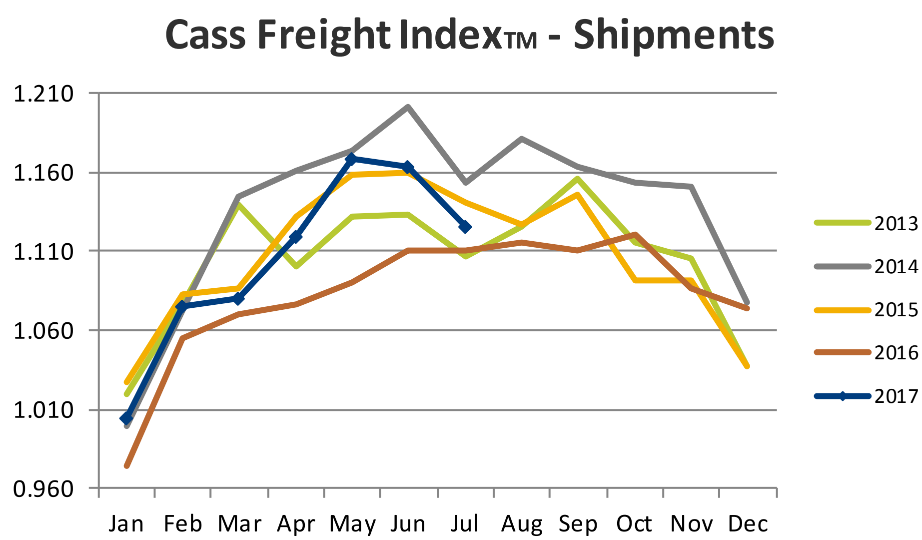
CASS FREIGHT INDEX REPORT™

July 2017

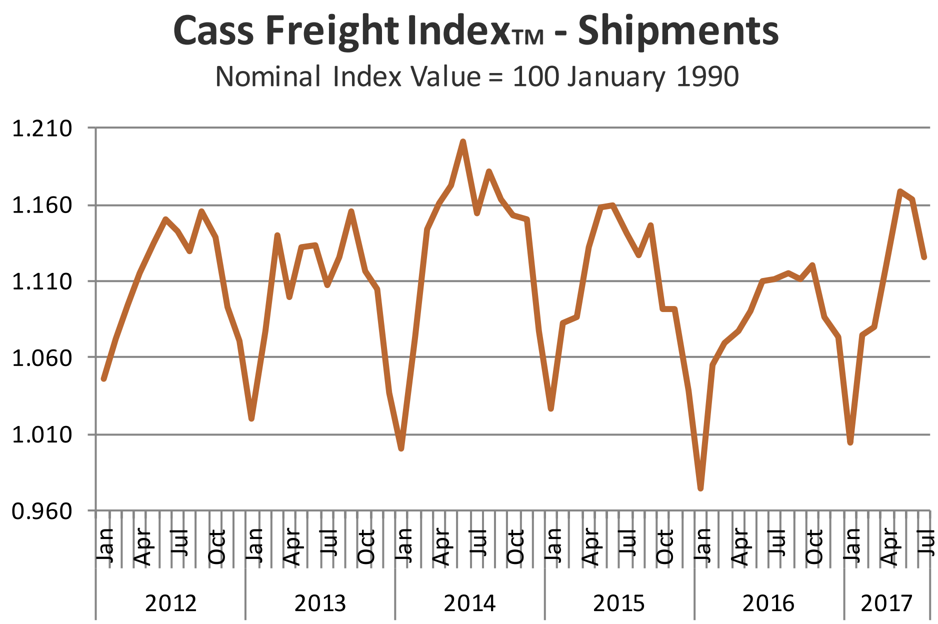
Economic Outlook from Freight's Perspective – Strength Wanes a Bit

	July 2017	Year-over-year change	Month-to-month change
Shipments	1.126	1.4%	-3.2%
Expenditures	2.460	4.5%	-1.5%

