

January 16, 2018

North America Freight Transportation

Freight Pulse 48 Shipper Survey: Expectations Reach New Highs Across the Board

In our latest survey, Shippers' view of the economy jumped to the highest level we have seen in the 15-year history of our survey. Expectations increased across all transport modes and end markets, and the highest percentage of Shippers plan to increase inventories (6-year history). Specifically, Rail, Truck and Parcel volume and pricing expectations accelerated from FP47. Below we provide our key takeaways for general Freight, Rail, Truck and Parcel.

Freight/Macro Highlights: (1) Shippers' Economic Outlook Jumps to Highest Level in History of our Survey; (2) Shippers' View of Economy Increases Across All Industries; (3) Largest % of Shippers Plan to Increase Inventory Levels in Survey's History; (4) Respondents Expect Tighter Capacity Across All Modes; (5) Shippers See Deteriorating Service Levels Across All Modes Besides Airfreight; (6) Shippers Willingness to Use "Uber for Freight" Apps Increases to ~39%

Rail Highlights: (1) Plurality of Shippers Expect +1-3% YoY Change in Rail Volume; Volume Index Increases to Highest Level Since 2011; (2) ~54% of Shippers Expect a 3-5% YoY Increase in Rail Rates, Up From ~40% in Our Previous Survey; Pricing Index Jumps to 2.9; (3) More Shippers Expect to Increase Rail Spend; Difficulty of Rail Rate Negotiations Increases; (4) Intermodal Discount to TL (Ex. Fuel) Increases Toward Historical Average; (5) Rail Service Reliability and Value For Dollar Flattish vs. Prior Survey

Truck Highlights: (1) All Truck Mode Volume Growth Expectations Increase from FP47, Intermodal Sees the Largest Increase; (2) TL Base Rate Expectations Jump to Highest Levels Since 2005; (3) Expectations for Tighter Capacity Across All Truck Modes; TL Tightest Reading in Survey History; (4) Fuel Efficiency Continues to be the Most Important Driver to Intermodal Growth; TL Rate Increases Fast Approaching; (5) TL Price Discounts vs. Intermodal Continue to Slip from Elevated Levels

Parcel Highlights: (1) Ground, Air and Int'l Volume Growth Outlooks Improve; (2) Shippers Expectations for Average Parcel Base Rate Increases Over Next 6 Months for Air, Ground, and Int'l Reach Highest Levels in Years; (3) Shippers' Expectations for B2C as % of Total Parcel Shipment Remain Relatively Unchanged; (4) Gap Between Price and Service Narrows for Switching Ground Parcel Carriers, Service Overtakes Price as More Important Switching Factor for Air; (5) According to Shippers, Discounts Have Increased for FDX and UPS Air and Ground Services Since Our Prior Survey

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Freight Pulse: General Freight and Macro Highlights

General Freight and Macro Highlights

Freight Pulse: General Freight and Macro Key Takeaways

1. Economic Outlook

- Shippers' Economic Outlook Jumps to Highest Level in History of our Survey

2. Economic Outlook by Industry

- Shippers' View of Economy Increases Across All Industries

3. Inventory & Restocking

- Largest % of Shippers Plan to Increase Inventory Levels in Survey's History

4. Capacity Expectations

- Respondents Expect Tighter Capacity Across All Modes

5. Service Trends

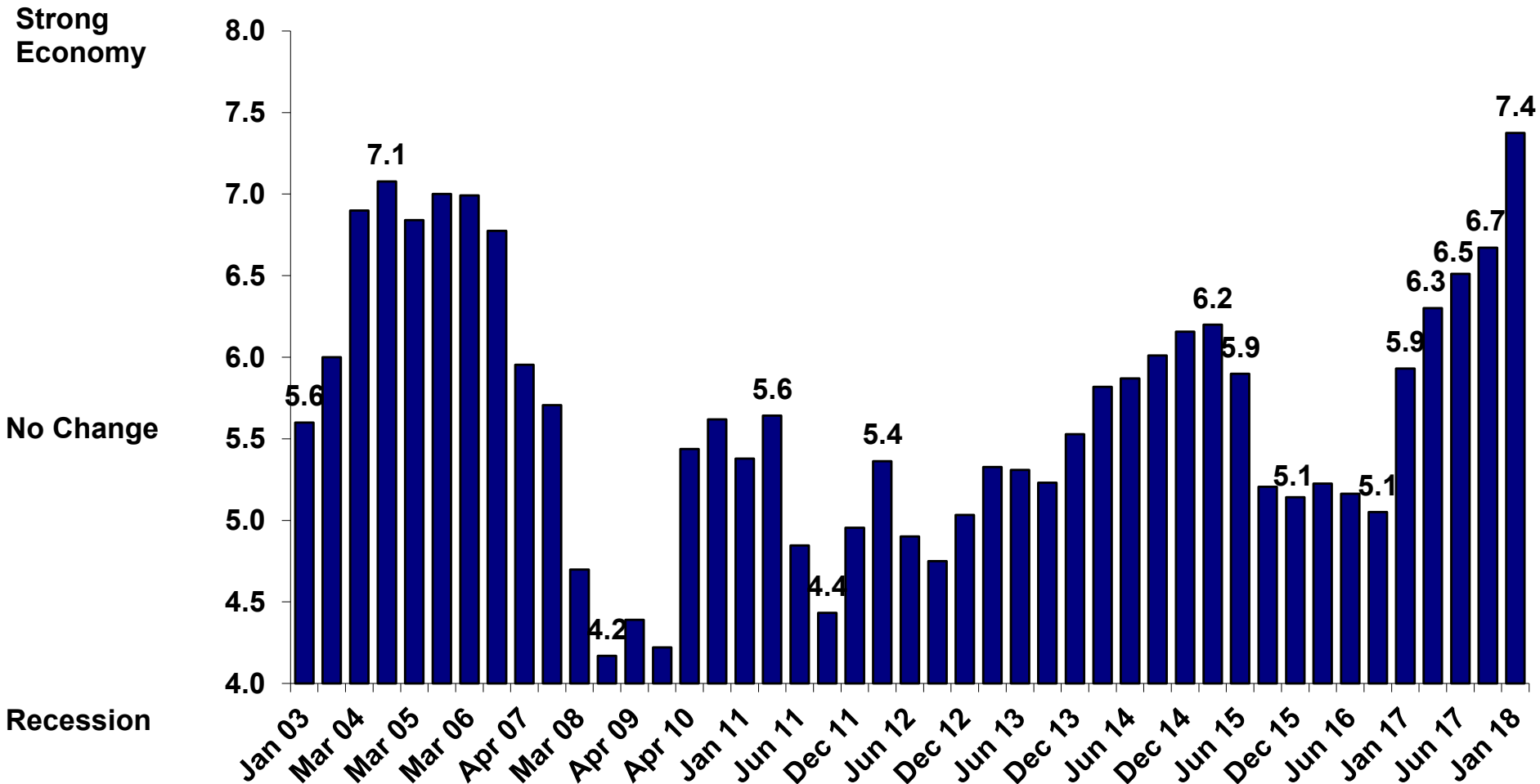
- Shippers See Deteriorating Service Levels Across All Modes Besides Airfreight

6. Uber for Freight

- Shippers Willingness to Use "Uber for Freight" Apps Increases to ~39%

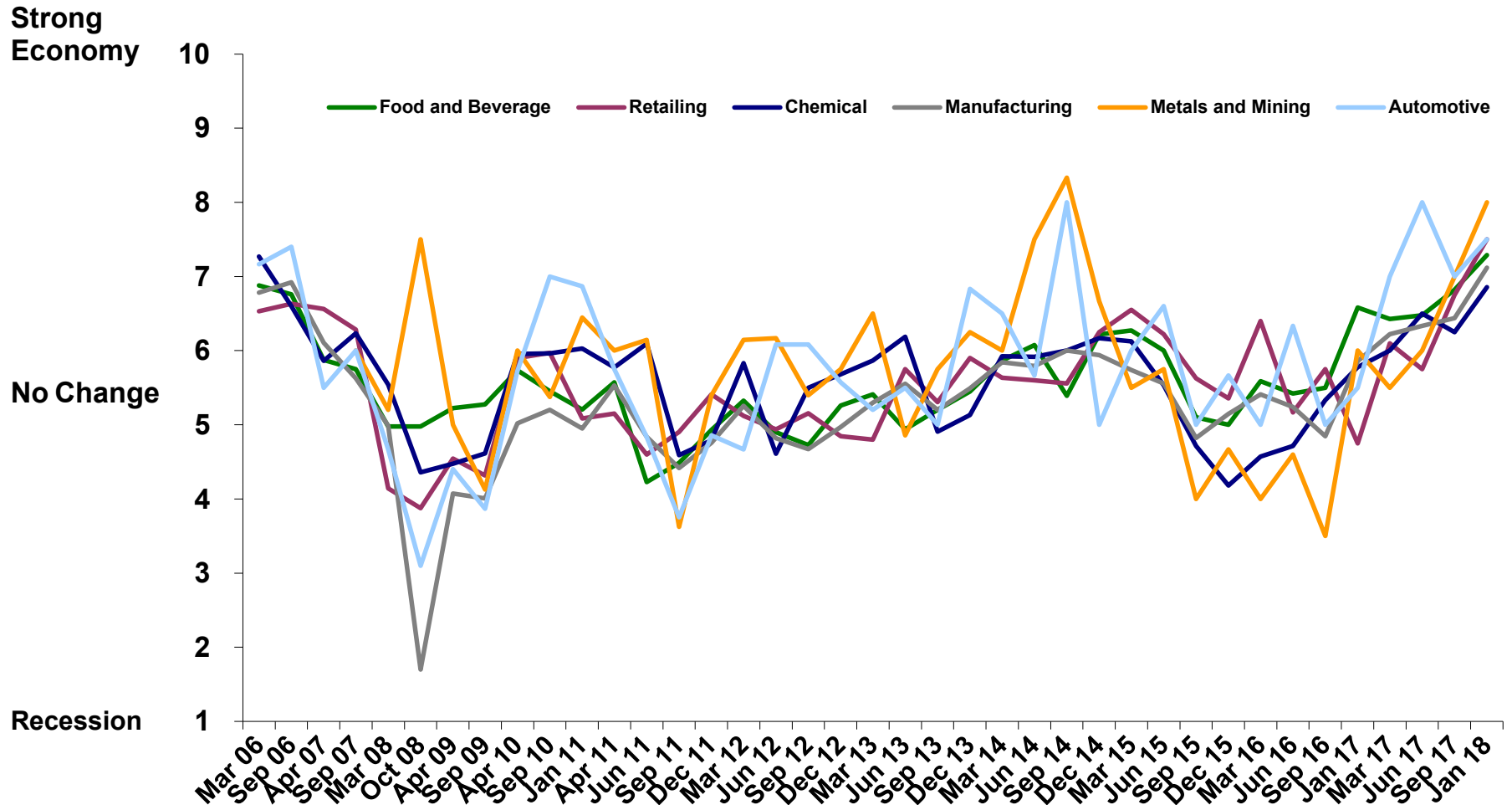
1. Shippers' Economic Outlook Jumps to Highest Level in History of our Survey

State of the Economy from Shippers' Perspective



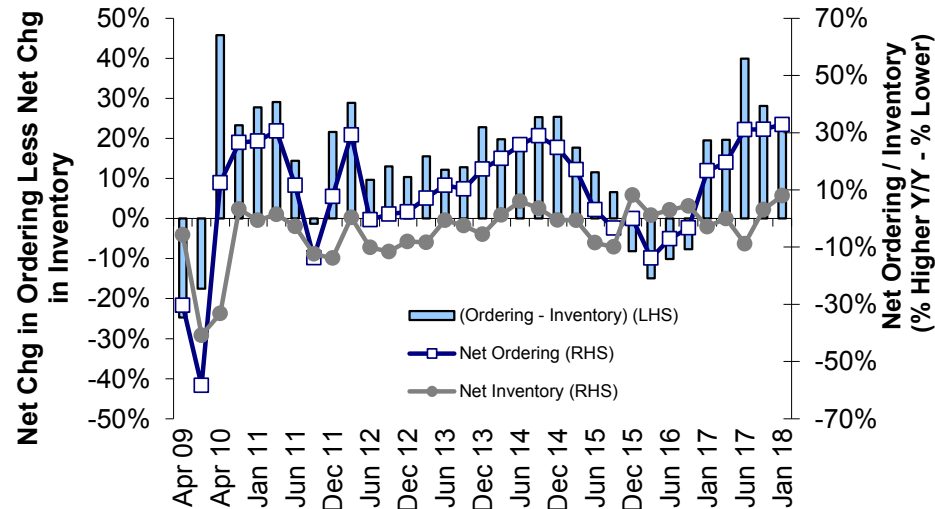
2. Shippers' View of Economy Increases Across All Industries

Shippers' View of the Economy by Industry

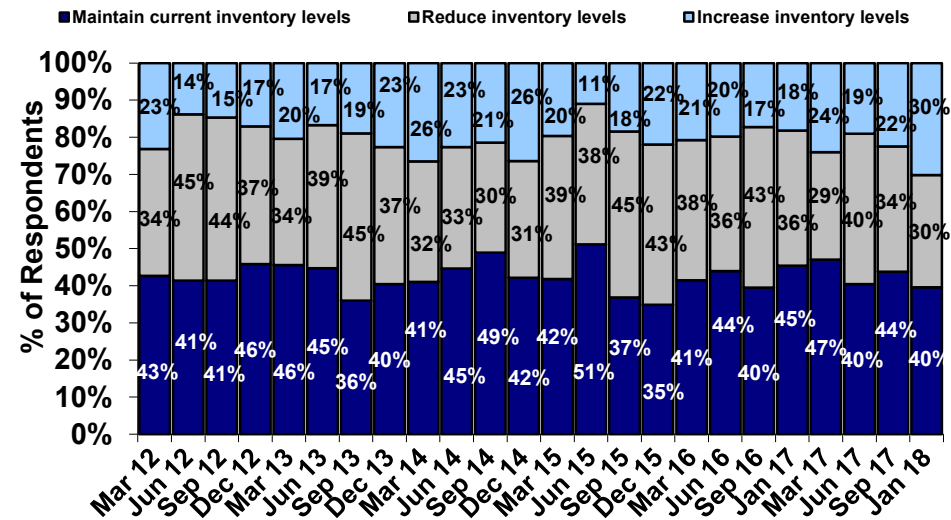


3. Largest % of Shippers Plan to Increase Inventory Levels in Survey's History

Shippers' Net Y/Y Orders vs. Net Y/Y Inventory

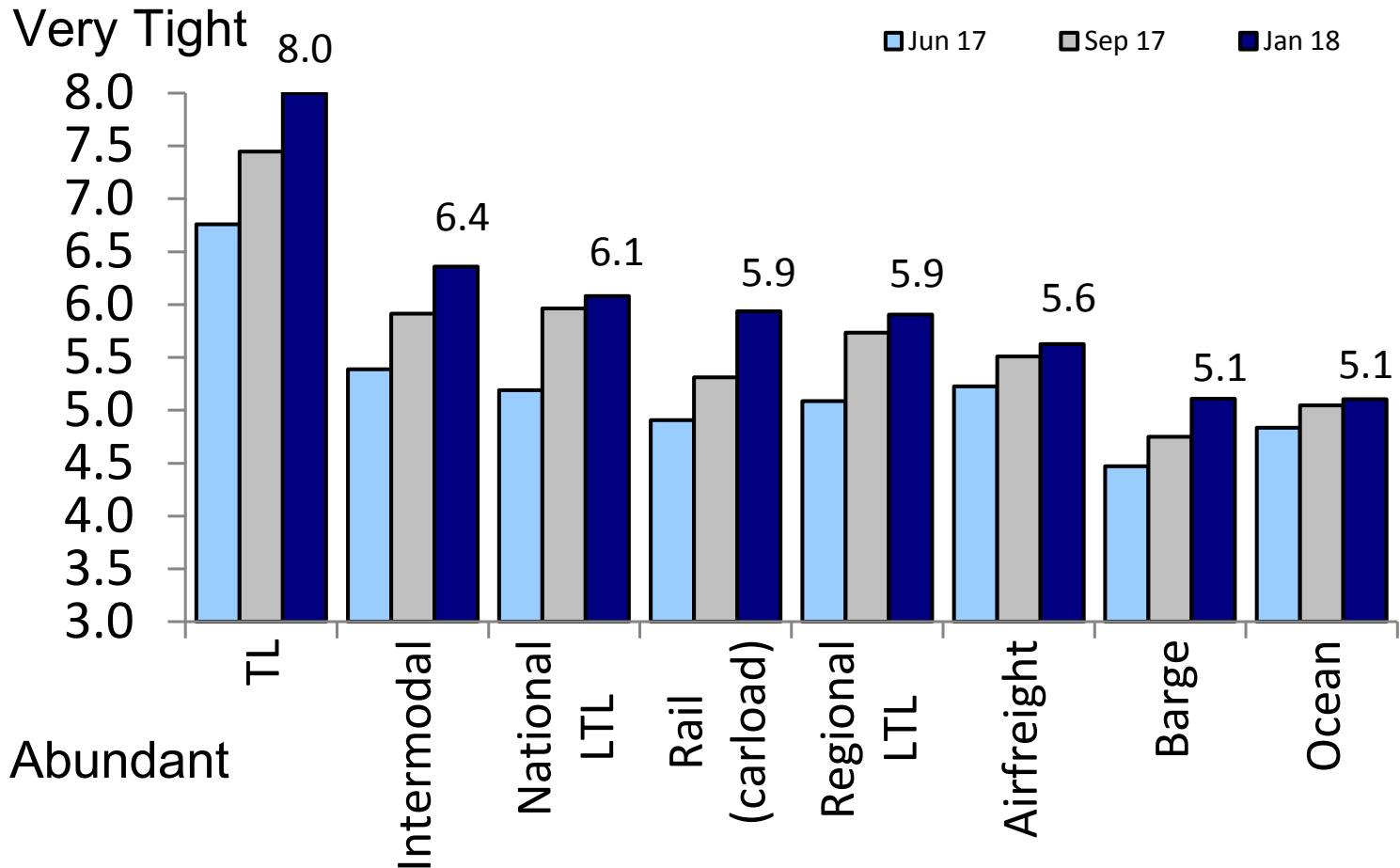


Shippers' Inventory Plans



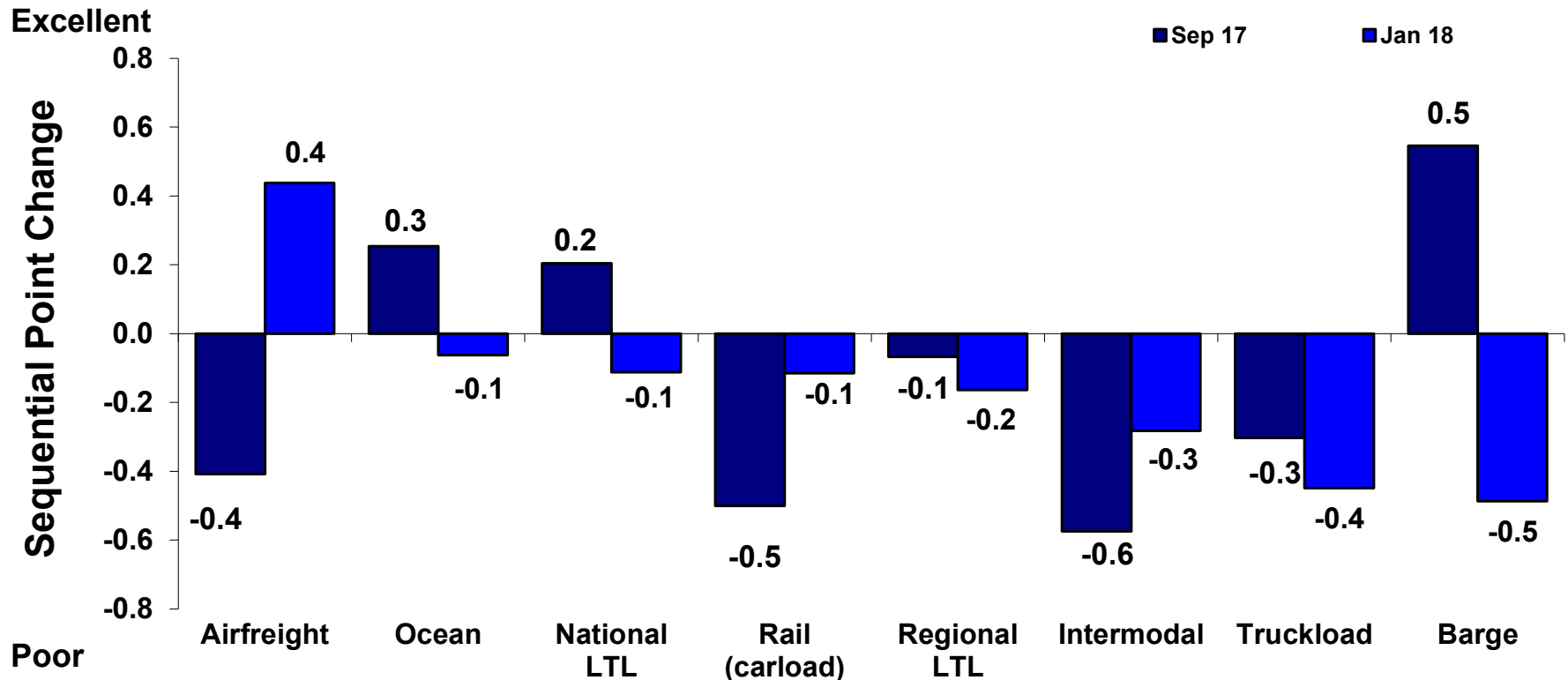
4. Respondents Expect Tighter Capacity Across All Modes

Projected Capacity in 6 Months



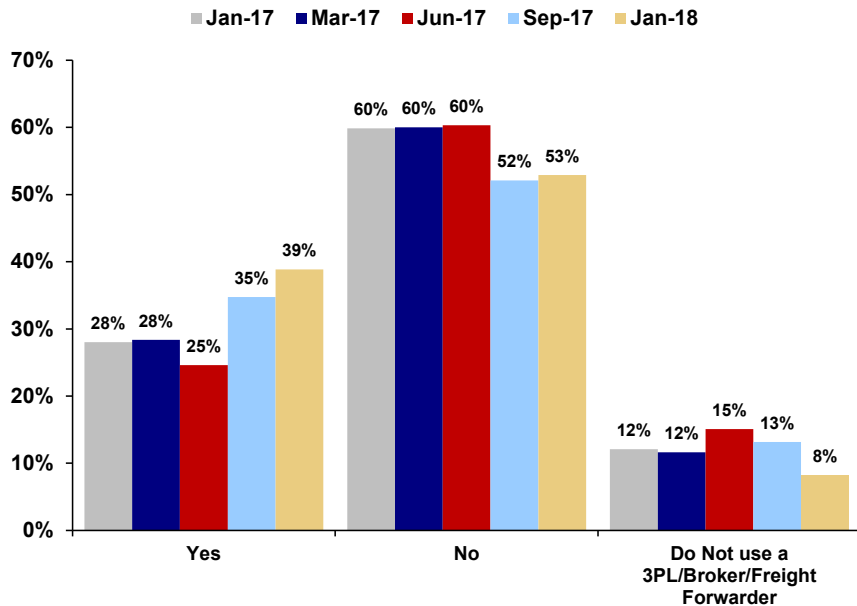
5. Shippers See Deteriorating Service Levels Across All Modes Besides Airfreight

How would you rate service levels among different modes of transportation for the past 6 months?

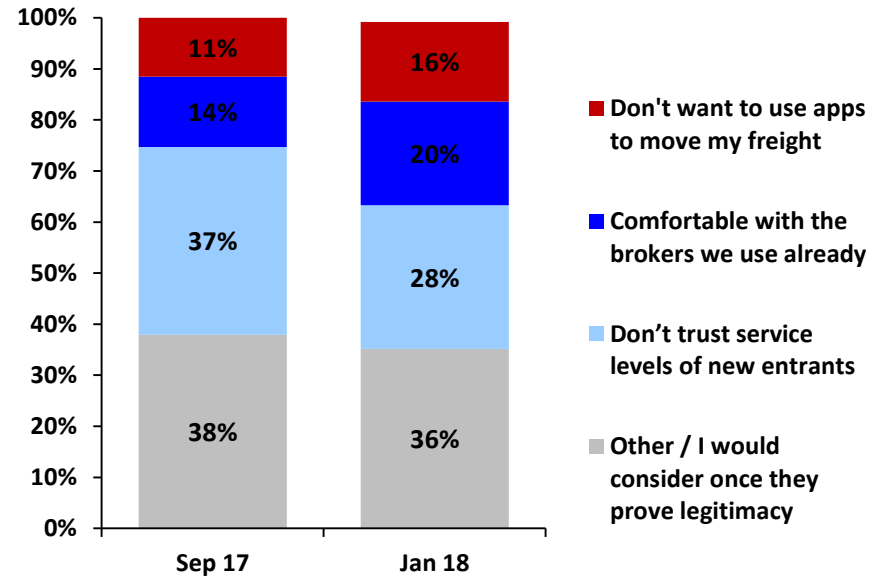


6. Shippers Willingness to Use “Uber for Freight” Apps Increases to ~39%

If an “Uber for Freight” app offers a commission of about 5%, would you use it instead of a traditional third-party broker?



Respondents who said No: Why would you not use an “Uber for Freight” app to move your shipment?



Freight Pulse: Railroad Highlights

Railroad Highlights

Freight Pulse: Rail Key Takeaways

1. Rail Volume

- Plurality of Shippers Expect +1-3% YoY Change in Rail Volume; Volume Index Increases to Highest Level Since 2011
-

2. Pricing

- ~54% of Shippers Expect a 3-5% YoY Increase in Rail Rates, Up From ~40% in Our Previous Survey; Pricing Index Jumps to 2.9
-

3. Spending

- More Shippers Expect to Increase Rail Spend; Difficulty of Rail Rate Negotiations Increases
-

4. Intermodal

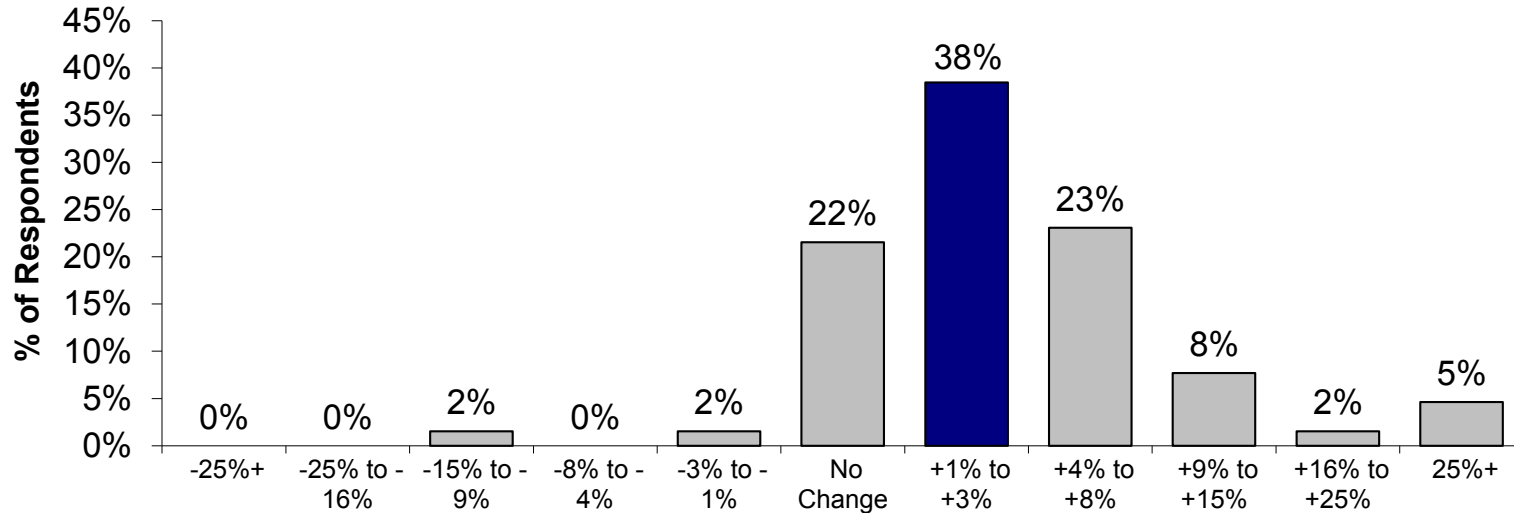
- Intermodal Discount to TL (Ex. Fuel) Increases Toward Historical Average
-

5. Service Trends

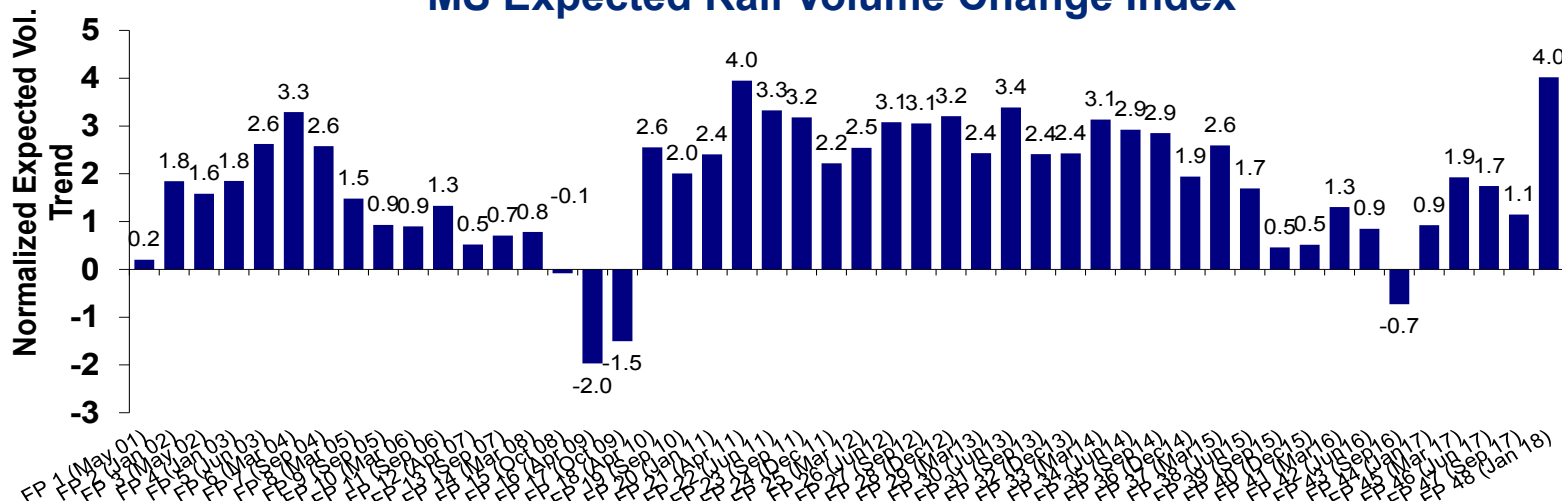
- Rail Service Reliability and Value For Dollar Flattish vs. Prior Survey

1. Plurality of Shippers Expect +1-3% YoY Change in Rail Volume; Volume Index Increases to Highest Level Since 2011

YoY Volume Growth Expectations for Next 6 Mo. by Range

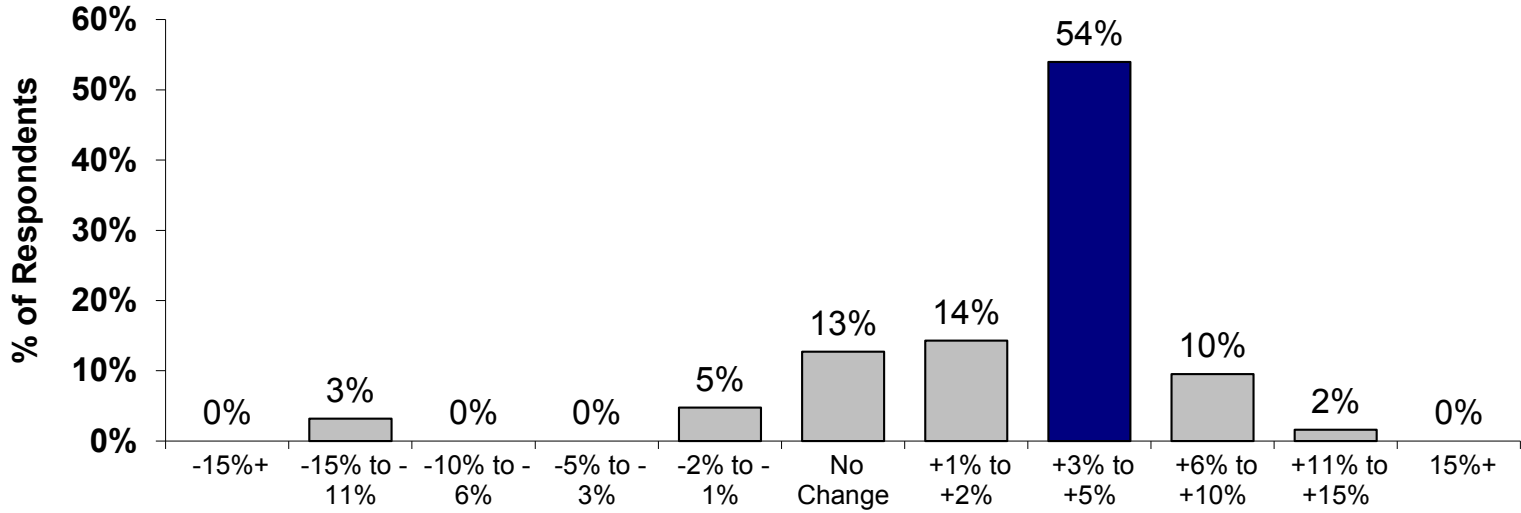


MS Expected Rail Volume Change Index

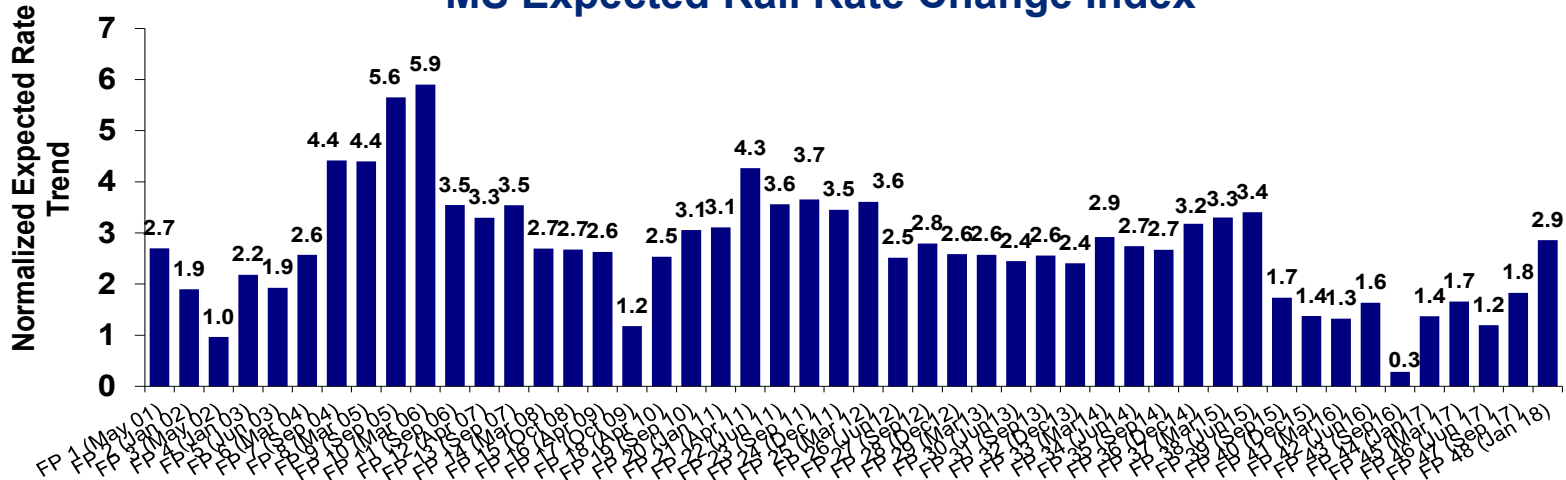


2. ~54% of Shippers Expect a 3-5% YoY Increase in Rail Rates, Up From ~40% in Our Previous Survey; Pricing Index Jumps to 2.9

YoY Rate Growth Expectations for Next 6 Mo. by Range

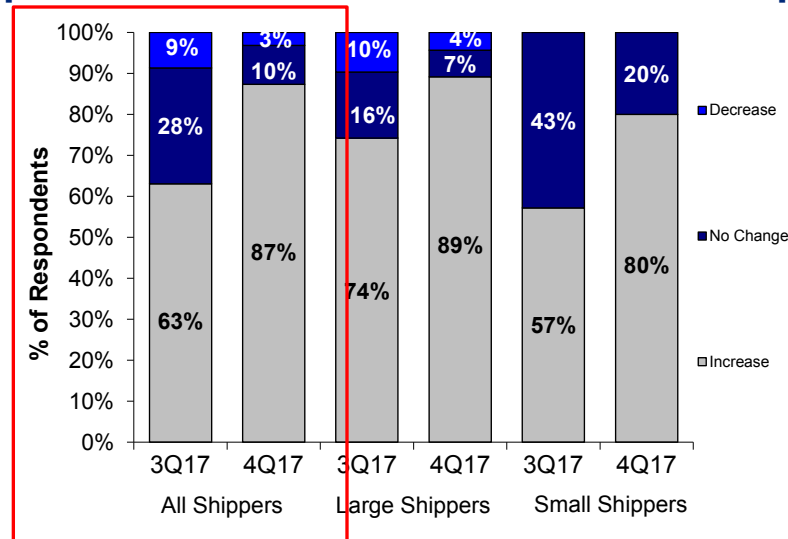


MS Expected Rail Rate Change Index

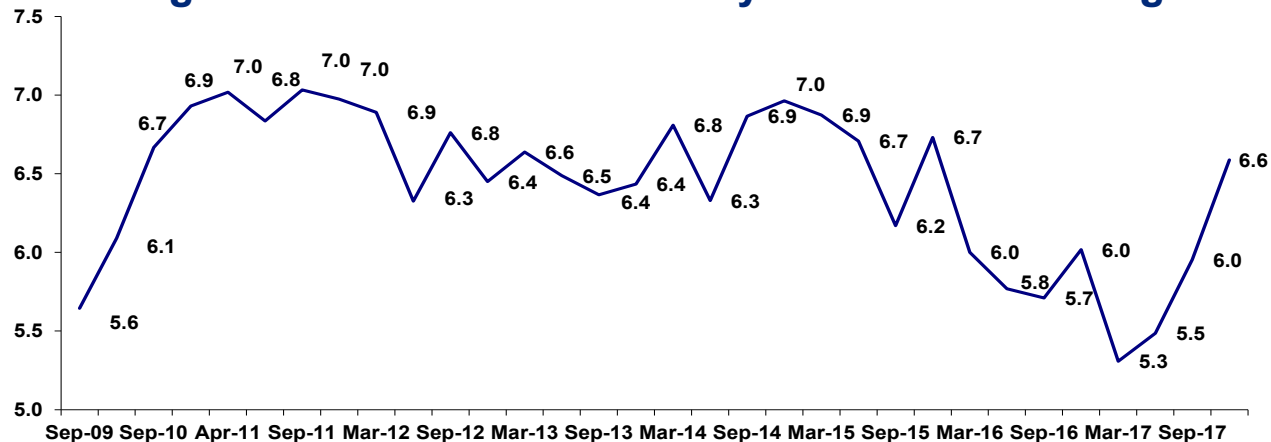


3. More Shippers Expect to Increase Rail Spend; Difficulty of Rail Rate Negotiations Increases

Rail Spend Forward 6 Month YoY Growth Expectations

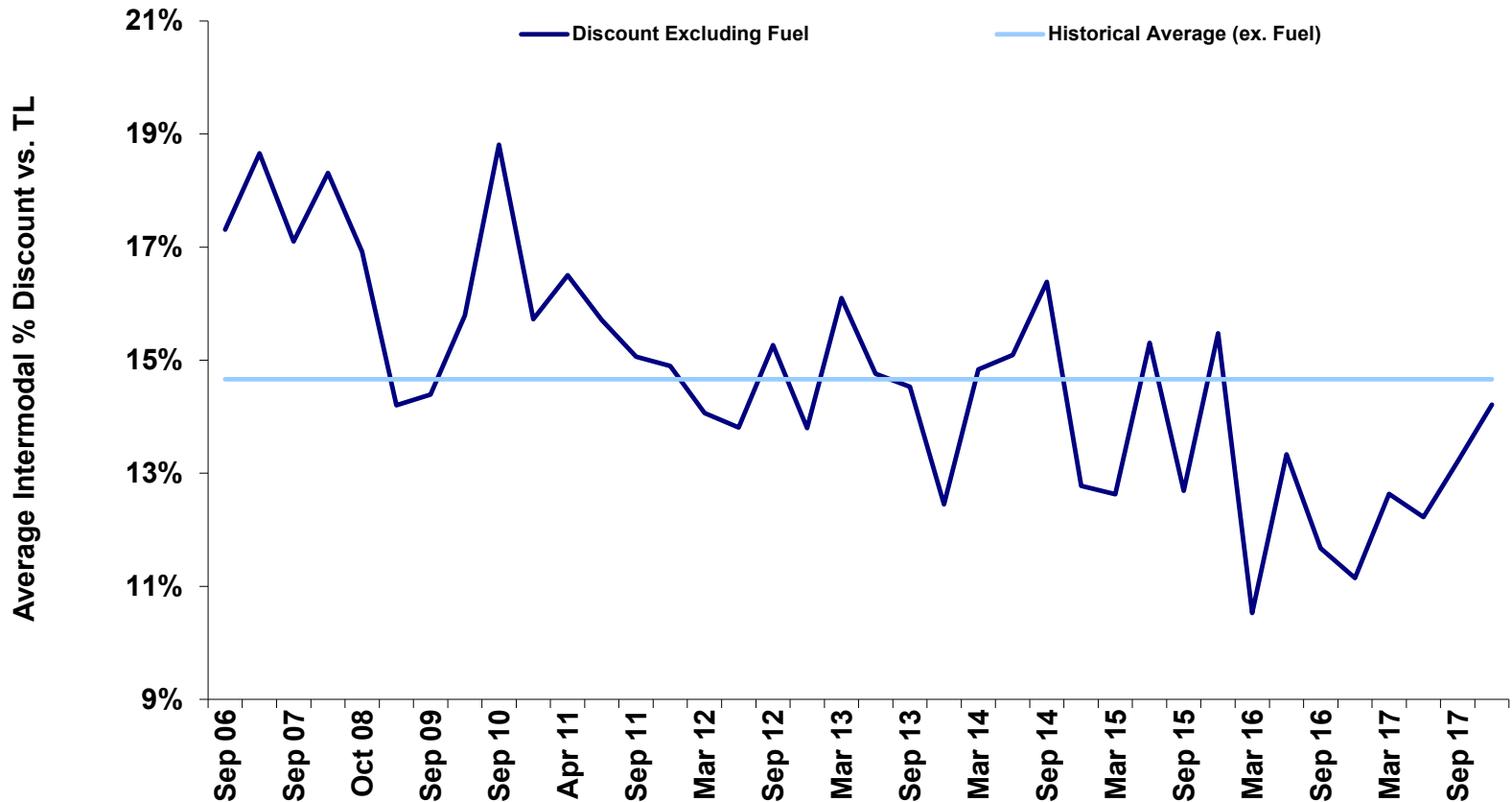


Rail Rate Negotiations: Rate the Difficulty of Recent Rate Negotiations



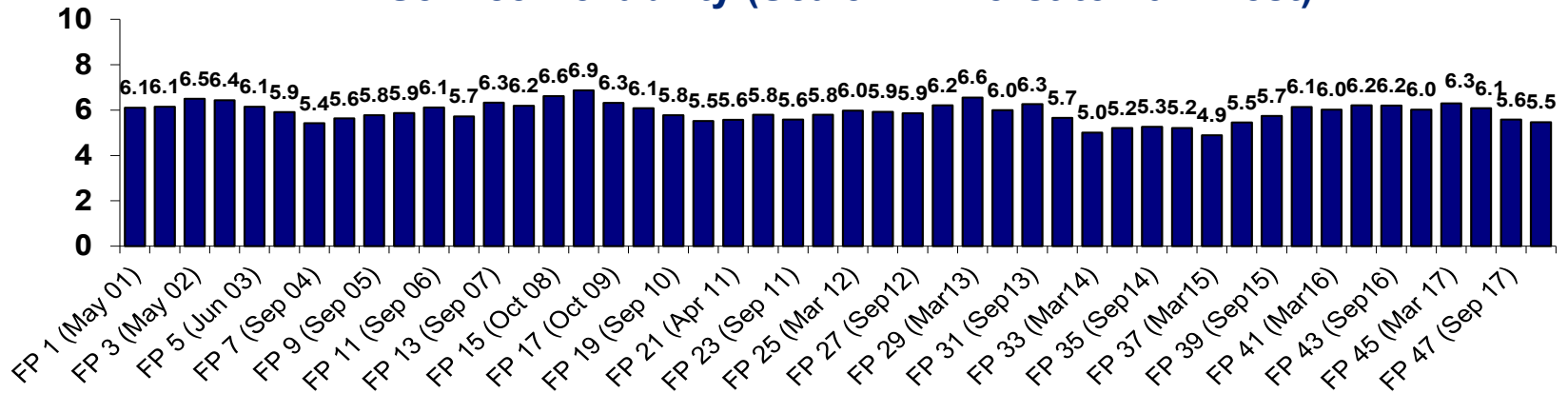
4. Intermodal Discount to TL (Ex. Fuel) Increases Toward Historical Average

What discount is being offered in the marketplace for intermodal services when compared to TL services in a similar lane?

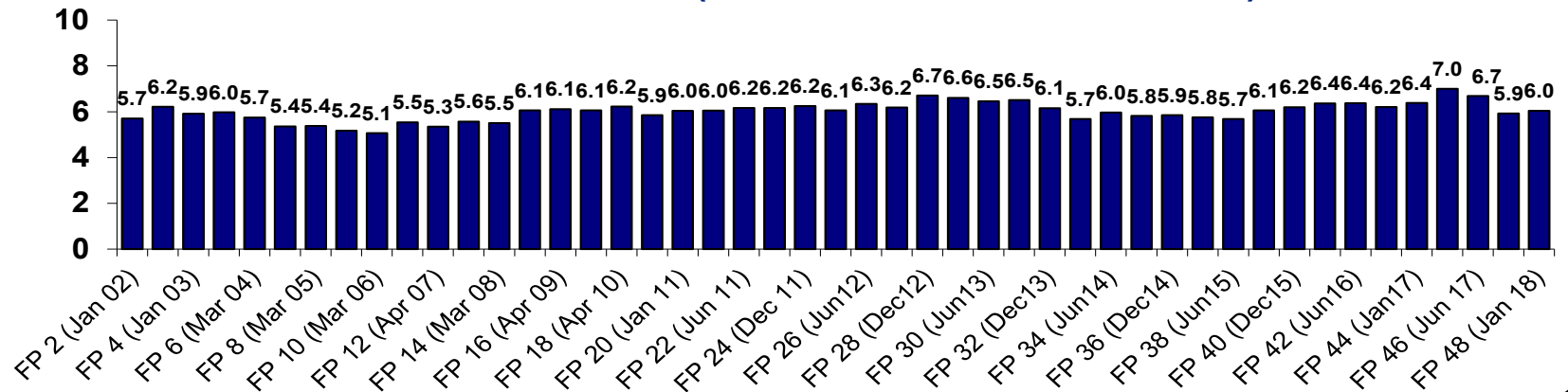


5. Rail Service Reliability and Value For Dollar Flattish vs. Prior Survey

Service Reliability (Scale 1 = Worst to 10 = Best)



Value for Dollar (Scale 1 = Worst to 10 = Best)



Freight Pulse: Trucking Highlights

Trucking Highlights

Freight Pulse: Trucking Key Takeaways

1. Truck Volume

- All Truck Mode Volume Growth Expectations Increase from FP47, Intermodal Sees the Largest Increase

2. Pricing

- TL Base Rate Expectations Jump to Highest Levels Since 2005

3. Capacity

- Expectations for Tighter Capacity Across All Truck Modes; TL Tightest Reading in Survey History

4. Intermodal Use

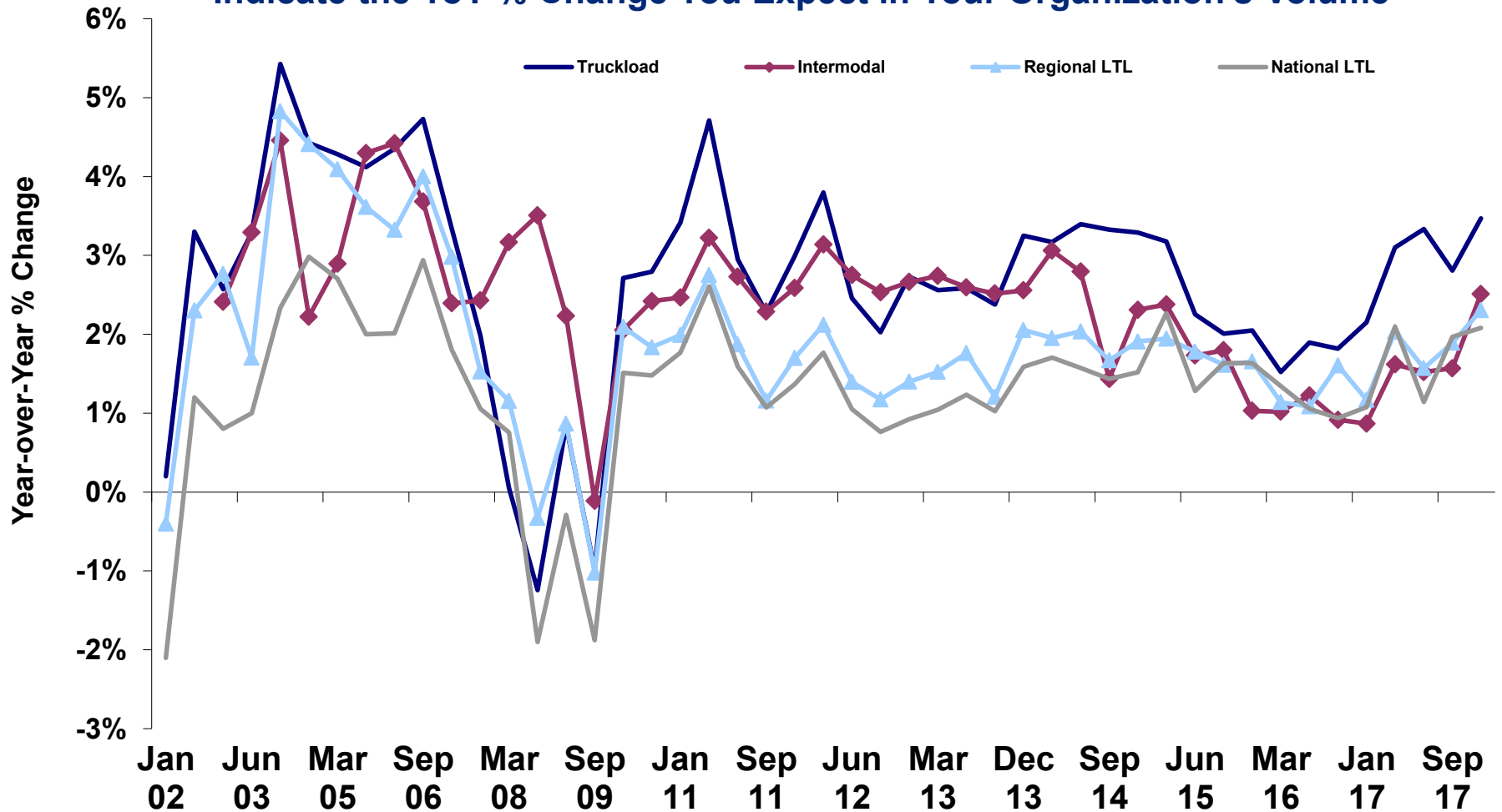
- Fuel Efficiency Continues to be the Most Important Driver to Intermodal Growth; TL Rate Increases Fast Approaching

5. Intermodal Cost

- TL Price Discounts vs. Intermodal Continue to Slip from Elevated Levels

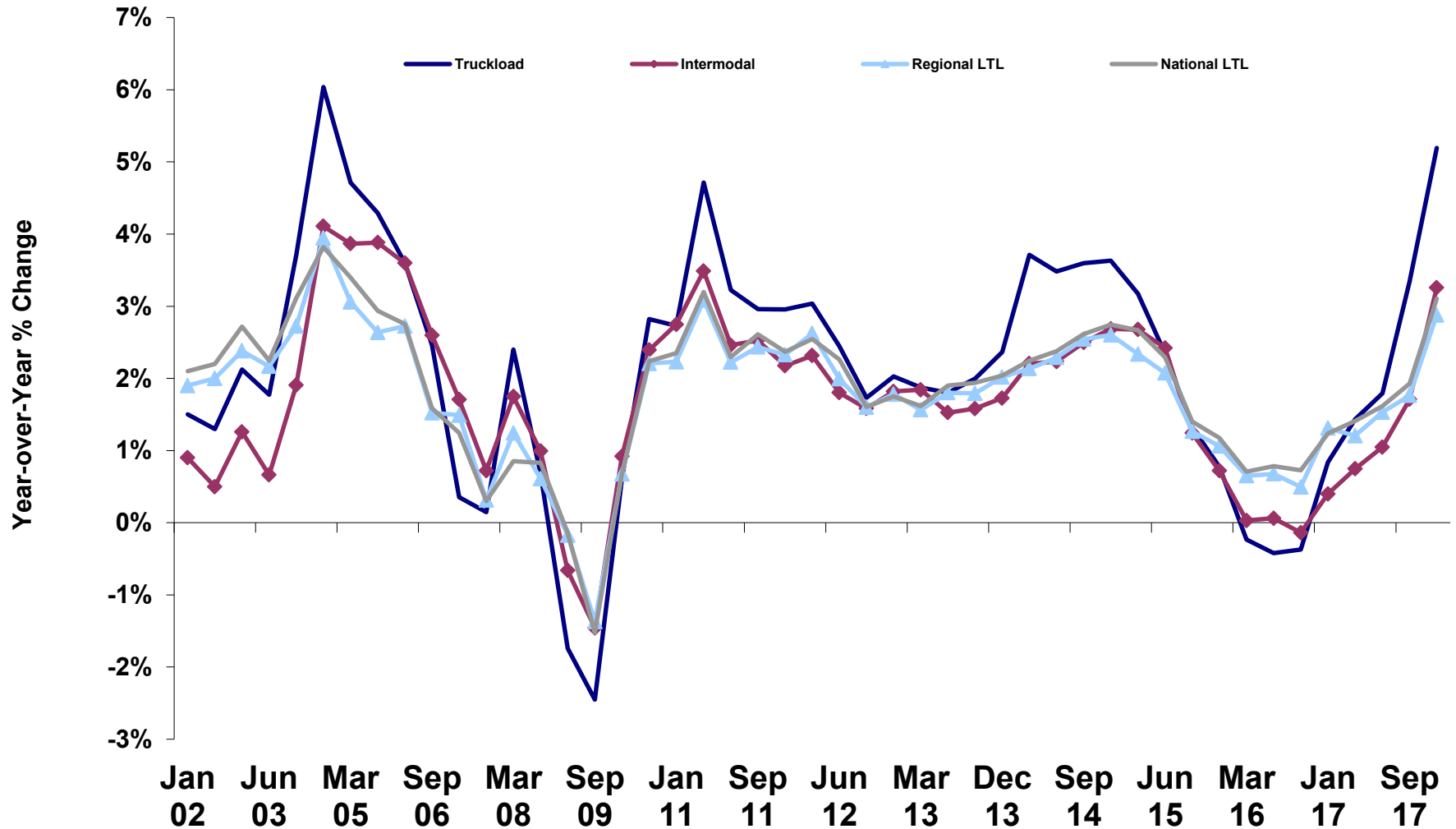
1. All Truck Mode Volume Growth Expectations Increase from FP47, Intermodal Sees the Largest Increase

Indicate the YoY % Change You Expect in Your Organization's Volume



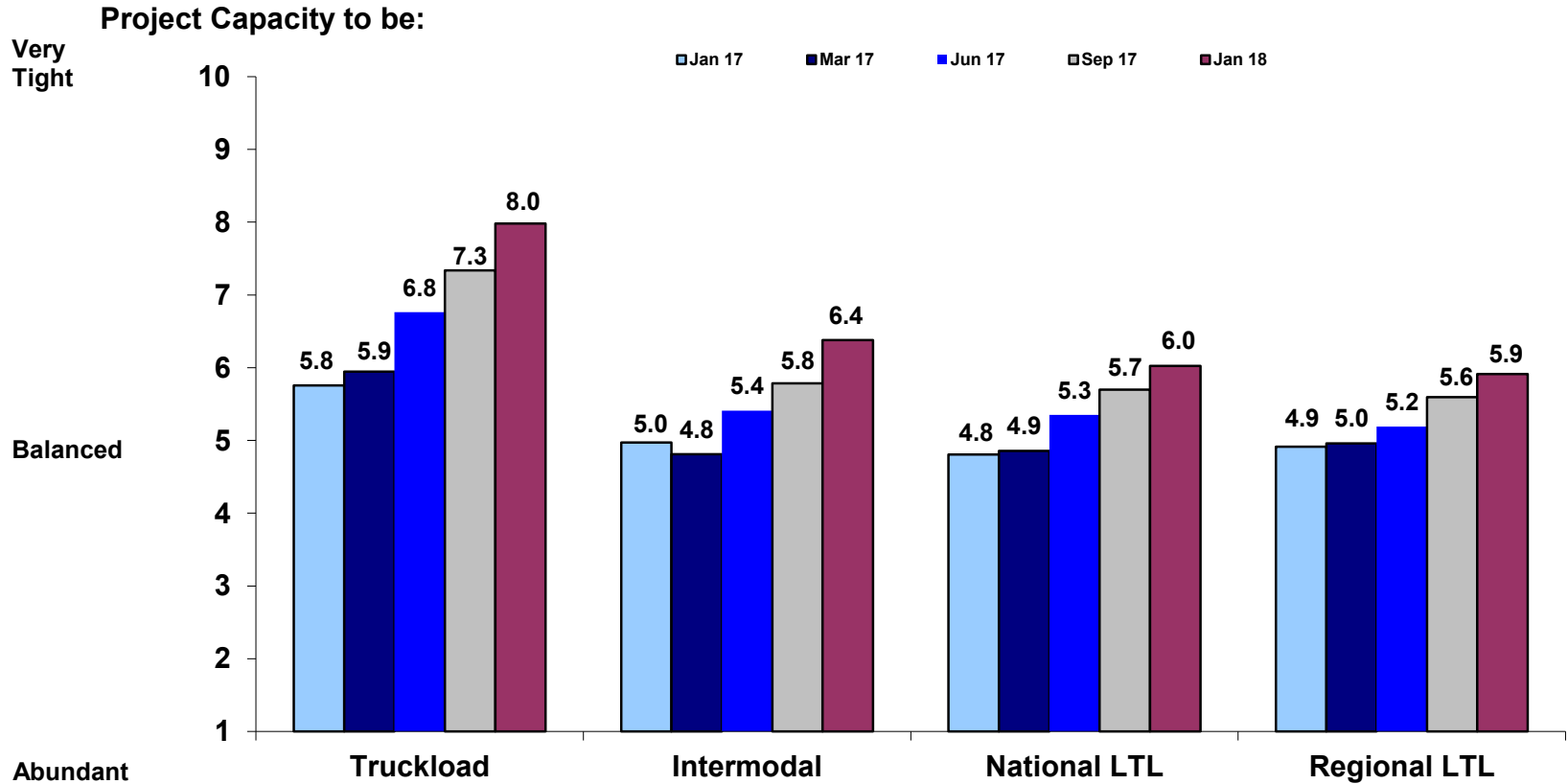
2. TL Base Rate Expectations Jump to Highest Levels Since 2005

Indicate the YoY % Change You Expect in Your Organization's Base Rates



3. Expectations for Tighter Capacity Across All Truck Modes; TL Tightest Reading in Survey History

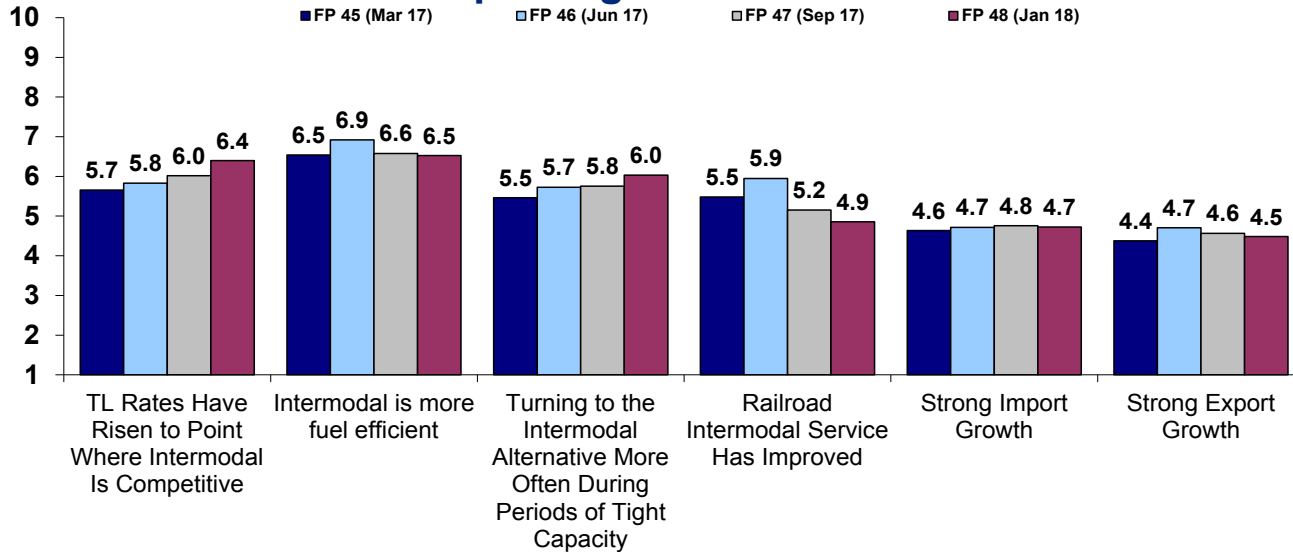
What are your Expectations for Capacity in 6 Months?



