

January 11, 2016

North America Freight Transportation

Freight Pulse 40 Shipper Survey: Shippers' Macro Outlook Remains Relatively Unchanged

In our latest shipper surveys, respondents' economic outlook remained relatively unchanged from our previous survey with sentiment continuing to trend similar to 2013 levels. Shippers continue to report high inventory levels and the % of shippers expecting to reduce inventories remains high relative to history. Volume growth expectations remain flattish for Rail and +1-2% for TL/LTL while rate growth expectations continued to decelerate across all modes. Despite ongoing improvement in Rail service reliability, shippers expect Intermodal volume growth to decelerate over the next 6 months as falling fuel prices and looser TL capacity make TL more competitive.

Freight/Macro Highlights: (1) Shippers' Economic Outlook Remains Relatively Unchanged; (2) Automotive Shippers Most Constructive on Macro; Chemical Shippers Least Constructive; (3) Inventories Still Elevated, with % of Shippers Expecting to Reduce Inventories Still Relatively High; (4) Expectations for Capacity Tightness Continue to Decline Across All Modes ex. Barge; (5) Barge and Rail Service Levels Show the Most Sequential Improvement.

Rail Highlights: (1) Rail Volume Growth Expectations Remain at 0.5%; (2) Shippers Expect Rail Rate Growth to Decelerate in Next 6 Months; (3) More Shippers Expect Rail Spend to Remain Unchanged Though Rate Negotiations Have Become More Difficult; (4) Avg. Intermodal Discount to Truckload (Ex. Fuel) Returns to Historical Average of ~15%; (5) Rail Service Reliability Continued to Improve Sequentially in 4Q15.

Truck Highlights: (1) Intermodal Volume Growth Expectations Decelerate to the Lowest Level Since Sept 2009; (2) Rate Growth Expectations Decelerate to ~1% across All Truck Modes; (3) Shippers Expect Capacity to Loosen Across All Truck Modes; (4) Improving Rail Service a Larger Factor Driving Intermodal Growth, but Fuel Efficiency Remains Most Important; (5) More Shippers Reporting that TL Price Discounts Have Offset Some of the Rail Cost Differential.

Parcel Highlights: (1) Air, International, and Ground Parcel Volume Growth Expectations Edge Lower; (2) Parcel Pricing Growth Expectations Remain in the 1-2% Range over the Next 6 Months; (3) Shippers Expect B2C as % of Total Parcel Shipment Stay Roughly Unchanged from Prior Survey Results; (4) Shippers See Parcel Carriers Becoming More Aggressive in Trying to Win Business; (5) According to Shippers, Discounts Off List Rates Increased Seq. for FDX Air & Ground.

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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 Remains Relatively Unchanged

2. Economic Outlook by Industry

- Automotive Shippers Most Constructive on Macro; Chemical Shippers Least Constructive

3. Inventory & Restocking

- Inventories Still Elevated, with % of Shippers Expecting to Reduce Inventories Still Relatively High

4. Capacity Expectations

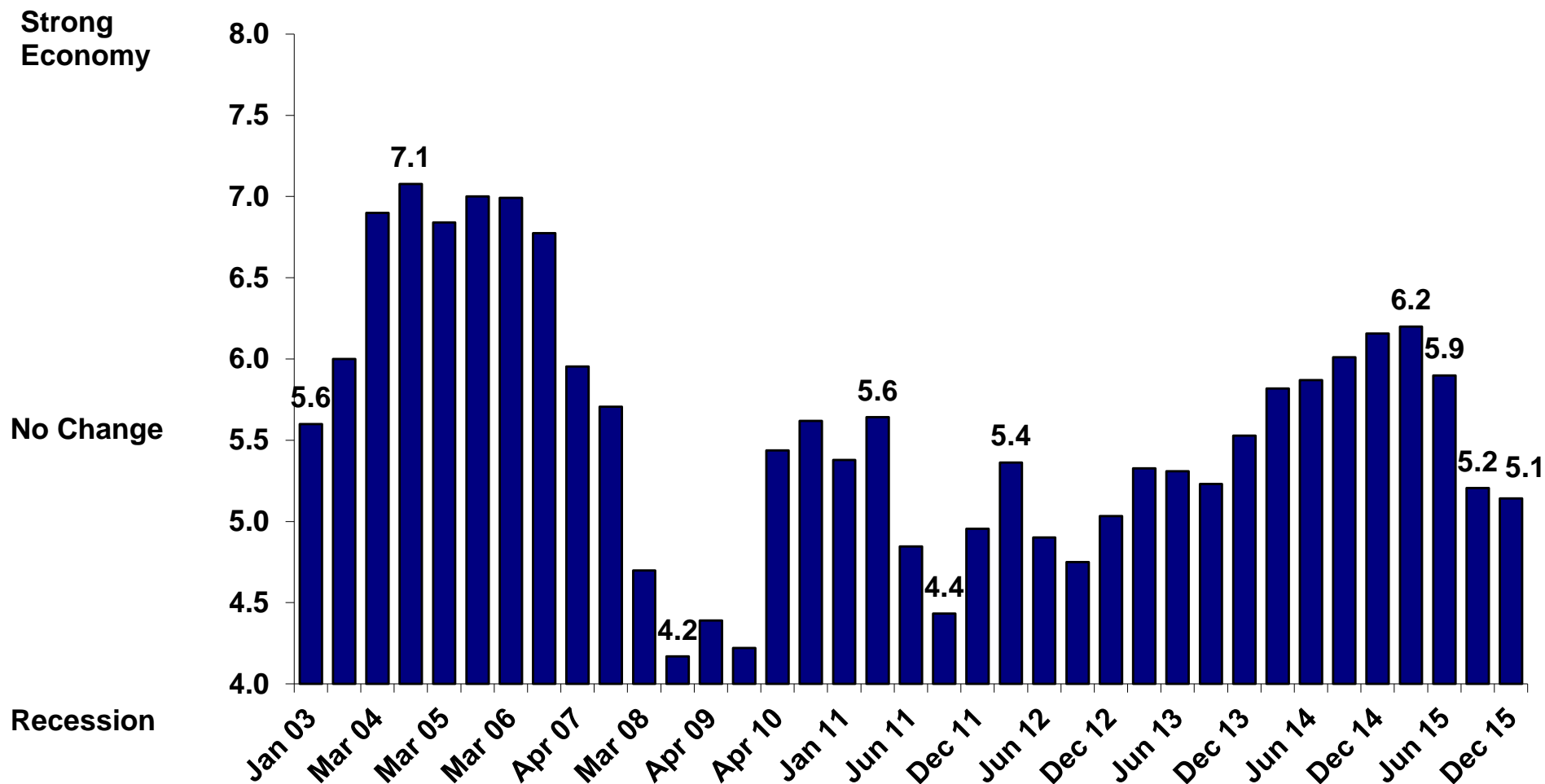
- Expectations for Capacity Tightness Continue to Decline Across All Modes ex. Barge

5. Service Trends

- Barge and Rail Service Levels Show the Most Sequential Improvement

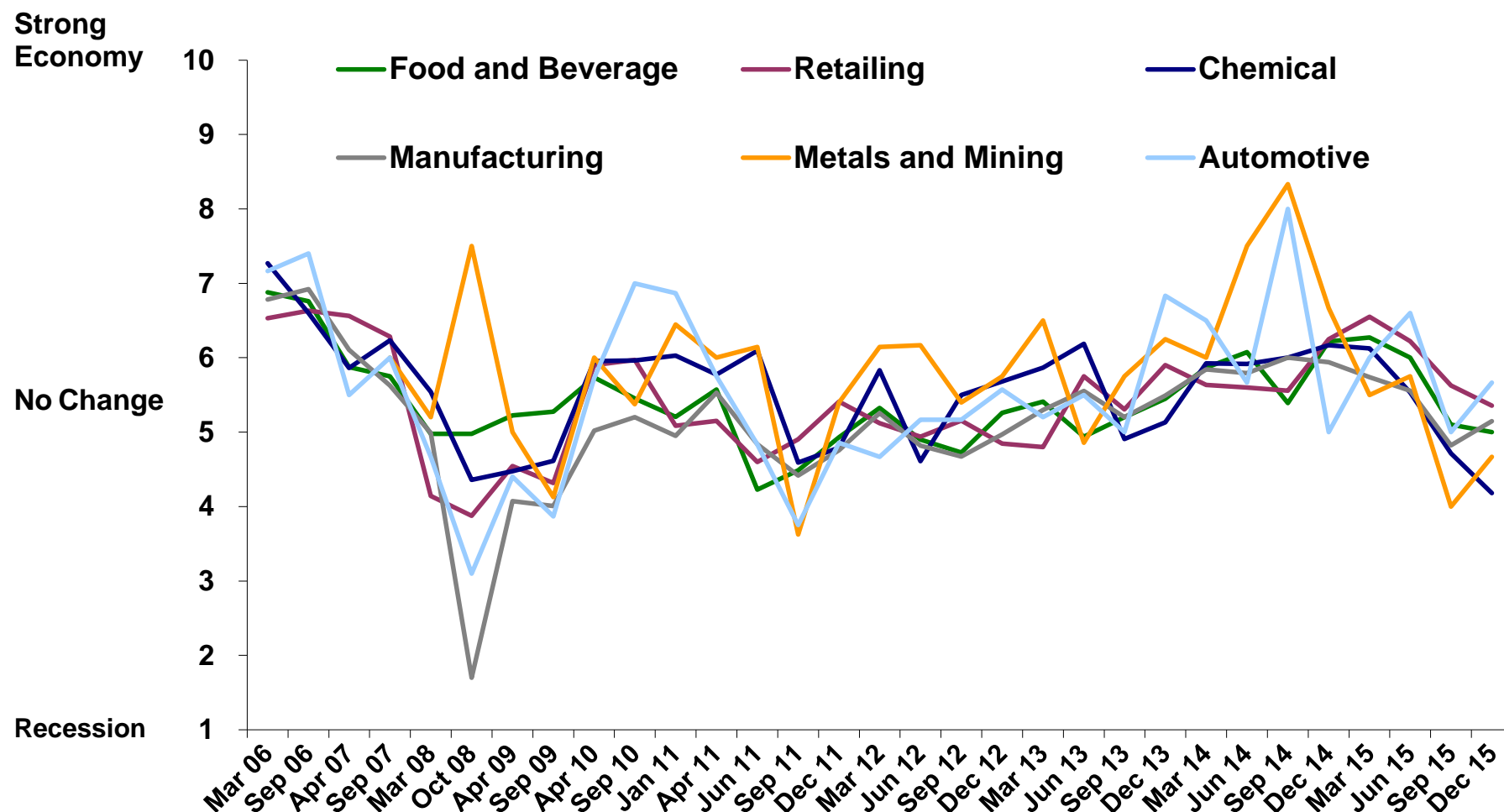
1. Shippers' Economic Outlook Remains Relatively Unchanged

State of the Economy from Shippers' Perspective



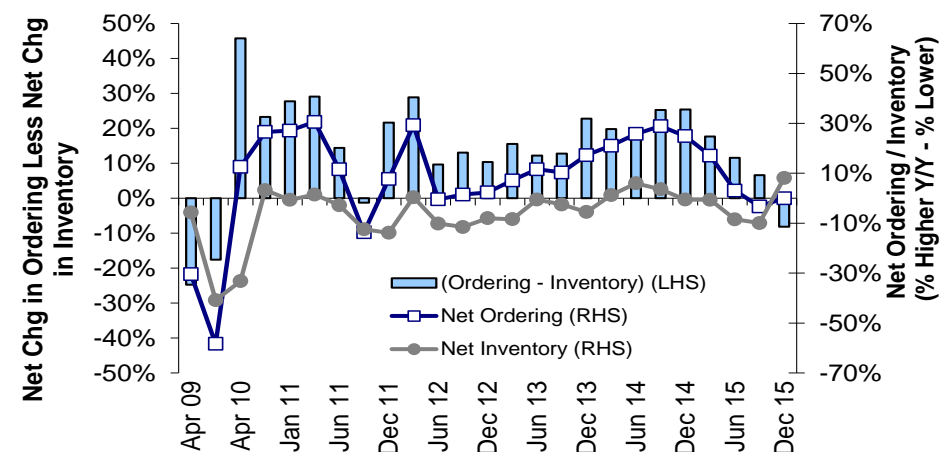
2. Automotive Shippers Most Constructive on Macro; Chemical Shippers Least Constructive

Shippers' View of the Economy by Industry

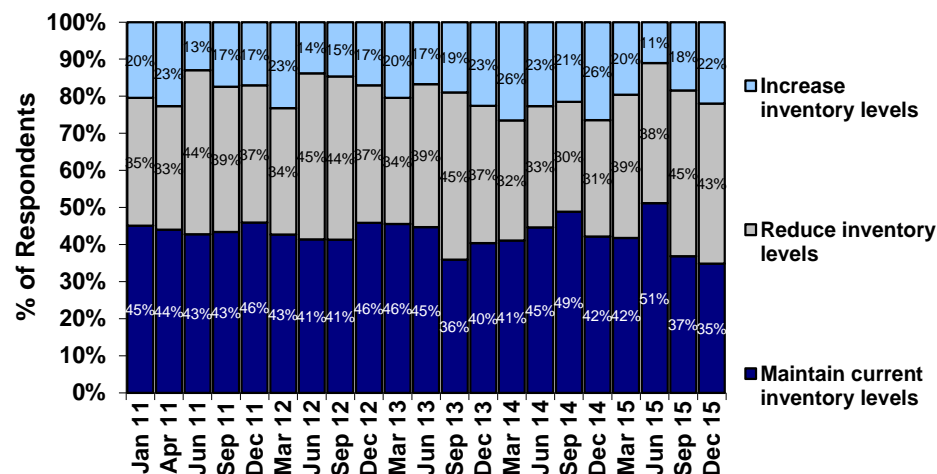


3. Inventories Still Elevated, with % of Shippers Expecting to Reduce Inventories Still Relatively High

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

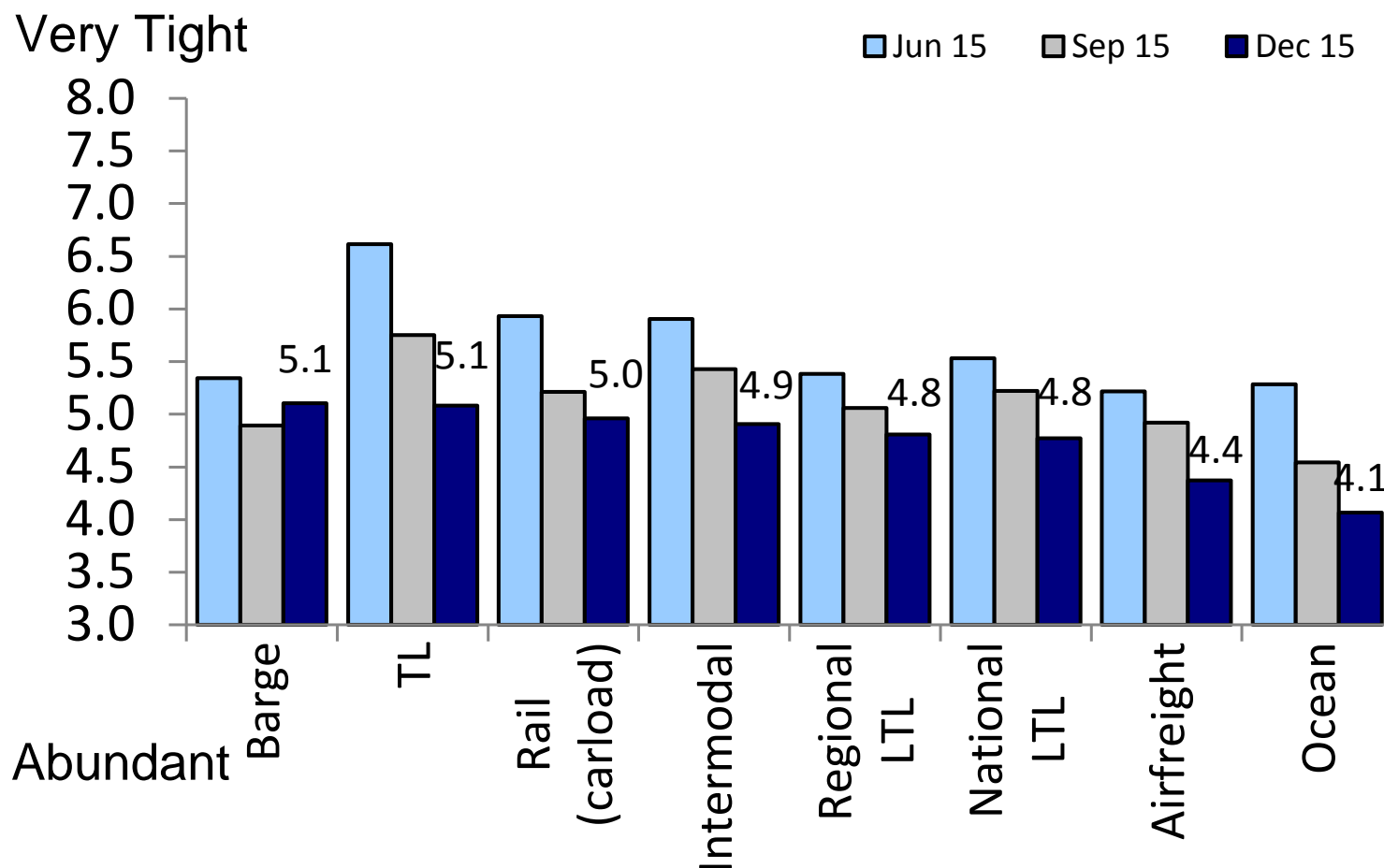


Shippers' Inventory Plans



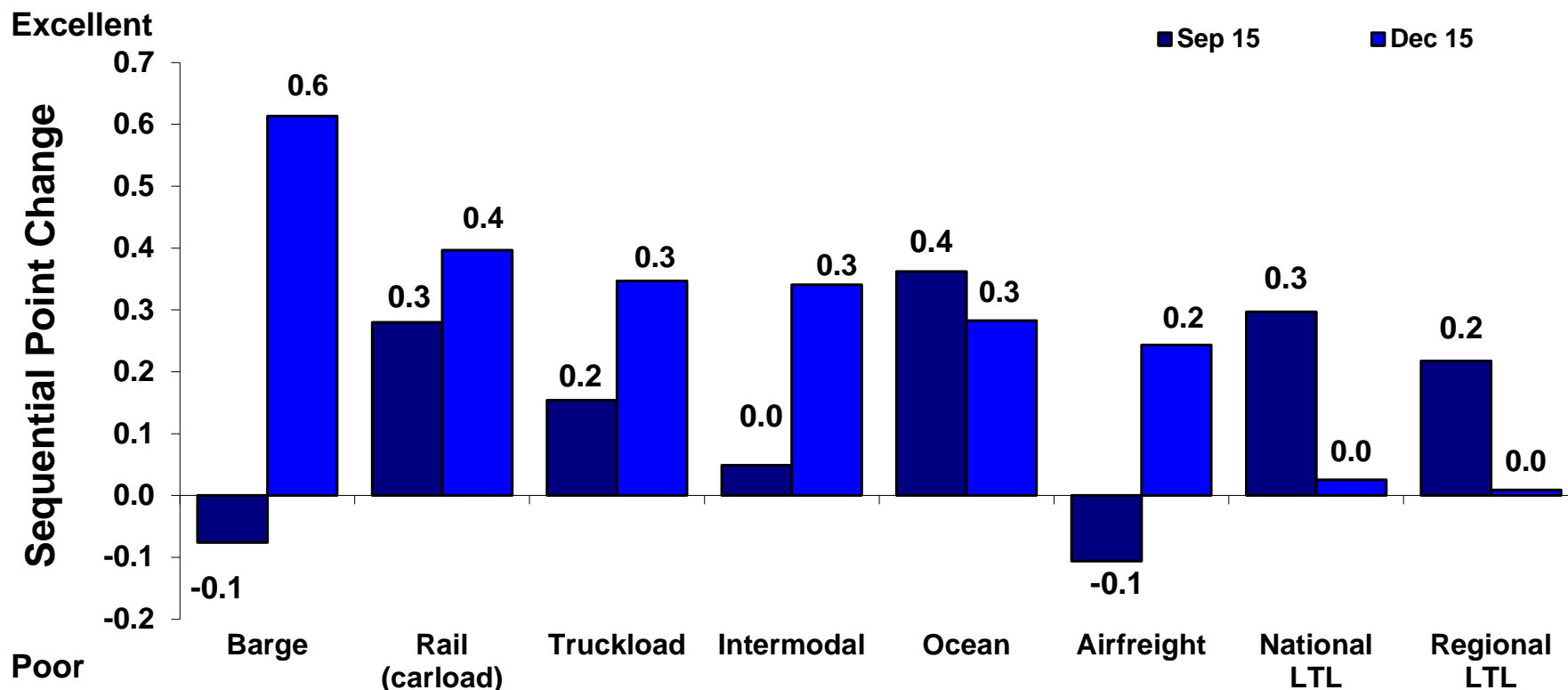
4. Expectations for Capacity Tightness Continue to Decline Across All Modes ex. Barge

Projected Capacity in 6 Months



5. Barge and Rail Service Levels Show the Most Sequential Improvement

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



Freight Pulse: Railroad Highlights

Railroad Highlights

Freight Pulse: Rail Key Takeaways

1. Rail Volume

- Rail Volume Growth Expectations Remain at 0.5%

2. Pricing

- Shippers Expect Rail Rate Growth to Decelerate in Next 6 Months

3. Spending

- More Shippers Expect Rail Spend to Remain Unchanged Though Rate Negotiations Have Become More Difficult

4. Intermodal

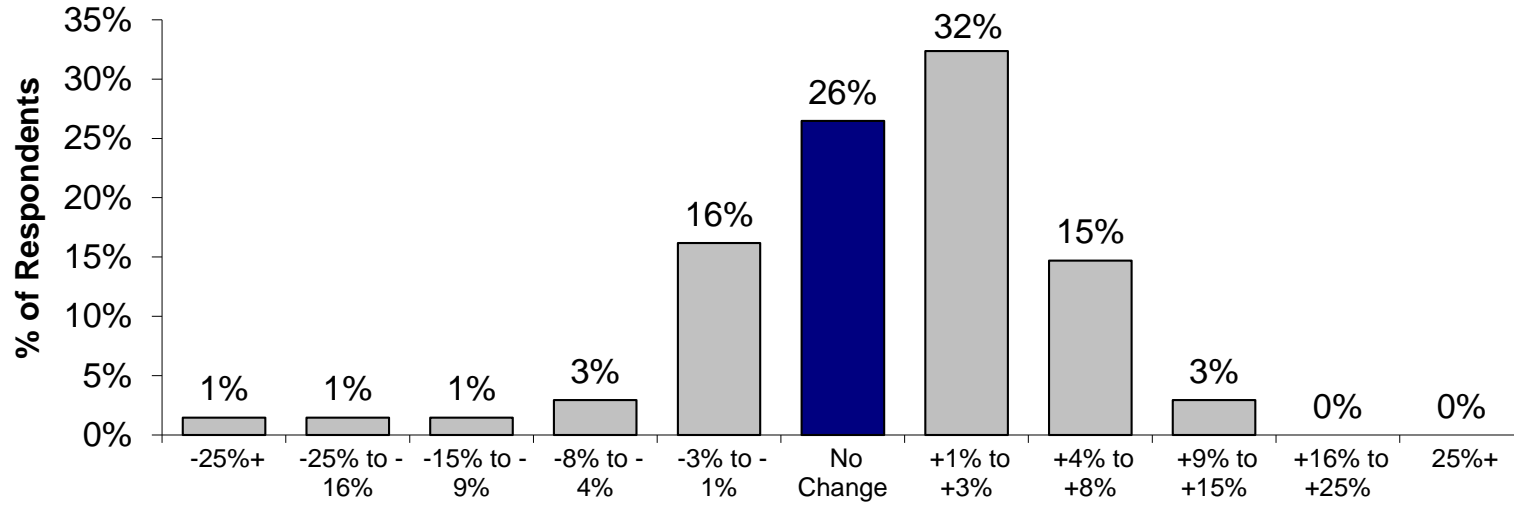
- Avg. Intermodal Discount to Truckload (Ex. Fuel) Returns to Historical Average of ~15%

5. Service Trends

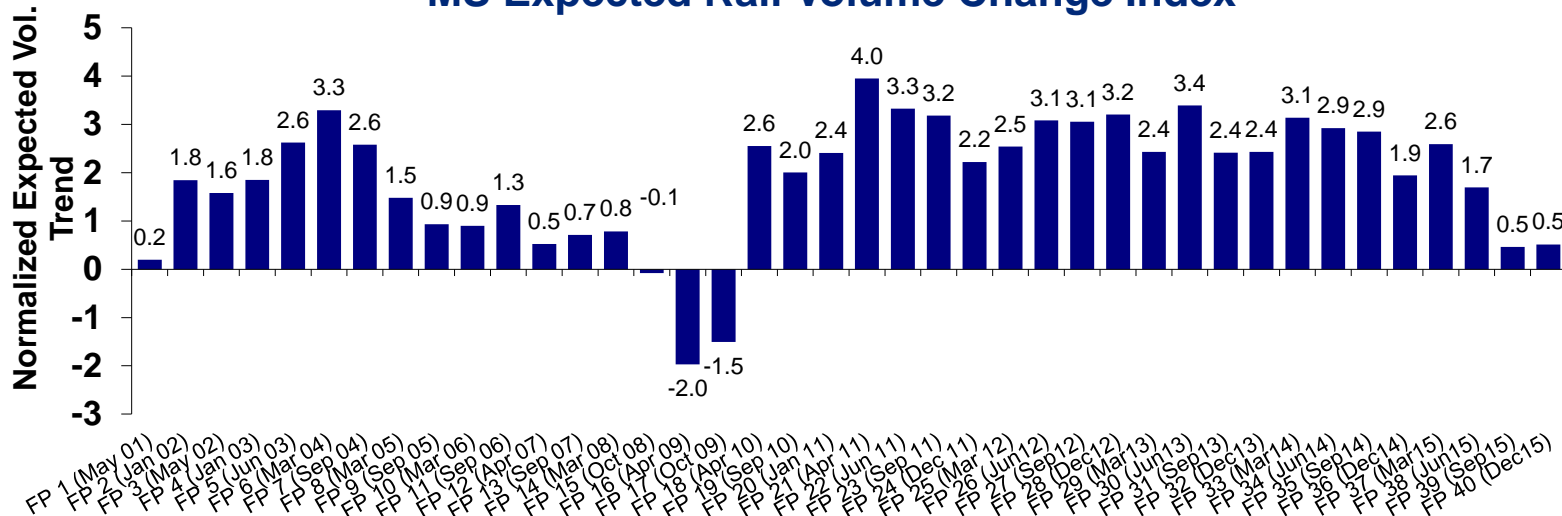
- Rail Service Reliability Continued to Improve Sequentially in 4Q15

1. Rail Volume Growth Expectations Remain at 0.5%

YoY Volume Growth Expectations for Next 6 Mo. by Range

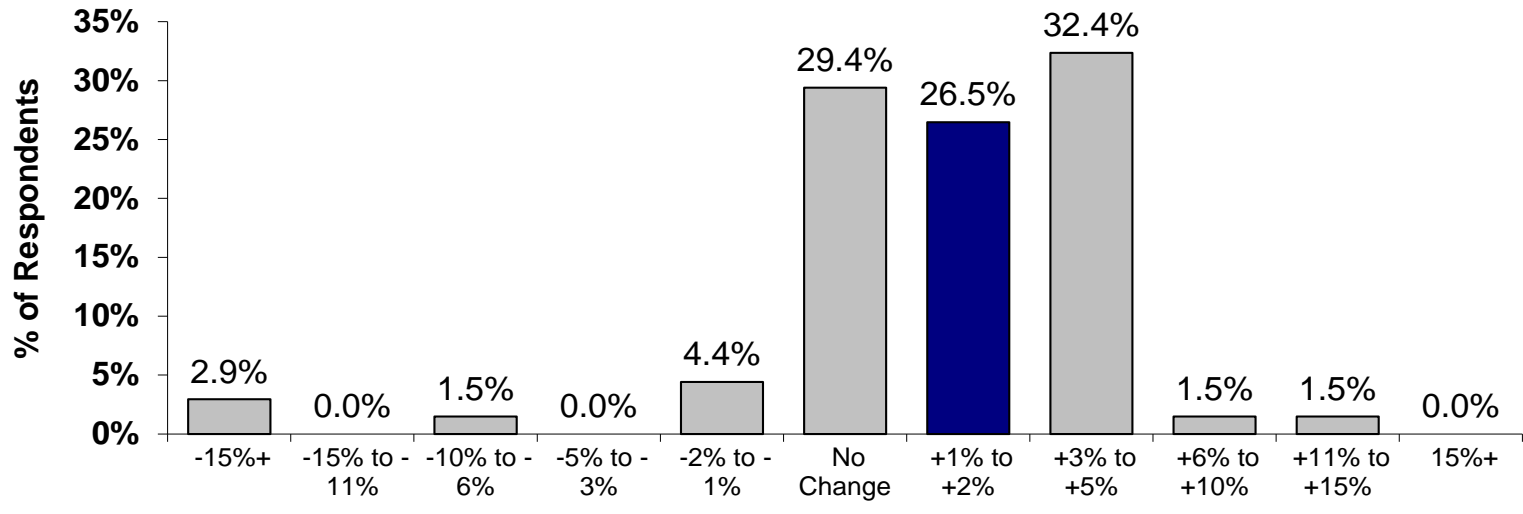


MS Expected Rail Volume Change Index

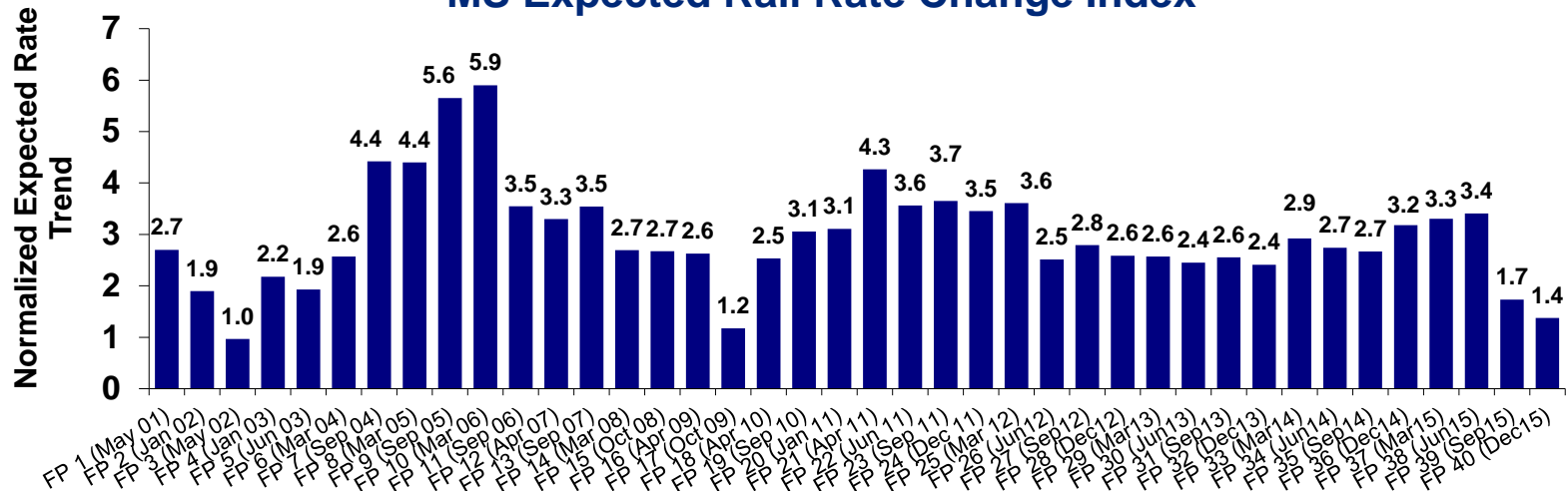


2. Shippers Expect Rail Rate Growth to Decelerate in Next 6 Months

YoY Rate Growth Expectations for Next 6 Mo. by Range

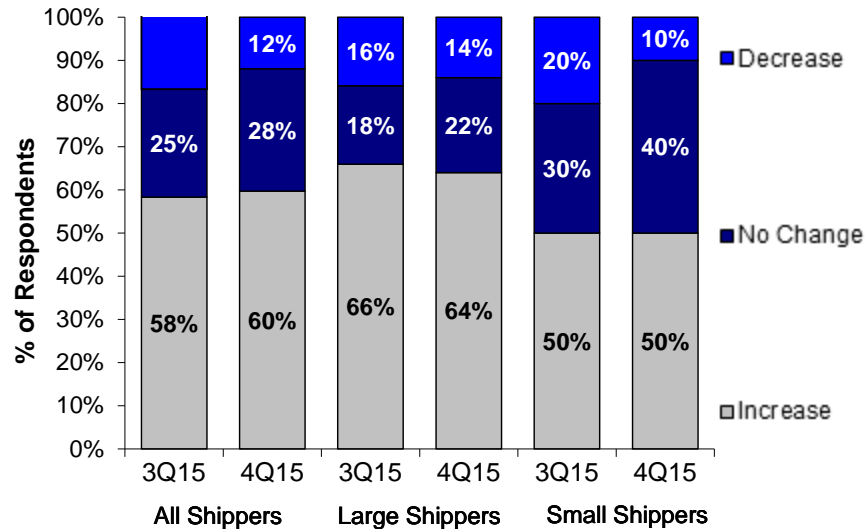


MS Expected Rail Rate Change Index

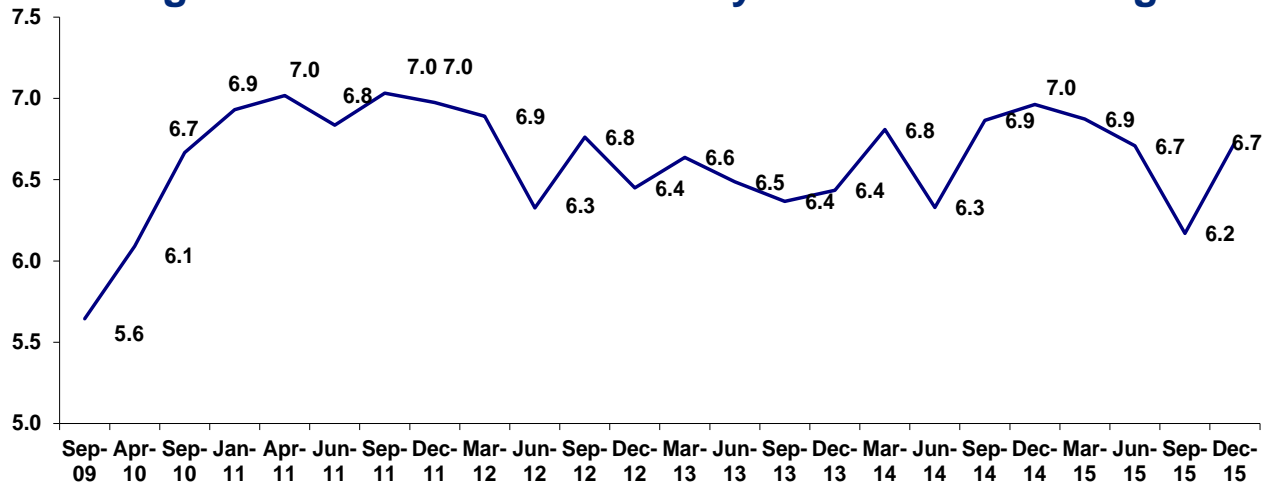


3. More Shippers Expect Rail Spend to Remain Unchanged Though Rate Negotiations Have Become More Difficult

Rail Spend Forward 6 Month YoY Growth Expectations

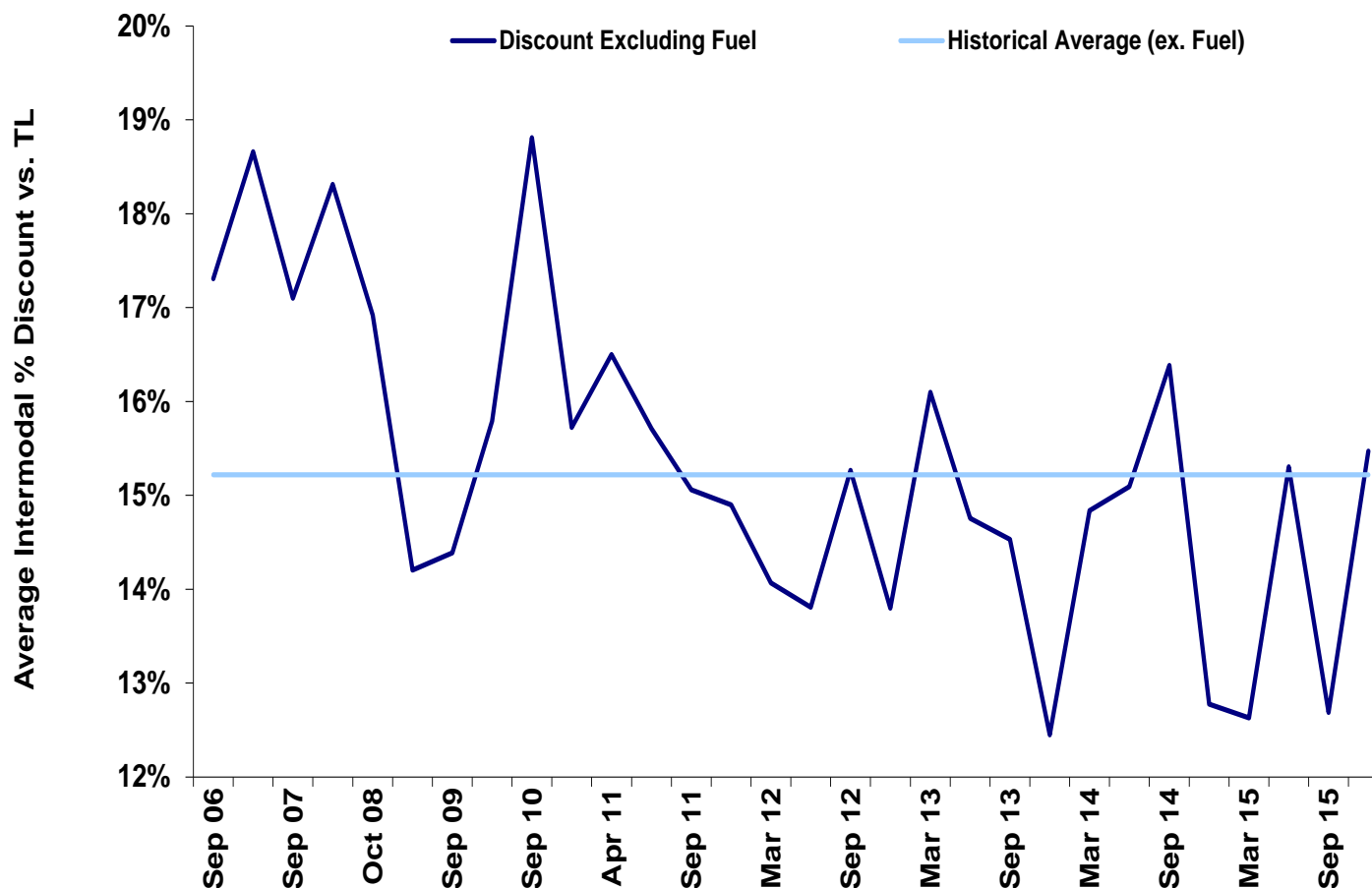


Rail Rate Negotiations: Rate the Difficulty of Recent Rate Negotiations



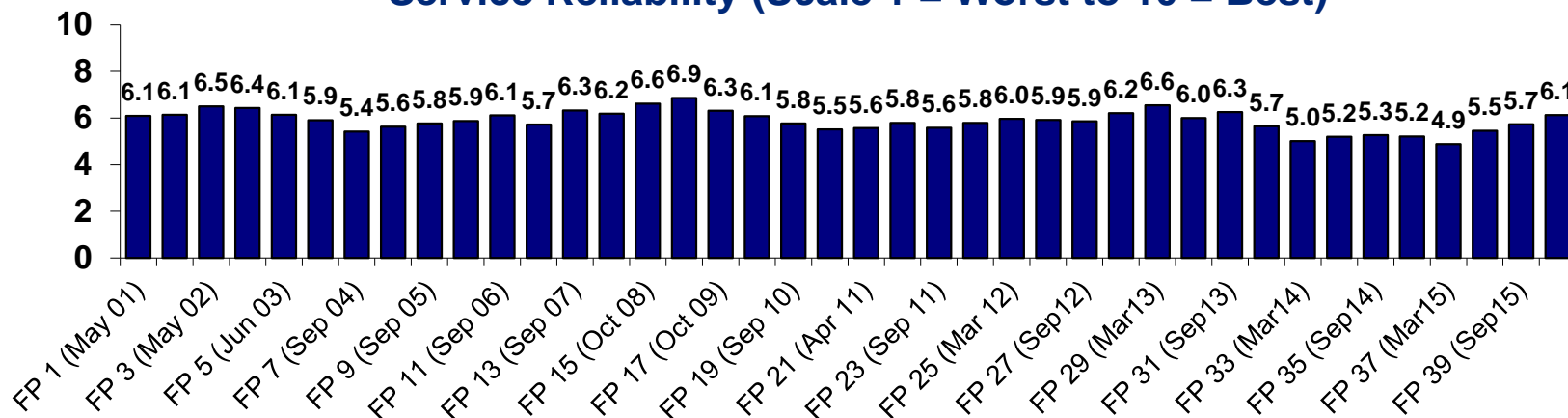
4. Avg. Intermodal Discount to Truckload (Ex. Fuel) Returns to Historical Average of ~15%

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

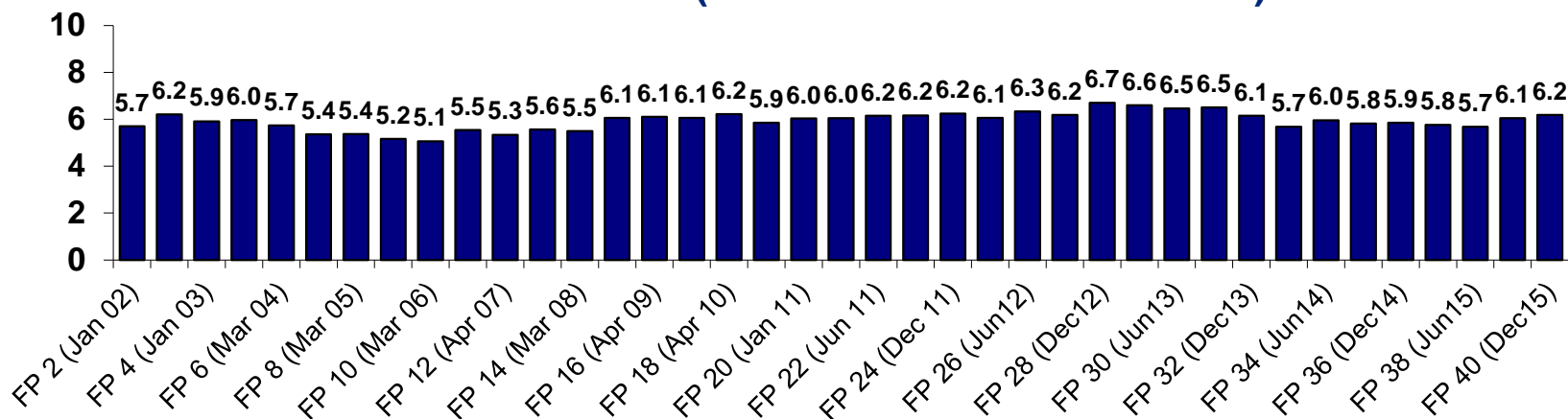


5. Rail Service Reliability Continued to Improve Sequentially in 4Q15

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

- Intermodal Volume Growth Expectations Decelerate to the Lowest Level Since Sept 2009

2. Pricing

- Rate Growth Expectations Decelerate to ~1% across All Truck Modes

3. Capacity

- Shippers Expect Capacity to Loosen Across All Truck Modes

4. Intermodal Use

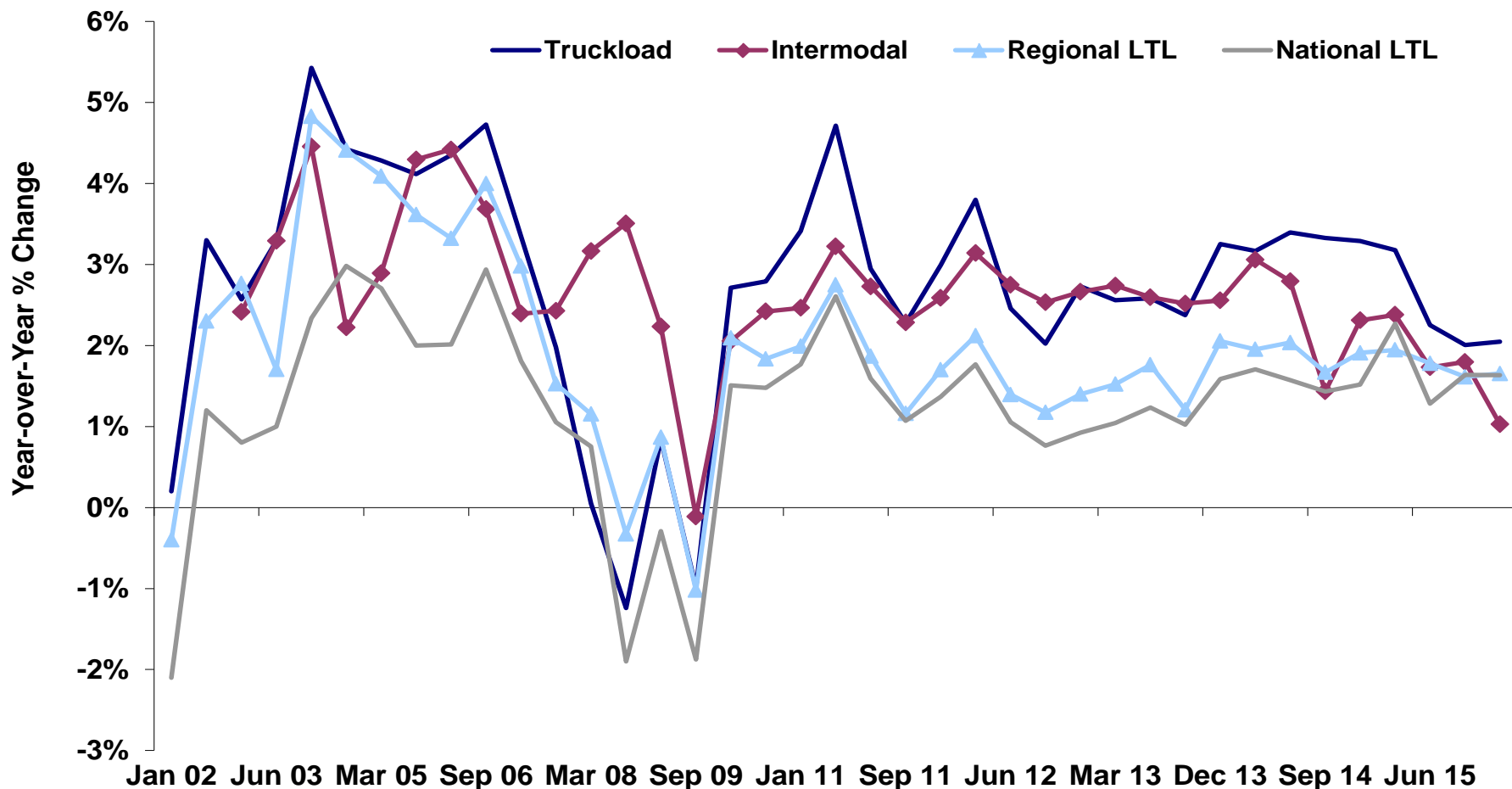
- Improving Rail Service a Larger Factor Driving Intermodal Growth, but Fuel Efficiency Remains Most Important

5. Intermodal Cost

- More Shippers Reporting that TL Price Discounts Have Offset Some of the Rail Cost Differential

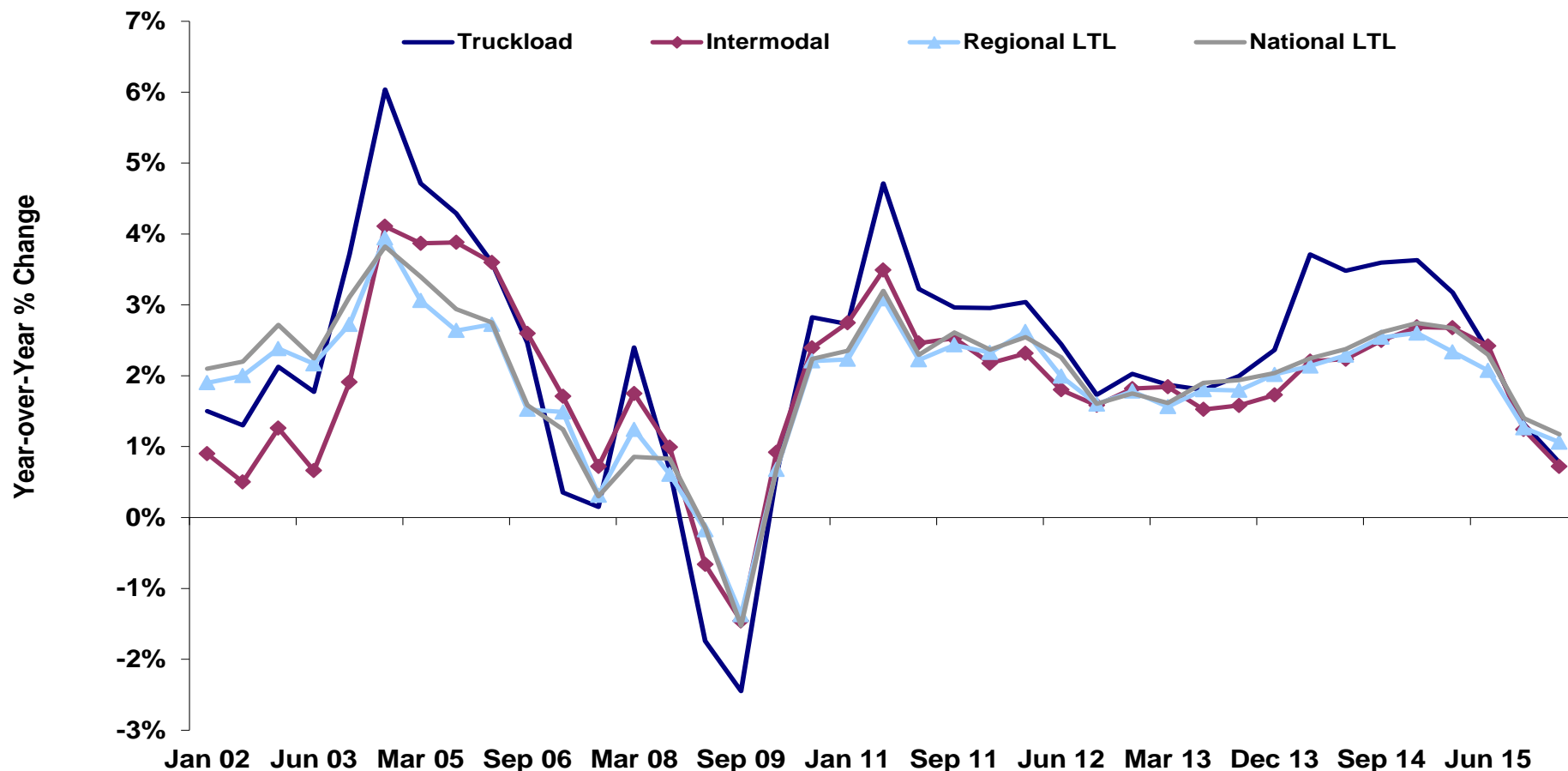
1. Intermodal Volume Growth Expectations Decelerate to the Lowest Level Since Sept 2009

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



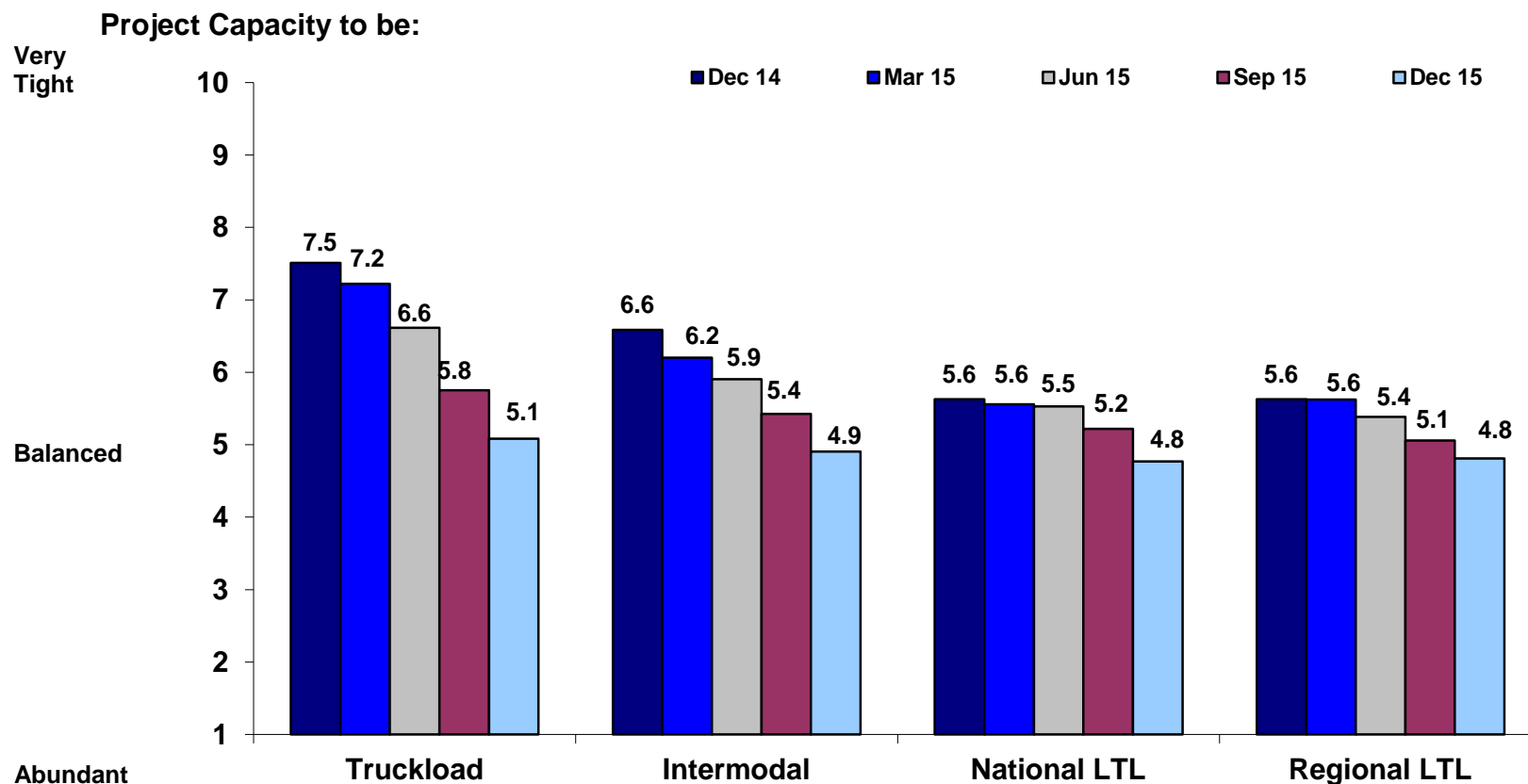
2. Rate Growth Expectations Decelerate to ~1% across All Truck Modes

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



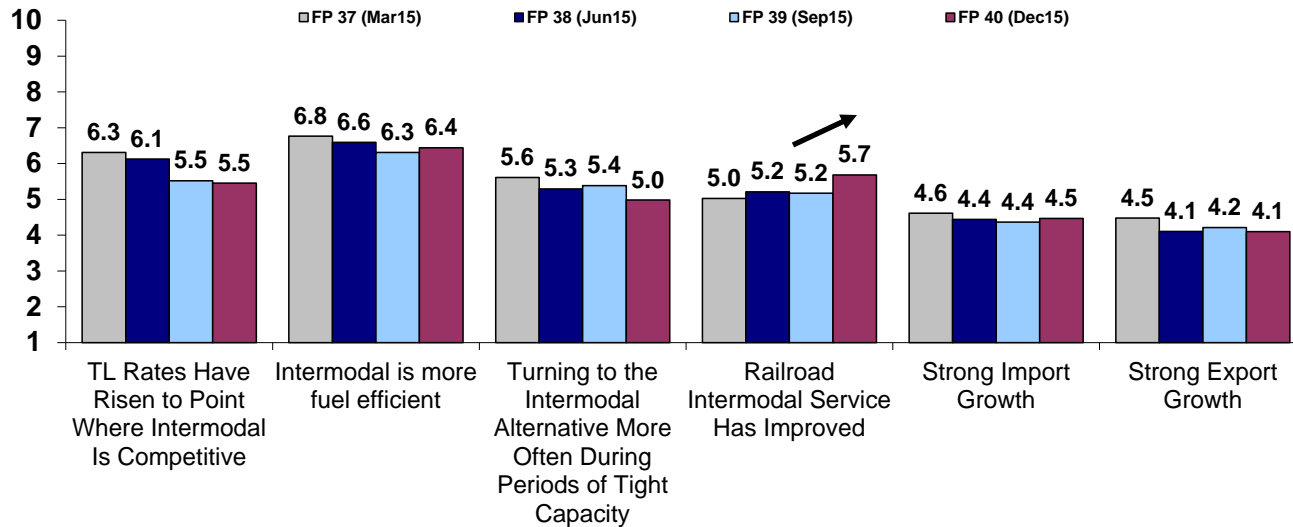
3. Shippers Expect Capacity to Loosen Across All Truck Modes

What are your Expectations for Capacity in 6 Months?

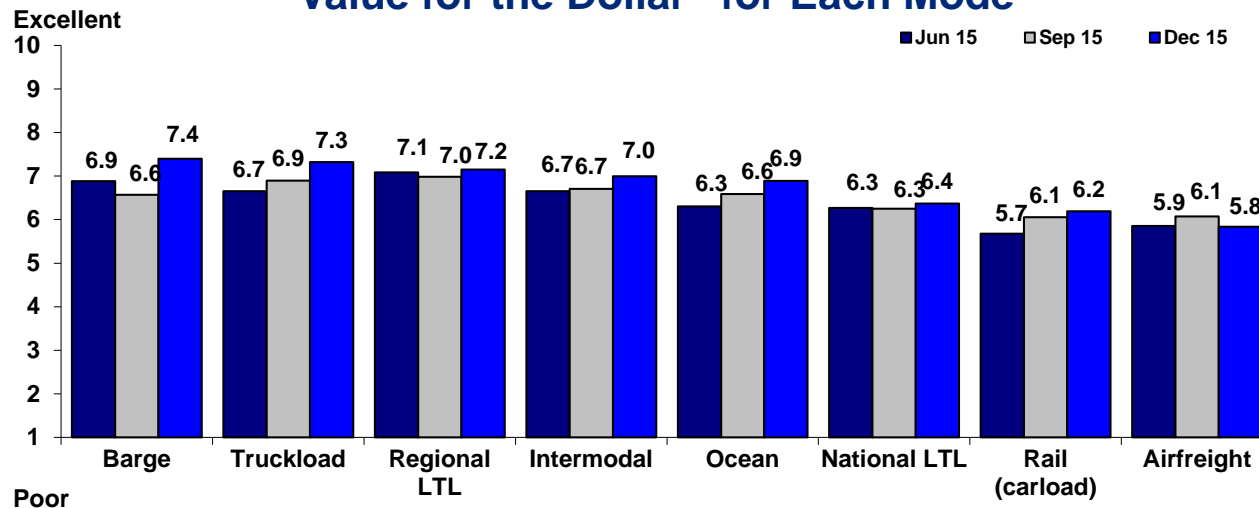


4. Improving Rail Service a Larger Factor Driving Intermodal Growth, but Fuel Efficiency Remains Most Important

What Factors are Impacting Your Use of Intermodal Most?