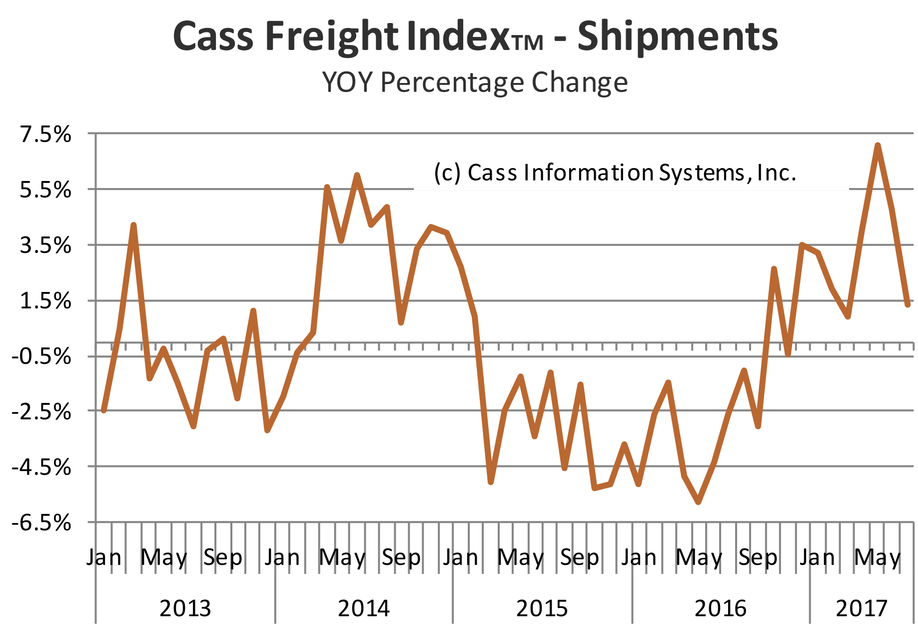
Both the Shipments and Expenditures Indexes extended their run of positive comparisons. Shipments turned positive eight months ago, while Expenditures turned positive seven months ago. **In part because of normal seasonality, and in part because of more difficult comparisons, they were less strong in July.** Throughout the U.S. economy, we are continuing to see a growing number of data points suggesting that the economy continues to get incrementally better. Some data points are simply less bad, a few of them are much better (airfreight, DAT Barometer), but some are suggesting deceleration (rail). **The 1.4% YoY increase in the July Cass Shipments Index is yet another data point which confirms that the first positive indication in October** (before the election) **was a change in trend.** In fact, it now looks as if the October 2016 Cass Shipments Index, which broke a string of 20 months in negative territory, was one of the first indications that a recovery in freight had begun.



A YoY stacked chart highlights that, unlike the May 2017 and June 2017 Shipments Index, which on a nominal basis exceeded the May 2015 and June 2015 levels, July 2017 fell back below July 2015 levels. This raises the potentially concerning question, "Is the strength in the recovery in freight volume beginning to wane?"



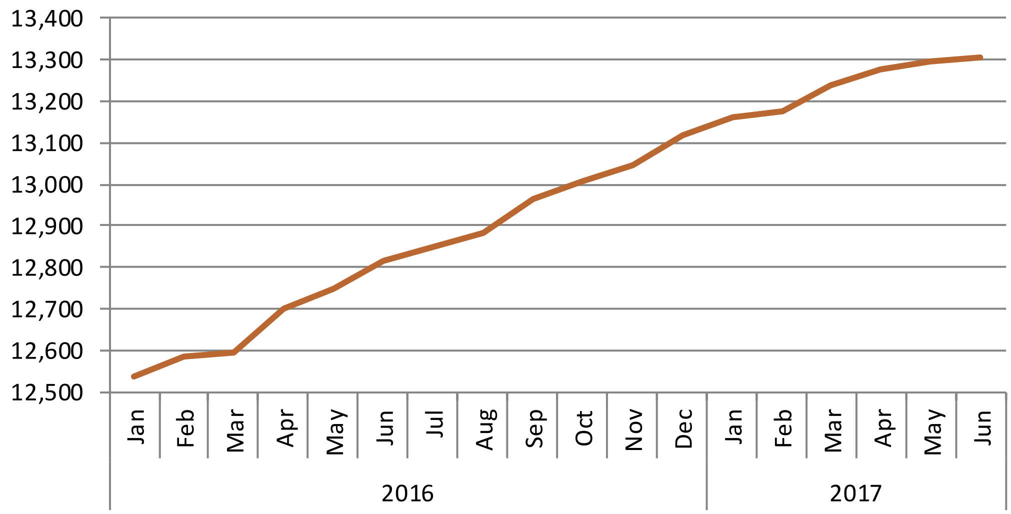
Much more encouraging, when viewed in an unstacked basis, it becomes readily apparent that the nominal value for July was higher than all the monthly values posted in 2016.



Although less positive than May and June, the YoY percentage change looks less encouraging because the freight recovery started in the second half of 2016 (i.e., tougher comparison).

