

BB&T Capital Markets

Surface Transportation

Freight Demand & Supply in a Crazy World!

September 2009



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FOR REQUIRED DISCLOSURES, INCLUDING ANALYST CERTIFICATION, PLEASE REFER TO THE IMPORTANT DISCLOSURES SECTION AT THE END OF THIS REPORT

Give Yourself Some Credit! And, My, How Times Have Changed!

- A recent study found the average American walks 900 miles/year
- Another found that Americans drink an average of 22 gallons of alcohol a year
- **Conclusion:** Americans get about 41 miles to the gallon!!



"Credit is so loose today that I can buy the groceries I need on a credit card, eat the food tonight, discard the food by tomorrow at noon and finance my debt on a 30-year, amortized loan. How stupid is that? But people do it all the time - and then they wonder why they're in foreclosure."
Mortgage Broker quoted in Denver Post, March 30, 2005



Source: www.funnyhub.com/jokes

A Maze of Factors to Assess



✓ Updated Housing Data and Relating That to Freight

- ü Housing starts are bottoming (500K-600K)
- ü Other consumer issues

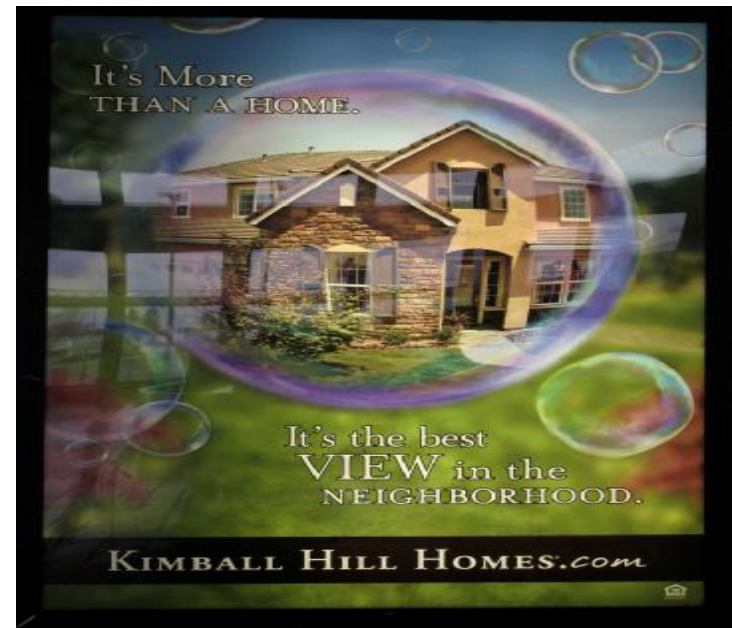
✓ Newer Negatives Like Commercial Real Estate

- ü Key international data points
- ü Global exports

✓ Early Thoughts on the Recovery

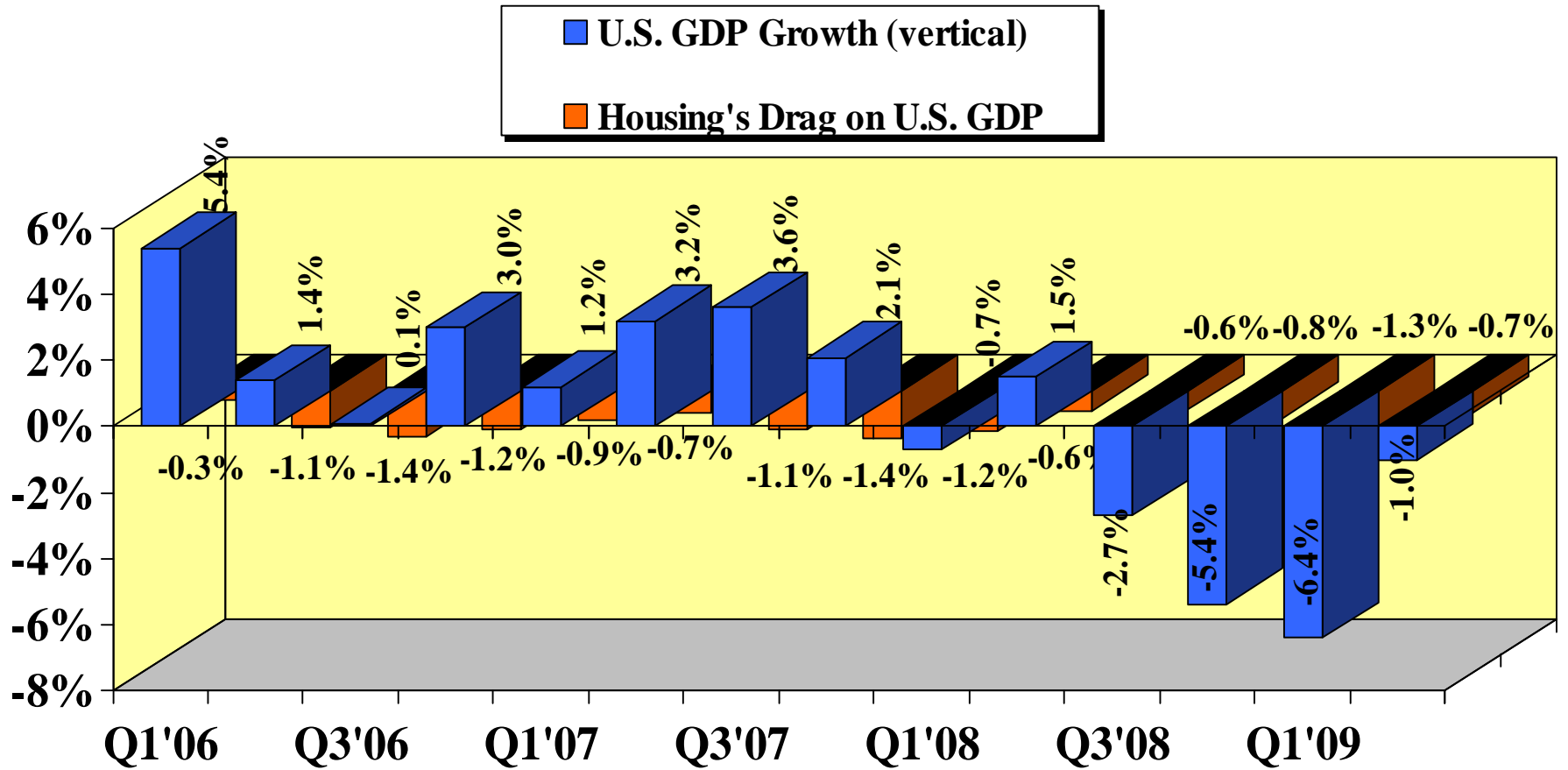
- ü Yes, Virginia, there will be a recovery!
- ü Changing transportation market
- ü The impact from de-leveraging

✓ Supply/Capacity Update



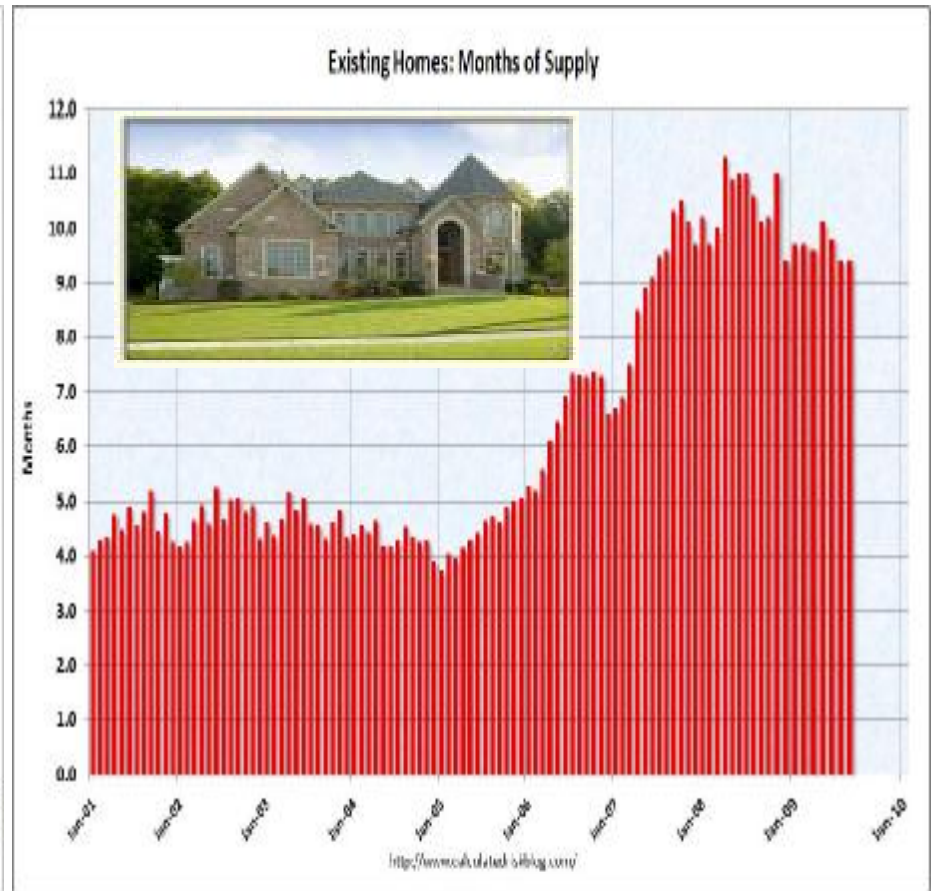
Sources: *Kimball Hill Homes.com* for graphic; BBTCM for analysis.

Housing's Impact to Economic Growth



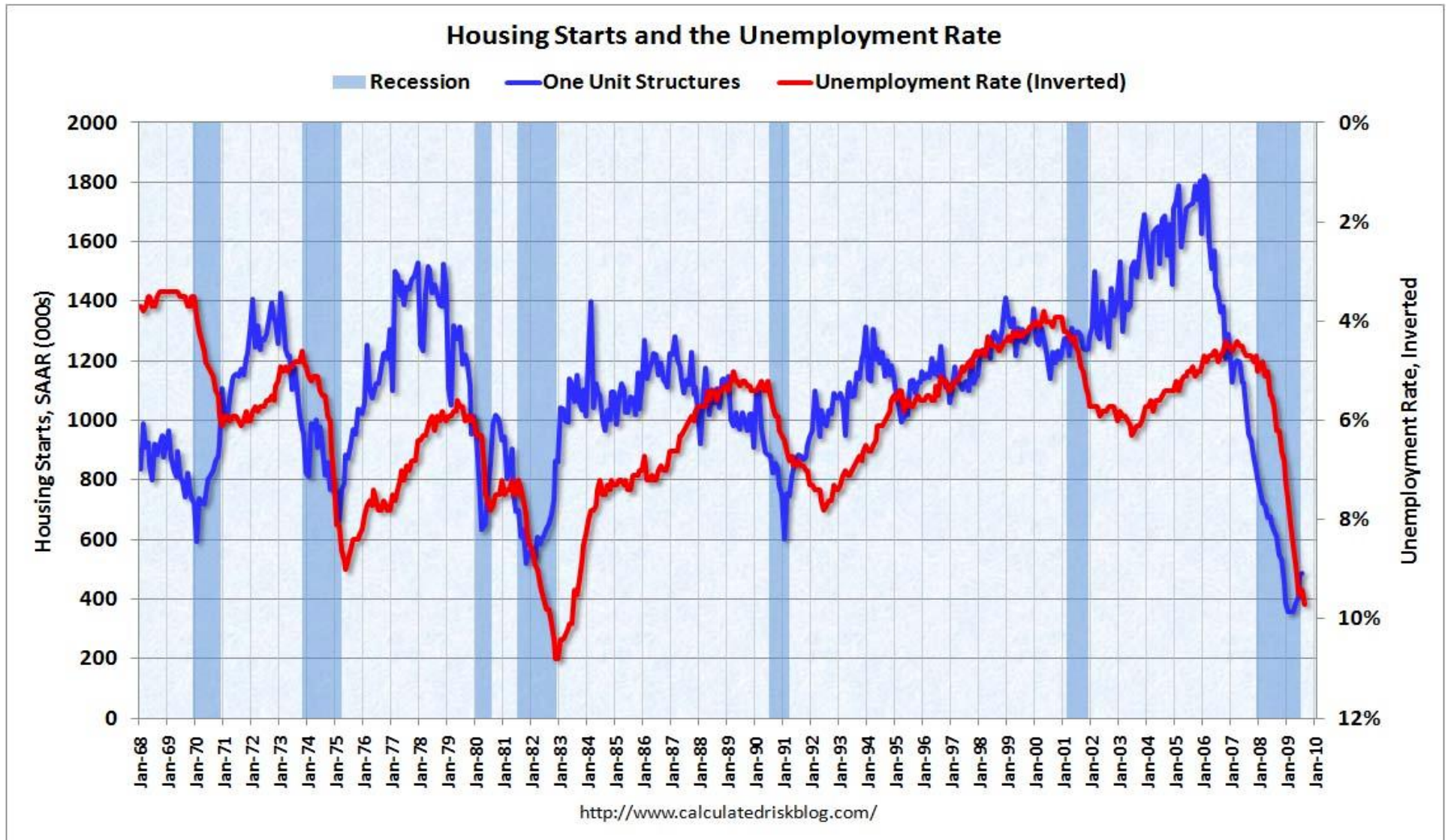
Source: U.S. Bureau of Economic Analysis. The "1% of GDP" figure is annualized.

Freight Creation Will Improve as Home Supply Drops...

