FTR | State of Freight TODAY

October 2020 Commentaries

freight.ftrintel.com/softoday-october2020

MARKET ANALYSIS FOR TRANSPORTATION PROFESSIONALS

FTRintel.com | @ftrintel | ftr@ftrintel.com | (888) 988-1699 ext. 1

FTR | Transportation Intelligence

COMMENTARY

The State of the Global Economy

Steve Graham
FTR Partner

The Organization of Economic Co-Operation and Development (OECD) Leading Indicator and What It Reflects About the State of the Global Economy

The September reading of the OECD composite leading indicator came in at 98.8 in September, up from 98.5 in August. The indicator reached a cyclical low of 93.2 in April and has been slowly rising since then. The index stood at 99.4 in February, prior to the pandemic's full effects taking place. An examination of the indexes regional outlook and the various countries that are major economic drivers, gives us deeper insight as the economic prospects of each region. A lot depends on the COVID-19 virus. Generally, countries that have contained the virus are seeing better economic prospects than those with higher infections rates. A lot also depends on virus containment policies. Those economies that implemented tighter containment methods saw economic activity fall dramatically with varying results of controlling the infection rates. A global economic rebound has followed as various countries started to re-open their economies. The virus is impacting different countries with different economic impacts. As we approach 2021, it may be wise to ascertain what the OECD index can teach us about the future.

In Europe, infections have significantly intensified across Europe the past several weeks and containment policies are being implemented. This has raised dark clouds over Europe's near-term economic outlook. The European economy had a strong comeback in the summer but is faltering again with the intensifying pandemic. The OECD Europe index came in at 98.7 in September, up 0.2 of a percentage point from the previous month and up significantly from the cyclical low point of 92.9 in April. Italy, France, and Germany all saw monthly increases, but the U.K. fell and Spain held steady. Infections in Europe's largest economies did see declines in infection rates between May and July but have seen surges in recent months. The U.K. index fell 0.2 of a point in September to 99.4. This comes after posting one of the largest declines of any major country during April. The U.K. index has shown impressive growth but rising new infections and the uncertainty regarding Brexit will weigh on future performance. In Germany, high frequency data point to a strong rebound in the third quarter but the rest of the year is likely to be weak because of continued pandemic fallout. Germany's center of gravity are its exports, but imports grew faster than exports in August. Germany's major trade partners, such as Italy have less space to roll out stimulus and the effect will curb Germany's exports. Overall, Germany's economy will face a brighter 2021, with GDP rising 2.8% and 4% in 2022, according to Moody's. That will not erase the 5.8% contraction of 2020 but does point to a brighter future.

China's index ticked up to 100.1 in September, cracking the long -term average for the first time since January 2018. China's index had fallen sharply between January and February when the COVID-19 outbreak first began. Successful containment efforts and a return of employees to their workplace are helping the economy but domestic demand is still weak. China's factory sector extended solid growth in September, as the nation's crucial export engine shifted to a higher gear on improving overseas demand. The official Purchasing Manager's Index (PMI) rose to 51.3 in September from 51 in August. The export segment increased to 50.8 in September, up from 49.1 in August, snapping eight months of declines. A private survey also painted a similar picture, with the index rising to 53. The new orders index was at the highest level since 2011. The export subindex was at the highest level in three years. China's industrial sector is steadily returning to the levels seen before the pandemic, as pent-up demand, stimulus driven infrastructure expansion, and rising exports propel the recovery. Domestic demand is also showing signs of recovery, with industrial output accelerating the most in eight months in August and retail sales growing for the first time this year. China's economy grew 3.2% in the second quarter on a year-to-year basis and is set to grow 2.2% this year. While this will be the weakest advance in over three decades, it will be the only major industrial economy to post a positive advance this year.

