NEXTERUS

YOUR SUPPLY CHAIN: MODELED, OPTIMIZED, MANAGED

# Industry Intelligence Bulletin

## September 2018

## 1.1 General Overview

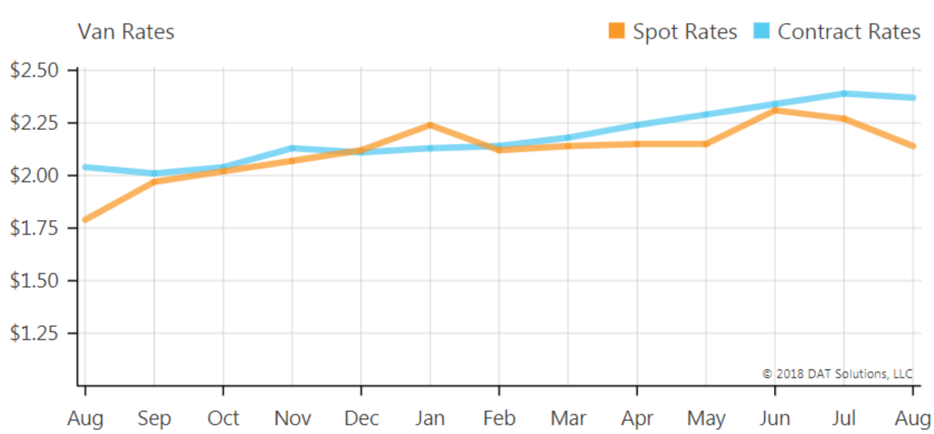
The purpose of this IIB (Industry Intelligence Bulletin) is to provide clients with industry intelligence as it is presented in reputable print periodicals, online news sources, industry conferences, etc.

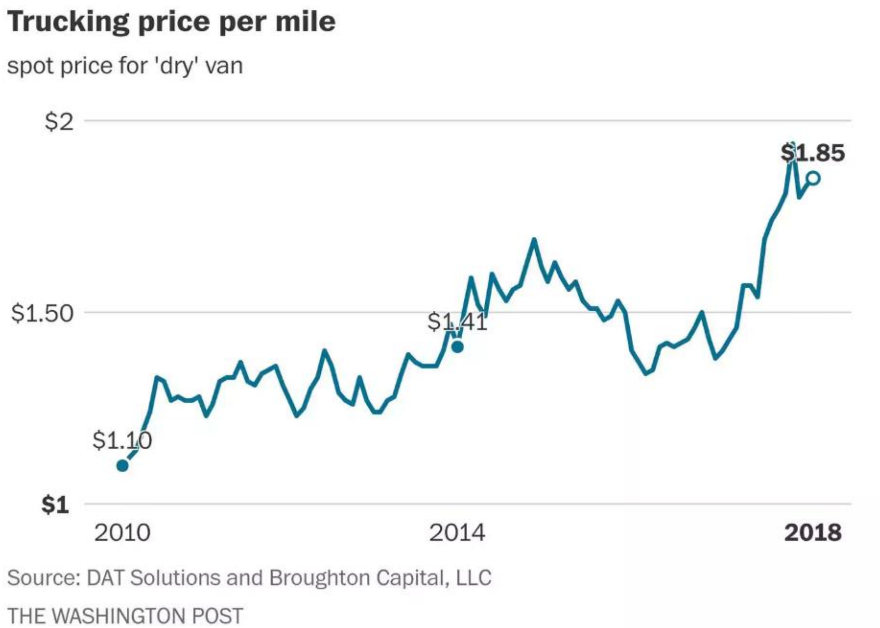
Certain information set forth in this document contains “forward-looking information”, including “future oriented financial information” and “financial outlook”. Forward-looking statements are provided to allow clients the opportunity to understand beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating their business decisions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements.

Although forward-looking statements contained in this document are based upon reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Nexterus undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change.

## 1.2 Forecasted Cost of US Trucking

As conveyed in leading industry journals/periodicals/sources (JOC, DAT, WSJ, etc) in our January IIB, US trucking rates were projected to increase by double digits in 2018 … with some forecasts projecting 20% rate hikes. Those projections materialized in the summer of 2018 (with a peak increase over 2017 of 30% for spot rates).






The industry projects year over year 2017-2018 rate increases will remain in the double digits for the remainder of 2018 but *could* slow to single digits in 2019.

In an Aug article in the Journal of Commerce, “the transportation research group predicts truckload contract rates will remain up year over year between nearly 15 percent before slowing to the 7 percent to 10 percent range in 2019”.

## 1.3 CFOs Slow to React in 2018

It appears some CFOs were slow to react to the 2018 market predictions.

According to a recent Washington Post article “Manufacturers are complaining that higher shipping costs are causing their profits to fall. It was a constant topic of discussion as American firms reported earnings”.

In a recent article in the Journal of Commerce, a narrative played out on a recent webinar hosted by TranzAct, the National Shippers Strategic Transportation Council, and the Council of Supply Chain Management Professionals demonstrated the frustration in the shipping community:

> *"They are way over budget as is 99.9 percent of the shipping community”. The CFO said, “We’re willing to give you a pass for 2018, but in 2019 we need a good, solid freight budget because it’s going to have an impact on the decisions we make in our sales and operations”. … “You either build me a great budget or you’re going to help me build a great resume”.*

With a sustaining double digit YOY increase prediction for 2018 and 2019 being reported throughout the industry, its time for firms to take the market dynamics very seriously.  Costs will continue to rise.

