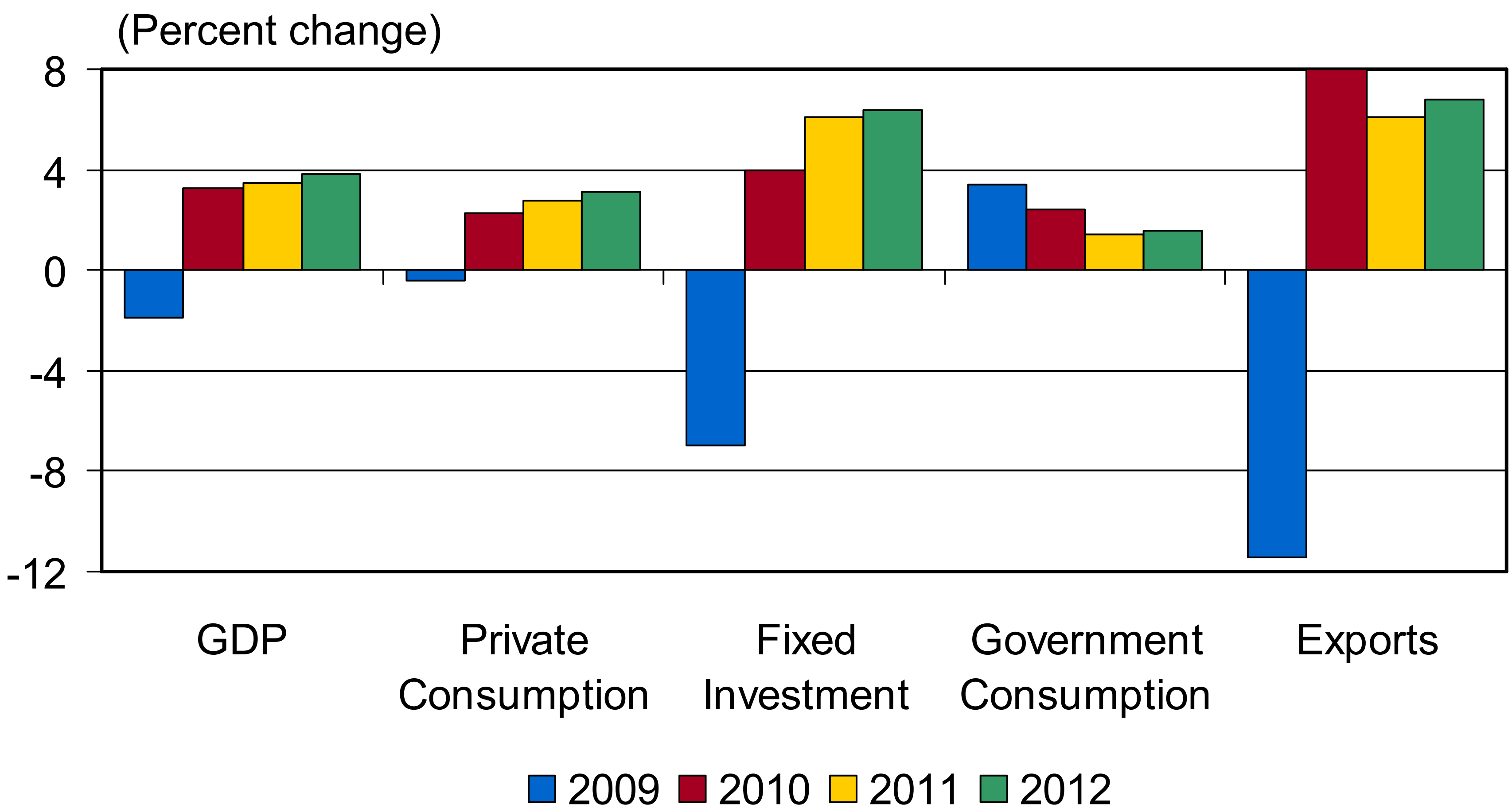


Source: IHS Global Insight

Industry Sectors Not Recovering Uniformly

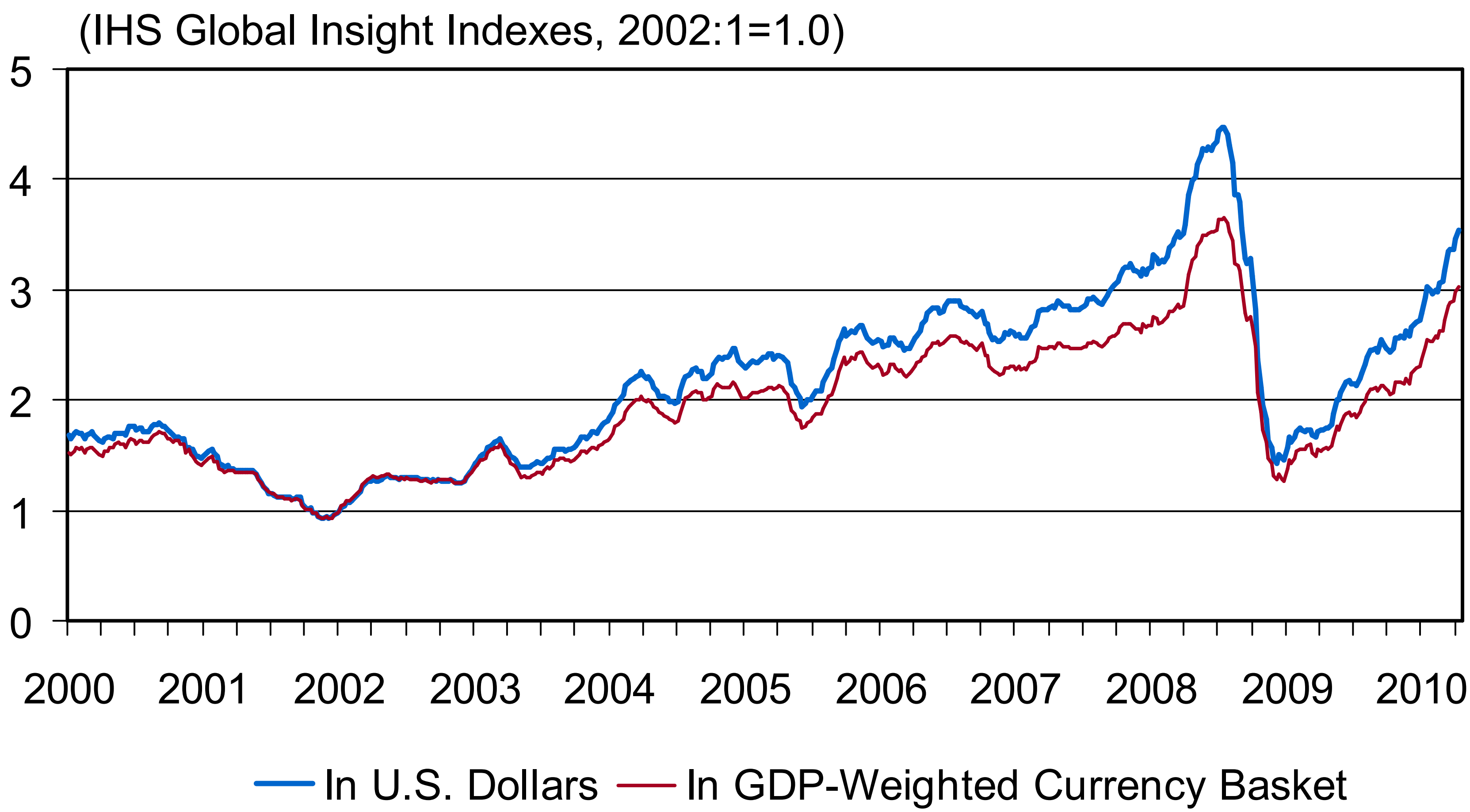
- **Manufacturing recovery best for Autos, Metals, Chemicals and Commodities**
  - **Output won't reach pre-recession levels for several years**
  - **High commodity prices challenge sectors that use them**
- **Strong recovery for Information, Technology and Communications, recovering to former levels and above**
- **Banking / Finance stabilizes in U.S. (2010) and Europe (2011), but recovery is affected by bad loans and de leveraging**
- **Media, leisure, recreation and entertainment constrained by weak consumer finances and lingering unemployment**
- **Continued, though select, push for infrastructure supports spending on transportation, communications and utilities**
- **Construction and related materials face disappointing markets**

The World's Real Economic Growth by Sector: Trade Dropped the Furthest; Comes Back Strongest