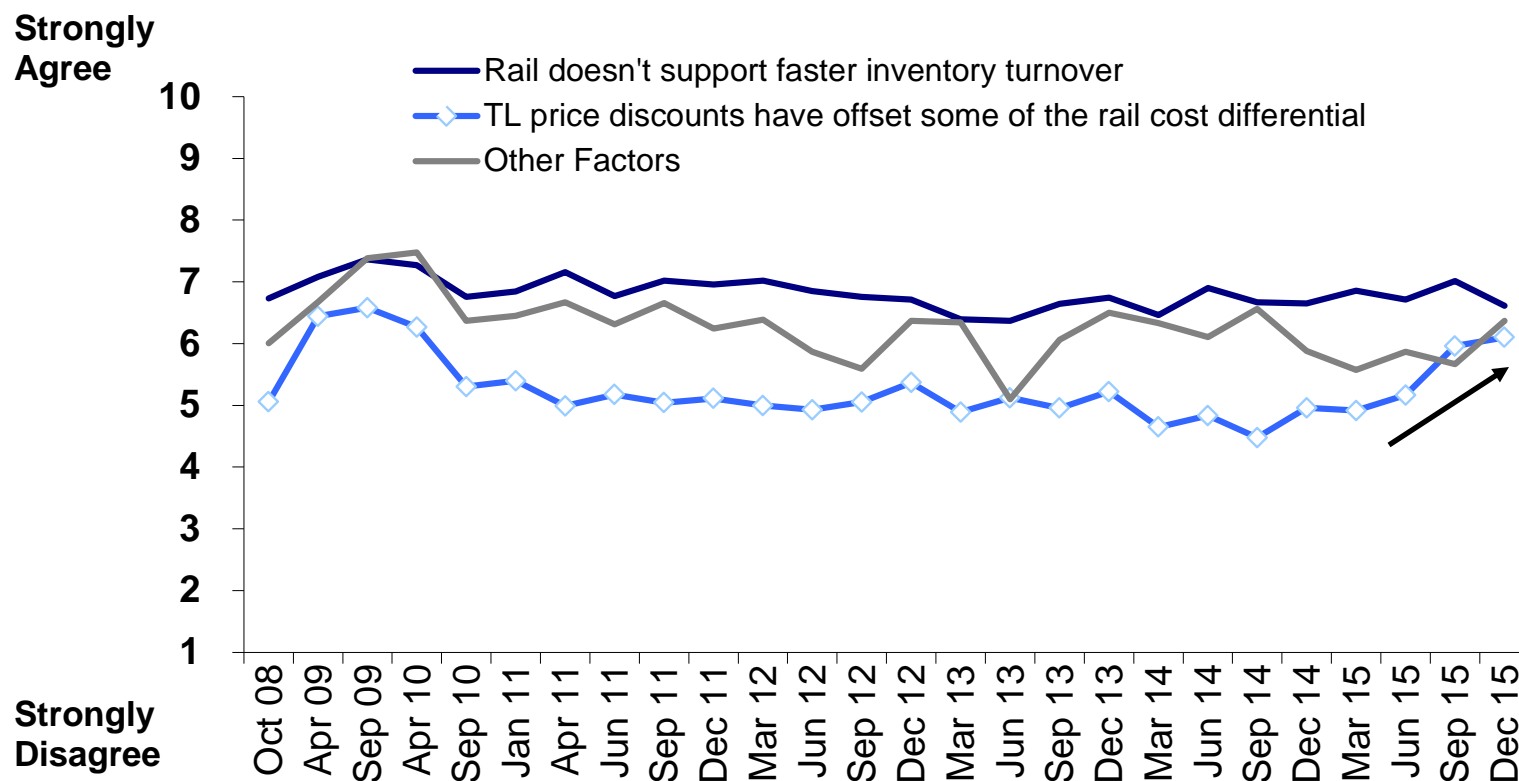


“Value for the Dollar” for Each Mode



5. More Shippers Reporting that TL Price Discounts Have Offset Some of the Rail Cost Differential

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



Freight Pulse: Parcel Highlights

Parcel Highlights

Freight Pulse: Parcel Key Takeaways

1. Parcel Volumes

- Air, International, and Ground Parcel Volume Growth Expectations Edge Lower

2. Pricing

- Parcel Pricing Growth Expectations Remain in the 1-2% Range over the Next 6 Months

3. B2C

- Shippers Expect B2C as % of Total Parcel Shipment Stay Roughly Unchanged from Prior Survey Results

4. Aggressiveness

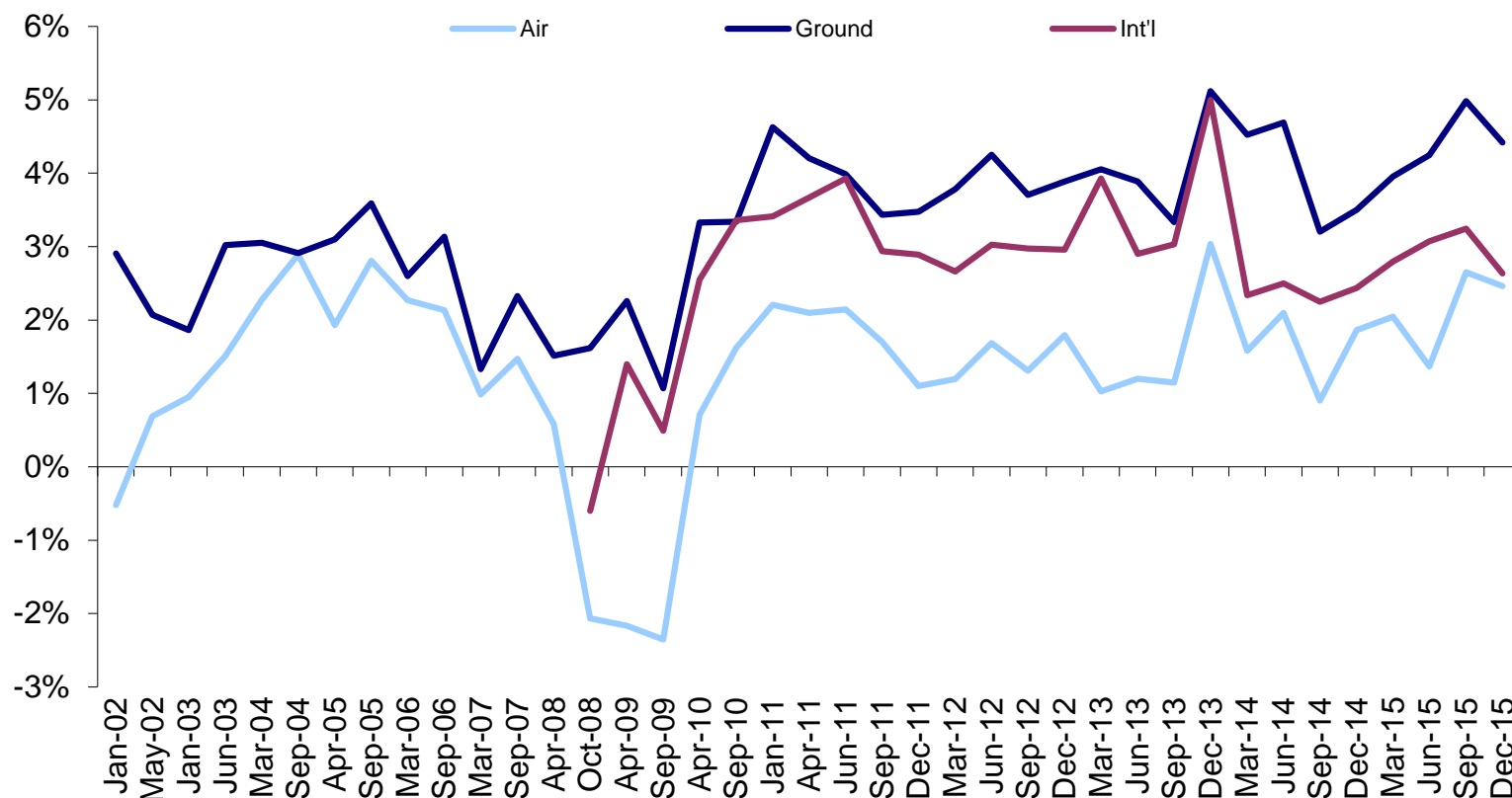
- Shippers See Parcel Carriers Becoming More Aggressive in Trying to Win Business

5. Rate Discounts

- According to Shippers, Discounts Off List Rates Increased Seq. for FDX Air & Ground

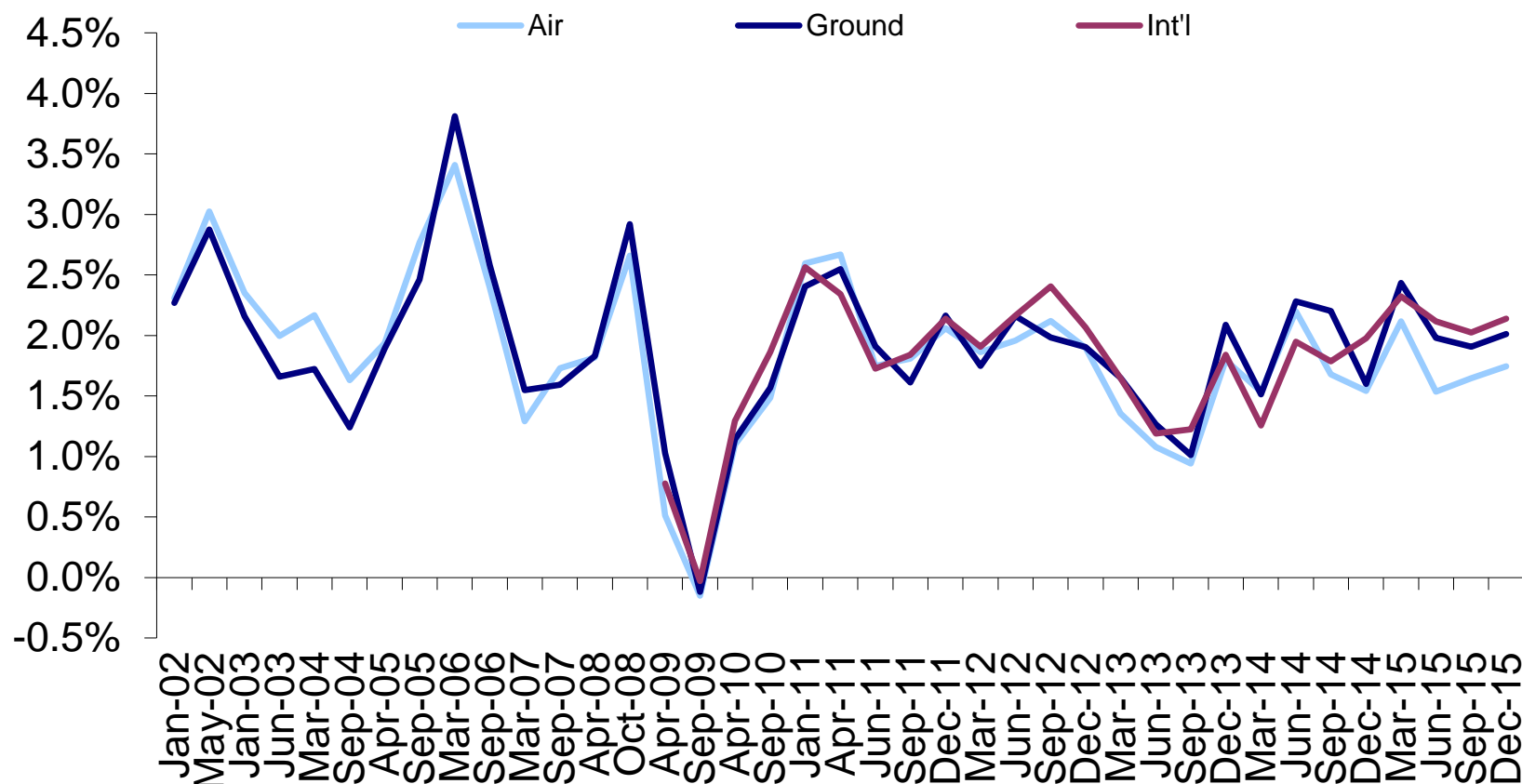
1. Air, International, and Ground Parcel Volume Growth Expectations Edge Lower

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



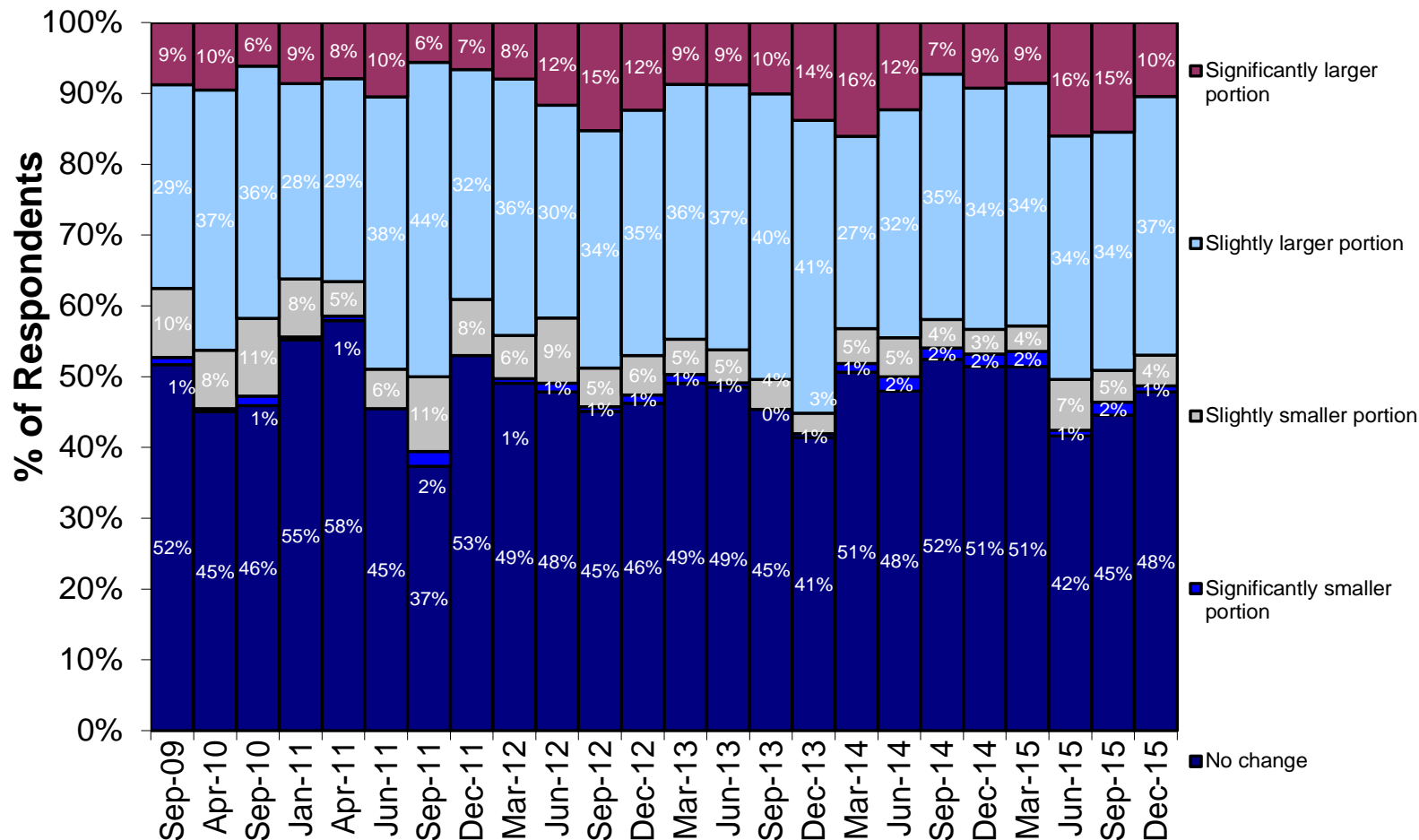
2. Parcel Pricing Growth Expectations Remain in the 1-2% Range over the Next 6 Months

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



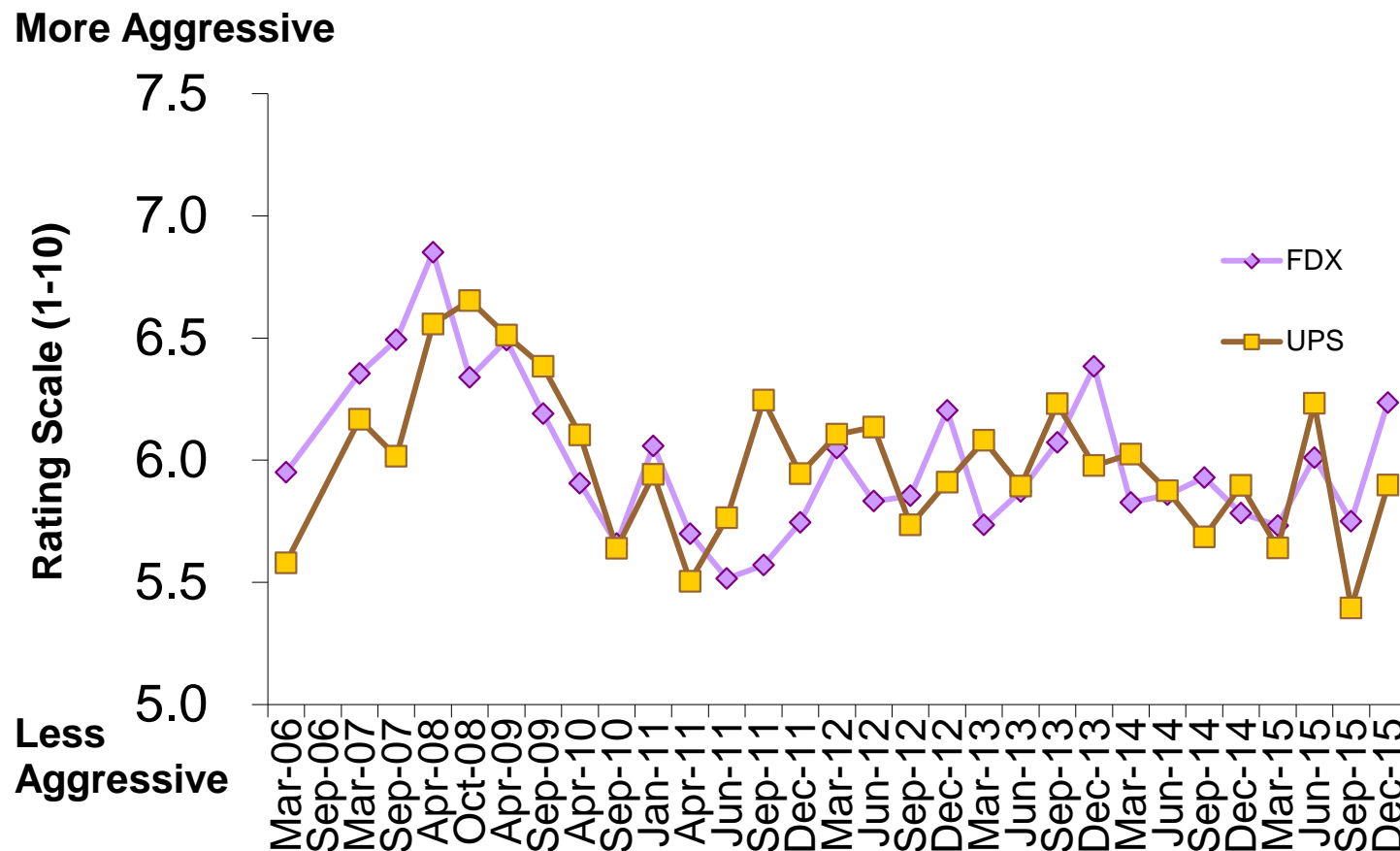
3. Shippers Expect B2C as % of Total Parcel Shipment Stay Roughly Unchanged from Prior Survey Results

YoY Change in B2C as % of Total



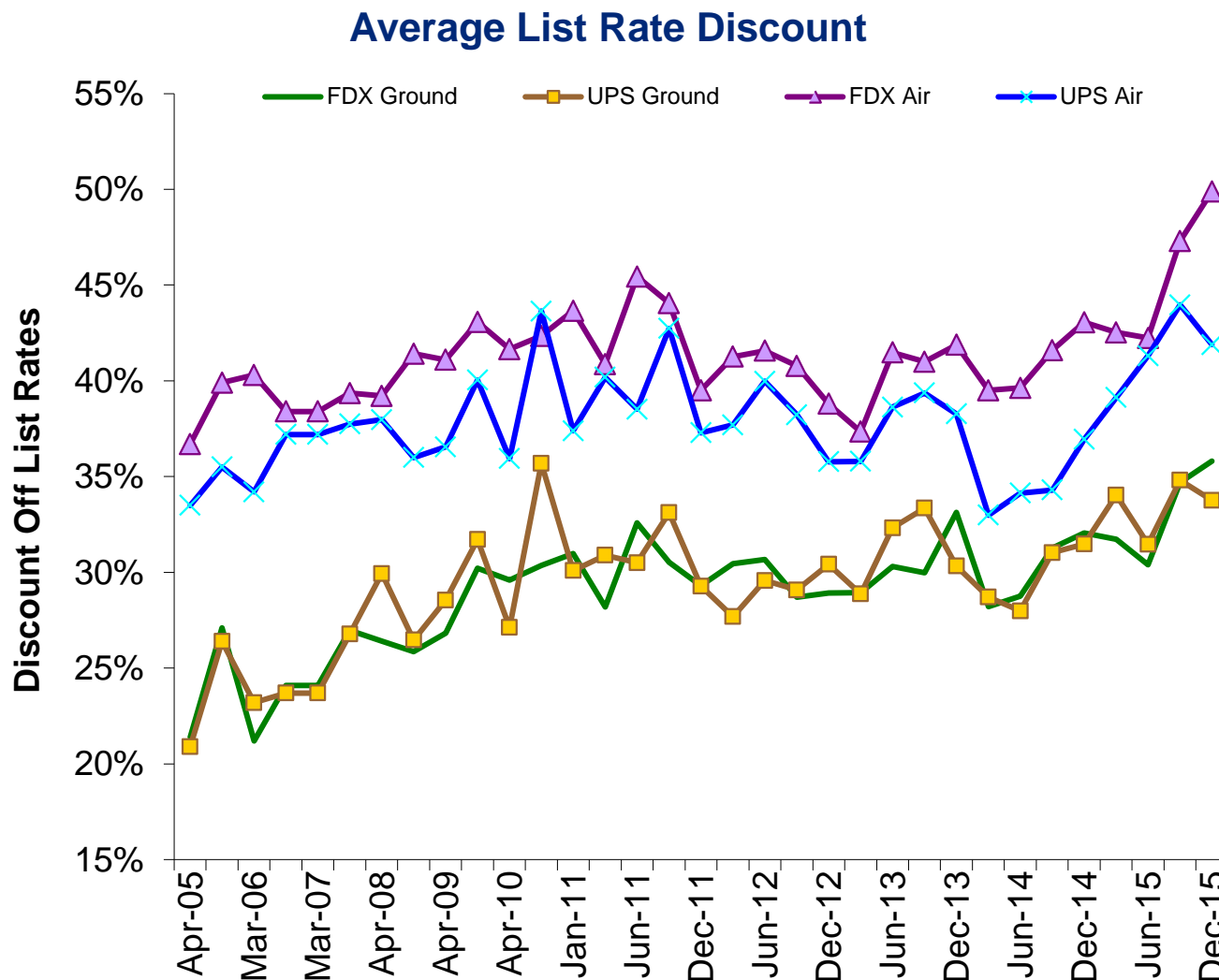
4. Shippers See Parcel Carriers Becoming More Aggressive in Trying to Win Business

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



Source: Morgan Stanley Parcel Survey

5. According to Shippers, Discounts Off List Rates Increased Seq. for FDX Air & Ground



Appendix

Appendix

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About the Surveys

General Freight Trends

Rail Trends

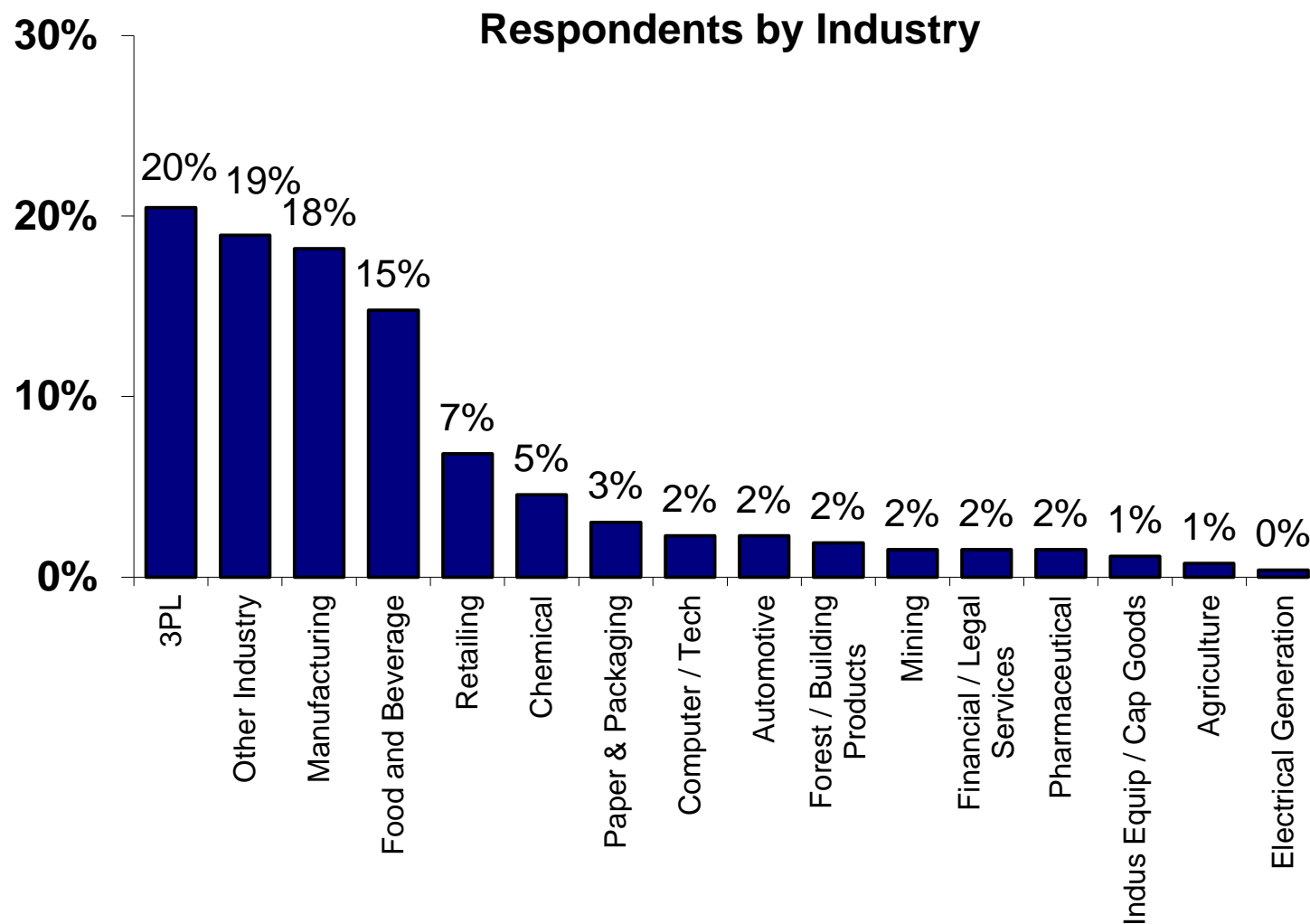
Truck Trends

Parcel Trends

Part 1: About the Surveys

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

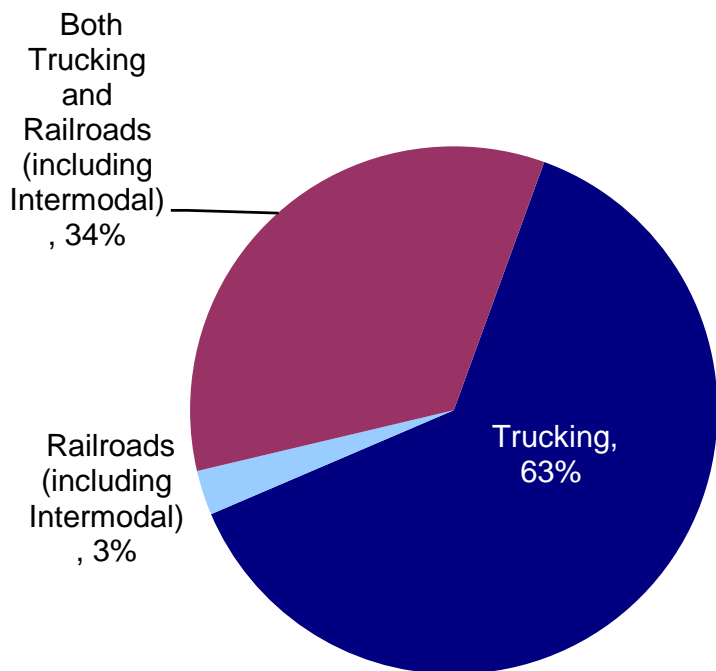
General Freight: About the Freight Pulse Survey



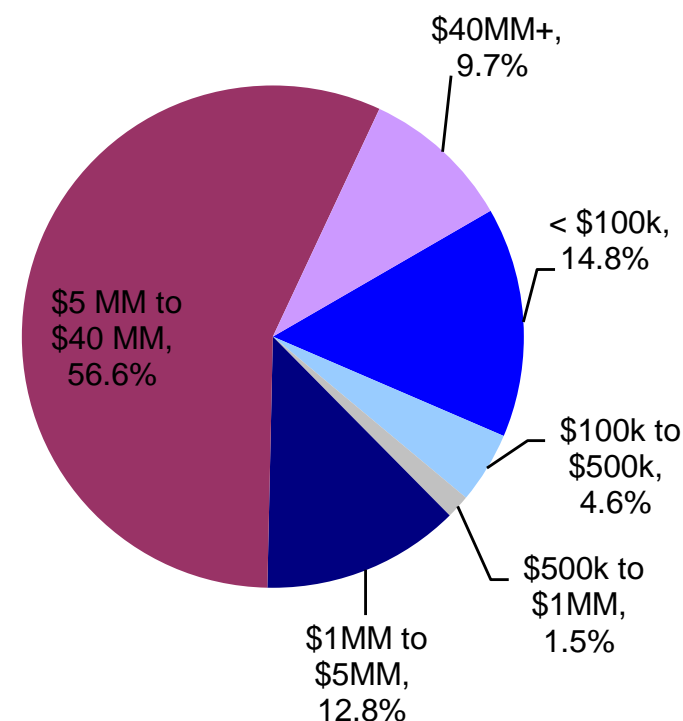
Note: just those shippers providing an industry classification and spend. Source: MS Freight Pulse Surveys

General Freight: Segmented by Shipper Profile

Modes Used



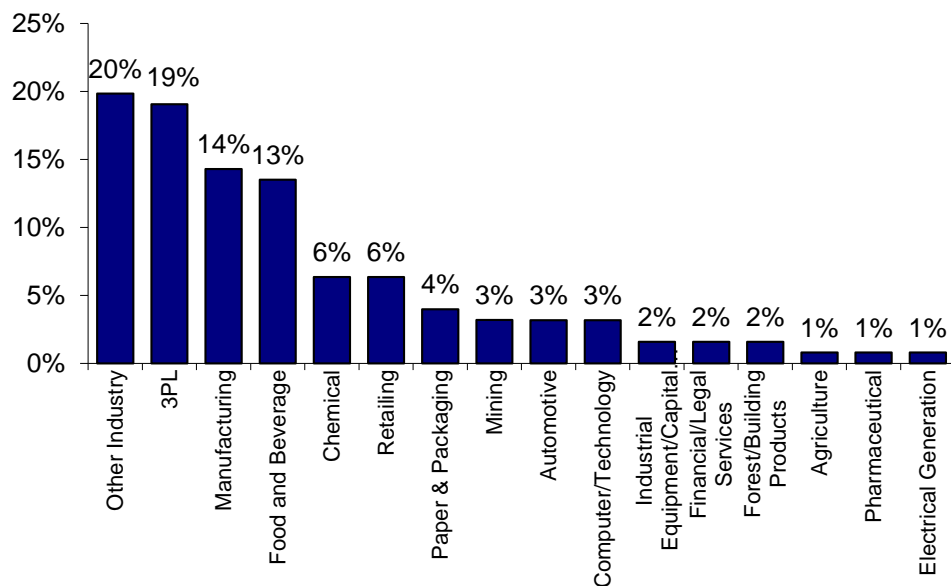
Respondents' Total Spend



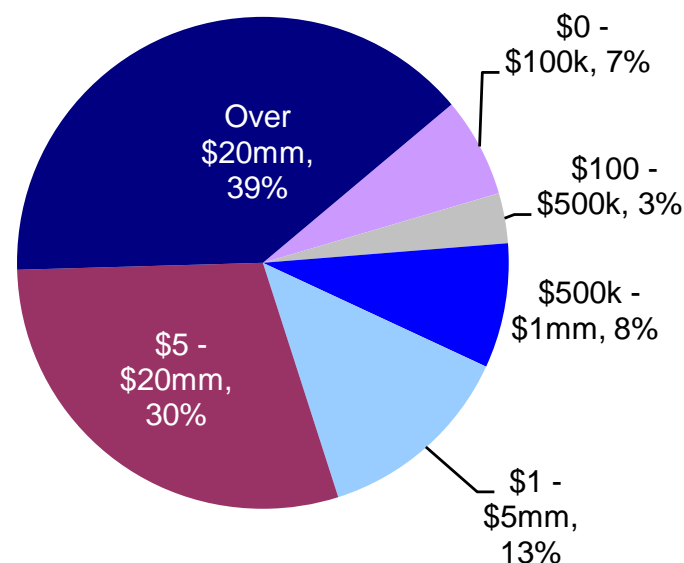
Note: just those shippers providing an industry classification and spend. Source: MS Freight Pulse Surveys

Rails: Segmented by Industry and Shipper Profile

Rail Respondents by Industry

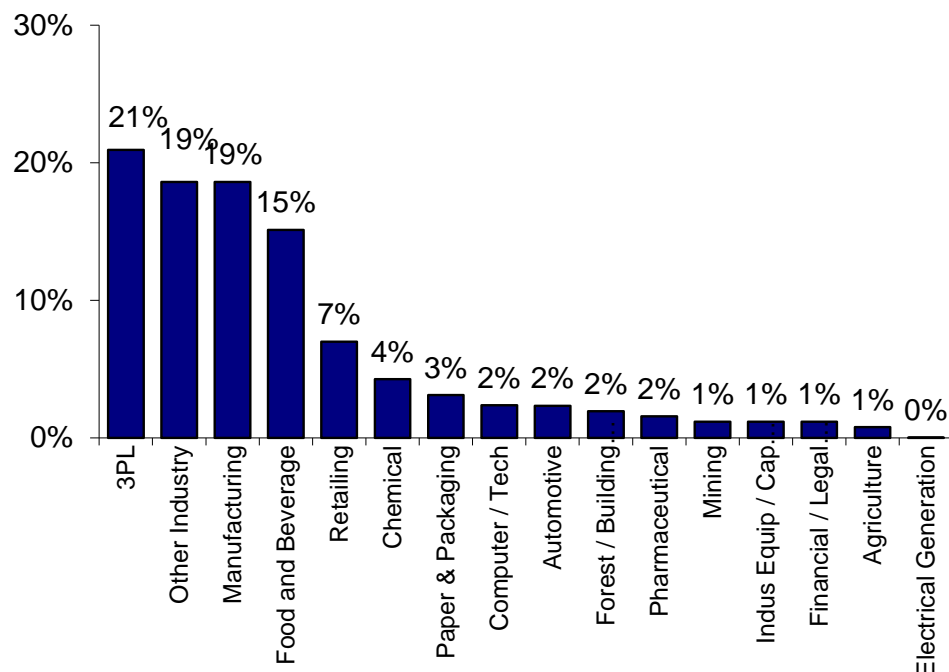


Respondents' Rail Spend

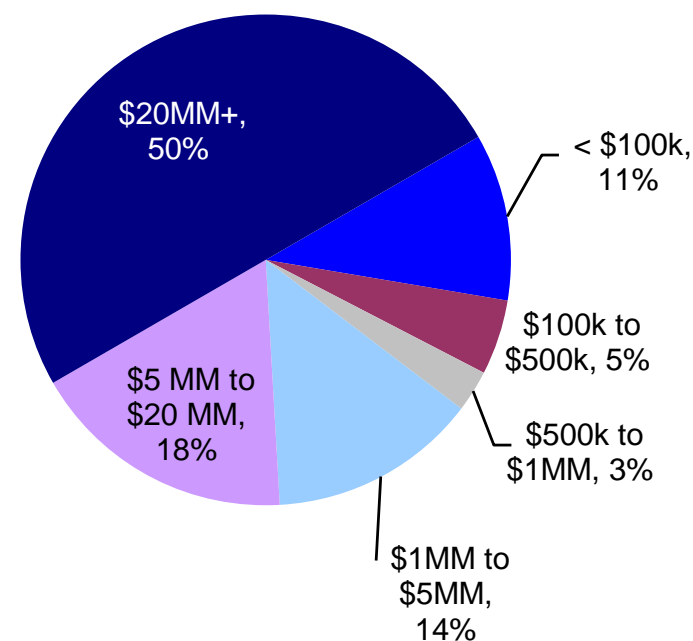


Trucks: Segmented by Industry and Shipper Profile

Truck Respondents by Industry

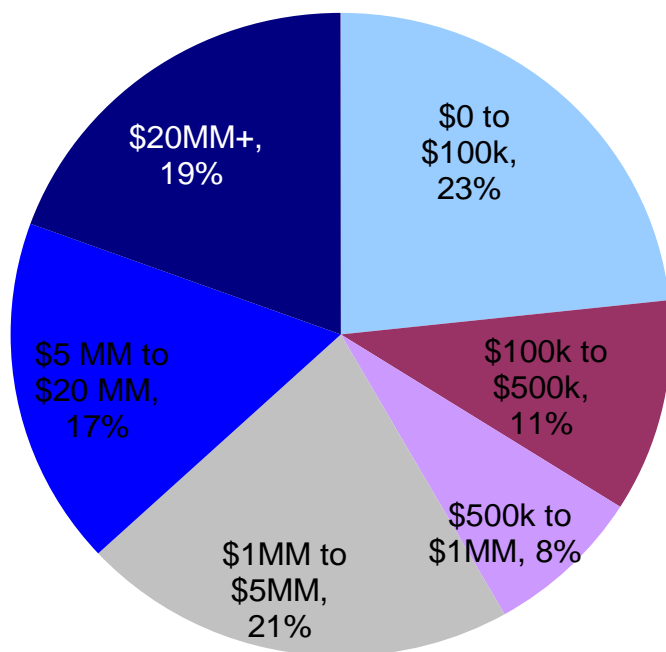


Respondents' Truck Spend

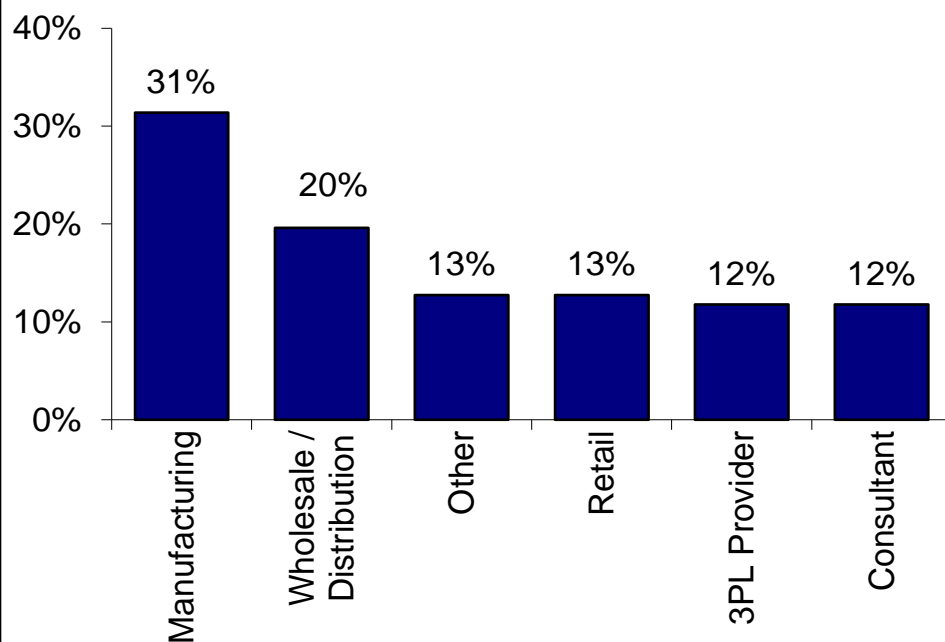


Parcel: About Our Parcel Survey

Respondents' Parcel Spend



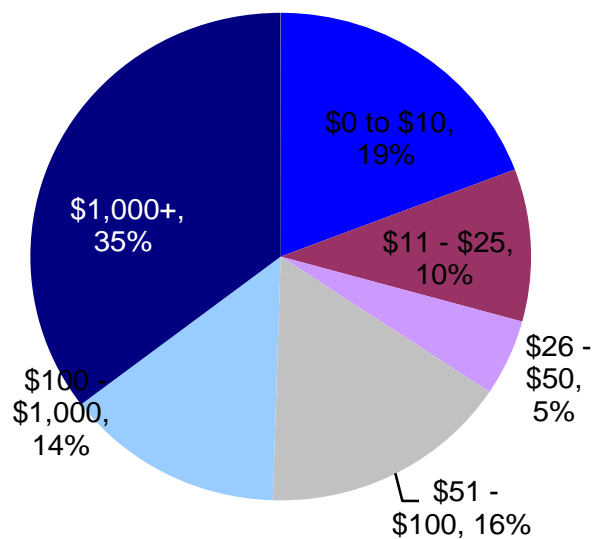
Respondents' Primary Business



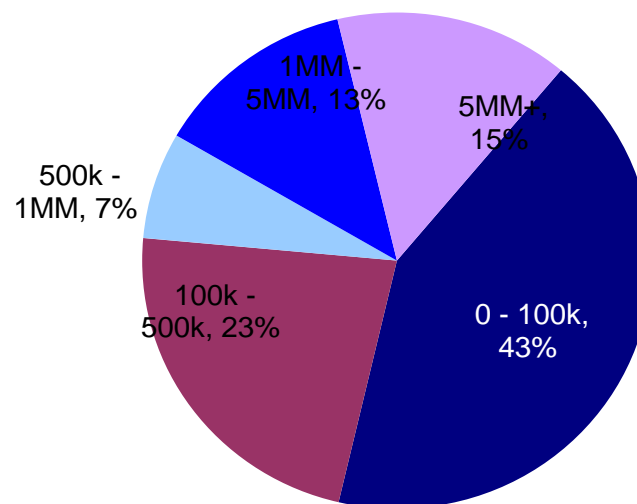
Source: Morgan Stanley Parcel Survey

Parcel: Respondent Profile

Company Sales (\$MM)

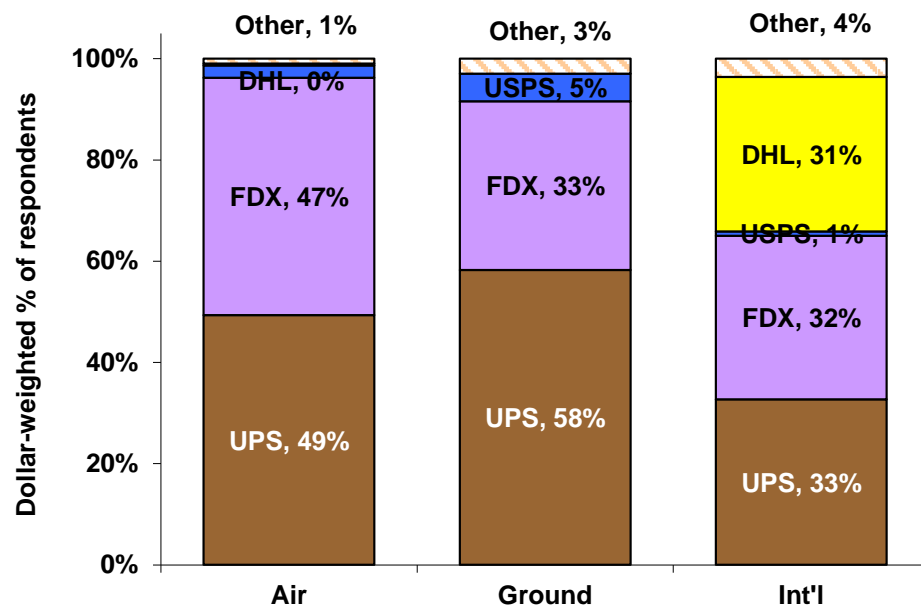


Parcels Shipped

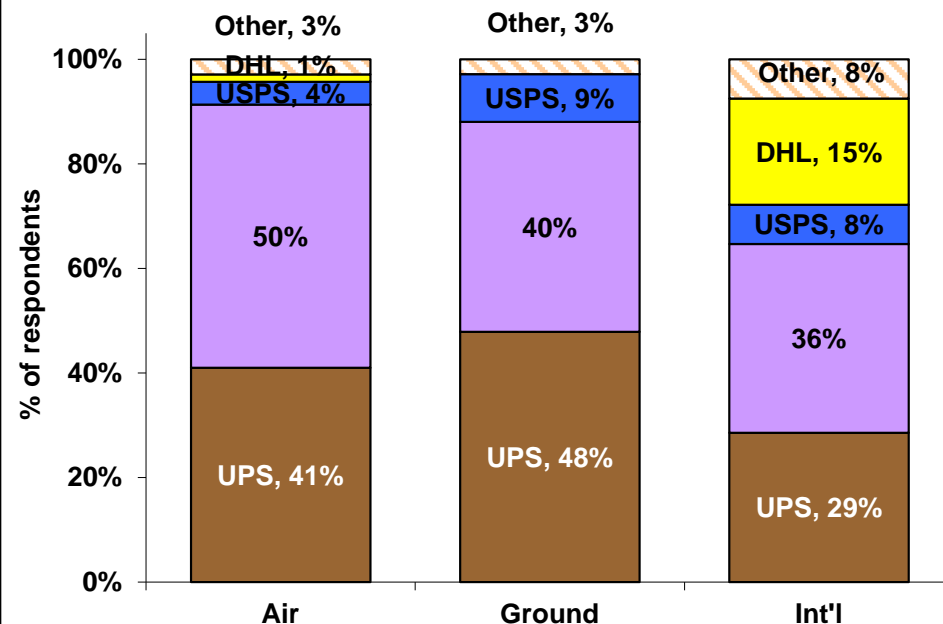


Parcel: Market Share of Respondents Roughly Consistent with Market

Primary Parcel Carrier – Weighted by Spend



Parcel Carrier – Average of All Responses



Summary of Contents

About the Surveys

General Freight Trends

Rail Trends

Truck Trends

Parcel Trends

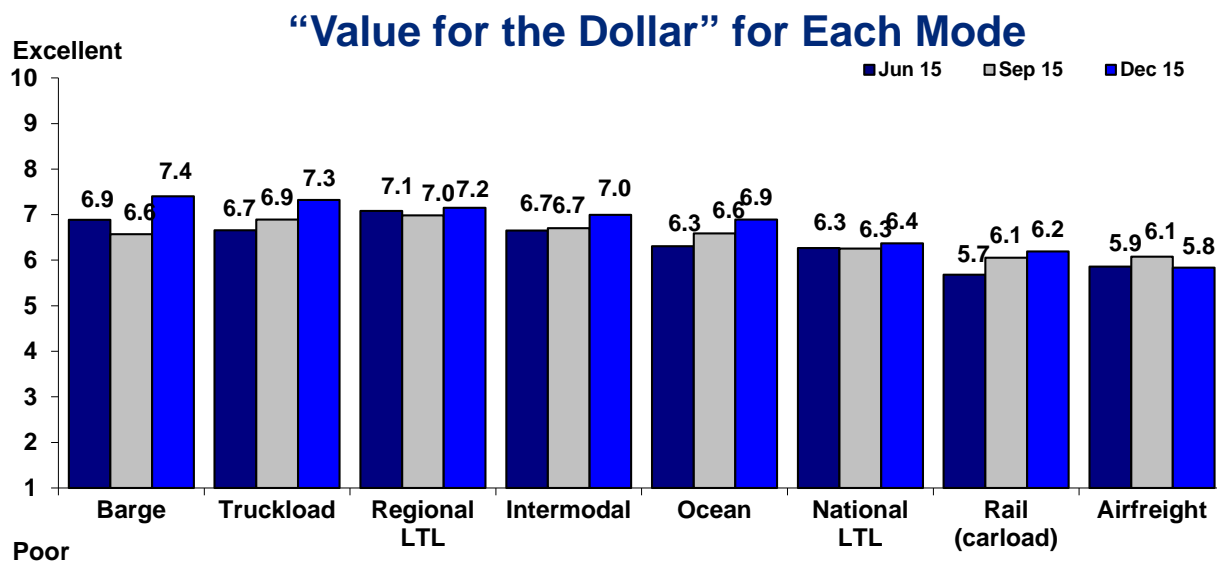
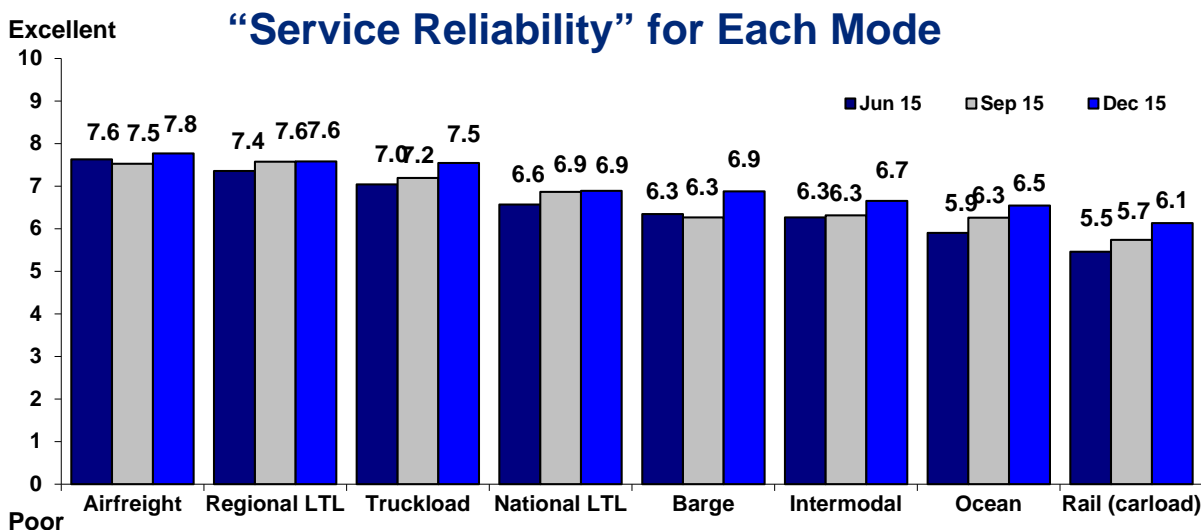
Part 1: General Freight Industry Trends

1. Service Trends
2. Capacity Trends
3. Modal Shift
4. Intermodal vs. Truck

Part 2: Macro Trends

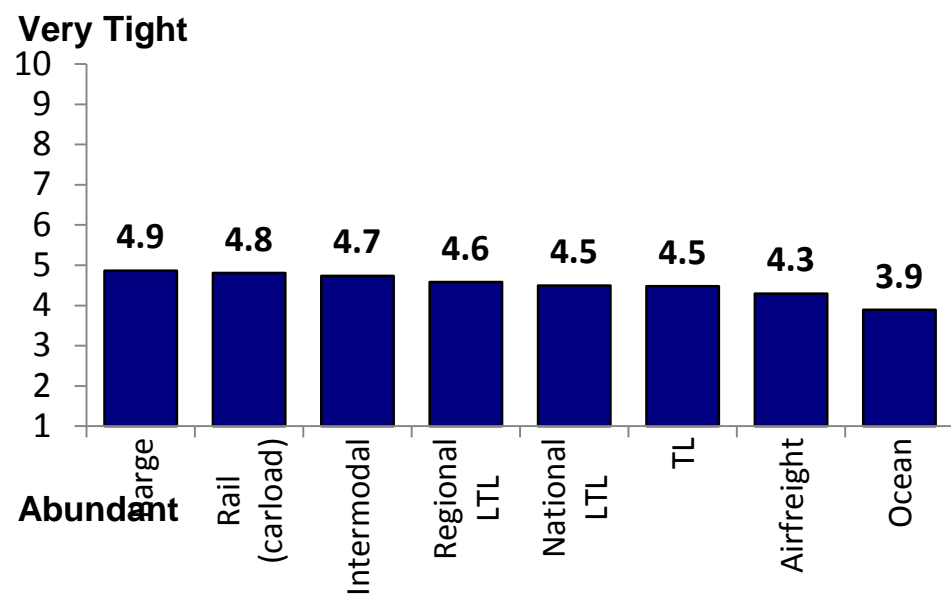
1. Inventories and Orders
2. Economic Outlook

Service Reliability & Value by Mode: Average Across All Shippers

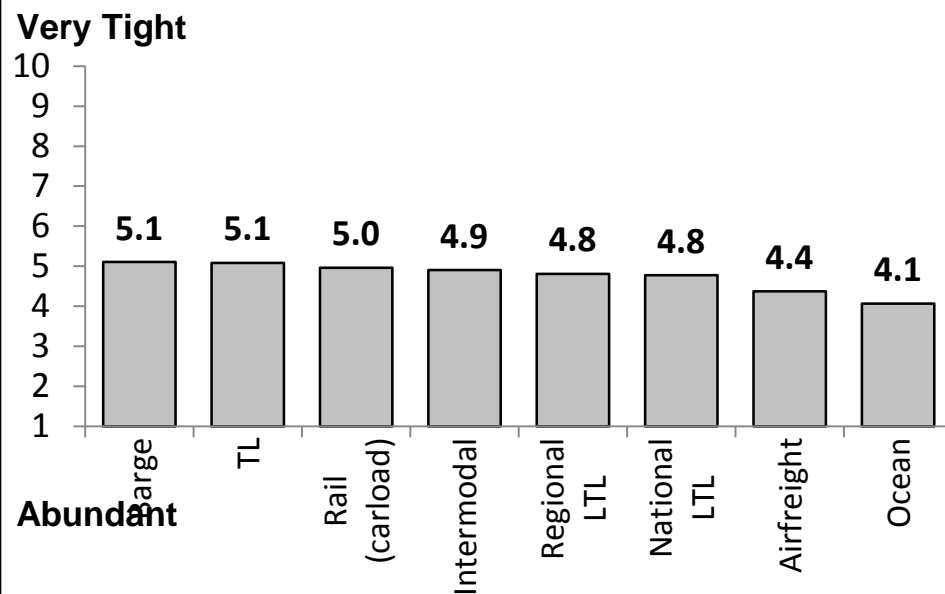


Capacity by Mode

Current Capacity



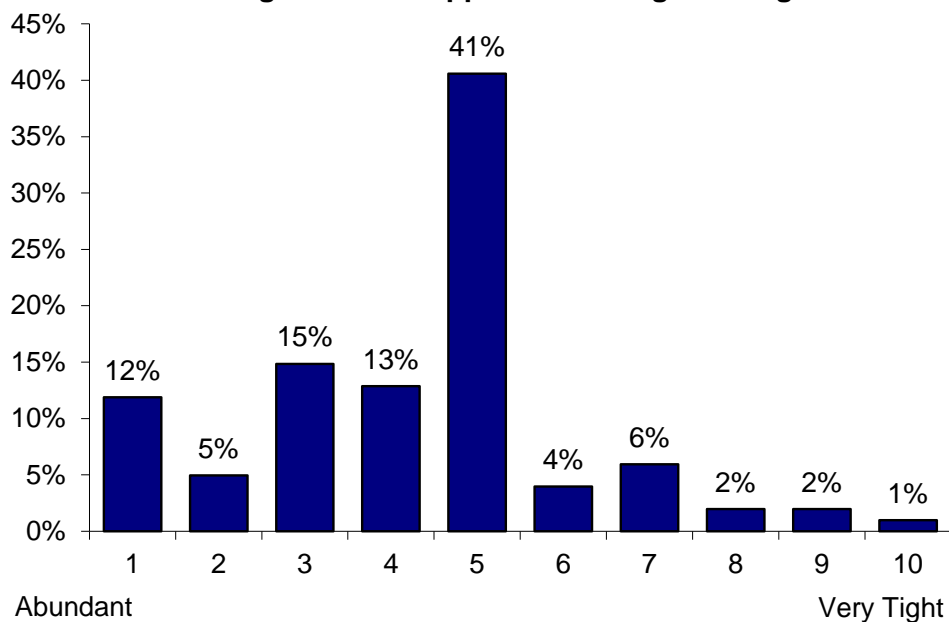
Projected Capacity in 6 Months



Capacity Ranking Skew: Airfreight

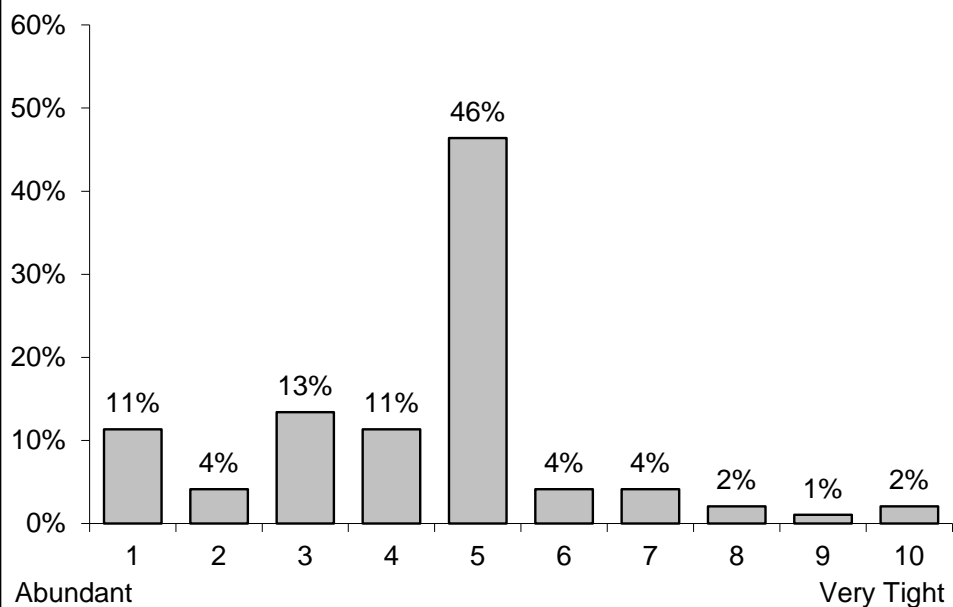
Current Capacity

Airfreight - % of Shippers Providing Rankings



Projected Capacity in 6 Months

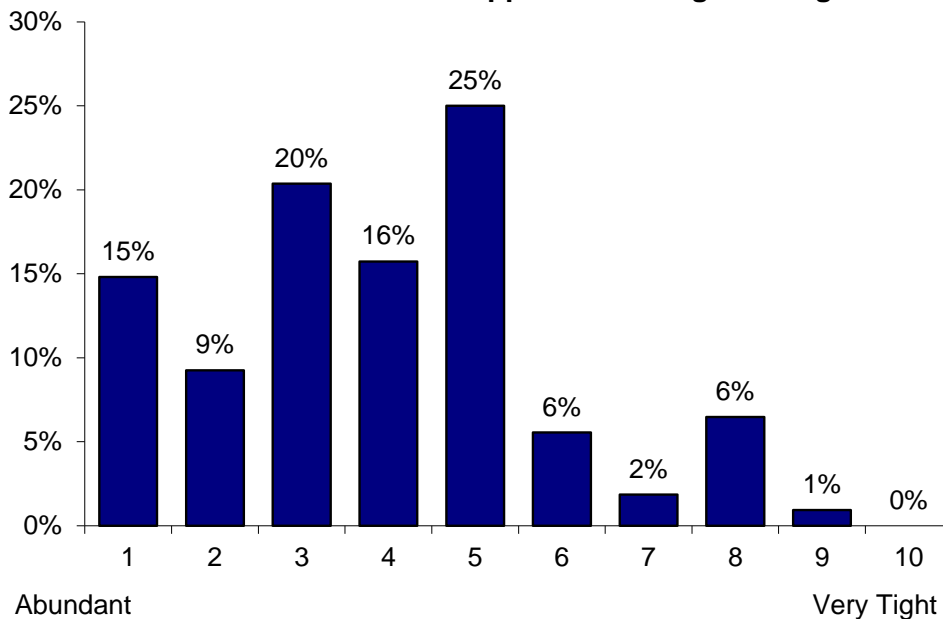
Airfreight - % of Shippers Providing Rankings