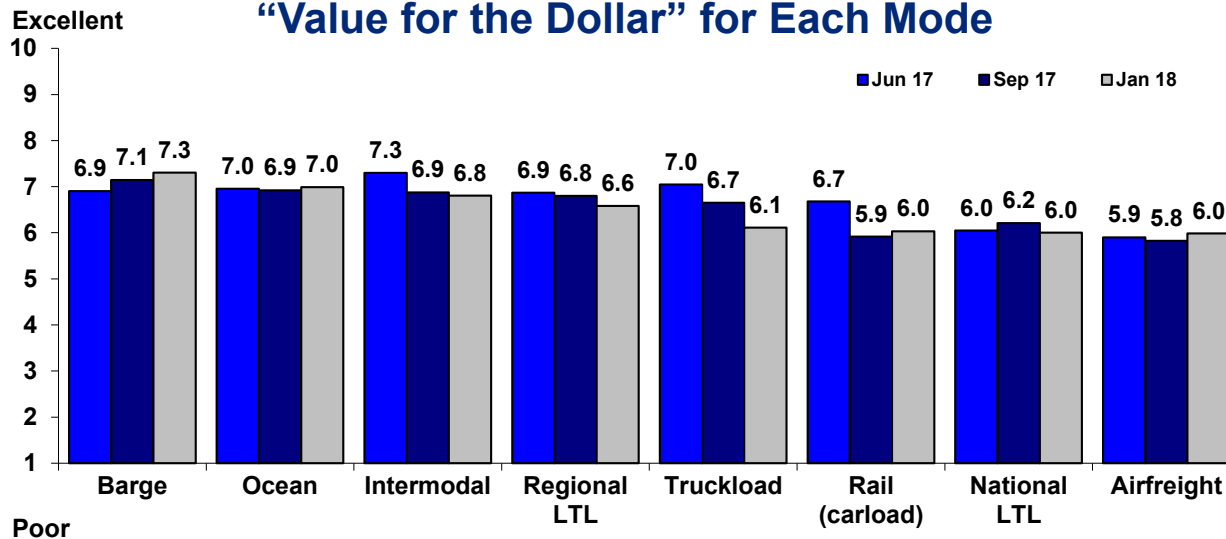
Source: Morgan Stanley Freight Pulse Surveys

4. Fuel Efficiency Continues to be the Most Important Driver to Intermodal Growth; TL Rate Increases Fast Approaching

What Factors are Impacting Your Use of Intermodal Most?

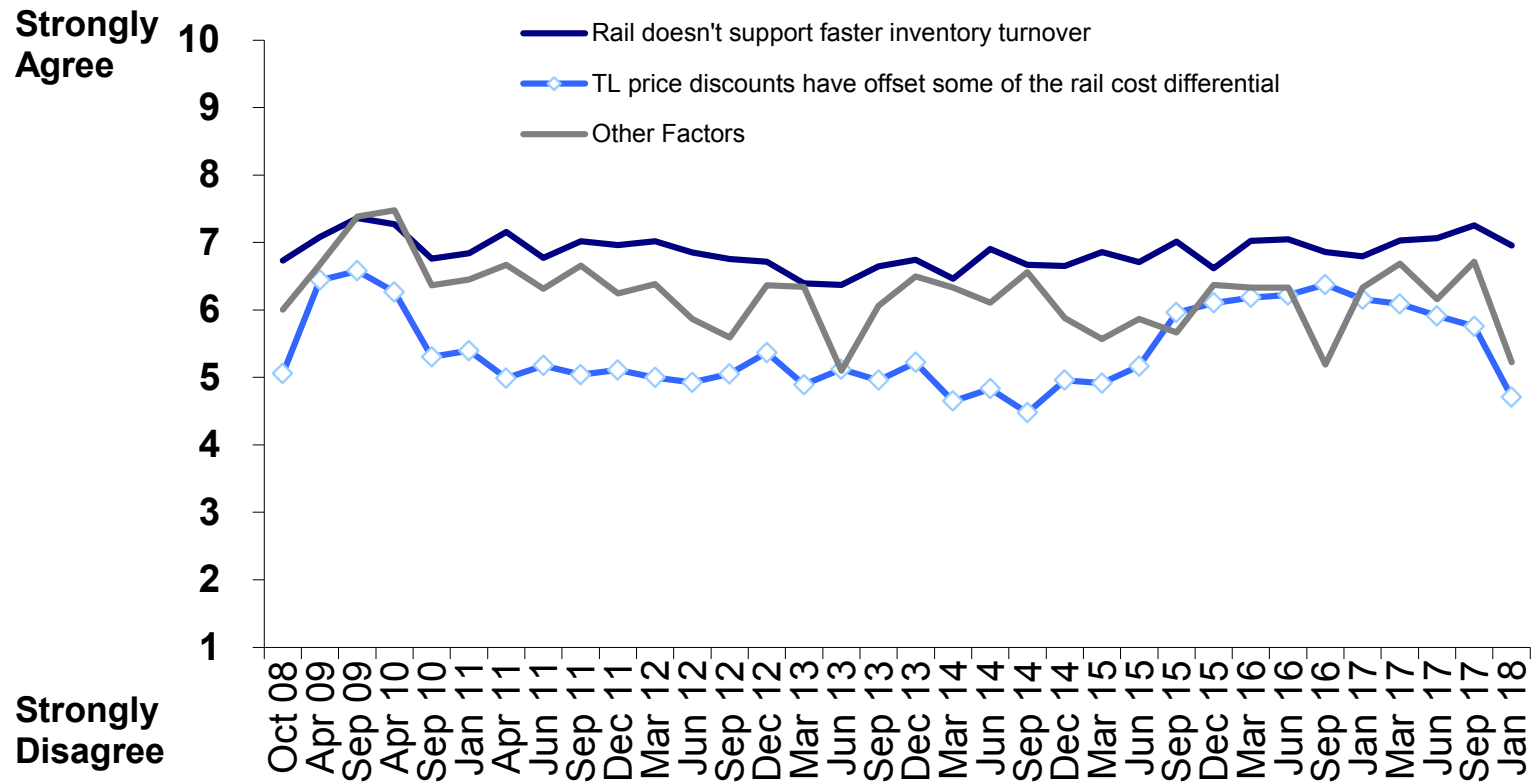


“Value for the Dollar” for Each Mode



5. TL Price Discounts vs. Intermodal Continue to Slip from Elevated Levels

What Factors are Limiting your Organization from Shipping More Volume on the Railroads?



Source: Morgan Stanley Freight Pulse Surveys

Freight Pulse: Parcel Highlights

Parcel Highlights

Freight Pulse: Parcel Key Takeaways

1. Parcel Volumes

- Ground, Air and Int'l Volume Growth Outlooks Improve
-

2. Pricing

- Shippers Expectations for Average Parcel Base Rate Increases Over Next 6 Months for Air, Ground, and Int'l Reach Highest Levels in Years
-

3. B2C

- Shippers' Expectations for B2C as % of Total Parcel Shipment Remain Relatively Unchanged
-

4. Switching

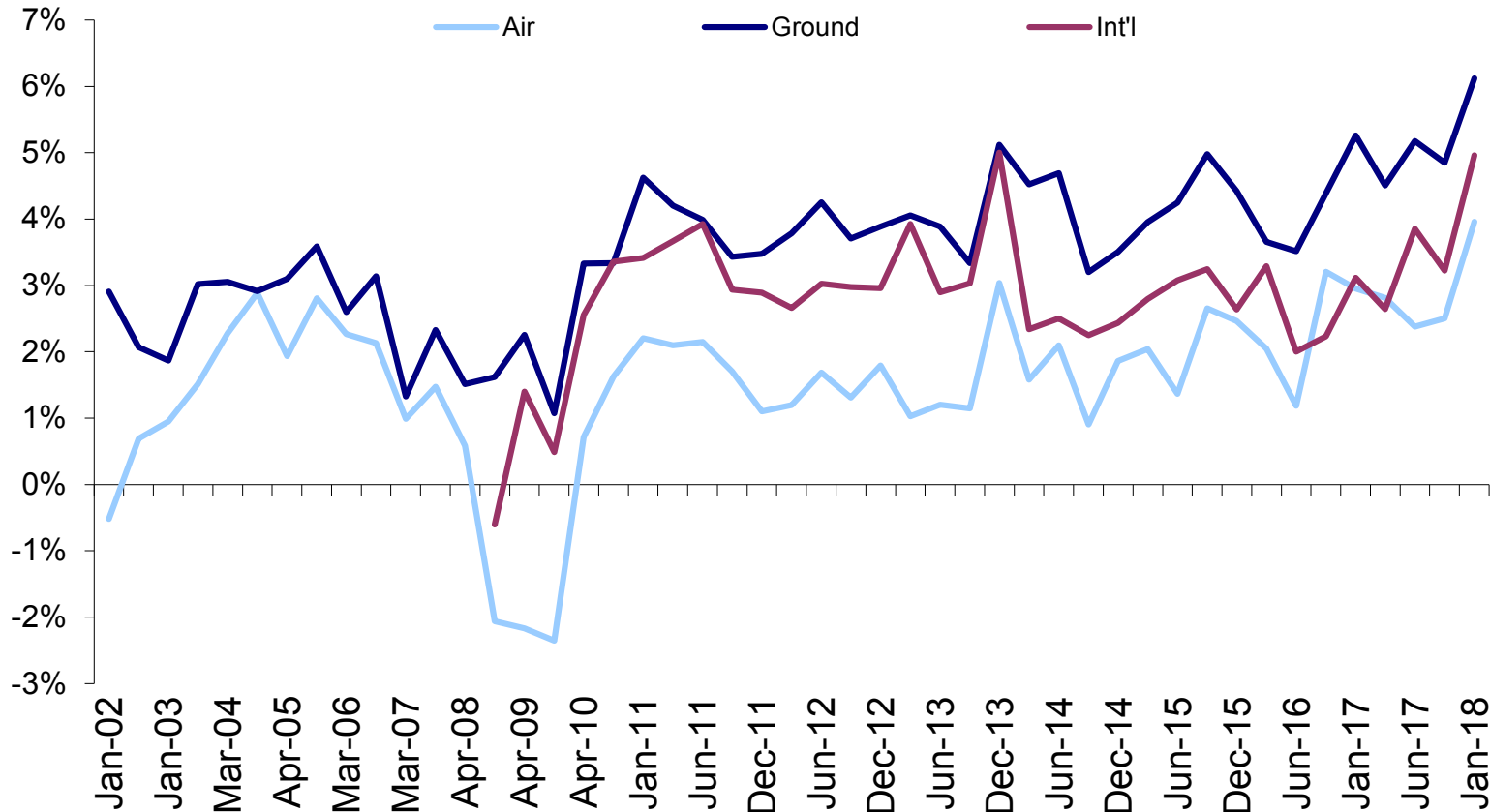
- Gap Between Price and Service Narrows for Switching Ground Parcel Carriers, Service Overtakes Price as More Important Switching Factor for Air
-

5. Rate Discounts

- According to Shippers, Discounts Have Increased for FDX and UPS Air and Ground Services Since Our Prior Survey

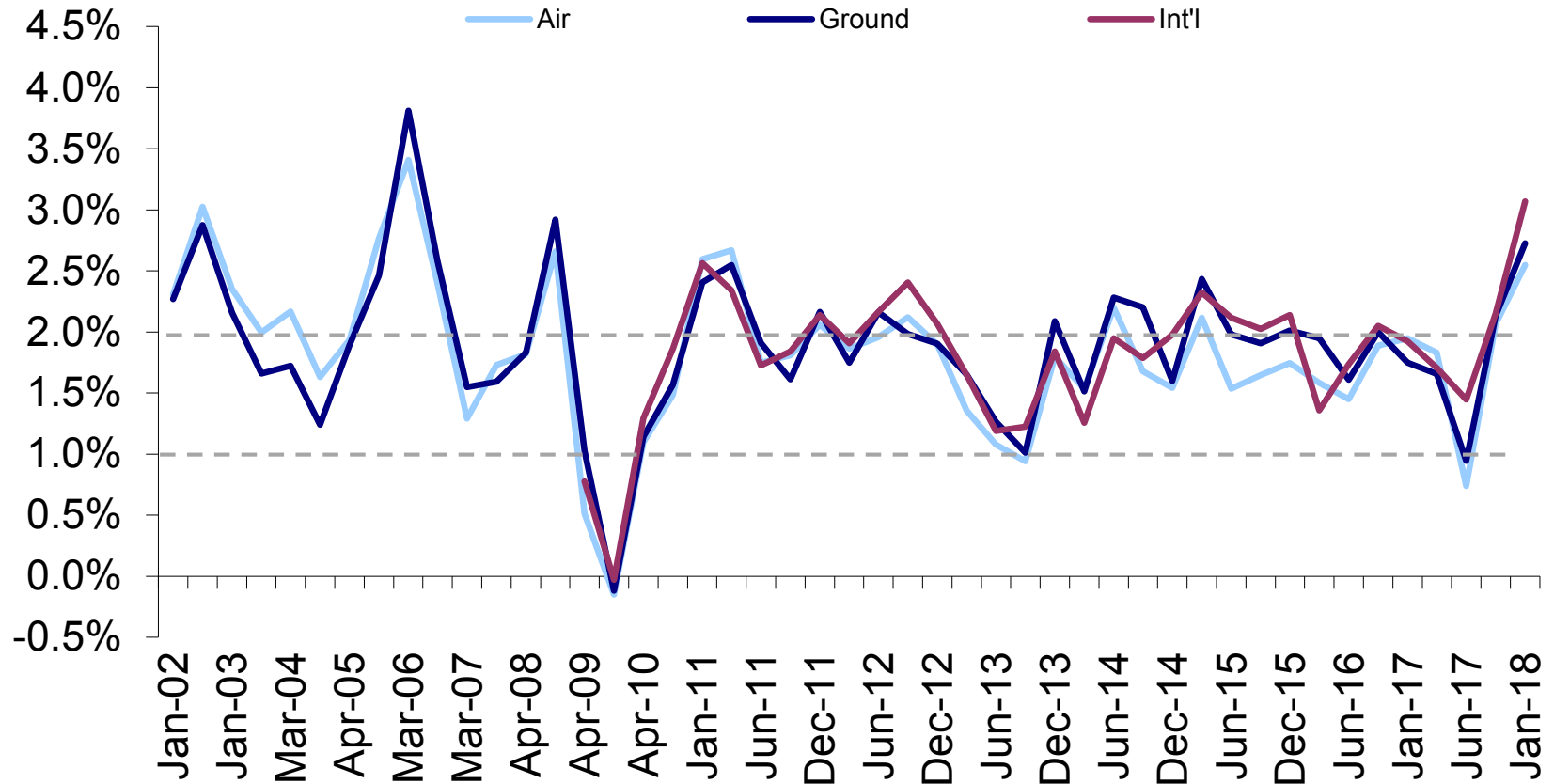
1. Ground, Air and Int'l Volume Growth Outlooks Improve

Volume Growth Expectations "Over the Next 6 Months" vs. Last Year



2. Shippers Expectations for Average Parcel Base Rate Increases Over Next 6 Months for Air, Ground, and Int'l Reach Highest Levels in Years

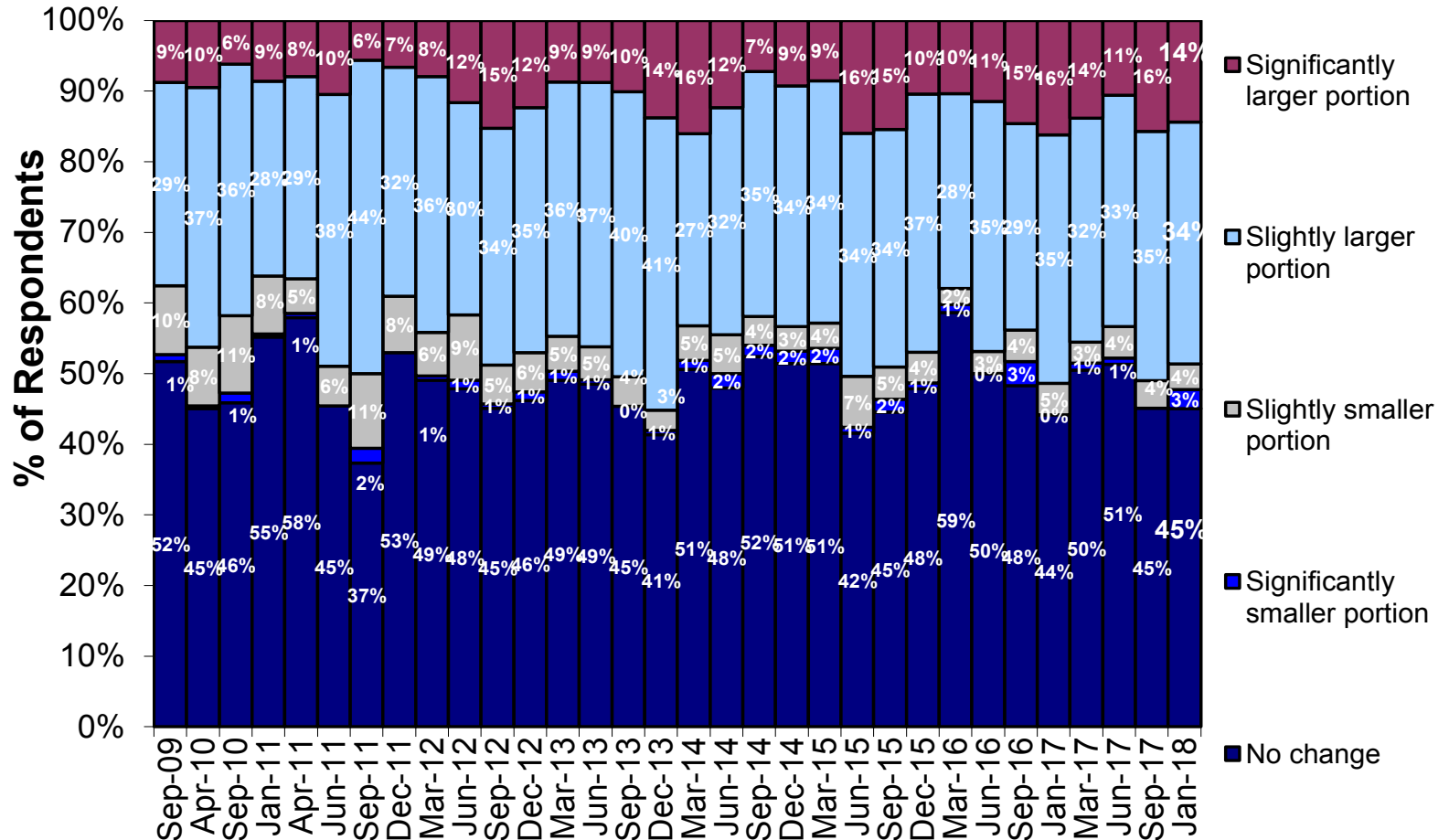
Average Base Rate Expectations “Over the Next 6 Months” vs. Last Year



Includes All responses, equally-weighted. Source: Morgan Stanley Parcel Survey

3. Shippers' Expectations for B2C as % of Total Parcel Shipment Remain Relatively Unchanged

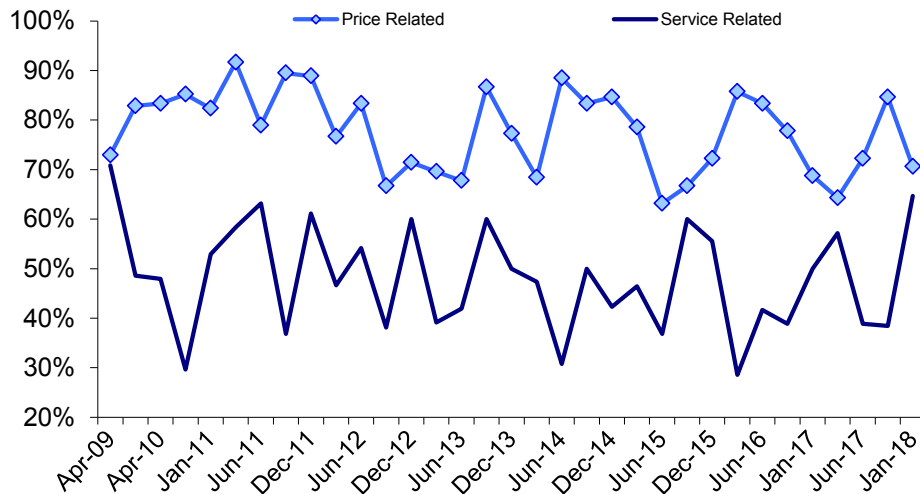
YoY Change in B2C as % of Total



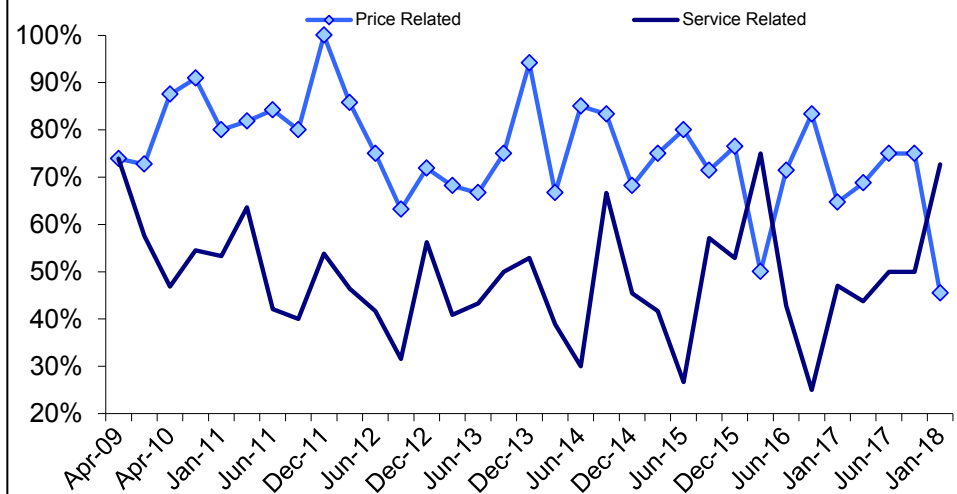
Source: Morgan Stanley Parcel Survey

4. Gap Between Price and Service Narrows for Switching Ground Parcel Carriers, Service Overtakes Price as More Important Switching Factor for Air

Ground: Reason for Switching Primary Carriers



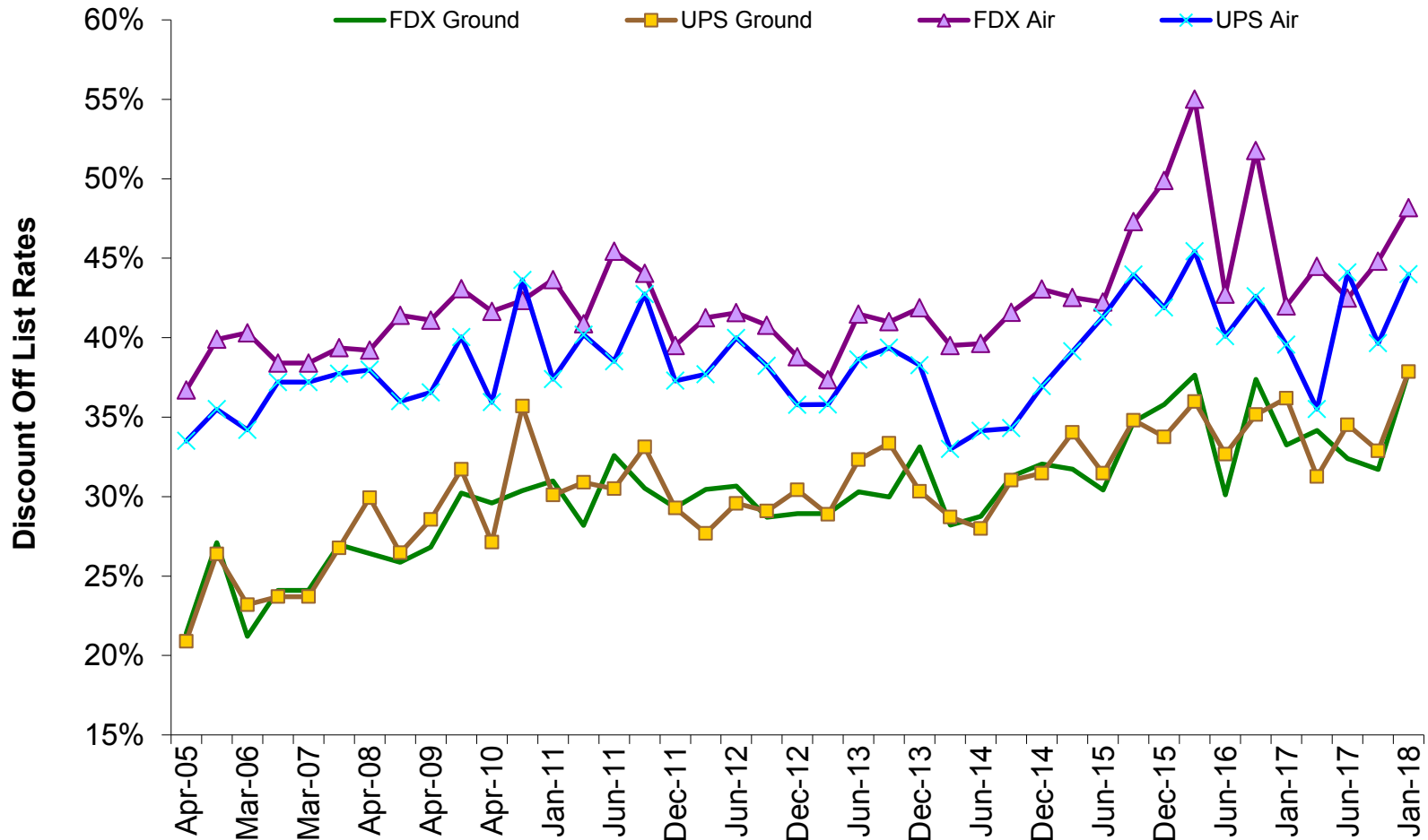
Air: Reason for Switching Primary Carriers



Source: Morgan Stanley Parcel Survey

5. According to Shippers, Discounts Have Increased for FDX and UPS Air and Ground Services Since Our Prior Survey

Average List Rate Discount



Source: Morgan Stanley Parcel Survey

Appendix

Appendix

Summary of Contents

About the Surveys

General Freight Trends

Rail Trends

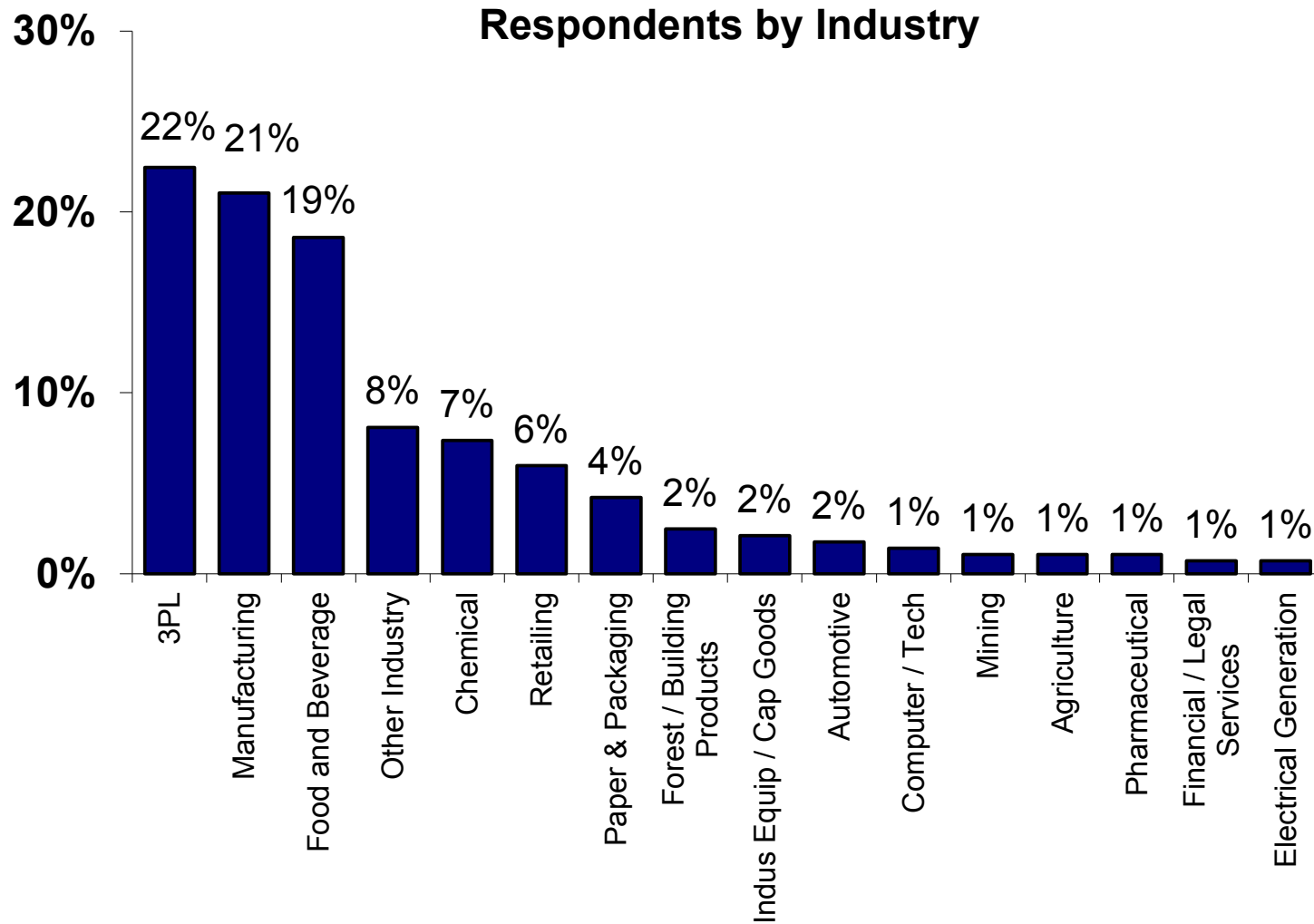
Truck Trends

Parcel Trends

Part 1: About the Surveys

1. General Freight
2. Rail Industry
3. Truck Industry
4. Parcel Industry

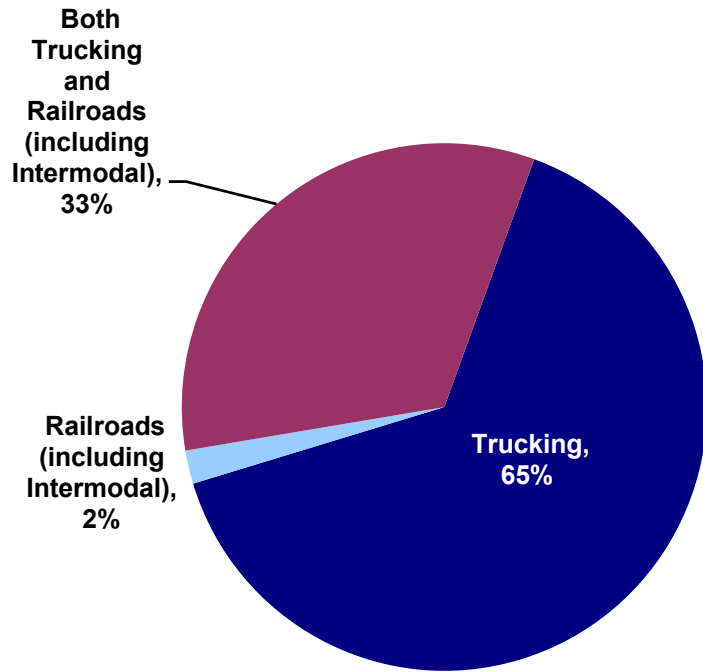
General Freight: About the Freight Pulse Survey



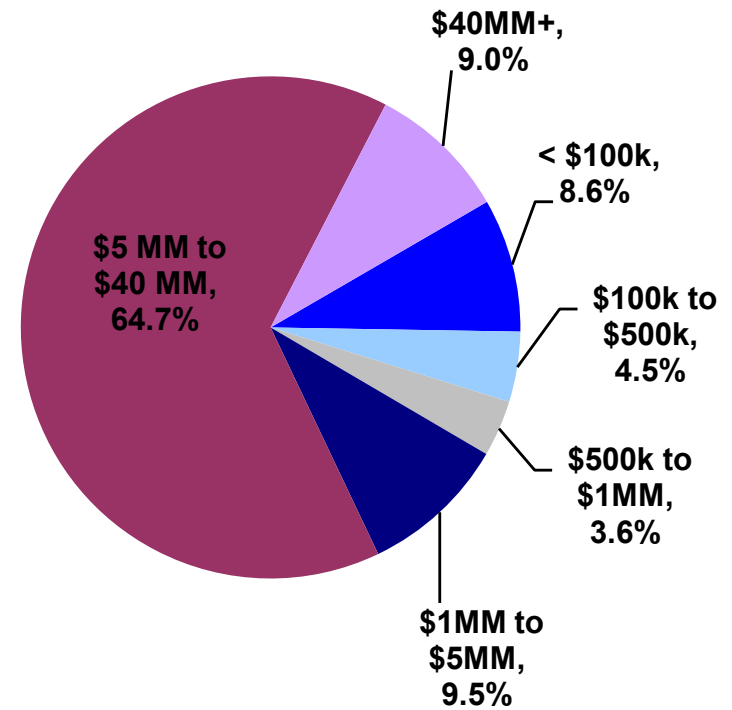
Note: just those shippers providing an industry classification and spend. Source: MS Freight Pulse Surveys

General Freight: Segmented by Shipper Profile

Modes Used



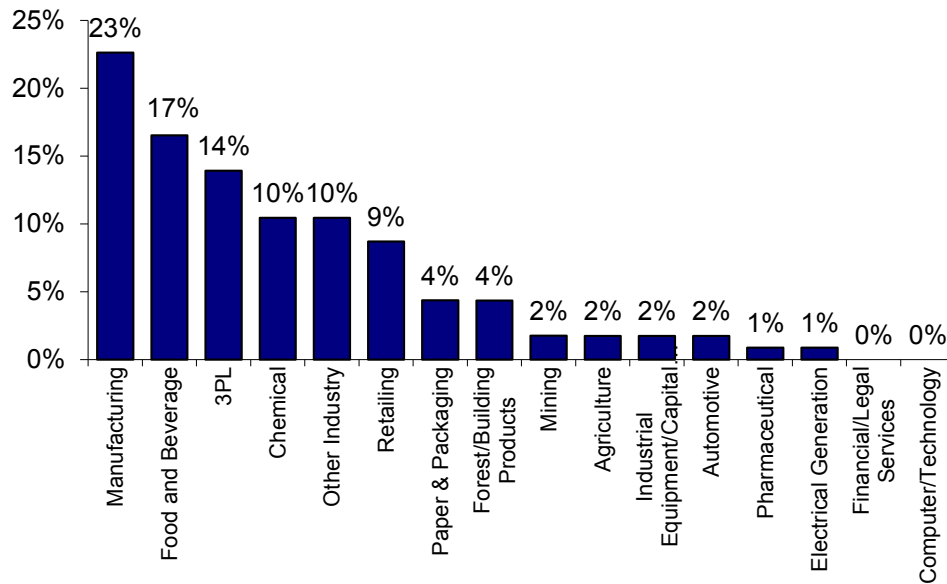
Respondents' Total Spend



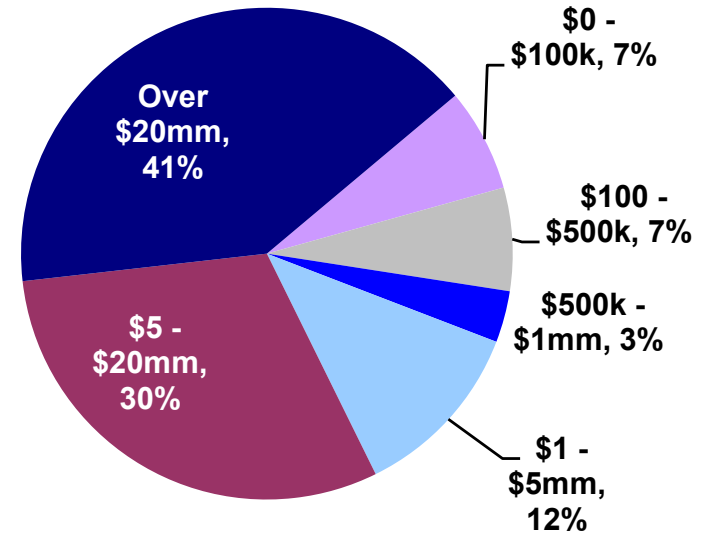
Note: just those shippers providing an industry classification and spend. Source: MS Freight Pulse Surveys

Rails: Segmented by Industry and Shipper Profile

Rail Respondents by Industry

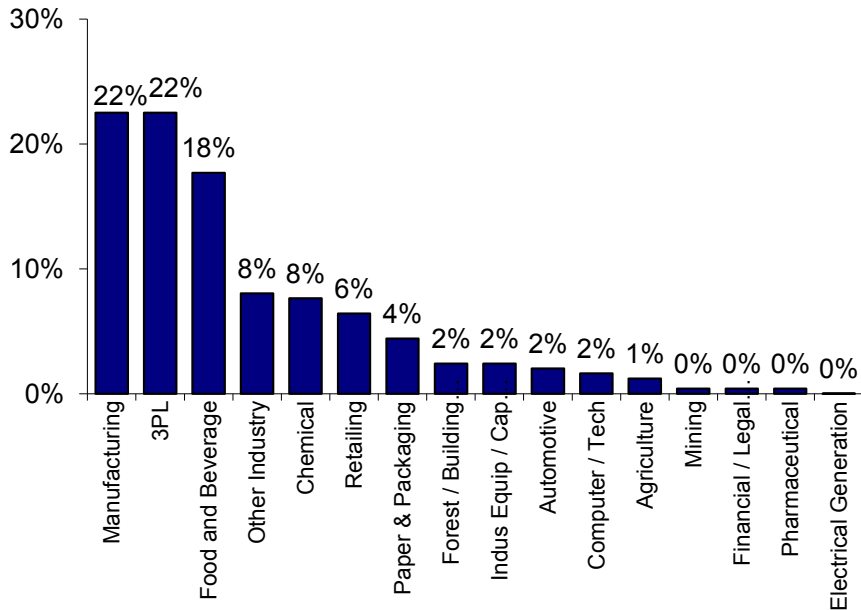


Respondents' Rail Spend

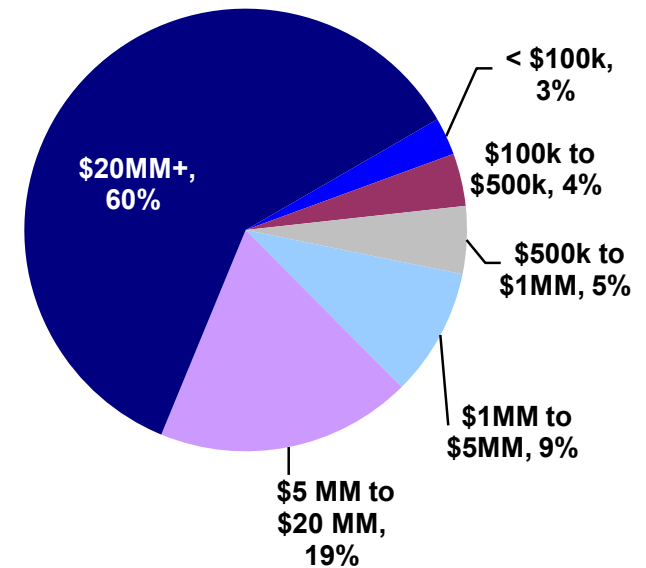


Trucks: Segmented by Industry and Shipper Profile

Truck Respondents by Industry

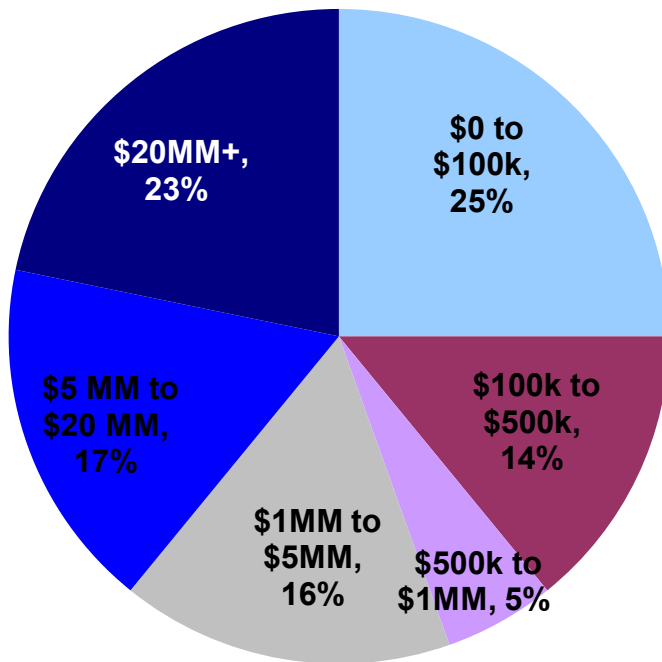


Respondents' Truck Spend

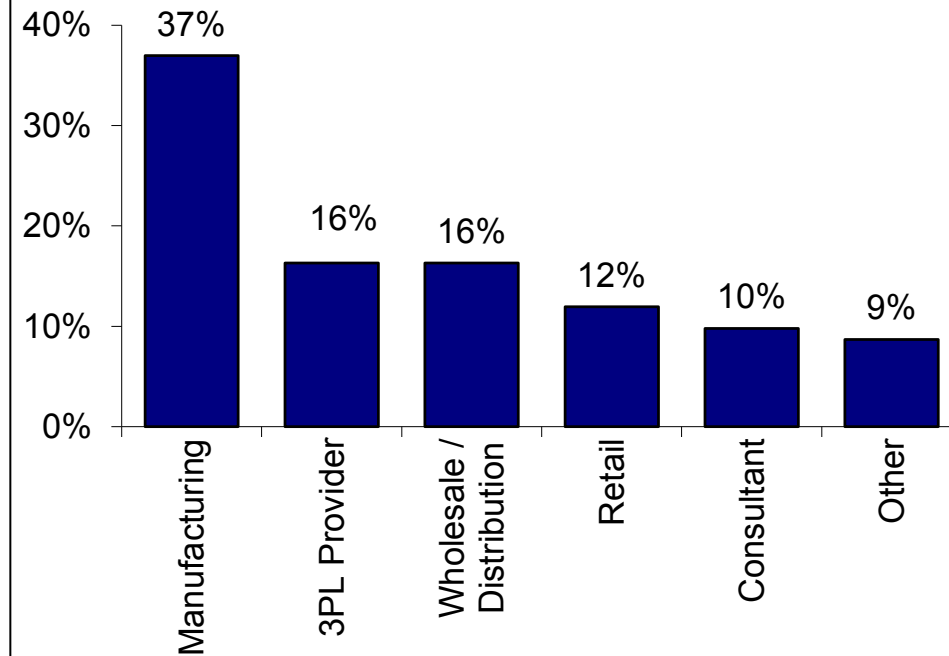


Parcel: About Our Parcel Survey

Respondents' Parcel Spend



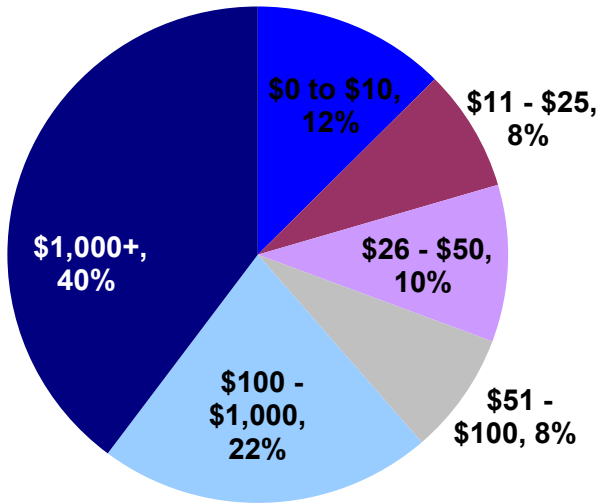
Respondents' Primary Business



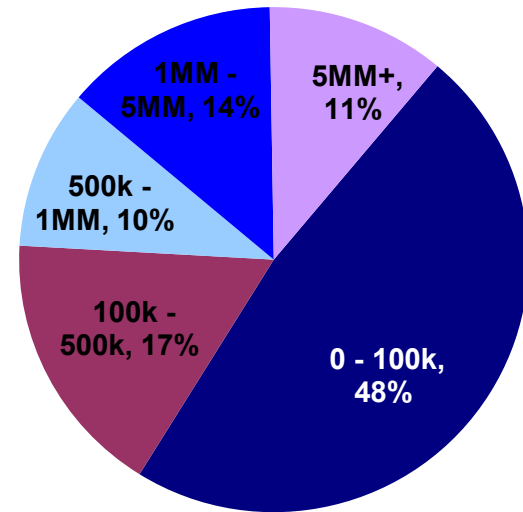
Source: Morgan Stanley Parcel Survey

Parcel: Respondent Profile

Company Sales (\$MM)

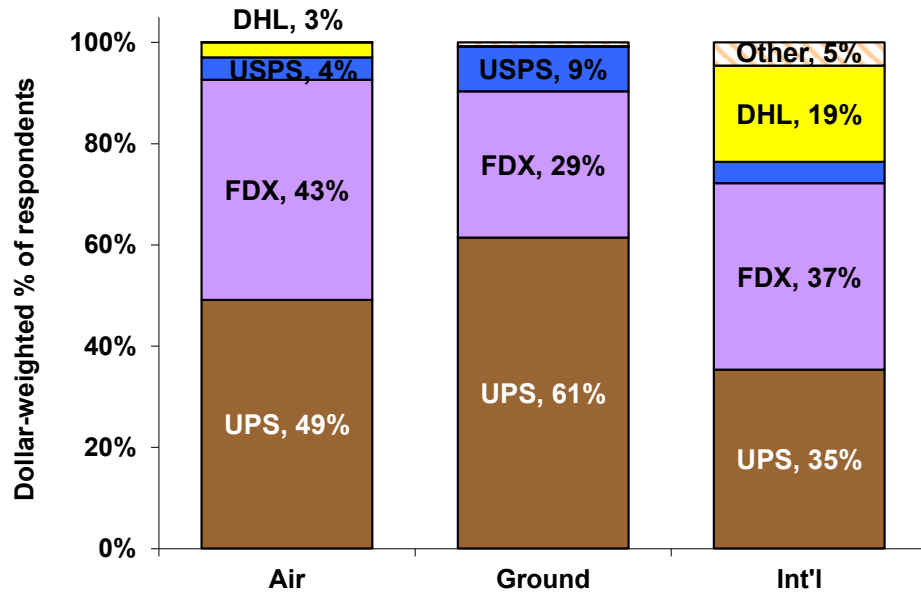


Parcels Shipped

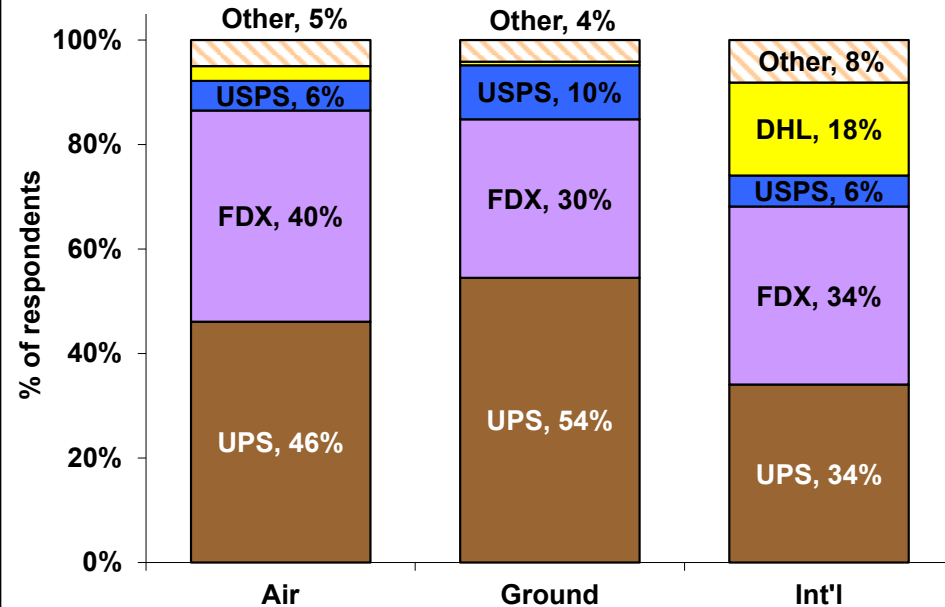


Parcel: Market Share of Respondents Roughly Consistent with Market

Primary Parcel Carrier – Weighted by Spend



Parcel Carrier – Average of All Responses



Source: Morgan Stanley Parcel Survey

Summary of Contents

About the Surveys

General Freight Trends

Rail Trends

Truck Trends

Parcel Trends

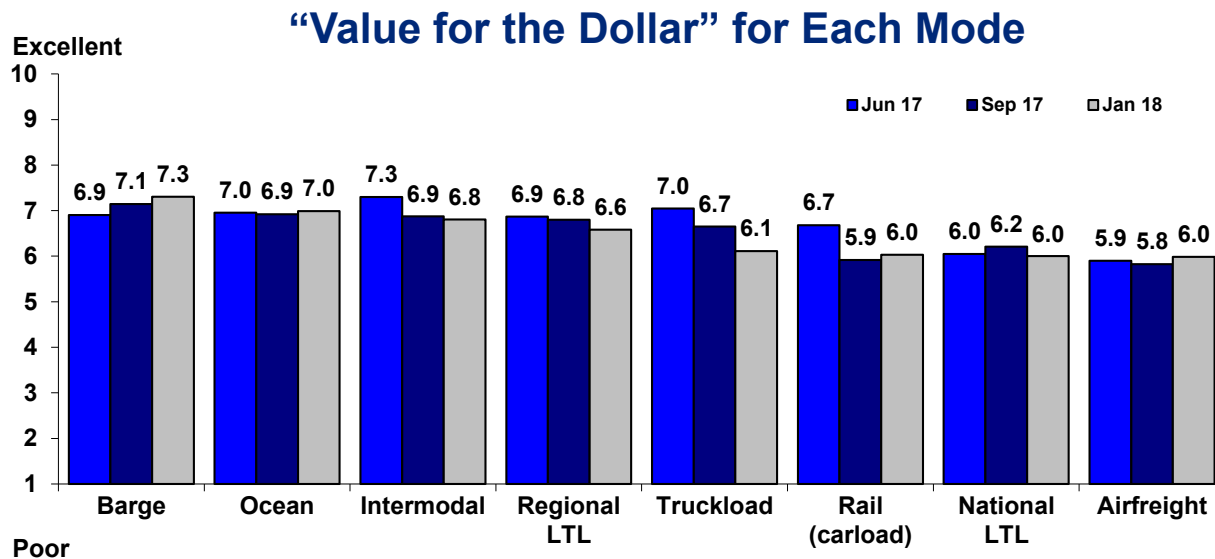
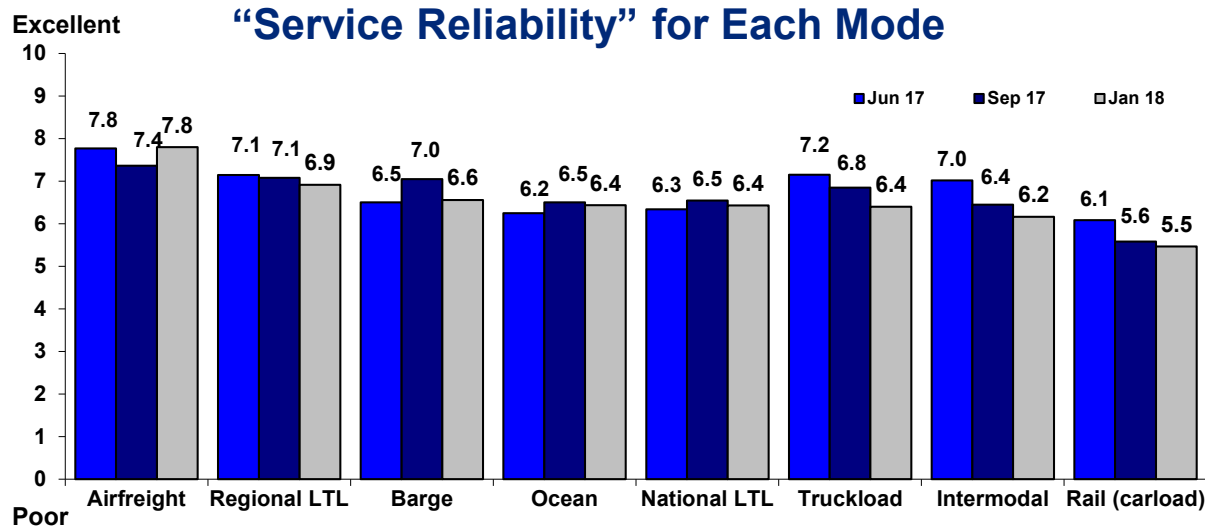
Part 1: General Freight Industry Trends

1. Uber-for-Freight
2. Service Trends
3. Capacity Trends
4. Modal Shift
5. Intermodal vs. Truck

Part 2: Macro Trends

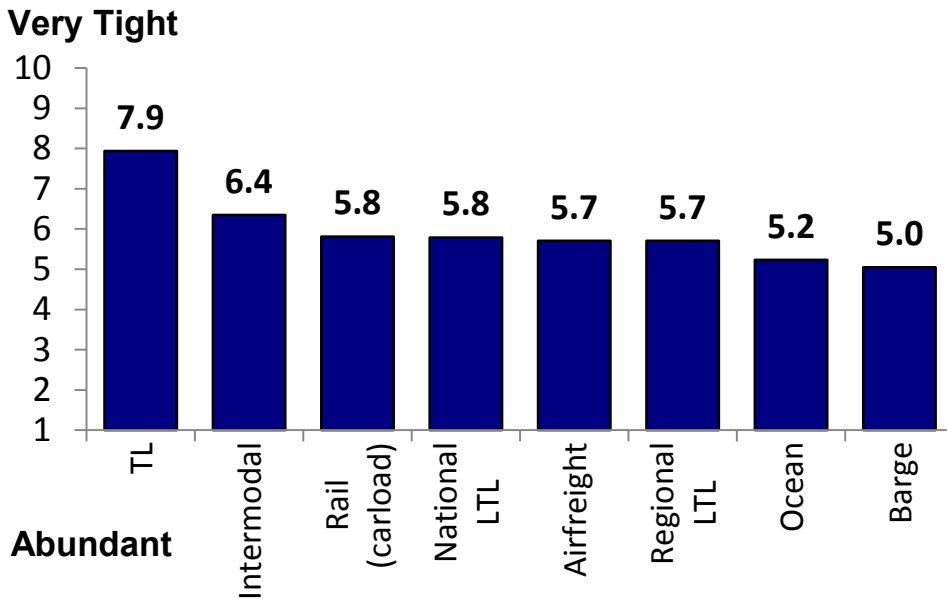
1. Inventories and Orders
2. Economic Outlook