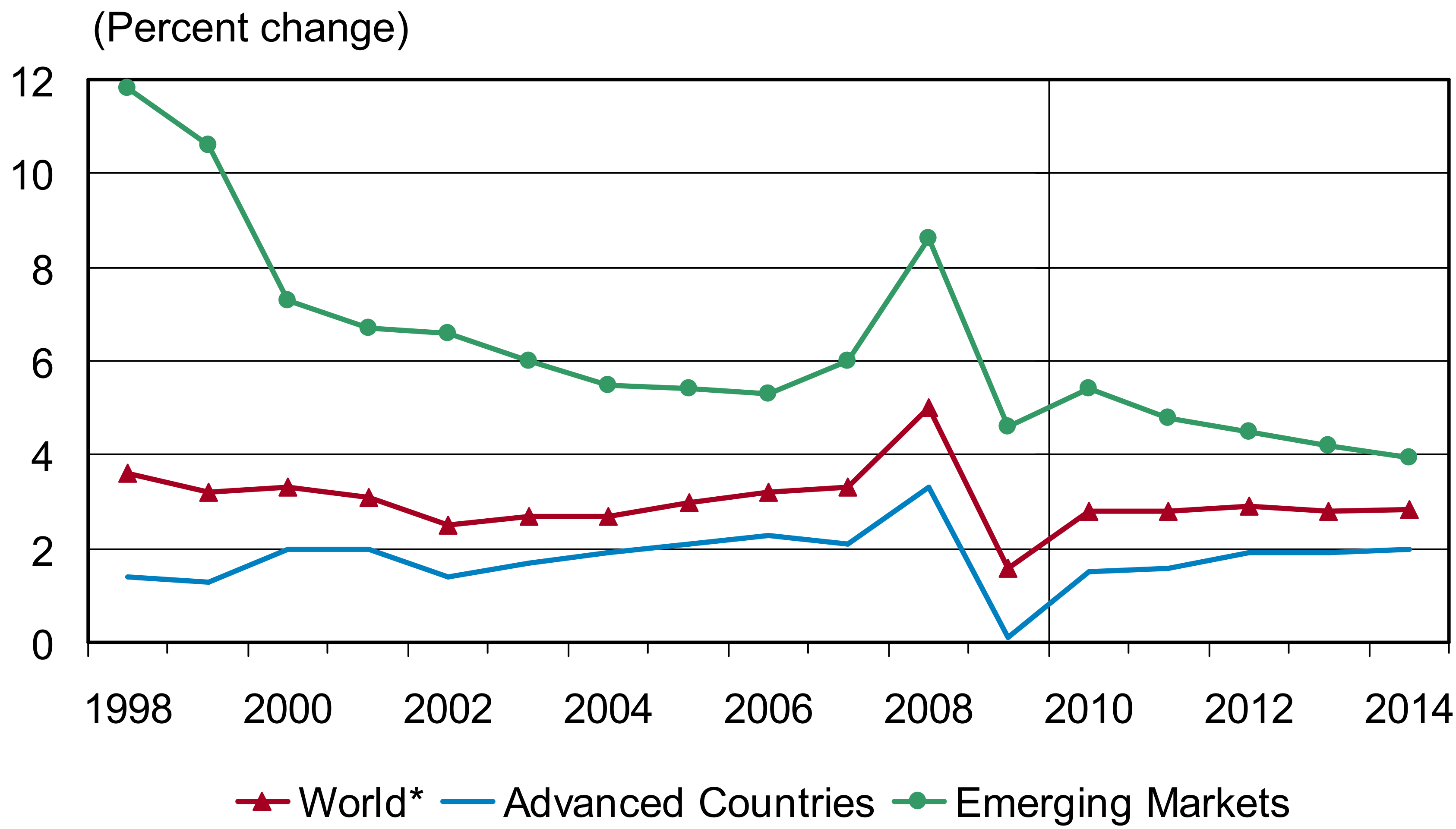
Source: IHS Global Insight

Advanced Recovery in Industrial Materials Prices



Source: IHS Global Insight

Consumer Price Inflation Remains Subdued

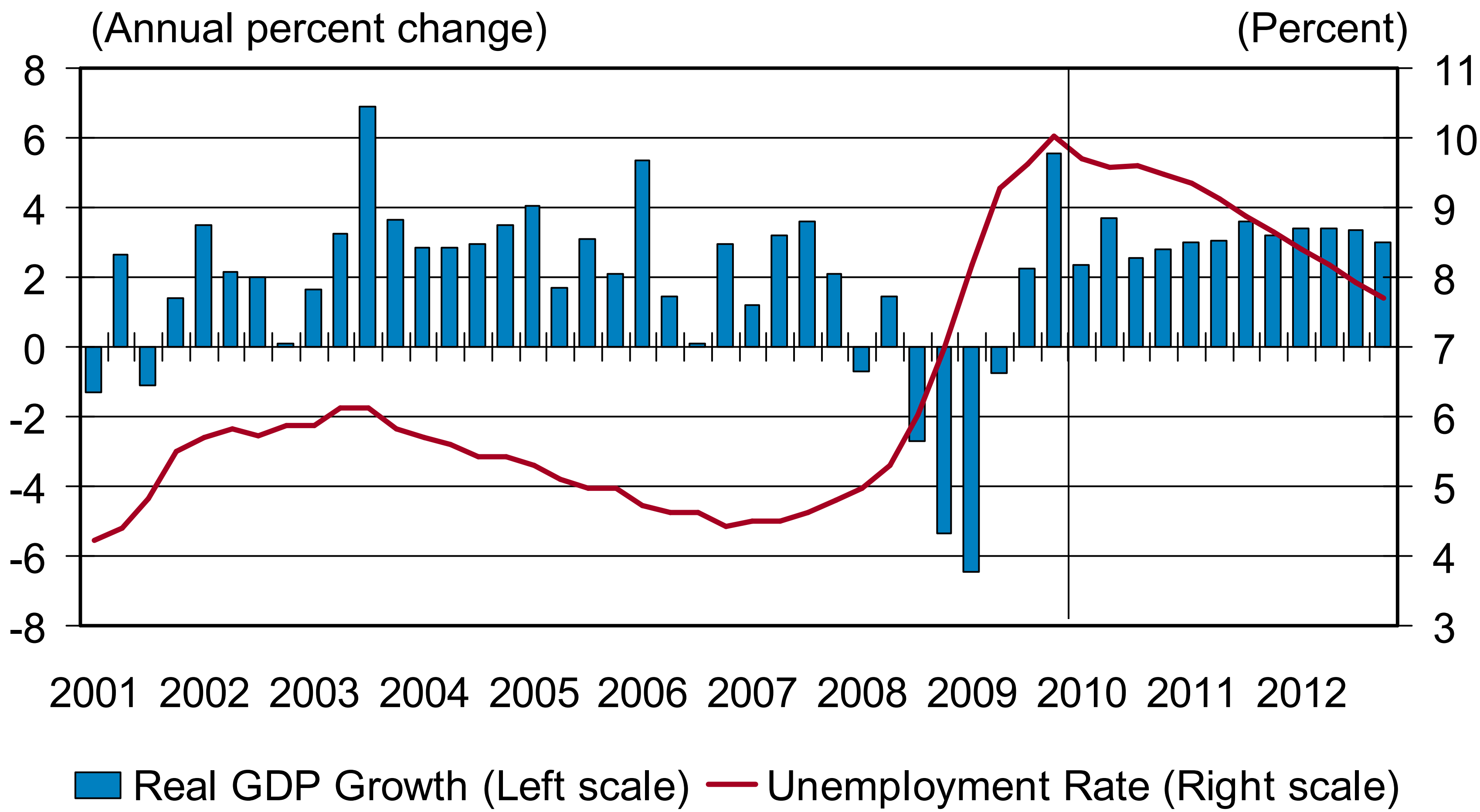


* Excluding Zimbabwe

The U.S. Recovery: Picking Up Steam

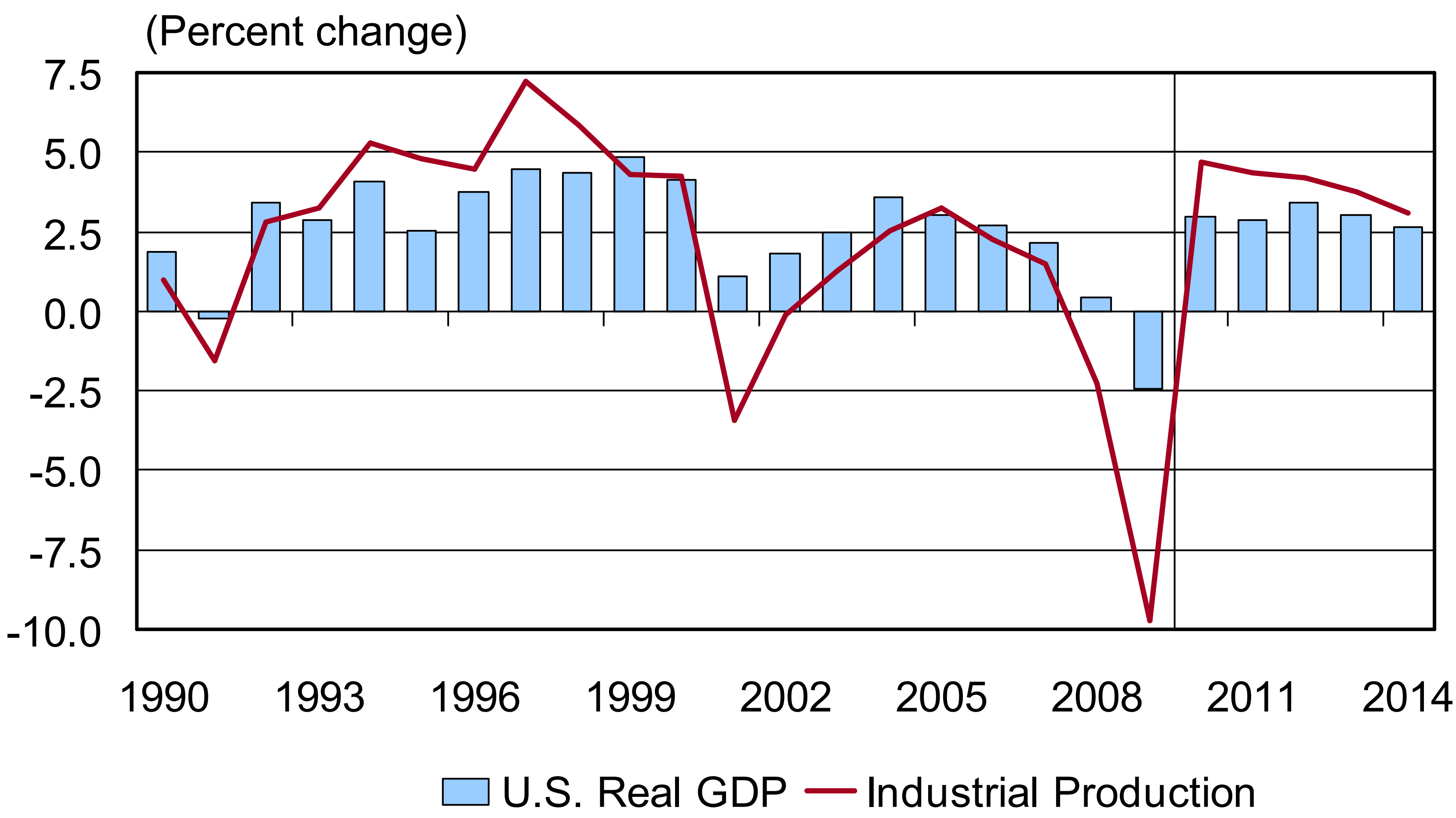
- Underlying 2010 U.S. GDP growth forecast near 3.0%
- Steep recoveries usually follow steep recessions, but recoveries after financial crises are usually slower
- Consumer spending growth is being held back by the headwind of a high unemployment, but it is now the strongest in three years
- Business spending on equipment (and services) and inventory rebuilding are boosting growth, as seen with freight and trade
- …While non-residential construction and state-and-local spending will be a drag on the recovery into 2011
- Housing construction will struggle to get off the bottom
- Excess capacity will restrain wage and price inflation

