Logistics & Supply Chain Market Update

Industry Consulting | Q2 2021

Taylor Howerton
Logistics & Supply Chain
Industry Consultant
Taylor.Howerton@SunTrust.com
(404) 813-2886

Sam Rubin
Logistics & Supply Chain
Analyst
Sam.Rubin@SunTrust.com
(678) 637-2661

Takeaways:

- Economic boom underway as COVID vaccination rates increase
- Fed signals it is unlikely to raise rates until at least the end of 2022, but inflation is on the rise
- Freight demand is surging, while capacity is extremely tight
- East Coast ports will see market share gains as cargo gets diverted from the West Coast

Economic Update

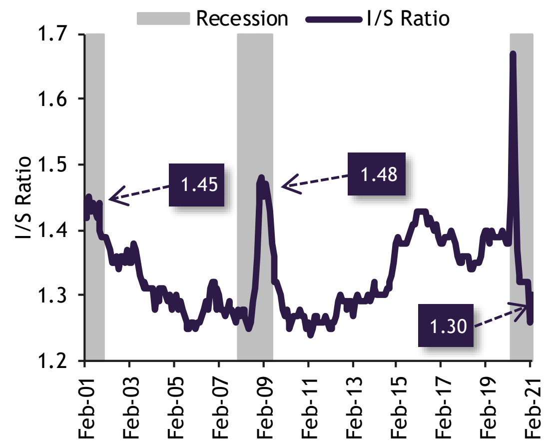
- Despite significant supply constraints the U.S. recovery is starting to look more like a boom in 2021, as Covid-19 vaccinations accelerate to 3MM/day and consumers start to spend more freely. To underscore the changing landscape consider that Advanced Retail Sales were up a staggering 9.8% y/y in March, including a 13.4% surge in bar and restaurant spending, which aligned with Consumer Confidence data that reached its highest point since shut-downs began last March. What's so powerful about the recovery is that consumers still have tremendous pent-up capacity, with almost $2.0T in money market accounts ready to be deployed as the economy opens more broadly.

- The current backdrop is setting up for an economic surge that we haven't seen in decades. Top economists' estimate GDP growth to range between 6-8% in 2021. Imbedded in the optimism is extremely accommodative fiscal and monetary policy, and an ongoing inventory rebuild that could last throughout the year.

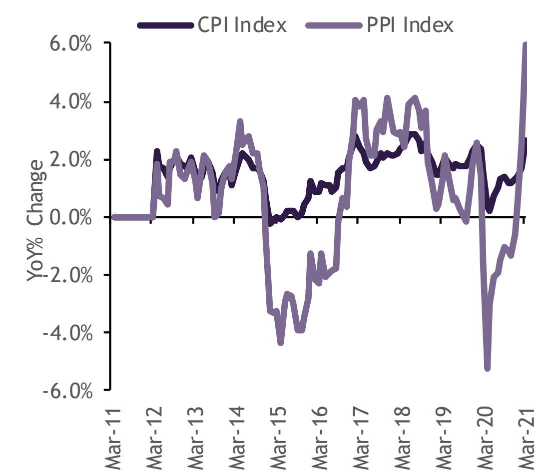
- Supply chains continue to experience bottlenecks; curtailed by shortages in semiconductors, ocean containers, port congestion and the prior shutdown of the Suez Canal - just to name a few of the issues that have slowed goods getting to market. Simultaneously, the change in Just-in-Time to more Just-in-Case inventory strategies has placed added pressure on already tight transportation and warehousing capacity that is maxed out in many markets.

- Inflation concerns will be a dominant theme throughout the year, as the price of many goods and services at both the consumer and producer level are on the rise. The Federal Reserve has signaled that inflation over the near term is likely to be temporary, with aging demographics and accelerated tech innovation leading to a secular trend of decelerated inflation. However, we haven't had this much fiscal stimulus since just after WWII, and the financial markets have started to react, mainly through rising U.S. treasury yields and commodity prices. Transportation costs have continued to rise as well, and no more evident than in ocean transport, which reached record levels recently to ship from China to the U.S.