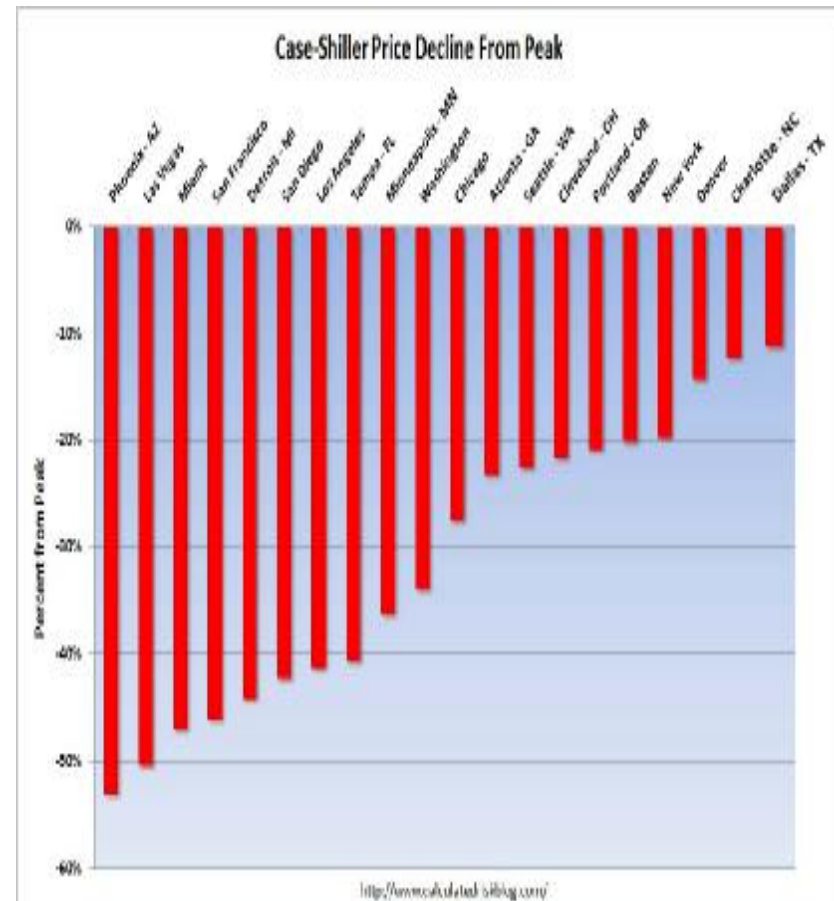


Source: Calculated Risk Blog Financial Analytics. Blue areas are recessions. For new homes July '09 was 7.5 months (peak this cycle was 12.4 in Jan '09); previous all-time high was 11.6 in April 1980. For existing homes 9.4 months of supply exists. The all-time high was 11.5 months during 1982. This is supply of 4.09 million existing homes (all-time record 4.57 in July '08).

...Meaning Housing Starts Can Begin to Recover (They're Bottoming Now)

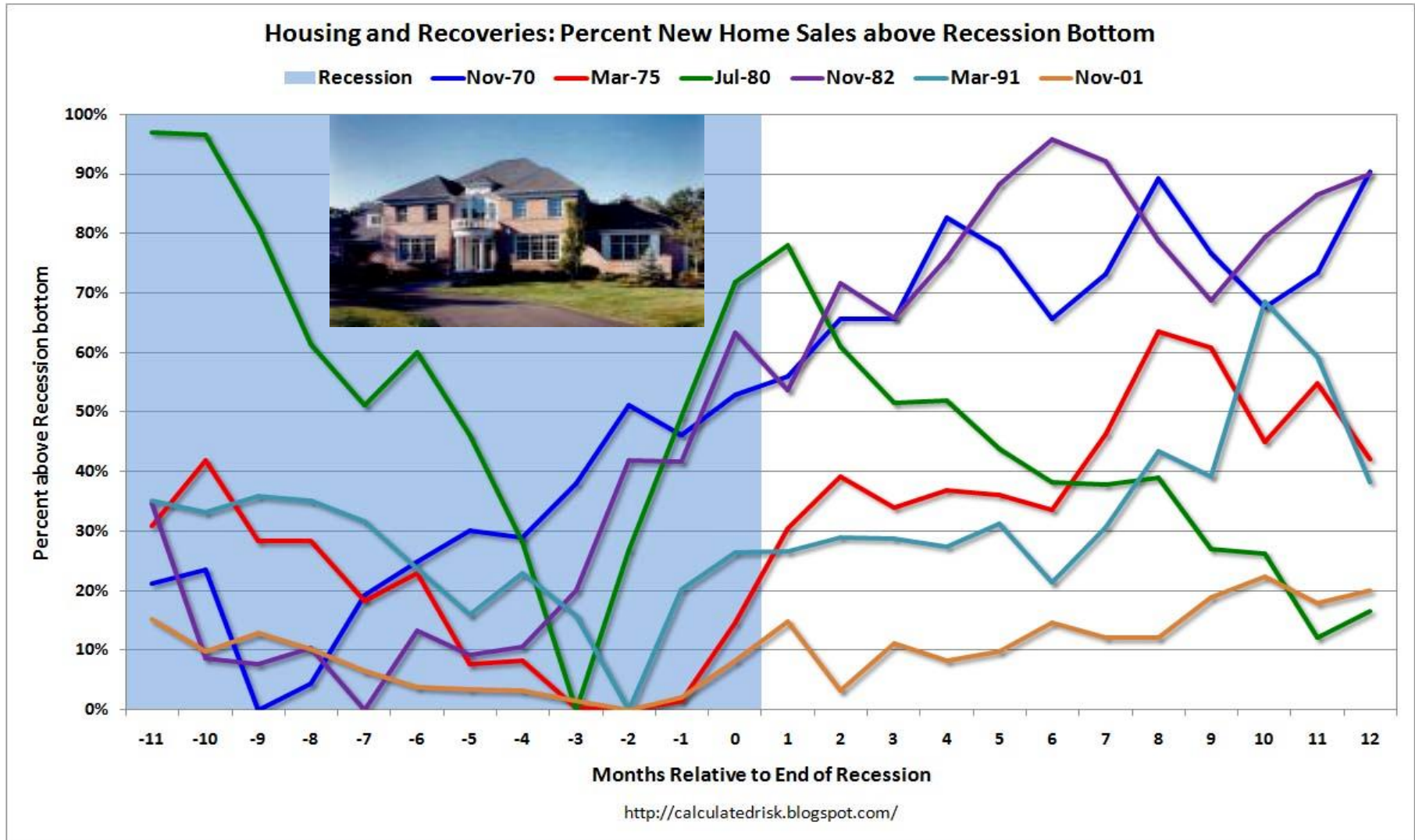


History Shows that Residential Real Estate Prices Will Be the Last Part of Housing to Recover (Starts Recover First)



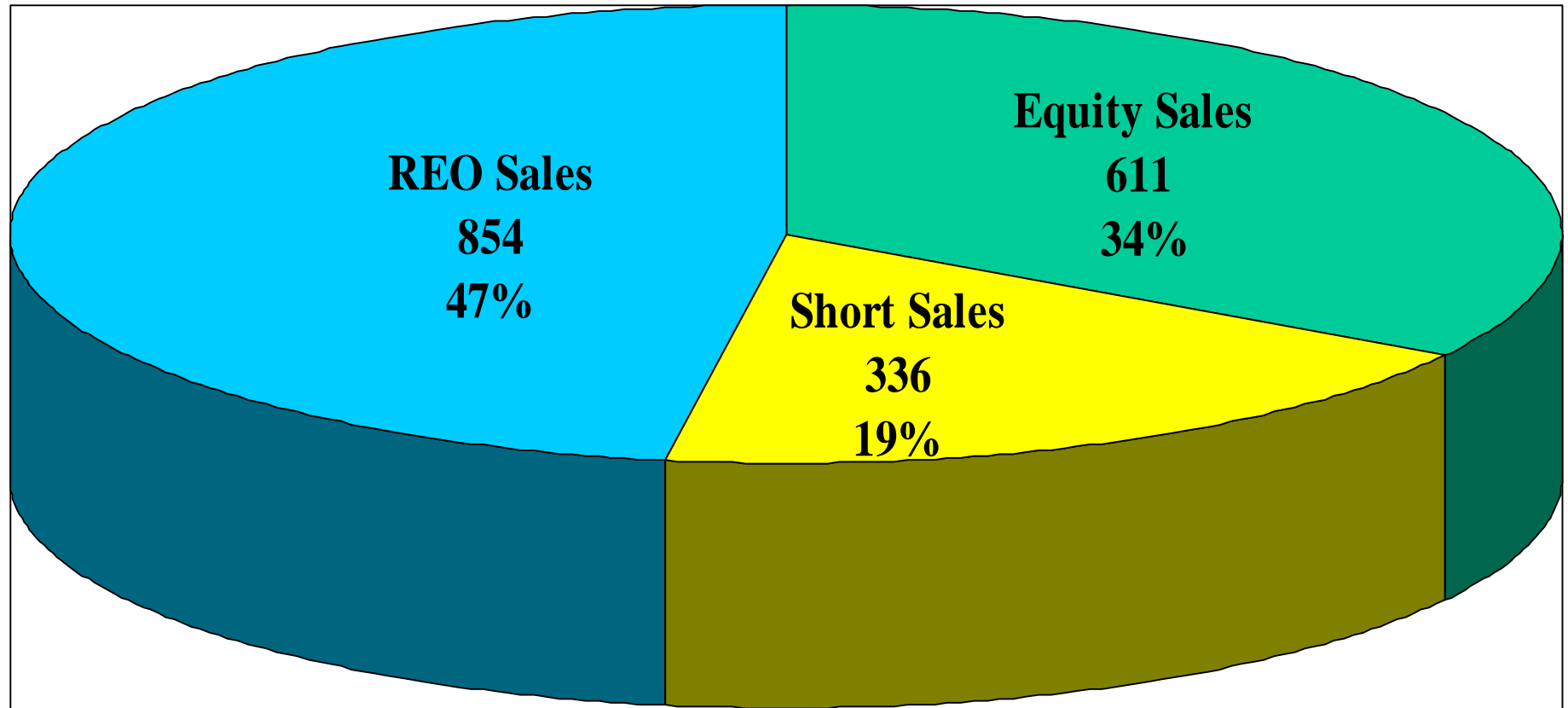
Sources: Case-Shiller Index and Calculated Risk Blog Financial Analytics.

Housing's Bottom-A Precursor to a Recession's End-Occurred During February 2009-Soon to be an Engine of Growth?



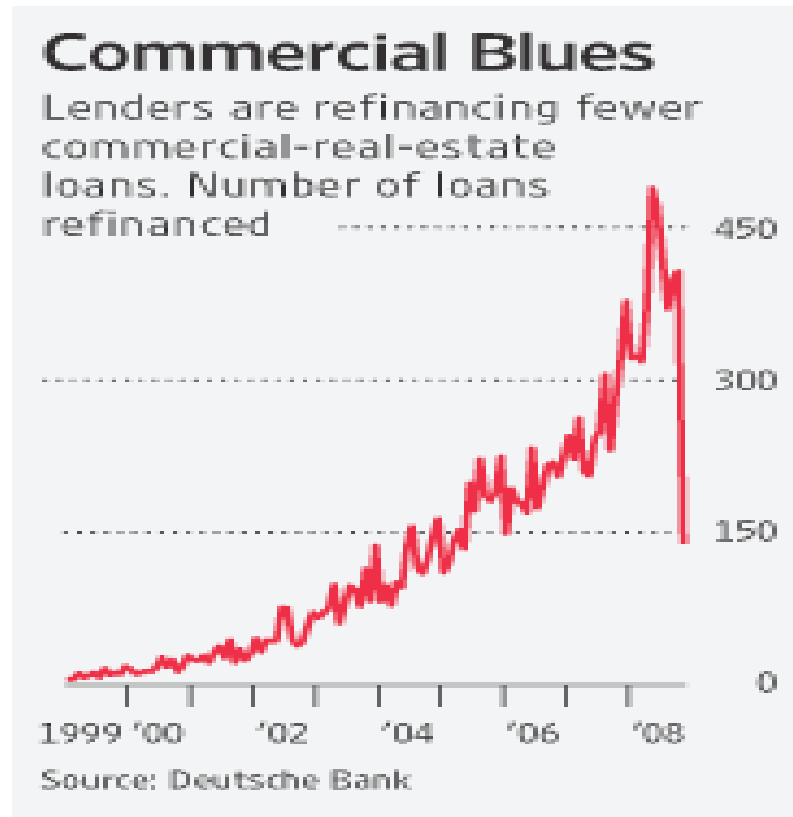
Source: Calculated Risk Blog Financial Analytics.

Sacramento Real Estate Sales: A Case Study of How Housing Sales Are Recovering



Source: Calculated Risk Blog Financial Analytics. Measures August 2009 single family home and condo re-sales.

