



ECONOMIC MONITOR

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TTX ECONOMIC MONITOR

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Overview

U.S. GDP results showed another ugly quarter for the U.S. economy. Despite an outsized drop, the GDP report delivered some good news as consumer spending grew and inventory liquidation continued. Both U.S. consumer and business confidence are trending up, but job losses have not slowed yet. Recession in Canada remains in full swing with large GDP declines predicted for 2009. Mexico's recession also deepened as its economy was hit hard by a devastating swine flu epidemic. Intermodal posted its worst results since 1975 early this year, with no signs of recovery in sight yet. Imports and domestic freight output continued to plunge along with intermodal volumes. Although not reflected in volumes yet, metal markets might have reached the bottom. A number of commodity prices have moved up in recent weeks, mostly due to speculative sentiment, and should aid carload recovery in the future.

U.S. Economic Outlook

The beginning of 2009 marked another awful quarter for the U.S. economy as GDP fell by 5.7%, a faster pace than most analysts predicted. The decline in GDP was due predominantly to a drawdown in inventories and massive declines in both residential and non-residential investment. However, there are reasons to believe the worst is over.

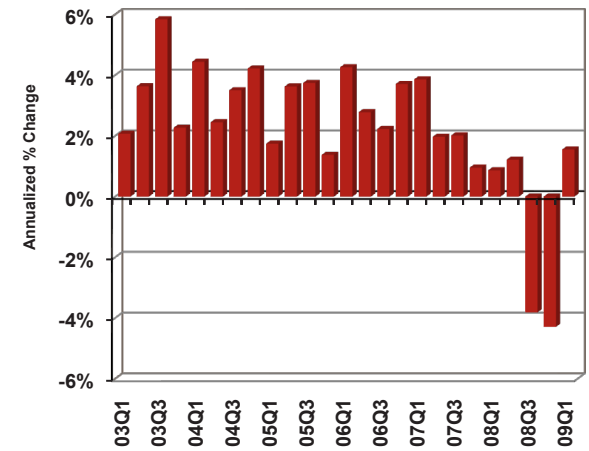
That said, the U.S. is still a long way from a true economic recovery.

Despite an outsized drop in the headline number, the GDP report delivered some good news. Over a third of a 5.7% contraction in the first quarter GDP was due to a decline in inventories. Inventories subtracted 2.3% from first quarter GDP. The decline in inventories will be a positive for growth in the future, as when demand picks up business will need to replenish inventories to meet that demand. Additionally, consumer spending actually grew 1.6% in the first quarter of 2009 after having declined for the two previous quarters. Corporate profits also increased for the first time since the second quarter of 2007.

There are signs everywhere that consumers and businesses are feeling more confident about the economy. Consumer confidence has shot up since hitting its all time low in February. In May, the index of consumer confidence was at 54.9, more than doubled from February when consumer confidence was at only 25.3. A consumer confidence level above 60 would more than likely indicate that consumers are feeling secure enough about their economic future to spend enough to spur the economy out of recession.

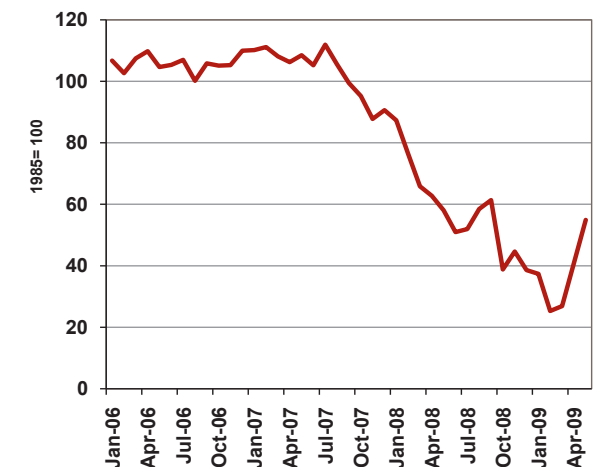
Businesses are also showing signs of being more confident about the future. New orders of durable goods increased in April

U.S. Consumer Spending



Sources: Bureau of Economic Analysis

U.S. Consumer Confidence



Source: The Conference Board

for the second time this year. Also in April, shipments of durable goods declined by only 0.2%, the smallest drop in six months. The ISM manufacturing index, which is also an indicator of future business demand, has also increased steadily since December. Even more positive, the difference between new orders and inventory stood at a multi-year high of 13.6 in April. A larger difference between new orders and inventory is a positive for manufacturing, as it indicates producers will have to increase output to satisfy future demand.

This good news could not come too soon for manufacturing, which has been severely depressed for several quarters. Manufacturing

plummeted 21.7% at an annualized rate in the first quarter of 2009. Currently, manufacturing is on track for a drop smaller than 10% at an annualized rate in the second quarter. Overall industrial production (includes utilities and mining output) has been similarly depressed. In April, it was 12.5% below year ago levels.

Manufacturing has also been hit by the global recession as international demand for U.S. goods is weak. Exports fell 28.7% annualized in the first quarter after having declined 23.5% in the fourth quarter of 2008. Unfortunately, exports will not pick up until a global recovery is underway. Given the weak economic situation in most of the

world, exports will be depressed throughout 2009.

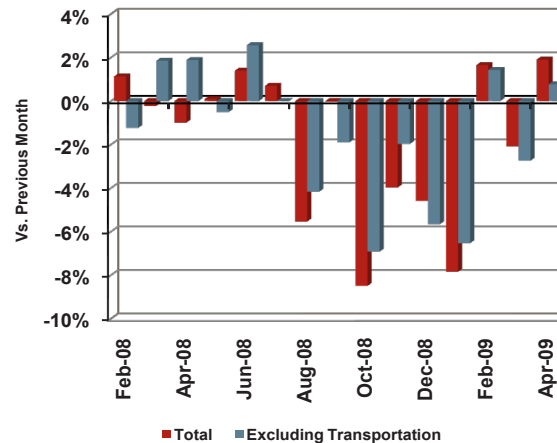
For years now the top question has been when housing will hit bottom. April's data strongly suggests that bottom has been hit at least in regards to housing starts and sales. Single-family housing starts have been essentially flat from January through April, although there have been large variations in the volatile multi-family starts category. Moreover, April saw a small rise in single-family starts from March. Home sales have also probably hit bottom. New home sales have been flat for the past two months. Existing home sales have increased and then decreased by about 100,000 every month, but they are more than likely bouncing along

ISM Manufacturing Index
New Orders Minus Inventories



Source: Institute for Supply Management

U.S. New Durable Goods Orders



Source: U.S. Census Bureau

U.S. Single-Family Home Sales



Sources: U.S. Census Bureau, National Association of Realtors

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Table 1: U.S. Economic Indicators

Economic Indicator	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
Real Gross Domestic Product (Pct. Chg. SAAR)	1.1%	-2.9%	-5.7%	-2.4%	0.6%	0.2%
Real Consumption (Pct. Chg. SAAR)	0.2%	-1.2%	1.6%	-1.1%	0.2%	-0.1%
Real Non-Residential Fixed Investment (Pct. Change, SAAR)	1.6%	-19.4%	-36.9%	-15.8%	-11.5%	-5.2%
Real Change in Non-Farm Inventories (Bil. Chained 2000\$, SAAR)	(\$29.0)	(\$62.7)	(\$91.4)	(\$77.9)	(\$43.2)	(\$26.0)
Retail Sales (Pct. Chg. Vs. Last Year)	-0.7%	-6.9%	-8.9%	-9.7%	-7.8%	-0.7%
Housing Starts (Millions SAAR)	0.90	0.56	0.52	0.54	0.56	0.61
Light Vehicle Production (000)	8,448	5,728	1,121	1,307	1,604	1,697
Light Vehicle Sales (000)	13,193	9,900	2,197	2,661	2,495	2,546
Iron and Steel Production Index (Pct. Chg. vs. Last Year)	-9.1%	-55.4%	-60.3%	-59.5%	-59.1%	-34.4%
Pulp and Paper Production Index (Pct. Chg. vs. Last Year)	-3.8%	-11.4%	-16.8%	-14.0%	-11.2%	-2.7%
Food Production Index (Pct. Chg. vs. Last Year)	1.5%	-3.2%	-2.8%	-3.7%	-2.8%	-3.4%

Economic forecasts are from Moody's Economy.com. Vehicle production and sales forecasts are from Global Insight.

the bottom. Even though these indicators have most stabilized leveled at a very low level, neither is likely to see real recovery until late 2009 at the earliest.

