ECONOMIC OUTLOOK AND TRENDS IN LOGISTICS

MAFC/ITTS/KYTC

Joint Annual Freight Meeting

Louisville, Kentucky

March 12, 2013

Delcan

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The U.S. Business Logistics System Cost is the Equivalent of 8.5 Percent of Current GDP in 2011

		$ Billions
Carrying Costs - $2.184 Trillion All Business Inventory		
Interest		3
Taxes, Obsolescence, Depreciation, Insurance		294
Warehousing		120
	Subtotal	**418**
Transportation Costs		
Motor Carriers		
Truck – Intercity		*431*
Truck – Local		*198*
	Subtotal	**629**
Other Carriers		
Railroads		*68* ↑
Water	*(International 28, Domestic 5)*	*32* ↓
Oil Pipelines		*10* ↑
Air	*(International 16, Domestic 15)*	*32* →
Forwarders		*35* ↑
	Subtotal	**177**
Shipper Related Costs		**10**
Logistics Administration		**49**
	TOTAL LOGISTICS COST	**1,282**

Source: 23rd Annual State of Logistics Report

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Trends

- Slowest recovery from a recession since the Great Depression
- Low freight volume has led to a reduction in capacity in some industry segments
  - Truck equipment contracted by 16 to 19 percent and driver shortage prevents full utilization of existing capacity
  - Air cargo capacity reduced by 11 percent
- Two industry sectors have increased capacity
  - Railroads continued with capital investment programs and are well placed to handle volume increases
  - Ocean carriers continued to take delivery of new container ships and have almost doubled capacity at a time when global volumes are down
- Costs are rising rapidly – labor, fuel, new equipment costs
- Credit market is tight, but flush with cash
- Current conditions in U.S. and globally are not rosy

Truck Industry Recap

- Rates were flat for much of 2012; tonnage up 2.3 percent
- Truck capacity is tight and utilization rates are at 95 to 97 percent; driver shortage persists
- Costs continue to climb, but rates have only inched up
- Truck sales gained strength, but have not reached replacement levels; used truck prices soared and the supply has dwindled
- CSA/Hours of Service
  - CSA requirements for truck drivers and drug and medical testing has reduced the pool of eligible drivers
  - While cognizant of the implications of CSA scores, shippers have relaxed their earlier rejection of carriers with lower scores and are working cooperatively to improve scores
  - New Hours of Service rule go into effect July 1st lowering productivity and further restricting capacity

Railroad Industry Recap

- Railroad transportation costs were moderate in 2012
- 2012 rail carloadings were down 3.1 percent; but intermodal volume was the 2nd highest on record; 2013 has been mixed so far with intermodal performing higher than carload
- Railroads gained market share, especially in intermodal as more medium-sized trucking companies began to use intermodal for the first time to combat driver shortages and the high cost of adding to the fleet

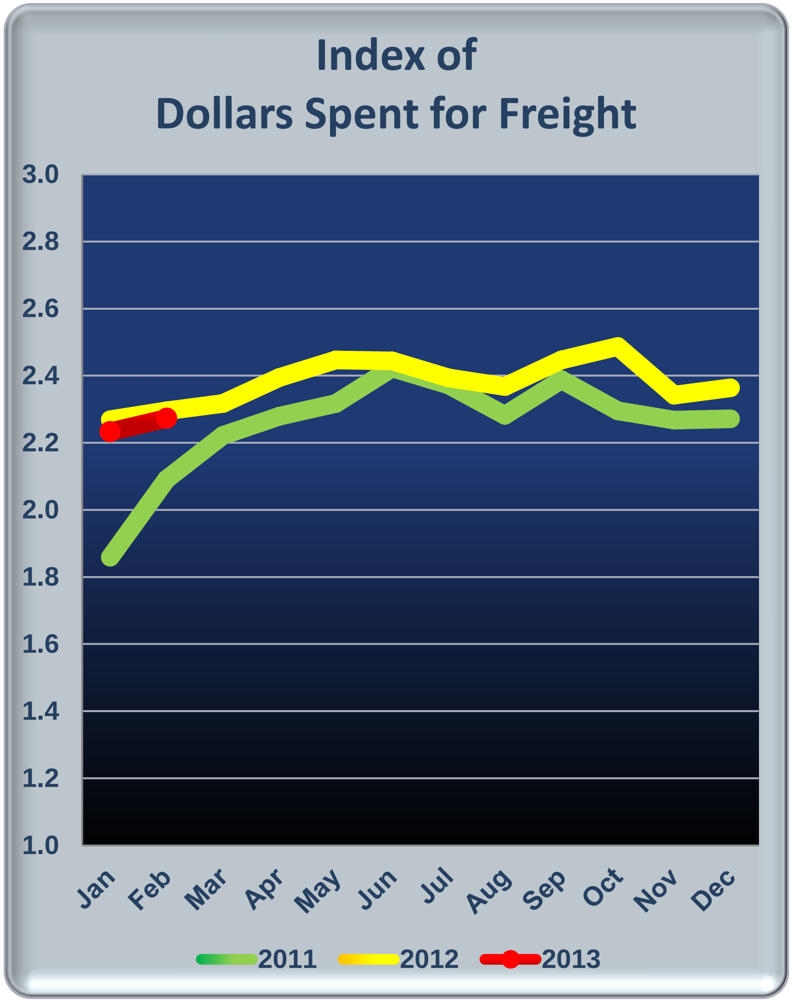
- Low natural gas prices and a warm winter contributed to a sharp decline in coal loadings and the drought has cut grain shipments
- Oil shipments from shale oil plays, particularly Bakken, offset losses
- No capacity problems

Maritime Industry Recap

- Ocean carriers have tremendous excess capacity and are still adding new ships to their fleets
  - Global volumes down, carriers have taken hits financially
  - Rates have see-sawed as rate hikes failed to stick
  - Routes eliminated, slow steaming, performance suffering
- U.S. ports saw TEU improvements in 2012
- East Coast ports preparing for new Panama Canal opening
- Barge traffic on the inland waterways has been hampered by low water conditions; volume down because of drop off in coal and agricultural products affected by drought in the Midwest

