MARKET UPDATE

Economic and Industrial Indicators
Consumer and Employment Indicators
Economic Forecasts: Risks
Highway
Intermodal
U.S. Port Volumes

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October 2022

Economic and Industrial Production Indicators

FTR economists give this appraisal:

The U.S. economy is slowing under the weight of high inflation and rising interest rates. Most economic data has stayed positive but weak. Retail sales were barely positive in August. Inflation is becoming entrenched for services, which means higher interest rates and for a longer time.

Even Fed officials admit that the risks of a recession are high and that their job of engineering a soft landing will be far more difficult to achieve. FTR's current forecast assumes consumers will continue to spend at reasonable levels, but economic pressure is growing. The consumer may succumb to fatigue, resulting in recession.

The ISM manufacturing index fell 1.9 points in September to 50.9, which is the lowest reading since May 2020 and indicates that the sector is barely growing overall. New orders fell more than 4 points to 47.1, and new export orders also fell. Production edged up slightly to 50.6. Manufacturers are adjusting to softening demand.

Industrial production decreased 0.2% in August, following a 0.6% advance in July. Manufacturing gained 0.1%. Demand drivers are slowing, allowing supply chains to improve. Price pressures are easing. The outlook remains positive, but there are downside risks.

Housing starts unexpectedly surged 12.2% in August. The sharp gain in August was driven mostly by the multi-family sector, which rose 28.6% to 621,000 annualized – the highest level since 1986. Limited affordability for single -family homes is driving demand for apartment buildings. Single-family starts rose 3.4% to 935,000 annualized.

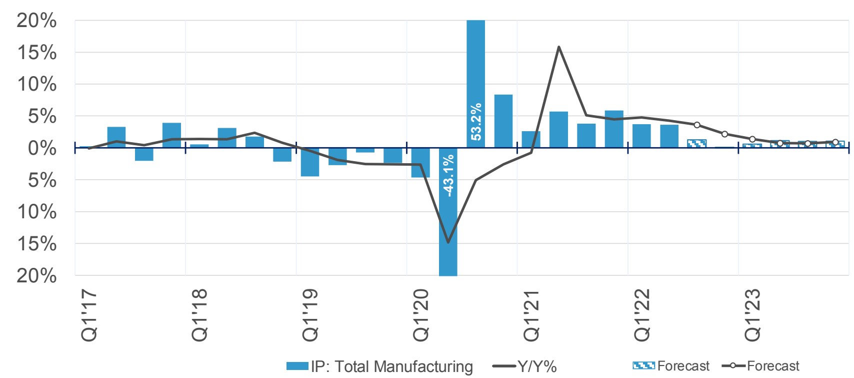
August's strength likely will be short lived as rising mortgage rates and high prices are hitting demand. Permits fell 10%. With mortgage rates nearing 7% and rising, the outlook for housing is not good. Low inventories and pent-up demand should stave off a collapse, however.

Economic Outlook Overview

Q/Q % Change, SAAR	Q2'22	Q3'22F	2022F	2023F
Real Gross Domestic Product (GDP)	-0.6%	0.9%	1.7%	1.8%
Industrial Production (IP)	5.3%	1.4%	4.1%	1.3%
Goods Transportation Sector (GTS)	-3.9%	0.6%	3.6%	2.1%

F = Forecast

IP Outlook: Manufacturing



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August's Economic Environment:

▼ *The data is still showing weakness, but the actual results are a modest improvement from what we saw over the summer.*

