

“Current Trends in US Consumption, Manufacturing and Supply Chains”

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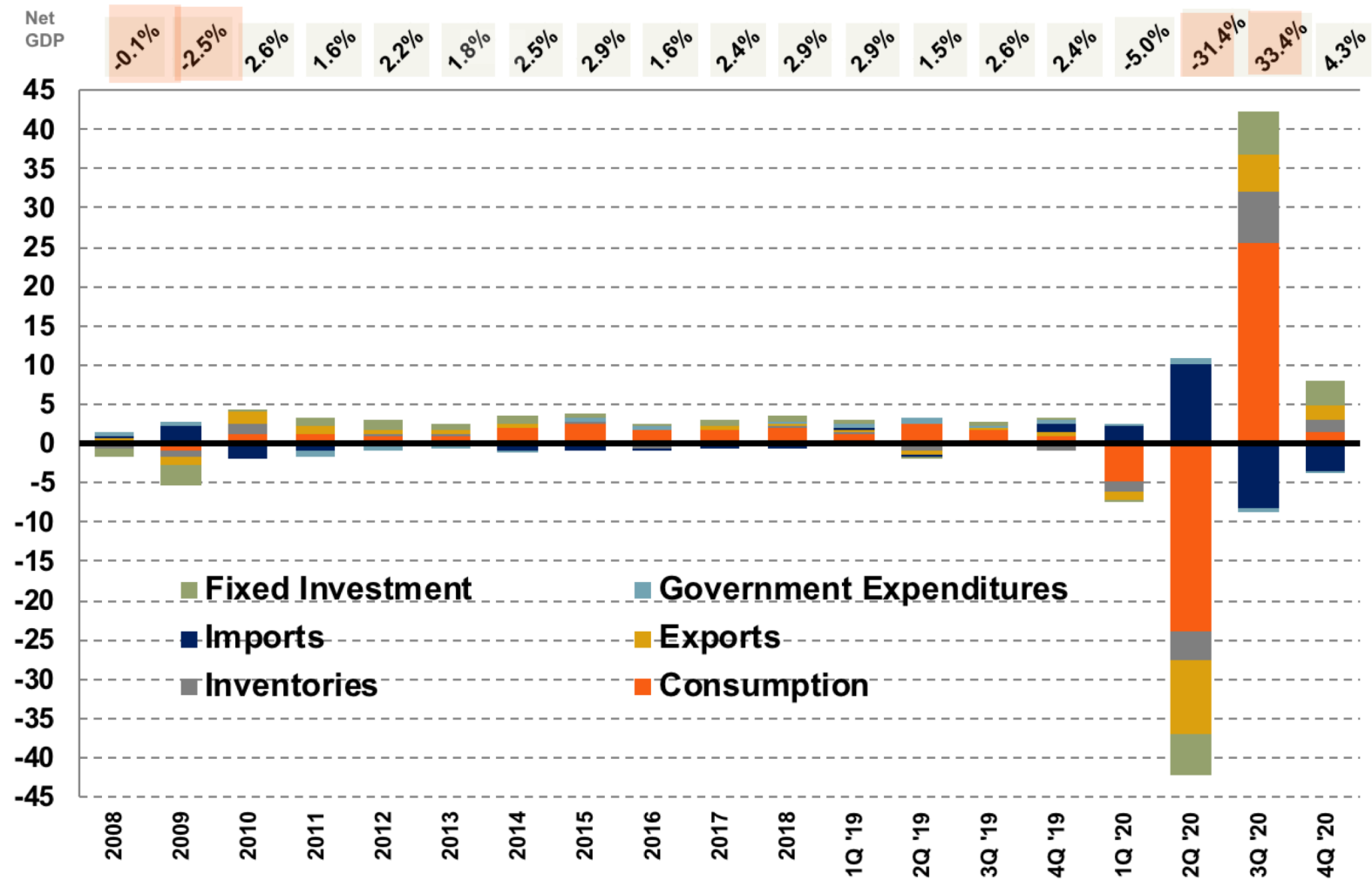
DABE
March 26, 2021



U.S. ECONOMIC GROWTH

Q4 real GDP rose 4.3% q/q, reflecting continued expansion after the coronavirus pandemic shutdown of the US economy

Real GDP Growth and its Contributions

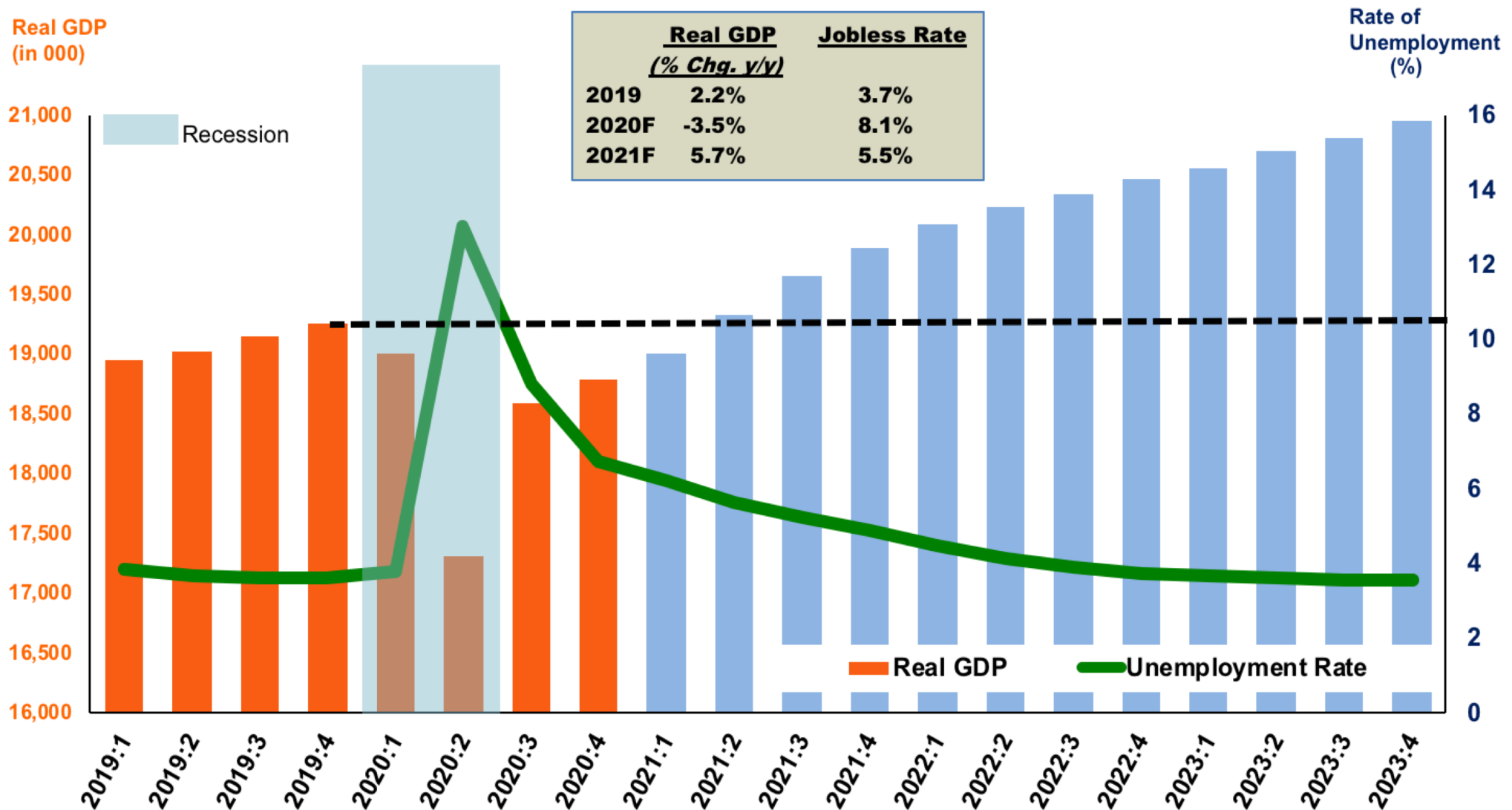


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, March 25, 2021

U.S. ECONOMIC GROWTH

Expect real GDP growth to expand by about 5.7% q/q in 2021. But it doesn't reach full employment levels until 2023

Real GDP vs. Rate of Unemployment



Source: BEA, March 15, 2021, IHS Markit March 2021

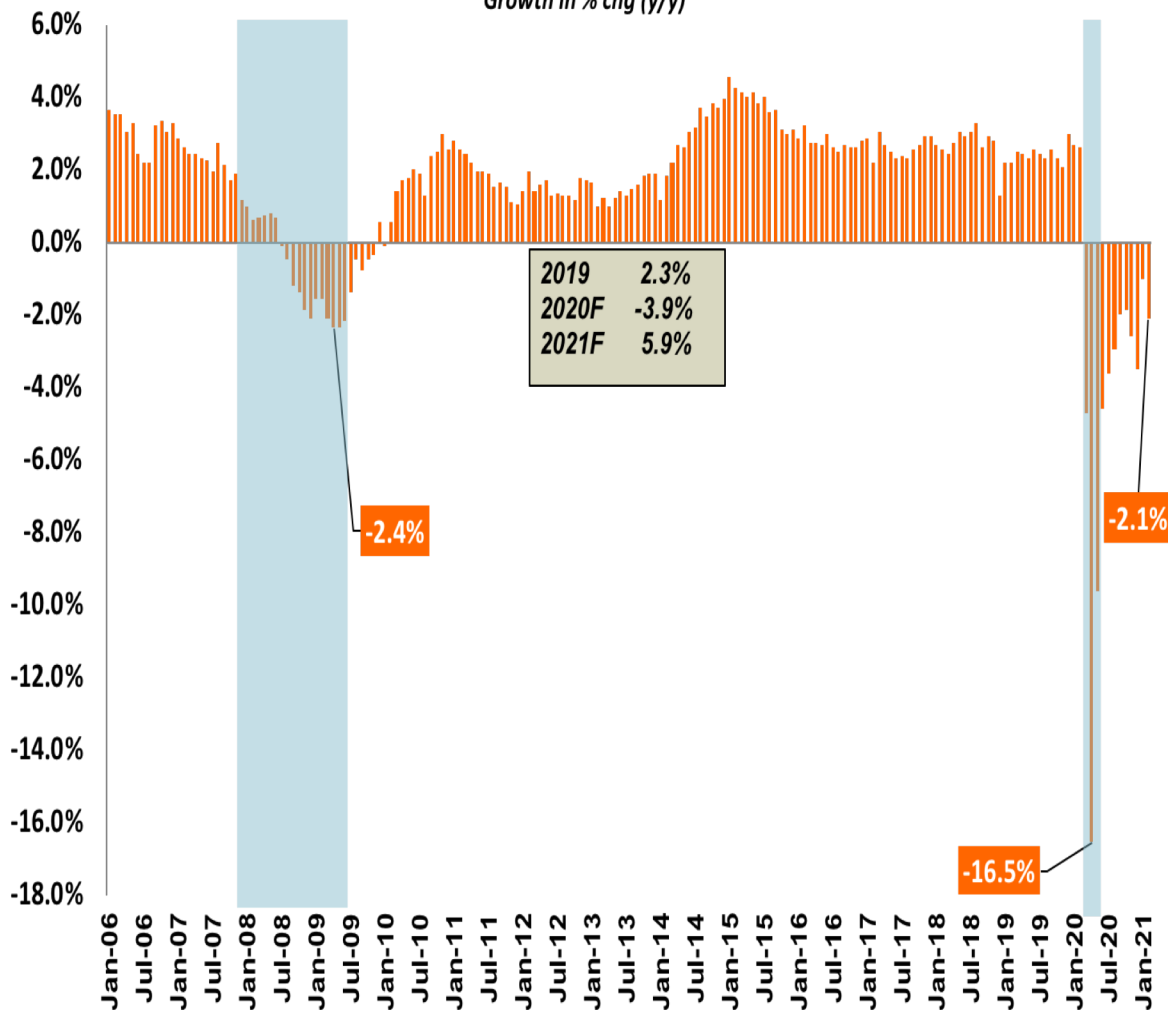
THE CONSUMER SECTOR

Consumer spending fell 2.1% y/y in Feb. '21, reflecting the pandemic recession, with outsized impacts on the service sector and weather

U.S. Consumer Spending

February 2021

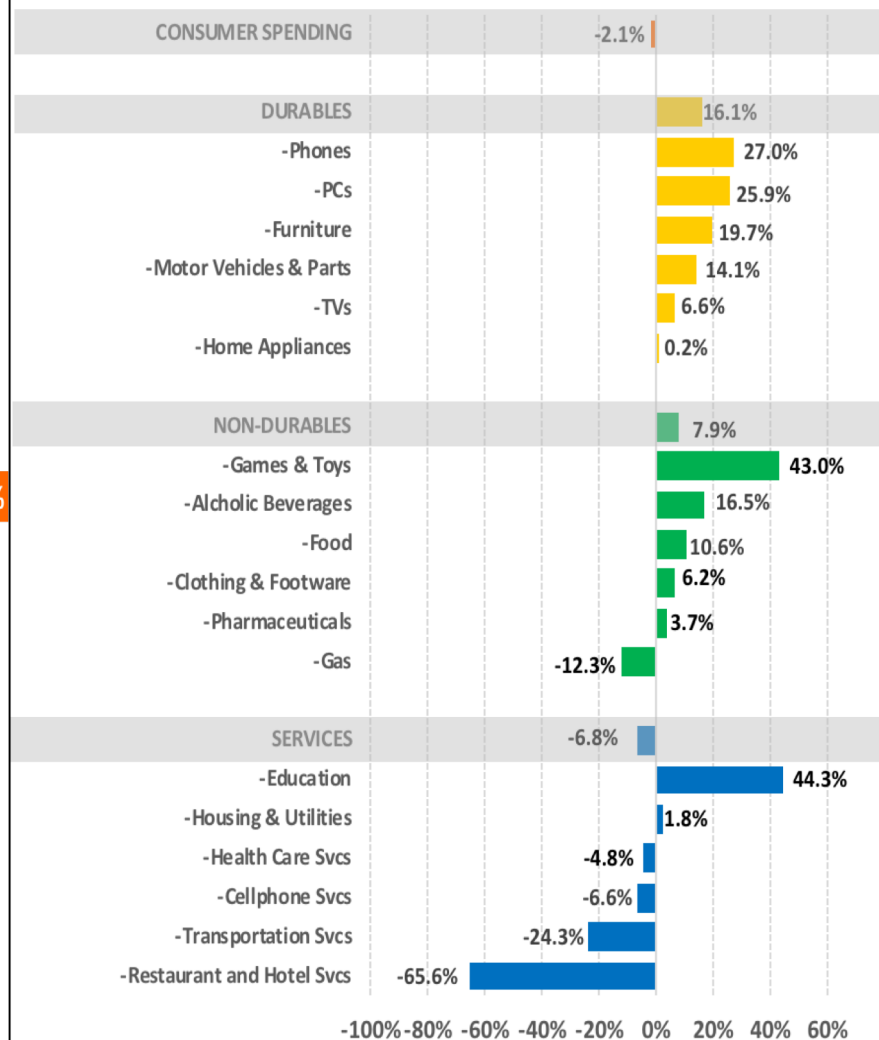
Growth in % chg (y/y)



SELECTED CONSUMER ITEMS

February 2021

(% Chg. Y/Y)