- Great Lakes shipping showed signs of recovery in 2012, after several slow years
- Jones Act in active debate
- Maritime infrastructure, especially inland waterways, is in dire need of investment for maintenance, repair, and replacement

Indexes Evidence of Weak Economic Recovery

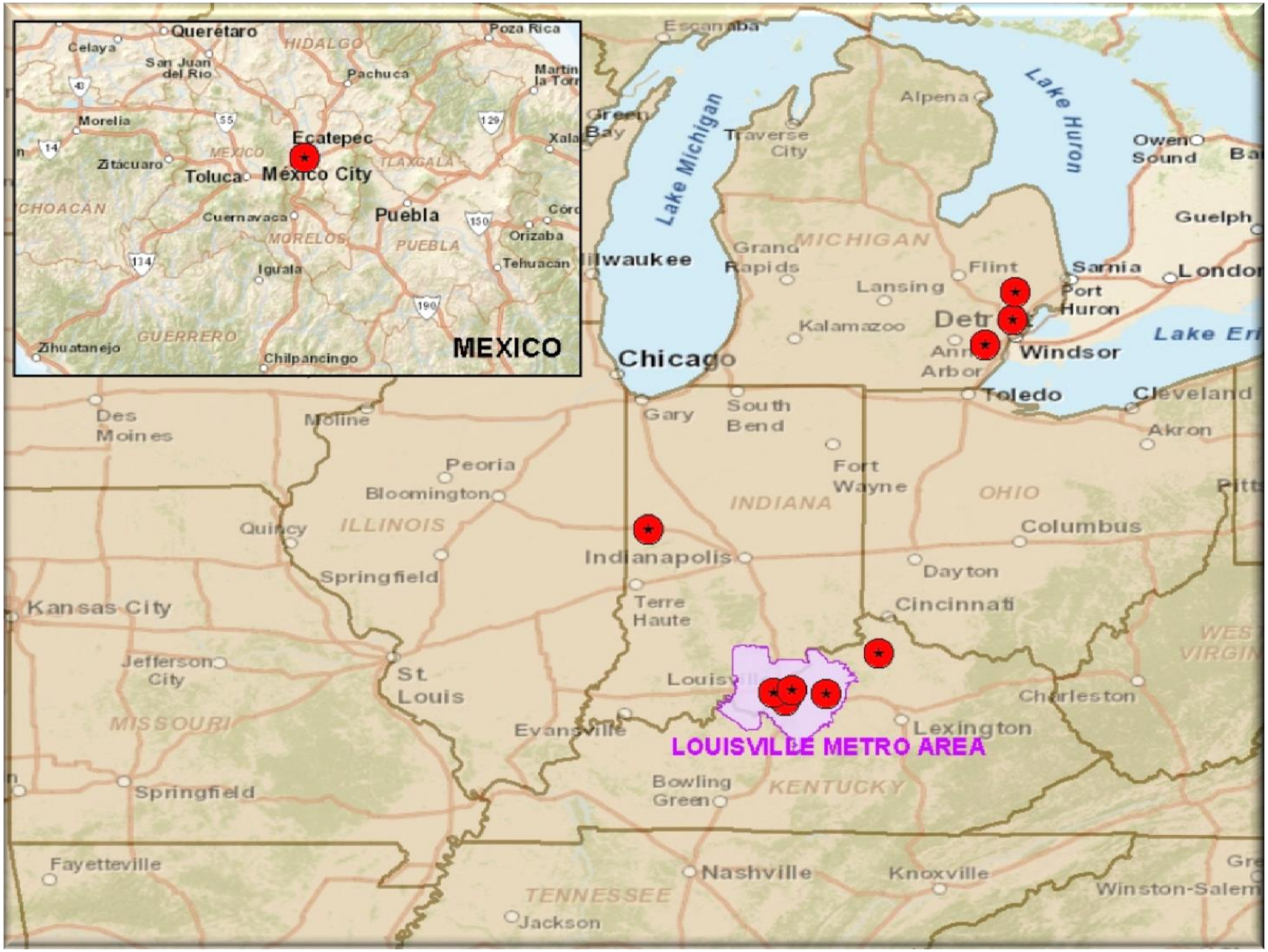


Source: Cass Logistics, Cass Freight Index, January 1990 = 1.0

Why Should You Care About Current Trends?

- Private sector plans do not have the same time horizons at traditional planners – they make decisions based on past, current and forecasted trends that amount to no more than 10 years
- Look what has occurred in the supply chain industry in the last thirty years - a typical planning horizon
  - We got the hang of a deregulated freight environment
  - Globalization with a strong shift to offshore manufacturing
  - Containerization and huge containerships – new infrastructure
  - Intermodal – new equipment, new transfer facilities, cooperation among traditionally competitive modes
  - Wal-Mart – transparent supply chains with more cooperation all the way down the supply chain; shippers dictate logistics
  - Amazon – instant gratification supply chain
  - 3PLs and 4PLs – Shippers become mode agnostic