	May	Jun	Jul	Aug	Impact	Y/Y Chg.	Comments/FTR Analysis
INDUSTRIAL PRODUCTION							
Total Industrial Production	-0.1%	0.0%	0.5%	-0.2%	●	3.7%	Automotive wasn't able to grow in August, but it was able to hold on to most of July's gain. Industrial activity has slowed but remains reasonably robust despite the many headwinds.
Total Manufacturing	-0.4%	-0.6%	0.6%	0.1%	▲	3.3%	
Automobile and Light Duty Motor Vehicle Production	-1.6%	-0.8%	5.7%	-1.1%	●	18.7%	
BUSINESS INDICATORS							
Unemployment Rate	3.6%	3.6%	3.5%	3.7%	●	-150 bp	Employment gains were broad-based and remain strong. Business activity is subdued but is not indicating any sort of cliff event despite rising interest and inflation.
Job Creation (Payroll Employment)	386k	293k	526k	315k	▲	5,840k	
ISM Manufacturing Index	56.1	53.0	52.8	52.8	▲	-710 bp	
CONSUMER INDICATORS							
Consumer Confidence (Conference Board)	103.2	98.4	95.7	--	●	-29.4 pts	The consumer continues to keep up with inflation, but confidence has weakened substantially and the housing sector has eased back in dramatic fashion as mortgage rates surge.
Housing Starts	-13.5%	0.8%	-10.9%	12.2%	●	-0.1%	
Retail Sales	0.4%	1.0%	-0.4%	0.3%	▲	9.1%	
Consumer Price Index	1.0%	1.3%	0.0%	0.1%	●	8.2%	
OIL AND FUEL							
National Avg. Diesel/Gal.	$5.571	$5.754	$5.486	$5.013	▲	49.6%	Diesel prices have once again dipped below $5/gal, but they remain elevated compared to crude oil prices that sit near $75.
W. Texas Int. Crude Oil ($Bbl.)	$109.55	$114.84	$101.62	$93.67	●	38.3%	

Impacts: ▲ = Positive / ▼ = Negative / ● = Neutral

Sources: FTR, Bureau of Labor Statistics, U.S. Department of Commerce

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Consumer and Employment Indicators

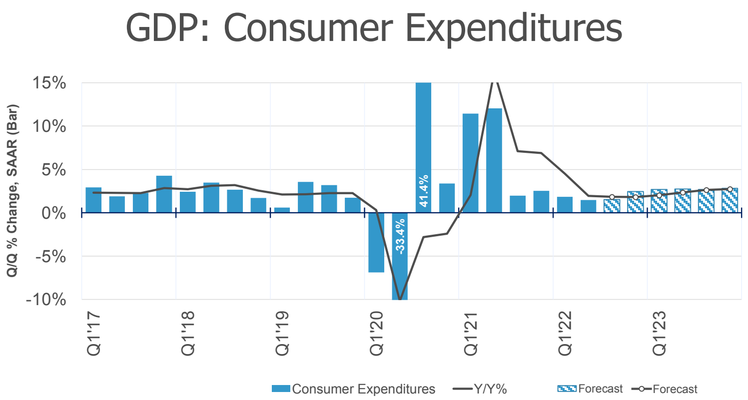
FTR economists provide this analysis:

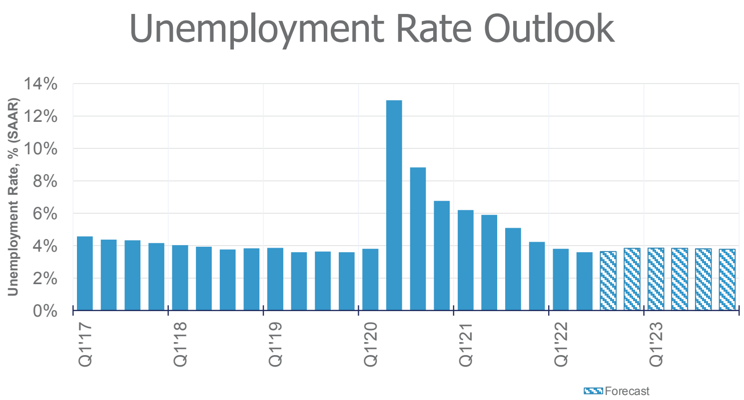
Retail sales rose 0.3% in August following a downwardly revised 0.4% decline in July. Year-over-year sales were up 9.3% for total and 7.6% for core sales. The data suggests that consumer are still inclined to spend even in the face of inflation and higher interest rates.

Sales remain above trend, but inflation is boosting the numbers significantly. Real retail sales were barely positive in August and have been basically trending flat since 2021. With growing pressure on the consumer from higher rates and inflation, the outlook for consumer spending increasingly is uncertain.

The labor markets are still showing vigor. Employers added 315,000 jobs in August, close to expectations. The unemployment rate jumped to 3.7%. The increase was largely driven by an increase in the labor participation rate, which rose to 62.4%, matching April as the highest level since March 2020.

The civilian labor force increase is good news for an economy plagued by a lack of workers. Average wages increased 0.3%, weaker than previous months. With the economy slowing, the outlook calls for a weaker trend in employment and wages but not low enough for the Fed.