While housing starts and sales have shown signs of stabilizing, there are still a lot of problems in the housing market. Housing prices are likely to see further declines. There have been some increases in housing prices, particularly in the FHFA housing index; however, these gains have been unsustainable and have usually been followed by decreases. Furthermore, foreclosures will continue as more and more households are unable to make payments due to either rising interest rates or job losses. Several banks instituted foreclosure moratoriums last year. As these moratoriums expire, more and more homes will be foreclosed upon. More foreclosures will further depress housing prices. As a result, housing prices will not stabilize until foreclosures abate and lending increases.

The housing market is deeply tied to the credit market, which has also shown signs of improving. The Federal Reserve has successfully encouraged low mortgage rates, which will pull in new buyers, or at the very least, allow current mortgage holders to refinance for a lower rate.

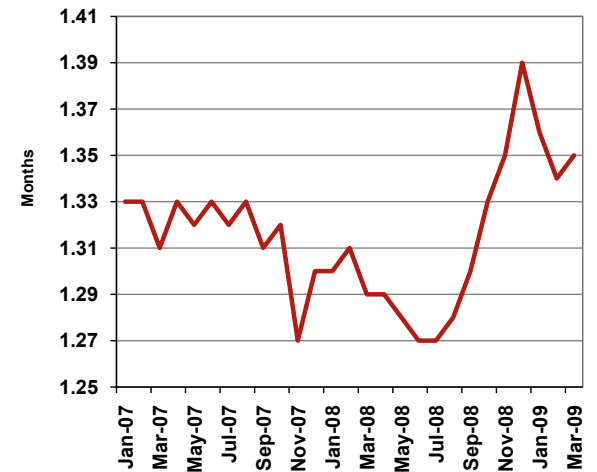
Other actions by the Federal Reserve have also assuaged credit markets. The Federal Reserve recently conducted stress tests on

the nation's 19 largest banks. These tests helped banks determine how much extra capital they would need to deal with higher rates of defaults. Institutions that need more capital have no choice but to raise more capital, which many banks have already done. The ultimate result has been the restoration of some confidence in the banking system, which is reflected in improved performance by financial stocks.

Finally, there has been substantial improvement in the corporate bond market. Corporations who have managed to hang on to their higher bond ratings have seen their cost of capital return to year-ago levels, but even lower rated corporations have seen their bond yields decline. The spreads between both investment grade and high-yield corporate bonds and long-term treasury bonds have declined steadily since March. Currently, corporate credit spreads are about halfway between the worst levels seen during this recession and levels that would be considered normal. As more and more companies raise capital through bond issuance, more investment and, hence, more economic growth will occur.

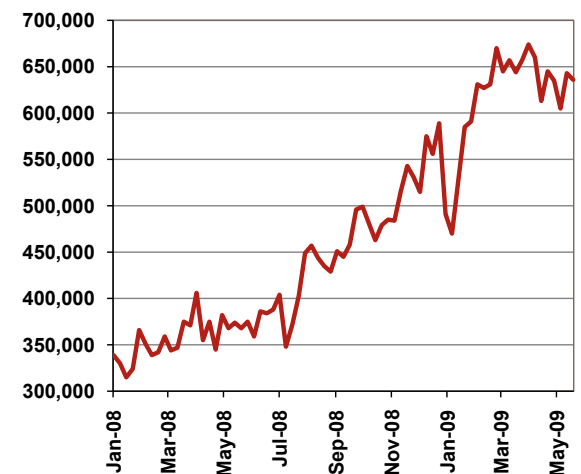
While so many indicators are showing signs of nascent recovery, one of the most important indicators, employment, has barely improved. Net job losses peaked in January when 741,000 jobs were shed on a net basis. Job losses averaged around 640,000

U.S. Non-Automotive Inventory Sales Ratio



Source: Bureau of the Census

U.S. Initial Unemployment Claims



Source: U.S. Employment & Training Administration

January through April, not much of an improvement. Initial jobless claims peaked at 674,000 in April but since then have yet to drop below 600,000. Jobless claims around 350,000 would be consistent with an improving labor market. Job losses will likely continue until the first quarter of 2010.

Job losses obviously have a negative effect on household incomes. With less money to spend, consumers have continued to cut back. Retail sales declined in March and April after having increased in January and February. In April, retail sales were 10.1% below year ago levels, the largest decline on record. The decline in retail sales is particularly disappointing given the recent rise in consumer confidence and the boost in incomes many Americans received due to the payroll tax cuts in April.

Weak consumer demand has put pressure on inventories. While inventories declined substantially in the first quarter, they have not declined as much as sales. Although the inventory/sales ratio has come down slightly in recent months, it is still well above year ago levels suggesting that retailers will continue to have to aggressively reduce inventories.

The weak economic environment is also keeping a lid on overall inflation as consumer prices were down 0.6% from the previous year in April. More importantly, core inflation excluding food and energy has held steady

in the 1.7-1.9% range since December. Energy prices have stabilized compared to last year's dramatic increases and declines. Food prices have also started to decline due to lower production costs and less demand for non-staples. Outside of food and energy, there have been no signs of price reductions spreading to services or to regularly purchased commodities such as apparel.

The lack of inflation is a positive that gives the Federal Reserve more room to keep rates low. The Federal Reserve has kept its rates in the 0-0.25% range since December and has signaled that a rate increase in the near future is unlikely.

While the worst is likely over for the U.S. economy, the next two quarters will still be difficult as the economy lives through the aftershocks of the credit crunch and the worst recession in years. Second quarter GDP will likely be negative. GDP growth should resume in the second half, albeit at less than 1% pace. Full year GDP is estimated to decline by 2.9%, the largest decline in the post-war period.

Canada Economic Outlook

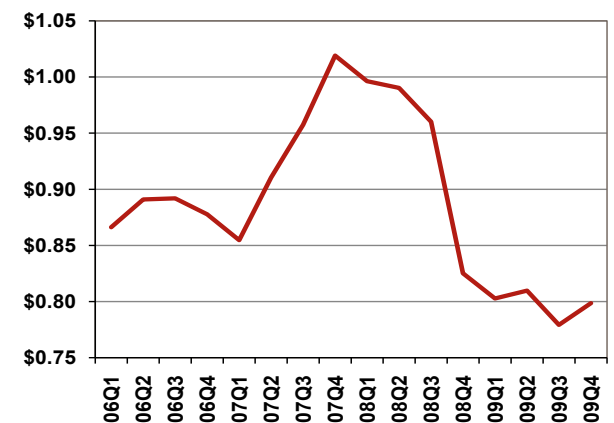
The economic storm that ravaged the United States throughout 2008 hit Canada in the fourth quarter of last year. Unfortunately, the downturn only intensified through the first quarter of 2009. When final results are

in, the first quarter of 2009 will likely be the worst quarter on record for Canadian GDP.