The major five of Asia, which includes China, India, Indonesia, Japan, and Korea saw the index increase 98.4 to 98.8 in September, after bottoming out at 90.8 in April. In India, the count of new coronavirus cases rose continually until September but has been falling since mid-September, although it remains high. Japan and Korea still struggle with clusters but have reduced case counts. Cases remain high in the Philippines but are below the early-August peak. The continuing efforts to contain the virus indicate the risk to Asia's health and economy but it is ahead of the rest of the world. Most of the North Asia region has bounced back but progress still lags in South Asia. There were deeper economic downturns in the South and Southeast Asia regions in the second quarter due to the strict shutdowns in India, the Philippines, and the continued expansion of the virus in Indonesia. North Asia's lead in the containing the virus and opening the economy is illustrated in the pattern of retail sales. Taiwan's sales have fully recovered and are above pre-pandemic levels. Korea's sales have recovered as well.

For the U.S. economy, a lot depends on what happens with the coronavirus. Another wave of infections is a serious threat, and as cold weather herds people indoors and schools start, the threat becomes more pronounced. More infections result in a weaker economy. Moody's projects that if there is a sustained doubling of infections from the 40,000 recent level to 80,000, about where they were during the summer, unemployment would increase by 2 percentage points putting it back near double-digits. There is more to the U.S. economy than the virus. A presidential election is coming up fast and there has been no agreement for a needed stimulus package. Polls show Biden in the lead and financial markets seem to believe that with his election, a large stimulus package will follow. If the election results are close it may take a couple of months to straighten out. That would not be good for the U.S. economy at a critical time in the fourth quarter when stimulus money starts to fade in earnest. We know that employment growth and spending is slowing. If infections rise, the combination of slowing job growth, fading fiscal help, and slowing spending could bring the economy to a standstill before a deal to add more stimulus can be passed.

2021 will be a transitional year. We don't know the timeline but a vaccine will likely become widely available and the world will start to coral the virus. There is likely to be much celebration in the financial markets but cornering the virus and reopening more service industries will take some time. Gradually, the world will return to near its long-term growth rates, more likely in 2022 than in 2021. Containing the virus will be critical over the next few months in able for the economy to enter 2021 with enough velocity for the recovery to be self-sustaining. 2020 will go into the books as a rotten year, but the new one could be the start of a brighter new age for both the global and domestic economies.

Steve Graham is a Partner at FTR. You can read Steve's weekly Monday Morning Coffee Blog at ftrintel.com/blog.

FTR | Transportation Intelligence

COMMENTARY

C-Suite Synopsis

State of Freight Insights

FTR Clients of our premium subscriptions receive State of Freight INSIGHTS reports, updates, and webinars every month. The C-Suite Synopsis on the next page is available every month to provide a market status.

FTR | State of Freight INSIGHTS

www.FTRintel.com/SOFinsights

The FTR State of Freight INSIGHTS publication provides Premium Subscriber commentaries on the transportation markets featuring the FTR experts. These insights will give your team the confidence they need to make tactical and strategic changes in your business knowing that the data, as well as the unbiased FTR expertise, supports it.

FTR | State of Freight INSIGHTS

C-SUITE SYNOPSIS || OCTOBER 2020

MONTHLY MARKET UPDATE FOR BUSY PROFESSIONALS

HEADLINES

TRUCKING: A strong rebound in freight rates is turning the second half of 2020 into good times for carriers.

RAILCAR: Carload markets are maintaining their slow and steady growth pace into the fall.

INTERMODAL: Intermodal markets face new uncertainty as October dawns.

SHIPPERS: Stronger truckload and intermodal volumes and rates pose a near-term challenge for shippers.

Summary

A strong start to the fourth quarter is the result of robust underlying consumer demand and inventory restocking, especially in retail. This combination has led to a need for speed among beneficial cargo owners that is creating port congestion and other issues in the supply chain.

- The fourth quarter should remain relatively strong for freight demand as inventory restocking continues and a shift away from spending on services and toward goods helps create additional demand for goods movement.
- A quicker tightening of truckload capacity could buoy intermodal competitiveness. Recent announcements about driver pay increases reflect stronger truckload rates, which would likely also push intermodal rates higher.
- Carload markets maintained their slow and steady pace through the third quarter, and this trend is expected to remain intact through the first quarter of 2021. It is anticipated that carload growth will revert to more normal GDP-plus growth rates in the second half of 2021.