Service Reliability & Value by Mode: Average Across All Shippers

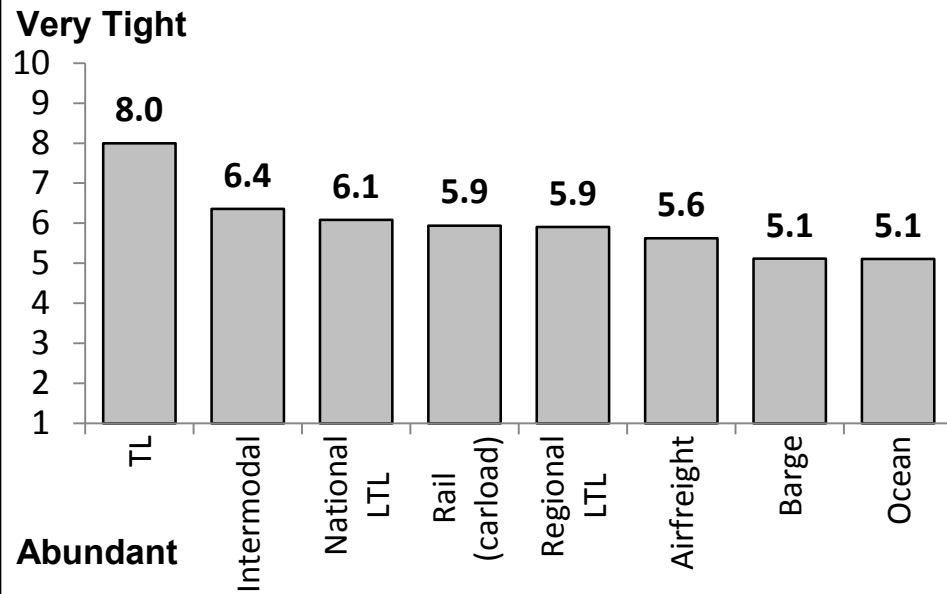


Capacity by Mode

Current Capacity



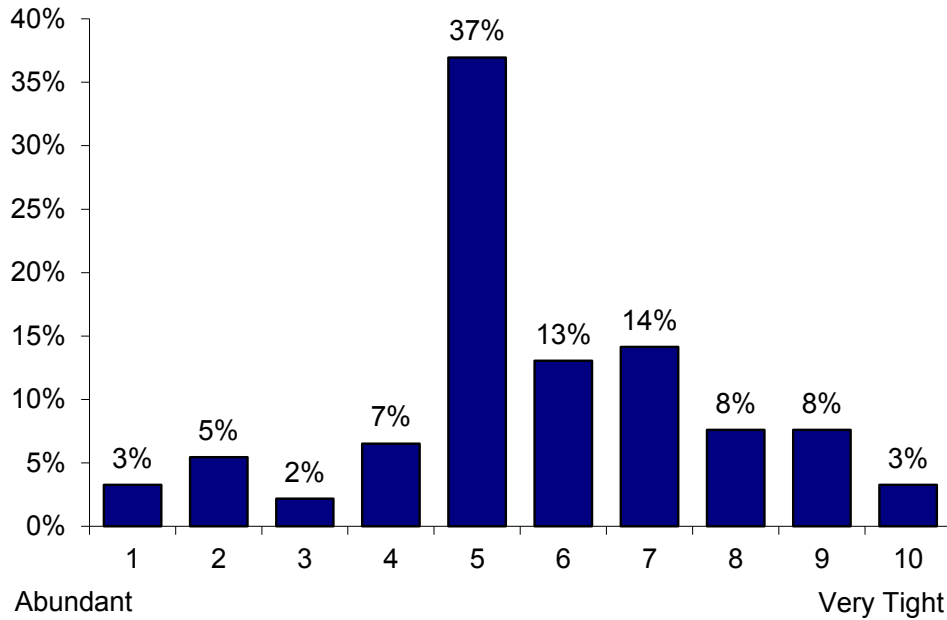
Projected Capacity in 6 Months



Capacity Ranking Skew: Airfreight

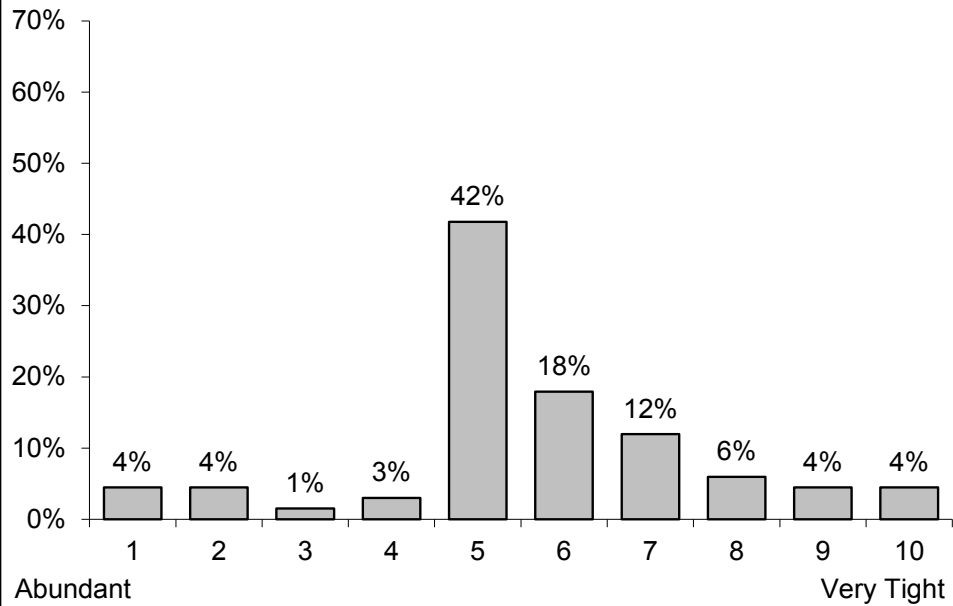
Current Capacity

Airfreight - % of Shippers Providing Rankings



Projected Capacity in 6 Months

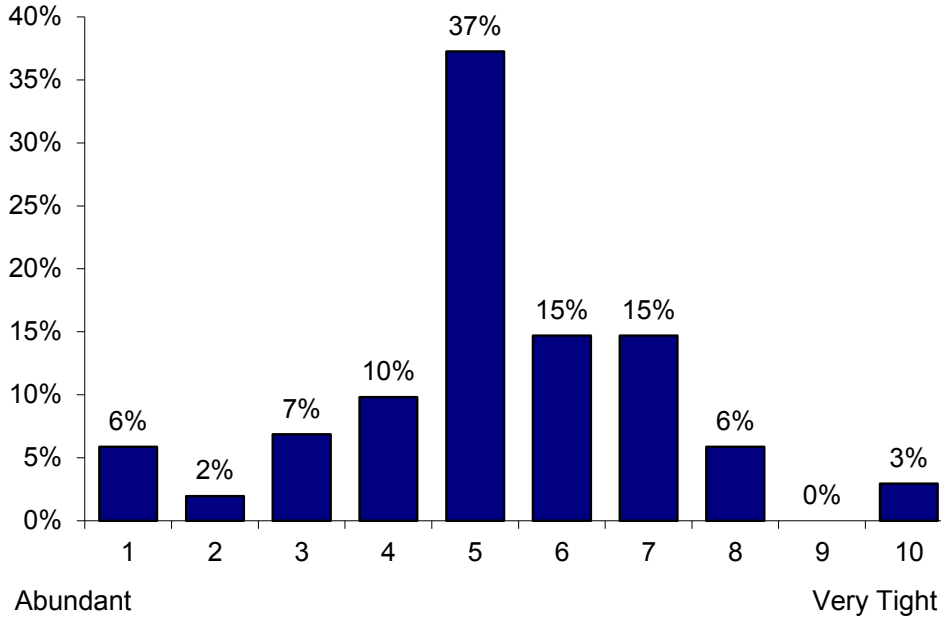
Airfreight - % of Shippers Providing Rankings



Capacity Ranking Skew: Ocean

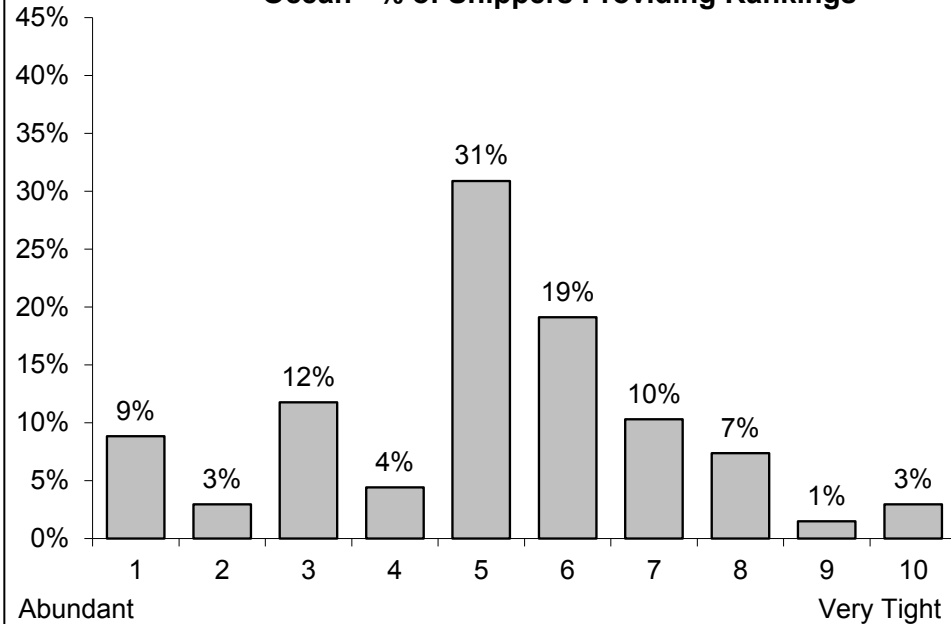
Current Capacity

Ocean - % of Shippers Providing Rankings



Projected Capacity in 6 Months

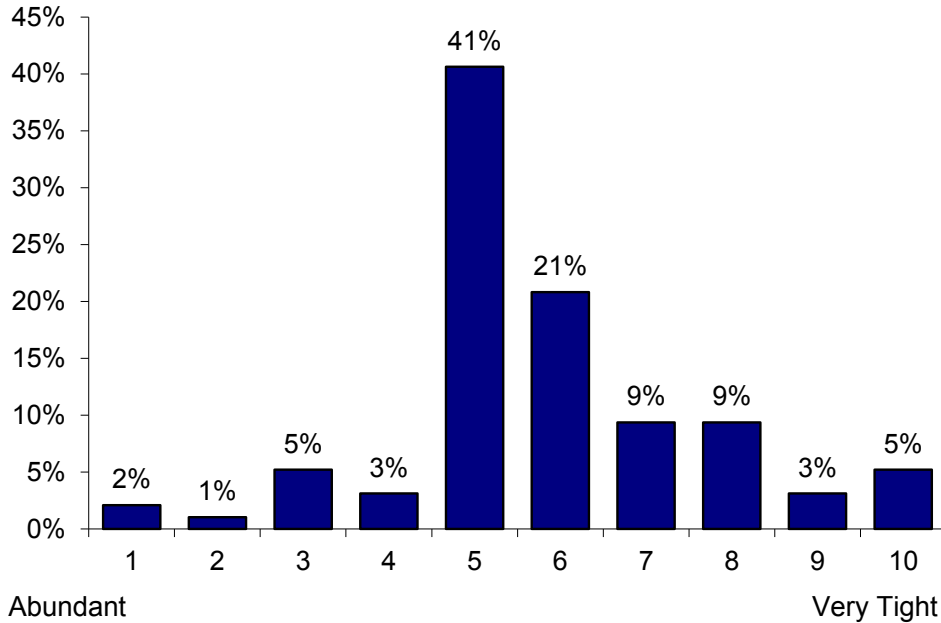
Ocean - % of Shippers Providing Rankings



Capacity Ranking Skew: Rail (Carload)

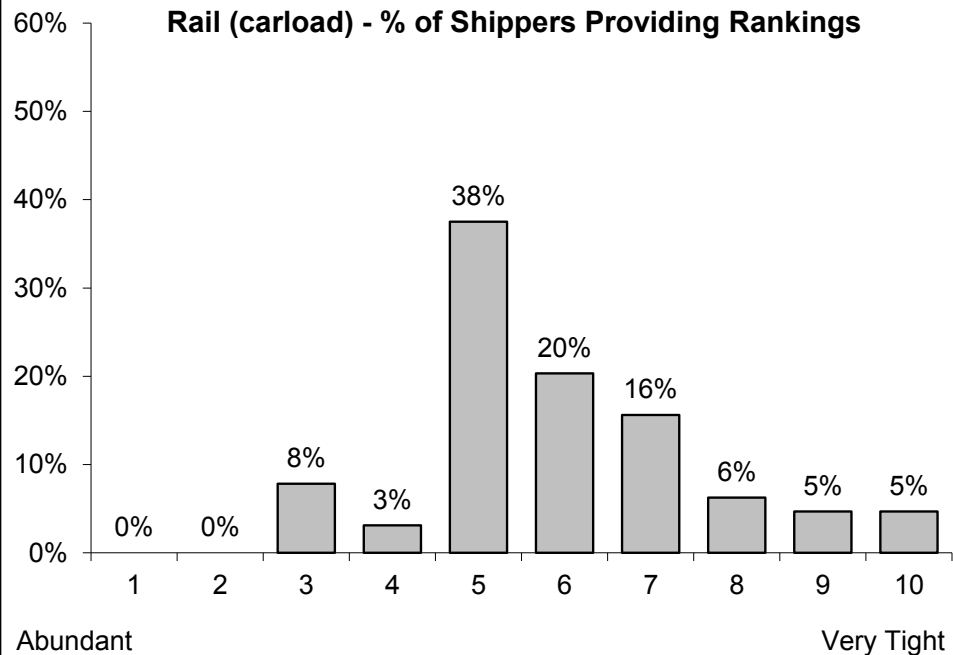
Current Capacity

Rail (carload) - % of Shippers Providing Rankings



Projected Capacity in 6 Months

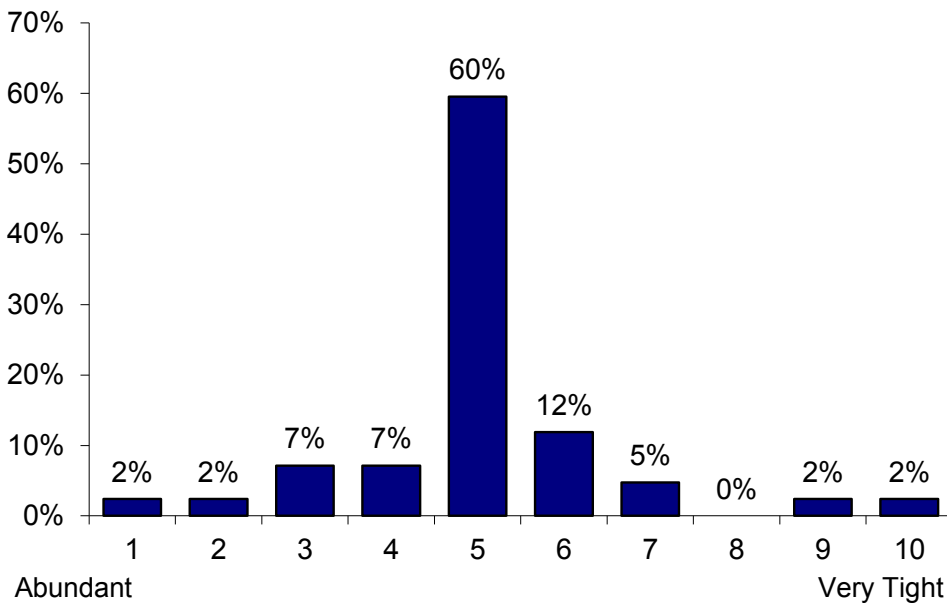
Rail (carload) - % of Shippers Providing Rankings



Capacity Ranking Skew: Barge

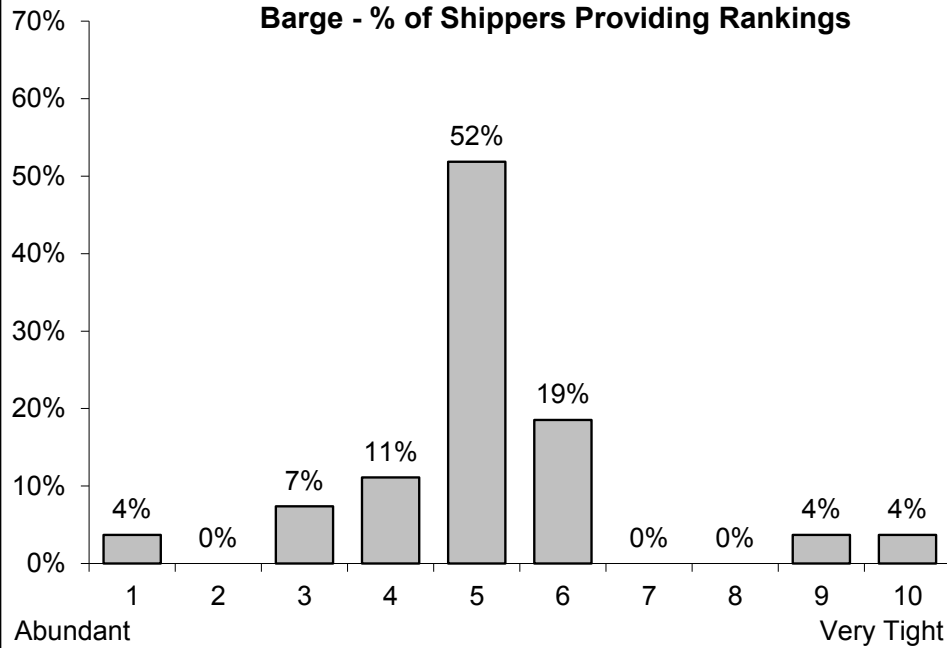
Current Capacity

Barge - % of Shippers Providing Rankings

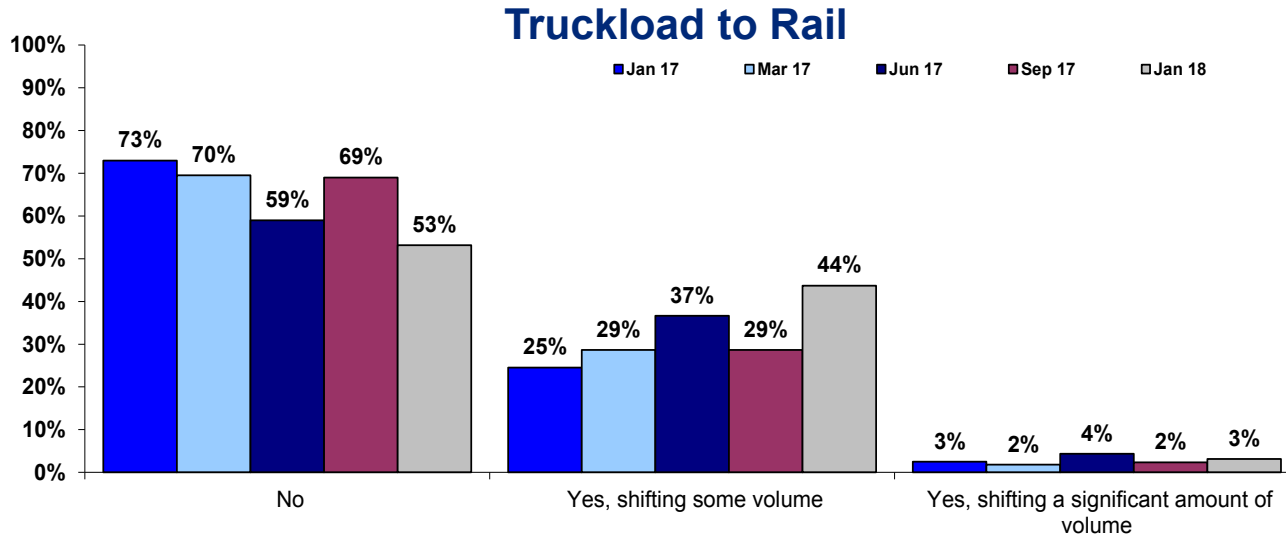


Projected Capacity in 6 Months

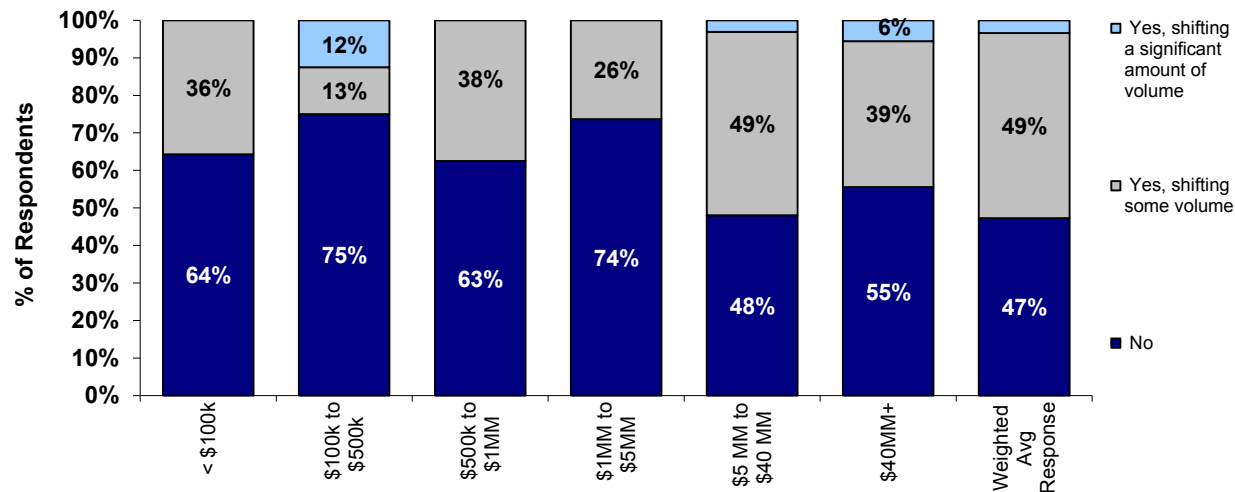
Barge - % of Shippers Providing Rankings



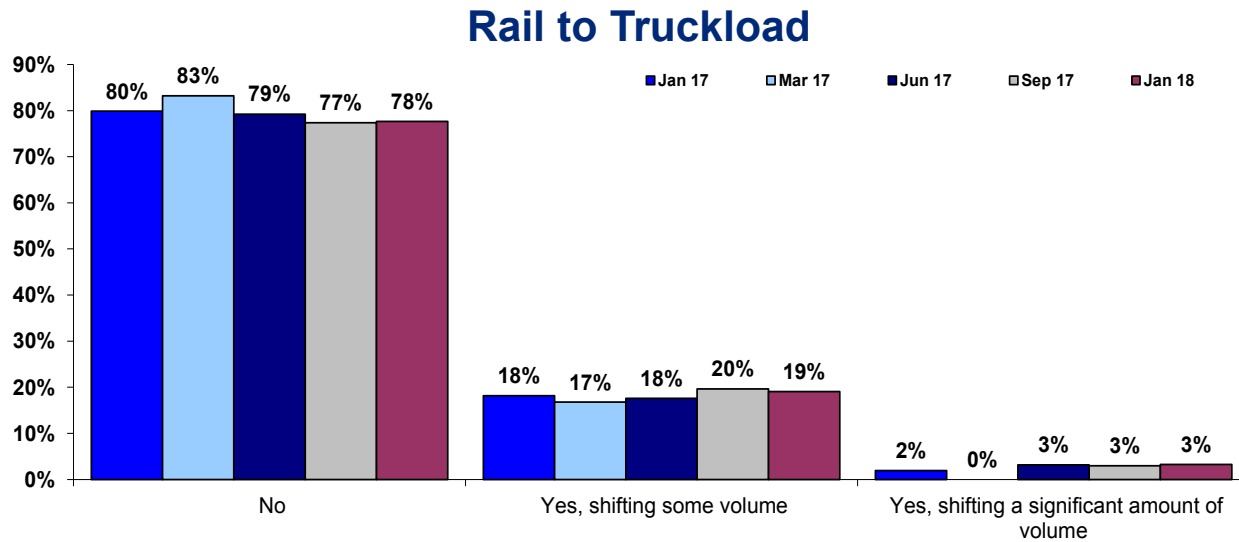
Shipper Modal Shift Statistics – Truckload to Rail



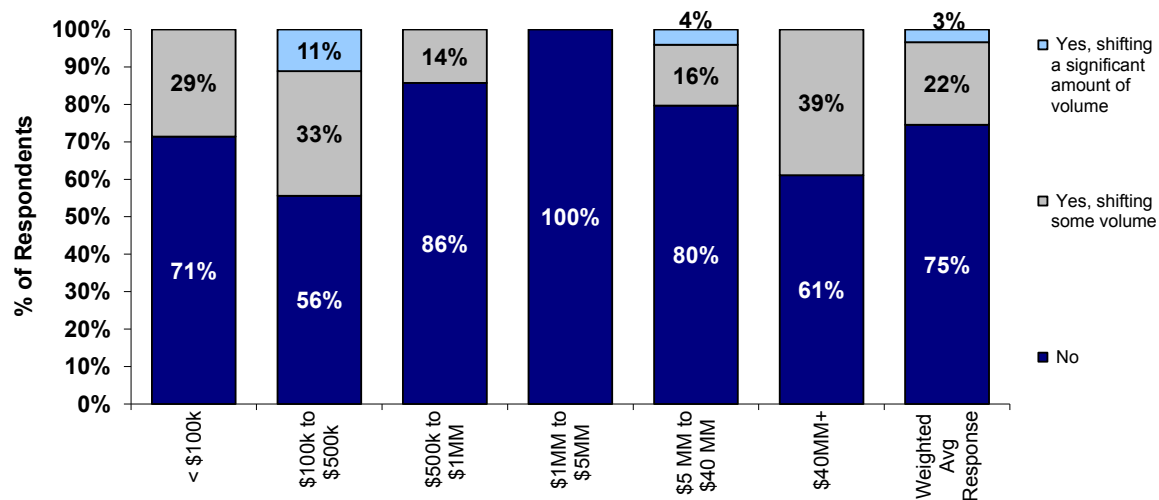
Truckload to Rail - Modal Shift by Spend



Shipper Modal Shift Statistics – Rail to Truckload

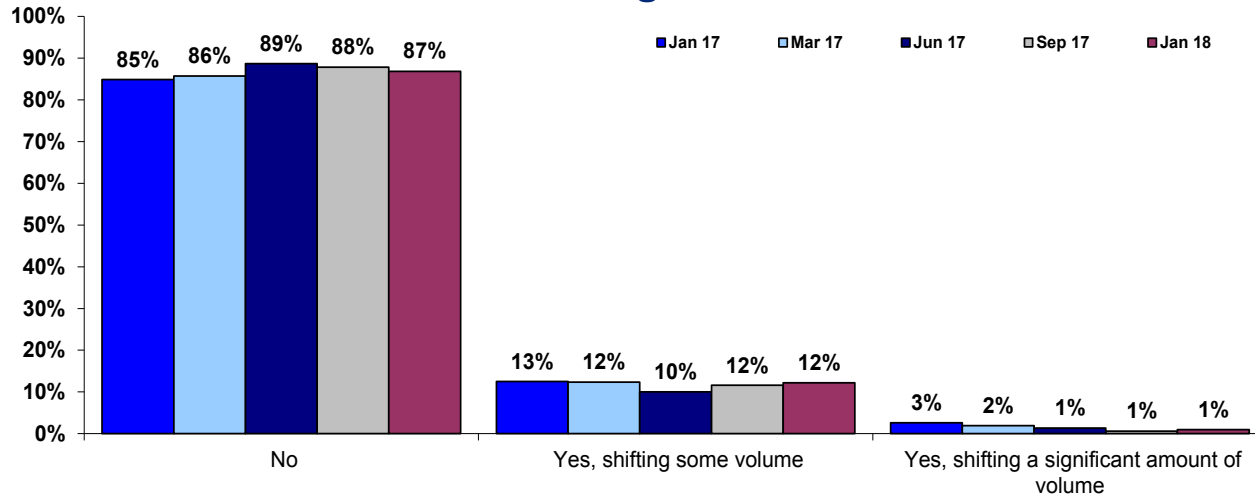


Rail to Truckload - Modal Shift by Spend

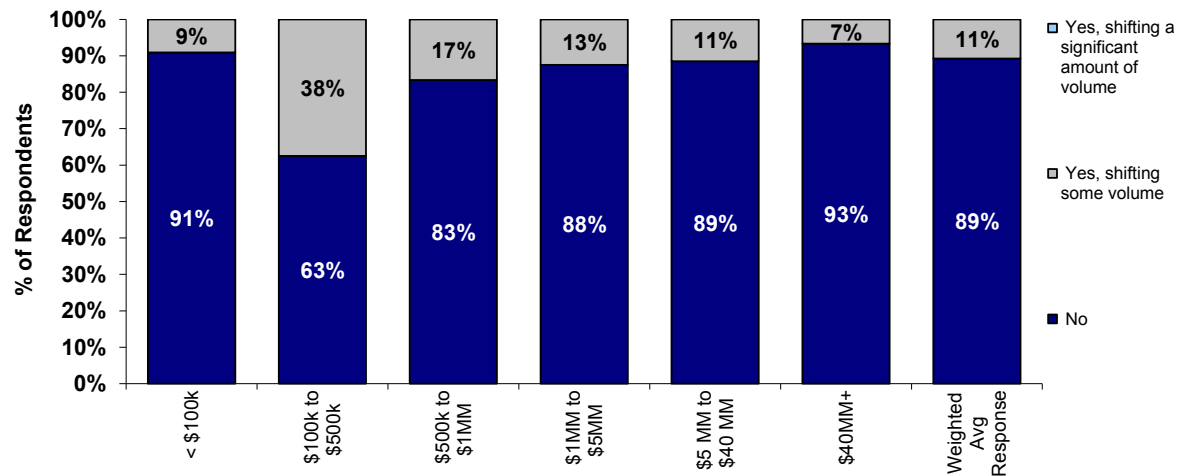


Shipper Modal Shift Statistics – Airfreight to LTL

Airfreight to LTL

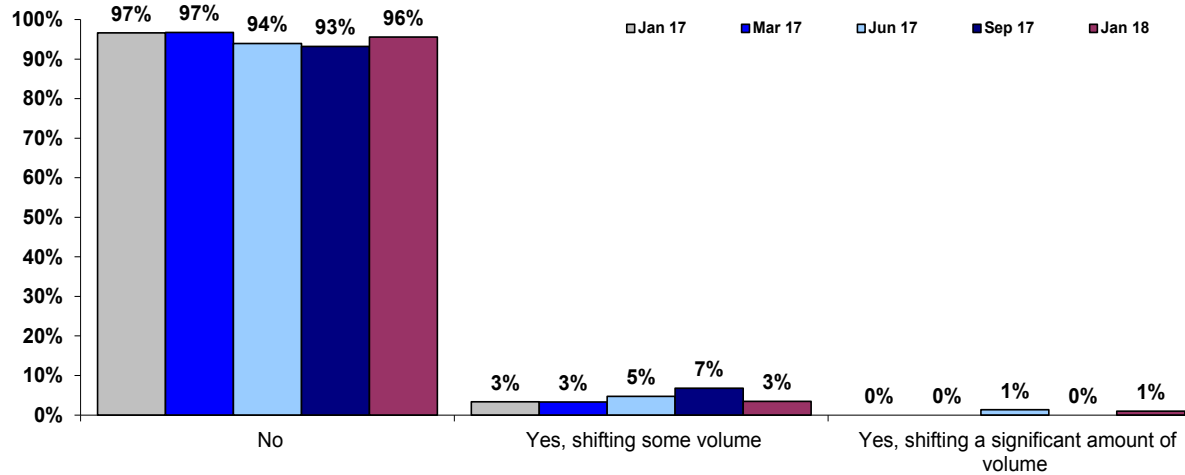


Airfreight to LTL - Modal Shift by Spend

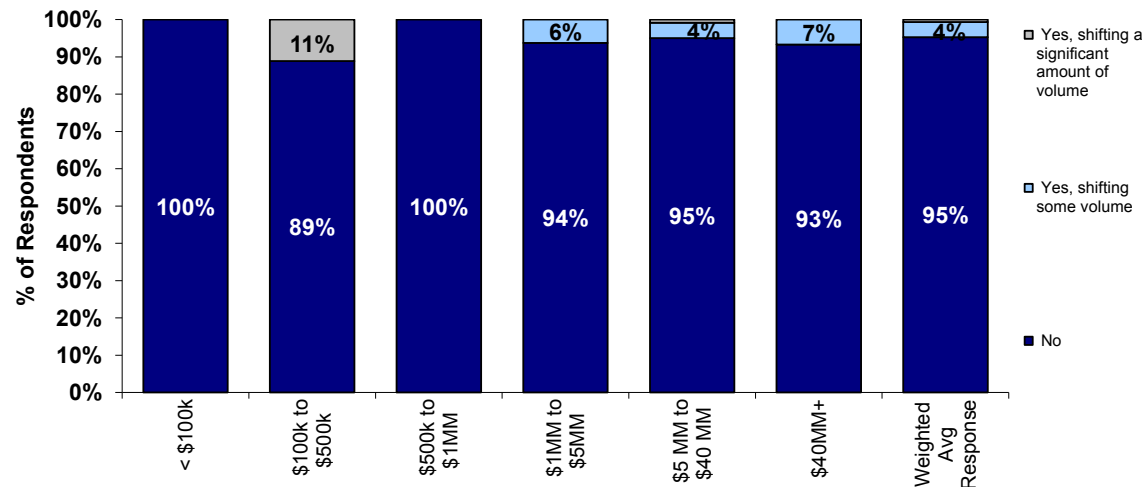


Shipper Modal Shift Statistics – LTL to Airfreight

LTL to Airfreight

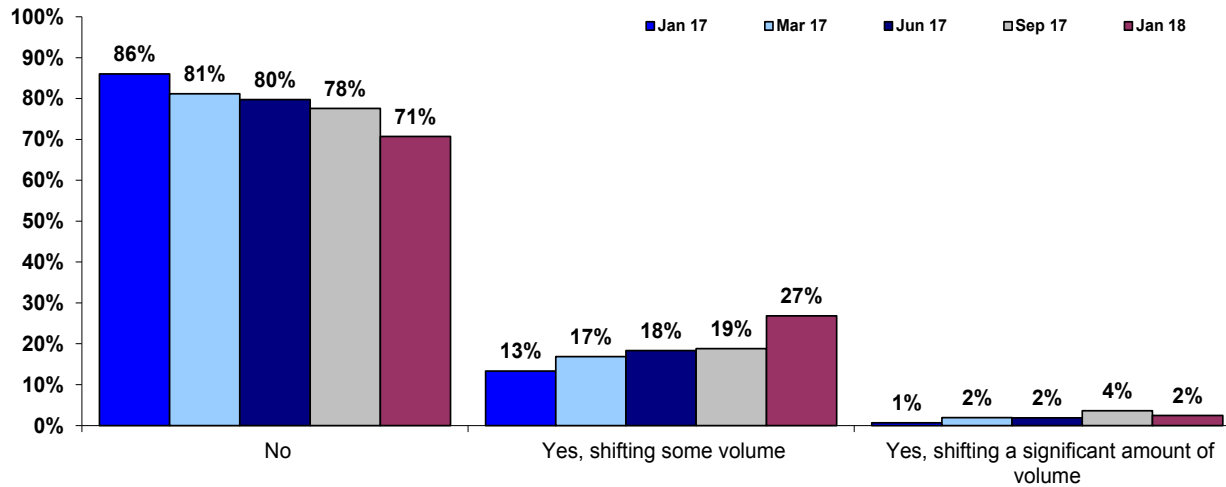


LTL to Airfreight - Modal Shift by Spend

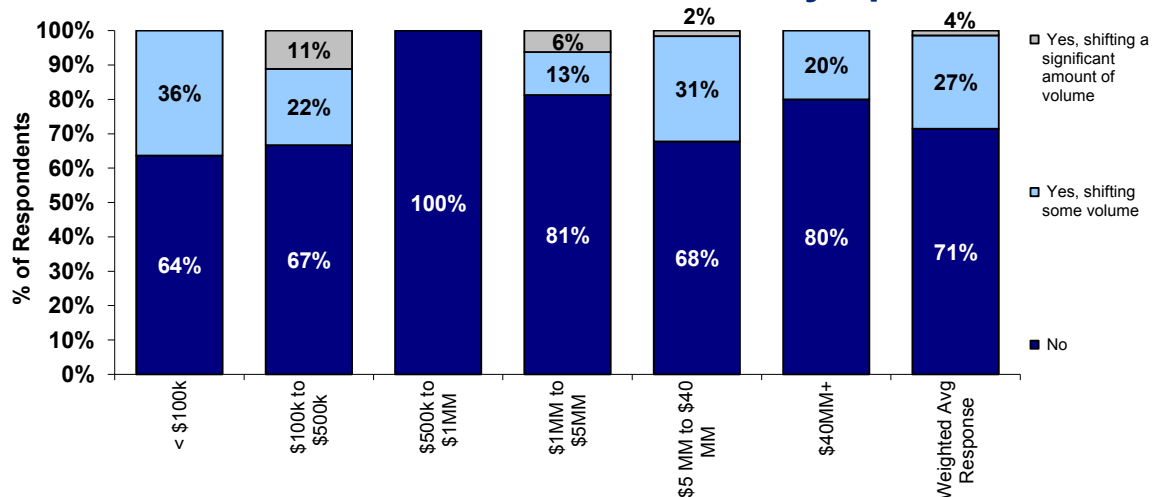


Shipper Modal Shift Statistics – Truckload to LTL

Truckload to LTL

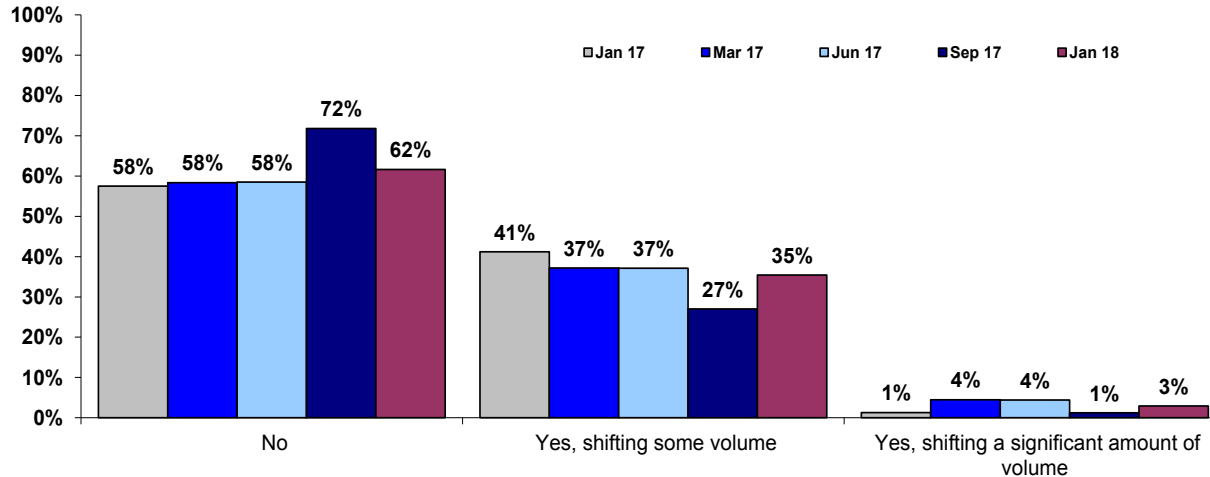


Truckload to LTL - Modal Shift by Spend

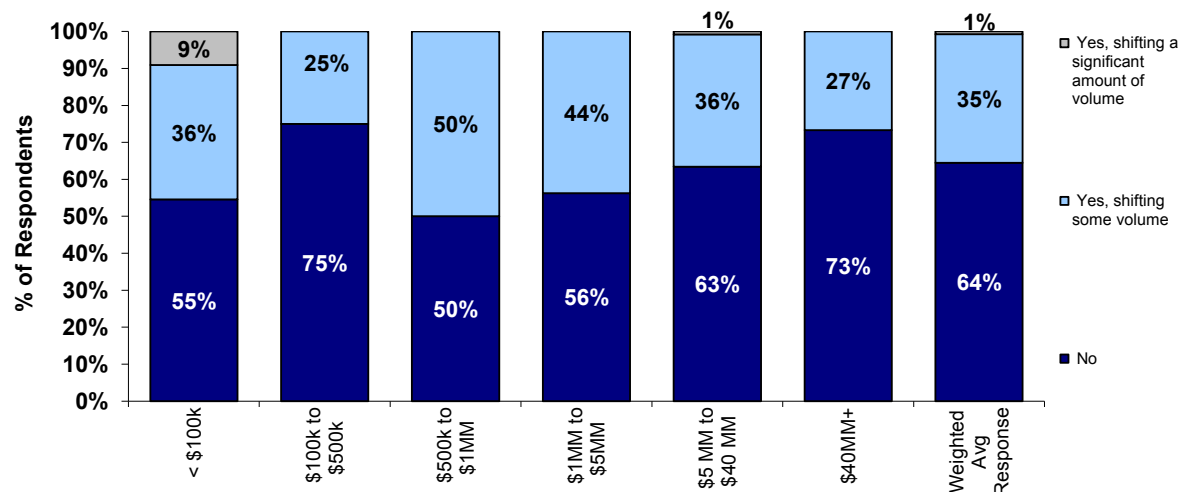


Shipper Modal Shift Statistics – LTL to Truckload

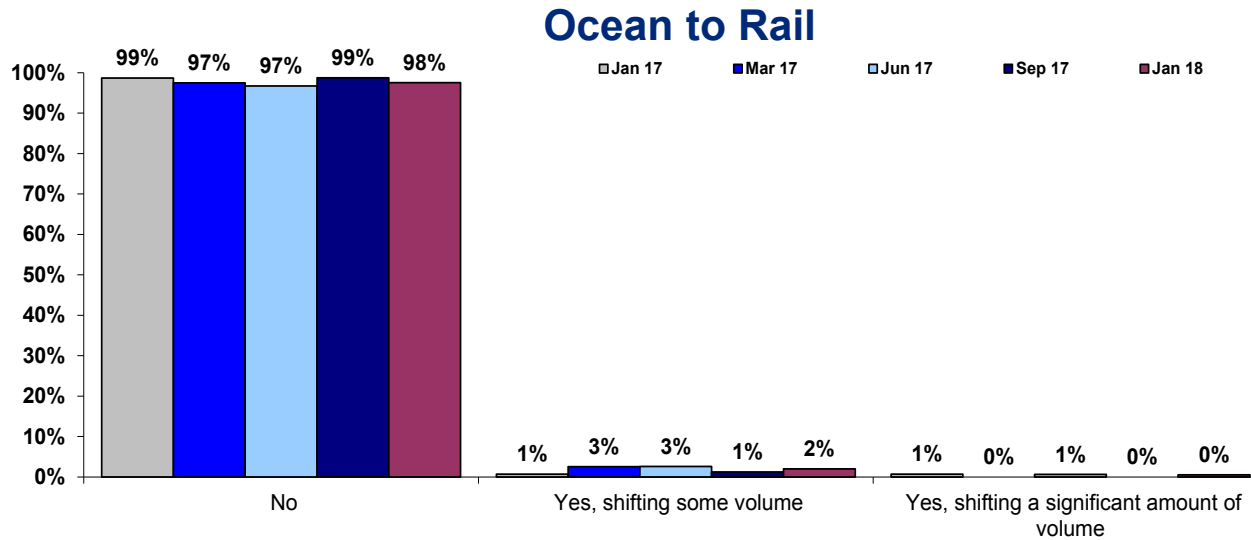
LTL to Truckload



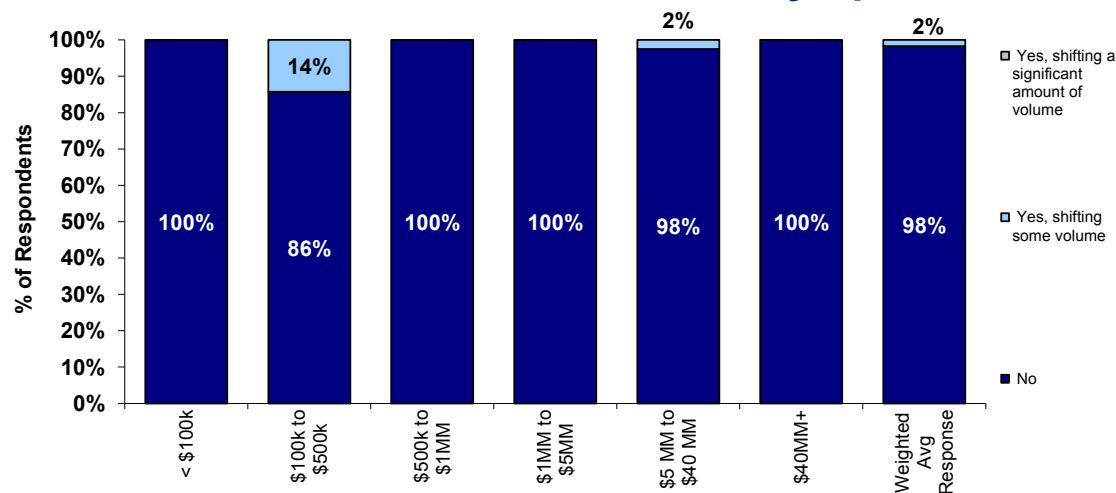
LTL to Truckload - Modal Shift by Spend



Shipper Modal Shift Statistics – Ocean to Rail

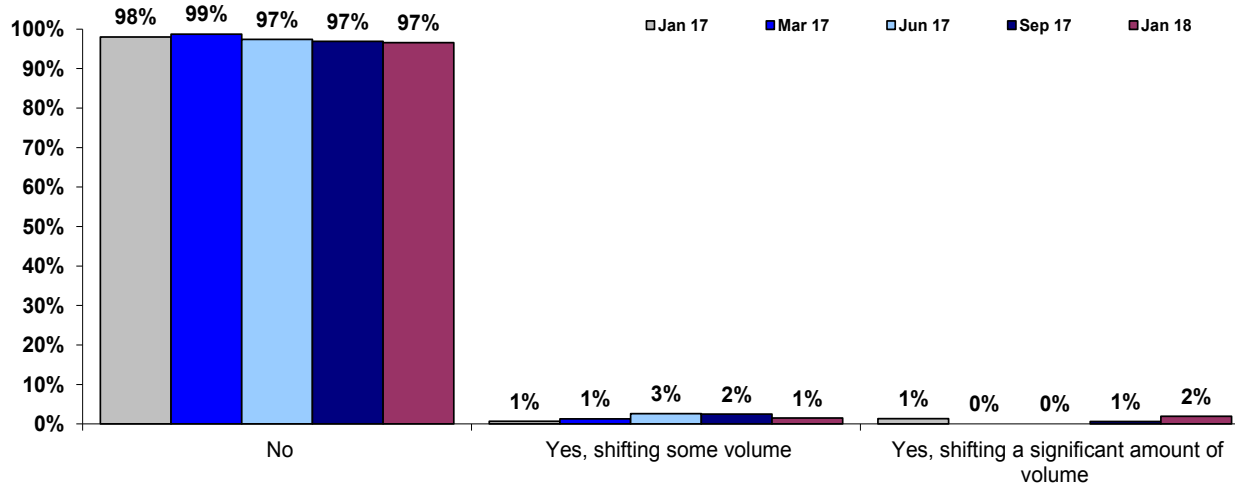


Ocean to Rail - Modal Shift by Spend

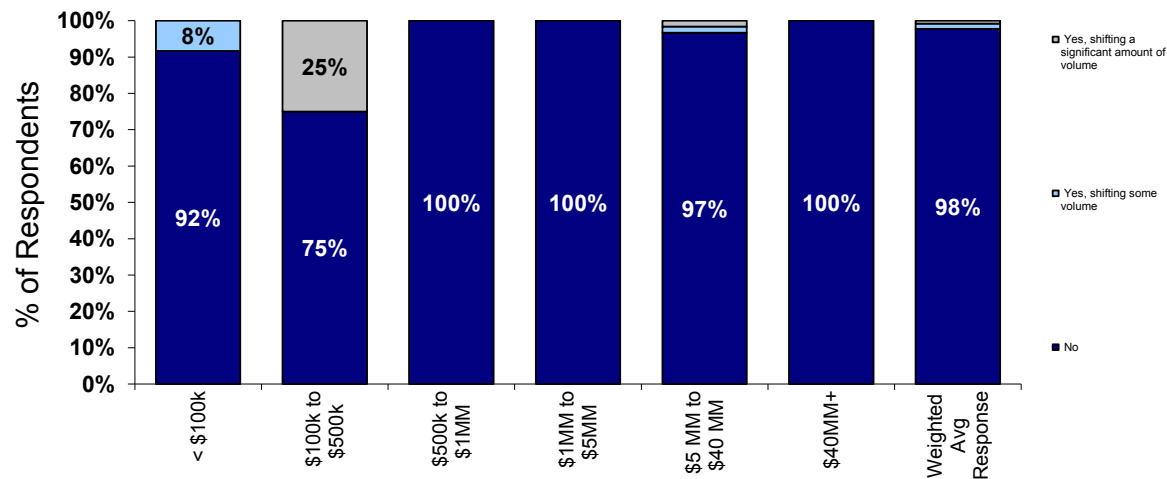


Shipper Modal Shift Statistics – Rail to Ocean

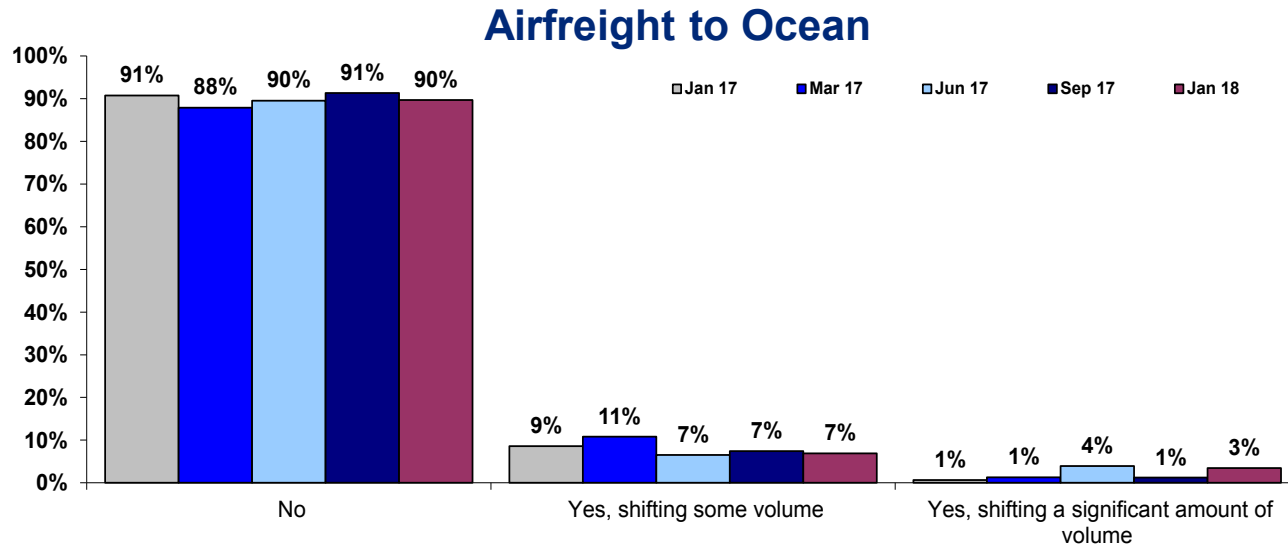
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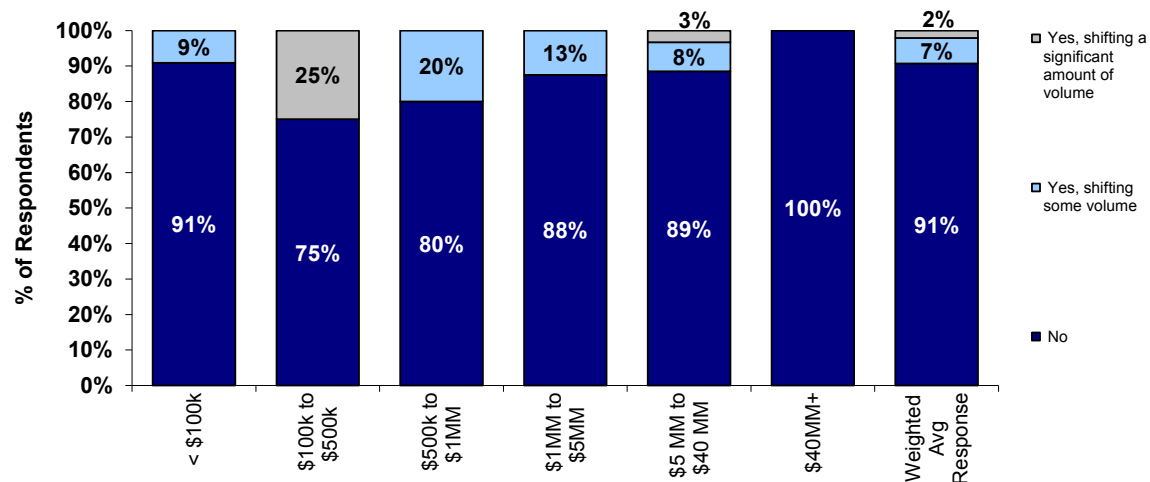
Rail to Ocean - Modal Shift by Spend



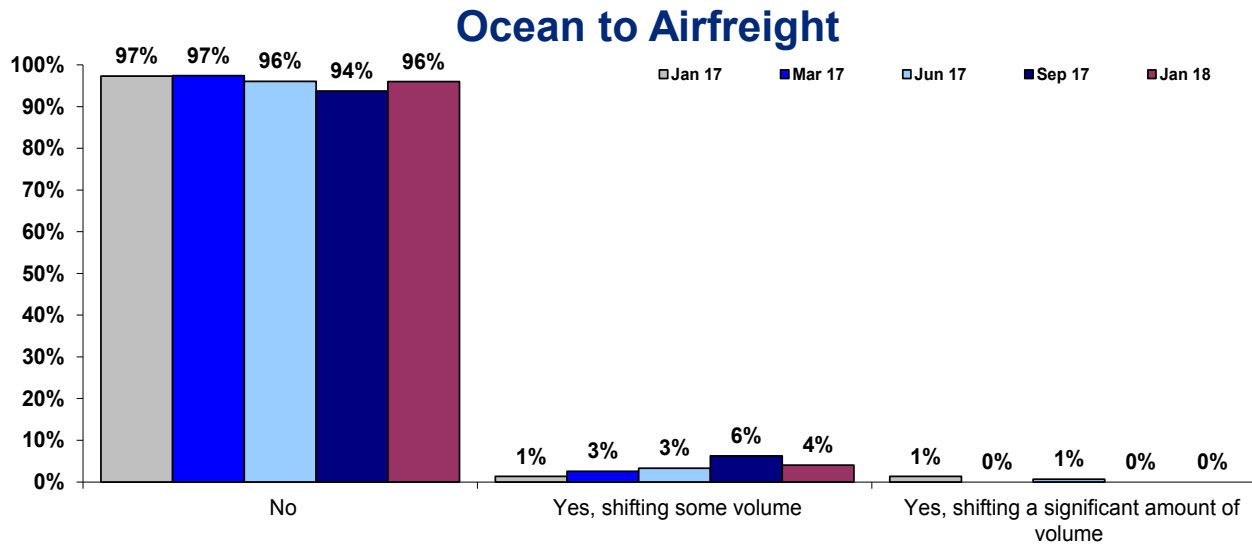
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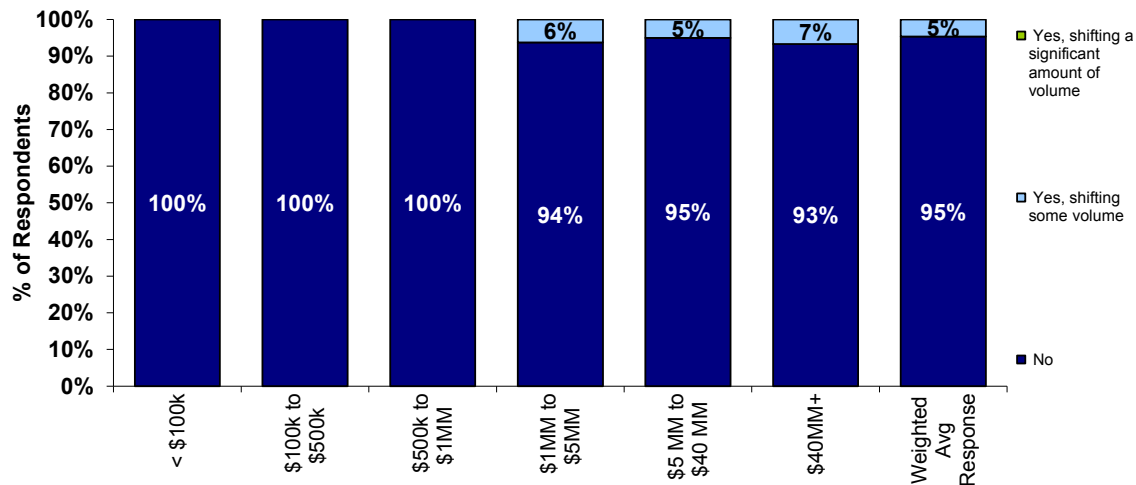
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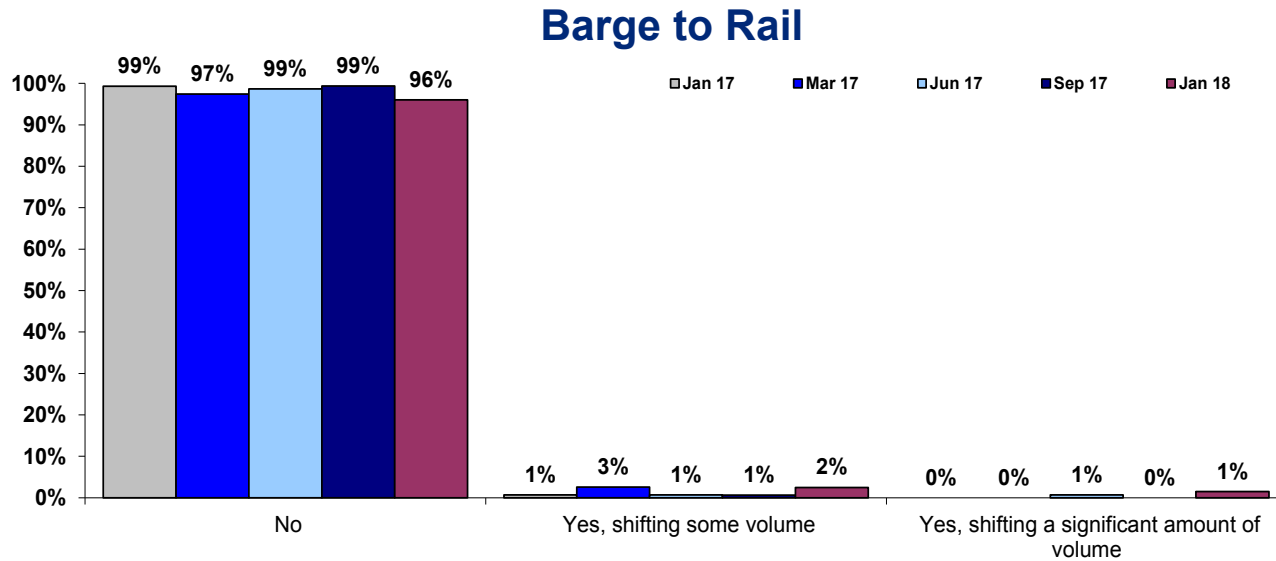
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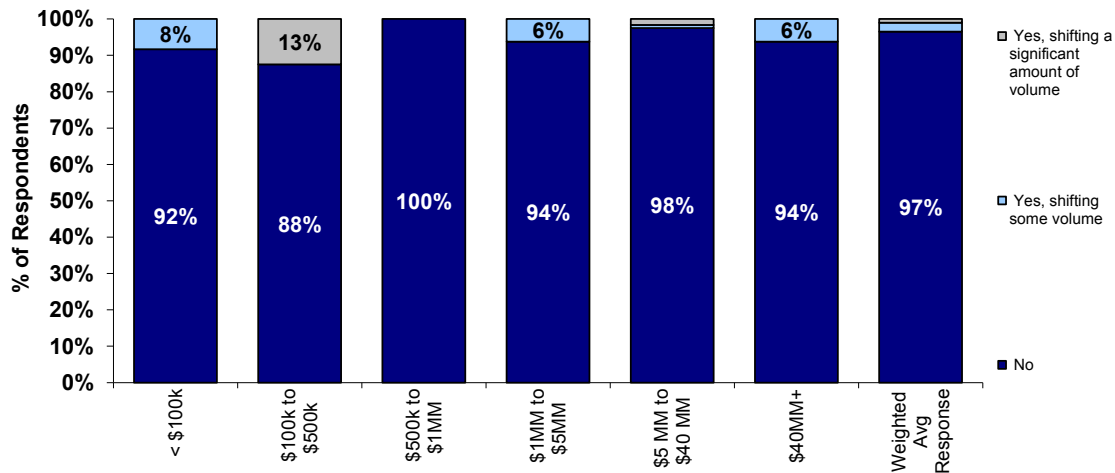
Ocean to Airfreight - Modal Shift by Spend