The U.S. Economic Recovery Advances



Source: IHS Global Insight

Industrial Production Will Outpace Real GDP



Source: IHS Global Insight

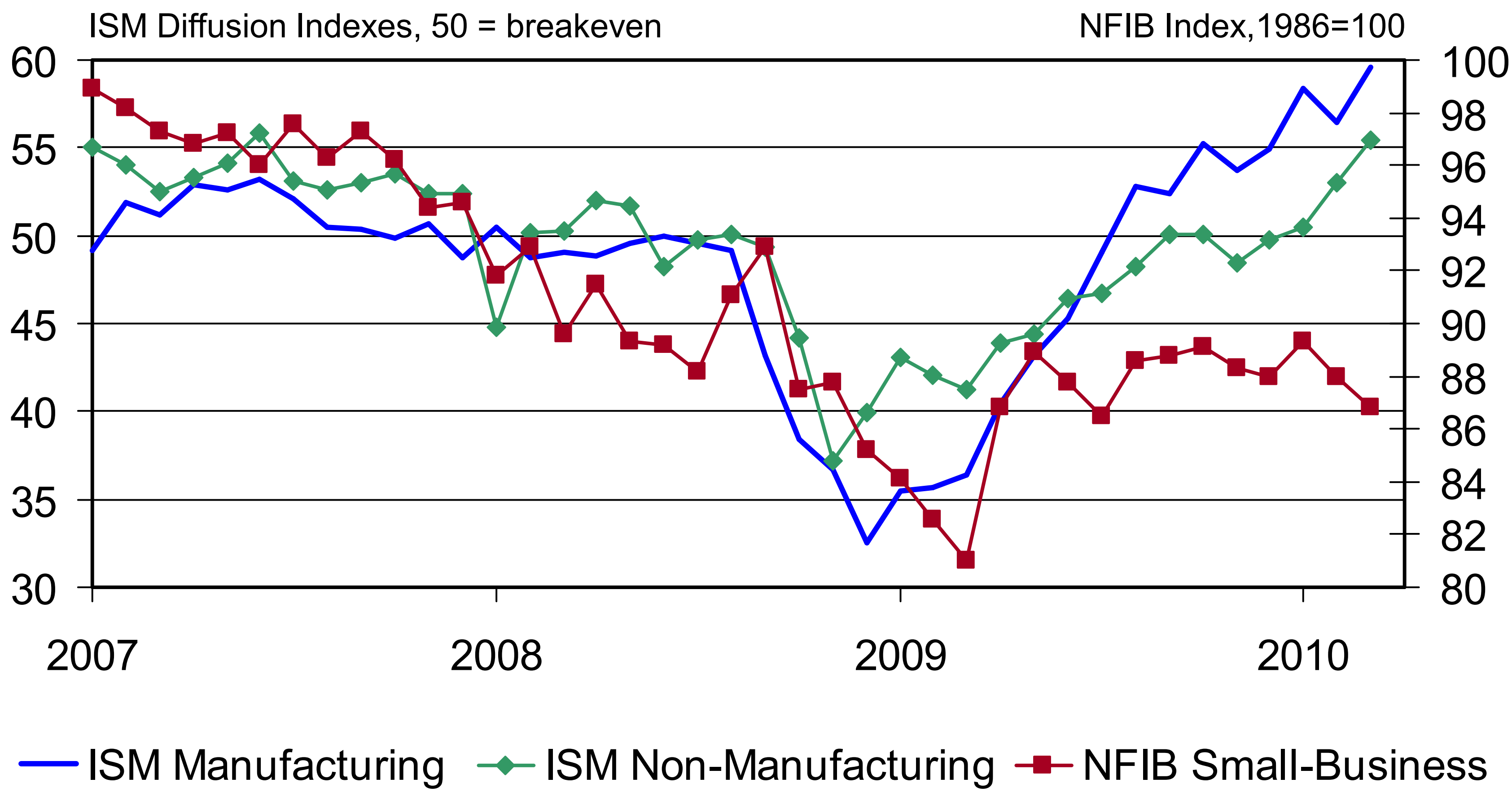
U.S. Economic Growth by Sector
Trade Grows Fastest in 2010

(Percent change)

	2009	2010	2011	2012
Real GDP	-2.4	3.0	3.0	3.3
Consumption	-0.6	2.4	2.7	2.5
Residential Investment	-20.5	0.8	27.5	22.5
Business Fixed Investment	-17.8	1.7	7.6	11.9
Federal Government	5.2	3.8	-2.5	-3.4
State & Local Govt.	-0.2	-1.2	0.4	0.6
Exports	-9.6	11.9	7.8	7.3
Imports	-13.9	10.2	7.9	6.6

