

“Key Trends in the US Economy, the Industrial Sector and the Railroads”

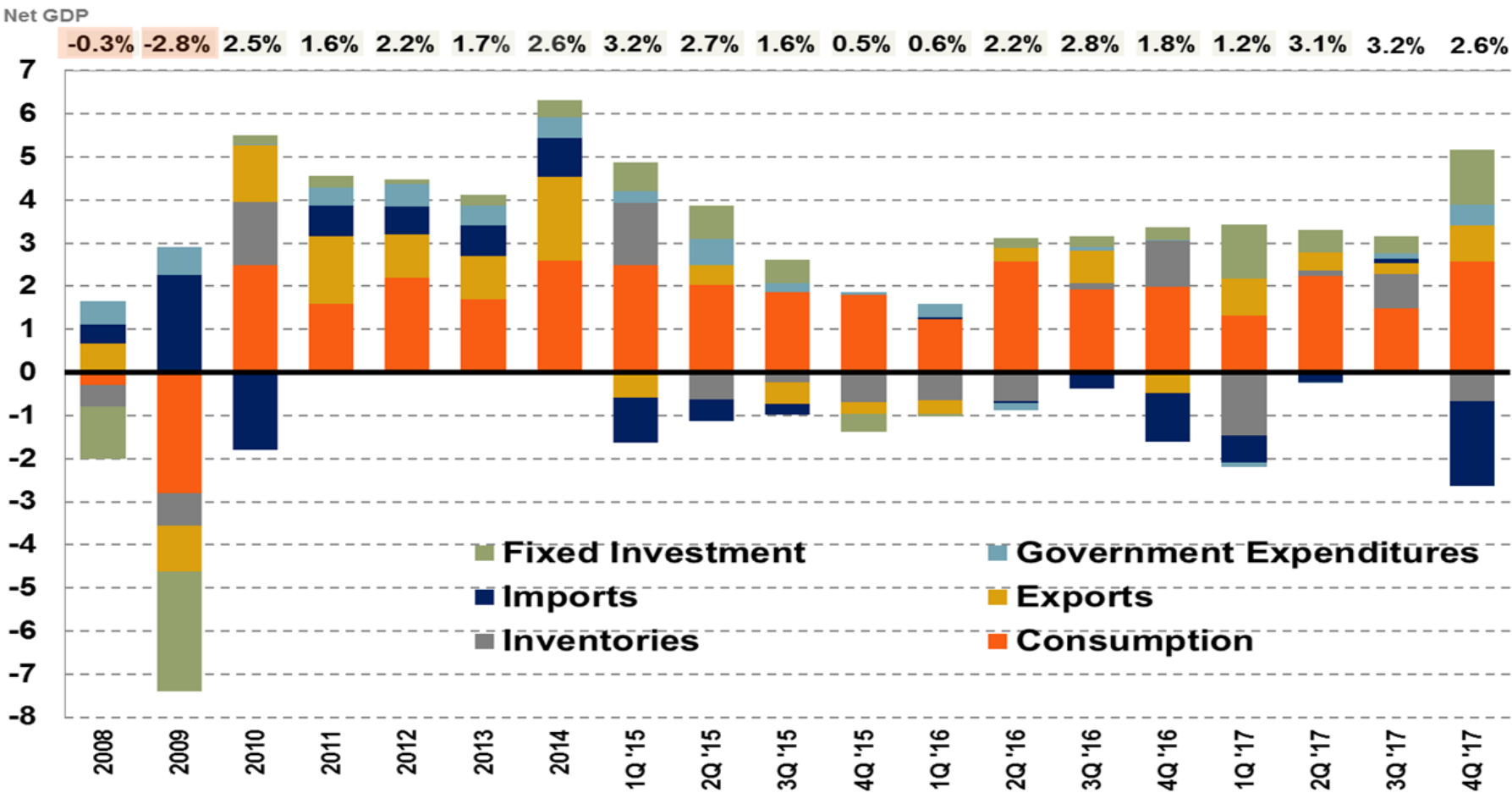
Sam Kyei

February 16, 2018

U.S. ECONOMIC GROWTH

Q4 real GDP growth was 2.6% q/q, but a look beneath the slower headline number reveals an economy gaining momentum

Real GDP Growth and its Contributions



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, January 26, 2018

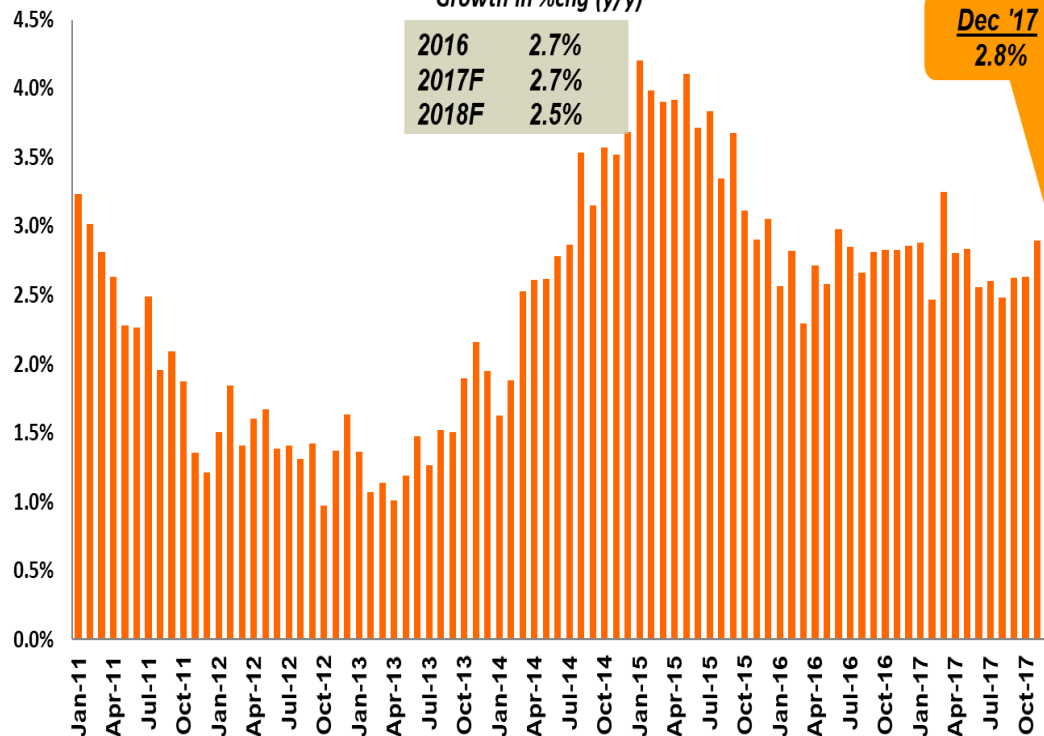
THE CONSUMER SECTOR

Consumer spending rose 2.8% y/y, reflecting double-digit expenditure growth for games, toys, computers, phones and TVs

U.S. Consumer Spending December 2017

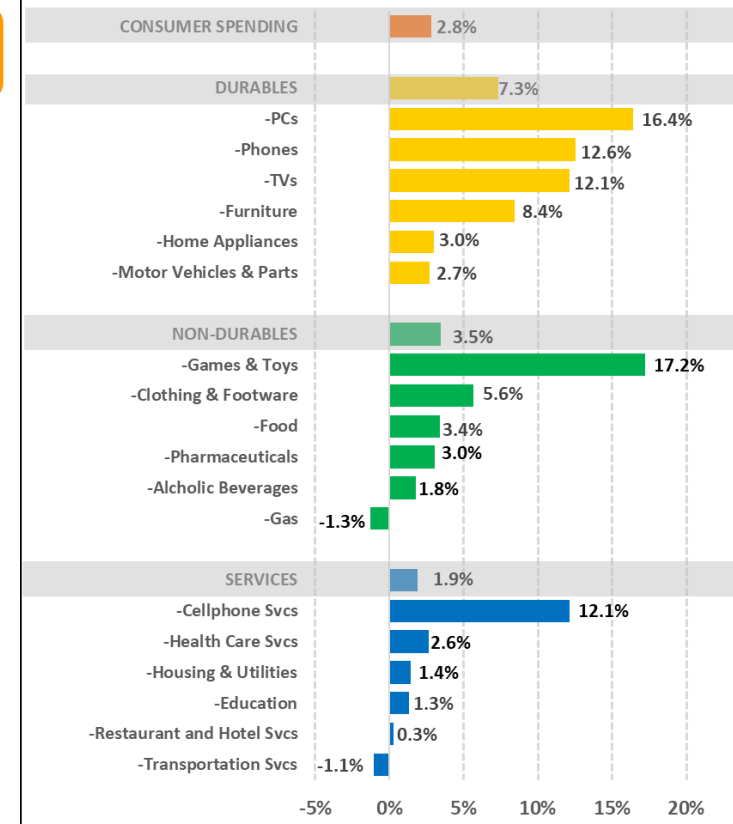
Growth in %chg (y/y)

2016	2.7%
2017F	2.7%
2018F	2.5%



Source: Bureau of Economic Analysis, January 29, 2018

SELECTED CONSUMER ITEMS December 2017 (% Chg. Y/Y)