Personal Consumption Expenditures

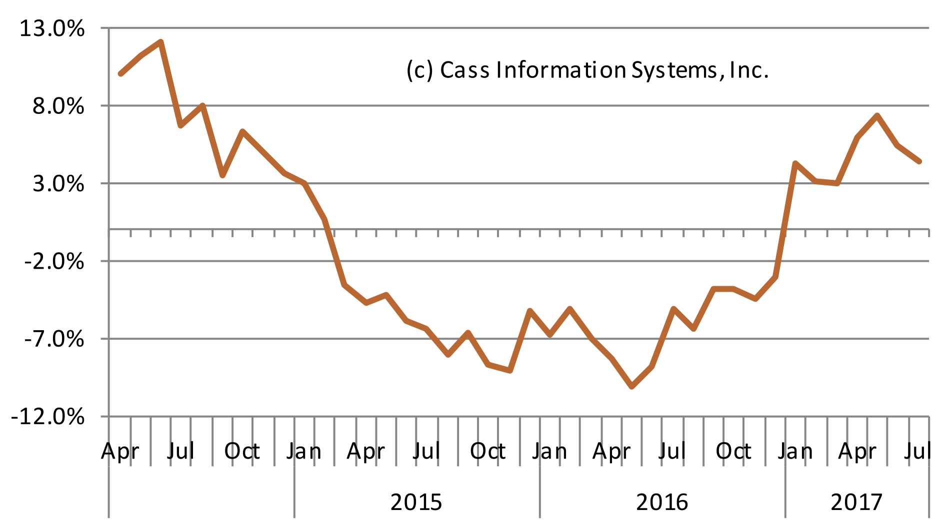
In Billions of U.S. Dollars



Data is suggesting that the consumer is finally starting to spend a little, albeit not with brick and mortar retailers. It also suggests that, with the surge in the price of crude in October of last year, the industrial economy's rate of deceleration first eased and then began a modest improvement led by the fracking of DUCs (drilled uncompleted wells), especially in the fields with a lower marginal production cost (i.e., Permian and Eagle Ford). We have been questioning, "How fast will the recovery from here be?" **However, the overall freight recession, which began in March 2015, appears to be over and, more importantly, freight seems to be gaining momentum in most segments.**

Cass Freight Index™ - Expenditures

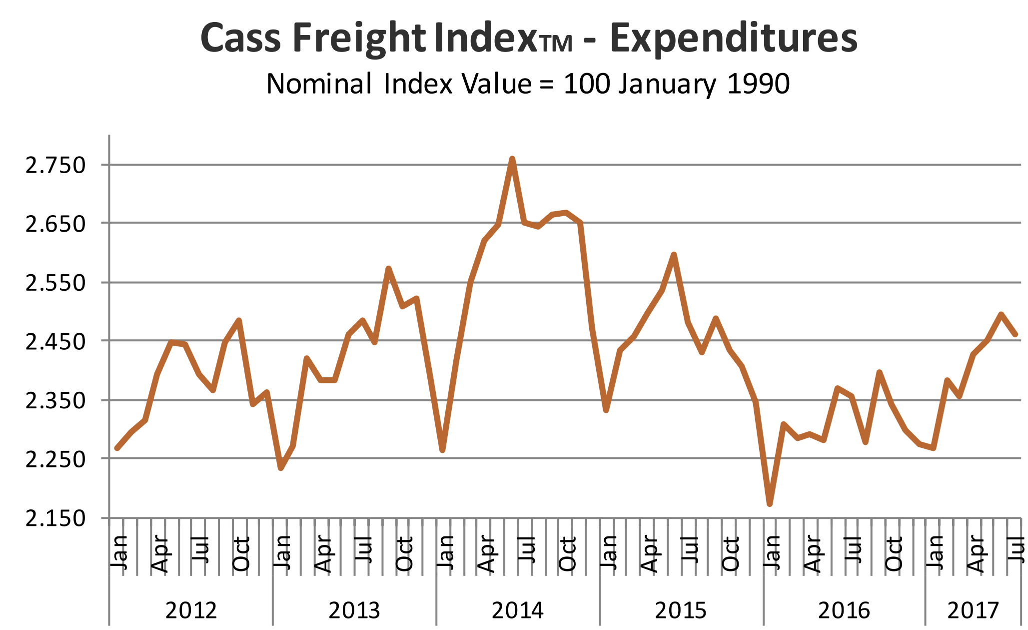
YOY Percentage Change



After posting an extraordinary 7.4% YoY increase in May, the Cass Freight Expenditures Index posted a still respectable 5.4% increase in June and a 4.5% increase in July. Expenditures (or the total amount spent on freight) turned positive for the first time in 22 months in January 2017, albeit against an easy comparison. Not since 2011—when the economy was still climbing out of the recession—had this index been so low. Our Expenditures Index in January 2016 was the worst in five years, as demand had weakened and crude oil had fallen below $30 a barrel. Although February and March of 2016 were also weak, they were not nearly as weak as January 2016 and hence a slightly tougher comp. Since fuel surcharges are included in the Expenditures Index, fuel was a negative bias in the data last year.

Conversely, over the last several months, we have observed that part of the increase was a result of the relatively steady increase in the price of fuel over the last nine months. But we are also seeing some improvements in the pricing power of truckers and intermodal shippers. As an example, the proprietary Cass Truckload Linehaul Index (which measures linehaul rates and does not include fuel) rose 1.5% on a YoY basis in the month of June, following April's 1.3% increase which was the first increase posted since February 2016. The proprietary Cass Intermodal Price Index (which does include fuel), increased 1.8% in June. (*See those reports here for more details on the data and the underlying trends*).