The downturn in the United States is the primary cause of the recession in Canada. Weak economic conditions in the U.S. have reduced demand for Canadian goods. Exports to the U.S. were down 24.4% in March from the previous year. Declining demand for Canadian goods is devastating Canadian manufacturing. Manufacturing orders have fallen in seven of the past eight months.

The turmoil in the auto industry is only making things worse for Canadian manufacturers. On average, the auto industry was responsible for approximately a quarter of Canadian exports, with almost 80% of Ca-

Canadian Dollar Exchange Rate

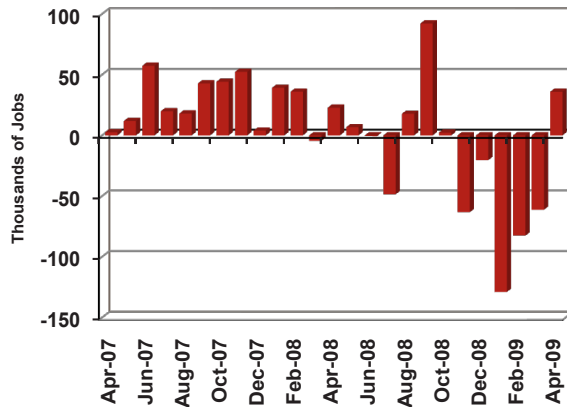


Source: Federal Reserve Board

nadian auto exports destined for the United States. With Chrysler and GM in bankruptcy, things can only get worse for the Canadian auto industry as demand sags and more plants are closed.

More plant closures mean more layoffs. The Canadian labor market has been struggling for months. In the first quarter of 2009 alone, 273,000 jobs were lost on a net basis. April saw a net gain of 36,000 jobs; however, these gains are misleading. All of April's gain was due to a rise in self-employment. As the Canadian economy weakens further, few of the self-employed will manage to make ends meet. Employment excluding the self-employed dropped by 1,100 in

Change in Canada's Employment



Source: Statistics Canada

April. Still, while the labor market remained extremely weak, it has definitely strengthened from previous months. On net, manufacturing gained jobs and construction lost only 7,500. From September 2008 to March 2009 construction lost on average 1,800 jobs a month. It remains to be seen if the labor market can maintain April's gains. With Canadian housing starts expected to decline 40% in 2009 from 2008 and automakers possibly going bankrupt, Canadian manufacturing and construction employment could plunge in coming months.

One bright spot for manufacturers is the exchange rate. The Canadian dollar dropped to a value below US \$0.80 per Canadian dollar earlier this year from almost par in 2008. Usually a strengthening of the U.S. dollar would increase the desirability of now cheaper Canadian goods. However with the U.S. and, indeed, most of the world in recession, not even a drop in the value of the loonie can spur exports. And the loonie's recent strengthening - it had topped US\$.90 as this was written - will further pressure exports.

In addition to job losses, Canadians are dealing with a dramatic loss of personal wealth. The Canadian stock market lost almost half of its value from its peak in June 2008 to its bottom in March 2009. As will be discussed later, Canadian housing prices have also weakened. These declines in personal wealth have had an adverse effect

on spending and saving. The Canadian savings rate has increased to 4.7% from a low of just over 2.0%. Obviously, this increase in the saving rate combined with lower personal spending has detrimentally affected consumer spending. While retail sales increased in January, February and March, these increases were small, and Canadian retail sales are still almost 5.0% below previous year's levels.

Retailers have not managed to keep abreast of the decline in retail sales. The stock-to-sale ratio, a Canadian equivalent of the inventory-to-sales ratio, was recently at a ten year high. Massive supplies of inventories will hinder recovery in the near future. Due to inventory liquidation, inventories will likely be a negative for GDP in the first quarter of 2009

Losses to personal wealth have not only harmed consumer spending in Canada, they have also limited Canadian consumer's individual ability to pay off debts accrued during the 20-year long Canadian economic boom. As a result, Canadian bankruptcies are headed toward an all time high. Canadian consumer bankruptcies were up 34% in the first quarter 2009 from the previous year. Bankruptcies will continue to increase as the Canadian economy falls further into recession. Bankruptcies will likely peak at 4.1 bankruptcies per 1,000 working age individu-

Table 2: Canada Economic Indicators

Economic Indicator	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
Real Gross Domestic Product (Pct. Chg. SAAR)	0.5%	-2.3%	-5.4%	-3.7%	-0.6%	1.1%
Real Consumption (Pct. Chg. SAAR)	3.0%	-0.9%	-1.6%	-1.5%	-0.2%	0.8%
Bus. Gross Fixed Capital Formation (Pct. Chg., SAAR)	1.0%	-9.5%	-24.3%	-9.0%	-4.6%	-2.8%
Real Change in Business Inventories (Bil. Chained 1997\$, SAAR)	\$10.3	(\$6.6)	(\$5.8)	(\$6.5)	(\$7.5)	(\$6.5)
Real Goods Exports (Pct. Chg. SAAR)	-5.0%	-12.3%	-32.9%	-13.3%	-5.1%	2.0%
Retail Sales (Pct. Chg. Vs. Last Year)	3.4%	-4.2%	-7.0%	-4.9%	-3.4%	-1.3%
Housing Starts (Thousand Units, SAAR)	212.6	135.9	135.9	132.3	134.3	141.1
Light Vehicle Production (000)	2,046	1,391	276	362	345	408
Light Vehicle Sales (000)	1,637	1,330	284	405	330	310
Fabricated Metal Manufacturing (Pct. Chg. vs. Last Year)	-6.9%	-5.5%	-2.1%	-4.3%	-3.7%	-2.9%
Pulp and Paper Manufacturing (Pct. Chg. vs. Last Year)	-8.6%	-3.1%	-2.0%	-3.3%	-3.3%	-3.9%
Food and Beverages Manufacturing (Pct. Chg. vs. Last Year)	2.2%	2.2%	2.3%	2.3%	2.3%	2.2%
Exchange Rate: U.S. \$ per Canadian \$	\$0.94	\$0.80	\$0.80	\$0.81	\$0.78	\$0.80

Economic forecasts are from Moody's Economy.com. Vehicle production and sales forecasts are from Global Insight.

als, well above the 2.9 per 1,000 average of the previous ten years.

The Canadian housing market is weighing heavily on the economy. While many provinces have seen only small declines in home prices, prices have dropped 11% from their peak in Alberta and 16% in British Columbia. Prices in Ontario, one of the most heavily economically depressed provinces, are down 12% below their peak. Housing construction is also weak. The fourth quarter of 2008 saw a 22% decline in residential construction on an annualized basis. Housing starts are expected to reach only 136,000 units in 2009, almost 40% below the 220,000 average of the past two years.

The bright spot in the Canadian housing market is the relatively healthy state of the mortgage market. Large Canadian banks dominate the Canadian mortgage market and they have only slightly tightened their credit standards. Furthermore, the Canadian federal government has pledged to increase purchases of insured mortgages to C\$125 billion. The Bank of Canada has also done its part to strengthen the mortgage market. In May, the Bank of Canada set its policy rate to 0.25% and taken other steps to support liquidity. As a result, the Canadian five-year mortgage rate declined by over a percentage point in the first quarter.

The recession in the United States will weigh heavily on the Canadian economy

throughout 2009. Full year Canadian GDP is expected to decline 2.9% in 2009. While aggressive action by the Canadian federal government and the Bank of Canada will mitigate the recession, there will be no true Canadian recovery until the recession in the U.S. starts to subside.

