March 8, 2011

Trucking: Red-Hot Freight

The latest BB&T Capital Markets report (March 4, 2011) was just released. The report provides a snapshot of what happened in the transportation market in February 2011 and the outlook for March 2011. No surprises, but some good observations. Take a look!

Trucking

Key Points

- "**Will 2011 be déjà vu all over again?** Similar to 2010, weather was very challenging, but just like last year freight began to percolate in mid-to-late February. Currently, freight is red-hot. And just like a year ago flatbed freight improved first and the fastest, but has also broadened to include improving van and reefer trends."

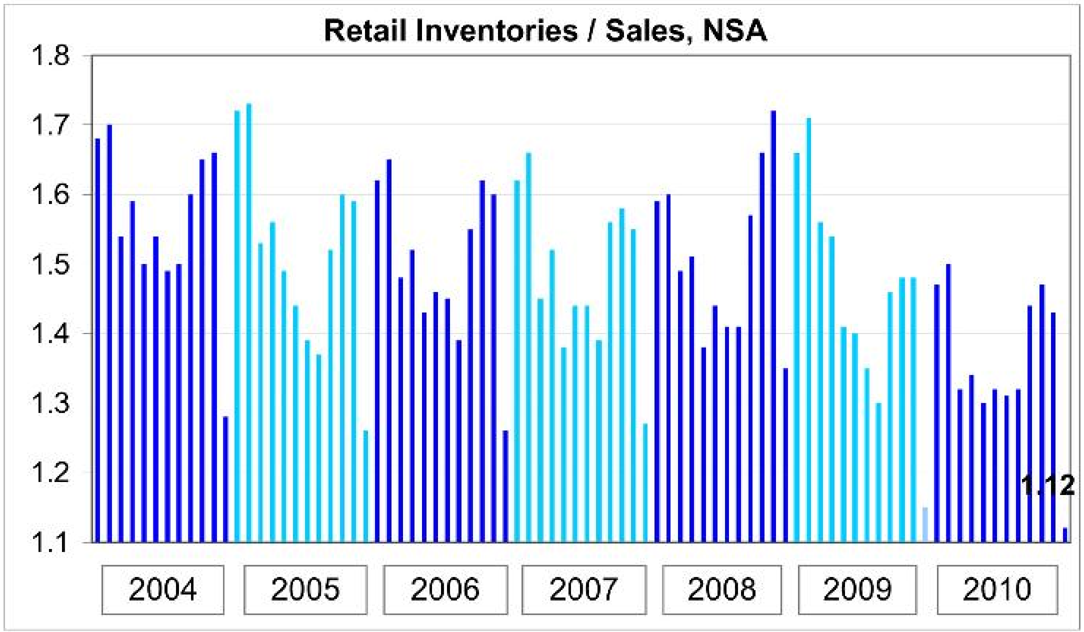
Historically, when the economy begins to decline, flatbed truckers are usually the first to feel the pain. Conversely, when the economy begins to pick up, flatbed truckers are the first to feel the uptick. History is repeating itself as flatbed freight is very strong and is positioning to be extremely positive in March and into April.

- "**Improving volumes and load-to-tractor ratios have been seen** in Ohio, the southeast (especially out of Atlanta), parts of the southwest, the upper Midwest (especially inbound Chicago) and even the mid-Atlantic. Contract rates are stable, while spot rates are rising. March has 23 billing days and is typically the third largest freight month in the calendar year so we do not expect a slowdown until April."

March is off to an incredible start! The good news is that many shippers are actually seeing improved demand for their products, many are adding production shifts and increasing output. Our demand analysis mirrors the information above. Flatbed carries cannot position enough trucks into the upper Midwest to meet demand. Carriers are having to pick and choose whose loads they will take. Those Shippers that have not maintained a strong relationship and worked together on pricing are at a severe disadvantage in this market. The South and Southeast also began heating up the second half of February and looks to continue the momentum into March & April. The West has been dead with little relief in sight. Look for carriers to limit their trucks going West and/or begin to charge much higher rates (20 - 35%) because there is little freight coming back East, rates are pitifully low, and the cost of fuel is $ .15 - $ .20 per gallon higher than the DOE National Average. Surprisingly, we are seeing some spotty increased demand in the Northeast too. As the Northeast emerges from winter weather and demand picks up, we anticipate that capacity to/from the Northeast will be tighter than we've seen in years. With CSA, pending HOS initiatives limiting productivity, increased tolls, bridges, and delays - fewer carriers will want to serve that region when they have so many other higher paying, higher productivity options. Look for rates into the Northeast to shoot upward as carriers will price that freight round-trip to a destination with reasonable outbound freight.