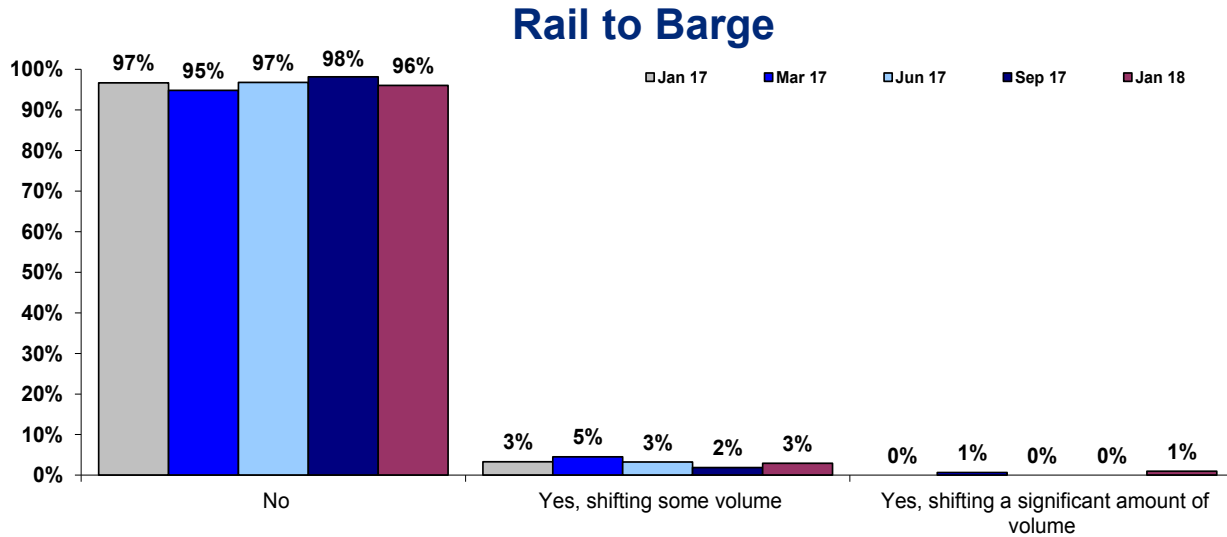
Shipper Modal Shift Statistics – Barge to Rail



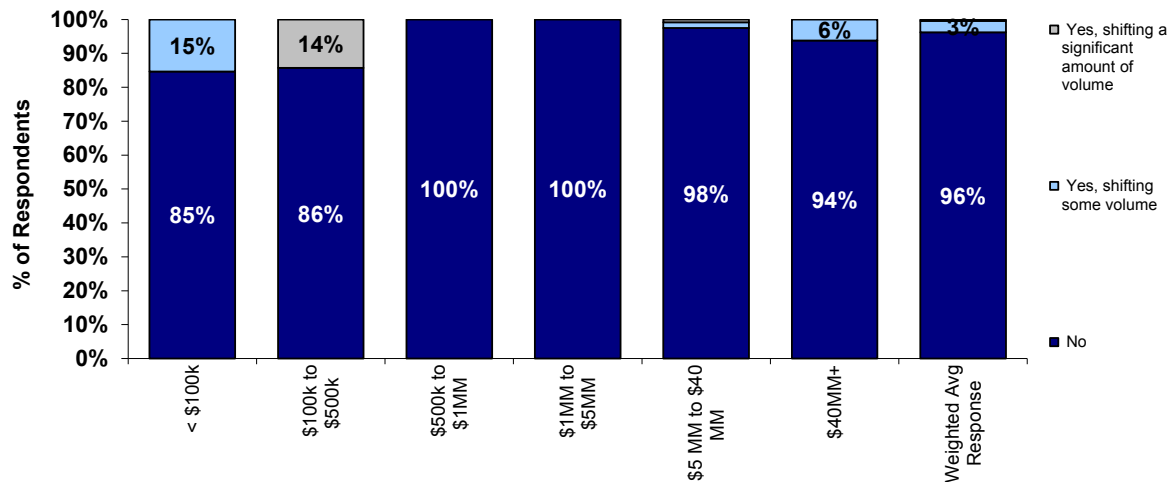
Barge to Rail - Modal Shift by Spend



Shipper Modal Shift Statistics – Rail to Barge

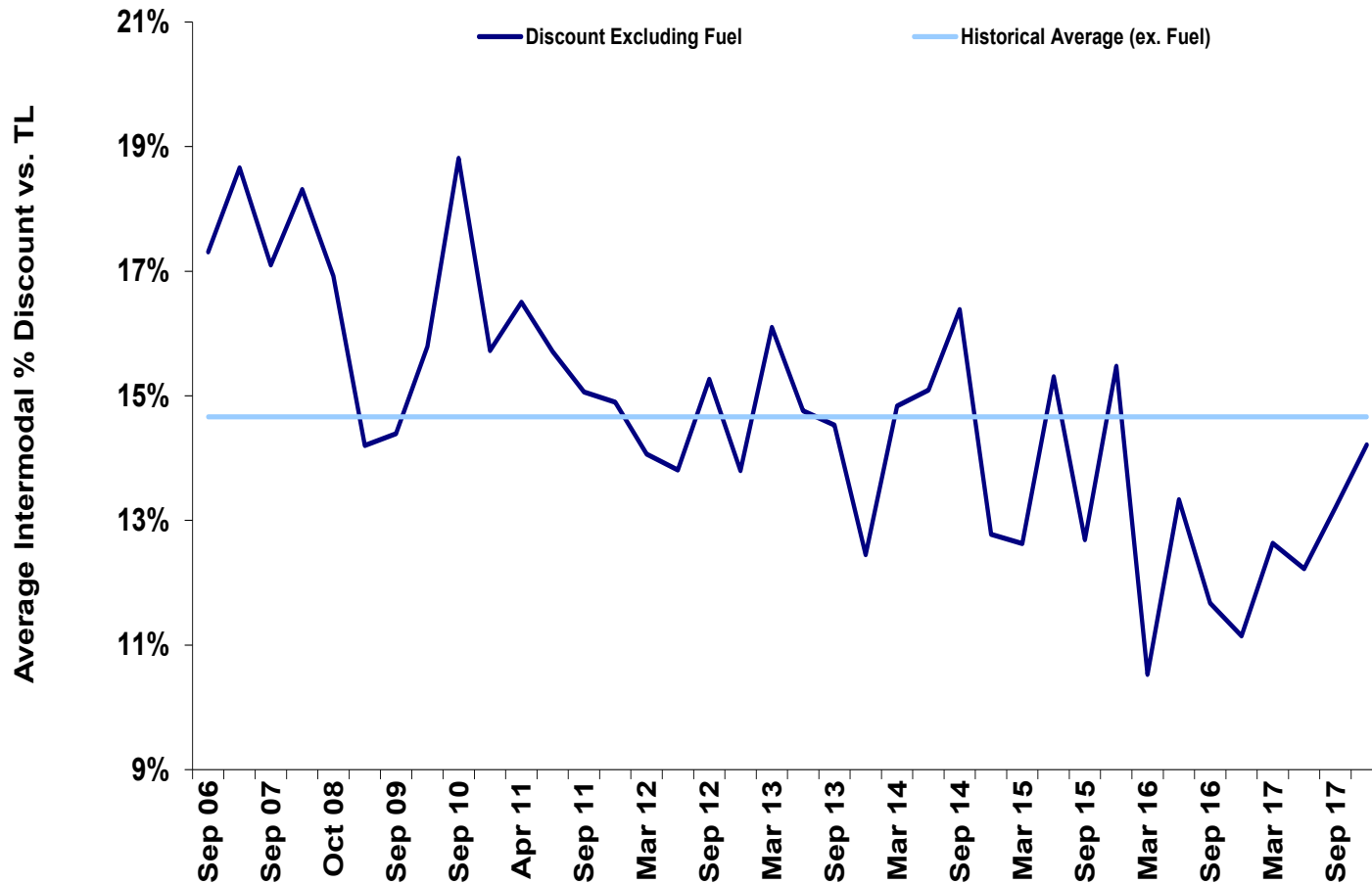


Rail to Barge - Modal Shift by Spend



Intermodal vs. Truck: Intermodal Discount Over Time

What discount is being offered in the marketplace for intermodal services when compared to TL services in a similar lane?



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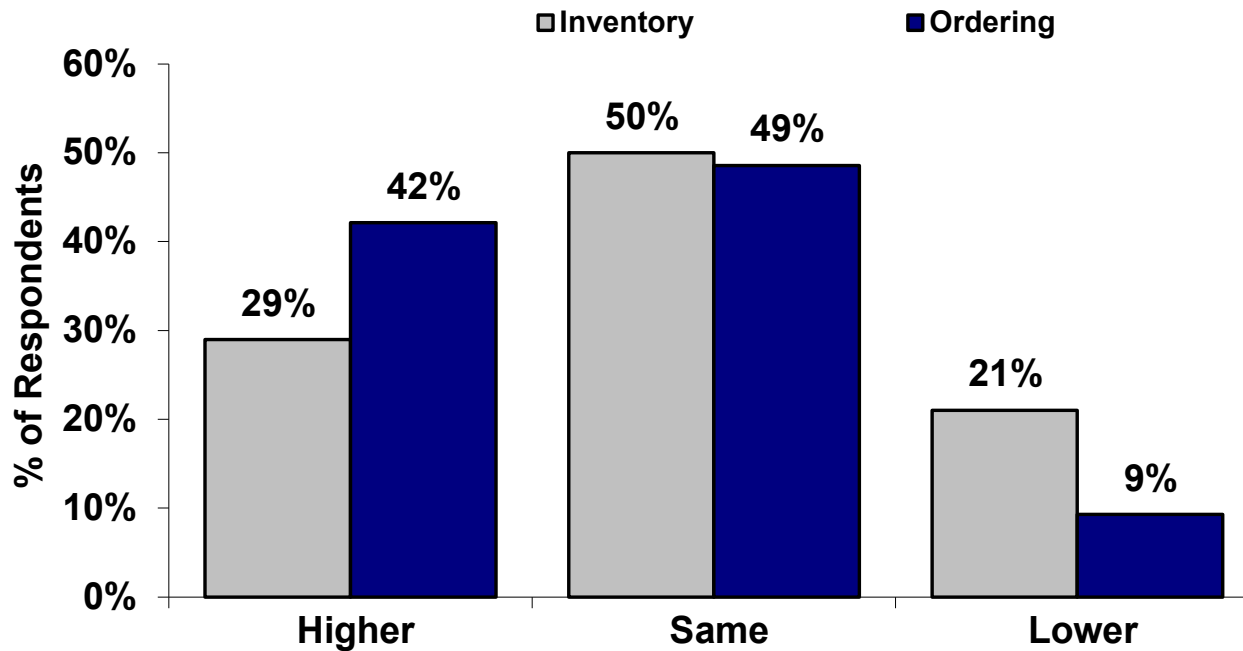
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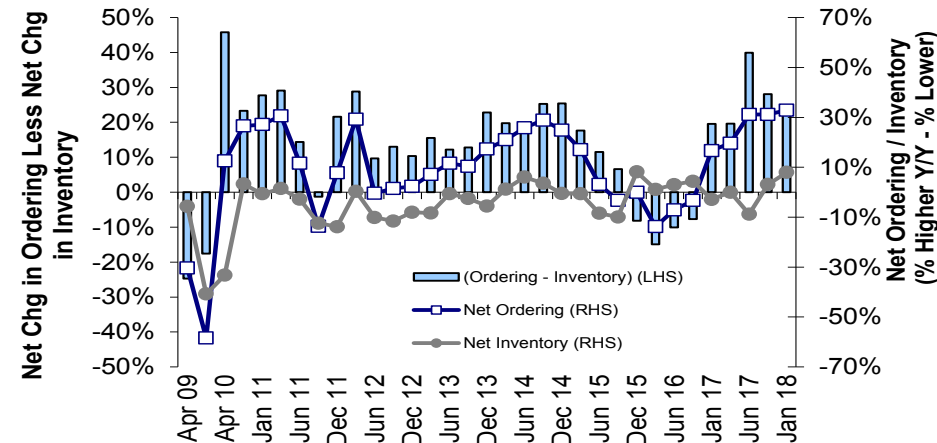
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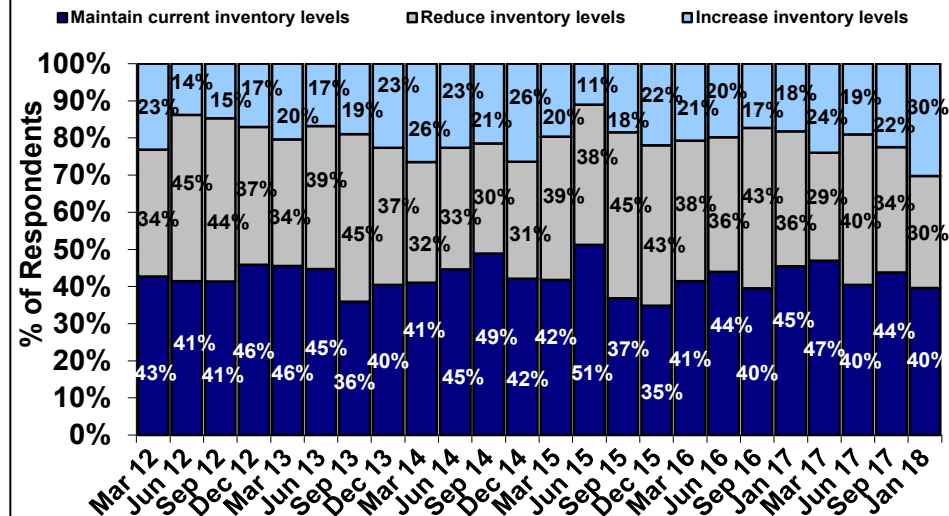


Assessing Restocking Potential: Net Inventory Trends and Inventory Plans

Shippers' Net Y/Y Orders vs. Net Y/Y Inventory

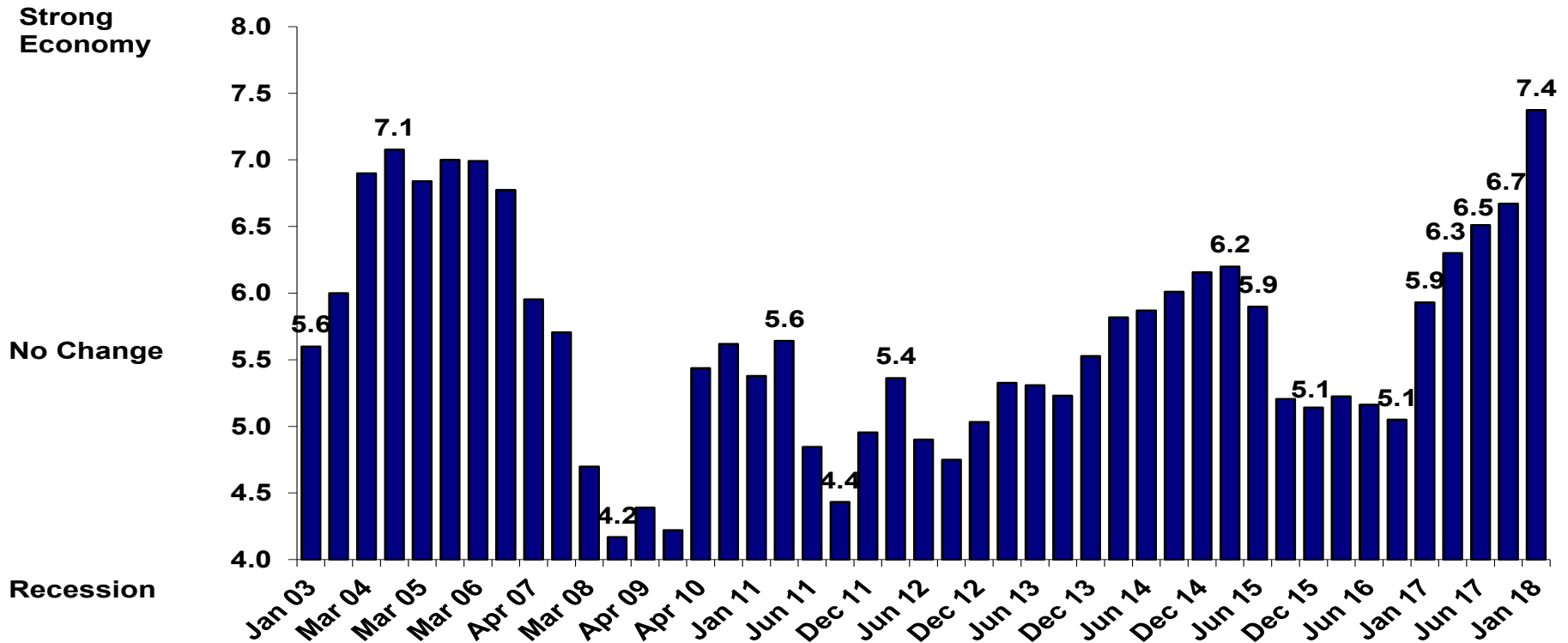


Shippers' Inventory Plans



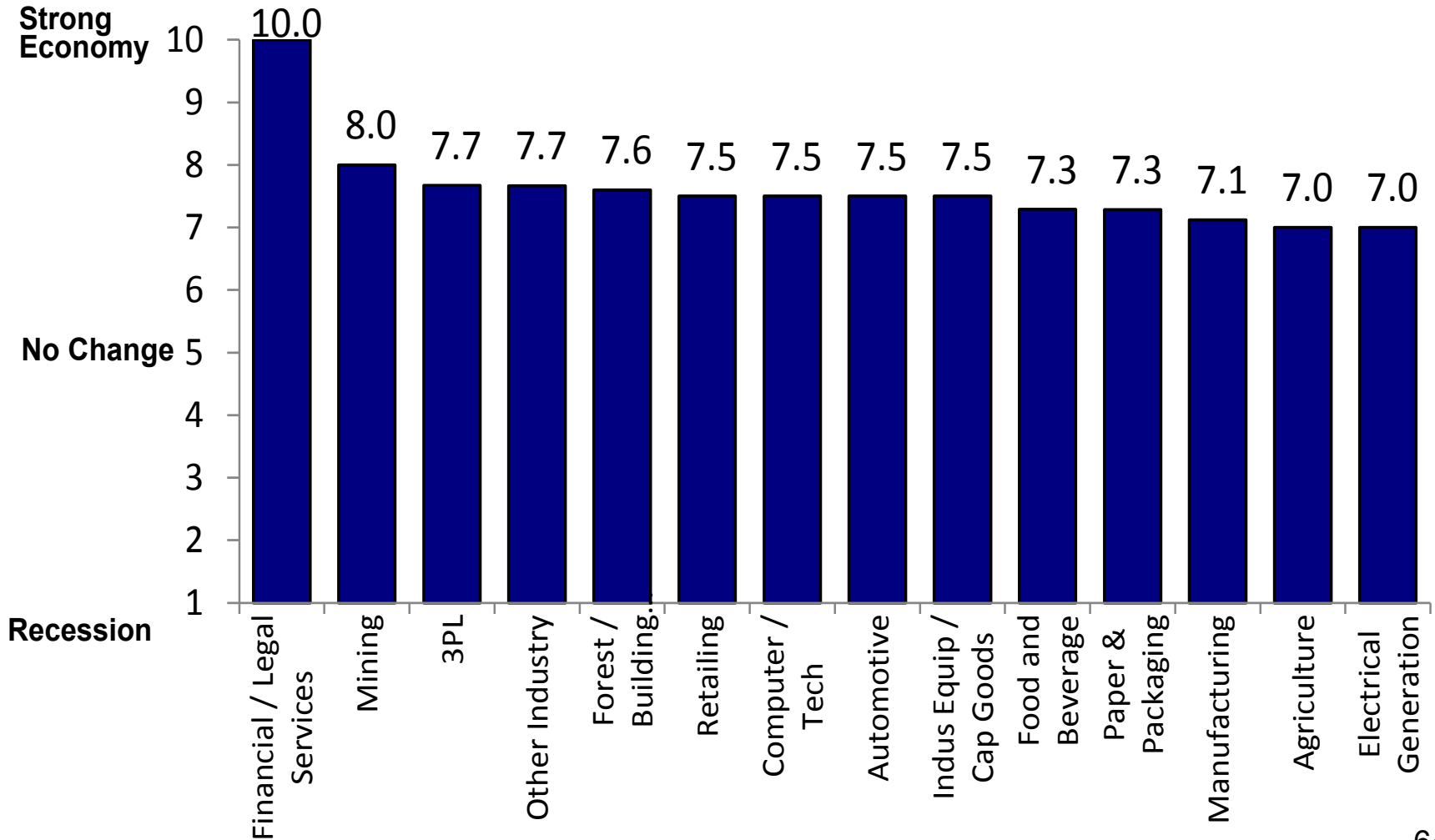
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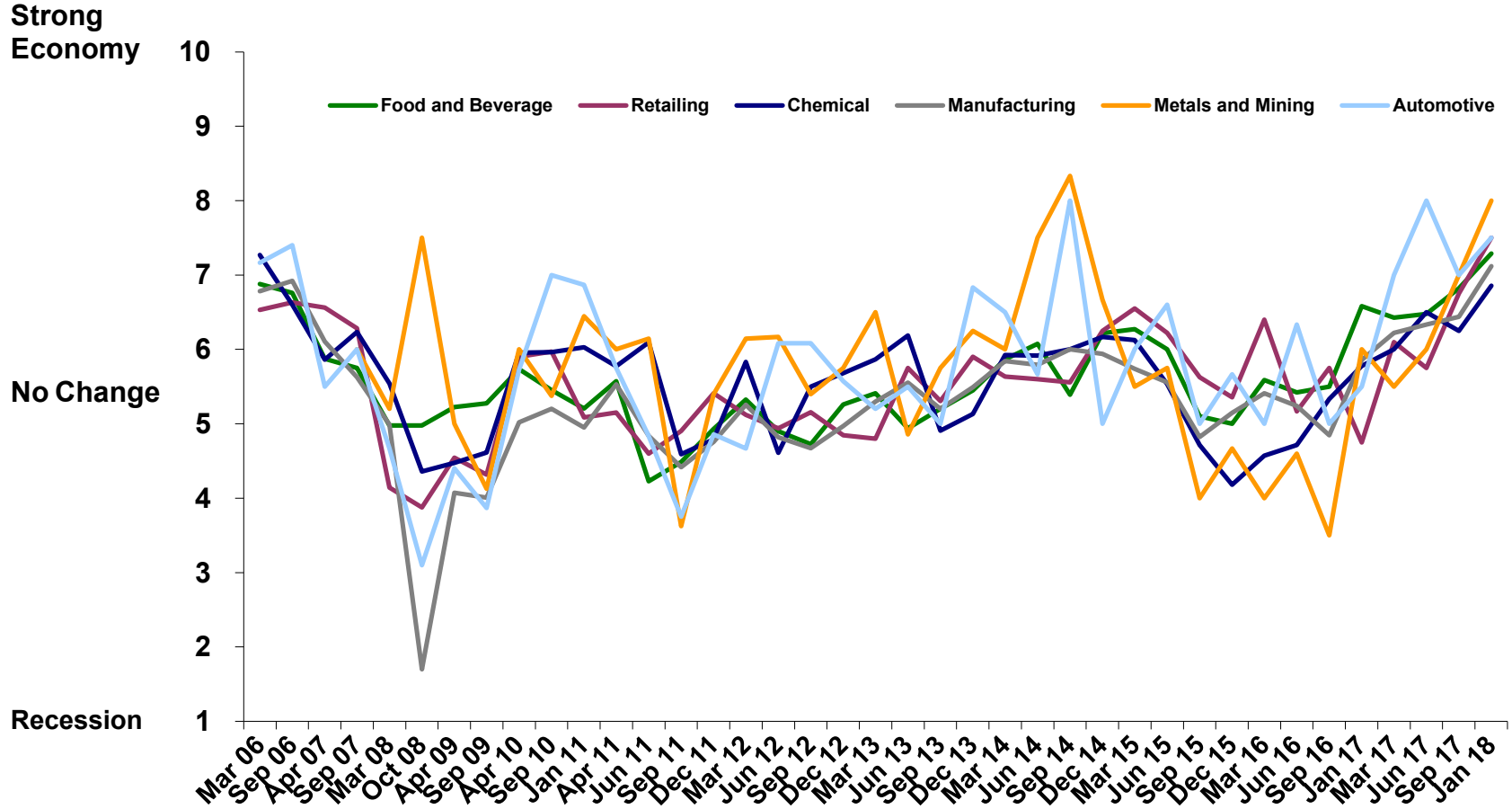
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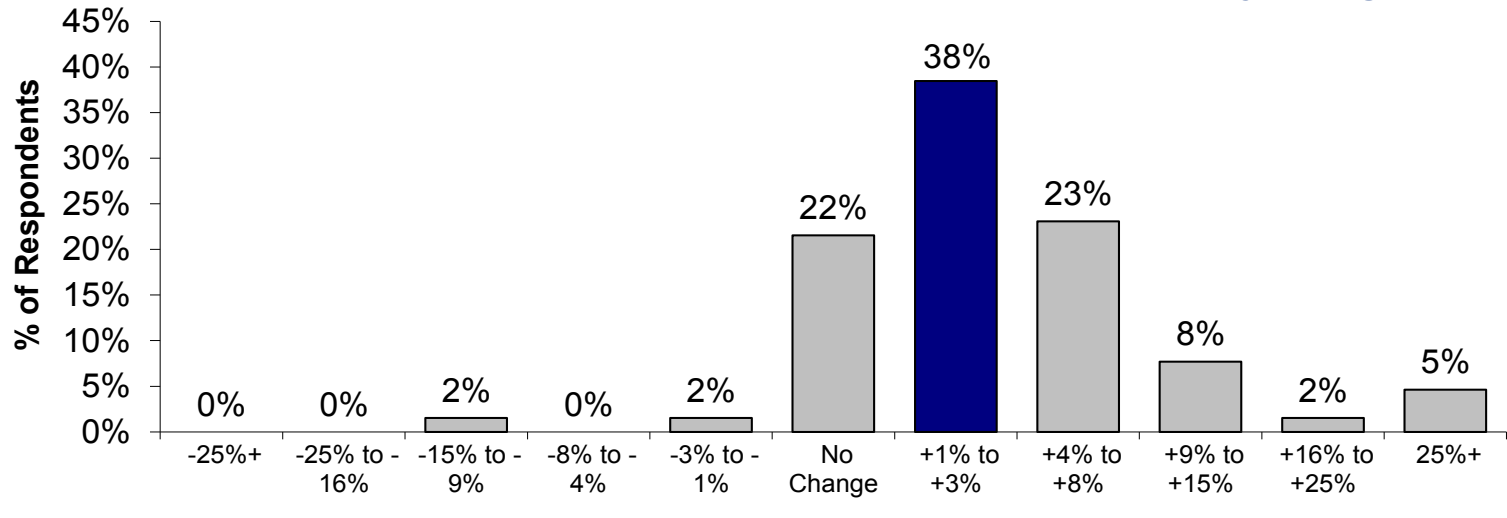
1. Volume Trends
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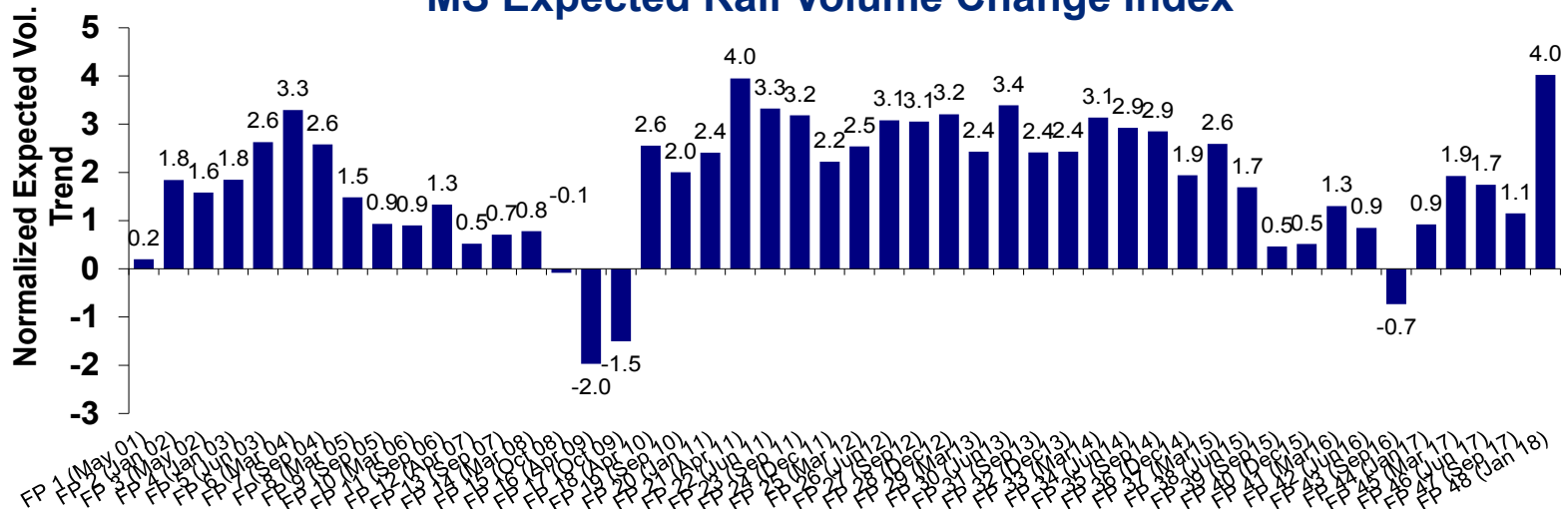
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YoY Volume Growth Expectations for Next 6 Mo. by Range

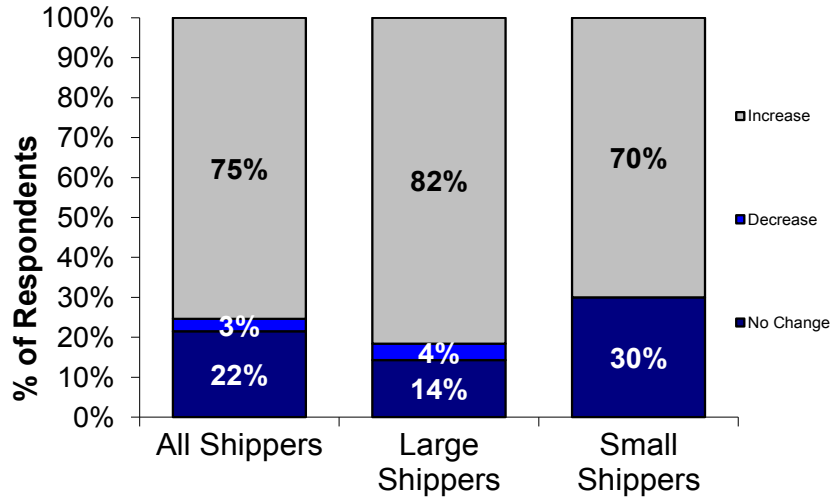


MS Expected Rail Volume Change Index

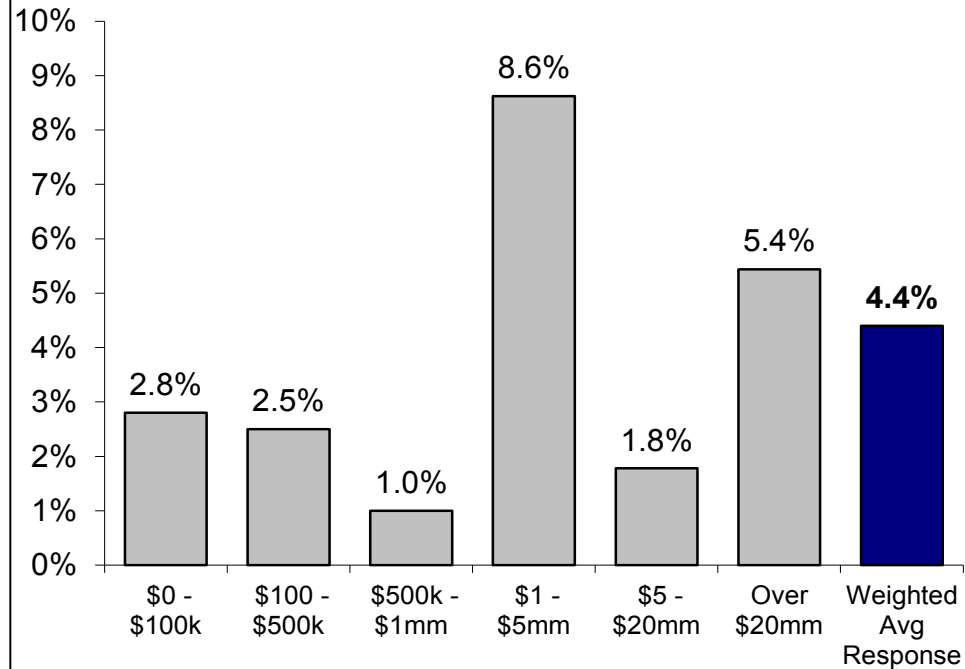


Rail Volume Trends: Forward 6 Month YoY Volume Expectations by Segment

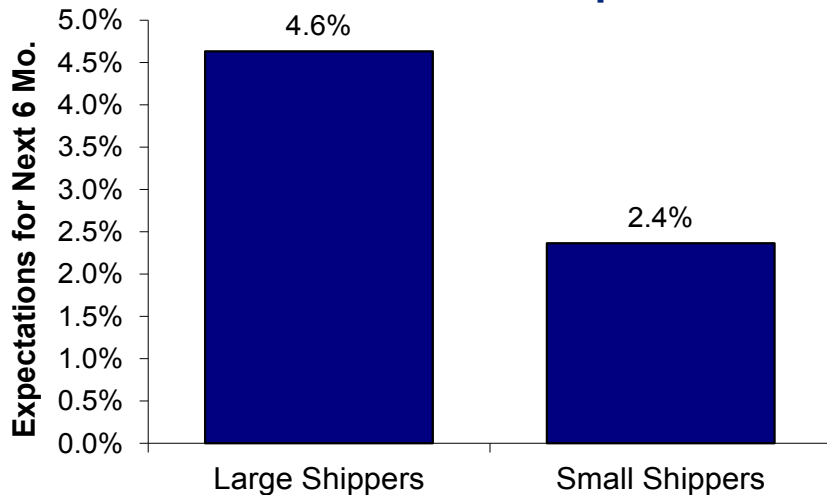
YoY Volume Growth Expectations



6 Mo. YoY Volume Growth Expectation by Spend

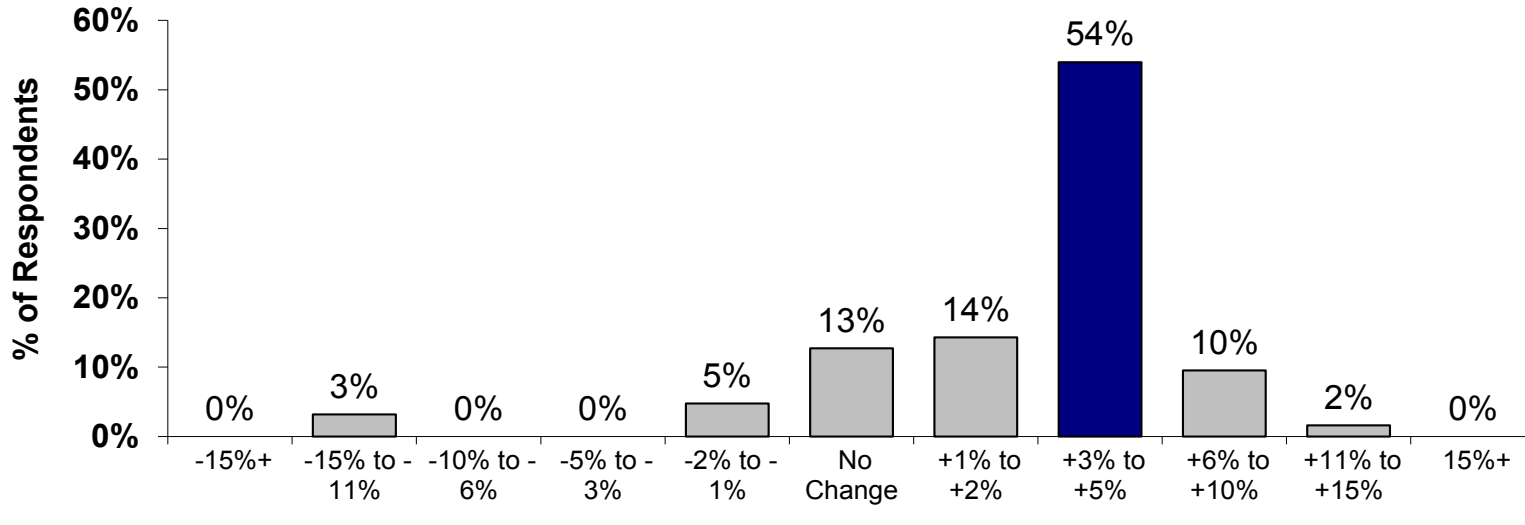


YoY Volume Growth Expectations

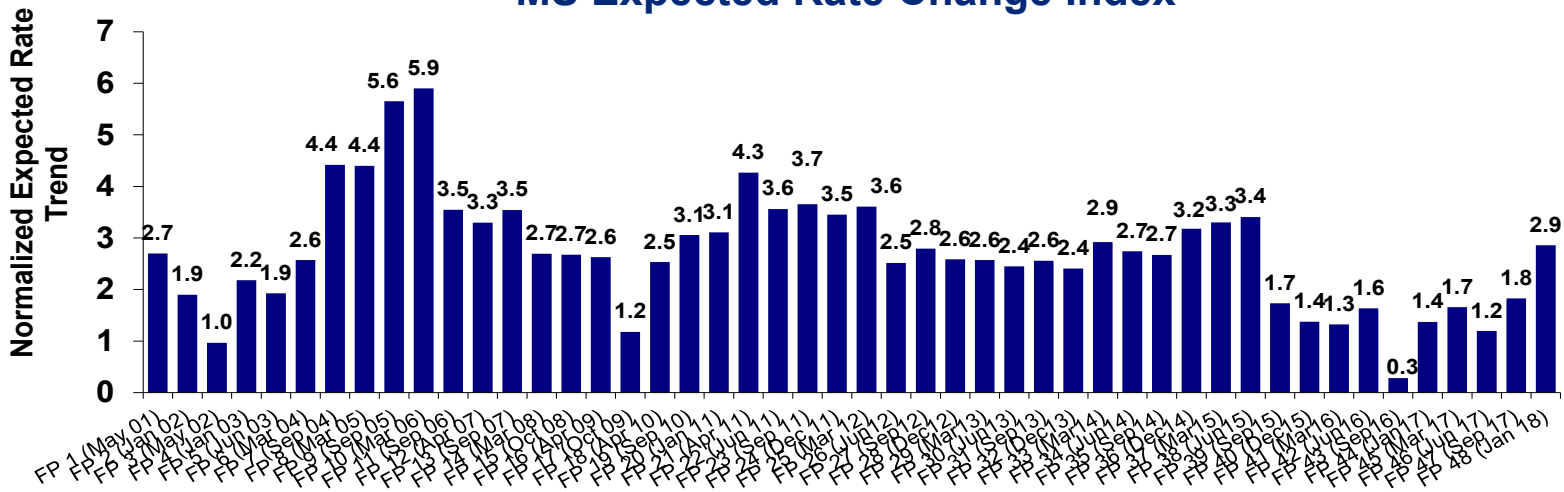


Rail Rate Trends: Forward 6 Month YoY Rate Expectations

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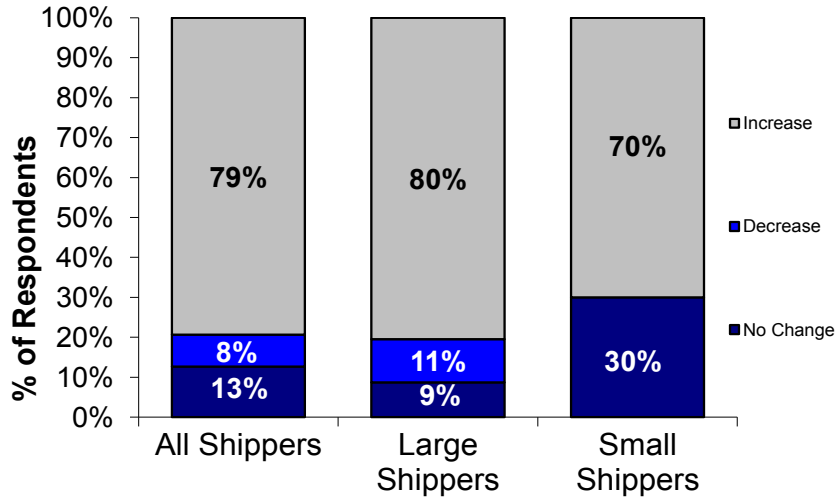


MS Expected Rate Change Index

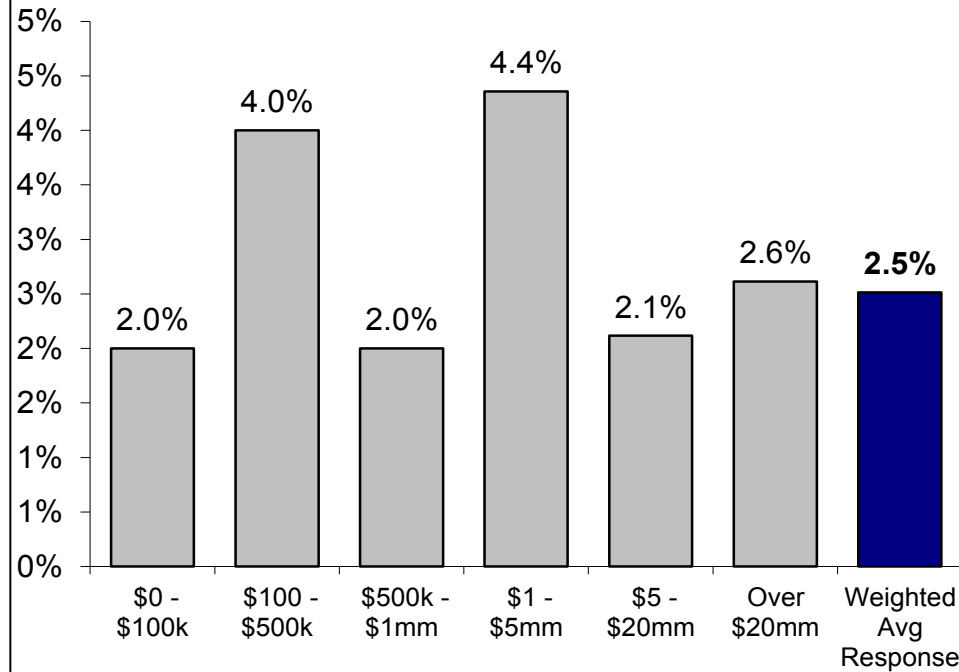


Rail Rate Trends: Forward 6 Month YoY Rate Expectations by Segment

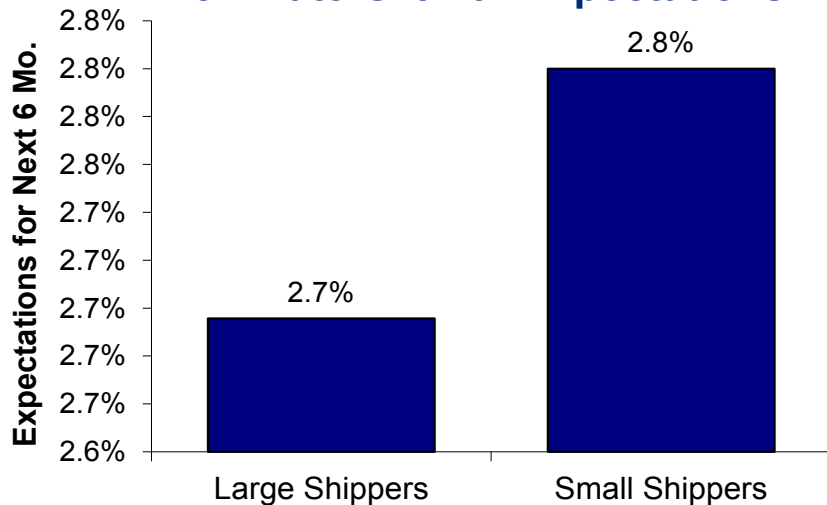
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6 Mo. YoY Rate Growth Expectation by Spend

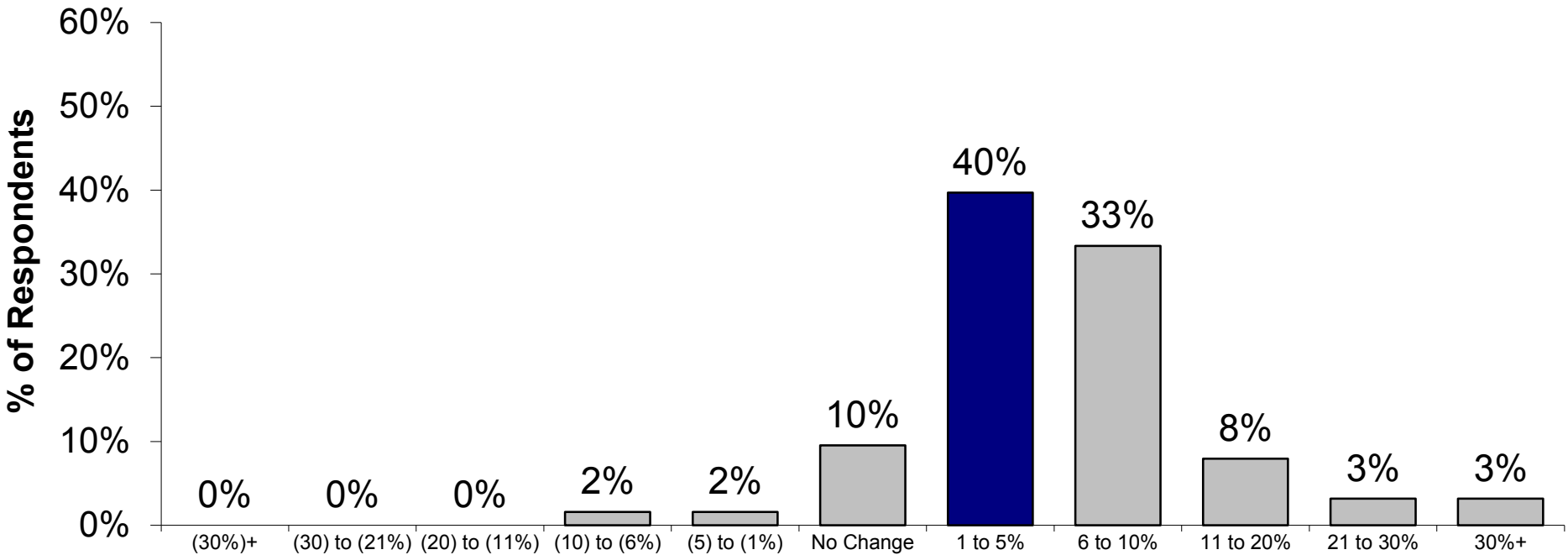


YoY Rate Growth Expectations



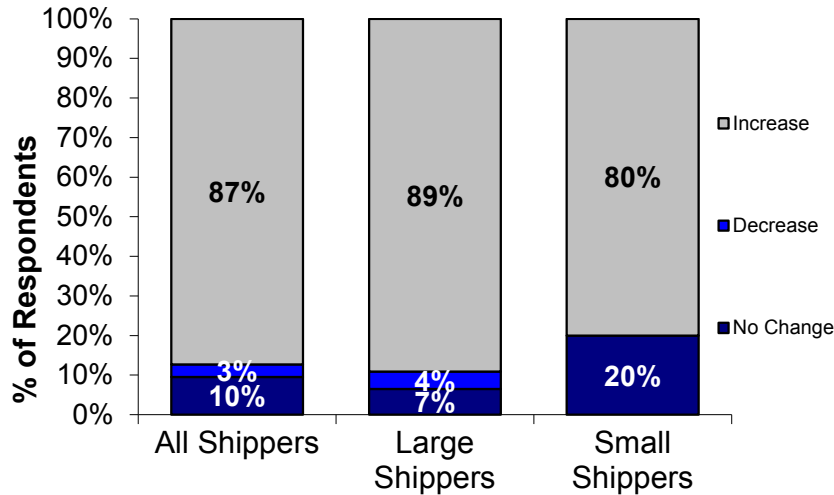
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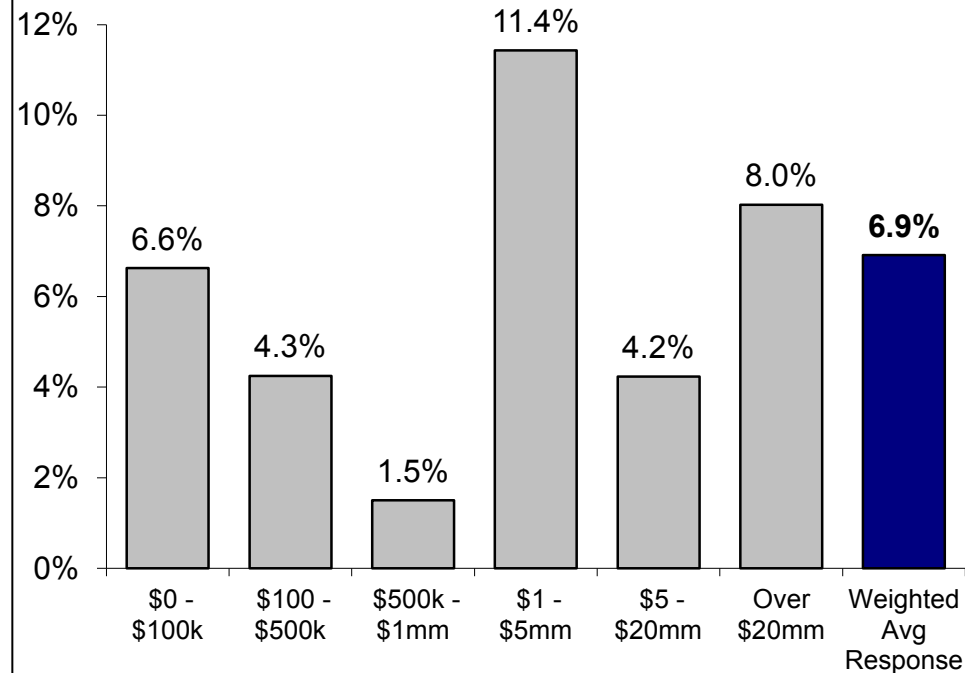


Rail Spend Trends: Forward 6 Month YoY Spend Expectations by Segment

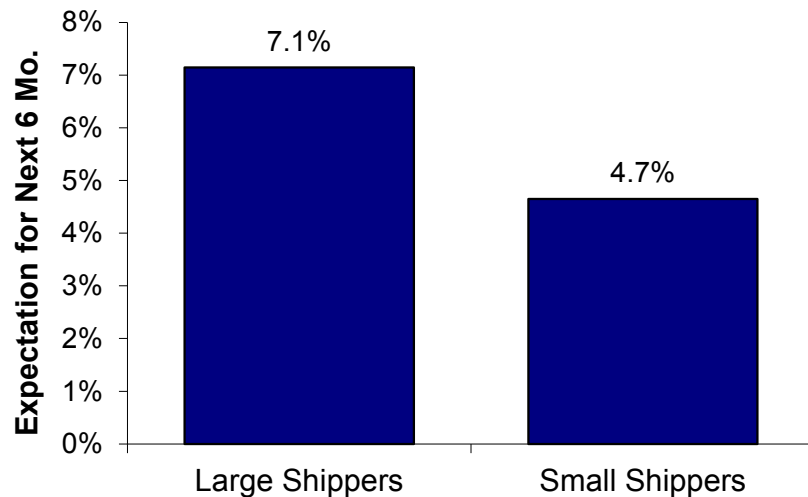
YoY Spend Growth Expectations



6 Mo. YoY Spend Growth Expectation by Spend

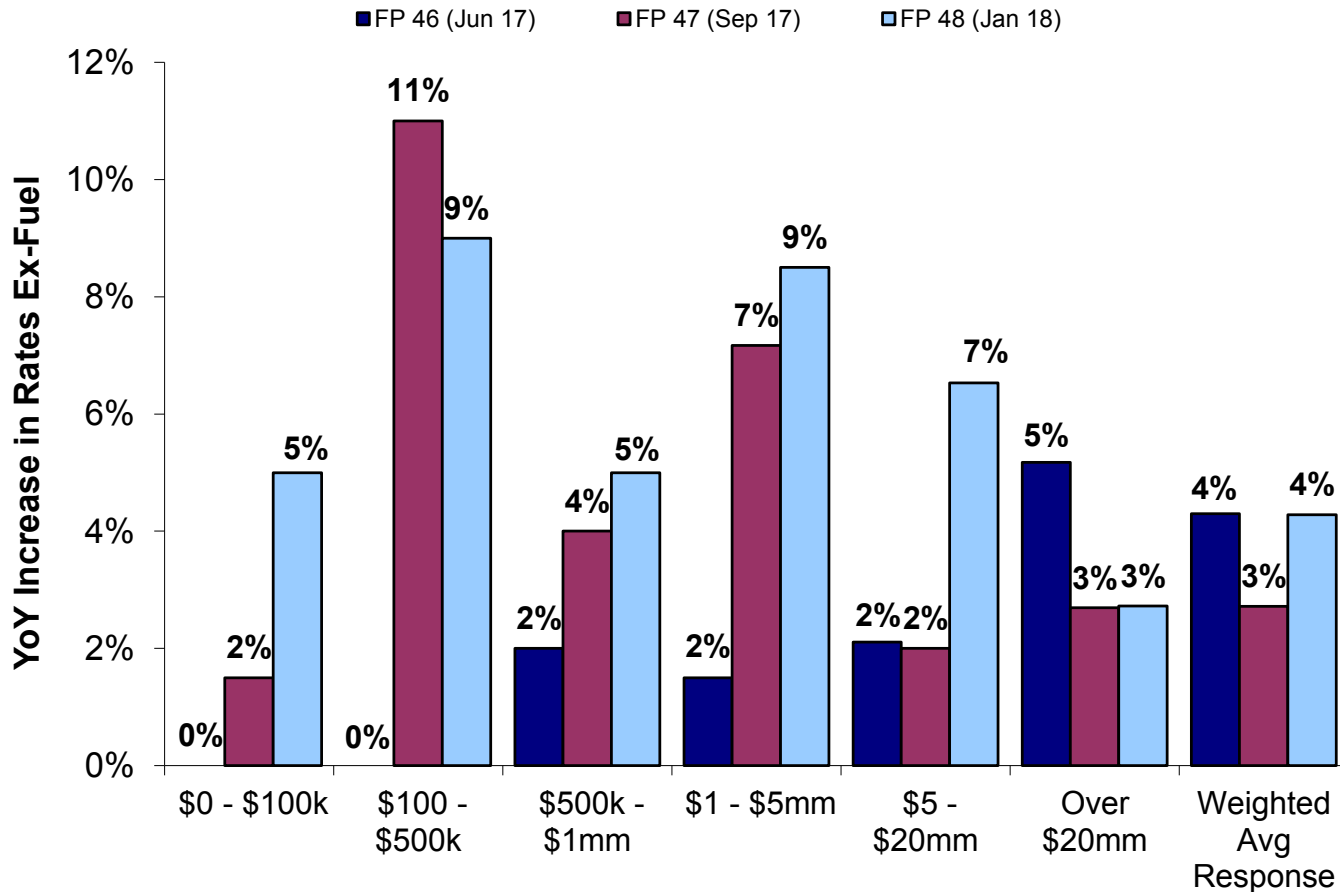


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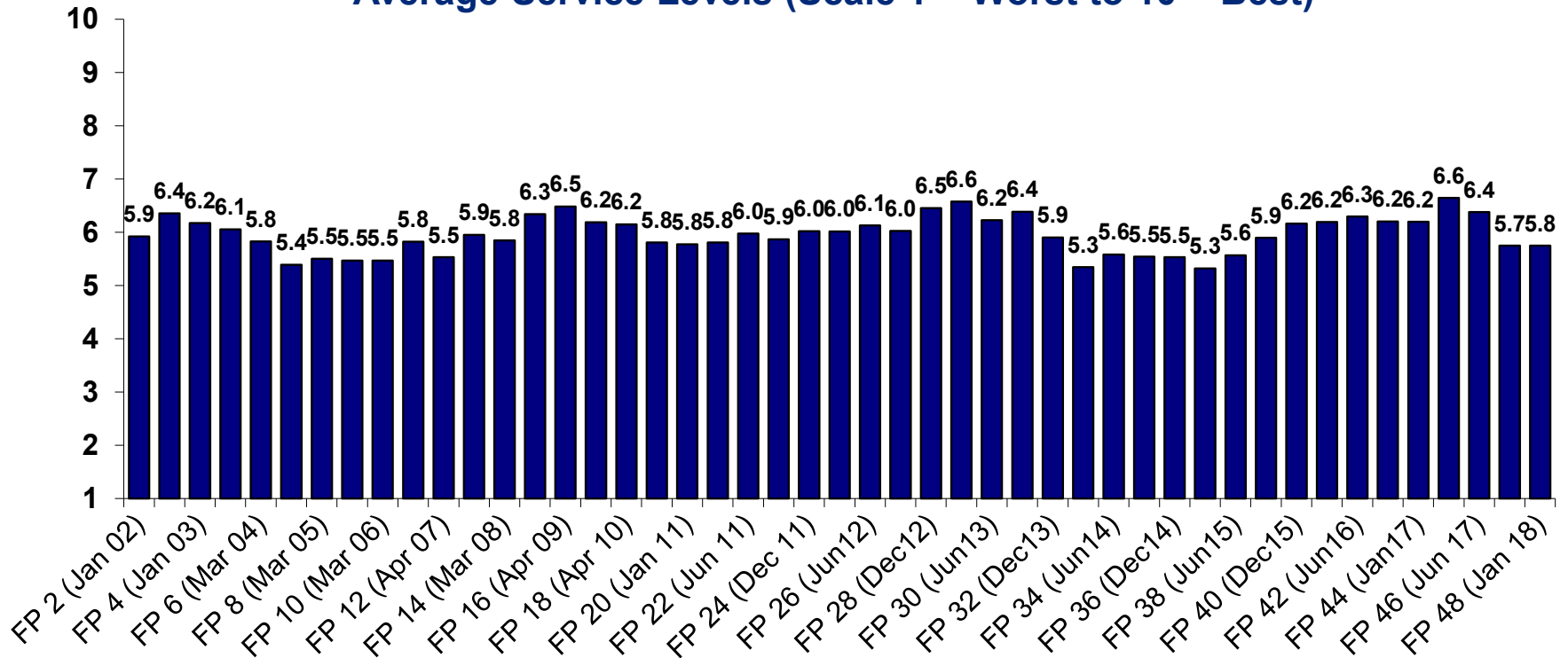
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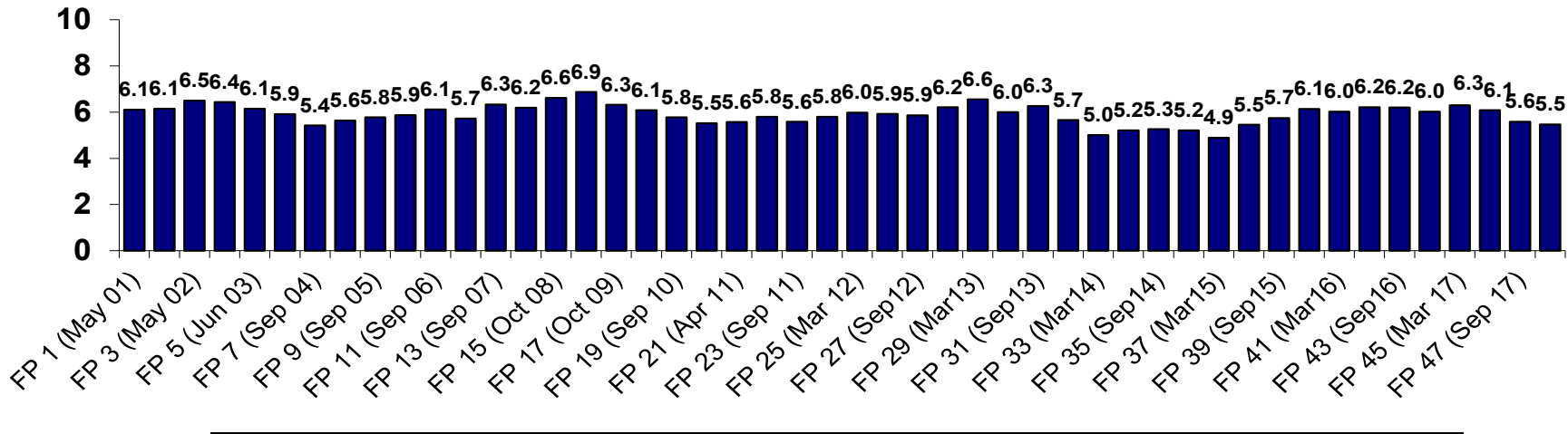
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Average Service Levels (Scale 1 = Worst to 10 = Best)