Mexico Economic Outlook

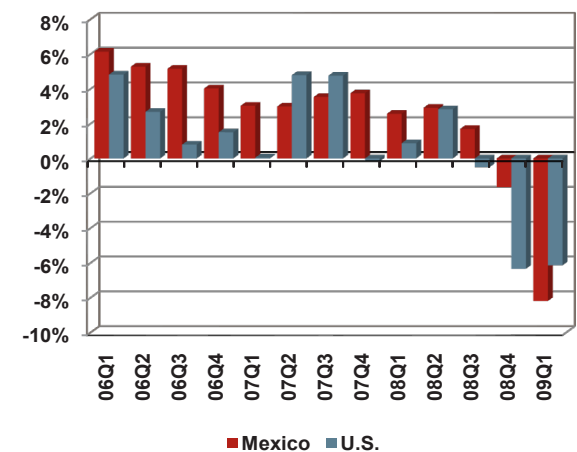
It's been said that when the United States sneezes Mexico catches the flu. This time around, Mexico has caught an economic disease from the U.S. so devastating that it might as well be called economic swine flu. While the U.S. saw a GDP decline of 5.7% in the first quarter of 2009, Mexico experienced a much larger decline of 8.2%.

Tragically, Mexico's economic downturn, which will be the worst since the Tequila Crisis in 1995, did not have to be nearly as bad as it is now. The economic contraction was exacerbated by the Mexican central bank's late action as well as by events such as the swine flu outbreak, the escalation of the drug war, a trade war with the U.S. and even an earthquake.

Out of all the factors that are making the Mexican recession worse than it needs to be, the swine flu epidemic is probably the most devastating. Swine flu was discovered in late March and has quickly spread across the globe, but no region has been harder

hit than Mexico. In response to the spread of the disease, the Mexican government mandated a five day shutdown of all non-essential government services and businesses in early May. Most Mexican workers did not need the Mexican authorities to stay home. Before the shut down it's estimated that businesses were working at only 30% capacity. The swine flu will depress the Mexican economy in many other ways. Tourism will suffer as tourists stay home to avoid the epidemic and agricultural exports may decline due to fears about contamination. Therefore, the swine flu epidemic can be expected to subtract 1-2% from second quarter GDP growth.

Mexico and U.S. GDP Growth



Source: Instituto Nacional de Estadística Geografía e Informática (INEGI) and The Bureau of Economic Analysis

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Table 3: Mexico Economic Indicators

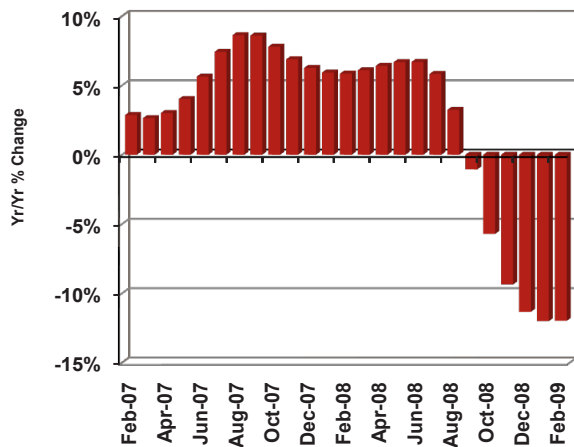
Economic Indicator	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
Real Gross Domestic Product (Pct. Chg. Vs. Last Year)	1.3%	-5.5%	-8.2%	-8.7%	-4.2%	-0.8%
Real Consumption (Pct. Chg. Vs. Last Year)	1.5%	-3.9%	-5.6%	-6.4%	-3.9%	0.1%
Real Fixed Investment, Business (Pct. Chg. Vs. Last Year)	4.9%	-5.2%	-7.4%	-9.0%	-4.2%	-0.4%
Real Change in Business Inventories (Billion 1993 Pesos)	74.93	-8.80	-53.37	-25.72	102.37	-58.46
Real Goods Exports (Pct. Chg. Vs. Last Year)	1.4%	-7.5%	-12.0%	-11.0%	-6.7%	0.1%
Retail Sales (Pct. Chg. Vs. Last Year)	6.4%	0.2%	-2.2%	-3.8%	1.1%	4.9%
Light Vehicle Production (000)	2,089	1,597	324	394	424	455
Light Vehicle Sales (000)	1,022	830	195	186	189	259
Unemployment Rate	4.0%	5.6%	5.0%	5.6%	5.9%	5.7%
Consumer Prices (Pct. Chg. Vs. Last Year)	5.1%	5.2%	6.2%	5.8%	5.0%	4.1%
Exchange Rate: Mexican Pesos per U.S. \$	11.2	13.6	14.4	13.5	13.3	13.0

Economic forecasts are from Moody's Economy.com. Vehicle production and sales are from Global Insight

Still, the biggest cause of the economic downturn in Mexico is the recession in the United States. Even after years of trying to encourage export diversification, Mexico exports 80% of its goods to the United States. With U.S. demand tanking, it should come as no surprise that in April Mexican exports were 35.6% below the previous year.

Lower exports mean lower manufacturing levels. In the first quarter, manufacturing was down almost 13.8% from the previous year. The rate of decline of manufacturing slowed in March to 9.9% from the previous year. In February, manufacturing declined by 16.2%. However Mexican manufacturing still has a long way to go before hitting bottom.

Mexico Exports



Source: Instituto Nacional de Estadística Geografía e Informática (INEGI)

Even if manufacturing picks up, Mexican exports will be depressed. Oil revenues have plummeted due to both declines in oil prices and capacity constraints. While the value of oil revenues declined 59.6% in March from the previous year, the total volume of oil exports shrank by 17.3%. Luckily, it looks like the worst is over for the Mexican oil industry at least in terms of prices as global oil prices have risen in past weeks. A barrel of Mexican crude oil went for \$46.35 in April, a 12% increase over its price in March. Still, the value of a barrel of Mexican crude oil is well below the \$94.90 of a year ago.

Even with energy prices stabilizing a bit, inflation is still a problem in Mexico. In March, the year over year inflation rate rose to 6.2%, after having declined for three months. The peso has weakened substantially since last fall and this is placing some stress on prices of imported goods.

Persistently high inflation has spooked the Bank of Mexico for almost a year now. Since the beginning of the financial crisis in 2008, the Bank of Mexico has cut its overnight rate by only 300 basis points. In comparison, The United States has lowered its rate by 575 points. Even Chile, which saw GDP decline by only 2.1% in the first quarter, has cut its rate by 700 points. The Mexican Central Bank only started to lower its rates in early 2009, after a quarter of negative GDP

growth. It is likely that restrictive monetary policy depressed growth in the first quarter.

All of this has negatively affected the Mexican consumer. The unemployment rate increased to 5.3% in April after having fallen slightly in March. As a result of rising unemployment, Mexican consumers have started to cut back. Mexican retail sales have been negative compared to the previous year for the past seven months. While retail sales did rebound in March, this was mostly due to the seasonal effect of Easter. Private consumption is expected to fall by 8.7% in the second quarter of 2009 from the previous year, after an 8.1% decline in the first quarter.

The Mexican economy will continue to suffer throughout 2009. Full year GDP is estimated to decline by 5.5%. During the Tequila Crisis of 1995, GDP shrank by 6.2%. While the Mexican government and central bank will likely try to stimulate the economy, no real recovery will happen until the United States begins to recover from its recession.

Intermodal Outlook

The first quarter of 2009 was the worst for intermodal since 1975, with total volume down 15.3%. Volumes continued to deteriorate in April and May pushing total intermodal down 16.3% to date through Memorial Day weekend. International container and trailer loads

continued to plunge. But domestic containers delivered a solid 3.3% increase in April. That brought year-to-date domestic container growth through April to 4%.

In domestic container markets, understanding the recent upbeat results meant untangling underlying growth from the resurgent shift out of trailers into containers. Of course the domestic container gains are disproportionately in 53-foot boxes as the aging 48-foot fleet continues to shrink. That might be one of the reasons why loads of 53-foot containers never dipped into negative territory during this downturn. Although growth

slowed from the above-15% gains seen in recent years, 53-foot container loads were up 4.4% to date through April.