Trucking Sector

Conditions for carriers generally are the strongest since the 2017-2018 market and likely will remain strong for months. However, continued strength faces some risks, including stabilization of inventories and the potential impact on consumer and business spending if Washington does not renew its financial support for the economic recovery.

- FTR's latest truck loadings forecast is -5.6%, a slight improvement from the prior outlook. The 2021 forecast is a 6.3% increase, slightly stronger than previously forecast.
- Truckload rates have firmed to flat year over year in our latest 2020 forecast, and further strengthening is possible. The 2021 outlook is a 6.8% increase as contract rates rise to join the gains in spot rates.
- Although the spot market shows short-term stress in certain segments, active truck utilization throughout the industry in Q3 was only back to where it was prior to the pandemic. Utilization should approach 90% by Q4 and looks to rise sharply if freight demand outpaces driver capacity as we expect.

Rail/Intermodal Sector

Intermodal volumes have increased dramatically since August, and it is likely that those levels will be maintained through the fourth quarter.

- There is significantly less certainty for the first quarter of 2021. Sustained elevated levels of unemployment coupled with a lack of additional stimulus from Washington could leave spending and freight demand flat to start the new year.
- Import volumes remain strong and appear to be diversifying their ports of entry. Even as volumes start flowing to other port complexes, Southern California ports remain the clear winners for volume growth compared with 2019. This is the result of shippers seeking to move goods imported from Asia to distribution centers as quickly as possible.
- Some carload sectors that could post dramatic growth if the economy keeps moving forward and inventories decline would be lumber and wood and pulp and paper. These sectors have strong underlying economic signals that have not yet translated into stronger rail traffic but could in the coming weeks ar

FTR Engage

A VIRTUAL SPEAKING SERIES FROM FTR Transportation Intelligence.

The 2021 Outlook

Thursday, December 10th, 2-4PM EDT

Bill Witte, FTR
Economy Expert

Eric Starks, FTR
Chairman & CEO

Todd Tranausky, FTR
VP of Rail & Intermodal

Avery Vise, FTR
VP of Trucking

Don Ake, FTR
VP of Commercial Vehicles

Jonathan Starks, FTR
Chief Intelligence Officer

Learn more and register now:

www.FTRintel.com/2021outlook

FTR | Transportation Intelligence

COMMENTARY

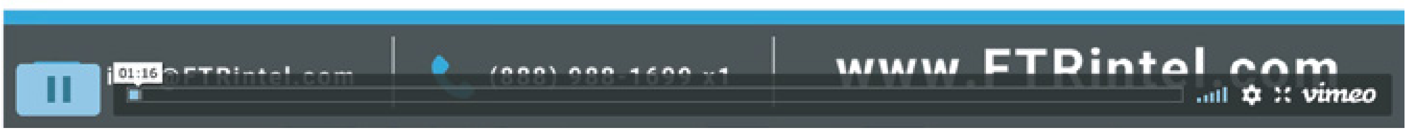
The Future of Rail & Intermodal Q&A

The FTR Experts

Following The Future of Rail & Intermodal, the fourth session of the FTR Engage virtual speaking series, the FTR Experts sat down with Ross Corthell (Packaging Corporation of America) to answer listener questions beyond what was covered during the Q&A within the presentation.

Q1: The migration of freight towards rail & intermodal.
Q2: The indicators that you should be watching.
Q3: Rail growth & furloughs.
Q4: Shippers' view of the job market.
Q5: Intermodal freight & Drayage cost efficiency.
Q6: Southern California's impact on freight markets.
Q7: How can the industry work together to ensure extra capacity?
Q8: Headhaul and backhaul pricing in rail.
Q9: Intermodal volumes through restocking and a pre-stocking rush.

The Future of Rail & Intermodal



Watch the full presentation replay or listen to the Q&A podcast at:

www.FTRintel.com/Rail&Intermodal

DISCLAIMER: This text was automatically transcribed from an audio recording and may include typographic, grammatical, and contextual errors that differ from the speaker's intention.

Question 1: The migration of freight towards rail & intermodal.