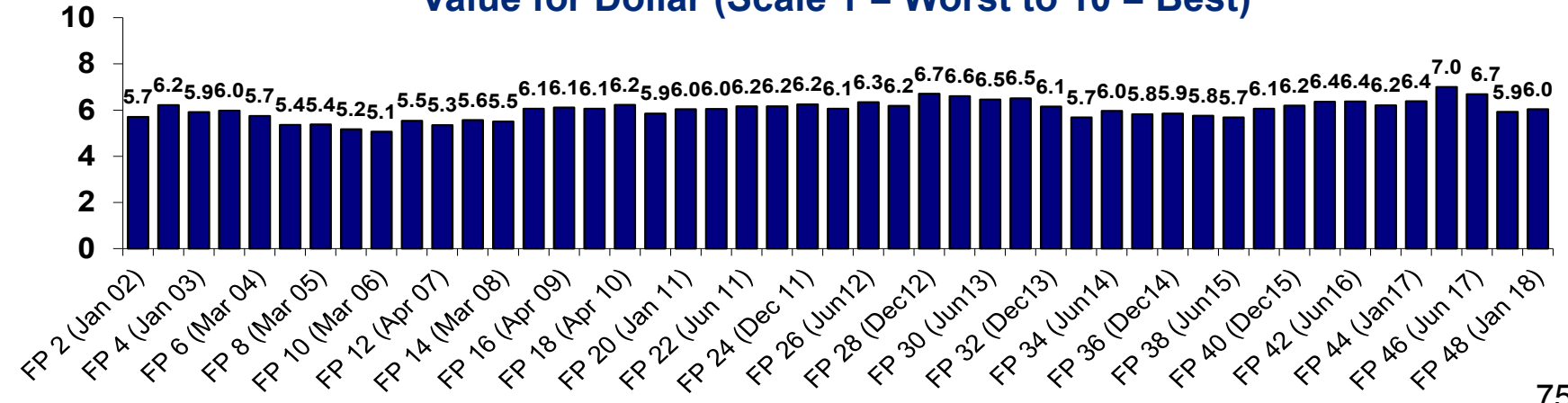


Rail Service Trends: Detail

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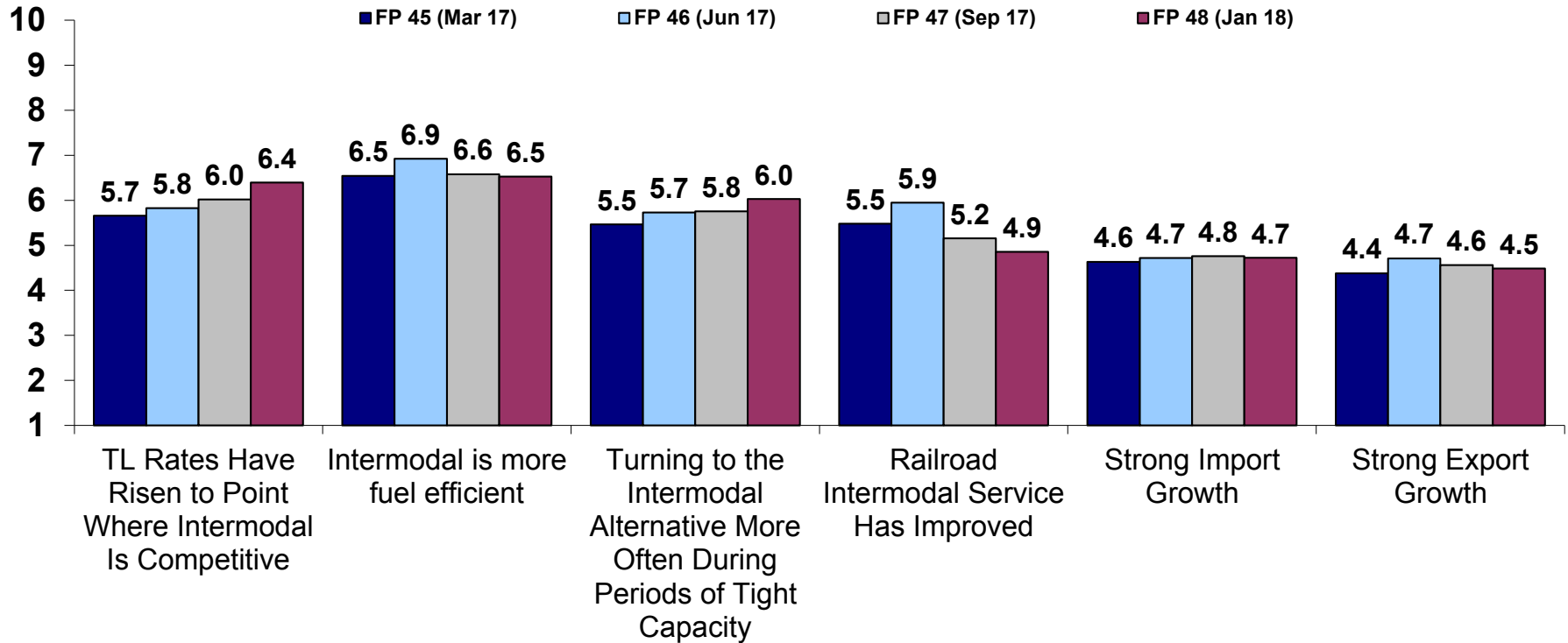
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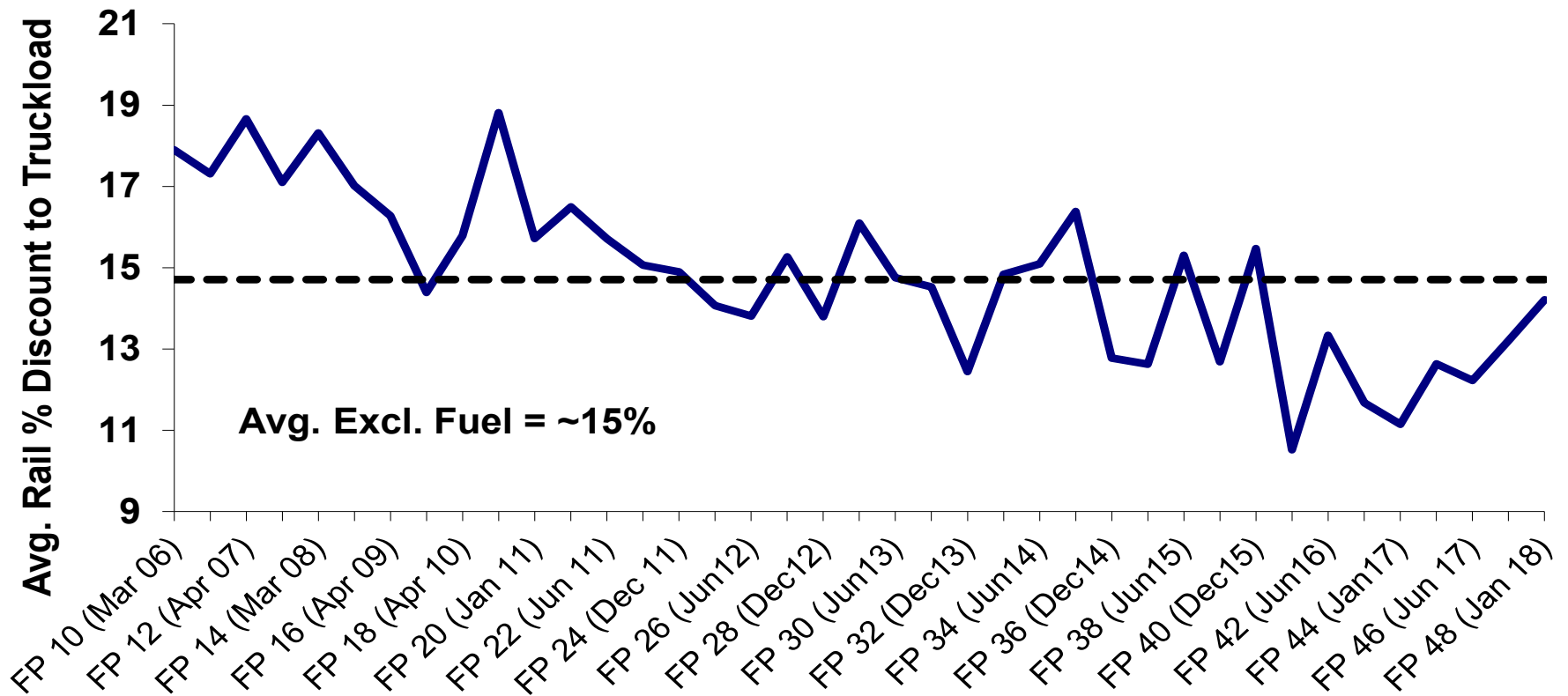
Intermodal: What Factors Are Impacting Your Use of Intermodal Most?

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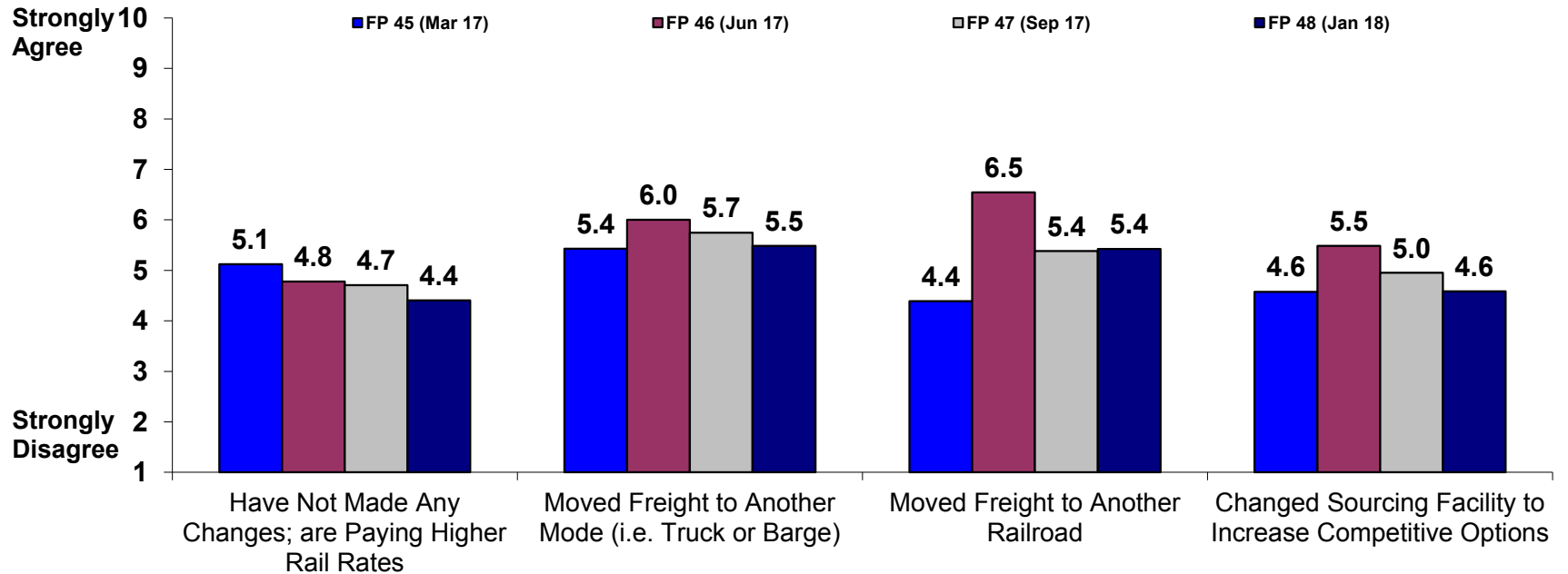
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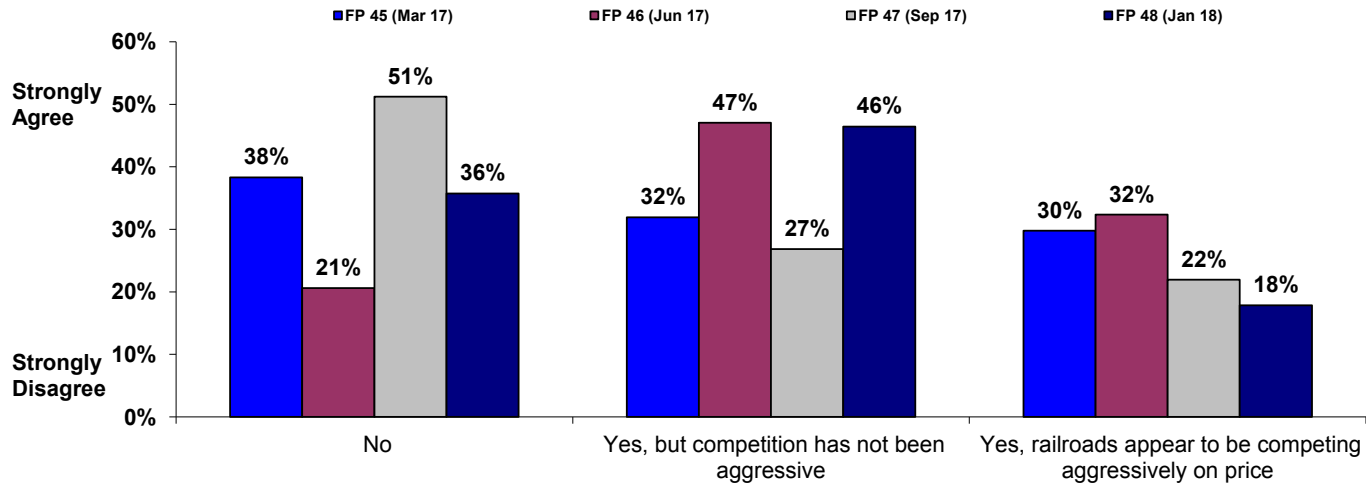
Rate Mitigation: What Have You Done in an Effort to Reduce Railroad Spend ?

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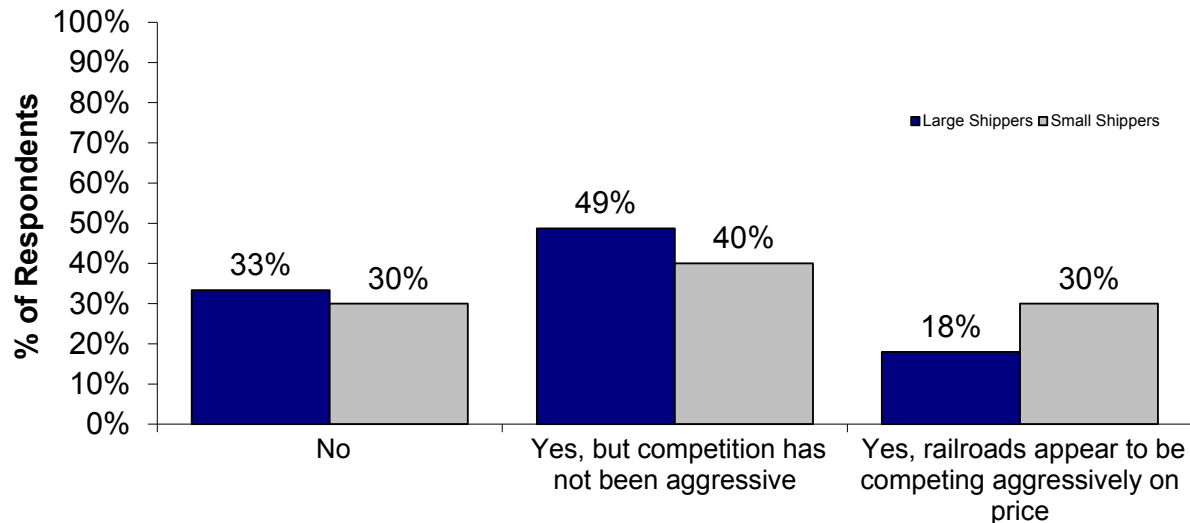


Competition: Have You Been Solicited With Competing Bids Offering Lower Rates?

All Shippers

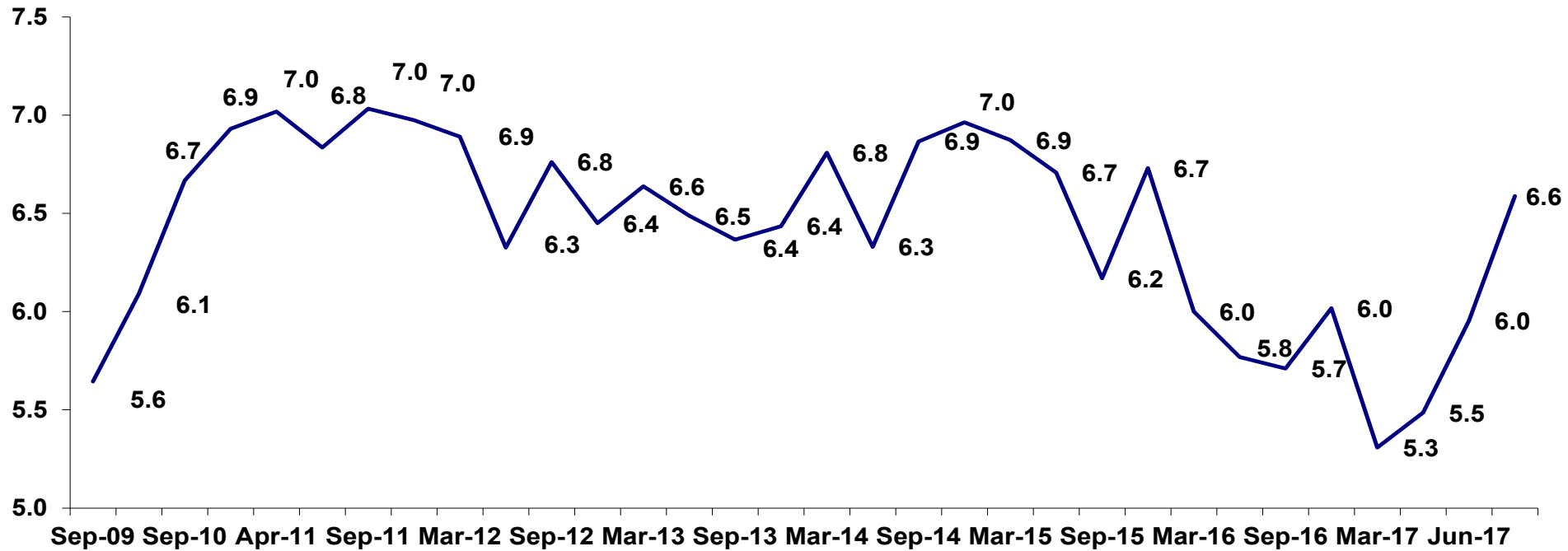


Price Competition from Railroads



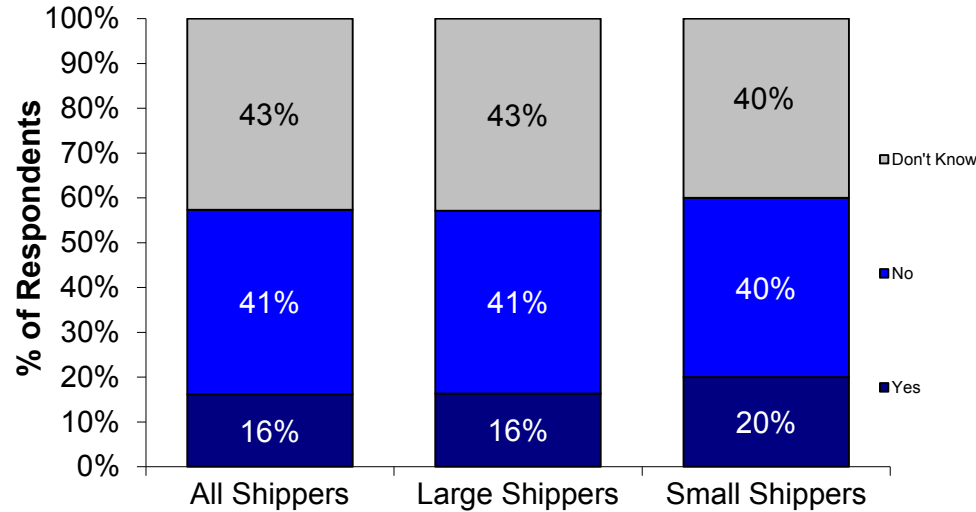
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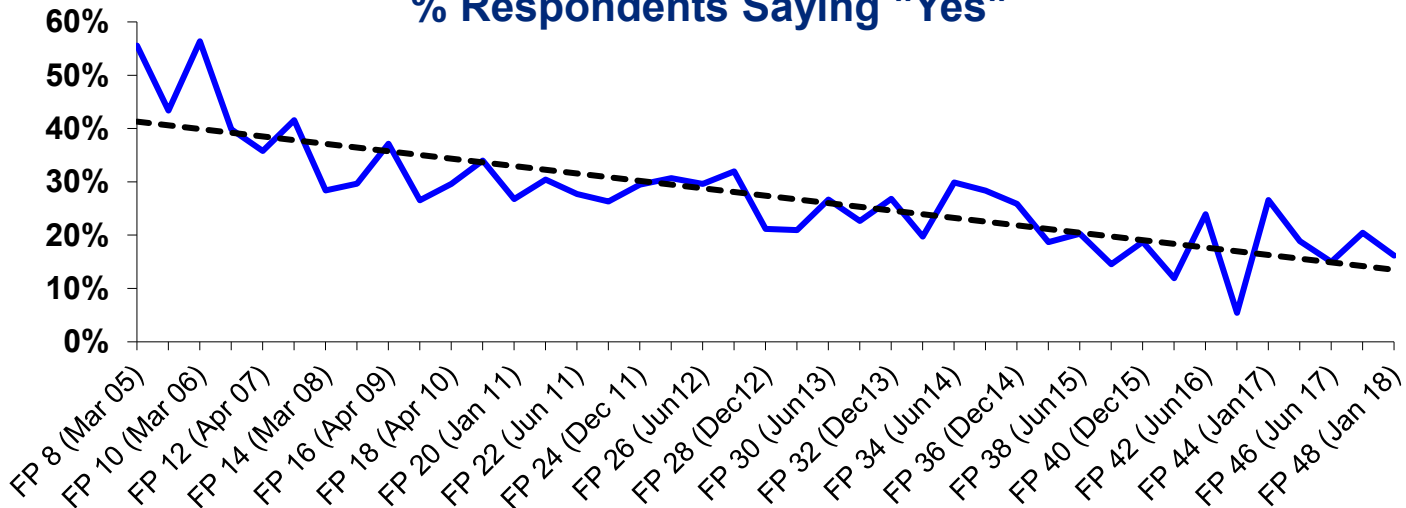


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Action on Legislative Rail Reform



% Respondents Saying "Yes"



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Shipper Measures for Availability of Truck Capacity

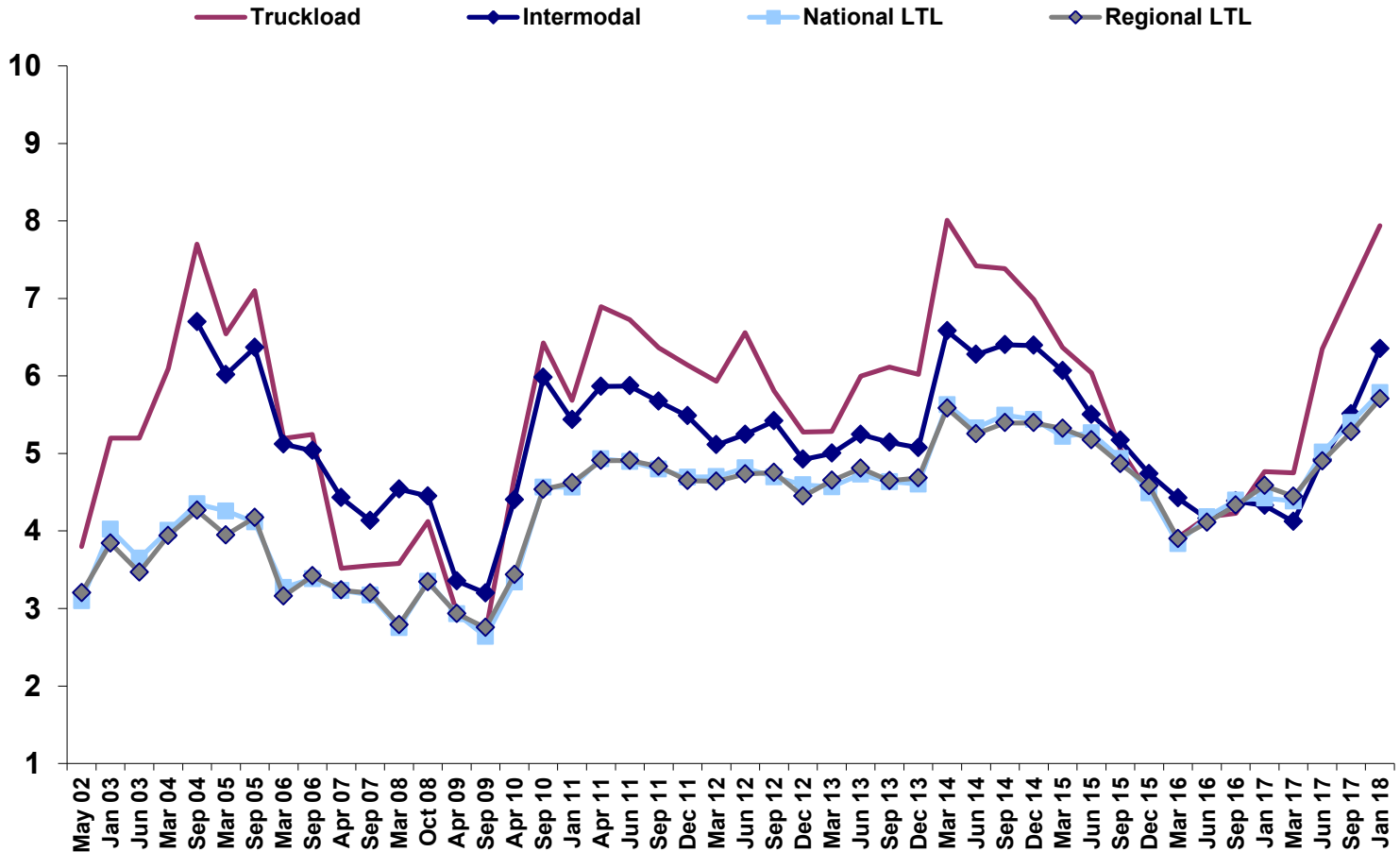
Trucking Shipper Responses to “How Would You Currently Characterize the Availability of Equipment?”

Capacity is:

Very Tight

Balanced

Abundant

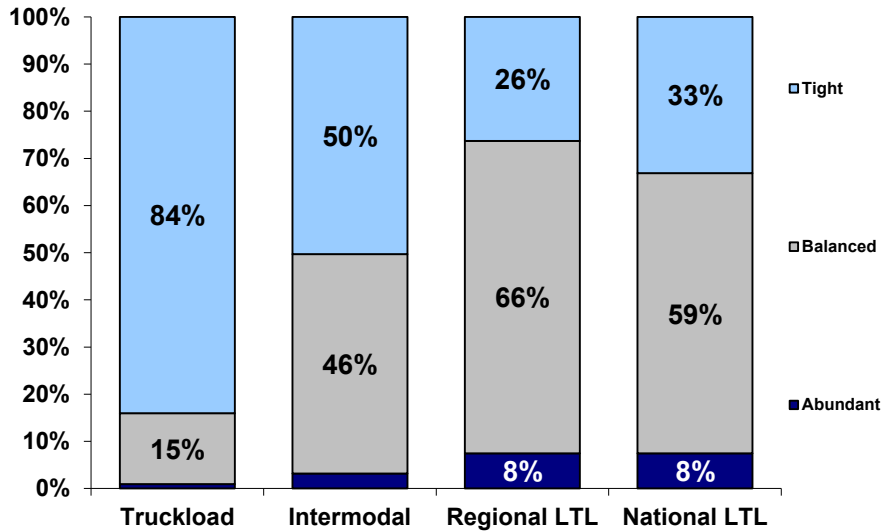


Source: Morgan Stanley Freight Pulse Surveys

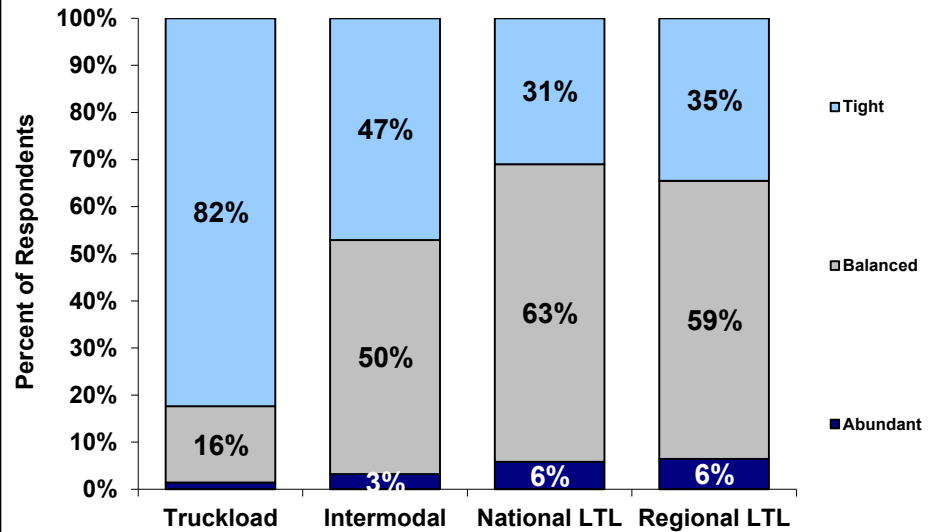
Ravi Shanker, (212) 761-6350, Ravi.Shanker@morganstanley.com

Shipper Expectations for Availability of Truck Capacity

Current Capacity

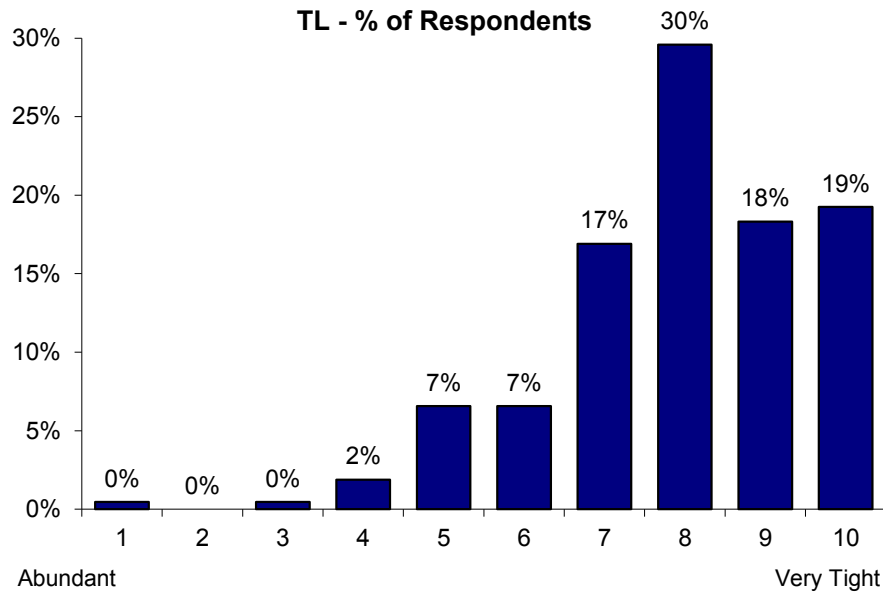


Projected Capacity in 6 Months

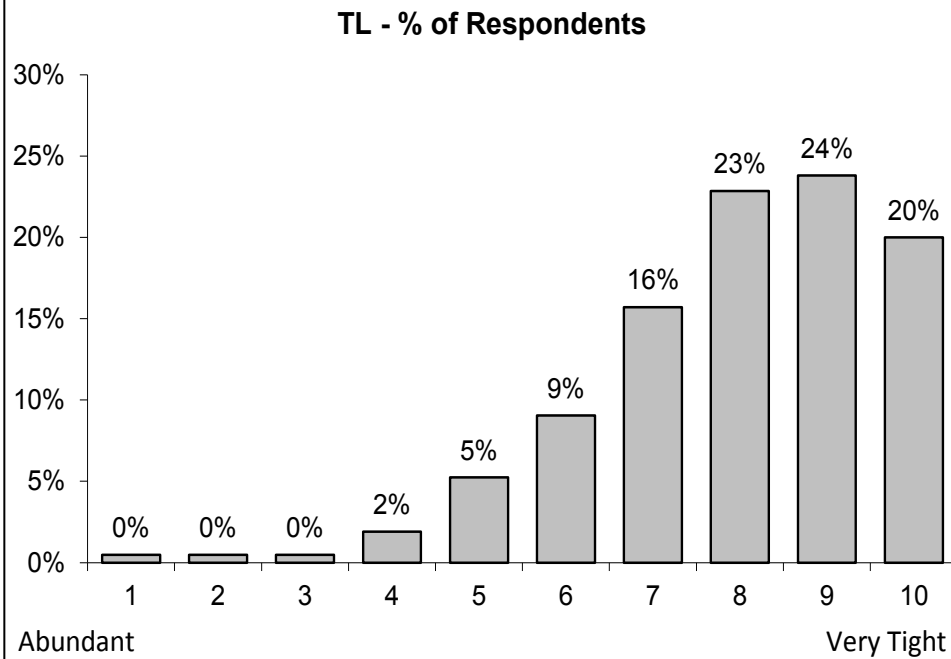


Capacity: Distribution of Truckload Capacity Rankings

Current Capacity



Projected Capacity in 6 Months

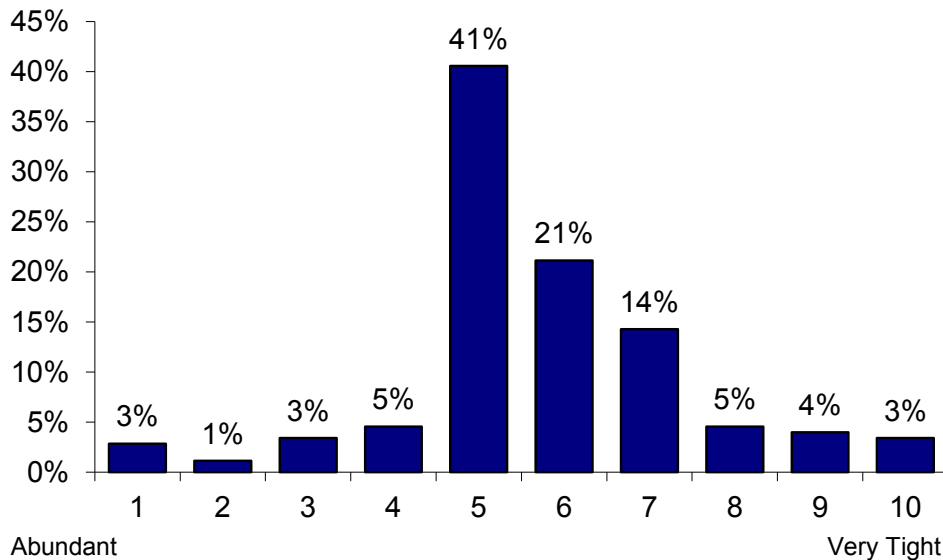


* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight
Source: Morgan Stanley Freight Pulse Surveys

Capacity: Distribution of Regional Less-Than-Truckload Capacity Rankings

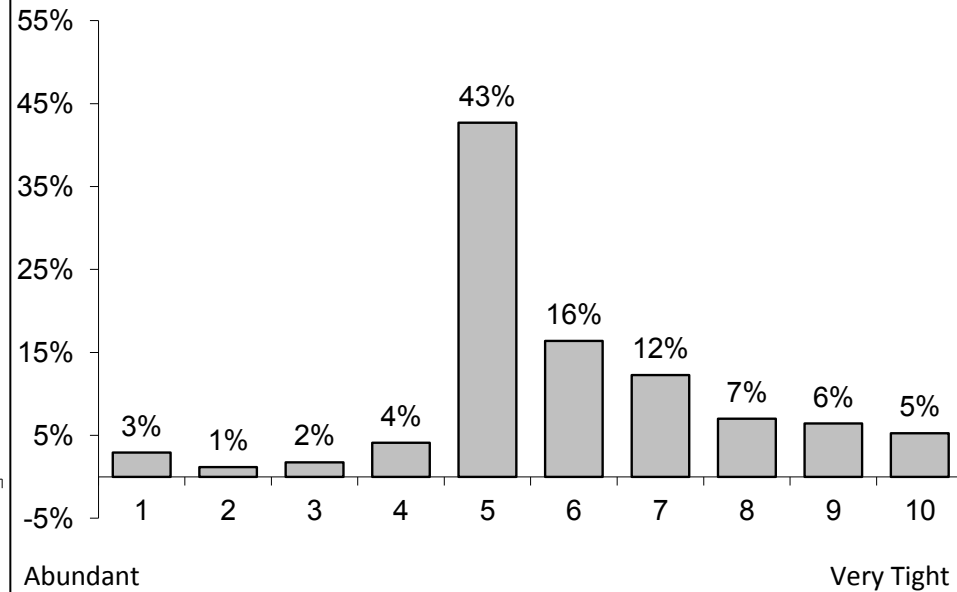
Current Capacity

Regional LTL - % of Respondents



Projected Capacity in 6 Months

Regional LTL - % of Respondents



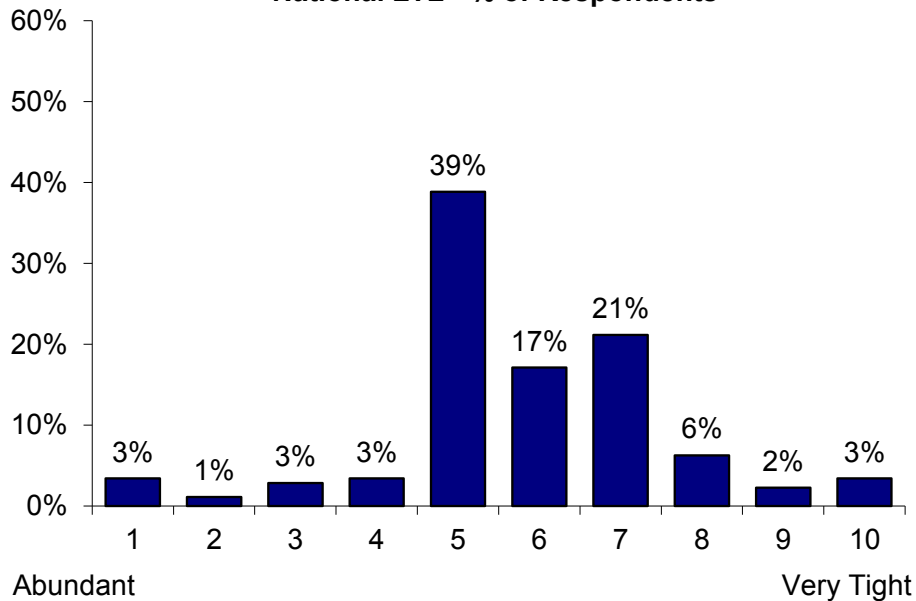
* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight

Source: Morgan Stanley Freight Pulse Surveys

Capacity: Distribution of National Less-Than-Truckload Capacity Rankings

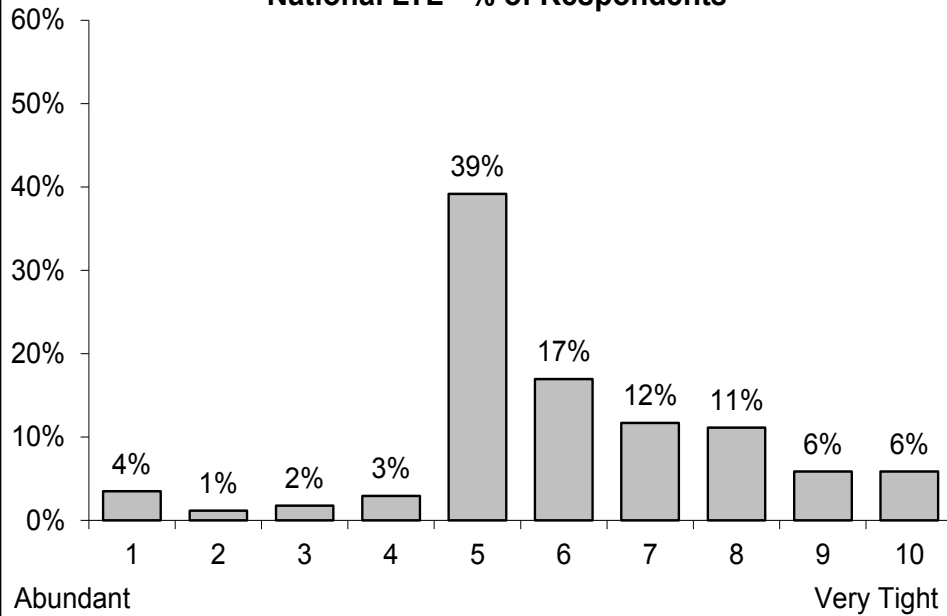
Current Capacity

National LTL - % of Respondents



Projected Capacity in 6 Months

National LTL - % of Respondents

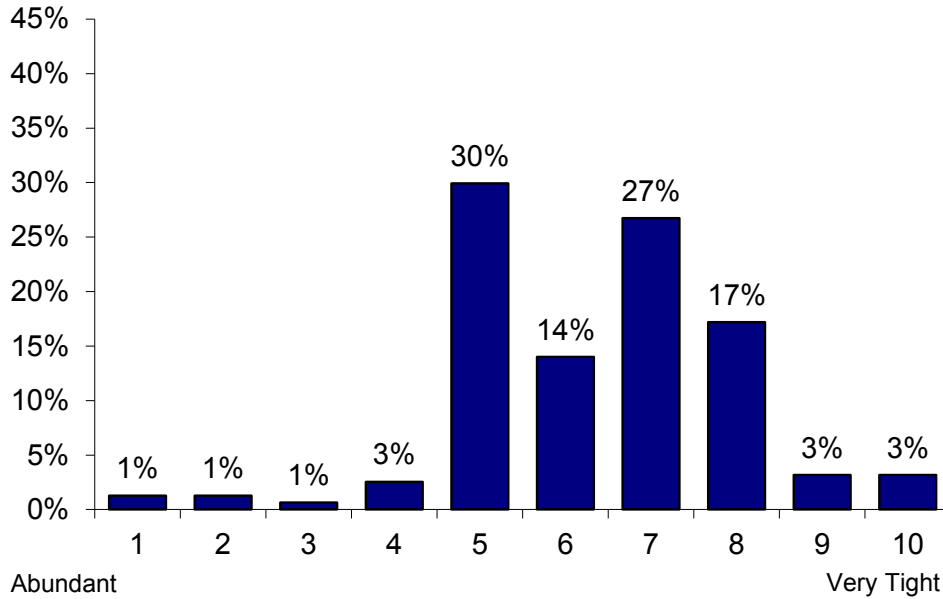


* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight
Source: Morgan Stanley Freight Pulse Surveys

Capacity: Distribution of Intermodal Capacity Rankings

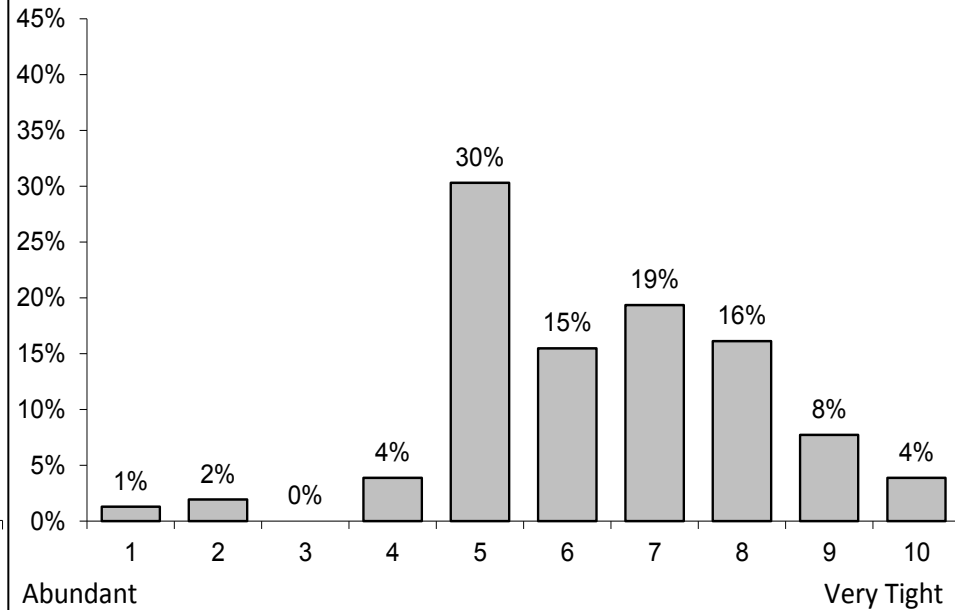
Current Capacity

Intermodal - % of Respondents



Projected Capacity in 6 Months

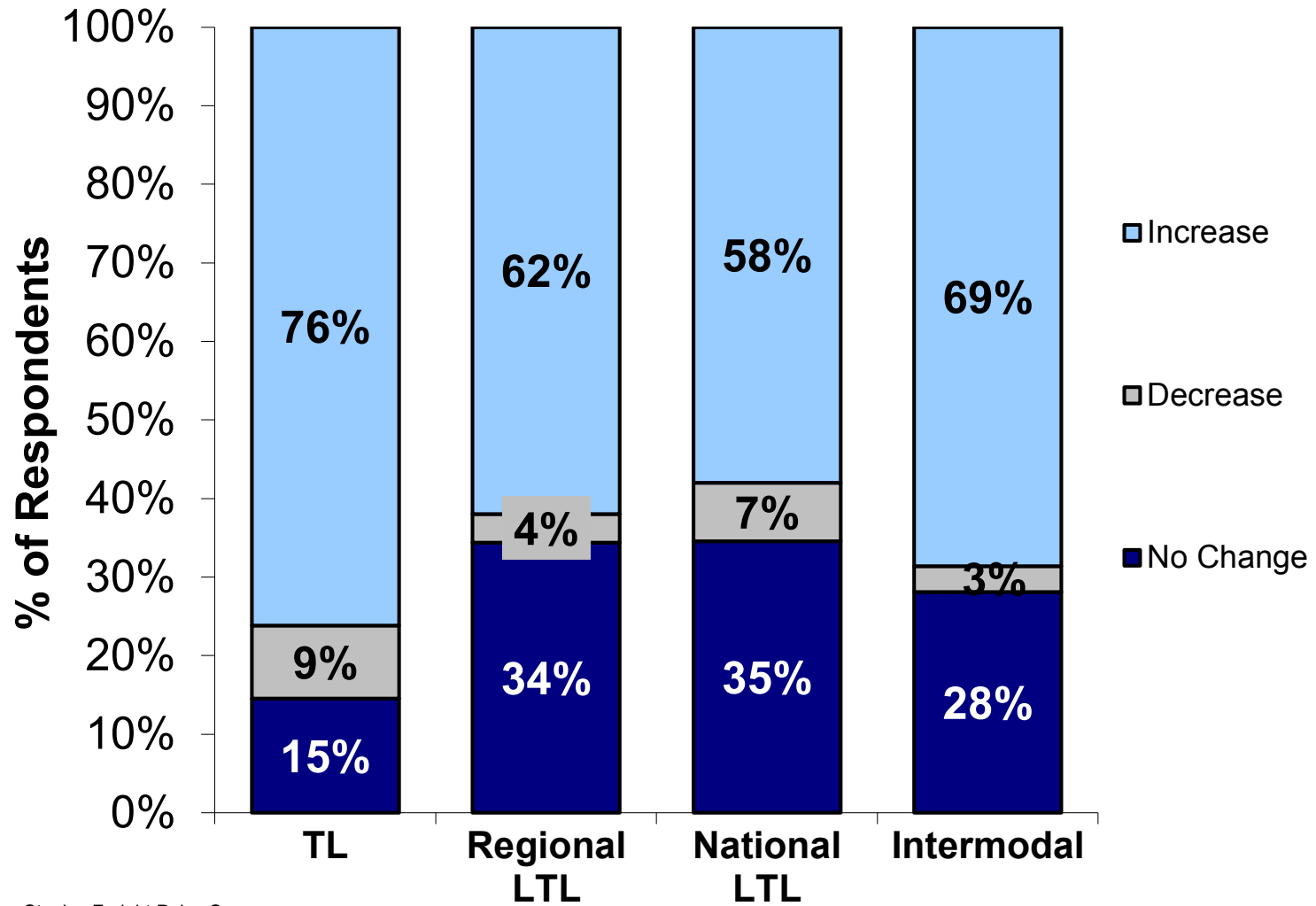
Intermodal - % of Respondents



* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight
Source: Morgan Stanley Freight Pulse Surveys

Truck Volume Outlook Over The Next 6 Months

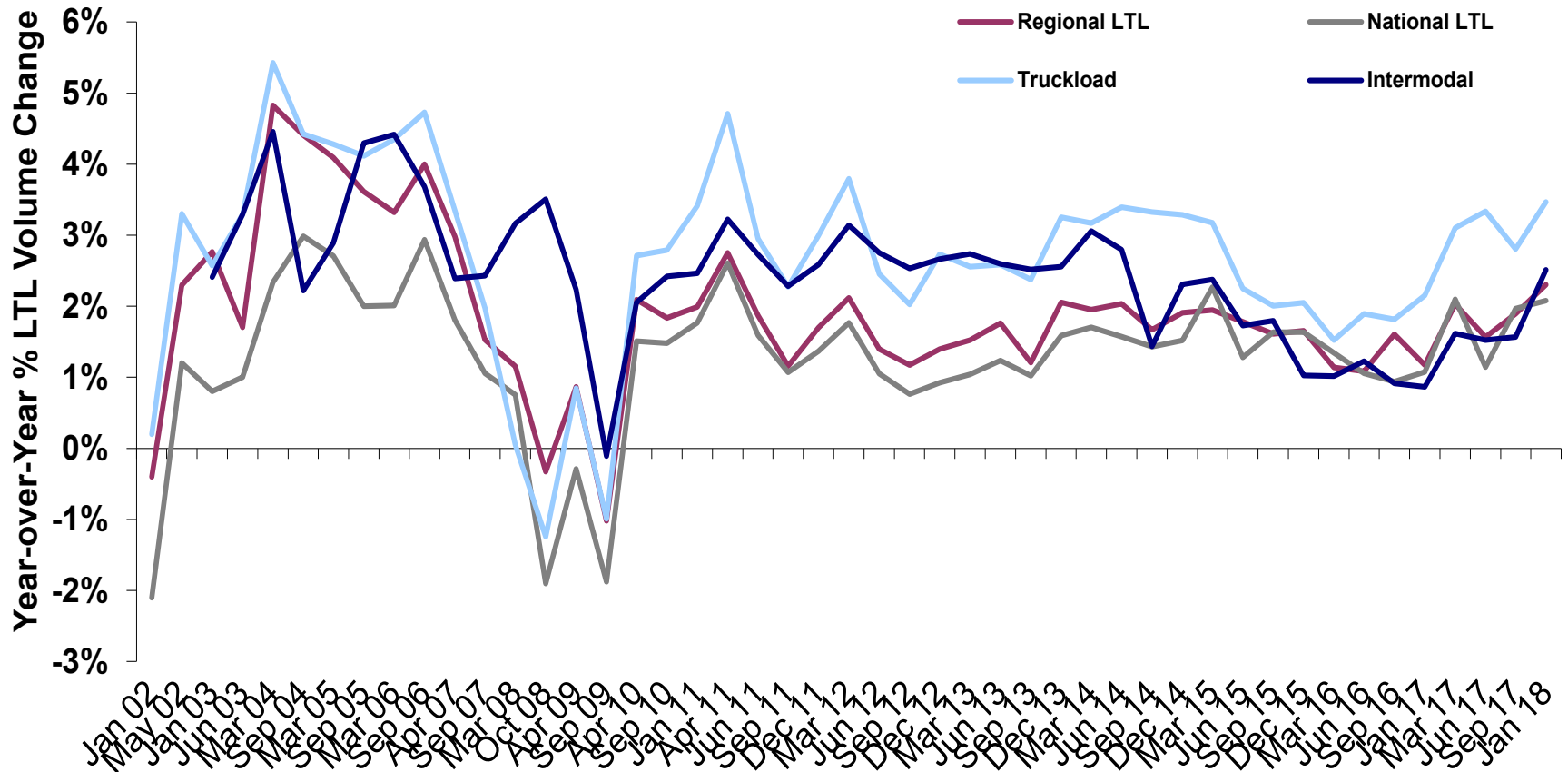
Shipper Growth Expectations by Mode



Source: Morgan Stanley Freight Pulse Surveys

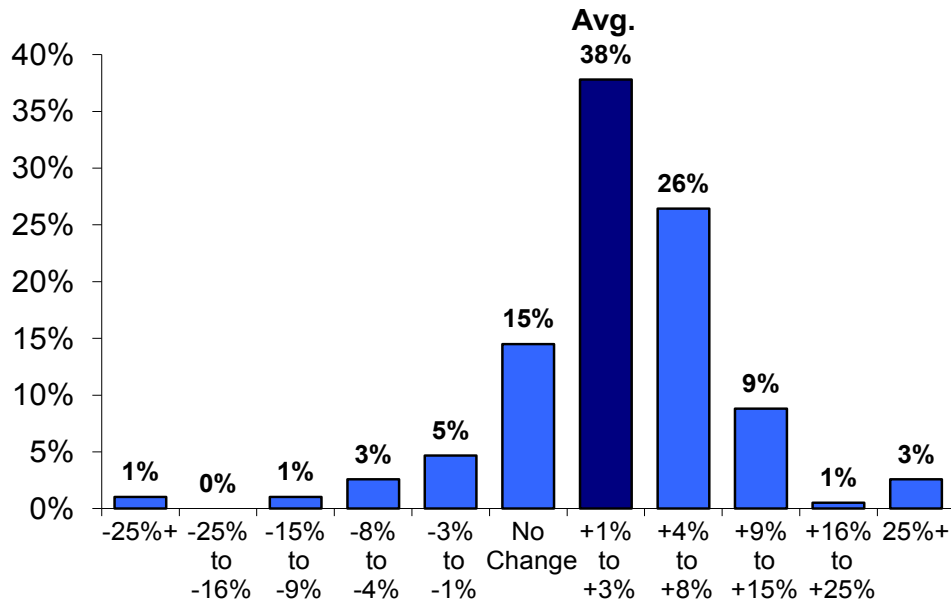
Volume Response History

Trends in Trucking Shippers' Expectations Over the Next 6 Months vs. the Same Period in the Prior Year"