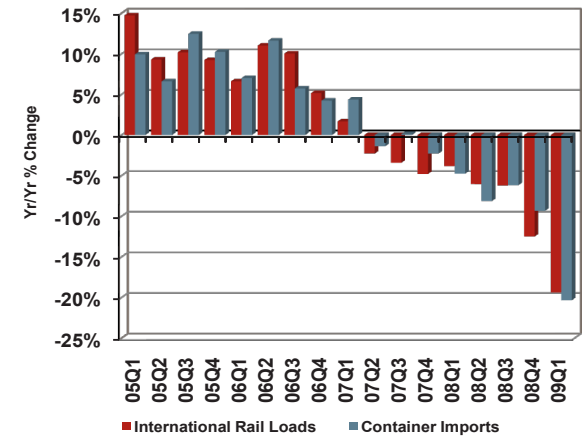
With domestic containers resilient in the face of the downturn, trailers took all the beating. Trailer losses were the worst in the East, which saw a sharp 52% drop in April and were off 47% year-to-date. Canadian trailer loads also were off approximately 16% to date, but from a tiny base. Trailers declined in the West at half the rate in the East. They were down 24% through April. Shift from trailers to containers and stiff trucking com-

Table 4: Intermodal Market Indicators

Intermodal Indicator	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
U.S. TEU Imports (Loaded vs. Last Year)	-8.6%	-14.8%	-20.4%	-19.0%	-14.4%	-5.4%
U.S. TEU Exports (Loaded vs. Last Year)	5.8%	-13.1%	-22.2%	-18.1%	-15.4%	3.1%
U.S. Containerizable Domestic Production (Pct. Chg. vs. Last Year)	-2.1%	-10.5%	-12.2%	-12.3%	-10.9%	-6.3%
Canadian TEU Imports (Loaded vs. Last Year)*	8.0%	-6.9%	-12.9%	-9.9%	-3.6%	-1.3%
Canadian TEU Exports (Loaded vs. Last Year)*	0.1%	-9.3%	-15.7%	-11.5%	-10.9%	1.0%
Canadian Containerizable Domestic Production (Pct. Chg. vs. Last Year)	-4.3%	-5.2%	-3.9%	-5.1%	-6.0%	-5.6%
Retail Inventory/Sales Ratio ex. Autos (Months)	1.29	1.32	1.35	1.33	1.30	1.28
Diesel Fuel Prices (\$/gallon)	\$3.67	\$2.29	\$2.19	\$2.33	\$2.32	\$2.31

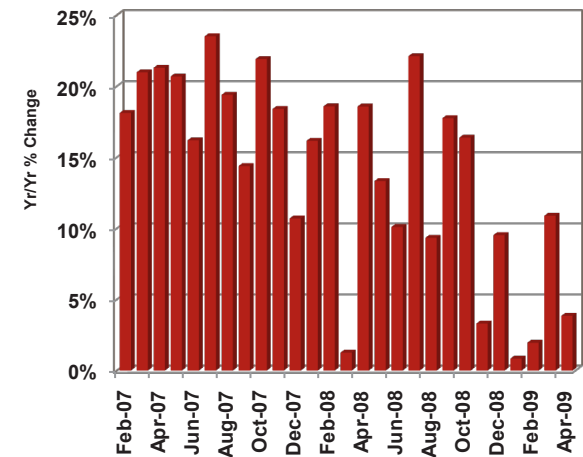
Sources: Piers/Joc, Transystems, TTX, Federal Reserve, EIA, Dept. of Commerce

Container Imports Growth vs. International Rail Loadings



Source: Association of American Railroads, Piers

53- Foot Container Loads Growth



Source: IANA

petition amid low fuel costs continued to weigh on trailer volumes.

Overall domestic weakness masked a sharp difference between trailer and container performance. After sifting through the pieces, total domestic intermodal delivered an 11% decline through April, consistent with the overall declines in freight output.

Domestic freight output continued to deteriorate according to a number of measures. Factory output plummeted 14% in the first quarter as production was particularly burdened by weakness in the housing and automotive sectors. Containerizeable production also slowed sharply, declining 12.2% in the first quarter. FTR Associates' estimate of dry van trailer loadings was down 10.1% in April year-over-year.

Domestic market share dipped below 5% in the first quarter for the first time since the first quarter of 2005. While some of that drop can be attributed to seasonal factors, tough trucking competition might have played a bigger role. FTR associates estimated that truck costs will be down 15% in 2009 and down 20% from their 2008 summer peak. Although much of that decline is due to substantially lower fuel prices, non-fuel truck costs were down 5% year-over-year as this was written. Given the weak labor environment, the current surplus of drivers is very large. FTR estimates that a shortage of driv-

Table 5: Rail Intermodal Loads Forecast

Intermodal Loads Originated	Actual	Forecast	Actual	Forecast	Forecast	Forecast
	Year 2008	Year 2009	2009 Q1	2009 Q2	2009 Q3	2009 Q4
U.S. East Containers	2,707,698	2,657,164	651,720	658,582	678,526	668,336
Pct. vs. Last Year	1.1%	-1.9%	-1.2%	-3.6%	-5.0%	2.8%
U.S. East Trailers	1,050,780	550,332	141,759	131,915	130,398	146,261
Pct. vs. Last Year	-2.3%	-47.6%	-45.1%	-50.1%	-52.1%	-42.9%
U. S. East Total	3,758,478	3,207,496	793,479	790,497	808,923	814,597
Pct. vs. Last Year	0.1%	-14.7%	-13.6%	-16.6%	-18.0%	-10.1%
U.S. West Containers	6,355,792	5,473,861	1,303,488	1,345,835	1,402,990	1,421,549
Pct. vs. Last Year	-6.0%	-13.9%	-16.0%	-16.8%	-16.4%	-5.6%
U. S. West Trailers	1,091,782	830,159	212,991	197,949	205,811	213,407
Pct. vs. Last Year	-6.8%	-24.0%	-22.1%	-28.9%	-27.7%	-16.4%
U. S. West Total	7,447,574	6,304,020	1,516,479	1,543,783	1,608,801	1,634,956
Pct. vs. Last Year	-6.1%	-15.4%	-17.0%	-18.6%	-18.0%	-7.2%
U.S. Containers	9,063,490	8,131,026	1,955,208	2,004,417	2,081,516	2,089,885
Pct. vs. Last Year	-4.0%	-10.3%	-11.6%	-12.9%	-13.0%	-3.1%
U.S. Trailers	2,142,562	1,380,491	354,750	329,864	336,209	359,668
Pct. vs. Last Year	-4.7%	-35.6%	-33.3%	-39.2%	-39.6%	-29.7%
U.S. Total	11,206,052	9,511,517	2,309,958	2,334,281	2,417,725	2,449,553
Pct. vs. Last Year	-4.1%	-15.1%	-15.8%	-17.9%	-18.0%	-8.2%
Canadian Containers	2,374,087	2,129,727	500,020	516,247	553,741	559,719
Pct. vs. Last Year	1.5%	-10.3%	-13.0%	-14.5%	-13.3%	0.5%
Canadian Trailers	100,402	81,741	19,958	20,807	20,555	20,421
Pct. vs. Last Year	-1.3%	-18.6%	-14.3%	-25.1%	-22.8%	-10.2%
Canadian Total	2,474,490	2,211,468	519,978	537,054	574,296	580,140
Pct. vs. Last Year	1.4%	-10.6%	-13.0%	-15.0%	-13.7%	0.0%
U.S. & Canadian Dom. Cont.	3,796,415	3,933,190	921,593	968,559	1,039,632	1,003,407
Pct. vs. Last Year	6.9%	3.6%	4.2%	2.4%	3.2%	4.6%
U.S. & Canadian Intl. Cont.	7,641,163	6,327,563	1,533,635	1,552,104	1,595,625	1,646,198
Pct. vs. Last Year	-7.1%	-17.2%	-19.4%	-20.8%	-21.2%	-6.2%
U.S. & Canadian Containers	11,437,577	10,260,753	2,455,228	2,520,664	2,635,257	2,649,604
Pct. vs. Last Year	-2.9%	-10.3%	-11.9%	-13.2%	-13.1%	-2.4%
U.S. and Canadian Trailers	2,242,964	1,462,232	374,708	350,671	356,764	380,089
Pct. vs. Last Year	-4.5%	-34.8%	-32.5%	-38.5%	-38.8%	-28.8%
U.S. and Canadian Total	13,680,542	11,722,985	2,829,936	2,871,334	2,992,021	3,029,693
Pct. vs. Last Year	-3.2%	-14.3%	-15.3%	-17.4%	-17.2%	-6.7%

Sources: Association of American Railroads, Intermodal Association of North America, TTX

ers is unlikely to be a problem for carriers in the next few years.