- "**Inventories post the holidays are at attractive levels as seen in Figure 1.** While government inventory statistics lag by two months, the year-end inventory-to-sales ratio of 1.12x was the lowest in our database and well below the December average from 2003-2009 of 1.26x. This is another reason freight volumes are off to a good 2011 start."

Figure 1: The Retail Inventory-to-Sales Ratio Finished 2010 at 1.12, Well Below the 1.26 Year-End Average from 2003-2009



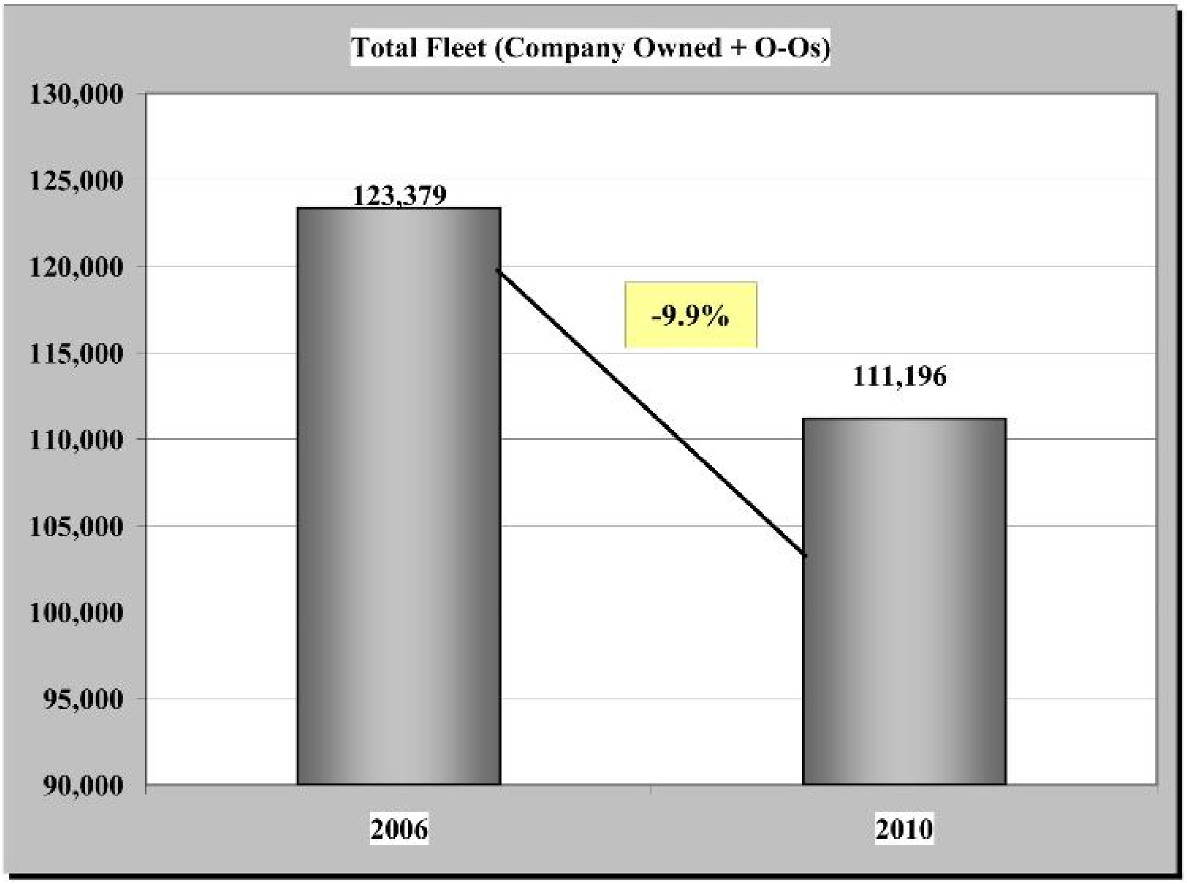
Source: U.S. Census Bureau. NSA is not seasonally adjusted data.

- "**Survey.** We're often asked about fleet capacity changes. In the past we've showed that the population of Class 8 tractors 8-years old or newer and 15-years old or newer has shrunk 16% and 12%, respectively, from the equipment peaks of early 2007. Figures 2 and 3 show survey results from 34 large, for-hire truckload carriers (including 31 of the top 100 for-hire TL fleets). From the end of 2006 (near the equipment peak and at the beginning of the freight downturn) to the end of 2010, those 34 fleets shrunk 9.9%. Figure 3 distinguishes between the shrinkage in company-owned tractors (-12.1 %) and owner-operators (-1.9%). Of the 34 fleets, only 8 grew their fleets, 3 were flat (+/-1%) and the other 23 shrunk their tractor counts."