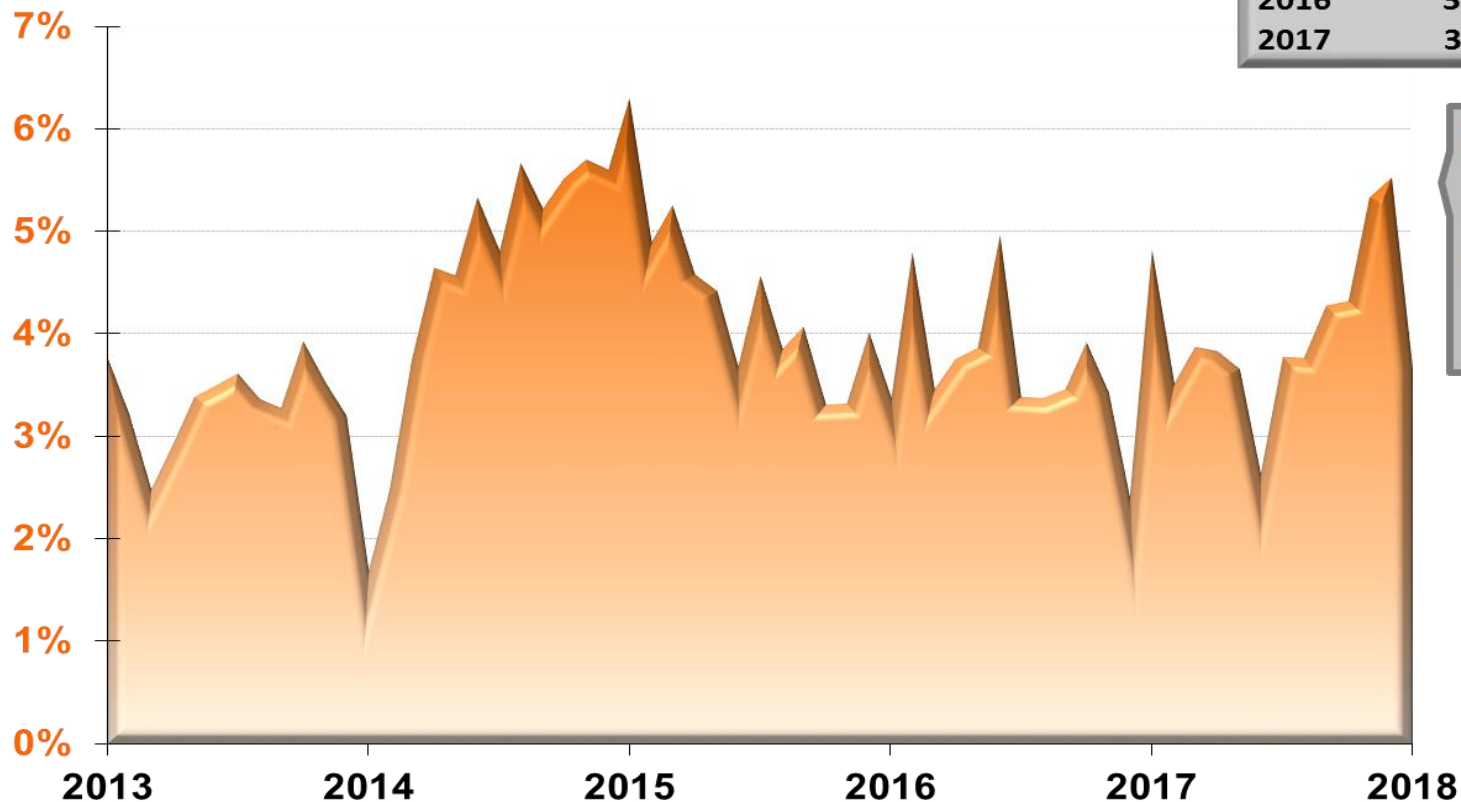
THE CONSUMER SECTOR

Holiday retail sales in 2017 (Nov-Dec) rose 5.5% y/y, significantly exceeding the National Retail Federation estimate of 4%

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

Thru January 2018

% Change (y/y)



National Retail Federation

Holiday Sales

	Estimate	Actual
2015	3.7%	3.2%
2016	3.7%	3.6%
2017	3.6-4.0%	5.5%

DEC 2017

+6.0%

JAN 2018

+3.7%

Source: U.S. Census Department--Seasonally Adjusted , February 15, 2018

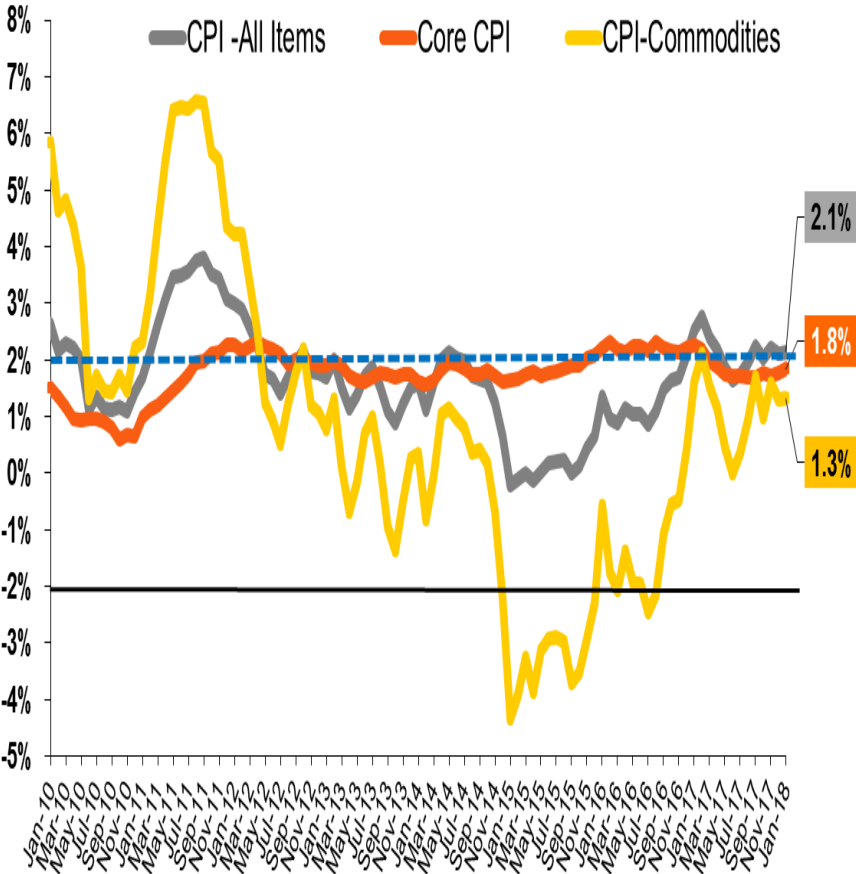
CONSUMER INFLATION

Both PCE and CPI core inflation measures were under the Fed's 2% target for at least the 10th consecutive months

Consumer Price Inflation

January 2018

(seasonally adjusted, % chg y/y)

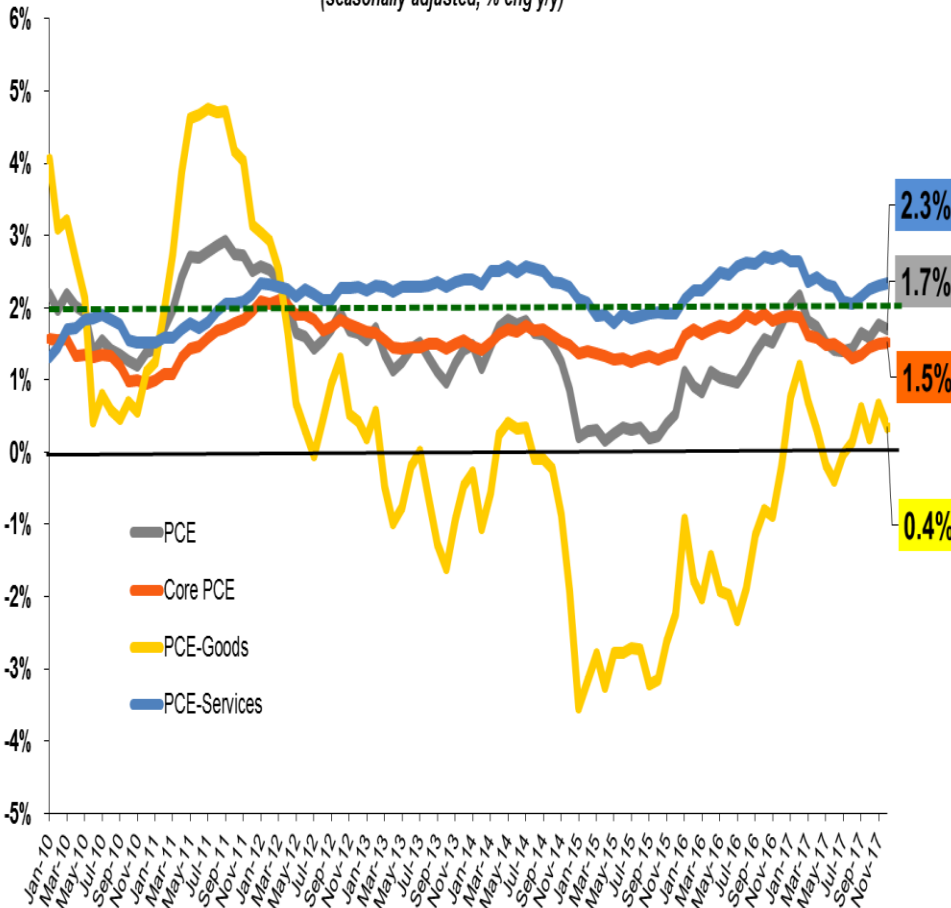


Source: Bureau of Labor Statistics, February 15, 2018

Personal Consumer Expenditure (PCE) Inflation

December 2017

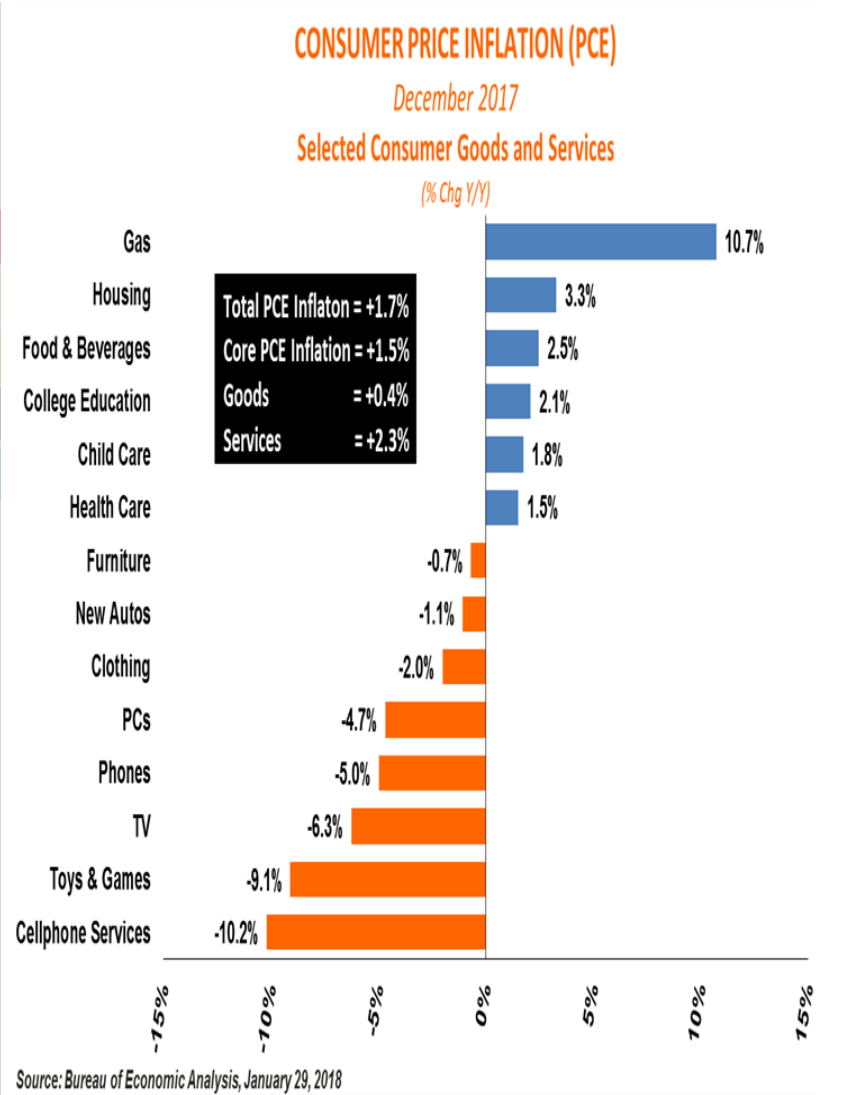
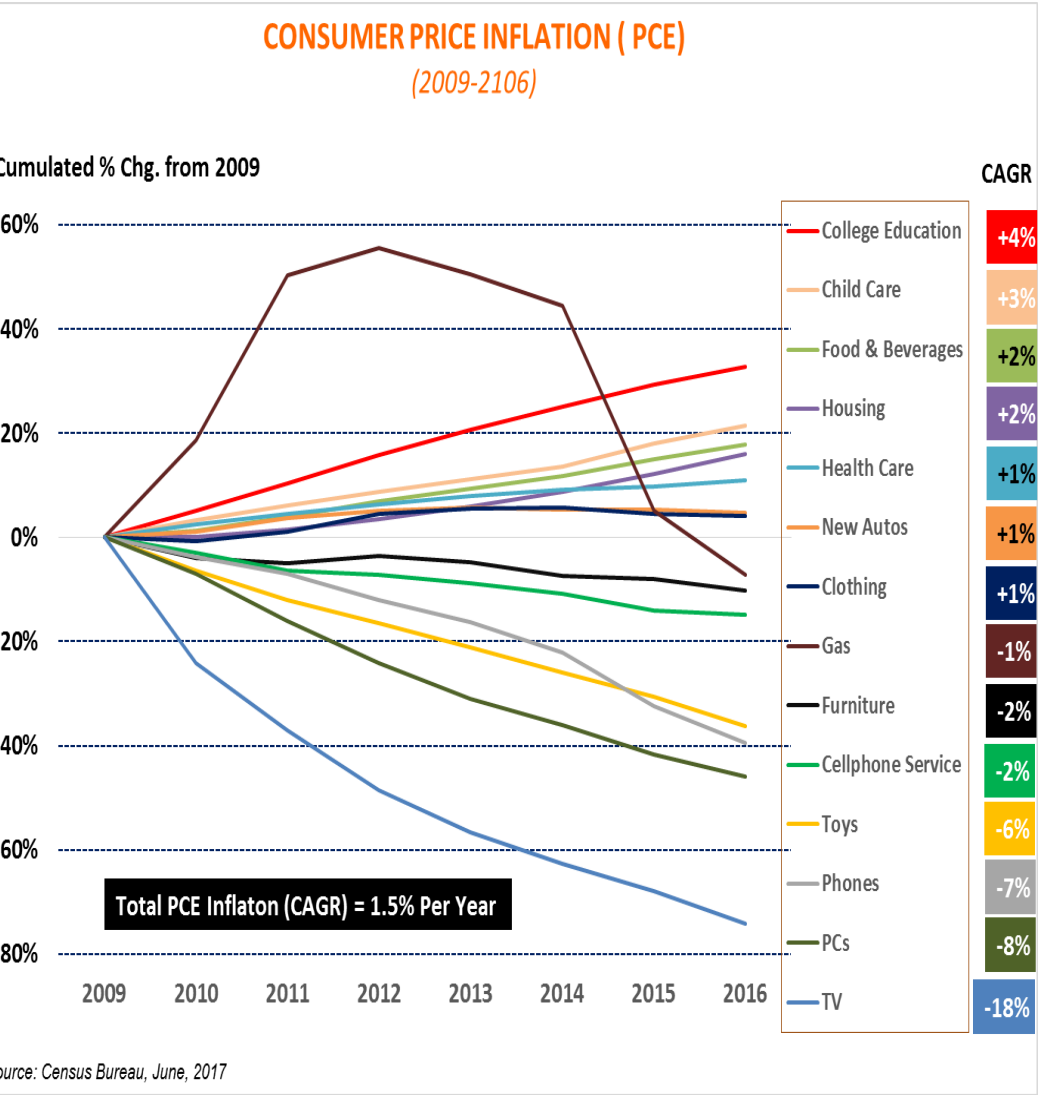
(seasonally adjusted, % chg y/y)