Source: Bureau of Economic Analysis, March 26, 2021

THE CONSUMER SECTOR

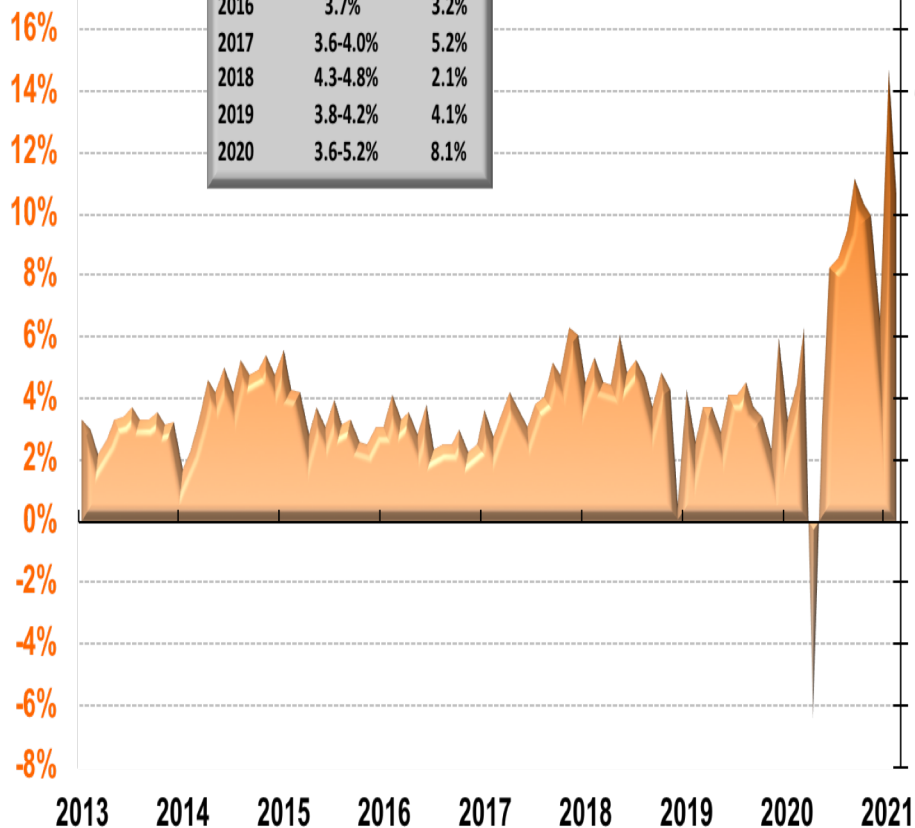
Core retail sales exceeded NRF expectations in Q4, led by e-commerce. They continue to be strong YTD. Expect 2021 growth of 7.4%

Retail Sales (Excludes Food, Gas, Automotive & Parts Dealers)

Thru FEBRUARY 2021

% Change (y/y)

National Retail Federation		
Holiday Sales		
	Estimate	Actual
2015	3.7%	3.1%
2016	3.7%	3.2%
2017	3.6-4.0%	5.2%
2018	4.3-4.8%	2.1%
2019	3.8-4.2%	4.1%
2020	3.6-5.2%	8.1%



FEB. 2021

+10.6%

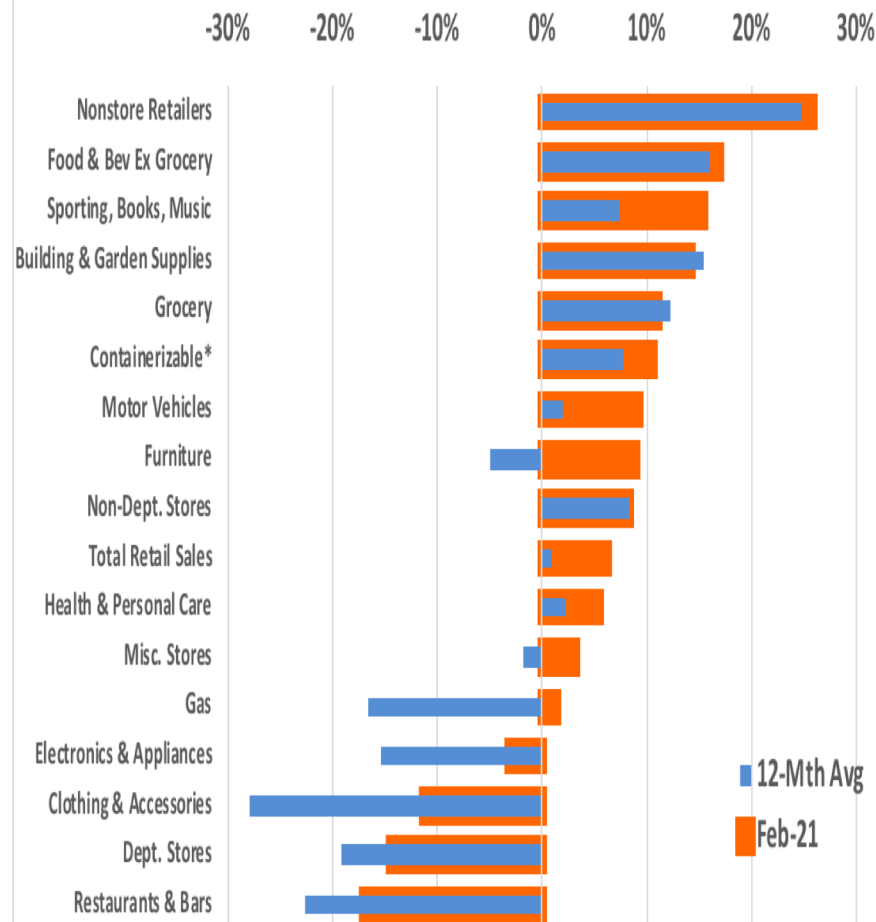
FEB. 2020

+4.4%

RETAIL SALES

%chg y/y

FEBRUARY 2021



Source: U.S. Census Department--Seasonally Adjusted, March 16, 2021, NRF March 16, 2021

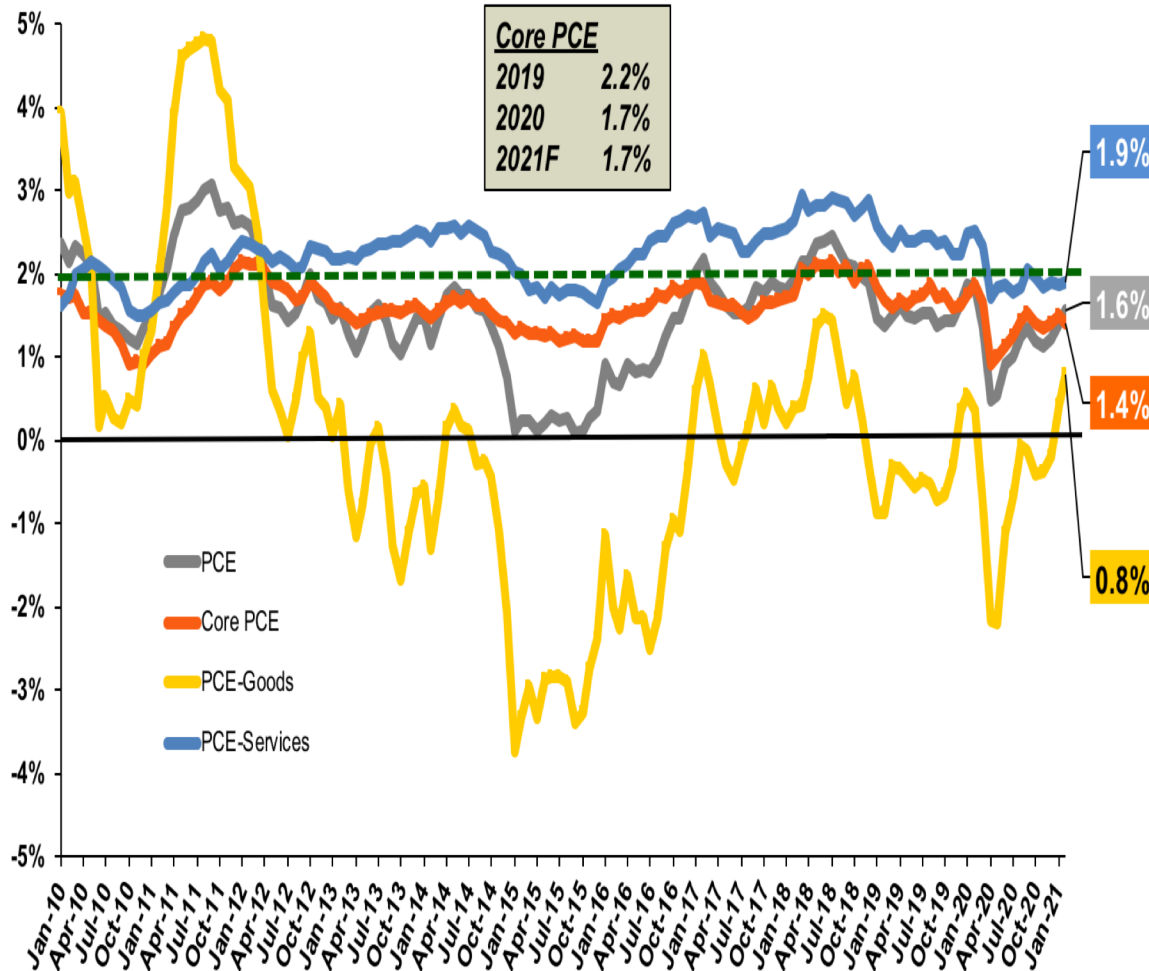
Source: U.S. Census Department, March 18, 2021

THE CONSUMER SECTOR

Core consumer inflation is contained at 1.4% y/y, reflecting price deflation in “globalization goods” partially offsetting rising services prices

Personal Consumer Expenditure (PCE) Inflation

February 2021
(seasonally adjusted, % chg y/y)



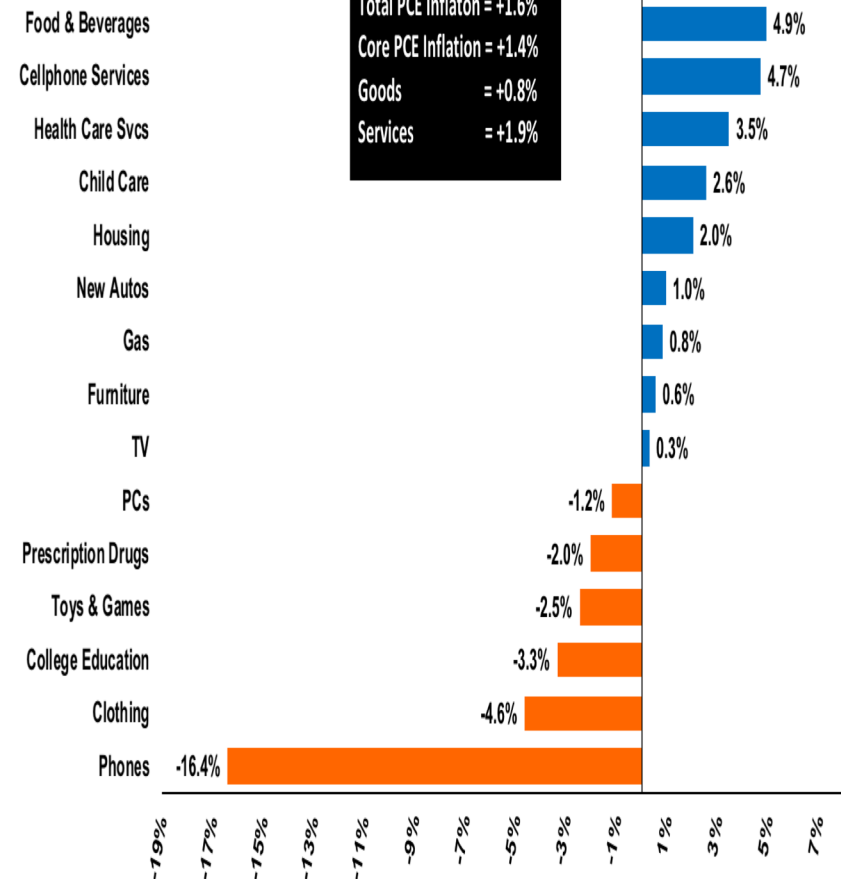
Source: Bureau of Economic Analysis, March 26, 2021

CONSUMER PRICE INFLATION (CPI)

FEBRUARY 2021

Selected Consumer Goods and Services

(% Chg Y/Y)



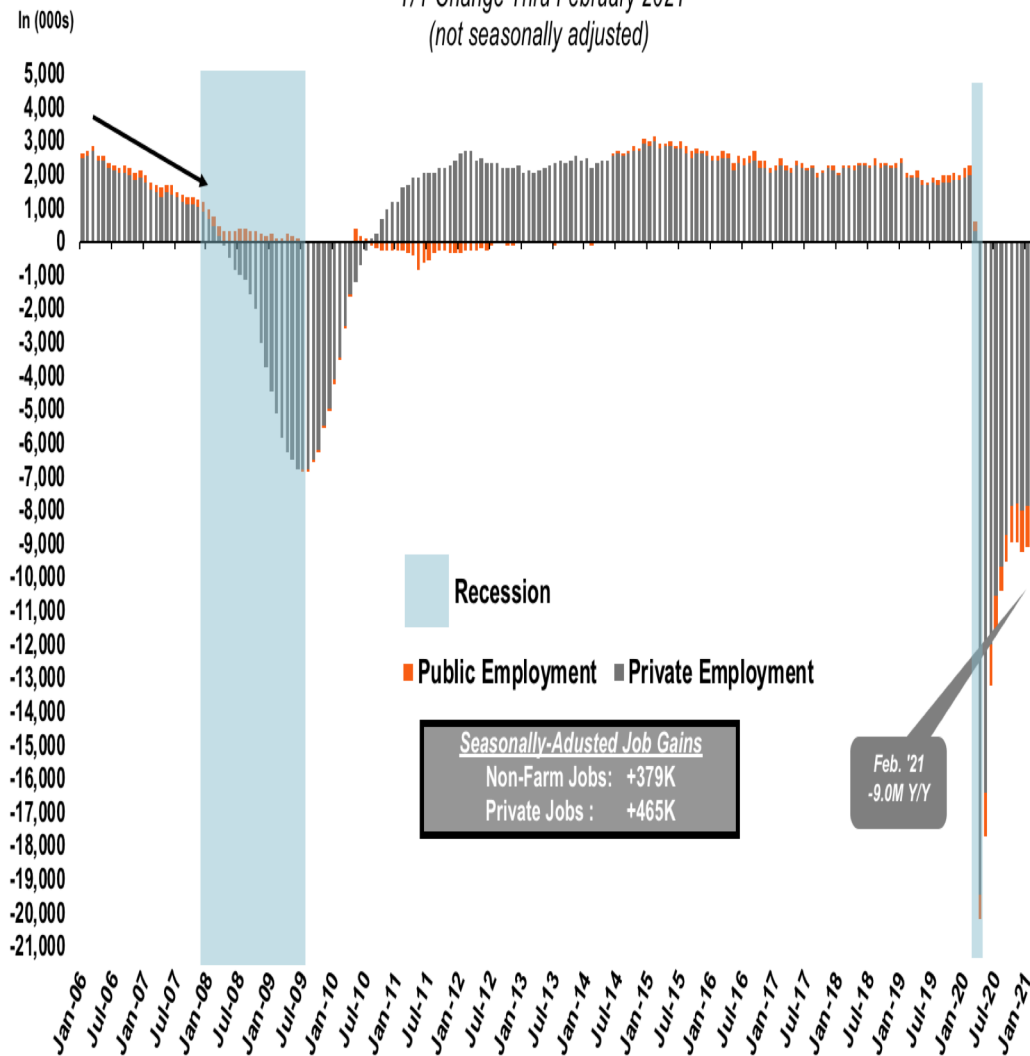
Source: Bureau of Economic Analysis, March 26, 2021

THE LABOR MARKET

The labor market added only 379K jobs in Feb. '21, 9M jobs less than the pre-pandemic level. The jobless rate fell slightly to 6.2%