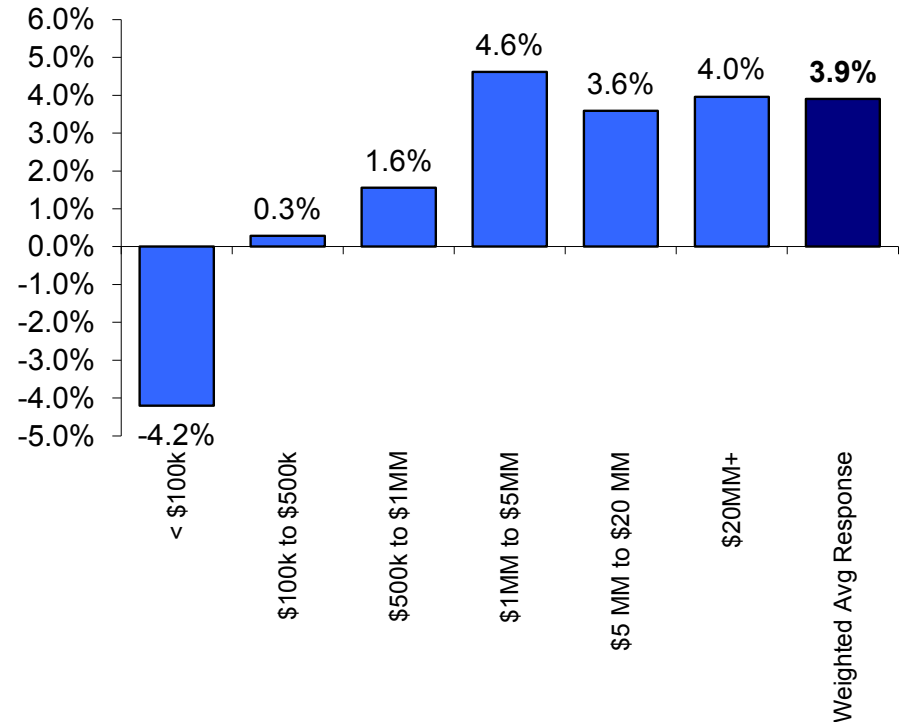


Truckload Volume Detail by Spend, Industry, and Response Skew

Truckload - Y/Y Volume Expectation by Range



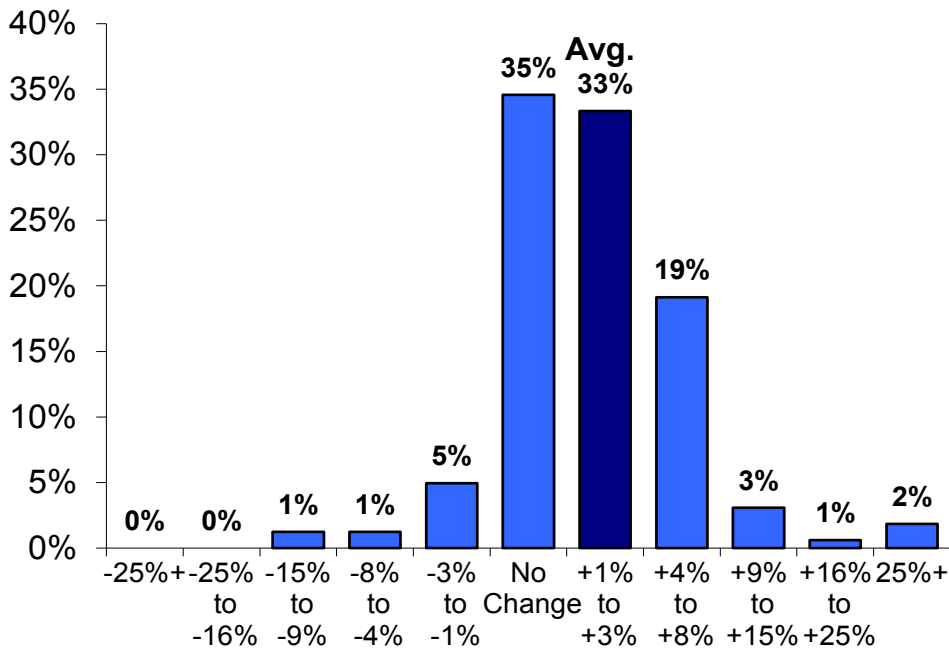
Truckload - Avg Volume Change by Spend



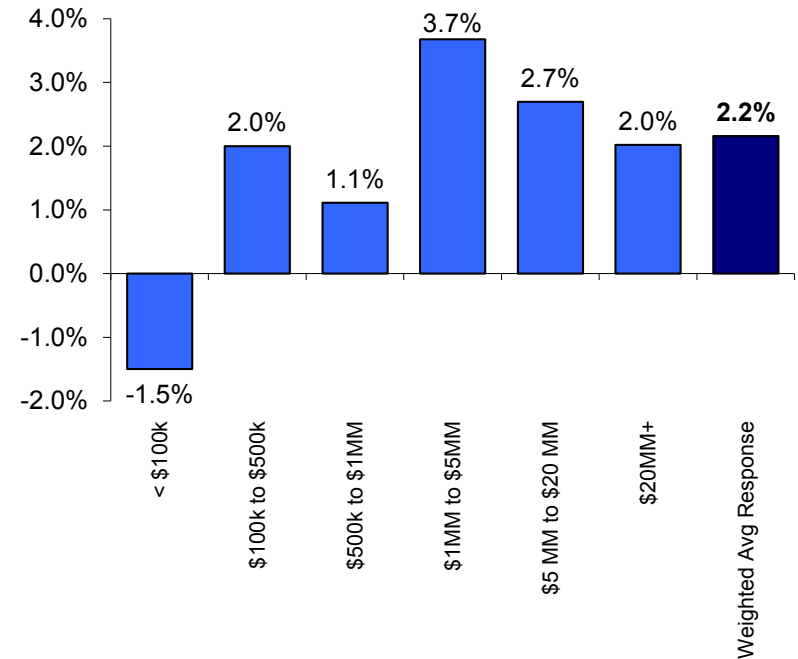
Source: Morgan Stanley Freight Pulse Surveys

National LTL Volume Detail by Spend, Industry, and Response Skew

National LTL - Y/Y Volume Expectation by Range



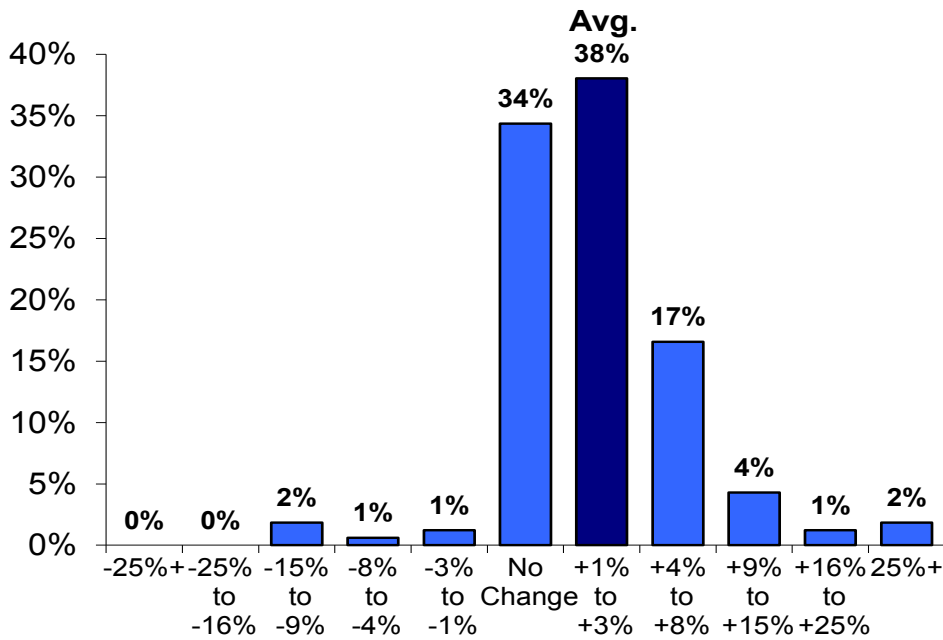
National LTL - Avg Volume Change by Spend



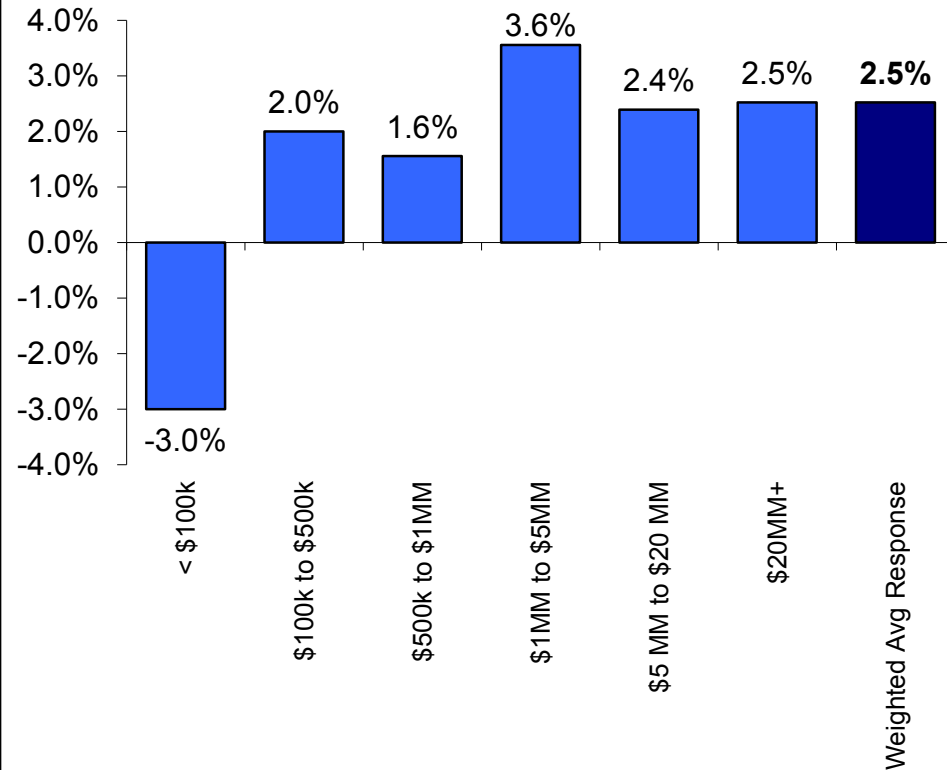
Source: Morgan Stanley Freight Pulse Surveys

Regional LTL Volume Detail by Spend, Industry, and Response Skew

Regional LTL - Y/Y Volume Expectation by Range



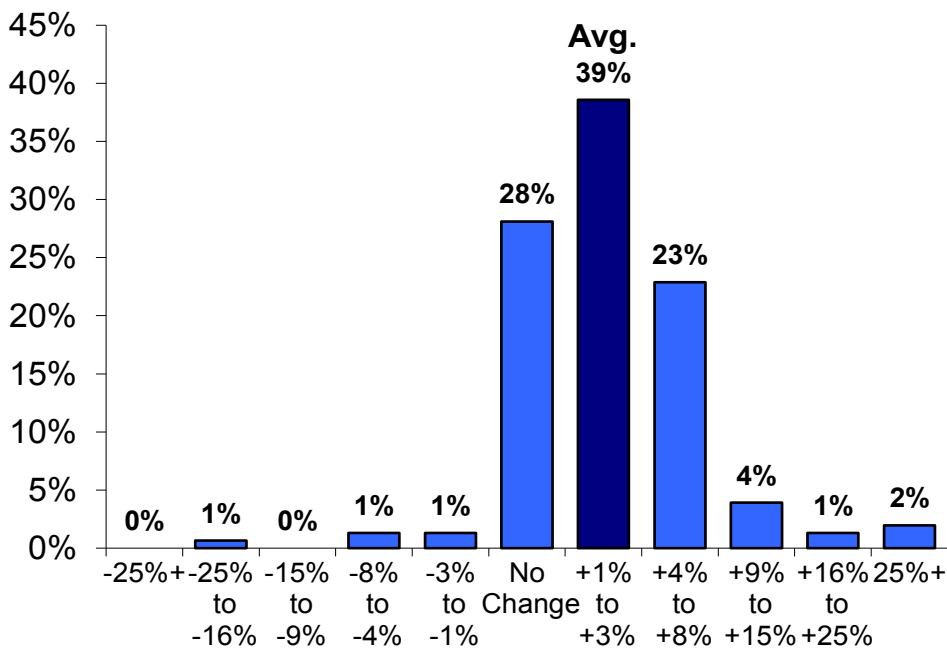
Regional LTL - Avg Volume Change by Spend



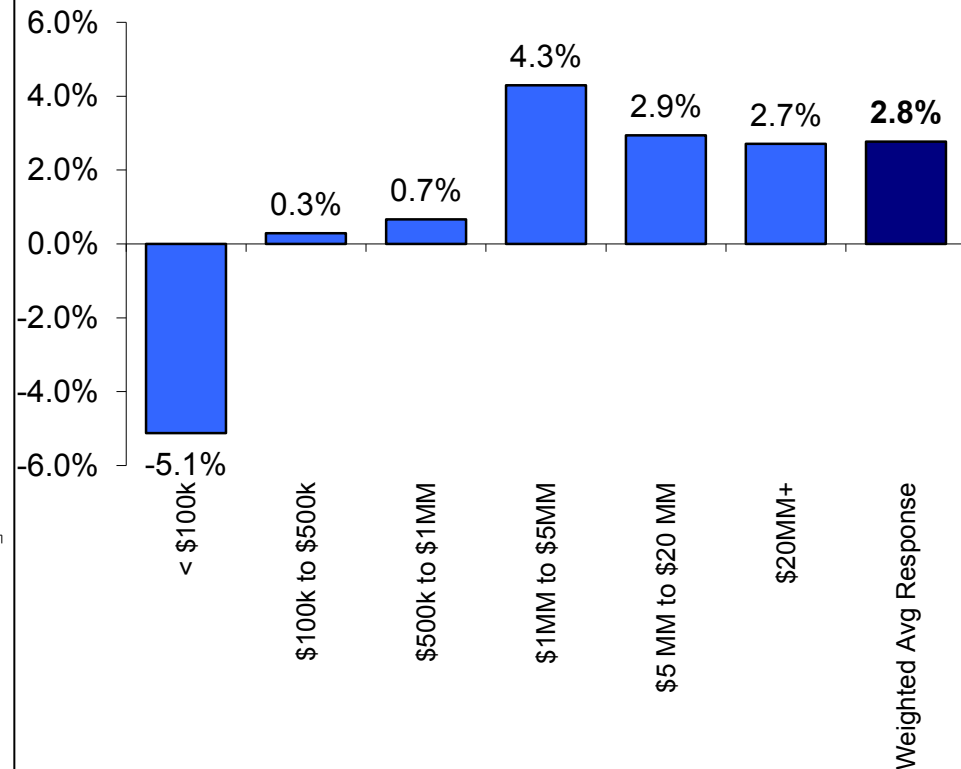
Source: Morgan Stanley Freight Pulse Surveys

Intermodal Volume Detail by Spend, Industry, and Response Skew

Intermodal - Y/Y Volume Expectation by Range



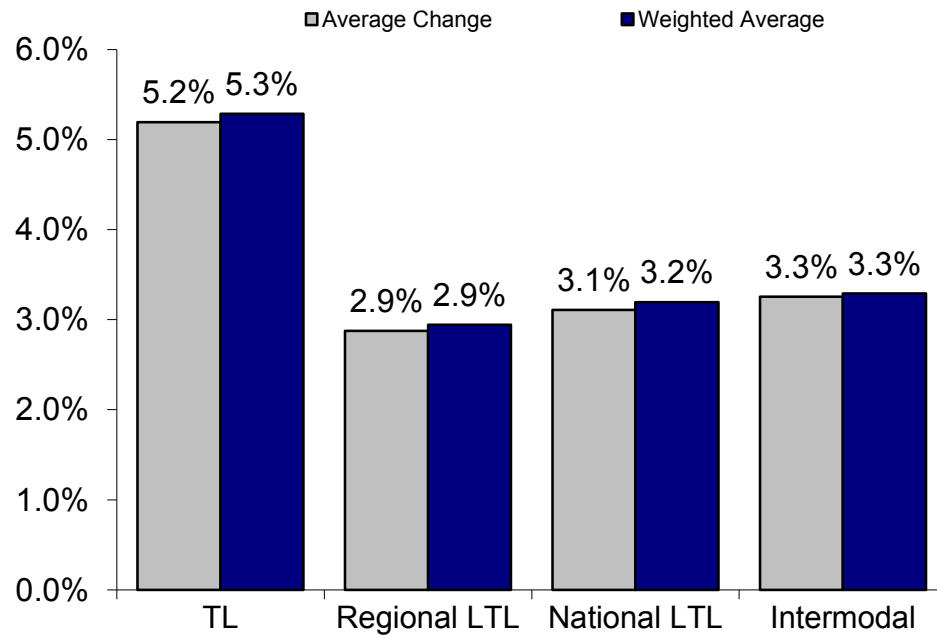
Intermodal - Avg Volume Change by Spend



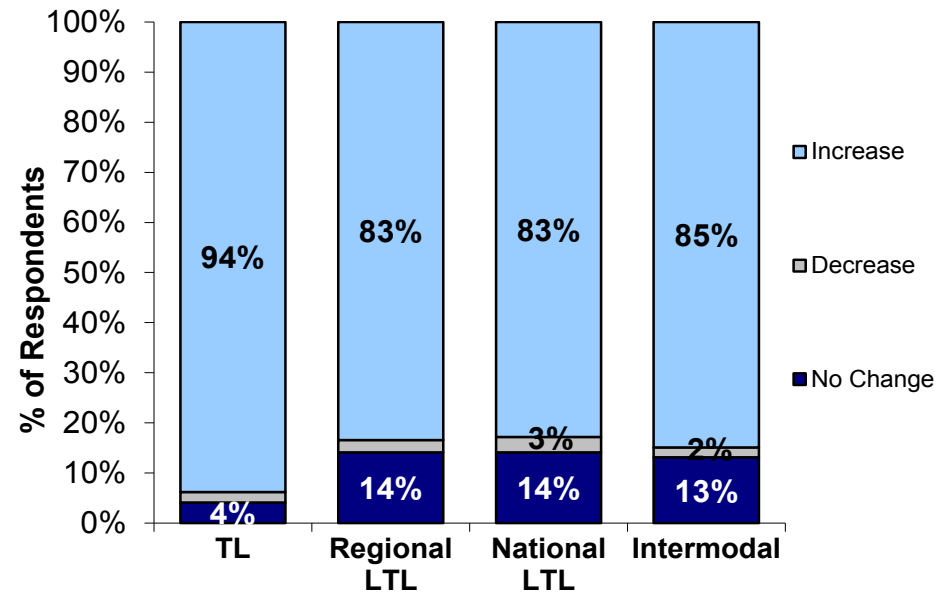
Source: Morgan Stanley Freight Pulse Surveys

Truck Base Rates Outlook Over The Next 6 Months

Base Rates: Average vs. Weighted Average

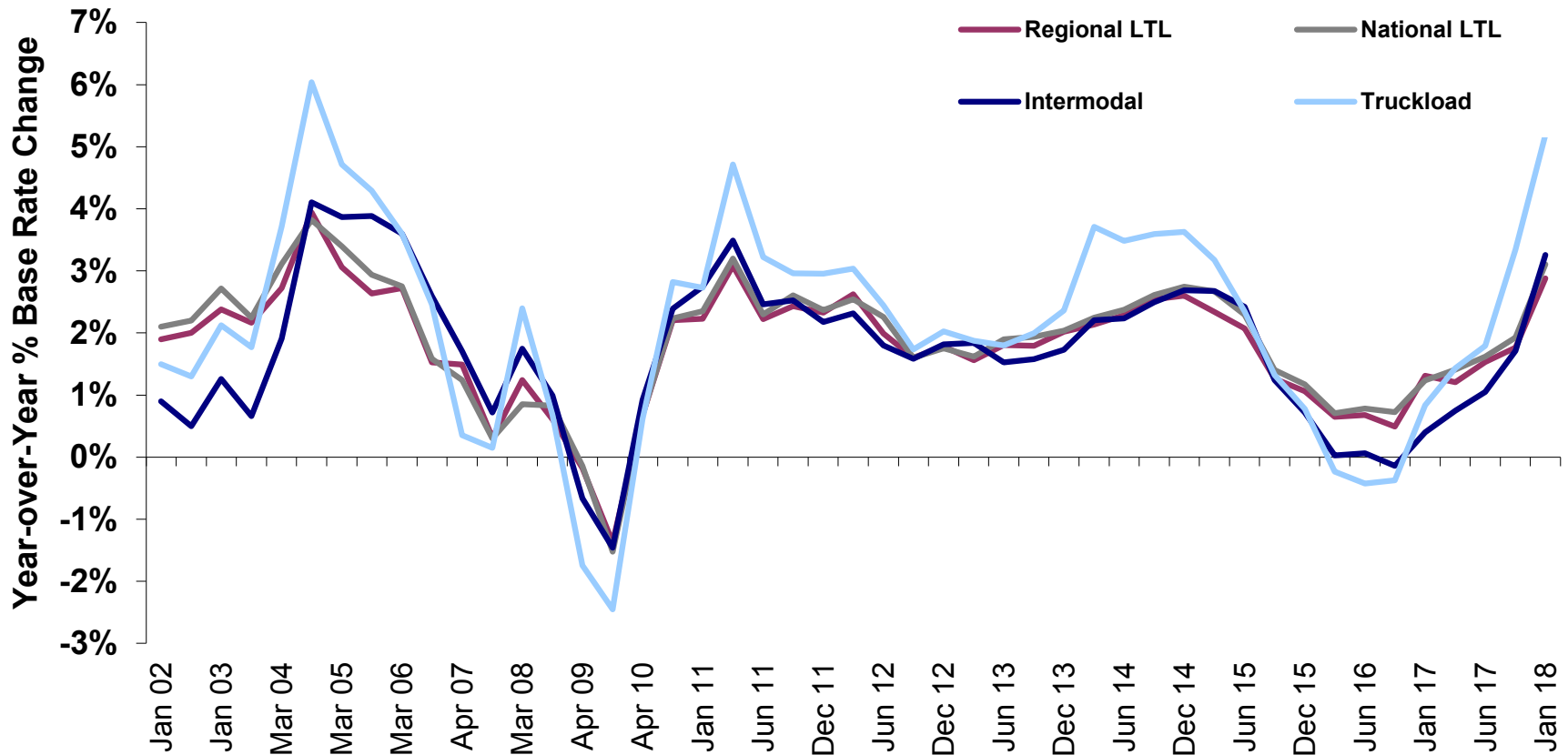


Shipper Rate Expectations by Mode



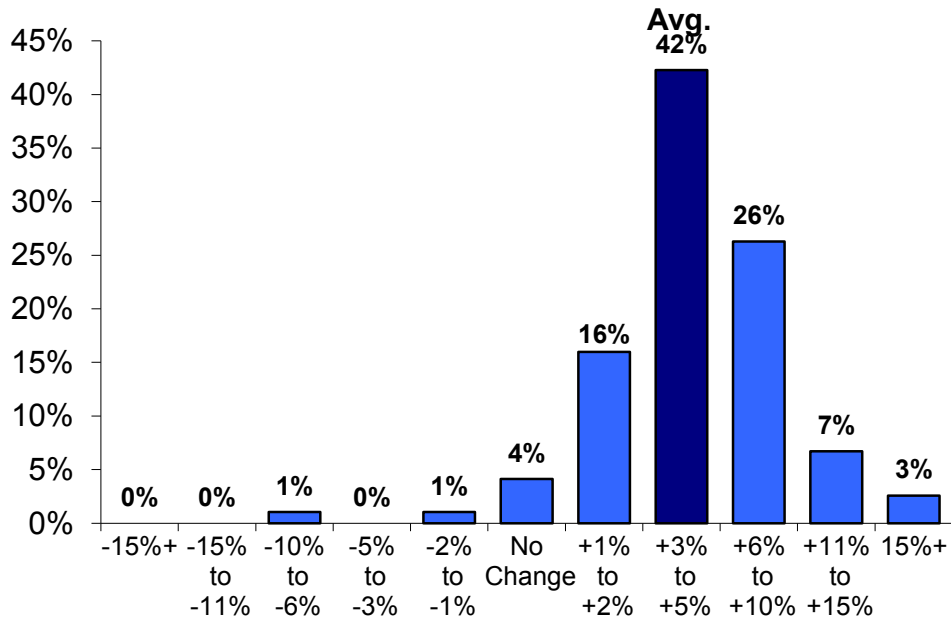
Base Rate Response History

Trends in Trucking Shippers' Expectations Over the Next 6 Months vs. the Same Period in the Prior Year

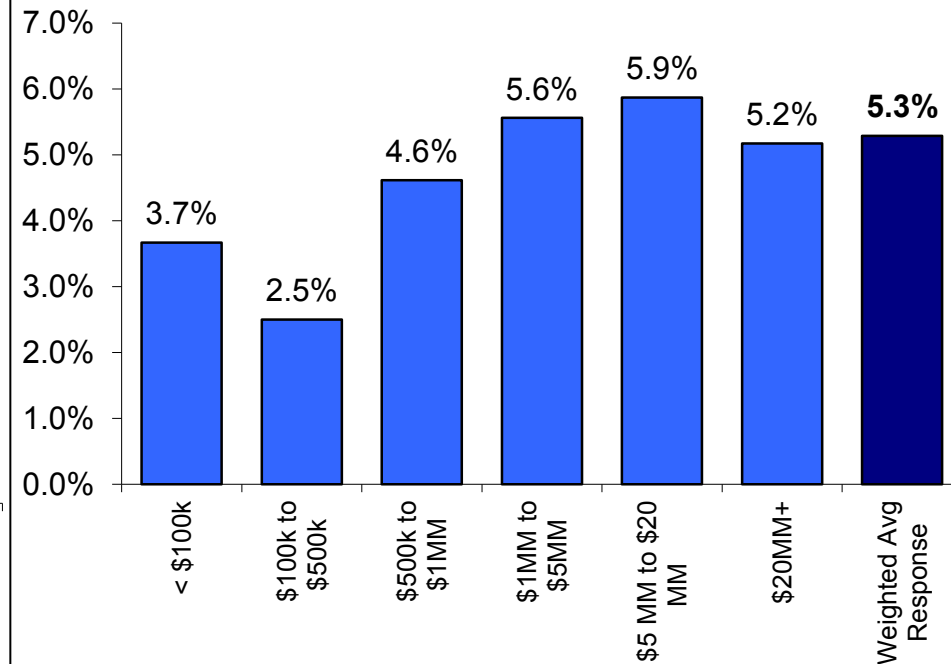


TL Base Rate Detail by Spend, Industry, and Response Skew

Truckload - Y/Y Base Rate Expectation by Range



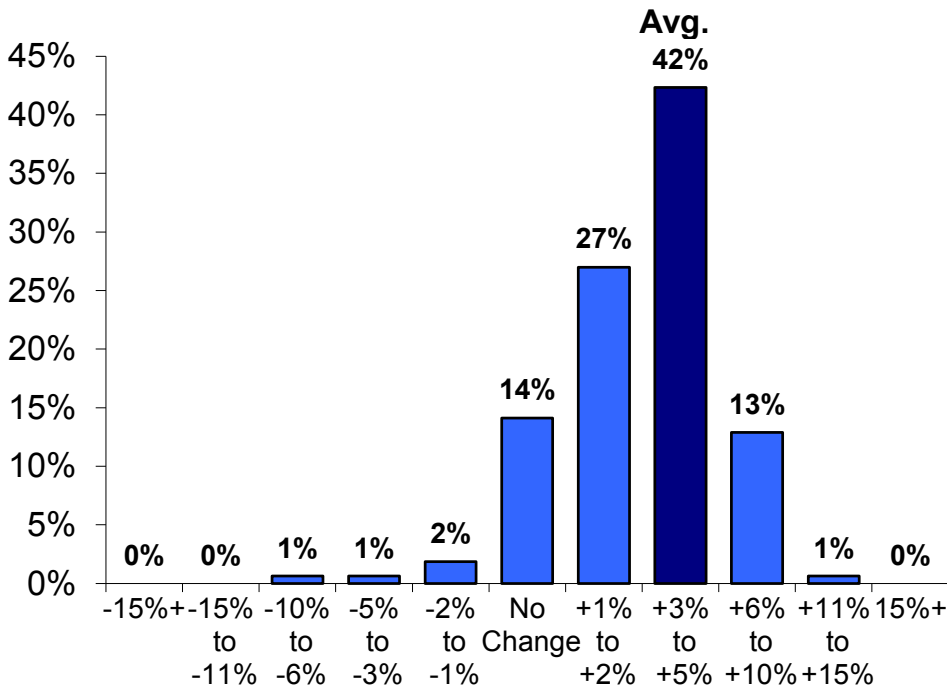
TL - Avg Change by Spend



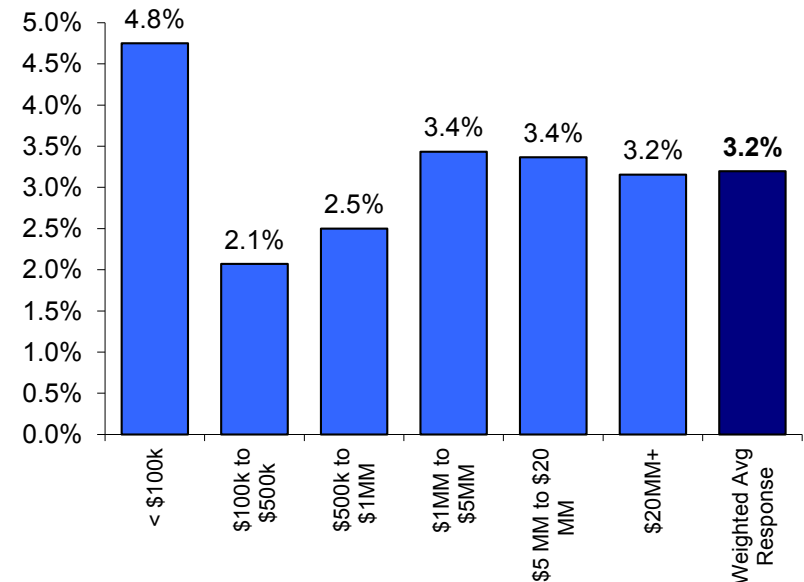
Source: Morgan Stanley Freight Pulse Surveys

National LTL Base Rate Detail by Spend, Industry, and Response Skew

National LTL - Y/Y Base Rate Expectation by Range



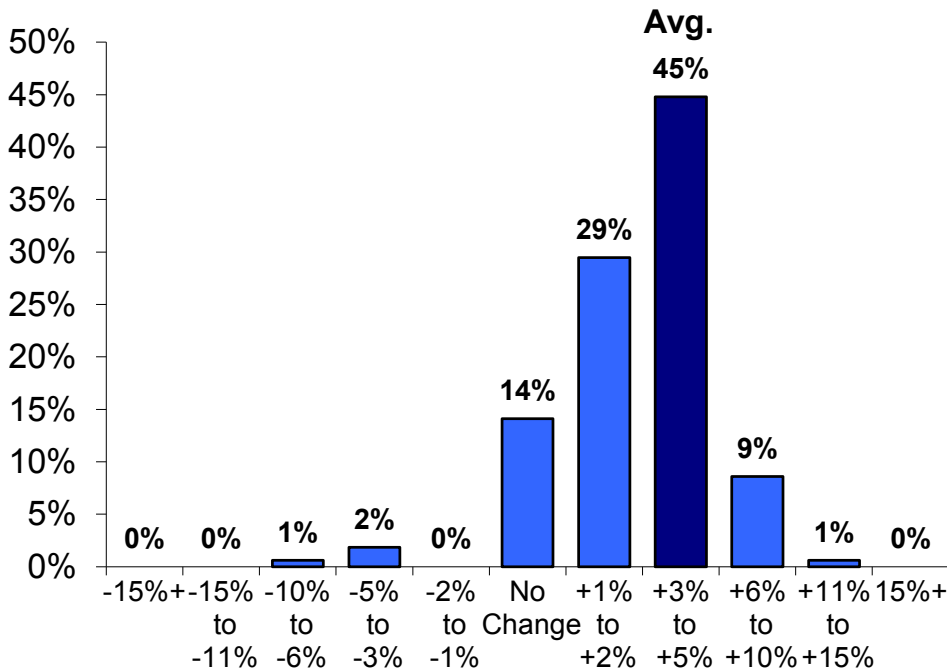
National LTL - Avg Change by Spend



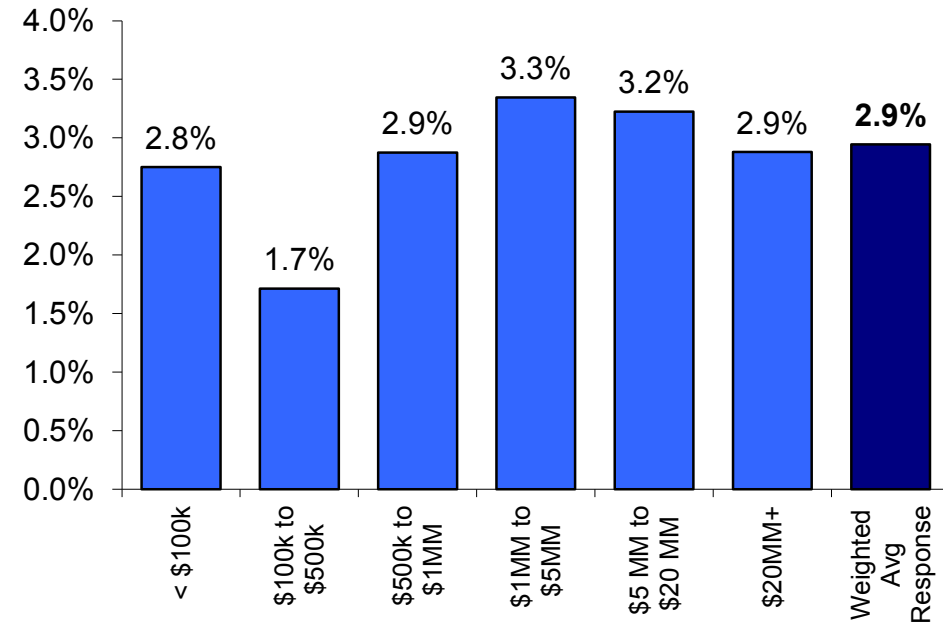
Source: Morgan Stanley Freight Pulse Surveys

Regional LTL Base Rate Detail by Spend, Industry, and Response Skew

Regional LTL - Y/Y Base Rate Expectation by Range



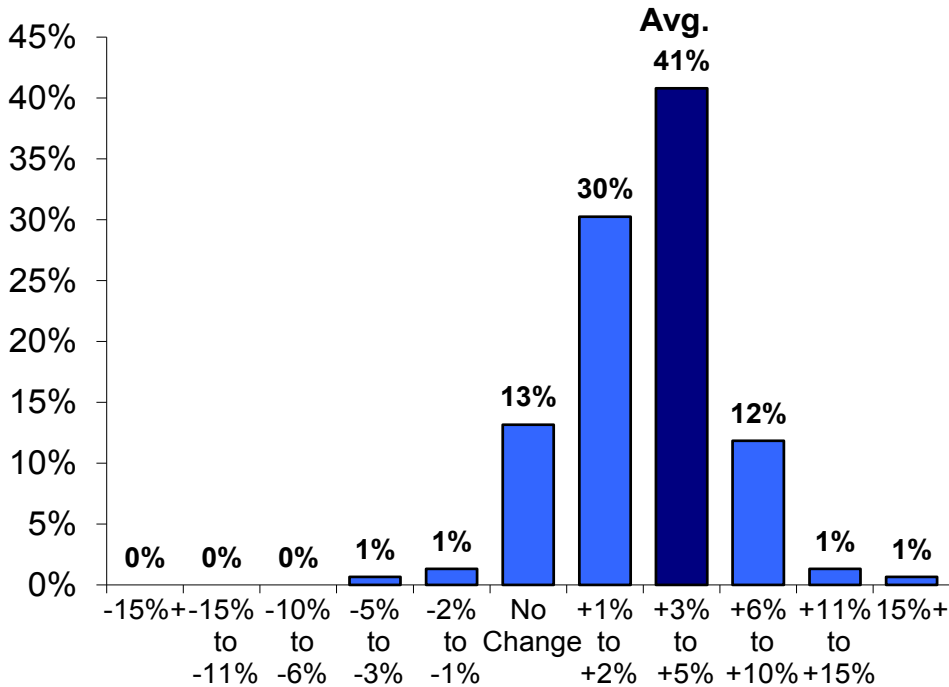
Regional LTL - Avg Change by Spend



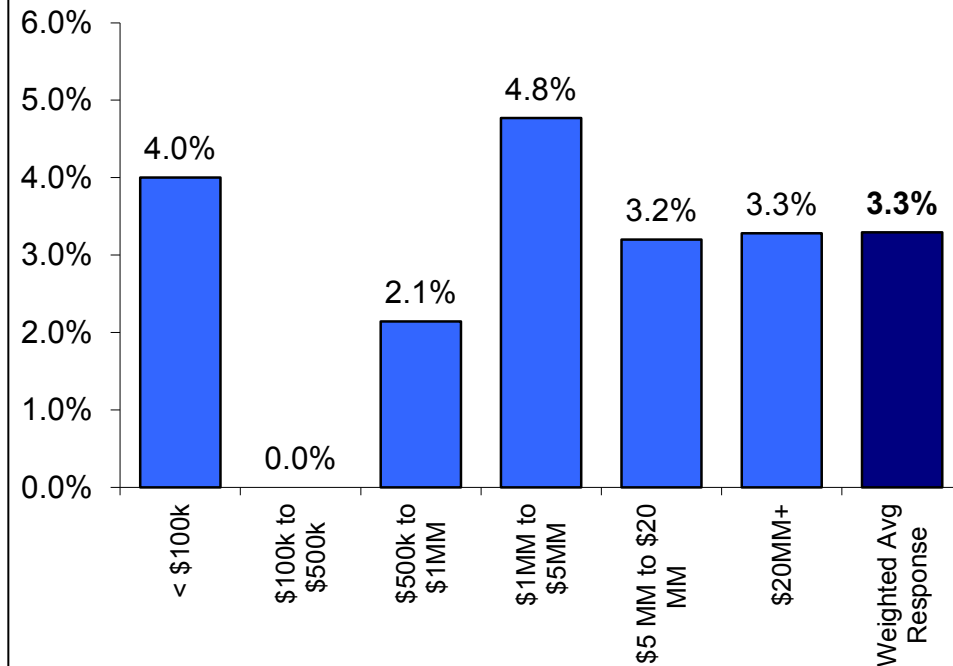
Source: Morgan Stanley Freight Pulse Surveys

Intermodal Base Rate Detail by Spend, Industry, and Response Skew

Intermodal - Y/Y Base Rate Expectation by Range



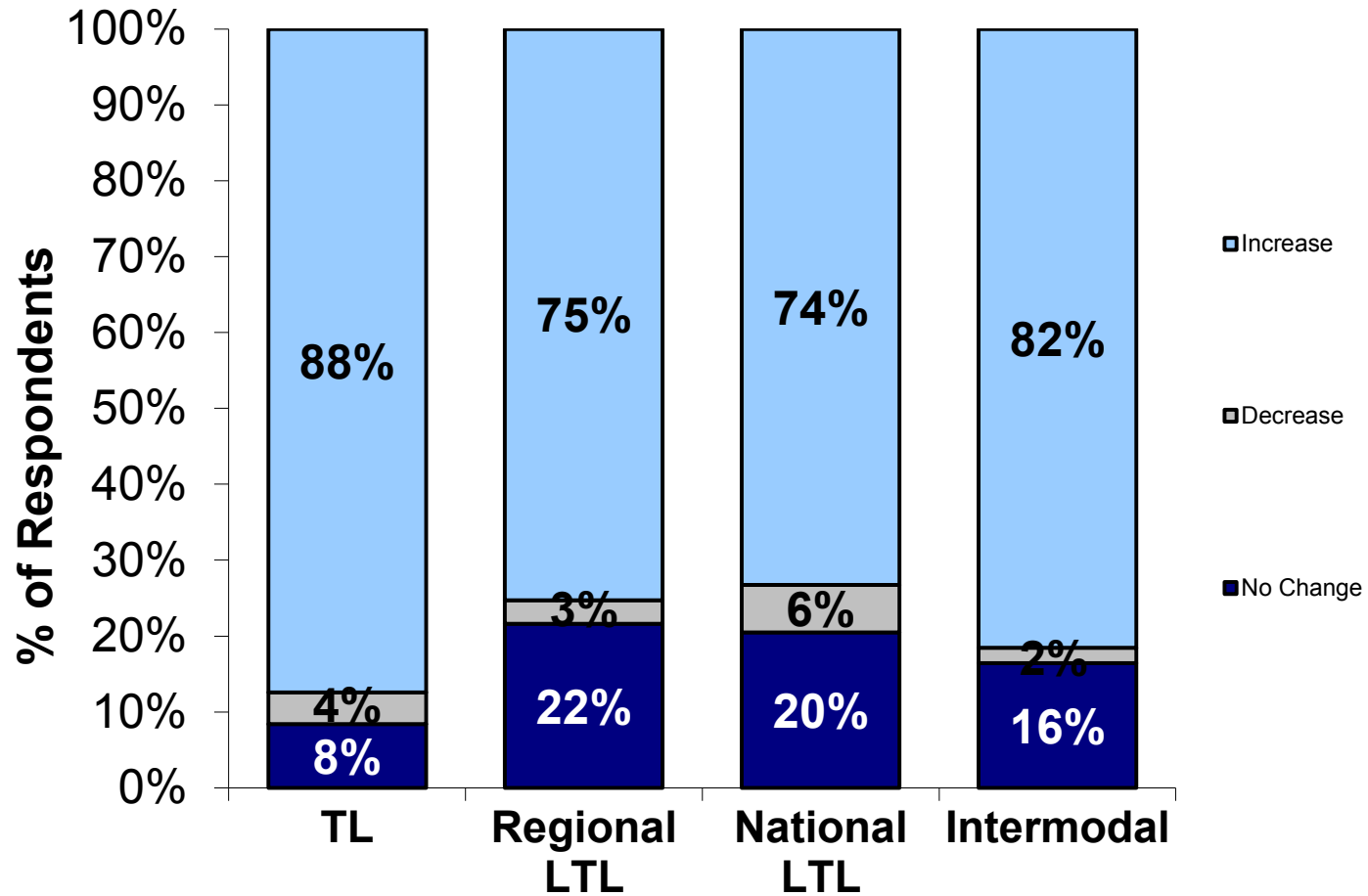
Intermodal - Avg Change by Spend



Source: Morgan Stanley Freight Pulse Surveys

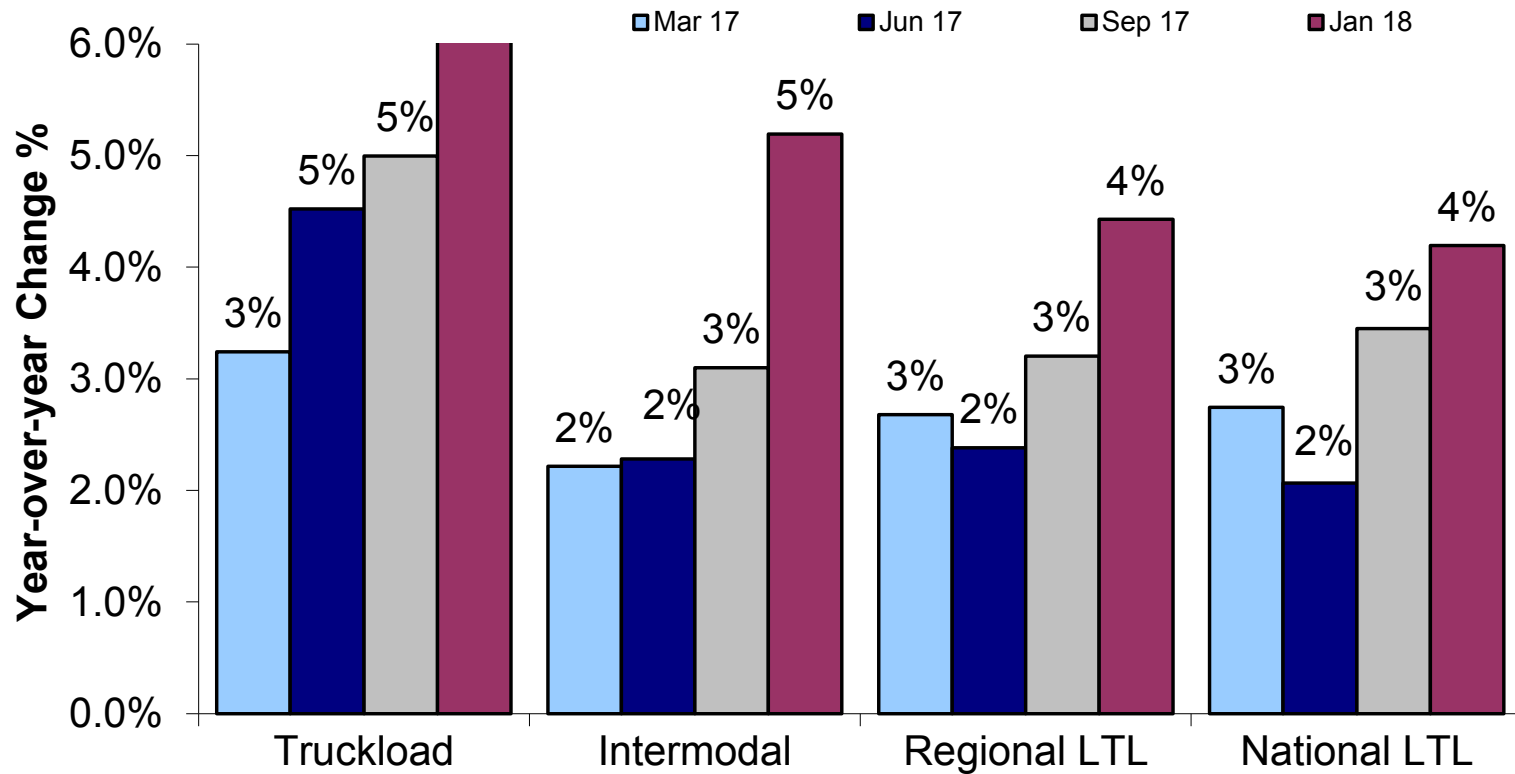
Truck Spend Outlook Over The Next 6 Months

Shipper Spend Expectations by Mode



Truck Spend: Change vs. Prior Survey

YoY % Change in You Organization's Spend Over the Next 6 Months



Source: Morgan Stanley Freight Pulse Surveys

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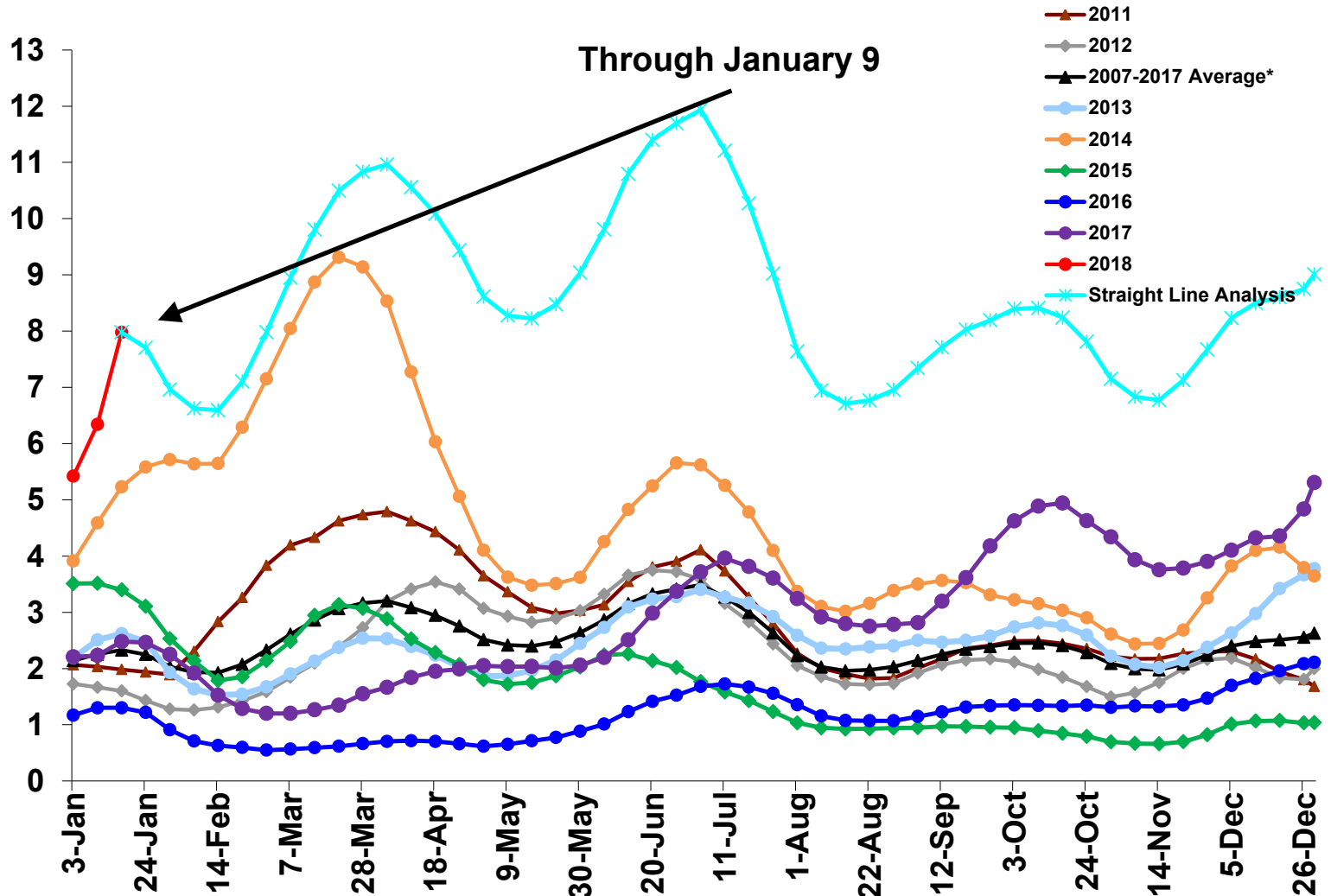
Part 1: Key Truck Trends

1. Capacity Trends
2. Volume Trends
3. Rate Trends
4. Overall Spend Trends

Part 2: Special Topics

1. Truckload Freight Index
2. Fuel Surcharge Concessions
3. Limitations on Truck to Rail Conversion

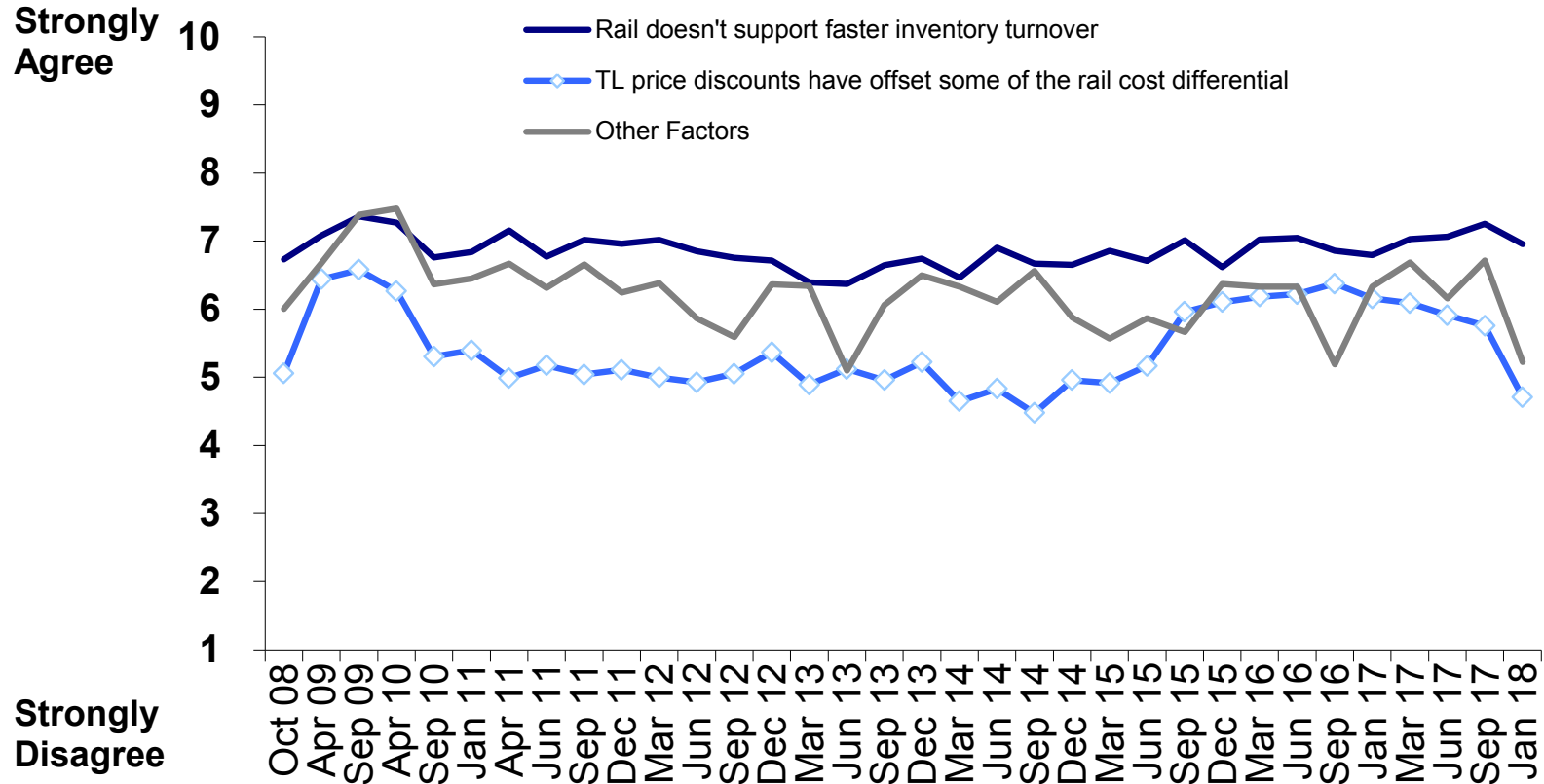
Morgan Stanley Truckload Freight Index With Straight-Line Forecast



The index measures the demand for Dry-Van Truckload services compared to the number of Dry-Van trucks on the road. The index begins in April 1994. 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; *2007-2017 average trend line excludes financial crisis years of 2008 and 2009; Source: Morgan Stanley Research

Truckload Fuel Surcharge Concession History

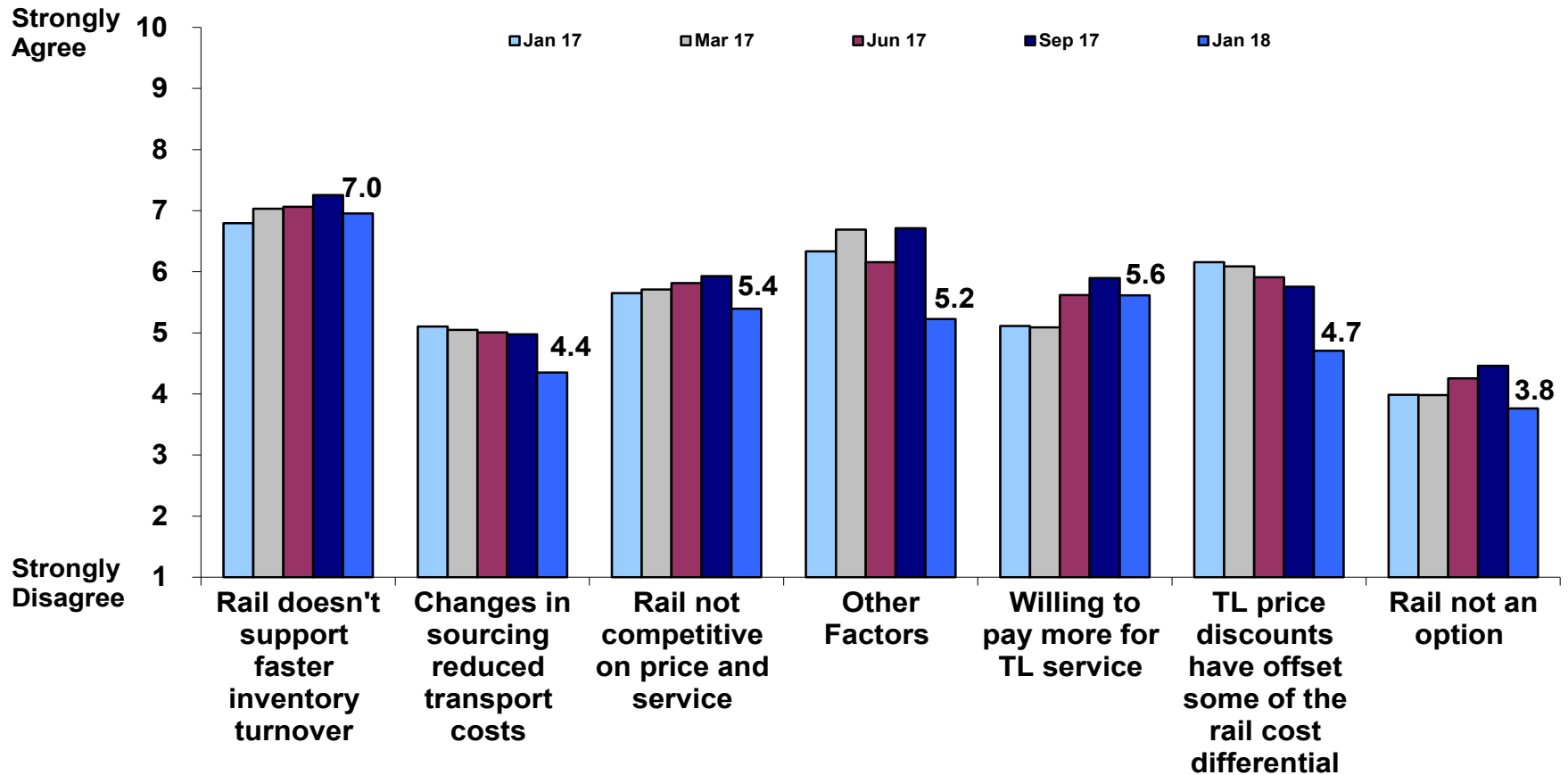
What Factors are Limiting your Organization from Shipping More Volume on the Railroads?



Source: Morgan Stanley Freight Pulse Surveys

Truck to Rail Conversion: Key Obstacles to Overcome

What Factors are Impacting Your Decision to Keep More Volume with Truckload Carriers?