Source: Bureau of Economic Analysis, January 29, 2017

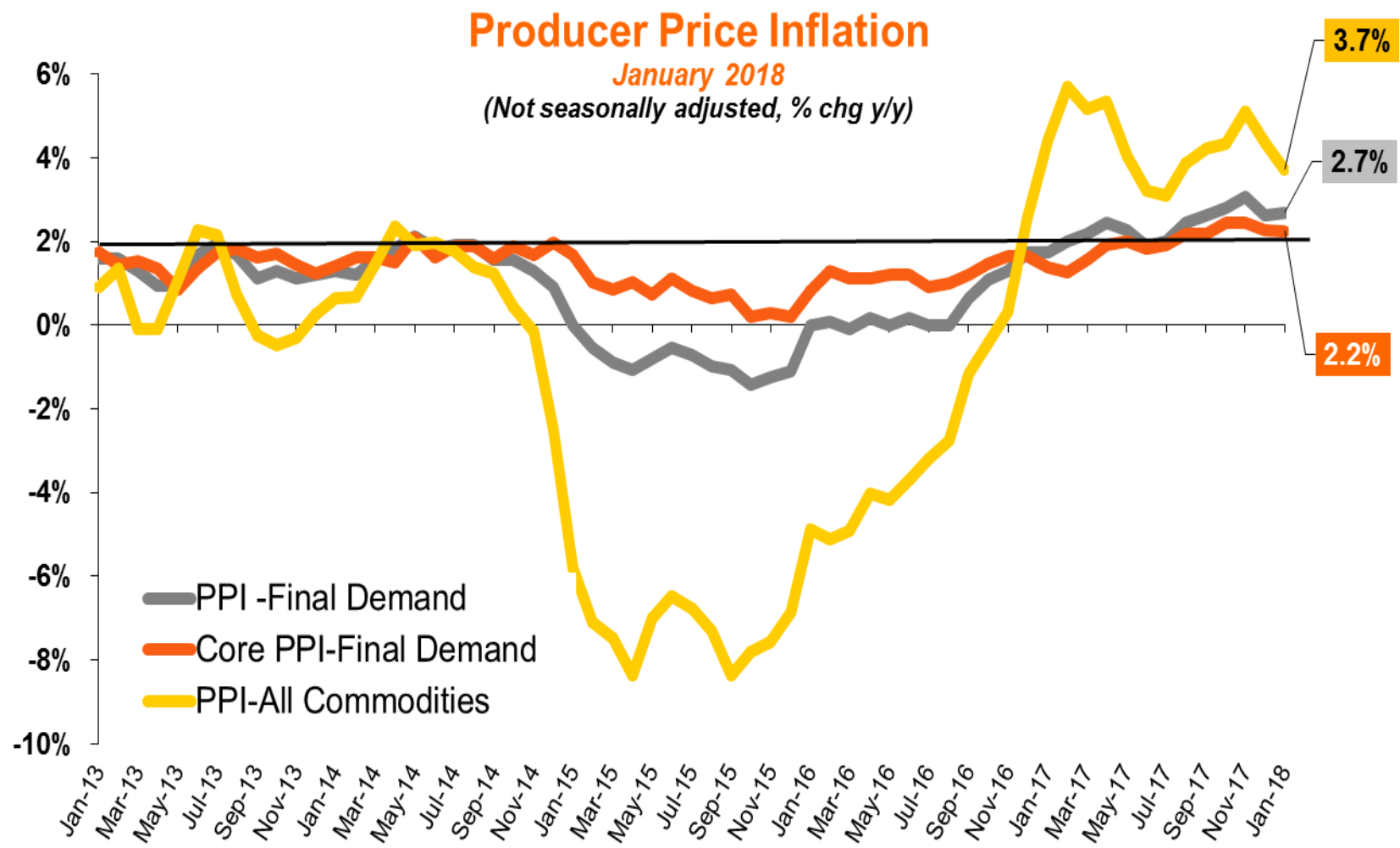
CONSUMER INFLATION

Consumer inflation has risen by 1.5% per year during this expansion, largely due to globalization



PRODUCER INFLATION

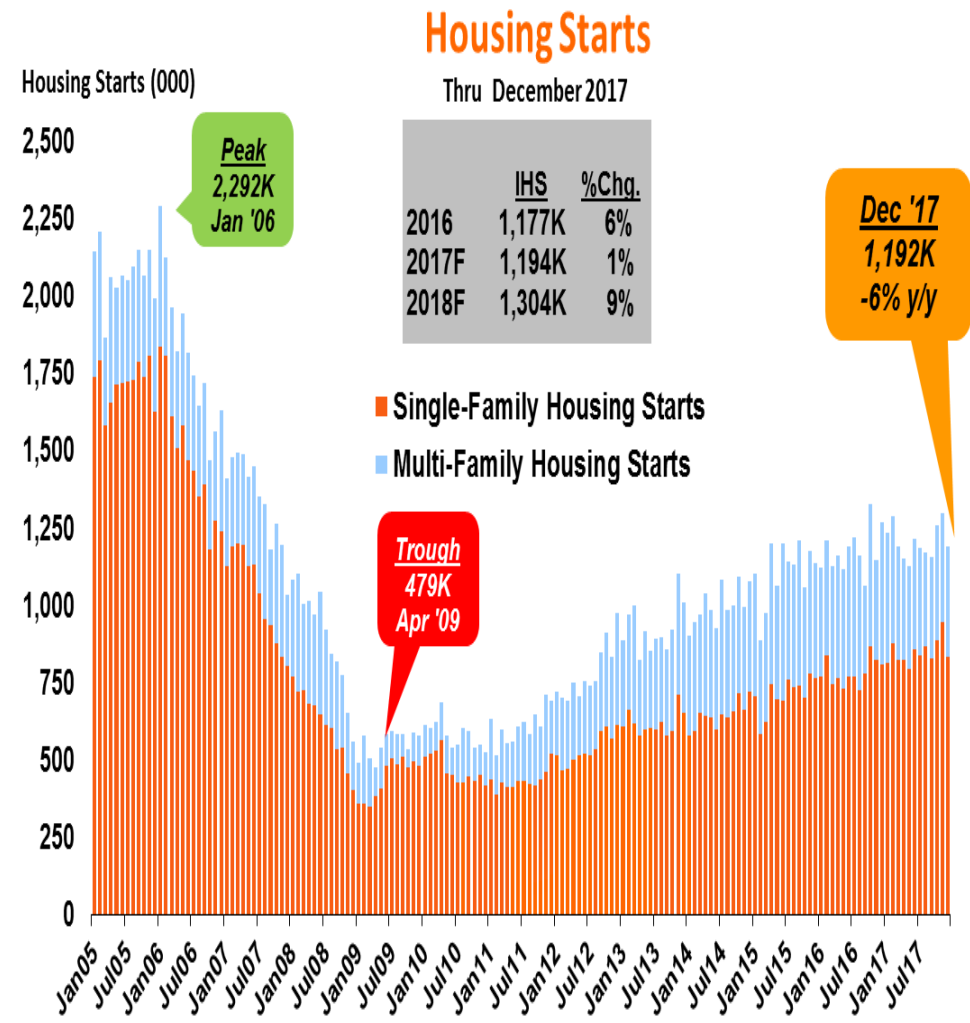
Producer inflation is running stronger than consumer inflation, due to higher input costs (not only for wages, but also material prices)