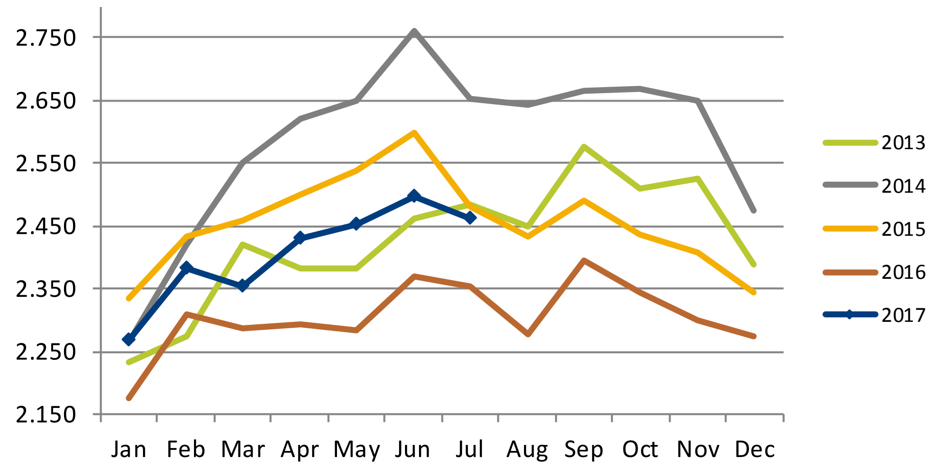
We should also remind readers of a fundamental rule of marketplaces: volume leads pricing. Repeatedly we have watched in a host of different markets, that volume goes up before pricing starts to improve and volume goes down before pricing starts to weaken. Even in markets as basic as the weather, the number of hours of sunshine (sunrise to sunset) starts to decline long before the temperature starts to fall.



Viewing the Cass Freight Expenditures Index on nominal basis shows how positive the trajectory has been in the last six months. It is still below levels achieved in the 2012-2015 period, but if the current rate of improvement continues it appears poised to reach those levels by the end of the year.

Similar to the Cass Freight Shipments Index, the Cass Freight Expenditures Index—when viewed on a nominal YoY stacked basis—highlights the general improvement of the current number. Although still below the levels achieved in June of 2014 and 2015, June 2017 did exceed June 2016 and 2013. Unfortunately, July 2017 fell below July 2013, July 2014, and July 2015. **Because it is a seasonally weaker month, we are hesitant to draw a negative conclusion. August and September data will give us a better indication of whether this is a deceleration or simply a pause in an otherwise improving trend.**