The fact that of the 34 (out of 100 largest carriers) polled - only 8 grew their fleets while 23 shrunk tells the story on the capacity side of the demand/capacity equation. Even if carriers had the financial wherewithal and wanted to grow their fleets aggressively, it would be very difficult to do so because:

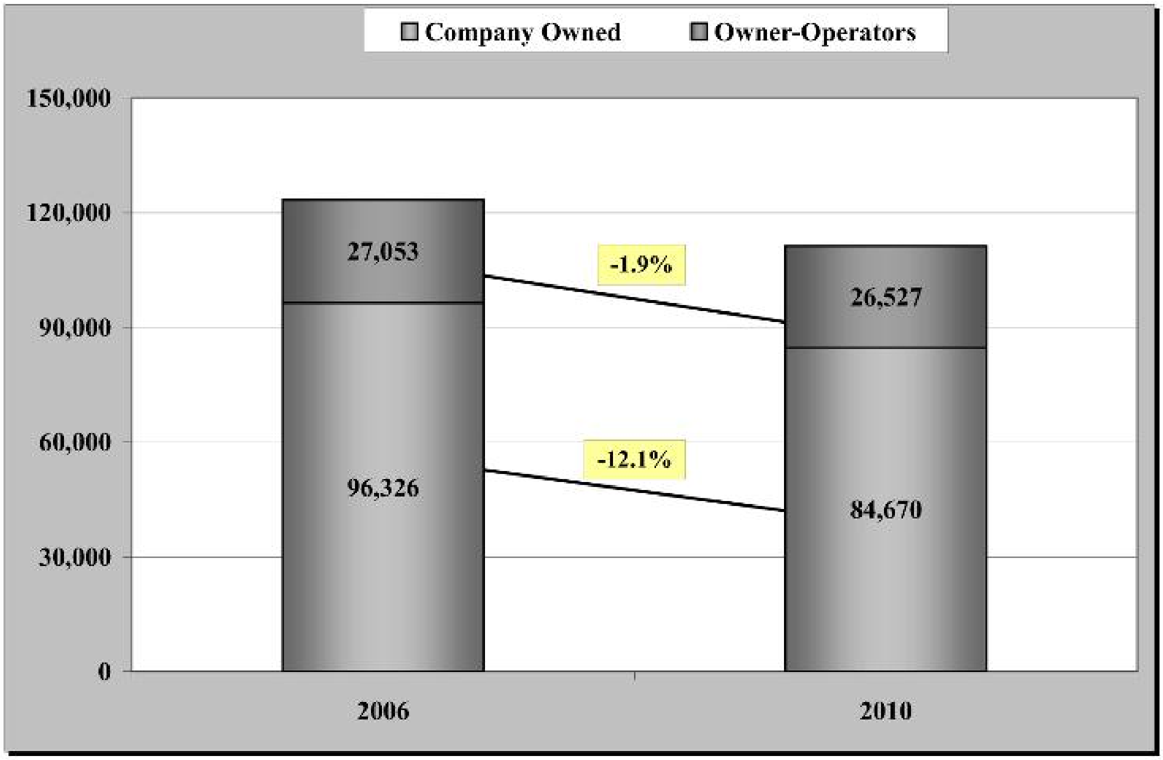
- **Truck manufacturers can only produce so many trucks per day.**
- **Carriers can only put into service a limited number of trucks per day - assuming they can even find enough CSA qualified drivers.**
- **Carriers cannot add trucks without adding & training support staff such as dispatchers, Customer Service Reps, Load Planners, etc. and it takes 6 - 12 months to hire and fully train support staff.**

Figure 2: 34 Large Fleets Have Shrunk Their Tractors by 9.9% Since the End of 2006



Source: Company reports of public carriers (CVTI, CGI, HTLD [BBT estimate], JBHT, KNX, LSTR, MRTN, WERN, SWFT, UACL and USAK. No LTL carriers are included in tractor data. Remaining carriers are private carriers that responded to our survey between February 28 and March 3.

Figure 3: Company-owned Tractors Have Shrunk More than 12% Compared to a Roughly 2% Shrinkage in Owner-Operators



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If you have any questions or need additional information, please don't hesitate to contact me.

Sincerely,

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