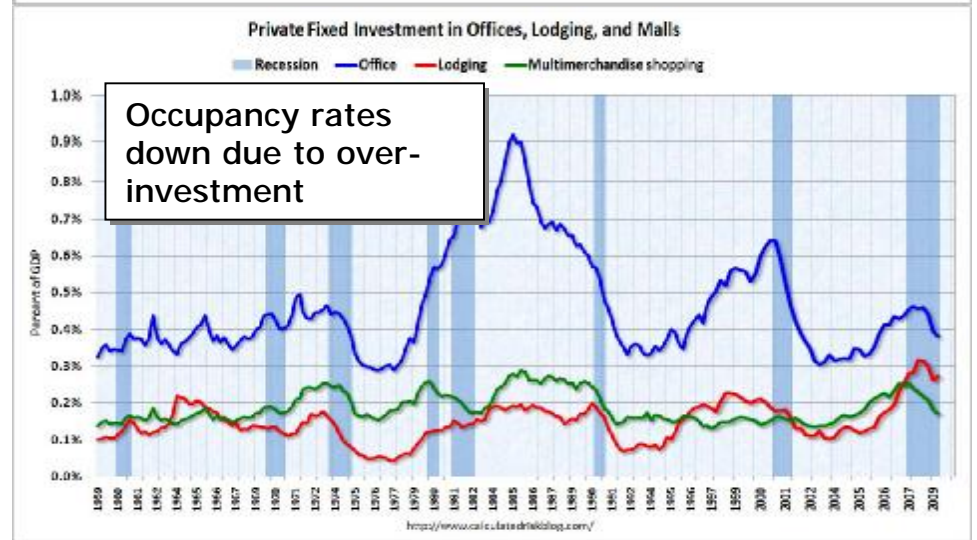
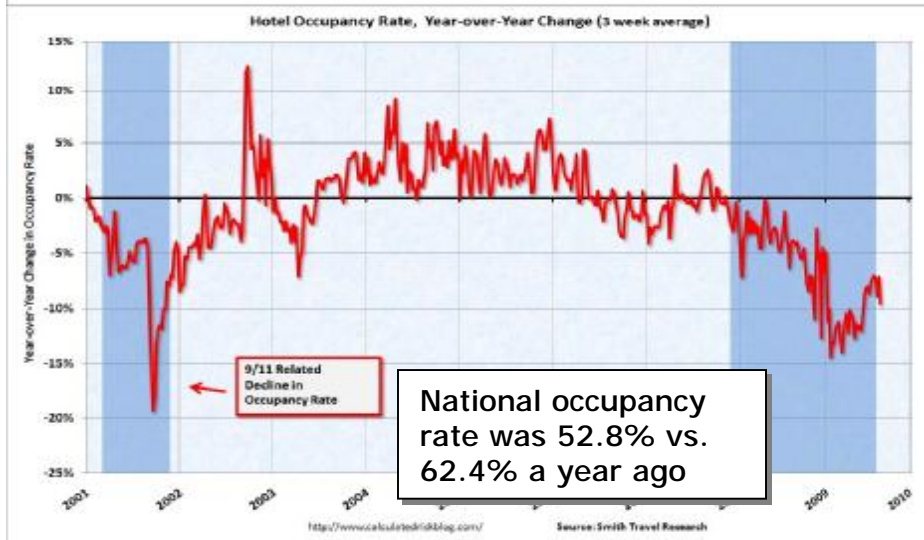
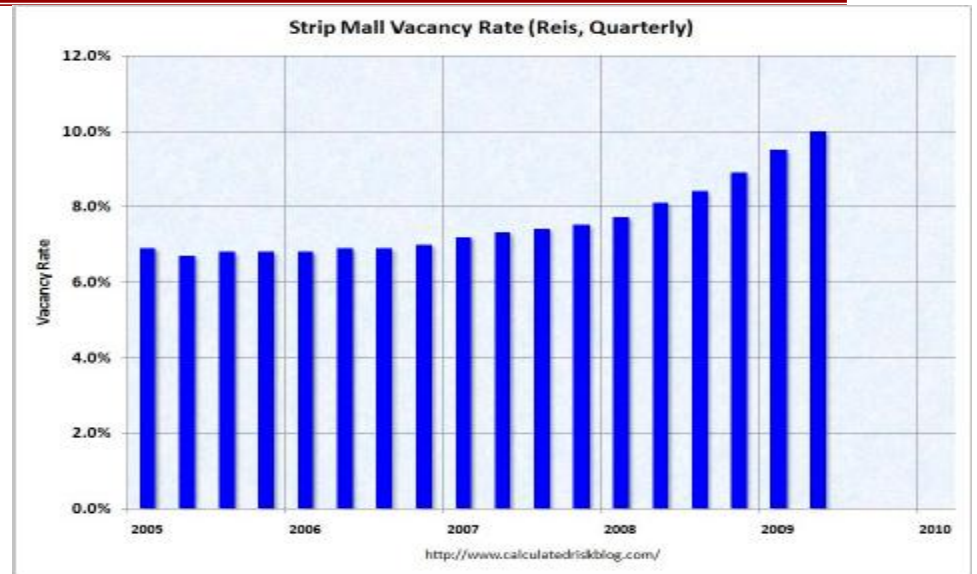
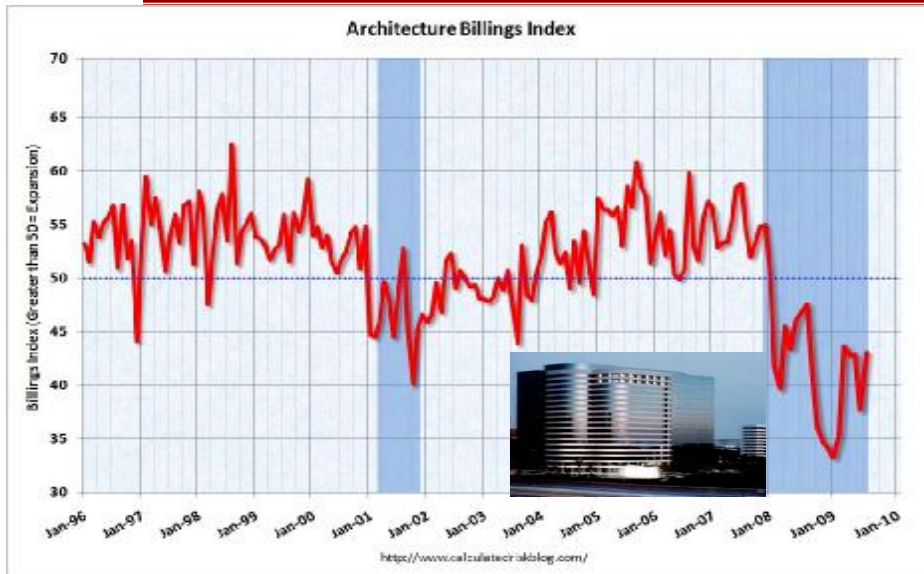
Commercial Construction and Real Estate Will be the Headliners during 2009 and 2010



“Developers Ask U.S. for Bailout as Massive Debt Looms”
(*Wall Street Journal**)

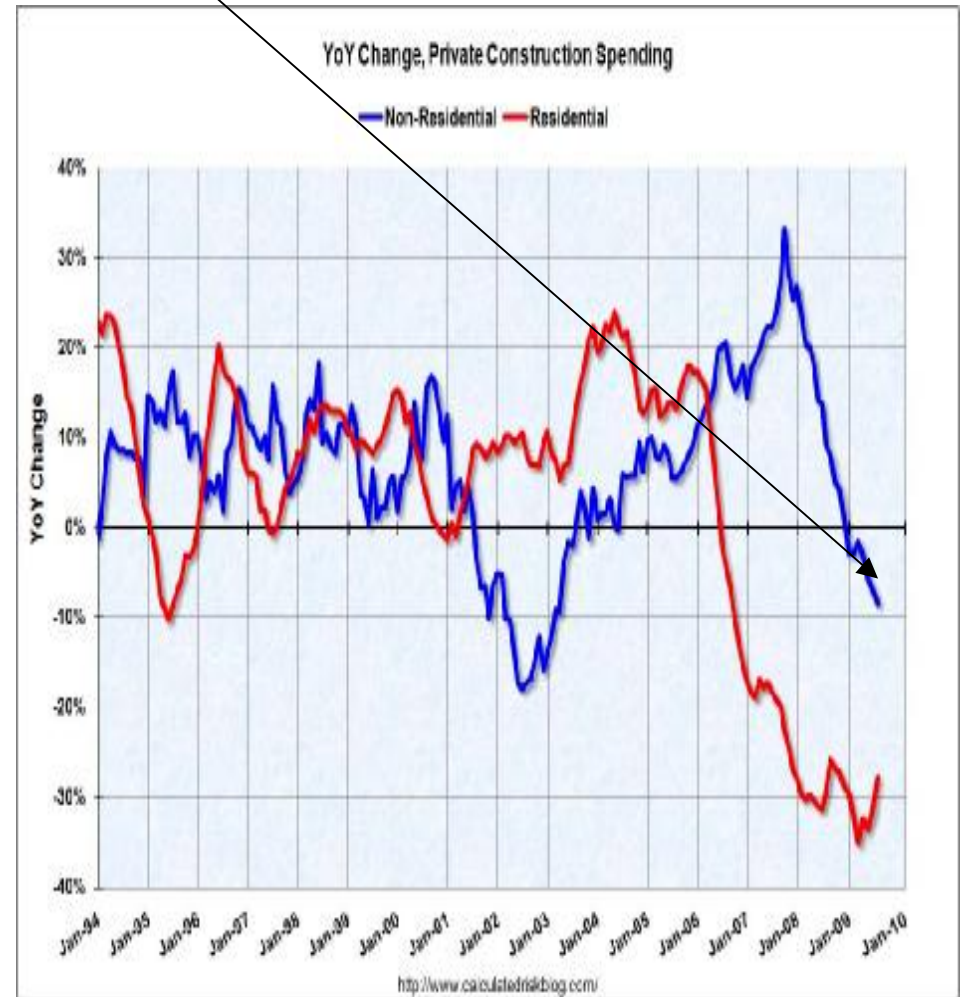
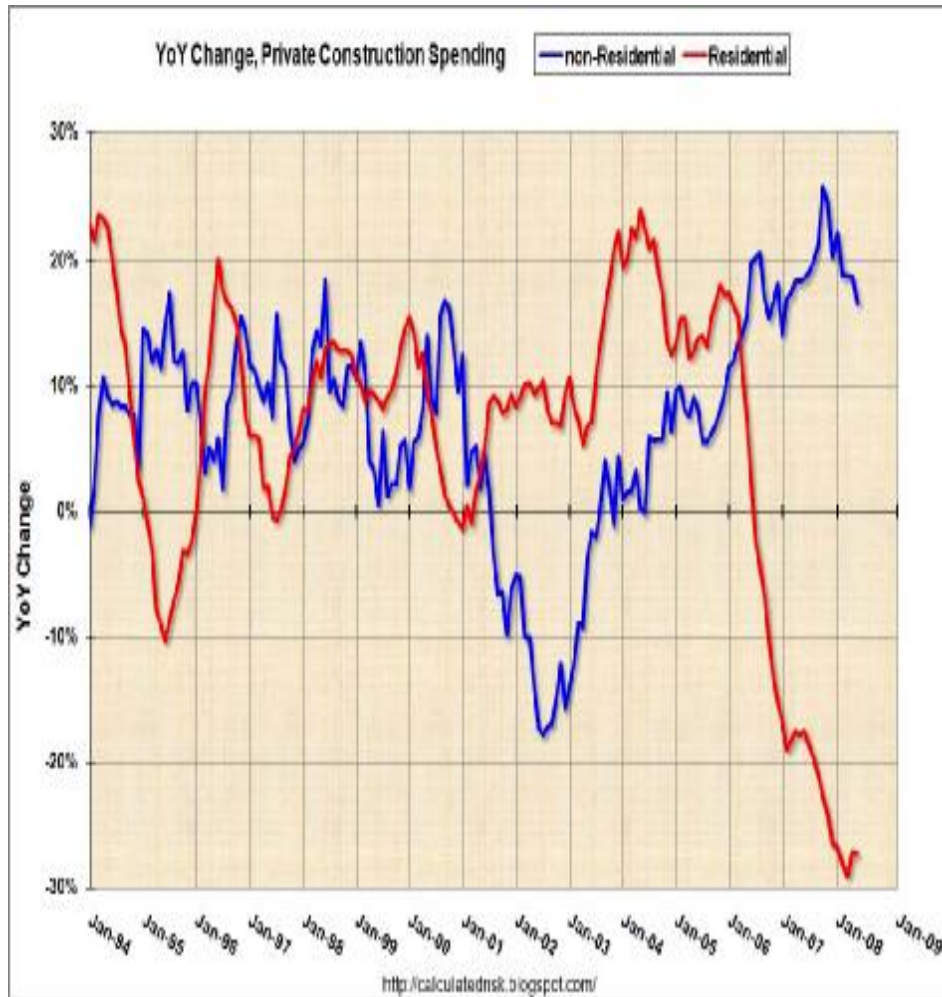
Source: Headline and chart from page A1 of the December 22, 2008, *Wall Street Journal*.

4 Examples of Commercial Property Weakness



Sources: Calculated Risk Financial Blog and the American Institute of Architecture (AIA).

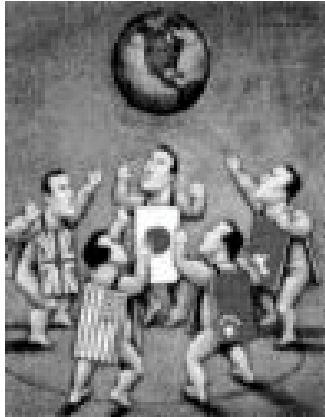
Note the Steep Drop in the Blue Line (Nonresidential Construction) Since August 2008



Source: Calculated Risk Blog Financial Analytics. Left chart contains August '08 data, while the right chart contains July '09 data.

