Logistics & Supply Chain Market Update

Industry Consulting Team | Q1 2021

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Economic & Freight Indicators	Current Release	Previous Release	YoY
Economic Indicators			
3Q US GDP[1]	38.3%	69.7%	35.7%
US Unemployment Rate[3]	6.8%	2.0%	-3.2%
Durable Goods ($BNs)[2]	$244	1.0%	3.9%
New Home Sales ('000s)[2]	841.0	-11.0%	20.8%
Housing Starts (000s)[3]	1,560.0	2.1%	98.3%
Auto Sales (MMs)[3]	$16.3	4.6%	-2.6%
Monthly Advance Retail Sales ($BNs)[3]	$540.9	-0.7%	2.9%
ISM Nonmanufacturing Index[3]	57.2	2.3%	4.2%
ISM Manufacturing Index[3]	60.7	5.6%	27.0%
Freight Indicators			
US Imports ($BNs)[2]	$252.3	2.9%	-10.5%
US Exports ($BNs)[2]	$184.2	1.2%	-16.1%
Class 8 Net Truck Orders[3]	52,100	-1.3%	169.0%
For Hire Truck Tonnage Index[3]	115.9	5.4%	2.3%
Major US Port Volumes (MM TEU)[2]	4.3	-5.5%	13.7%
Cass Freight Index[3]	1.1	-2.8%	6.7%
Rail Traffic (6-week moving avg; in 000s)[4]	494	-4.0%	4.6%

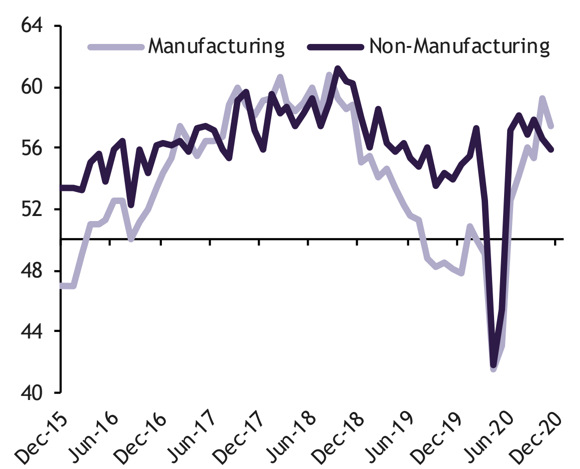
[1]As of 09/30/2020 [3]As of 12/31/2020
[2]As of 11/30/2020 [4]As of 1/9/2021

Takeaways:

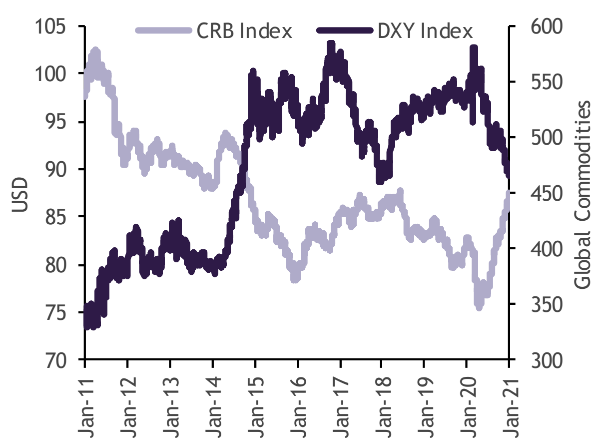
- Fiscal stimulus and monetary action will continue to support consumer and industrial demand
- Recovery remains vaccine dependent; pent up consumer ready to pivot back to services sector
- Freight demand is poised for growth as U.S. industrial production bounces back
- U.S ports will continue to see strong growth but face supply challenges related to equipment