Capacity Ranking Skew: Ocean

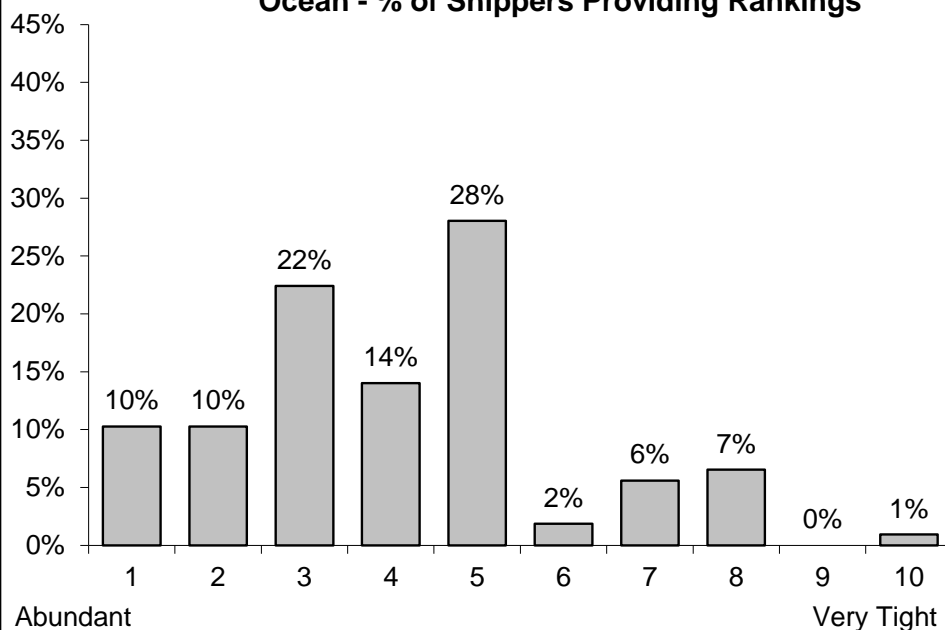
Current Capacity

Ocean - % of Shippers Providing Rankings



Projected Capacity in 6 Months

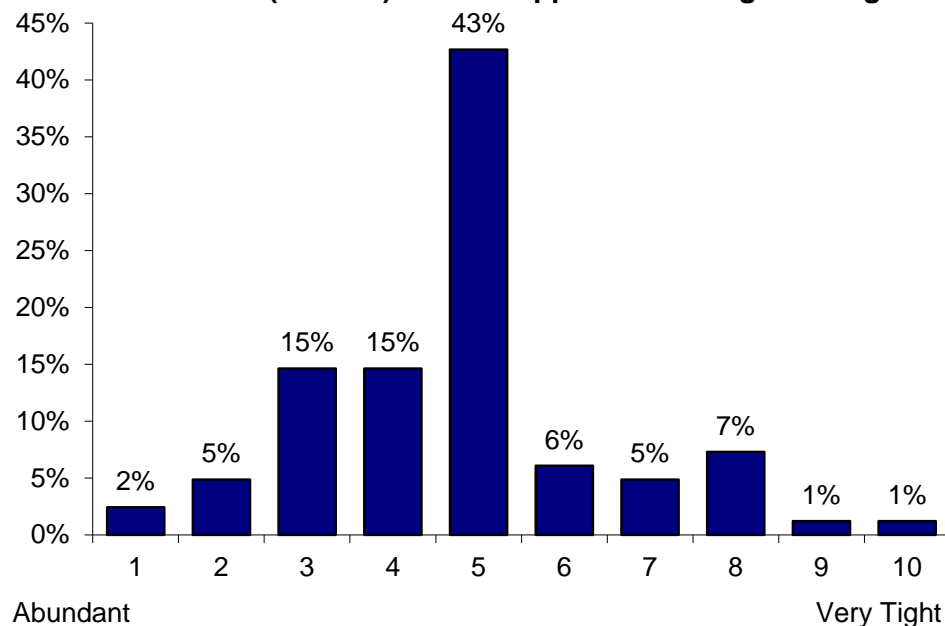
Ocean - % of Shippers Providing Rankings



Capacity Ranking Skew: Rail (Carload)

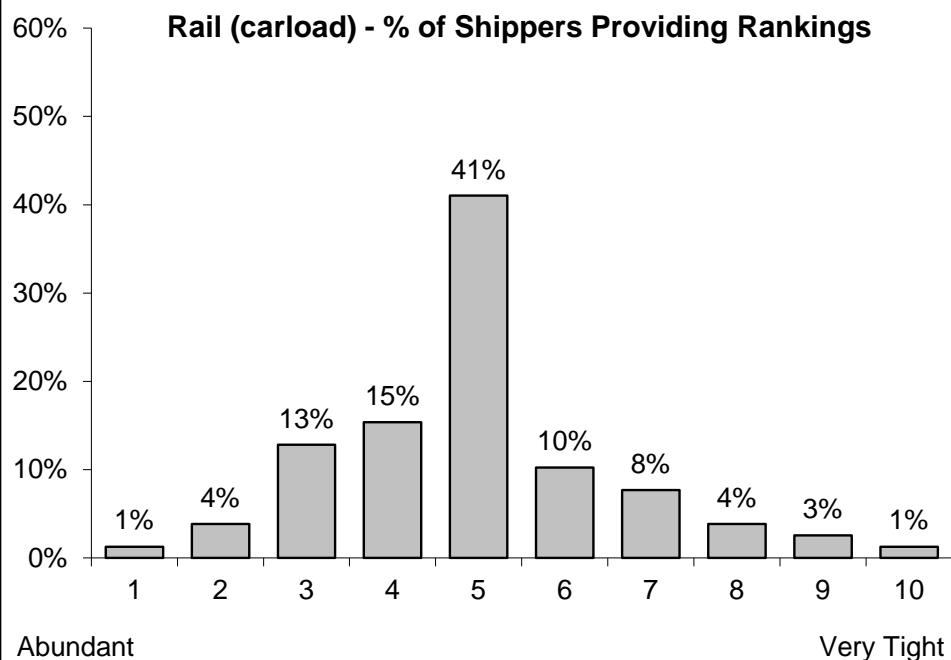
Current Capacity

Rail (carload) - % of Shippers Providing Rankings



Projected Capacity in 6 Months

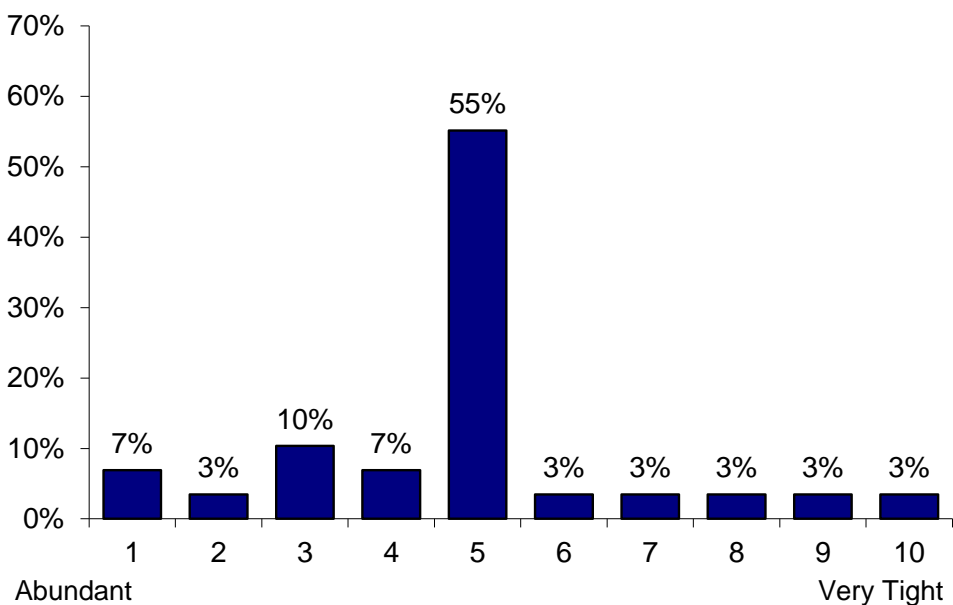
Rail (carload) - % of Shippers Providing Rankings



Capacity Ranking Skew: Barge

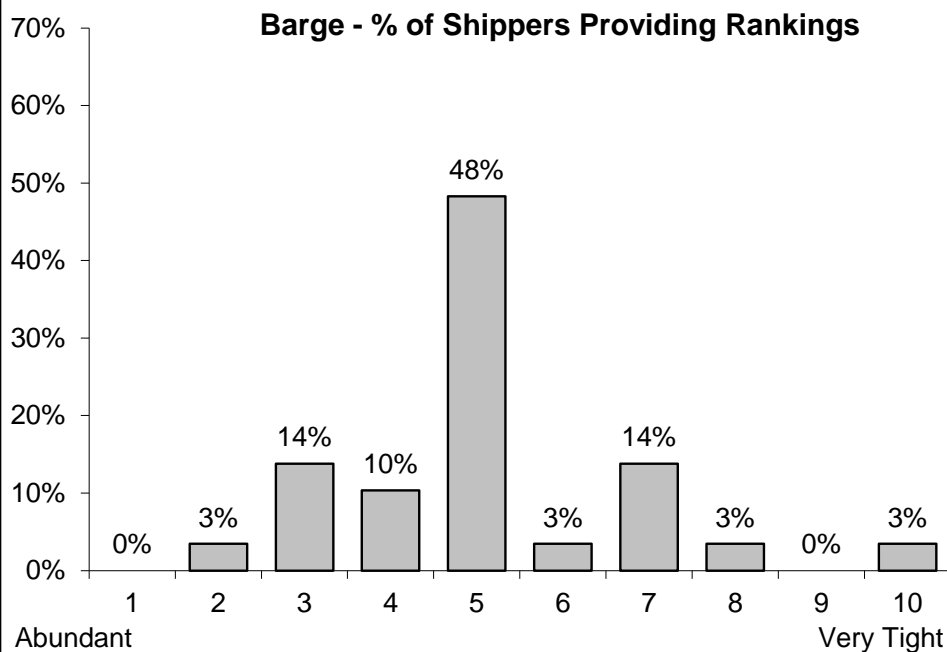
Current Capacity

Barge - % of Shippers Providing Rankings

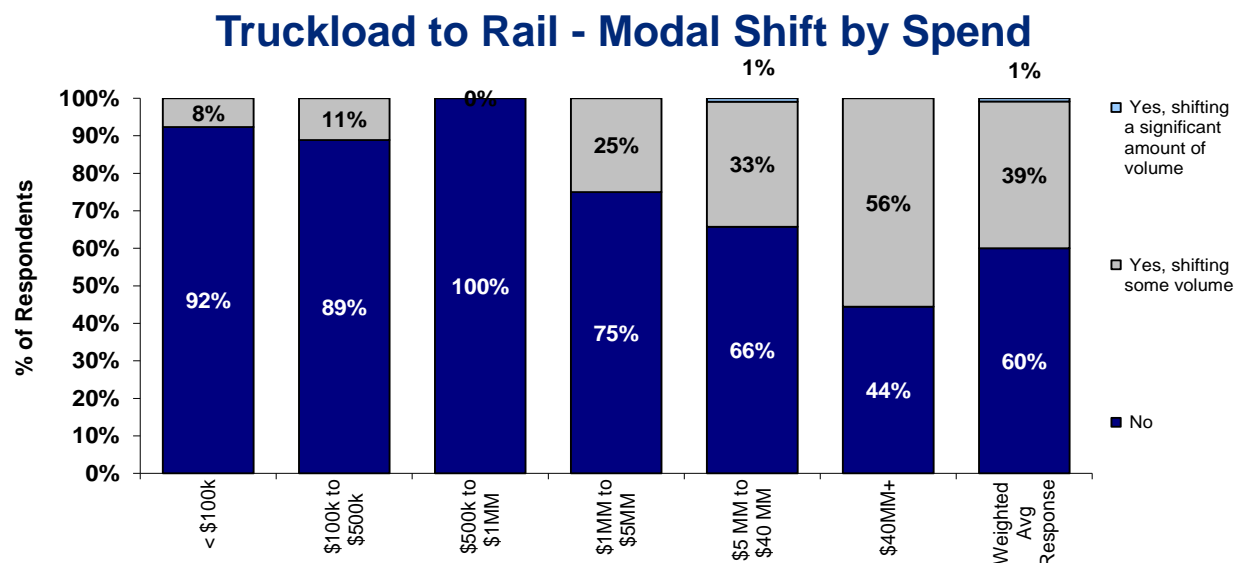
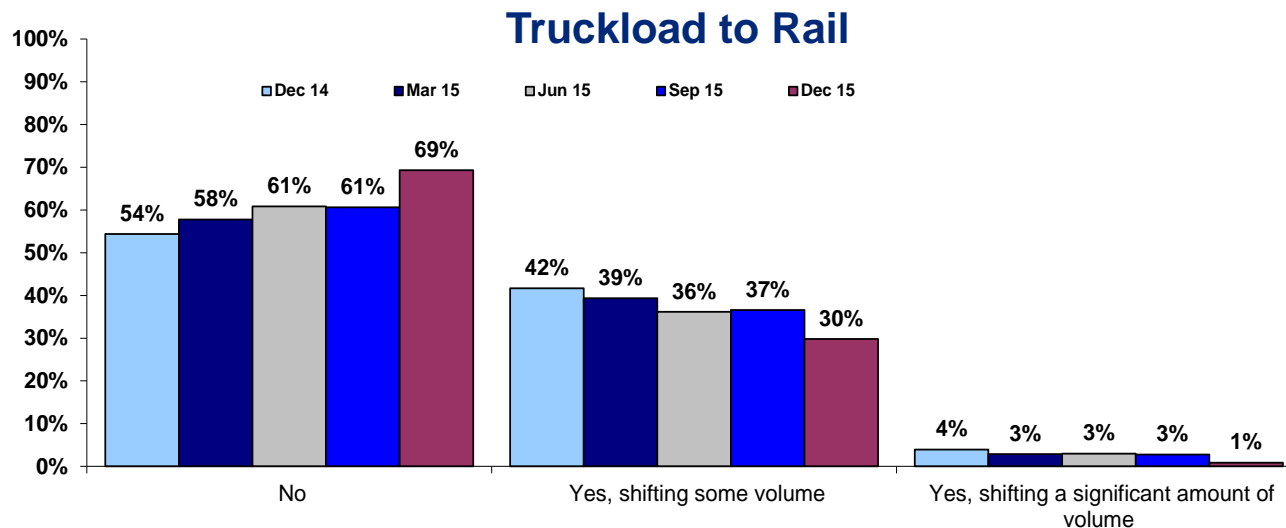


Projected Capacity in 6 Months

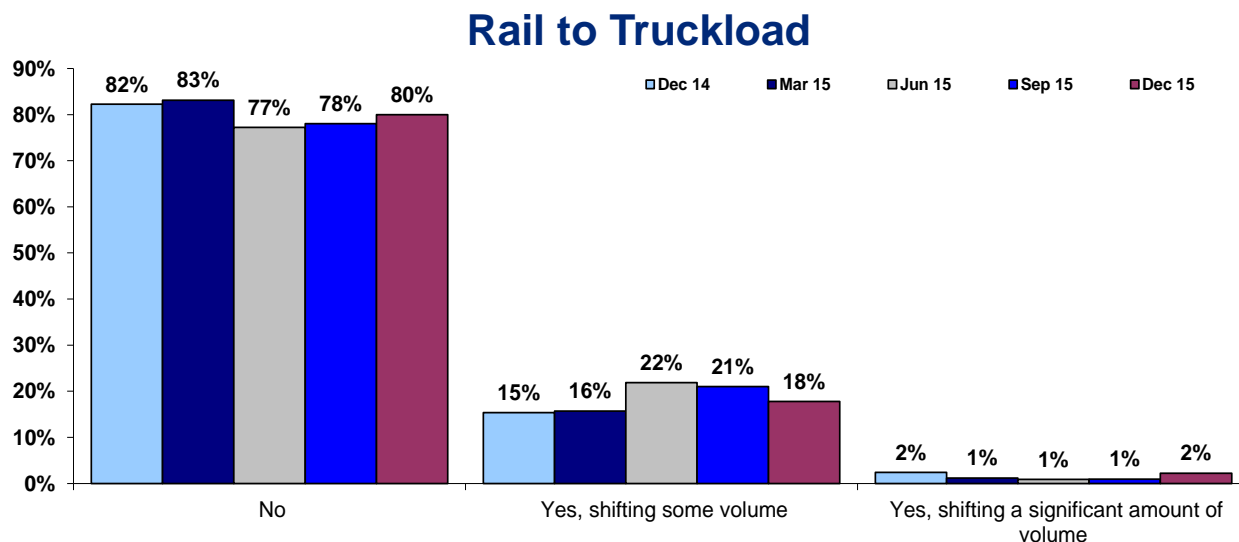
Barge - % of Shippers Providing Rankings



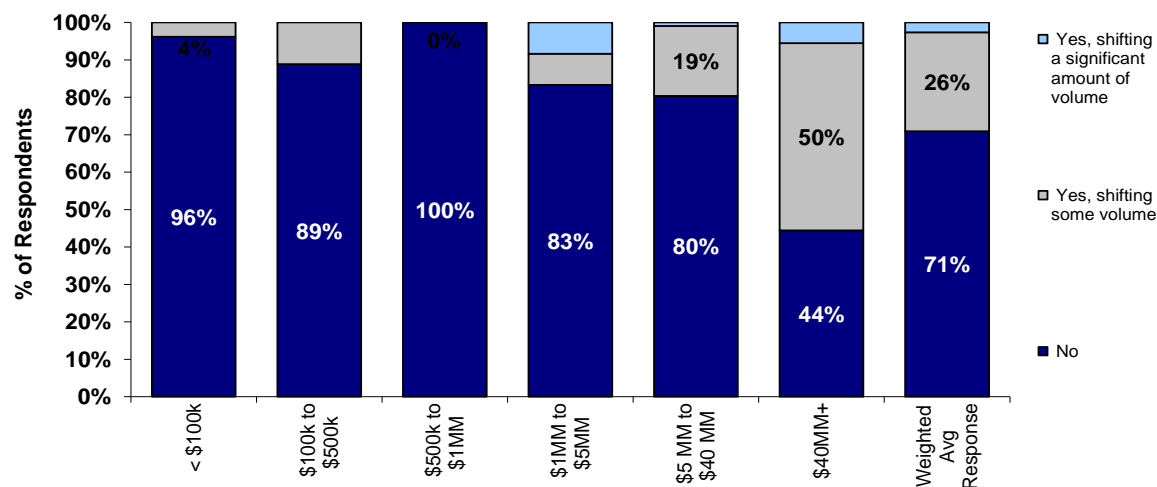
Shipper Modal Shift Statistics – Truckload to Rail



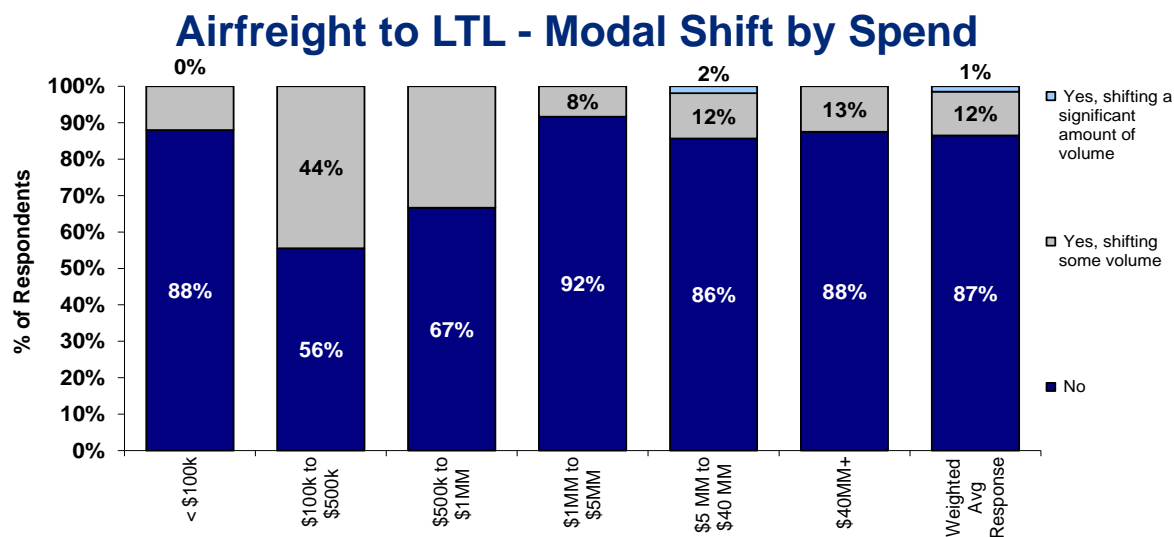
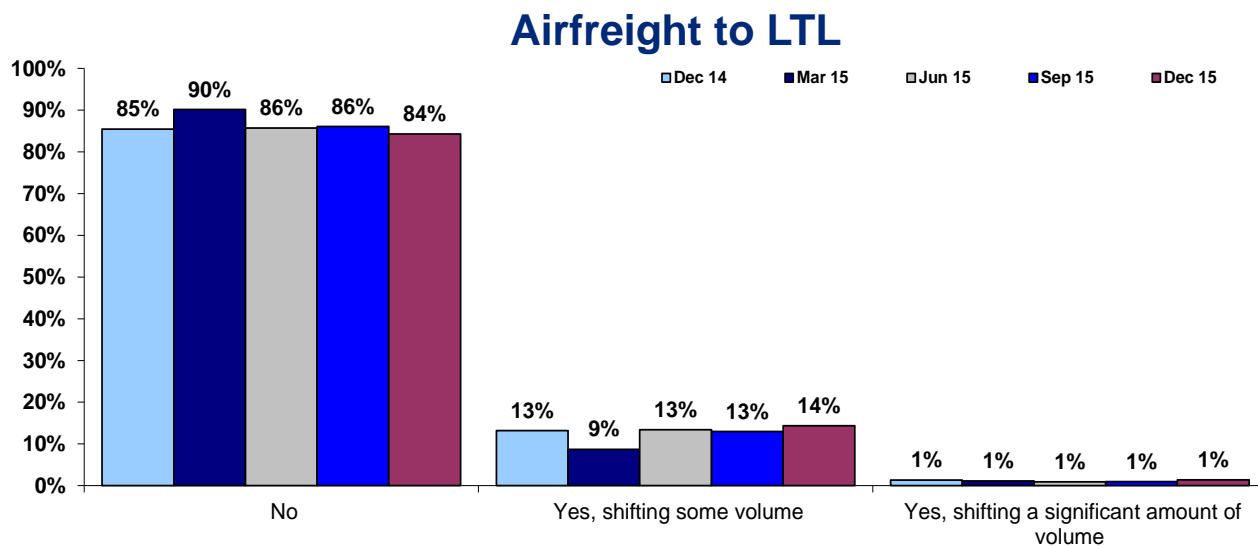
Shipper Modal Shift Statistics – Rail to Truckload



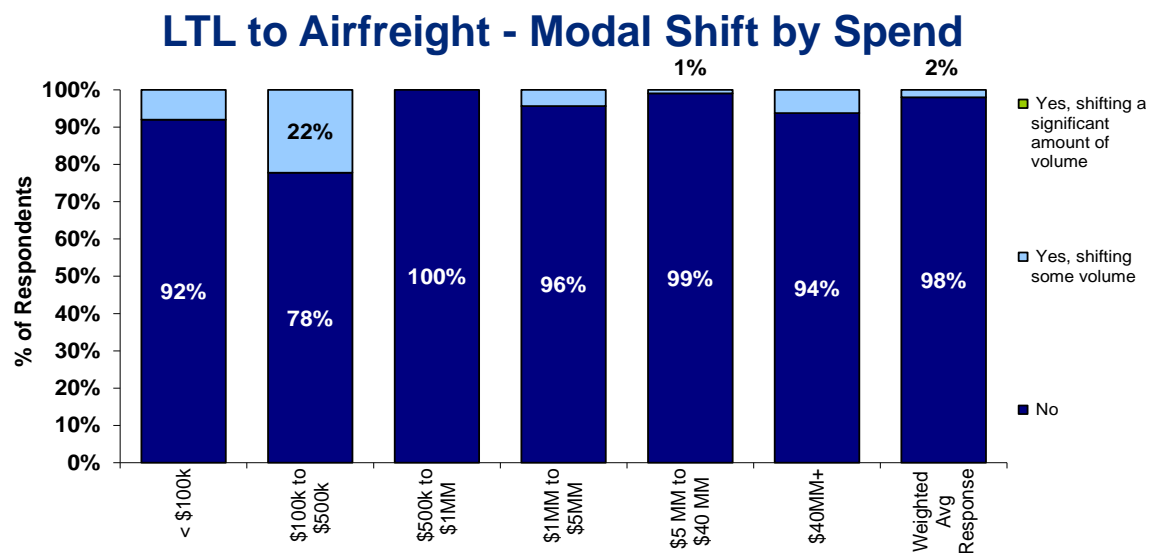
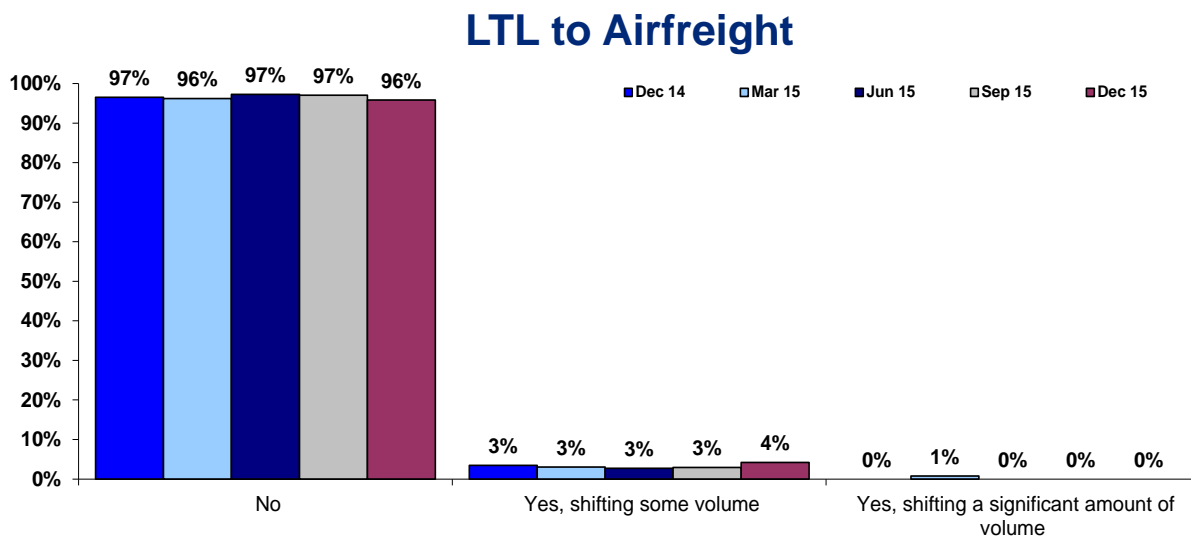
Rail to Truckload - Modal Shift by Spend



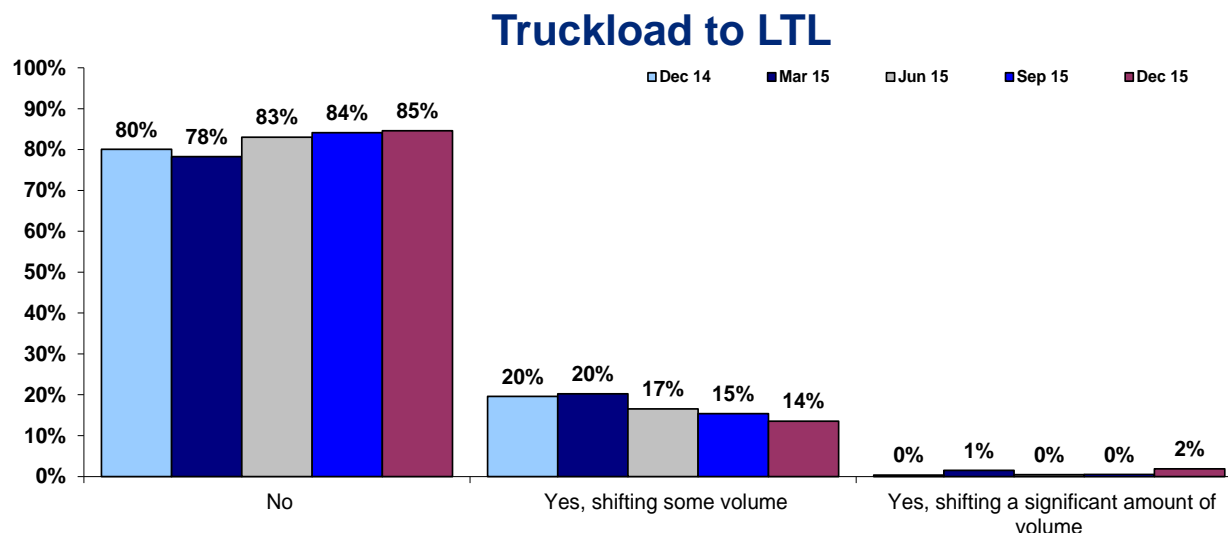
Shipper Modal Shift Statistics – Airfreight to LTL



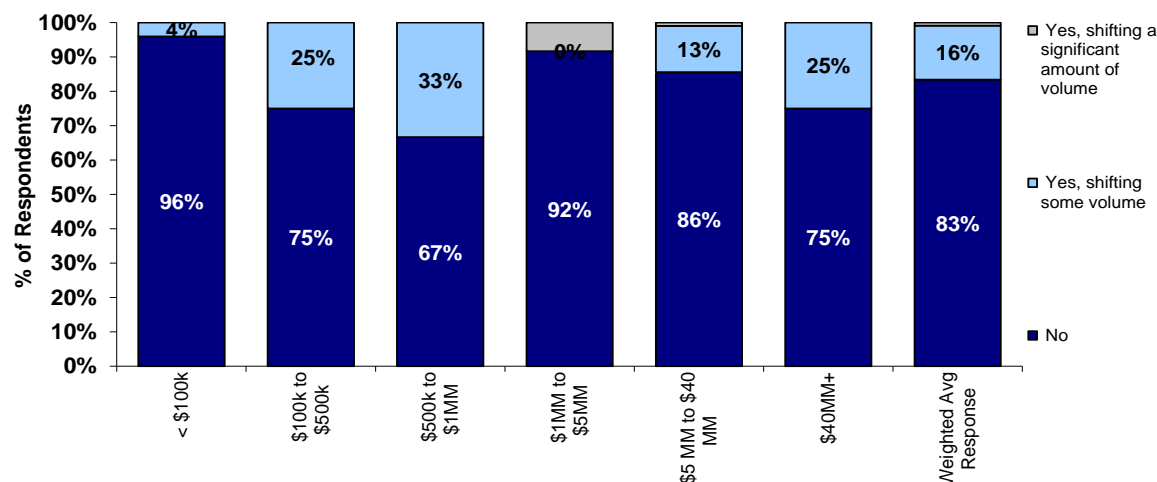
Shipper Modal Shift Statistics – LTL to Airfreight



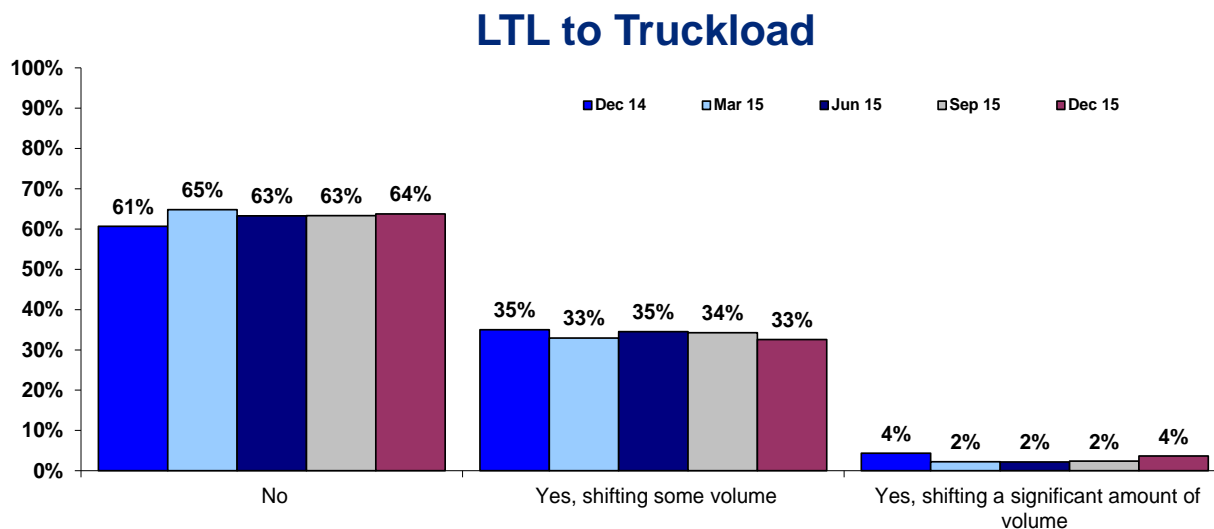
Shipper Modal Shift Statistics – Truckload to LTL



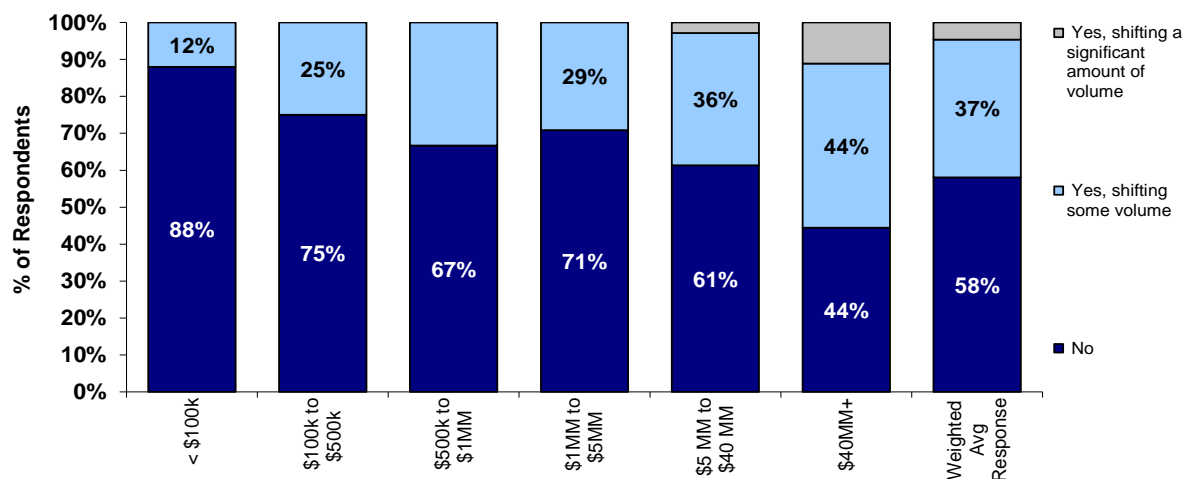
Truckload to LTL - Modal Shift by Spend



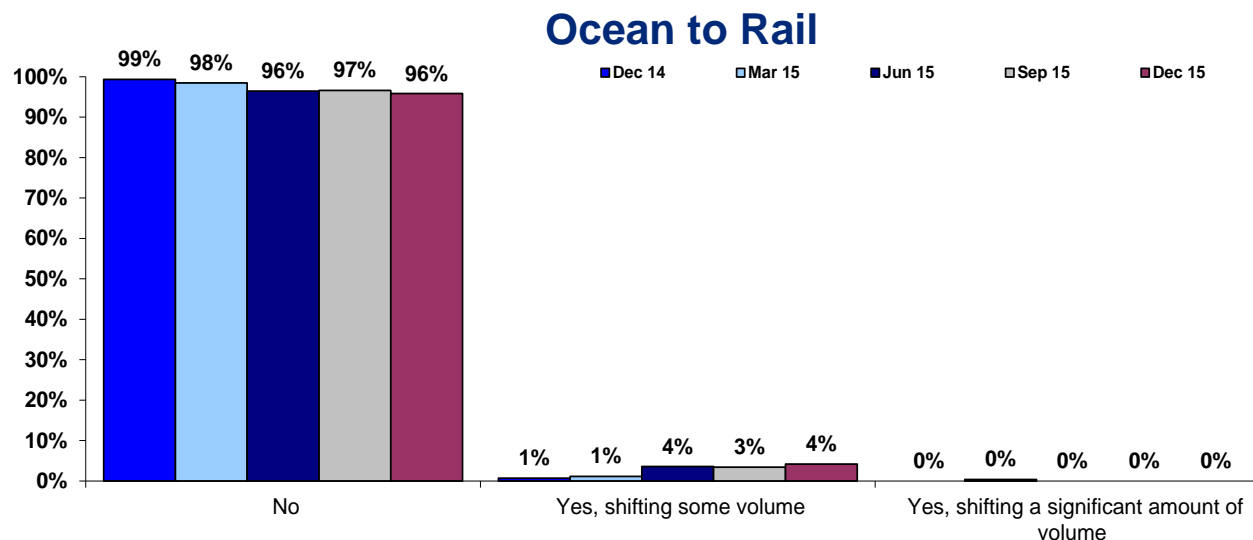
Shipper Modal Shift Statistics – LTL to Truckload



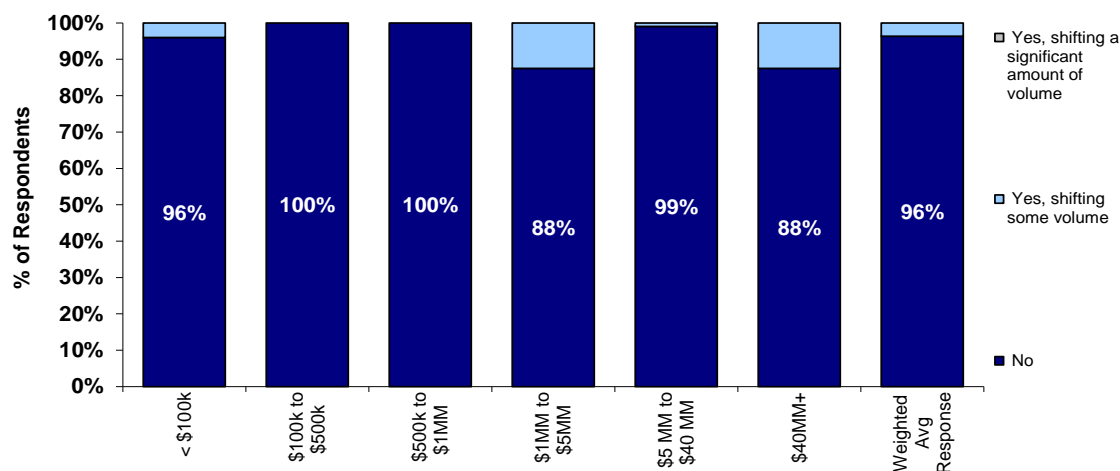
LTL to Truckload - Modal Shift by Spend



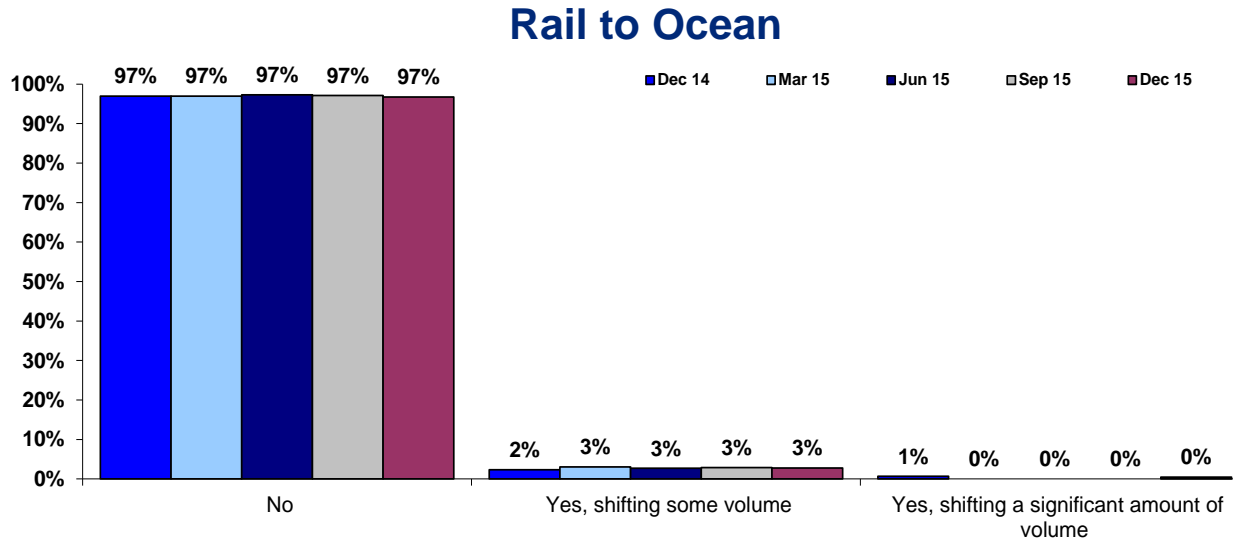
Shipper Modal Shift Statistics – Ocean to Rail



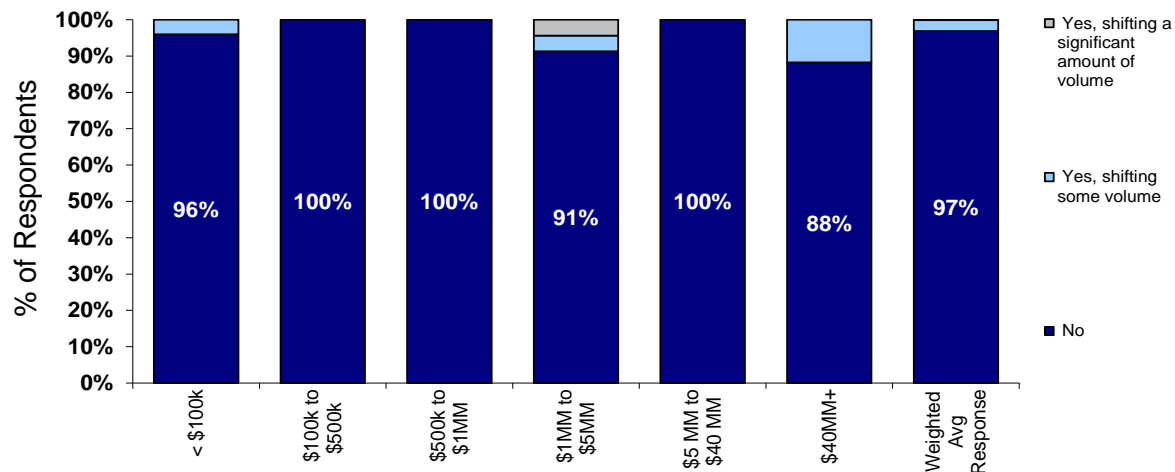
Ocean to Rail - Modal Shift by Spend



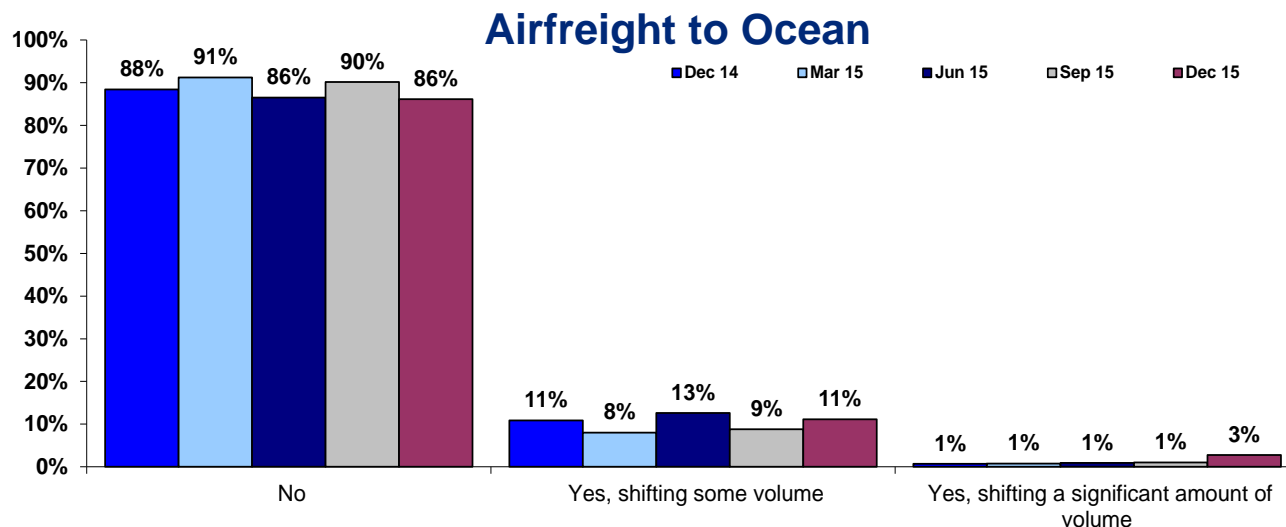
Shipper Modal Shift Statistics – Rail to Ocean



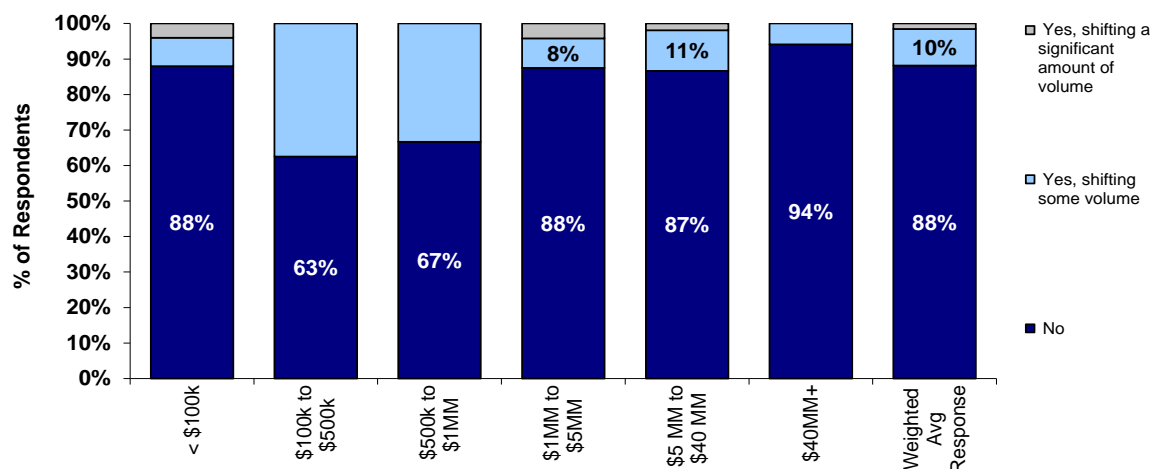
Rail to Ocean - Modal Shift by Spend



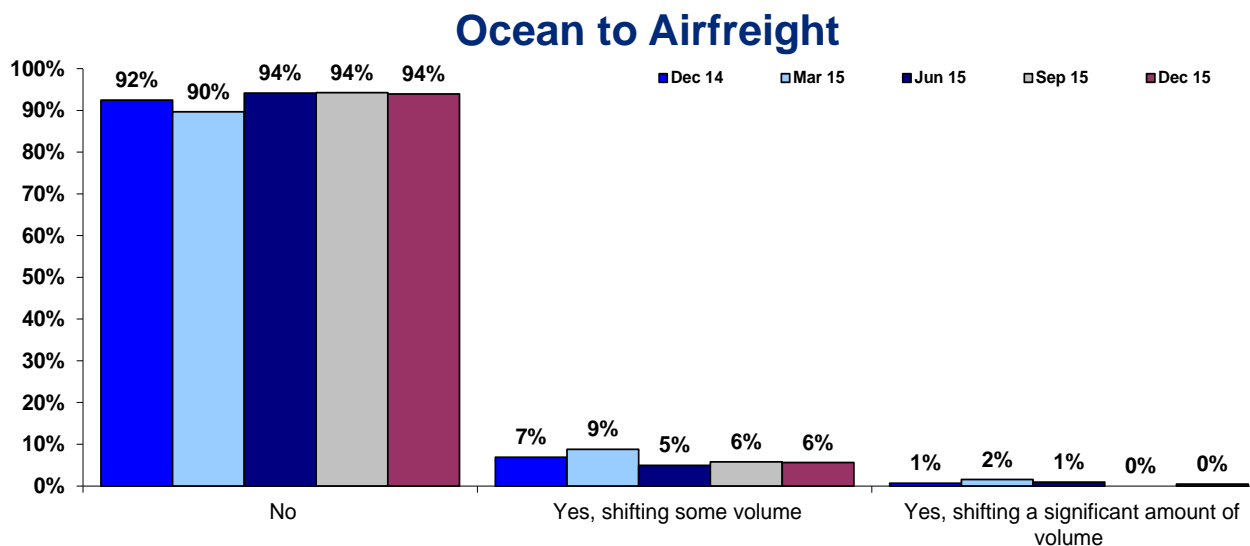
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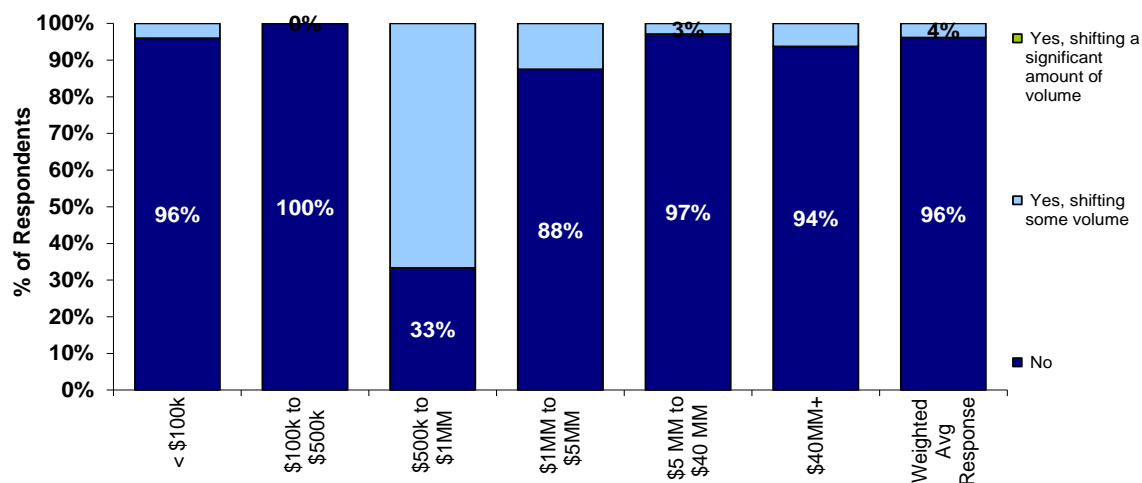
Airfreight to Ocean - Modal Shift by Spend



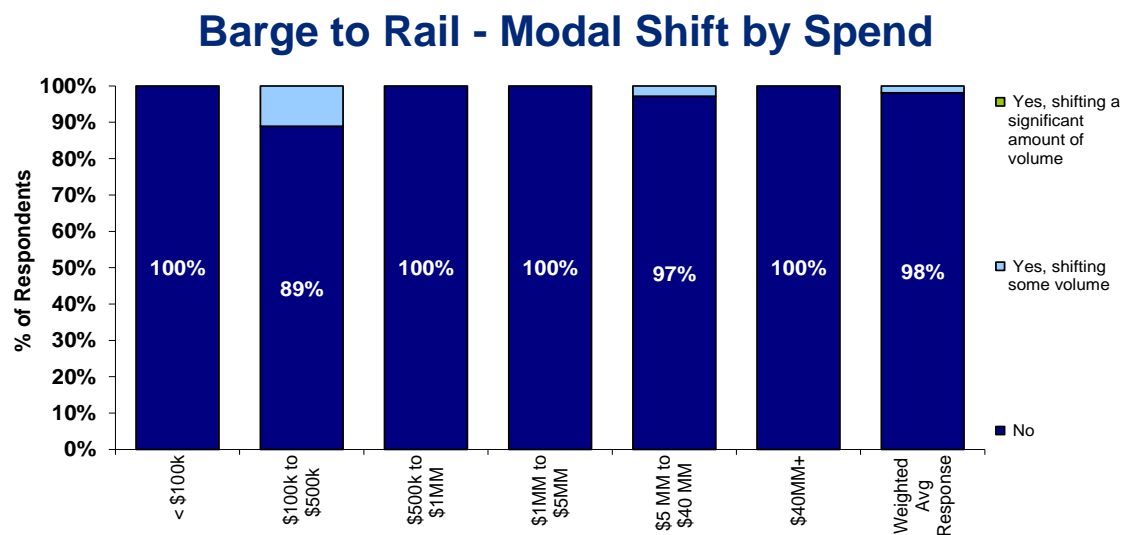
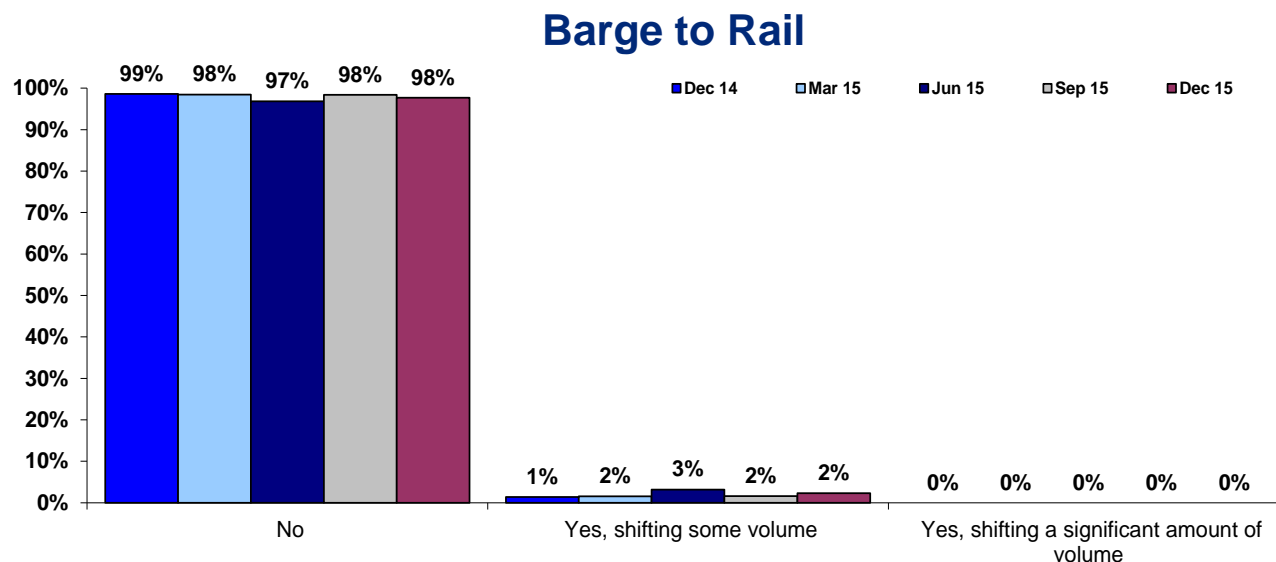
Shipper Modal Shift Statistics – Ocean to Airfreight



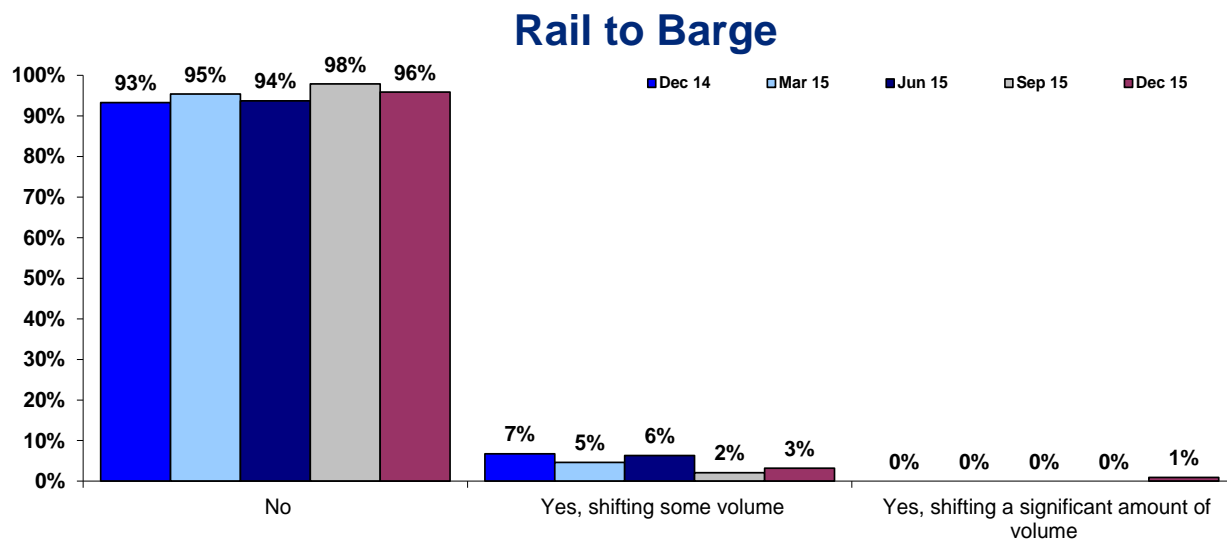
Ocean to Airfreight - Modal Shift by Spend