Shipments Originating from Louisville Metro Area By Top 10 Destination Zip Codes



Source: Delcan proprietary data

Shipments Terminating in the Louisville Metro Area By Top 5 Origin States

Source: Delcan proprietary data

Specialized Analysis – Distribution Centers
Top 5 States Originating Traffic

HAGERSTOWN

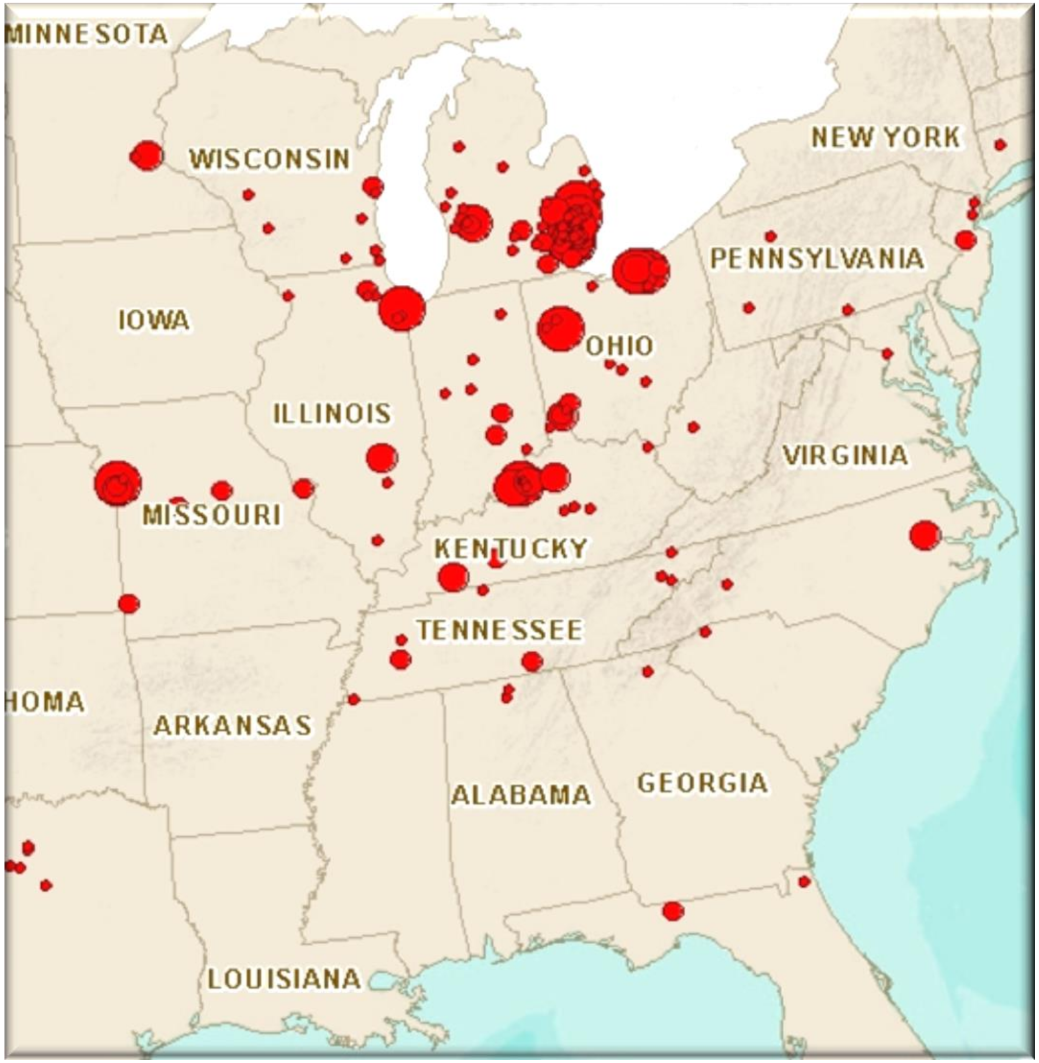
ABERDEEN AREA

MARYLAND

FREDERICK

JESSUP/ELKRIDGE/SAVAGE

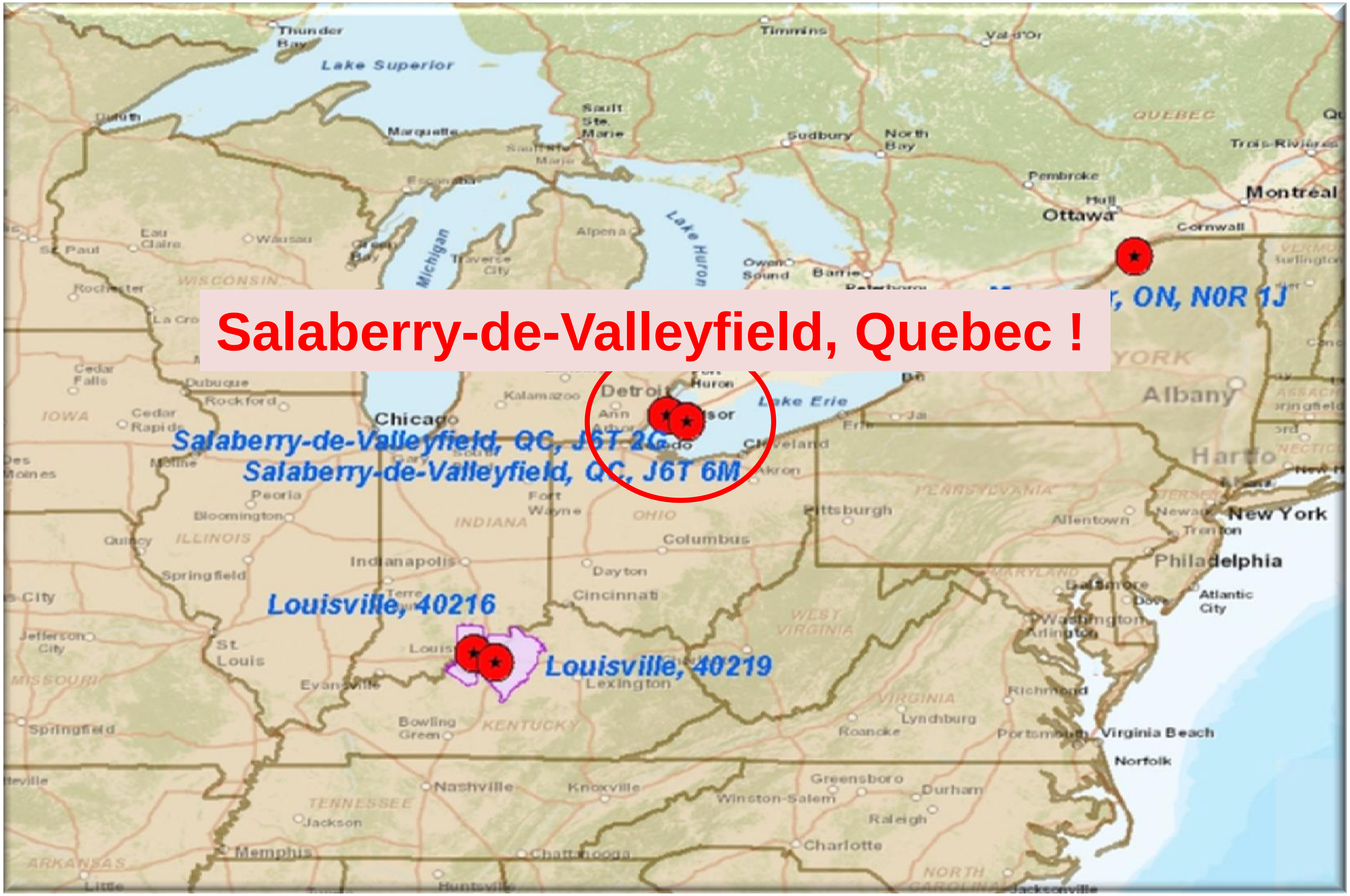
Commodity Analysis – Shipments of Motor Vehicles and Parts from Mexico