Source: BEA, Witte Econometrics, FTR

Economic Forecast: Risks

Forecast Risks:

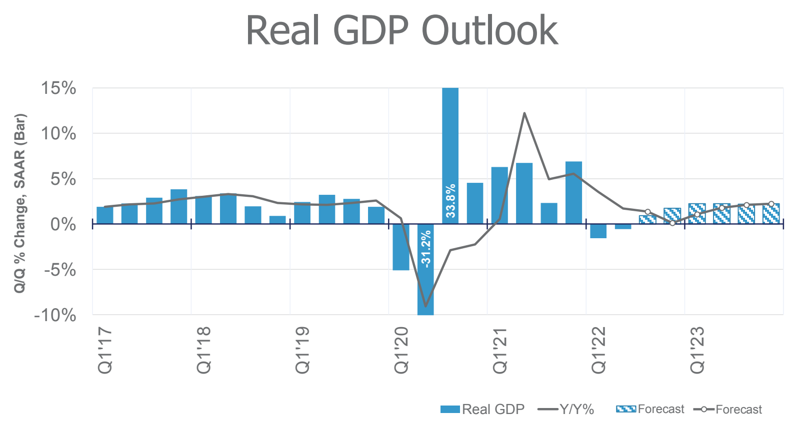
The U.S. economy has slowed significantly this year. Consumer spending has been solid despite high prices and high interest rates. Employment growth is slowing but is the economy's one bright spot. The economy's course will depend on consumer endurance, especially when job growth inevitably moderates next year.

Inflation is slowing for goods but may be becoming more entrenched in services. That means higher costs and a higher probability of a recession. Risks remain tilted to the downside. Any upside risks would involve an unexpected weakening of inflation and less Fed intervention.

Economic Outlook Probabilities

GDP Forecast Confidence Levels

	Next 4 Quarters		Following 2 Years	
	GDP Range	Probability	GDP Range	Probability
Faster Growth	>2.5%	15%	>2.5%	20%
Base Forecast	**2.0%**	**50%**	**2.0%**	**50%**
Slower Growth	<1.5%	35%	<1.5%	30%



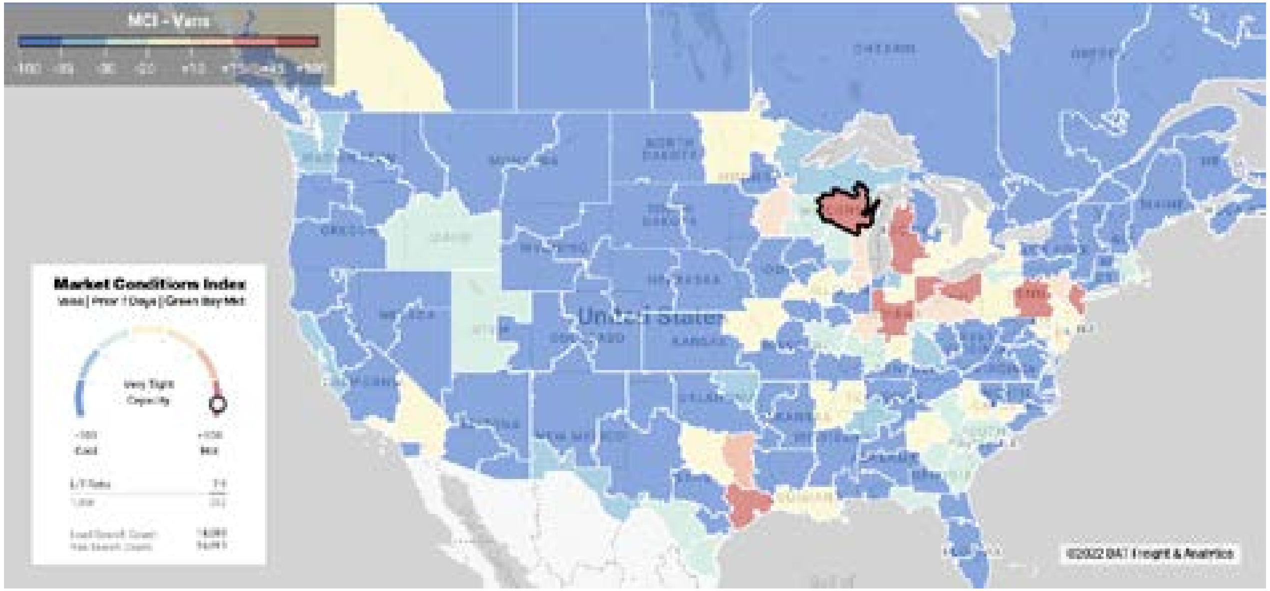
Source: FTR, BLS

Dry Van Report: No signs of a freight recession (yet)