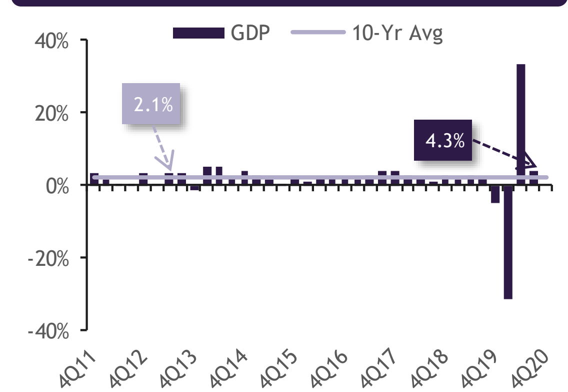
Total Business Inventory / Sales Ratio



CPI vs. PPI - YoY% Change



U.S. GDP



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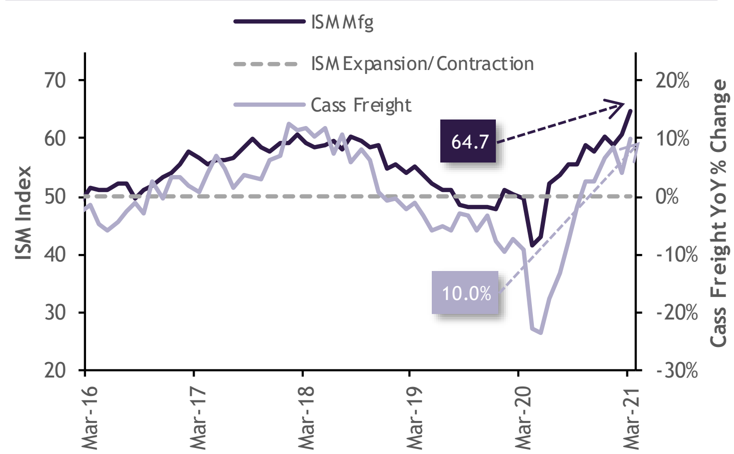
Freight Conditions

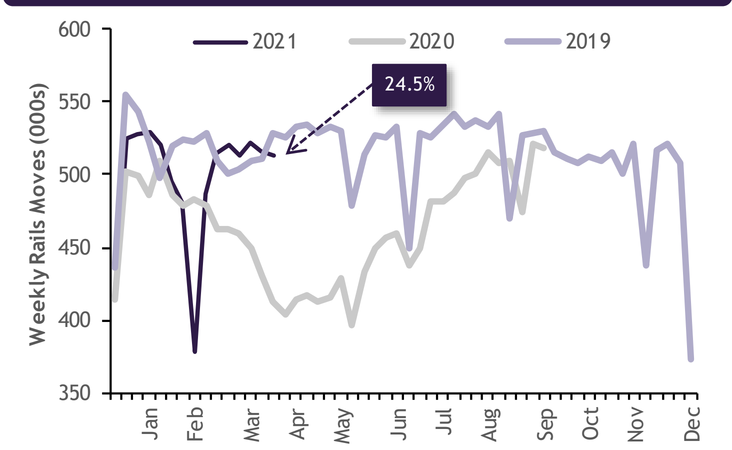
- Freight volumes and pricing have been surging this spring, supported by strong consumer and industrial trends and low inventory levels. The Cass Freight Shipments Index rose 10% in March y/y and the Freight Expenditures Index was up 27.5% y/y.
- Rail volumes are also increasing with total carloads in March up 4.1% y/y - the first y/y gain since January 2019. Many of the commodities hauled by rail are tightly correlated to improving manufacturing activity.
- The ISM Manufacturing Index jumped to 64.7 in March, and was the best level since December of 1983. The index contracted to 41.7 in April of last year when factories, and the economy, were entering into shut-downs.
- The worsening driver shortage continues to pressure truck spot pricing as well as contract rates. JB Hunt recently indicated on their Q1 earnings call that COVID related issues which closed driving schools, combined with the new Federal Drug & Alcohol Clearinghouse have resulted in 220,000 fewer truck drivers.
- With a red-hot freight market combined with a lack of capacity to meet demand, we're likely to see an acceleration in M&A activity across the T&L landscape. Interest rate volatility and the prospects for higher tax rates will add fuel to M&A, as owners looking to sell try to maximize after-tax profit and buyers seek to take advantage of historically low financing costs. Specialized sectors in rail, trucking, final-mile, and tech-enabled brokerages are ripe for consolidation.