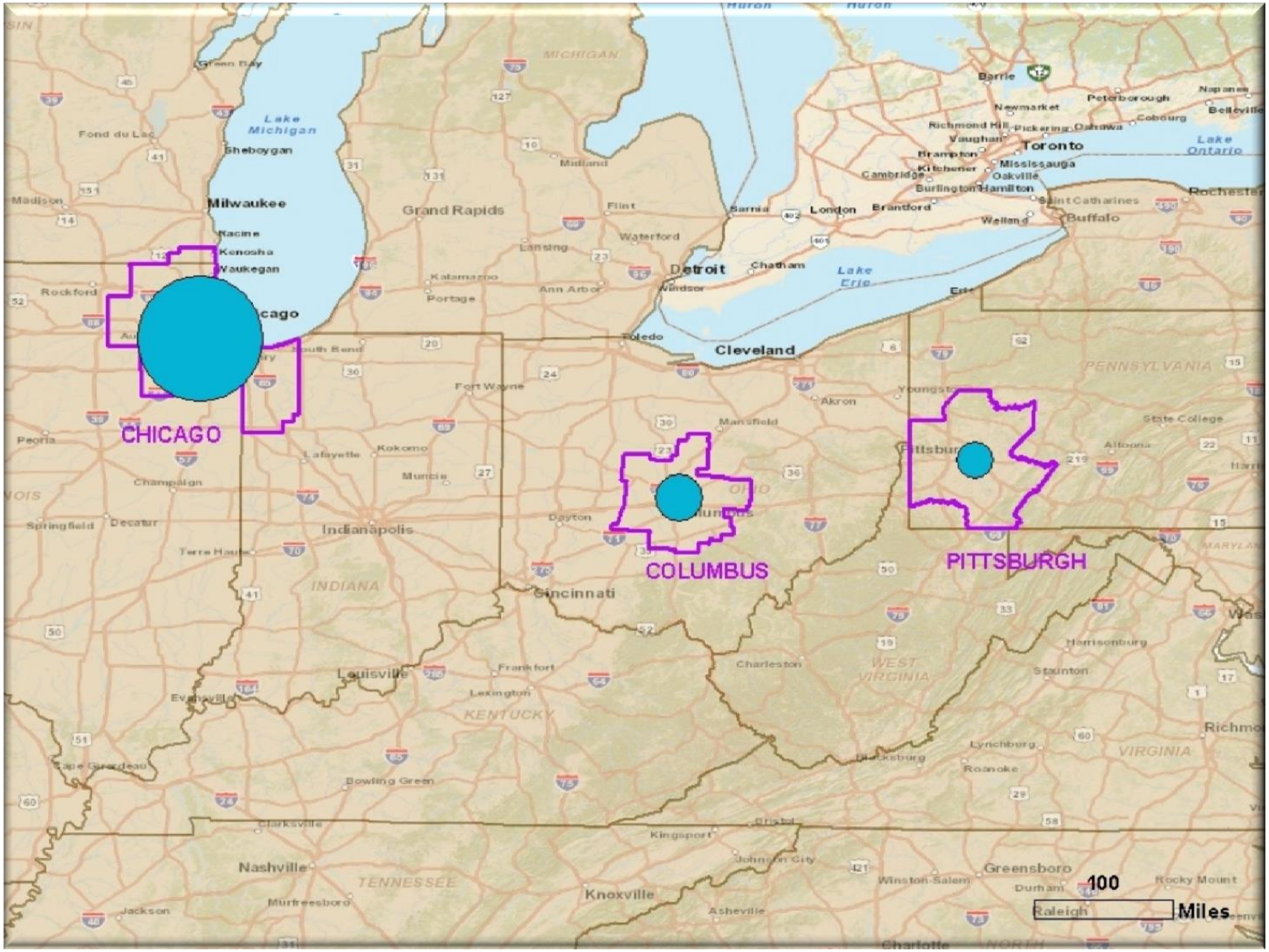
Commodity Analysis – Top 5 Receiving Zip Codes for Kentucky Distillery Products

Louisville is the top destination based on number of shipments, but another city "outweighs" in terms of tonnage shipped.