Cass Freight Index™ - Expenditures

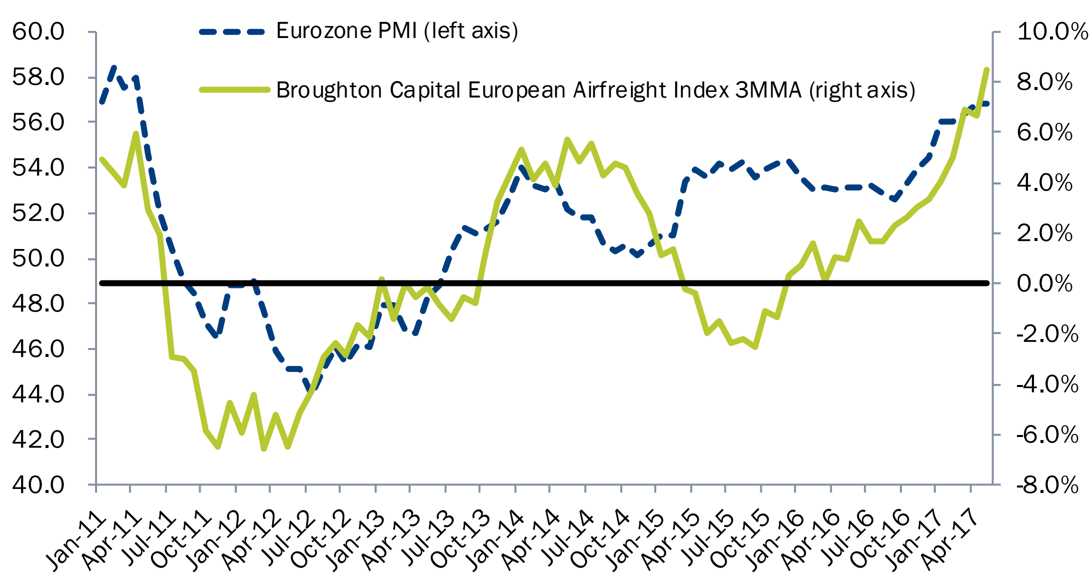


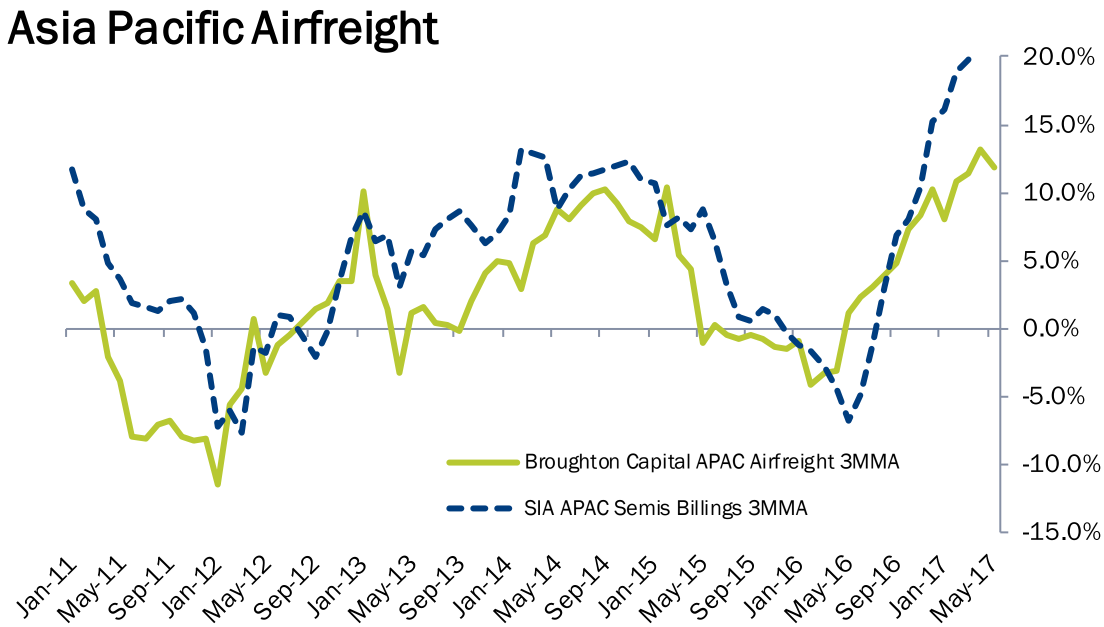
SHIPMENT VOLUMES

What specifically is driving recent volumes? Parcel volumes associated with e-commerce continue to show outstanding rates of growth, with both FedEx and UPS reporting strong U.S. domestic volumes. According to the proprietary Broughton Capital index in the most recent month available (May), airfreight has also been showing improving strength, with the Asia Pacific lane jumping 12.3% and the Europe Atlantic lane growing 4.3% on a YoY basis.

As we have described in previous reports, the strength in the Asia Pacific lane buoys our confidence in continued strength in the tech sector. And, continued improvement in the Europe Atlantic lane buoys our confidence in the continued growth, albeit modest, in the overall European Union economy.

