National Economy

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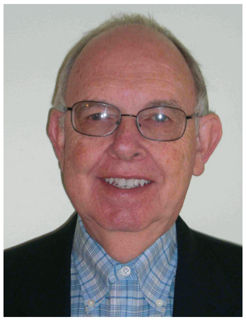

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Is Trucking Warming Up?

Carriers have been asking over the past year: Where are the loads? Where is some real recovery in the economy? When can we make a decent return to afford new trucks?

Transport Capital Partners (TCP) initiated the first national Business Expectation Survey of trucking executives five years ago as a means of asking **carriers** what **they** saw ahead for their business. The survey has asked carriers questions about hot topics in the industry, as well as volume and rate expectations for the coming year.

A look at survey volume expectations highlights the rise and fall of industry optimism. Beginning in 2009, carriers foresaw upward volume for the next couple of years. In the summer of 2011, there was a large dip in expectations but this rebounded in the first quarter of last year with three-fourths of carriers looking at year ahead volume increases. This time last year, however, expectations were half of their previous levels. Last quarter optimism rose. Fifty-two percent of carriers expect to see increases in the year ahead along with a drop from 25% to 4% seeing decreases.

Generally as carriers' expectations for volumes rose, rate expectations rose as well. Carriers saw capacity had been removed, and more freight was chasing fewer trucks.

The "great recession" saw 15- 20% of the trucks removed from the roads with both large publicly held carriers cutting their fleets and the loss of owner-operators. Most carriers reduced new truck purchases. New Class 8 truck sales dropped to under 15,000 per month for two years. As freight began moving again in 2010, Class 8 sales topped 25,000 per month and freight rates were rising in high single digits for a couple of years. Stock analysts and some truckers were predicting the "the mother of all rate increases" but as loads began falling in the last months of 2011 and have continued to bounce along in the past year, this prediction has changed.

The pressure on carriers is reflected in the TCP surveys. Carriers are becoming increasingly hesitant to add more capacity. Headwinds obviously include the new Hours of Service (HOS) rules which will take effect this July. Carriers say the HOS regulations will reduce utilization capacity from one to five percent further reducing the capacity of the existing fleet and drivers. Carriers are bearing the costs of CSA and Electronic Logs (elogs), and are truly a regulatory burden. Drivers, mechanics, managers, and most positions in the industry are in demand even as national unemployment statistics remain high. Costs have continued to increase faster than freight rates. For the first time since February 2009, one fifth of respondents to the TCP survey indicated they have given consideration to leaving the industry or liquidating if tonnage does not increase in the next six months. When asked if they would be interested in selling over the next 18 months only 20% of the carriers are interested, similar to a year ago. TCP has seen that buyer interest remains high.

Yes – trucking is warming up, but not fast enough. The economic growth has been cool like the weather across the country the past few months. The Blue Chip Survey of Economists has real GDP growth currently at 2.1% for 2013 with a forecast of 2.7% for 2014. The outlook is better for manufacturing at a growth of 3.4% in 2013 and 3.7% in 2014. Housing is recovering, but even with recent increases is well below historic average build rates. Automobile sales are trending upward. The energy boom is real as thousands of loads of sand, water, pipe and rigs are moving in the shale regions of the country thanks to new technology in fracturing and horizontal drilling. Crude oil is being hauled in trucks as new pipeline construction lags both in collecting in the fields and to refineries. Consumer confidence is positive but below levels prior to the recession.

Capacity remains tight and higher load demand, generally in specific geography or sectors, will at first drive spot market rates upward, followed by contracts moving up as well. This will continue to spur activity in M & A.

If you would like to discuss these observations further, please call me at 515-988-2477 or visit our website at www.transportcap.com for more information about the TCP survey and a summary of a recent national webinar presented by TCP and hosted by a major capital markets firm entitled "State of the U.S. Truckload Fleet".