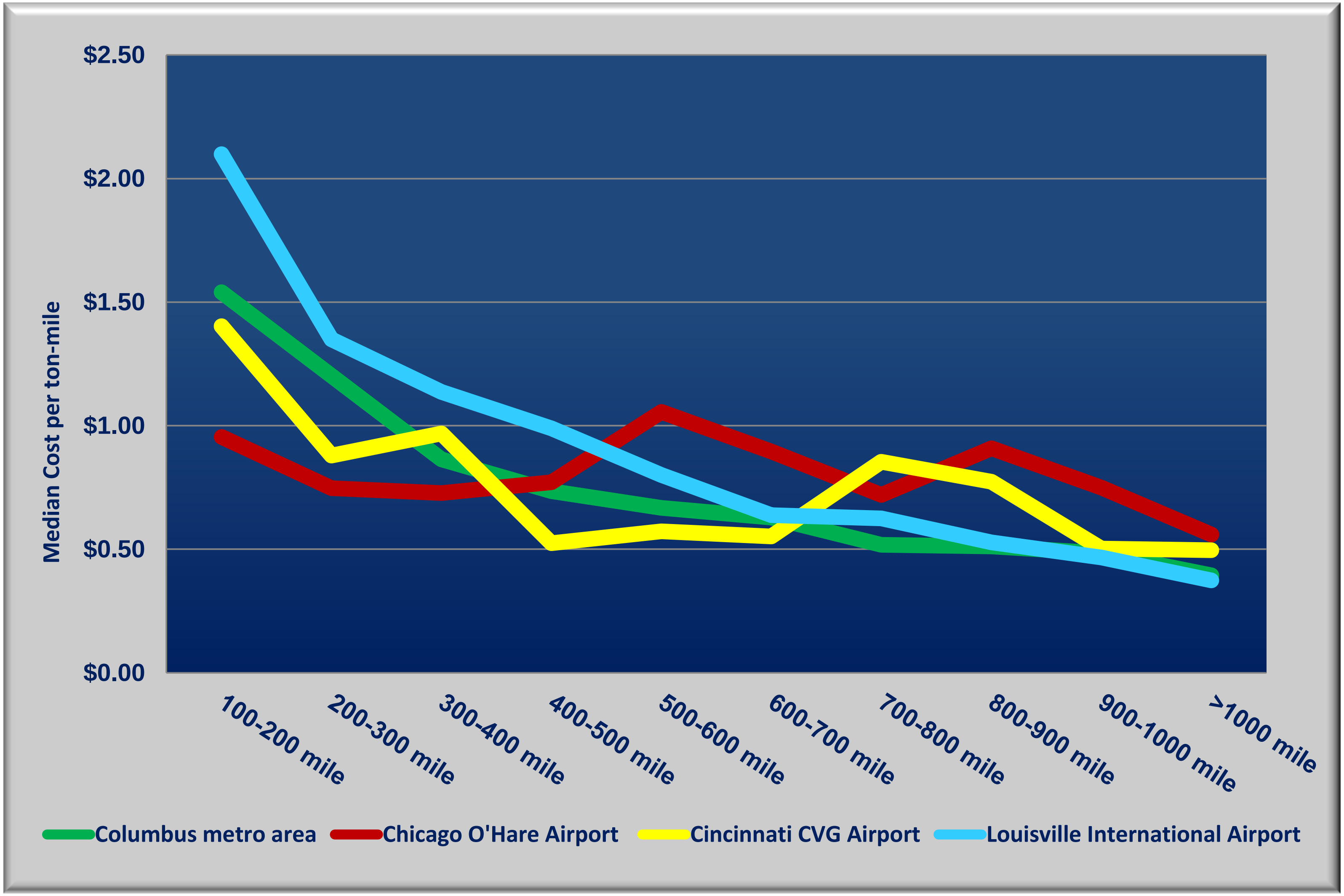
Commodity Analysis – Top 5 Receiving Zip Codes for Louisville Distillery Products