Private and Public Sector Payroll Employment

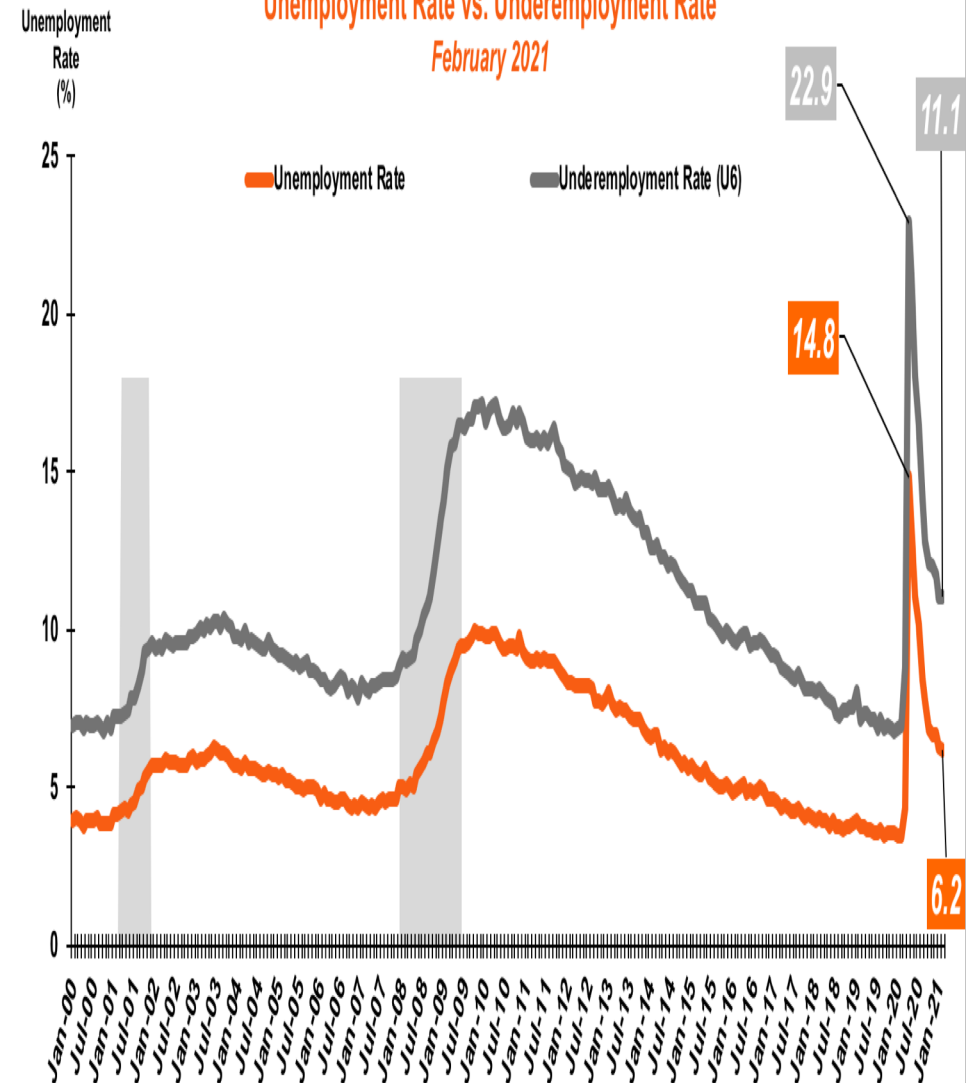
Y/Y Change Thru February 2021
(not seasonally adjusted)



Source: U.S. Dept. of Labor, Bureau of Labor Statistics, March 5, 2021

Unemployment Rate vs. Underemployment Rate

February 2021



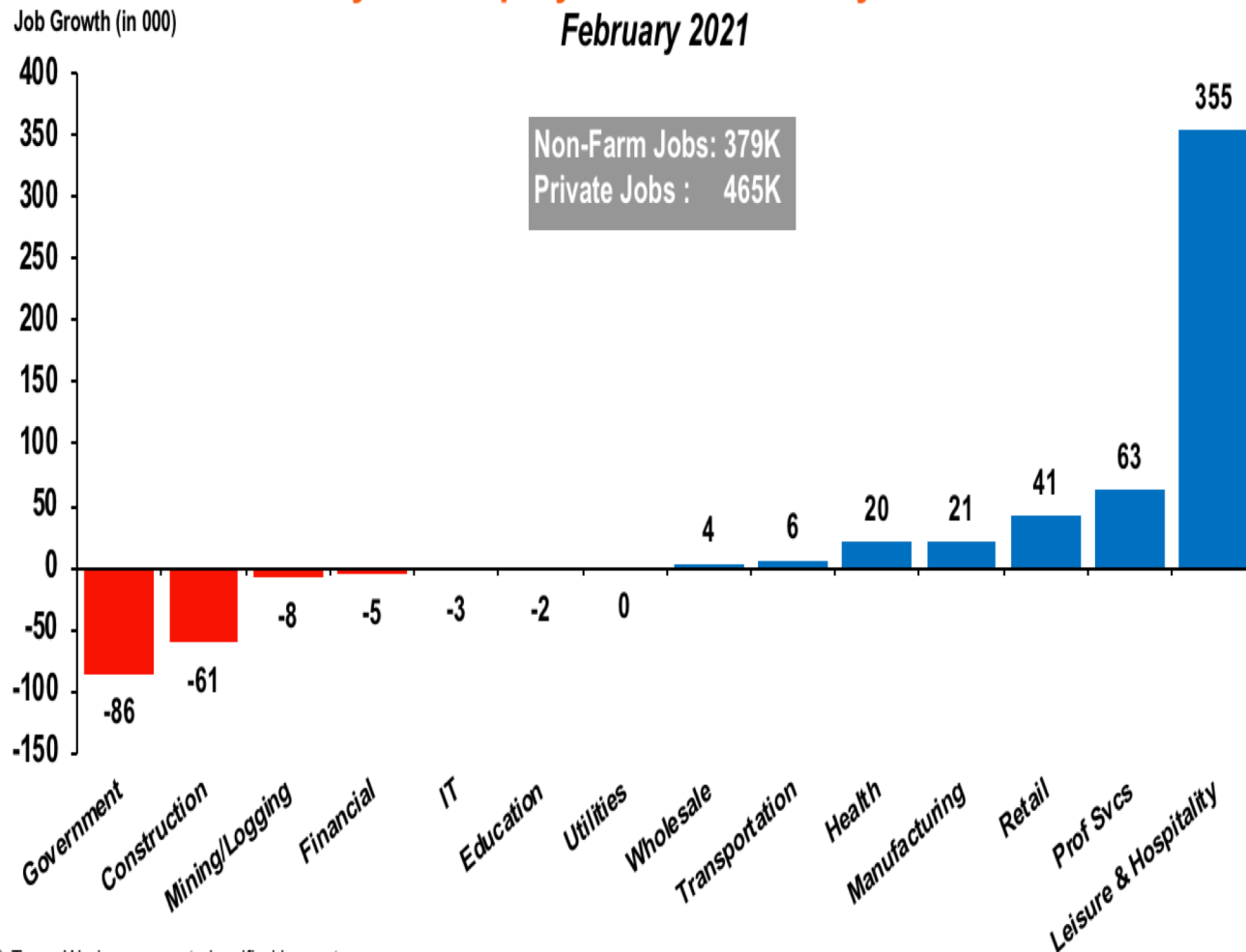
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, March 5, 2021

THE LABOR MARKET

Sectors in the labor market that lost the most jobs due to Covid-19 include leisure and hospitality, etc. The recovery rate by Feb. '21 was 58%

Payroll Employment Growth- By Sector

February 2021



* Temp Workers are not classified by sector

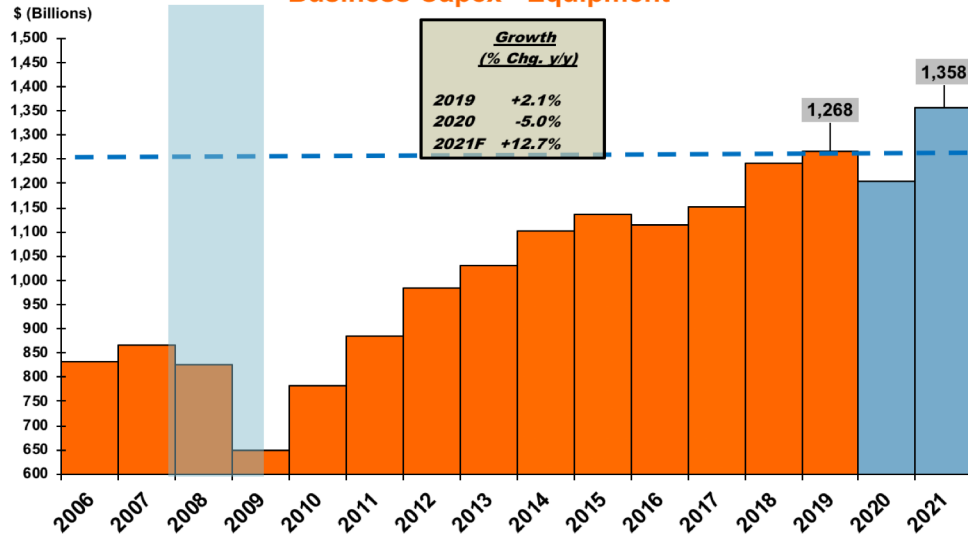
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, March 5, 2021

Sector	Loss (Mar-Apr)	Gain (May-Feb)	Recovery%
Leisure & Hospitality	8,224	4,773	58%
Prof Svcs	2,387	1,616	68%
Retail	2,375	2,012	85%
Health	1,617	1,039	64%
Manufacturing	1,385	824	59%
Construction	1,113	805	72%
Education	525	135	26%
Wholesale	409	149	36%
IT	281	33	12%
Financial	279	174	62%
State & Local Govt.	229	(362)	-158%
Transit & Passenger	186	60	32%
Trucks	96	47	49%
Airlines	78	(34)	-43%
Mining/Logging	68	(33)	-49%
Barges	6	(3)	-59%
Railroads	6	(12)	-220%
Utilities	4	(5)	-121%
Pipelines	0	(3)	0%
Federal Govt.	(20)	(18)	90%
NON-FARM TOTAL	22,362	12,887	58%

BUSINESS CAPEX

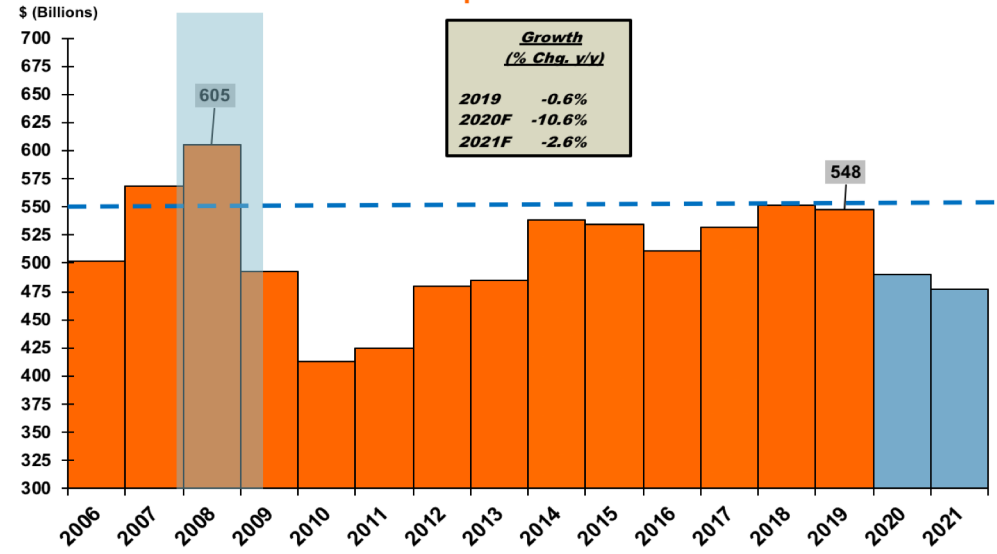
Expect U.S. business capex to display a tale of two cities in 2021, with replacement capex growing and expansion capex continuing to decline