Overhyped talk of a freight recession in recent months seems to have missed the mark, for the time being, anyway. Nearly all freight marketing indicators have demand higher than the previous year and substantially higher than in 2018. According to the leading freight demand for-hire trucking ton-mile index (TTMI) published by Michigan State University (MSU), demand showed a sharp rebound in August on both a not-seasonally adjusted and seasonally adjusted basis.

The August TTMI rebounded to June 2022 levels, although the data suggest ton-miles are flatlining at about 3% above this time in 2021. According to Professor Miller, "in 2019, ton-miles declined by ~1% from 2018 levels, which is consistent with a true freight recession. We are not in one of those (yet)." As things stand, August 2022's reading is the highest ton-mile reading in the history of U.S. trucking (not exactly consistent with us being in a recession).

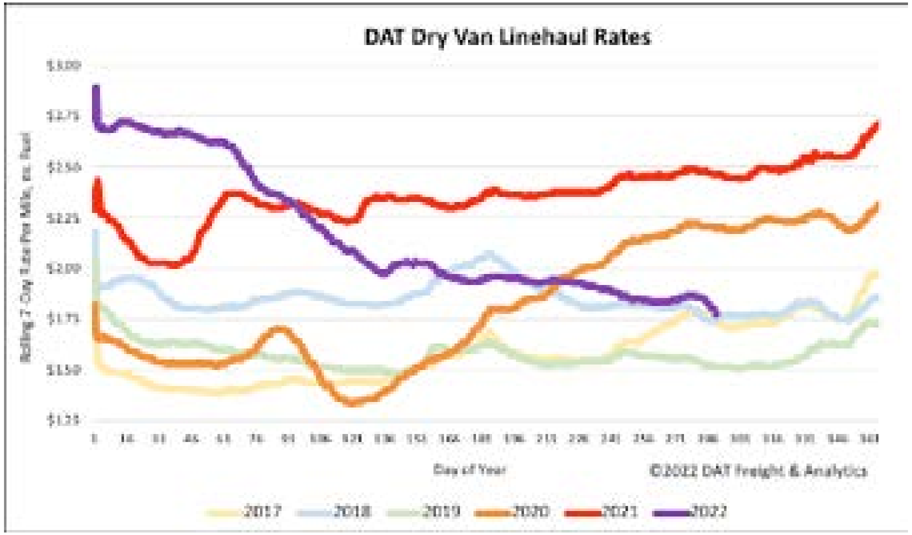
August's sequential recovery in the TTMI was driven by a strong rebound in inflation-adjusted sales in the wholesaling sector, which saw a sharp decline in July.



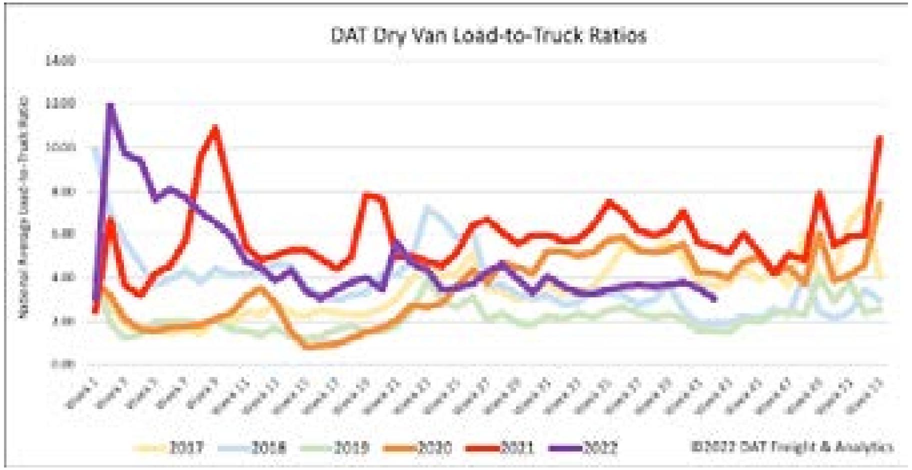
This increase in "real" wholesaling sales was broad-based, a good sign according to Miller, who also added, "in 2019, ton-miles declined by ~1% from 2018 levels, which is consistent with a true freight recession.We are not in one of those (yet)". The MSU report noted that since trucking activity represents derived demand from manufacturing, mining, wholesaling, retailing, and warehousing, "the TTMI data for August makes clear that the U.S. economy is almost assuredly not in a recession. You don't have year-over-year ton-mile increases of 3% during a recession," according to the report.

