APICS St Louis Chapter

ISM institute for supply management

ISM—St. Louis, Inc.

Professional Development Series

March 22, 2016

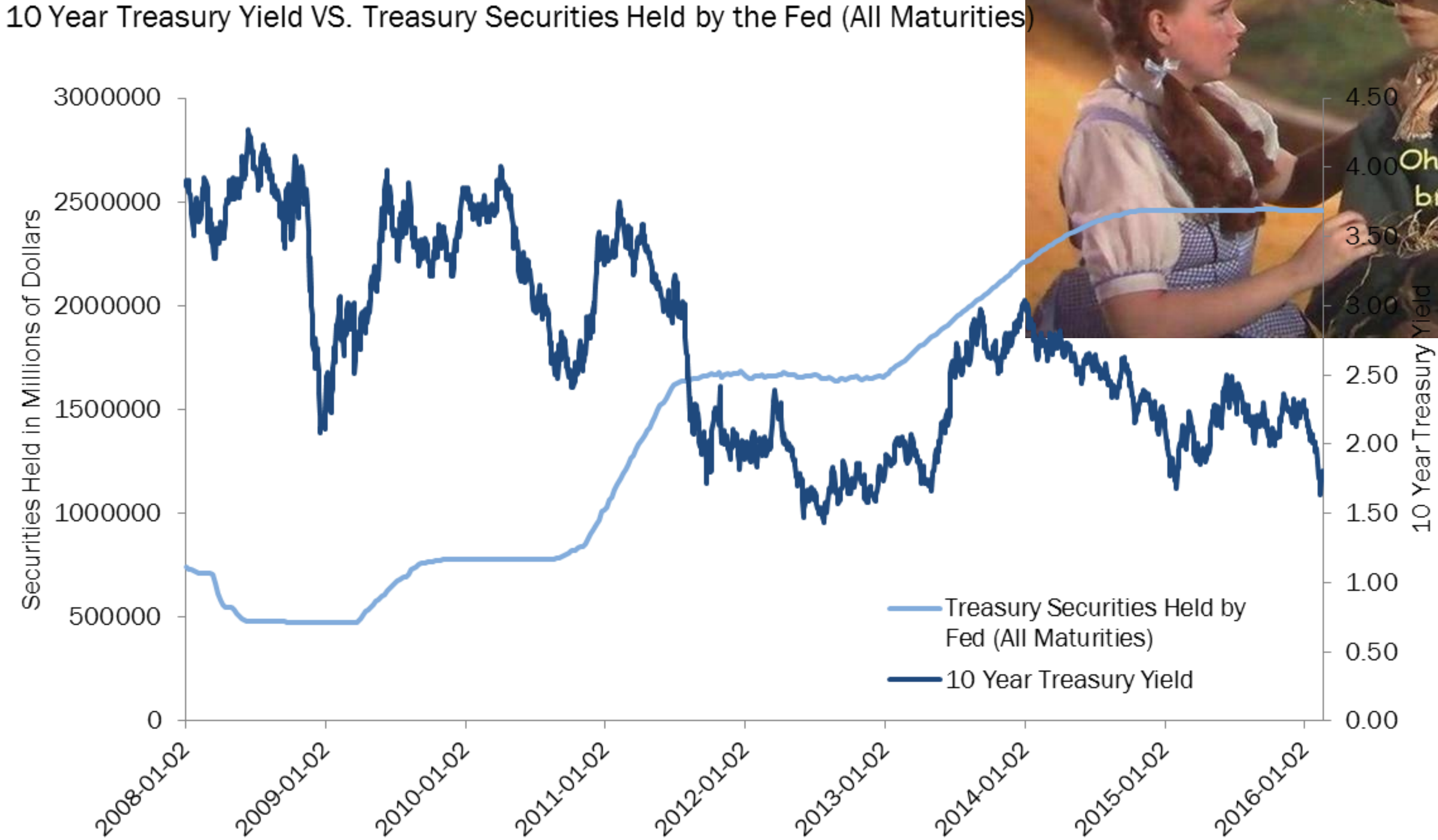
AVONDALE PARTNERS

A View From Wall Street

Donald Broughton

Chief Market Strategist, Managing Director

QE Lowers Interest Rates, Right?



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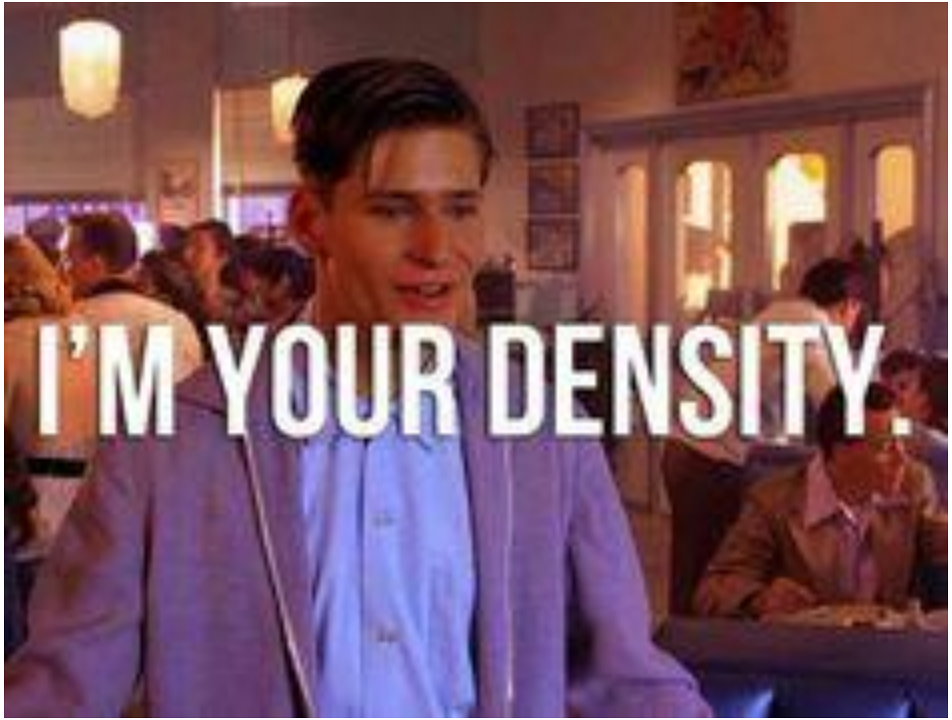
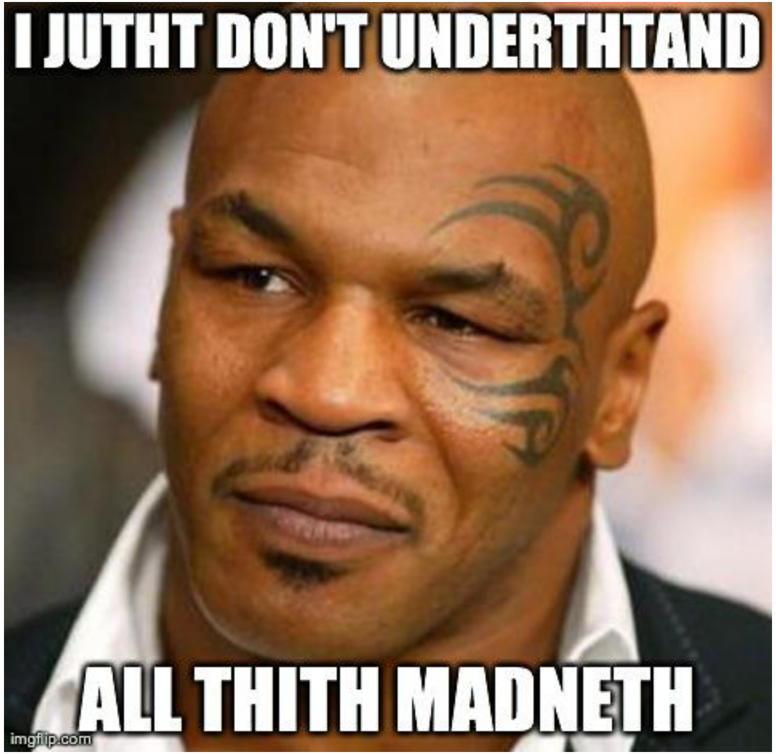
Density is Your Destiny!

- Goods are becoming higher in value, lower in density
- New goods created are high value / low density
- Durability / Disposability



It <u>was</u> “Slow Growth, No Growth?”

- Constant Message of “Be Afraid”
- Culture of Constant Distraction
- Increased Regulation
- Increased Cost of “Green” Infrastructure
- Demographics
- Unless you are in:
  - Fracking (was)
  - Intermodal (was)
  - E-Commerce



Media’s Message is “Be Afraid!”

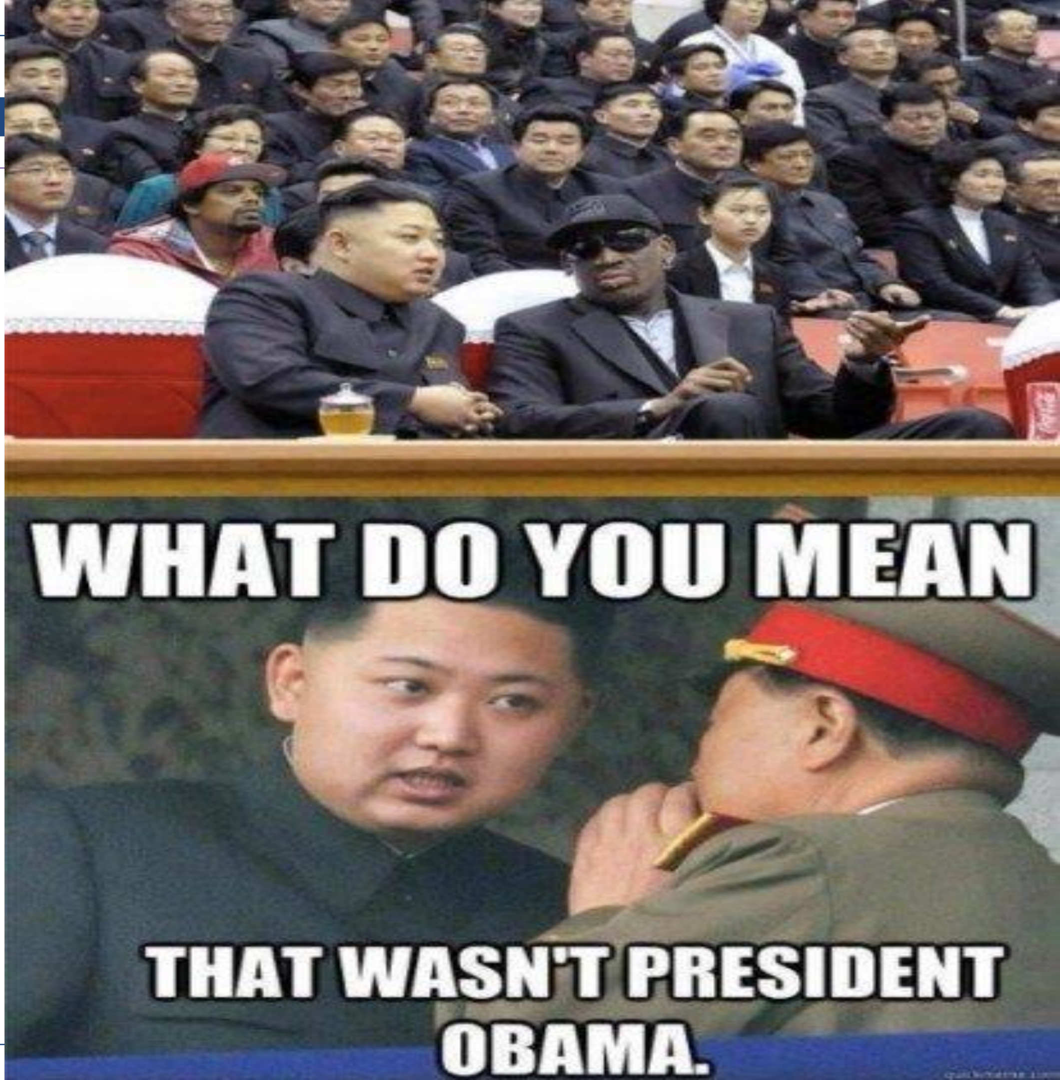
Wealth of all kinds – emotional, spiritual, intellectual, financial

<u>All wealth</u> is created by taking risk!

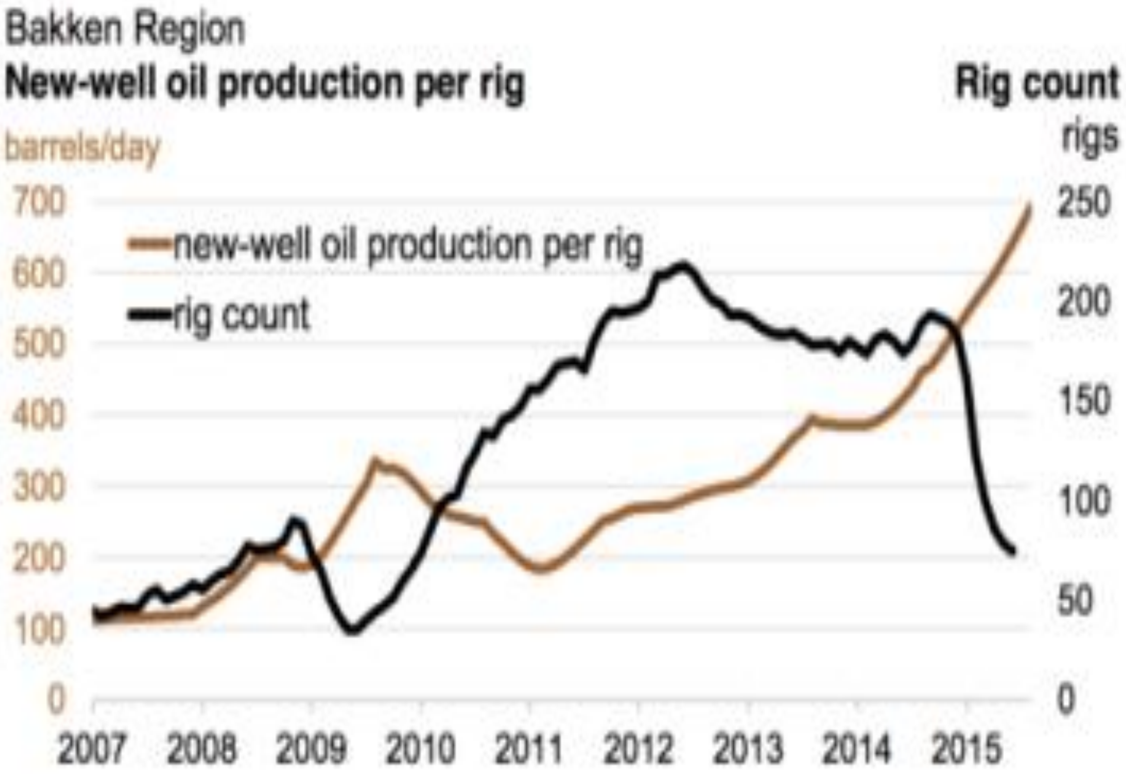
Prudent risk, but risk nevertheless.

Fracking! Oil & Natural Gas – I

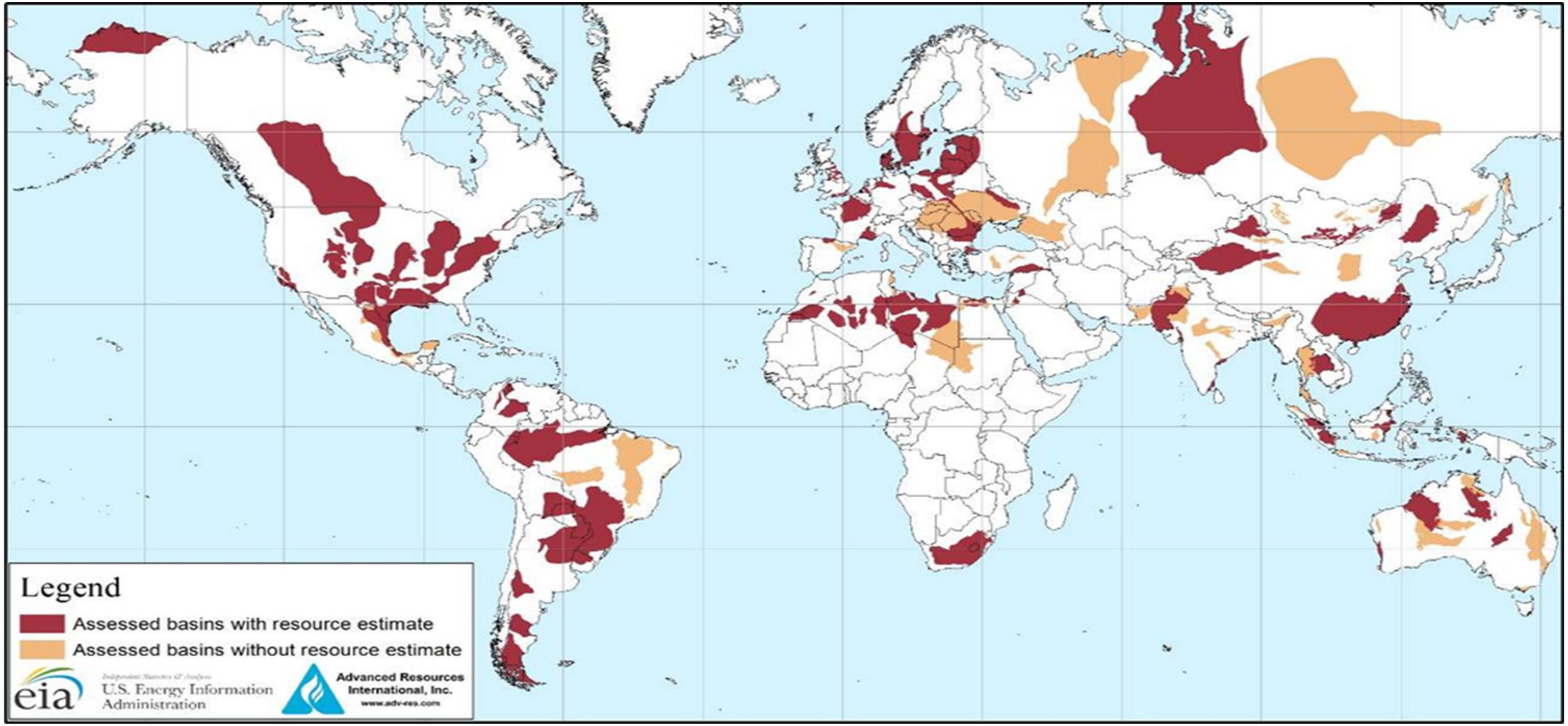
- How plentiful is the supply
- Why is the price so low?
- Can it stay low for a long time?