Eric Starks: Well, welcome, everybody, to this podcast, it is a delight to be here with you. We had a fantastic Engage session recently talking about rail and Intermodal. We had a bunch of questions that we just weren't able to really get to or we weren't able to dive in as deep as we'd like, so we're just going to pick through those questions and have those addressed by the industry experts here. So let's kick this off. One of the questions here is really talking about the relationship between trucking and the migration of freight towards rail and Intermodal. So, Todd, let me have you kind of address that, and then Ross, I'll put you in here in a second and get your thoughts on this.

Todd Tranausky: Sure. Eric, thanks for the opportunity. You know, when you think about trucking and intermodal, you know, decades ago, intermodal was considered substitute service for truckload service. It's generally quicker. It's generally more reliable than rail intermodal services, even with the trans limit we've seen going on in the West Coast and so folks generally default to trucking. But as the trucking pipeline fills, as you start to see rates go up and you start to see trucking utilization ramp up, then you get to a point where folks look for capacity alternatives. And those capacity alternatives generally are intermodal, whether that be transloading international goods into a 53-foot box or whether that be a trailer or whether that be a straight intact international container. Folks look for other ways to move that capacity inland. And so as trucking fills up, which it has filled up, utilization has gone up quicker than we at FTR expected. You would expect intermodal to be more and more competitive relative to the domestic truckload market and we've certainly seen that. If you look at the intermodal competitive index that FTR publishes, intermodal has become a lot more competitive. You know, during the pandemic it was a negative 20 negative 30 levels, which are levels that are near historic lows. They generate significant long term modal shift of goods among shippers. And then as we go forward, what we've seen is that it's intermodal become in a positive competitive position relative to the truckload markets and expect it to remain there, at least into the early part of 2021. So as people put more goods through the trucking industry, you create more migration freight to intermodal as folks look for capacity because they either can't find capacity in the truckload market or they are looking for a cheaper rate by which to move their goods.

Eric Starks: You know, and I think that works for some for some freight. But there's there is clearly other freight that's based upon commodities. And it either likes to go rail, it likes to go truck, and it's not easily converted. Now, there's some stuff that can be and you always have stuff on the margin. But I do think that the premise of this kind of question is the expectation that if you see truck getting tight enough that it moves things back towards rail. So, Ross, I'd like to get your kind of your thoughts on this whole thing. And are you seeing some of the migration between the different modes right now? How are you feeling about all that?

Ross Corthell: Yeah, thank you, Eric. And thank you again to engage FTR. You guys are a professional organization. Really appreciate the opportunity to speak to your audience. So, you know, the migration from truckload to rail tends to be about economics or even sometimes no green play here and there, but what we've seen, of course, is inventories tightening up. And that puts a lot of pressure to stay in the truckload market and even migrate somewhat from rail back to truck. So there's amici or folks are or at levels that factors into those decision matrixes and. Out of my group, actually, in the other way, from rail to truck, just because of the tight inventories of folks are running.

Question 2: The indicators that you should be watching.

Eric Starks: And that so kind of validated some of the things I was kind of curious about. Another thing that keeps coming up in the topics is that people are trying to understand, you know, what indicators should they be looking at? What are the things that either you're relying on the most or should they be relying on? So Ross, how are you betting the market? What things are you looking at to make you feel better about getting to understand where things are going?

Ross Corthell: Yeah. So for me personally, it's about employment. And, we haven't seen the employment numbers come back yet. There's been an awful lot of economic stimulus. And I suspect even though there's a lot of volleying back and forth in D.C. about this topic, I do suspect that there will be more economic stimulus. But that's a very tenuous foundation to build on just because of our overall debt load. And I'm speaking of the national federal budget, of course. So, yeah, I'm very concerned, actually, that employment isn't going to come back, that some of these jobs are going to be permanently lost or at least lost for another year or so and that concerns me.

Eric Starks: Yeah, and we totally are on the same page. I think we've been really vetting and looking at what's happening on the payroll side, what's going on with employment. Todd, aside from the employment things, what are the things that you kind of looking at? I mean, obviously, we're looking at the employment. So can you add additional color?