Business Capex - Equipment

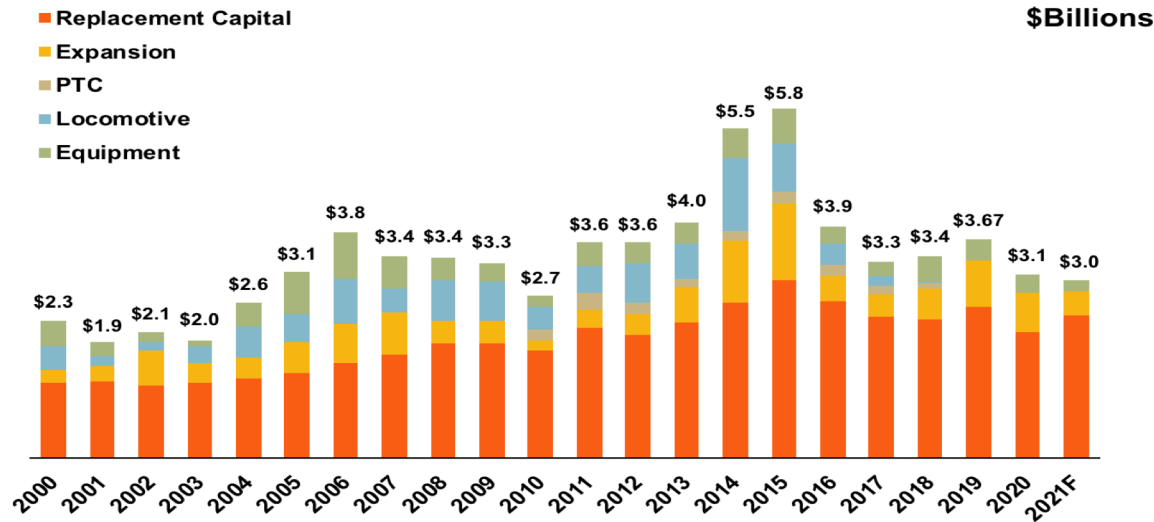


Source: IHS Markit, March 2021

Business Capex - Structures



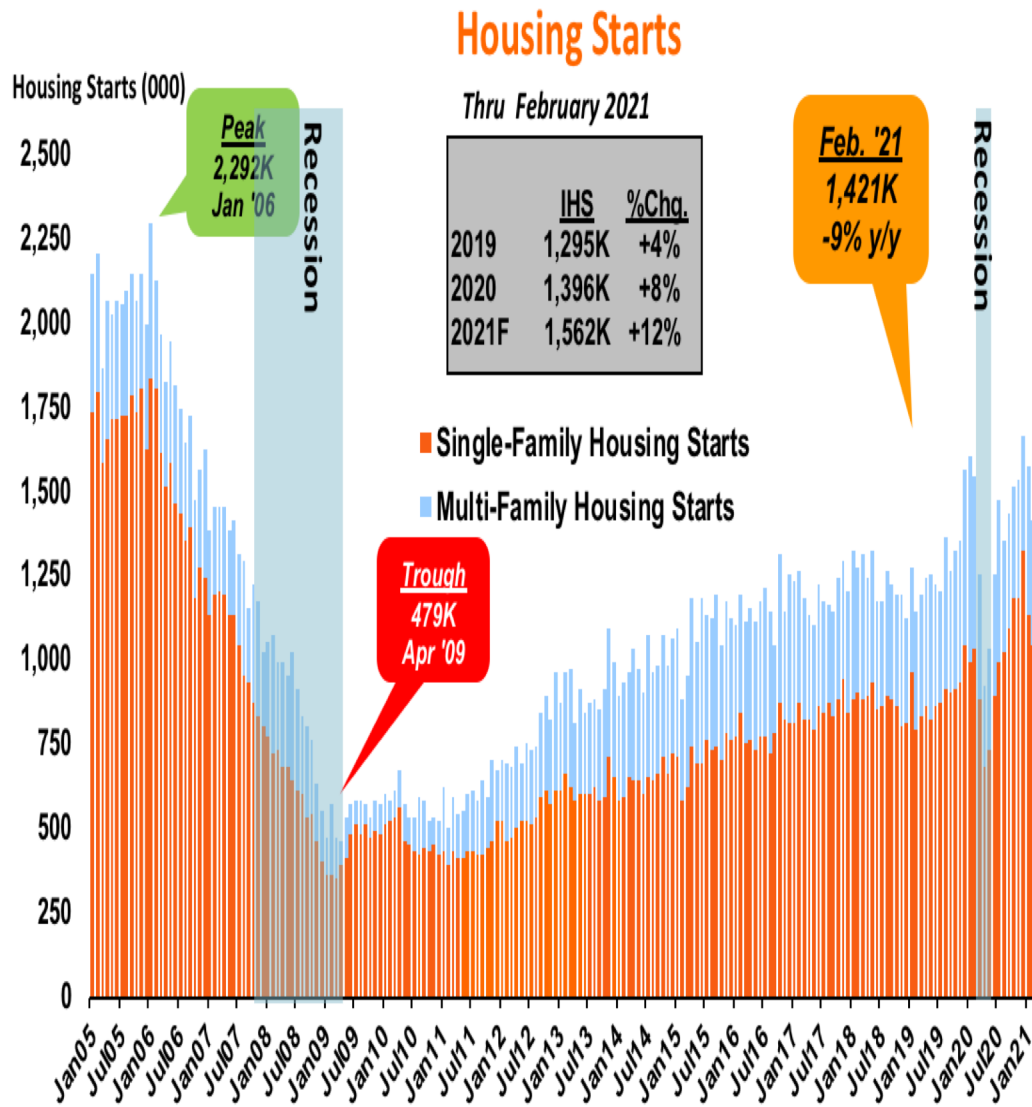
Source: IHS Markit, March 2021



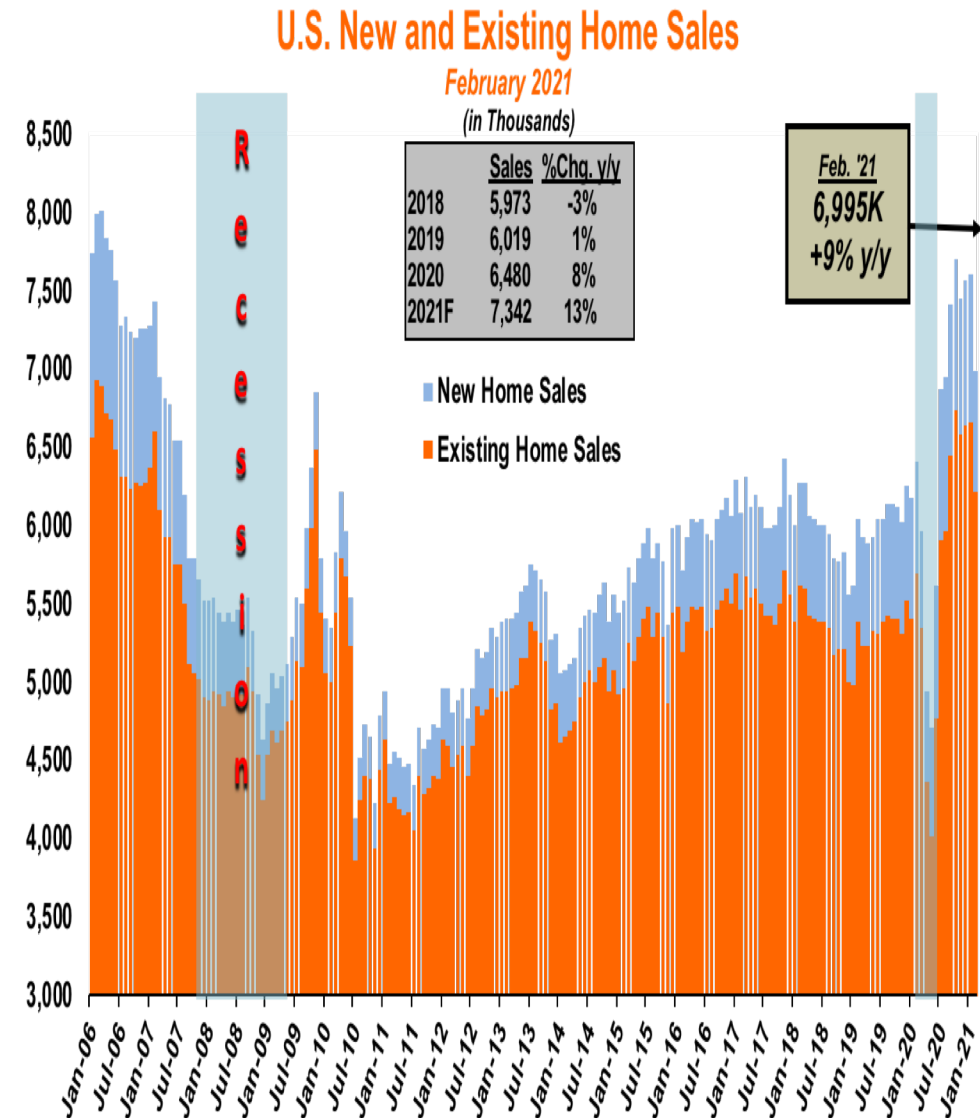
Source: BNSF Railway, 2020 Fourth Quarter Financial Report, March 2021

THE HOUSING SECTOR

The housing market is resurging. Both single-family home construction and sales show good growth due to low mortgage rates



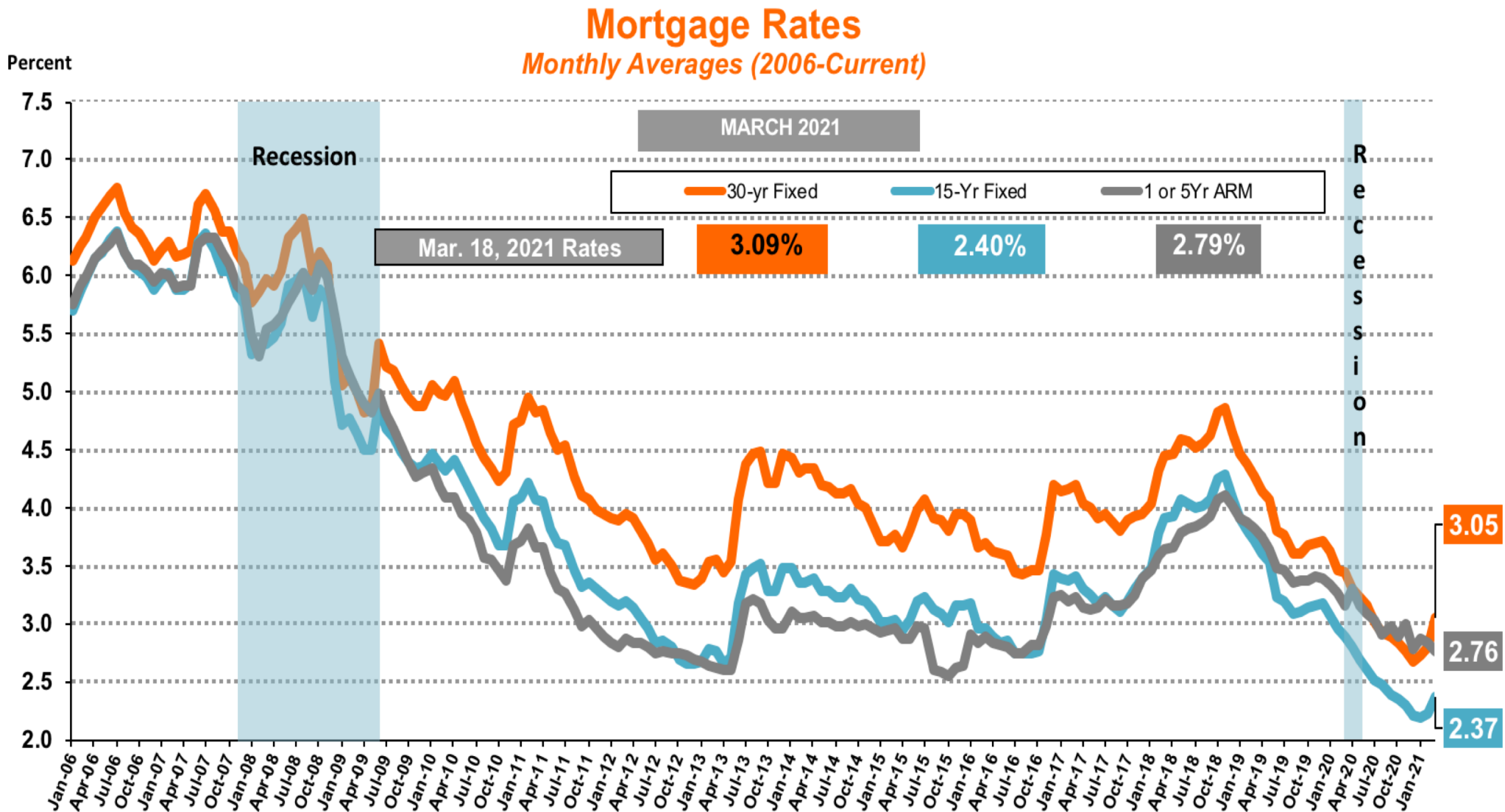
Source: Census Bureau, March 17, 2021, IHS Markit, March 2021



Source: U.S. Department of Census, Mar. 23, 2021; NAR, Mar. 22, 2021, IHS Markit, SAK Economics LLC, Mar. 2021

HOUSING SECTOR

Mortgage rates have fallen by over 180 basis points since mid-Nov '18 to record lows, due to the pandemic, trade tensions, lower interest rates

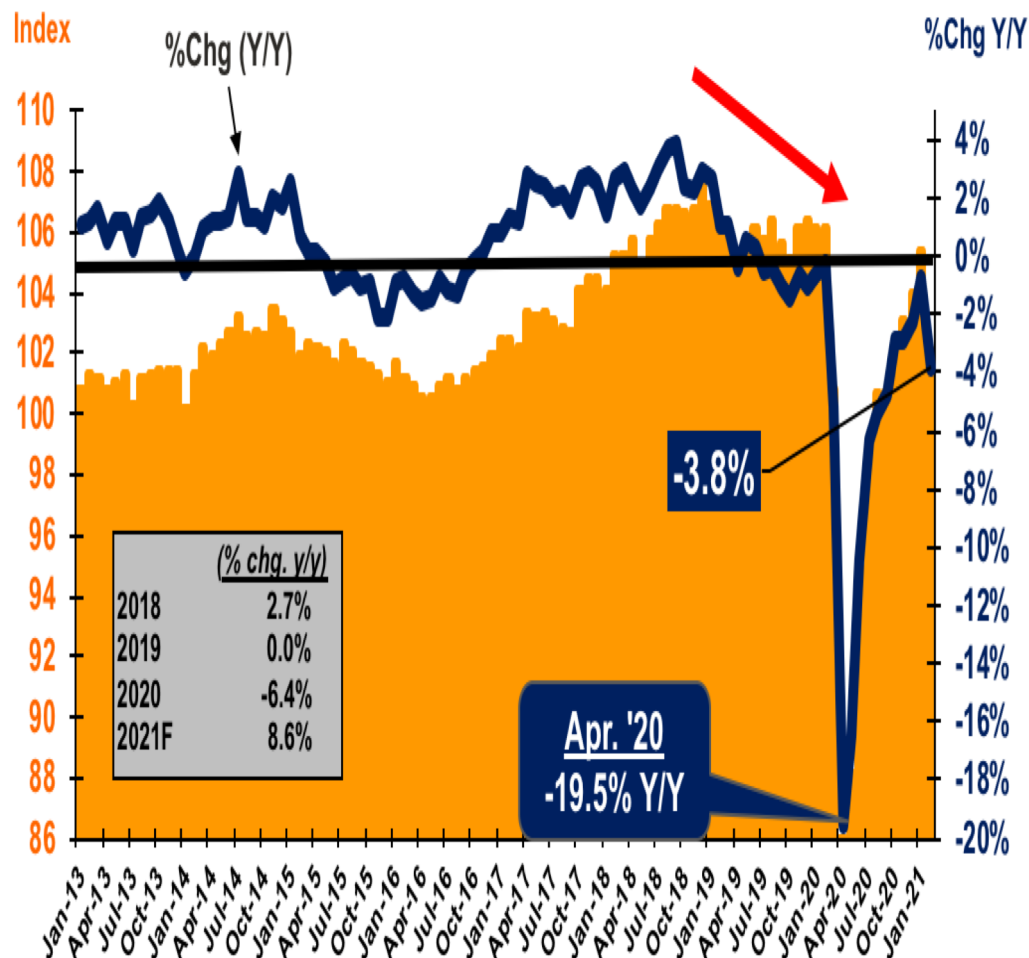


Source: Freddie Mac, Primary Mortgage Market Survey, March 18, 2021

THE U.S. MANUFACTURING SECTOR

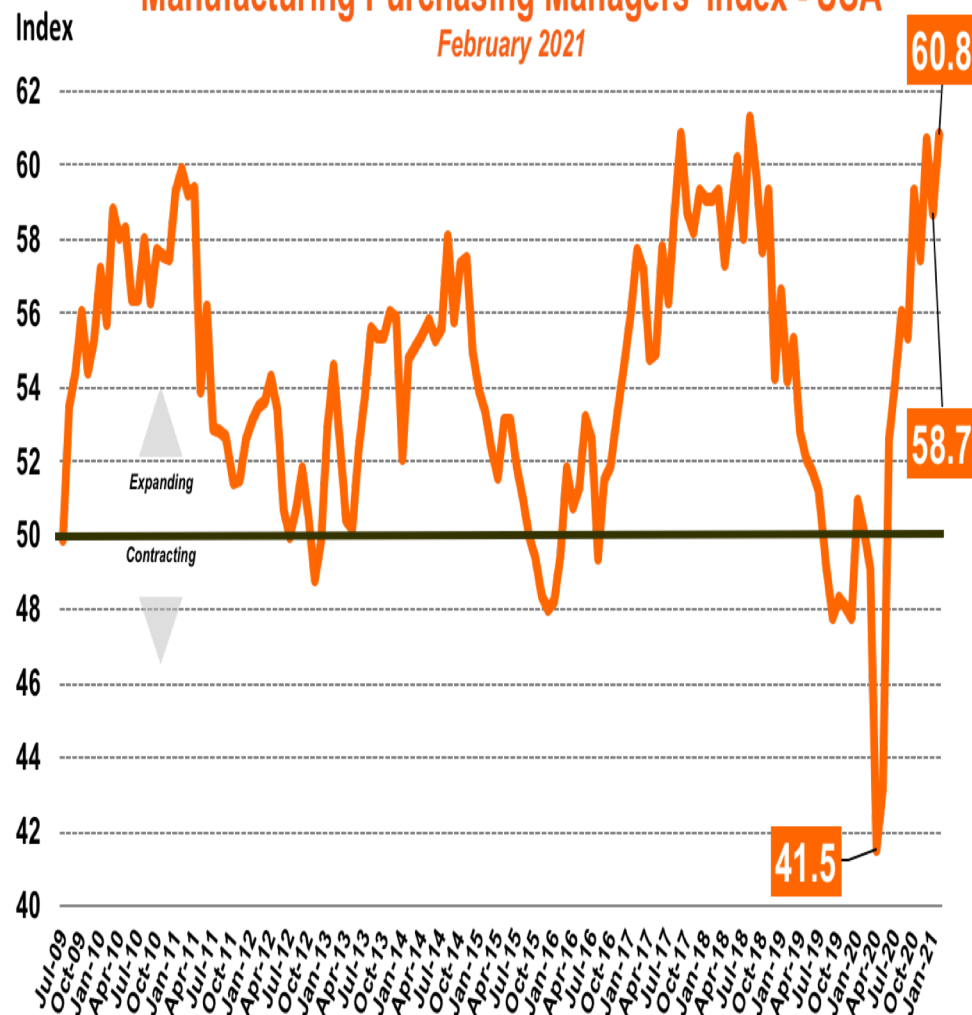
Recession started a year earlier for US factories due to tariffs. The pandemic added a steep 20% y/y decline in Apr '20