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4. B2B vs. B2C
5. Changes in Primary Carrier

Part 2: Pricing Trends

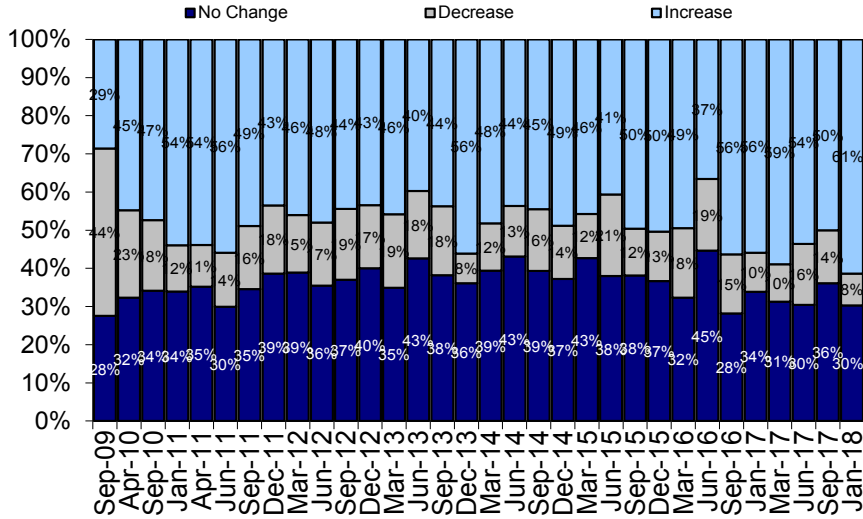
1. Outlook for Parcel Base Rates
2. Measures of Aggressiveness
3. Trends in List Rate Discounts
4. Accessorial Charges

Part 3: Service & Value Trends

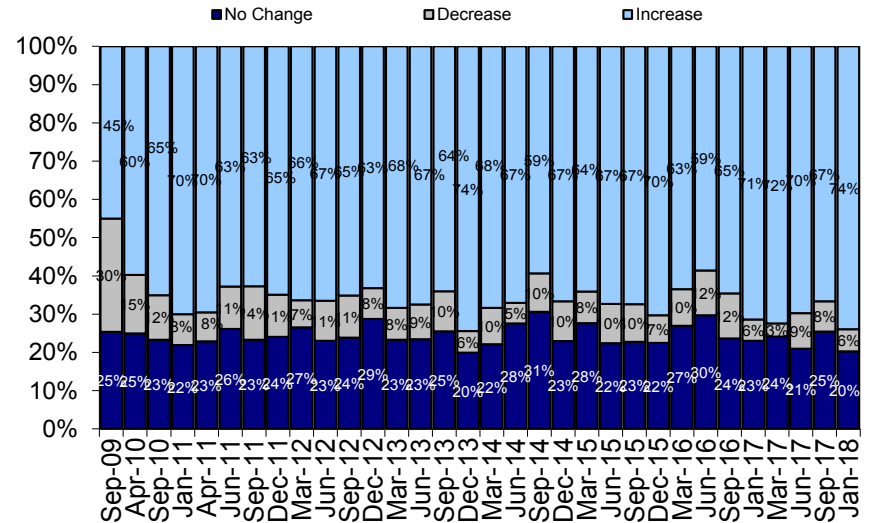
1. Service Reliability Rankings
2. Value of Service Rankings

Parcel Volume Outlook Over the Next 6 Months

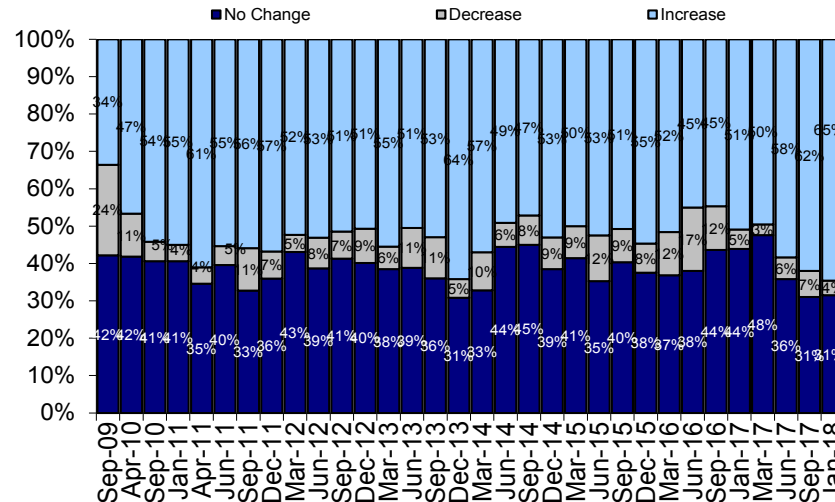
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:



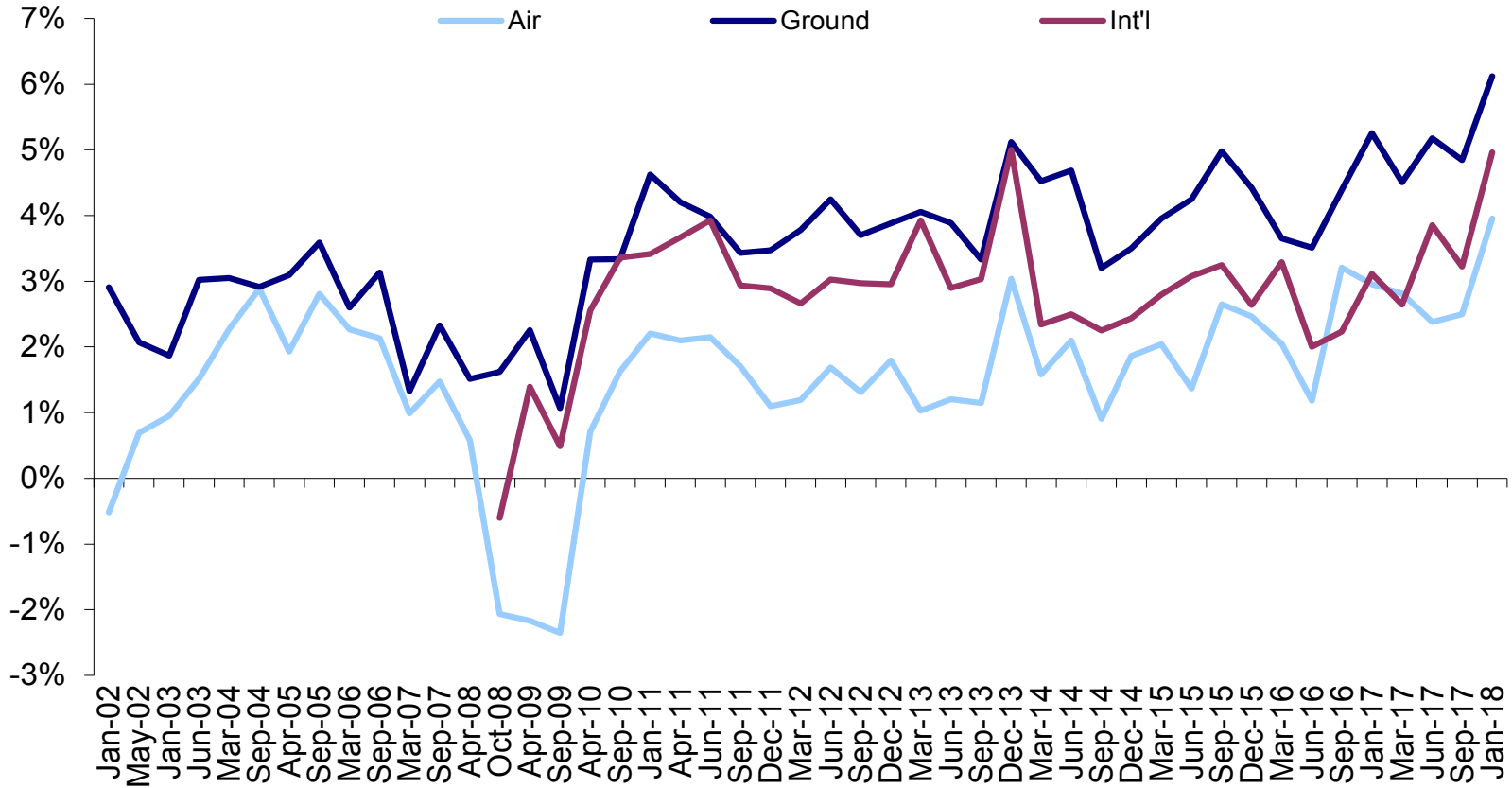
% of Shippers Expecting International to:



Source: Morgan Stanley Parcel Survey

Volume Trends by Product

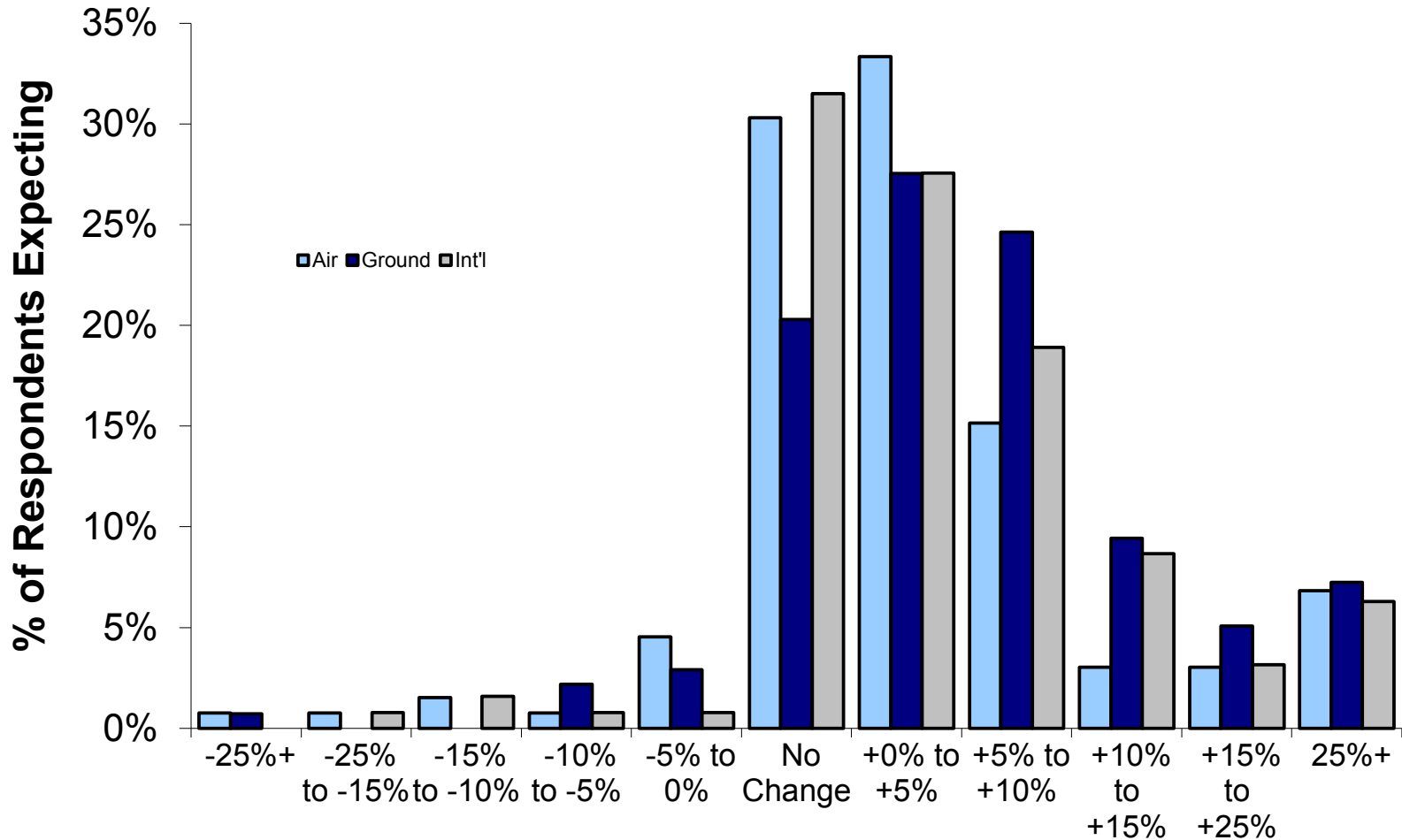
Volume Growth Expectations “Over the Next 6 Months” vs. Last Year



Source: Morgan Stanley Parcel Survey

Volume Response Skew – All Shippers

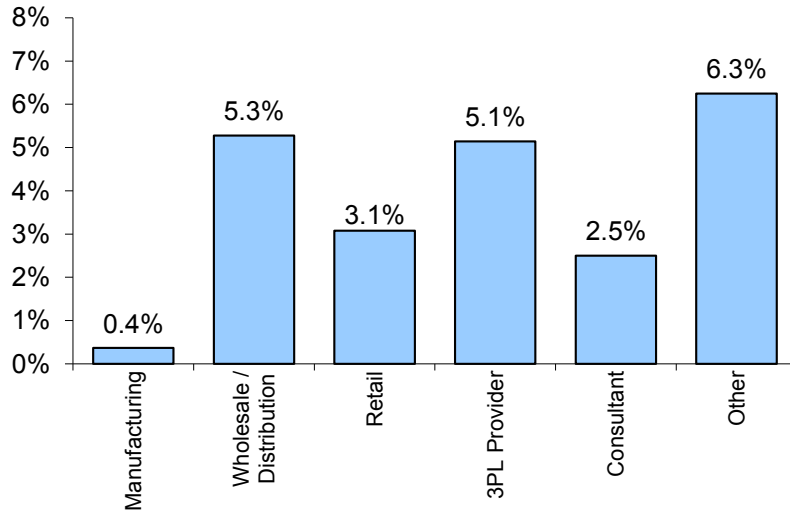
Volume Growth Expectations “Over the Next 6 Months” vs. Same Period Last Year



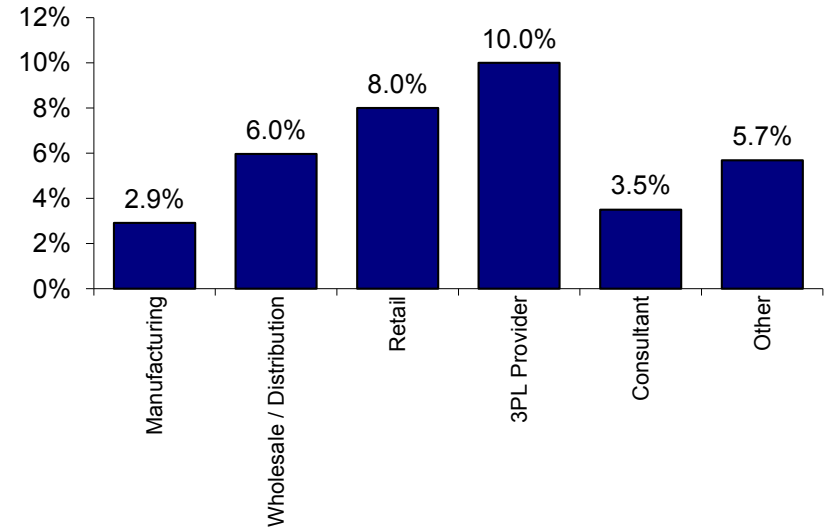
Source: Morgan Stanley Parcel Survey

Volume Growth Outlook by Industry

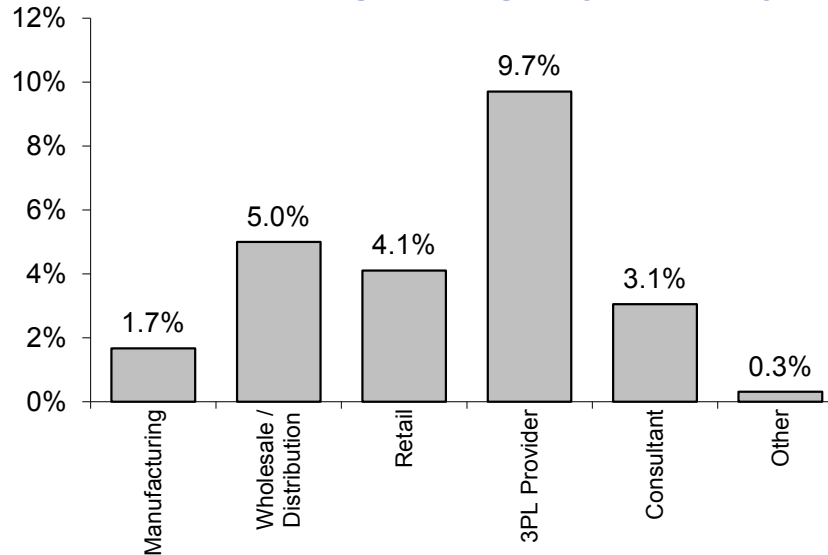
Air - Avg Change by Industry



Ground - Avg Change by Industry



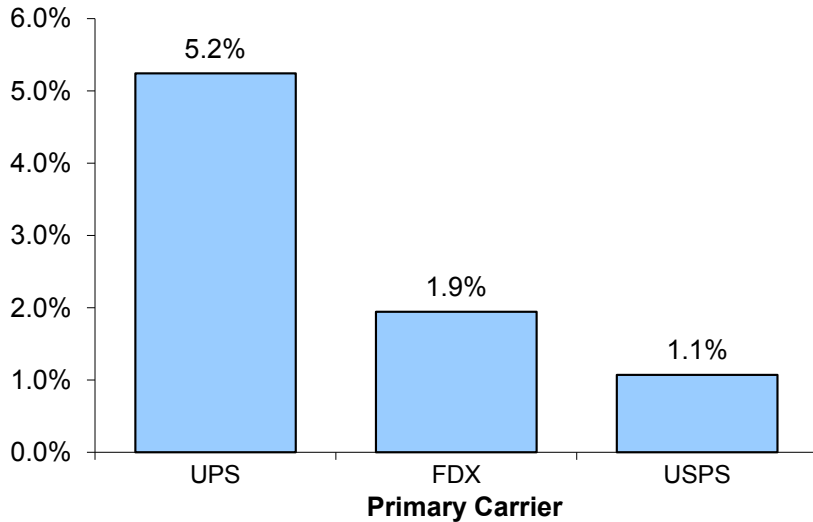
International - Avg Change by Industry



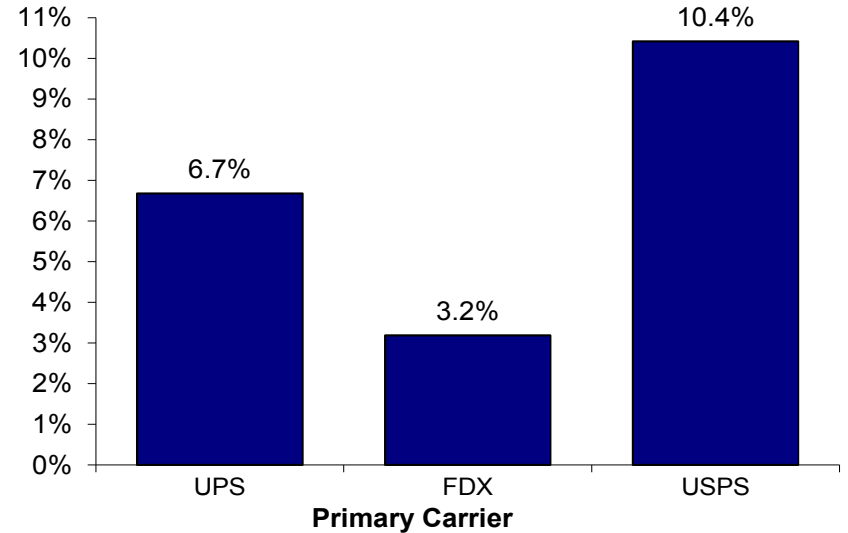
Source: Morgan Stanley Parcel Survey

Volume Growth Outlook by Listed Primary Carrier

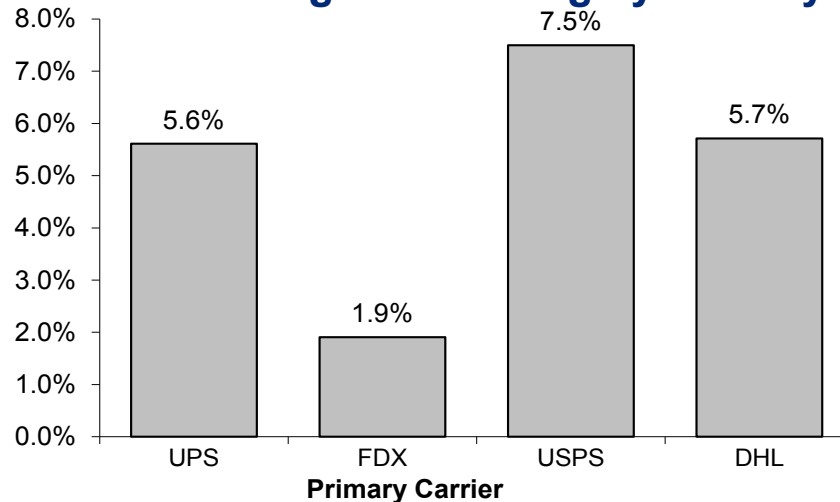
Air - Avg Volume Change by Primary Carrier



Ground - Avg Volume Change by Primary Carrier



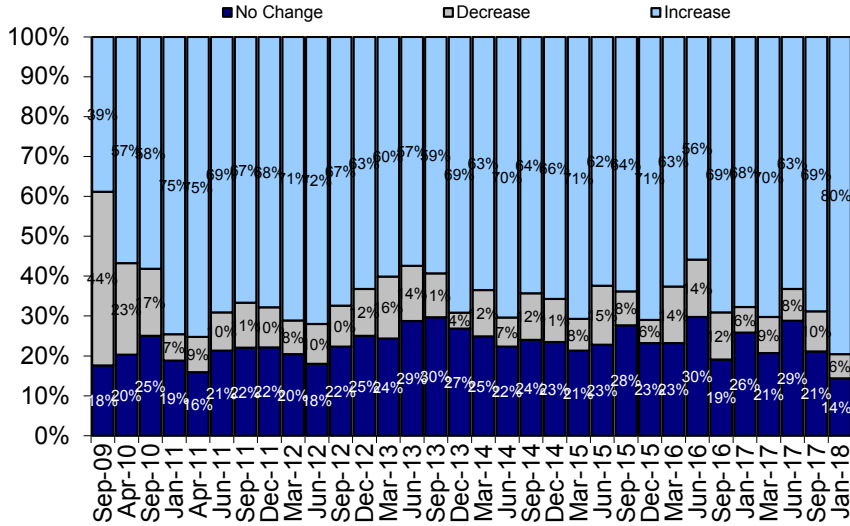
International - Avg Volume Chg by Primary Carrier



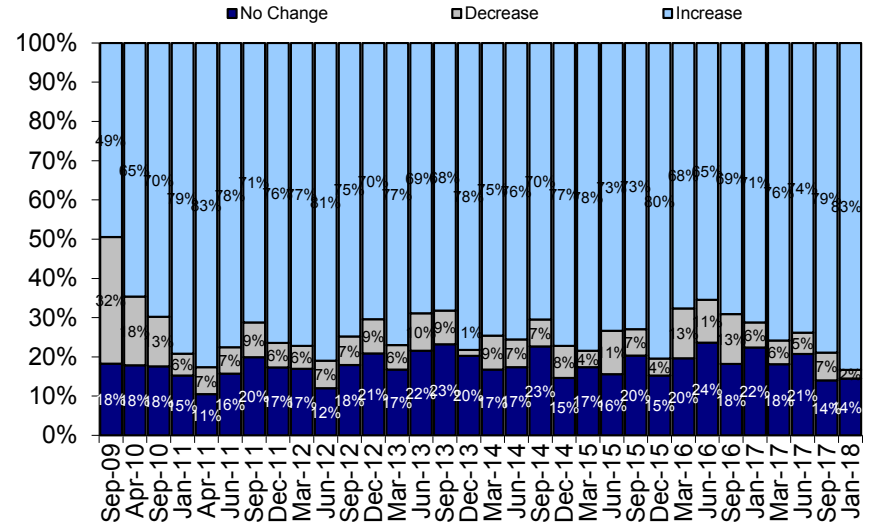
Source: Morgan Stanley Parcel Survey

Parcel Spend Outlook Over the Next 6 Months

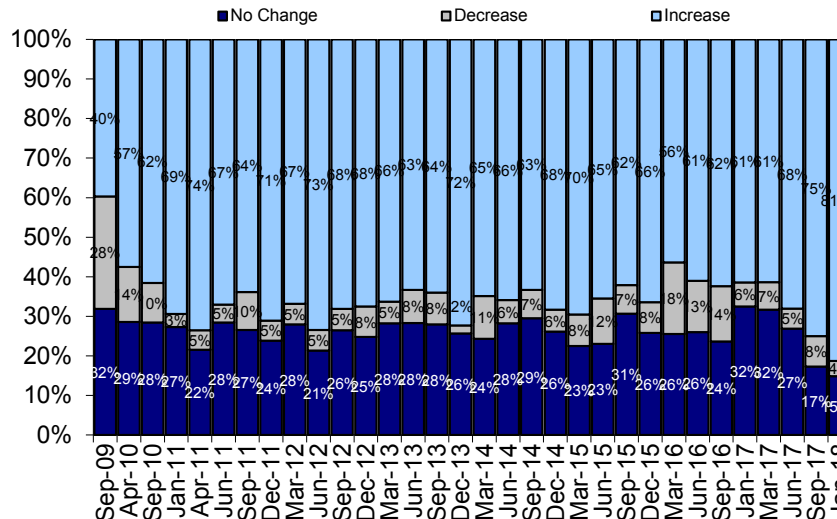
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:



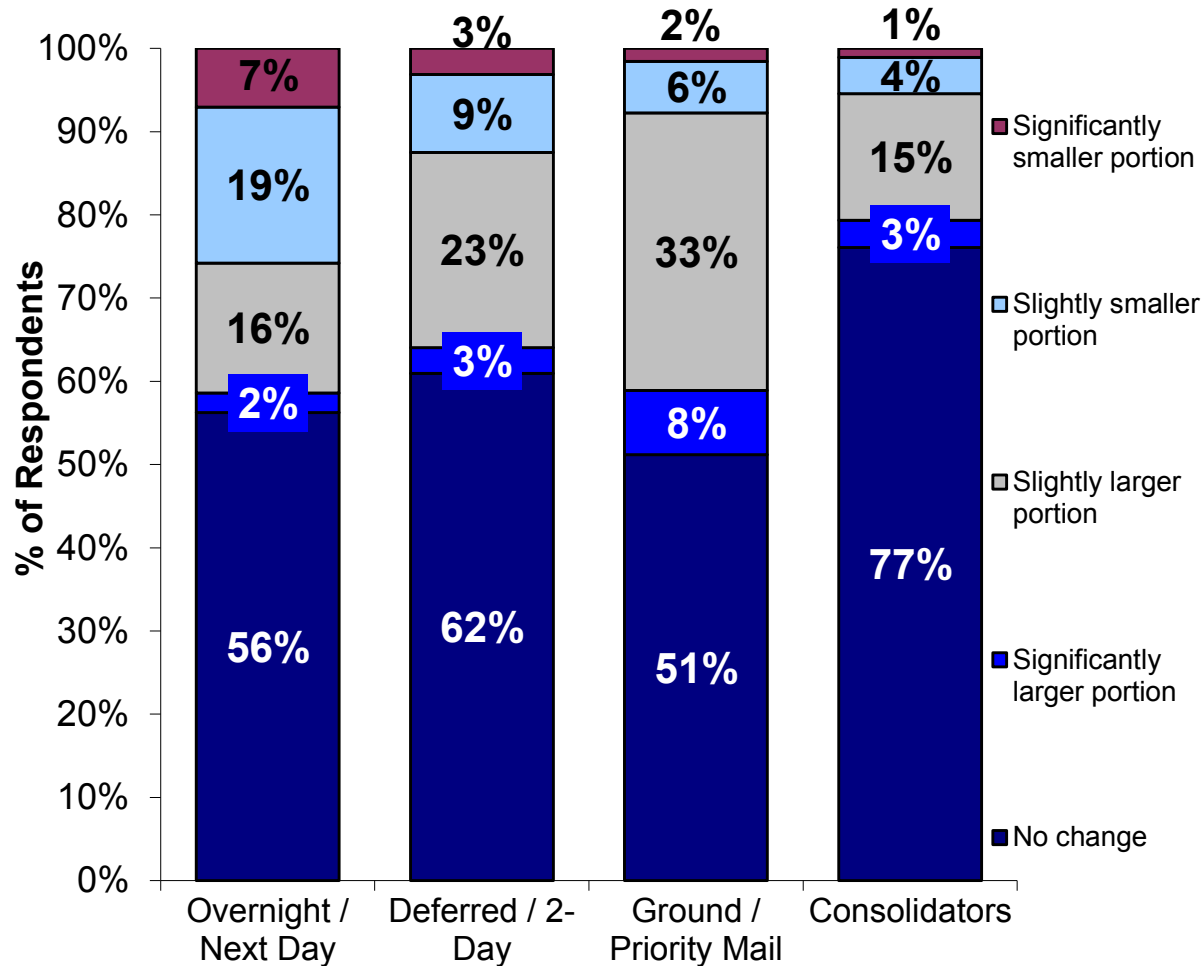
% of Shippers Expecting International to:



Source: Morgan Stanley Parcel Survey

Expected Shift in Product Usage: All Shippers

How Will Your Usage of the Following Products Change as a Proportion of your Total Parcel Shipment Budget (on a Year-over-Year Basis) Over the Next 6 Months?

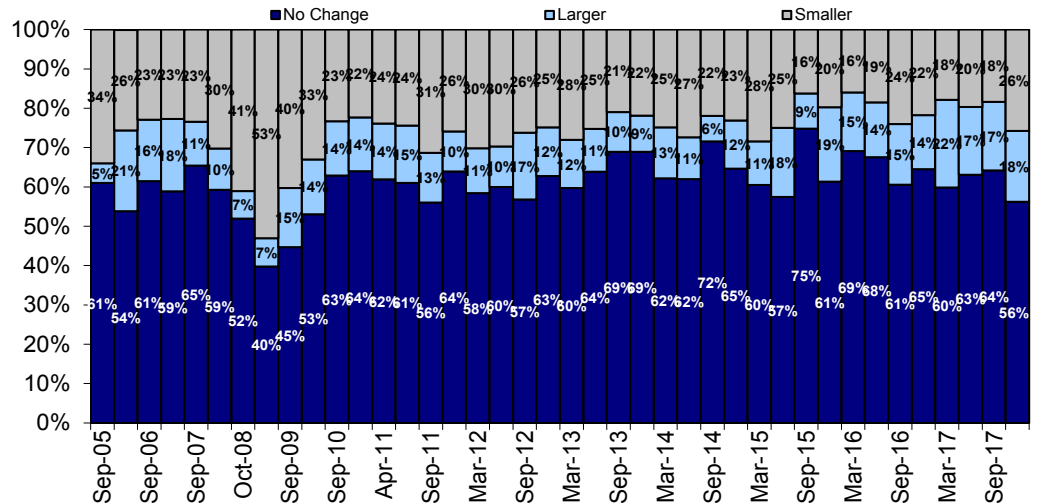


Source: Morgan Stanley Parcel Survey

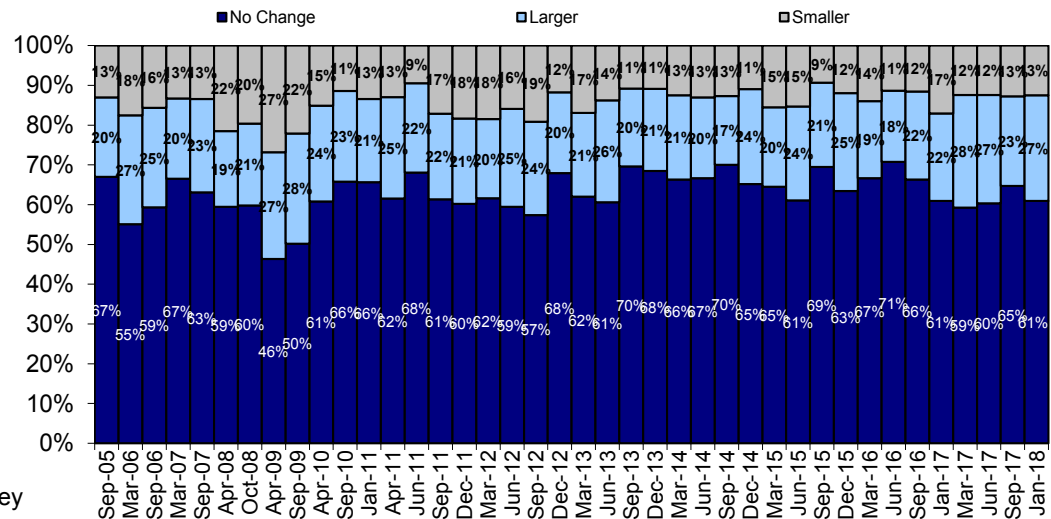
Historical Expected Change in Use of Air Products

How Will Your Usage of the Following Products Change as a Proportion of your Total Parcel Shipment Budget (on a Year-over-Year Basis) Over the Next 6 Months?

Overnight / Next Day



Deferred / 2-Day



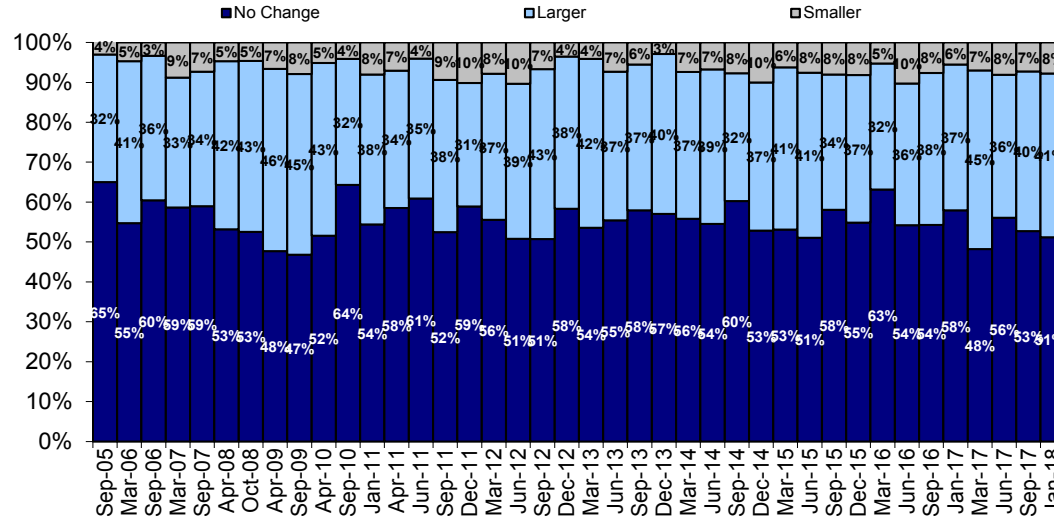
Source: Morgan Stanley Parcel Survey

Ravi Shanker, (212) 761-6350, Ravi.Shanker@morganstanley.com

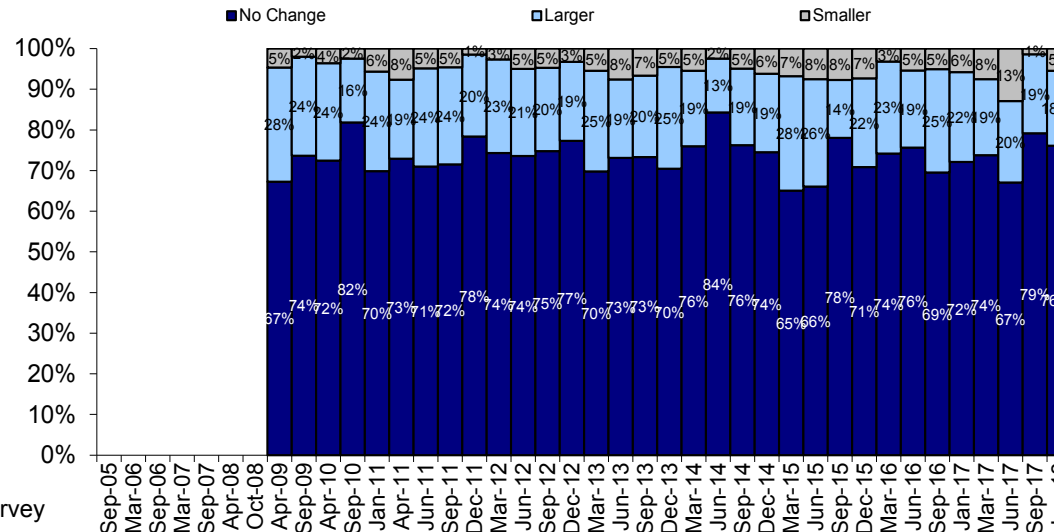
Historical Expected Change in Use of Ground and Consolidators

How Will Your Usage of the Following Products Change as a Proportion of your Total Parcel Shipment Budget (on a Year-over-Year Basis) Over the Next 6 Months?

Ground



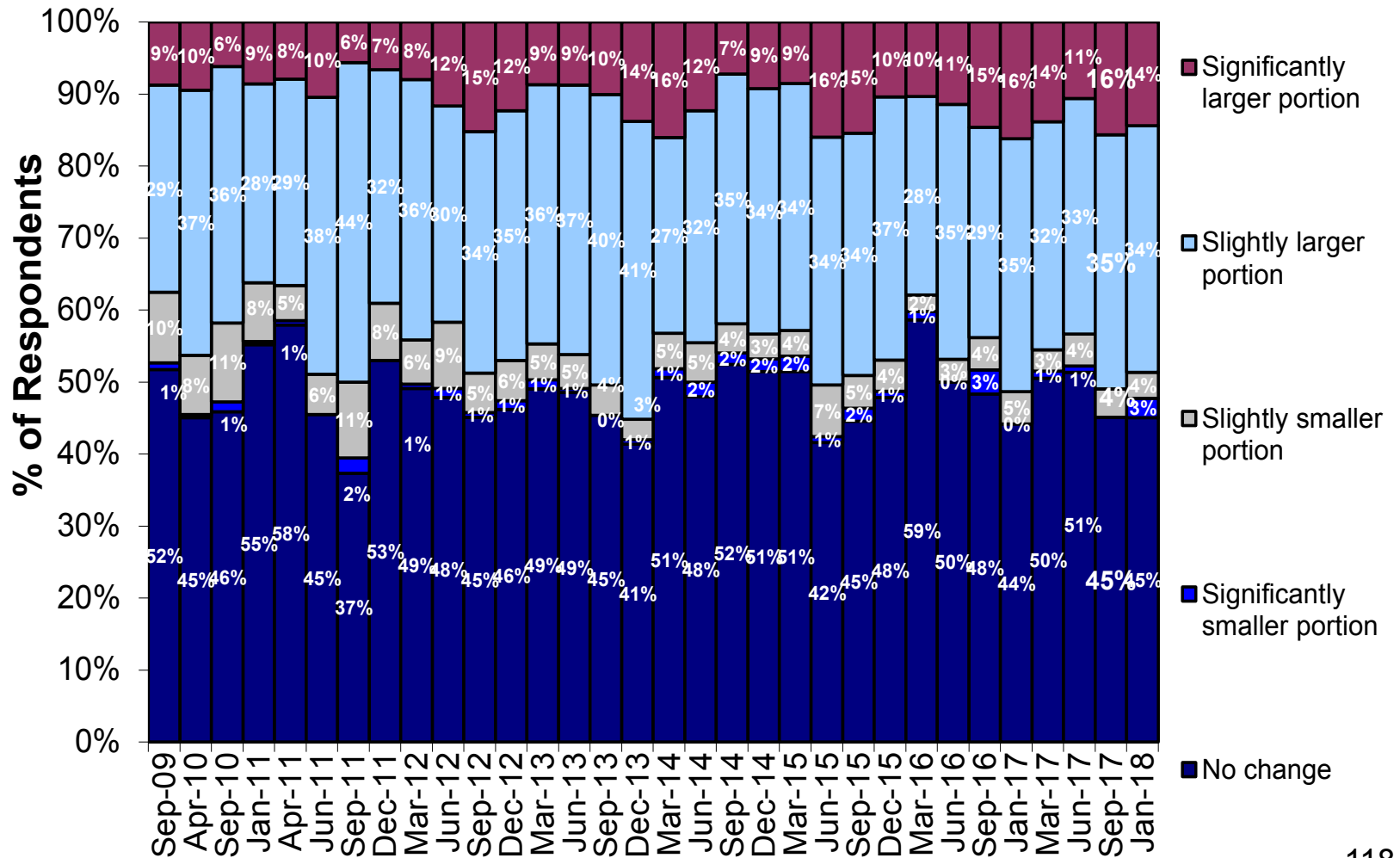
Consolidators



Source: Morgan Stanley Parcel Survey

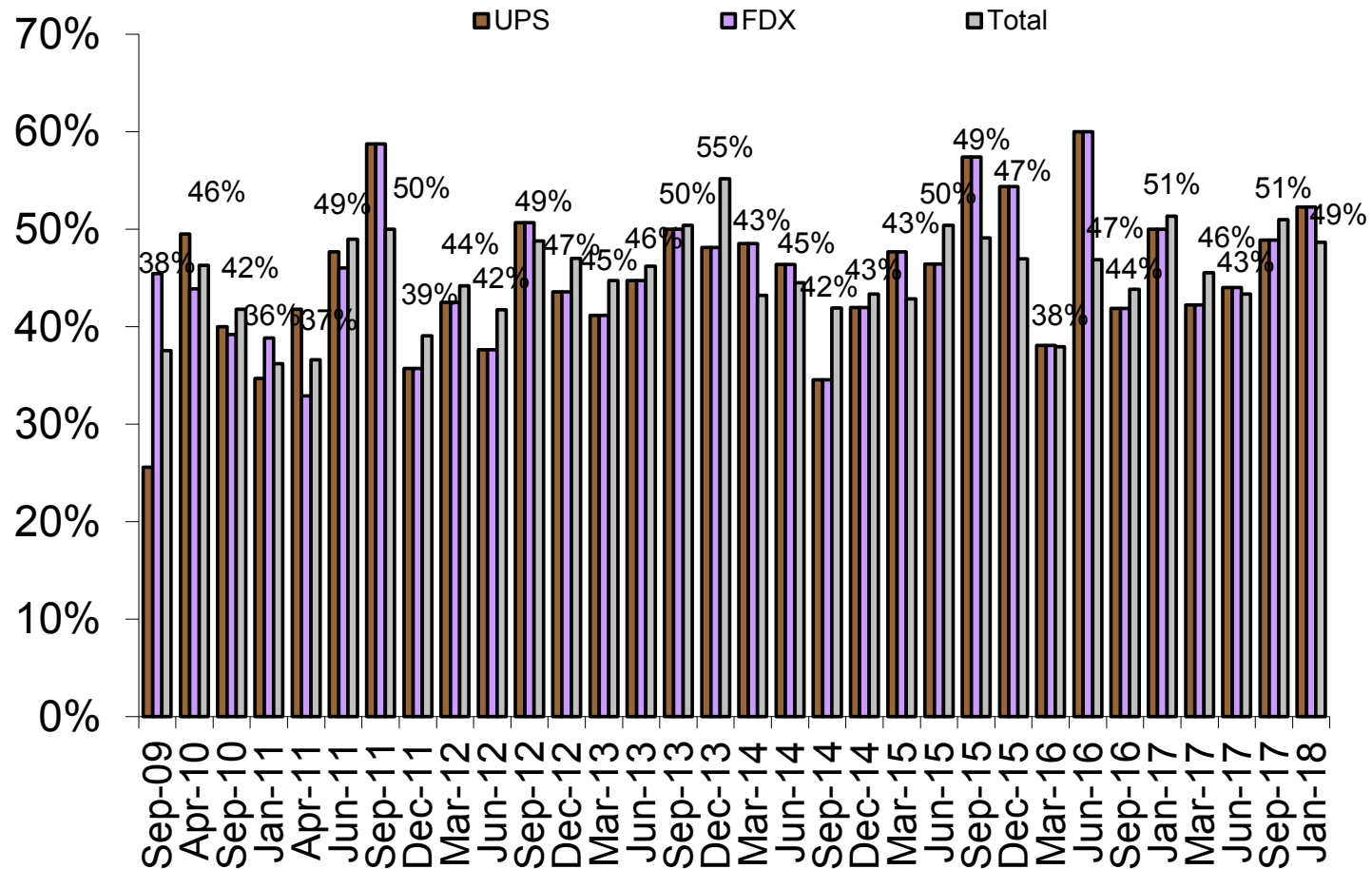
Expected Trends in B2C

YoY Change in B2C as % of Total



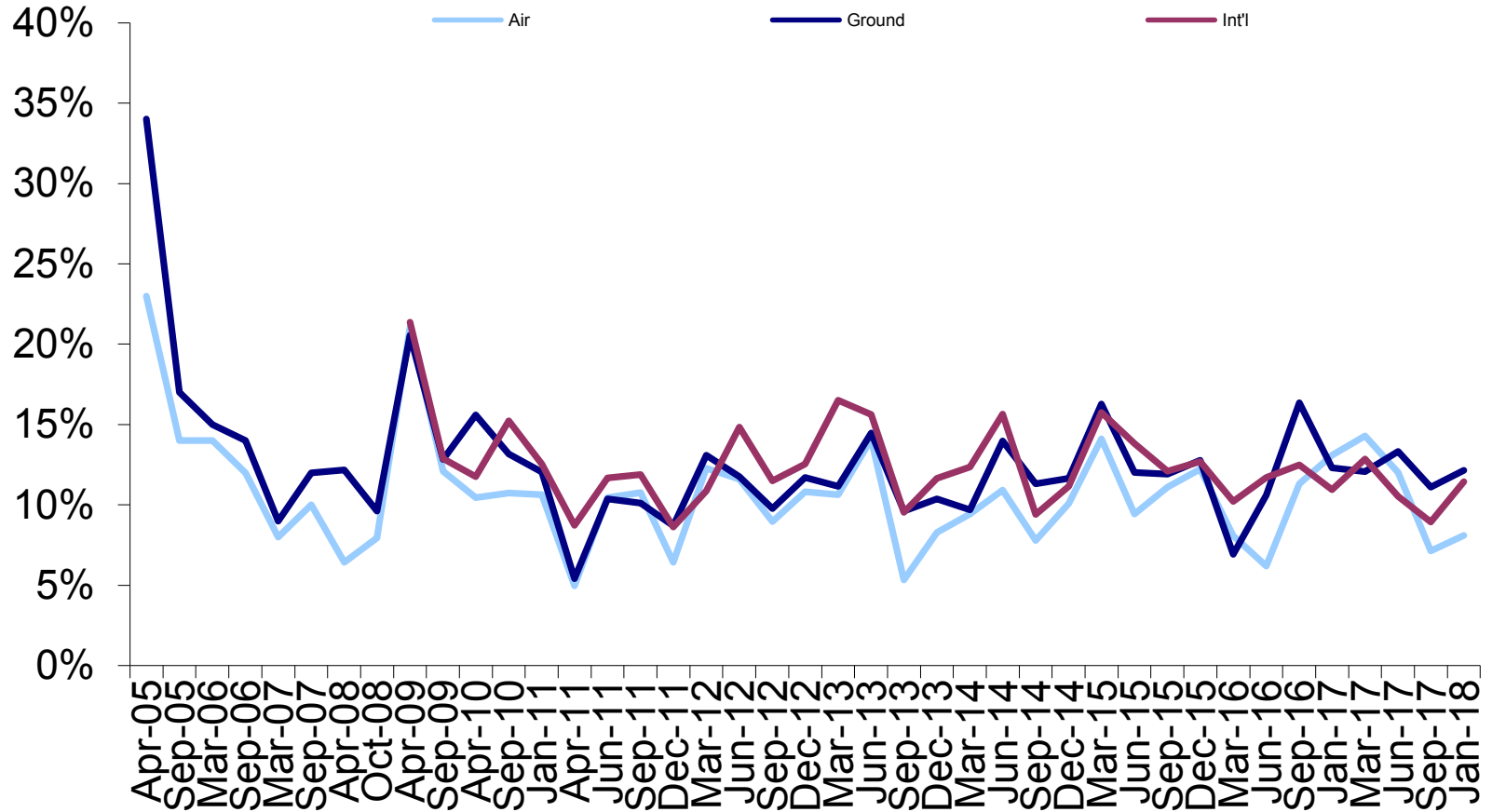
Expected Trends in B2C

% of Respondents Indicating Increase in B2C Shipping as % of Total



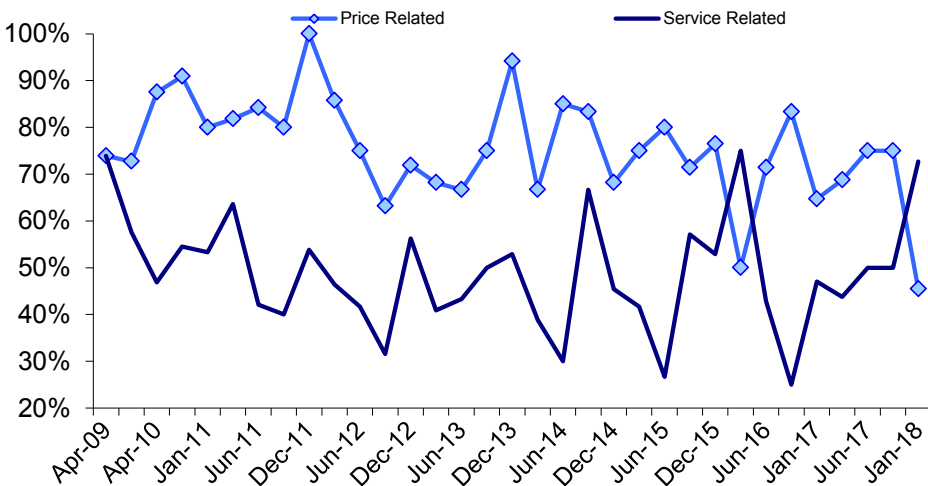
% of Respondents Switching Primary Carriers Over Time

% of Shippers Switching Primary Carriers Over the Past 6 Months

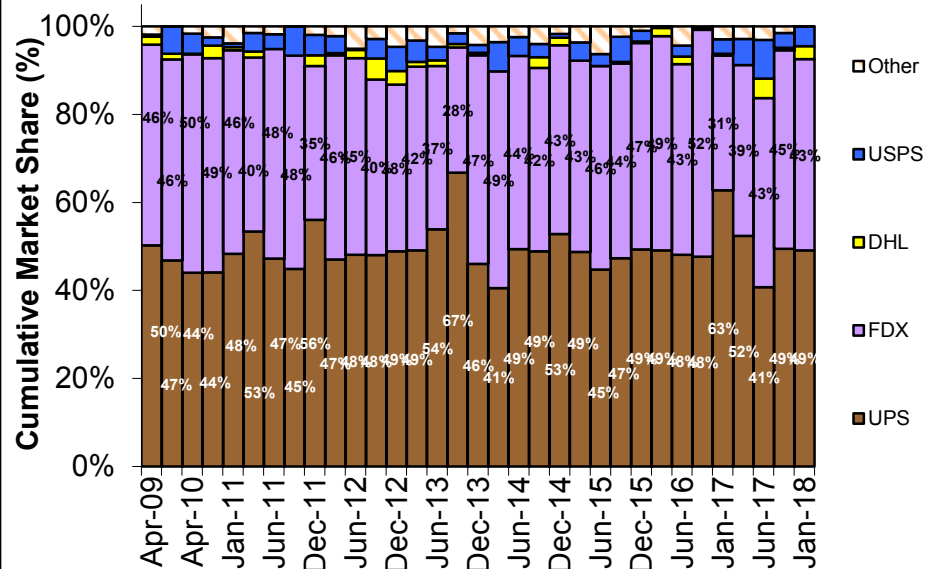


Air Switching: Reasons for Switch and Primary Carrier

Air: Reason for Switching Primary Carriers



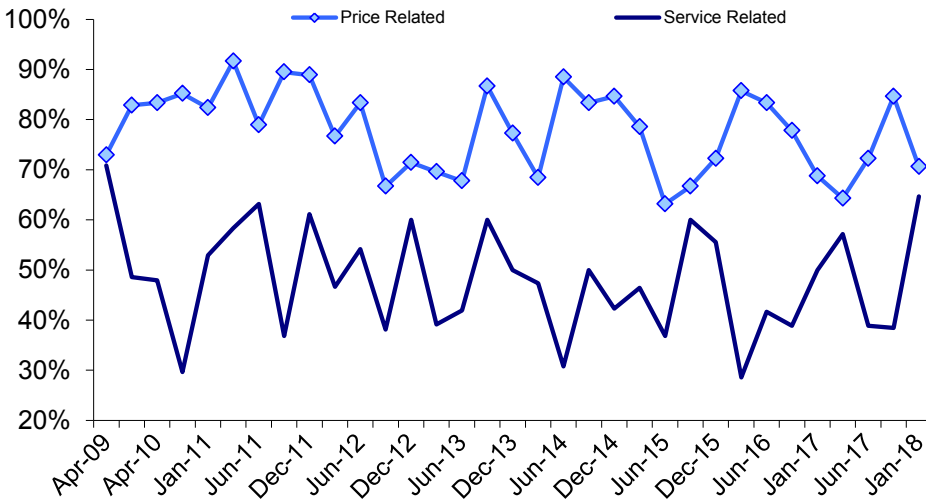
Air: Dollar-weighted Market Share



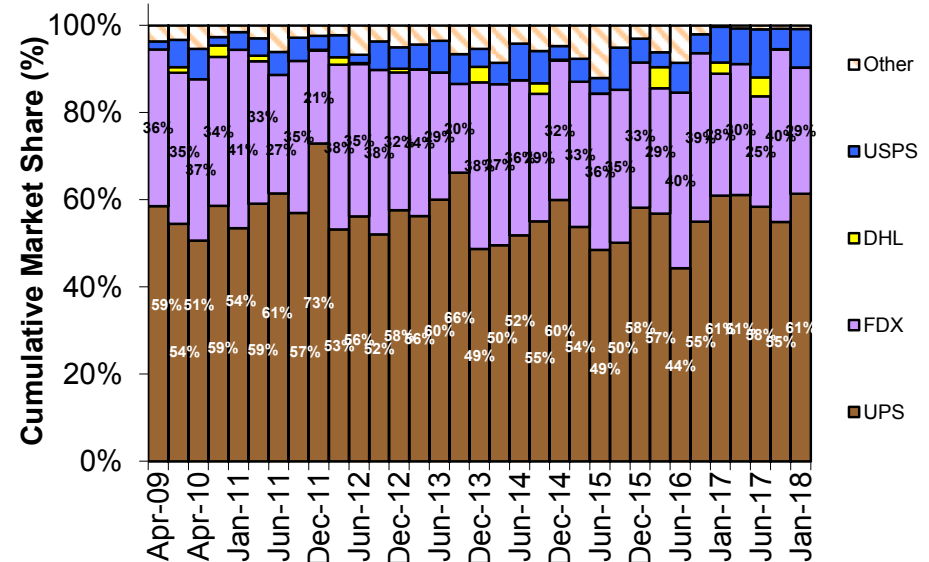
Source: Morgan Stanley Parcel Survey

Ground Switching: Reasons for Switch and Primary Carrier

Ground: Reason for Switching Primary Carriers



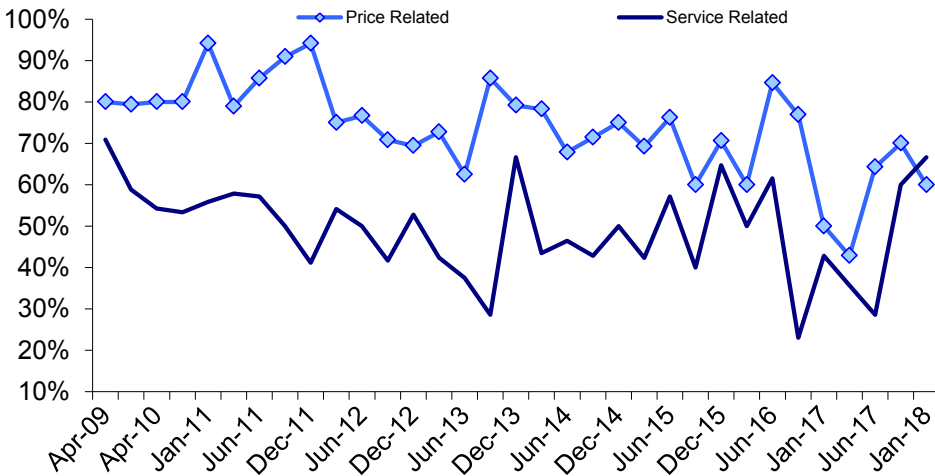
Ground: Dollar-weighted Market Share



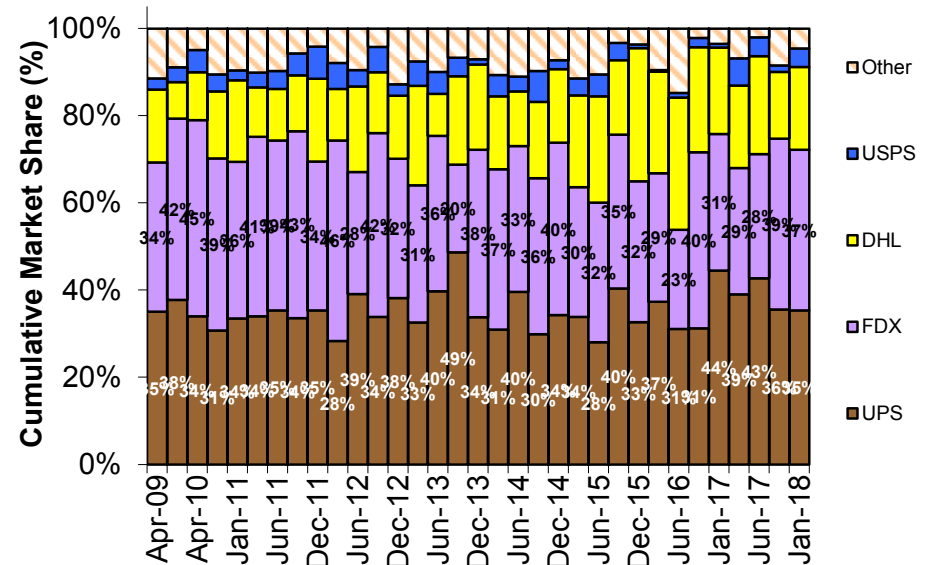
Source: Morgan Stanley Parcel Survey

International Switching: Reasons for Switch and Primary Carrier

International: Reason for Switching Primary Carriers



International: Dollar-weighted Market Share



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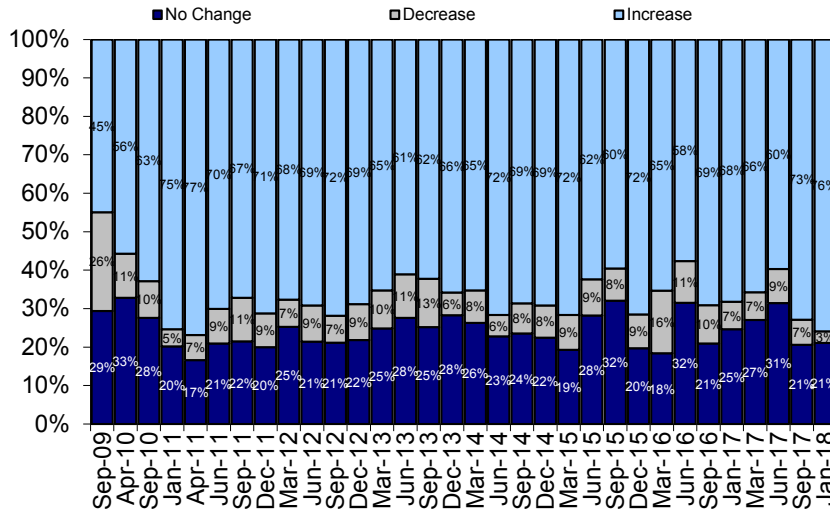
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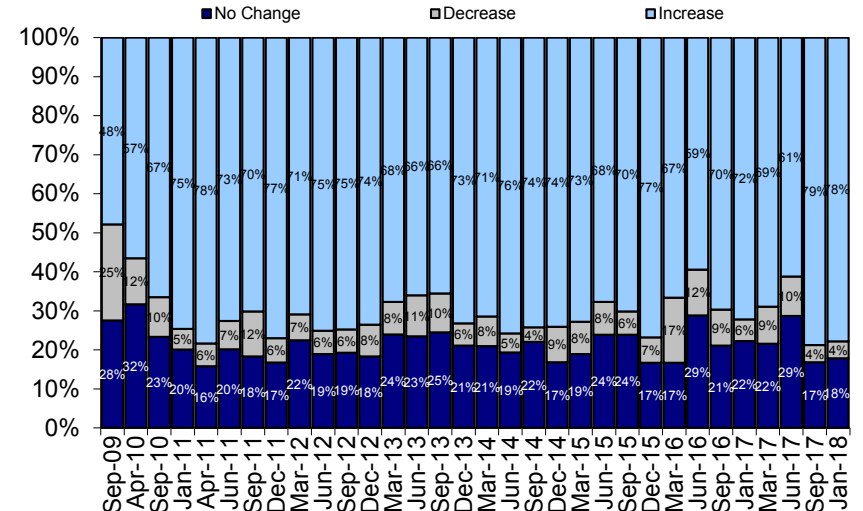
1. Service Reliability Rankings
2. Value of Service Rankings