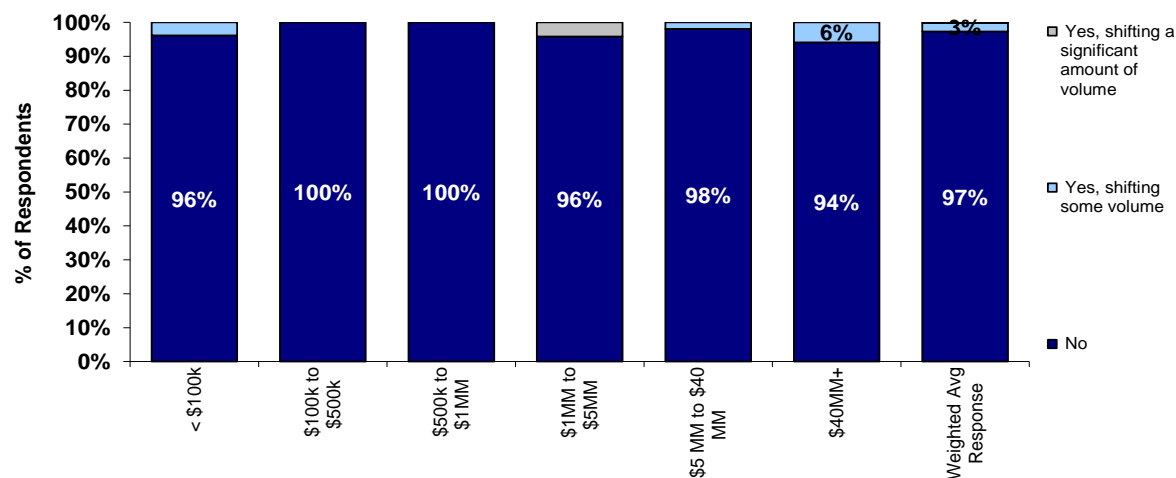
Shipper Modal Shift Statistics – Barge to Rail



Shipper Modal Shift Statistics – Rail to Barge

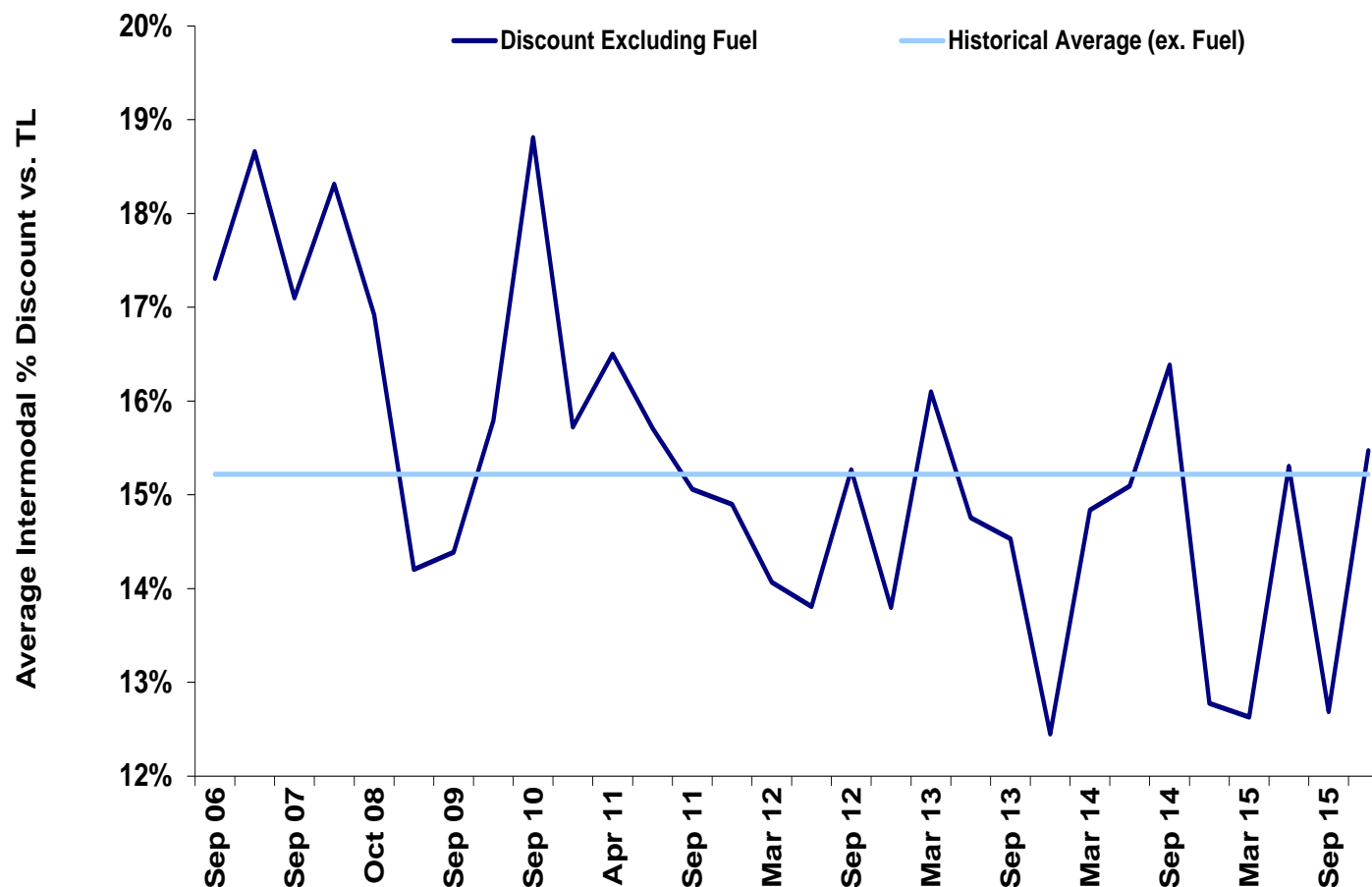


Rail to Barge - Modal Shift by Spend



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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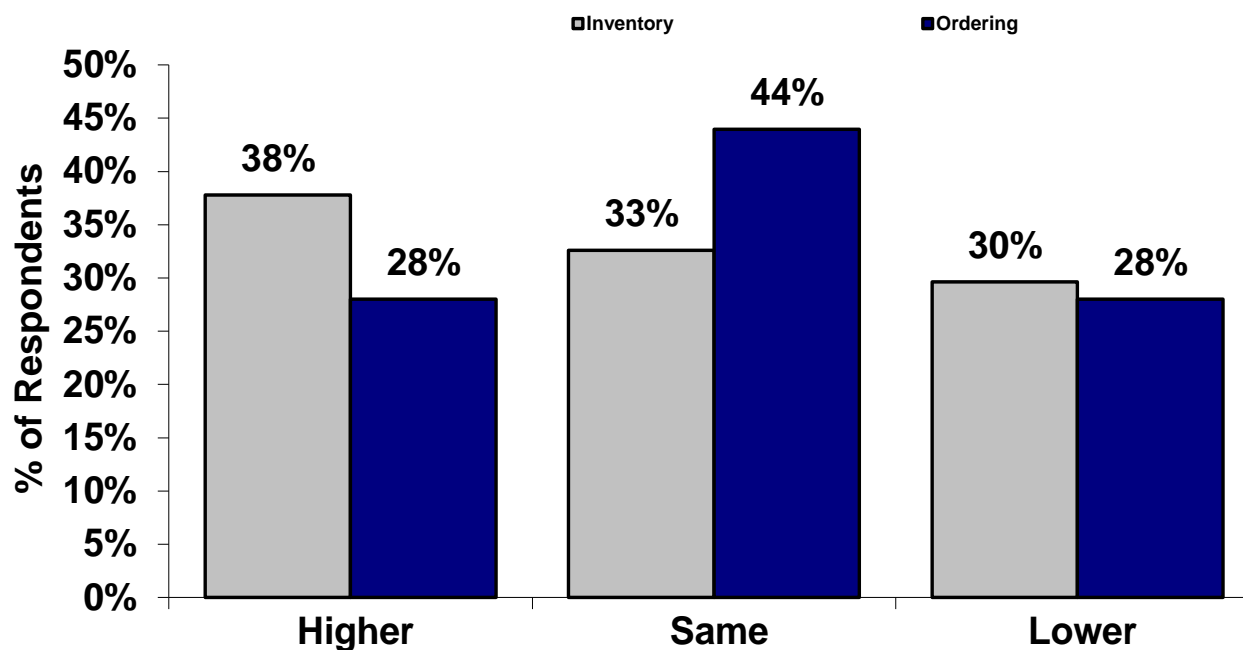
1. Service Trends
2. Capacity Trends
3. Modal Shift
4. Intermodal vs. Truck

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1. Inventories and Orders
2. Economic Outlook

Shipper Inventory and Stocking Trends

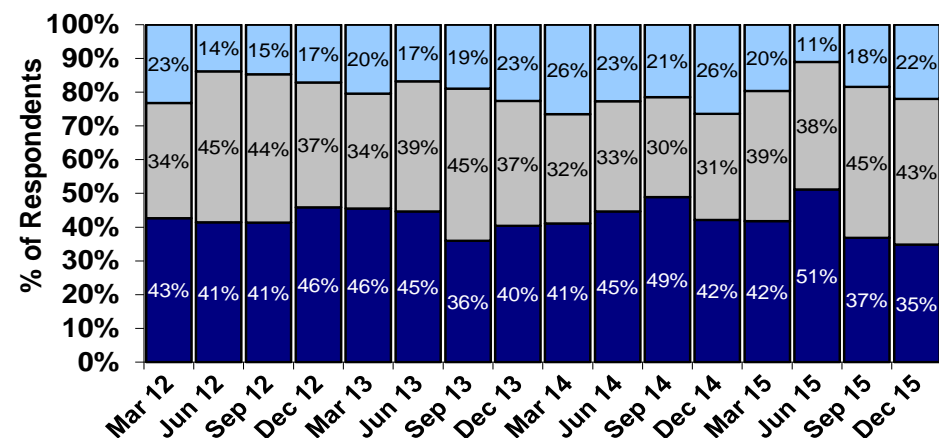
Shipper Inventories and Orders Relative to Last Year



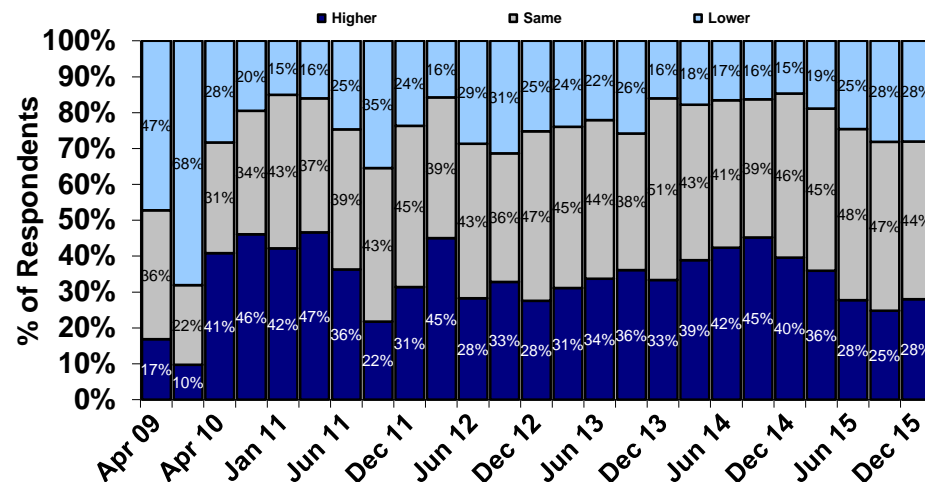
Shipper Inventory and Stocking Trends

Y/Y Change in Shippers' Inventory

■ Maintain current inventory levels ■ Reduce inventory levels ■ Increase inventory levels

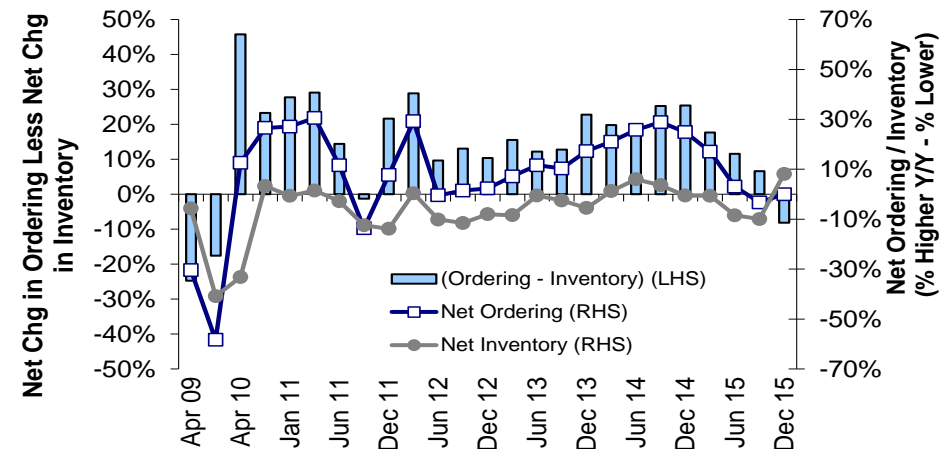


Y/Y Change in Shippers' Orders

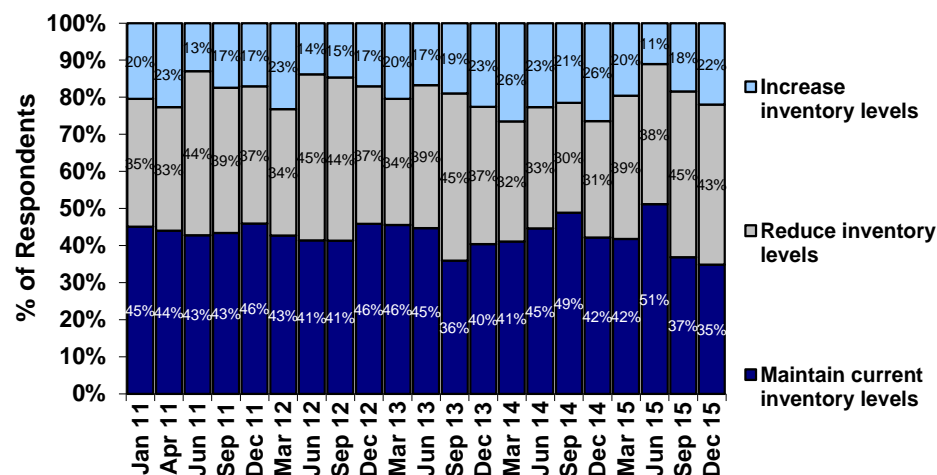


Assessing Restocking Potential: Net Inventory Trends and Inventory Plans

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

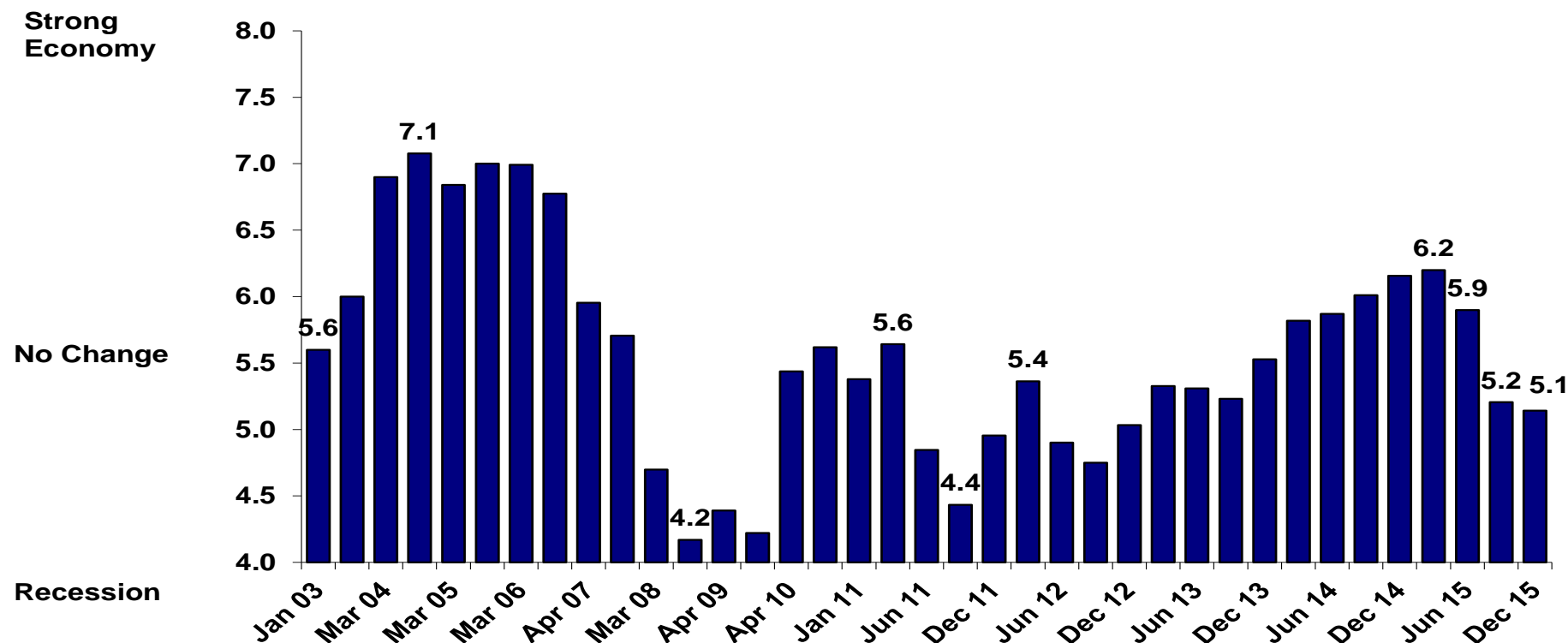


Shippers' Inventory Plans



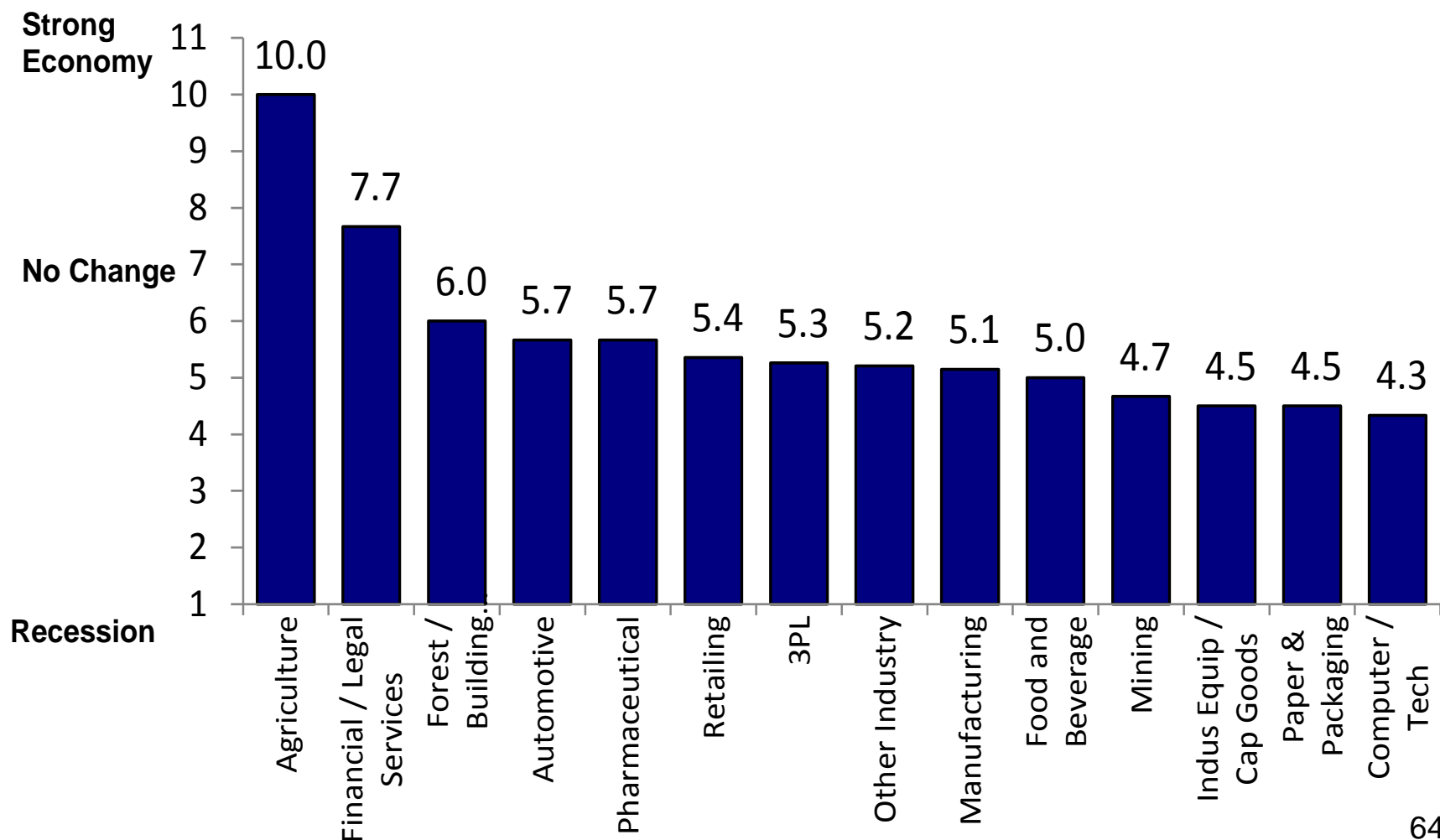
Economic Outlook: Average Across All Shippers

State of the Economy from Shippers' Perspective



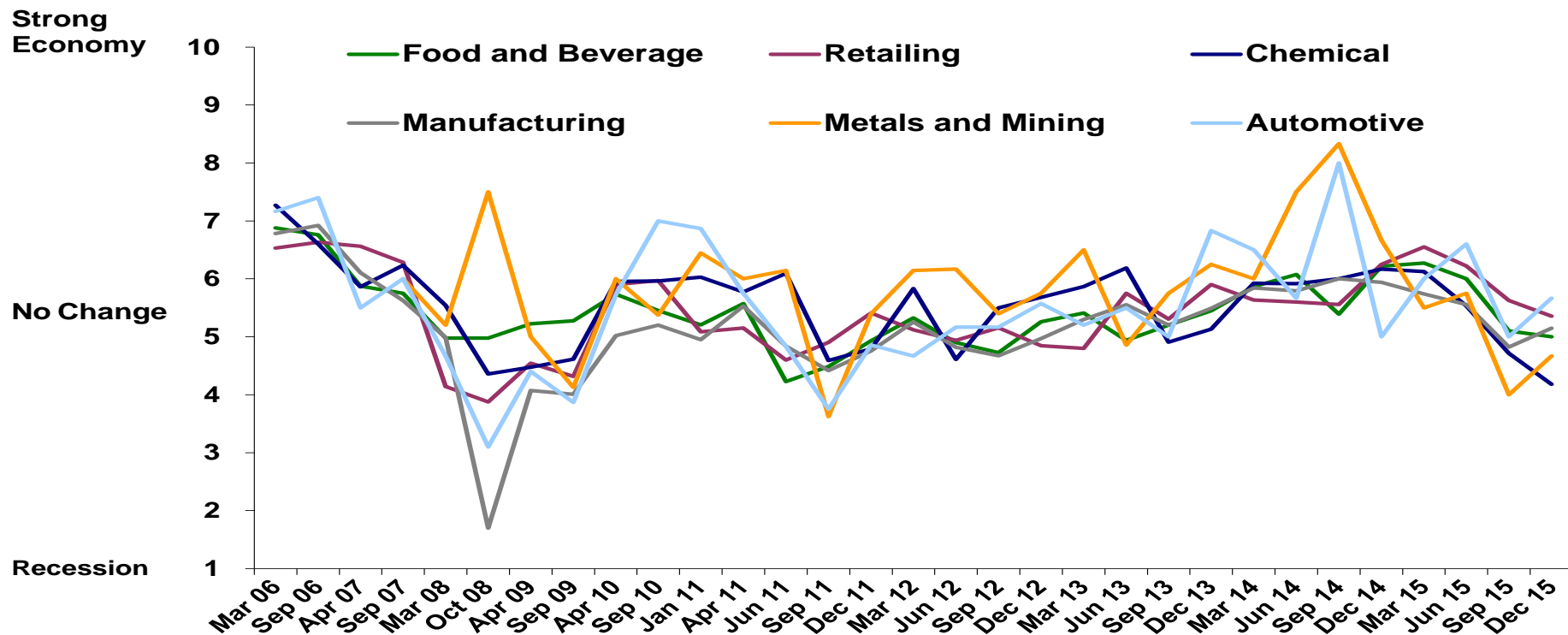
Economic Outlook: Granular View by Spend and Shipper Industry

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Economic Outlook: View by Industry Over Time

Shippers' Historical View of the Economy by Industry Segment



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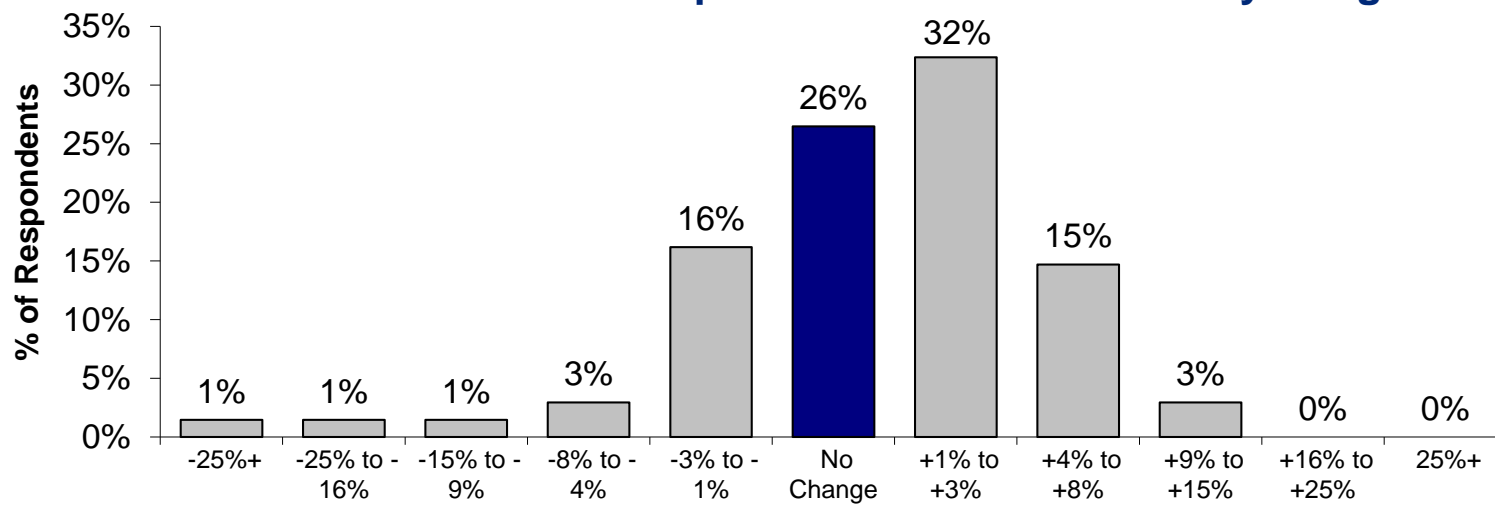
1. Volume Trends
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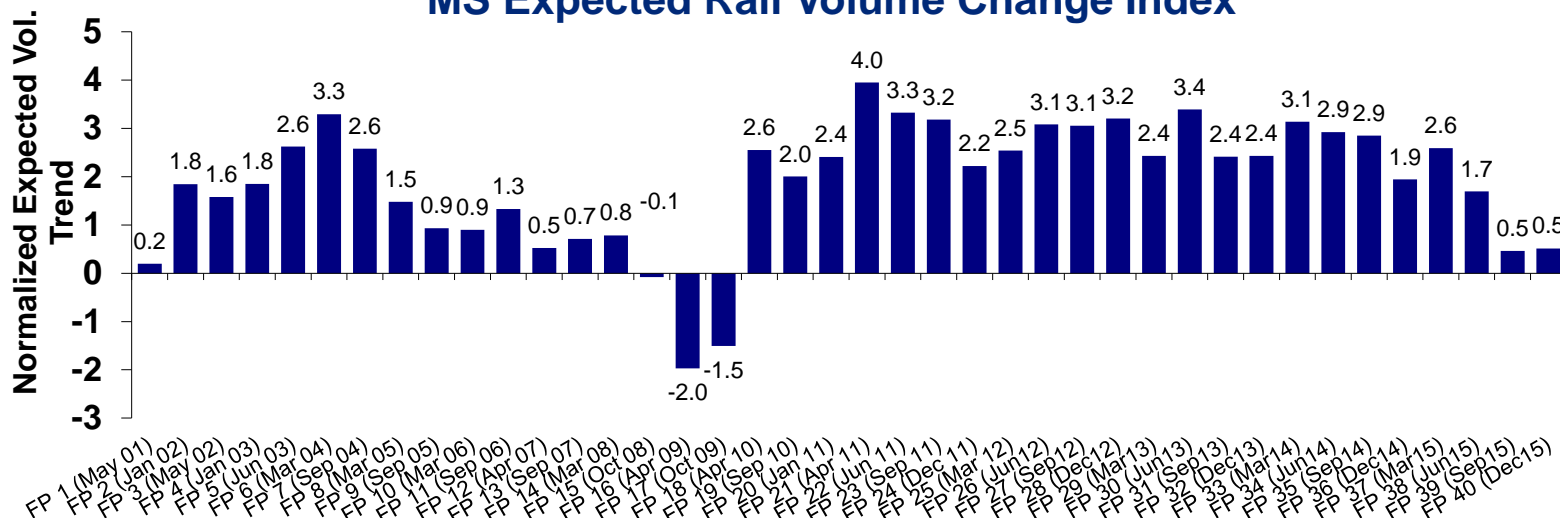
1. Intermodal
2. Rate Mitigation Efforts
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Rail Volume Trends: Forward 6 Month YoY Volume Expectations

YoY Volume Growth Expectations for Next 6 Mo. by Range

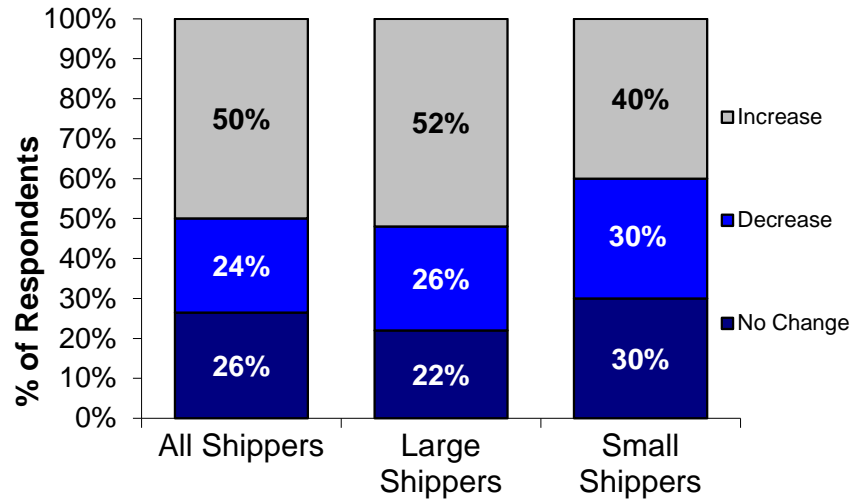


MS Expected Rail Volume Change Index

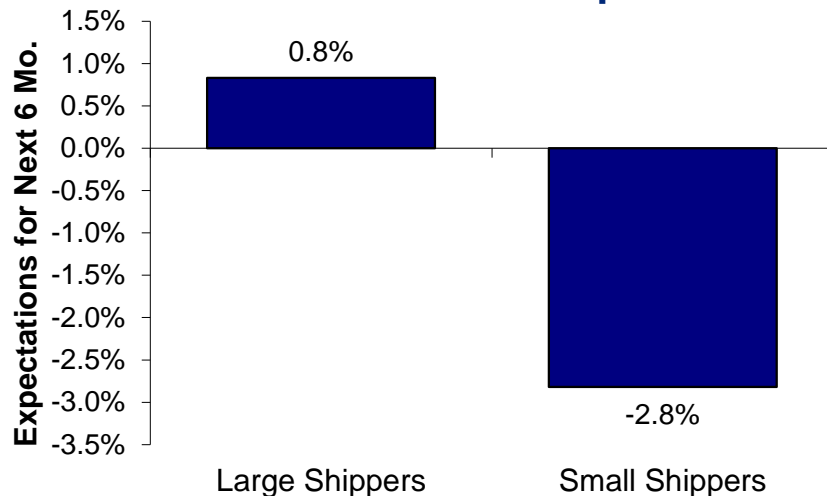


Rail Volume Trends: Forward 6 Month YoY Volume Expectations by Segment

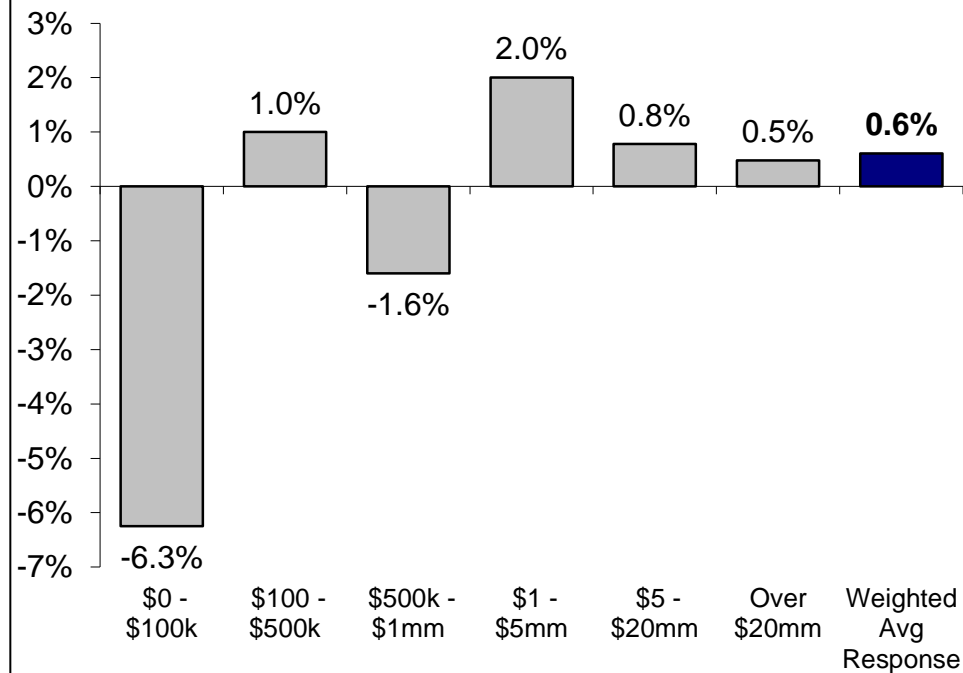
YoY Volume Growth Expectations



YoY Volume Growth Expectations

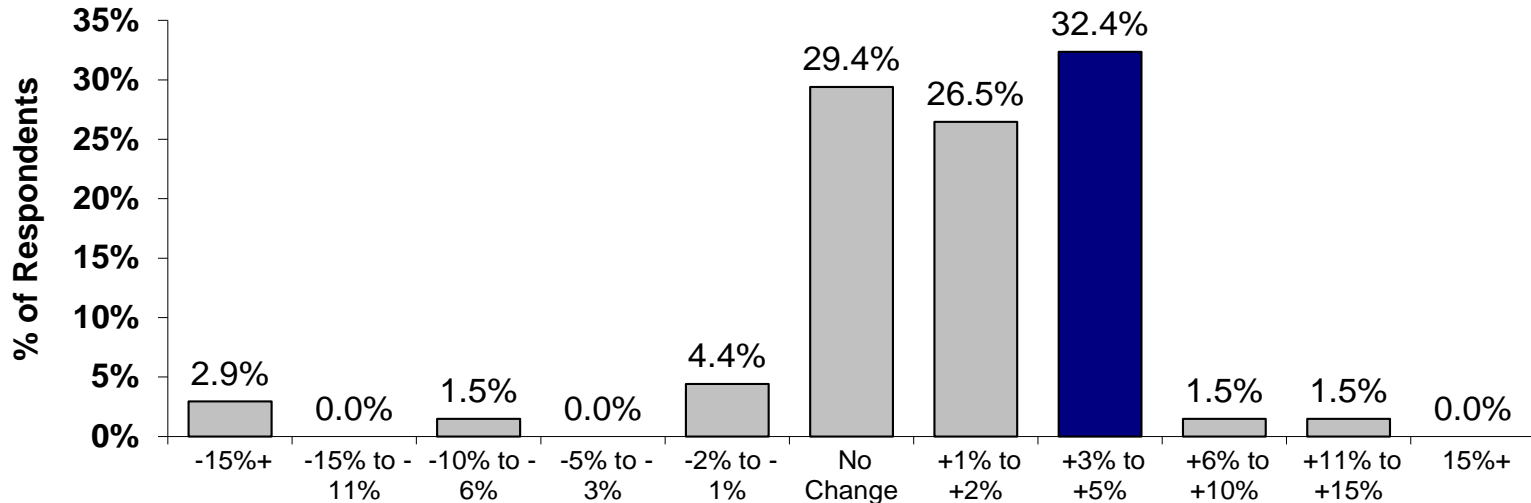


6 Mo. YoY Volume Growth Expectation by Spend

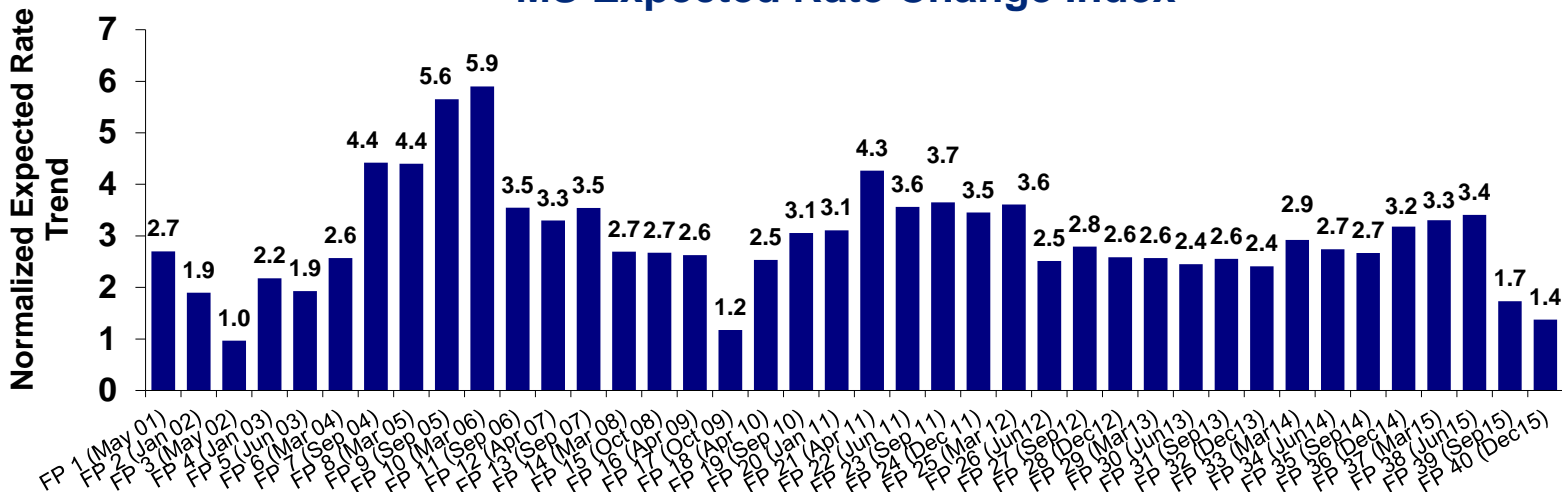


Rail Rate Trends: Forward 6 Month YoY Rate Expectations

YoY Rate Growth Expectations for Next 6 Mo. by Range

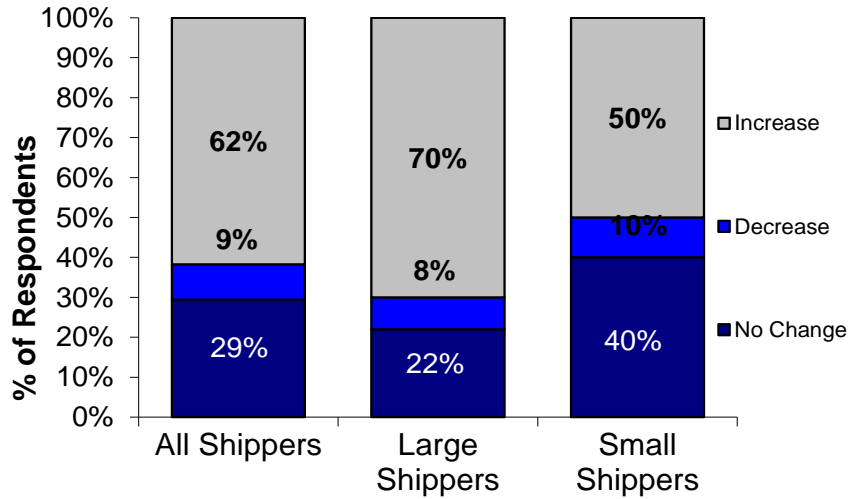


MS Expected Rate Change Index

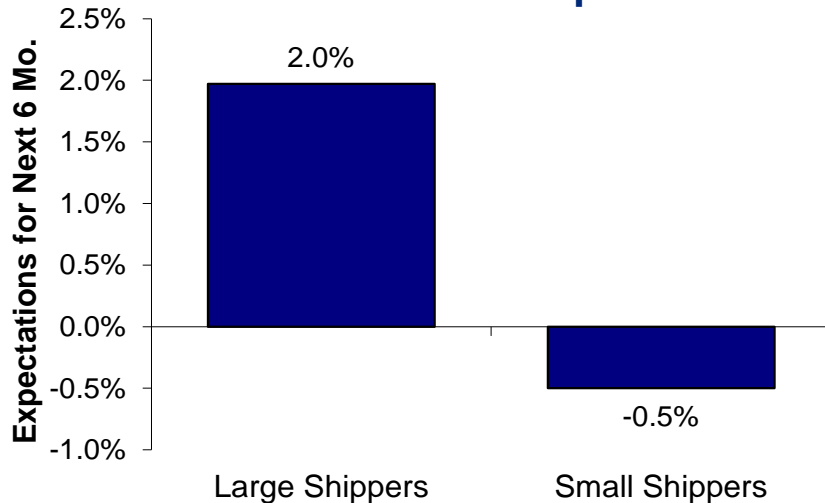


Rail Rate Trends: Forward 6 Month YoY Rate Expectations by Segment

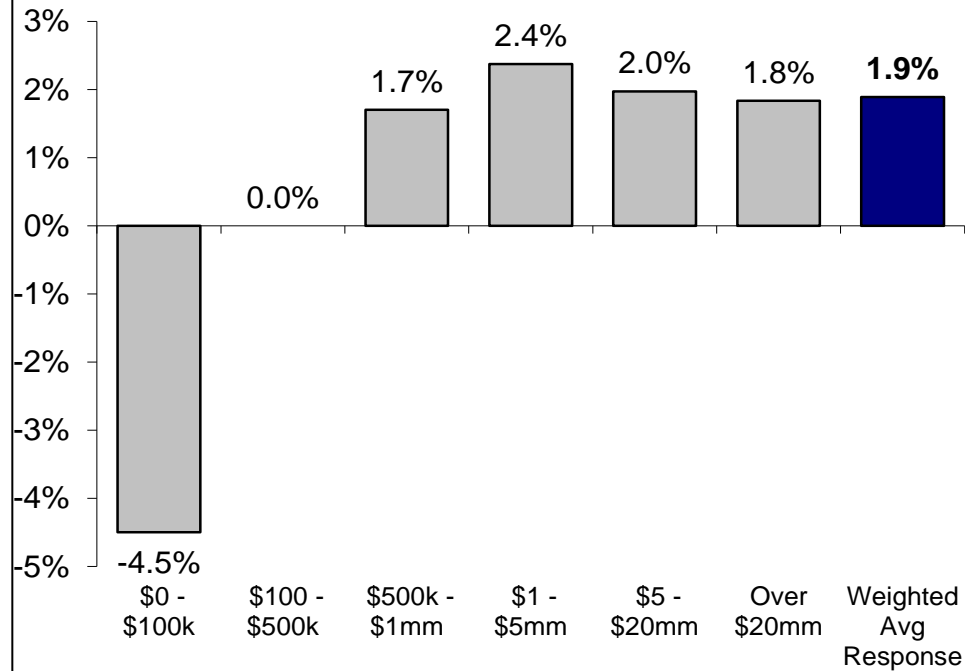
YoY Rate Growth Expectations



YoY Rate Growth Expectations

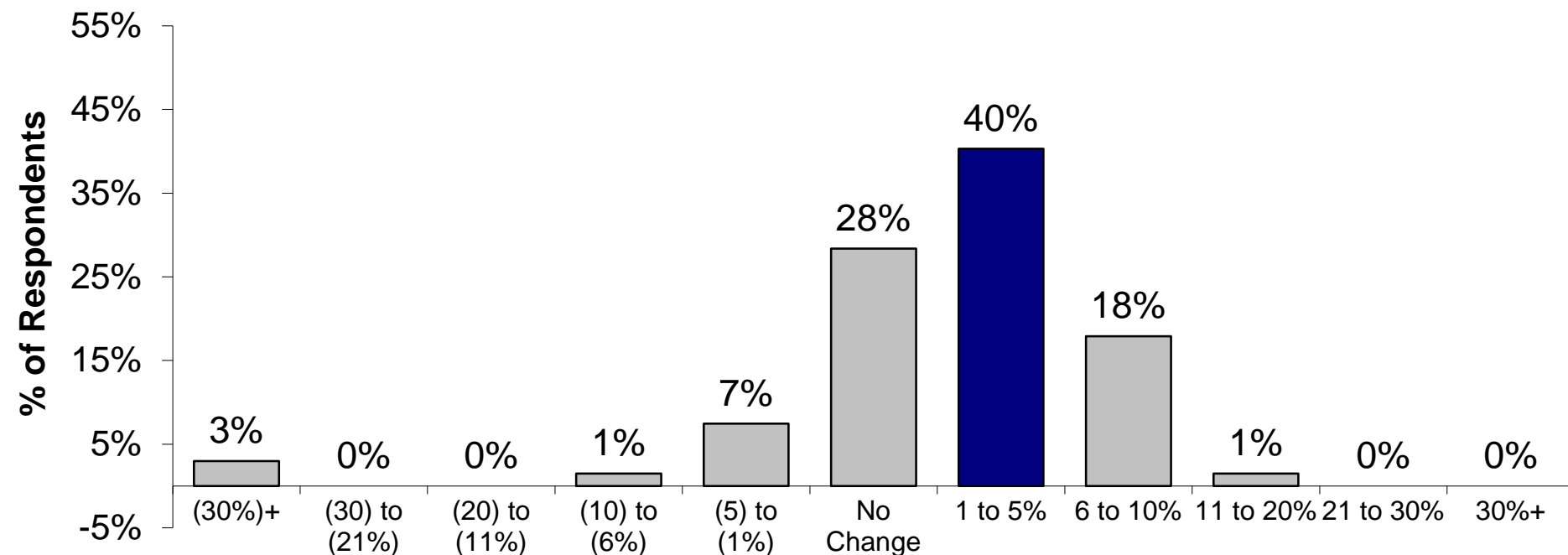


6 Mo. YoY Rate Growth Expectation by Spend



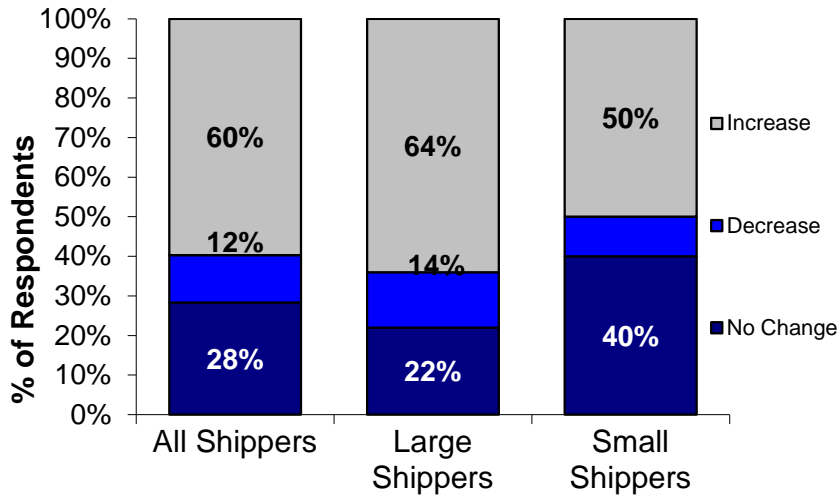
Rail Spend Trends: Forward 6 Month YoY Spend Expectations