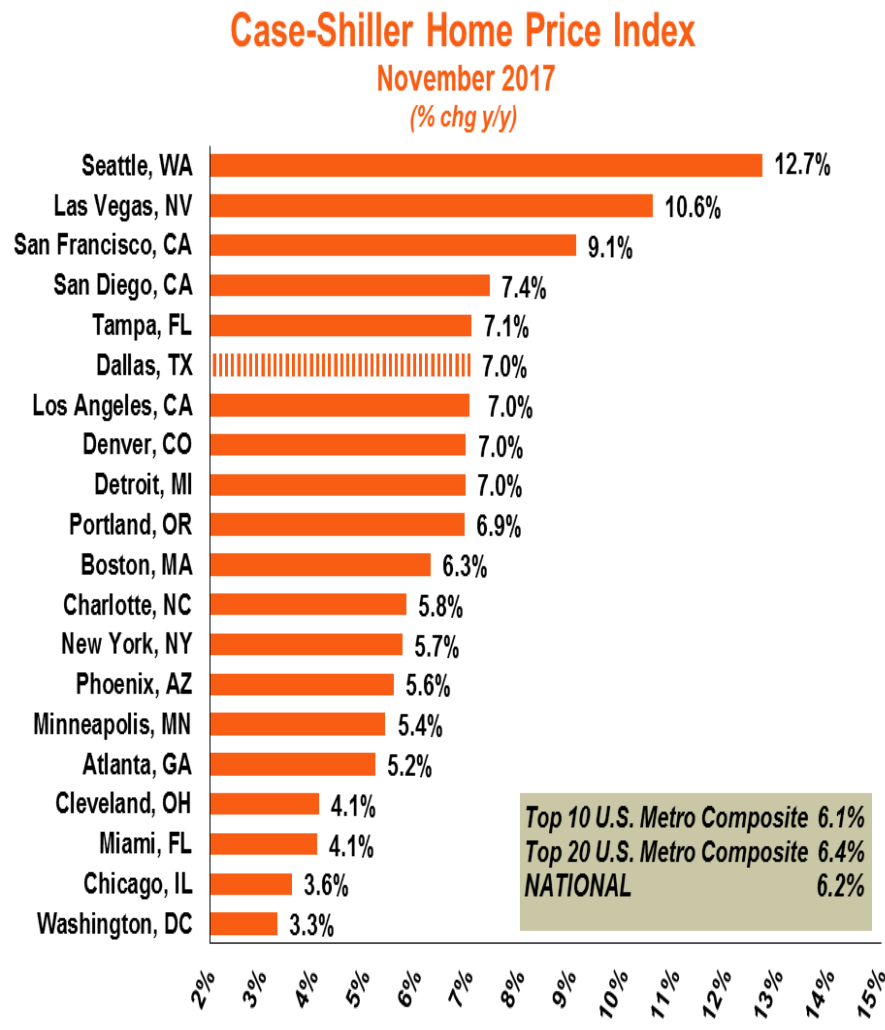
Source: Bureau of Labor Statistics, February 15, 2018

HOUSING SECTOR

The housing market is still strong, despite weak Dec '17 total starts. Home prices are running up steadily by about 5-6% y/y



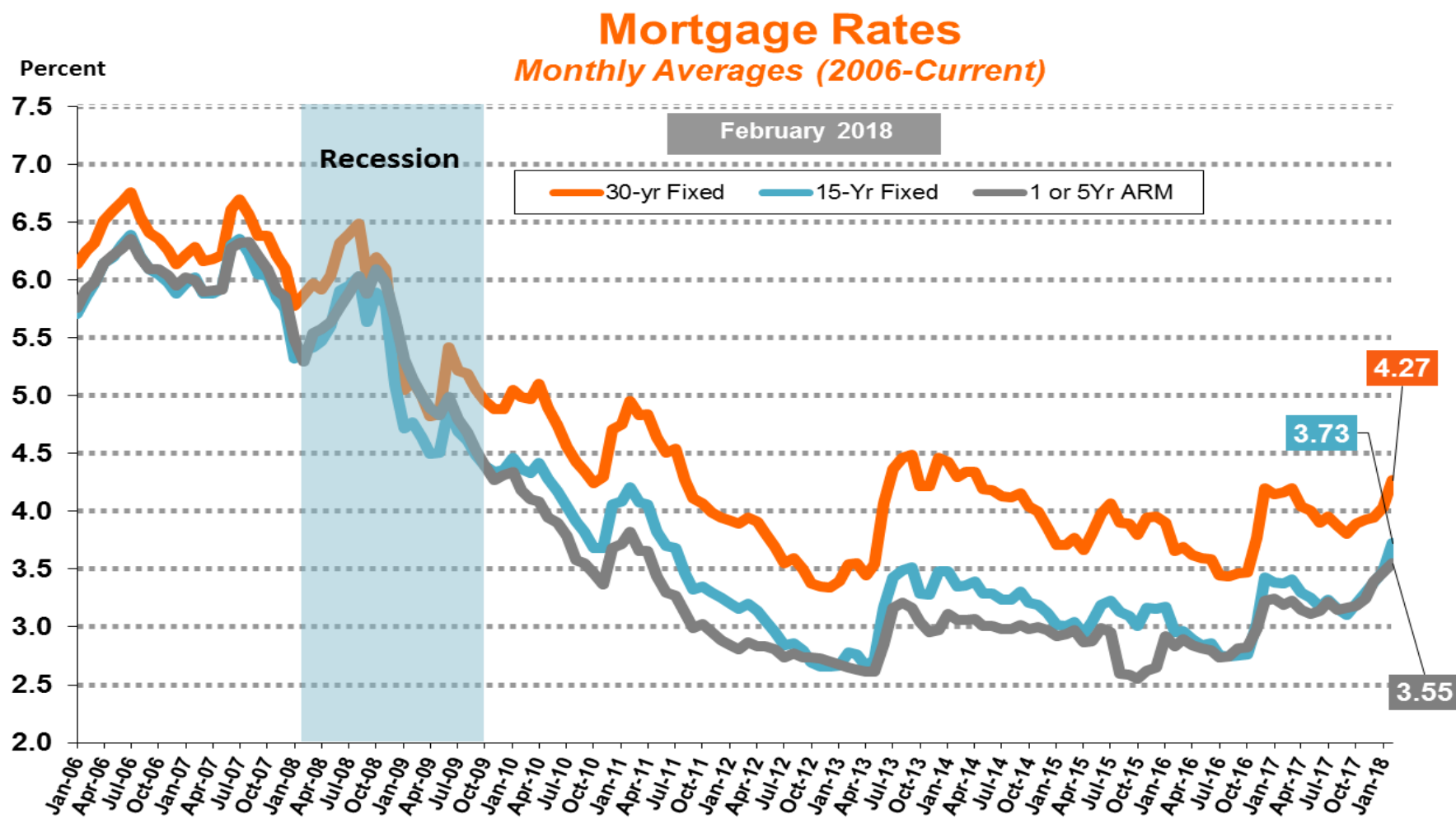
Source: Census Bureau, January 18, 2018



Source: S&P Corelogic Case Shiller Home Price Index, January 27, 2018

HOUSING SECTOR

Mortgage rates have risen by almost 100 basis points since the Nov '16 election, but they are still low by historical standards

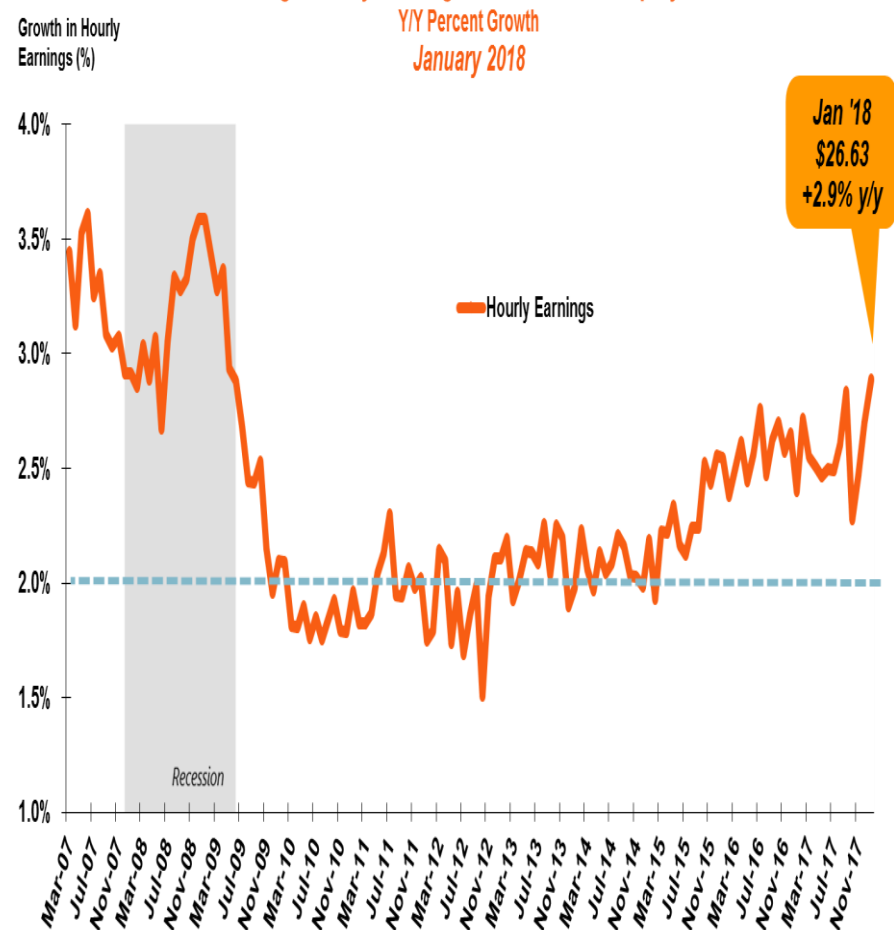


Source: Freddie Mac, Primary Mortgage Market Survey, February 8, 2018

THE LABOR MARKET

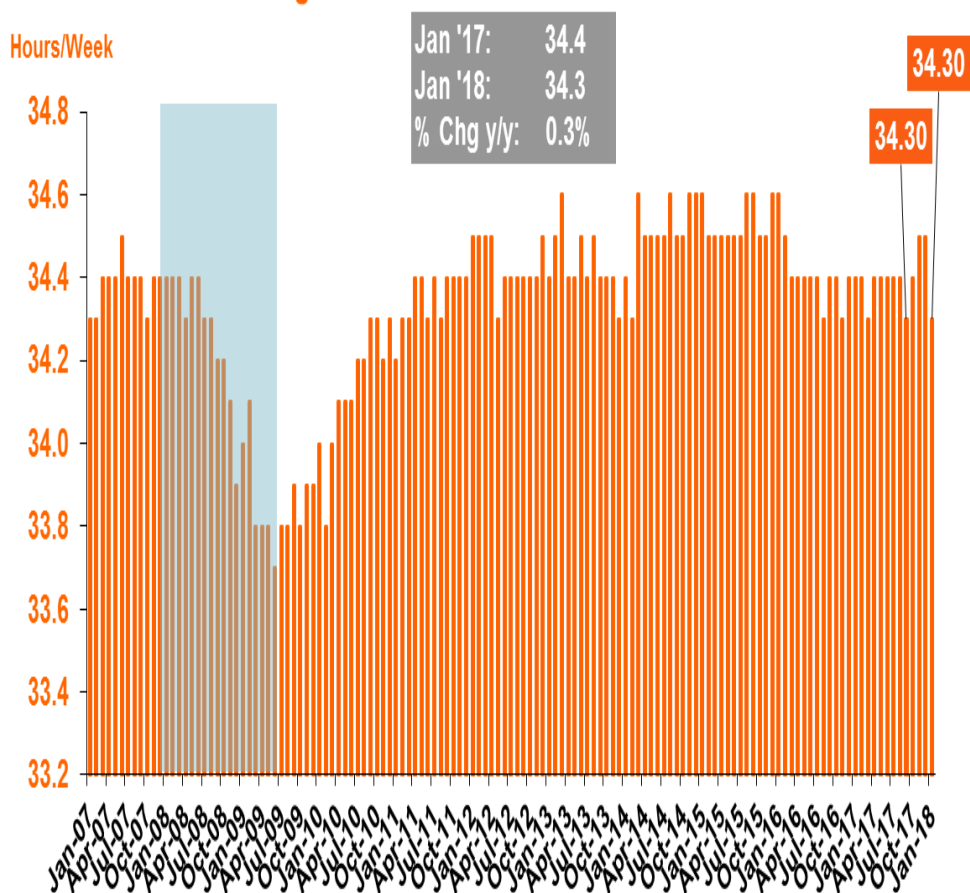
Equity investors were rattled by the 2.9% y/y jump in wages in January, but the shorter workweek may be a driver