Source: DAT, ATA, CASS

Highway Trends, cont'd.



Dry van spot rates have decreased by just over $1.00/mile or 36% since the start of 2022, following last week's $0.04/mile decrease to a national average of $1.71/mile. Dry van linehaul rates are now $0.72/mile lower y/y, $0.03/mile lower than in 2018, and just $0.02/mile higher than in 2017, which was a recovery year following the 2016 freight recession. The top 50 dry van lanes, based on the volume of loads moved, averaged $2.08/mile last week, $0.37/mile higher than the national average.



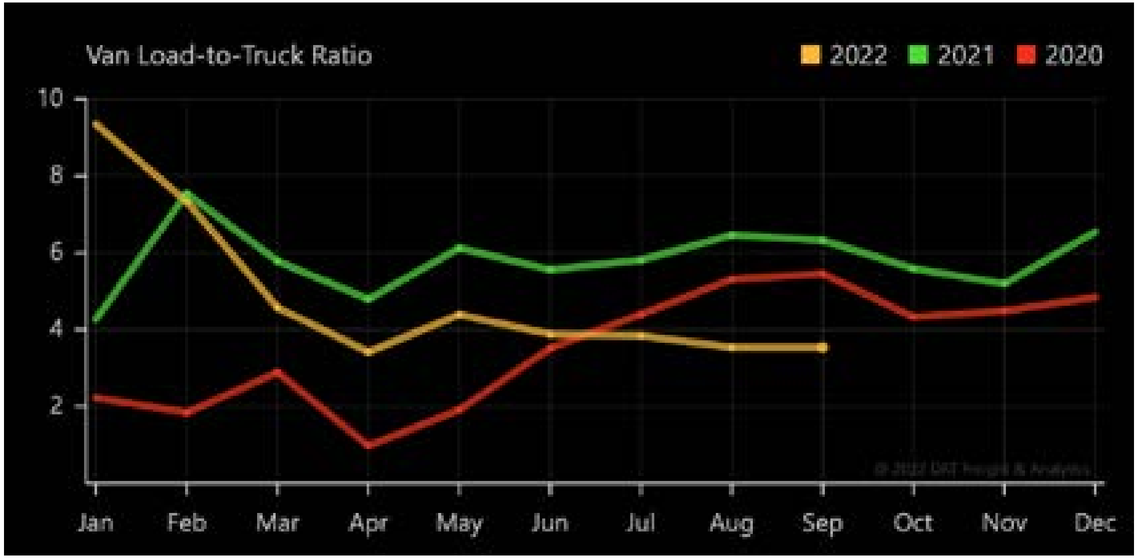
Load posts plunged last week, decreasing by 16% w/w and 23% m/m. Compared to mid-October of the previous year, volumes are 41% lower, while carriers posting their equipment in search of loads are 22% higher y/y. Spot market capacity continues to loosen as equipment posts increase by 13% m/m, and compared to 2019 when the market was oversupplied with trucks, volumes last week were 8% higher. Last week, fewer load posts and more equipment posts decreased the dry van load-to-truck ratio (LTR) by 18% w/w from 3.03 to 2.47, not far off 2018 and 2019 LTR levels.