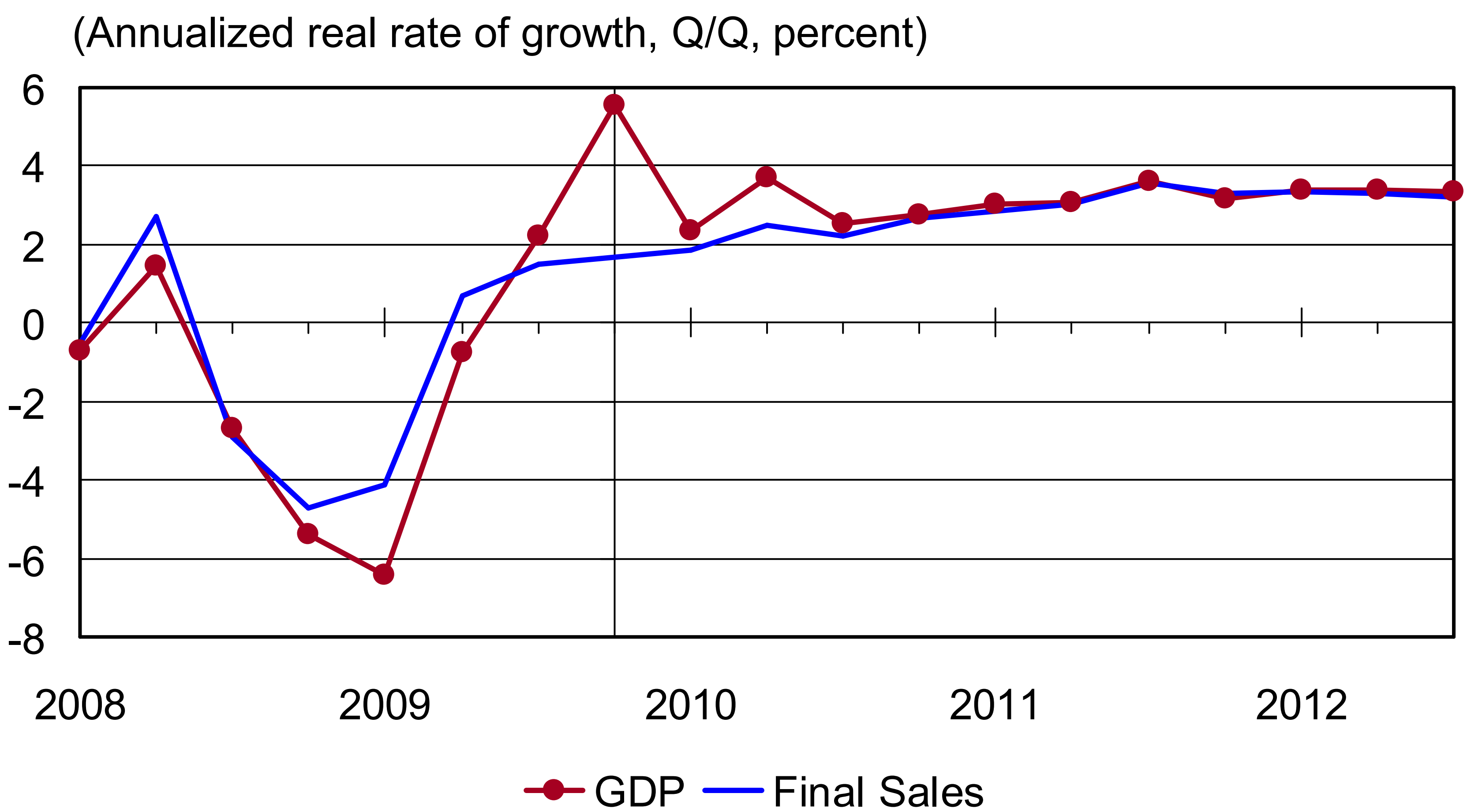
Source: IHS Global Insight

Cyclical Indicators Rising; Small Business Lagging



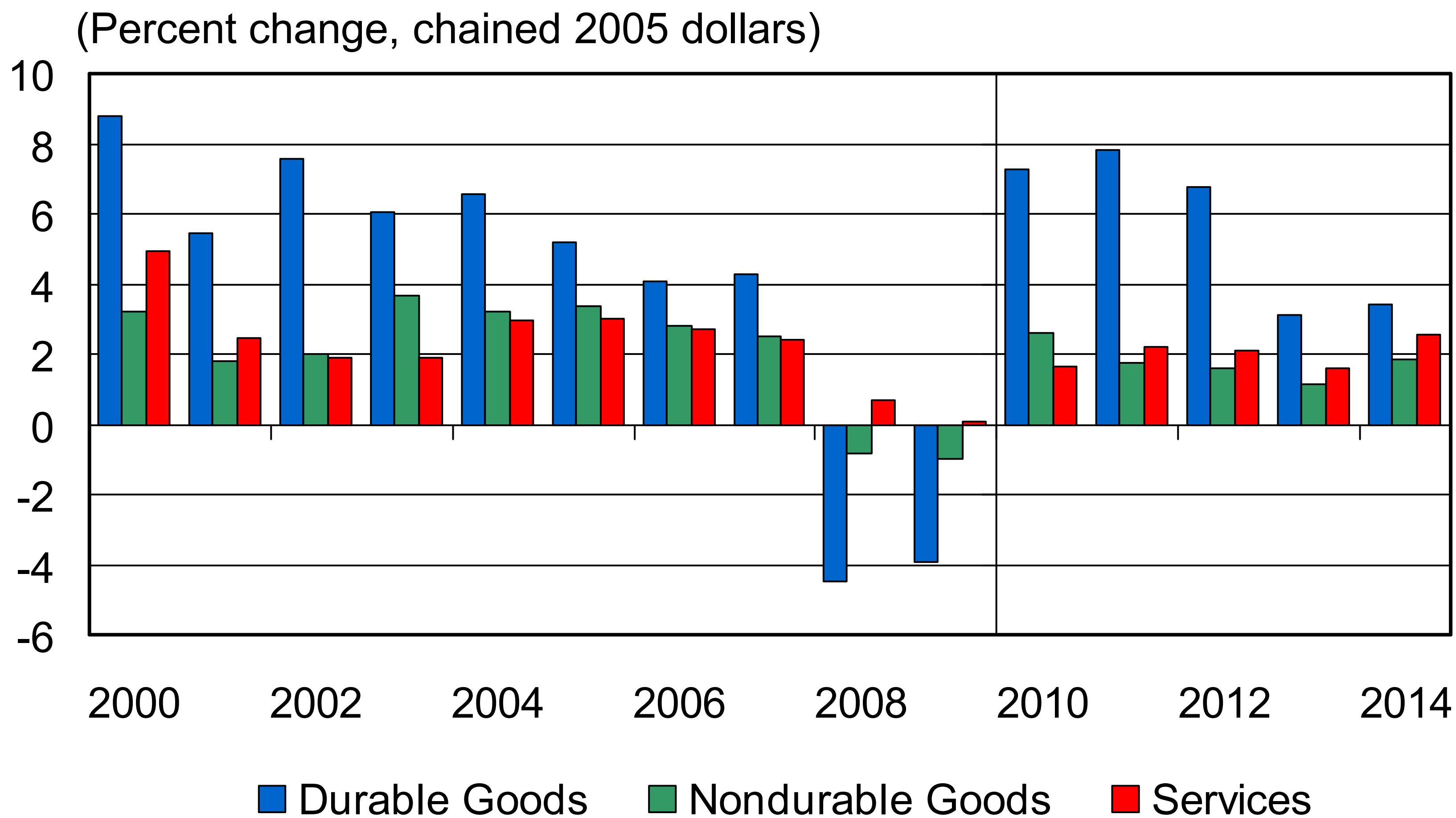
Source: IHS Global Insight