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The International Outlook

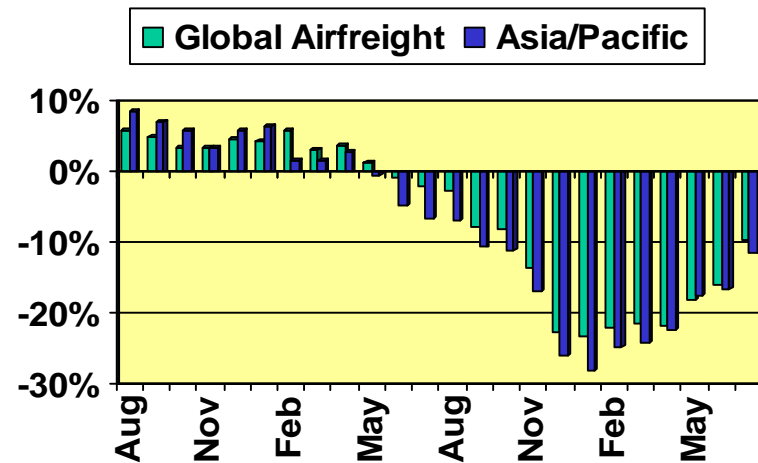
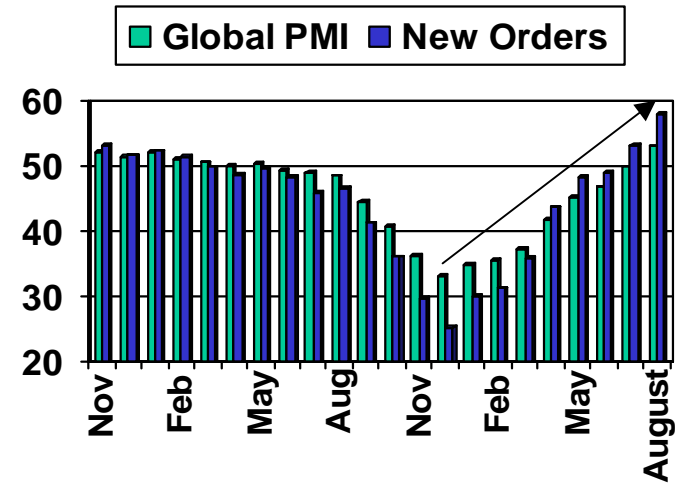


In Some Ways Ahead of the U.S. Recovery



International PMI Data Is Stabilizing and Airfreight is Coming up on Easy Comparisons

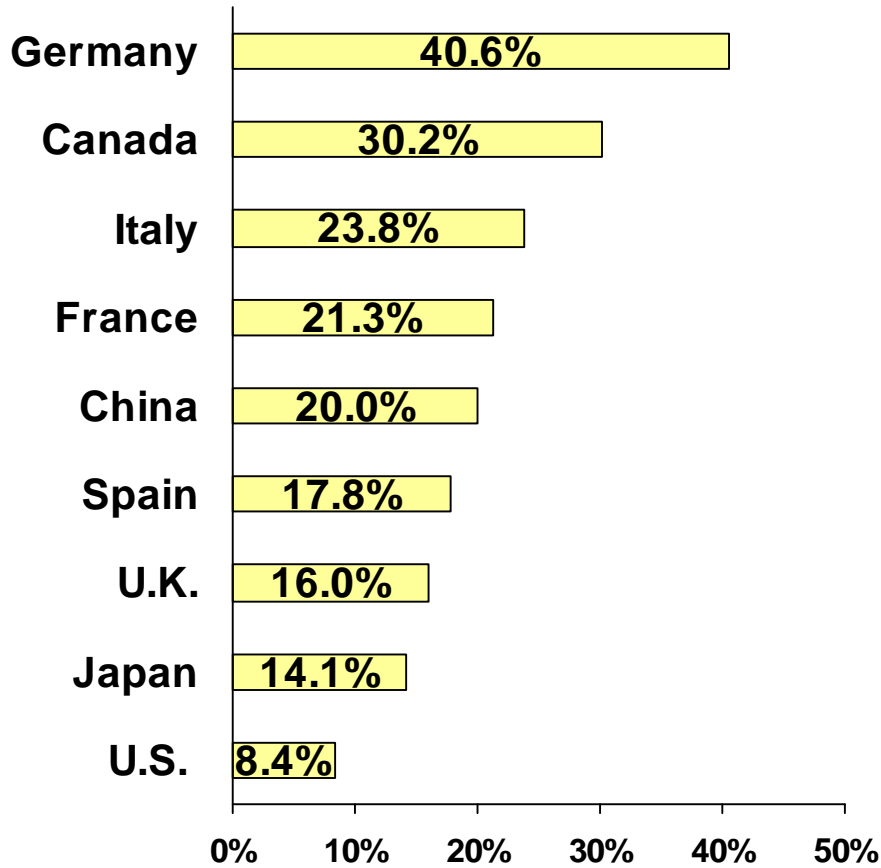
- Global PMI and New Orders have risen 8 straight months since Dec '08 low
- Global Airfreight dropped (-11.3%) & Asia/Pacific fell (-9.5%), the 14th straight month of decline, **but the best showing in a year**
- Asia is 44% of global airfreight



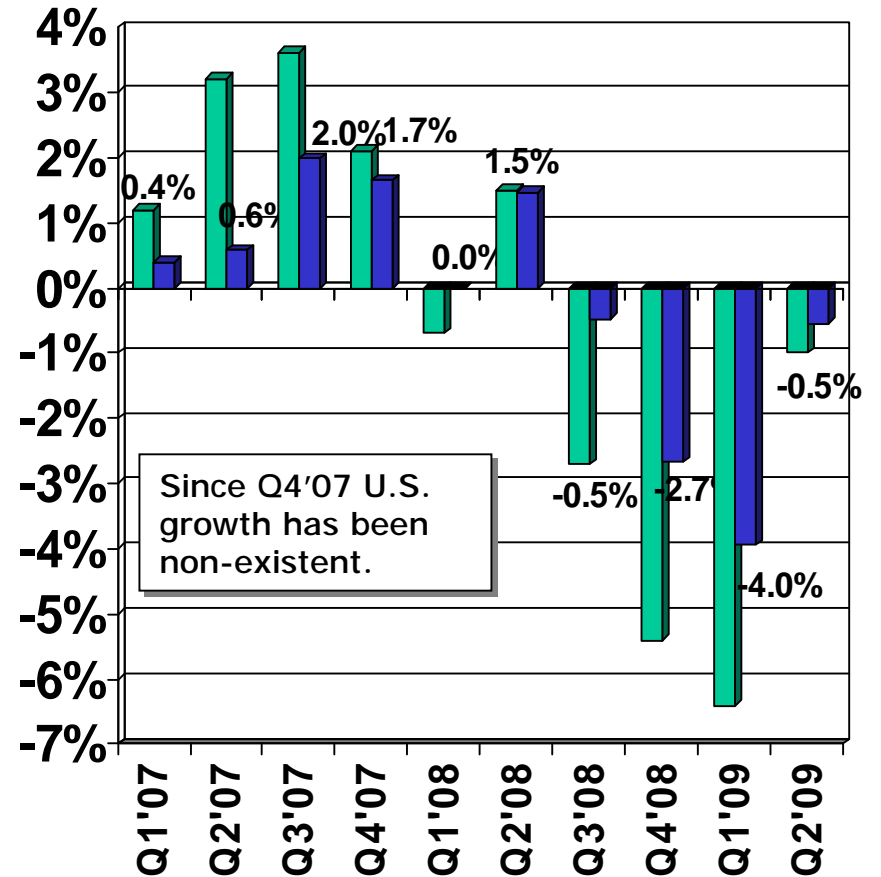
Sources: ISM (Institute for Supply Management) and IATA (International Air Transport Association). Airfreight is measured in freight tons per kilometer. PMI stands for Purchasing Manager's Index.

Exports and the Global Recovery

Exports As a Percent of GDP



■ U.S GDP Growth ■ Exports Portion of GDP



Sources: Organization for Economic Cooperation & Development (OECD) and Bureau of Economic Analysis (BEA). Chart on the left is for 2007.

What is the “New Normal”?

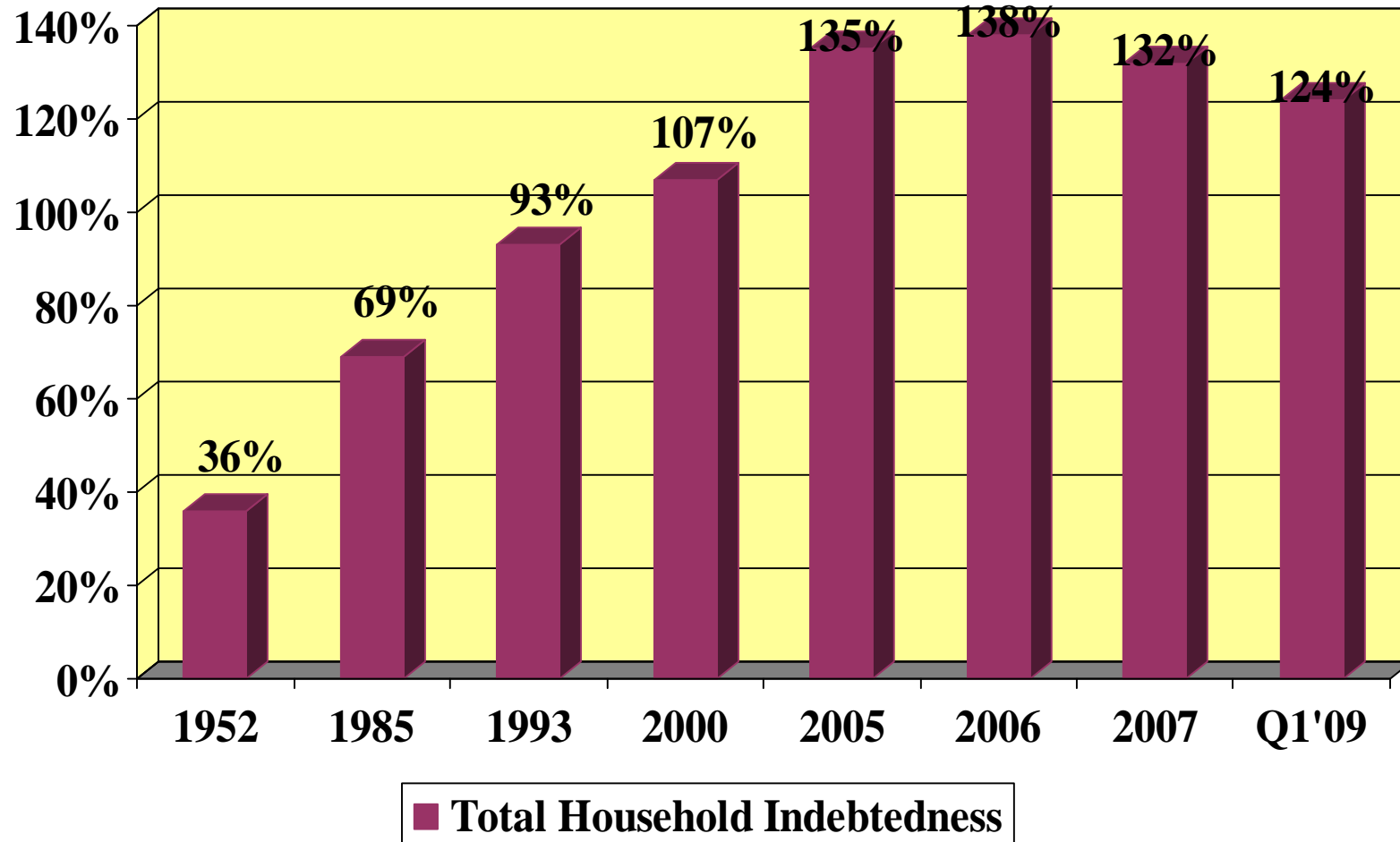


Recovery: a U, L, V or W?

How about 

Sources: Calculated Risk Financial blog and BBTCM analysis. Real retail sales rose 2.7% in August vs. July (seasonally adjusted) and excluding automotive this was up 1.1%. Yoy it was down 5.3% and 6.4%, respectively.

Household De-Leveraging Has a Way to Go



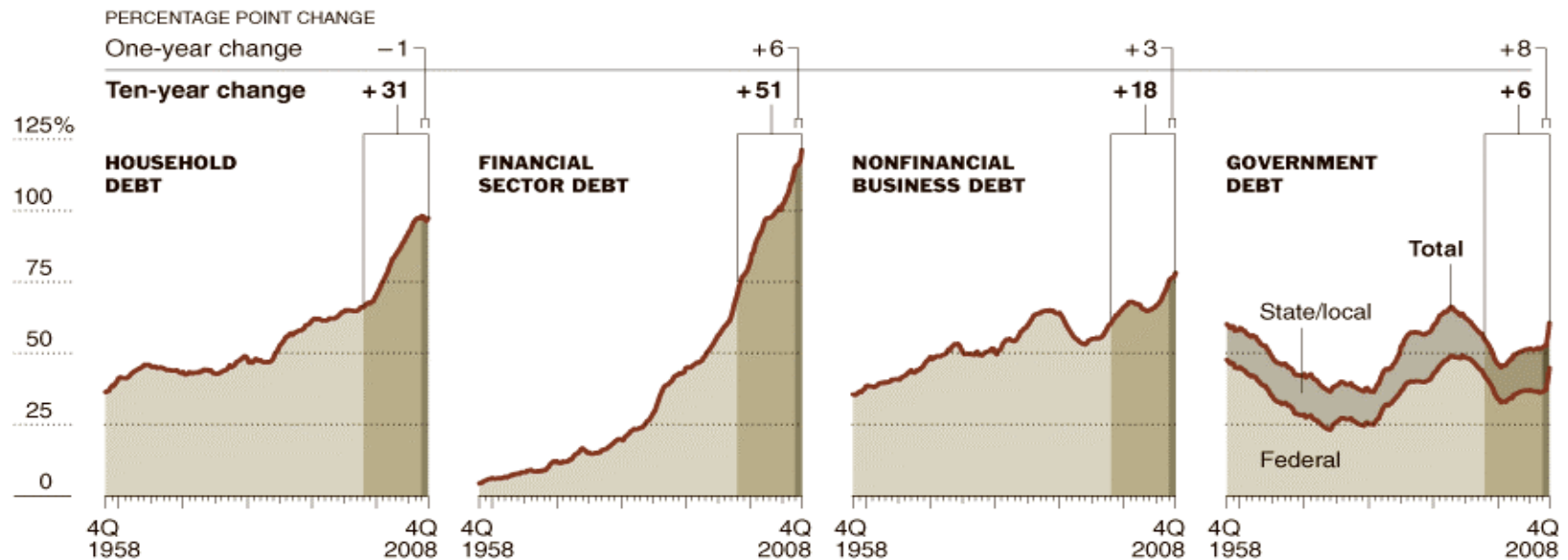
Source: Federal Reserve Board (FRB). Measures total household indebtedness as a percent of disposable income.

Other Perspectives on the De-Leveraging of America

The Leveraging of America

Over the last 50 years, debt levels in the United States soared for households, and went up even faster for the financial sector. But the increases were smaller for nonfinancial businesses, and total government debt ended the period about where it began.