Average Hourly Earnings of Pvt. Sector Employees



Source: U.S. Dept. of Labor, Bureau of Labor Statistics, February 2, 2018

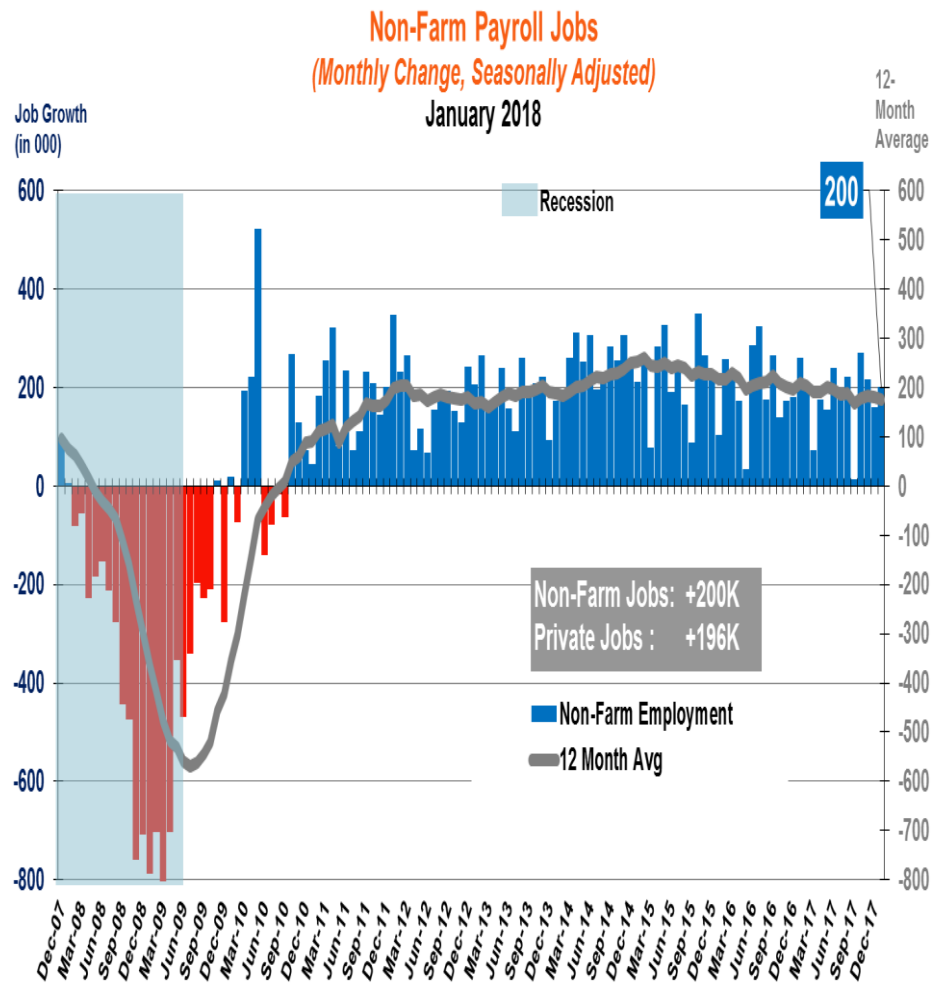
Average Work Week of Production Workers



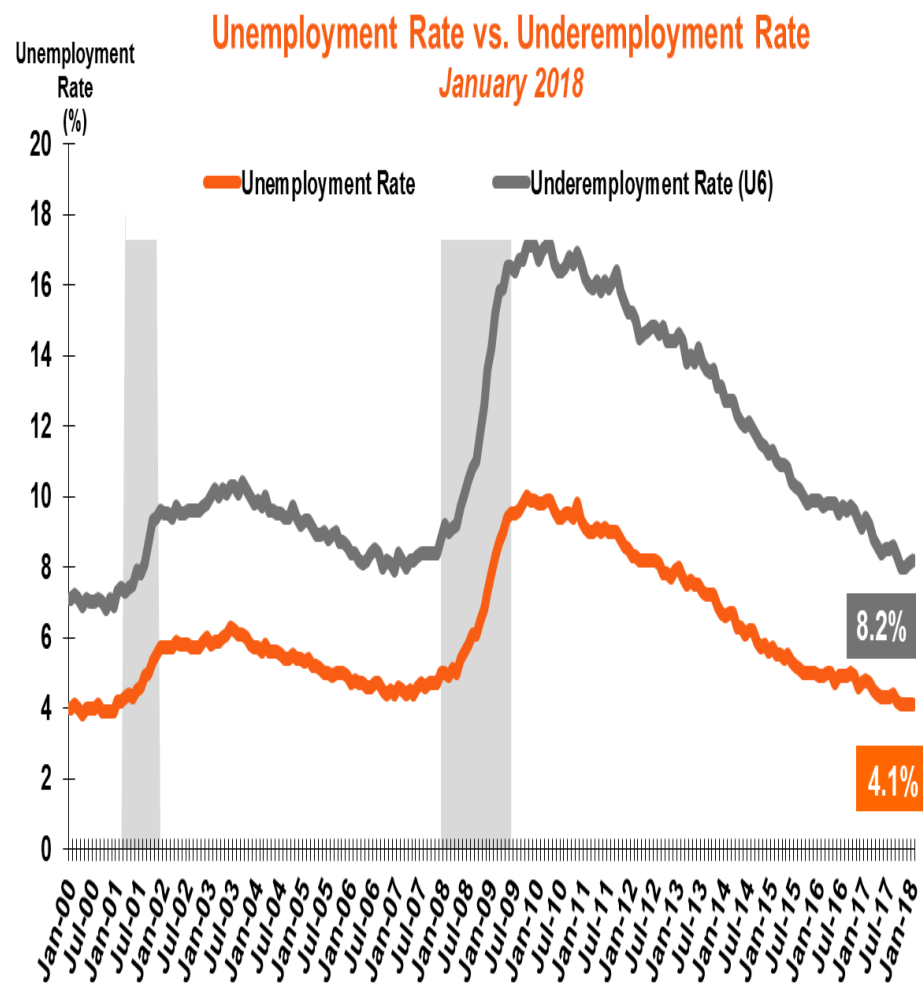
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, February 2, 2018

THE LABOR MARKET

The labor market added 200K more jobs in January vs. December. The jobless rate stayed at 4.1%, a 17-year low



Source: U.S. Dept. of Labor, Bureau of Labor Statistics, February 2, 2018



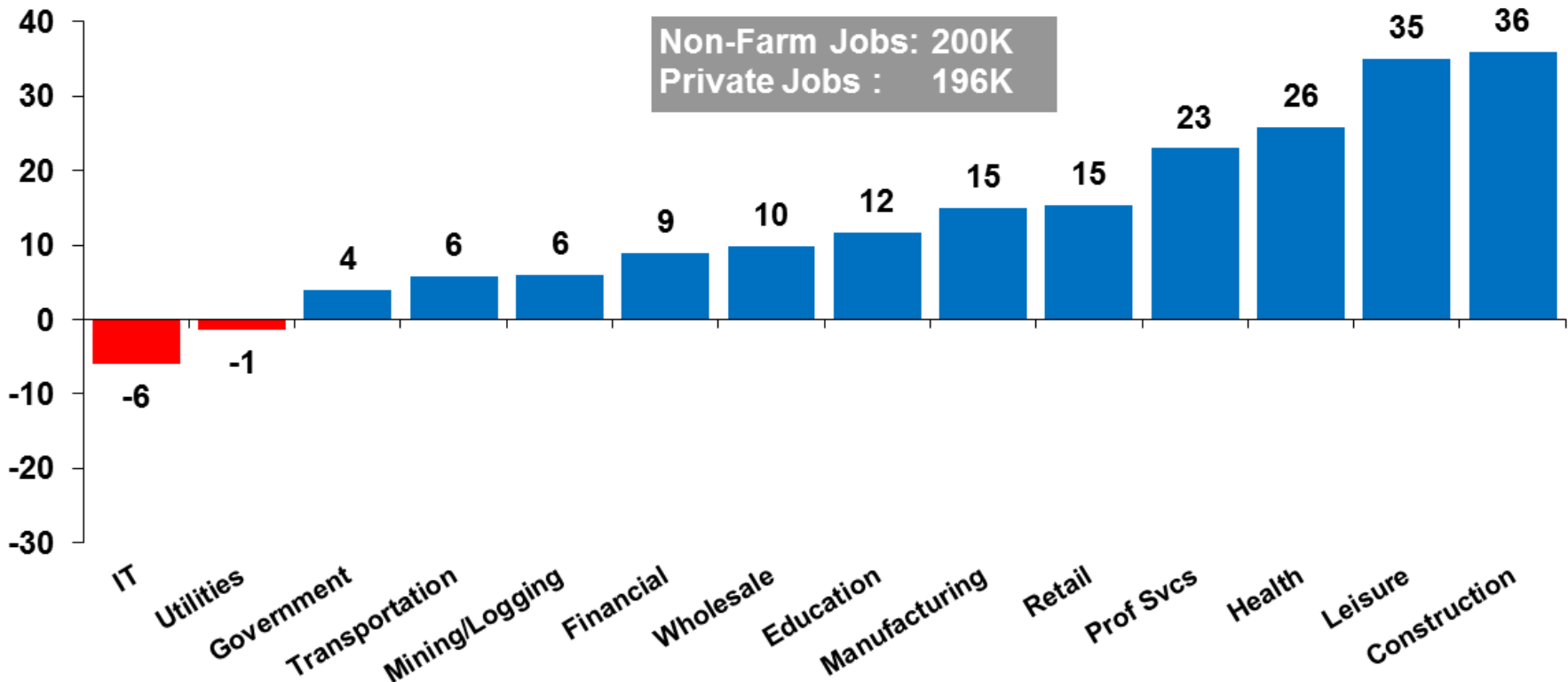
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, February 2, 2018

THE LABOR MARKET

January 2018 payroll job gains were largely broad-based, including strong gains in construction and manufacturing

Payroll Employment Growth- By Sector January 2018

Job Growth (in 000)