YoY Rail Spend Growth Expectations for Next 6 Mo. by Range

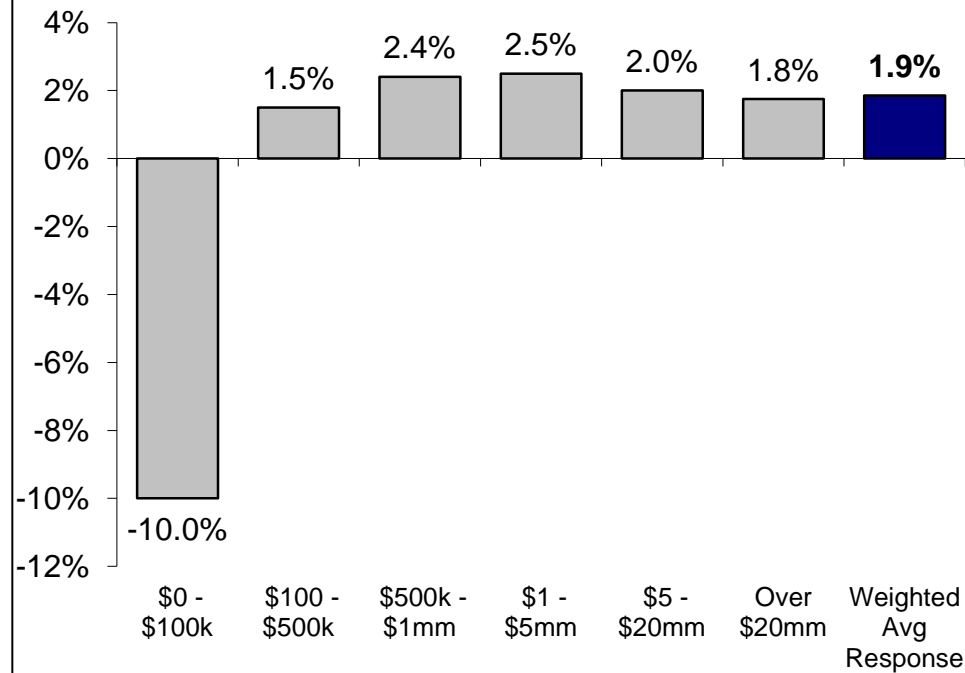


Rail Spend Trends: Forward 6 Month YoY Spend Expectations by Segment

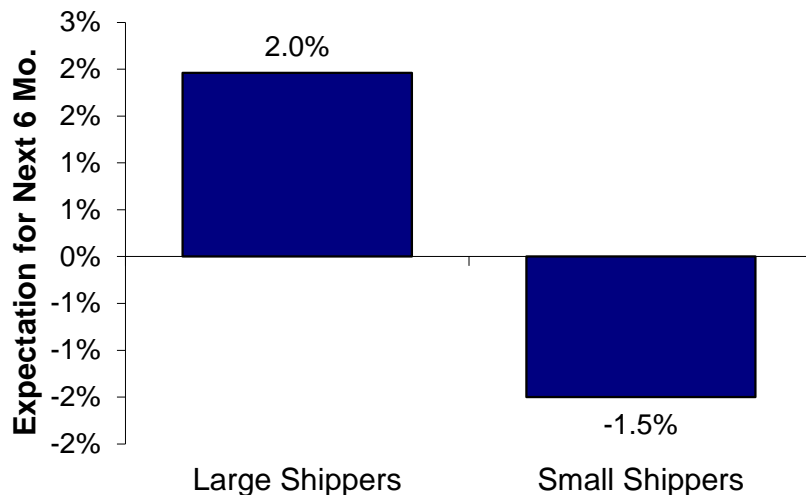
YoY Spend Growth Expectations



6 Mo. YoY Spend Growth Expectation by Spend

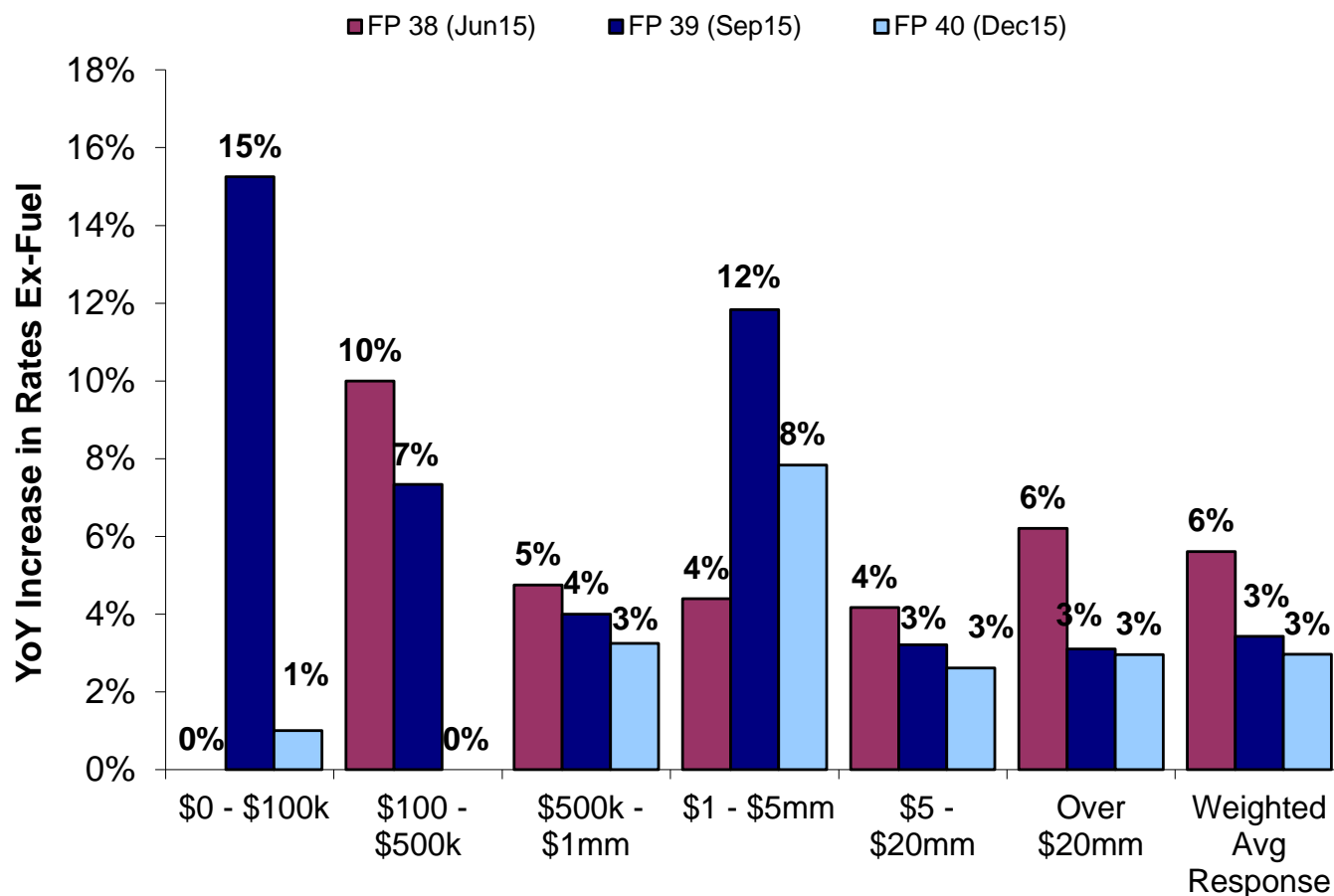


Spend Expectations by Size

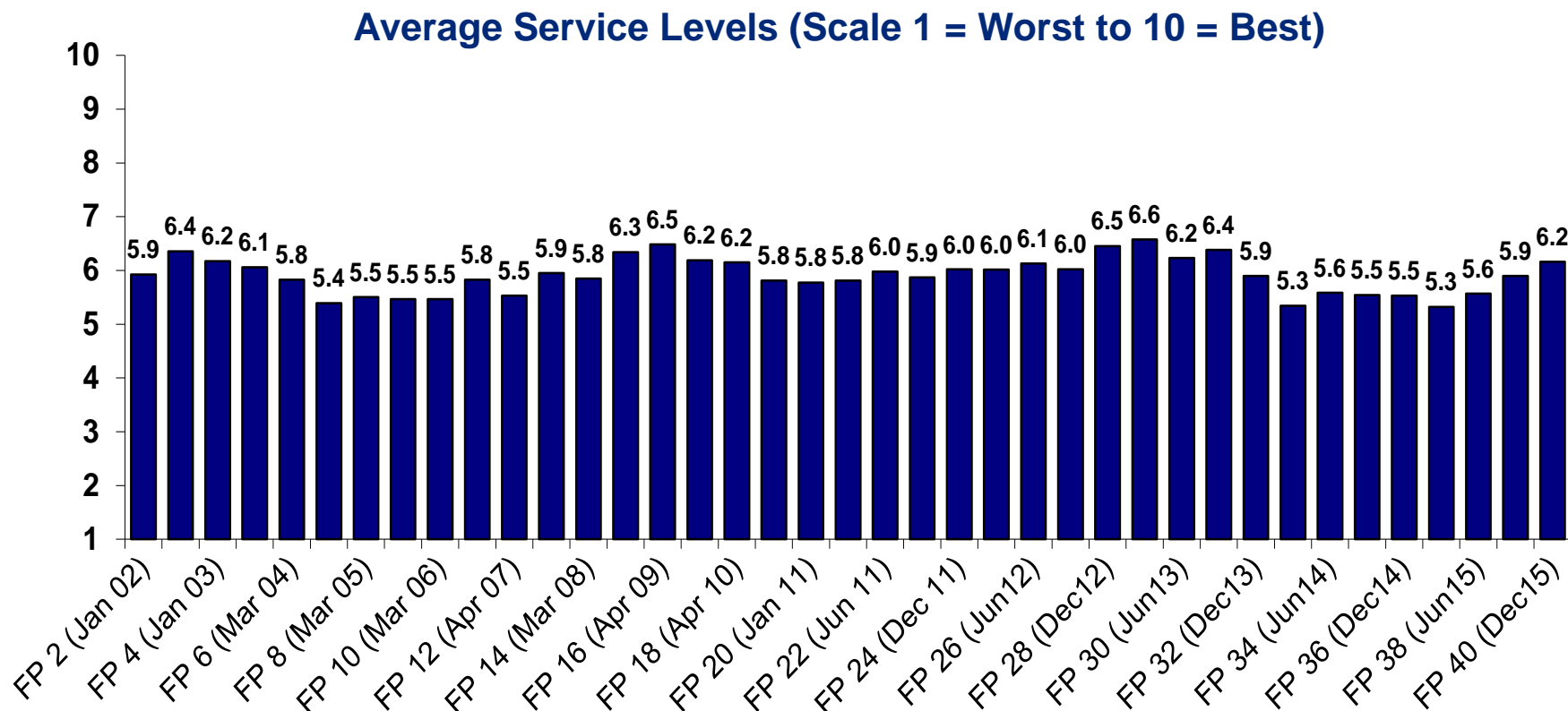


Rail Pricing Trends: Renewal Rates

Expectations for Current Year YoY Pricing Ex-Fuel by Spend

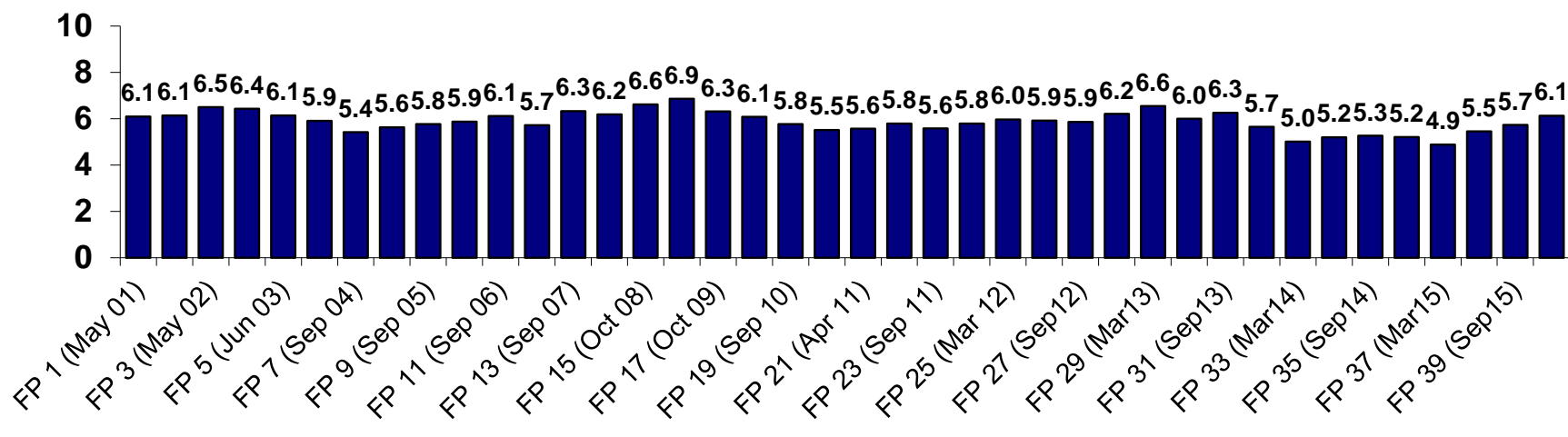


Rail Service Trends: Average Service Levels

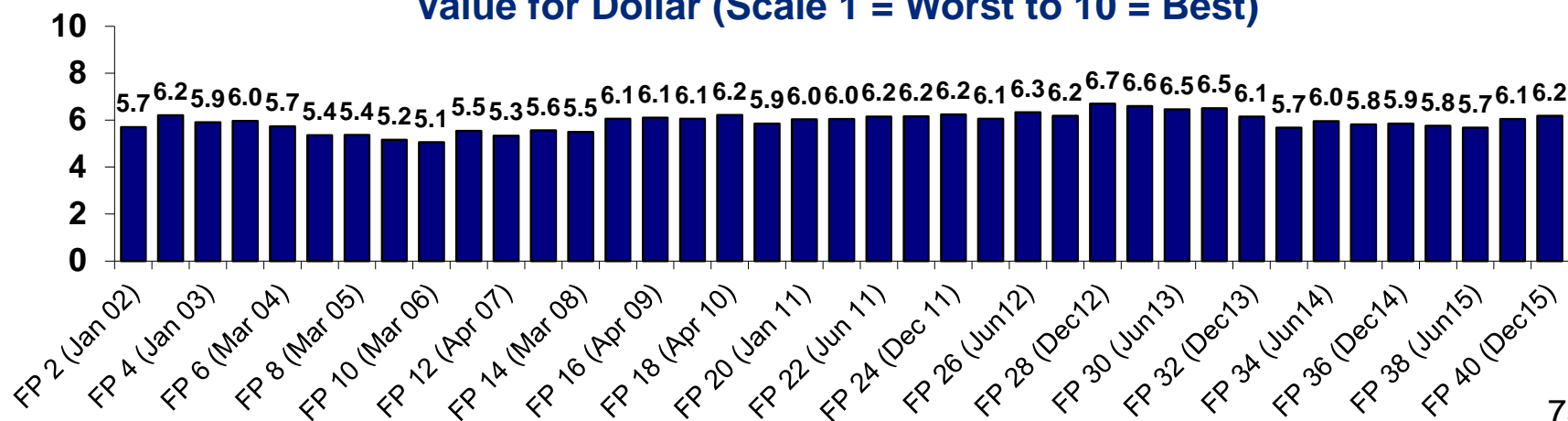


Rail Service Trends: Detail

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



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



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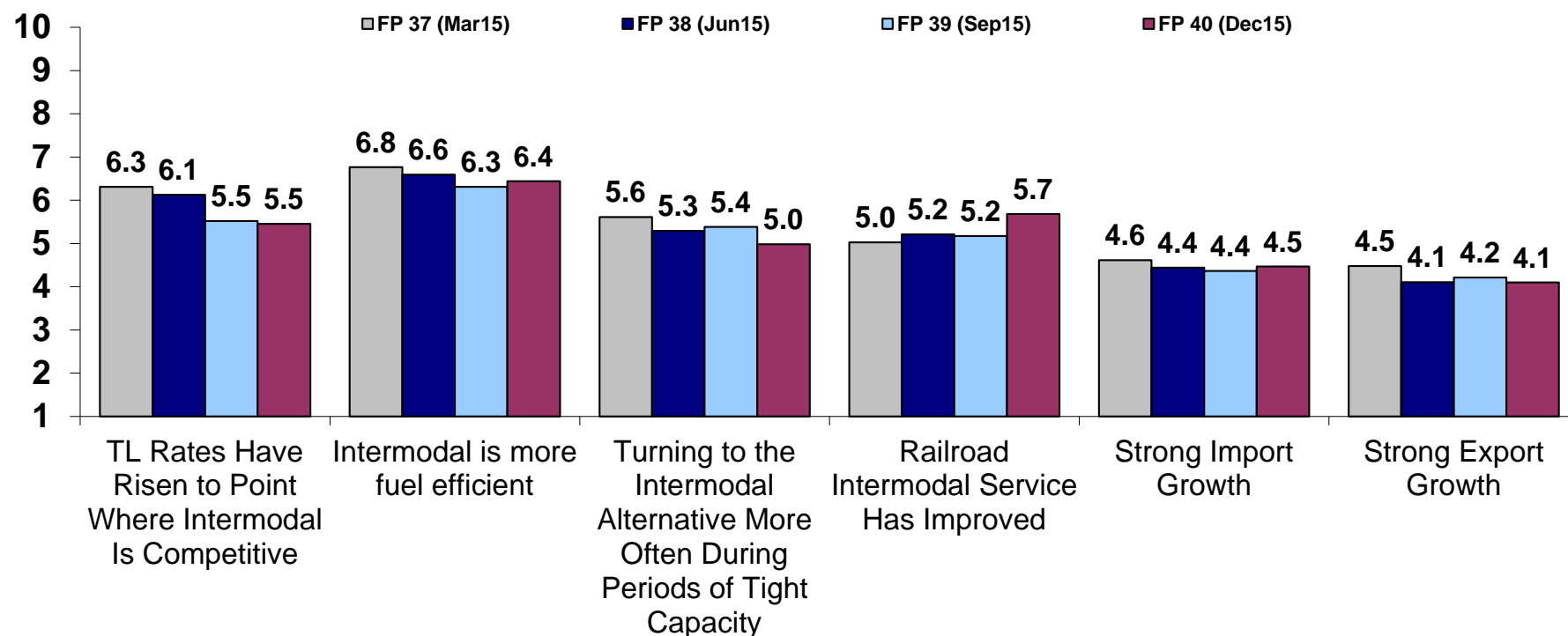
1. Volume Trends
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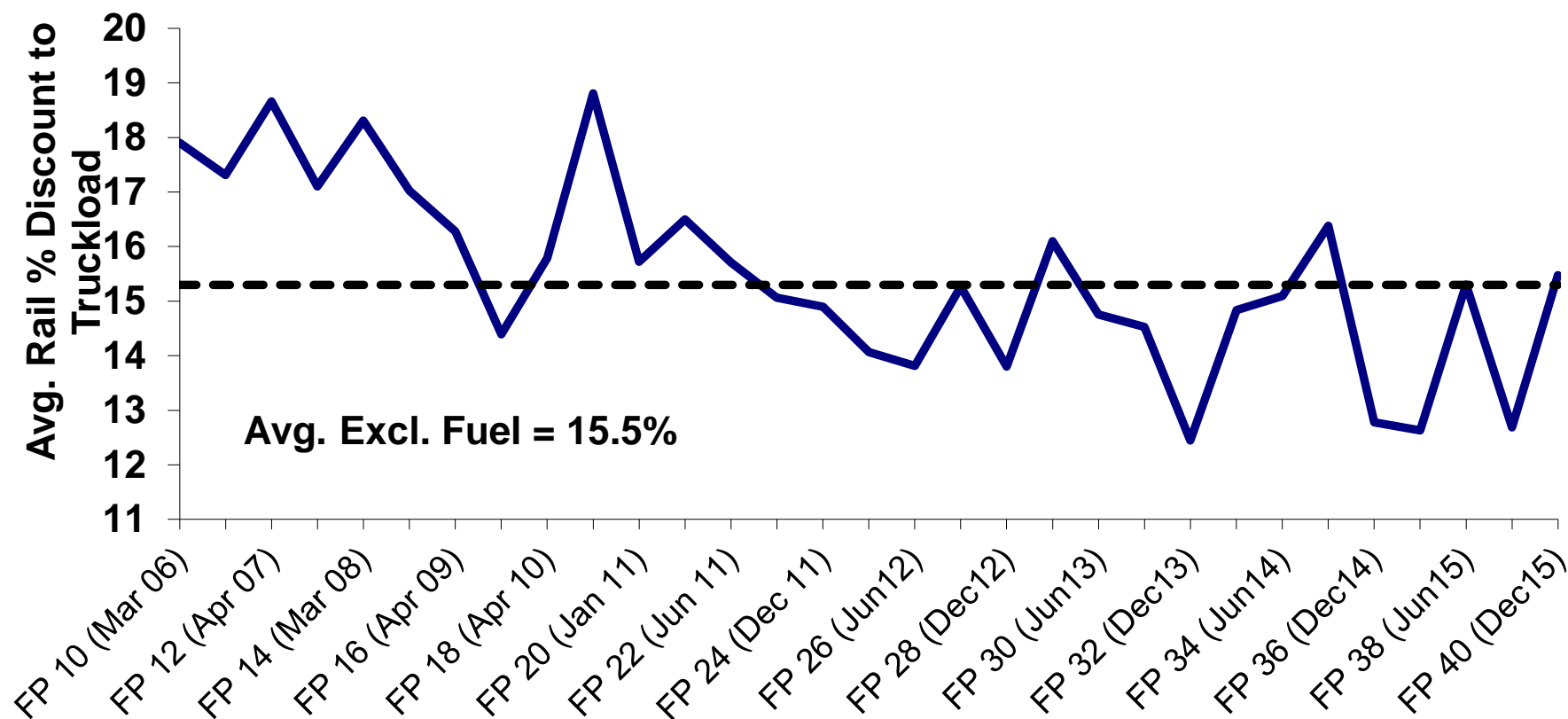
Intermodal: What Factors Are Impacting Your Use of Intermodal Most?

Avg. Response on Scale of 1 (Least Impact) to 10 (Most Impact)



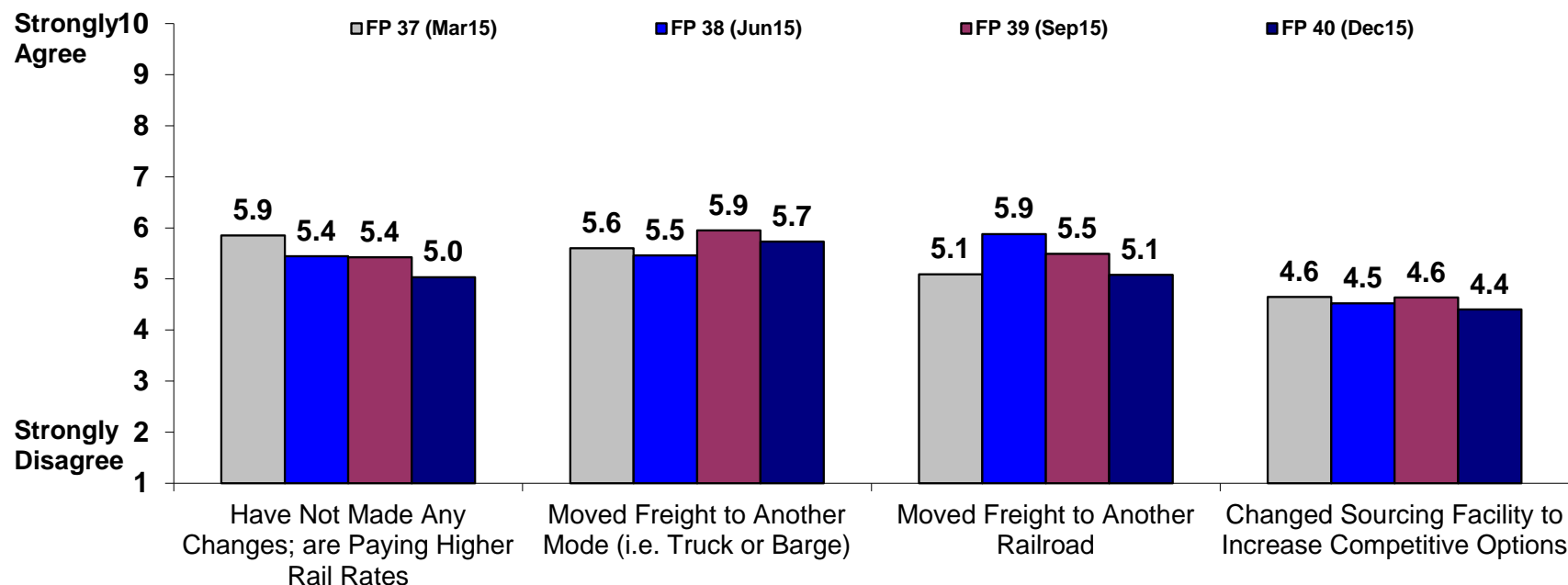
Intermodal: Average % Discount to Truckload Carriers?

Avg. Discount Excl. Fuel



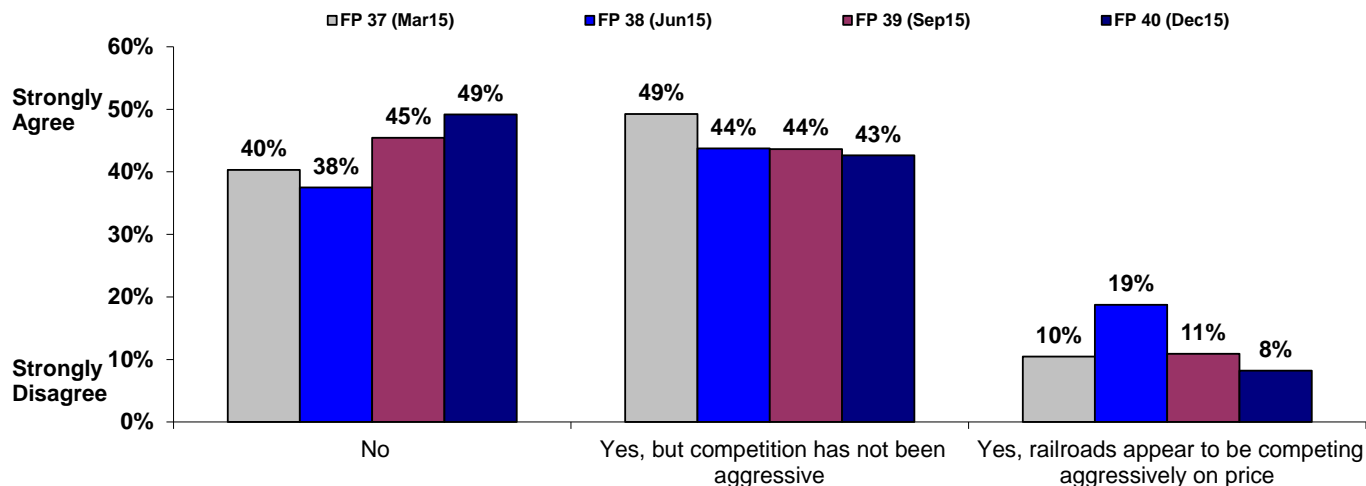
Rate Mitigation: What Have You Done in an Effort to Reduce Railroad Spend ?

All Shippers

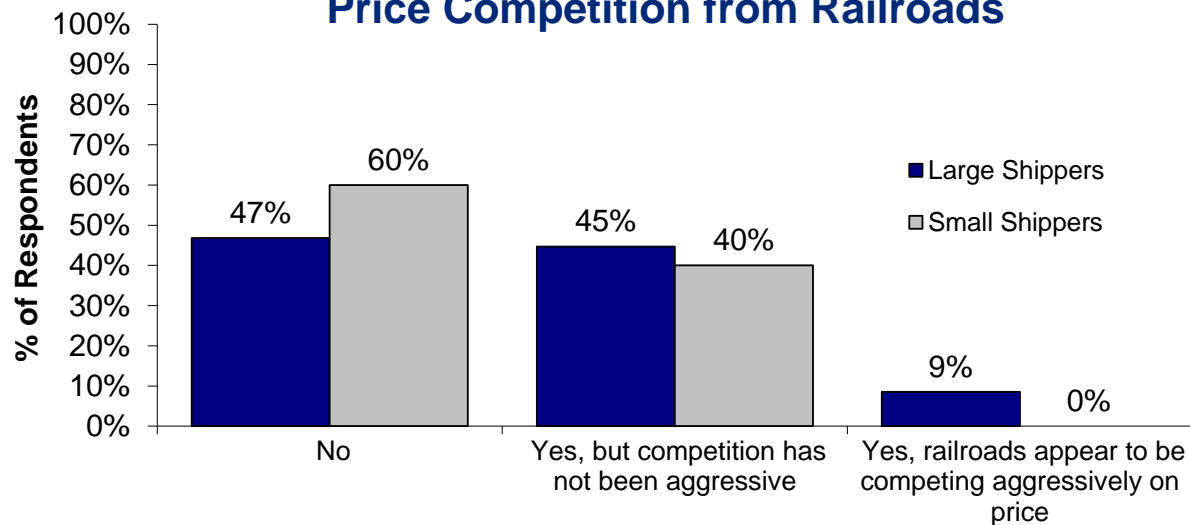


Competition: Have You Been Solicited With Competing Bids Offering Lower Rates?

All Shippers

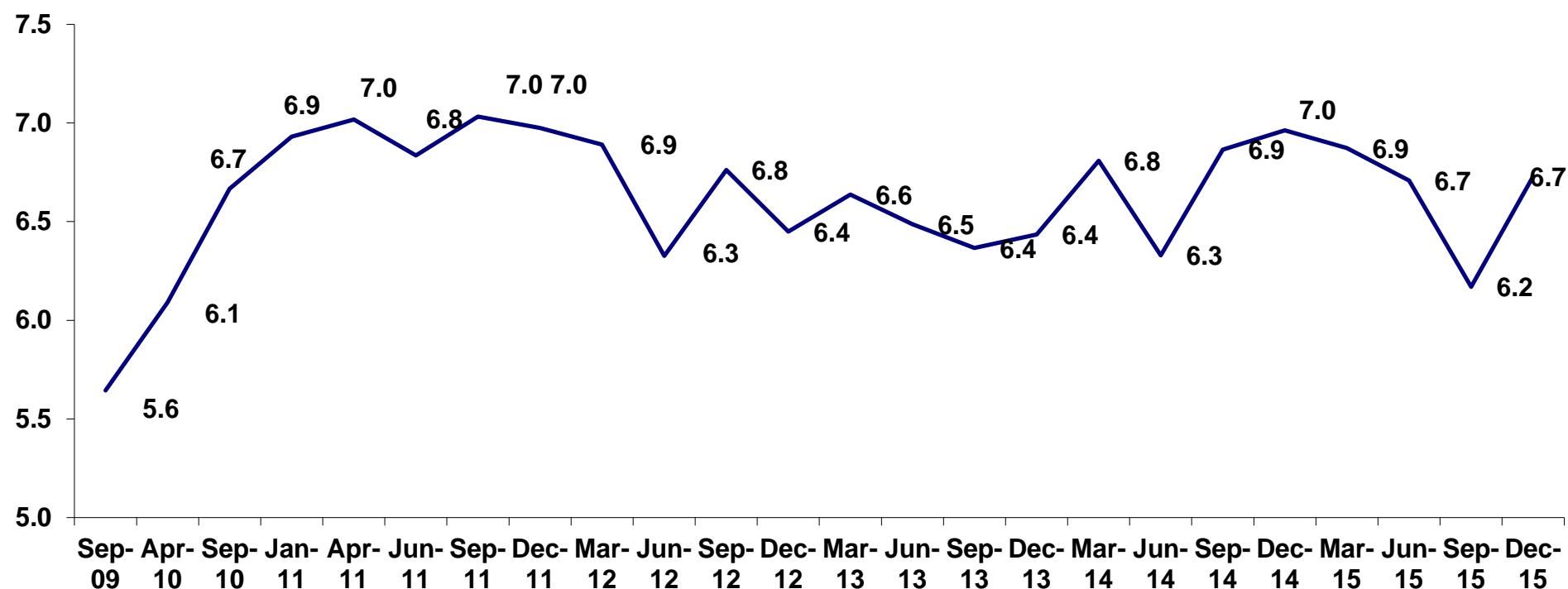


Price Competition from Railroads



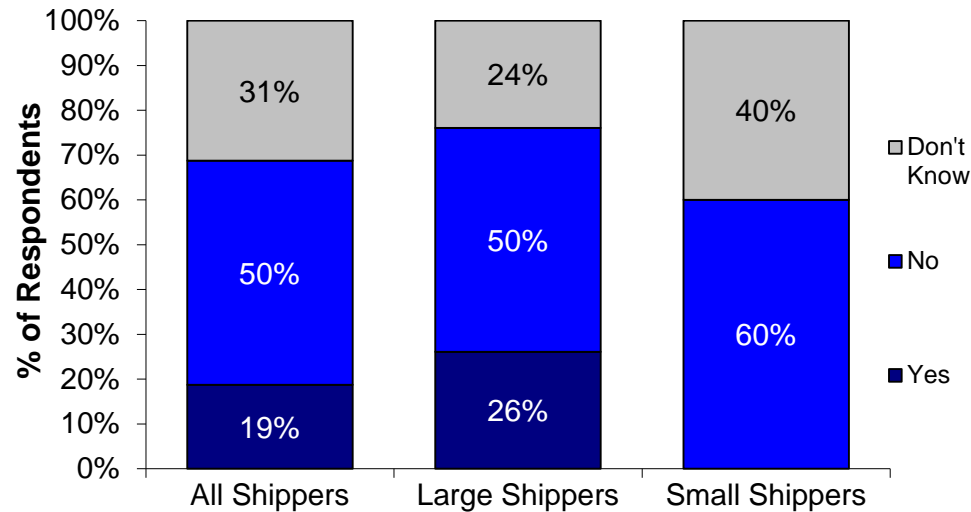
Rail Rate Negotiations: Rate the Difficulty of Recent Rate Negotiations

Scale of 1 (Least Difficult) to 10 (Most Difficult)

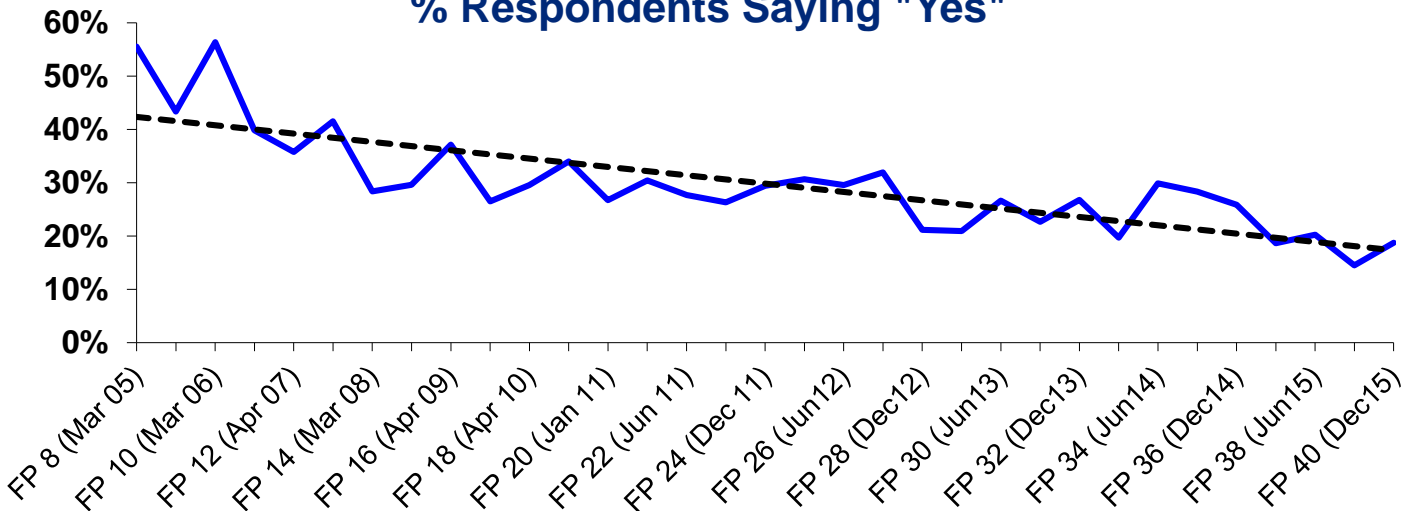


Legislation: Do You Expect to Take a More Active Role in Legislative Rail Reform?

Action on Legislative Rail Reform



% Respondents Saying "Yes"



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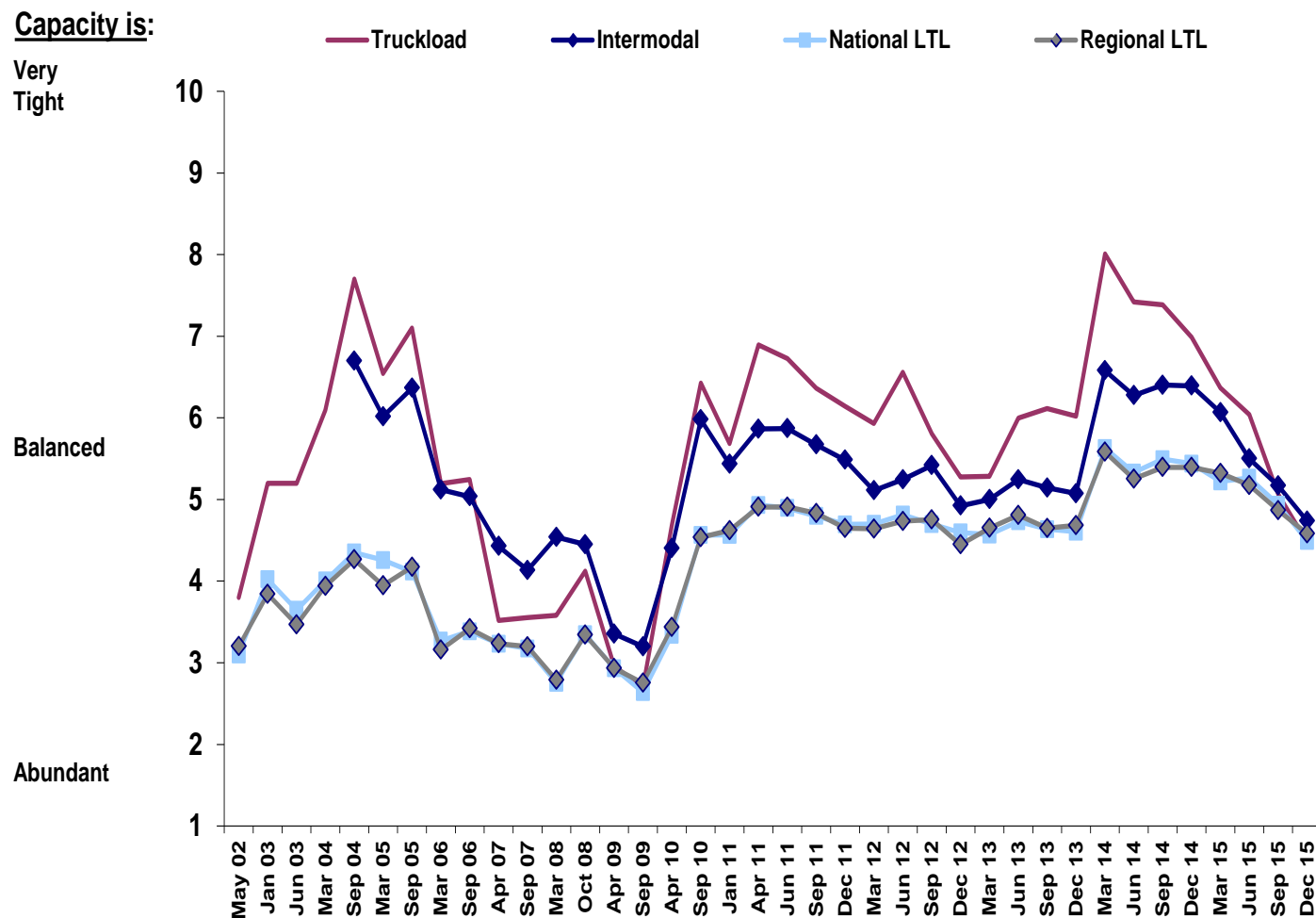
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Shipper Measures for Availability of Truck Capacity

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

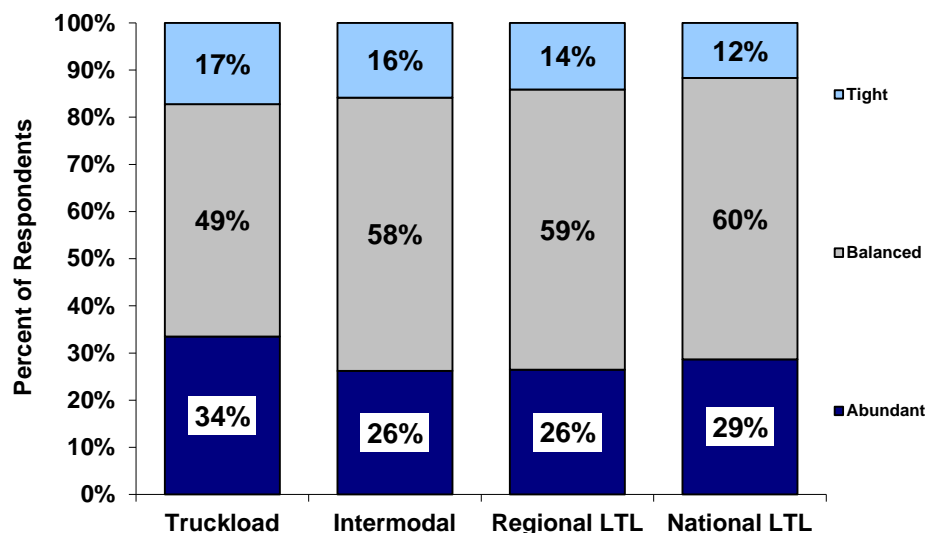


Source: Morgan Stanley Freight Pulse Surveys

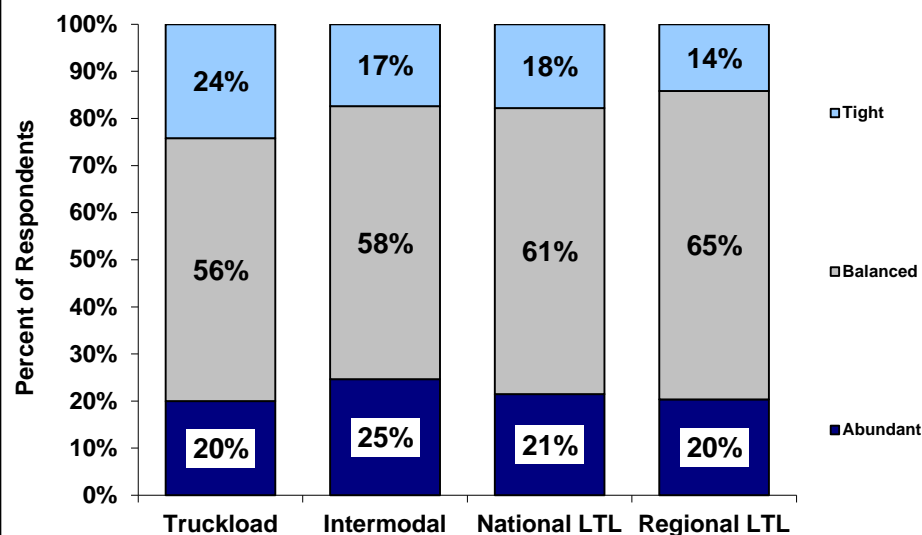
Alexander Vecchio, CFA, (212) 761-6233, Alexander.Vecchio@morganstanley.com

Shipper Expectations for Availability of Truck Capacity

Current Capacity

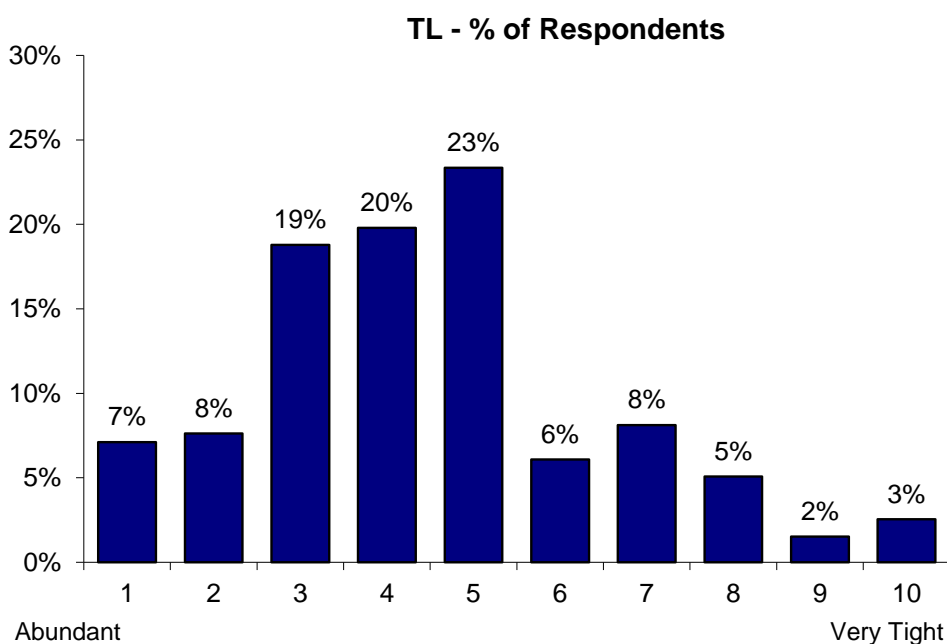


Projected Capacity in 6 Months

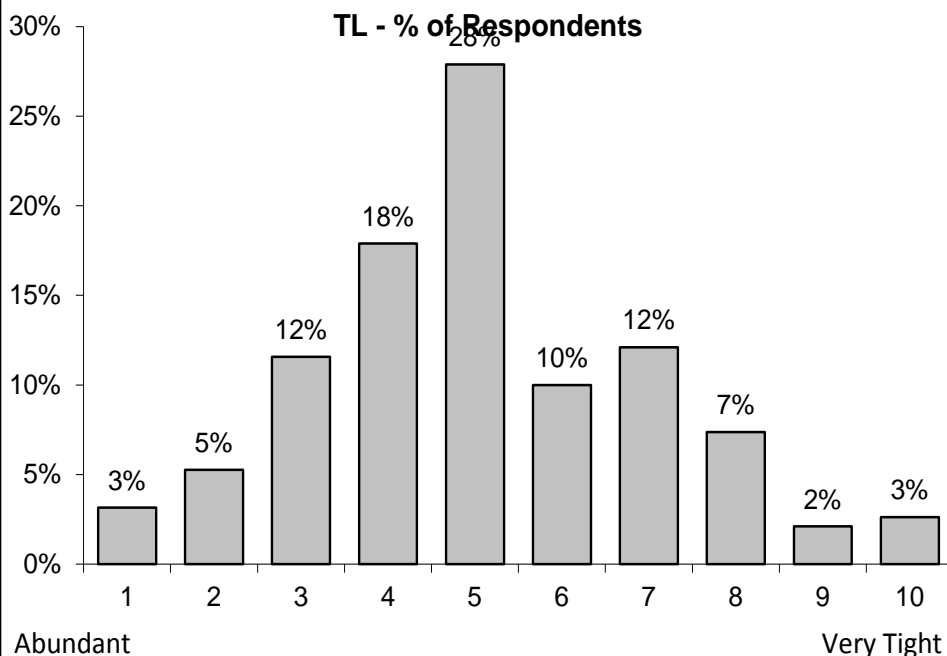


Capacity: Distribution of Truckload Capacity Rankings

Current Capacity



Projected Capacity in 6 Months



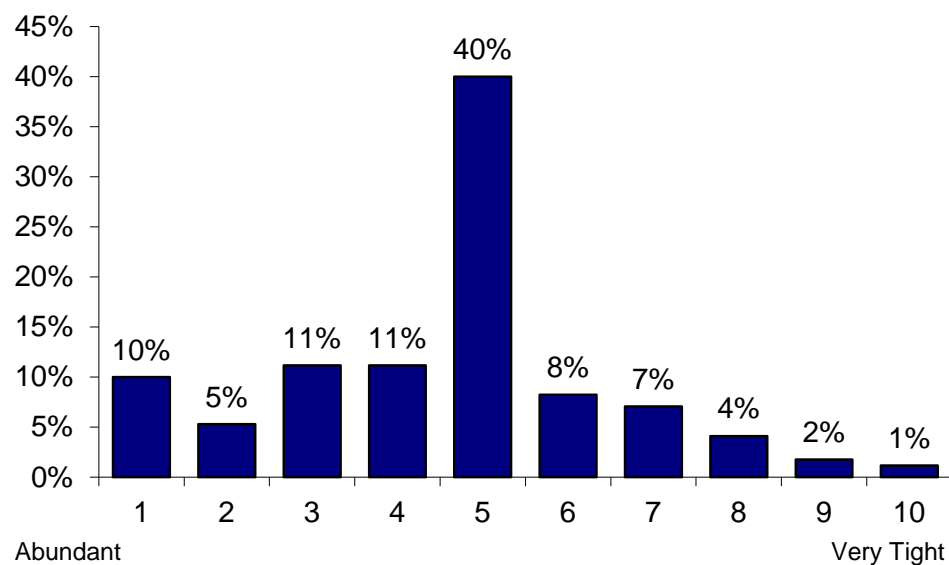
* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight
Source: Morgan Stanley Freight Pulse Surveys

Alexander Vecchio, CFA, (212) 761-6233, Alexander.Vecchio@morganstanley.com

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

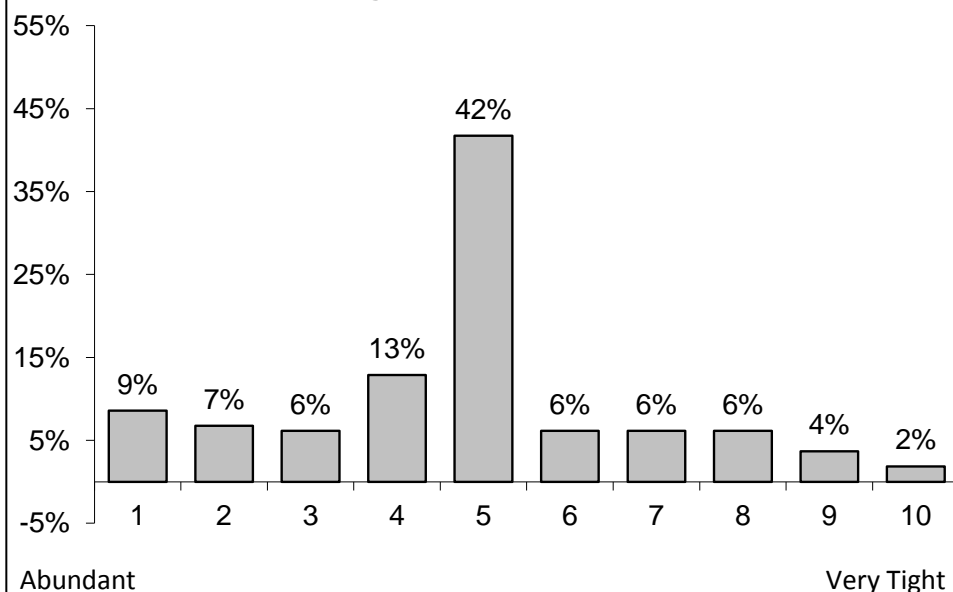
Current Capacity

Regional LTL - % of Respondents



Projected Capacity in 6 Months

Regional LTL - % of Respondents



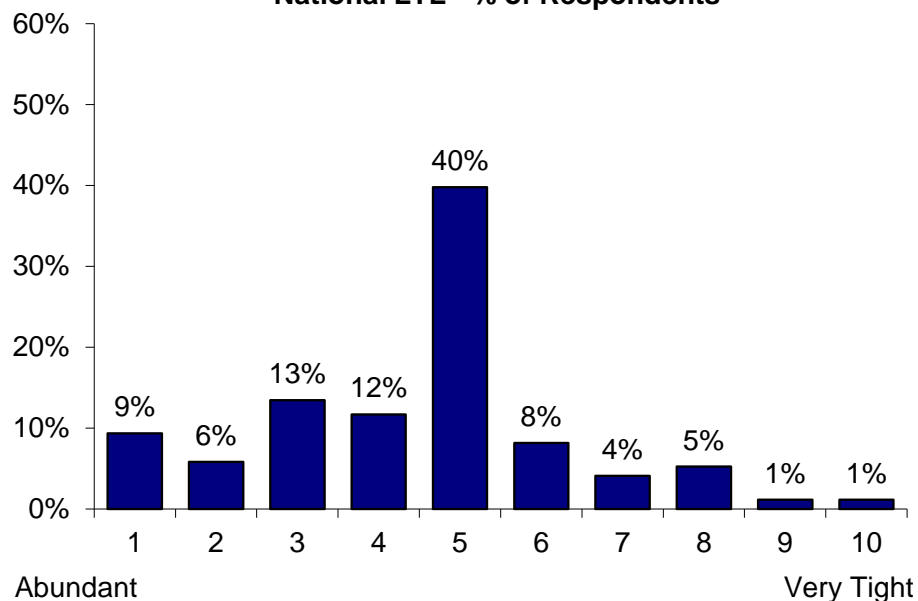
* Shipper rankings of available capacity where 1= Abundant and 10 = Very Tight

Source: Morgan Stanley Freight Pulse Surveys

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

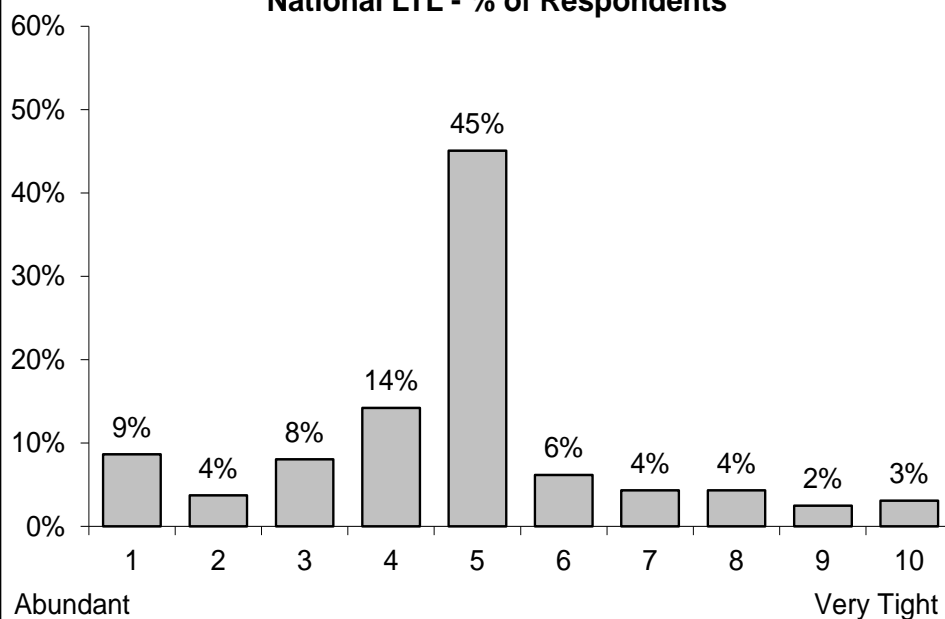
Current Capacity

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

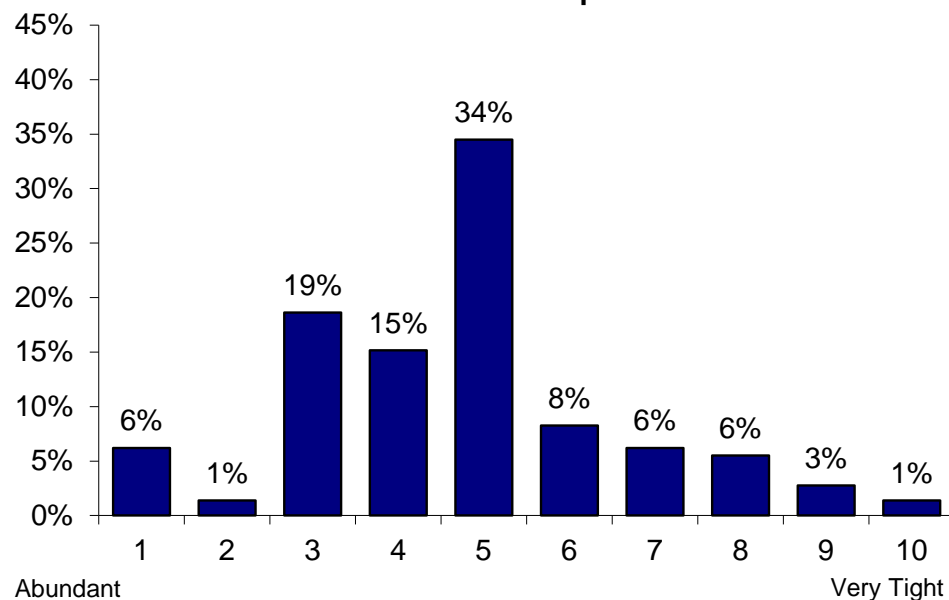
Source: Morgan Stanley Freight Pulse Surveys

Alexander Vecchio, CFA, (212) 761-6233, Alexander.Vecchio@morganstanley.com

Capacity: Distribution of Intermodal Capacity Rankings

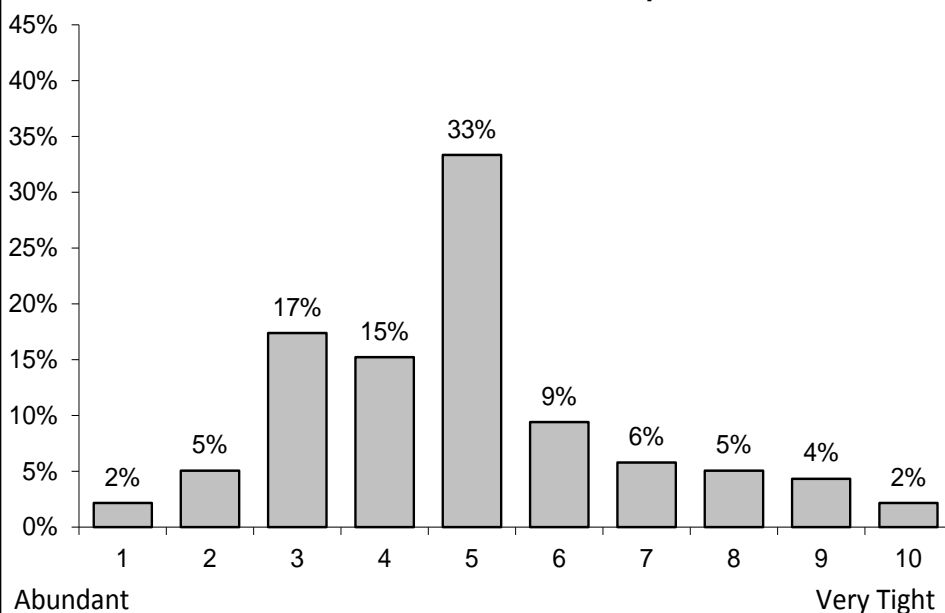
Current Capacity

Intermodal - % of Respondents



Projected Capacity in 6 Months

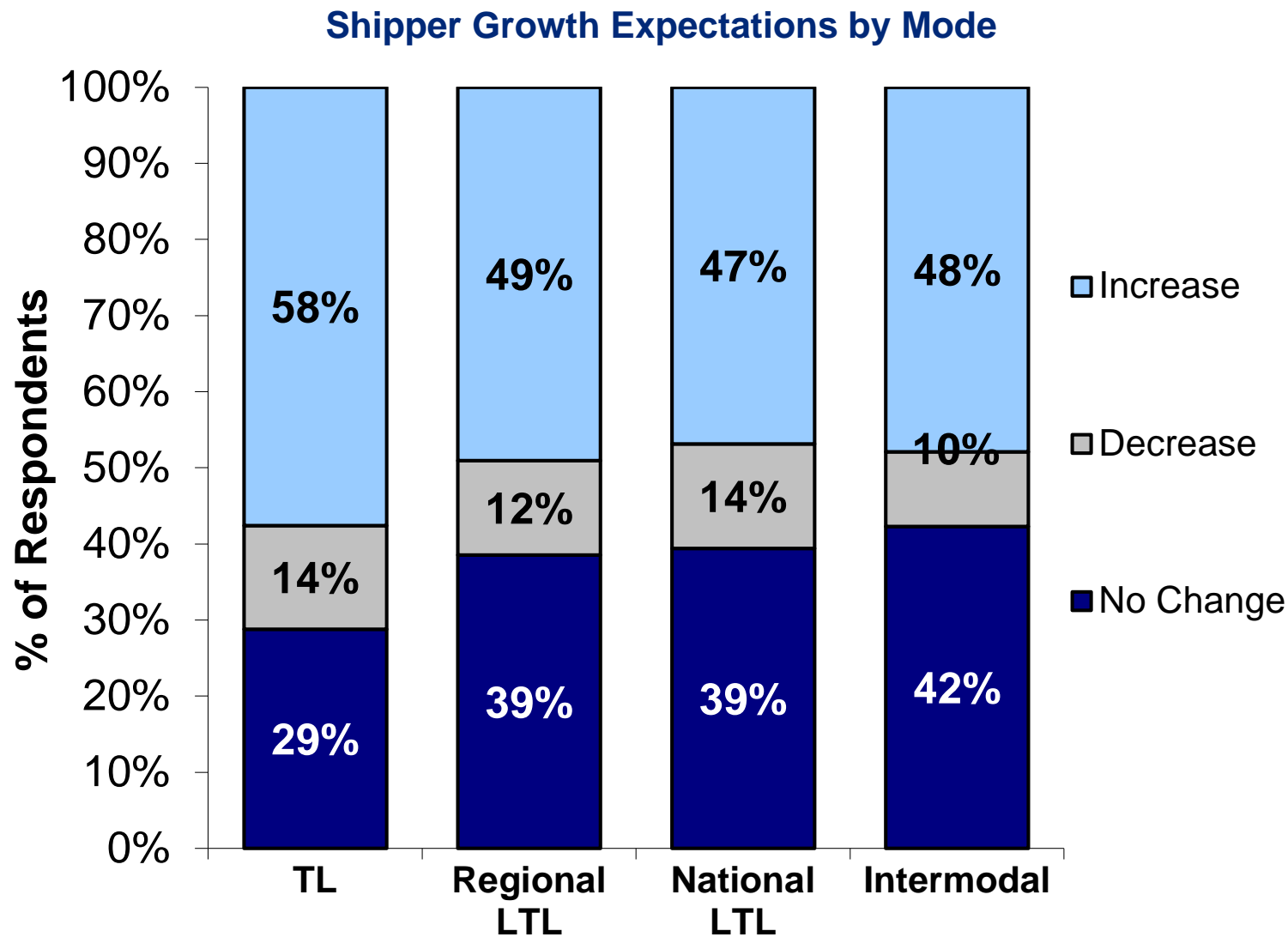
Intermodal - % of Respondents



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

Source: Morgan Stanley Freight Pulse Surveys

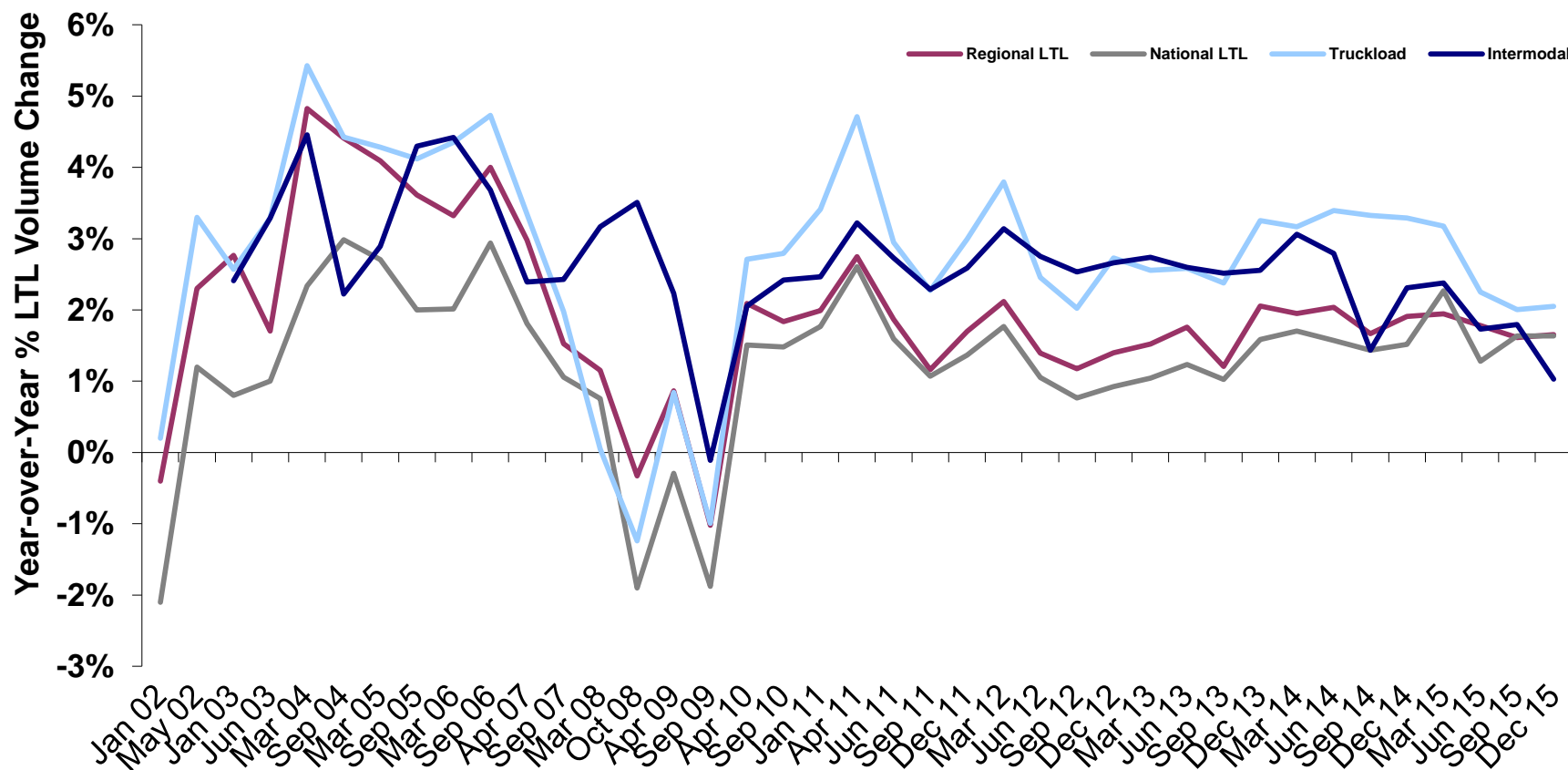
Truck Volume Outlook Over The Next 6 Months



Source: Morgan Stanley Freight Pulse Surveys

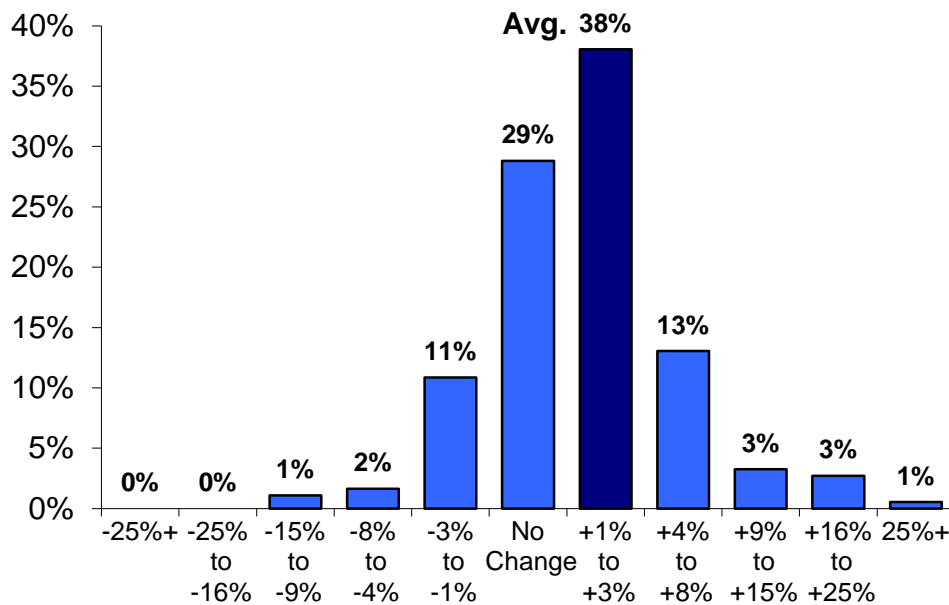
Volume Response History

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

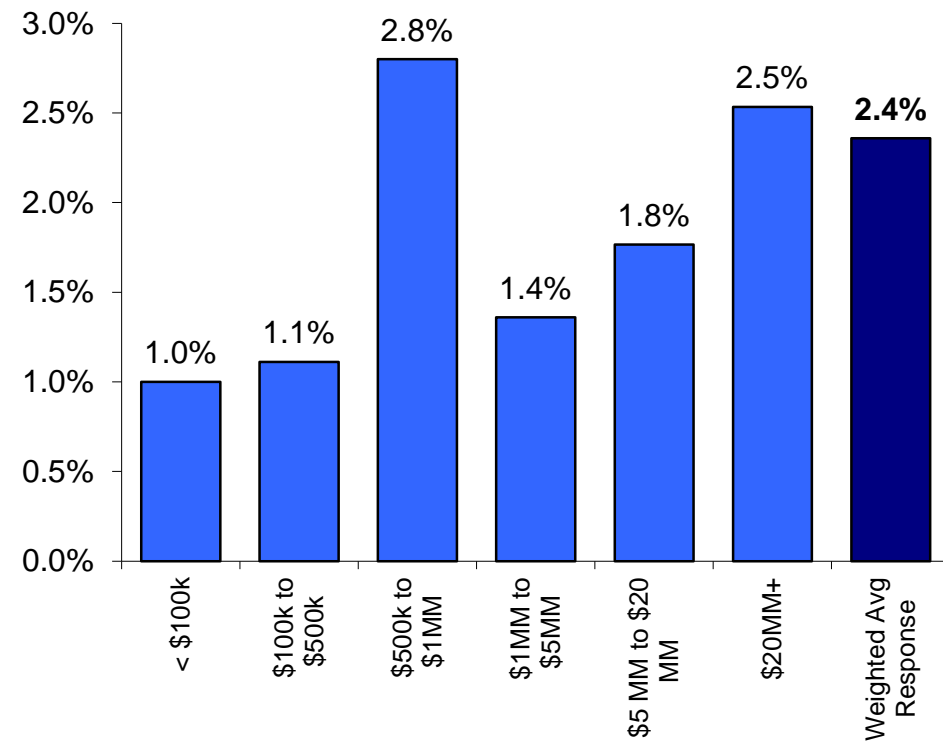


Truckload Volume Detail by Spend, Industry, and Response Skew

Truckload - Y/Y Volume Expectation by Range



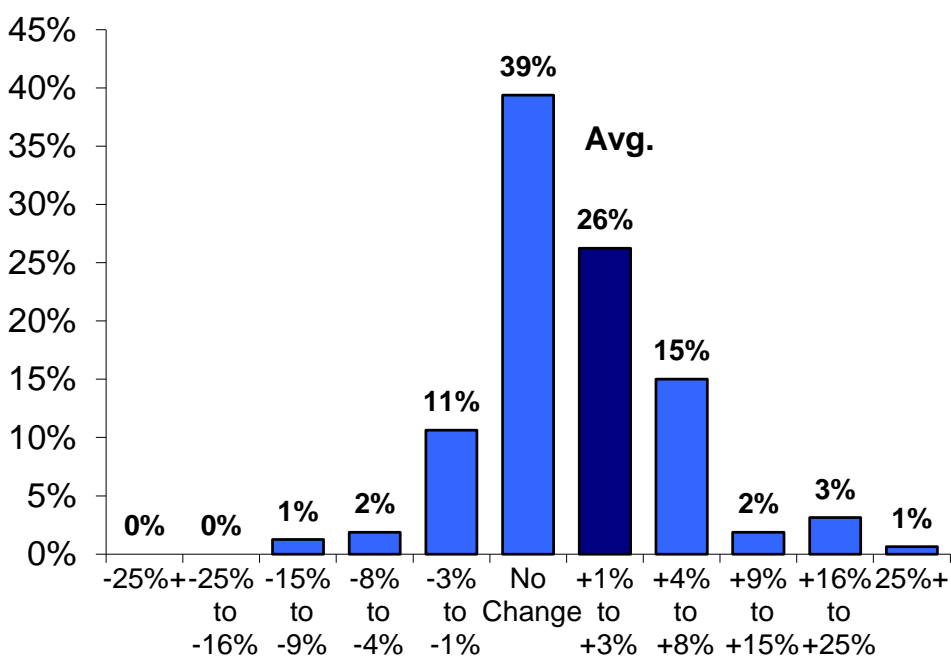
Truckload - Avg Volume Change by Spend



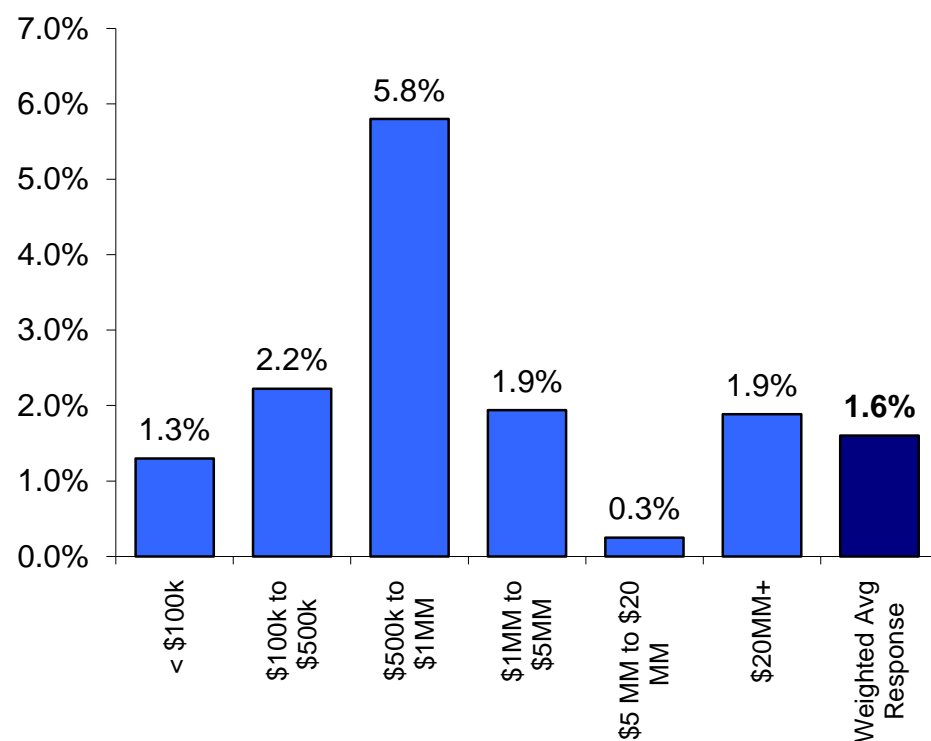
Source: Morgan Stanley Freight Pulse Surveys

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

National LTL - Y/Y Volume Expectation by Range



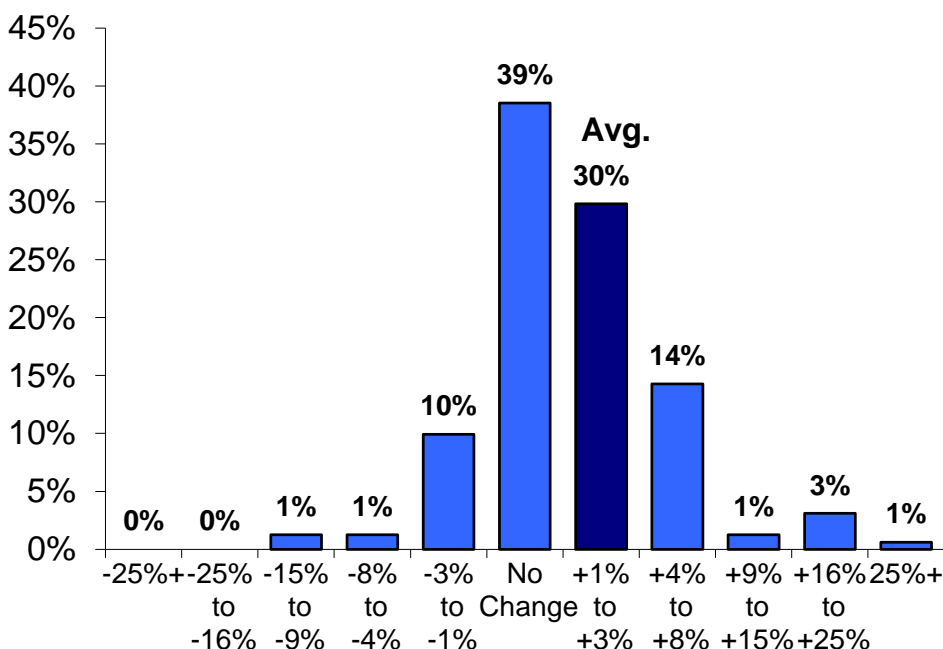
National LTL - Avg Volume Change by Spend



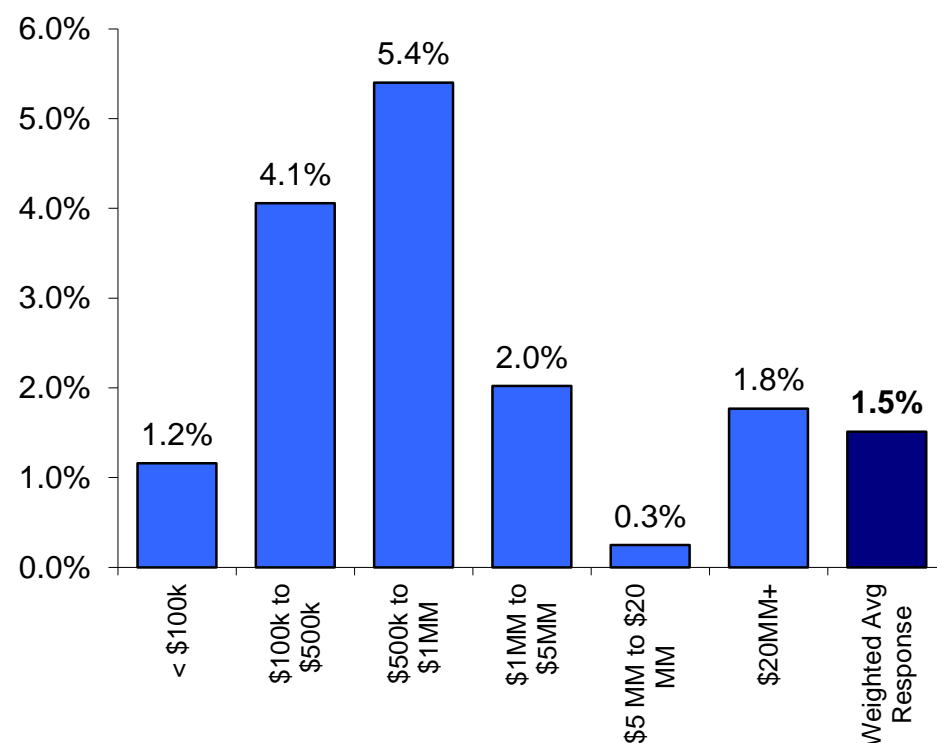
Source: Morgan Stanley Freight Pulse Surveys

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

Regional LTL - Y/Y Volume Expectation by Range



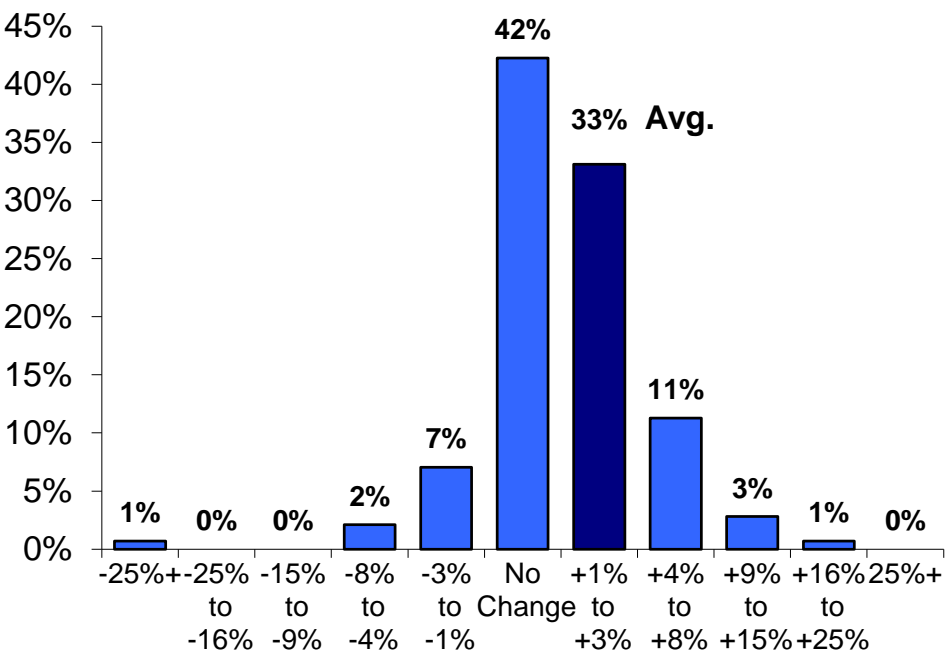
Regional LTL - Avg Volume Change by Spend



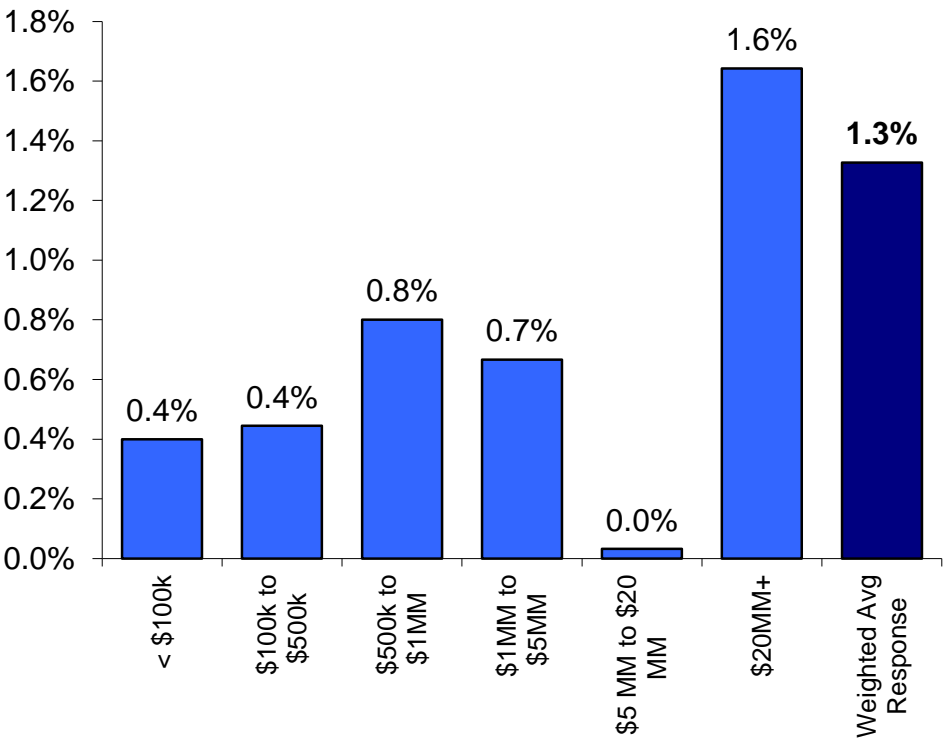
Source: Morgan Stanley Freight Pulse Surveys

Intermodal Volume Detail by Spend, Industry, and Response Skew

Intermodal - Y/Y Volume Expectation by Range



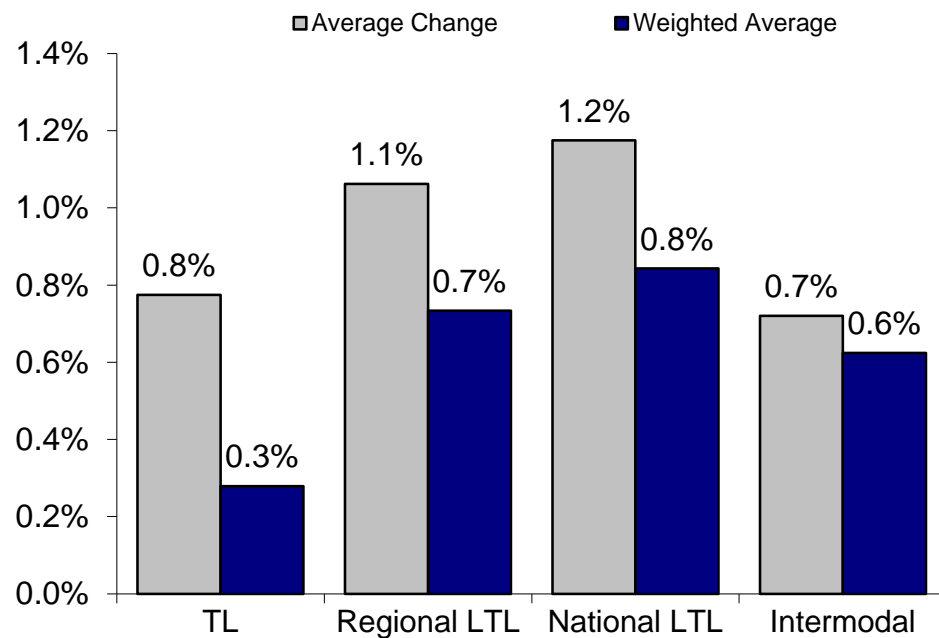
Intermodal - Avg Volume Change by Spend



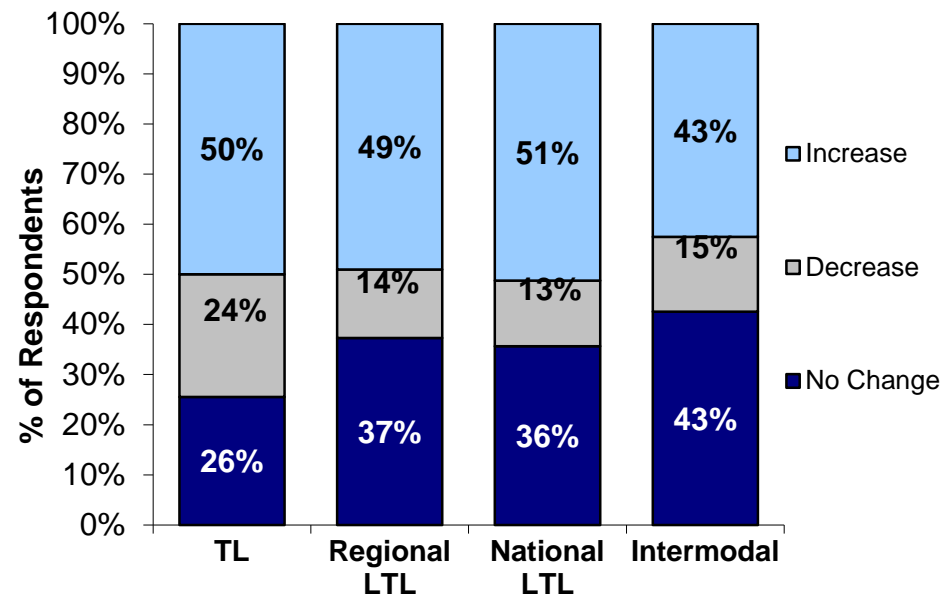
Source: Morgan Stanley Freight Pulse Surveys

Truck Base Rates Outlook Over The Next 6 Months

Base Rates: Average vs. Weighted Average

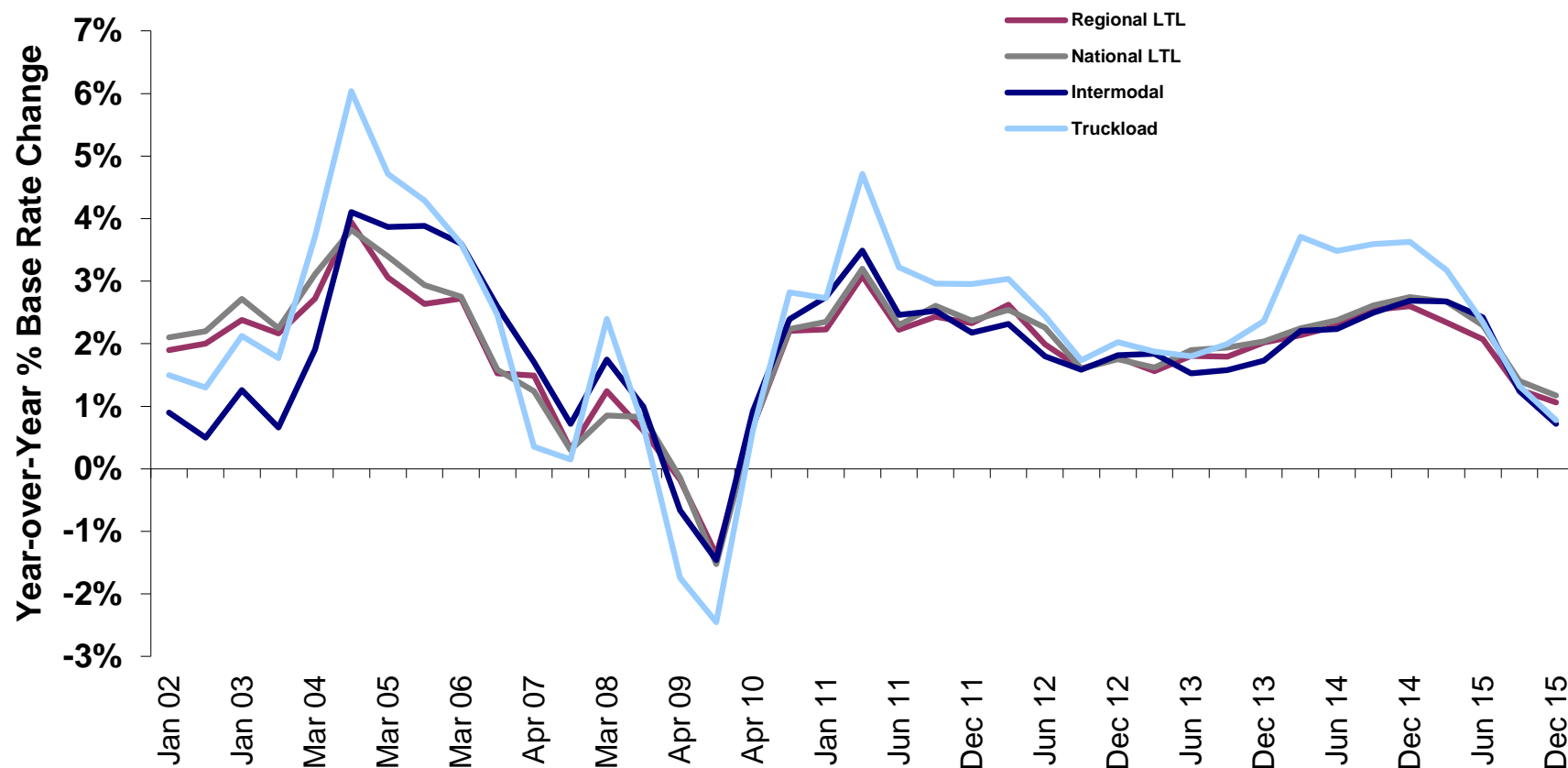


Shipper Rate Expectations by Mode



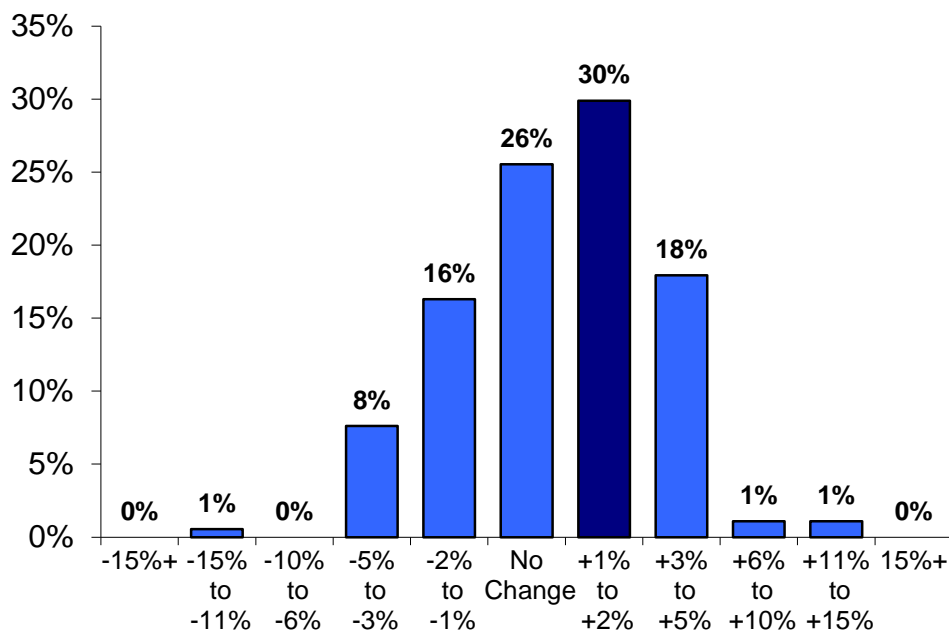
Base Rate Response History

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

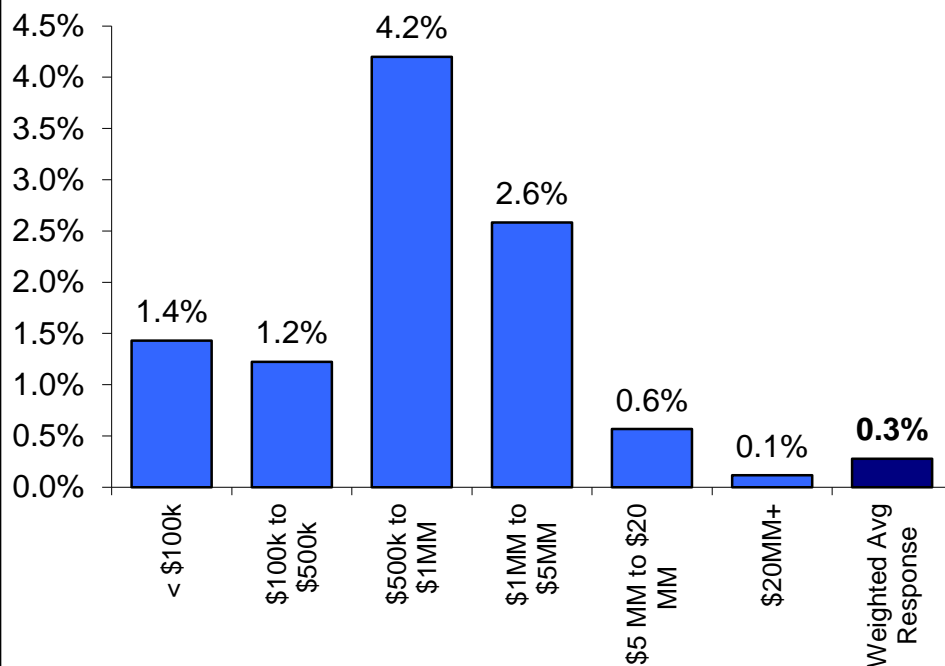


TL Base Rate Detail by Spend, Industry, and Response Skew

Truckload - Y/Y Base Rate Expectation by Range



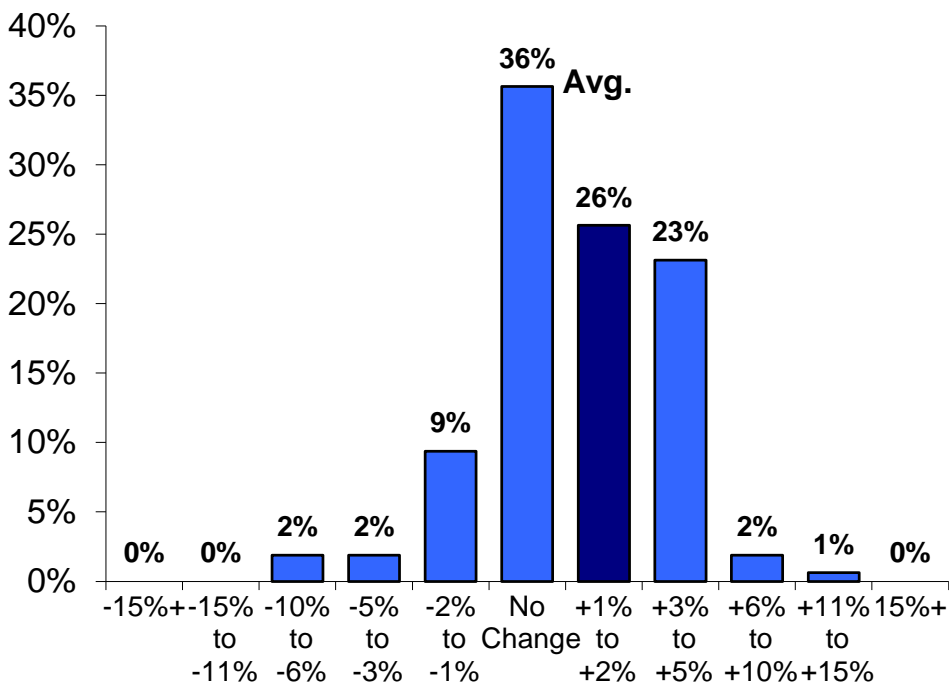
TL - Avg Change by Spend



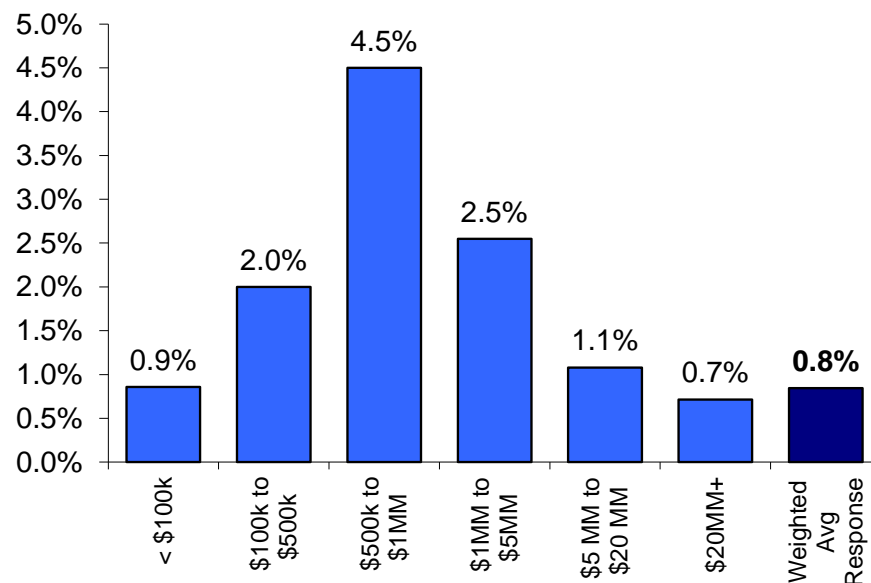
Source: Morgan Stanley Freight Pulse Surveys

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

National LTL - Y/Y Base Rate Expectation by Range



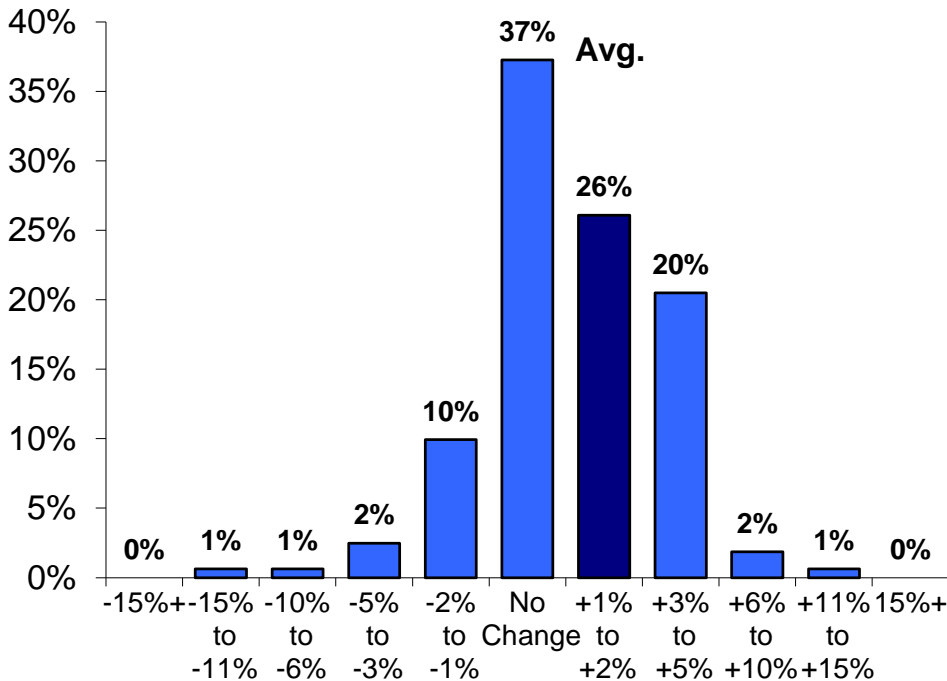
National LTL - Avg Change by Spend



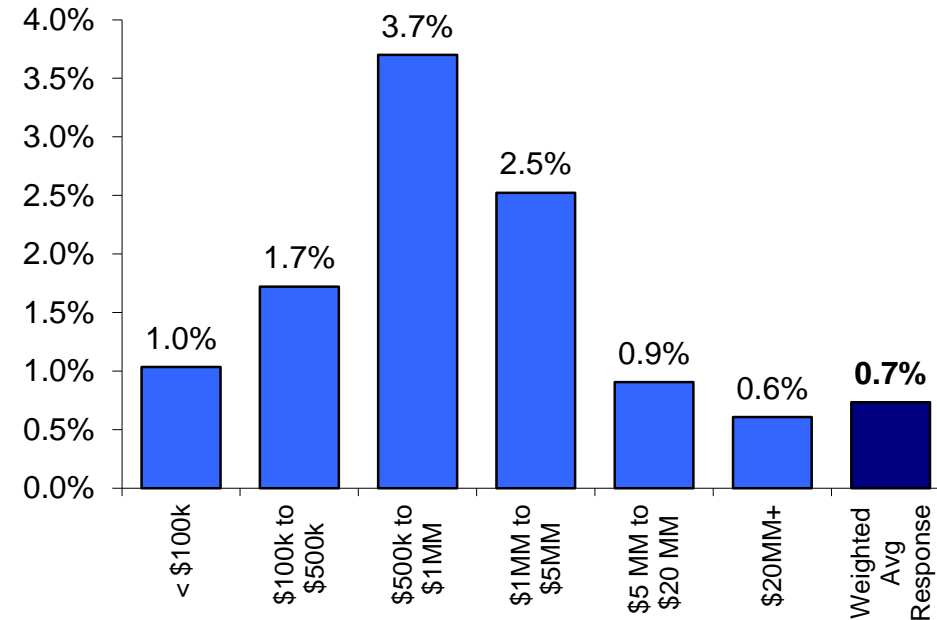
Source: Morgan Stanley Freight Pulse Surveys

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

Regional LTL - Y/Y Base Rate Expectation by Range



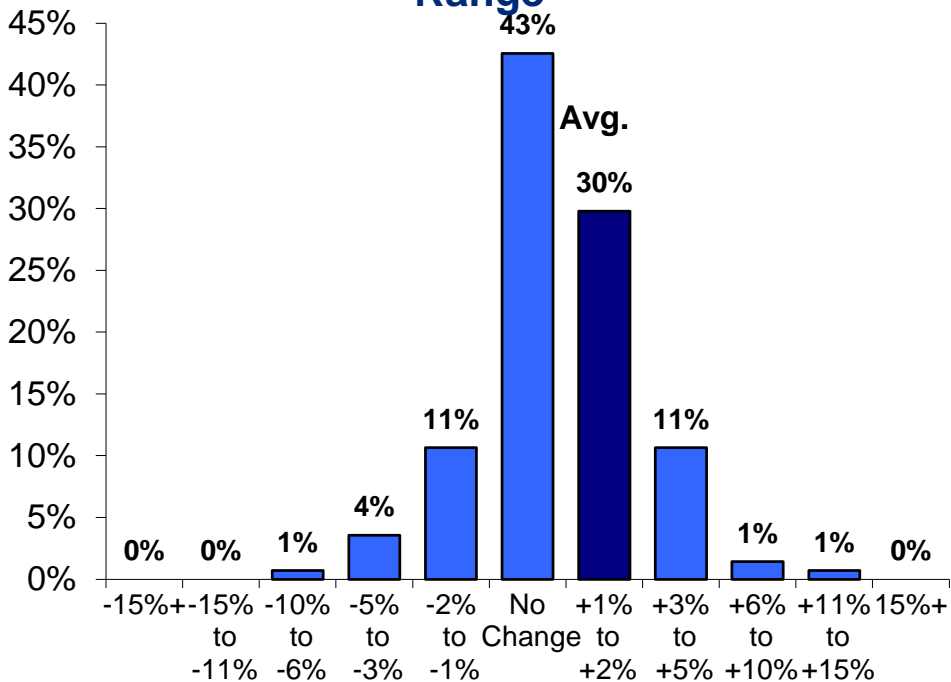
Regional LTL - Avg Change by Spend



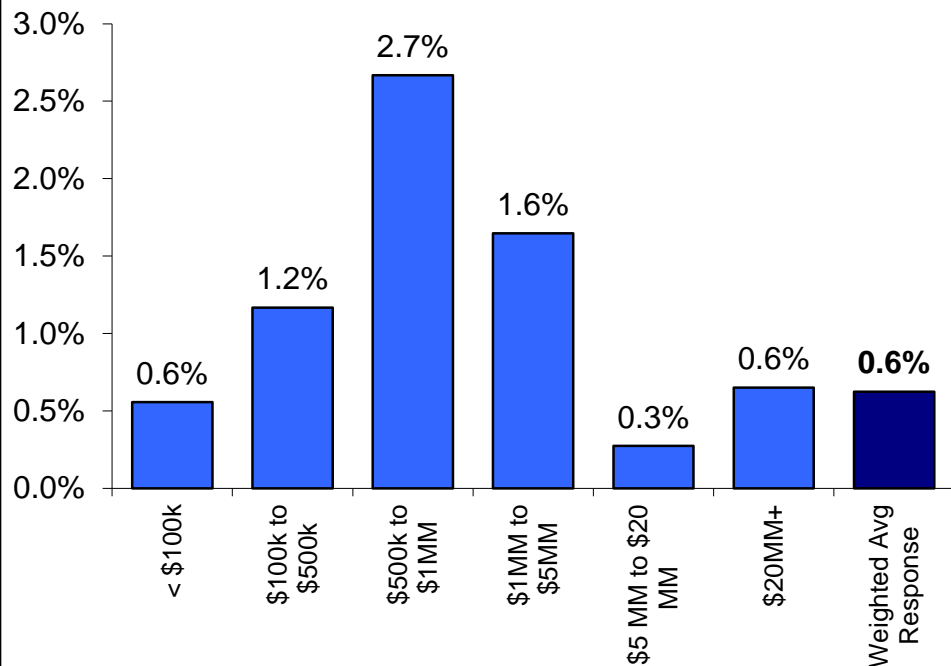
Source: Morgan Stanley Freight Pulse Surveys

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

Intermodal - Y/Y Base Rate Expectation by Range



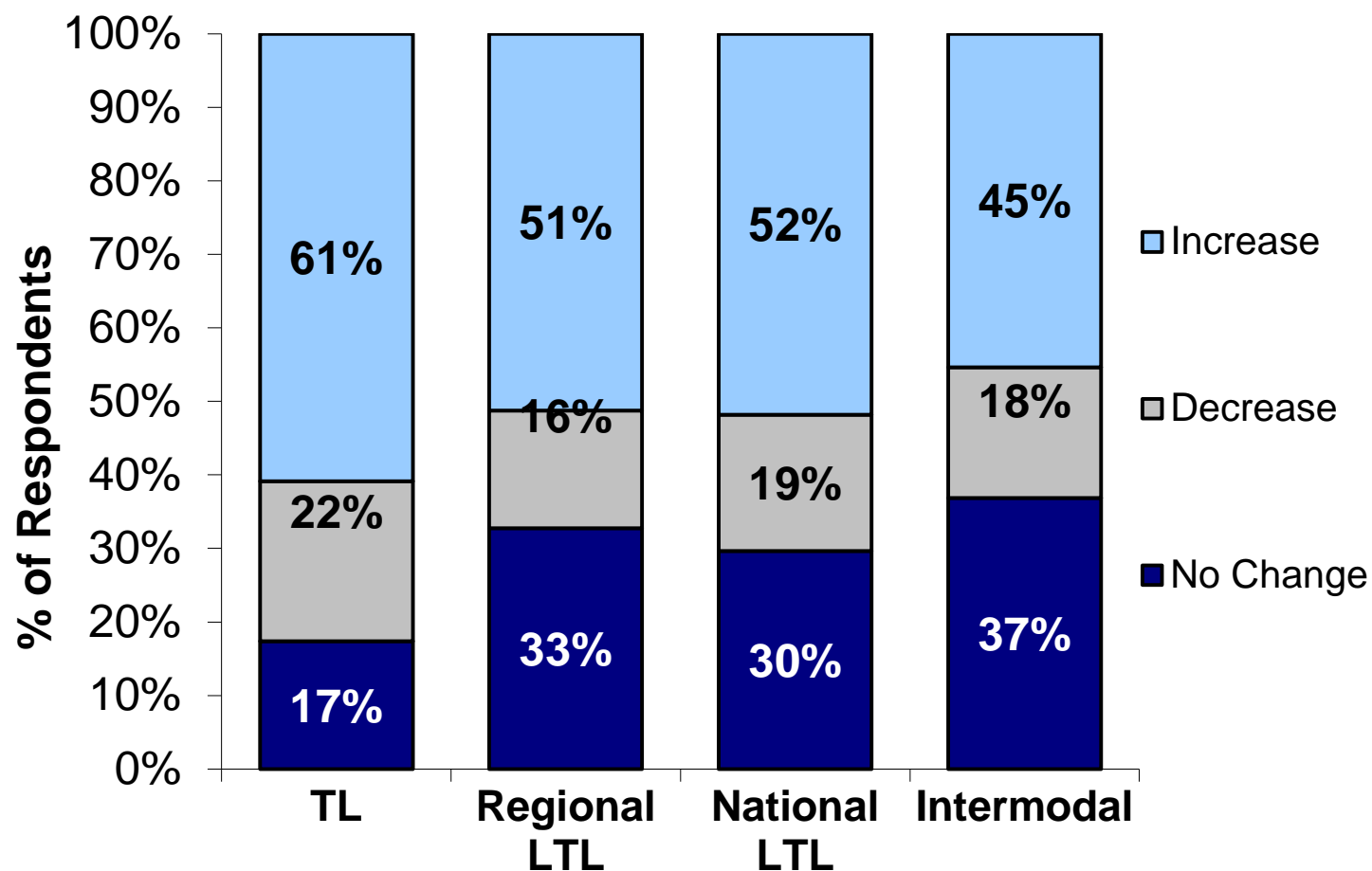
Intermodal - Avg Change by Spend



Source: Morgan Stanley Freight Pulse Surveys

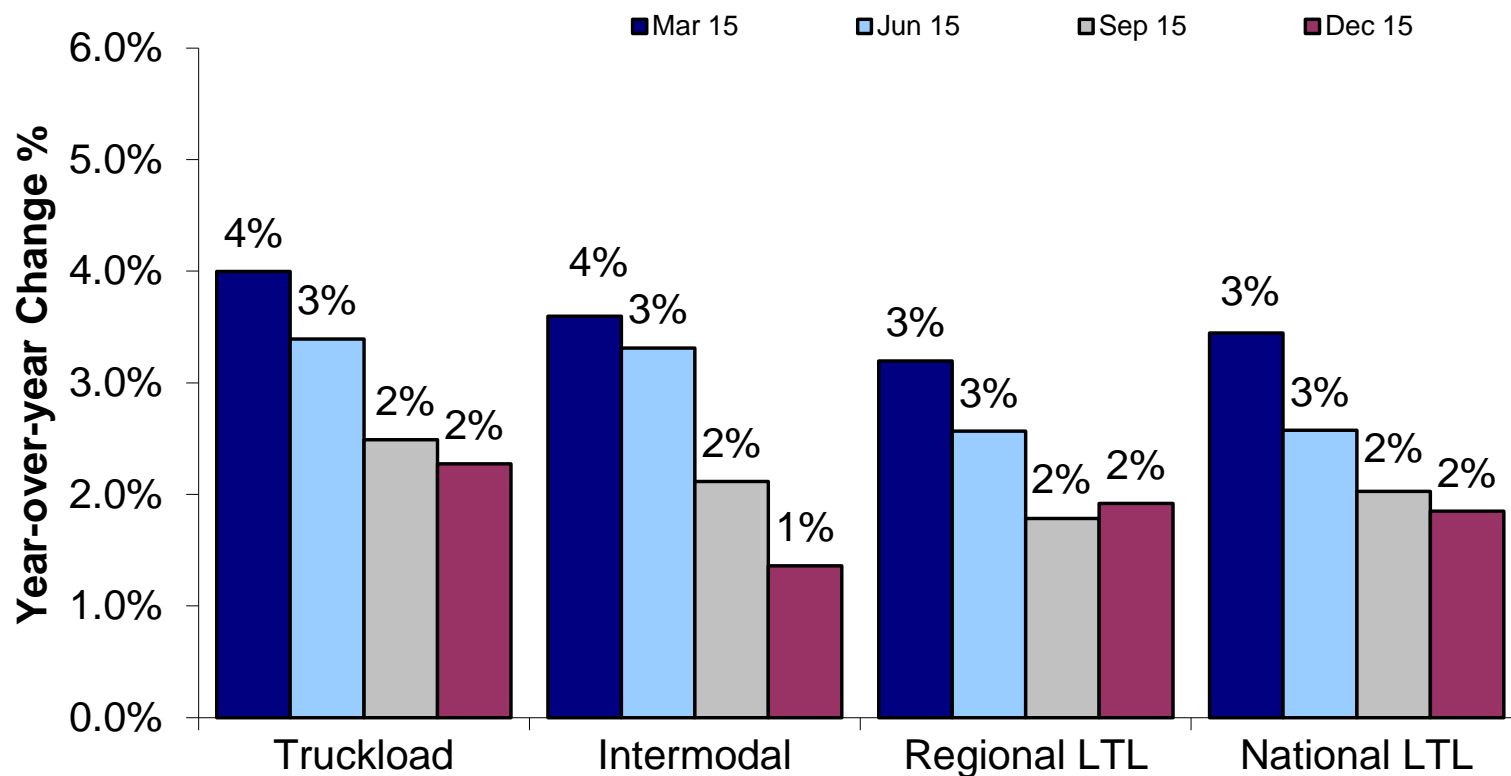
Truck Spend Outlook Over The Next 6 Months

Shipper Spend Expectations by Mode



Truck Spend: Change vs. Prior Survey

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



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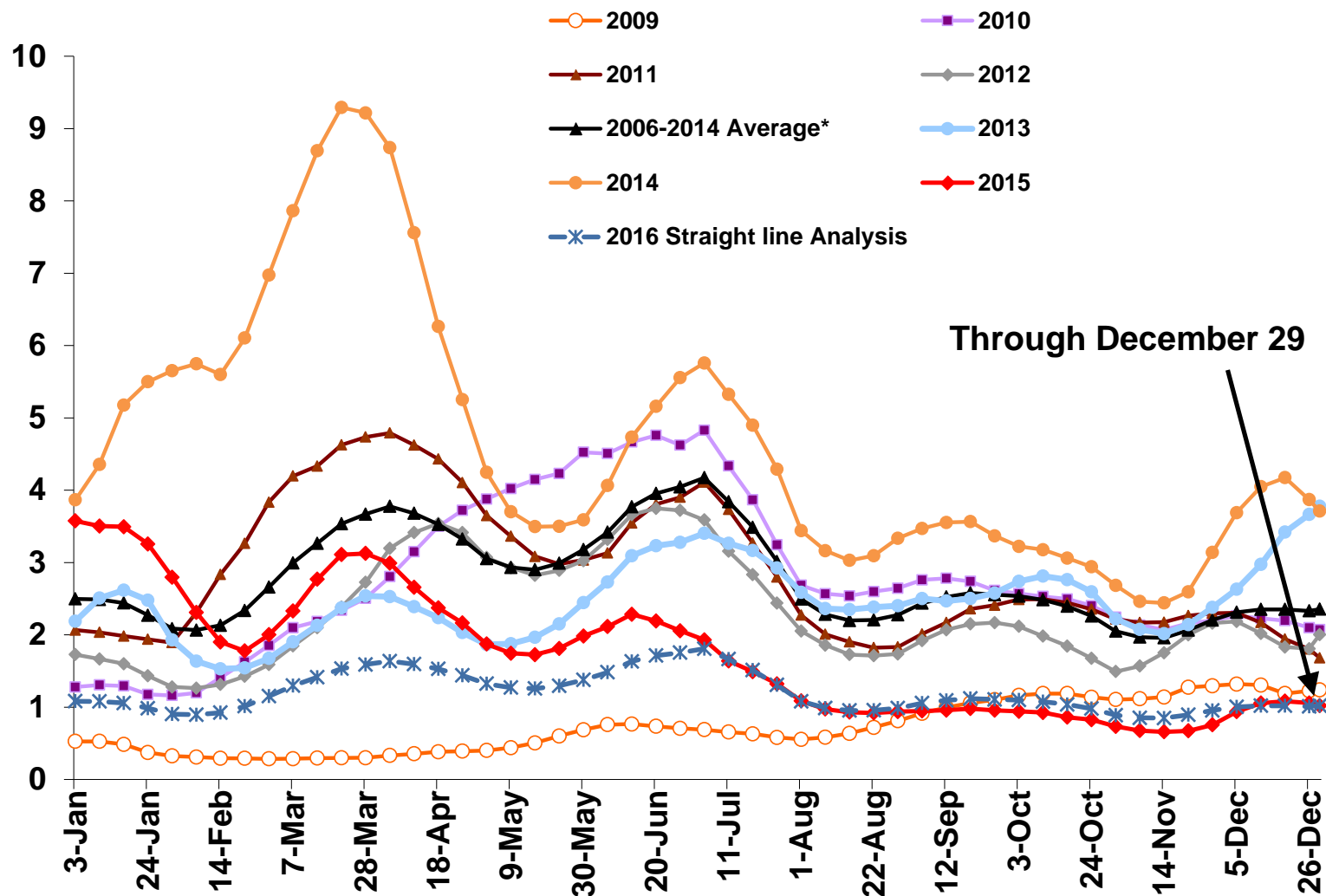
Part 1: Key Truck Trends

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

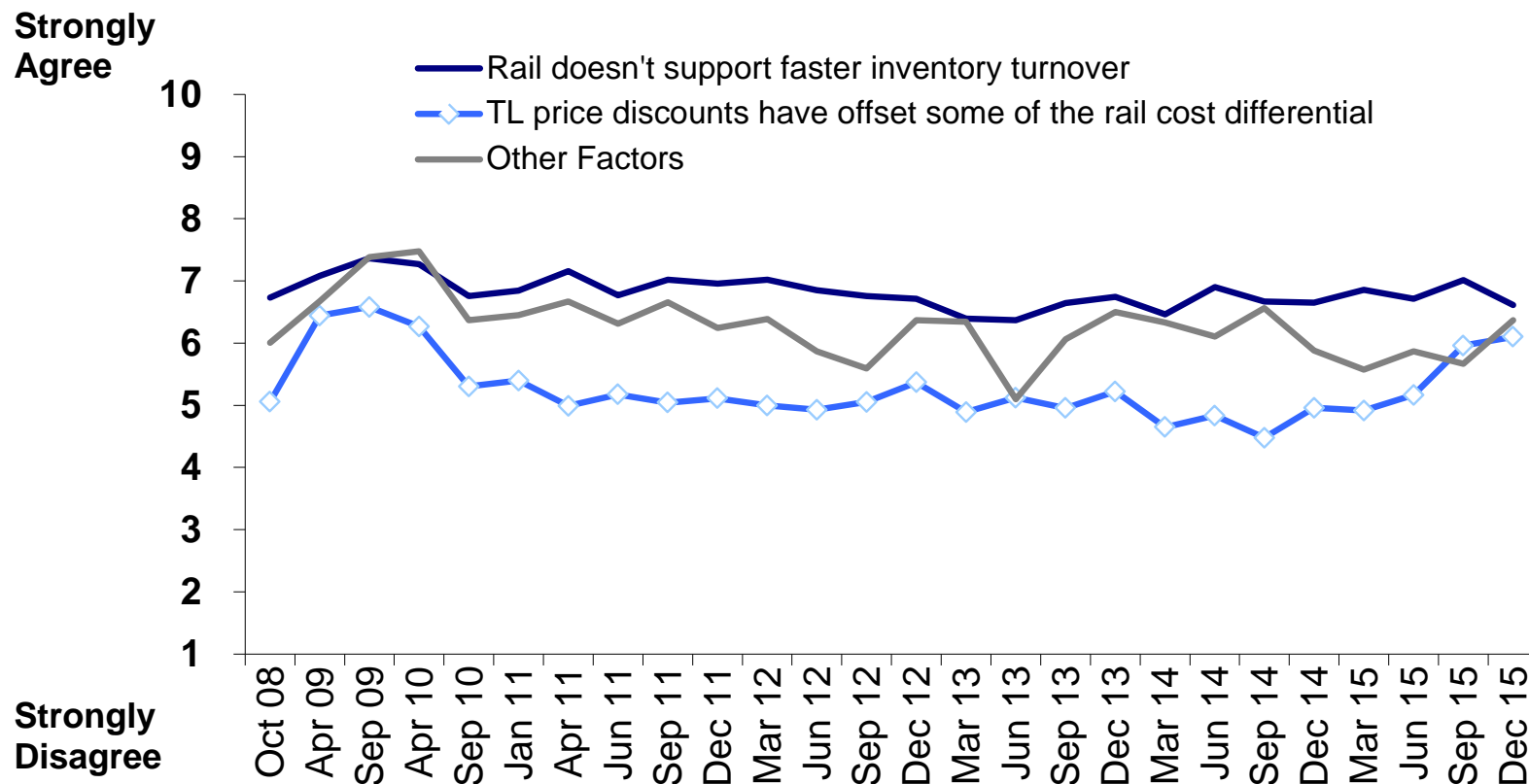


The index measures the demand for Dry-Van Truckload services compared to the number of Dry-Van trucks on the road. The index begins in April 1994. When a given reading is above prior years' level, it means there is more freight demand relative to available capacity. When a given reading is below prior years' level, it means there is less freight demand relative to capacity.

Source: Morgan Stanley Research

Truckload Fuel Surcharge Concession History

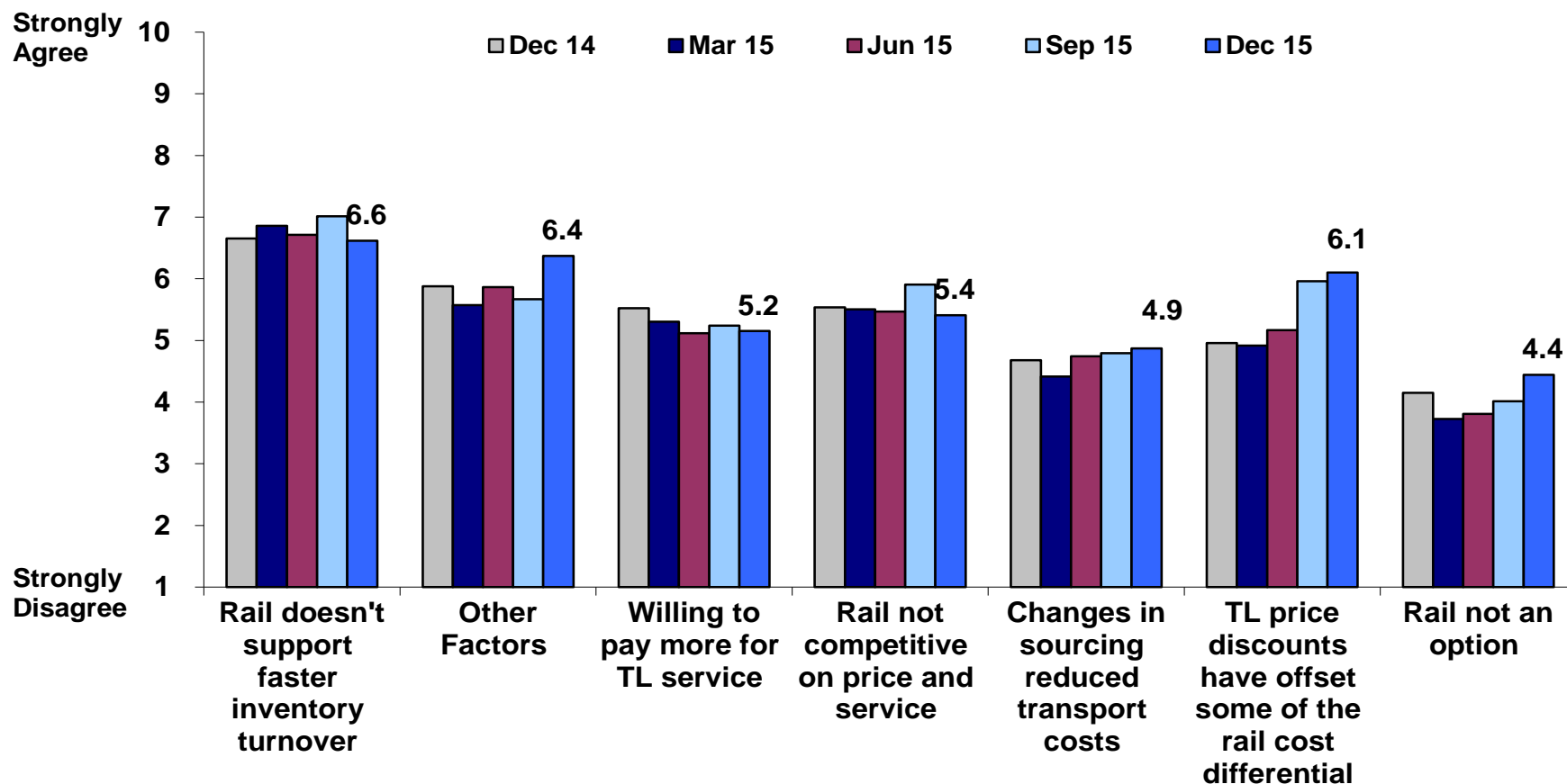
What Factors are Limiting your Organization from Shipping More Volume on the Railroads?