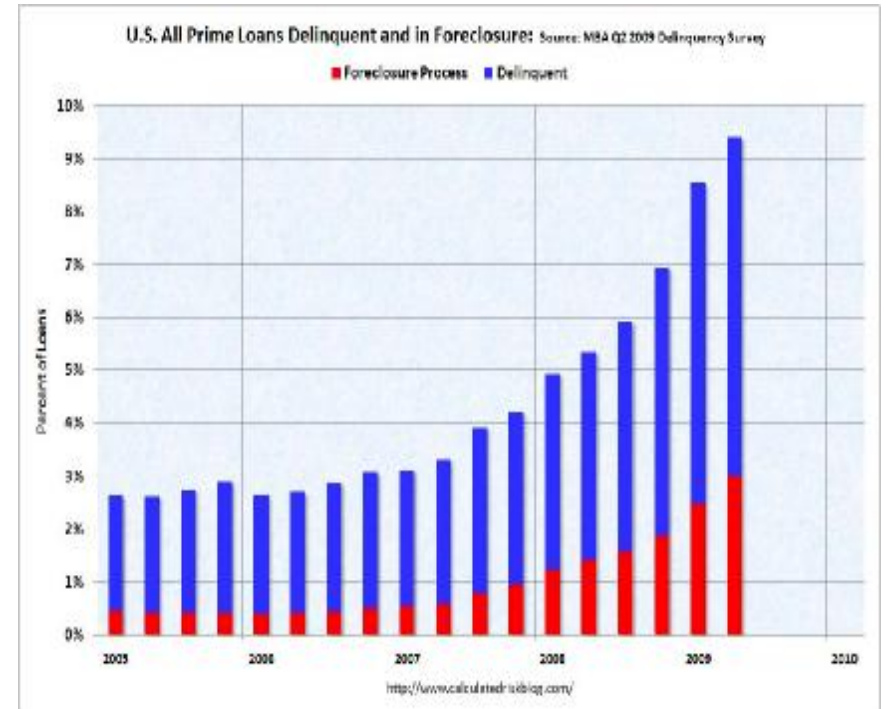
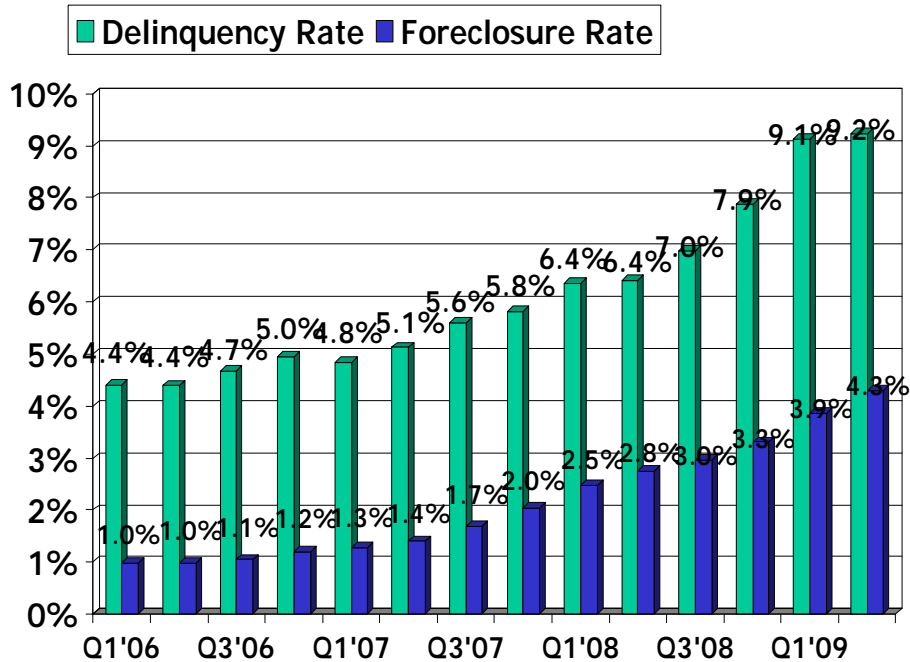
Debt levels as a percentage of gross domestic product



Source: Federal Reserve, via Haver Analytics

- Total debt (\$17.2 trillion) in the financial sector was 121% of GDP as of January 2009 (source: Federal Reserve Board/FRB)
- 50 years ago financial institutions' debt was 6% of GDP (source: FRB)
- With less bank and consumer leverage, consumption growth will be less and GDP and freight growth will be less

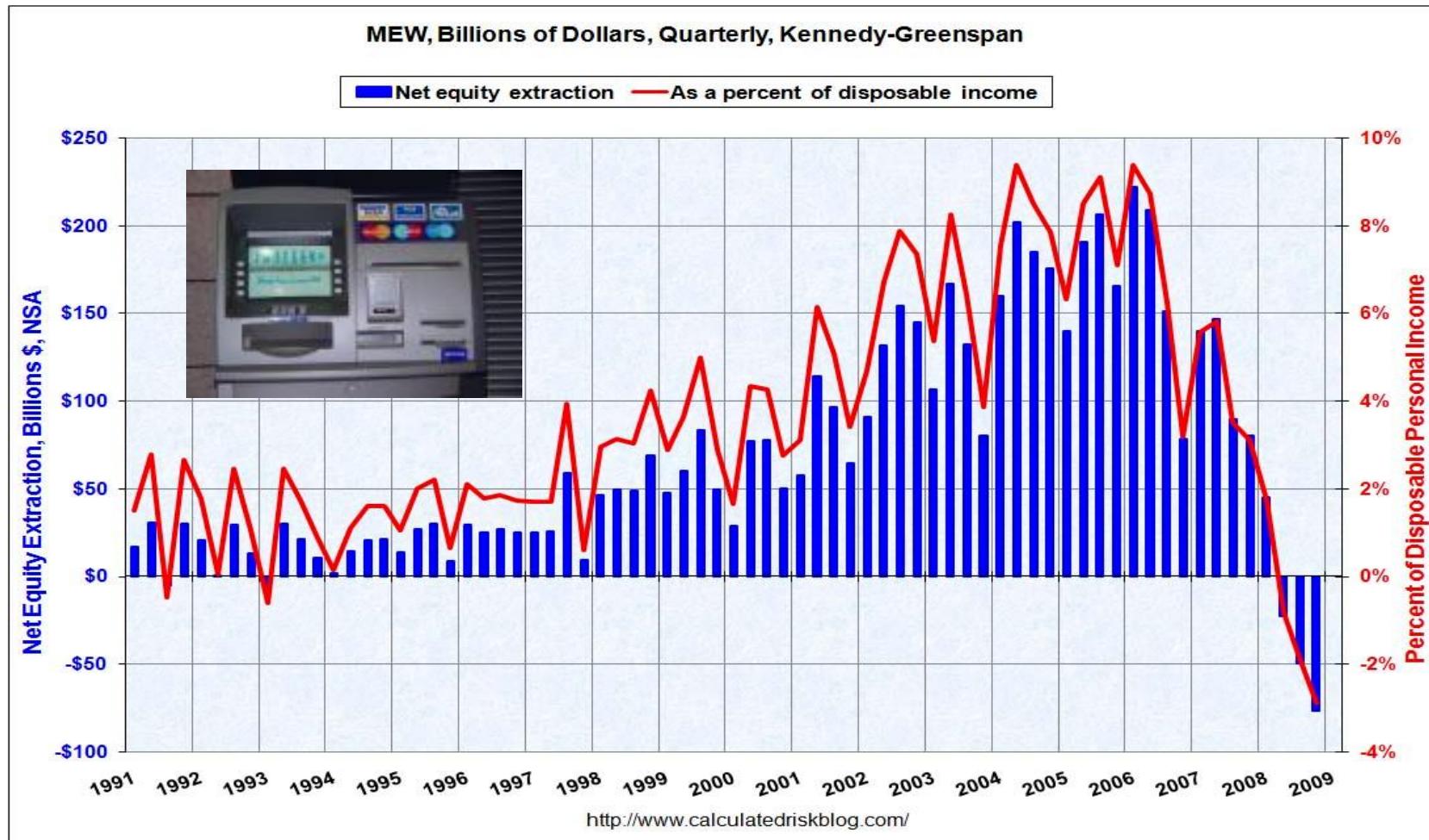
Housing May be Old News, but Foreclosures are Expected to Rise Nearly 40% More



- 5.8 million home loans delinquent or in foreclosure
- Likely to peak around 8 million by late 2010
- Problem moving to prime loans (78% of all loans)
- 40% of subprime loans are delinquent or in foreclosure

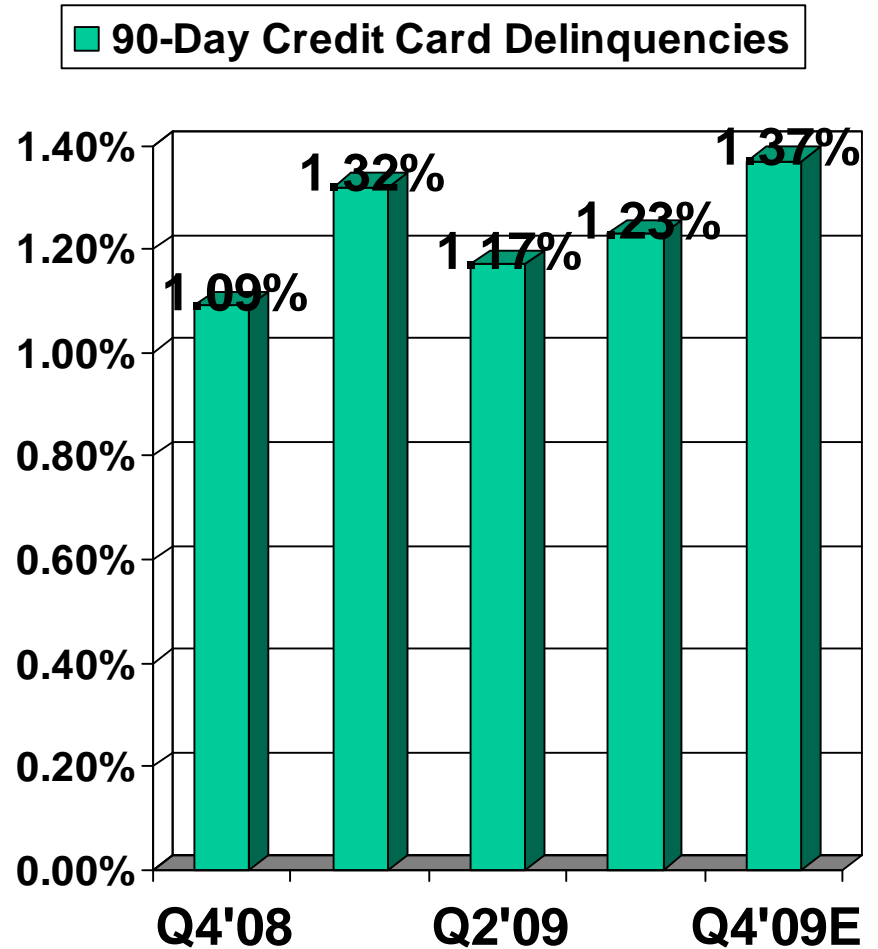
Source: Mortgage Bankers Association (MBA). Both are percentages of all mortgage loans outstanding (inc. prime, Alt-A & subprime loans) on one to four-unit residential property. Data is seasonally adjusted. Foreclosure rate measures "in progress" foreclosures.

Consumer De-Leveraging: Home Equity Won't Be a Consumer Stimulus, e.g., Home Equity "ATM," for Some Time...



Source: MEW data is based upon study by Alan Greenspan and Dr. James Kennedy of the Federal Reserve Board. MEW is mortgage equity withdrawal.

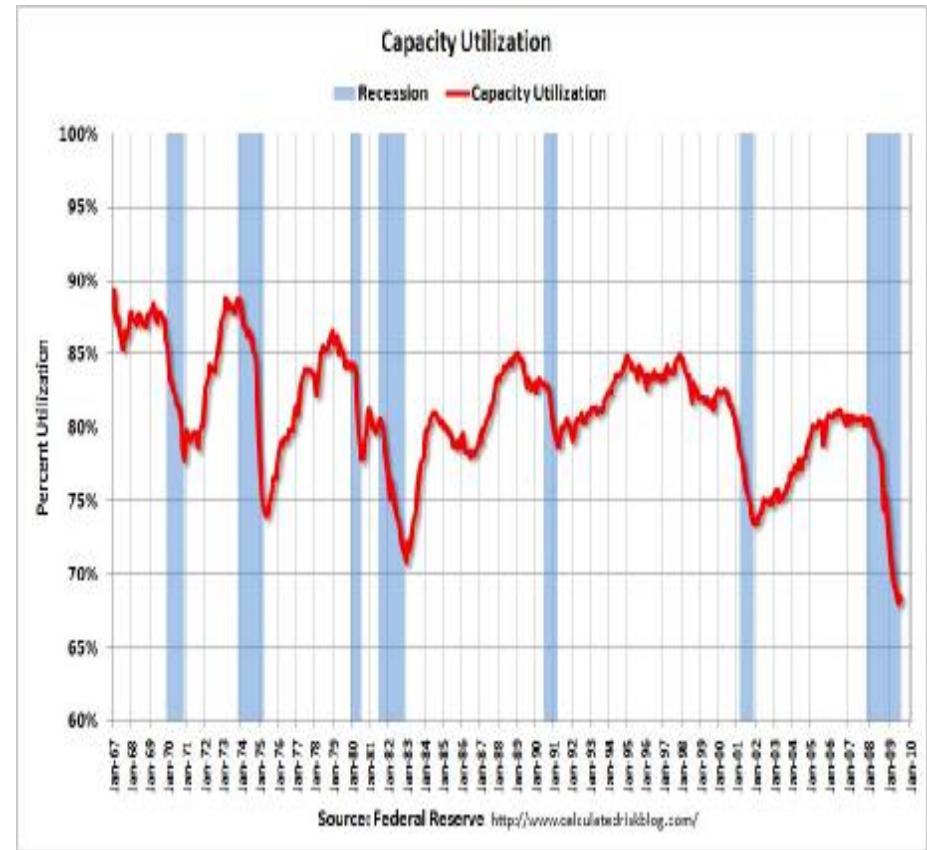
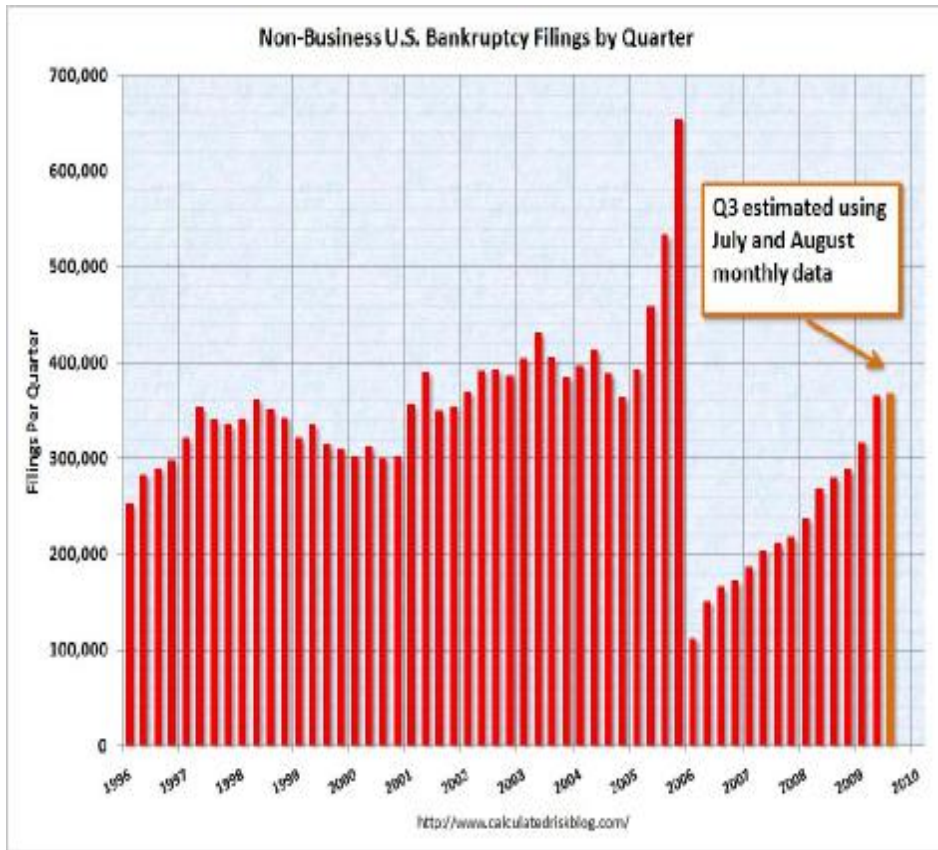
...Meaning Retail Sales and Credit Card Payments Will Continue to Trend Negatively



Sources: Calculated Risk Blog Financial Analytics & U.S. Census Bureau for left chart; TransUnion LLC for right chart.

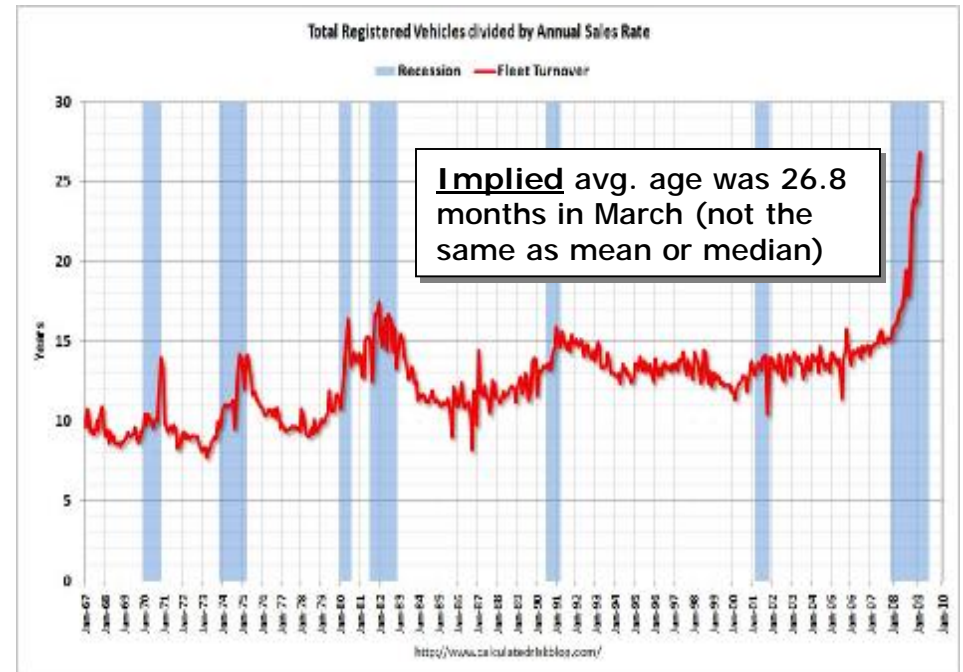
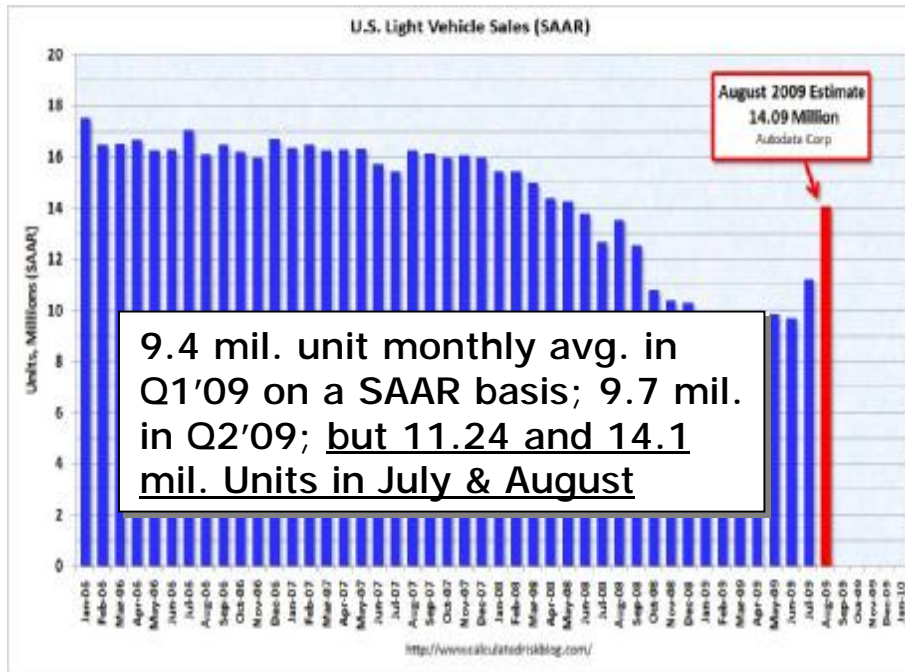
Non-Business Bankruptcy Filings & Industrial Production

With IP Down 16% and Capacity Utilization the Lowest Since 1967 There is Little Reason for Investment in New Production Facilities



Sources: American Bankruptcy Institute, Calculated Risk Financial Blog and the FRB.

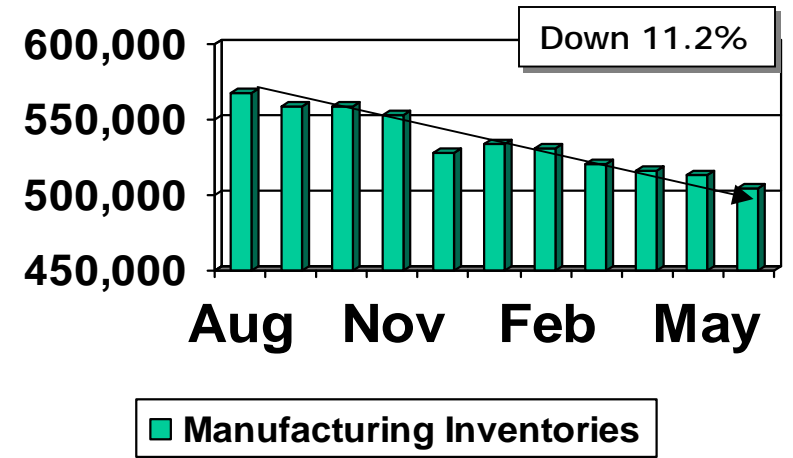
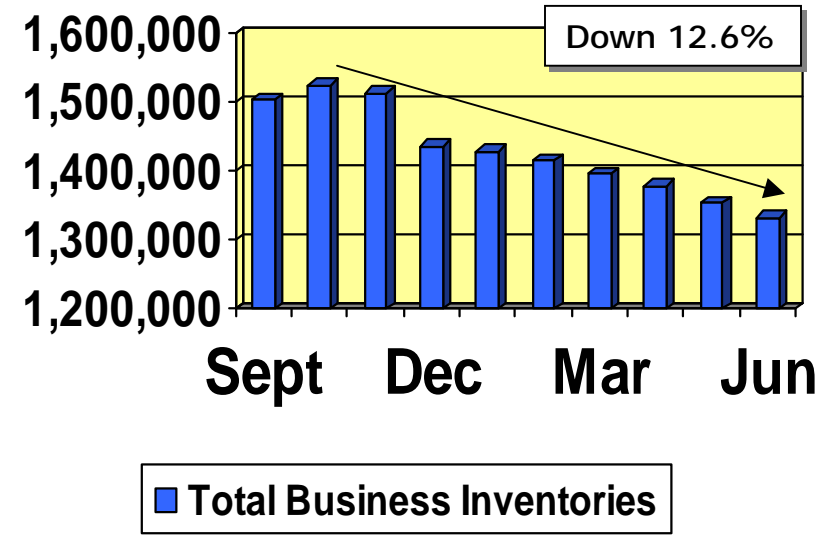
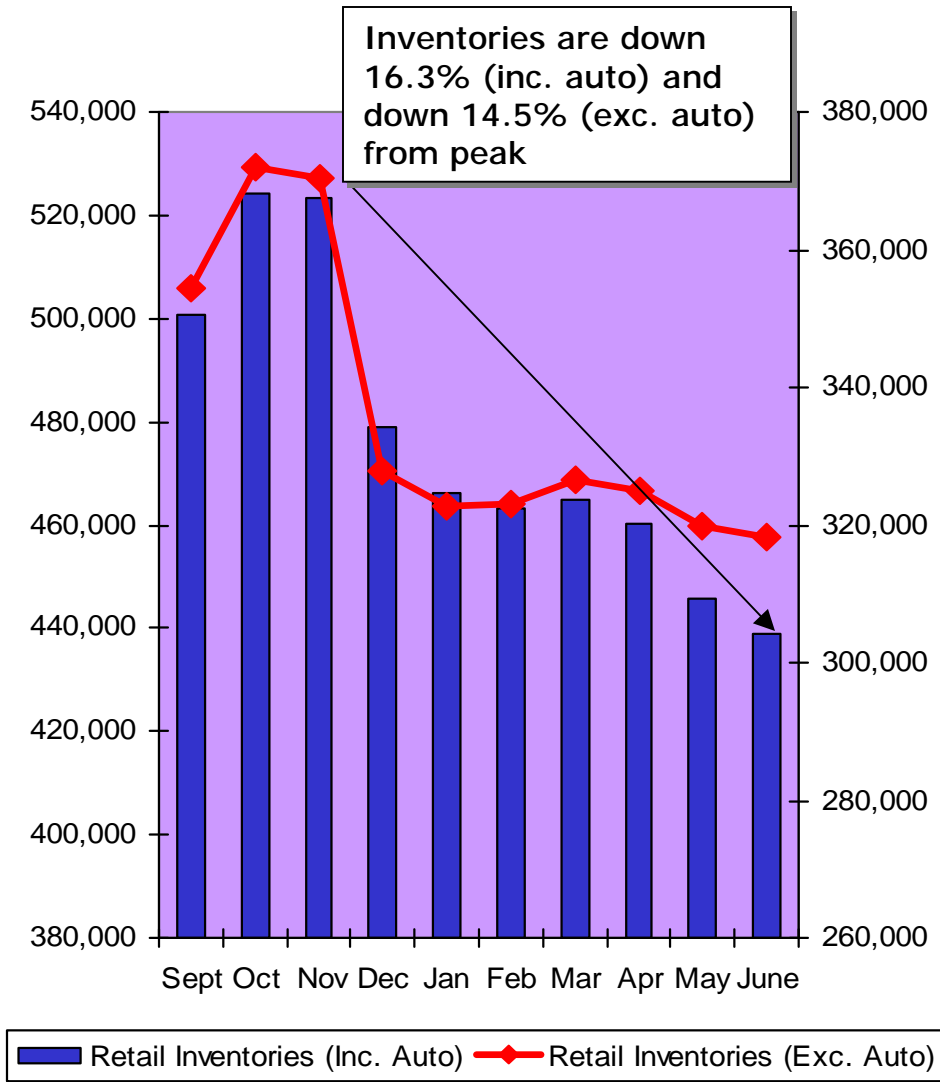
Cash for Clunkers Helped, but it Could be Years Before 17+ Million Annual Vehicles are Sold



- Several industries/sectors operated below replacement/baseline demand from September '08-March '09
- Sales of foreclosed homes are up 50% to 80% in CA, AZ, FL & NV
 - Don't confuse growth rates with levels

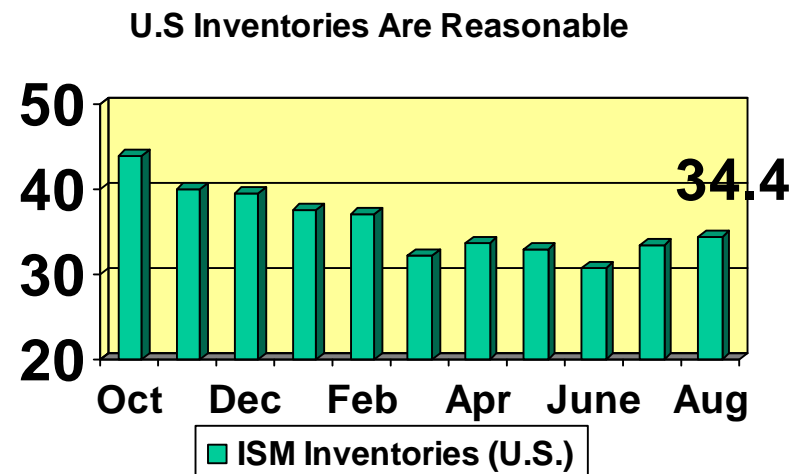
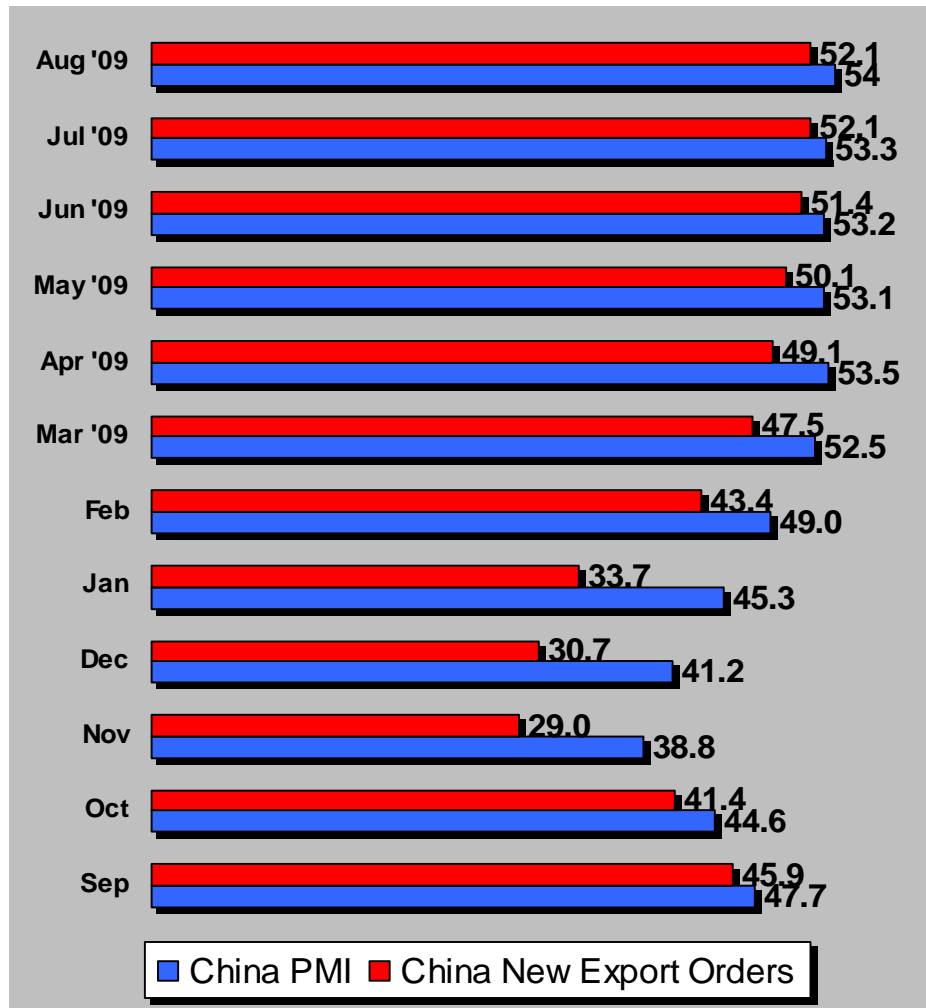
Source: Calculated Risk Blog Financial Analytics.

Inventories Have Come Down, Although Ratios Have Room for Improvement



Sources: U.S. Census Bureau's monthly inventory reports. All figures are not seasonally adjusted and are in millions.

More Positives...Declines Halted...Stabilization Emerging...**Growth Returning**



Sources: CLSA China PMI report for left; ISM Manufacturing report on business for two right charts.

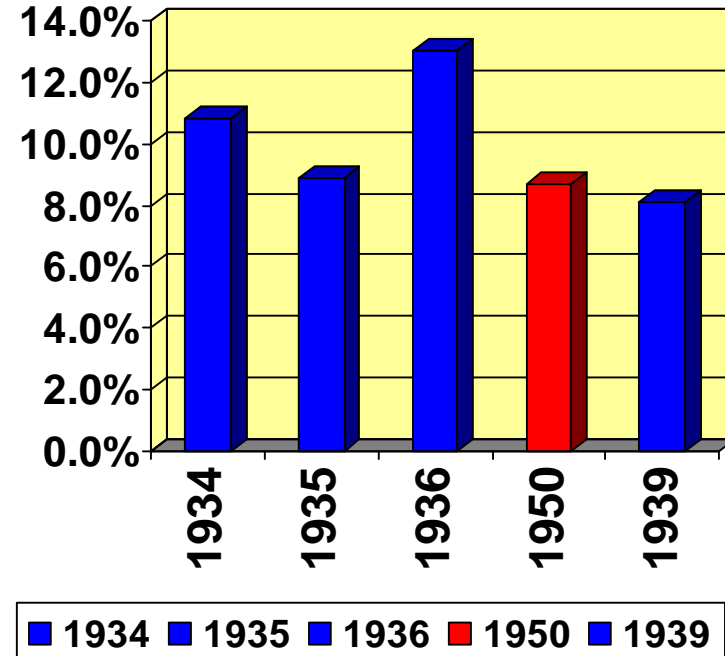
A Potential Window Into the Next Recovery



Despite All the Negatives, Economic Recovery Will Happen

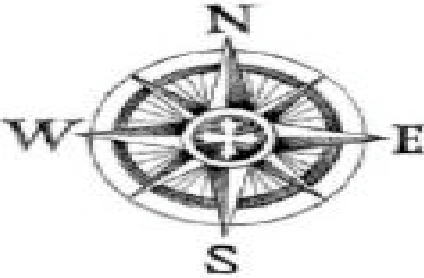
- Single family starts and new home sales recover first
- Housing prices recover later
- Business inventories are correcting
- Costs are being cut
- Key: Robustness of the recovery
- Freight growing slower than GDP rate long term
- Trucking supply correction could lag

4 of the 5 Highest GDP Growth Rates (exc. WW II) Were in the Depression



Sources: Bureau of Economic Analysis for GDP and Stephens Inc. analysis.

When Recovery Starts Look for This Sequence

<u>During a Recession</u>	<u>Lags End of Recession</u>	<u>Significantly Lags End of Recession</u>
Residential investment starts to recover	Investment in equipment & software	Non-residential structures
Personal consumer expenditures (PCE)	Unemployment 	Plant expansions; large-scale capex

Source: BBTCM analysis.

Freight: Tug of War Between Traditional Expectations and a New Reality

- The packaging revolution
- Supply chain changes
- Intermodal momentum in 650 to 900 miles
- Internet shopping going from 5% to 15% of consumer spending
- Less leverage (companies and consumers) means much smaller retail store growth (153,000 store closings in 2008; 100,000+ in 2009)
- Different TL growth markets
- Record number of multi-regional and inter-regional LTL carriers



Sources: BBTM analysis and the National Retail Federation (NRF).

Recovery Possibilities and Freight Implications



Incremental Freight

- Auto sales at 10.0 mil. units in 2009; could be 12.0 to 12.5 mil. in 2010
- HD truck sales could rise from 100,000 to 170,000 in 2010
- Housing starts could go from 550k in 2009 to 800k in 2010, a 45% increase

Meaning...

- Since 1970 the biggest annual auto sales increase is 2.1 mil. units in 1984
- Only once in 40 years have new HD truck sales jumped 70,000 units
- Since 1959 only one year (1983) has seen a 1-year jump > 60%; next highest was 43% in 1971

Sources: U.S. Census Bureau and Bureau of Economic Analysis (BEA).

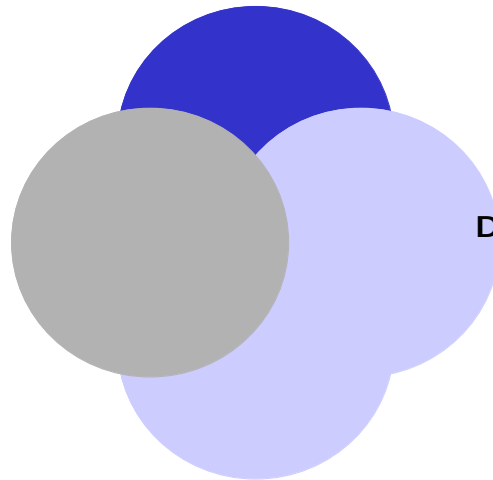
Truckload's Growth Markets: Not Your Father's TL Opportunity



Shorter Regional (250-450 miles)



Drayage



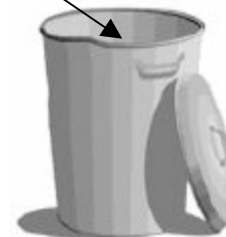
Direct Store Deliveries ("DSD")



Customized Dedicated



1-way OTR



Source: BBTCM analysis.

Consider the Changes Since 1998



1998 TL Market

- Ø Flat rates, but 1990s had few cost pressures
- Ø Dedicated in infancy, but infinite payoffs
- Ø High driver turnover
- Ø Brokerage? [“Playoffs?”]
- Ø Seasonality and “averages” not emphasized
- Ø 1-way trucking dominated
- Ø Regional a nice niche, but not the “main thing”
- Ø Asset light element through owner-operators



2009 TL Market

- Ø Volatile rates now under pressure; turnover improved but only because of poor economy
- Ø Constant cost pressures
- Ø Dedicated=> either “capacity insurance” or “customized solutions”; payoff is limited
- Ø Dedicated is costly with ORs often worse than OTR freight
- Ø Reluctance to embrace 4 TL growth markets
- Ø Asset light element through brokerage and intermodal
- Ø Keep trucks moving [in theory J]

Source: BBTCM analysis.

Does Your Carrier Realize the Game Has Changed?

Only 4 Growth Markets for TL Carriers:

- ü DSD (direct store deliveries)
- ü Customized dedicated
- ü Drayage
- ü Short-haul regional (now 250 to 450 miles, not 500-600 miles)
- q Also, freight brokerage and logistics are a part of many carriers' arsenals



- q 1-way OTR trucking is shrinking
- q Being a big network carrier is costly and too seasonal
- q Peak season changes are forcing carriers to find steadier freight
- q HOS changes and fuel prices are shrinking LOHs
- q New regional sweet spot of 250 to 450 miles
- q Intermodal is having success in the 650 to 900 mile lanes
- q Product size revolution (iPODs, big-screen TVs, etc.) diminishes loads
- q Packaging revolution is cutting loads
- q Supply chain reengineering reduces miles and supports the 4 markets, but most TL carriers don't realize the magnitude of the changes

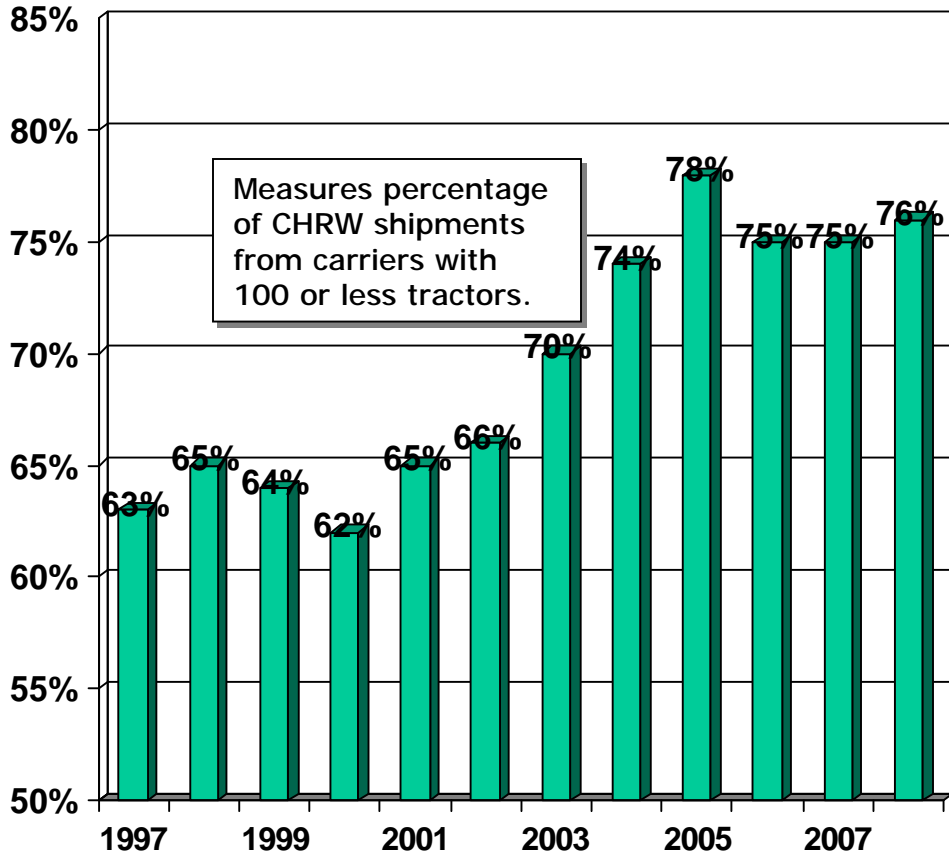
Source: BBTTCM analysis of the marketplace.

When Will Capacity Tilt Back in Favor of the Providers?



Freight Brokerage, Once a Dirty Word, Is Now an Integral Part of the Market

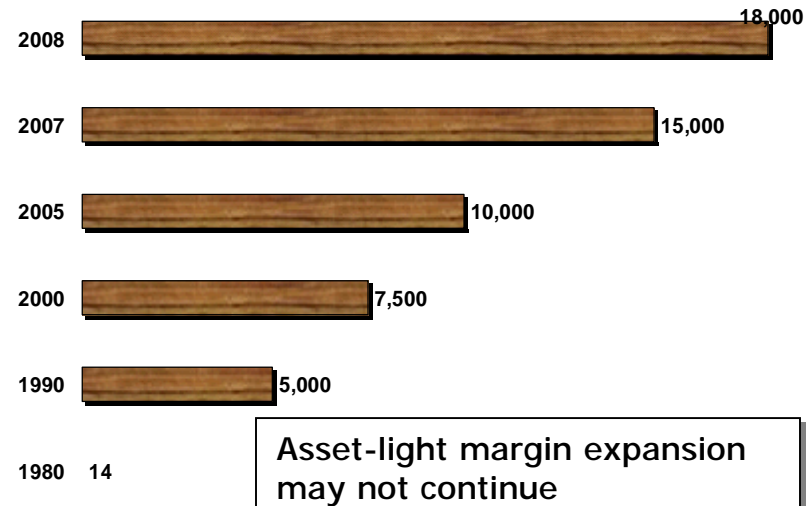
CHRW Is the "Life Line" for Small Carriers



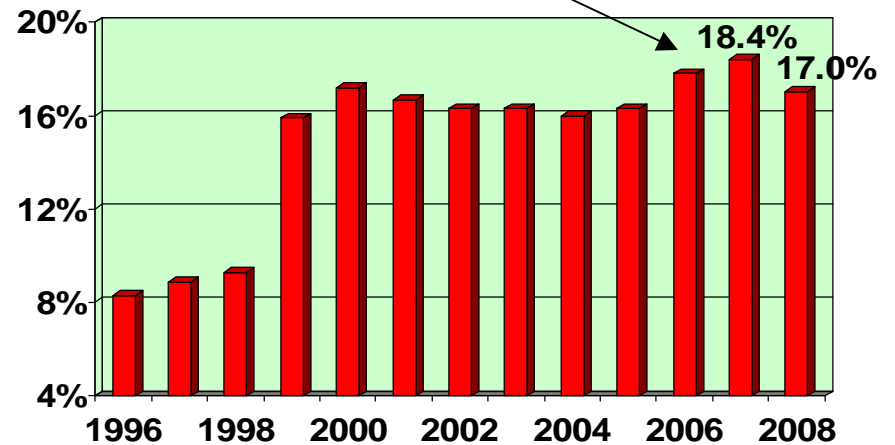
Sources: CHRW 10-K reports for left chart; Transportation Intermediary Association (TIA) and BBTCM estimates for right chart.

