

Macro Forecast of US Rail & Trucking Industries – 2004 vs 2016

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About PLG

- Provides logistics consulting, management, engineering, market analysis, and facility development services
- Focused on chemicals, plastics, energy products, and other bulk commodities
- Formed in 2001
- Headquarters in Chicago, with team members in Dallas, Houston, Baltimore, Philadelphia, Milwaukee, and New Jersey
- PLG team is comprised of more than a dozen logistics veterans, all with at least 20 years of experience within major shipper, transportation, engineering, or related services companies



Partial Client List

Some of our 25+ clients include:



Primary Services for Shippers

- Logistics planning & strategy
- Logistics procurement
- Distribution network optimization
- Major contract and RFP negotiations
- Outsource management of strategic logistics functions
- Rail design & engineering
- Facilities development



US Freight Movements: Legislative and Political Environment

- ❑ Domestic Federal Surface Transport Program
SAFETEA LU Bill (2005-2009)
5% real \$\$ funding increase vs. prior TEA-21
- ❑ Real improvement needs & maintenance vs. Funds available
\$1Trillion shortfall over next 10 years
- ❑ Increased port funding likely at expense of inland waterways
- ❑ Increased rail competition unlikely unless catastrophic event forces change



Modal Capacity Challenges - 2006

- ❑ Far East import explosion
- ❑ Global economy on many raw materials increases imports
- ❑ Port & Customs capacity strained
- ❑ Labor shortages – operator level, all modes
- ❑ Security = increased costs and delays
- ❑ Rail service deterioration
- ❑ Highway & Rail congestion = productivity loss
- ❑ Pending 2007 EPA air and fuel rules change



Freight Future by 2020

- ❑ Imports and exports double every 10 years
- ❑ Freight traffic within US borders increases 100% from 2004
- ❑ Foreign trade through US ports has increased by 180% vs. 2004
- ❑ Containerized cargo increases by 350%
- ❑ Domestic trucks move 75% more tons
- ❑ Railroads move 44% more tons

Source – J.T. Mentzer, Univ. of Tennessee



Domestic Transport Market by Mode - 2004

<u>Mode</u>	<u>Volume Share %</u>	<u>Revenue Share %</u>
Truck	68%	88%
Rail	15.5%	5.5%
Water	7.4%	1.1%
<u>Air & Pipe</u>	<u>balance</u>	<u>balance</u>
Total	14,500 million tons	\$766 Billion

Source – Global Insight



Current North American Railroad Industry Environment

- ❑ Unprecedented
 - Growth, especially intermodal
 - Freight Cost increases to shippers
 - Fuel Surcharge recovery in excess of fuel expense
- ❑ New pricing policy – now market based instead of cost based
- ❑ 2 of big 4 Carriers earned cost of capital in 2005
- ❑ Congestion will worsen as volumes grow
- ❑ Service can improve but major progress is unlikely



Average annual growth rate (%)

2006-2016

Volumes 2.1%

Cost/Price Escalation 5.2%

Sources – MSDW, UBS, Global Insight



North American Railroads: Will Industry Capacity Expand to Handle Growth?

- ❑ Expect congestion and strained infrastructure
- ❑ Expansion will be reactive to growth
- ❑ Selective capacity expansion will occur
- ❑ Capacity restrictions will push prices higher
- ❑ Issues

Fuel surcharges will add to carrier profits

Price increases will moderate following rollover of legacy contracts

A terrorism or Hazmat catastrophe will impact hazmats dramatically



North American Trucking Packaged Freight Carriers

- ❑ Industry and market dynamics

- 52% of total truck market volume

- Top 50 carriers handle 18% of volume

- Gaining market share vs. other modes

- ❑ Concerns

- Truck driver availability is critical

- Average driver age is 45 yrs

- Need 110m drivers by 2014 w/o attrition

- Projected 2014 need is 500,000 drivers

- Wage increase of 60% is needed to attract/retain vs. peer industries (\$40k/yr now to \$60+k/yr)



North American Trucking Volume Growth

Average annual growth rate (%)

2006-2016

Bulk Trucking 2.2%

Package
Trucking 3.1%

Sources – ATA, NTTC, Global Insight



Average annual growth rate (%)

2006-2016

Bulk Trucking 4.7%

Package Trucking 5.3%

sources – MSDW, UBS, Global Insight, Carrier interviews



North American Trucking: Will Industry Capacity Expand to Handle Growth?

- Bulk

Industry should be able to expand, less certain than package
Issues

- Under funded small operators
- Shrinking Hazmat driver pool

- Package

Industry can and will expand
Issues

- Driver availability and pay
- Highway congestion



Thank you!

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