Economic Update

ISM Manufacturing vs ISM Services



U.S. Dollar vs. Global Commodities



- The U.S economy is projected to grow 7.4% in Q420 and 6.2% for Q121 (Fed. estimates). Although the recovery off the spring lows looks "V-shaped", some deceleration occurred in the latter part of 2020. Consumer spending fell in November after 6 straight months of growth. December data to date revealed a 3rd straight monthly decline in retail sales while non-farm payrolls shed 140K jobs. The winter surge in the pandemic put renewed stress on the economy and drove approval of $900B in new fiscal support from Congress.
- Despite the recent trends, fiscal and monetary measures combined with delivery of vaccines in 2021 could prove to be a powerful cocktail for consumer and industrial demand over the new year. However, longer term risks will need to be monitored as inflation, interest rates and currency dynamics could be impacted via a "return to normal" economy combined with record stimulus measures. Already in 2021 interest rates are on the move, as the benchmark 10yr Treasury yield is 85bps off its all-time low set last year.
- Consumer spending could surge in 2021. Savings rates have moved from 7.5% up to 19.5% over 2020. Pent up savings could be a powerful force over the year as more vaccines are distributed. While freight conditions should remain favorable against this backdrop, the huge lift to freight demand during the pandemic, aided by a shift to "stay at home" goods spending, may start to drift back to the services sector, as consumers reach for more travel, restaurant, and event driven "revenge spending". E-commerce will retain its hold on retail sales though, online and offline investments in digital and final mile infrastructure has completely altered the retail landscape in fundamental and permanent ways.
- The industrial economy has been slower to recover after the severe supply disruptions that materialized during the pandemic. Industrial activity was already weak headed into the pandemic as trade tensions and tariffs weighted on the sector (two straight years of negative industrial production) and had a negative impact on exports. However, ISM Manufacturing accelerated in Q4 and has now shown expansion (above 50) for seven straight months. A resurgent auto sector, rising oil prices, and China's reinvigorated demand for raw materials are boosting global demand. A weakening USD is driving up commodity prices (as most major commodities are priced globally in USD) supporting a positive feedback loop on commodity investment and exports.

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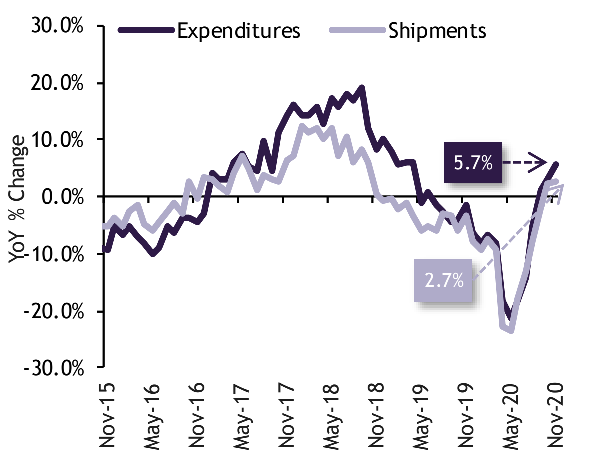
Freight Market Update

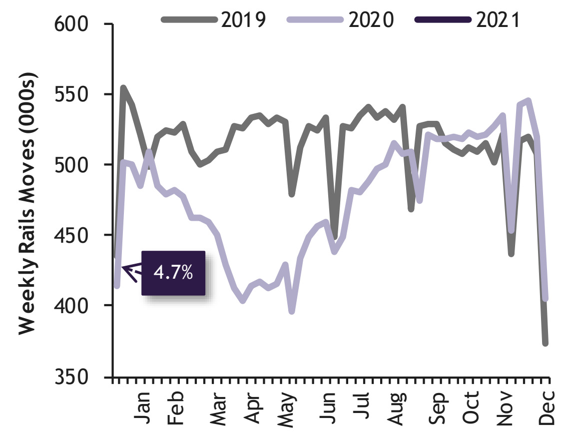
- Freight demand is poised for growth in 2021 as U.S. industrial production bounces back from a two year decline from its peak, and vaccines assist in re-opening the global economy
- Class 8 Truck Orders continue on a tear (52,100 units in December) since their July reversal of 2020's decline. Although orders are surging, the delay in investment during the pandemic has led to a huge need to replace aging fleets. Net new capacity growth will still be anemic as the availability of qualified drivers is extremely tight due to COVID-19 related driver school closings, the new Federal Drug and Alcohol Clearing House, and early retirement during the pandemic - just a few of the causes accelerating the driver shortage.
- ISM manufacturing continues its strong performance, measuring 60.7 in December (above 50 equals expansion), and its highest reading since August 2018. The industrial recovery is extremely important to freight markets not only in terms of tonnage, but to help balance out import/export imbalances and equipment shortages.
- Truckload freight is forecasted to stay strong in the first half of 2021 on the heals of continued strong consumer demand, but with global administration of vaccines, expect a moderation in consumer freight as inventories are fully replenished and consumers shift their buying habits from goods to services as travel restrictions are lifted, retail services reopen, and event spending comes back.