Todd Tranausky: Yeah, absolutely. I mean, employment, certainly, because you've got business investment and you've got consumer spending as the two pillars of the economy, but also the inventory levels. I'm looking a lot of the inventory to sales ratio lately. You know, when you look at retail, it's down at historically low levels and that is what's driving some of the intermodal demand that we're seeing in the system, that's what's driving folks try to push good through the system. The manufacturing inventory to sales, the wholesale inventory to sales are at higher levels. They're basically on par with where we were going into the pandemic. So there isn't that same need to restock. And I think that explains a lot of what you're seeing on the rail carloads that intermodal has really ramped out of the pandemic very strongly. And the colloid markets have been a much more measured pace because there isn't that same inventory pressure to restock. Now, if we get to a point here where spending stays strong, business investment re-enters the marketplace, and you draw those inventories down, there's the potential as we get into 2021 to see, you know, the carload volumes display a much stronger spike. But to this point, the numbers haven't shown any catalyst for it. And so I'm looking at inventory to sales ratios for when intermodal is going to stabilize at the levels that it's at, and when might not we see another leg up and when the markets might inflect.

Question 3: Rail growth & furloughs.

Eric Starks: Yeah, and we obviously, you know, you and I talked talk a lot and we clearly are seeing the disconnect between, for example, manufacturing and what's happening on the inventories there versus on the retail, the retail side and into the wholesale side. And there seems to be a fair amount and a fair amount is relative, a fair amount of inventory on manufacturing. And, you know, one of the things we clearly look at is industrial production, because that, you know, if that's not coming back, that creates a problem because there's so much industrial manufactured goods that get moved by the rail, the rail system. So I think having that broader discussion about employment takes us then to understanding a little bit more about what's happening on the employment side, for the railroad. So one of the big questions out there here is, will the rail growth be hindered by the furloughs and the ability of the workforce to return? And I guess ultimately, you know, broadly, did the railroads cut too deep with downsizing? And maybe the answer is maybe they didn't cut too deep. And so what's your kind of your thoughts Todd on that?

Todd Tranausky: The short answer is no. They didn't cut too deep from the pandemic. You know, the pandemic the railroads responded to a significant decrease in volumes and responded to them with significant cuts in the workforce. Where the issue will come in is that railroads were already cutting their operating employee count before the pandemic. There was already an effort to right size the network and the right size employee counts before the pandemic. And volumes weren't down nearly as much as an operating employee count was before the pandemic. So coming out of the pandemic, we've seen railroads successfully add back employees. As we talked about doing the webinar, you know, we're up 3 percent from August to July. So the railroads are doing what they can to bring employees back home, not going to bring employees back commensurate with volumes. They feel like PSR has made them more efficient. They feel like they don't need to bring employees back to the same level they had before. Now, there are some things in the overall economy that could make it harder for the railroads to bring employees back. You know, we talked about, Ross brought up stimulus a second ago. One of the key factors of the first stimulus package was a very generous unemployment package. And that, we have heard was an impediment to the carers being able to being able to bring employees back up until it expired at the end of July. So if we see another stimulus package with a generous unemployment benefit, it could be harder for the railroads to bring folks back. But I don't think the carriers went too far. And I think because the railroads, unlike trucking, unlike day labor on construction, you know, the railroads are a fairly attractive industry. They're one of the few industries, as I said during the webinar itself, where a kid with a high school diploma can work a career with good benefits and good retirement and support a family. So I think ultimately the railroads, we'll find the people that they need, and they'll be able to meet the demand out there to move goods.

Question 4: Shippers' view of the job market.

Eric Starks: So Ross, as a shipper, I mean, obviously you really are focused in some cases on it when you need capacity. Is it available if you like? I need to get my stuff moved. So is the job market on the rail side? Is that even a concern for you or how are you framing that that up to make sure that you get the service level that you need?

