HEADLINE

FTR forecasts a bigger hit to freight in Q2 with gradual recovery in Q3

- Tonmiles likely will not return to pre-crisis levels until 2022.
- The duration of stay-at-home containment remains the key unknown.
- Truck loadings might not recover to pre-crisis levels until late 2021.
- Recent declines in carload volumes are unlikely to reverse quickly.
- Intermodal's benefit from China's industrial recovery might be limited.

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Overview

The scale of near-term economic damage from the novel coronavirus (COVID-19) pandemic is becoming clear as we see more data. Based primarily on job losses far exceeding our initial assumptions in March, FTR on April 8 revised its economic outlook for Q2 sharply lower. We now expect Gross Domestic Product (GDP) to plunge nearly 24% on quarter-over-quarter (q/q) seasonally adjusted annual rate (SAAR)* basis, more than double the rate in our prior forecast.

Although we expect a sharp recovery in Q3, the depth of the damage means that we likely will not return to the level of economic output we saw before the COVID-19 crisis until the first quarter of next year.

The segment of the economy tied to freight transportation looks to take a disproportionate hit. We now forecast the GDP Goods Transport Sector to plummet nearly 45% on a q/q SAAR basis in Q2 – nearly double the drop in the prior forecast. We expect double-digit q/q growth in each of the next four quarters, but the sector probably will not return to pre-crisis levels until late 2021.

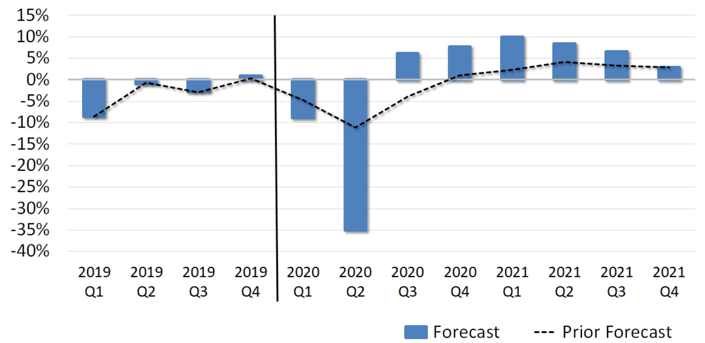
With this fundamental deterioration in the economic outlook, it is hardly surprising that our freight outlook now is sharply weaker. The revised forecast for total U.S. tonmiles is a plunge of 35% on a q/q SAAR basis in Q2 – more than three times what we had forecast in our prior update published on March 23. A recovery should begin in Q3, but we could be well into 2022 before we see tonmiles matching the level we saw before the COVID-19 crisis. The remainder of this report discusses how our freight forecast plays out in the individual modes.

As discussed in our April 8 Flash Update on our economic outlook, we acknowledge considerable risks to our forecasts as we are trying to model market behavior in response to an unprecedented event. Most of all, our forecasts are sensitive to the duration of the current nationwide period of stay-at-home containment of the virus. We assume that a restart begins in May but that it will not be uniform. Moreover, we presume that the longer the containment period lasts, the slower the recovery will be as a result of the economic damage incurred.

** - SAAR: Seasonally Adjusted Annual Rate - A measurement basis that highlights how strong or weak a particular time period of data would be if extrapolated for a full year.*

Total U.S. freight tonmiles

Q/Q change, seasonally adjusted annual rate



Source: FTR

Trucking sector outlook

Whiplash has occurred in the spot market

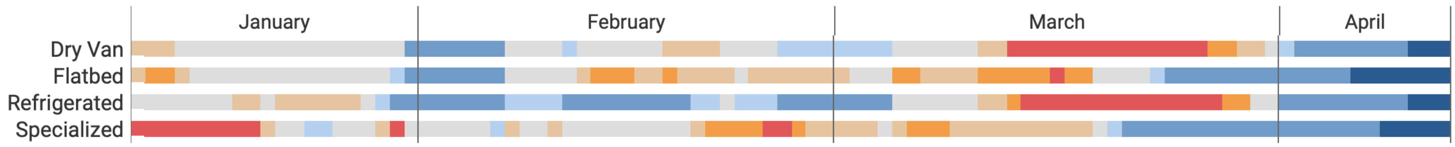
When we published our most recent update on the freight markets, the dry van and refrigerated trucking segments were experiencing the peak of in-