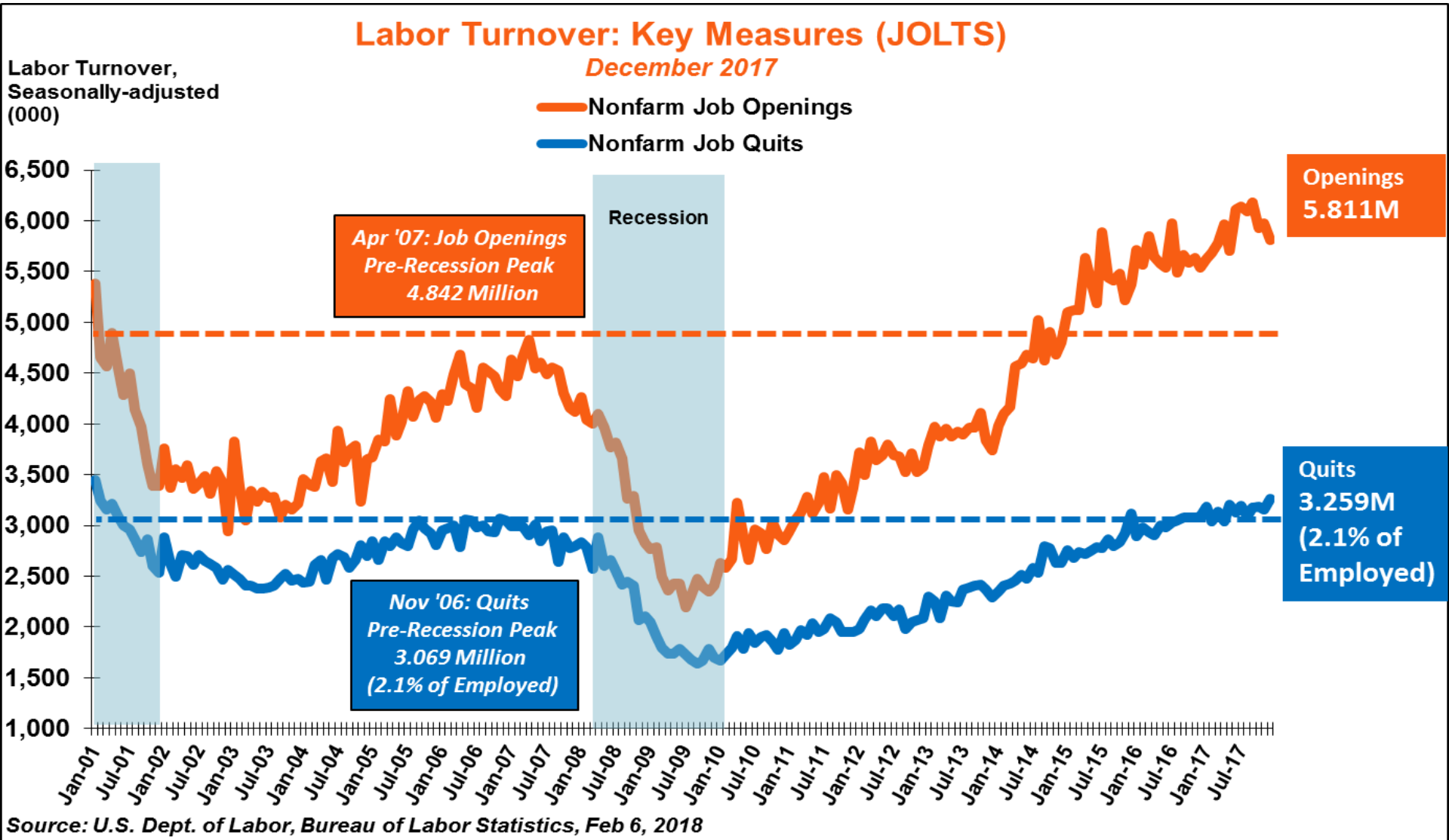


* Temp Workers are not classified by sector

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, February 2, 2018

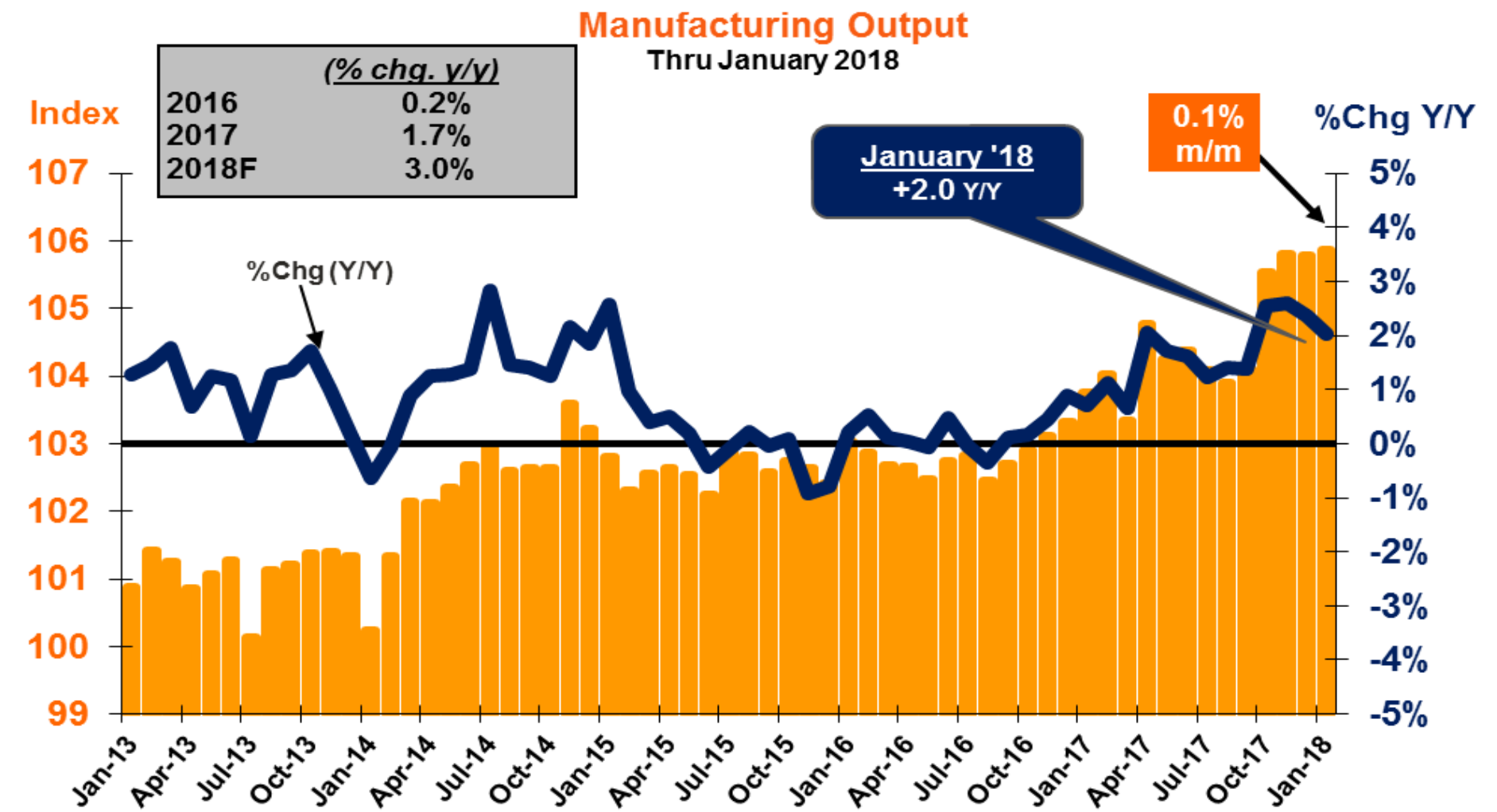
THE LABOR MARKET

Due the tightening of the labor market, job openings are becoming plentiful and the quit rate is matching pre-recession levels



MANUFACTURING SECTOR

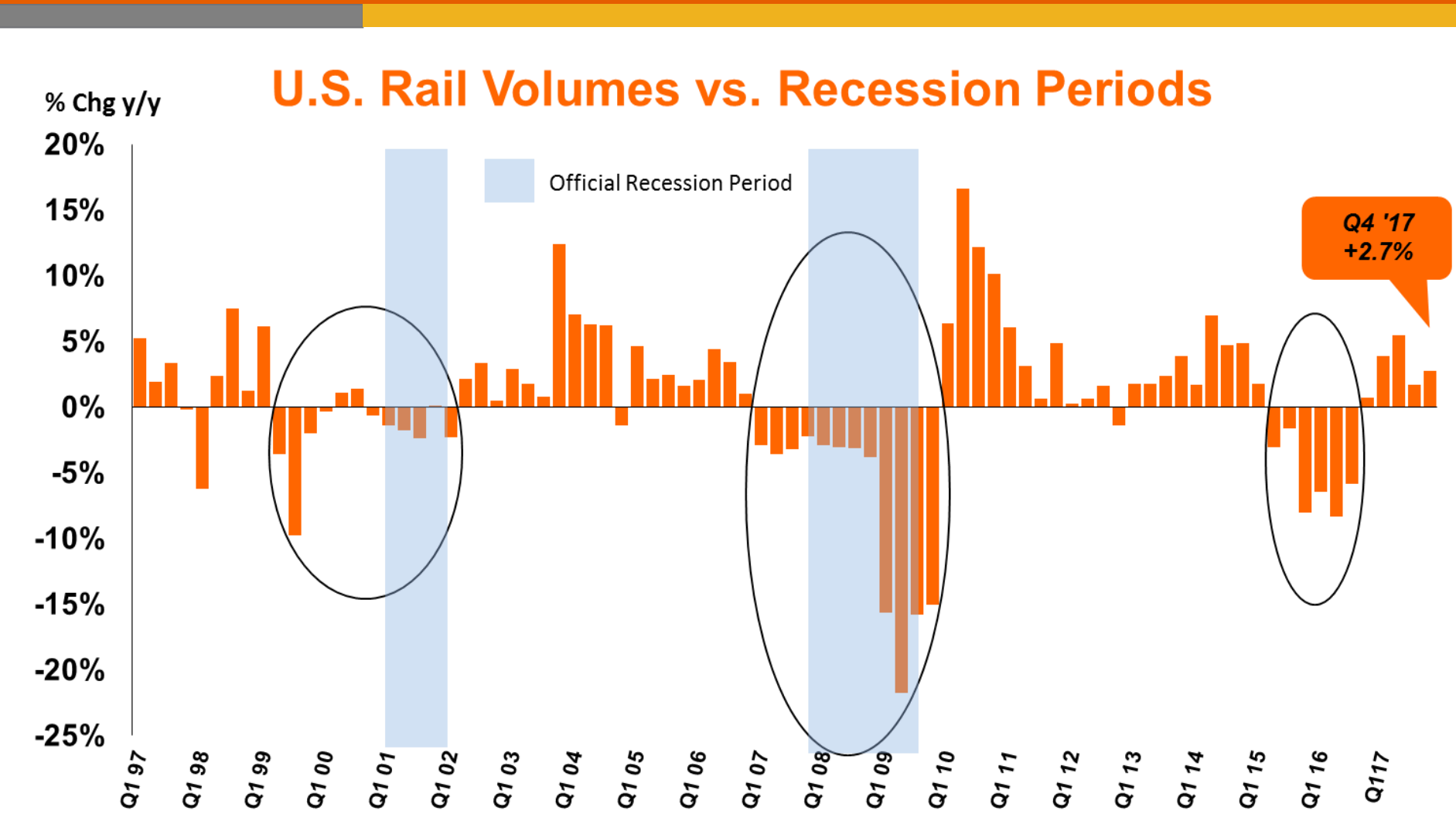
Factory output increased 2.6% y/y in December, reflecting post-hurricane rebuilding and post-election business optimism