Ross Corthell: Yeah. So, you know, I think I go back to your question about did they did they cut too deeply? I tend to agree with Todd pretty hard to criticize anybody that was trying to forecast, you know, in in February, March, April, what was going to happen and when your volumes were dropping as fast as they were. So it's pretty hard to be critical of any number of cuts that were made during that time. The one thing I would put an asterisk by that, though, is knowing what we know today about just the collective bargaining agreement and the length of time it takes for them to bring people back on in the event the volumes did and actually did come back up, then I'd have to say I probably would have been a little more conservative about furloughing, knowing, knowing that detail about how long it takes to bring people back, because when volumes did come back and they didn't exactly v I think they kind of hockey stick a bit, but they did pick up momentum as the days went on. And it was very, very difficult for the railroads to keep up with that. And it was really all about, you know, the length of time it took them to get people back in the saddle. And that was a combination of their bargain, as well as the stimulus that Todd talked about as far as we were concerned. Then, of course, you know, everybody on the operating side, essential employees, were dealing with flare ups of COVID as well. And so that couldn't be predicted either. So I'm not hypercritical, but I think I probably would have been a little more conservative knowing what I know now about how hard it is to bring people back.

Question 5: Intermodal freight & Drayage cost efficiency.

Eric Starks: Yeah, and you know what's fascinating, too, is because I think that there's this belief that truckers can be more nimble than the railroads in different ways because, you know, I'll let somebody stand on the corner. I'll put them in a truck being facetious here. But you know, what we found, though, is that the truckers didn't bring back drivers as fast either. So it seems to be all the way through, not just rail, but trucking in other sectors. These have been slow to come back. And also, one thing that I've always thought about, too, is, you know, is there an ability for them to switch jobs? Right. If you furlough somebody, if you lay them off, whatever that looks like, are they going to go to another industry? And the reality right now is probably not because the jobs just don't exist. So it is I think it's a little different dynamic here on how the whole employment situation is playing out. So we talked a little bit about intermodal that came up earlier. So let's just kind of move towards intermodal a bit. One of the things is there's this belief that if you have more intermodal freight, then DRÉ becomes more cost effective because in fact, you got more stuff happening. I don't I don't have a good sense on is that truly reality. But to that premise, can the can the railroads kapper capture more market share for intermodal? And then how does that impact the dray market? And Todd, I can tell you're ready to jump go for it.

Todd Tranausky: Yeah. I mean, I'm not sure that I really agree with the premise of the question in the sense of if you have more goods, if you grab market share, then you're going to create a capacity issue in the drayage market and that's going to drive prices up. I mean, we've heard anecdotally that Chicago is close to capacity in the drayage market right now. So if the railroads do increase their share, you have to find that DRÉ capacity somewhere and the market works. But that means prices go up. And so is DRÉ more cost effective in that scenario? I would argue no. I would argue that you're going to pay more to get your goods moved. The question is, is the intermodal linehaul plus the DRÉ more cost effective for you than a long haul truck move from the West Coast? And the way we've seen, you know, truck rates move up, you know, coming out of the pandemic, it's possible that could be the case. But I don't think necessarily by the railroads getting more and more market, are you necessarily make DRÉ more effective, more cost of. I think, in fact, you could have it turn in the other direction and you could have such a problem getting capacity because capacity is tight in those markets as it is in the overall truck market, that you could see it'd be less cost-effective because you're going to have to pay more for that DRÉ, particularly if you're not just across town dry with the closure of intermodal ramps. We've seen the last couple of years, if you have to DRÉ from Chicago to Milwaukee, that's not going to be a more cost-effective DRÉ in that scenario.

Eric Starks: Are you guys doing any dray moves?

Ross Corthell: Very few. We do a lot of local deliveries, but we're not doing them in containers, so.

Question 6: Southern California's impact on freight markets.

Eric Starks: Ok, yeah. And that makes that makes sense. So I didn't think so, but I figure I'd better double check. So Southern California is a hot spot right now. And so I think probably getting a little bit of your thoughts on how that's impacting the freight markets in general, inbound and outbound.

And is that having any impact on the structure that we're seeing out there? So let me just toss that one up to you, Todd, about you go. And Ross, if you have some thoughts, just jump on in.