Freight Outlook Overview

Y/Y % Change	Q1'20	Q2'20	2020	2021
Truck Loadings	-2.1%	-12.4%	-9.3%	6.4%
Rail Carloadings	-4.1%	-21.6%	-13.0%	8.8%
Intermodal Loadings	-10.3%	-20.5%	-15.2%	4.7%

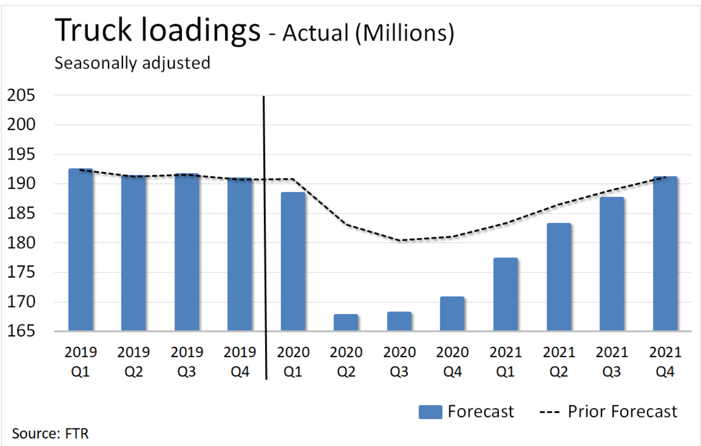
Source: FTR Transportation Intelligence™; Copyright 2020, FTR

Timeline of Spot Market Activity - Available Loads Heatmap



Dark Red is significantly above normal activity. Dark Blue is significantly below normal activity.

The market turned negative at the end of March



creased demand sparked by the COVID-19 crisis. Americans had rapidly depleted grocery stores of a wide range of food and paper products, and carriers were busy with the effort to restock stores and distribution centers.

We knew that this increased demand was temporary and further presumed that conditions would change rapidly, creating a whiplash effect, especially for dry van.

Cooling began in late March, and by the week ended April 3 the destruction of freight demand resulting from the economic shutdown clearly overshadowed any remaining restock pressure.

In just two weeks, dry van load availability in the Truckstop.com system has plunged from levels that approached the hot 2018 market to the lowest levels in about four years. The dynamic is basically the same in refrigerated except that for one week in March we saw loads surge well beyond 2018 levels.

Meanwhile, flatbed is experiencing its own reversal of fortunes. As late as early March, flatbed spot loads were surging, presumably due to a strong housing construction market. The segment has now seen four straight weeks of sizeable declines in load availability.

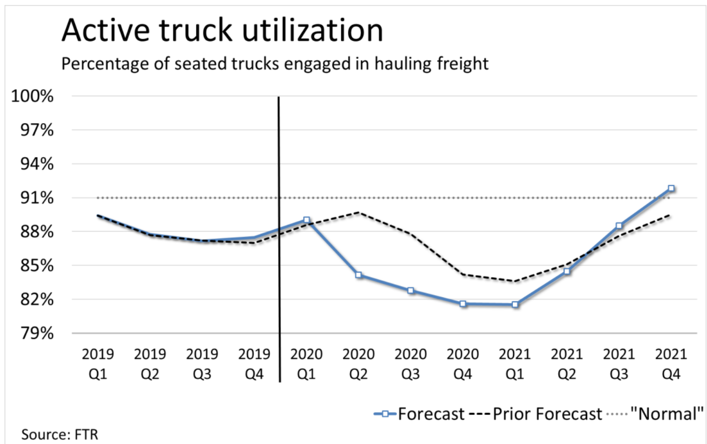
All segments look negative in 2020

We previously forecast total truck loadings falling 4% in 2020. We now expect loadings to drop more than 9%. The prior forecast still anticipated slight growth in refrigerated, but we now expect loadings in all trucking segments to be lower in 2020 than in 2019.

In our revised forecast, refrigerated still fares best as we expect a decline of only around 1% as temperature-controlled food loadings look to ease only slightly. Food-related transportation also serves as a firewall against larger collapses in dry van, specialized and tank.