Manufacturing Output
Thru February 2021



Source: Federal Reserve Board, March 16, 2021; IHS Markit, March 2021

Manufacturing Purchasing Managers' Index - USA
February 2021

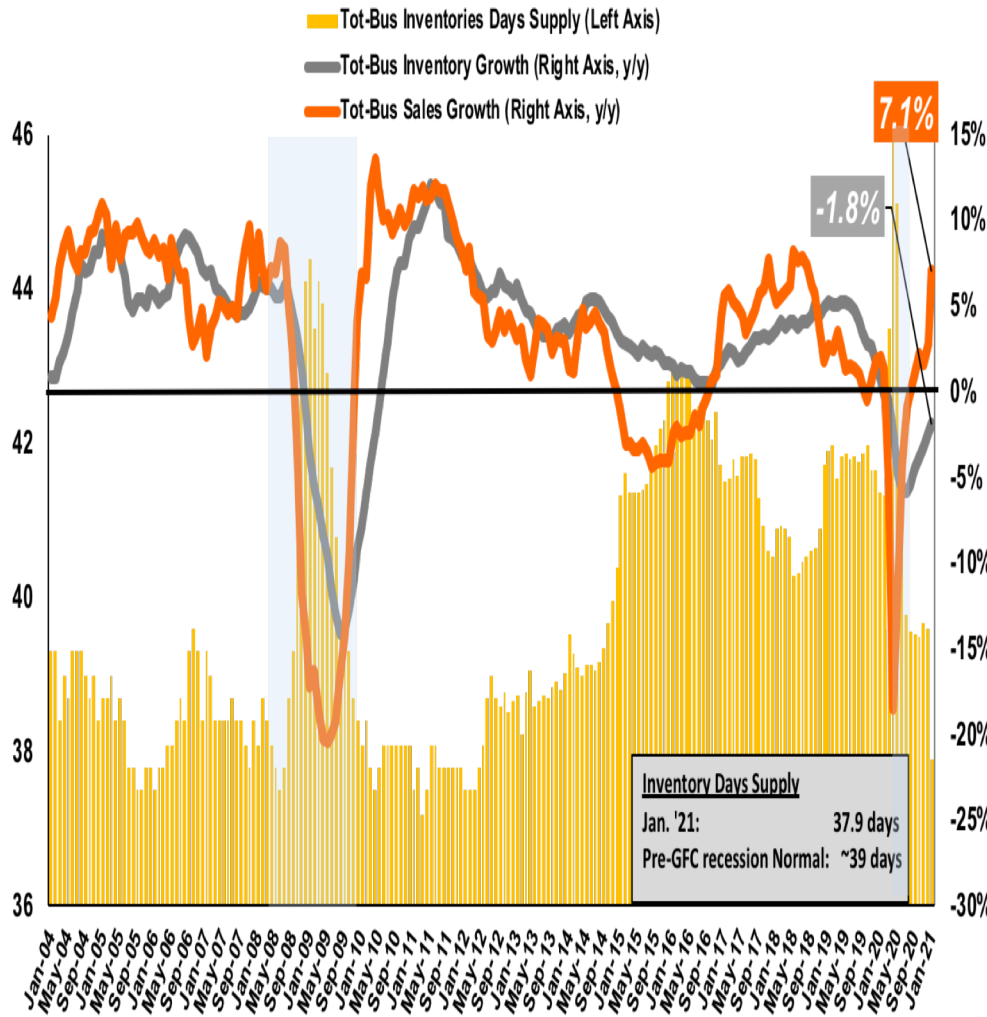


Source: Markit Economics; Institute of Supply Managers; March 1, 2021

BUSINESS INVENTORIES

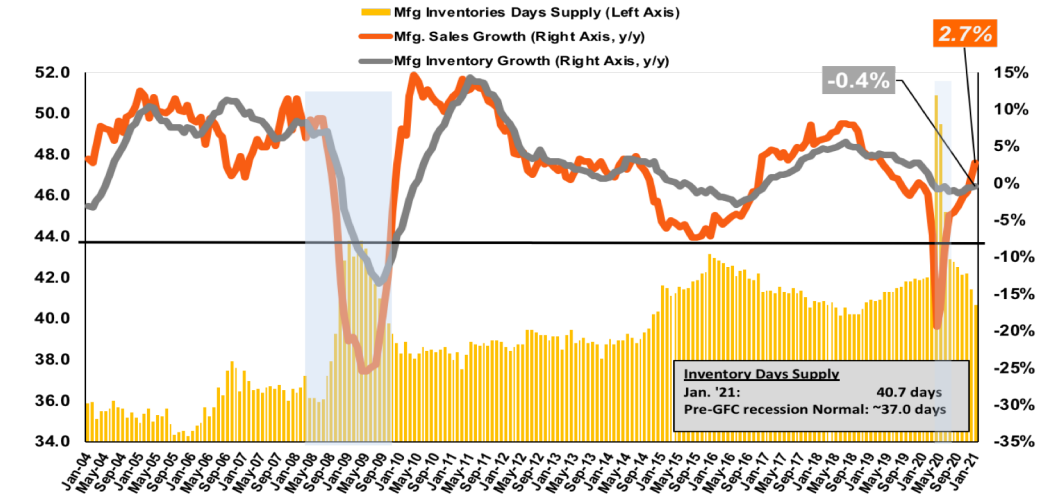
Total business inventories days-supply are low driven by pandemic, tariffs, supply chain disruptions and strong e-commerce retail sales

Total Business Inventories vs. Sales
January 2021



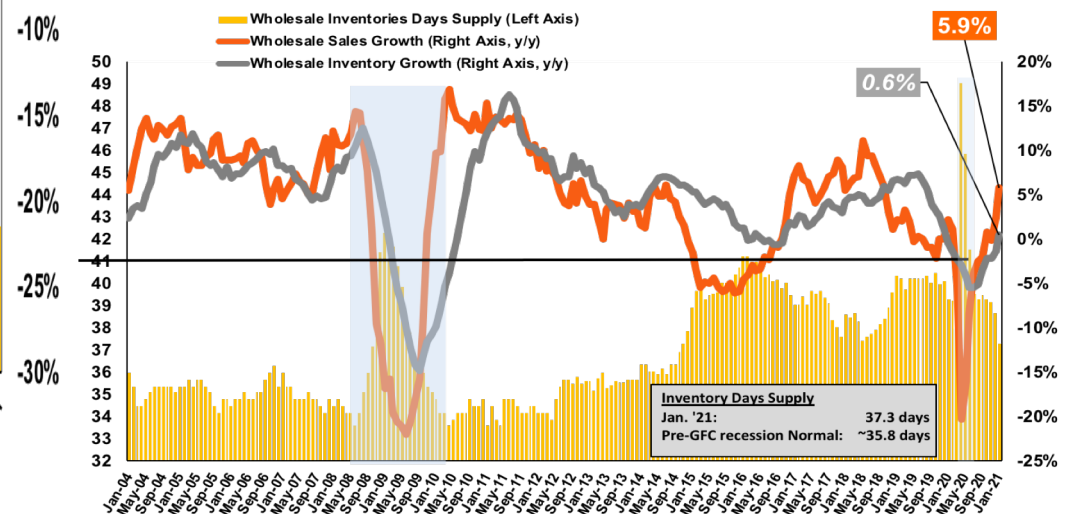
Source: U.S. Census Bureau, March 16, 2021

Manufacturing Inventories vs. Sales
January 2021



Source: U.S. Census Bureau, March 16, 2021

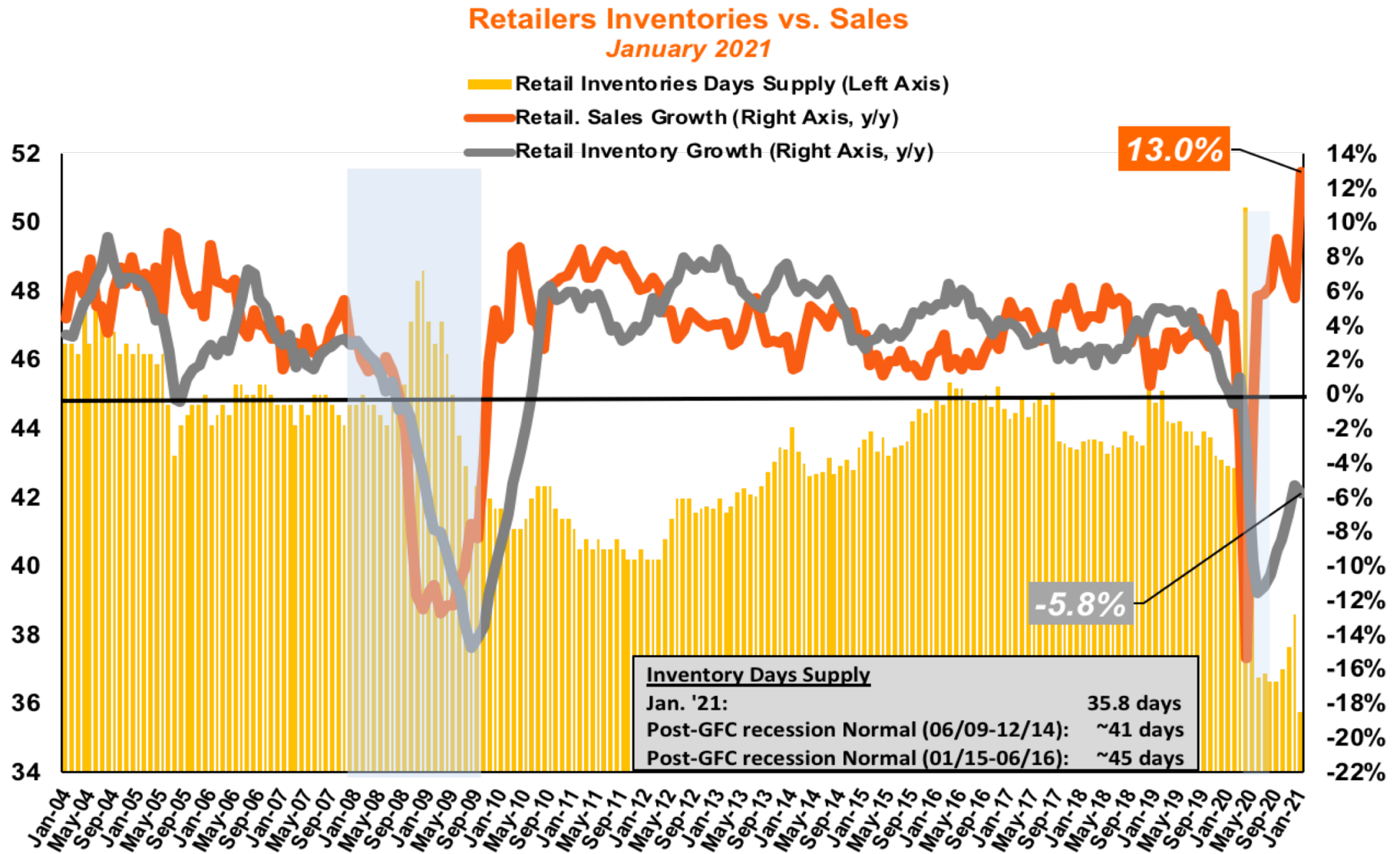
Wholesalers Inventories vs. Sales
January 2021



Source: U.S. Census Bureau, March 16, 2021

RETAIL INVENTORIES

Retail inventory days-supply has fallen to new record lows, due to pandemic, strong sales and bottlenecks. Expect rebuilding of stockpiles in 2021



Source: U.S. Census Bureau, March 16, 2021

TRADE

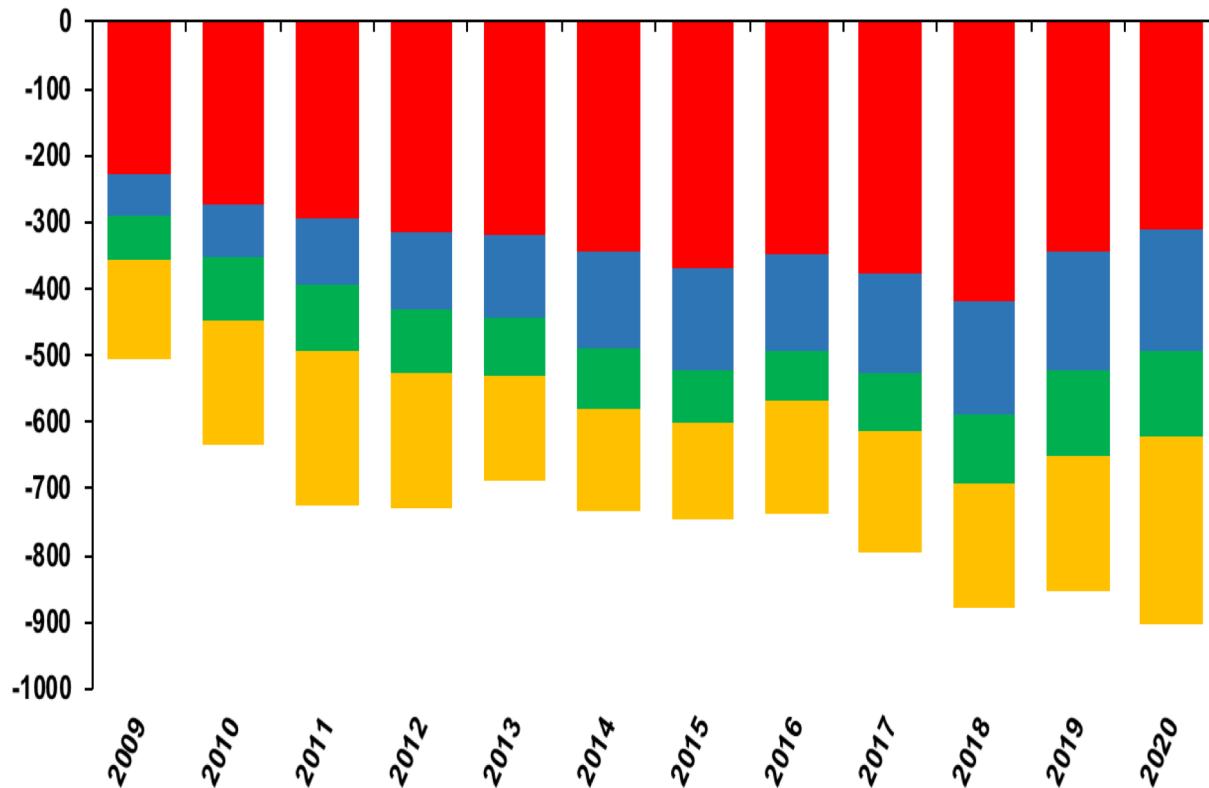
The trade war failed to reduce the U.S. goods trade deficit, which increased by \$52B to a record \$905B in 2020