Source: Federal Reserve Board, February 15, 2018

RAIL VOLUMES AND THE BUSINESS CYCLE

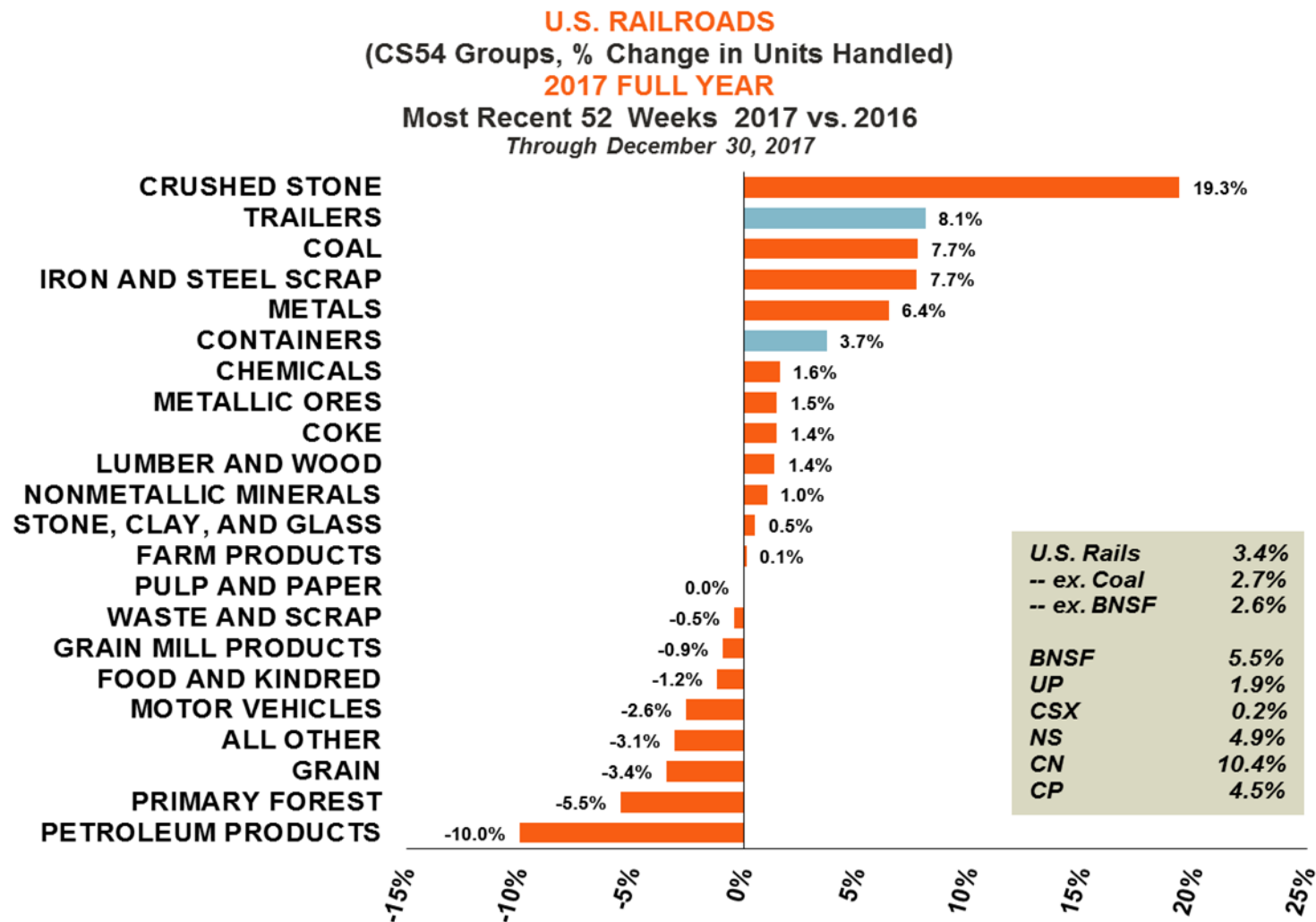
Weak rail sector volume growth is a leading indicator of recessions. Q4 '17 growth closely matched real GDP growth



Source: Association of American Railroads, February 14, 2018

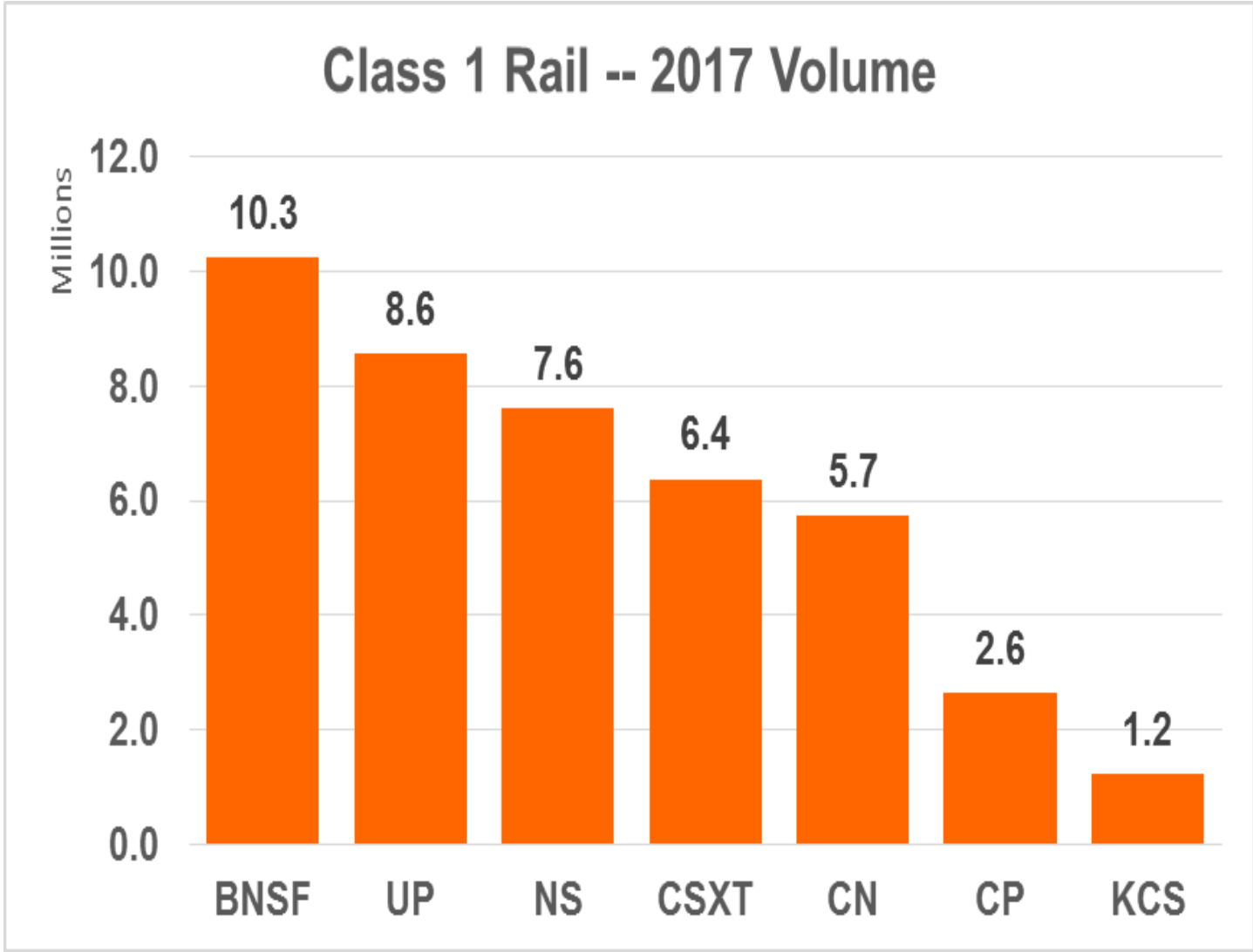
U.S. RAIL INDUSTRY TRENDS – BY SECTOR

U.S. railroads ended 2017 up 3.4% y/y. January 2018 volume growth ended down slightly, due to weather



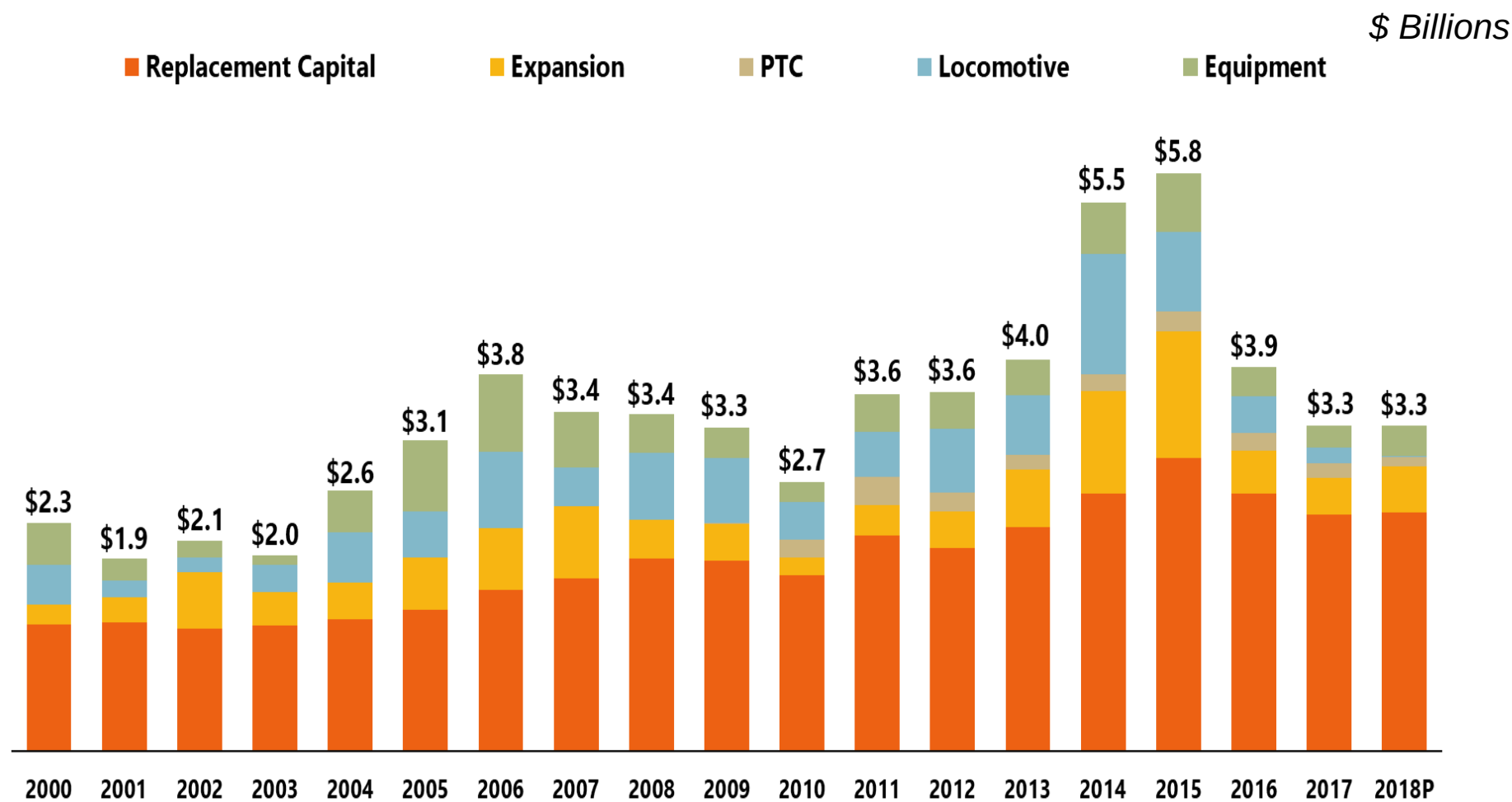
NORTH AMERICA RAIL INDUSTRY TRENDS – CLASS 1 RAILS

BNSF Railway's customers made the railroad #1 in terms of volume for the 14th year in row in 2017