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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5. Changes in Primary Carrier

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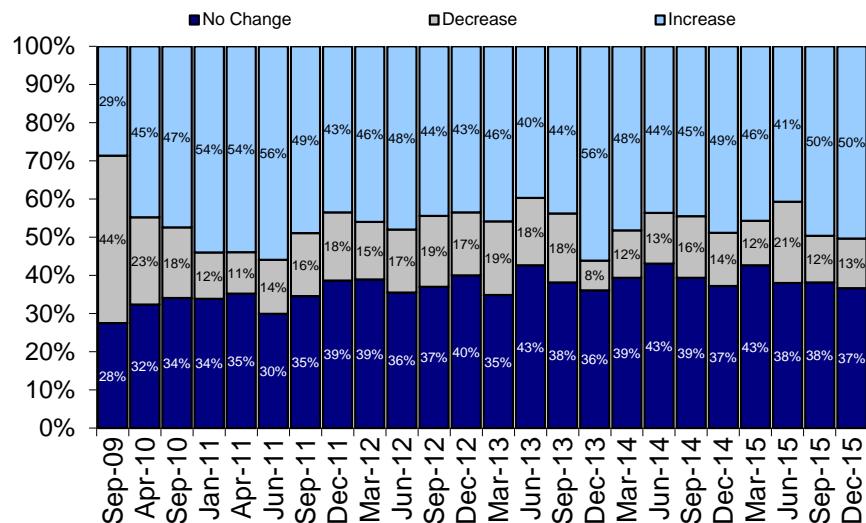
1. Outlook for Parcel Base Rates
2. Measures of Aggressiveness
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Part 3: Service & Value Trends

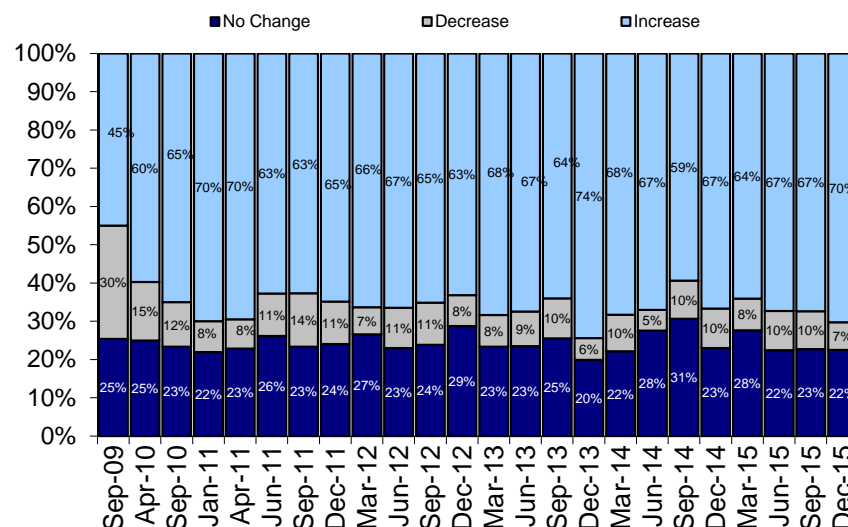
1. Service Reliability Rankings
2. Value of Service Rankings

Parcel Volume Outlook Over the Next 6 Months

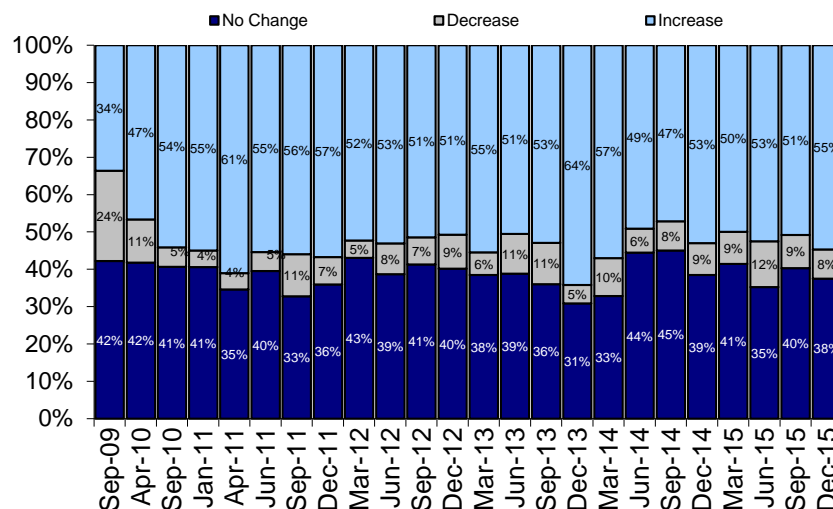
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:

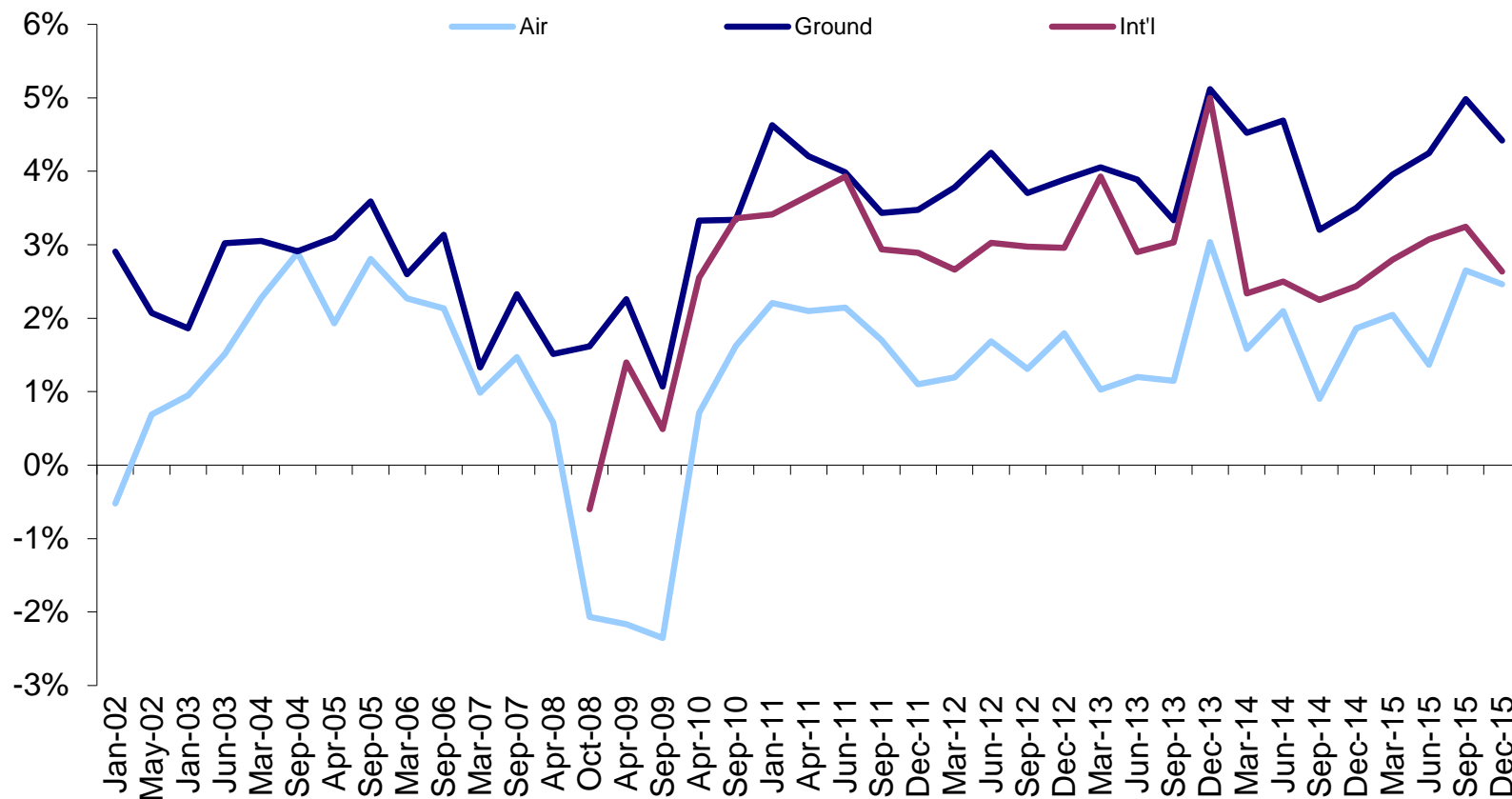


% of Shippers Expecting International to:



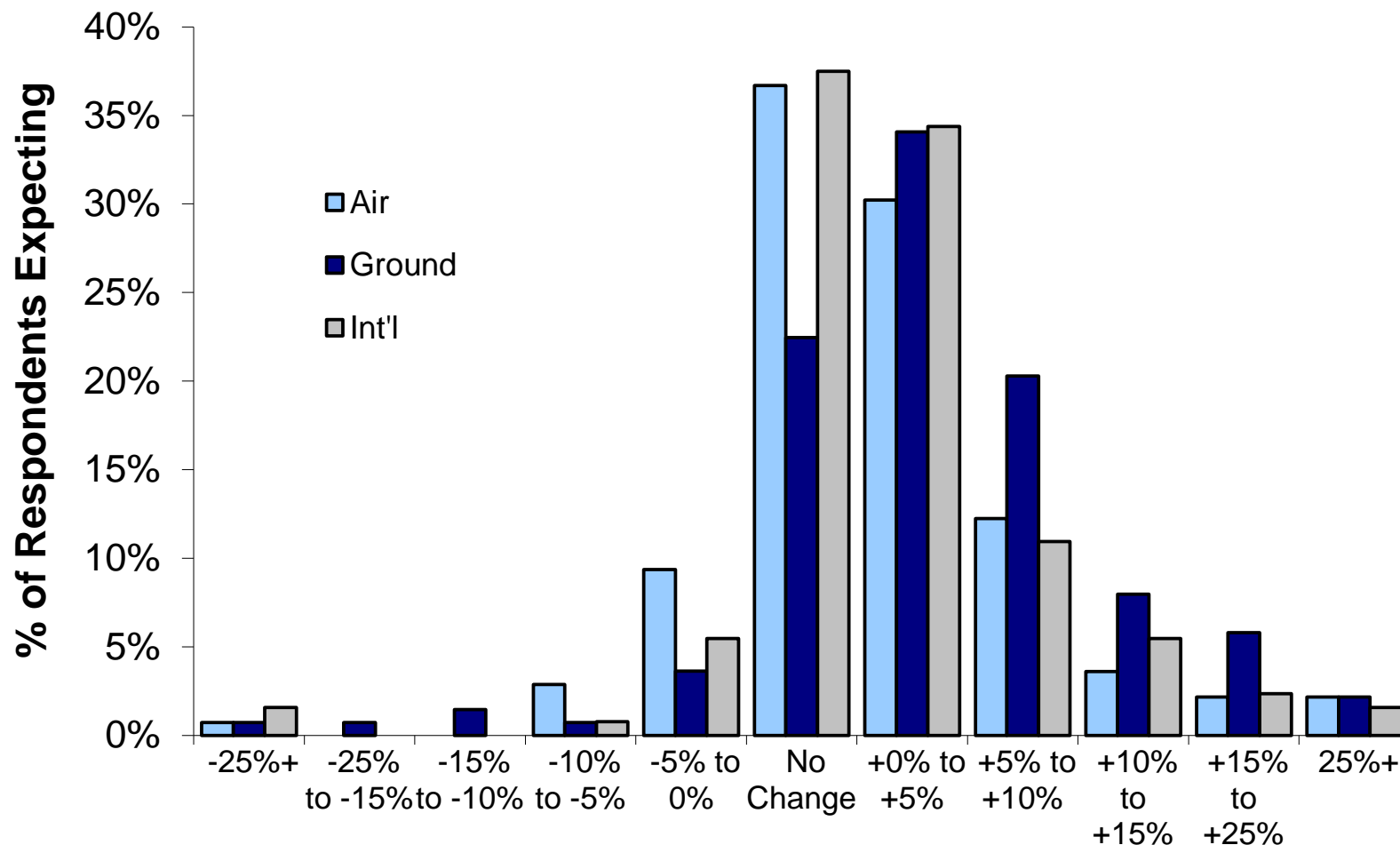
Volume Trends by Product

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



Volume Response Skew – All Shippers

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

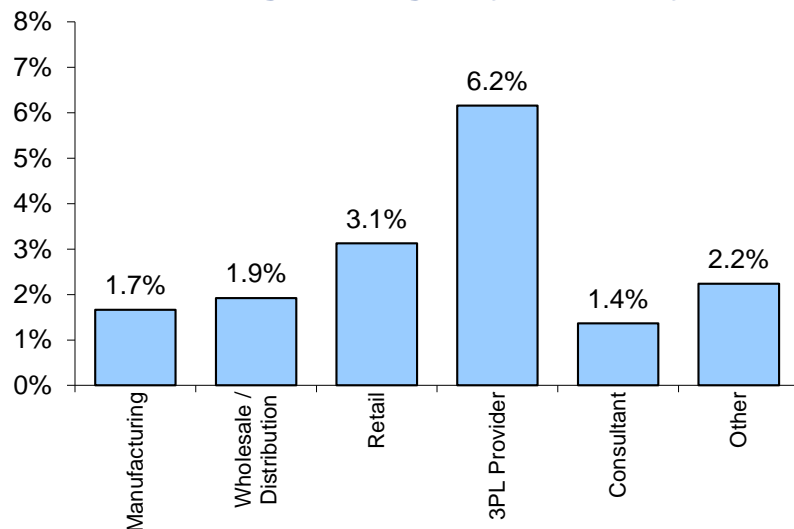


Source: Morgan Stanley Parcel Survey

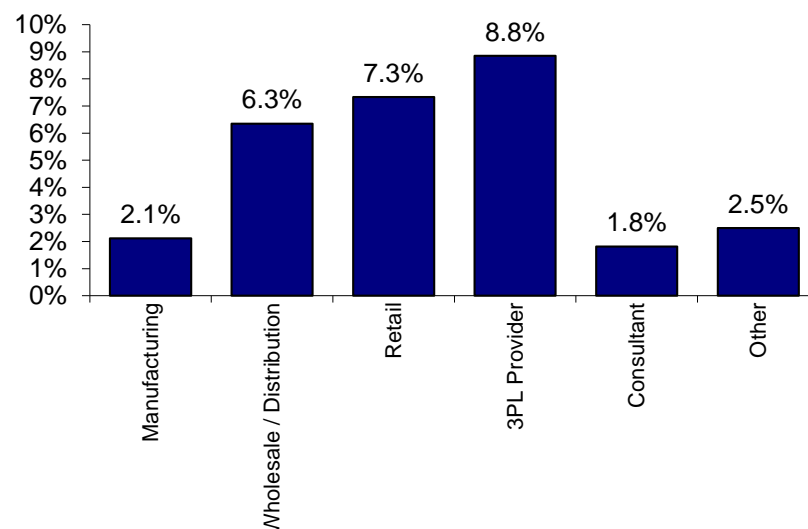
Alexander Vecchio, CFA, (212) 761-6233, Alexander.Vecchio@morganstanley.com

Volume Growth Outlook by Industry

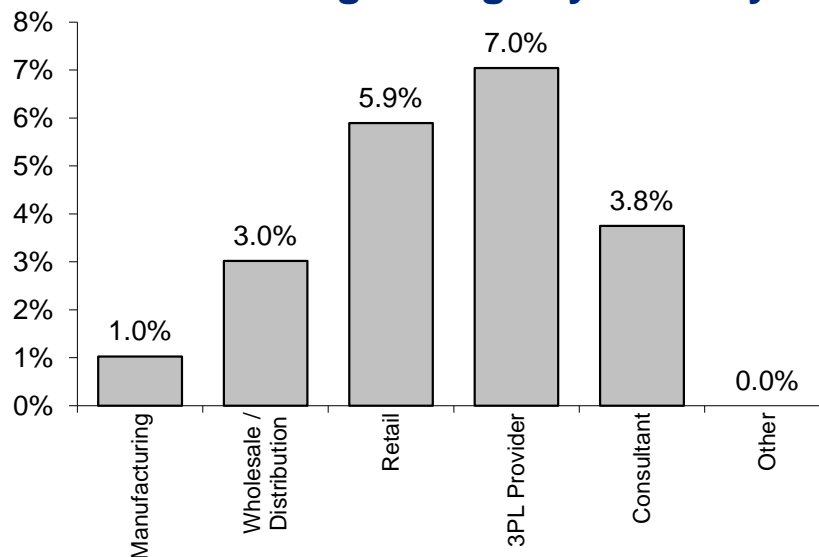
Air - Avg Change by Industry



Ground - Avg Change by Industry

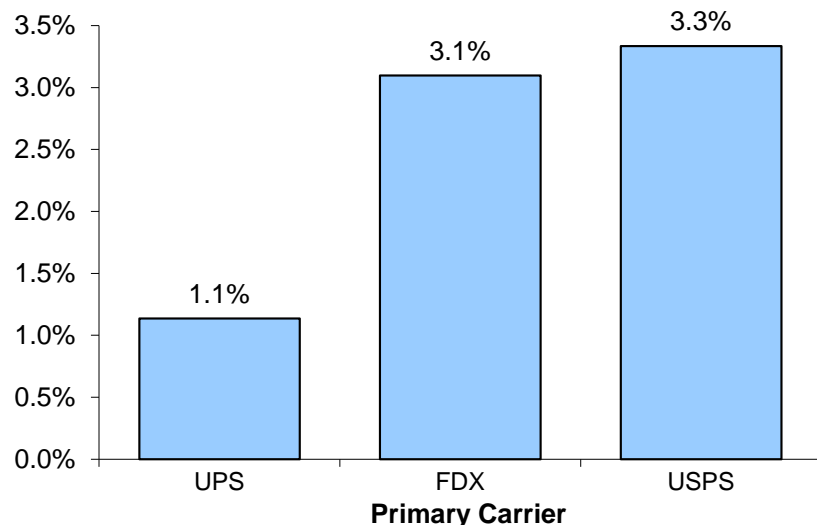


International - Avg Change by Industry

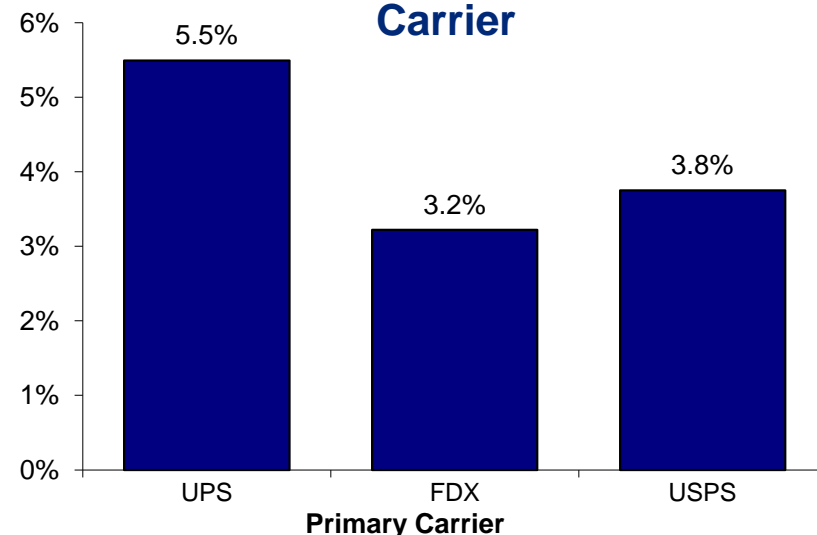


Volume Growth Outlook by Listed Primary Carrier

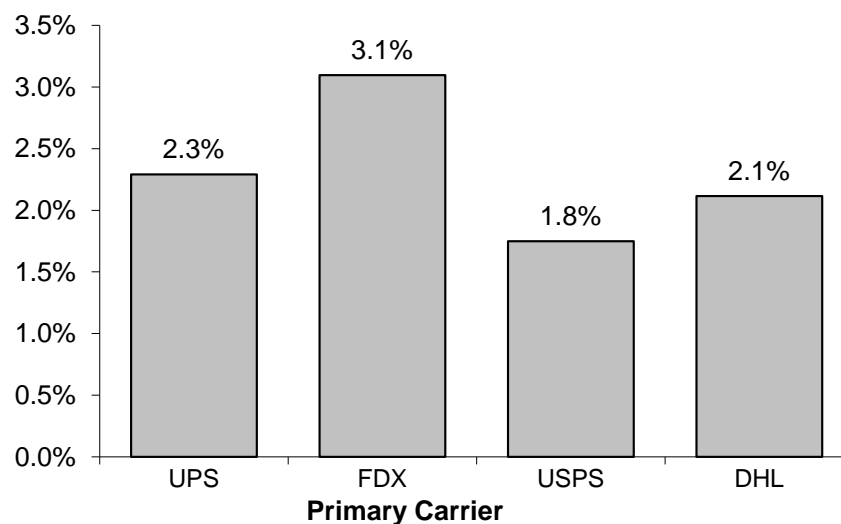
Air - Avg Volume Change by Primary Carrier



Ground - Avg Volume Change by Primary Carrier

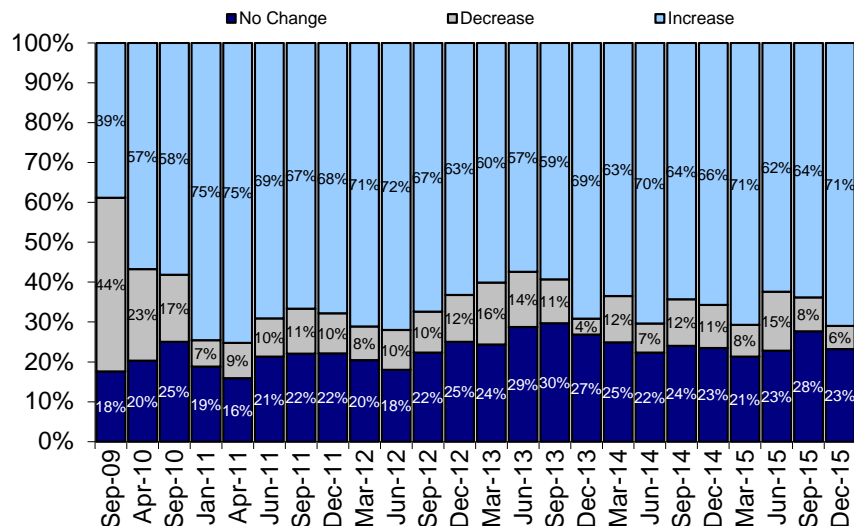


International - Avg Volume Chg by Primary Carrier

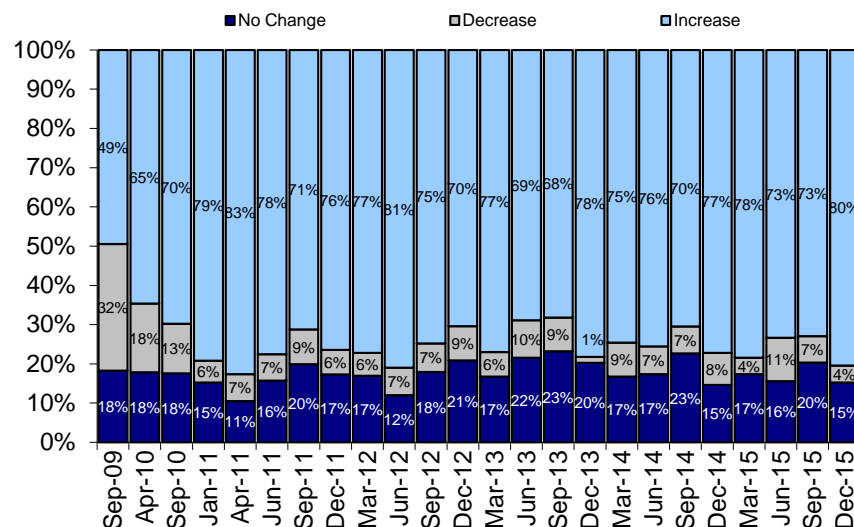


Parcel Spend Outlook Over the Next 6 Months

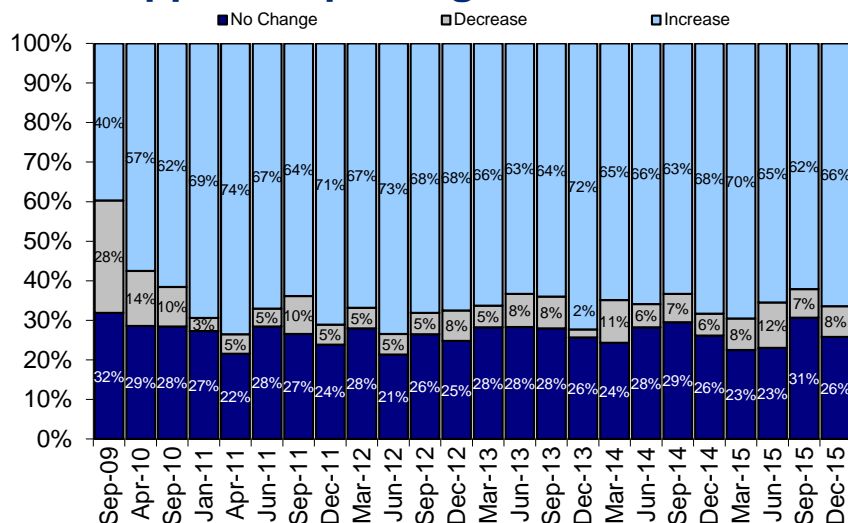
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:

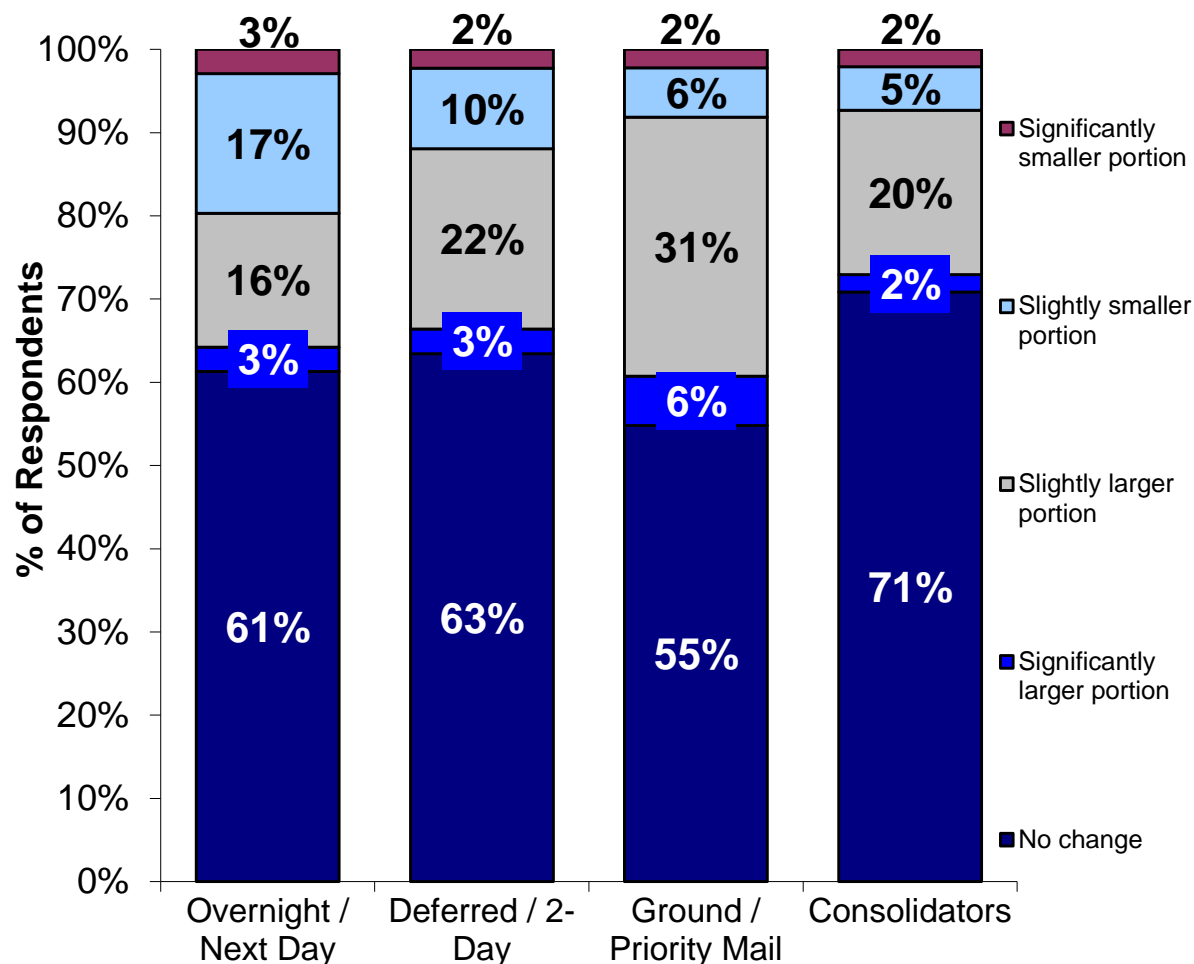


% of Shippers Expecting International to:



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?

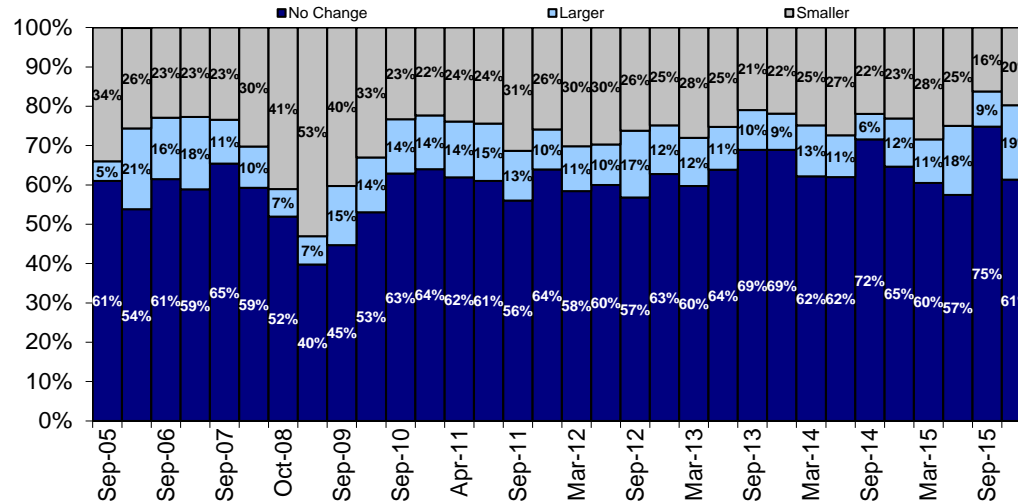


Source: Morgan Stanley Parcel Survey

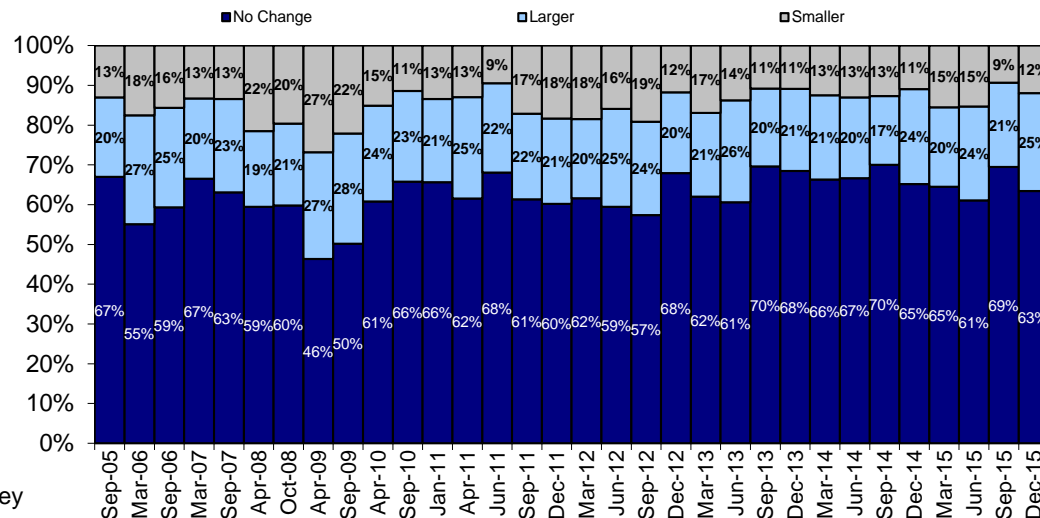
Historical Expected Change in Use of Air Products

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



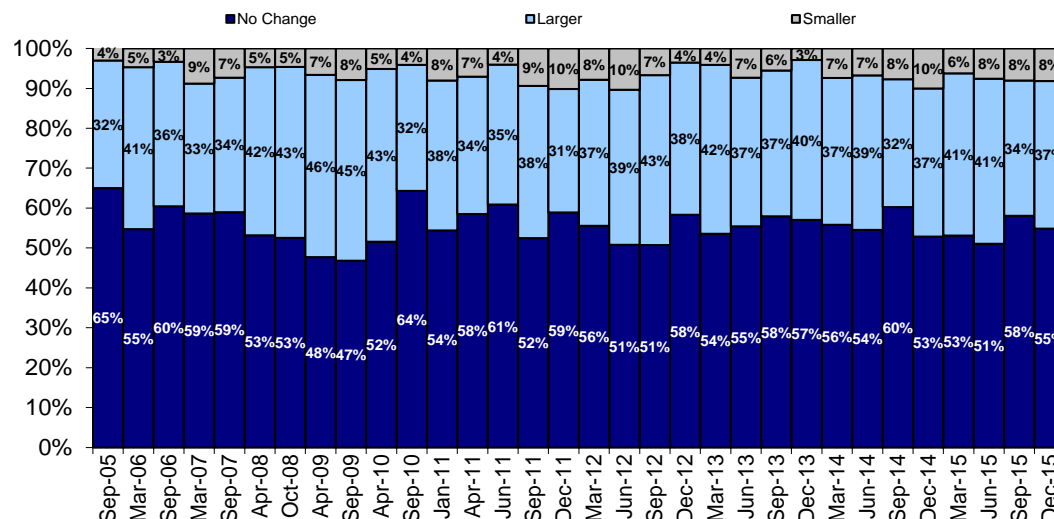
Deferred / 2-Day



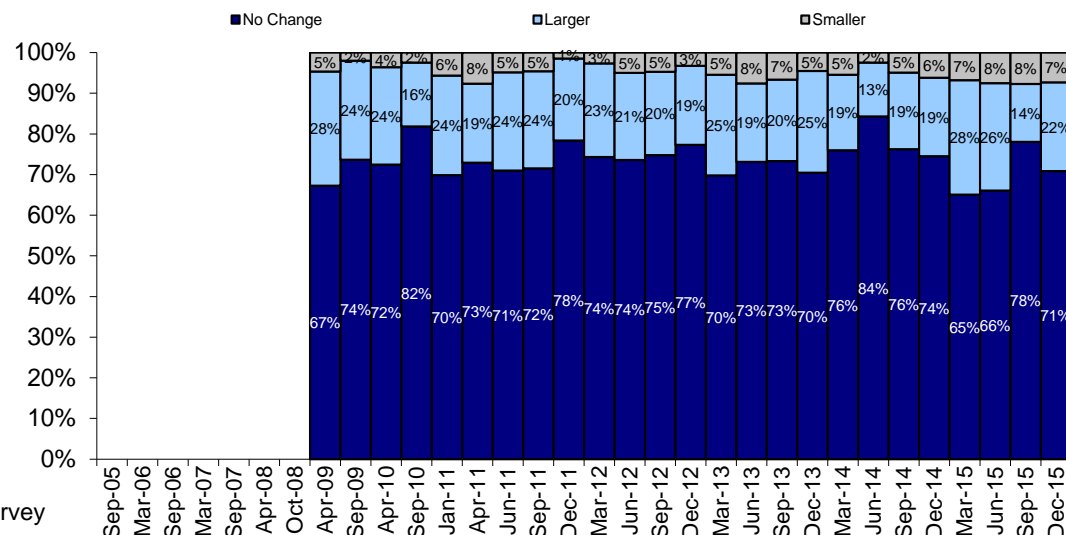
Historical Expected Change in Use of Ground and Consolidators

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



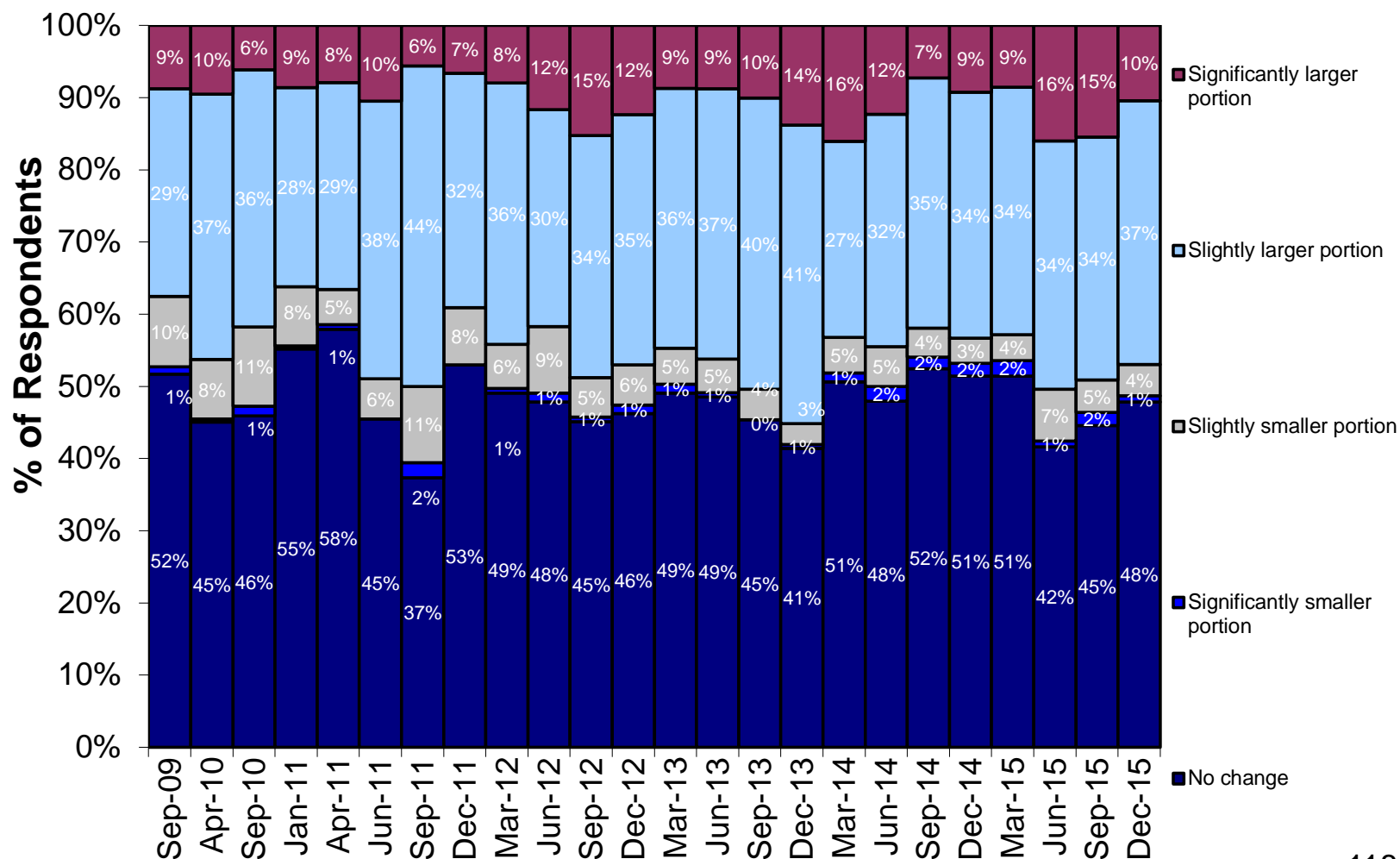
Consolidators



Source: Morgan Stanley Parcel Survey

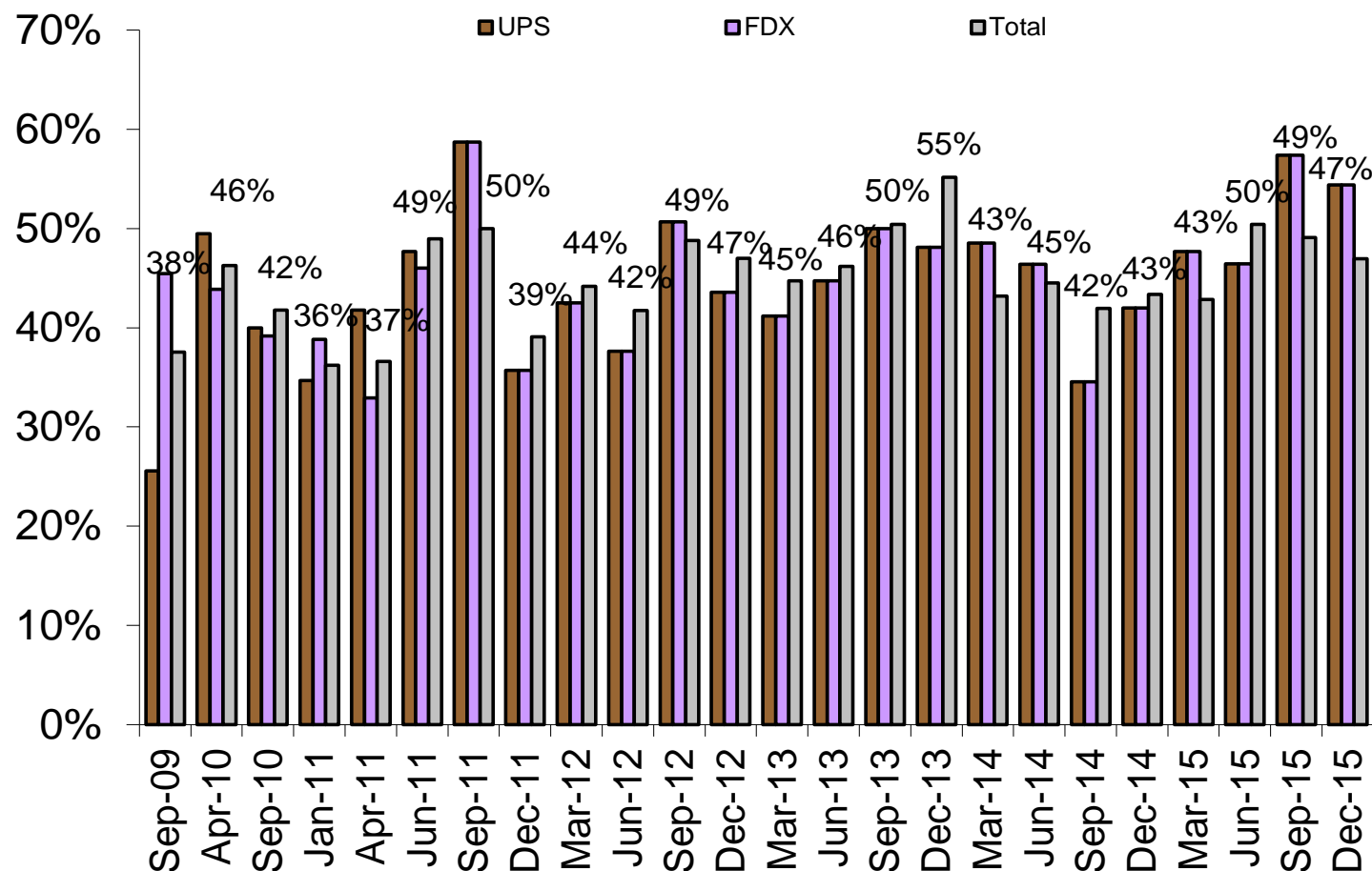
Expected Trends in B2C

YoY Change in B2C as % of Total



Expected Trends in B2C

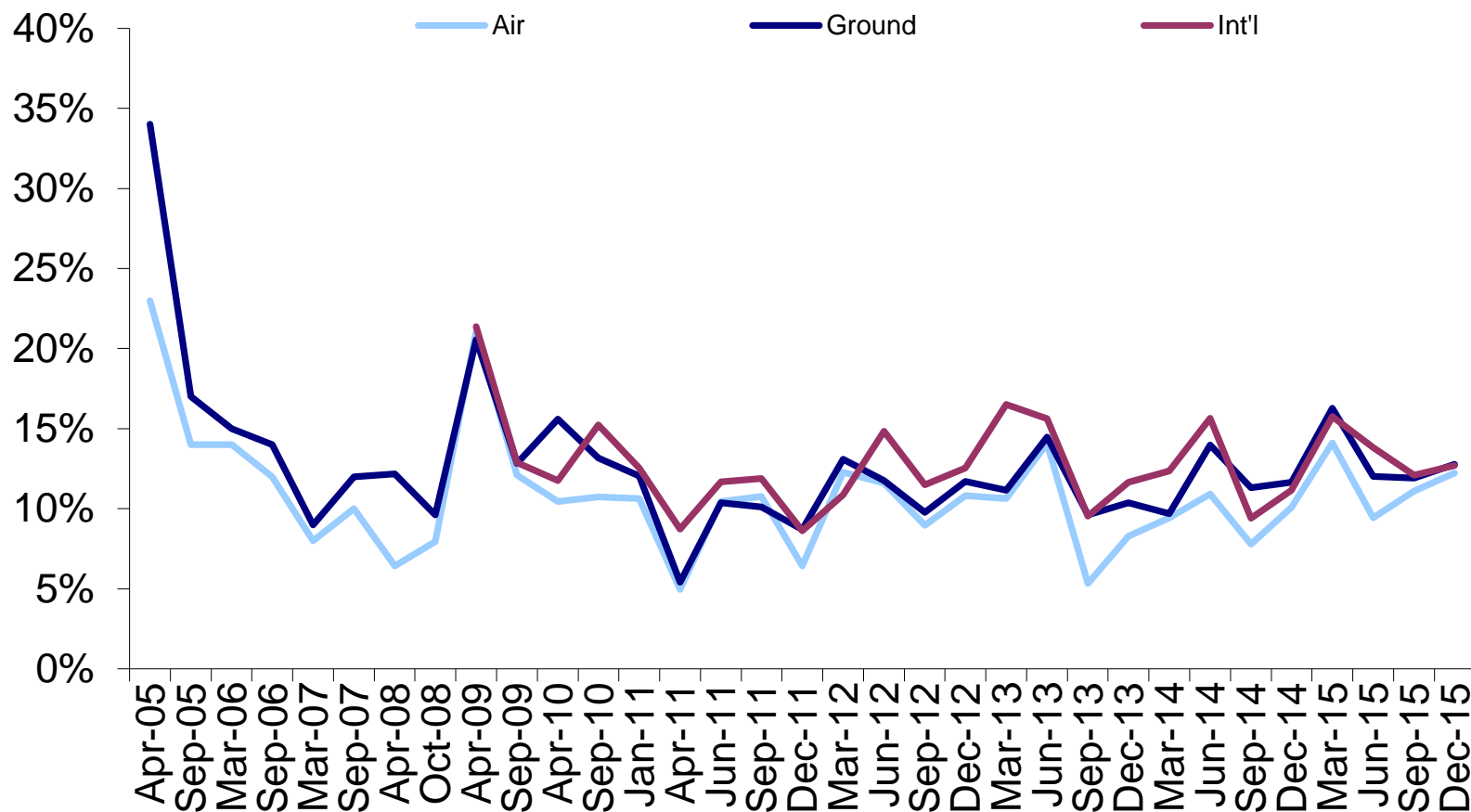
% of Respondents Indicating Increase in B2C Shipping as % of Total



Source: Morgan Stanley Parcel Survey

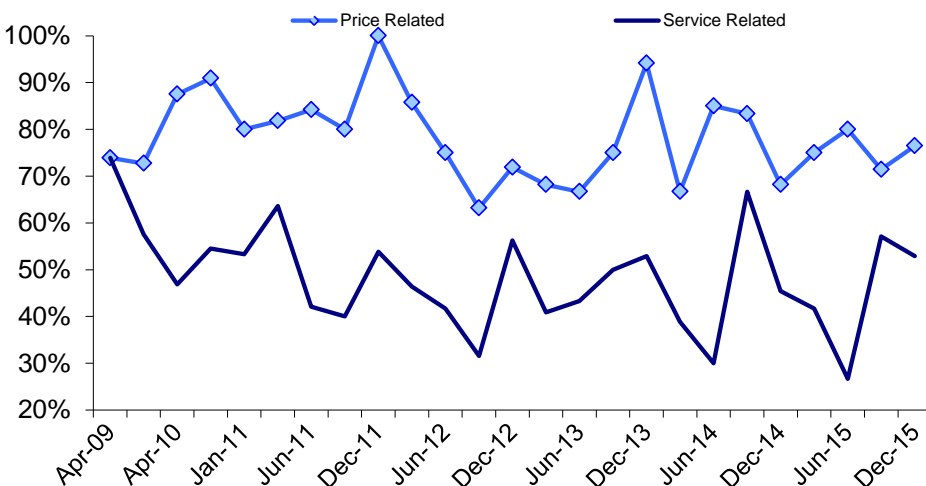
% of Respondents Switching Primary Carriers Over Time

% of Shippers Switching Primary Carriers Over the Past 6 Months

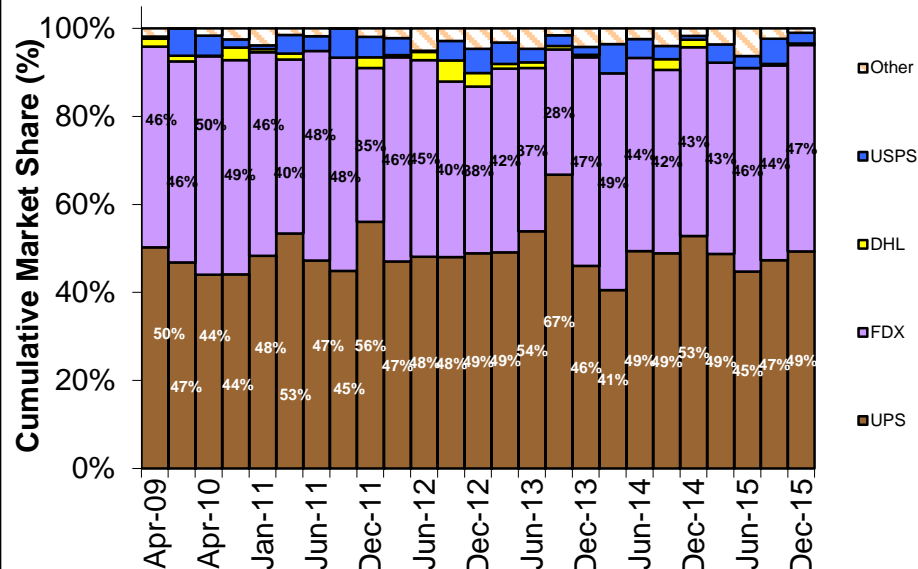


Air Switching: Reasons for Switch and Primary Carrier

Air: Reason for Switching Primary Carriers

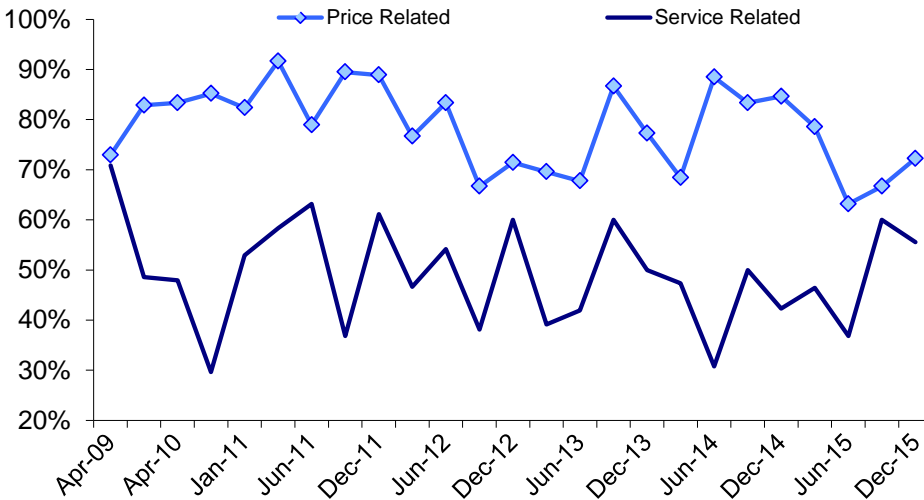


Air: Dollar-weighted Market Share

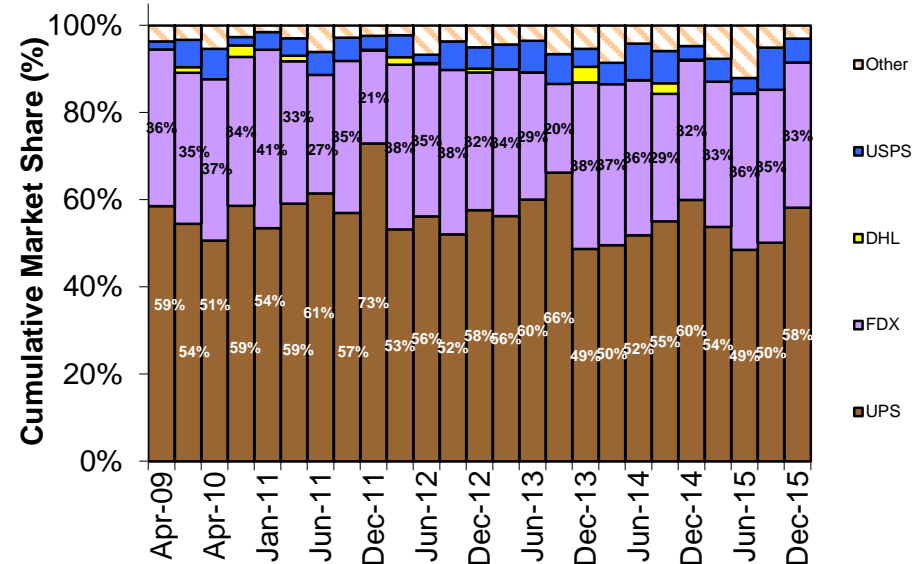


Ground Switching: Reasons for Switch and Primary Carrier

Ground: Reason for Switching Primary Carriers



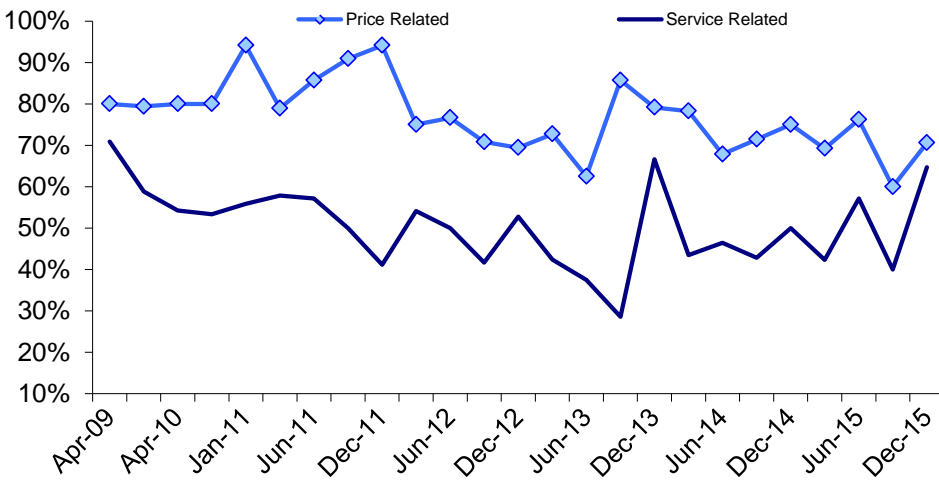
Ground: Dollar-weighted Market Share



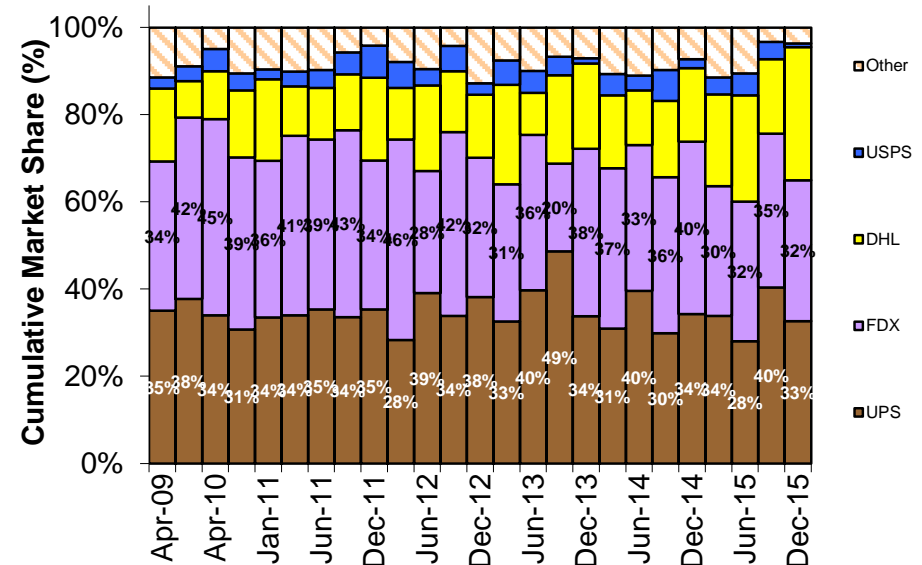
Source: Morgan Stanley Parcel Survey

International Switching: Reasons for Switch and Primary Carrier

International: Reason for Switching Primary Carriers



International: Dollar-weighted Market Share



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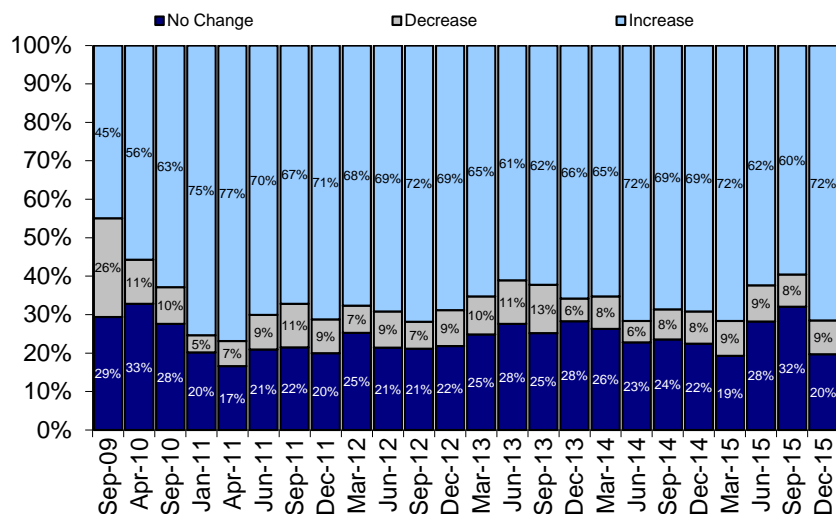
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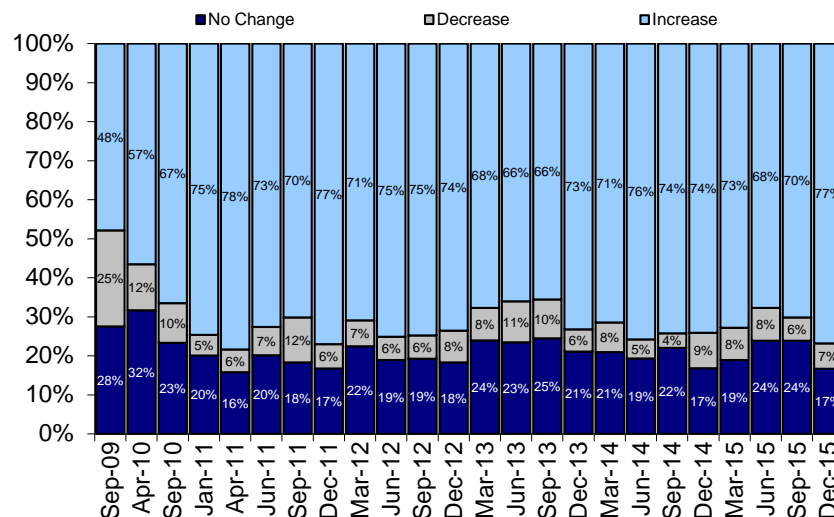
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2. Value of Service Rankings