Domestic intermodal will continue to remain the swing factor for overall intermodal. Its future path will depend on rail strategies, trucking capacity and fuel prices as much as it will on the broader state of the economy. Total domestic volume is forecast to plunge 10.7% in 2009.

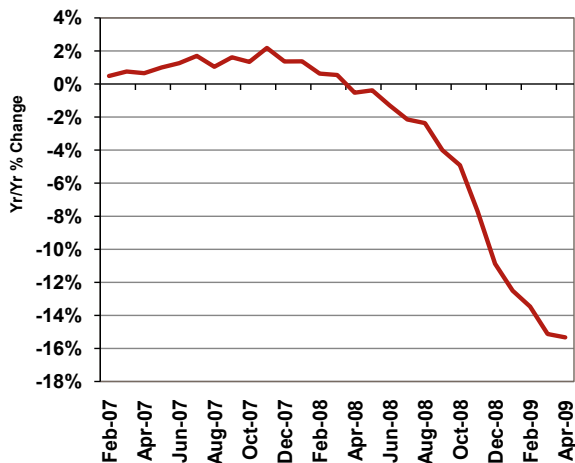
International intermodal continued to take an even bigger hit than domestic. International's losses were broad based, with all regions declining rapidly, according to data from the Intermodal Association of North America. The West topped the list with a 26% first quarter drop as West Coast container im-

ports plummeted close to 23% during the same period. Western Canada had the smallest international intermodal loss of 11% in the first quarter amid a similar slowdown in Canadian imports. Though complete port figures are not yet released, the available data suggests that both U.S. East and West Coast imports dropped by over 20% in April. International rail volumes were in line with import decline, plunging 22.5% in April.

Estimates of first quarter Southern California transloads showed them down 7.4% from last year, but that was during a quarter when Los Angeles and Long Beach imports plummeted. However, the estimated transload share of imports was up sharply, increasing to above 29% for the first time since TTX

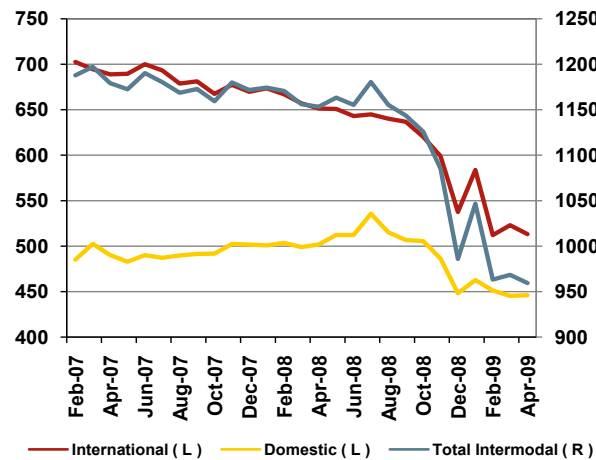
started estimating transloads in 2000. This share was at its high of 27% back in 2001 and consistently trended down since then to its low of 19% in the second quarter of 2006. Domestic container growth out of the Southwest region dropped by a similar 7.6% in the first quarter, according to the IANA figures. This was at the time when the overall domestic container volumes grew. A closer look at transload volumes shows them hovering in a range of 380,000 to 480,000 TEUs a quarter since 2003. That means that while transload business remains steady even during downturns, international freight comes and goes with freight cycles. Thus, a long anticipated economic recovery should favor international freight.

Containerizeable Production Growth



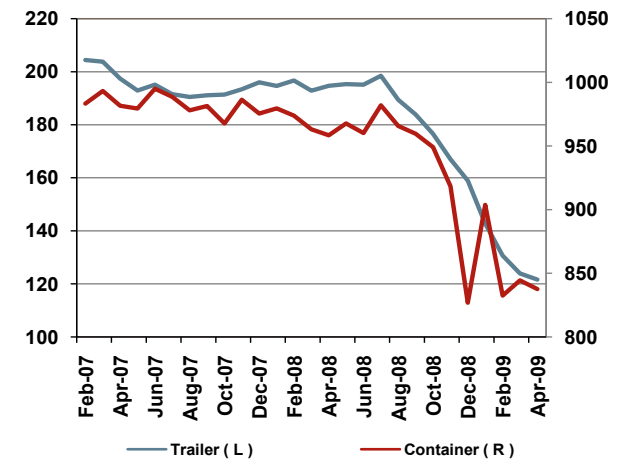
Source: Federal Reserve Board, TTX

Seasonally Adjusted Intermodal Volume



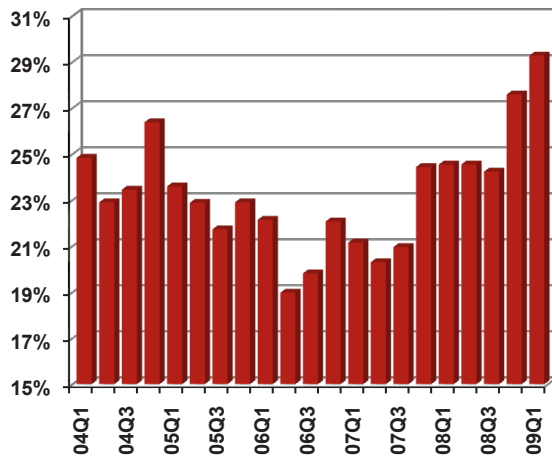
Sources: IANA, AAR, TTX

Seasonally Adjusted Intermodal Volume



Source: AAR, TTX

Transload Share of Southern California Imports



Source: Piers, IANA, TTX

As of now, there are no signs of recovery in international markets yet. With consumer spending still shaky, but returning to positive territory in the first quarter, extremely weak container import and international intermodal results were probably driven by retailers' effort to get rid of excess inventories. TTX forecasts no notable improvement in international until the last quarter of 2009, when the rate of decline will slow and international freight will see a very modest seasonal uptick. Full year 2009 rail international volumes are forecast to decline 17.2%, a third consecutive year of declines for international.

The latest forecast projects full-year total intermodal drop of 14.3%, just slightly better than the first quarter's pace, a reflection both

of easier year-over-year comparisons in the fourth quarter and further slowdown in freight growth into the summer. Intermodal freight should find bottom sometime this summer. Nevertheless, most shippers probably will not feel any substantial improvements until 2010.

Carload Outlook

Carload traffic continued to deteriorate through Memorial Day weekend. Total carload volume was off 25.7% during the four weeks ending May 23, a pace that was more than 5% worse than the year-to-date run rate of 20%. Loads of most commodities deteriorated in those four weeks compared to the year-to-date results with a few exceptions (motor vehicles and equipment, chemicals, grain mill products, nonmetallic minerals). Rail shipments of only one commodity category— farm products excluding grain - are growing this year.