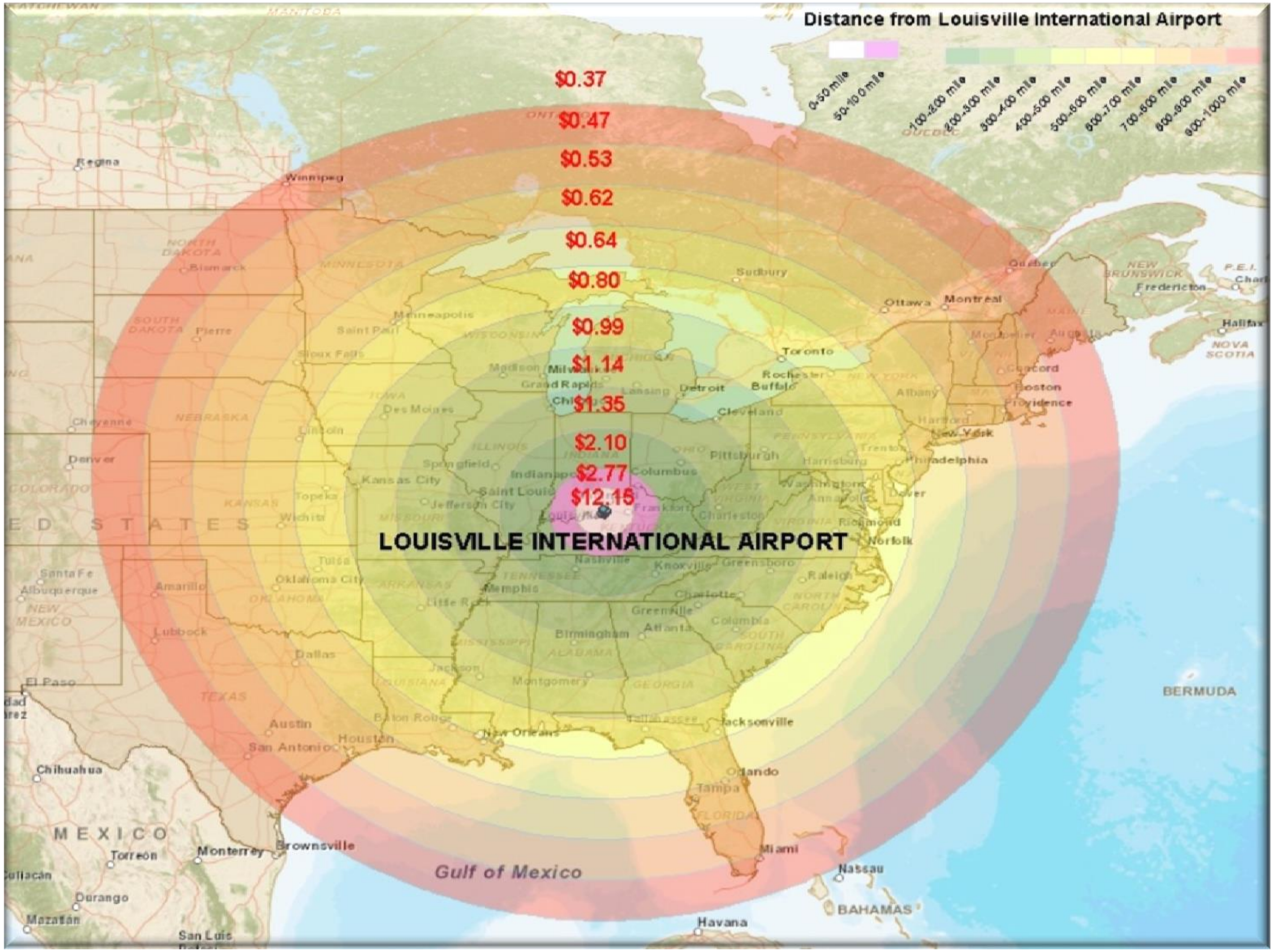
Relative Size by Number of Shipments



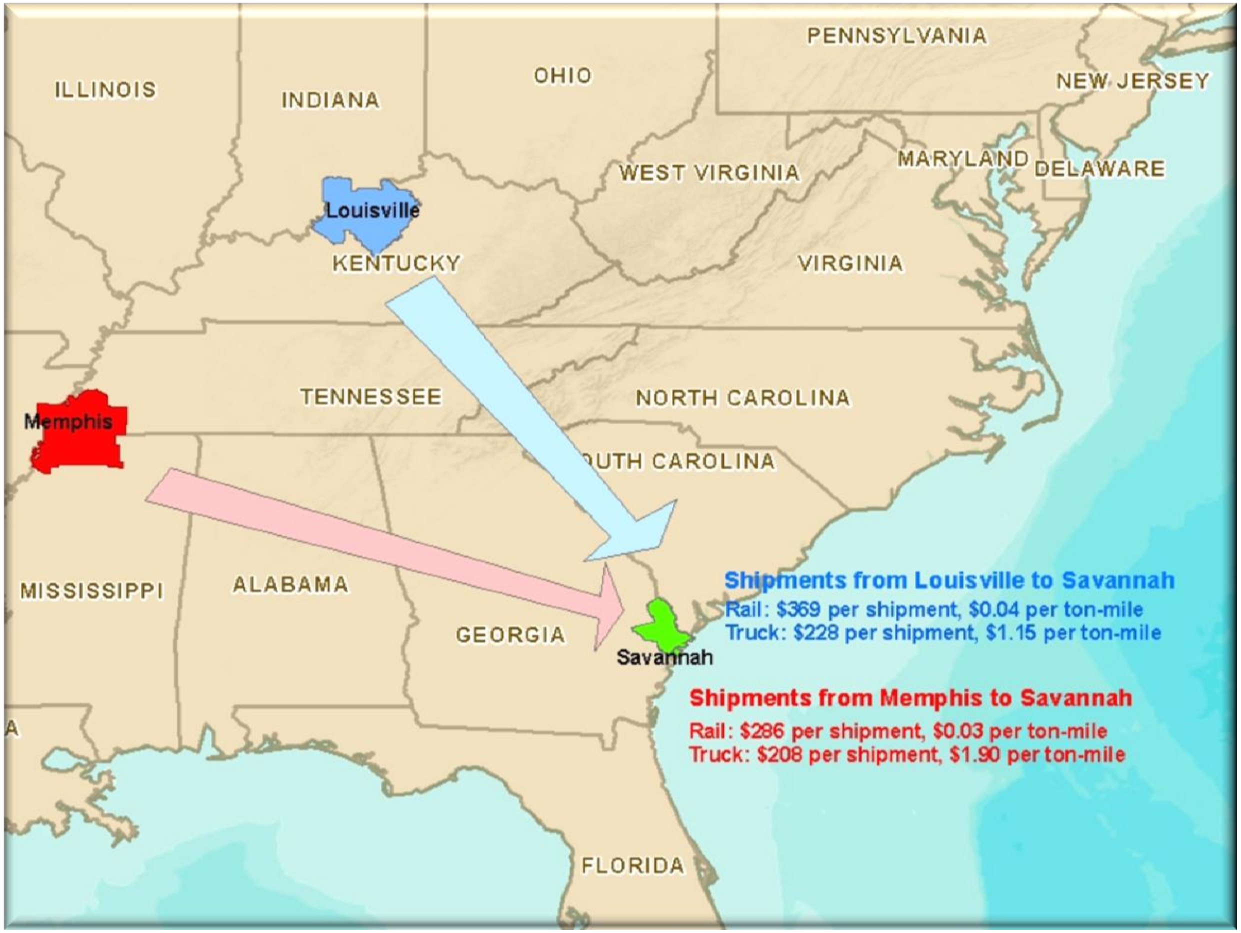
LTL Shipments - Median Cost per Ton-mile by Distance