The Inventory Cycle Led to the Q4 Growth Spurt

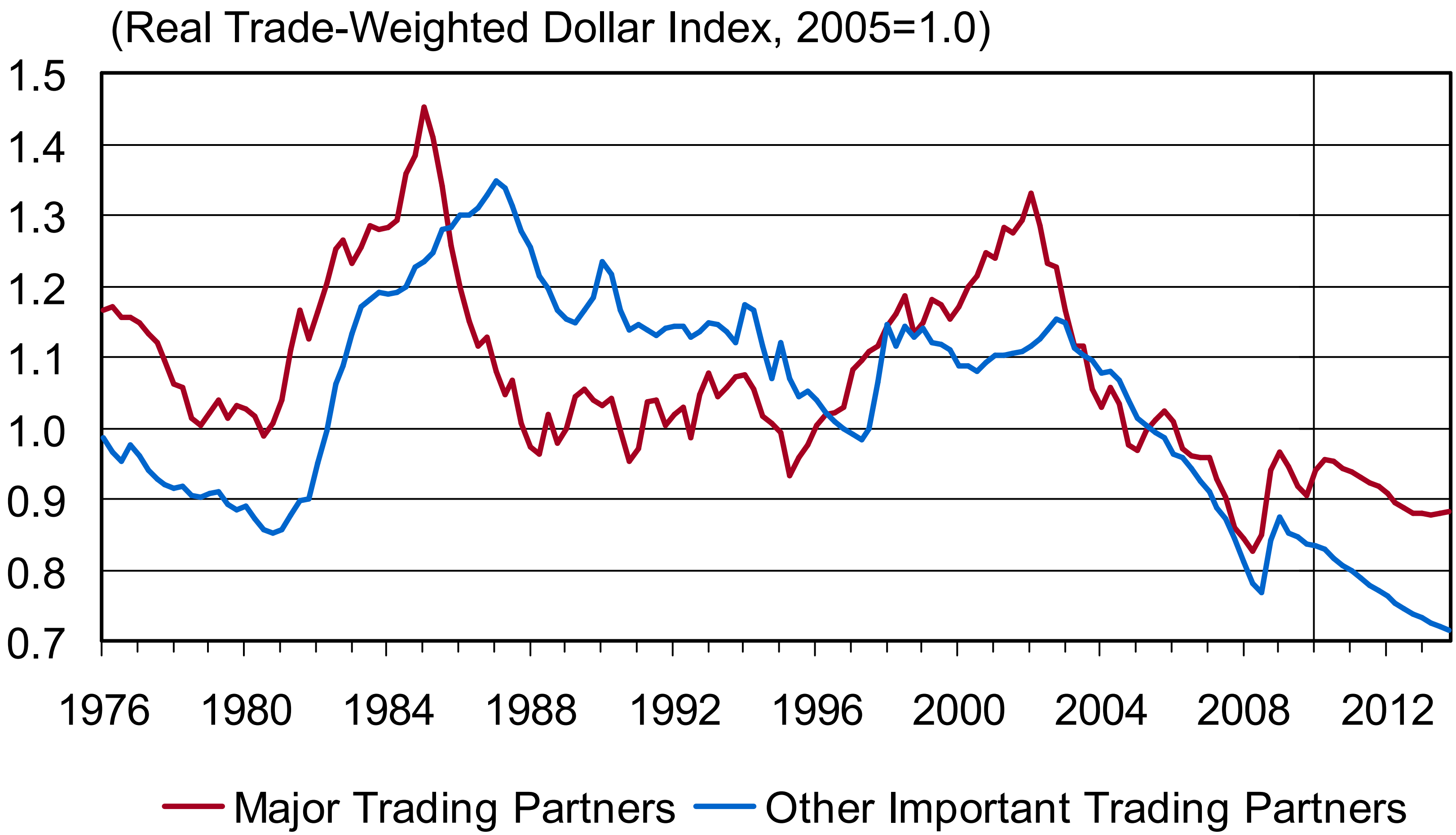


Source: IHS Global Insight

U.S. Consumer Spending Growth: Durable Goods Most Volatile, Direct Influence on Freight Volumes