However, there is a glimmer of hope that there are better times ahead for some commodities. Despite sharp drops from their peaks, prices for a number of commodities flattened out or began rising in early 2009. Confidence has improved as some economic indicators have suggested that the worst of the current downturn may be over. Meanwhile, expectations for a looming recovery in global economic activity have fueled speculative pressure in a number of commodity

Table 6: Rail vs. Truck Share of Domestic Market

	2004	2005	2006	2007	08Q1	08Q2	08Q3	08Q4	09Q1	Est. 09Q2
Domestic Rail Intermodal Loads (SA)	5,820	5,821	5,879	5,902	1,506	1,531	1,558	1,443	1,296	1,319
Long-Haul Truck Loads (550+ miles)	109,983	109,705	110,457	112,095	27,790	27,724	27,387	26,305	25,432	24,624
Rail Share of Domestic Market	5.0%	5.0%	5.1%	5.0%	5.1%	5.2%	5.4%	5.2%	4.8%	5.1%

Domestic Loads from IANA, Truck Loads from FTR Associates, Forecast by TTX and FTR

Table 7: Rail vs. Truck Share of International Market

	2004	2005	2006	2007	08Q1	08Q2	08Q3	08Q4	09Q1	Est. 09Q2
International Rail Loads in TEUs	12,273	13,585	14,629	14,342	3,307	3,415	3,522	3,089	2,562	2,683
Container Imports and Exports (U.S. & Can)	26,814	29,038	30,793	32,532	7,846	8,167	8,372	7,310	6,662	6,730
Rail Share of International Market	45.8%	46.8%	47.5%	44.1%	42.1%	41.8%	42.1%	42.3%	38.5%	39.9%

International Loads from IANA, Import and Export Loads from PIERS, Forecast by TTX

markets, especially base metals, energy, and some raw materials.

An uptick in base metal prices (zinc, lead, copper, nickel, tin, aluminum), for example, has been buoyed by encouraging data from China that indicates its economy might have regained momentum thanks to its government's huge fiscal stimulus. The index of six industrial metals on the London Metals Exchange has added over 30% since its low point in mid-February. Zinc, lead and copper have all surged more than 40% over that time. Although nickel and tin have lagged the other industrial metals, both enjoyed double-digit advances during April. On the supply side, inventories remain higher than recent averages. But supplies of most metals are not sufficient to allow prices to fall to lows that existed prior to the demand surge that began in 2003.

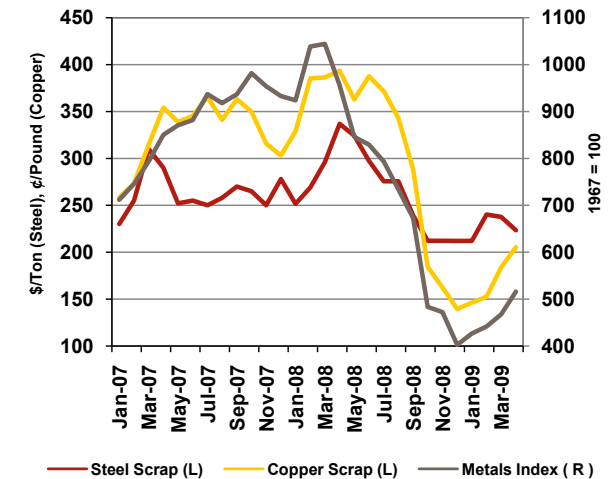
Similar to base metals, steel prices outside North America found bottom over the past month, although high inventories and over-capacity are still issues. Scrap prices rose in May amid higher demand from Turkey and China. China has also resumed importing scrap in record quantities due to a lack of supply and high prices for local resources. Also, there has been a small increase in demand for finished steel products in China over the past month due to a view that prices have bottomed and now is a good time to restock. Nevertheless, end users are still

restocking only to fulfill their most immediate needs. Despite some recovery in domestic market, the export market for Chinese finished steel remains weak. Over the past year, steel producers from Turkey and former Soviet Union became more competitive than China.

While bottoming metal prices signal better times on a horizon, there will be no recovery in rail loads of metals until inventories are lean again. Demand for scrap from Turkey that propelled U.S. prices in May began gradually dropping as this was written. Turkey is not expected to be back in the market soon. Thus, demand for industrial metals and steel will remain closely tied to the outlook from other emerging economies. Rail loads of metals and products are forecast to drop 52% in 2009 with rate of declines slowing by year end.

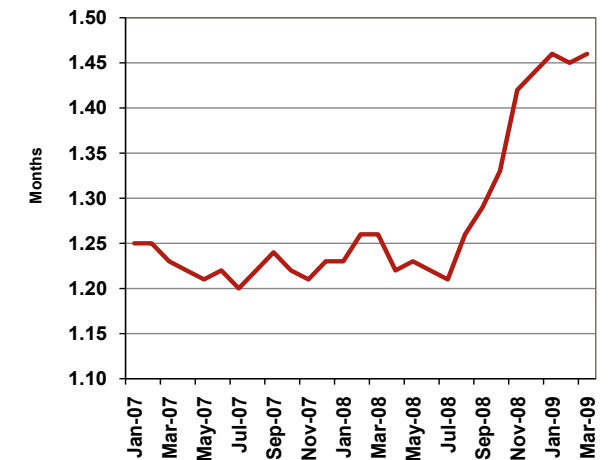
For all rail-shipped commodities, the steep contraction in U.S. manufacturing has been weighing on carload traffic since mid-2008. Most manufacturers had trouble cutting output quickly enough to match falling demand. The manufacturing inventory/sales ratio increased to 1.46 months in March, its highest reading since early 1996. The vast majority of the increase in the ratio is due to falling shipments of durable goods. There will not be any meaningful recovery in carload markets until manufacturing inventories are better aligned with sales.