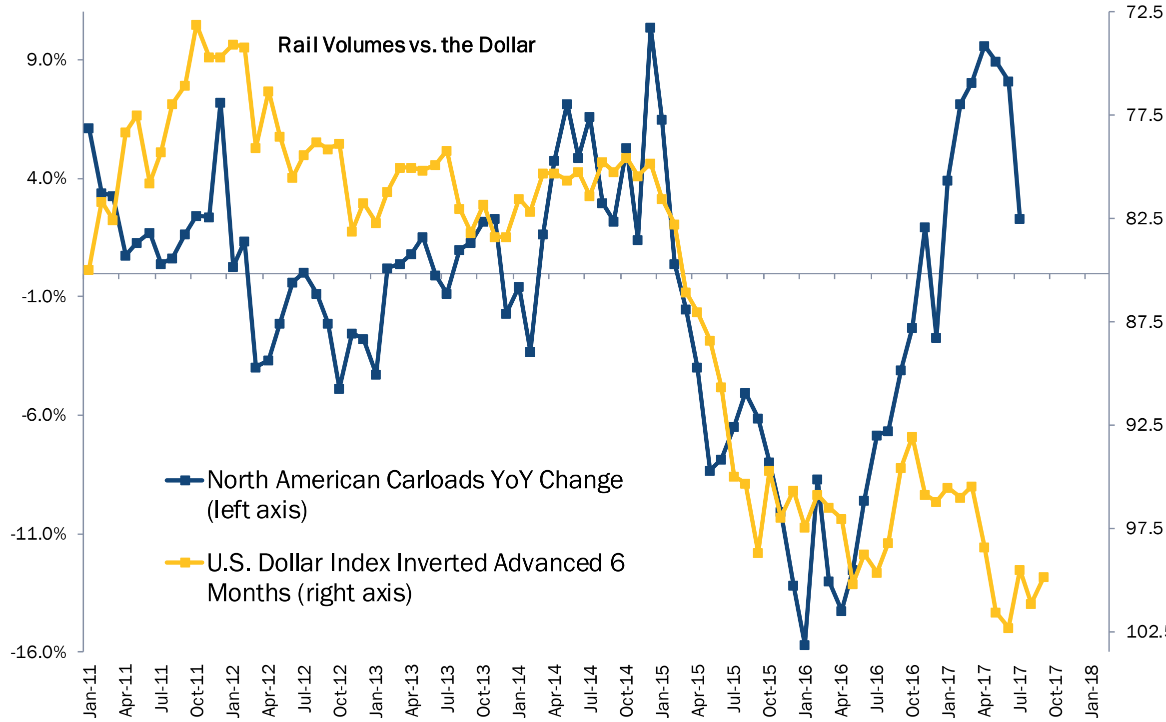
European Airfreight vs. EuroZone PMI



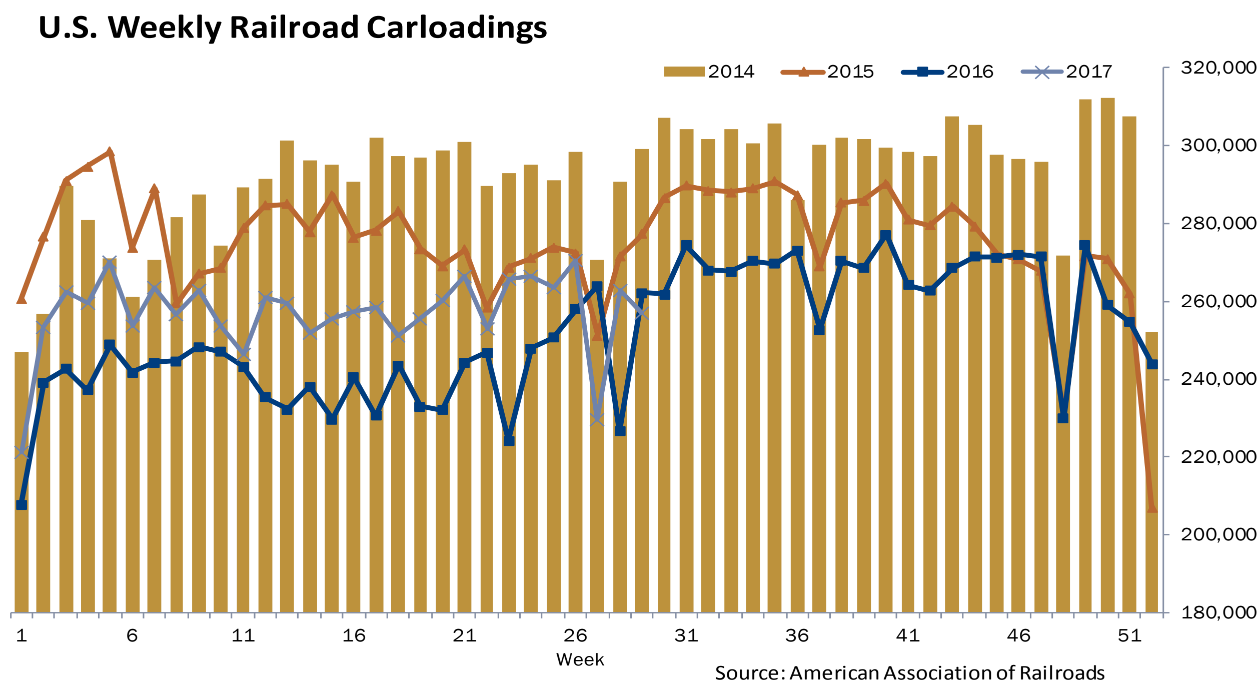


The recent surge in Asia Pacific airfreight gives us increasing confidence in the technology segment of the global economy, not because everything that moves in this lane is a semiconductor, but because the largest overall segment/type of good that is moved via airfreight in this lane has one or more semiconductors in it. Hence, there historically has been a high level of correlation between Asia Pacific airfreight and semiconductor billings. This is good news for economies in Asia, and good news for the technology segments of the U.S. economy.

During 2015 and 2016, rail volumes were a significant part of the weakness in freight flows. Then, in the first half of 2017 they became increasingly less bad, and even became a positive. The strength of that growth appears to be slowing, just as the 2016 comparisons are beginning to become a bit more difficult. The Association of American Railroads (AAR) reported that the trailing 4 weeks YoY overall commodity carloads originated by U.S. Class 1 railroads grew by only 0.5%, although intermodal units grew by a more encouraging 4.9%.



Why are rail volumes starting to weaken? **We see the strength of the U.S. Dollar, which is driving both fewer exports and less domestic manufacturing, as the primary driver.** In the chart below, we have inverted the value of the Dollar to make the inverse relationship easier to see. The current currency valuation would suggest continued weakness in rail volumes. So, which one will win out - the higher price of oil or the stronger U.S. Dollar? Longer term, who knows. Through the first half of 2017, the higher price of oil proved to be a stronger factor than the strength of the U.S. Dollar. The recent drop in volume suggests that the Dollar may finally be starting to weigh on rail volumes.



Bottom line, after being a positive to the overall Cass Shipments Freight Index, rail volumes appear to be on the verge of being a drag in coming months.