Todd Tranausky: I think in the short term, you know, folks are going to look to make Southern California work because it's the quickest way to get volume into the country, even with the increase in transloading that we've seen, it's still quicker than spending 10 to 15 days on the water to get to the East or Gulf Coast port. Do I think it changes anything long term, structurally? I don't think so. I think this is a short term episodic phenomenon. As folks deal with those low retail inventories they have, they feel the need for speed. But the underlying issues that were still there and for why people went away from L.A., Long Beach in particular, you know, the labor issues in the environmental fees are still there. You know, they have not gone away. And so when the need for speed goes away, you know, those underlying issues that made folks diversify their ports in the first place, particularly with the build-out of increased transload capacity, at Prince Rupert. And I think you see people move back away to the port, diversification strategies to other ports, whether that be Rupert or whether that be the East Coast. I don't think people for the long haul suddenly shift back to Southern California because the structural issues that drove them away from Southern California in the first place are still in place.

Ross Corthell: I completely agree with Tom's assessment there. I don't even have anything to add. I think that is spot on.

Question 7: How can the industry work together to ensure extra capacity?

Eric Starks: Well, easy-peasy I love it people agree. That's great. So one of the other questions that has come in is and Ross, I'm going to toss this one over to you. And they say, how do we work together to ensure extra capacity is needed? And so in this case, I believe that they're talking about the industry as a whole when you're talking shippers and carriers and possibly even leasing companies because you're trying to make sure that you've got not just capacity from an equipment standpoint, but you've got capacity on the rail going, being able to have liquidity, not fluidity in there. So how do you view that, Ross?

Ross Corthell: Yeah, this is a great question. So, you know, there's empty trucks passing each other as loaded trucks passing each other in opposite directions. So I think this question is really centered around that.

Like, how do we as an industry get better visibility to the total amount of activity, whether it's loaded or empty, and then. Make sure it's loaded more frequently, so I do think there's a lot of collaboration opportunity to do that, but we've tried that a number of times, and it's really difficult for those that are in this collaborative model to step away from their own prioritization. Oh, they all we all have customers that are demanding to get their deliveries when they want them. And they don't accept as an excuse that you're trying to utilize capacity better and therefore the truck will be there for another day or two, just not going to fly. So I think there is a technology, a technological solution to this. I do think it's out there. I'm not giving up on it. I just haven't seen a good one yet that really provides the kind of visibility globally that you need to drive up utilization, which is what I think this question's really getting at.

Question 8: Headhaul and backhaul pricing in rail.

Eric Starks: Yeah. And so on the over the road to the truckers, at least tend to price accordingly when if it's a head haul or a backhaul. Not always, but I think the railroads traditionally have not done that. Is there a way that you could potentially see more productivity and extra capacity coming online if they would price it a little differently based upon if it is a head haul or a backhaul?

Ross Corthell: Yeah and we've even had some modest success with that. We're a paper manufacturing company. We often take scrap paper in, for example, that our mills. And so we've had some modest success with several of the class ones in pricing inbound fiber, i.e. scrap paper into our paper mills and even utilizing the same equipment that will ship out of the mill. And so we've had some modest success with that. So I'd have to say I'm absolutely a fan of that. I wouldn't say that it's an easy sell. It wouldn't say that it's an easy conversation to have with the railroads, but where we've been able to influence them to think about backhaul and how that can influence their own share coming on. We've had some success with that.

Eric Starks: Yeah, in general, I just think it makes sense, especially if you want to reposition the equipment instead of bringing it back empty, why not put stuff in it? So and potentially you have a chance then to take some stuff off the over the road and put it on the rail system.

Ross Corthell: So yeah, one of the big challenges with that, of course, is, you know, if you have a truck that's making a delivery and the truck needs to you know 20 miles down the road to get its next load, you know, that's very natural for trucking. Railroads it is very unnatural for them to reposition a boxcar that just made empty 20 miles down to get another load that's going in that. So it's just a very unnatural event for them. And so in order for them to pull that off, they have to be committed to micromanaging the equipment much differently than they tend to be geared toward doing today. And that tends to be a breakdown for them. So if they're having to manage equipment the way the truckers manage equipment, it's a big challenge for them.

Question 9: Intermodal volumes through restocking and a pre-stocking rush.