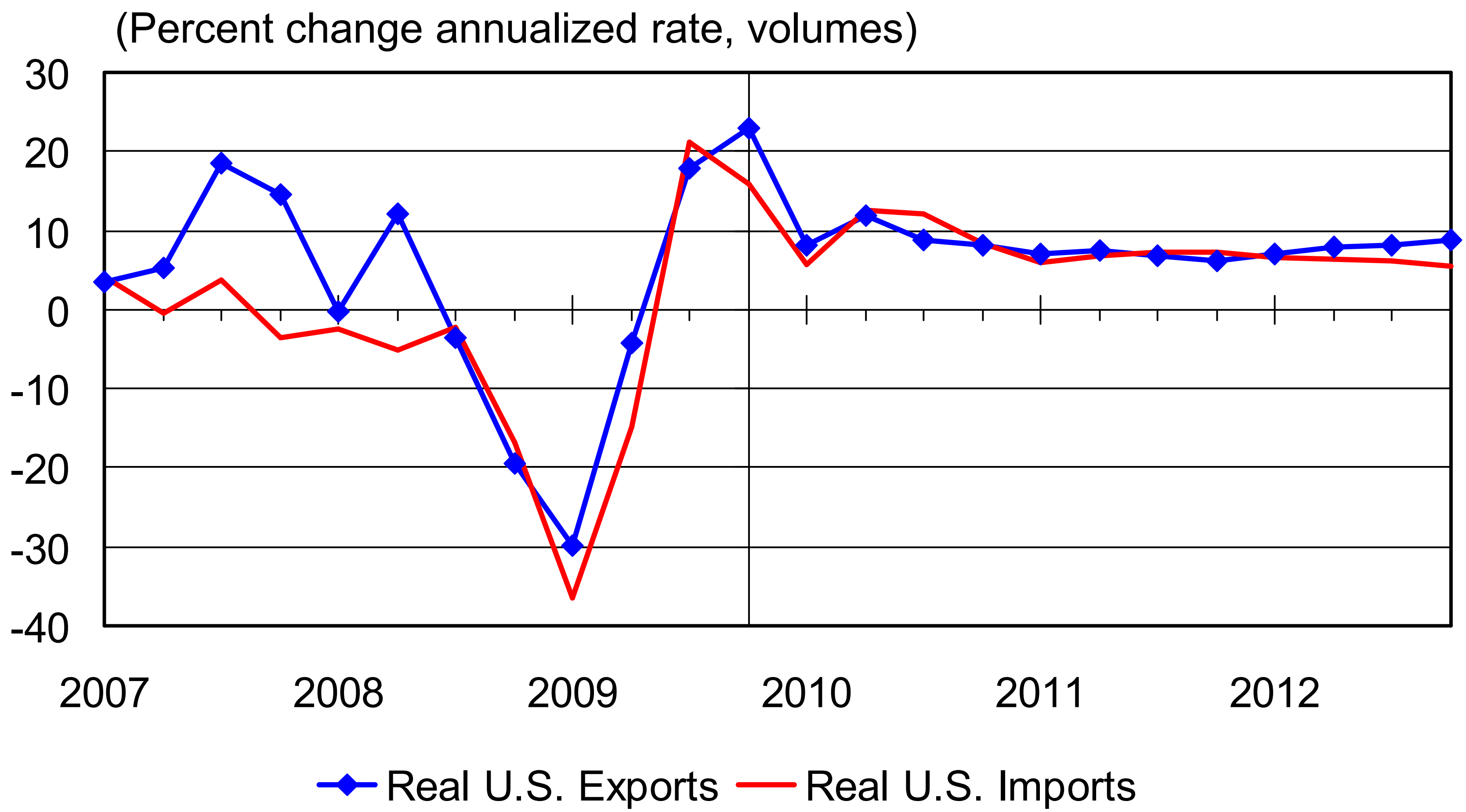


After a Rally, the U.S. Dollar Will Depreciate



Source: IHS Global Insight

Inventory Cycle Boosts U.S. Exports and Imports



Source: IHS Global Insight U.S. Macroeconomic Forecasting Service

Globalization Has Not Reversed in Recession

- High energy prices in 2008 and low traffic with 2009 recession have seen rationalization of operations by carriers, but they are retrenching already.
- Globalization continues: importers still benefit from foreign resources and labor
- Exporters are benefiting from access to larger, more open markets

  . . . *If* firms are world-class competitive

- Transportation and distribution sector still provide relatively well paying jobs
- Shifts in economic geography, inside and out of the U.S. continue to affect trade, with Asia becoming even more important to U.S. trade this decade

Recession Impacts on Domestic Transportation

Challenge:

Trade drop led to underutilized U.S. domestic freight system capacity across seaports, airports, terminals, railroads, trucking, warehousing and labor. Carriers reduced deployed capacity where they could.

Consequences:

- Trade recovery faces capacity bottlenecks; vessel and air cargo capacity not back to pre-recession levels, despite size of idled equipment fleet.
- Freight captured by truck from intermodal rail during recession likely to be lost again, longer-term, as rates and relative costs to truckers increase
- Still-improving intermodal rail service continues to capture line-haul long-distance trucking, reducing trucking average length of haul.
- However, sustained (regional) trucking growth swamps other domestic mode growth; truck remains the default solution

Potential Changes to Operating Environment

What could we see from government?

- New mileage-based or ton-mileage fees for highway use
- New toll-financing, including potentially, truck-only lanes
- For all modes, ever tighter emissions limits, alternative fuel equipment mandates, new operating restrictions, new (e.g. carbon) taxes, and more user fees
- More subsidies / tax benefits for environmental reasons alone

What Shippers Can Expect

- Recovering sales volumes but tight transportation supply at times, and lingering weakness in some sectors
- Demand to forecast supply chain needs further out, placing orders earlier and having more inventory in the pipeline at times.
- Further integration between supply chain partners through technology and standards, for planning, management and security reasons
- Ongoing revisions to shipment and delivery practices to comply with evolving regulations and align with performance capabilities of workforce, carriers and transportation networks

Thank you!

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