Source: DAT, ATA, CASS

Highway: Load-to-Truck Ratio

DAT analysis of trends affecting the LTR:

- Contract rates – existing rates in routing guides are down approximately 1% in dry van and 2% in reefer
- New contract rates entering routing guides down 9% in dry van and reefer
- Load post down 16% and equipment posts up 13% versus last month, indicating loosening capacity
- Hurricane Ian had a limited impact on the overall market; however, fruit and vegetable damages were estimated to top $1 billion



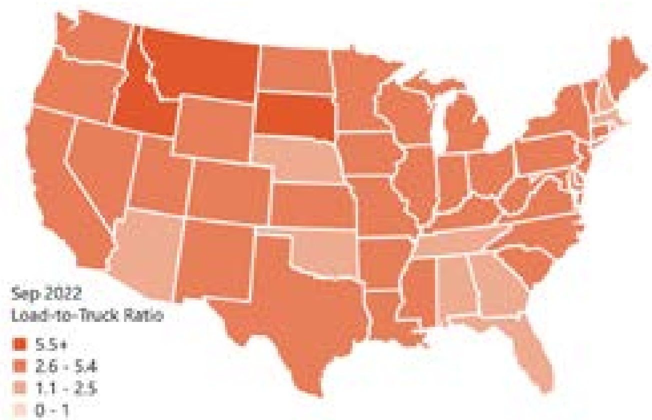
Source: DAT, FTR

Highway: Load-to-Truck Ratio

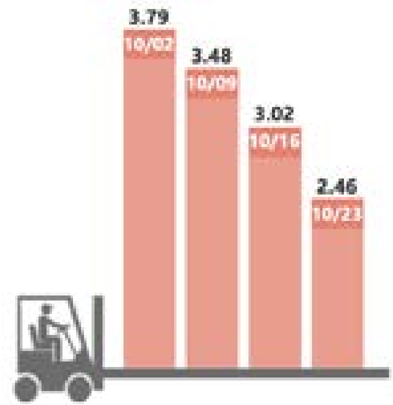
FreightWaves/American Shipper analysis:

- As the linehaul spot rate remains 80 cents below contract rates, there is still runway for contract rates to depress throughout the next six months
- The Van Outbound Tender Volume Index (VOTVI) was down 0.36% w/w, reflecting the deceleration in the goods economy and was down 25.24% y/y
- Rejection rates fell below 5% indicating a surplus of capacity; carriers will continue to yield leverage to shippers in upcoming negotiation cycles for contract rates
- With the peak season already completed in ocean freight, we can say with certainty that this year's peak season (Trucking and Intermodal: October through December 15) will be weaker than in previous cycles
- Retailers have nearly all of the products they need in their distribution networks for the holidays (and then some), which means that there will be reduced freight demand as we head into the last two months of the year

National Van Demand and Capacity



National Load-to-Truck Ratio



Source: DAT, FTR

Highway: Rate Outlook

DAT analysis:

- Spot market carriers feel squeeze from diesel prices, diesel up $0.505 this month (since October 3)
- Spot rates slide again - $0.06/mile below 2018 and just $0.02/mile above 2017

FreightWaves/American Shipper analysis:

- As the linehaul spot rate remains 80 cents below contract rates, there is still runway for contract rates to depress throughout the next six months
- The Van Outbound Tender Volume Index (VOTVI) was down 0.36% w/w, reflecting the deceleration in the goods economy and was down 25.24% y/y

National Spot Rates: Van, Flatbed, Reefer

Sources: DAT, FTR, *Journal of Commerce*

Intermodal: North America Volumes

FTR analysis from AAR statistics:

U.S. intermodal loadings are expected to increase next year, but face several risks and uncertainties that could derail that thesis. While rail service will play a role in the final outcome for where volumes land, more important when considering 2023's results is the state of the underlying economy. If strong inflation zaps consumer spending demand for discretionary items, U.S. origins would be inline to take the largest hit given their overweight position already in the marketplace. U.S. volumes could come under pressure over the remaining quarter of 2022 is shippers who diverted goods as a result of uncertainty about a labor stoppage on the rails fail to bring the traffic back quickly.

Canadian intermodal traffic has outperformed its U.S. counterpart in recent weeks, as shippers look past the lack of transloading capacity on Canada's Pacific coast and instead search for the quickest way to get goods through to end markets. Rampant U.S. port terminal congestion has been a boon for Canadian intermodal loadings on both coasts.

Mexican originations have been steady over the last several weeks as it has not been as impacted by port congestion and potential labor disruptions.