Eric Starks: Understood. So, Ross, I'll give you just a moment to take a breath, so, Todd, I'm going to have you change your brain function here for a moment about the economic recovery that seems to be losing a little bit of steam. We've seen the employment numbers not coming in is as high as many had hoped. You know, the GDP numbers were all over the place from a forecasting standpoint. So can you give some better visibility? The outlook for intermodal volumes as we after we kind of go through that restocking. And what they what they're terming here is a pre-stocking rush. And how are you viewing that has been given the first part of the year?

Todd Tranausky: Sure. I mean, I think the 4th quarter is going to be very strong. I think you're going to have the restocking demand. You're also going to have folks shifting their spending from services to goods that we've already seen that in a lot of places. As the holidays come in, you're going to see more of that as folks aren't able to go to holiday parties or have big, you know, meals out. They're going to focus on spending on goods, and that's going to support increased intermodal movements through the fourth quarter. When you get into next year, it becomes a lot more cloudy. You know, you have a definite slowing. We've definitely seen the slowing that you alluded to and now we have no deal out of Washington on a stimulus, you know, and we probably won't through the election. It seems like it's on again. Off again. You know, my crystal ball says they're not going to get a deal done. And so, you know what time? How long?

Eric Starks: I was going to say, you know what? By the time we are done recording this podcast, for all we know, they may have a deal. So who knows? OK, I'll just say.

Todd Tranausky: And so as we look out, you know, you assume a no stimulus baseline and the question becomes, how long can the U.S. consumer continue to spend? You know, both Ross and you highlighted earlier about the unemployment rate. You know, so long as the unemployment rate remains high, how long can the consumer continue to spend without stimulus? And so I have real concerns about, you know, the veracity, the durability of the recovery and of Intermodal demand in the first quarter. And I don't have a real firm answer for folks. But I think, you know, you have to watch it and you have to think that it could be a very weak number in the first quarter, in the second quarter, just by virtue of the fact you have a very easy comparison, because most of the economy was shut down in the second quarter of 2020, you're going to get a good number in the second quarter. But that does not necessarily mean things are great. You know, and I think the first quarter is going to be a true indication of where we are. And I think there's real potential for the first quarter to be really weak.

Continued on the FTR Blog

You can listen to this full discussion on the FTR Podcast, or continue reading the transcription by following the link below. Additional questions that are covered are:

- Q10: Trailer on flatcar expectations.
- Q11: 2021 Carload market expectations.
- Q12: Fuel's long-term impact on the rail business.
- Q13: How will zero-emission trucks impact rail?
- Q14: What industries will make a quick comeback?
- Q15: Class 1 railroad mergers.
- Q16: Strength of recovery: growth or restocking?

Read or Listen: www.FTRintel.com/blog/futureofrail

Meet North America's Thought Leaders on Freight Transportation

Eric Starks
Chairman & CEO
CV Equipment & Economy Expert

estarks@ftrintel.com
(888) 988-1699, ext. 41

Avery Vise
VP of Trucking
Trucking Expert

avise@ftrintel.com
(888) 988-1699, ext. 56

Todd Tranausky
VP of Rail & Intermodal
Intermodal & Rail Expert

ttranausky@ftrintel.com
(888) 988-1699, ext. 58

Bill Witte
Economist
Economy Expert

bwitte@ftrintel.com
(888) 988-1699, ext. 59

Clayton Slaughter
Chief Strategy Officer & General Counsel
Legal Issues, regulation, & Economy Expert

cslaughter@ftrintel.com
(888) 988-1699, ext. 61

Don Ake
VP of Commercial Vehicle
CV Equipment Expert

dake@ftrintel.com
(888) 988-1699, ext. 49

Jonathan Starks
Chief Intelligence Officer
Freight Demand & Economy Expert

jstarks@ftrintel.com
(888) 988-1699, ext. 42

FTR | Transportation Intelligence

Covering All Surface Modes of North American Freight Transportation

FTR | Transportation Intelligence

1720 N. Kinser Pike
Suite 210
Bloomington, IN 47404

(888) 988-1699
Sales: Ext. 1
Support: Ext 2

ftr@ftrintel.com

@ftrintel

FTRintel.com