Scrap Prices



Source: Commodity Research Bureau

Inventories/Sales Ratios: Manufacturing



Source: Census Bureau

Table 8: Rail Carload Volume Forecast - Select Commodities

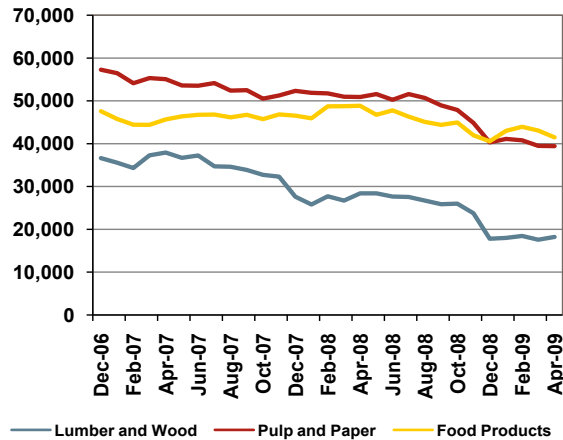
Carloads Originated	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
U.S. Lumber & Wood	179,344	117,613	29,583	31,318	29,048	27,663
Pct. vs. Last Year	-21.0%	-34.4%	-37.2%	-40.3%	-36.8%	-18.1%
Canadian Lumber & Wood	134,727	96,318	24,517	26,058	24,099	21,645
Pct. vs. Last Year	-28.7%	-28.5%	-26.4%	-30.8%	-29.9%	-26.3%
U.S. & Canadian Lumber & Wood	314,071	213,931	54,100	57,376	53,147	49,308
Pct. vs. Last Year	-24.5%	-31.9%	-32.7%	-36.3%	-33.9%	-21.9%
U.S. Pulp & Paper	367,984	298,311	73,724	73,652	76,230	74,706
Pct. vs. Last Year	-6.4%	-18.9%	-21.6%	-21.4%	-20.4%	-11.6%
Canadian Pulp & Paper	223,403	173,631	46,360	43,327	43,646	40,298
Pct. vs. Last Year	-10.0%	-22.3%	-21.3%	-23.8%	-25.2%	-18.2%
U.S. and Canadian Pulp & Paper	591,387	471,943	120,084	116,979	119,876	115,004
Pct. vs. Last Year	-7.8%	-20.2%	-21.5%	-22.3%	-22.2%	-14.0%
U.S. Motor Vehicles & Parts	813,841	457,938	114,392	121,476	105,827	116,243
Pct. vs. Last Year	-21.3%	-43.7%	-51.6%	-46.3%	-41.0%	-32.4%
Canadian Motor Vehicles & Equipment	265,737	164,862	41,535	44,668	37,862	40,796
Pct. vs. Last Year	-22.4%	-38.0%	-44.3%	-38.5%	-42.2%	-23.0%
U.S. & Canadian Vehicles & Equipment	1,079,577	622,800	155,927	166,144	143,689	157,040
Pct. vs. Last Year	-21.6%	-42.3%	-49.8%	-44.4%	-41.3%	-30.2%
U.S. Metals and Products	625,460	283,203	80,650	69,942	68,212	64,399
Pct. vs. Last Year	-6.9%	-54.7%	-52.6%	-60.9%	-59.8%	-39.8%
Canadian Metals and Products	126,024	76,963	22,812	19,052	18,465	16,635
Pct. vs. Last Year	0.1%	-38.9%	-31.7%	-44.1%	-43.6%	-35.6%
U.S. & Canadian Metals and Products	751,484	360,166	103,463	88,994	86,676	81,034
Pct. vs. Last Year	-5.8%	-52.1%	-49.1%	-58.2%	-57.2%	-39.0%
U.S. Food and Kindred Products	449,795	400,024	100,464	98,439	100,497	100,624
Pct. vs. Last Year	-0.9%	-11.1%	-12.5%	-16.7%	-10.7%	-3.6%
Canadian Food and Kindred Products	100,247	105,230	27,237	26,061	25,154	26,779
Pct. vs. Last Year	2.1%	5.0%	4.6%	3.6%	2.8%	9.0%
U.S. & Canadian Food and Kindred Products	550,042	505,254	127,701	124,500	125,650	127,403
Pct. vs. Last Year	-0.4%	-8.1%	-9.3%	-13.1%	-8.3%	-1.2%

Sources: Association of American Railroads, TTX

The manufacturing industry that is best maintaining its supply/demand balance is food processing. The primary reason is not that these firms can more quickly adjust production to meet demand, but that demand is much less associated with the economic cycle compared with other industries. While consumers might cut down on dining out, they still need to eat every day. Thus, industry revenues might suffer while shipments will be less susceptible to economic swings. Inelastic demand for food might be one of the reasons why shipments of food and kindred products fared better than the overall carload market, declining 12.6% year to date as this was written. Food and kindred products rail shipments are forecast to decline 8.1% in 2009, the smallest such decline of the five commodities groupings that TTX forecasts (others are lumber, paper, metals, and autos).

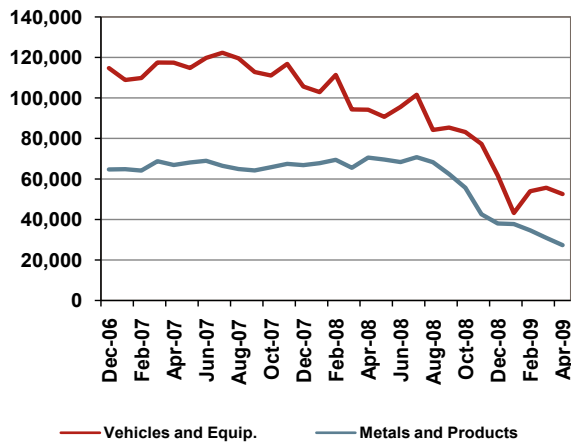
Out of all other manufacturing industries, the recovery should start earliest for the auto industry. The government-assisted restructuring of Chrysler and GM will probably help the industry expand earlier, as some operations that would otherwise be closed continued to function during the crisis. This currently poorly performing industry will also get a boost if the credit conditions finally normalize. The increasing availability of credit will allow consumers to buy vehicles, relieving some of the pent-up demand that has built up over the past year. Even so, the pace

Seasonally Adjusted Carload Volume: Food, Pulp and Paper, Lumber and Wood



Source: Association of American Railroads, TTX

Seasonally Adjusted Carload Volume: Metals and Vehicles and Equipment



Source: Association of American Railroads

of expansion in autos and parts will remain very slow as auto production will be off more than 30% compared to 2008. Rail loads of vehicles and equipments were down 48% through the Memorial Day weekend and are forecast to end 2009 42% below 2008.

Paper consumption should also be aided by economic recovery, although paper producers are unlikely to see any improvement until 2010. Paper production usually expands as consumers increase spending on reading materials, and businesses increase their use of business papers. Because paper has global exposure, global economic recovery

will also contribute to improved performance. Although paper will get a short-term boost from economic recovery, it will still be subject to long-term competition from electronic products and producers in other countries. Newspapers, and to a lesser extent magazines, are providing increasing amounts of information online, reducing the need for paper. Similarly, packaging producers should begin expanding by the beginning of 2010 as demand for nondurable consumer goods boosts paperboard, metals and plastics demand. Rail loads of pulp and paper are forecast to decline 20% in 2009.

Table 9: Lumber Market Indicators

	Actual Year 2008	Forecast Year 2009	Actual 2009 Q1	Forecast 2009 Q2	Forecast 2009 Q3	Forecast 2009 Q4
U.S. Lumber Production	29,068	20,855	5,188	5,339	5,395	4,933
Pct. vs. Last Year	-17.3%	-28.3%	-31.8%	-32.7%	-28.0%	-18.4%
Canadian Lumber Production	23,651	18,501	4,472	4,592	4,653	4,784
Pct. vs. Last Year	-21.0%	-21.8%	-27.5%	-25.8%	-19.5%	-13.1%
U.S. & Canada Lumber Production	52,719	39,356	9,660	9,931	10,048	9,717
Pct. vs. Last Year	-19.0%	-25.3%	-29.9%	-29.7%	-24.3%	-15.9%
U.S. Lumber Shipments	29,077	20,989	5,312	5,664	5,034	4,979
Pct. vs. Last Year	-16.2%	-27.8%	-28.8%	-30.4%	-32.4%	-17.4%
Canadian Lumber Shipments	23,947	19,283	4,648	5,164	4,808	4,663
Pct. vs. Last Year	-20.4%	-19.5%	-21.9%	-21.3%	-19.2%	-15.0%
U.S. and Canada Lumber Shipments	53,024	40,271	9,960	10,828	9,842	9,641
Pct. vs. Last Year	-18.2%	-24.1%	-25.7%	-26.4%	-26.6%	-16.2%
U.S. Lumber Inventories	3,355	3,269	3,350	3,502	3,615	3,269
Pct. vs. Last Year	-0.1%	-2.6%	-7.8%	-5.4%	-0.2%	-2.6%
Canadian Lumber Inventories	3,012	2,907	3,032	3,060	2,907	2,907
Pct. vs. Last Year	-8.9%	-3.5%	-14.2%	-3.2%	-2.8%	-3.5%
U.S. & Canada Lumber Inventories	6,367	6,176	6,382	6,562	6,522	6,176
Pct. vs. Last Year	-4.5%	-3.0%	-10.9%	-4.4%	-1.4%	-3.0%

All figures in millions of board feet. Historic data from Western Woods Products Association. Forecasts by TTX.