Median Cost per Ton-mile of Shipments from Louisville Airport

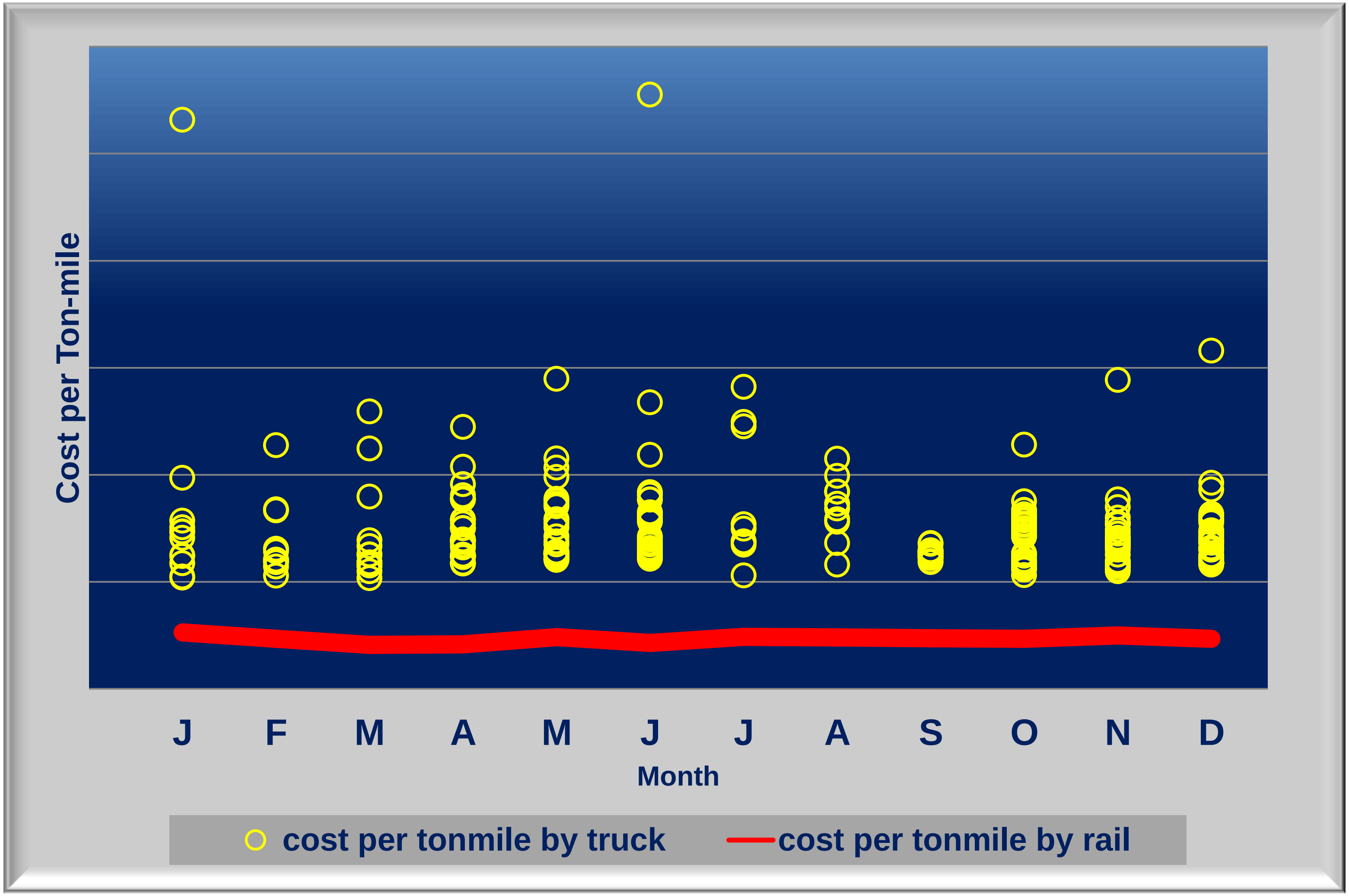


Competitive Analysis



Mode Comparison - Cost per Ton-mile of a Single Commodity to a Single Destination