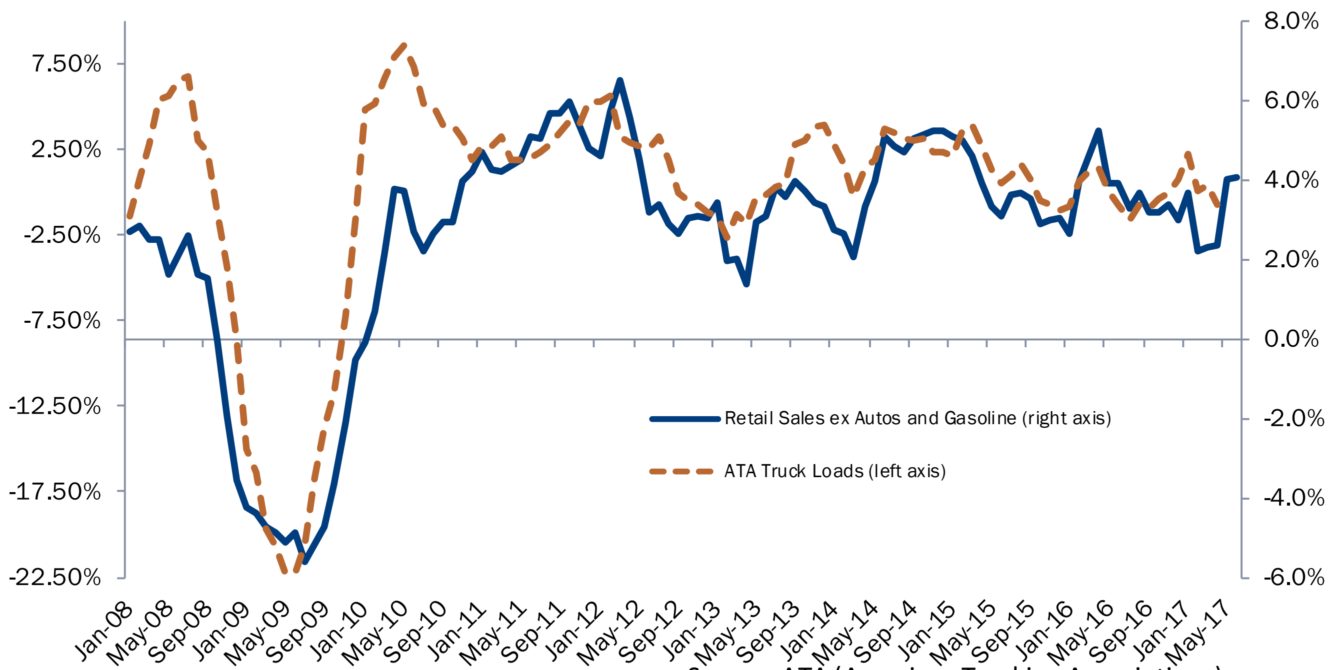
What about Trucking?

We continue to assert that the trucking industry provides one of the more reliable reads on the pulse of the domestic economy, as it gives us clues about the health of both the manufacturing and retail sectors. We should note that as the first industrial-led recovery (2009-2014) since 1961 came to an end, and the shift from 'brick and mortar' retailing to e-commerce/omni-channel continues, we are becoming more focused on the number of loads moved by truck and less focused on the number of tons moved by truck.

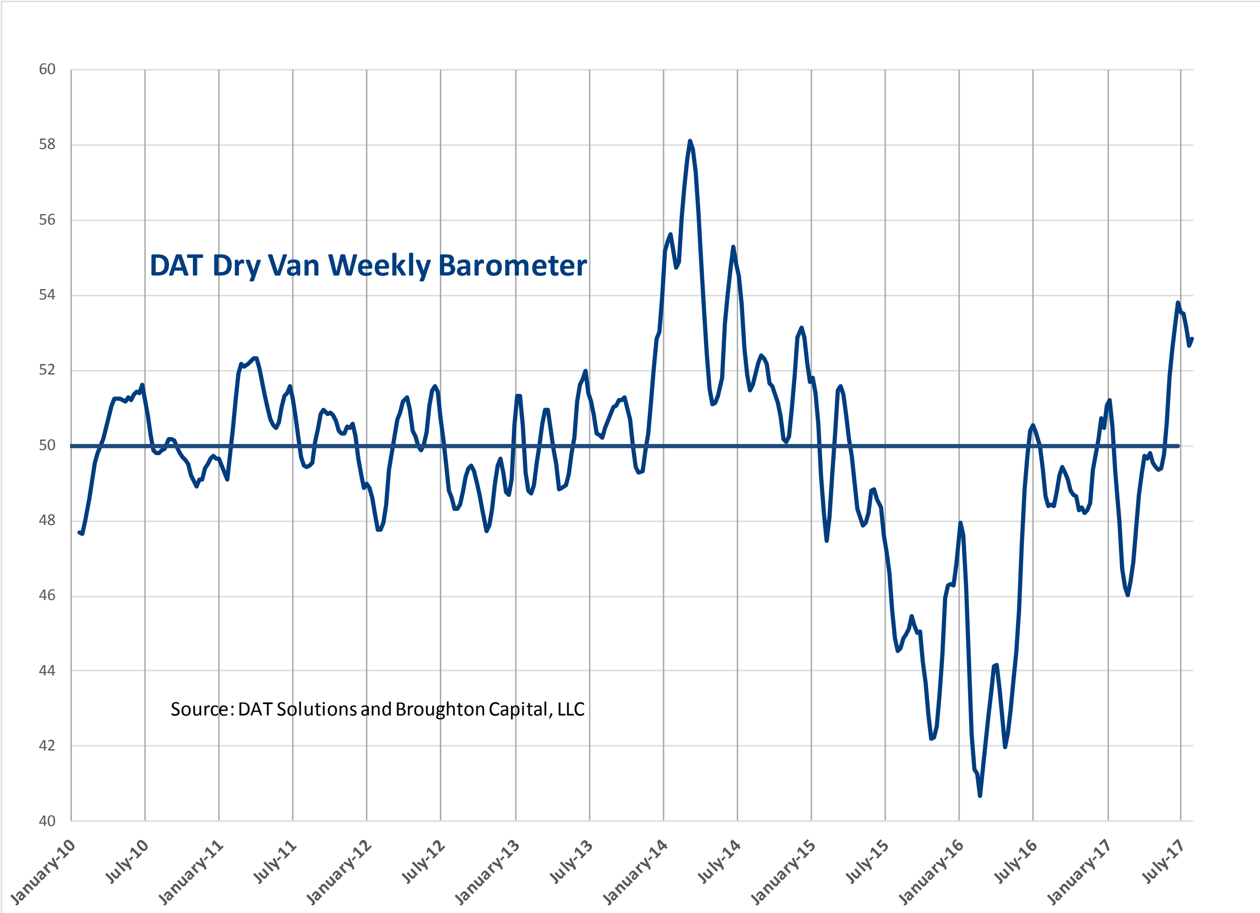
- Tonnage itself appeared to be growing and gaining momentum (three-month moving average reached +2.6% on a not seasonally adjusted basis in January). Unfortunately, the months since have been both volatile and inconsistent: February, March, April, May and June tonnage was -2.7%, 1.1%, -1.2%, 4.8% and 1.6%, bringing the three-month moving average down to just 1.7%.
- Dry Van truck loads have now contracted on a YoY basis six out of the last eight months and eight out of the last ten months. The most recent month (April) reported by the American Trucking Associations (ATA) was down 2.4%, pulling the three-month moving average even further negative to -1.9%. But fear not, recent data out of DAT Solutions suggests that this may be getting better.

