

## Truckload Freight Index Performance

The Morgan Stanley Truckload Freight Index shows a typical seasonal decline however capacity is still relatively tight for the time of year compared to historical averages. The forecast reflects above average supply/demand through the end of the year. There are several possibilities that could have a significant impact on the forecast.

**For example:**

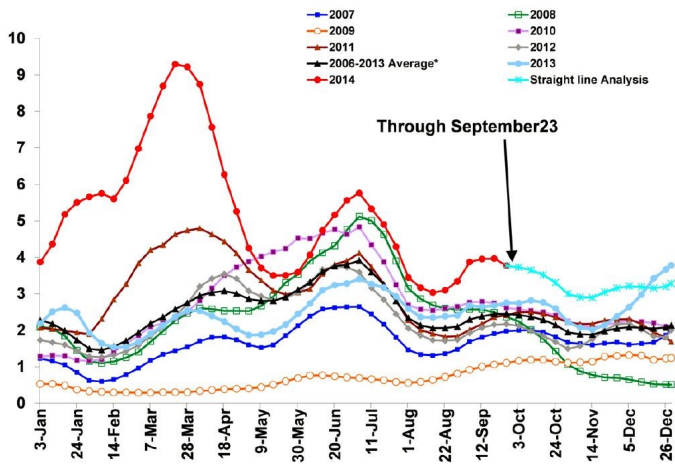
- Smaller Carriers filing for bankruptcy due to the

additional FMCSA requirements and possible increased fuel costs.

- Driver Recruitment issues, keeping trucks filled, higher sign-on bonuses and driver pay.
- Customers not replenishing inventory before holiday peak.
- Natural disasters, hurricanes, earthquakes, etc.

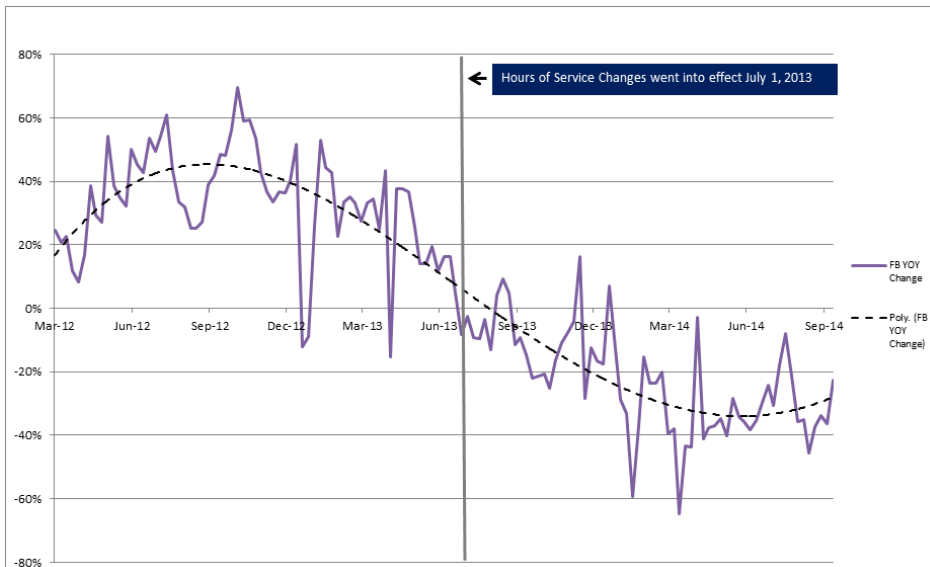
Exhibit 1

**Morgan Stanley Dry Van ONLY Truckload Freight Index.** Our TLF Index trended down seq this week, underperforming normal seasonality. Supply expanded seq and demand lagged seasonality, both of which pressured the index.