N.A. Rail Intermodal Summary

Revenue Moves (000s) & Annual Growth Rate

			Forecast		
Country of Origin	2020	2021	2022	2023	2024
United States	**14,359**	**14,948**	**14,456**	**14,763**	**15,526**
Y/Y % Change	-1.8%	4.1%	-3.3%	2.1%	5.2%
Canada	**2,898**	**2,988**	**2,975**	**3,025**	**3,005**
Y/Y % Change	-0.9%	3.1%	-0.4%	1.7%	-0.7%
Mexico	**511**	**499**	**594**	**664**	**682**
Y/Y % Change	-15.2%	-2.3%	19.0%	11.9%	2.8%
Total	**17,767**	**18,435**	**18,010**	**18,448**	**19,208**
Y/Y % Change	-2.1%	3.8%	-2.3%	2.4%	4.1%

Sources: AAR, FTR, IANA

Intermodal Rail Outlook

Domestic intermodal is expected to fare better than international over the coming years

Lower diesel prices and softening capacity in the competing truckload market threaten to erode intermodal's competitive position.

The transloading trend that accelerated during the COVID-19 pandemic is not expected to abate in the coming years, as beneficial cargo owners appreciate the lower unit cost and standard unloading that can happen at their distribution centers relative to a smaller 40' international box. This will be a net tailwind to domestic intermodal in coming years, while holding back international growth potential.

Domestic trailers are expected to stabilize next year and not maintain their significant declines posted in 2022. There is some risk to that forecast if the economy underperforms and parcel volumes in particular do not materialize as expected.

Diesel prices have come down over the last two months from their record highs, and this has added pressure to the competitive position of intermodal relative to its domestic truckload competition. The lower fuel price allows trucking companies to be more competitive in their bids and potentially force the railroads to respond with rate decreases of their own.

N.A. Rail Intermodal: Summary Outlook

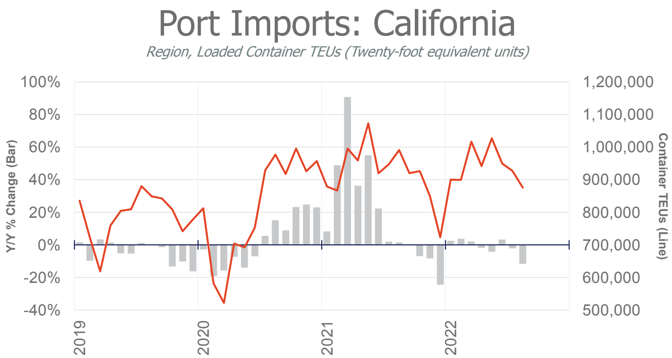
Not Seasonally Adjusted (000s of Loadings Originated)

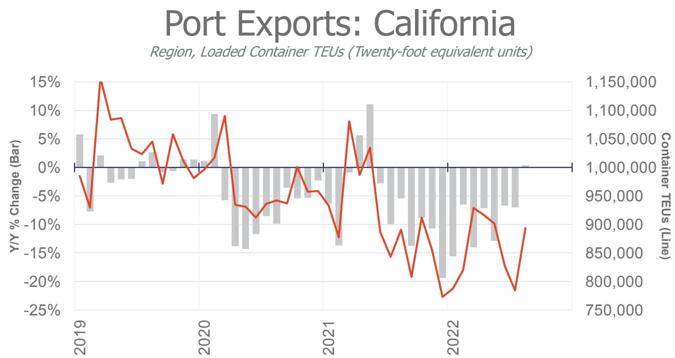
	MONTH				QUARTER			YEAR		
F = Forecast	Sep-22	Oct-22	Nov-22	Dec-22	Q3'22	Q4'22	Q1'23	2022	2023	2024
Total Intermodal Loads	**1,511.6**	**1,593.0**	**1,421.4**	**1,473.3**	**4,578.7**	**4,487.7**	**4,306.8**	**18,010**	**18,448**	**19,208**
Y/Y % Change [1]	0.8%	3.8%	-0.3%	2.5%	-0.1%	2.1%	-0.1%	-2.3%	2.4%	4.1%
Market Segments										
Total Domestic	**2.1%**	**0.3%**	**-6.1%**	**-7.7%**	**0.2%**	**-4.5%**	**-5.4%**	**-0.4%**	**3.4%**	**5.4%**
Domestic Container	4.2%	3.8%	-2.1%	-4.7%	3.5%	-0.9%	-2.9%	2.9%	5.1%	5.8%
Total International	**-0.5%**	**7.7%**	**6.7%**	**15.3%**	**-0.4%**	**9.8%**	**5.9%**	**-4.2%**	**1.4%**	**2.8%**
Long Container	-1.1%	7.3%	6.0%	12.6%	0.2%	8.6%	1.6%	-3.7%	-1.9%	2.7%

[1] - Y/Y % Change: Current period vs. year-ago period.