U.S. Goods Trade Balance
2009-2020*

■ China ■ EU ■ NAFTA ■ Rest of World

US Total - 2020 YTD
Trade Deficit: \$905B
Y/Y Chg: +\$52B

\$ Billions

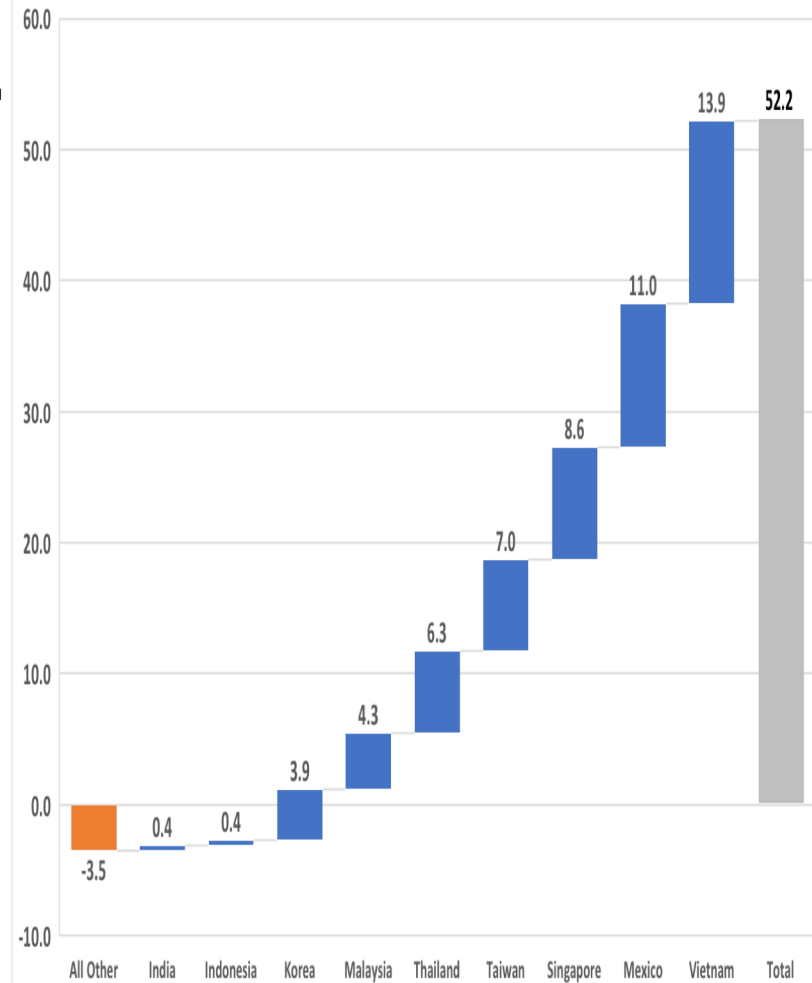


* Annualized YTD Imports and Exports Thru December 2020

Source: U.S. Census Bureau, February 5, 2021

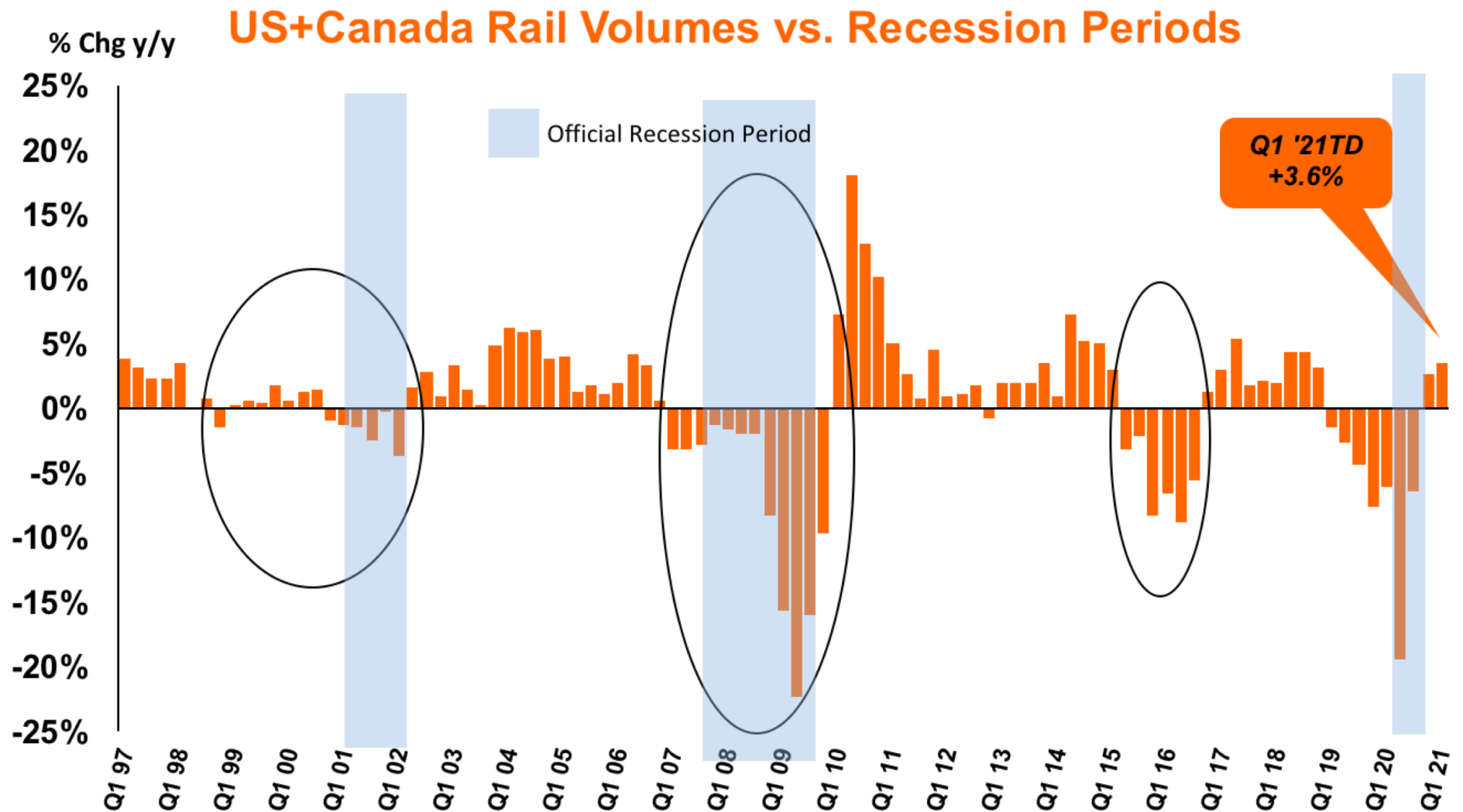
U.S. Goods Trade Balance
Sources of Growth (2020 vs. 2019)

■ Increase ■ Decrease ■ Total



RAIL VOLUMES AND THE BUSINESS CYCLE

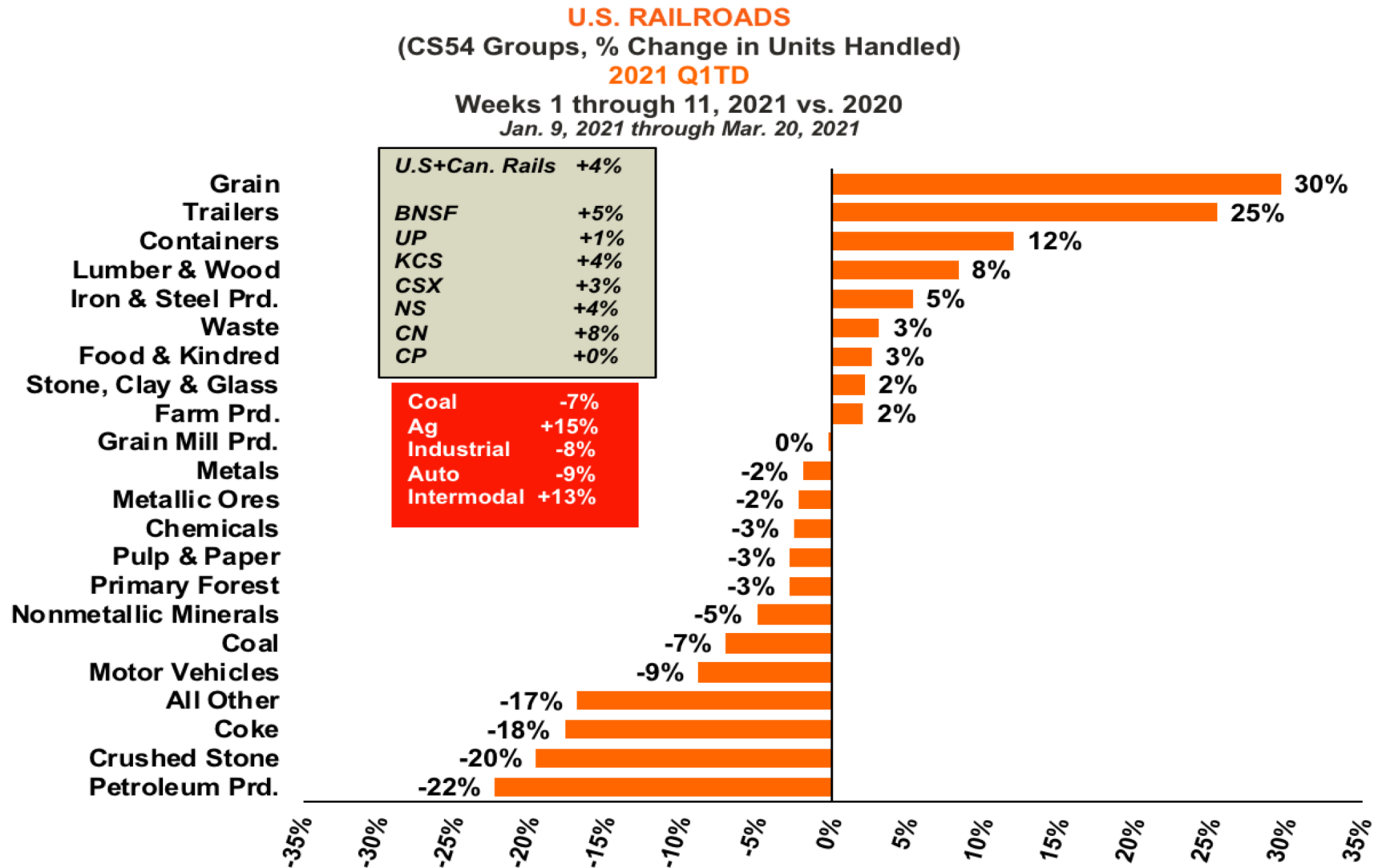
Rail sector volume growth is a leading indicator of recessions. Q1TD growth is +4% y/y, driven largely by record intermodal shipments



Source: Association of American Railroads, March 24, 2021

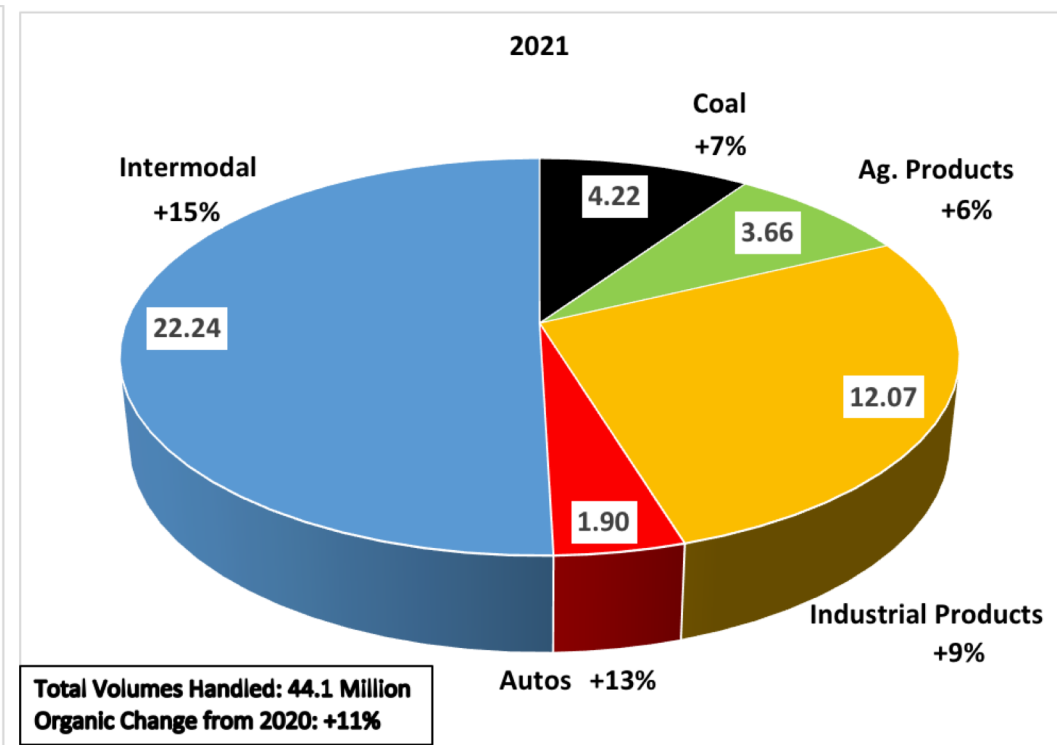
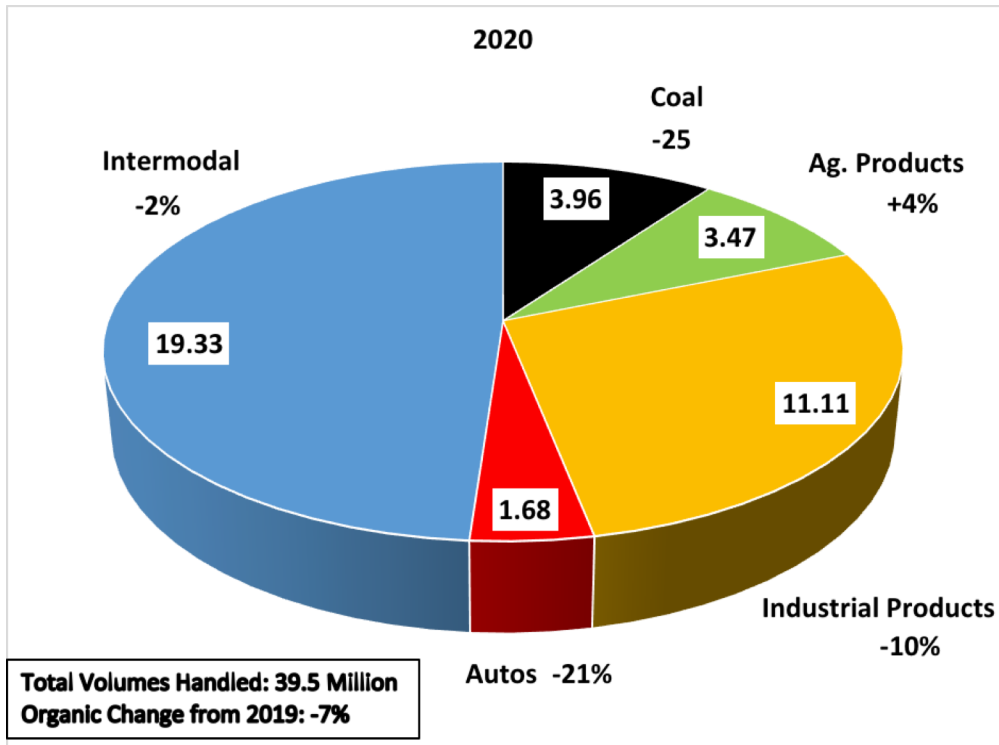
THE RAIL SECTOR

Volumes on Rails are +3.6% y/y in Q1TD, reflecting the K-shaped recovery. Declining sectors exceed growing sectors (12 out of 22)