## 1.4 Market Dynamics Then … and Now

What were the market dynamics that lead to such a dramatic rise in rates? In 2017 the industry was warning the shipping community about the pending ELD mandate, equipment capacity, driver shortage and an accelerated but under-forecasted growth in the economy.

There is no question we are seeing economic growth in the 3% range and conservative estimates abound that 2019 will grow at a somewhat slower pace but still greater than 2016 and 2017:

> *"In 2019, the pace of GDP growth slows to 2.4 percent in the agency's forecast, as growth in business investment and government purchases slows," CBO director Keith Hall said in a statement. – Reuters Aug 13 2018*

The ELD mandate is still in effect and there are no indications that the legislation will be overturned even by an administration that praises itself for unwinding burdensome legislation on our markets:

> *A few bills that would overturn or revise the mandate have been introduced in the US House of Representatives, where sponsors hope they will be added to larger legislation and become law. The Small Carrier Electronic Logging Device Exemption Act, for one, targets fleets of up to 10 trucks. The odds, however, are against federal regulators or Congress approving a blanket exemption. They're more likely to revise the HOS rules or tinker on the edges of the mandate, as the Senate bill would. The longer the ELD mandate is in effect, the more pervasive its influence on supply chains. At this point, that influence increasingly looks irreversible. – Journal of Commerce Aug 14 2018*

Equipment capacity is indeed being addressed with class 8 tractor equipment and trailer orders on the rise … but the injection of equipment is not immediate:

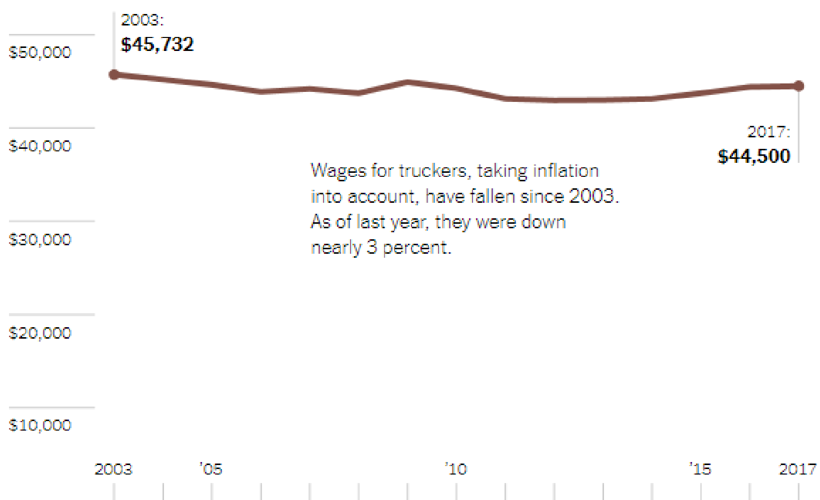
> *With truckers rushing to place new orders, the backlog at semi-truck manufacturing plants has risen to nine months, the largest since early 2006, according to a report from The Wall Street Journal …That means a company placing an order now won't take delivery until sometime around mid-2019. – FoxBusiness Aug 17th 2018*

A large-scale national driver shortage continues to plague the industry. Not much has changed in that regard despite the increases. Any assumptions that the increases already in play have bridged the gap or incentivized the driver industry must be tempered by understanding that driver wages have been suppressed for decades and increases are being used to subsidize fleets in addition to increasing wages:

> *Over the last year, an index of costs for shipping goods via long-haul truck transportation has jumped 11.6 percent, Labor Department producer price data showed Thursday … but another Labor Department gauge shows average hourly earnings for those employed in the long-haul trucking industry rose just 0.5 percent in the 12 months through June. – Bloomberg Aug 9 2018*

**Stagnant Pay for Truckers**

Average annual salary for drivers of heavy trucks and tractor-trailers, in 2017 dollars.




By The New York Times | Source: Bureau of Labor Statistics. Inflation adjustment uses Consumer Price Index. Average annual pay data from May of each year.

## 1.5 Summary

As demonstrated clearly across all these sources, rates for the remainder of 2018 and likely into 2019 are likely to continue to exceed 2017 by double digits. The key drivers prevalent in the market in 2017 that drove these hikes are **still in effect**.

Are there options to mitigate these issues? The answer is yes. A focus on strategy vs a transactional approach will be the difference between customers who outperform the market and those that struggle with service and take heavy hits to their bottom line. According to Home Depot in a 2018 JOC article, “When you have a data scientist and an operations person sitting side by side, great things happen”. Nexterus has a strong suite of analytics tools including our intelligent TMS application, Tableau visual analytics and the Llamasaft Supply Chain GuruX supply chain engineering suite. These tools in the hands of our strategic account managers and a client willing to take the time to act decisively can form a strategy to make “great things happen” in a tight market for transportation services in 2018 and beyond.