The outlook for dry van is a decline in loadings of around 7%. However, dry food, which represents nearly a third of dry van volume, is forecast to grow slightly in 2020, partially offsetting big declines elsewhere. For example, automotive dry van loadings look to fall by 20%.

Similarly, specialized would fall much more than the forecasted 5% if not for volume related to agriculture, which represents more than half the segment's loadings and are forecast to grow slightly. The forecast for tank is a drop in loadings of nearly 8%. Although food-related tank loadings are forecasted to be negative, the decline is far smaller than other tank commodities.



As in our prior forecast, segments linked to industrial and construction activity are set to take the biggest hits. The bulk/dump loadings forecast is a drop of nearly 17%. The outlook for flatbed is a decline of around 12%.

Poor utilization to drive rates lower

The much deeper decline in freight volume means significantly weaker active truck utilization than in the prior forecast, resulting in an even-weaker truckload rate outlook of about -4%. All truckload sectors are forecast for lower rates in 2020 with flatbed and specialized likely to take the biggest hits in rates.

Utilization is a function of both demand and capacity, so assumptions regarding capacity necessarily affect our utilization forecast. While many trucking companies apparently already are reducing their driver work forces, we believe that at least in the near term the decline in freight likely will outpace the loss of driver capacity.

Drivers will see fewer miles and, therefore, less money, but most probably have few alternatives in an economy that has seen 23 million Americans file for unemployment benefits in just four weeks. The new Paycheck Protection Program (PPP) also provides some incentives to maintain employment levels at companies with fewer than 500 workers, although the inability of carriers to include independent contractors in loan calculations could be problematic for trucking.

Of course, carriers can keep drivers only if they remain in business, so bankruptcies could be the biggest wild card on capacity. Before the COVID-19 crisis, freight volume was strong enough that we generally saw existing carriers absorb capacity from failed carriers. We would not expect to see that dynamic return for quite some time.

Rail sector outlook

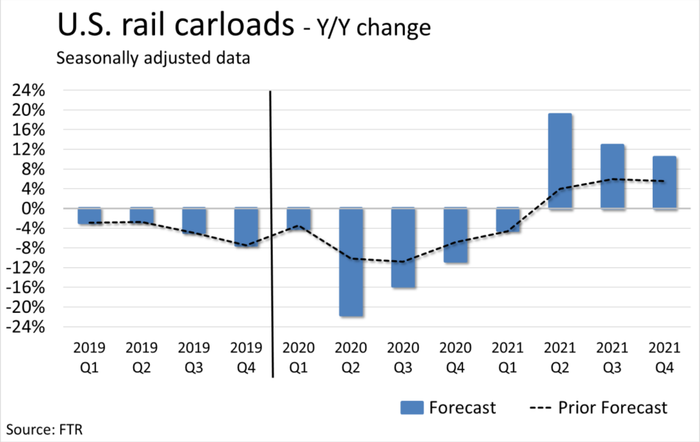
Weakness showing up in carload

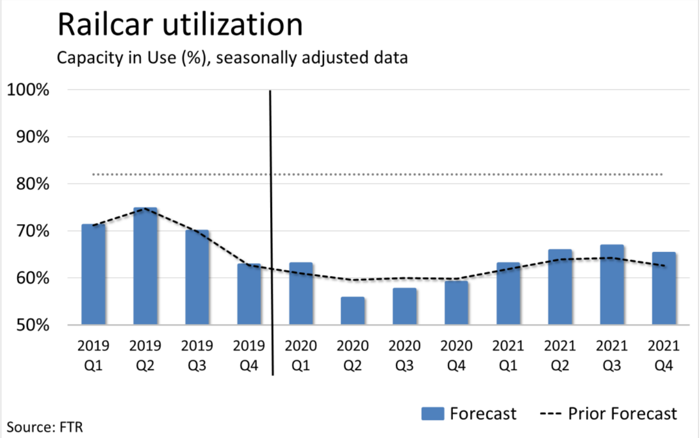
Rail carload markets have declined significantly in recent weeks in response to COVID-19 shutdown restrictions across much of the U.S. The carload markets held up better in the early stages of the response to the virus, but now the effects appear to have shown up in every major sector of the carload markets.

There is no sign of a quick end to the pain for carload markets as reopening plans for states have not been publicized and increasingly the expectation is for a slow and piecemeal reopening of the economy. Such an approach will result in a slow, uneven, and disjointed recovery among carload sectors depending on where production is based and whether they can gain an "essential business" exception.

All of the major carload sectors except grain are forecast to decline at least in the mid-single digit range for 2020. Even a month ago, such a result would have been unthinkable. But with industrial plant shutdowns across the country, it is unlikely to be a quick recovery with many states suggesting the restart could last into the third quarter. Petroleum products volumes are expected to be down double-digits as low crude prices make it uneconomical to move Canadian production to the U.S. Gulf coast.

That sector's decline is especially important to the rail equipment space as most of its backlog is in energy-related tank and covered hopper railcars. Railcar utilization was already under pressure before COVID-19 and the freight decline. But now utilization is forecast to reach all-time low levels near 55%, indicating that nearly





one out of every two railcars in the fleet is in storage. This undermines new car orders as shippers can obtain what they need in the secondary market instead of having to place an order for new equipment. A recovery in rail equipment markets is likely to lag the freight recovery by at least a year.

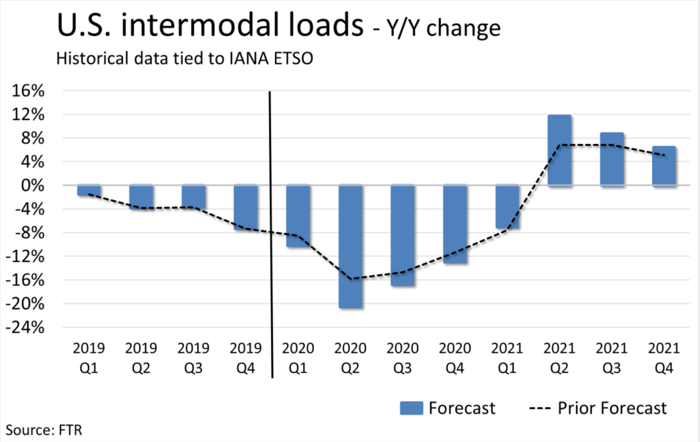
Automotive volumes have been dramatically affected in recent weeks as volumes declined more than 60%(!) compared with 2019 on a four-week rolling average basis. The decline is primarily related to the closure of automotive factories, which as of this writing, are expected to last until at least early May.

The closure of automotive facilities has bled into other sectors as the industry's suppliers feel the ripple effect of the closure of their major customers. Metals and metal products are where the decline shows up most on the rail side as volumes are off 13% from 2019 levels compared with the same four weeks last year. That decline could get worse in the coming weeks as more industrial demand dries up and closures flow through the carload numbers.

Lumber and wood and stone, clay, and glass are also experiencing significant reductions in carloads compared with 2019 as construction grinds to a halt both because it is not deemed an essential activity in many jurisdictions and because confidence in new projects is waning.

China's recovery might not help intermodal much

Intermodal volumes have been on the leading edge of the COVID-19 related declines for weeks, but the pace of decline has accelerated recently as the trailer market starts to participate in the drop off. Trailers had, until the last two weeks, performed close to expectations and then dropped significantly. While Chinese factories are starting to ramp up and we would expect to see import volumes ramp up in coming weeks, weak U.S. demand for discretionary purchases and a more competitive truckload market mean the import gains might not translate into additional intermodal freight.



Intermodal's competitiveness is expected to be challenged significantly by the more competitive truckload market for the balance of 2020. FTR's Intermodal Competitive Index is expected to be down double-digits for much of the rest of 2020, suggesting a level that creates behavior change away from intermodal and toward truckload.

Intermodal volumes are expected to decline by 15% in 2020, a result unthinkable even earlier in 2020. Every sector of intermodal will feel the effects with weak imports denting international and a more competitive truckload market pressuring domestic volume. It is unlikely that intermodal volumes will recover before 2021, and even then it will be a more modest increase than the industry became accustomed to prior to 2019.

More to come

We will be updating our outlooks on the commercial vehicle and rail equipment markets later this week. Also, look for our Weekly Transportation Update each Thursday throughout this crisis.

Our resources related to COVID-19, including the updates we have published and recordings of our webinars, are available at freight.ftrintel.com/coronavirus.

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State of Freight Insights

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