Source: FTR, IANA

U.S. Port Volumes — California Ports Highlights





California Region Ports

000s of TEUs	Jun-22	Jul-22	Aug-22	Last 12 Months
Los Angeles Imports	**444.7**	**485.5**	**403.6**	**5,360.9**
Loaded Exports	93.9	103.9	102.3	1,160.6
Long Beach Imports	**409.5**	**371.9**	**384.5**	**4,578.5**
Loaded Exports	80.0	71.3	121.4	1,290.6
Oakland Imports	**95.5**	**69.5**	**87.8**	**1,017.7**
Loaded Exports	68.2	47.2	67.8	771.5

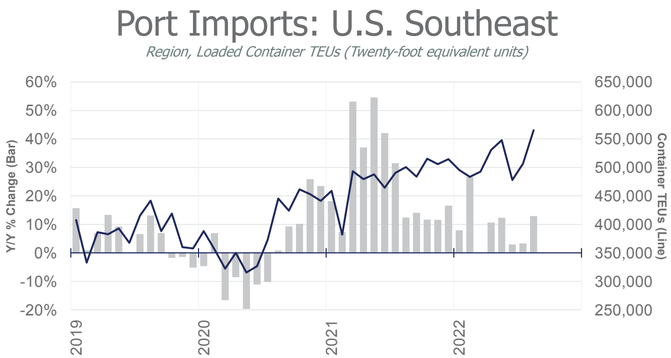
California Region Port Activity

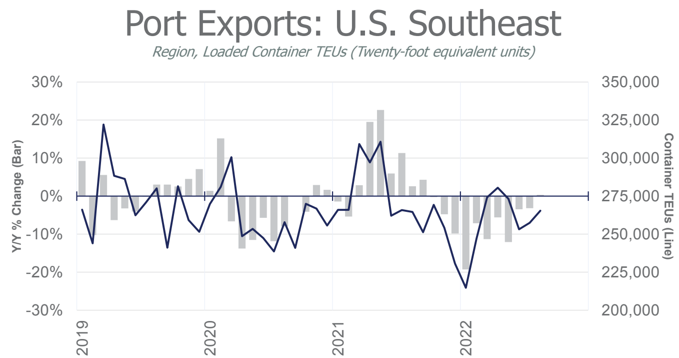
000s of TEUs	Jun-22	Jul-22	Aug-22	Last 12 Months
Loaded Imports	**949.7**	**926.9**	**876.0**	**10,957.1**
M/M % Change	-7.5%	-2.4%	-5.5%	
Y/Y % Change	-6.6%	-1.6%	-11.6%	-4.1%
Loaded Exports	**242.1**	**222.4**	**291.6**	**3,222.7**
M/M % Change	-15.0%	-8.2%	31.1%	
Y/Y % Change	-18.2%	-22.7%	-0.3%	-13.6%

S.A. = Seasonally Adjusted

Source: FTR

U.S. Port Volumes — Southeast Ports Highlights





Southeast Region Ports

000s of TEUs	Jun-22	Jul-22	Aug-22	Last 12 Months
Virginia Imports	**151.4**	**149.8**	**160.7**	**1,792.2**
Loaded Exports	86.1	85.2	95.7	1,060.4
Charlotte Imports	**90.1**	**104.8**	**113.8**	**1,396.5**
Loaded Exports	44.7	49.3	50.5	685.4
Savannah Imports	**236.5**	**251.8**	**290.9**	**2,930.1**
Loaded Exports	122.3	122.9	119.2	1,325.1

Southeast Region Port Activity

000s of TEUs	Jun-22	Jul-22	Aug-22	Last 12 Months
Loaded Imports	**478.0**	**506.4**	**565.4**	**6,118.8**
M/M % Change	-12.8%	6.0%	11.6%	
Y/Y % Change	-2.9%	-4.5%	12.9%	10.5%
Loaded Exports	**253.1**	**257.4**	**265.4**	**3,070.9**
M/M % Change	-7.4%	1.7%	3.1%	
Y/Y % Change	-7.7%	-8.2%	0.3%	-6.2%

S.A. = Seasonally Adjusted

Source: FTR, AAPA

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