Market Trends & Analysis

Yeah, We Can Do That.

Truckload Freight Index Performance

The Morgan Stanley Truckload Freight Index below reflects more normalcies in supply and demand; however, there are several hurdles to overcome to keep it where it is.

According to FTR, there is a 4.3% driver shortage. Bloomberg intelligence reported 235,600 unfilled trucking jobs that created 43.4% more job openings than this time last year, citing the new federal regulations last year as the primary cause.

Trucking prices (especially spot-market) will continue to be on the rise through the Q2 & Q3 as long as tonnage remains at higher than normal levels. Shippers that put business out for bid this year have not received the cost savings they have seen over the past several years and many are putting their bid results on hold. Carriers on the other hand are spending more to keep their trucks filled through recruiting efforts –PAM Transport was quoted stating that they "need to hire 300 drivers a month to keep trucks filled".

Exhibit 1

Morgan Stanley Dry Van ONLY Truckload Freight Index. Our index continues to underperform seasonality as the market gets back in balance, but has begun to show signs of bottoming.

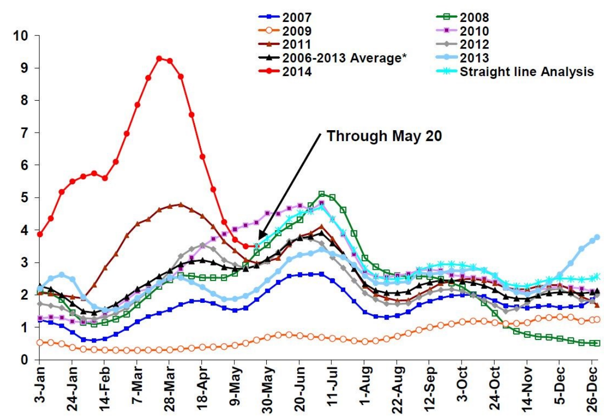
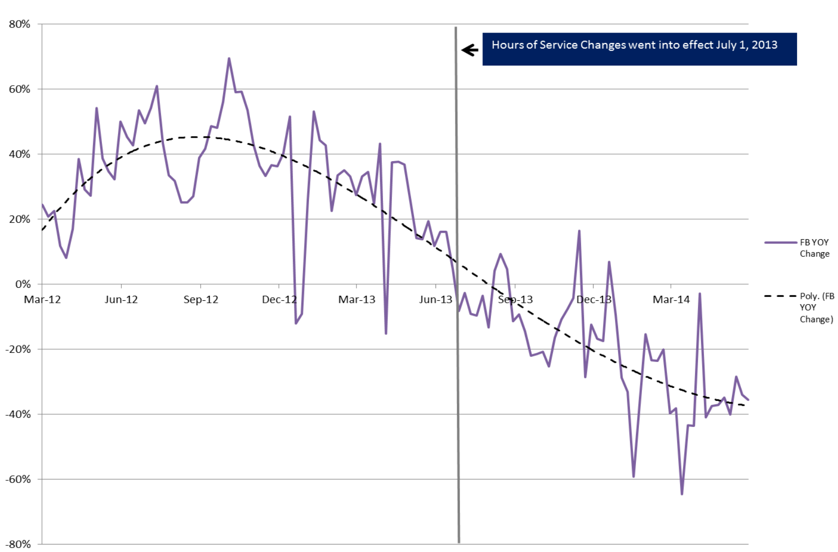


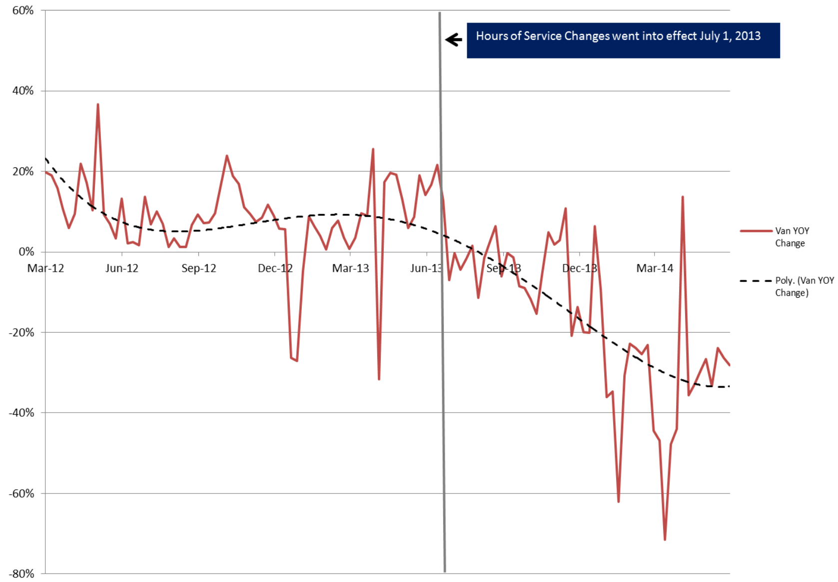
EXHIBIT 1 The index measures the incremental demand for Dry-Van Truckload services compared to the incremental supply. When a given reading is above prior years' level, it means there is more freight demand relative to available capacity. When a given reading is below prior years' level, it means there is less freight demand relative to capacity. *2006-2013 average trend line excludes financial crisis years of 2008 and 2009; Source: Morgan Stanley Research, Data as of 5/20/2014

Flatbed YOY Change



Flatbed capacity levels remain down over prior year by 30% to 40% and continue to remain tight with average weekly capacities totaling 40,400 for 2014, 32% behind same time period last year. Capacities have increased by 54% over the last twelve weeks and are holding in the 34,000 range on a weekly basis. Since hours of service regulations were implemented capacities have declined 30%.

Van YOY Change



Van capacity levels remain below 2013 levels with weekly average capacity of 123,000, down compared to prior year by 31%, however have shown signs of stabilizing. Over the past twelve weeks capacities have increased over 100% and total capacity has increased 28% since December 2013. Since hours of service regulations were implemented in July 2013 capacities are down 21%.

Summary and Outlook

The market continues to experience tight capacity conditions, which are becoming even tighter as demand strengthens due to seasonality. The Cass Freight Index showed solid YOY growth for the third consecutive month and continues to suggest underlying demand levels are solid on a YOY basis. The increases are leading to improved freight pricing which is expected to continue as capacity is forecasted to remain tight into next year. Proposed revisions to the HOS regulations that went into effect in July 2013 could temporarily limit the pricing leverage carriers have realized in recent months. Shippers are now agreeing to rate increases on average of 3% with higher increases on certain lanes. While changes to HOS regulations could reduce some of the leverage for carriers, market indicators suggest that carriers, especially those that are large and well-capitalized, will continue to hold pricing power.

BNSFL Market View

BNSF Logistics (BNSFL) is experiencing the same challenges that the market is as we have seen average weekly capacities in 2014 of approximately 165,000, a decline of 31% over 2013, and the trailing 12 week trend is down over 10%. As capacity continues to remain tight, BNSFL is making efforts to improve rates where possible. As a result, BNSFL has seen overall yields improve, which had declined to historical lows in 2013 as a result of HOS changes and capacity constraints. We expect the same market pressures to continue throughout 2014 and into 2015. BNSFL will continue to be proactive in the ever changing market as regulations, driver shortages, and economic conditions drive imbalance in supply and demand.