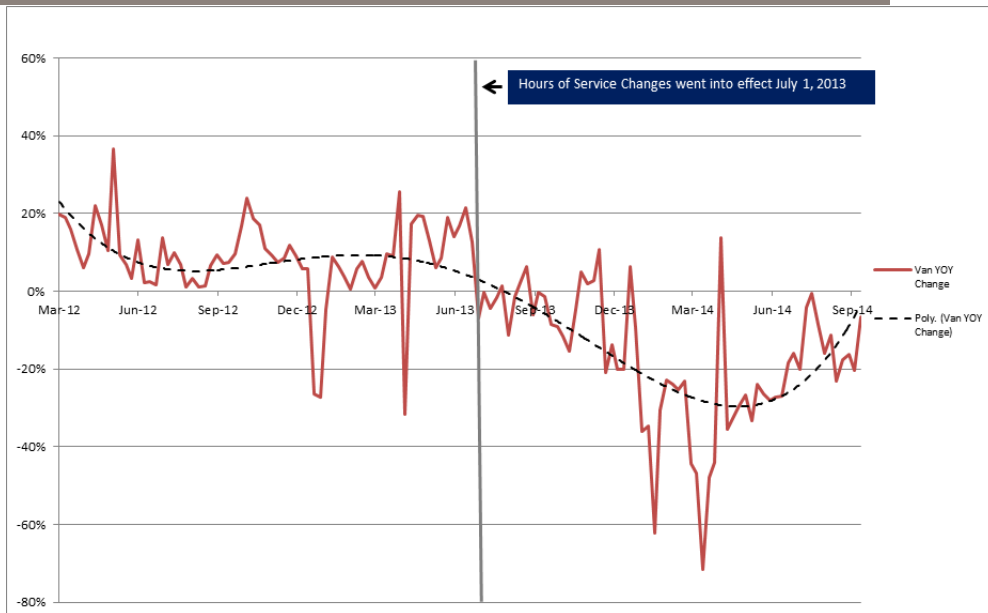
**EXHIBIT 1** The index measures the incremental demand for Dry-Van Truckload services compared to the incremental supply. When a given reading is above prior years' level, it means there is more freight demand relative to available capacity. When a given reading is below prior years' level, it means 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 9/23/2014

## Flatbed YOY Change



Flatbed capacity levels continue to remain down over prior year by 5-10% and remain tight with average weekly capacities totaling 134,000 for 2014, 25% behind same time period last year. Over the past twelve weeks data is indicating that flatbed capacities are loosening and have increased by 28% over that time period. Since hours of service regulations were implemented in July 2013 capacities are up 5%.

## Van YOY Change



Van capacity levels remain below 2013 levels with weekly average capacity of 39,500, down compared to prior year by 33%. Consistent with flatbed, capacities over past twelve weeks are loosening and have increased 34% in that time. Since hours of service regulations were implemented in July 2013 capacities are down 6%.

## Summary and Outlook of Rail Capacity

Rails are preparing contingency plans to keep service levels up due to capacity and weather related issues. There has been a mixture of capacity improvements. For example, BNSF is building more interchange track (in Chicago) to speed up the transfer of freight to the eastern carriers (NS & CSX). UP also has created a response plan by adding 3,200 additional employees for the northern corridor with 350 going to the Chicago area. As the capacity tightens going into 4Q we need to be creative in finding ways to get our customers products delivered in a timely manner. If customers are trying to stage inventory they will most likely find themselves without product on the shelves. The BNSFL team is actively developing alternative routing and mode contingencies for all major rail customers in case winter weather causes further capacity and service deterioration.

## Review and Forecast of International Container Activity

All port areas are showing delays due to various reasons. There are four main ports facing congestion issues: Montreal, New York, Houston and Los Angeles. We are facing chassis and trucking delays due to a shortage of equipment and a reduced number of truckers. This backup alone impacts transit time up to 5 days. Additional pressures are being felt from the sheer volume of freight coming into the main ports (Montreal, New York and Los Angeles). Vessels are being delayed off-loaded which is effecting vessel rotation and schedules are getting delayed. Port to rail transfers are delayed as well and shortage of railcar equipment further delays shipments and increases transit time. "It's important to be proactive," says Wolfram Zeppenfeld. "The two biggest things you can do to avoid missing deadlines is to 1) plan additional lead time 2) book as early as possible or earlier than normal." Volumes are expected to reduce in November-December to help ease congestion problems, but we don't know by how much.