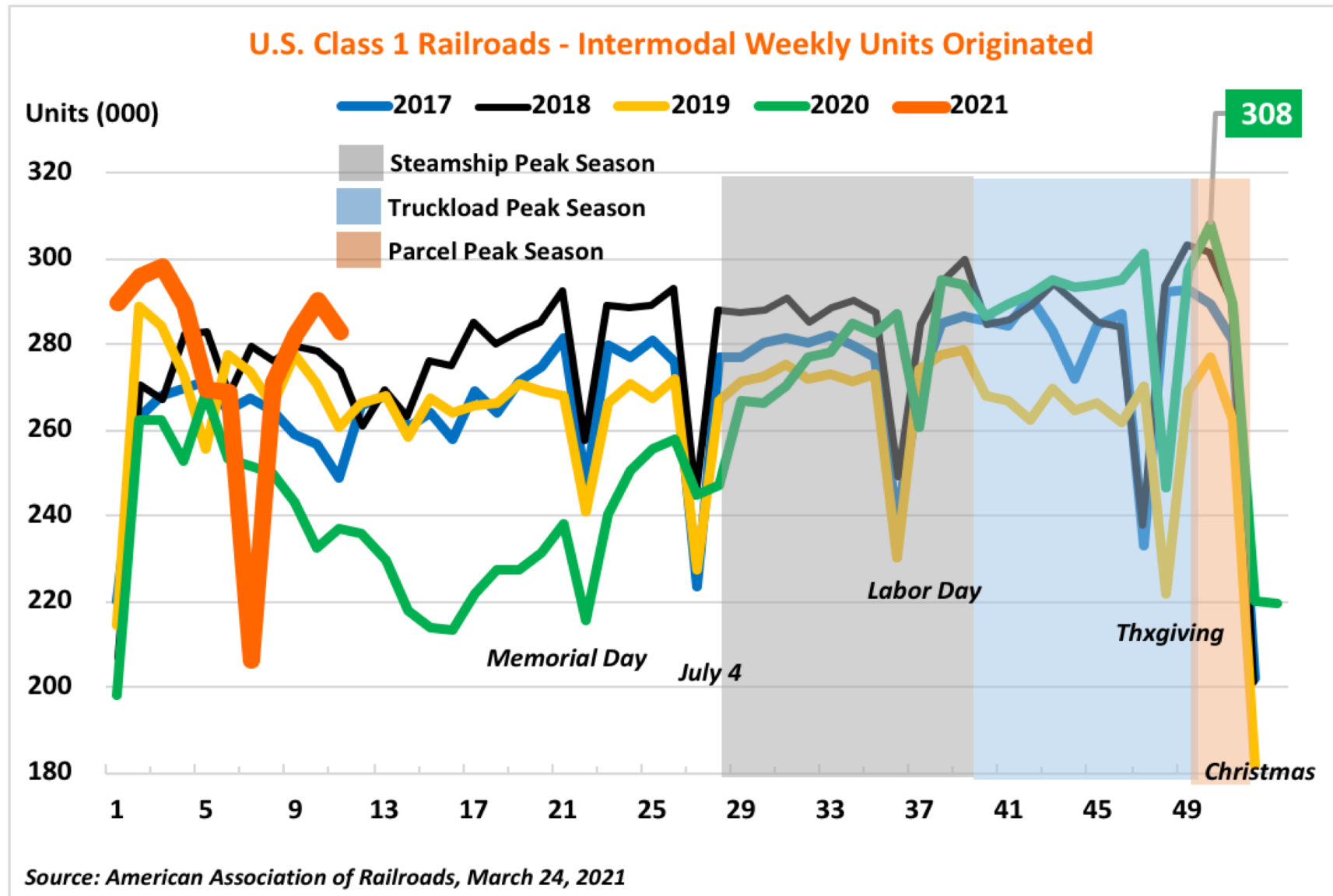
Source: Association of American Railroads, March 24, 2021

RAIL OUTLOOK

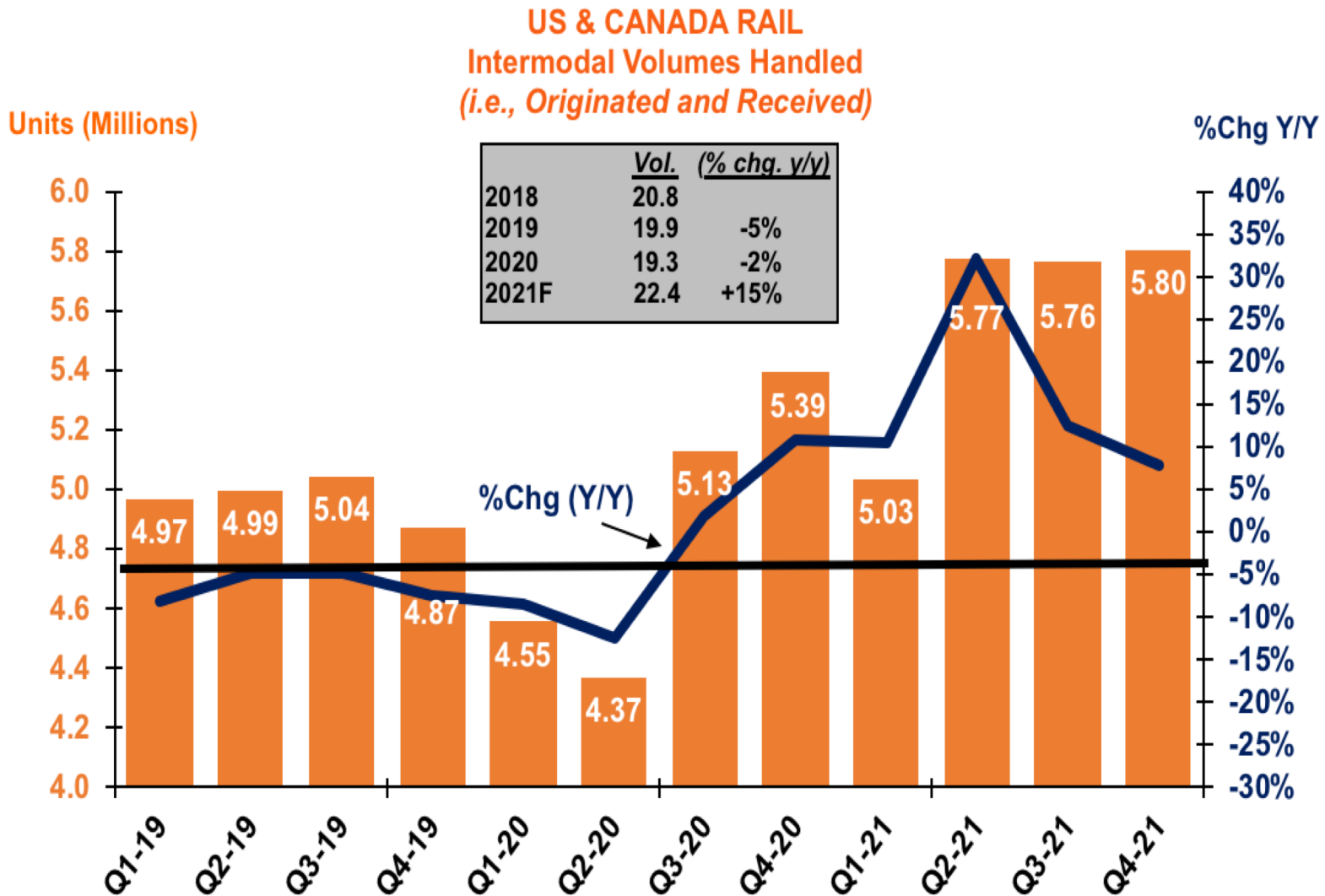


THE RAIL SECTOR

Intermodal shipments saw weekly vols record during the 2020 peak-season. In '21, weekly vols are slowing due to weather and CNY

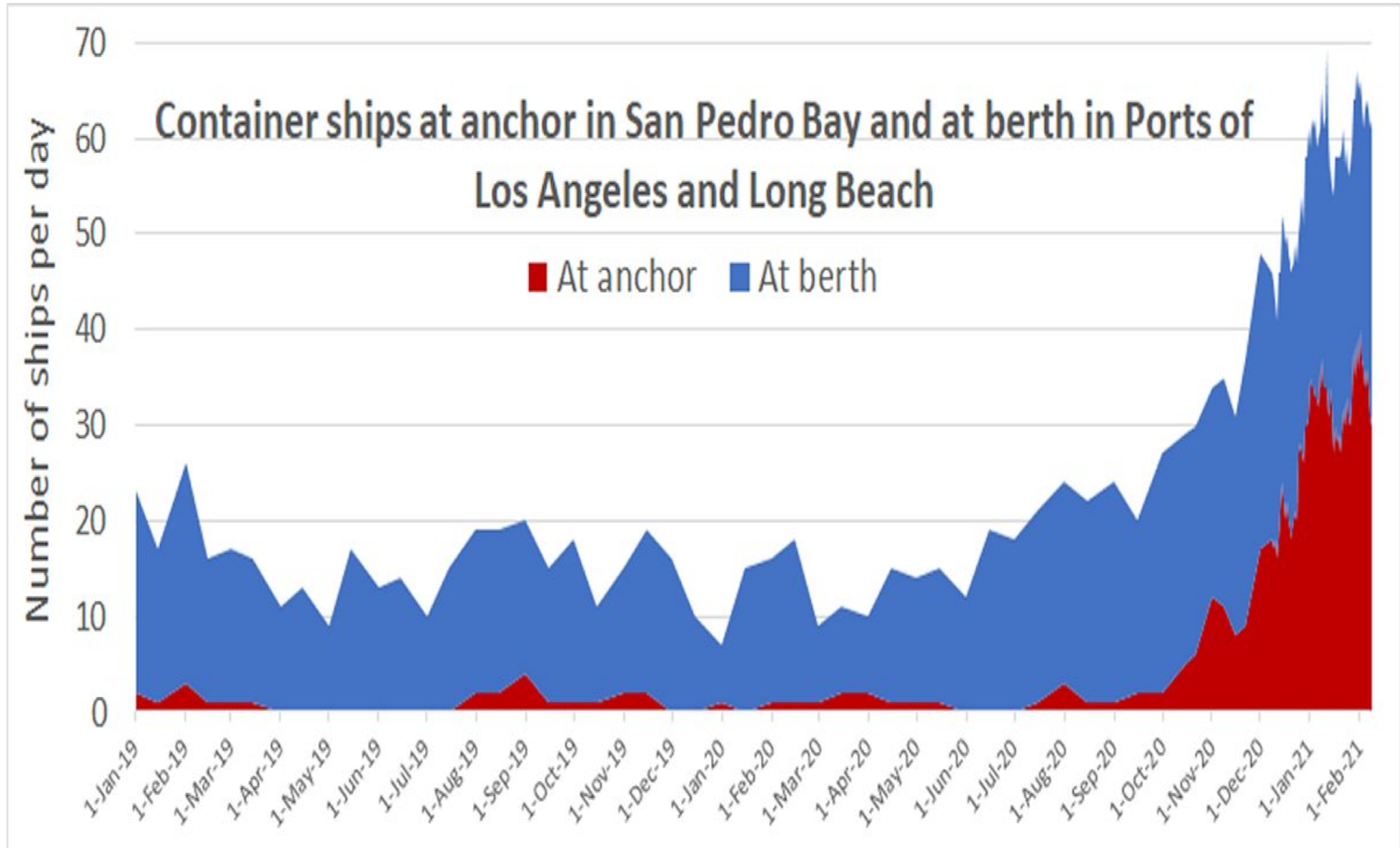


INTERMODAL OUTLOOK



Source: SAK Economics LLC, March 24, 2021

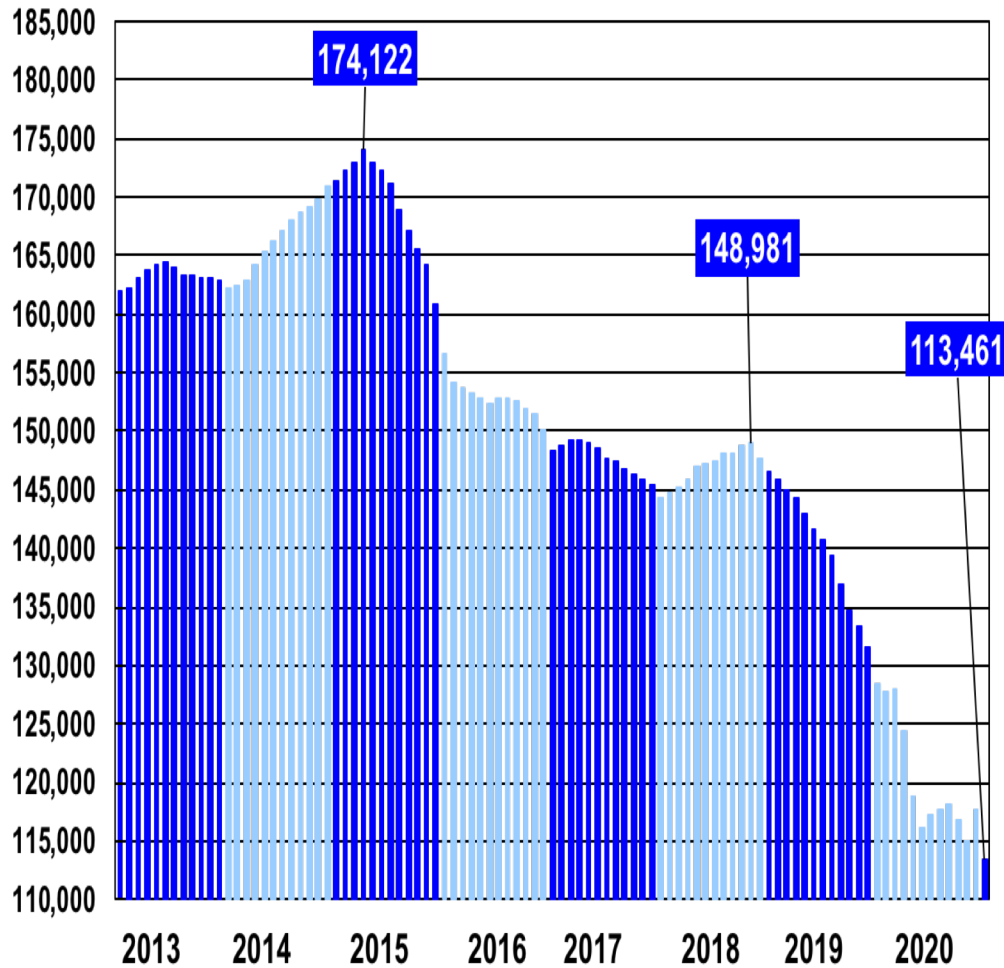
INTERMODAL OUTLOOK – PORT CONGESTION RISK



THE RAIL SECTOR

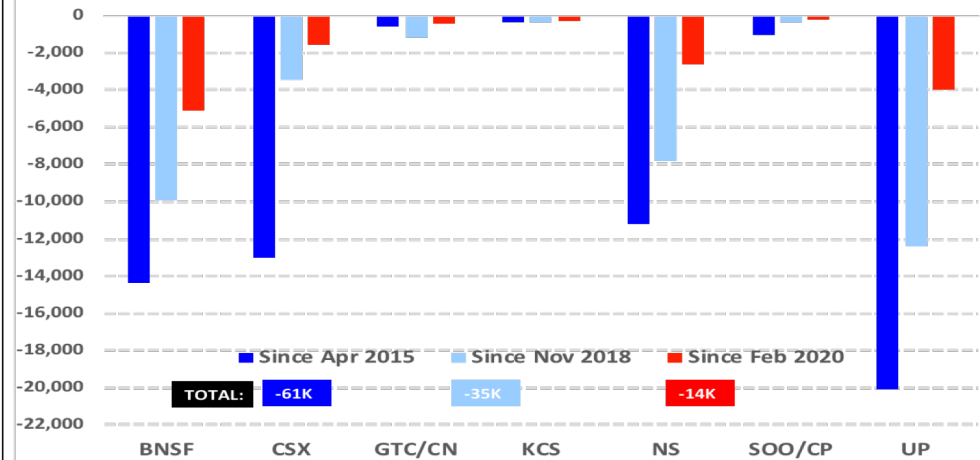
The rail sector has lost 61K jobs since Apr. '15. Of that, about 14K jobs have been lost since the pandemic

Class I Railroad Employment: Jan. 2013 - Jan. 2021



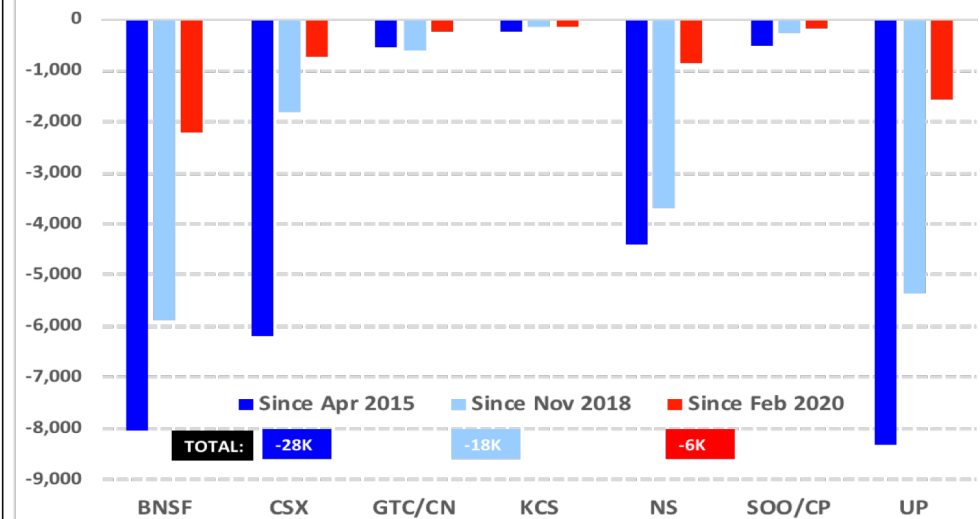
Source: Surface Transportation Board, Jan. 20, 2021. Data are not seasonally adjusted.