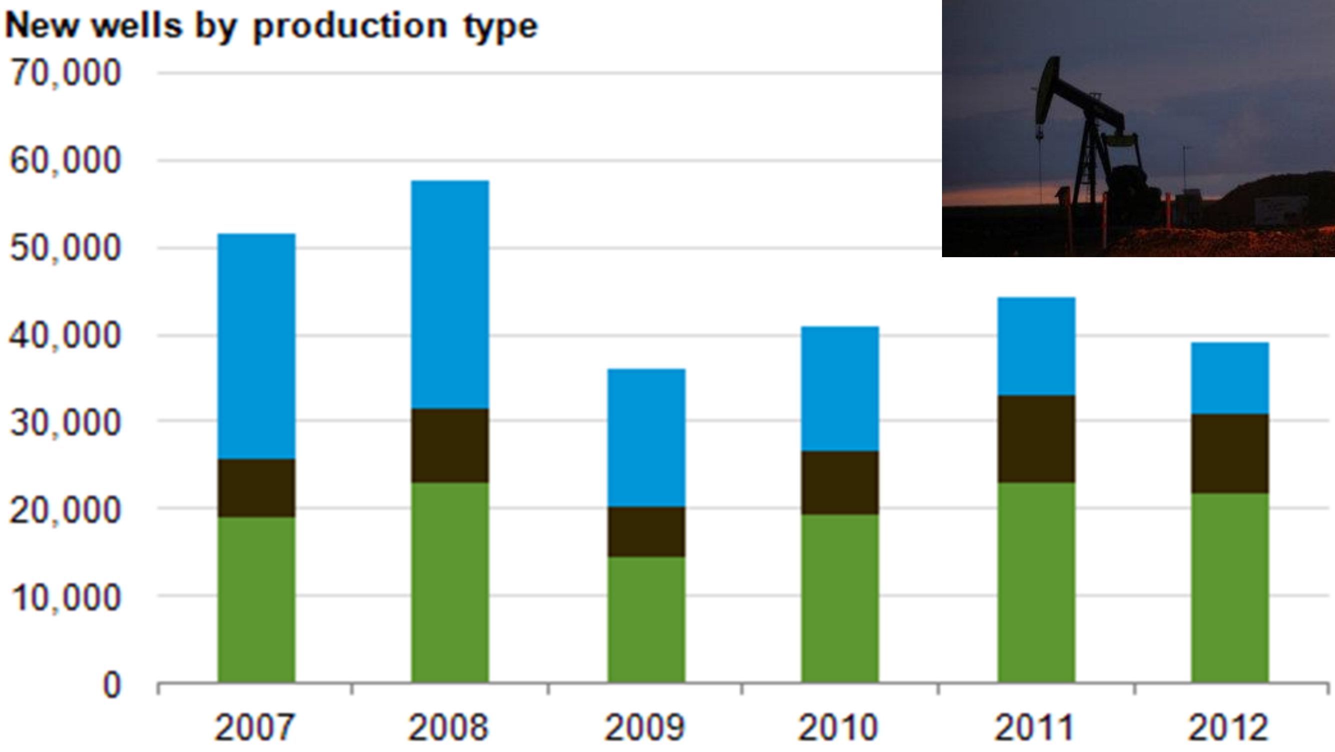
Fracking Produces More and More per Well



Shale Deposits are Global – Almost Everywhere



Fracking Produces both Oil & Gas



Rig Count is Dropping & Still Producing Too Much!

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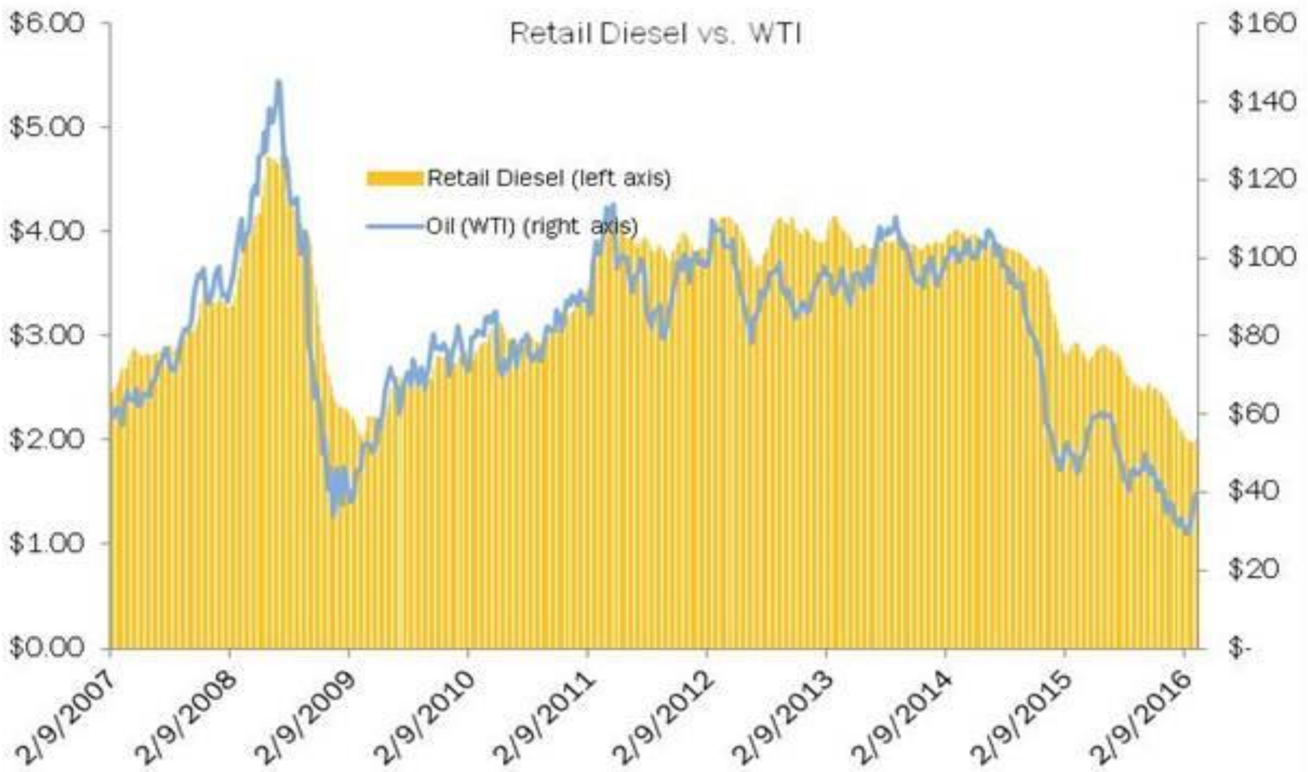
Diesel Poised to Fall Even Further



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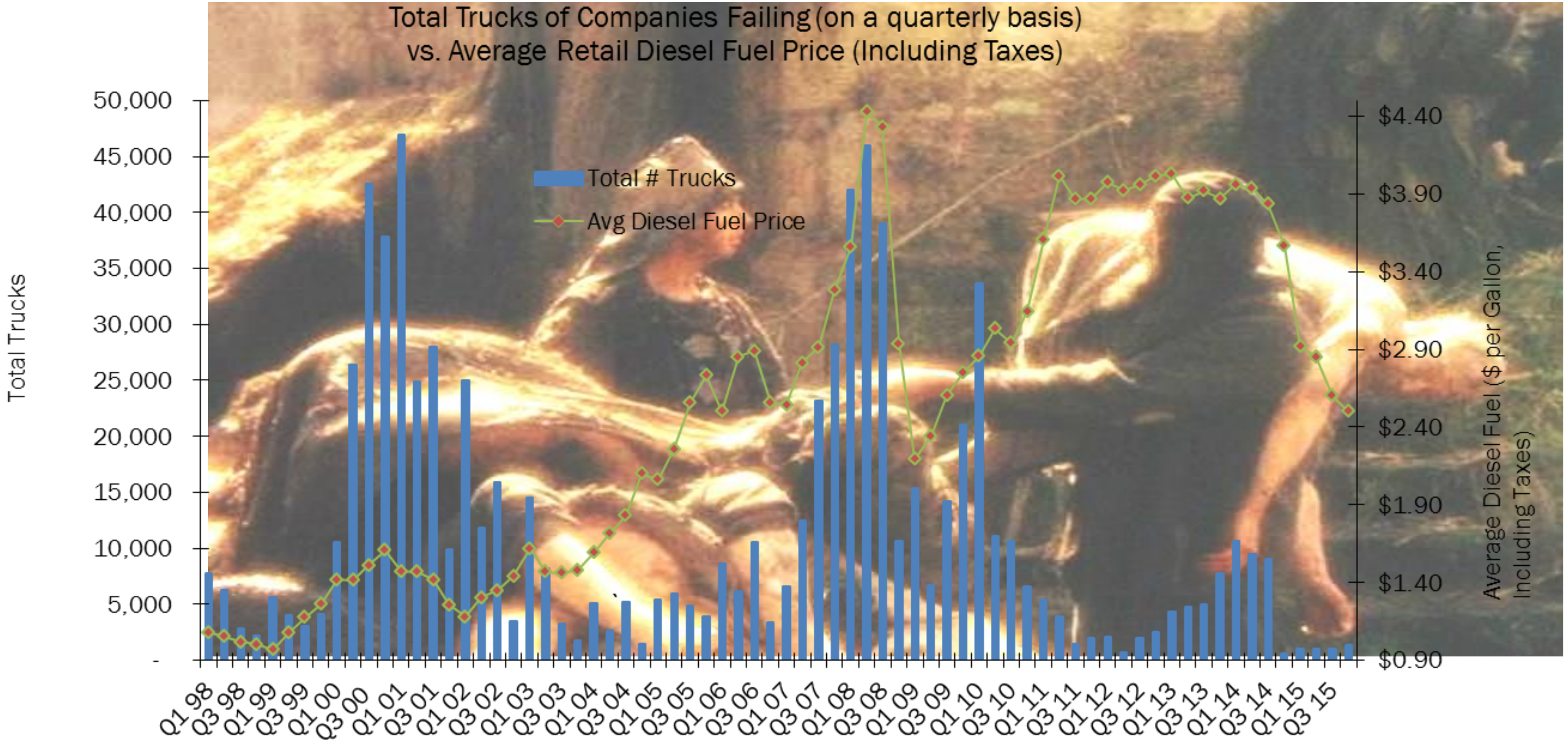
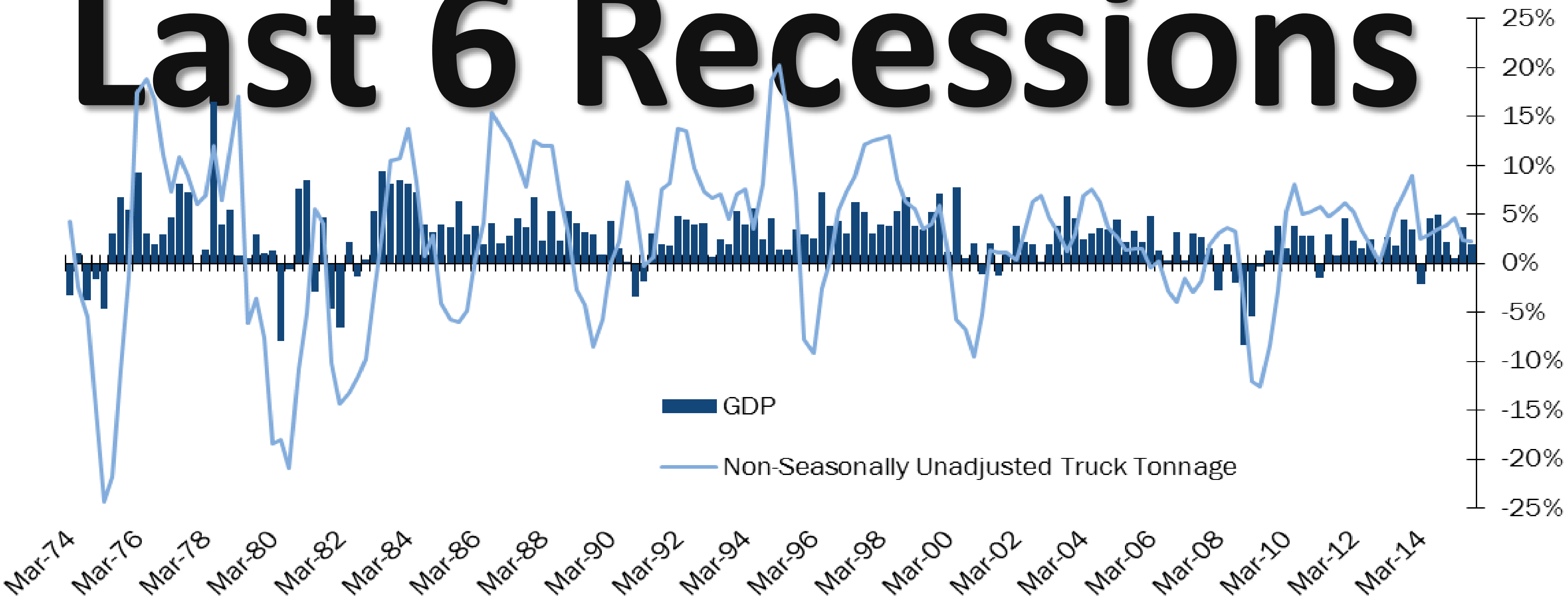
Not Dead Yet…


Total Trucks of Companies Failing (on a quarterly basis)
vs. Average Retail Diesel Fuel Price (Including Taxes)
Total # Trucks
Avg Diesel Fuel Price
Total Trucks
Average Diesel Fuel ($ per Gallon, Including Taxes)
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
$4.40
$3.90
$3.40
$2.90
$2.40
$1.90
$1.40
$0.90
Q1 98
Q3 98
Q1 99
Q3 99
Q1 00
Q3 00
Q1 01
Q3 01
Q1 02
Q3 02
Q1 03
Q3 03
Q1 04
Q3 04
Q1 05
Q3 05
Q1 06
Q3 06
Q1 07
Q3 07
Q1 08
Q3 08
Q1 09
Q3 09
Q1 10
Q3 10
Q1 11
Q3 11
Q1 12
Q3 12
Q1 13
Q3 13
Q1 14
Q3 14
Q1 15
Q3 15

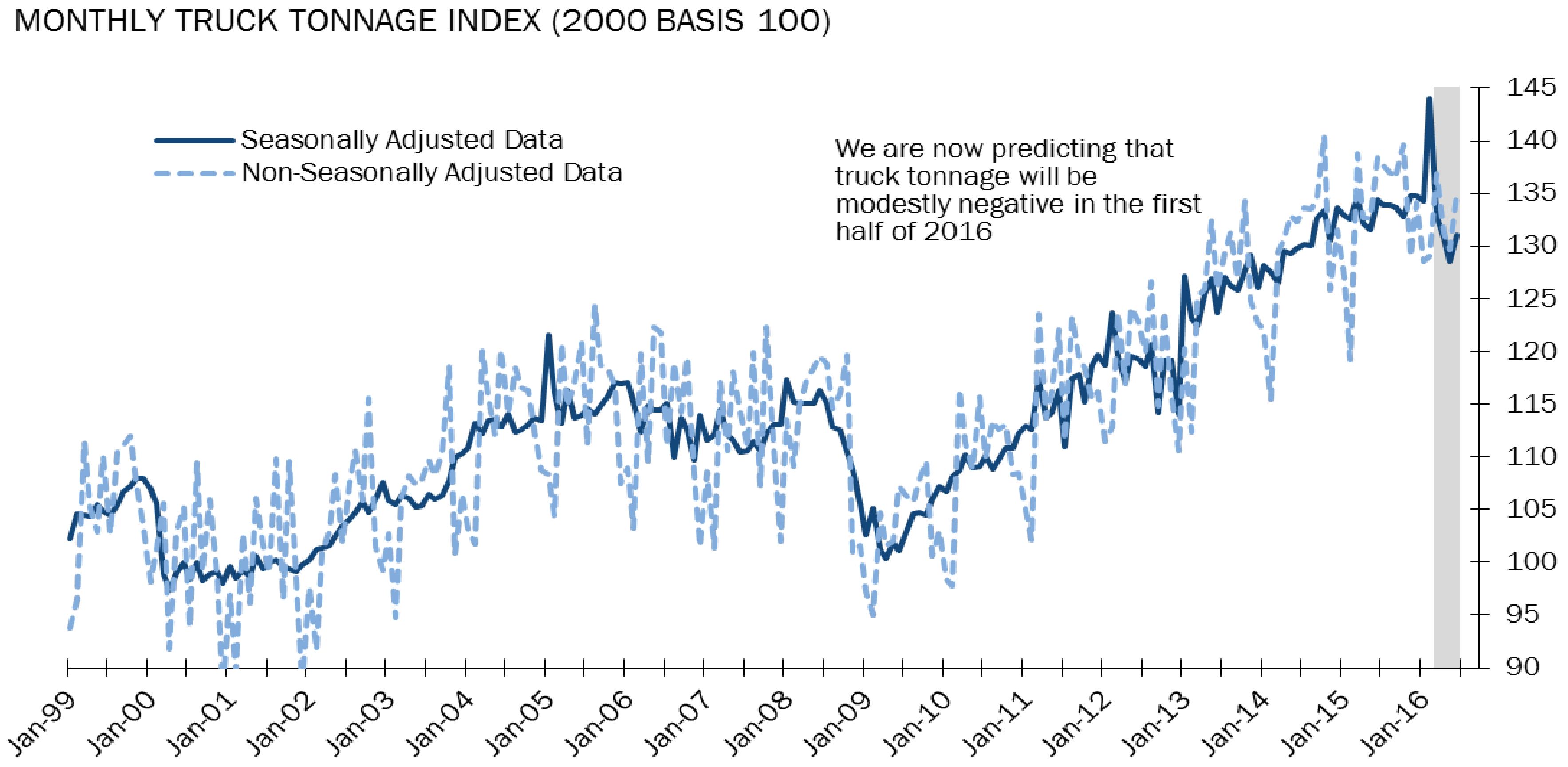
In Tonnage We Trust

Predicted 8 of the Last 6 Recessions

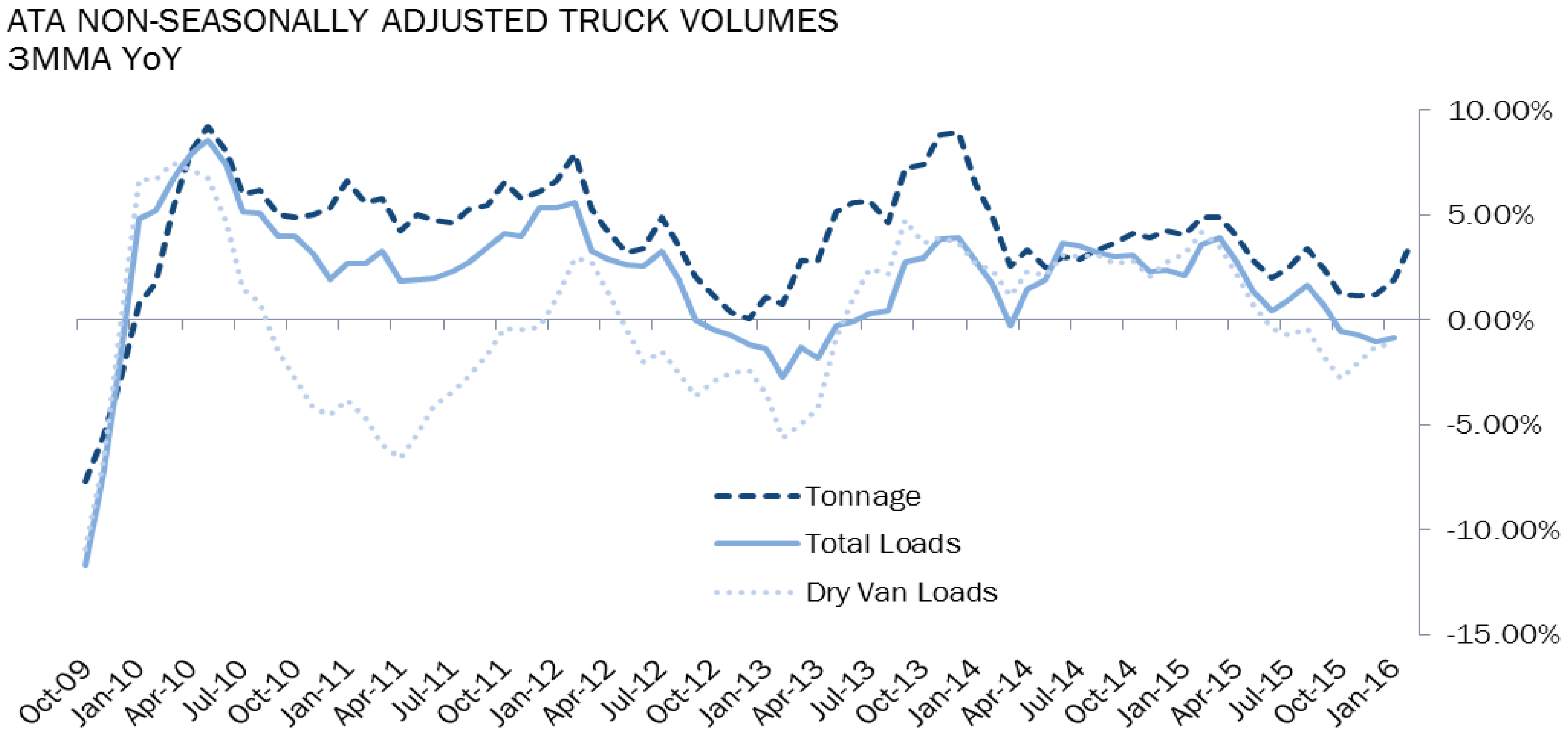
QUARTERLY YoY% CHANGE IN TRUCK TONNAGE VS. QUARTERLY GDP



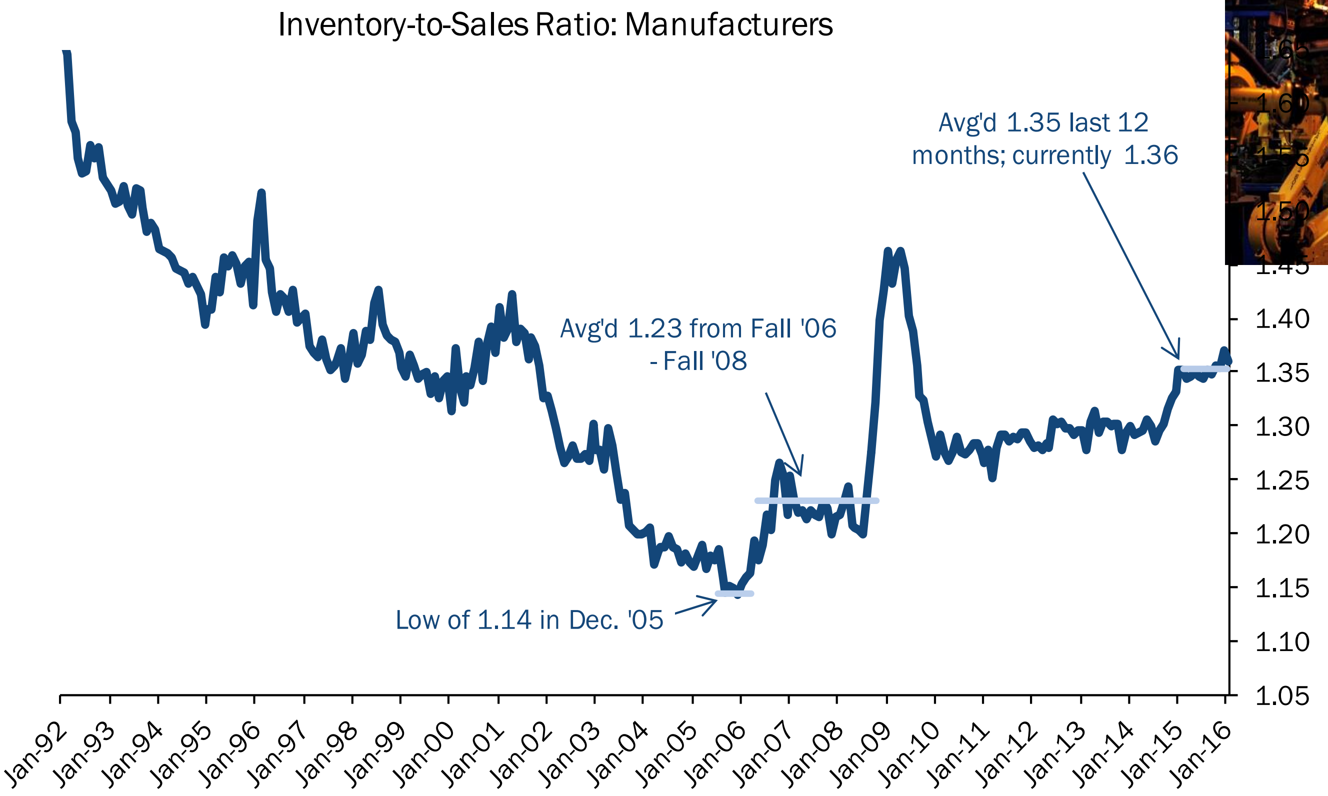
Tonnage Poised to Contract?

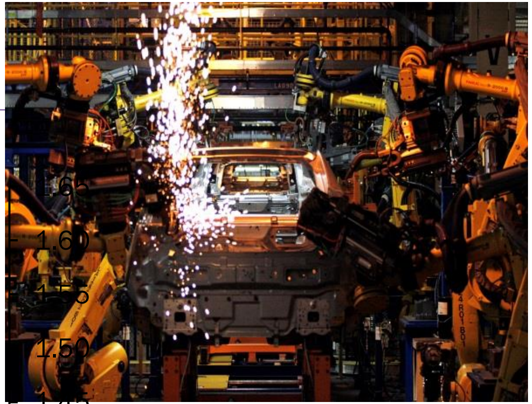


Load Growth Already Contracting?



Inventory to Sales Ratio: Manufacturing





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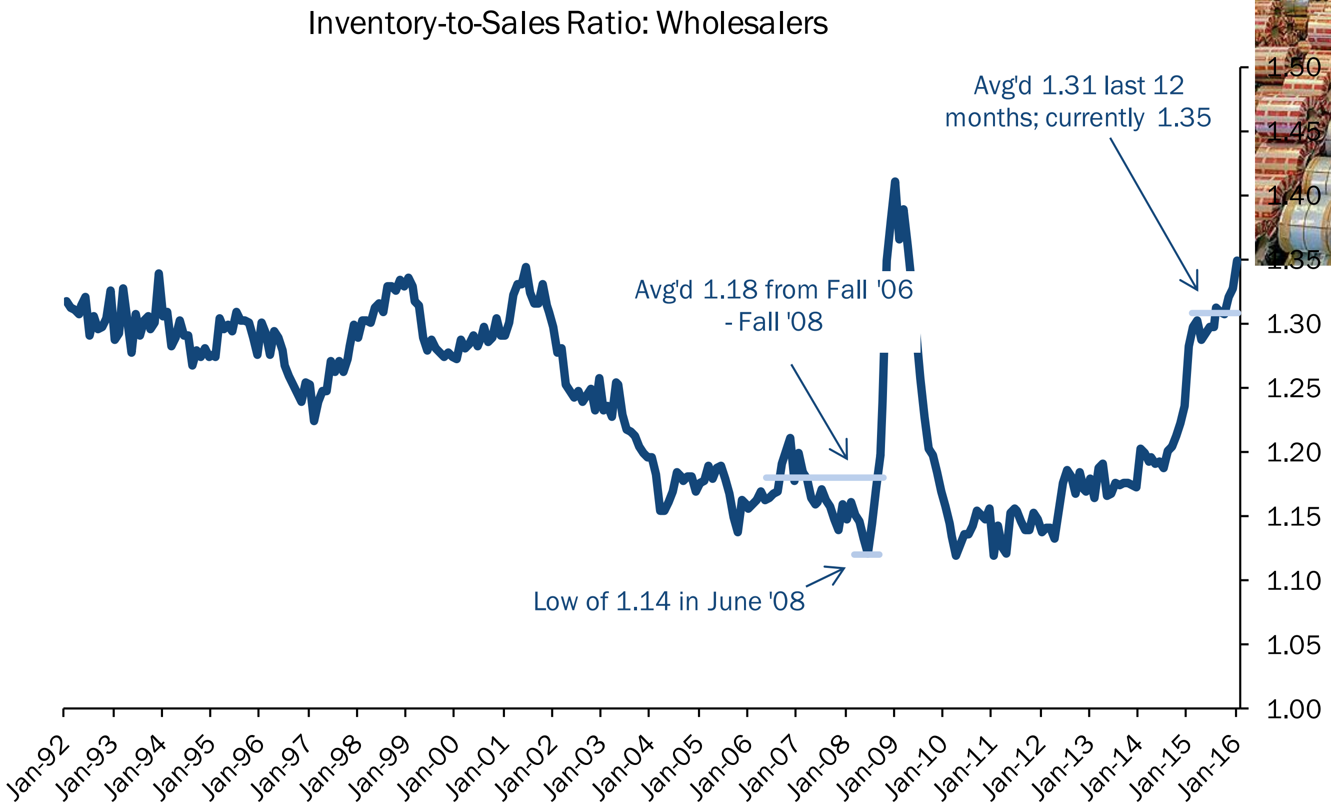
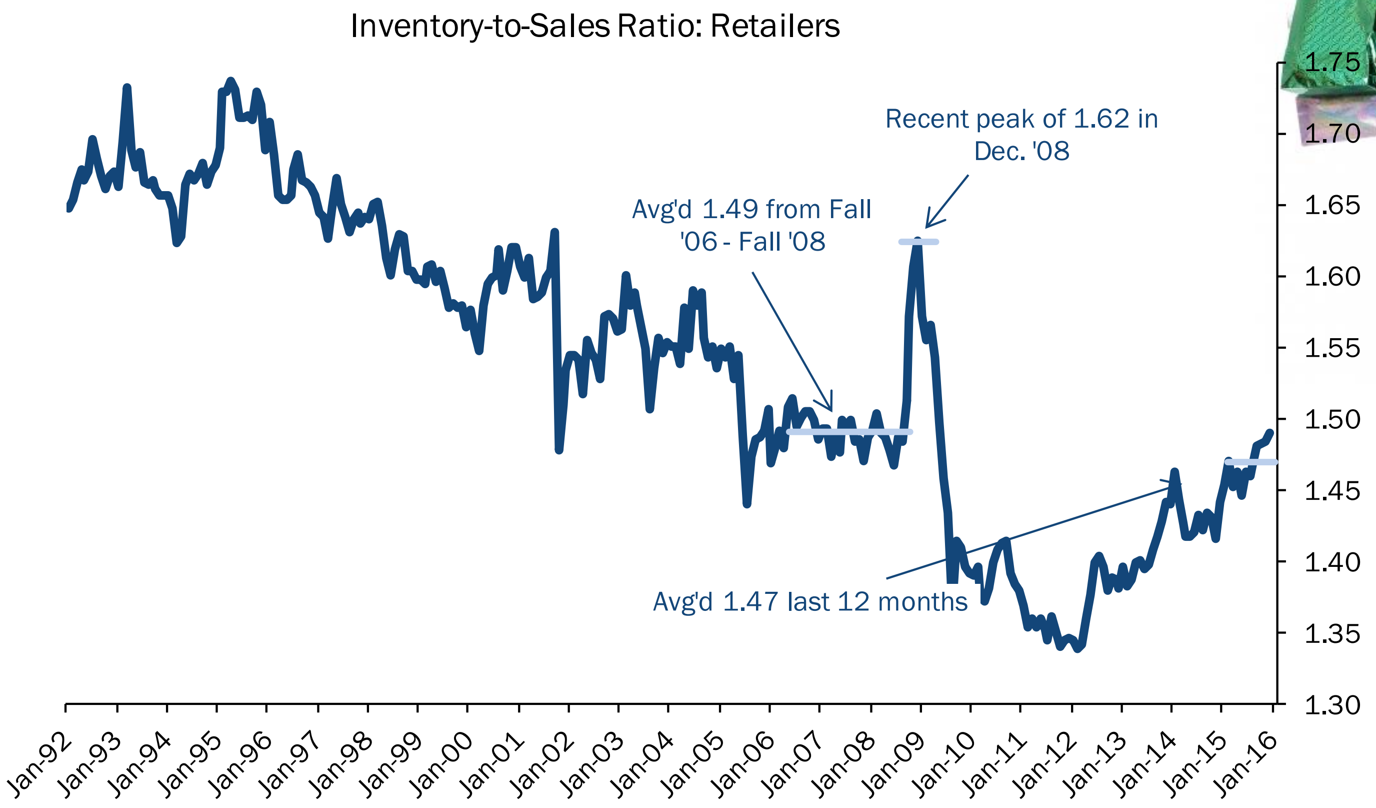
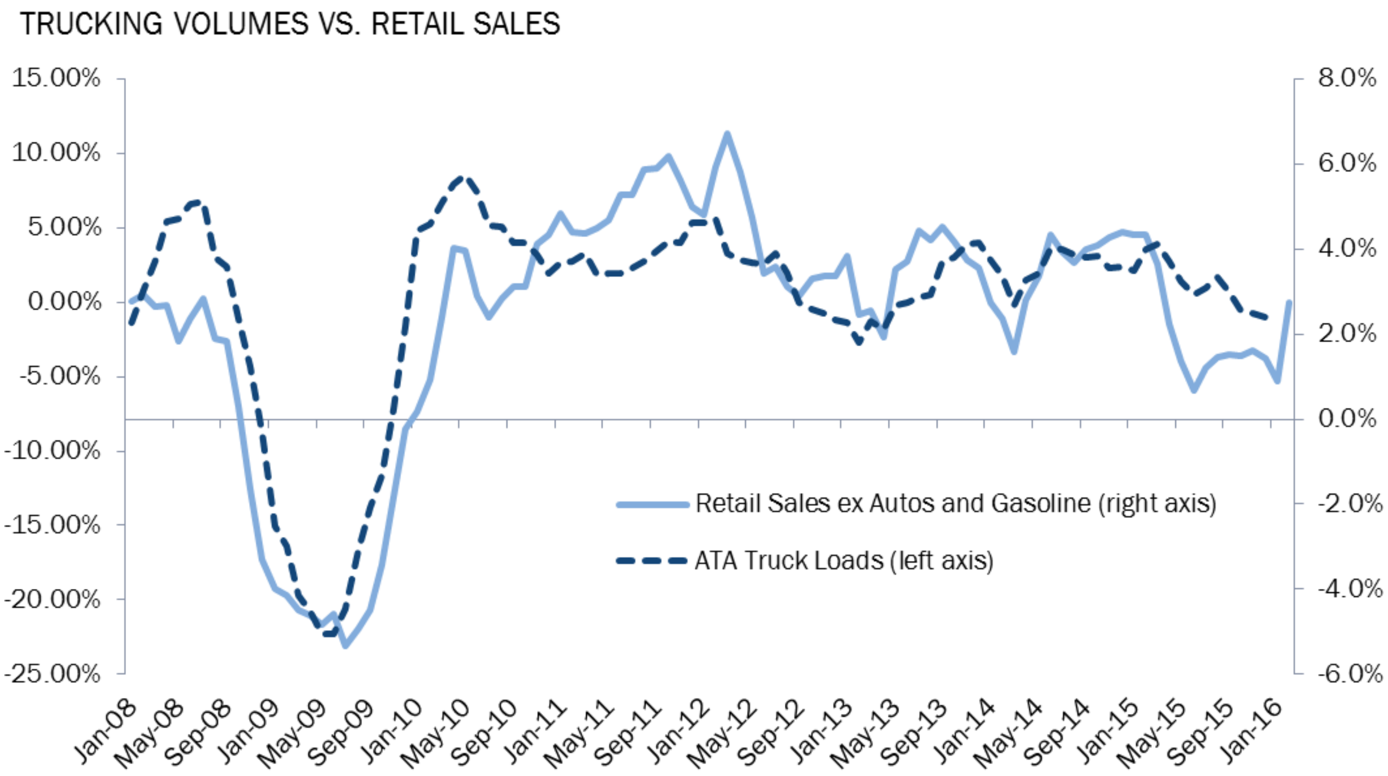
Inventory to Sales Ratio: Wholesalers



Inventory to Sales Ratio: Retailers



Truck Tonnage Poised to Continue Growth?



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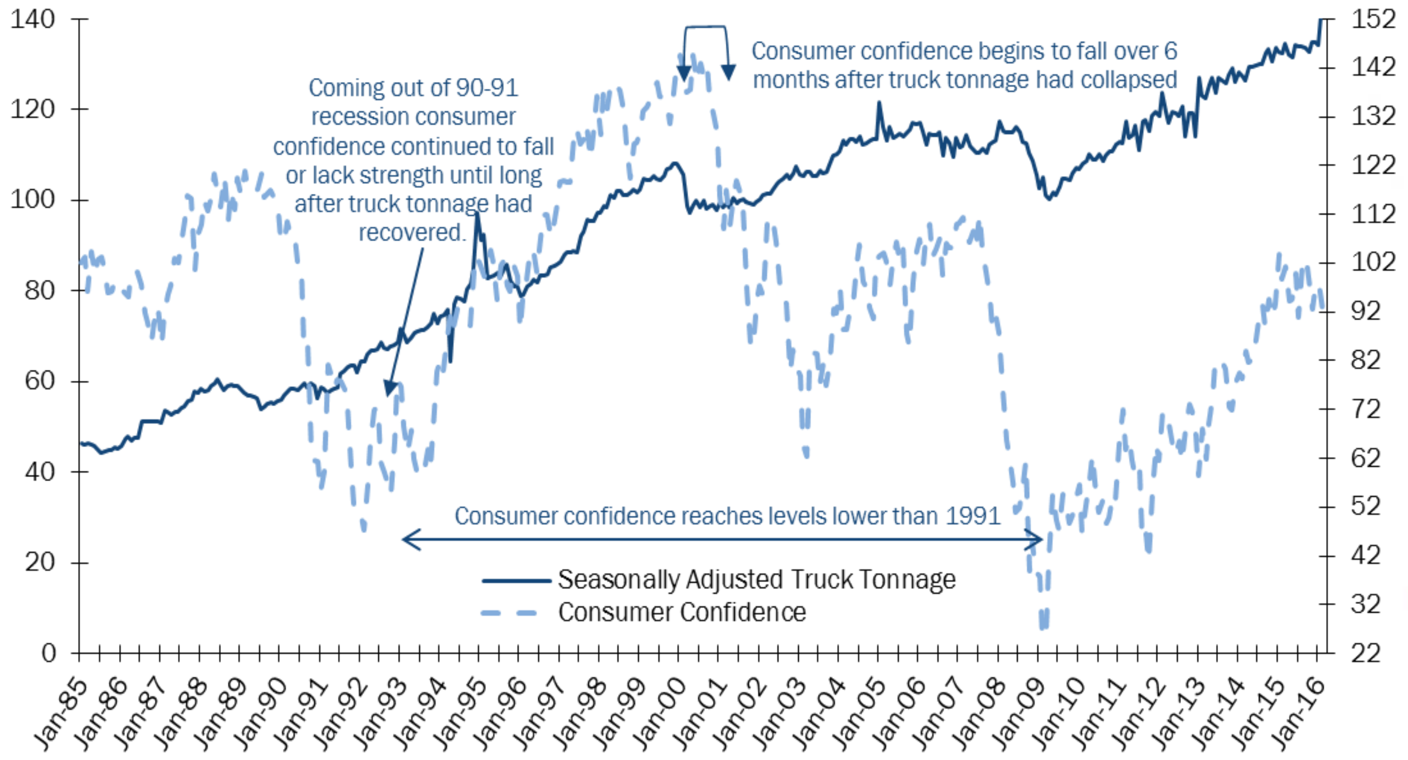

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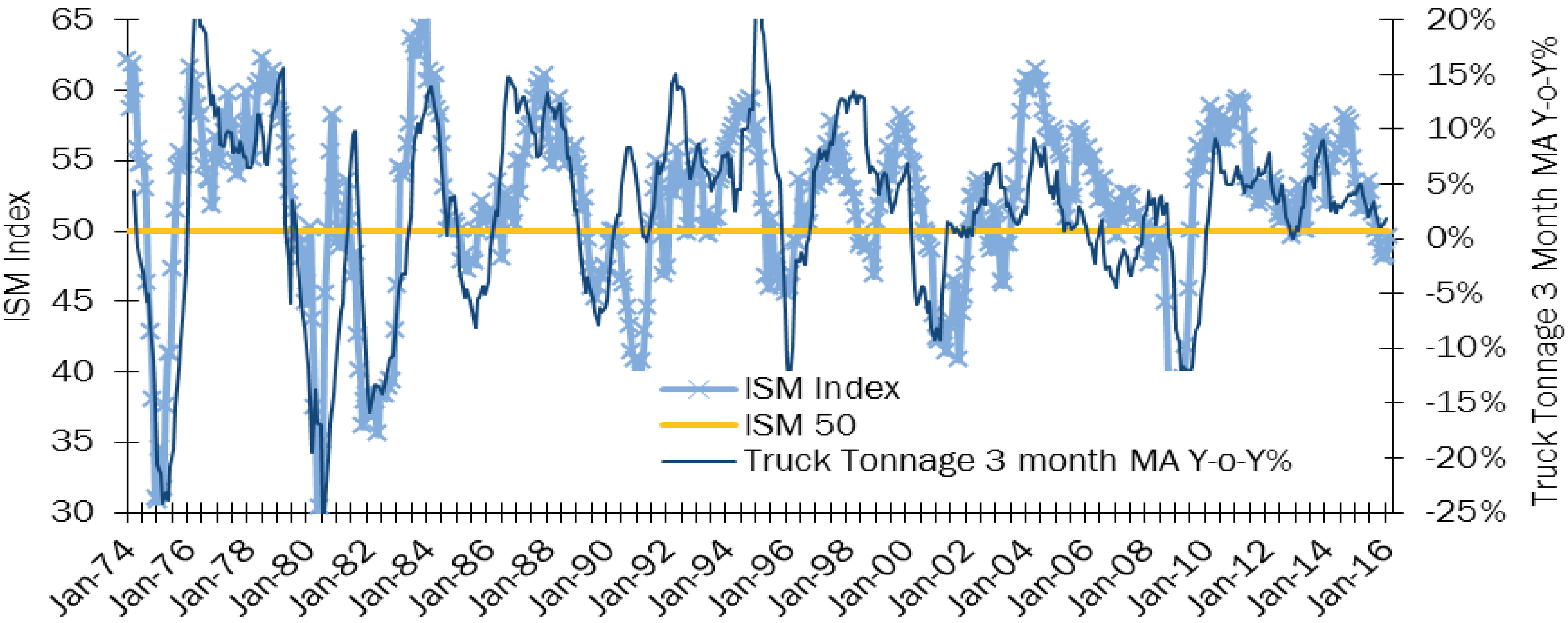
Confidence in Purchasing or Supply Chain Managers is a Reflection of Purchase Order Activity

ISM INDEX VS. TRUCK TONNAGE INDEX 3MMA YoY%



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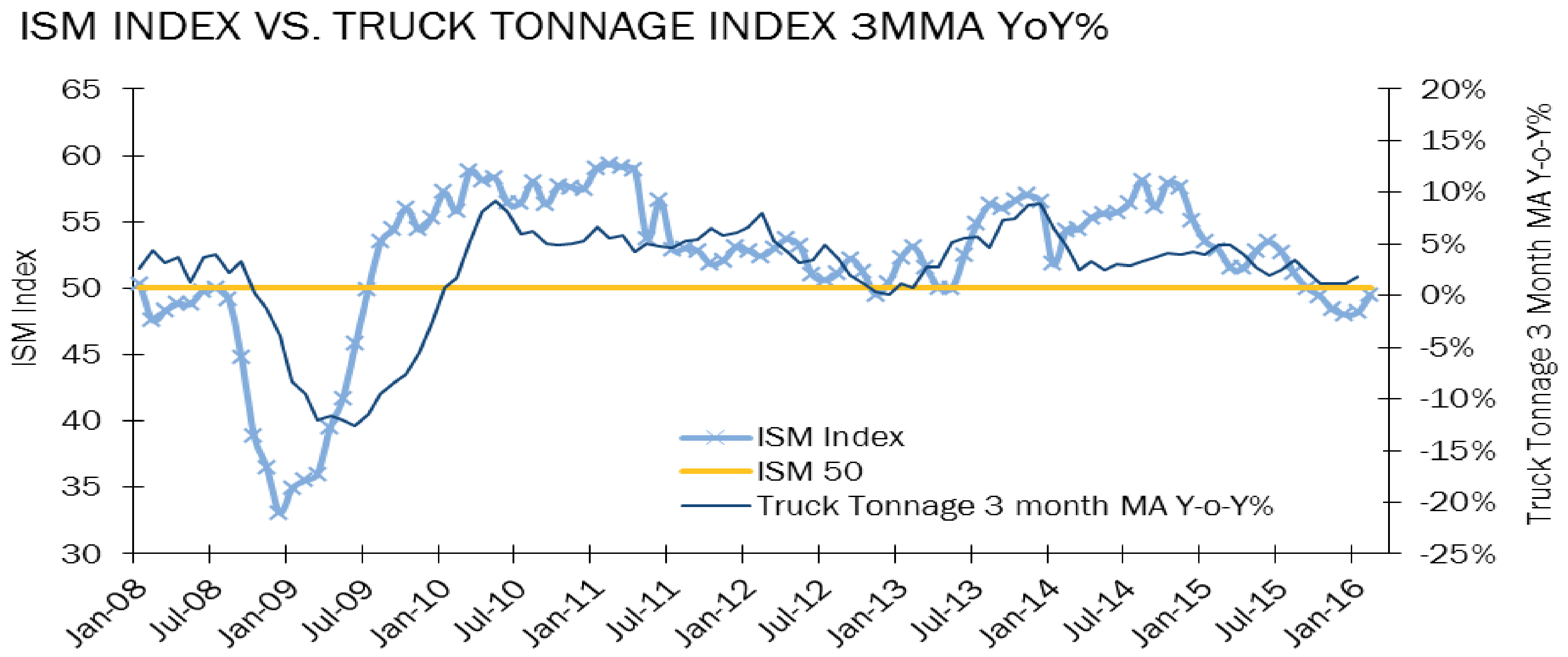
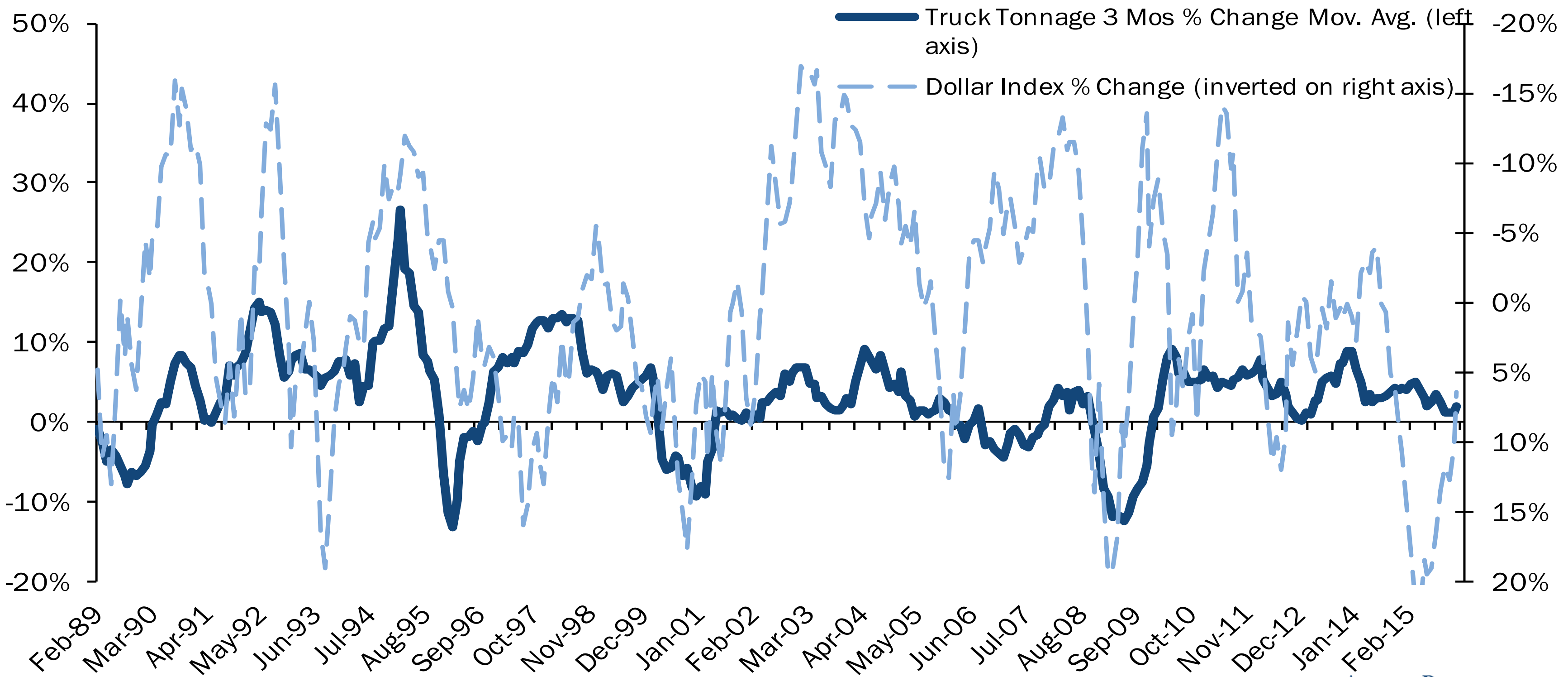
Greatest Degree of Predictive Value is Next 6 to 8 Weeks



Inversely Correlated?

ARE CURRENCY VALUATION AND FREIGHT FLOWS RELATED?



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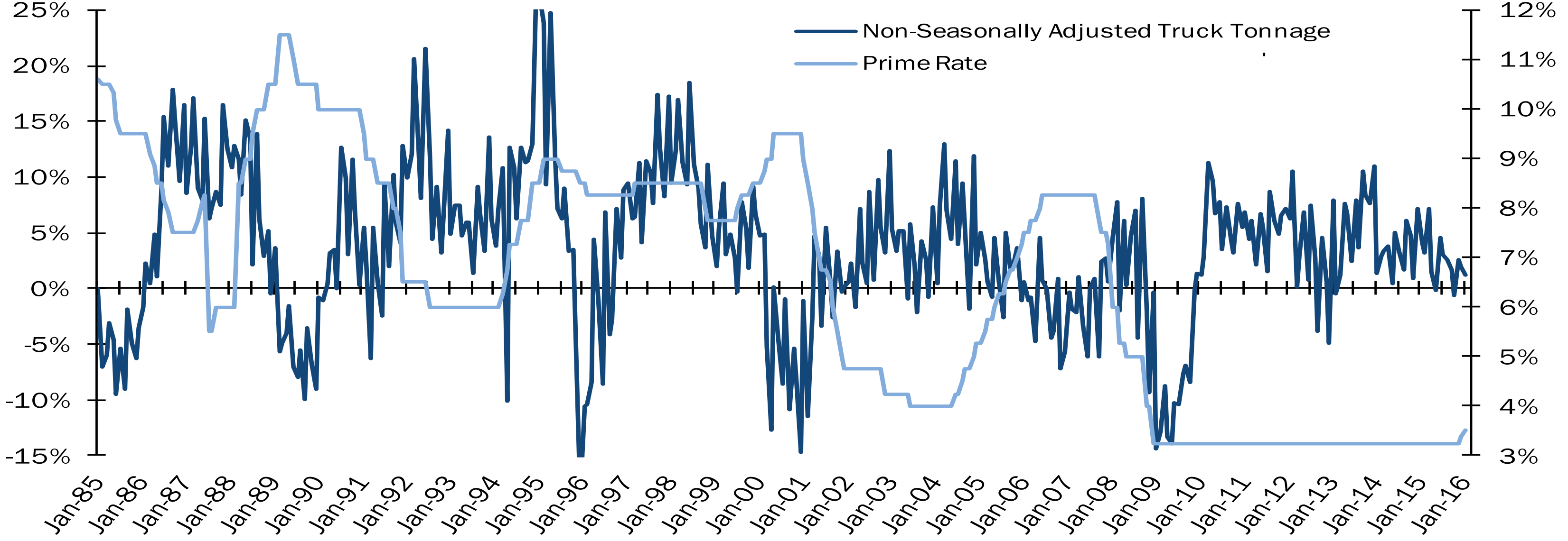
Those Who Make Tangible Goods are Capital Intensive

DO CHANGES IN INTEREST RATES CREATE CHANGES IN TRUCK TONNAGE?

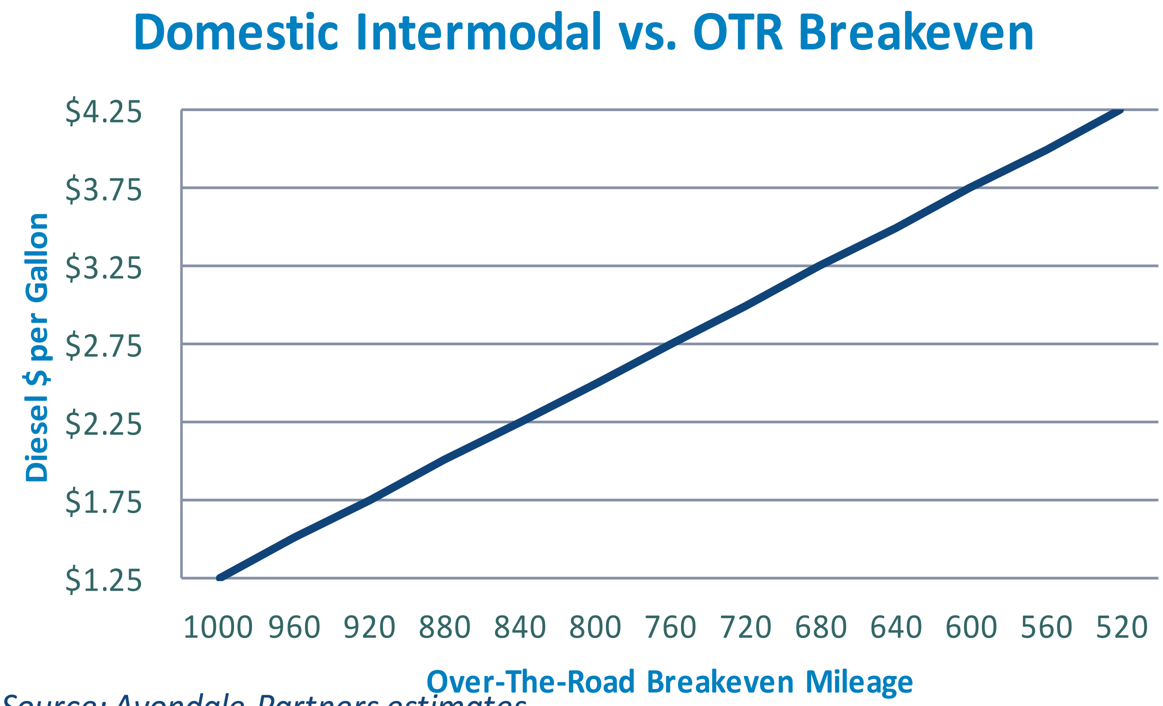


Source:: ATA, FactSet and Avondale Partners

Number of Long-Haul Truckloads > 1,000 Miles

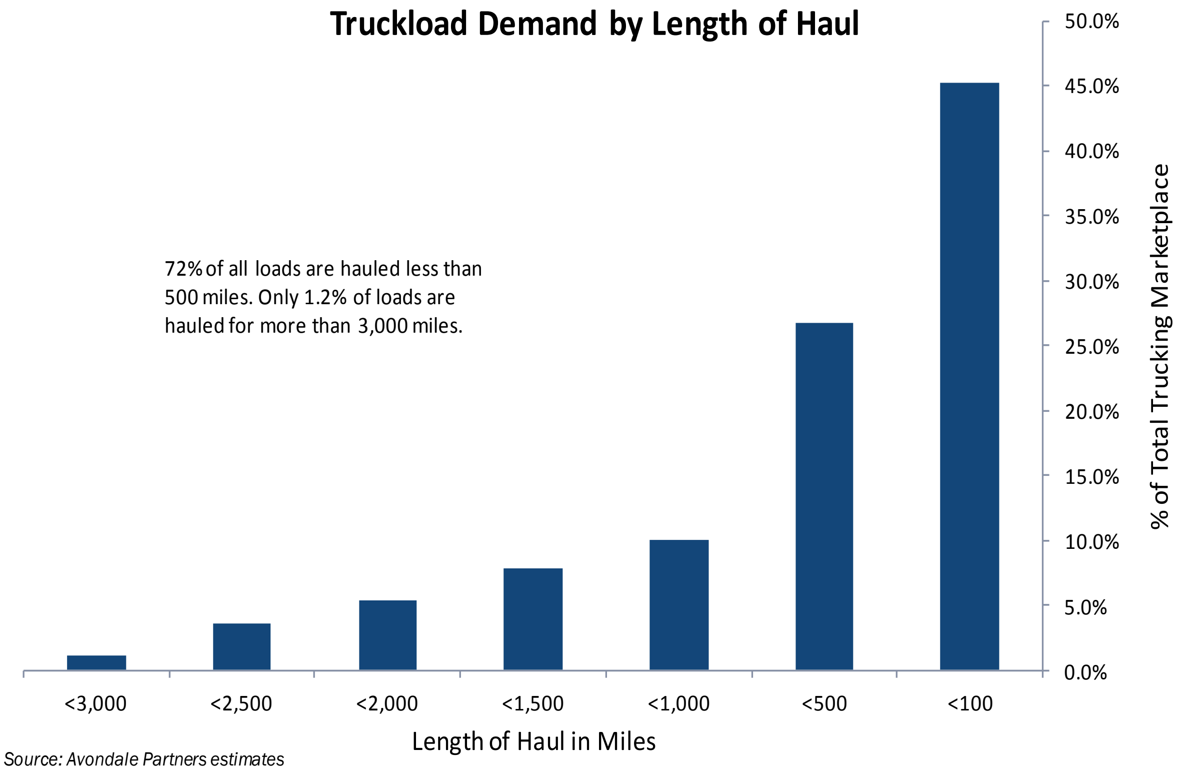
Since the peak of the cycle in 1999 long-haul has trended down

Trucks Looking Better than Intermodal



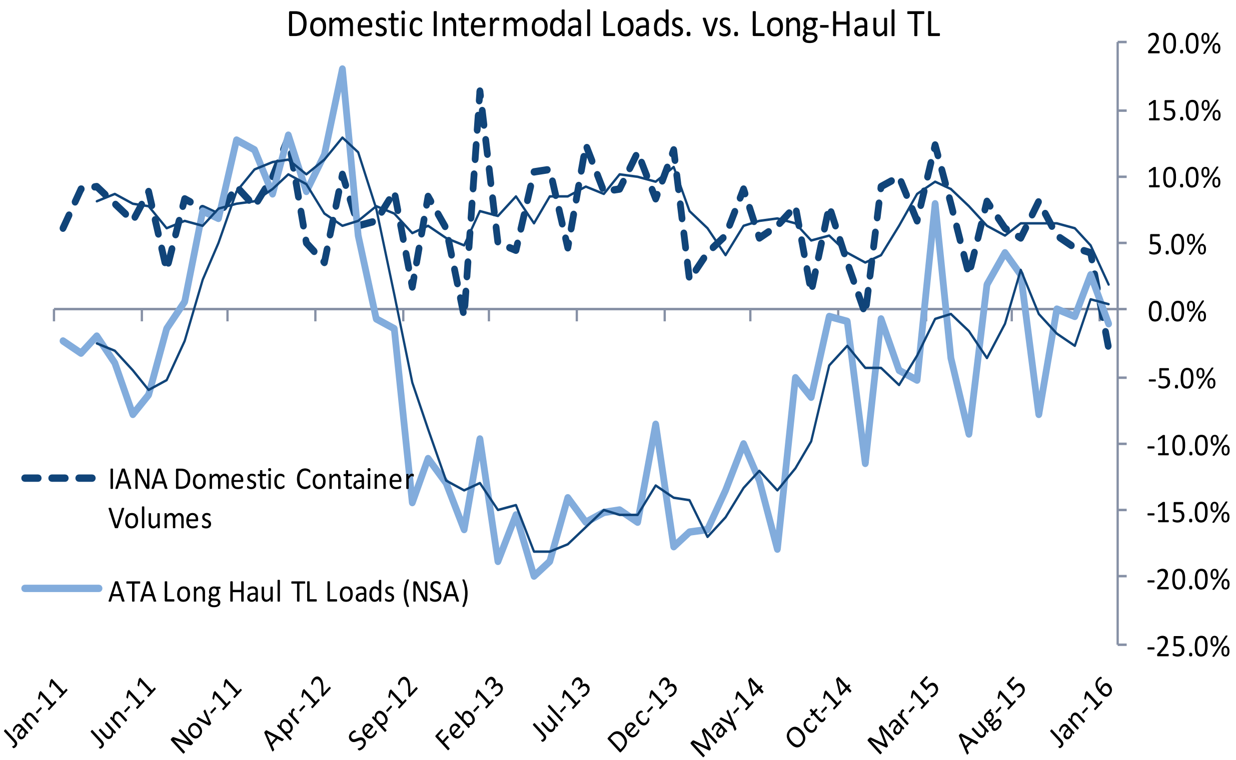
Source: Avondale Partners estimates

Trucks Looking Better than Intermodal



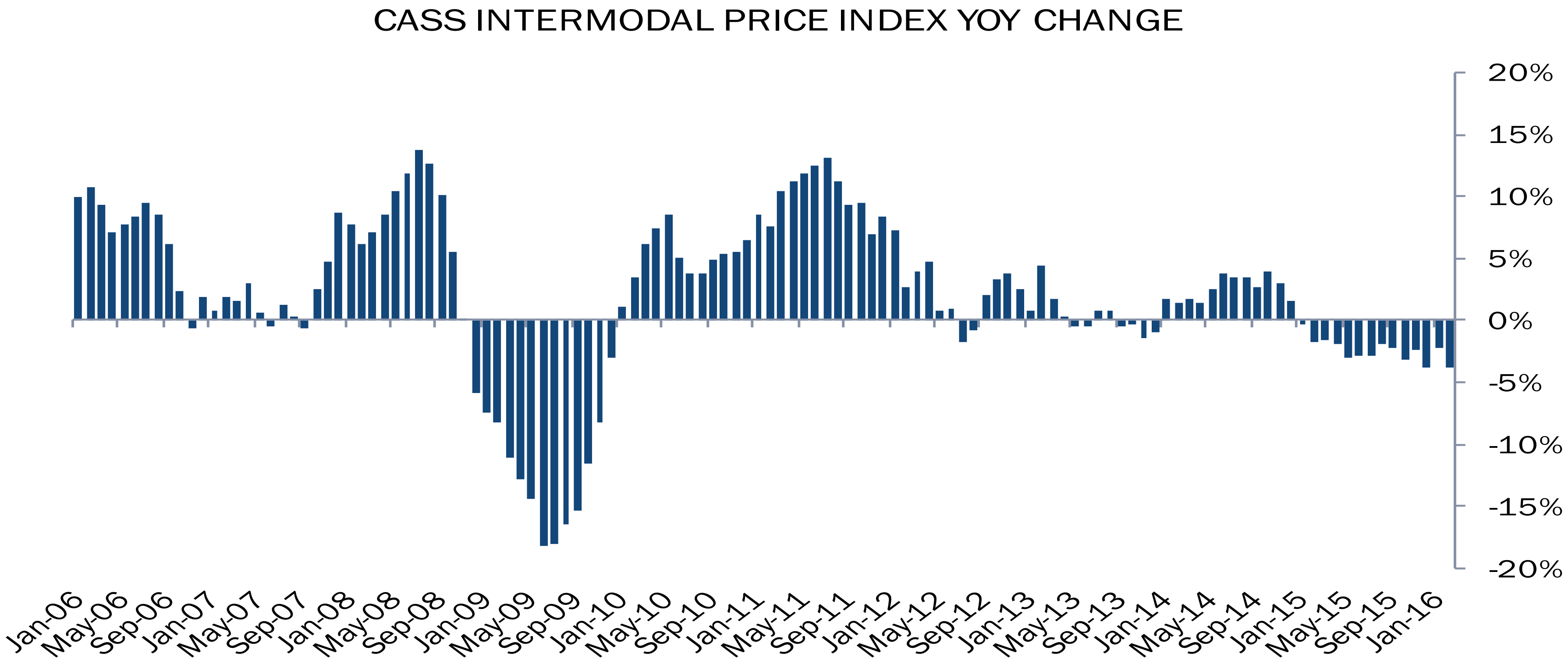
Source: Avondale Partners estimates

Trucks Looking Better than Intermodal



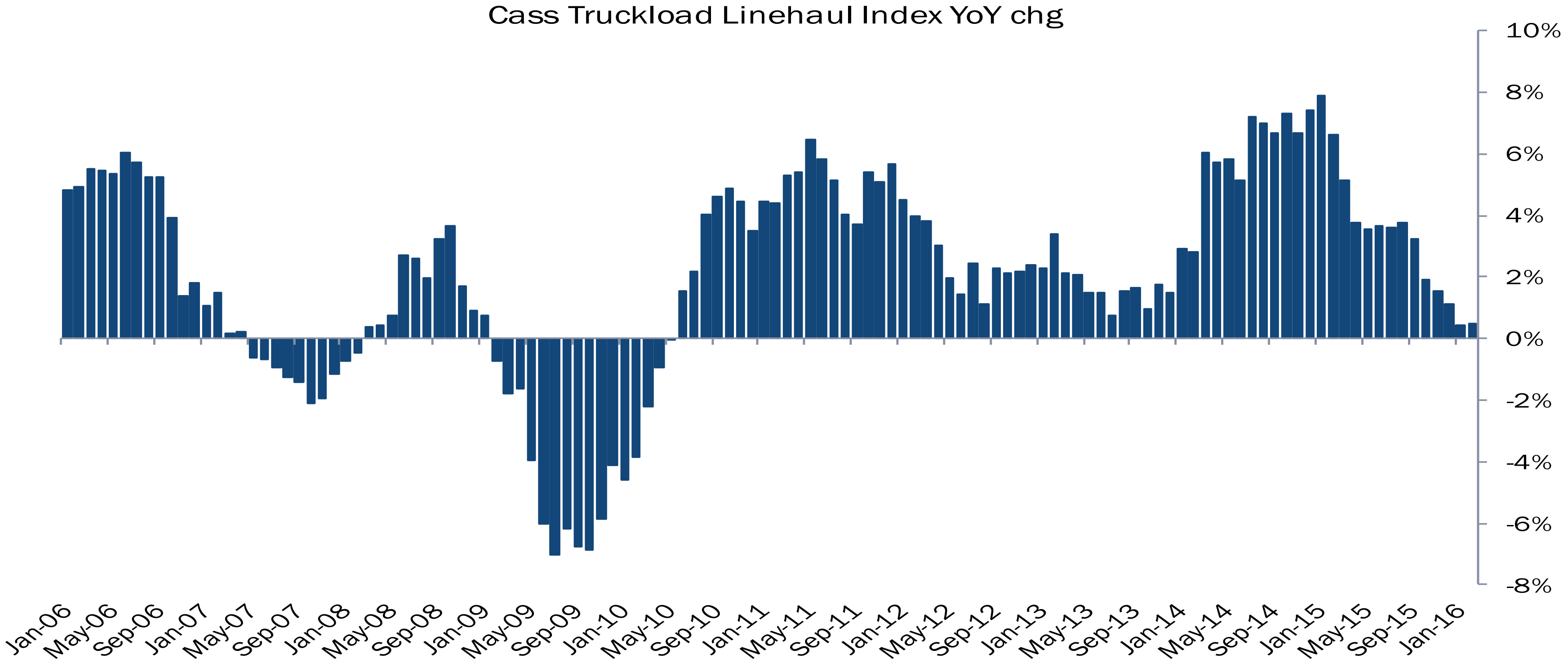
Cass Pricing Index

Intermodal Index



Cass Pricing Index

Truckload Index



Railroads Have a Few Issues...

Railroads Have a Few Issues…

- Fall off in price of crude creating drop in new fracking activity
- Cheap natural gas driving down coal volumes even more
- Cheap diesel driving Intermodal loads off rail back onto highway, especially in shorter lengths of haul
- Strong dollar valuation is driving down exports; will reverse 'on-shoring' trend
- Lower fuel surcharge revenue reduces yield and may pinch margins
- System congestion was plaguing most rail networks

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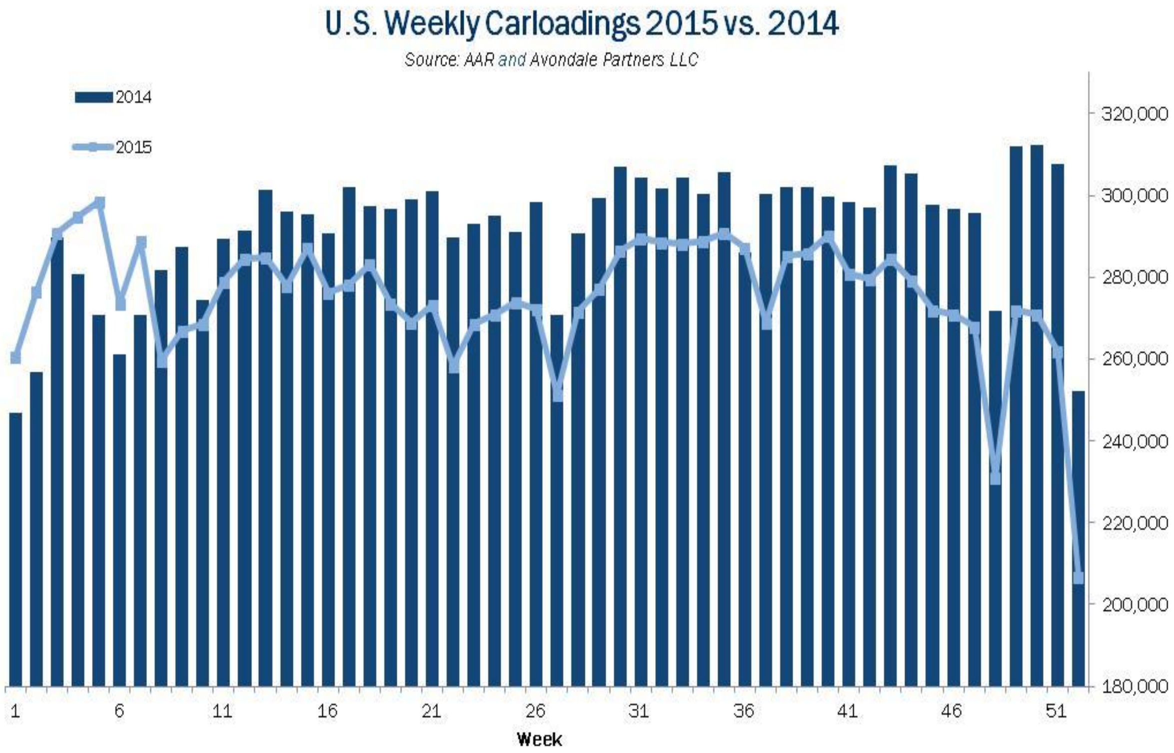

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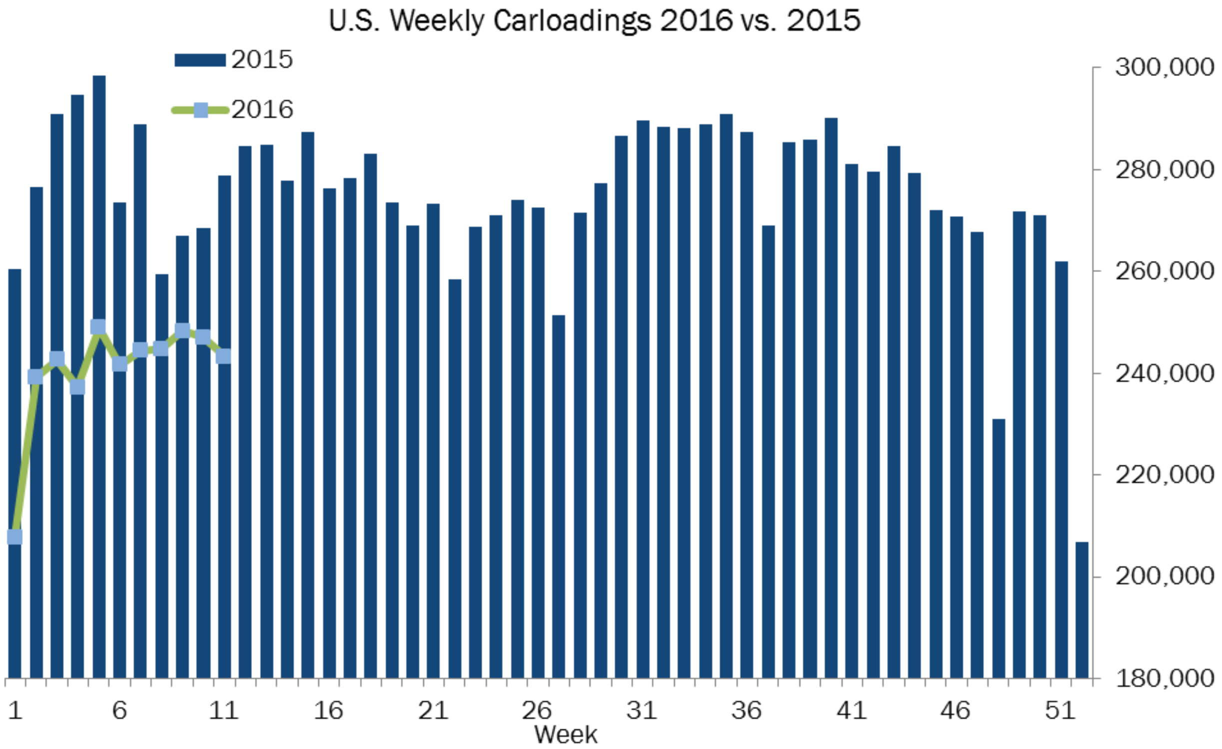

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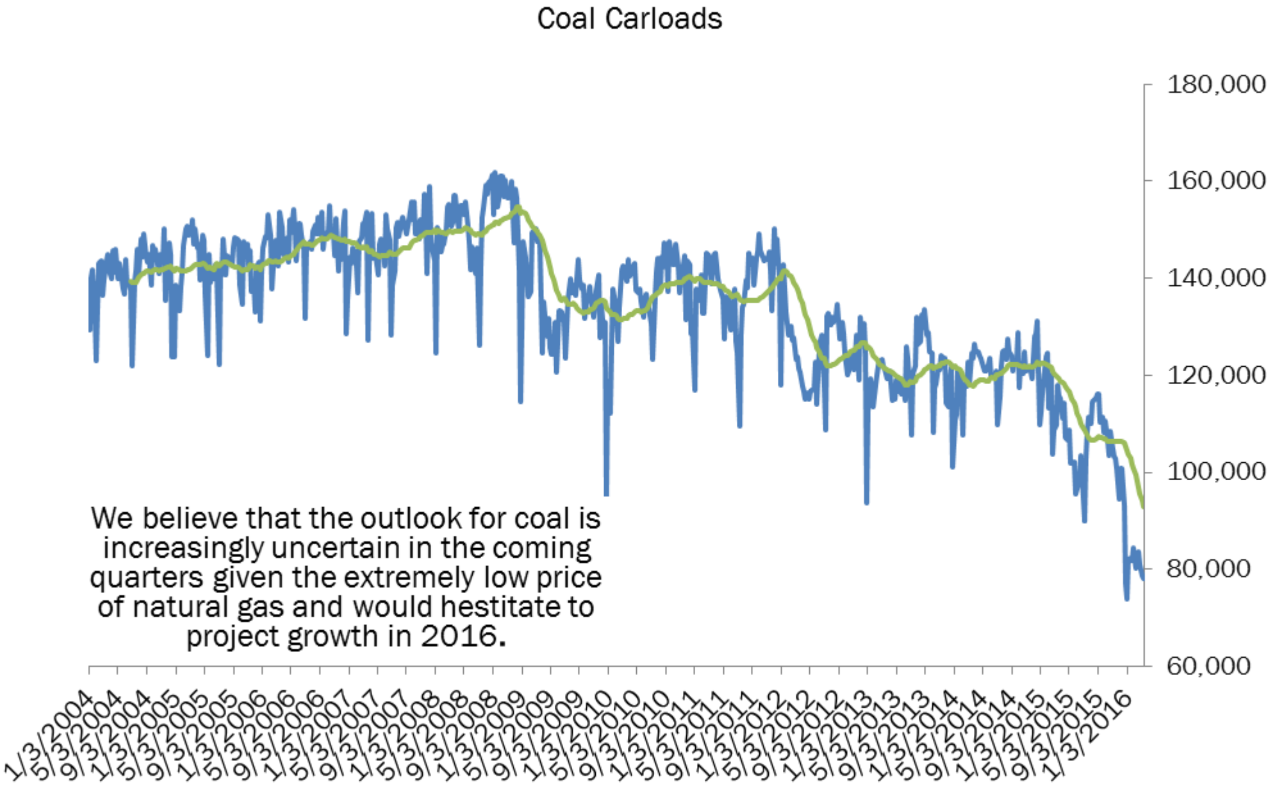

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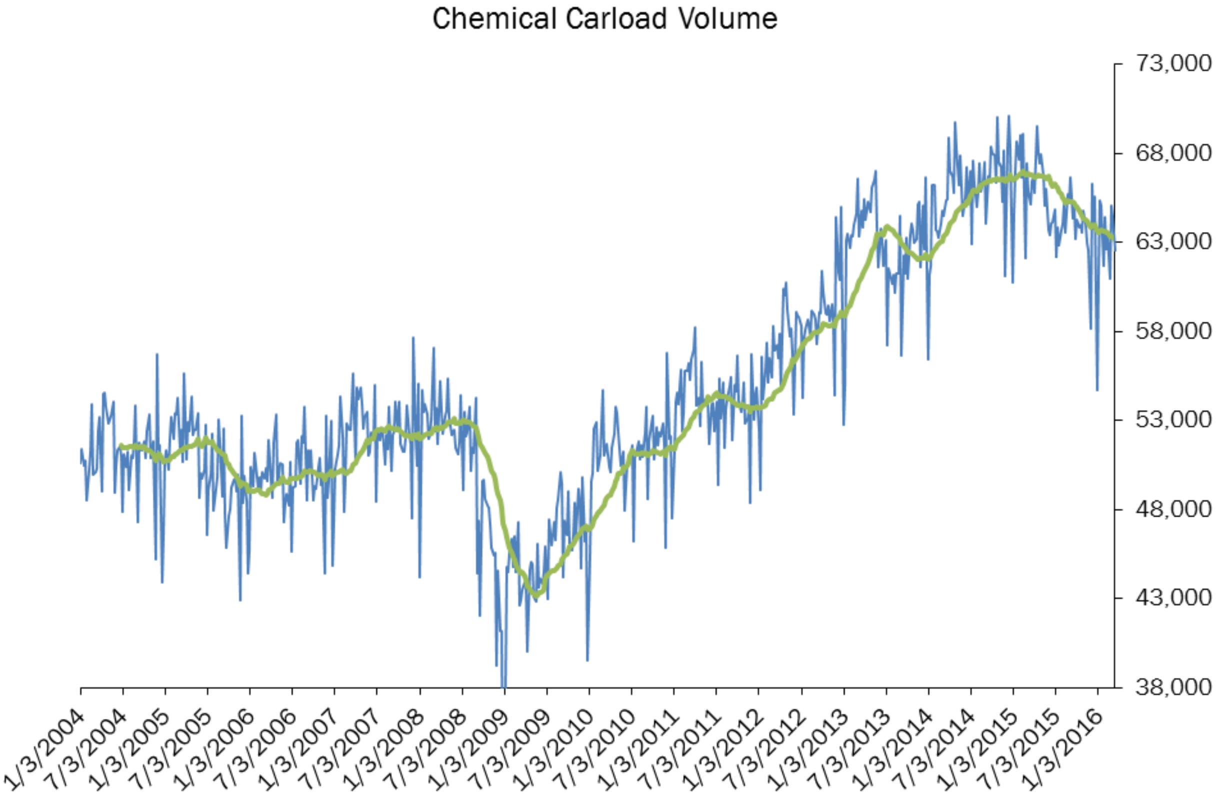

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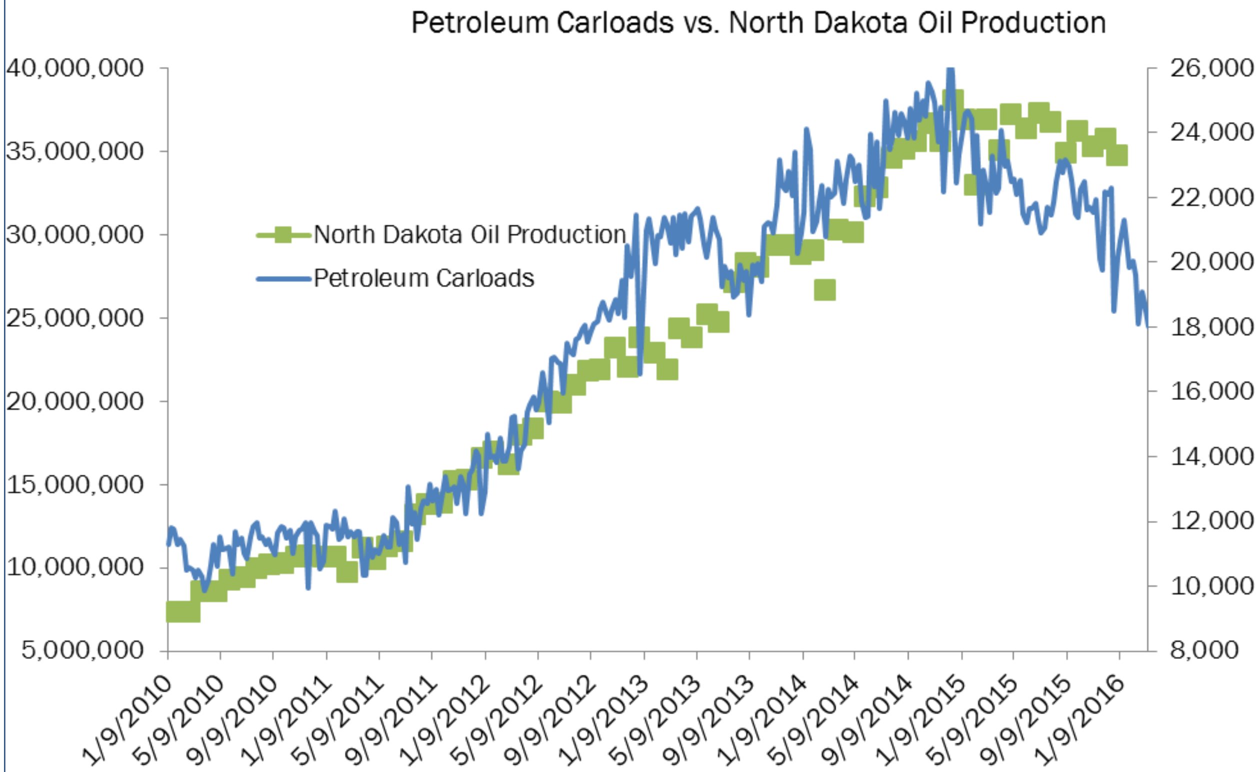

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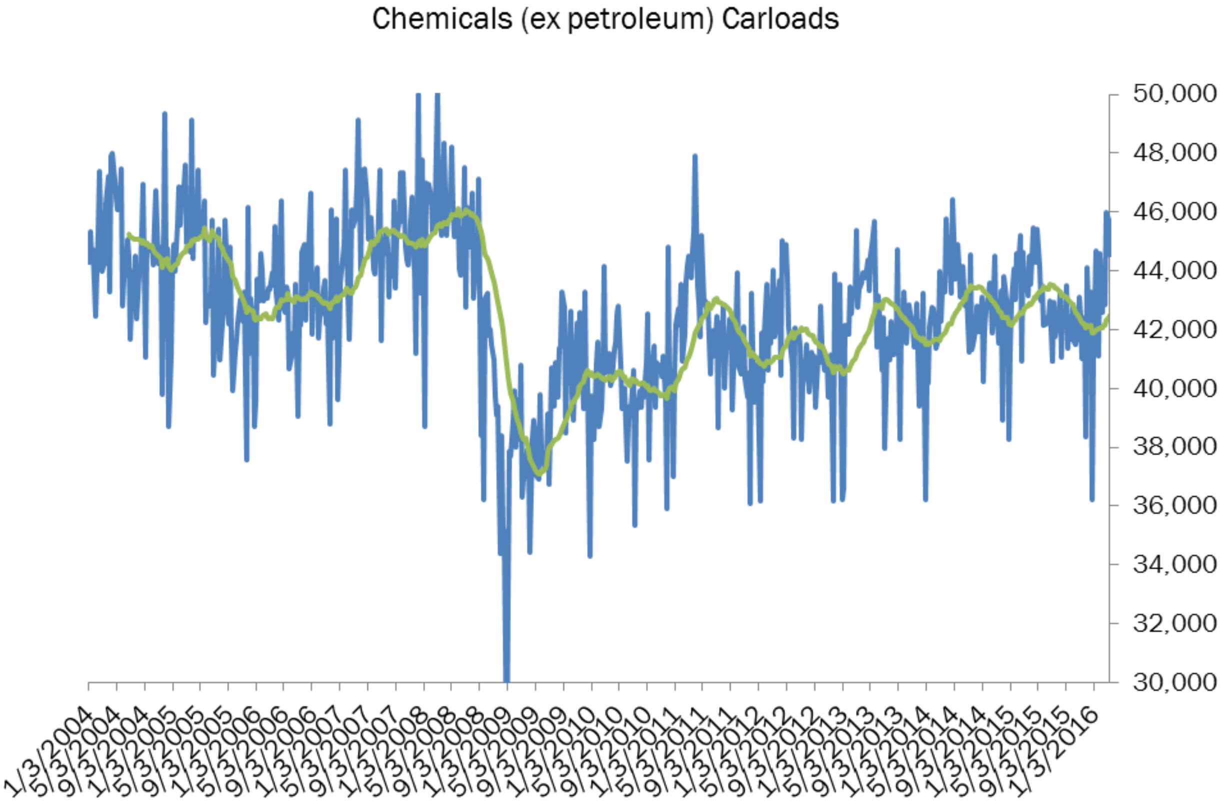

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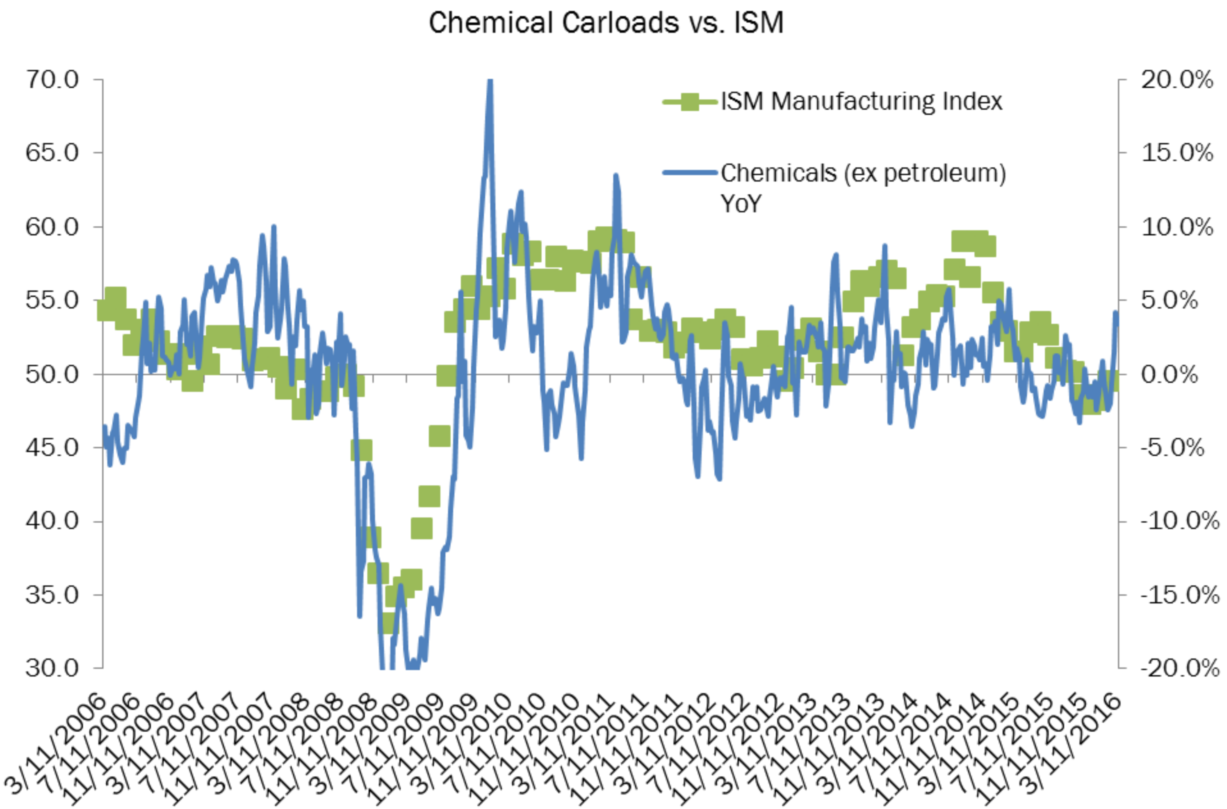

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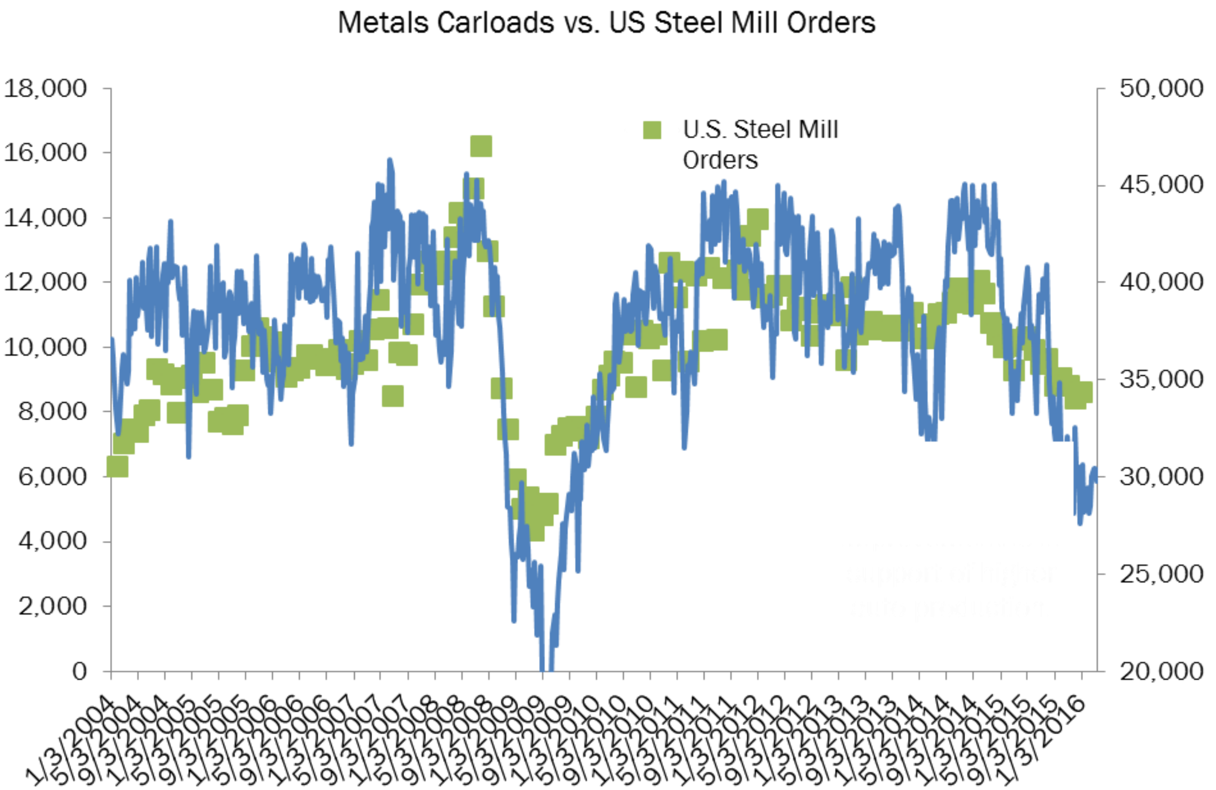

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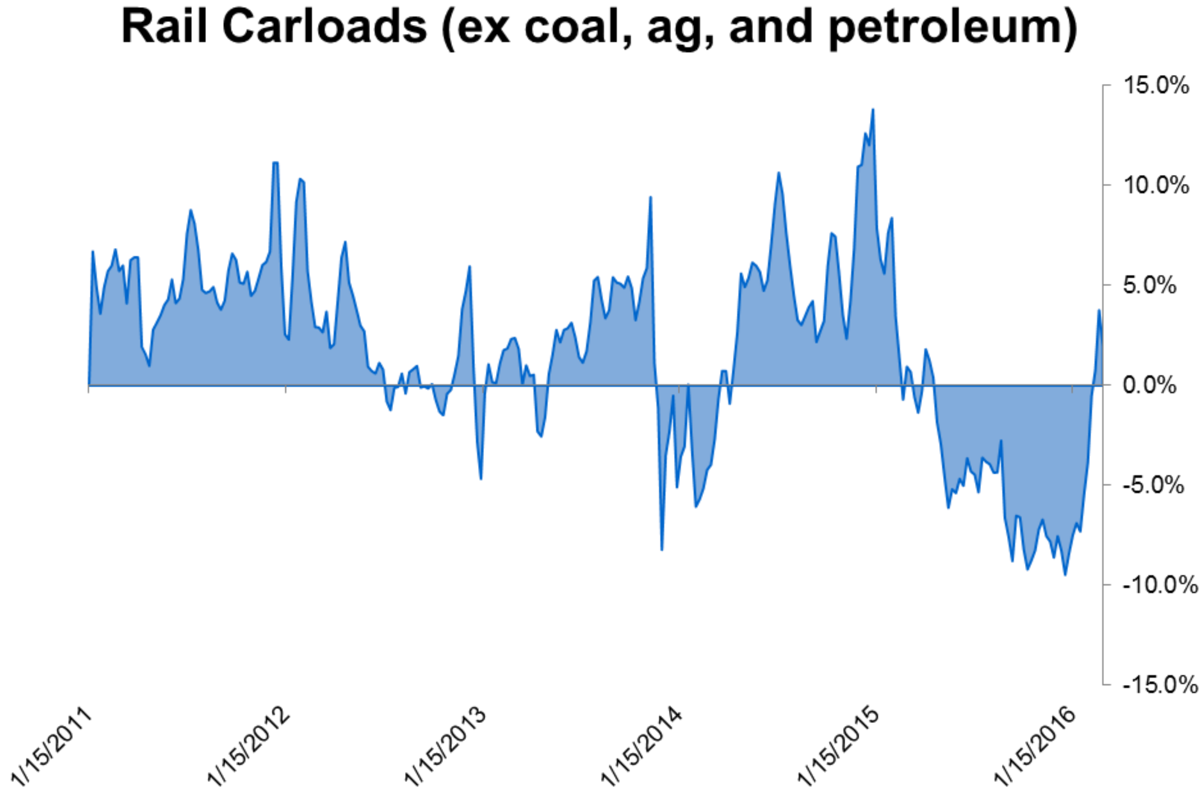

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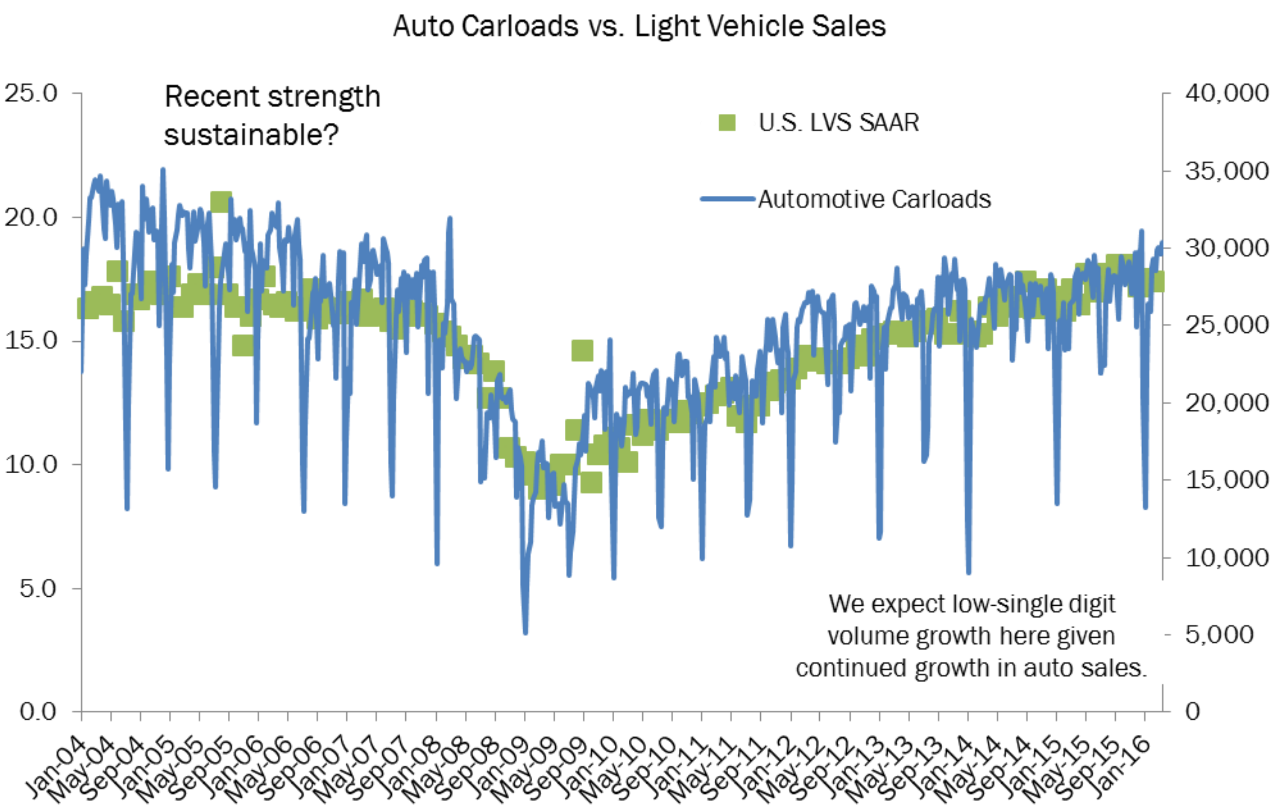

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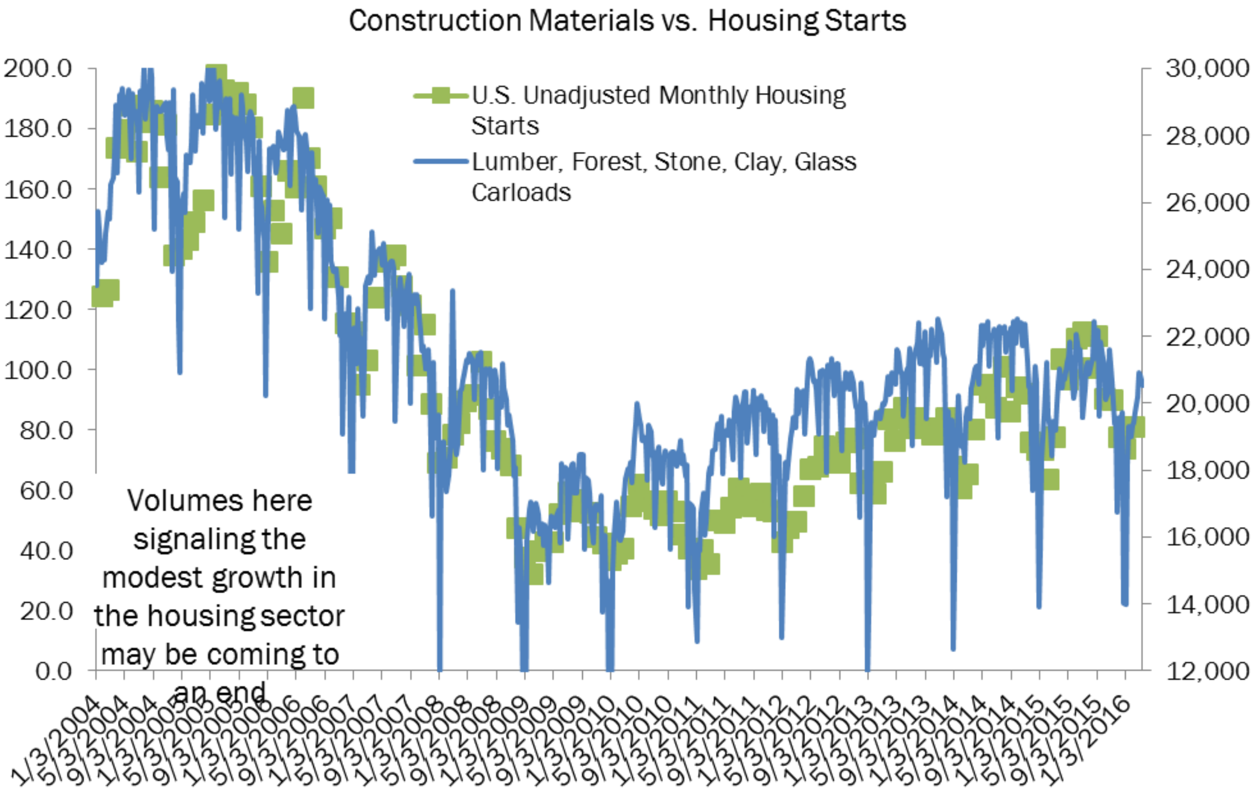

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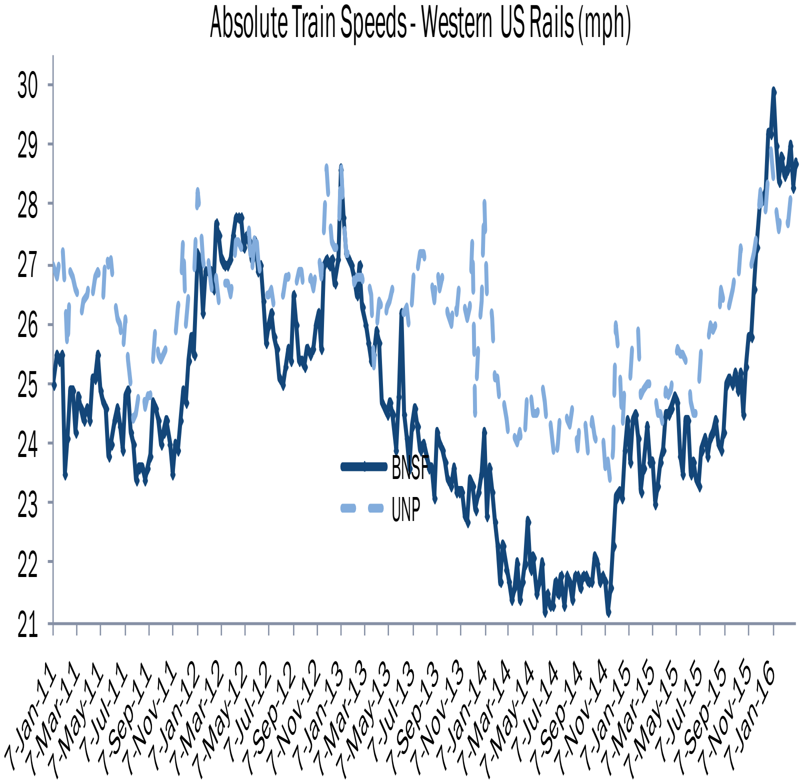
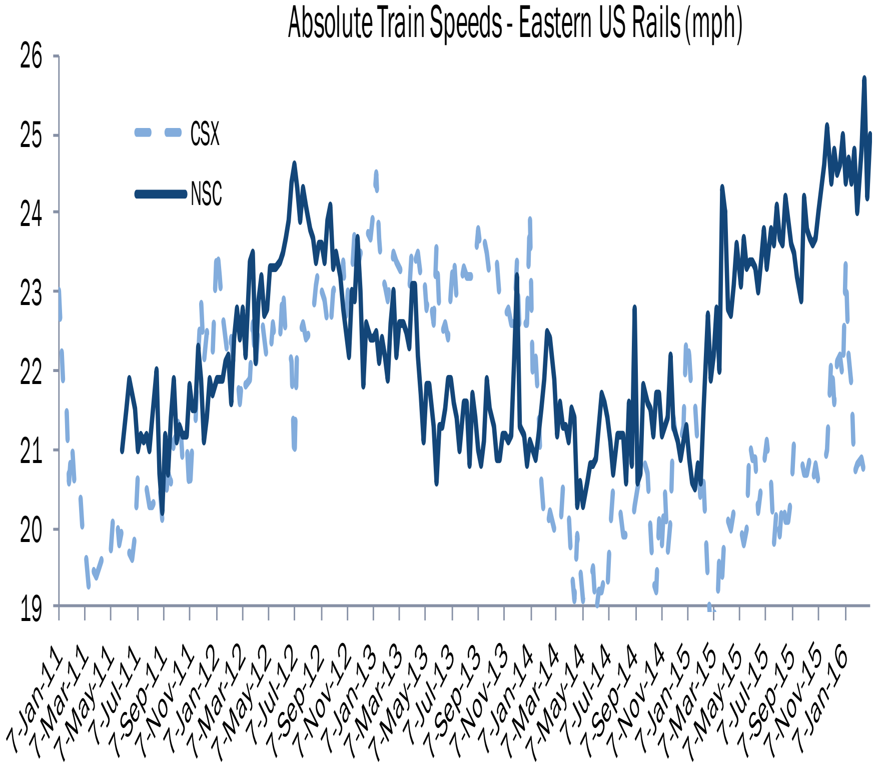
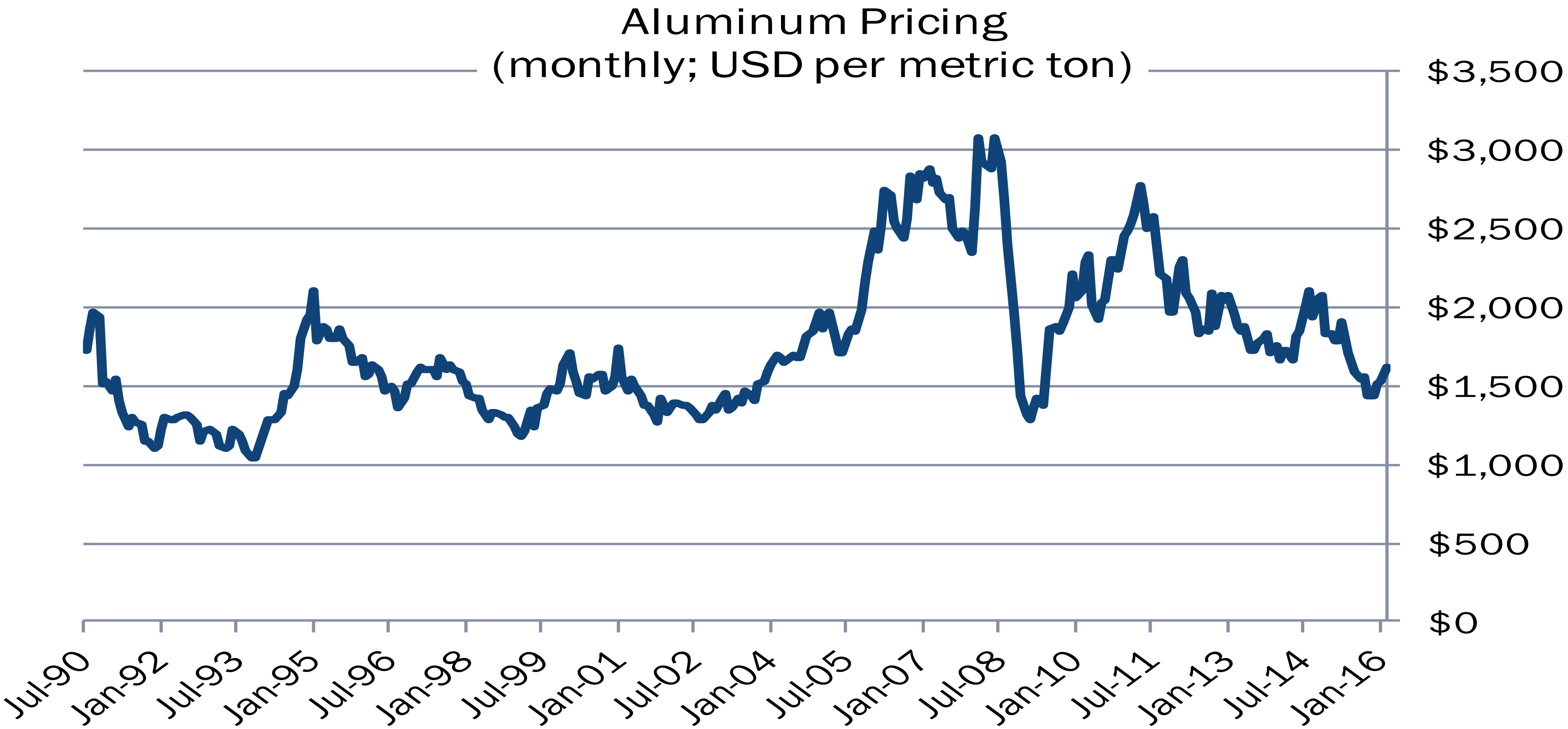




Other Indicators…



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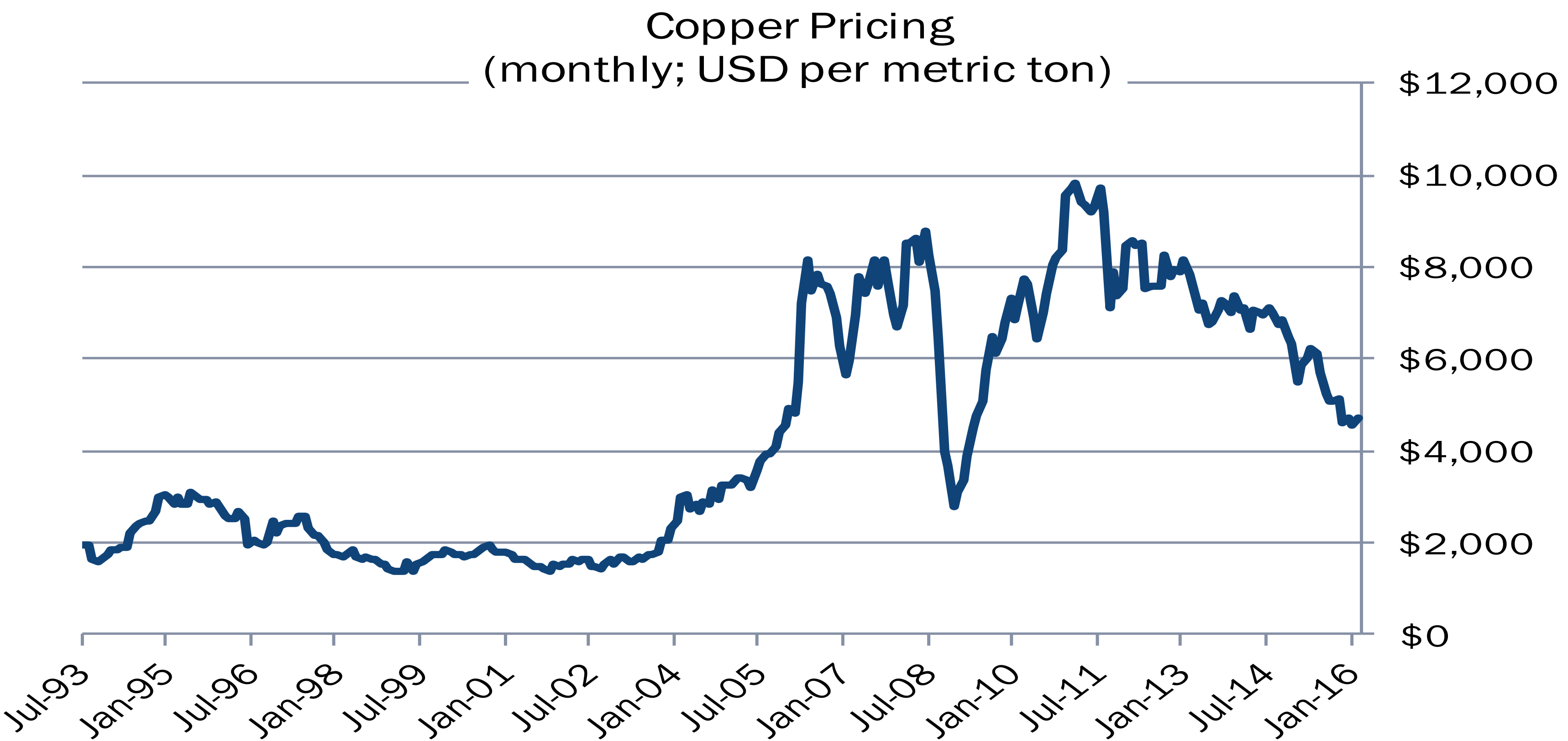

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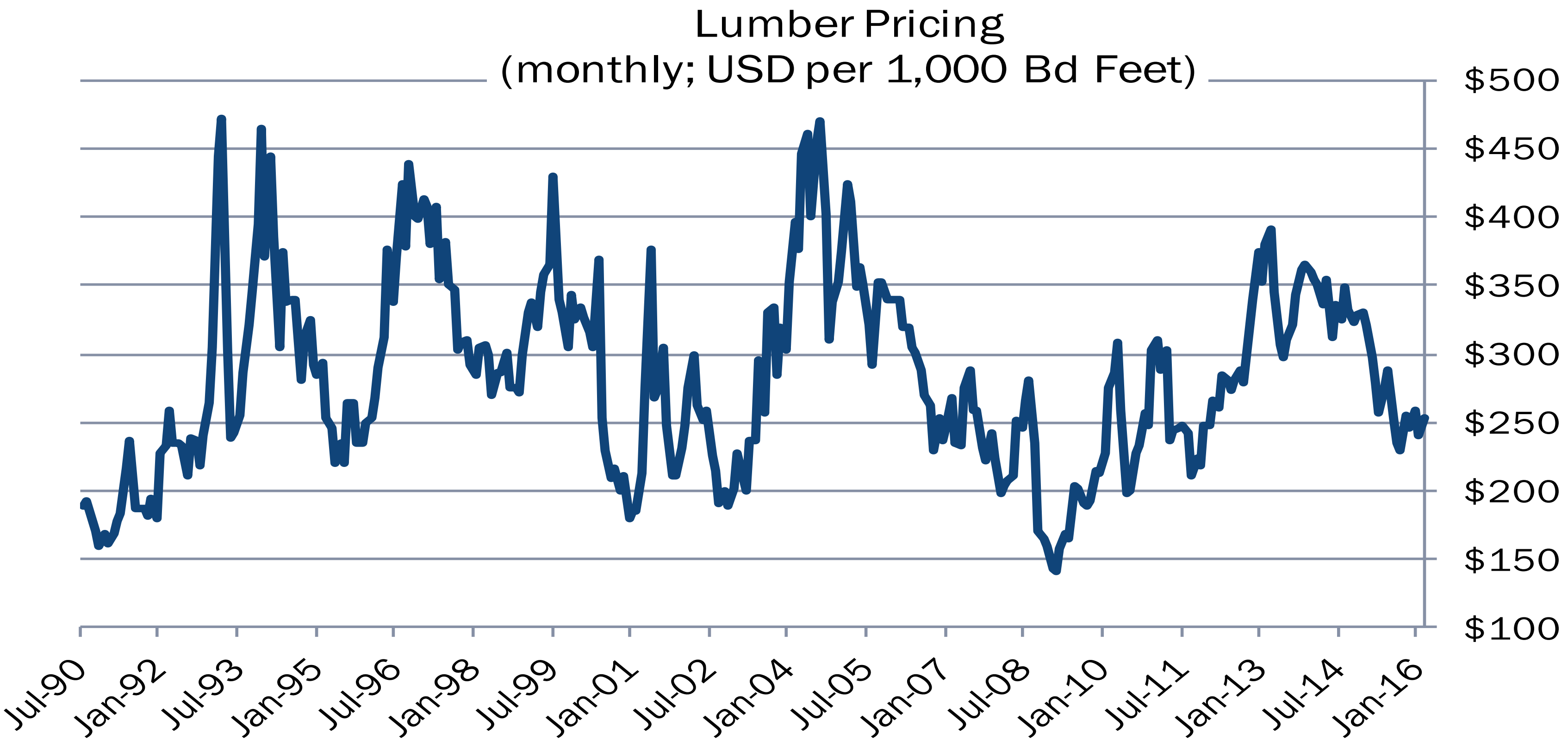

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In Tonnage We Trust

- Truck tonnage showing some growth, capacity was tight. At intermodal's expense?
- Recent rail volumes show deceleration across almost all commodity groups.
- Intermodal: Intermodal has decelerated. How much is due to diesel, economy or port situation?
- Overall freight volumes contracting, and contracting at a faster pace.

Predictions for 2016-2017

- Driver market stays tough until end of cycle
- TL pricing power of only -1 to 2%
- EOBR's will have a big impact on capacity and an even bigger impact on equipment visibility
- Railroad glory days take a pause, stumble and fall
- Cheaper diesel moves loads off-rail onto-road, increasing truckload demand
- Consolidation in transportation poised to dramatically increase
- Fracking and natural gas still woefully under-estimated
- Next stage of economic growth has to be consumer driven
- Risk of Recession grows daily
- At least one, maybe both of the front runners not get the nomination (Trump, Clinton)

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March 22, 2016

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A View From Wall Street

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Chief Market Strategist, Managing Director