Parcel Pricing Outlook Over the Next 6 Months

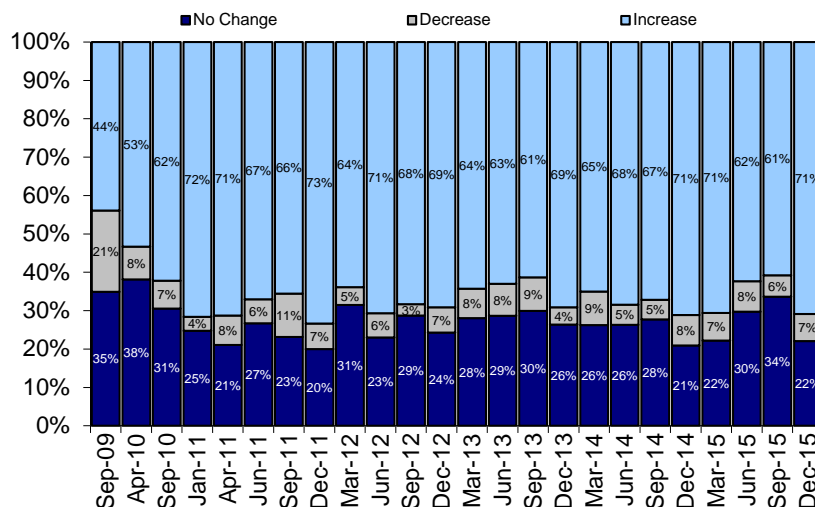
% of Shippers Expecting Air to:



% of Shippers Expecting Ground to:



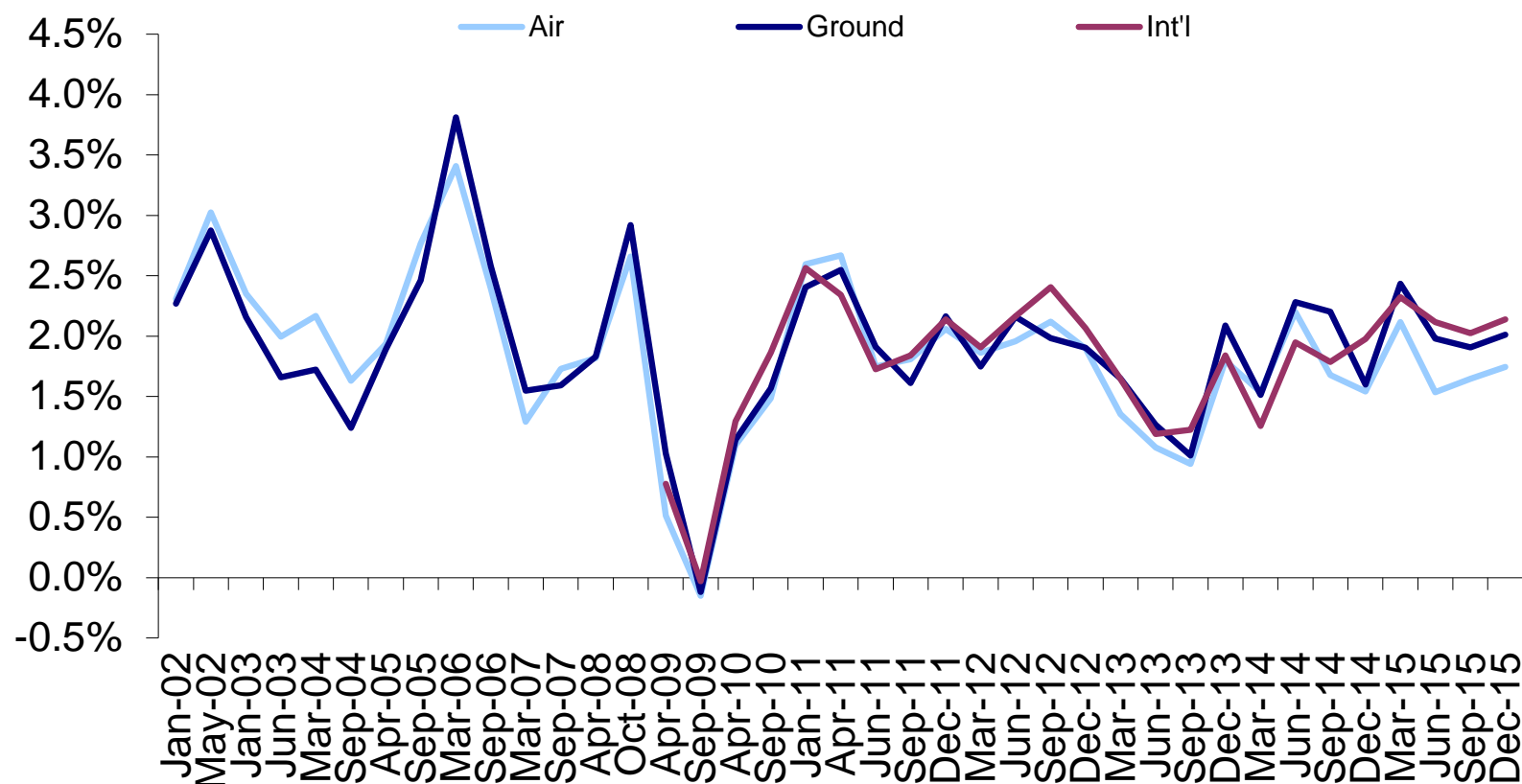
% of Shippers Expecting International to:



Source: Morgan Stanley Parcel Survey

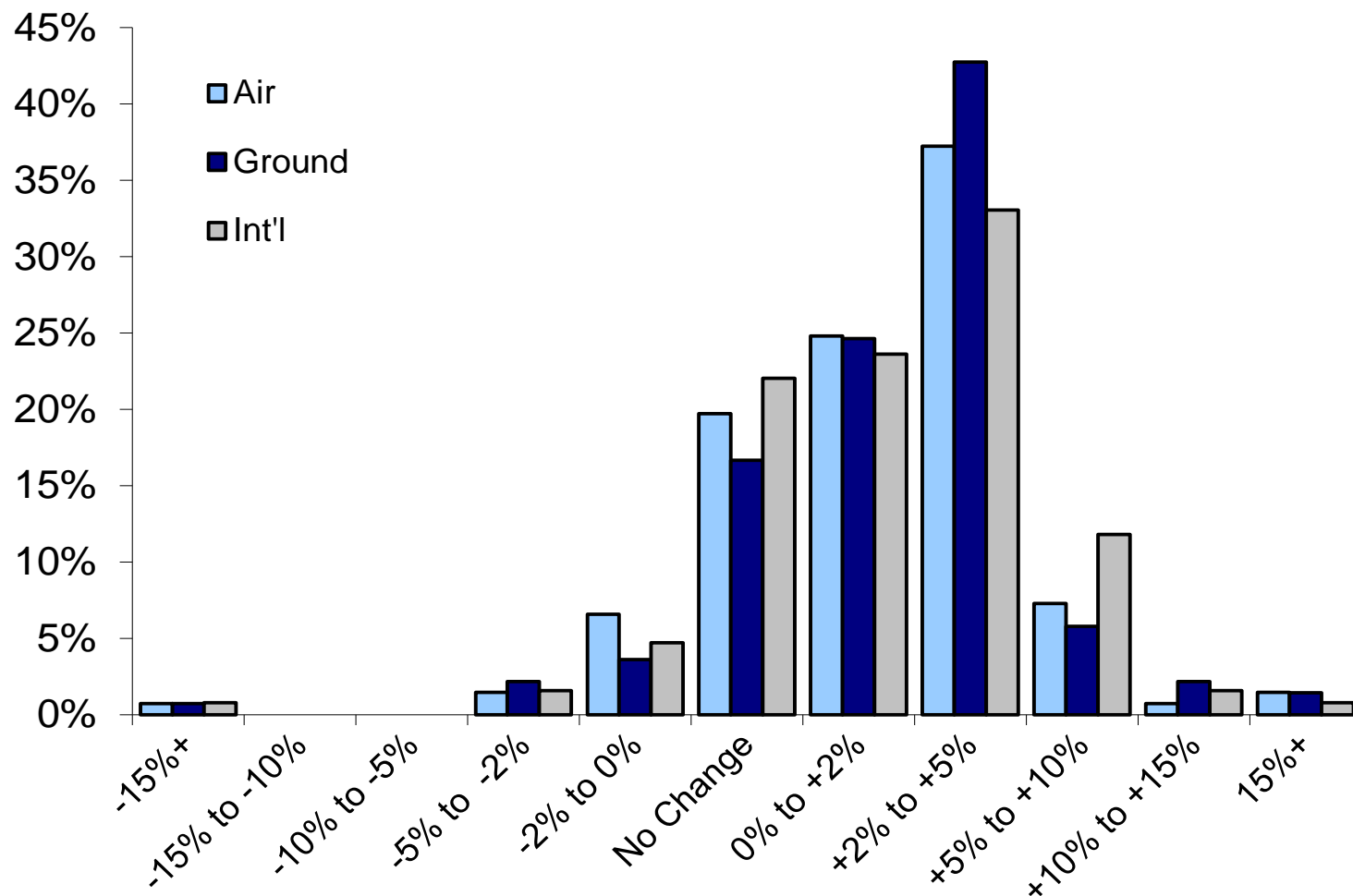
Pricing Trends by Product: Large vs. Small Shipper

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

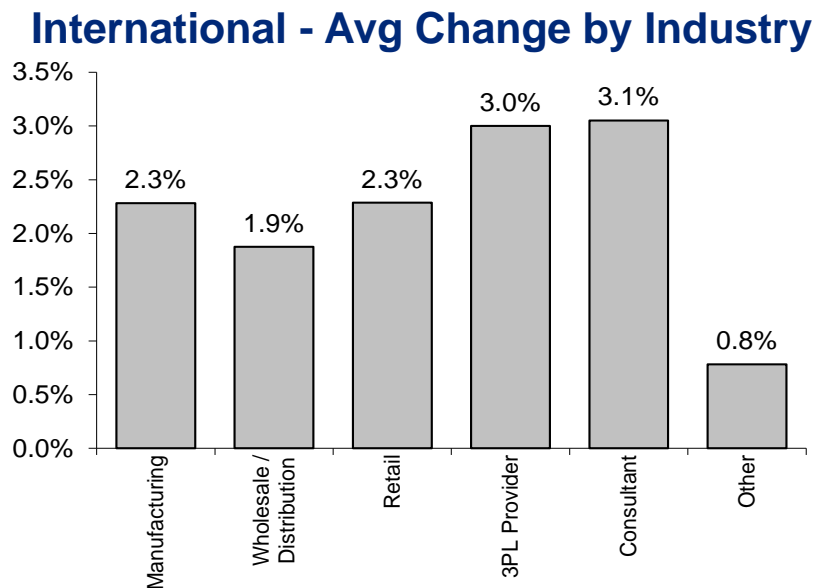
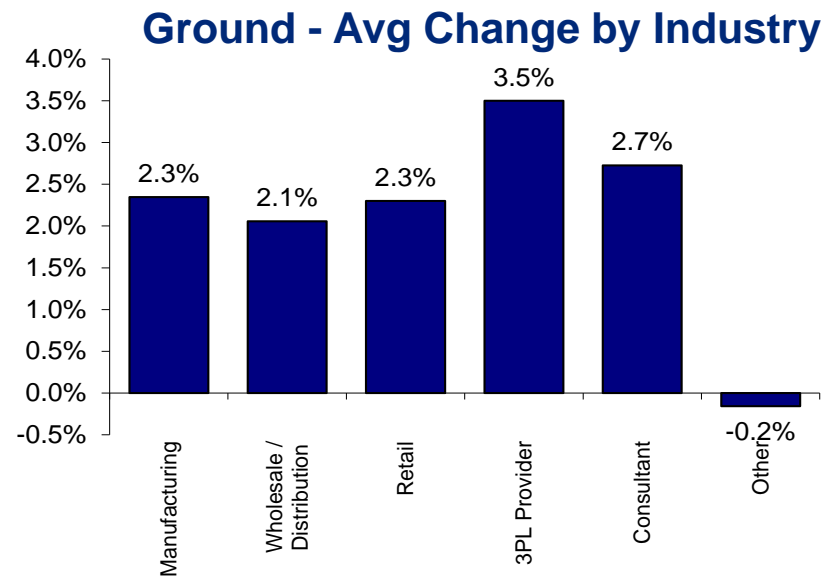
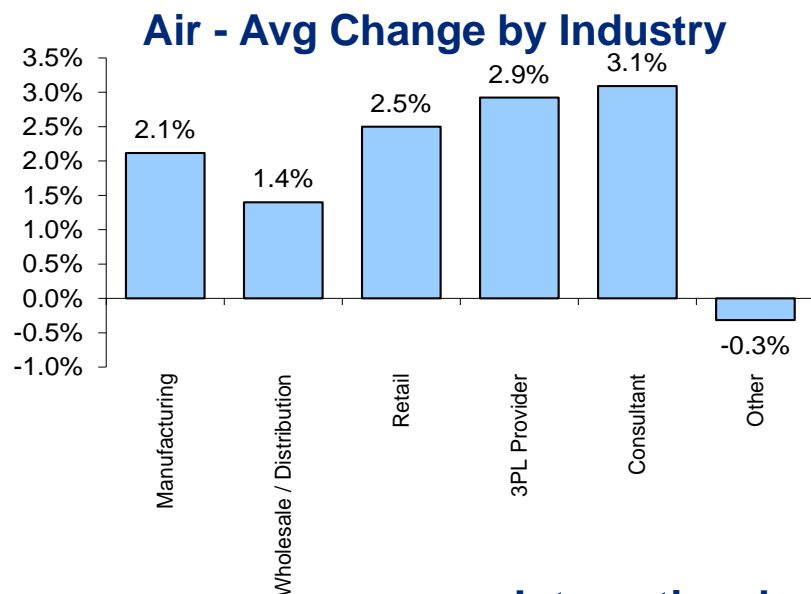


Base Rate Response Skew – All Shippers

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

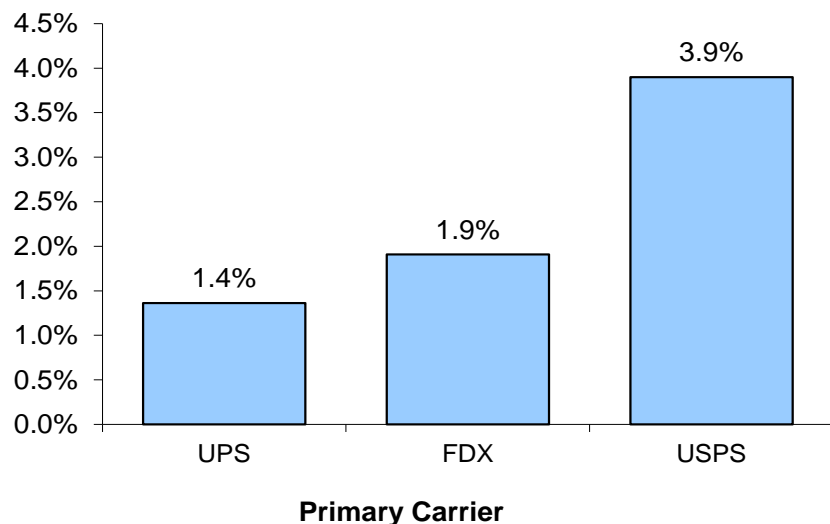


Pricing Outlook by Industry

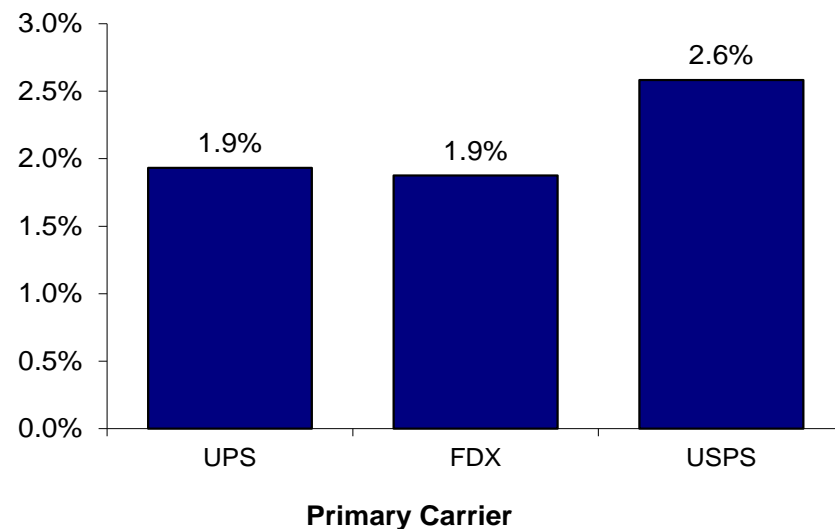


Pricing Outlook by Listed Primary Carrier

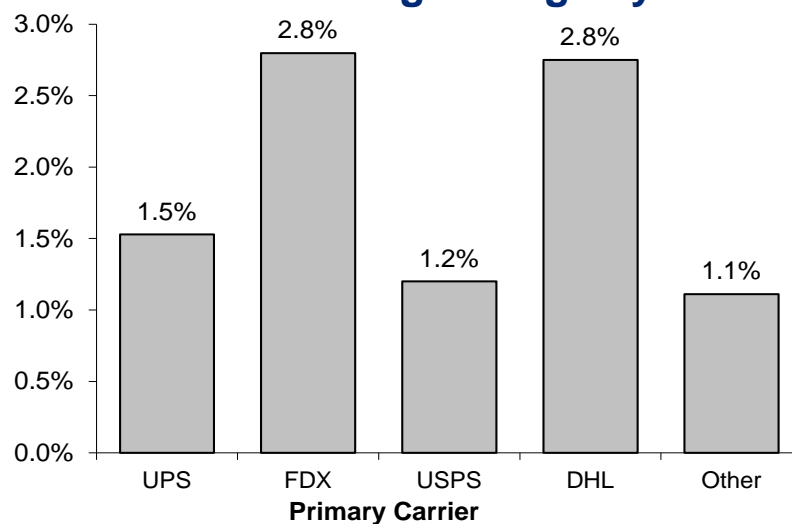
Air - Avg Change by Carrier



Ground - Avg Change by Carrier

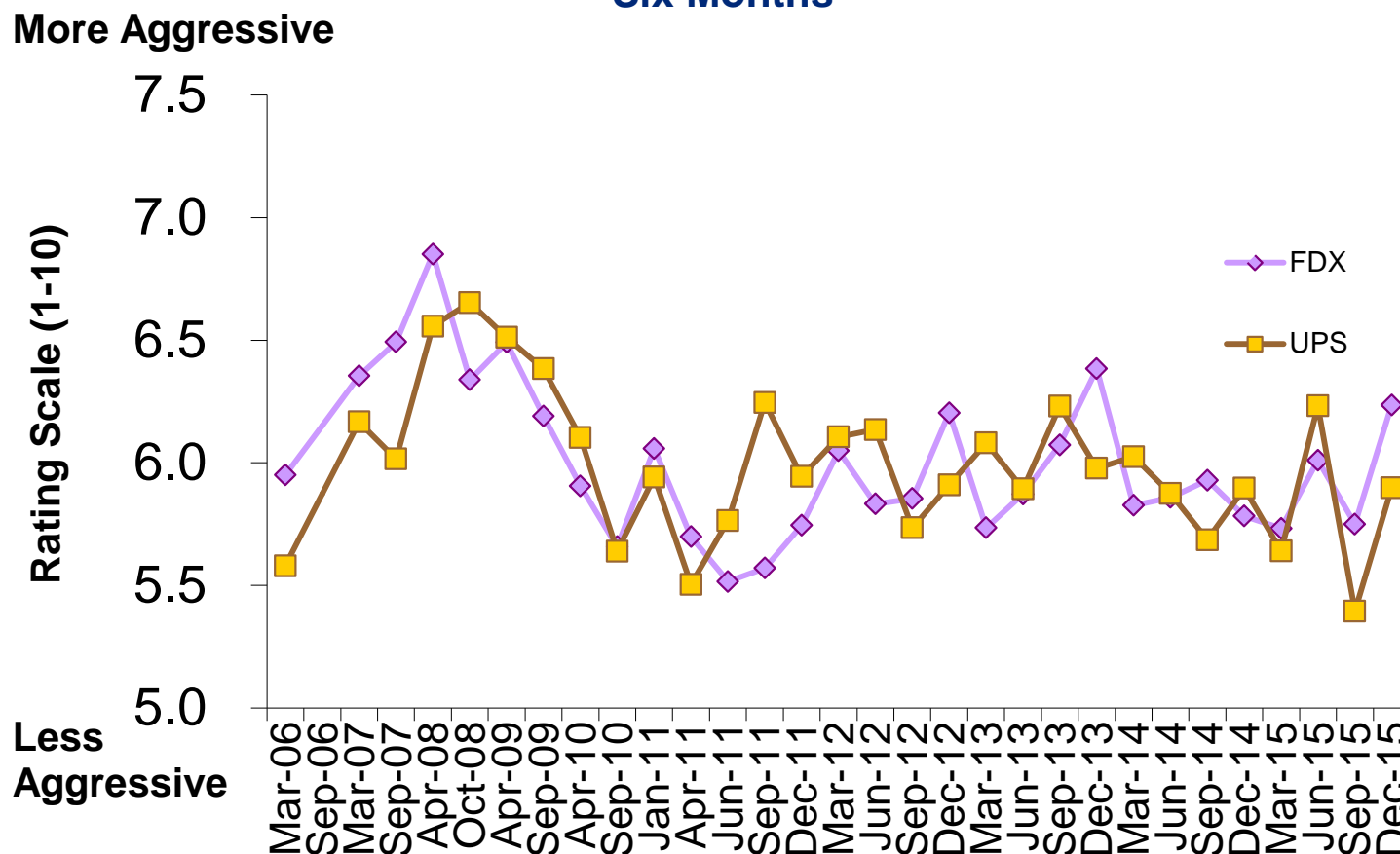


International - Avg Change by Carrier



Level of Aggressiveness in Trying to Win New Business

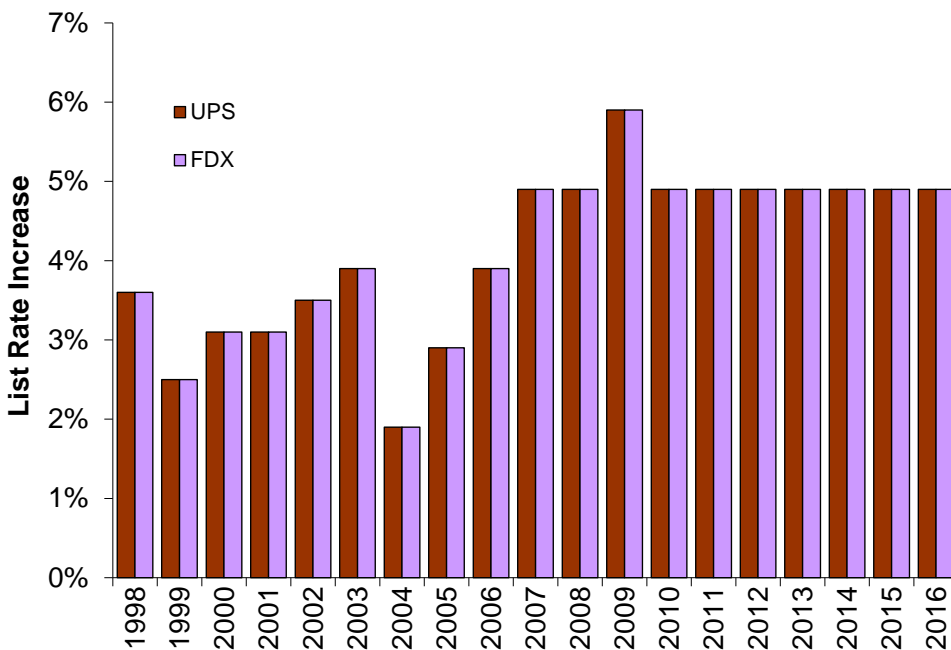
Parcel Shippers' Rankings of Carriers' "Aggressiveness" in Trying to Win Business Over Past Six Months



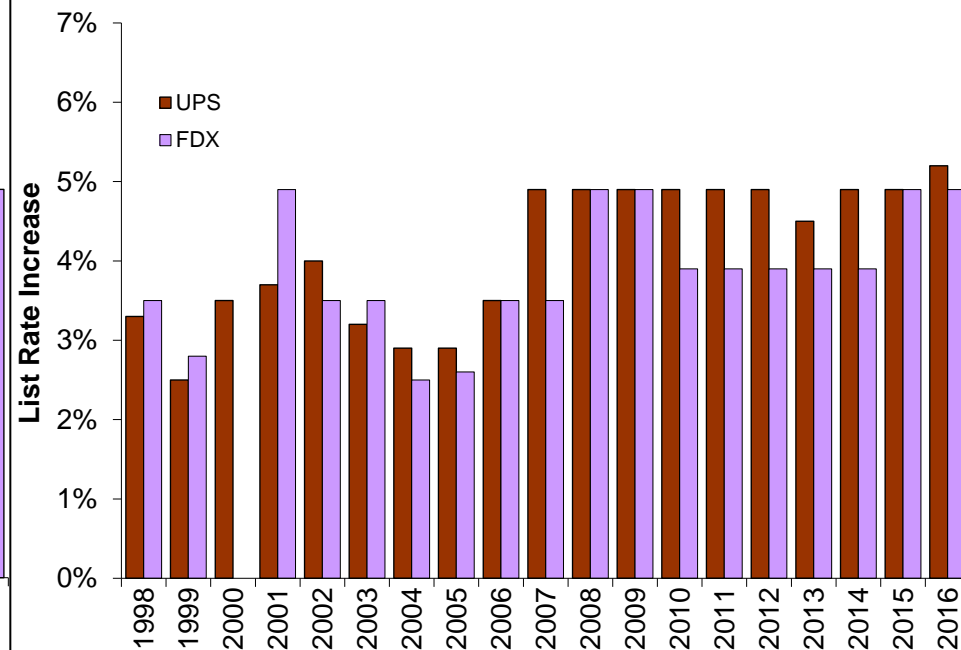
Source: Morgan Stanley Parcel Survey

List Rate Increases

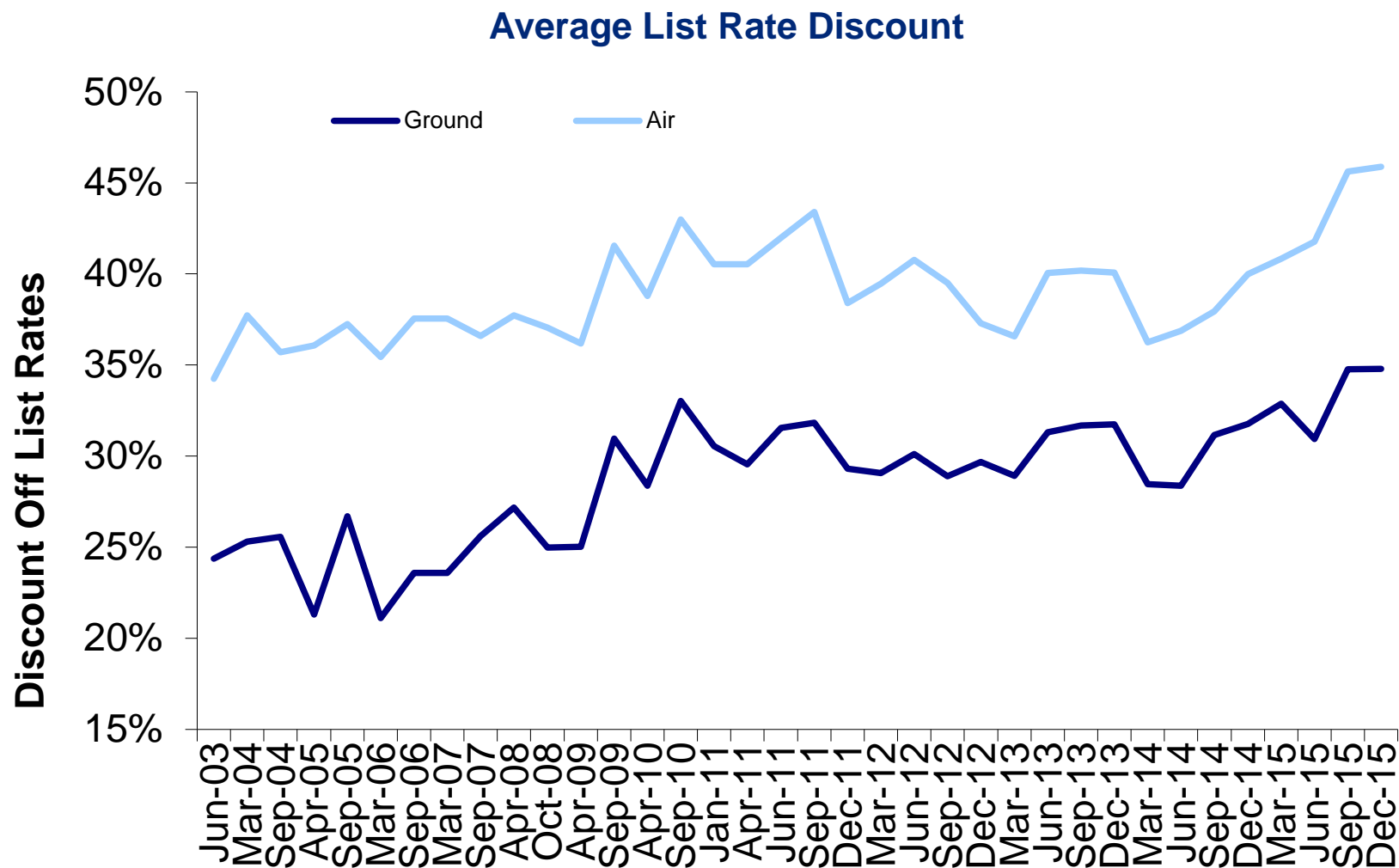
Ground List Rate Increase



Air List Rate Increase

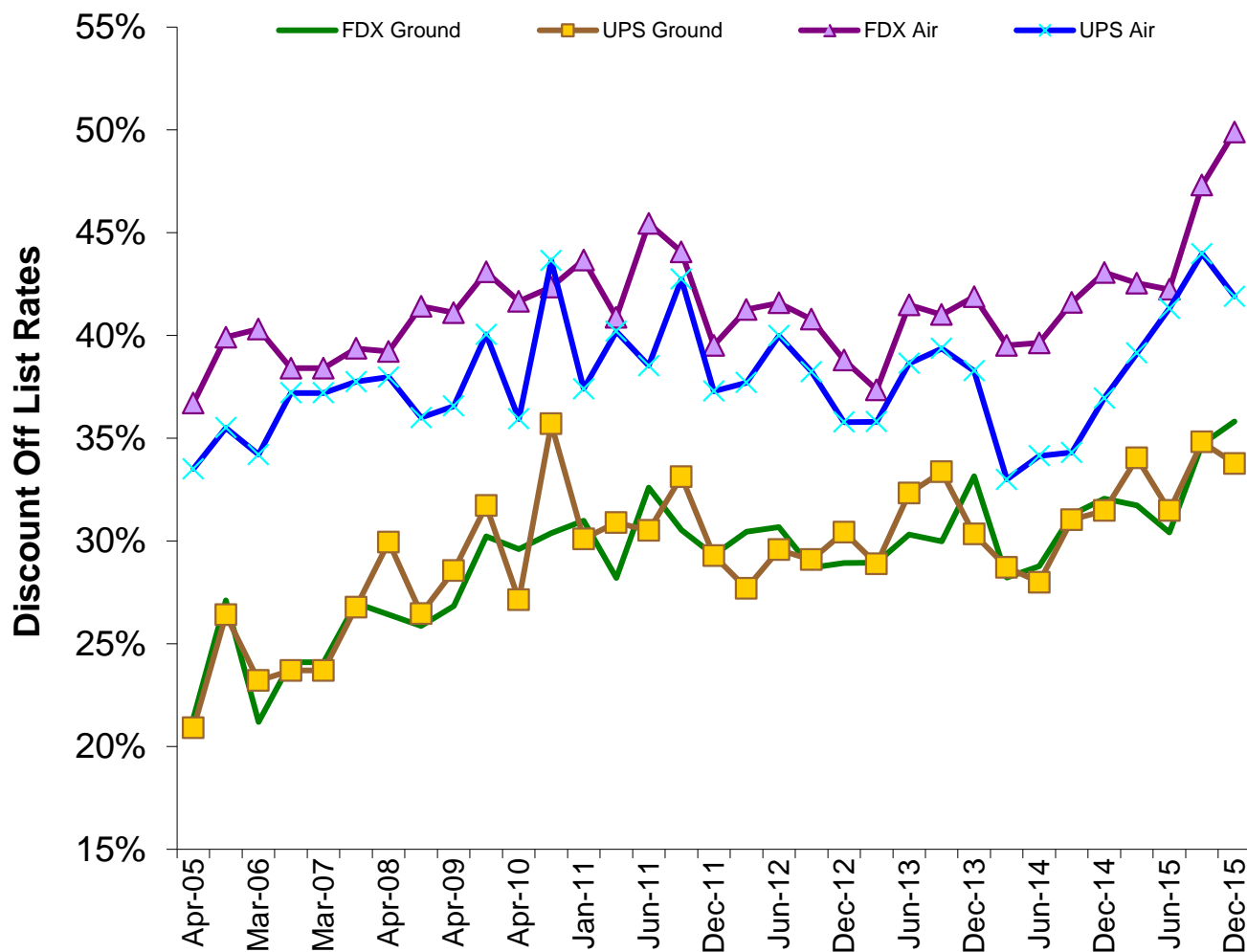


Percentage Discount Off of List Rates



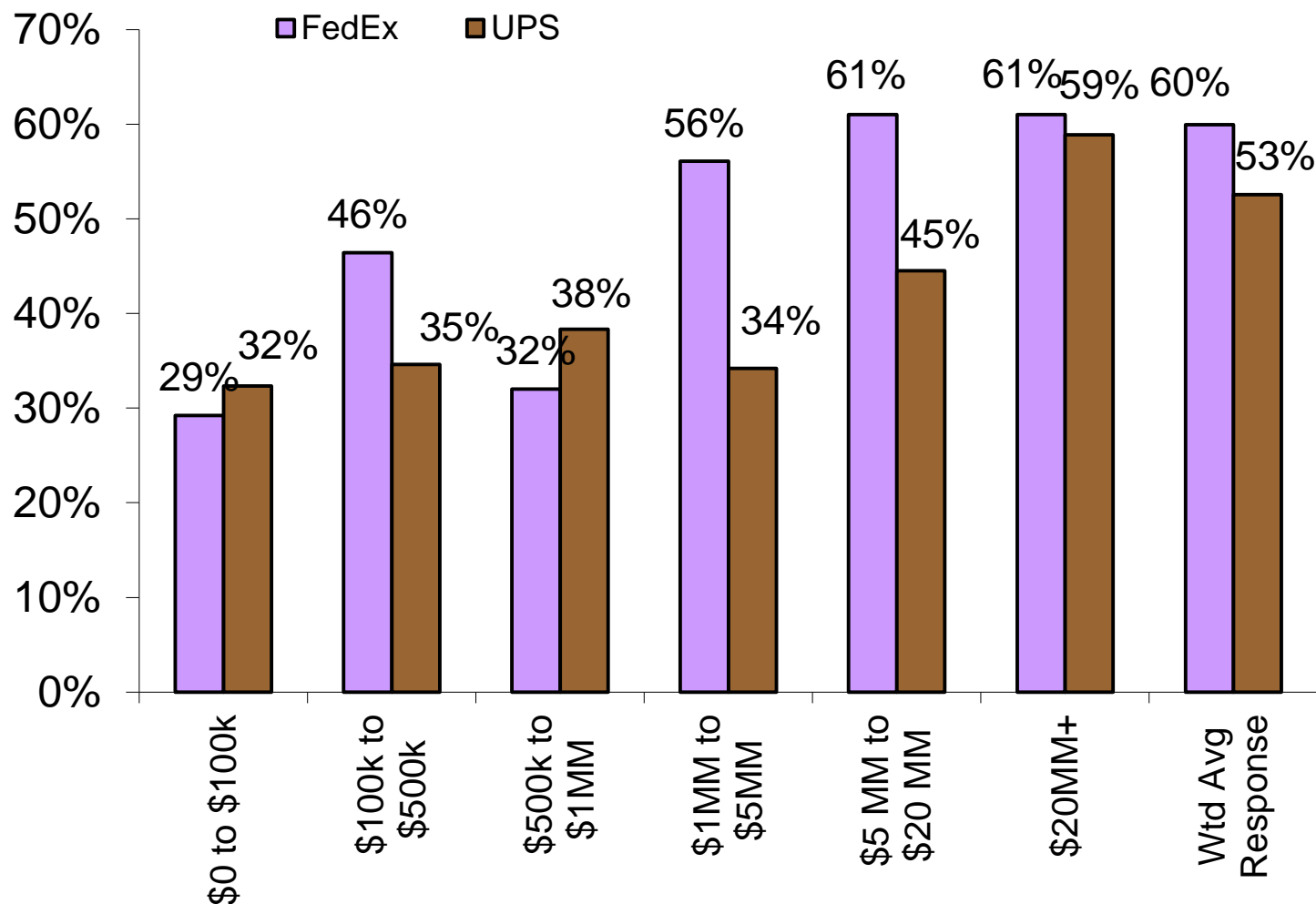
Percentage Discount Off of List Rates

Average Discount by Carrier and Product



Air List Rate Discount by Spend

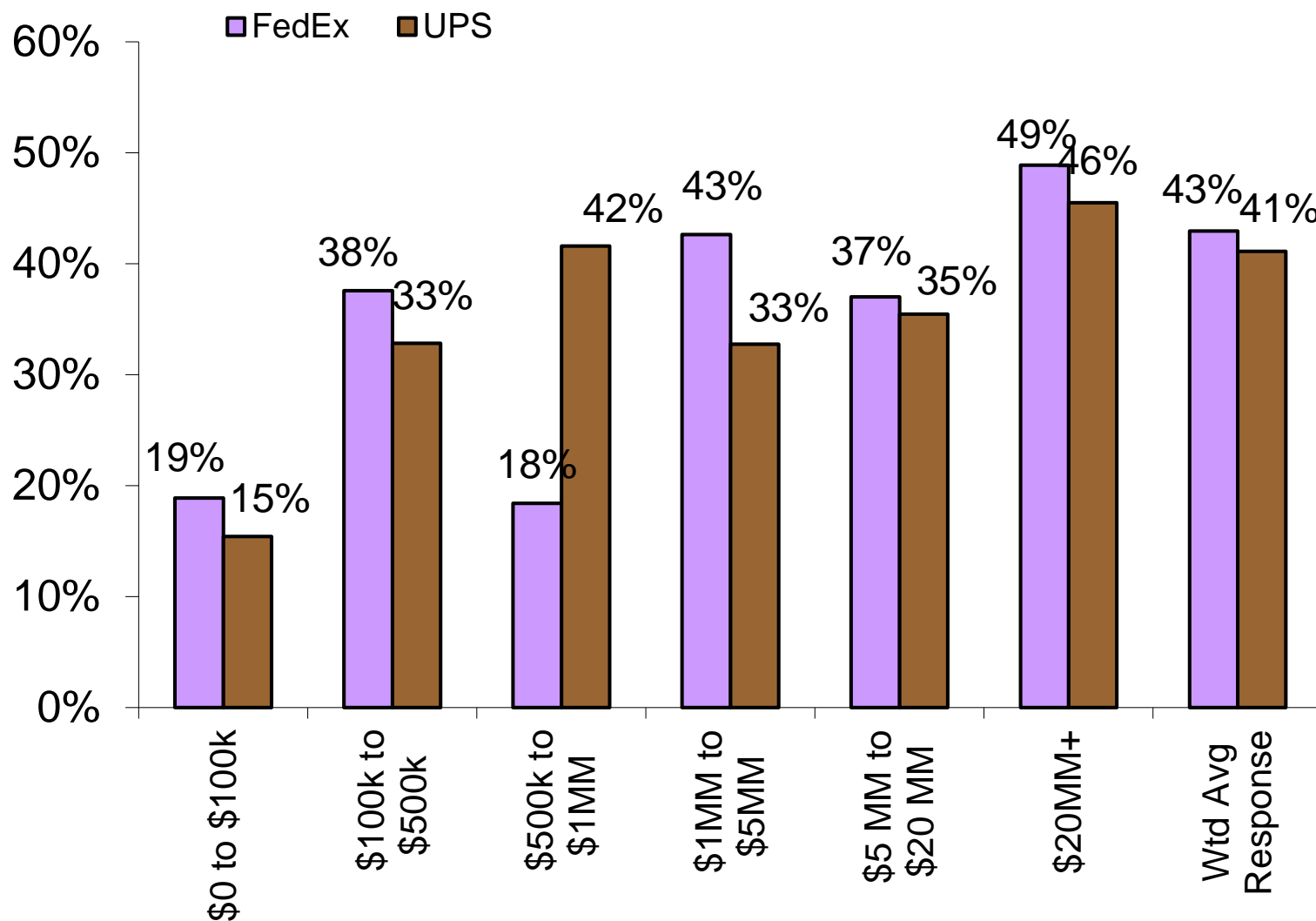
What is Your % Discount Off of Listed Parcel Rates for Air Express?



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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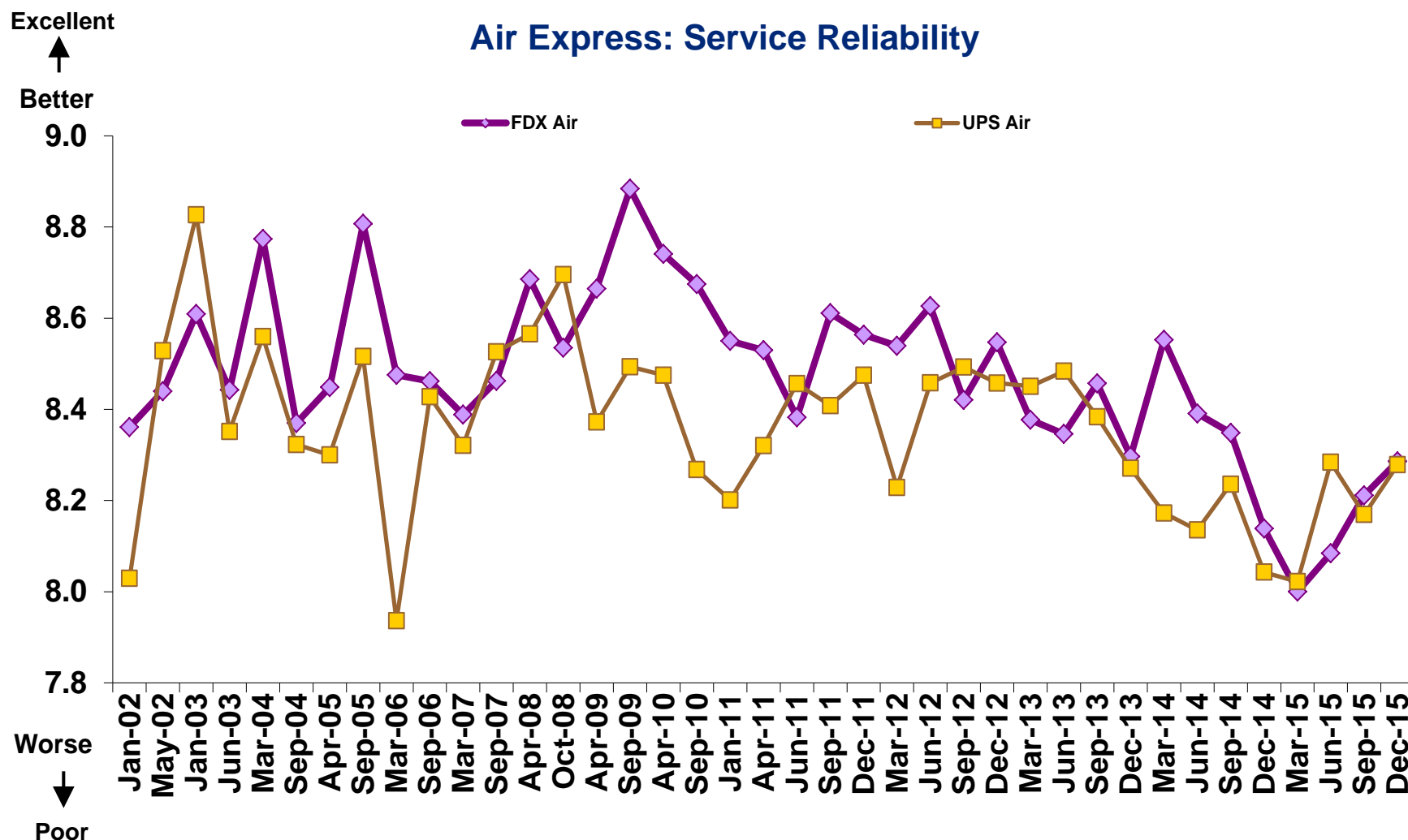
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Part 3: Service & Value Trends

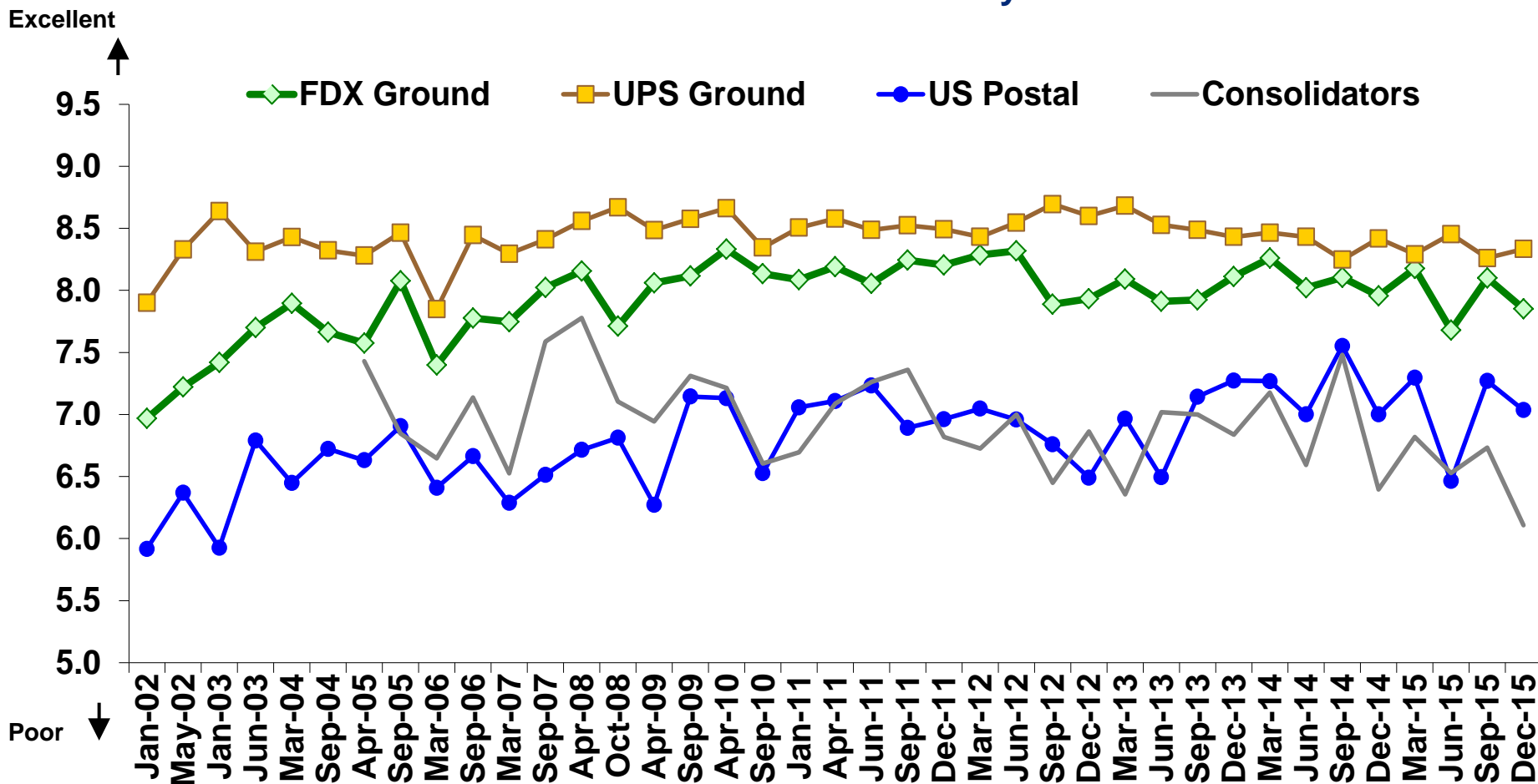
1. Service Reliability Rankings
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Service Reliability Rankings: Historical Trends

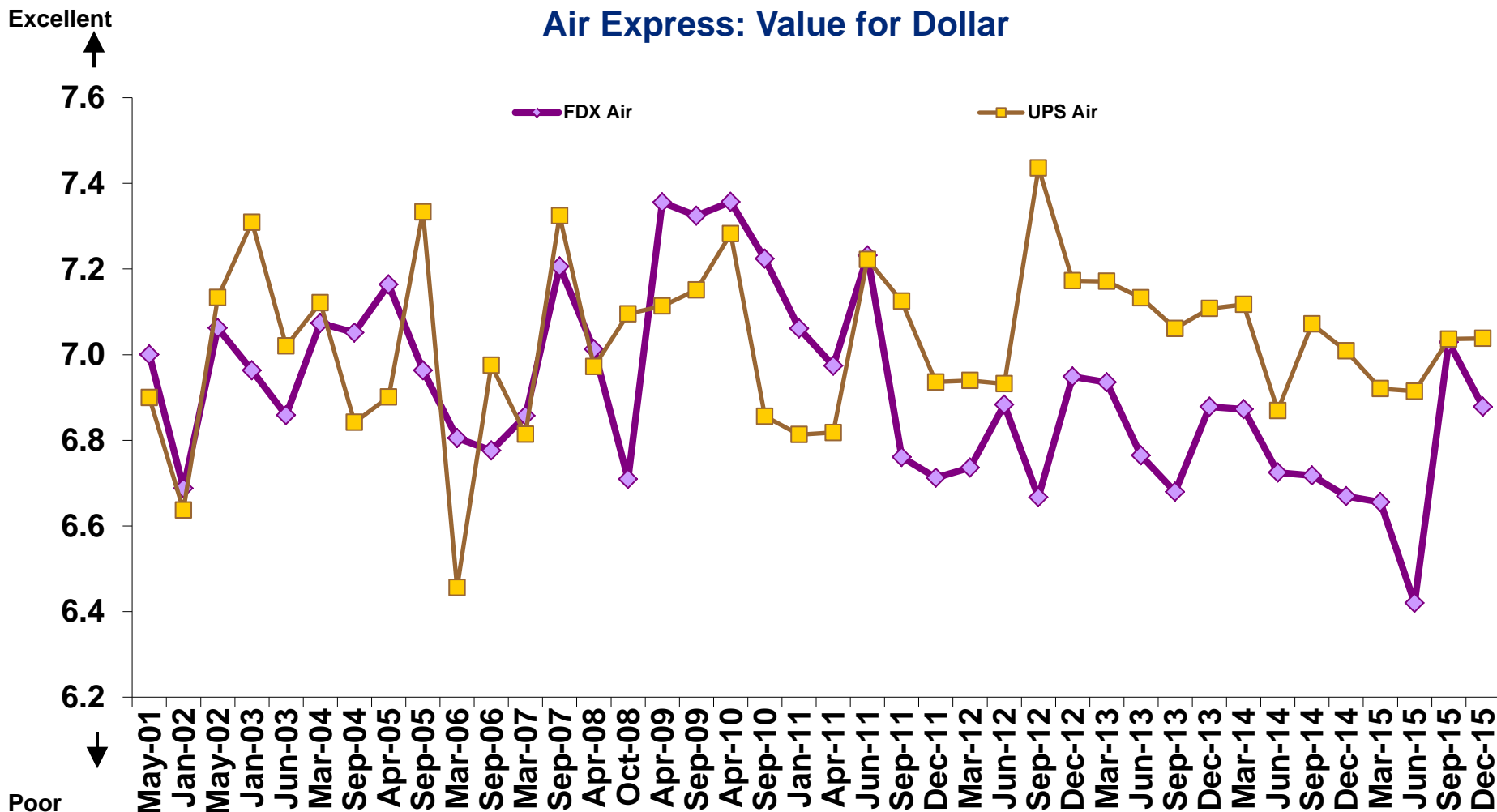


Service Reliability Rankings: Historical Trends

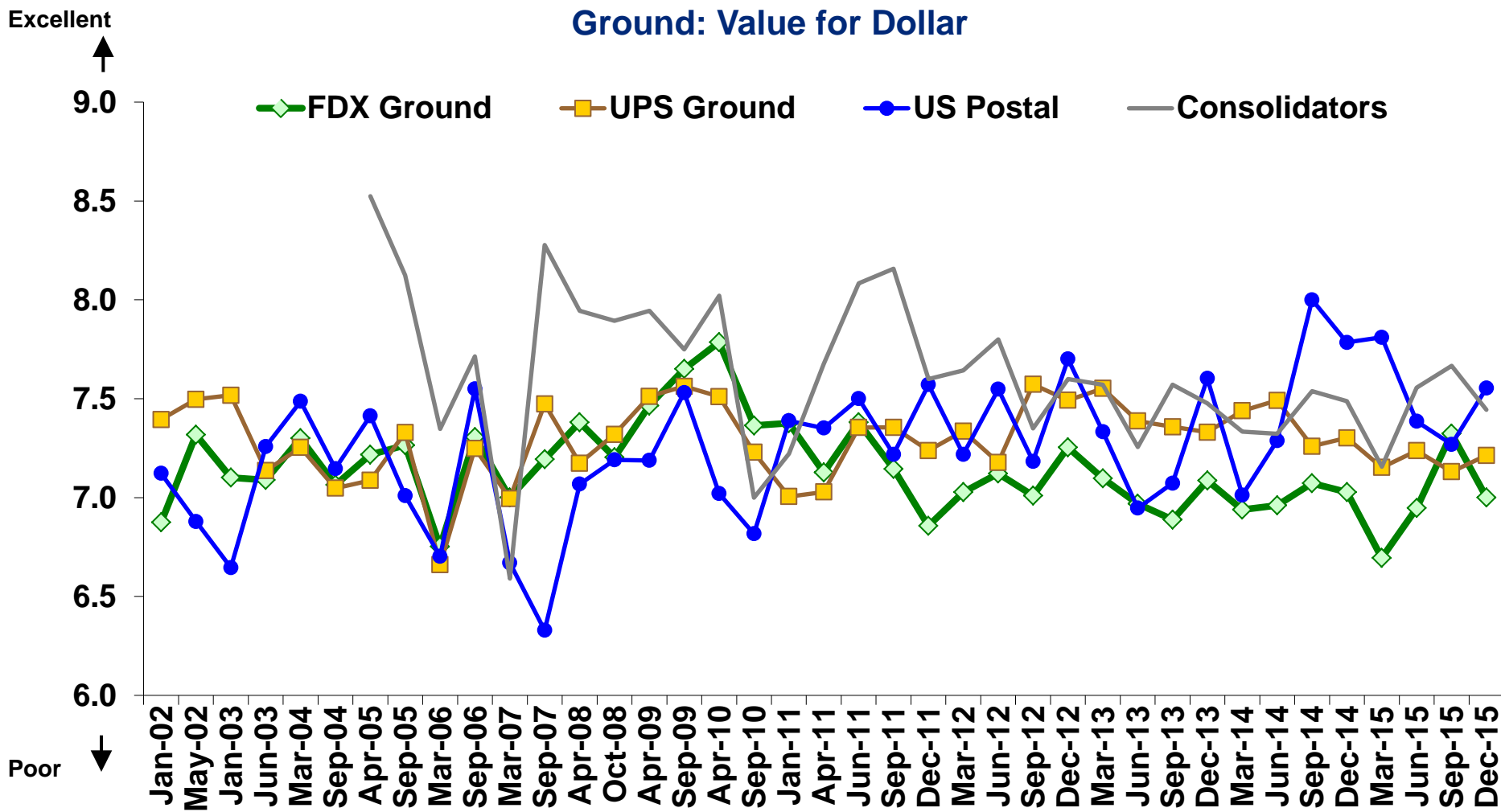
Ground: Service Reliability



Value for Dollar Rankings: Historical Trends



Value for Dollar Rankings: Historical Trends



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(as of December 31, 2015)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1193	35%	324	43%	27%
Equal-weight/Hold	1449	43%	330	44%	23%
Not-Rated/Hold	89	3%	12	2%	13%
Underweight/Sell	660	19%	88	12%	13%
Total	3,391		754		

Disclosure Section (cont'd)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/06/2016)
Alexander Vecchio, CFA		
ArcBest Corp (ARCB.O)	E (10/06/2011)	\$20.70
C.H. Robinson Worldwide Inc. (CHRW.O)	U (06/09/2013)	\$63.16
Canadian National Railway Co. (CNR.TO)	E (10/31/2008)	C\$73.45
Canadian Pacific Railway Ltd. (CP.TO)	++	C\$164.93
CSX Corporation (CSX.O)	O (06/11/2009)	\$25.12
Echo Global Logistics Inc (ECHO.O)	O (07/16/2012)	\$20.75
Expeditors International of Washington I (EXPD.O)	E (02/25/2015)	\$43.64
FedEx Corporation (FDX.N)	E (06/20/2013)	\$140.77
Forward Air Corp (FWRD.O)	E (07/16/2012)	\$43.50
Genesee & Wyoming Inc. (GWR.N)	O (07/24/2012)	\$52.01
Heartland Express Inc. (HTLD.O)	U (05/06/2011)	\$16.64
Hub Group Inc (HUBG.O)	E (07/16/2012)	\$31.59
J.B. Hunt Transport Services Inc. (JBHT.O)	E (05/06/2011)	\$70.92
Kansas City Southern (KSU.N)	O (05/10/2010)	\$70.58
Knight Transportation Inc. (KNXN)	U (05/06/2011)	\$23.36
Landstar System Inc (LSTR.O)	E (07/16/2012)	\$57.61
Norfolk Southern Corp. (NSC.N)	++	\$79.48
Old Dominion Freight Line Inc (ODFL.O)	O (10/06/2011)	\$57.52
Roadrunner Transportation Systems Inc (RRTS.N)	O (07/16/2012)	\$9.29
Saia, Inc. (SAIA.O)	E (07/09/2012)	\$21.64
Swift Transportation (SWFT.N)	E (01/26/2011)	\$13.72
Union Pacific Corp. (UNP.N)	O (05/07/2007)	\$74.83
United Parcel Service (UPS.N)	E (03/11/2013)	\$94.42
UTi Worldwide (UTIW.O)	++	\$7.05
Werner Enterprises (WERN.O)	U (06/11/2009)	\$22.81
XPO Logistics, Inc. (XPO.N)	O (11/16/2015)	\$24.88

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* Historical prices are not split adjusted.