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Approximate Number of Freight Brokers



CHRW Total Transportation Net Revenue Margin



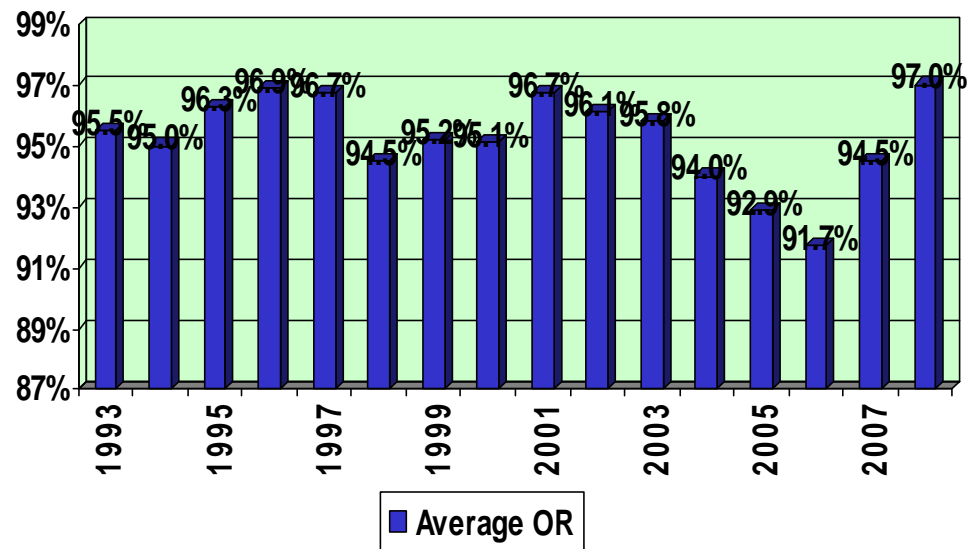
Excess Capacity Today vs. 2007; But Watch the Denominator!

q Mid-2007:

- Dry van: 5% to 6% excess capacity
- LTL: 7% to 10%
- Reefer: 2% to 4%

q Early 2009:

- Dry van: 8% to 10% excess capacity
- LTL: 15% to 20%
- Reefer: 2% to 4%



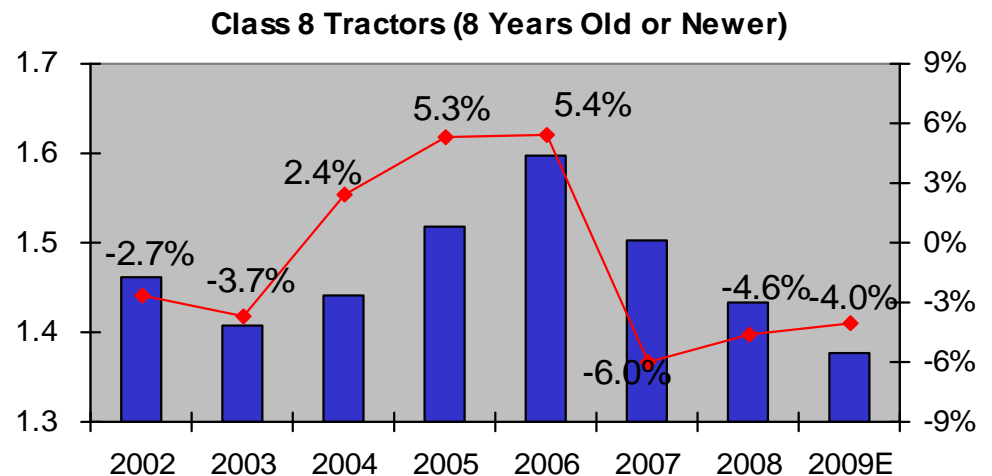
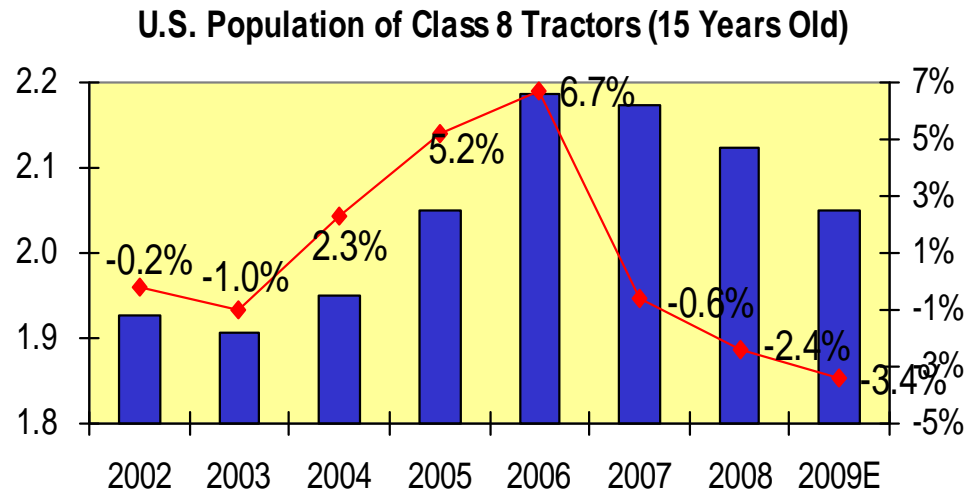
It could be mid-2010 before supply and demand are approaching equilibrium in TL and 2012 for LTL

Sources: BBTTCM analysis for 2007 and 2009 estimates and 2010 statement; *ATA Trucking Trends* book for "Average OR."

Tractor Growth Wasn't Outrageous, So Why Is Capacity So Lousy?

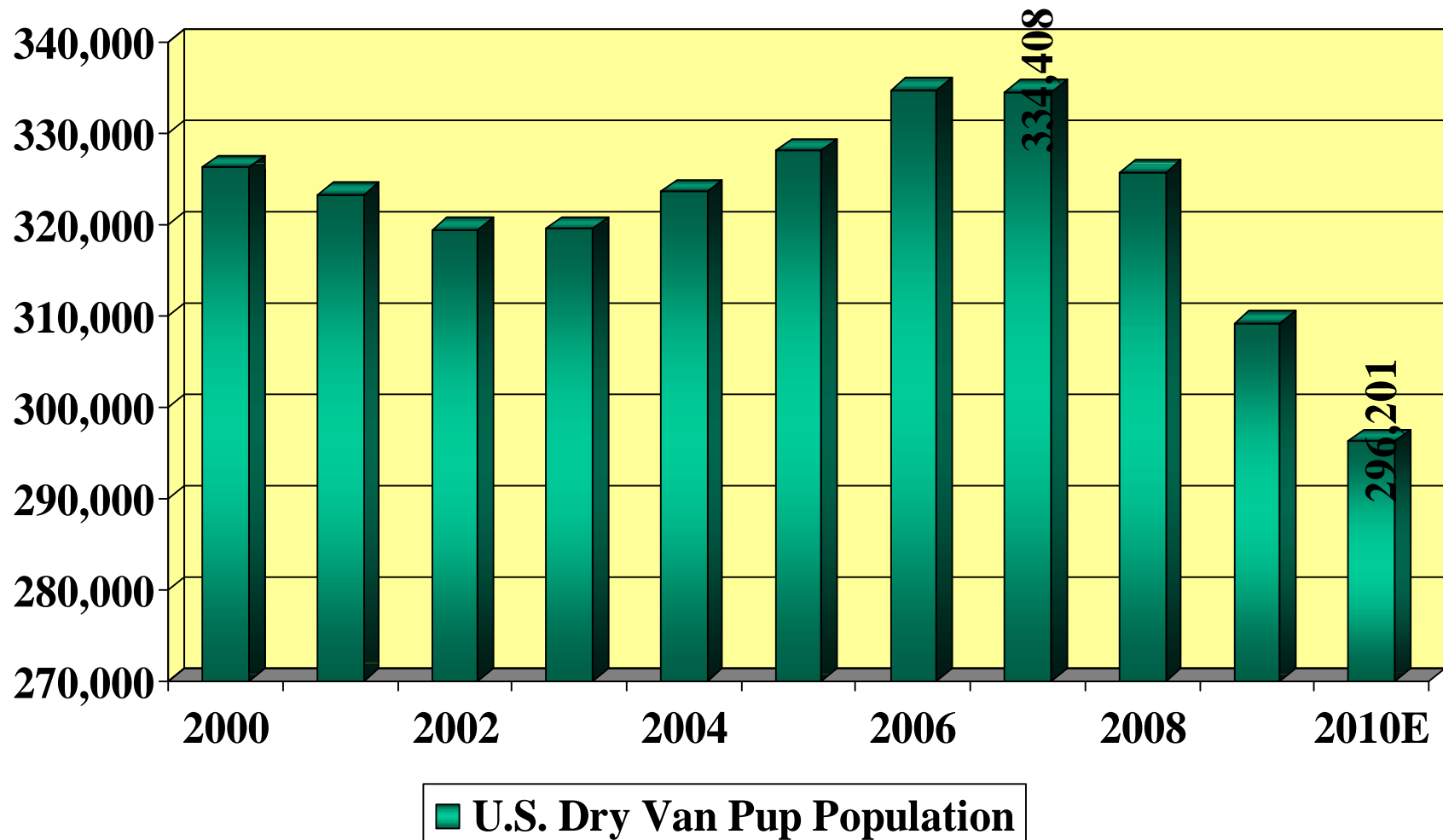


- Tractor growth has been below GDP 6 of the last 8 years (top chart)
- It has also been below Industrial Production most years
- Trucking is much more cyclical than the broader economy
- Deregulation's 20-year window of growth has run its course
- Freight grows slower than GDP growth most years



Sources: A.C.T. Research and BBTM analysis. Population figures in millions.

LTL Pup Trailers Will Have Shrunk 8% by YE 2009 and 12% by YE 2010



Source: A.C.T. Research.

TL and LTL Capacity Equilibrium Scenarios

- **TL, Scenario 1**: 1% bankruptcies per qtr.; minimal demand recovery; equilibrium not before 2011
- **TL, Scenario 2**: Fuel rises; failures rise to 2%/qtr.; modest demand recovery; spring/summer 2010
- **TL, Scenario 3**: Fuel doesn't rise much; demand recovers decently; summer 2010

- **LTL, Scenario 1**: YRC goes “poof” and the market is in equilibrium
- **LTL, Scenario 2**: YRC stays around, then it is 2011-2012 before equilibrium



Source: BBTCM analysis.



How Did Your March Madness Go?



Sources: BBTTCM analysis.

IMPORTANT DISCLOSURES**Price Chart**

To receive price charts on the companies mentioned in this report, please contact BB&T Capital Markets Research at 800-552-7757 x8785.

BB&T Capital Markets' rating distribution by percentage (as of June 30, 2009):

All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	43.2%	Buy (1)	7.6%
Hold (2)	53.5%	Hold (2)	4.6%
Underweight/Sell (3)	2.9%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.4%	Suspended (SP)	100.0%

BB&T Capital Markets Ratings System:

The BB&T Capital Markets Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock's estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst's best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

The definition of each rating is as follows:

Buy (1): estimated total return potential greater than or equal to 10%
Hold (2): estimated total return potential greater than or equal to 0% and less than 10%
Underweight (3): estimated total return potential less than 0%

NR: Not Rated
NA: Not Applicable
NM: Not Meaningful
SP: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

BB&T Capital Markets Equity Research Disclosures as of September 17, 2009

Company	Disclosure
Arkansas Best Corporation (ABFS)	1, 6, 9
C.H. Robinson Worldwide, Inc. (CHRW)	1, 6
Celadon Group, Inc. (CLDN)	1, 6, 9
Con-way Incorporated (CNW)	6, 9
Covenant Transportation Group, Inc. (CVTI)	1, 6, 9
Genesee & Wyoming Inc. (GWR)	4, 5, 6, 9
Heartland Express, Inc. (HTLD)	1, 6
J.B. Hunt Transport Services, Inc. (JBHT)	1, 6, 9
Knight Transportation, Inc. (KNX)	6
Landstar System, Inc. (LSTR)	1, 6, 9
Marten Transport, Ltd. (MRTN)	1, 6

Old Dominion Freight Line, Inc. (ODFL)	1, 8, 9
Quality Distribution, Inc. (QLTY)	1, 8, 9
Rush Enterprises, Inc. (RUSHA)	1, 8, 9
Saia, Inc. (SAIA)	1, 8, 9
The Greenbrier Companies, Inc. (GBX)	6, 9
Trinity Industries, Inc. (TRN)	8
USA Truck, Inc. (USAK)	1, 8, 9
Universal Truckload Services, Inc. (UACL)	1, 8
Wabash National Corporation (WNC)	5, 8
Wabtec Corporation (WAB)	6, 8, 9
Werner Enterprises, Inc. (WERN)	1, 8, 9
YRC Worldwide Inc. (YRCW)	1, 8

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