Freight Market Indicators

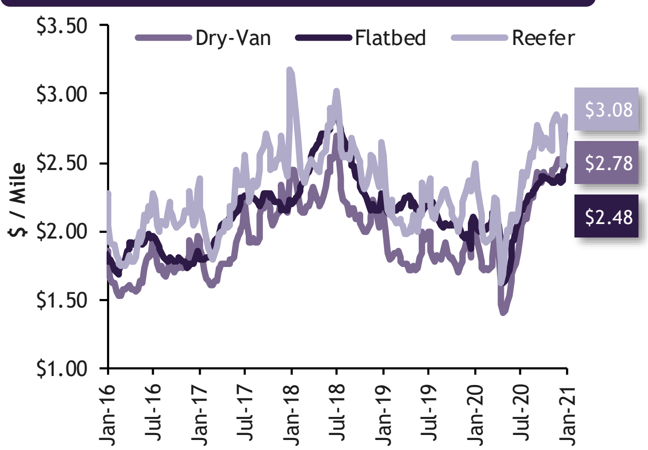
Cass Freight Shipments vs. Expenditures



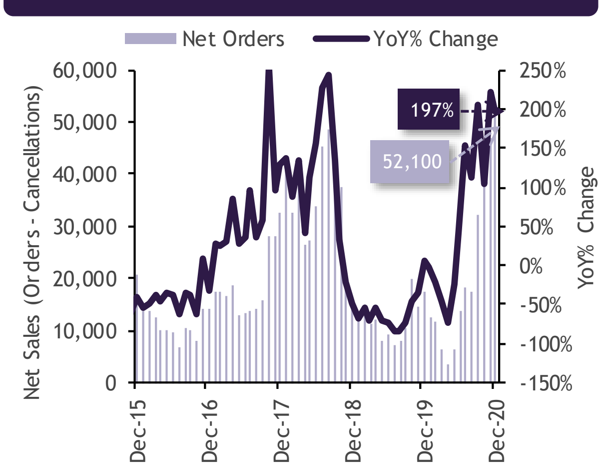
Weekly Rail Carloads (plus Intermodal)



Truck Spot Pricing



Class 8 Net Sales



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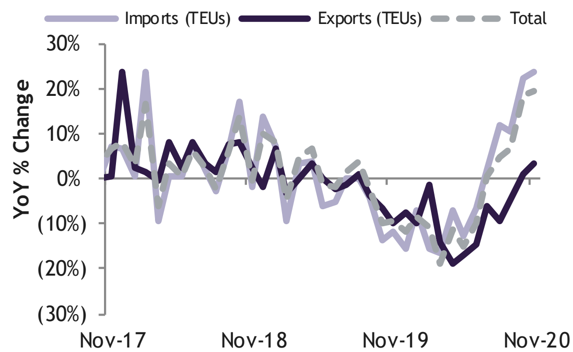
Port, Maritime and Intermodal Update

- The seismic shift in consumer buying patterns for goods over services has been beneficial for import goods, but has created pain points in supply chains. Bottlenecks resulting in drastic ocean container shortages and the highest container spot rates on record. The turmoil may continue into 2021 until more export demand emerges to incentivize the movement of idle containers.
- This altered demand has pushed international shipping rates to all-time highs. Shipping from China to the U.S. West Coast costs ~$4,100 per forty foot container (FEU) which is over double the price a year ago. China to the U.S. East Coast has also more than doubled, currently pricing at ~$6,300 per FEU, up from $2,500 in early 2020.
- Forwarders, steamship lines, and intermodal providers have seen strong revenue growth due to capacity and demand dynamics that have forced shippers to pay higher costs associated with locking in scarce capacity.