Freight Market Indicators

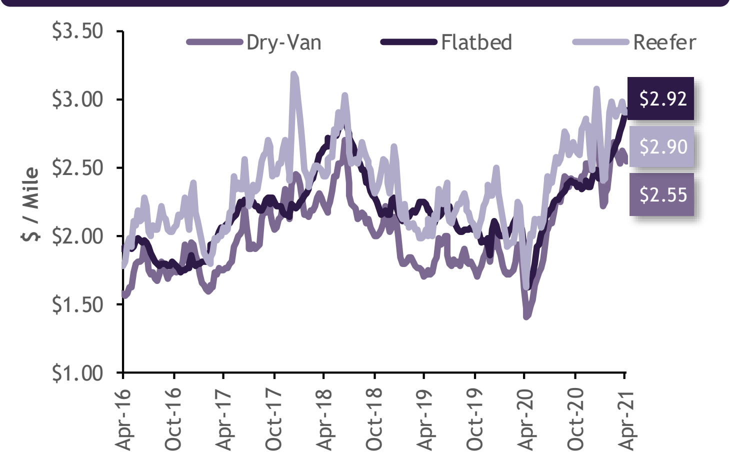
Cass Freight Shipments vs. ISM Mfg Index



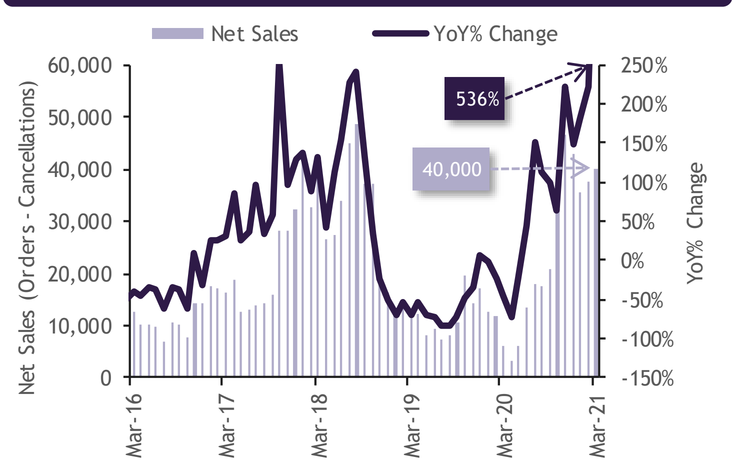
Weekly Rail Carloads (plus Intermodal)



Truck Spot Pricing



Class 8 Net Sales



Sources: Bloomberg, WSJ, FreightWaves.com, TransportTopics, McKinsey Global Institute, Cass Information Systems, AAR, ATA, Truist Securities Research, and Port websites; Truck Spot Pricing data is inclusive of fuel surcharge.

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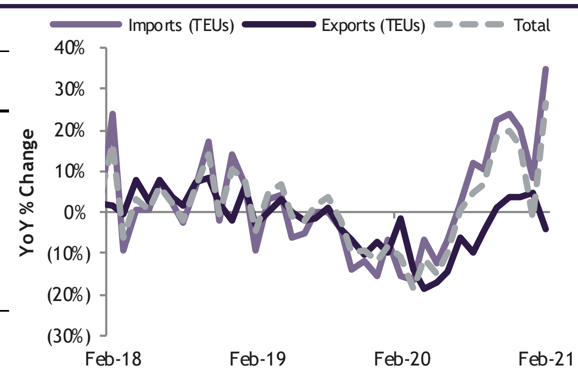
TRUIST

Port, Maritime and Intermodal Update

- U.S. container imports from Asia jumped in March to 1.7MM TEU's, up 22% from the prior month, and almost double volumes from a year ago. The early Spring data is particularly strong given that February and March are typically slow months for imports.
- Vessel traffic waiting to get into Southern California ports is clearing to some extent, as the backlog that caused more than 60 ships to be anchored in San Pedro Bay has been cut in half. Still, the initial conditions that led to the severe congestion, including wait times up to eleven days from the usual two to get containers on rail out of LA, are still prevalent. Similar to 2015, many shippers are diverting cargo to the East Coast to avoid West Coast congestion altogether.
- Ocean freight rates are still near record highs. Rates to ship from China to both the U.S. West Coast and East Coast are more than 3.5X that of a year ago. Although ocean liners are adding capacity, pricing will still remain elevated given the continued consumer buying binge and an ongoing shortage of ocean containers.