Parcel Pricing Outlook Over the Next 6 Months

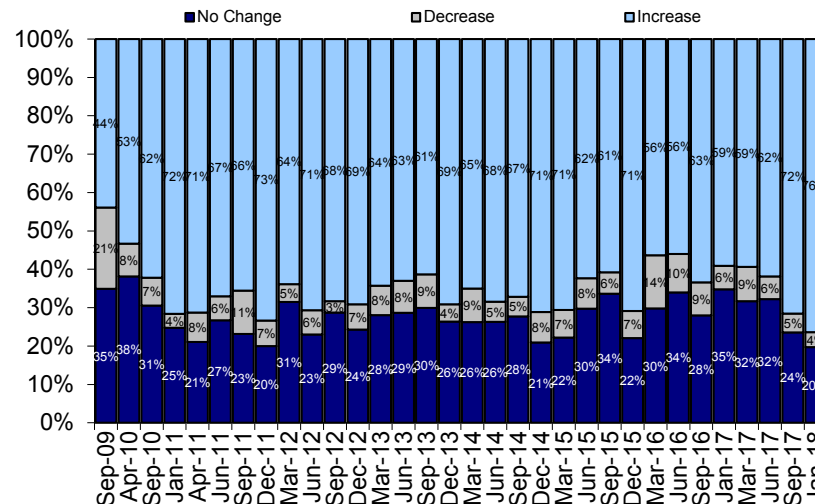
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:



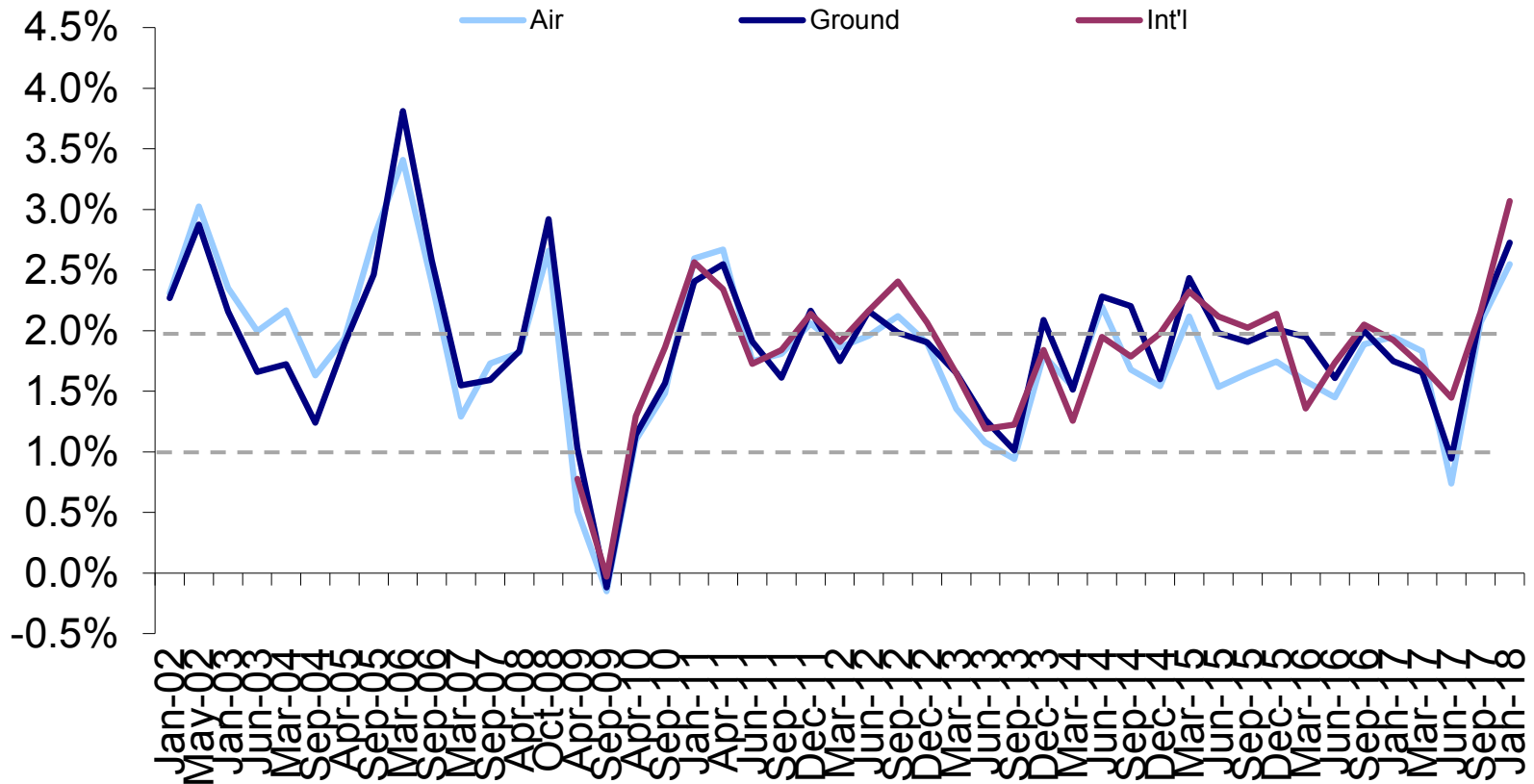
% of Shippers Expecting International to:



Source: Morgan Stanley Parcel Survey

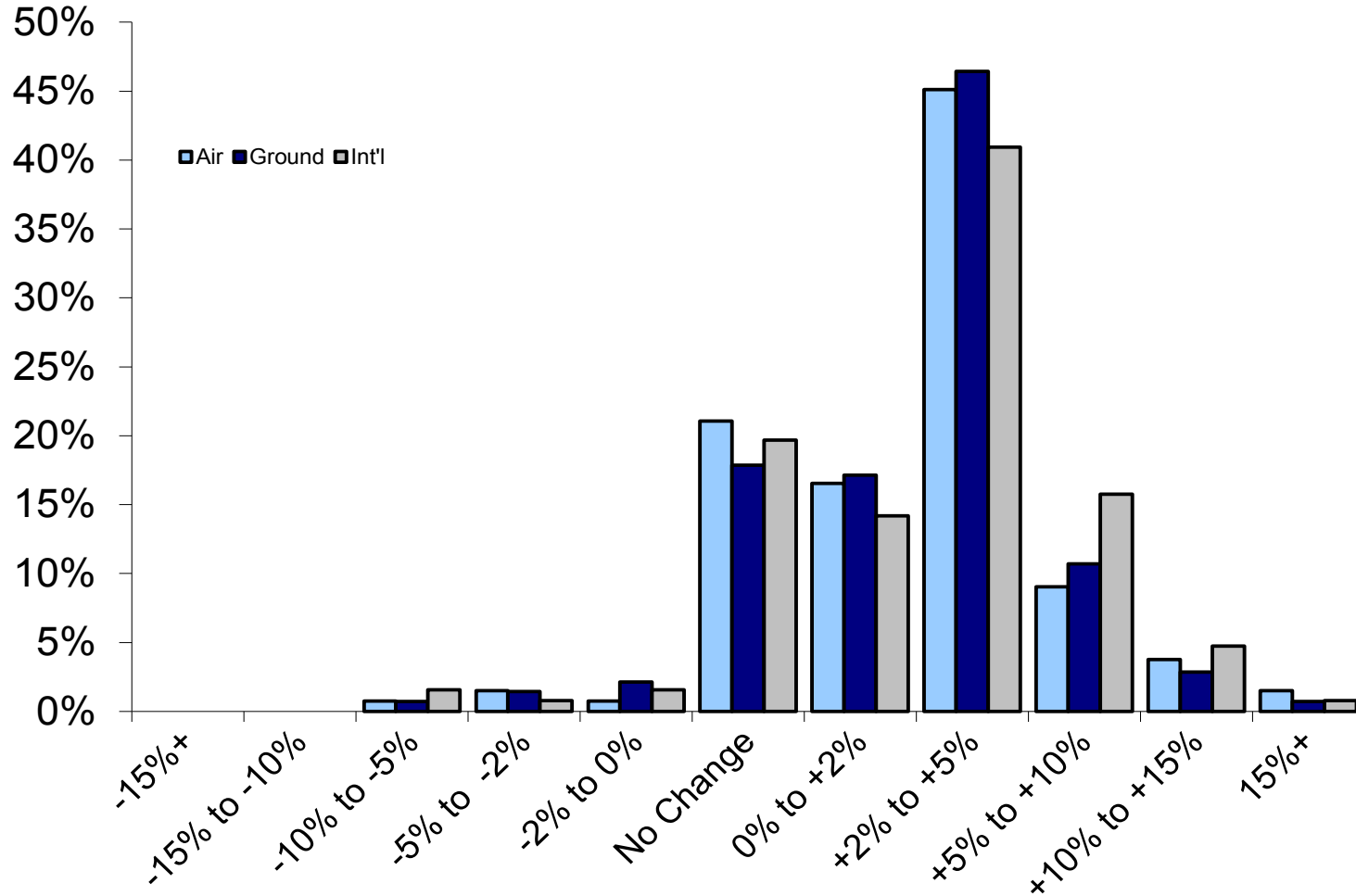
Pricing Trends by Product: Large vs. Small Shipper

Average Base Rate Expectations "Over the Next 6 Months" vs. Last Year



Base Rate Response Skew – All Shippers

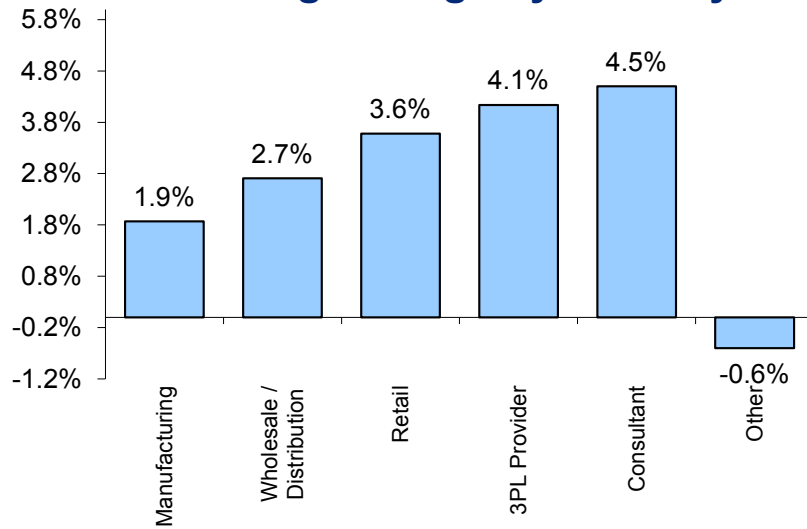
Base Rate Growth Expectations “Over the Next 6 Months” vs. Same Period Last Year



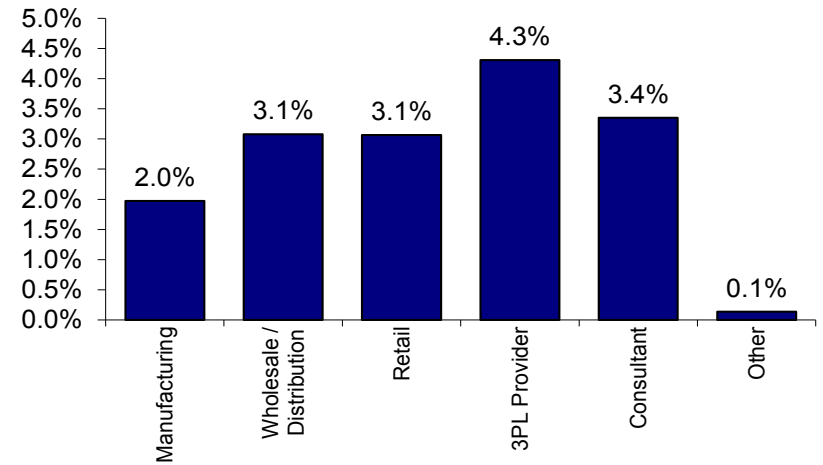
Source: Morgan Stanley Parcel Survey

Pricing Outlook by Industry

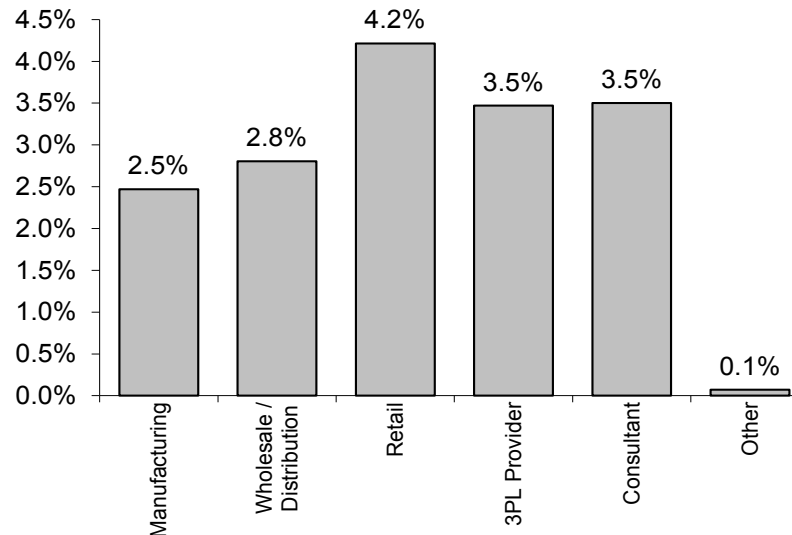
Air - Avg Change by Industry



Ground - Avg Change by Industry

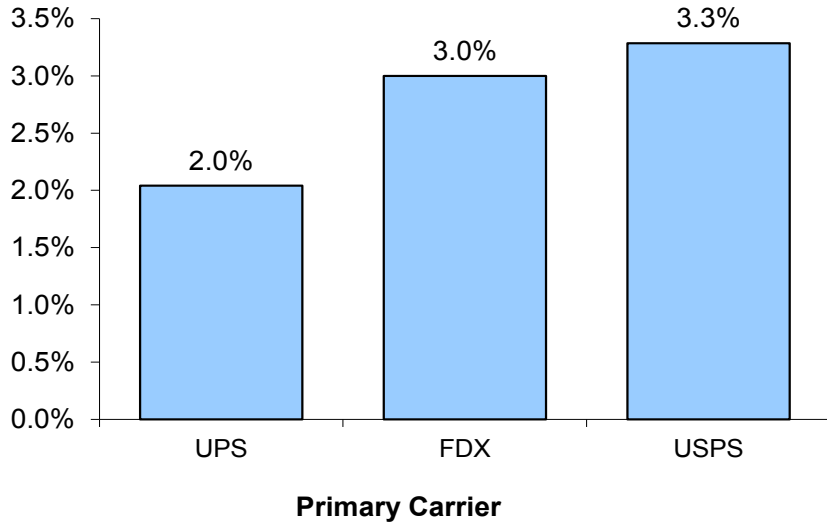


International - Avg Change by Industry

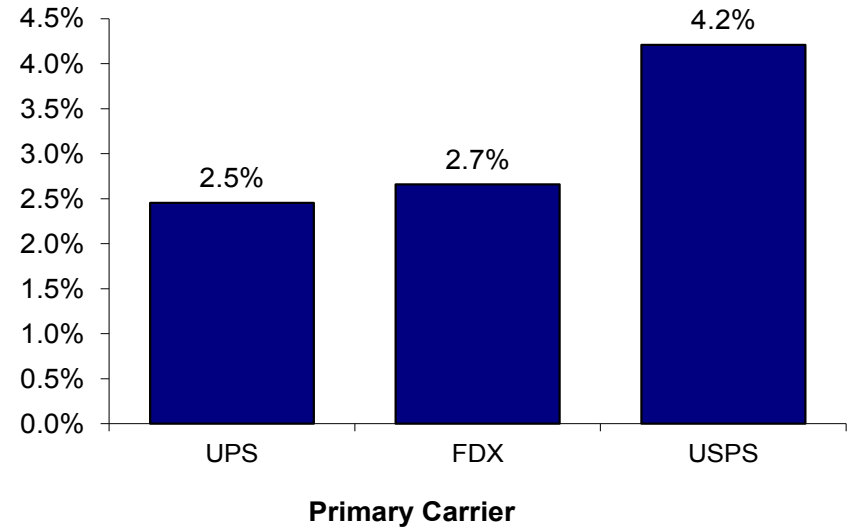


Pricing Outlook by Listed Primary Carrier

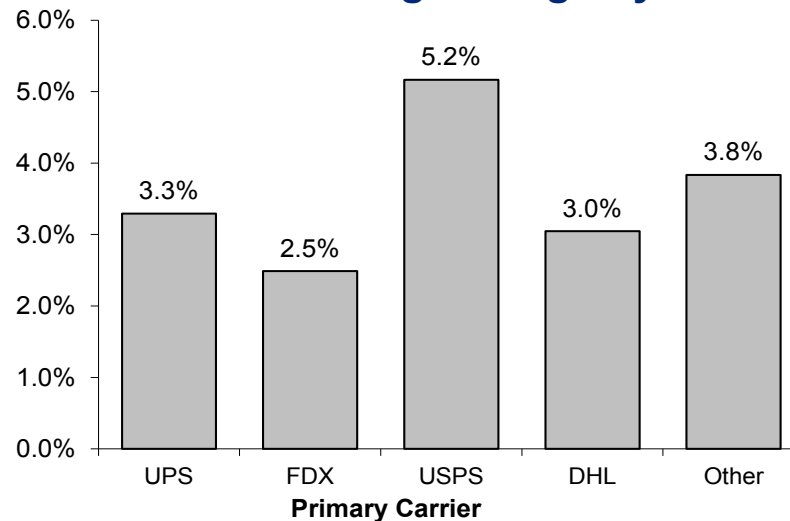
Air - Avg Change by Carrier



Ground - Avg Change by Carrier



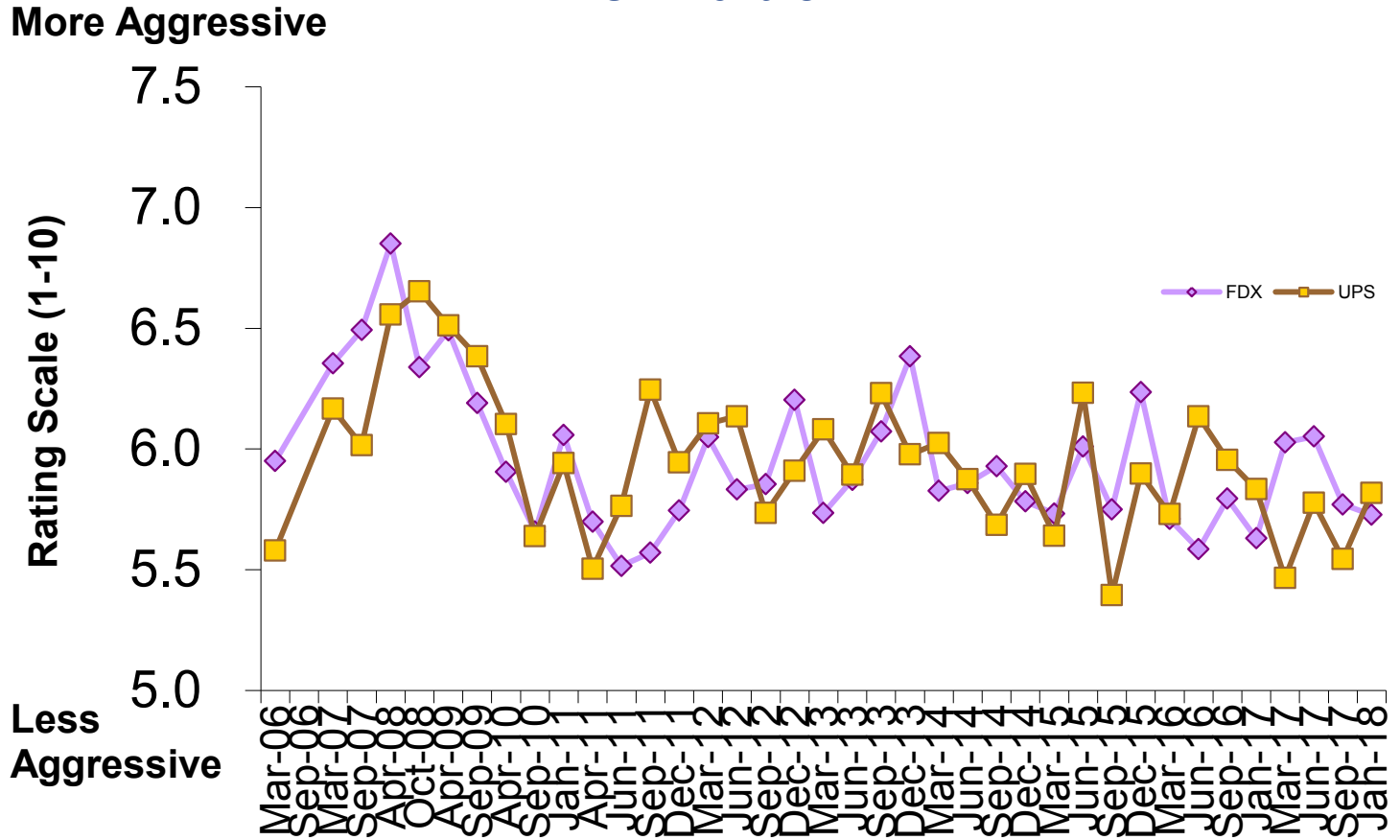
International - Avg Change by Carrier



Source: Morgan Stanley Parcel Survey

Level of Aggressiveness in Trying to Win New Business

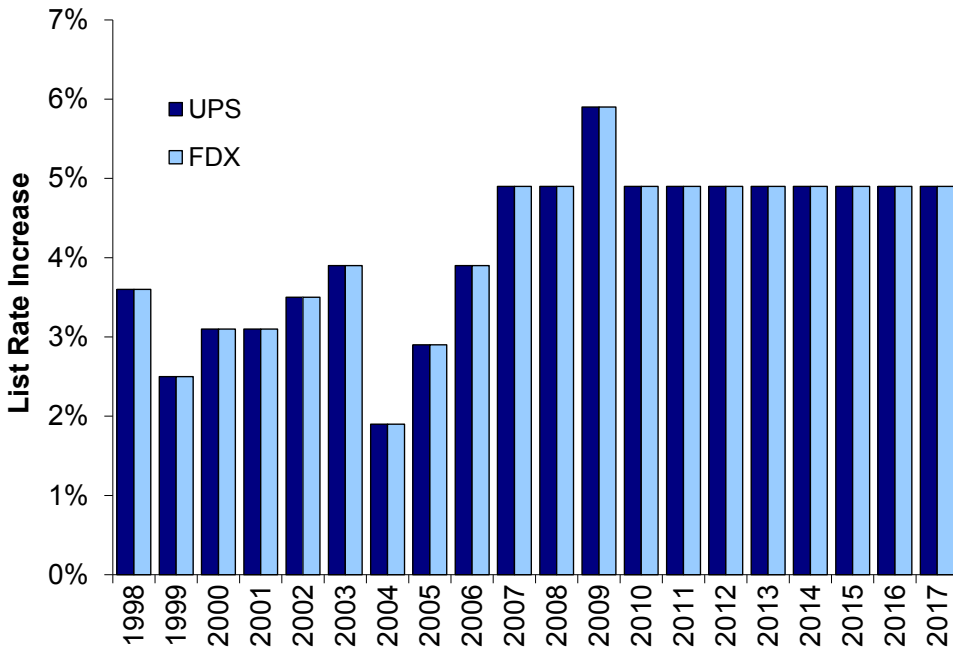
Parcel Shippers' Rankings of Carriers' "Aggressiveness" in Trying to Win Business Over Past Six Months



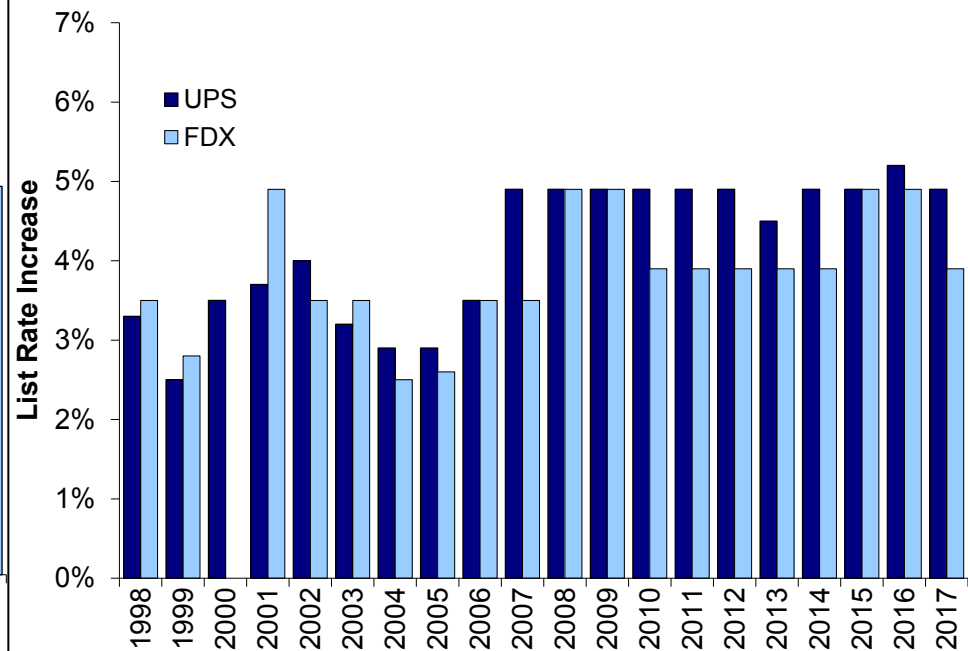
Source: Morgan Stanley Parcel Survey

List Rate Increases

Ground List Rate Increase



Air List Rate Increase

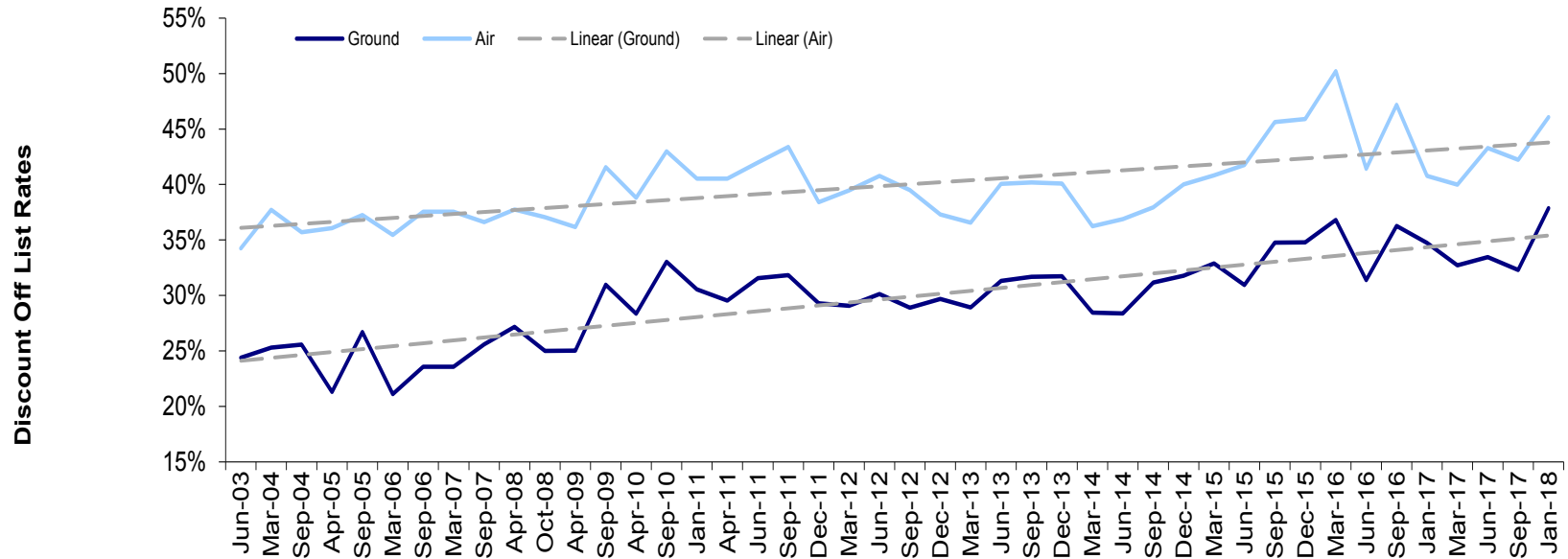


Source: Company data, Morgan Stanley Research

Ravi Shanker, (212) 761-6350, Ravi.Shanker@morganstanley.com

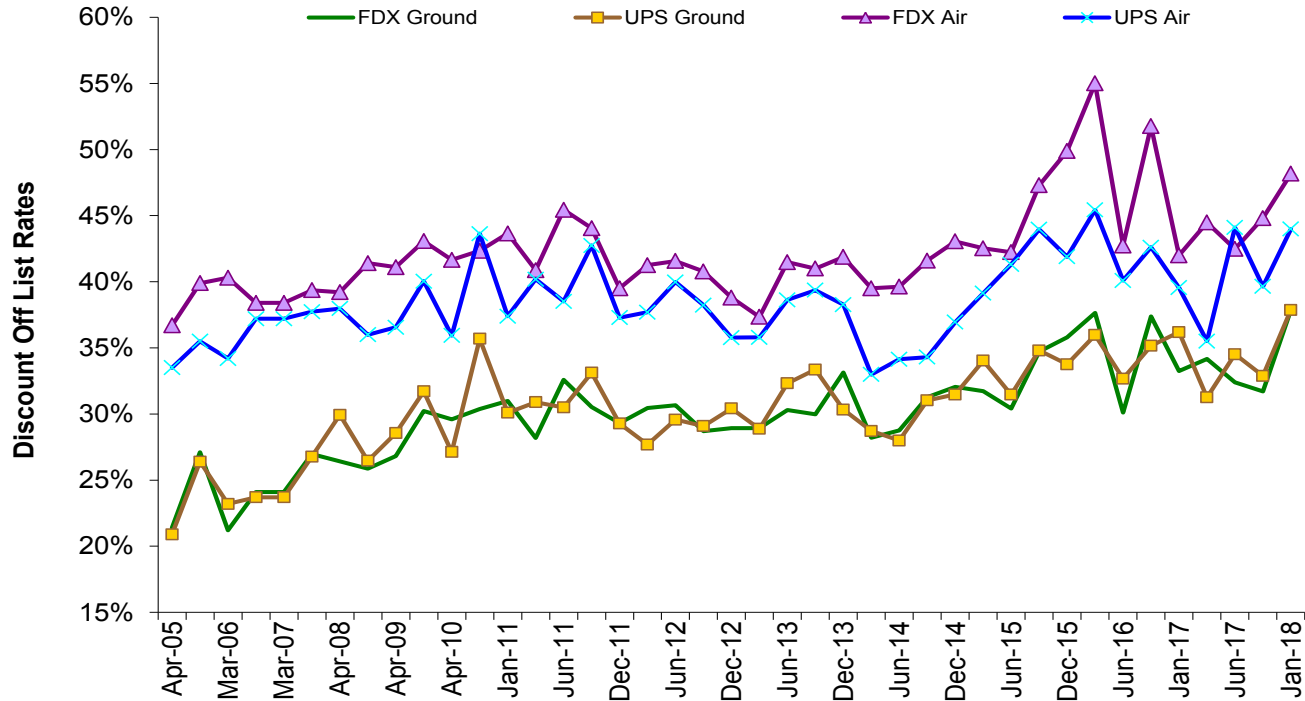
Percentage Discount Off of List Rates

Average List Rate Discount



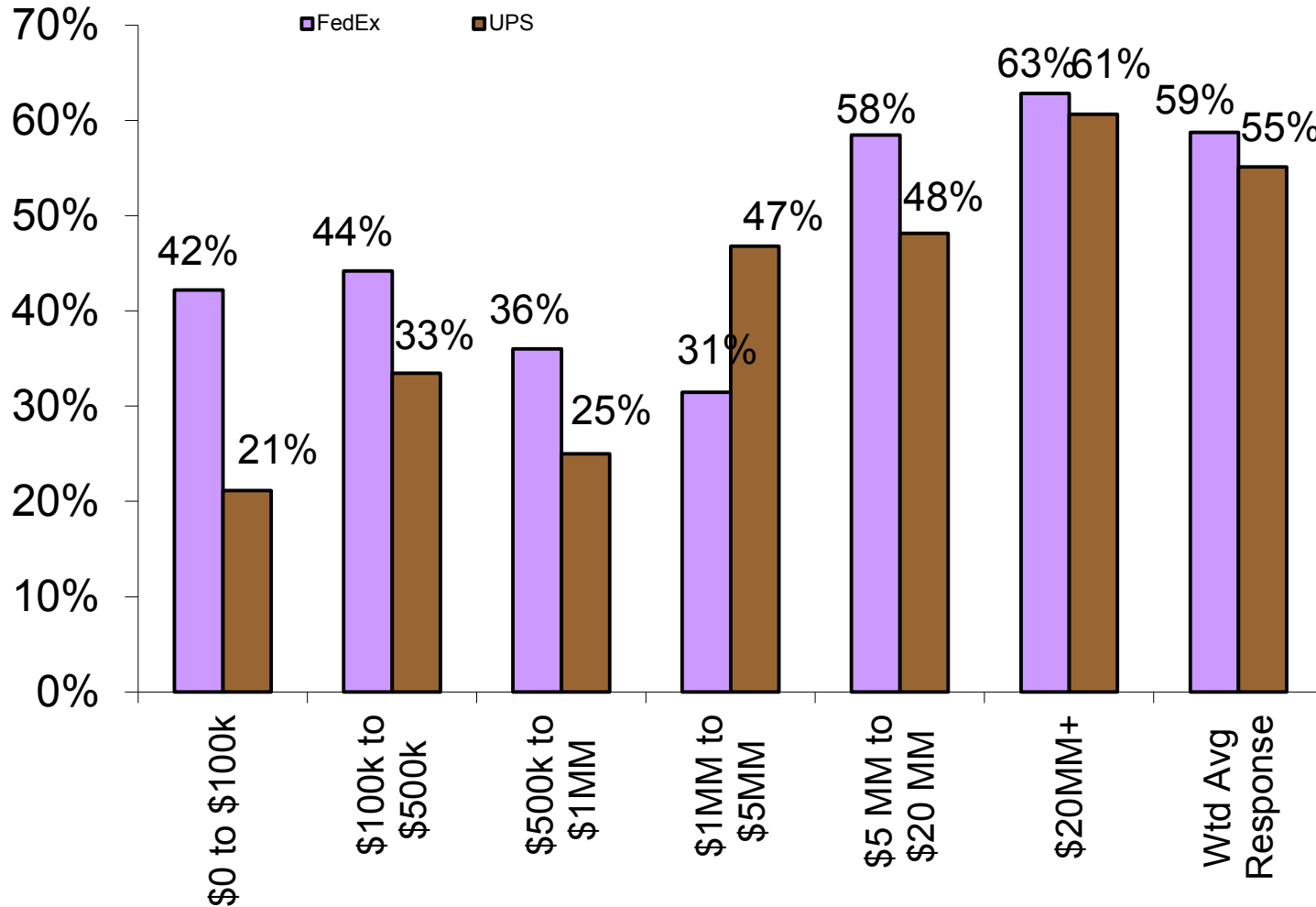
Percentage Discount Off of List Rates

Average Discount by Carrier and Product



Air List Rate Discount by Spend

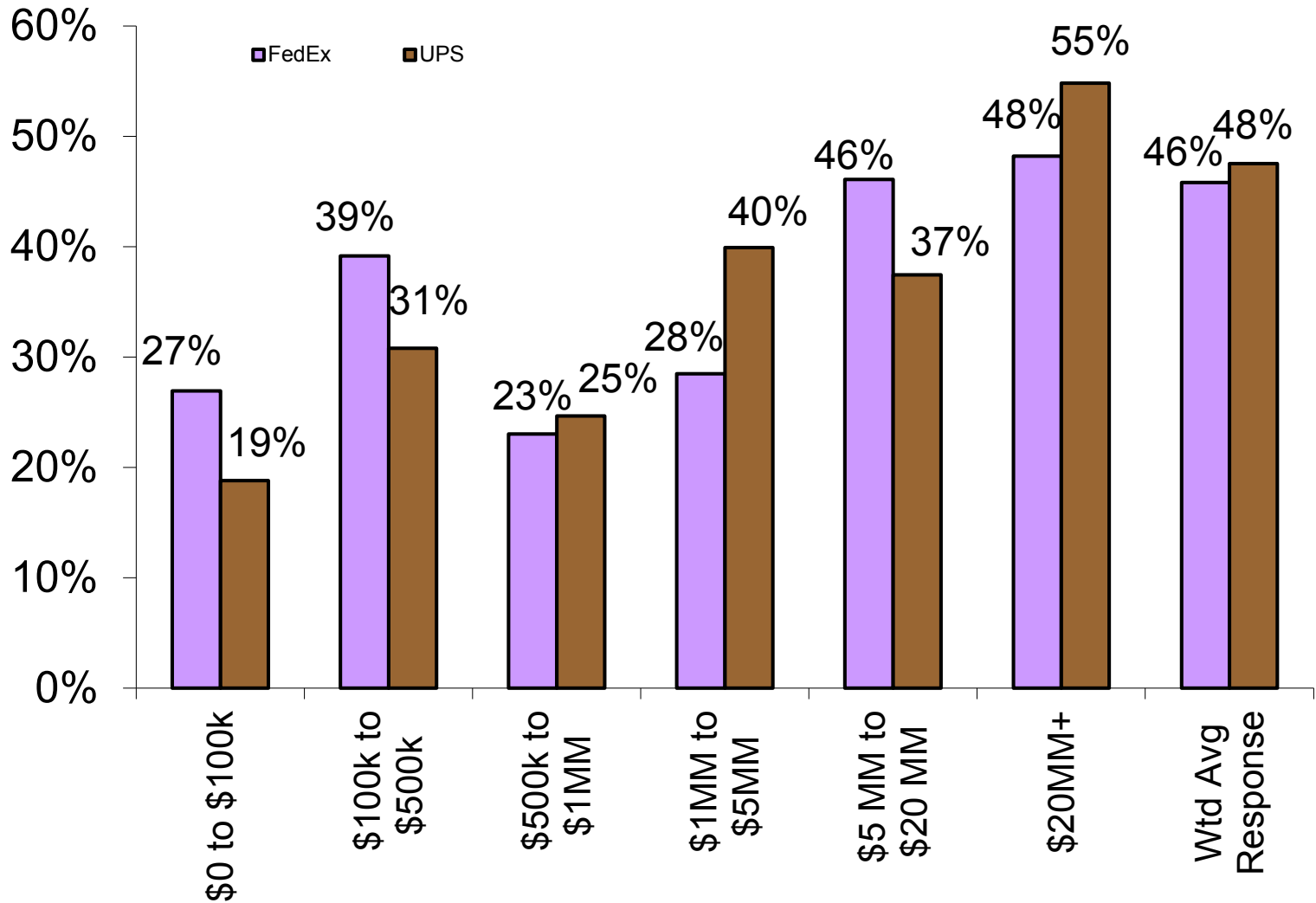
What is Your % Discount Off of Listed Parcel Rates for Air Express?



Source: Morgan Stanley Parcel Survey

Ground List Rate Discount by Spend

What is Your % Discount Off of Listed Parcel Rates for Ground?



Source: Morgan Stanley Parcel Survey

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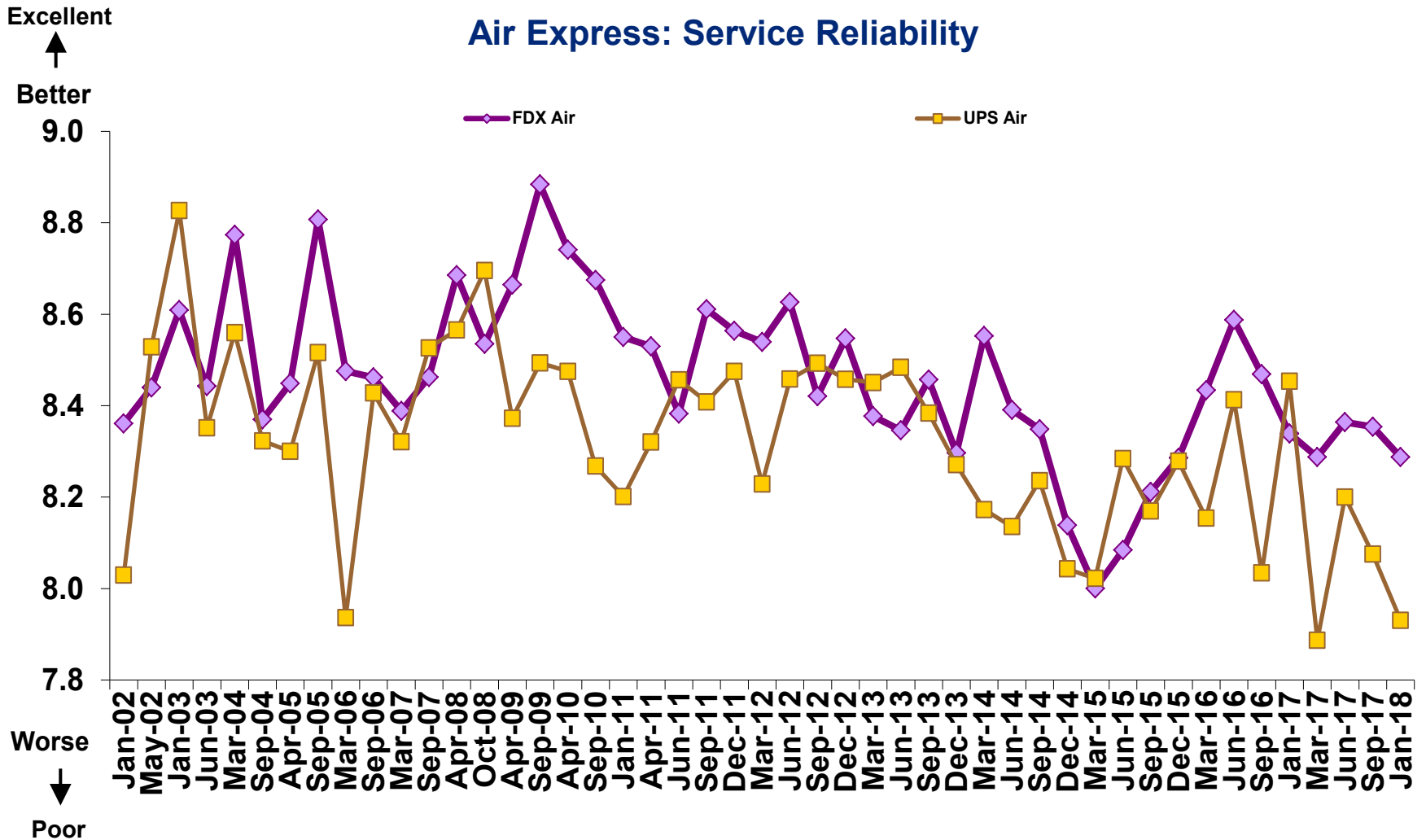
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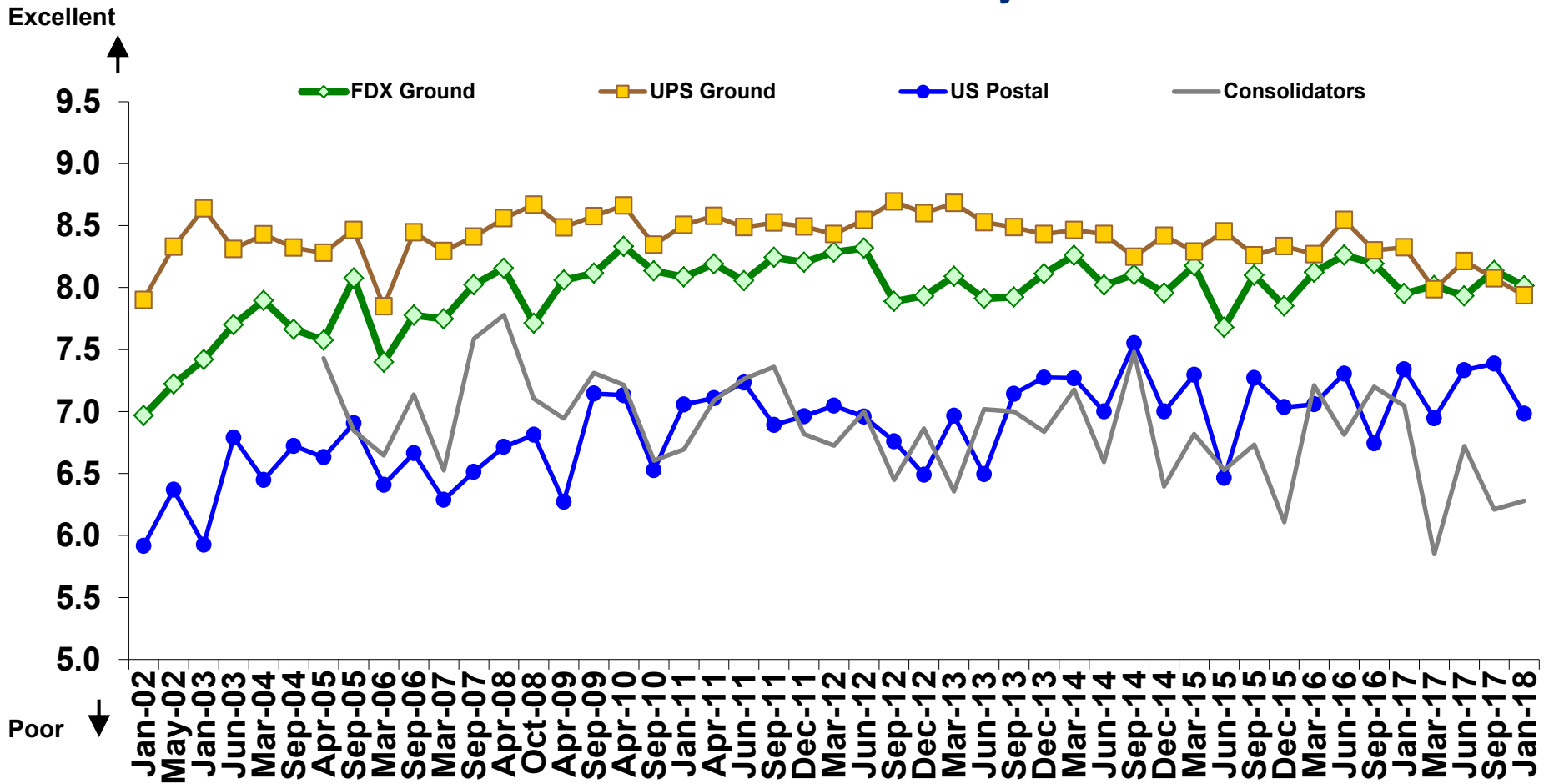
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Source: Morgan Stanley Parcel Survey

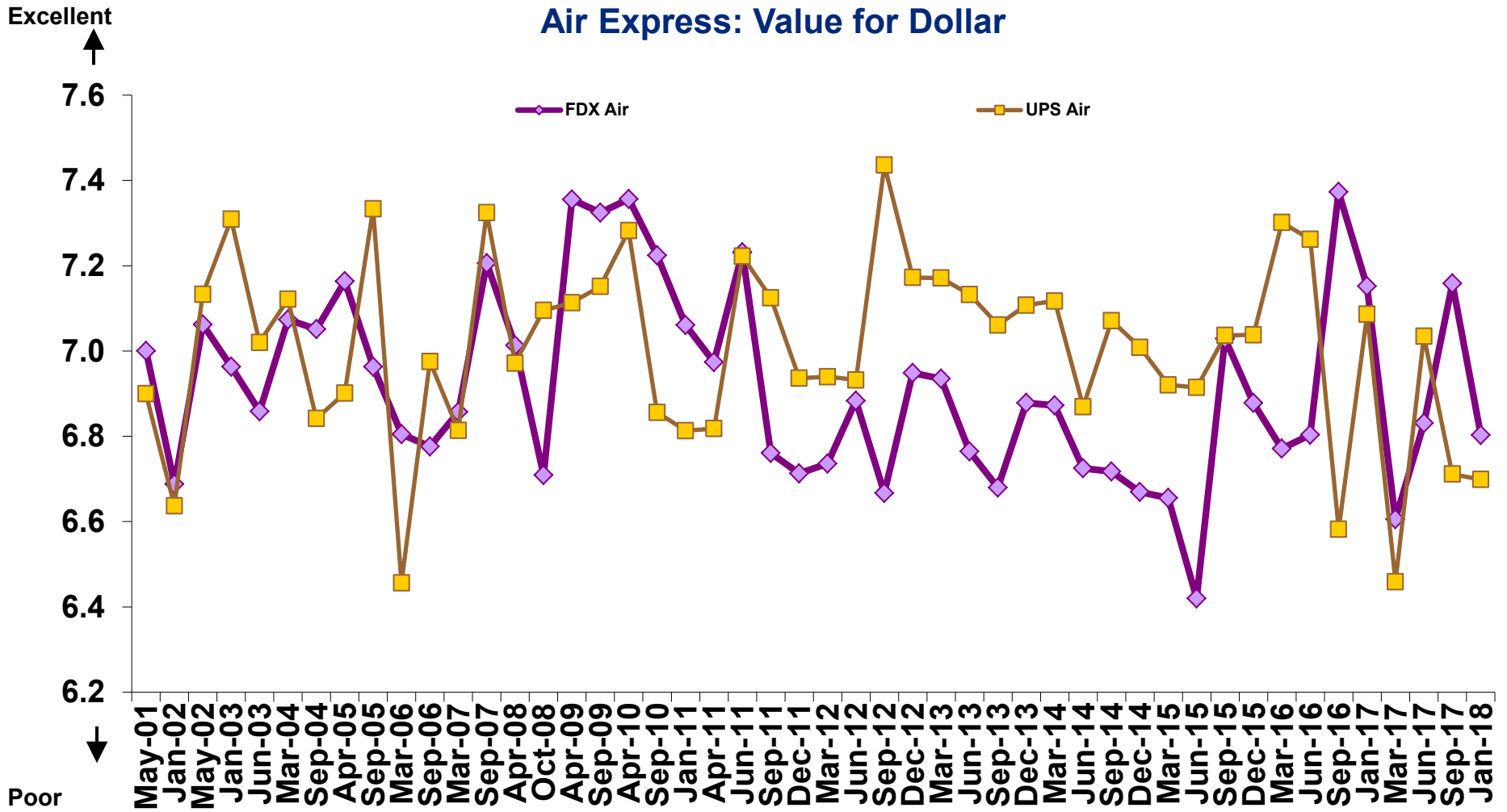
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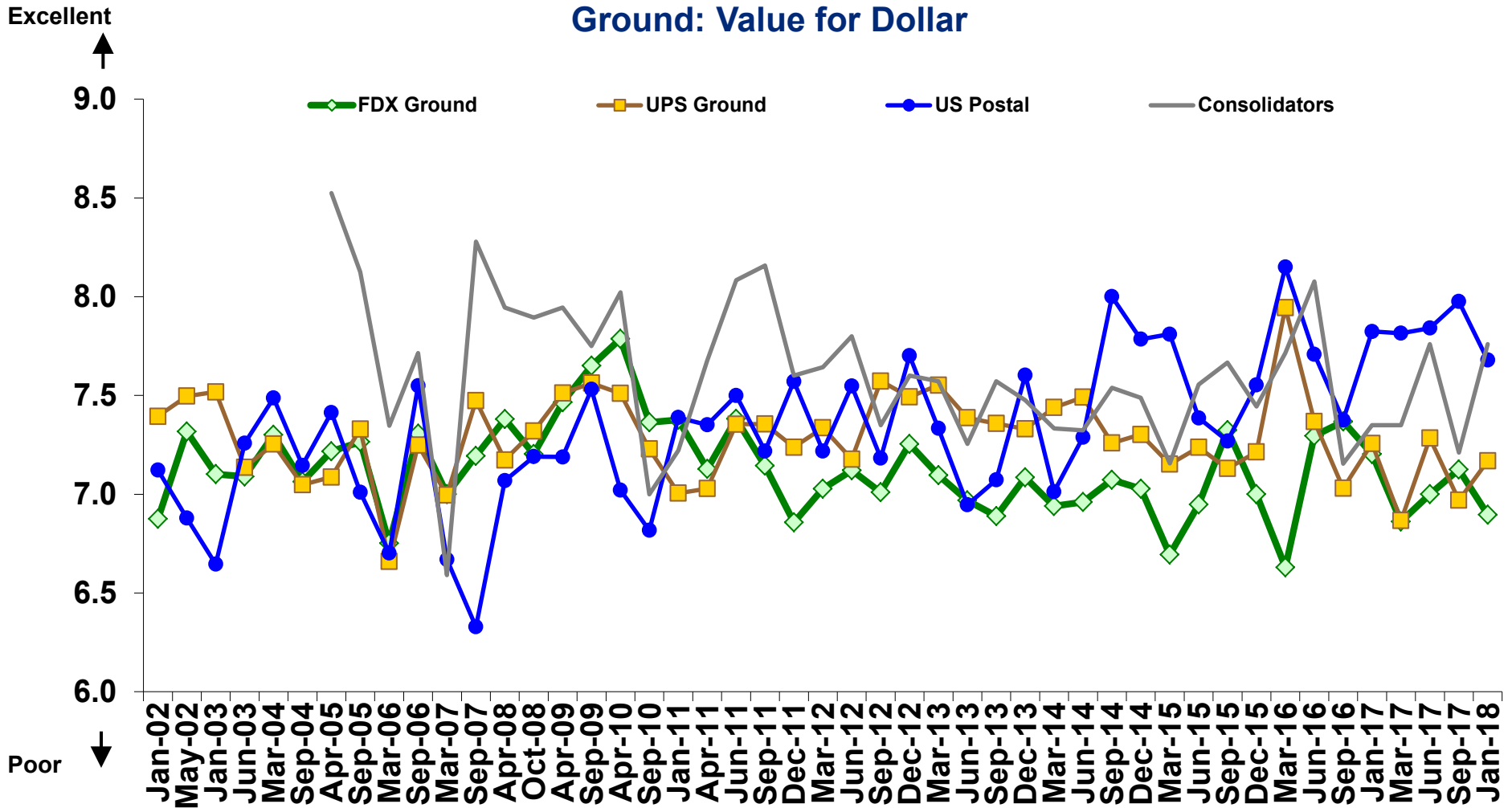


Source: Morgan Stanley Parcel Survey

Value for Dollar Rankings: Historical Trends



Value for Dollar Rankings: Historical Trends



Source: Morgan Stanley Parcel Survey

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1142	36%	320	40%	28%	560	38%
Equal-weight/Hold	1424	44%	371	47%	26%	674	46%
Not-Rated/Hold	55	2%	6	1%	11%	9	1%
Underweight/Sell	583	18%	95	12%	16%	237	16%
Total	3,204		792			1480	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/09/2018)
Ravi Shanker		
ArcBest Corp (ARCB.O)	E (10/06/2011)	\$36.30
C.H. Robinson Worldwide Inc. (CHRW.O)	U (06/09/2013)	\$91.46
Canadian National Railway Co. (CNR.TO)	O (02/23/2016)	C\$104.71
Canadian Pacific Railway Ltd. (CP.TO)	O (06/03/2016)	C\$232.84
CSX Corporation (CSX.O)	U (10/02/2017)	\$59.26
Echo Global Logistics Inc (ECHO.O)	E (08/07/2017)	\$28.40
Expeditors International of Washington I (EXPD.O)	E (02/25/2015)	\$66.05
FedEx Corporation (FDX.N)	E (06/20/2013)	\$267.75
Genesee & Wyoming Inc. (GWR.N)	E (02/23/2016)	\$83.39
Heartland Express Inc. (HTLD.O)	U (05/06/2011)	\$23.46
Hub Group Inc (HUBG.O)	E (07/16/2012)	\$50.85
J.B. Hunt Transport Services Inc. (JBHT.O)	E (05/06/2011)	\$120.31
Kansas City Southern (KSU.N)	E (02/23/2016)	\$110.47
Knight-Swift Transportation Holdings Inc (KNXN)	O (12/13/2017)	\$44.90
Landstar System Inc (LSTR.O)	U (02/23/2016)	\$106.05
Norfolk Southern Corp. (NSC.N)	U (06/03/2016)	\$153.60
Old Dominion Freight Line Inc (ODFL.O)	O (10/06/2011)	\$139.47
Saia, Inc. (SAIA.O)	U (02/23/2016)	\$73.75
Schneider National Inc. (SNDR.N)	O (05/01/2017)	\$28.32
Union Pacific Corp. (UNP.N)	E (10/02/2017)	\$141.00
United Parcel Service (UPS.N)	U (02/23/2016)	\$129.11
Werner Enterprises (WERN.O)	O (02/23/2016)	\$40.40
XPO Logistics, Inc. (XPO.N)	O (11/16/2015)	\$92.61

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