The bottom line: recent trucking industry data released by the ATA is discouraging, but recent indications from DAT Solutions (a source we believe is far more reliable) is indicating a much stronger outlook for trucking.

TRUCKING VOLUMES VS. RETAIL SALES



Source: ATA (American Trucking Associations)


DAT Dry Van Weekly Barometer
Source: DAT Solutions and Broughton Capital, LLC
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About The Cass Freight Index

The Cass Freight Index represents monthly levels of shipment activity, in terms of volume of shipments and expenditures for freight shipments. Cass Information Systems processes more than $20 billion in annual freight payables on behalf of its clients. The Cass Freight Index is based upon the domestic freight shipments of hundreds of Cass clients representing a broad spectrum of industries. The index uses January 1990 as its base month. Visit http://www.cassinfo.com/frtindex.html or call 314-506-5500 to get detailed information about the Cass Freight Index, including historical data.

About the Author: Donald Broughton

Founder and Managing Partner of Broughton Capital, a deep data driven quantimental economic and equity research firm.

Prior to starting Broughton Capital, Mr. Broughton spent nine years as the Chief Market Strategist and Senior Transportation Analyst for Avondale Partners. Before that, Mr. Broughton spent over twelve years at A.G. Edwards. At A.G. Edwards, in addition to being the Senior Transportation Analyst, he was the Group Leader of the Industrial Analysts and served on the firm's Investment Strategy Committee. Prior to going to Wall Street, Mr. Broughton spent eight years in various distribution and operations management roles in the beverage industry, including serving as the Corporate Manager of Distribution for Dr. Pepper/Seven-Up companies and Chief Operating Officer for Bevmark Concepts.

Many in the transportation industry know him for his quarterly tracking of trucking bankruptcies. He is also known for his development of a 'Value to Density Spectrum' study of the tangible goods flow and its economic ramifications.

Broughton's equity research has earned acclaim and is regularly quoted by The Wall Street Journal, Bloomberg, Fortune, Forbes, and numerous other national media outlets. He is a frequent guest on CNBC, Nightly Business Report, CNN, Fox, NPR and other broadcast media.

His stock-picking performance has been repeatedly recognized by The Wall Street Journal, which has ranked him in its "Best on the Street" survey for his picks in both the cargo and railroad industry groups. Forbes has highlighted his performance in its "When Picky Analysts Pick" series. He has been ranked by Zacks Investment Research and Starmine as a 5-Star Analyst (their highest ranking) based on the historical performance of his recommendations.

Beginning in mid-2006, Broughton published reports warning of an impending economic slowdown and by early 2007 published reports explaining why a recession was coming. In early 2009, as the world became convinced that the 'sky was falling' he upgraded large cap industrials and names such as FedEx and Union Pacific. More recently, in July of 2010 and again in September 2011 his "Blue Car Report" explained why fears of a double dip were severely overblown and outlined why the market would have significant rallies by the end of those years. He believes that the current market is struggling to digest the end of the industrial-led recovery and the beginning of the consumer-led recovery in this cycle. But fear not, the consumer both in the U.S. and globally is about to be better than expected.

Other indexes published by Cass and Avondale:

Cass Truckload Linehaul Index – measures fluctuations in U.S. truckload linehaul rates
Cass Intermodal Price Index – measures fluctuations in U.S. domestic intermodal costs
Visit http://bit.ly/s9iniq to view or subscribe.