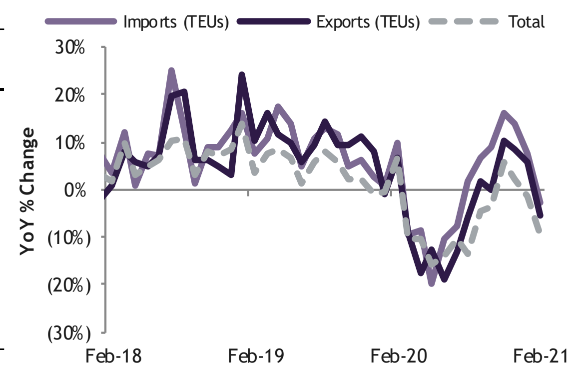
Select North American Port Container Volumes

	2019		2020		2021		
	Total TEUs (000s)	YoY % Δ	Total TEUs (000s)	YoY % Δ	YTD YoY % Δ	Total TEUs (000s)	YoY % Δ
West Coast Ports:						March	
Los Angeles	9,338	(1.3%)	9,213	(1.3%)	44.0%	958	113.0%
Long Beach	7,632	(5.7%)	8,113	6.3%	24.3%	840	62.3%
Vancouver	3,397	0.0%	3,468	2.1%	27.0%	332	39.8%
Seattle / Tacoma	3,775	(0.6%)	3,320	(12.0%)	11.8%	330	25.0%
Oakland	2,500	(1.8%)	2,461	(1.6%)	8.5%	241	27.0%
Prince Rupert	1,211	16.9%	1,141	(5.7%)	15.2%	100	78.8%
Total West Coast	**27,853**	**(1.7%)**	**27,717**	**(0.5%)**	27.1%	**2,802**	**63.4%**

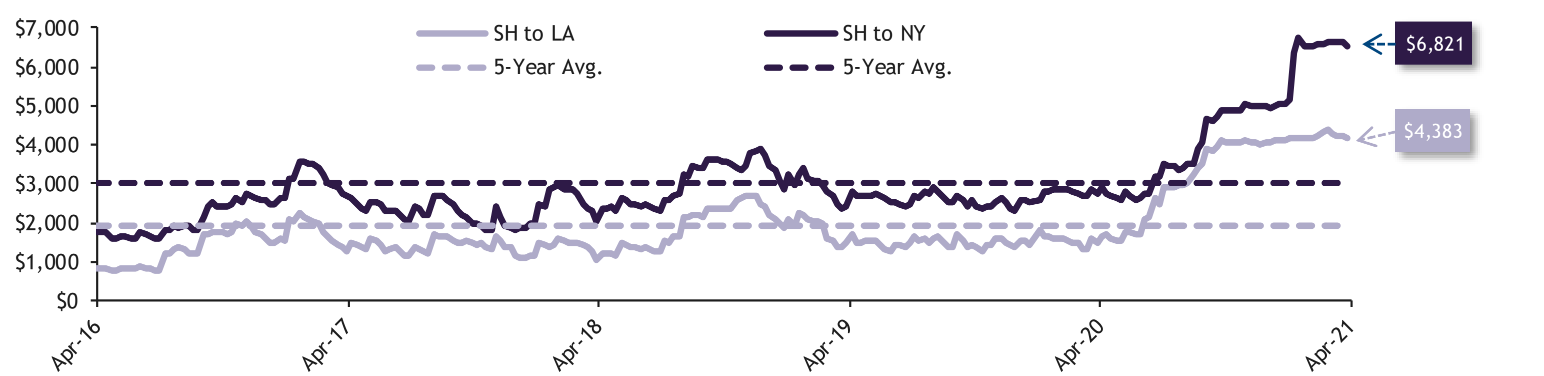


	2019		2020		2021		
	Total TEUs (000s)	YoY % Δ	Total TEUs (000s)	YoY % Δ	YTD YoY % Δ	Total TEUs (000s)	YoY % Δ
East & Gulf Coast Ports:						March	
New York / New Jersey[1]	7,471	4.1%	6,418	(14.1%)	(24.0%)	429	(25.9%)
Savannah	4,599	5.7%	4,683	1.8%	25.1%	498	48.3%
Virginia	2,938	2.9%	2,814	(4.2%)	22.1%	280	27.4%
Houston	2,987	10.6%	2,989	0.1%	(9.1%)	249	0.0%
Charleston	2,436	5.2%	2,310	(5.2%)	9.0%	249	34.0%
Jacksonville[1]	1,338	5.3%	1,295	(3.2%)	7.3%	102	1.6%
Everglades	1,053	(5.0%)	946	(10.2%)	N/A	N/A	N/A
Other East/Gulf Coast Ports*	4,286	5.9%	4,271	(0.3%)	N/A	N/A	N/A
Total East & Gulf Coast	**22,292**	**6.4%**	**21,118**	**14.9%**	(14.7%)	**1,275**	**(26.7%)**

1) Port of NY/NJ and Jax Data as of February 2021



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*