Truck vs. Rail



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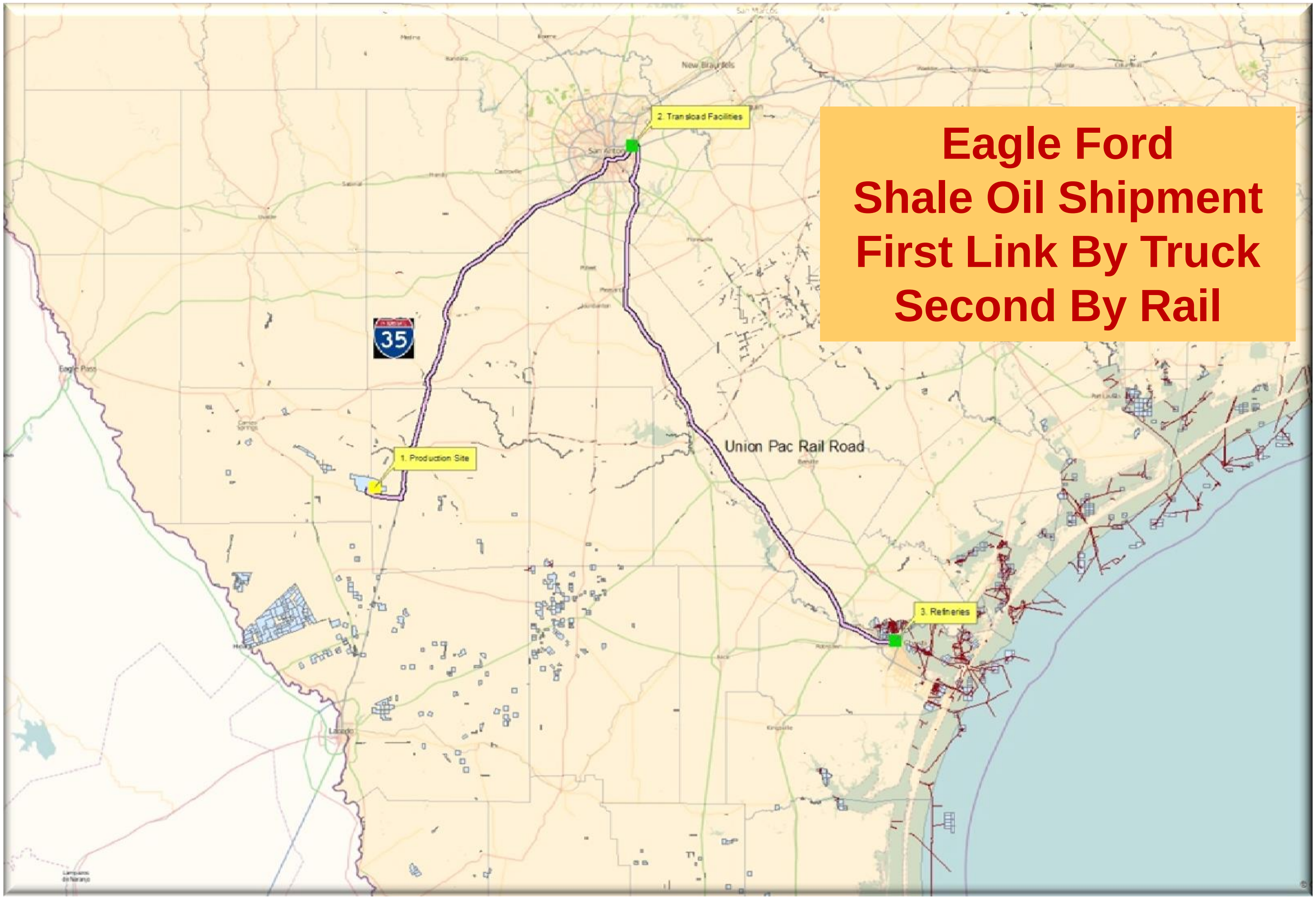
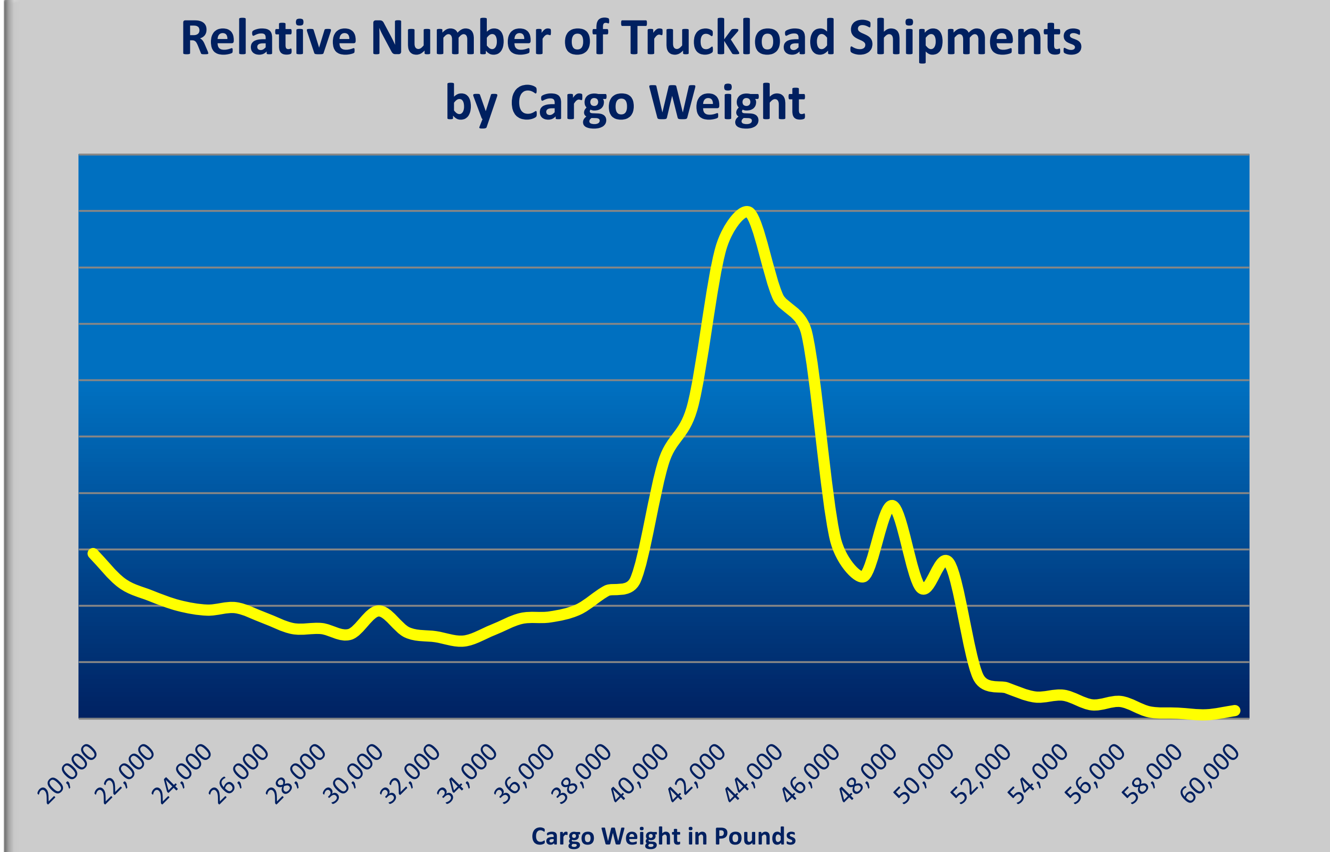
Rapidly Changing Markets Require Current Information



Data Supports Policy Analysis



Source: Delcan Real-Time Freight Intelligence Data

Conclusions

- MAP-21's goal of Freight Movement and Economic Vitality calls for
  - Improving the national freight network
  - Strengthening the ability of rural communities to access national and international trade markets
  - Supporting regional economic development
- Without the right infrastructure and freight policies economic vitality could be compromised
- The private sector is a valuable source of the kinds of freight data and insights needed to make investment decisions that will meet the needs of the freight sector for decades to come

Contact Information

Delcan has the resources, data and tools to provide the kinds of detailed analysis and modeling highlighted in this presentation. Delcan's freight logistics experts have entered into proprietary access agreements with several private sector sources of near real-time data. We have developed consistent nationwide freight information capable of providing deep insights down to the street level. We process and analyze the data on an ongoing basis.

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Delcan 60th ANNIVERSARY