BNSF RAILWAY CAPITAL INVESTMENTS

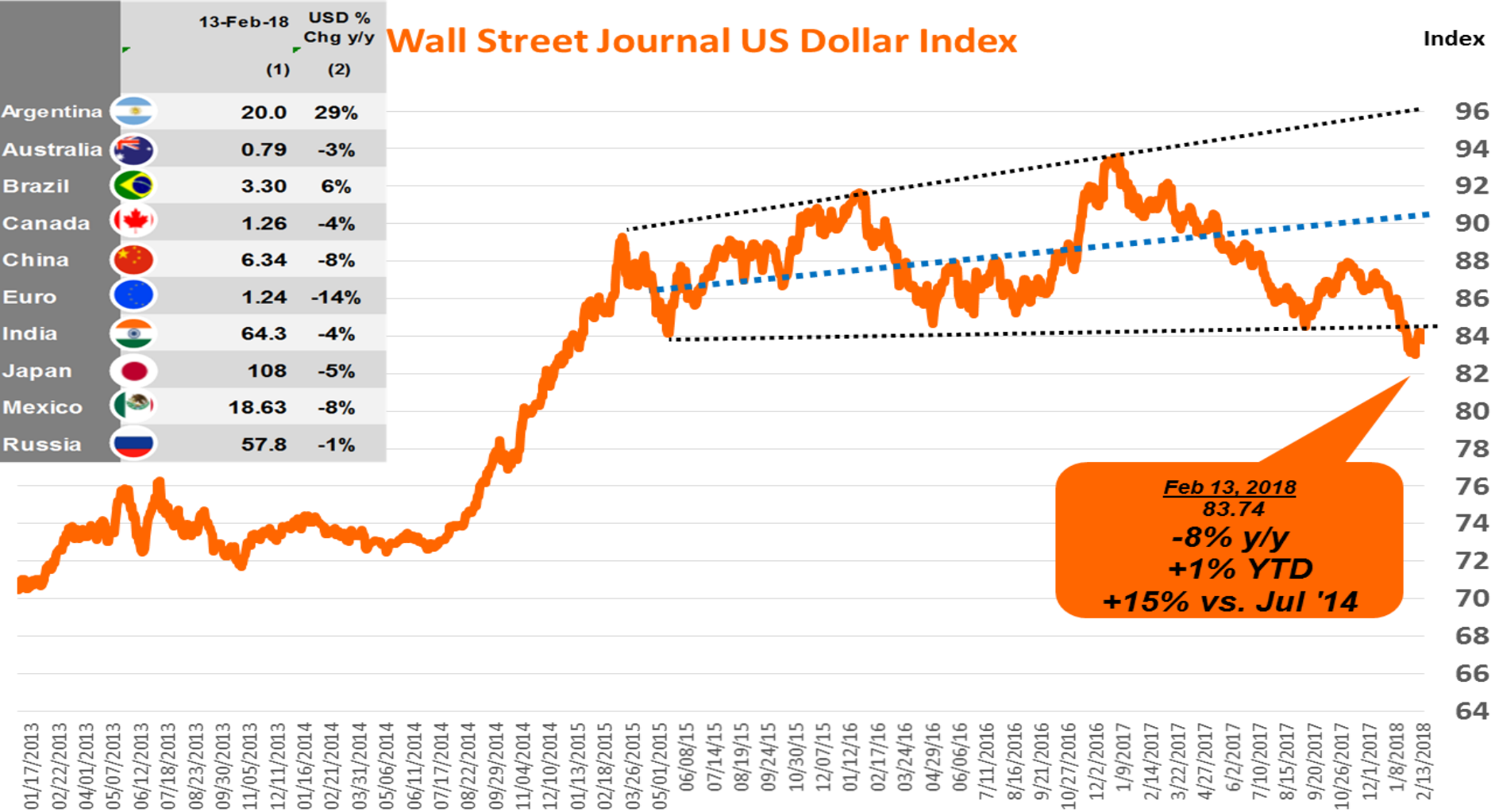
BNSF will spend capex of about \$3.3 billion in 2018, bringing its 10-year capex total to almost \$40 billion



Source: BNSF Railway, January 31, 2018

RISKS AND OPPORTUNITIES

The USD broke through a critical barrier, declining by 9% y/y on Jan 26, spurred on by Trump's comments in Davos

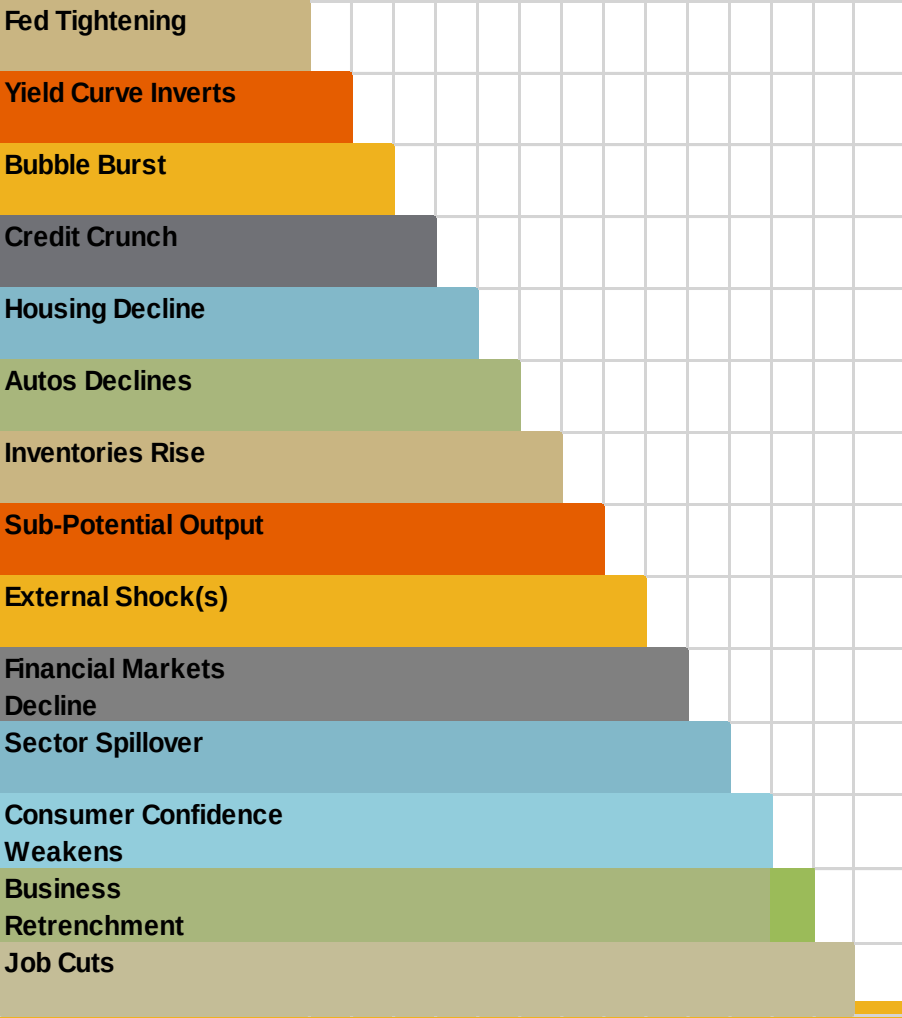


Source: Wall Street Journal, BUXX; Feb 13, 2018, XE.com, Feb 13, 2018

RISKS AND OPPORTUNITIES

Probability of 2018 recession is low but rising, a business cycle downturn should remain on the watch lists of all cyclical firms

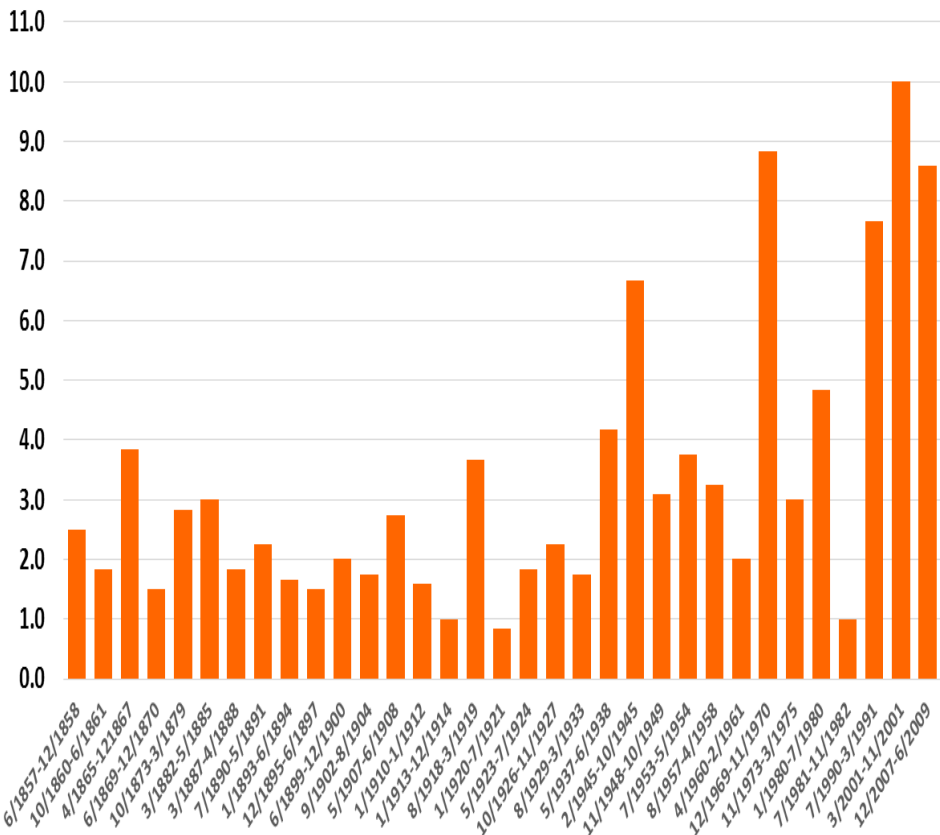
SOME KEY STEPS FROM BUSINESS CYCLE PEAK TO TROUGH



U.S. Business Cycle Expansions

1857-2018

(Duration in Years)



Source: National Bureau of Economic Research (NBER), January 26, 2018

Sam's Hey (Hair) Days:

