

The State of the Economy for Surface Transportation

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April 14, 2010

The Phoenix—this was a deep freight recession



2007 – Freight recession for trucking begins, signaling the start of a recession

2008 – Economic recession declared to have begun in December 2007

2009 – Weakest economy since great depression, coupled with an intense price war (trucking)

- More trucking employment losses in this recession than in the last two recessions combined**

2010 – Beginning to exit the recession

- Weather in January / February, then finally March came**
- Strong signals from many trucking companies**

- **Analysts believe the Price War may be over**

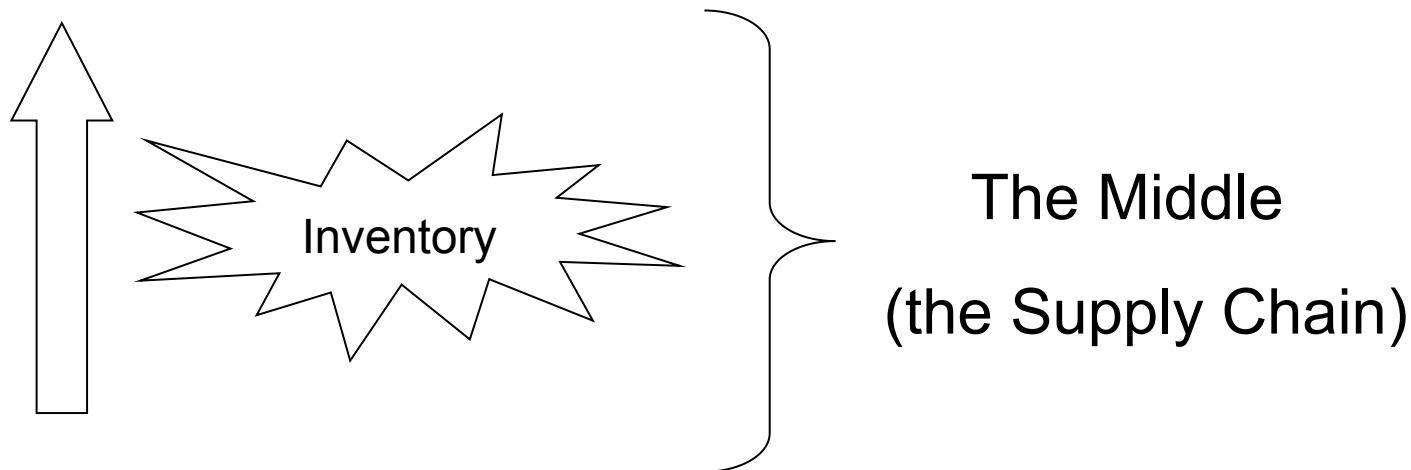
- **Competitors signaled as much with recent earnings releases**
 - This is a departure from their 2009 philosophy

- **The most aggressive pricers are operating at or near capacity**
 - They filled their capacity with freight that will need to be re-priced

- **Analysts believe pricing could be up 3-5% during 2010. This has a direct positive margin impact**

What's Driving the Improvement?

- **The Front-End of the Economy (Consumption)**



- **The Back-End of the Economy (Production)**

Who are they? Consumption

- Retailers
- Homebuilders
- Restaurants
- Airlines

Is their business improving?

- Most surveys or diffusion indexes demonstrate that while they might not be at strong growth, they are wildly better than over the last two years
- In just the last 5 months: (change to index values)
 - Restaurants – up 18%
 - Home builders – up 42%
 - Retailers – up 12%
 - Airlines – up 23%

Who are they?

- **Manufacturing**
- **Chemicals**
- **Technology**

- **Their business is improving too, and by slightly more than the front-end**

- **In just the last 5 months (change to index values)**
 - Manufacturing – up 20%
 - Chemicals – up 20%
 - Technology – up 20%

What does it mean for Surface Transportation?



- Inventories were drawn to record lows during this recession
- Many economists have theorized that an inventory snap back (replenishment) to more normal levels could yield substantial growth (percentage points of GDP)
- Taken holistically, the back-end of the economy is growing about 5 points faster than the front-end
- This implies moderate inventory building
- Consumption and production are probably driving ABOUT a 15% increase in trucking demand since November
- Inventory replenishment may be driving another 5%

- If inventory replenishment takes off, then all bets are off, and it could be a very powerful impact for trucking companies

Questions?