US AND CANADA RAILS: TOTAL PAYROLL JOB CUTS



Source: Surface Transportation Board, Employment Data Jan. 2021

US AND CANADA RAILS: TY&E PAYROLL JOB CUTS



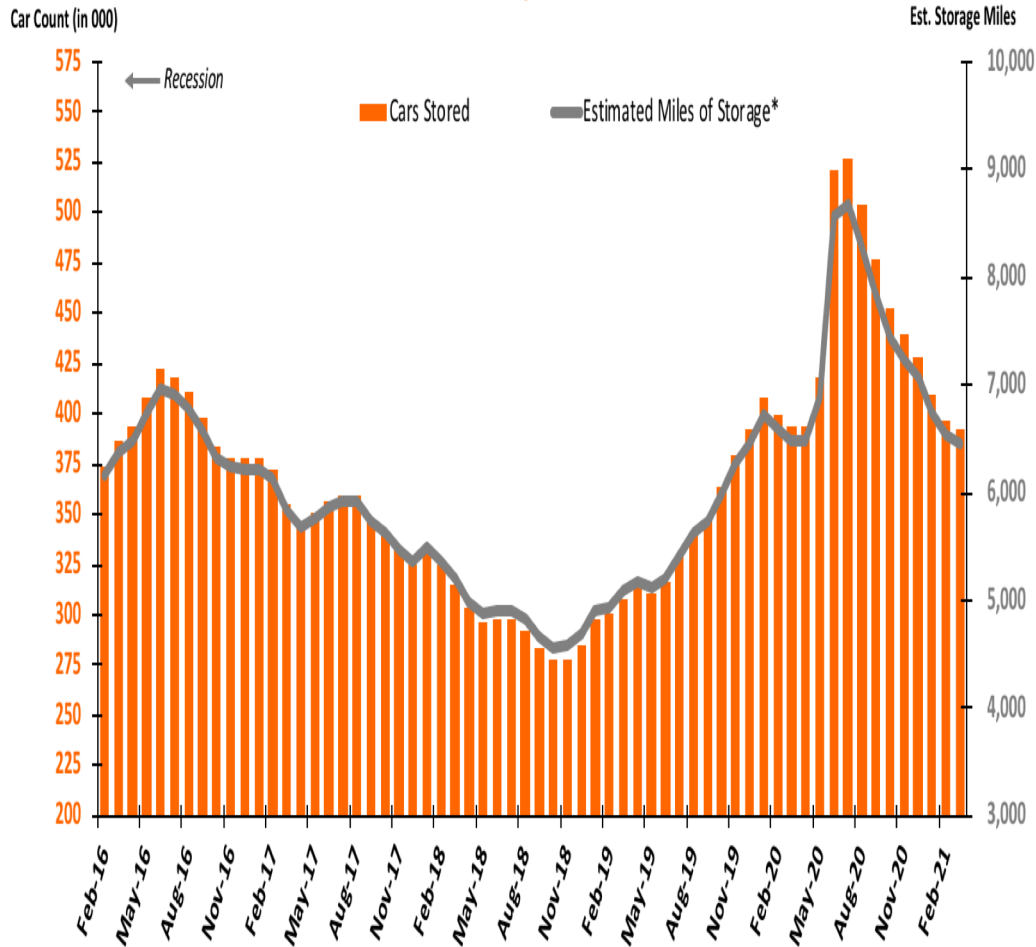
Source: Surface Transportation Board, Employment Data Jan. 2021

THE RAIL SECTOR

The Rails put over 2K miles of freight cars in storage due to the pandemic. Covered hoppers, tanks and gondolas form 75% of total car storage

North American Rail Cars in Storage - Past 60 Days

February 2021



* Assumes BNSF Railway system average equipment length

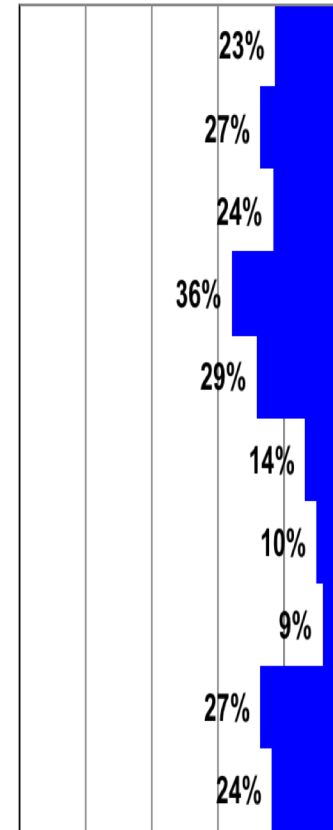
Source: American Association of Railroads, Policy & Economic Dept, March 1, 2021

Car Storage By Car Type

March 1, 2021

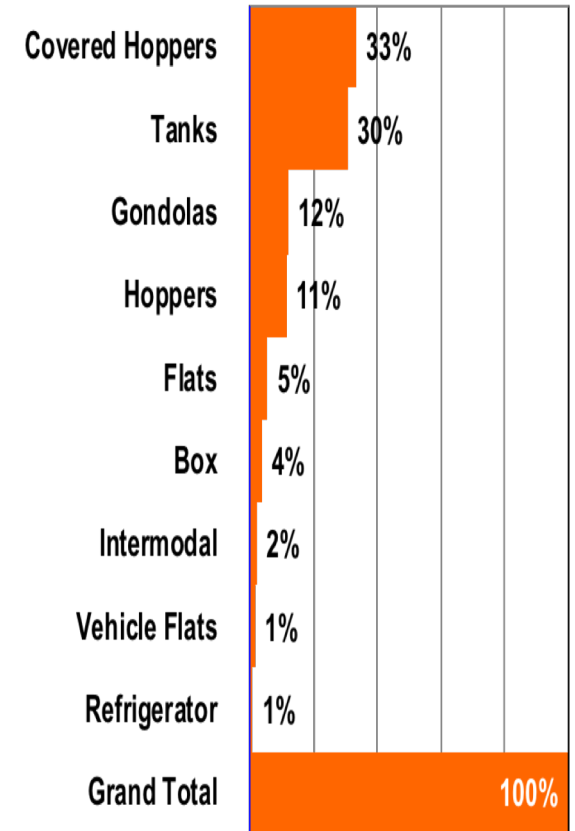
Percent of Each Fleet

100% 80% 60% 40% 20% 0%



Percent of Total Fleet

0% 20% 40% 60% 80% 100%



THE ECONOMIC OUTLOOK

Macro Economic **BASE CASE** Assumptions

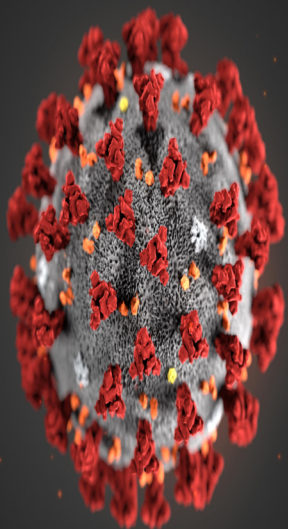
(March 2021 Forecast)

% Chg Y/Y Unless Stated	2020	2021
Real GDP	-3.5%	5.7%
Unemployment Rate	8.1%	5.5%
EIA- Western Coal Production	-18.7%	4.2%
EIA- App Coal Production	-28.3%	5.4%
Coal Share of Electricity Generation	19.9%	22.6%
Natural Gas Share of Electricity Generation	39.2%	35.8%
Natural Gas Price (Henry Hub)	\$2.03	\$3.14
Grains Useage (Bushels, Billions)	20.6	21.9
Industrial Production	-6.7%	7.4%
Manufacturing	-6.4%	8.6%
Housing Starts (Millions)	1.396	1.562
Housing Starts (% Chg.Y/Y)	7.8%	11.9%
Lt Veh - Sales (Millions)	14.4	16.2
Lt Veh - Sales (% Chg.Y/Y)	-14.9%	12.5%
Goods Imports	-6.1%	15.5%
Goods Exports	-9.5%	10.7%
Consumer Expenditures	-3.9%	5.9%
Retail Sales	0.4%	7.4%
Core CPI Inflation	1.7%	1.7%
WTI Crude Oil (\$/Barrel)	39.2	57.2
Brent Crude Oil (\$/Barrel)	41.7	60.7
Brent-WTI Spread (\$/Barrel)	2.5	3.4

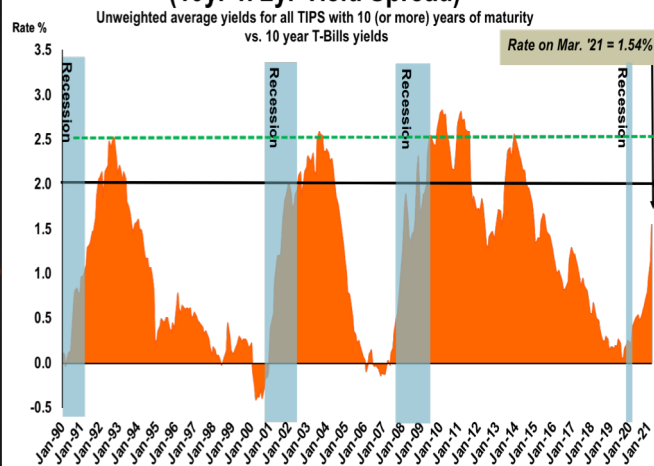
Source: IHS Markit (Mar. 2021); EIA and USDA WASDE (Mar. 2021), SAK Economics LLC

RISKS – PANDEMIC, INFLATION, TRADE POLICY & GEOPOLITICS

Another coronavirus wave, higher inflation, trade, currency and geopolitical tensions could all spell trouble for global growth



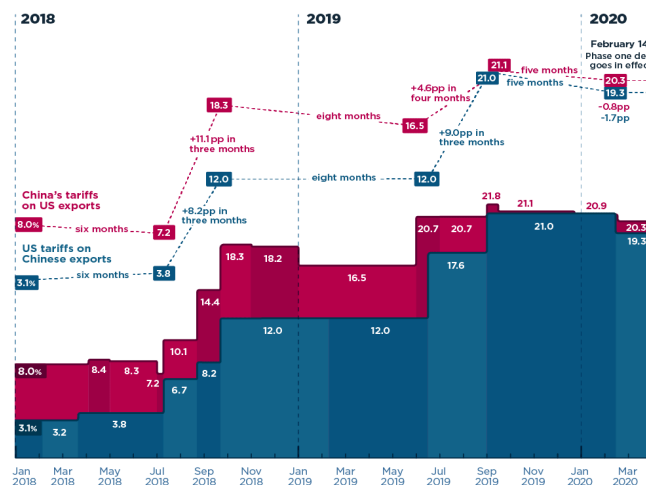
Yield Curve (10yr v. 2yr Yield Spread)



Source: Federal Reserve, March 21, 2021

US-China Trade War Tariffs: An Up-to-Date Chart

Average tariff rate, percent



Source: Chad Brown, Petersen Institute, Feb. 20, 2020

Wall Street Journal US Dollar Index

(Jan. 1, 2013 - Mar. 24, 2021)



Source: Wall Street Journal, BUX; Mar. 24, 2021, XE.com, Mar. 24, 2021



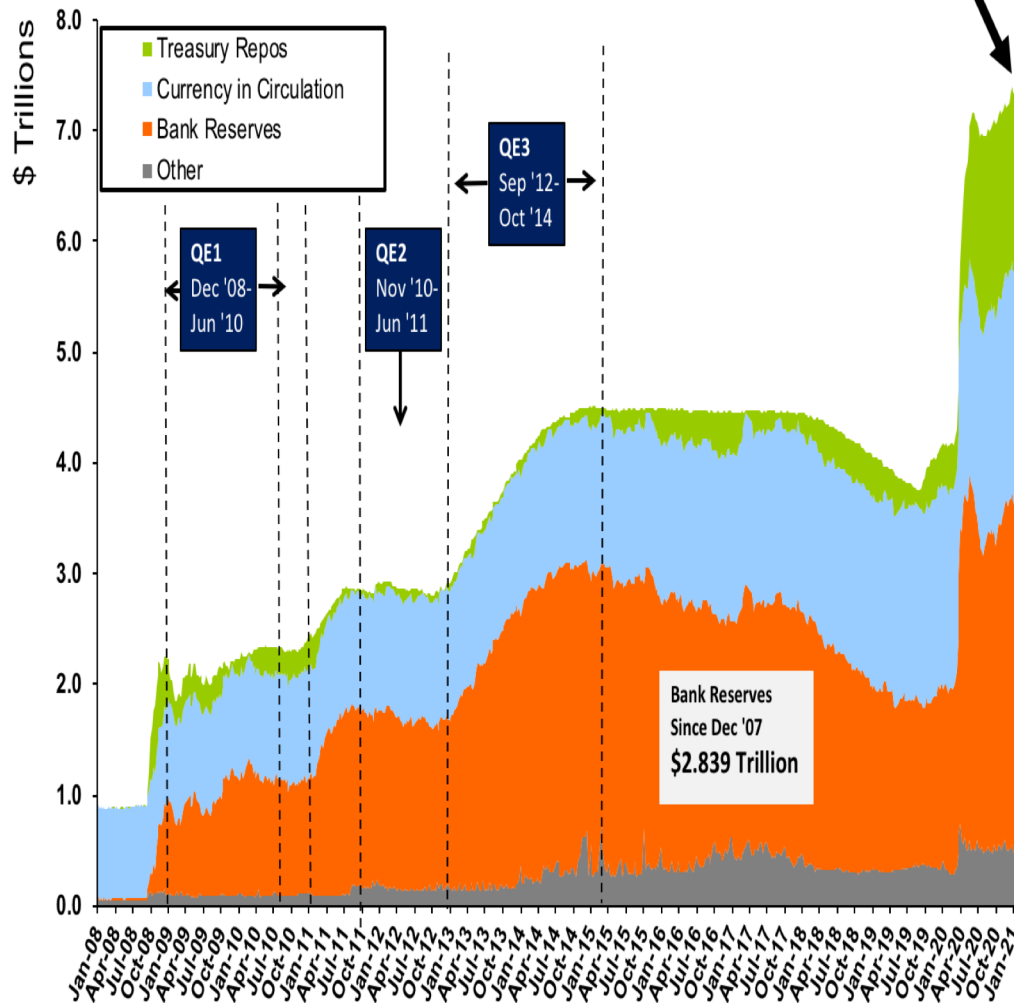
OPPORTUNITIES – MONETARY, FISCAL & HEALTH POLICY

The Fed's balance sheet has expanded by \$3.3 trillion to \$7.4 trillion. Congress has spent \$3.1 trillion stimulus w/ more to come

Federal Reserve - Balance Sheet

Total Liabilities (in \$ Millions)
As of January 20, 2021

Liabilities: \$7.4T
Vs. Dec '07: +\$6.4T
Vs. Feb '20: +\$3.3T



Source: Federal Reserve Board, January 20, 2021

Coronavirus Aid,
Relief, and
Economic
Security Act

Worth: \$2.2 trillion

STIMULUS #2:
Worth: \$0.9 trillion

**COVID-19
VACCINE**