Select North American Port Container Volumes

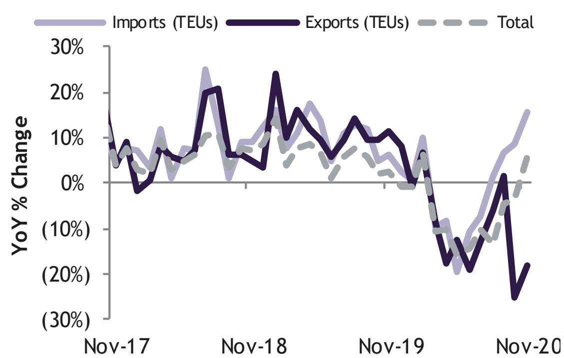
	2018		2019		2020		
	Total TEUs (000s)	YoY % △	Total TEUs (000s)	YoY % △	YTD YoY % △	Total TEUs (000s)	YoY % △
West Coast Ports:						November	
Los Angeles	9,459	1.2%	9,338	(1.3%)	(3.0%)	890	22.1%
Long Beach	8,091	7.2%	7,632	(5.7%)	4.7%	784	30.6%
Vancouver	3,396	4.7%	3,397	0.0%	(13.5%)	316	22.4%
Seattle / Tacoma	3,798	3.6%	3,775	(0.6%)	(0.1%)	302	11.3%
Oakland	2,546	5.2%	2,500	(1.8%)	0.7%	198	0.2%
Prince Rupert	1,036	10.9%	1,211	16.9%	(13.5%)	96	(9.3%)
Total West Coast	**28,326**	**4.3%**	**27,853**	**(1.7%)**	**(2.0%)**	**2,584**	**19.6%**



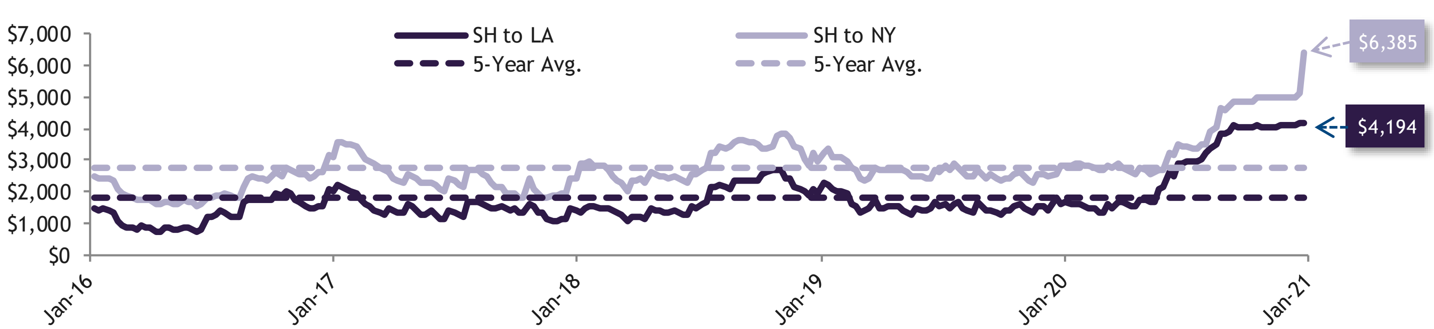
	2018		2019		2020		
	Total TEUs (000s)	YoY % △	Total TEUs (000s)	YoY % △	YTD YoY % △	Total TEUs (000s)	YoY % △
East & Gulf Coast Ports:						November	
New York / New Jersey	7,180	7.0%	7,471	4.1%	(13.5%)	502	(16.3%)
Savannah	4,352	7.6%	4,599	5.7%	(0.1%)	465	28.1%
Virginia	2,856	0.5%	2,938	2.9%	(5.9%)	280	23.3%
Houston	2,700	9.8%	2,987	10.6%	(0.4%)	263	7.0%
Charleston	2,316	6.4%	2,436	5.2%	(6.6%)	207	12.0%
Jacksonville	1,270	23.0%	1,338	5.3%	(3.9%)	111	(0.7%)
Everglades[1]	1,108	2.9%	1,053	(5.0%)	N/A	N/A	N/A
Other East/Gulf Coast Ports*	4,047	9.7%	4,257	5.2%	N/A	N/A	N/A
Total East & Gulf Coast	**19,404**	**6.4%**	**22,292**	**14.9%**	**(5.9%)**	**1,827**	**5.5%**

*"Other" includes Port of: New Orleans, Mobile, Tampa Bay, Miami, North Carolina, Baltimore & Philadelphia

[1]Port of Jax has not released 2019 monthly data. Everglades data as of 8/31.



Benchmark Asia to U.S. Ocean Freight Rates



Sources: Bloomberg, WSJ, FreightWaves.com, TransportTopics, McKinsey Global Institute, Cass Information Systems, AAR, ATA, Truist Securities Research, and Port websites;
**'Other Ports' only report annual TEU figures; East Coast Ports include Miami, Everglades, Jacksonville, North Carolina, Baltimore, and Philadelphia; Gulf Coast Ports include New Orleans, Mobile, and Tampa Bay*