

Outlook for Trucking

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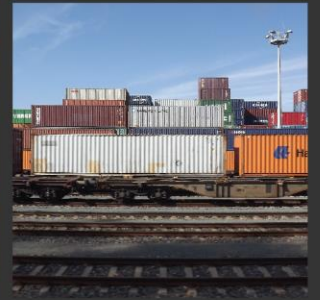
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OVERVIEW

- Recap of 2017-2018
- Current market conditions
- Volume and rates outlook
- Issues to watch



Recap of 2017-2018

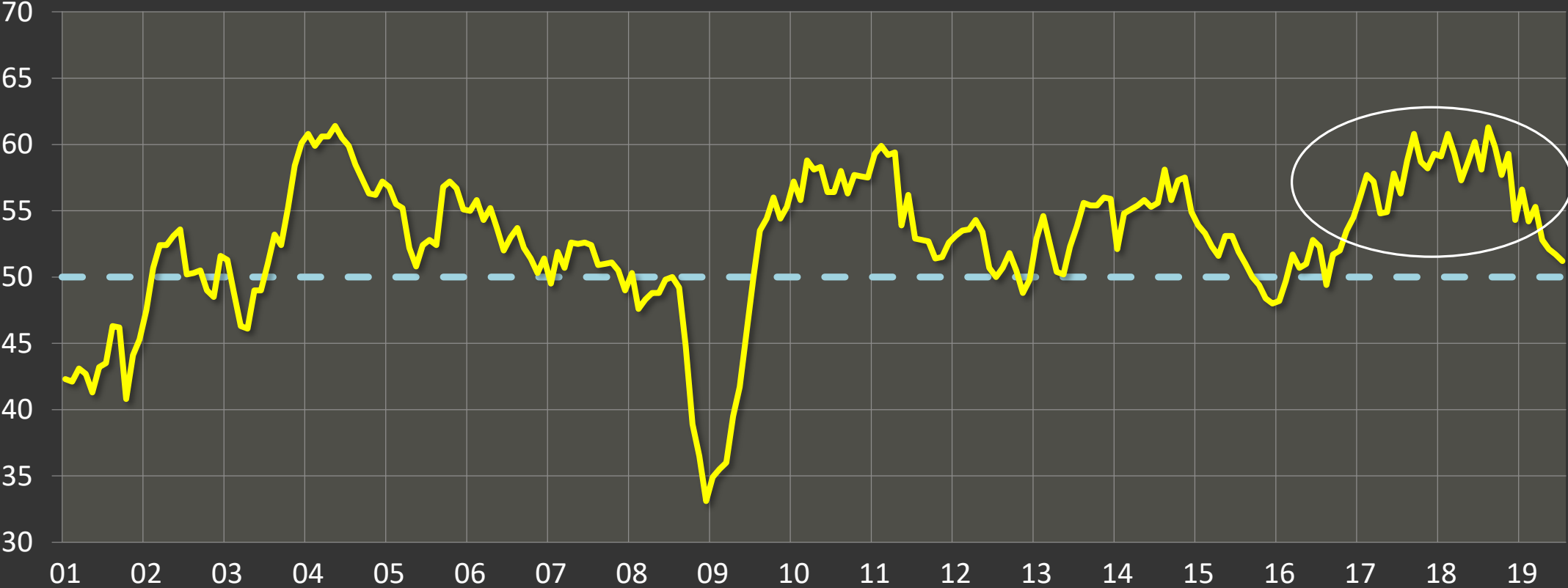


2017-2018

- Manufacturing surged starting in late 2016, peaking in the summer of 2018

ISM MANUFACTURING INDEX

>50 = Expansion



Source: ISM Report on Business, Manufacturing

2017-2018

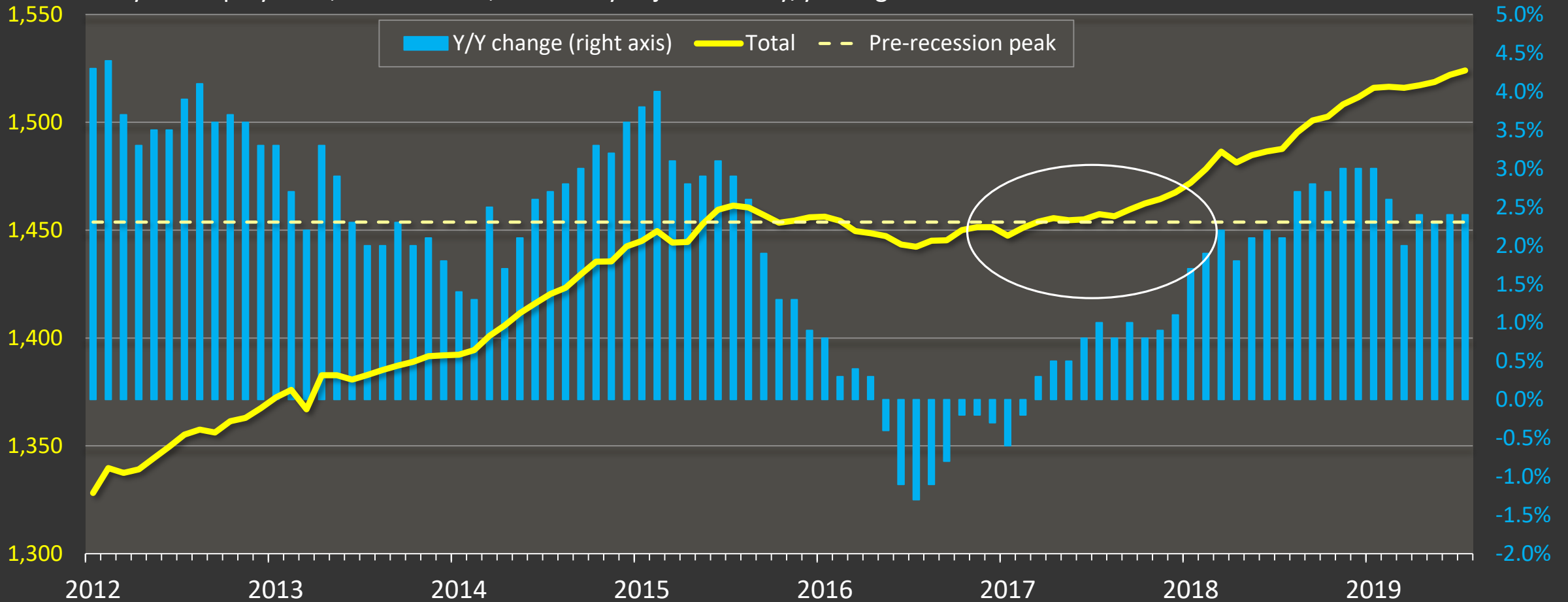
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2017-2018

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- Carriers had not added the capacity needed to handle this demand

FOR-HIRE TRUCKING JOBS

Payroll employment, in thousands, seasonally adjusted and y/y change



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

2017-2018

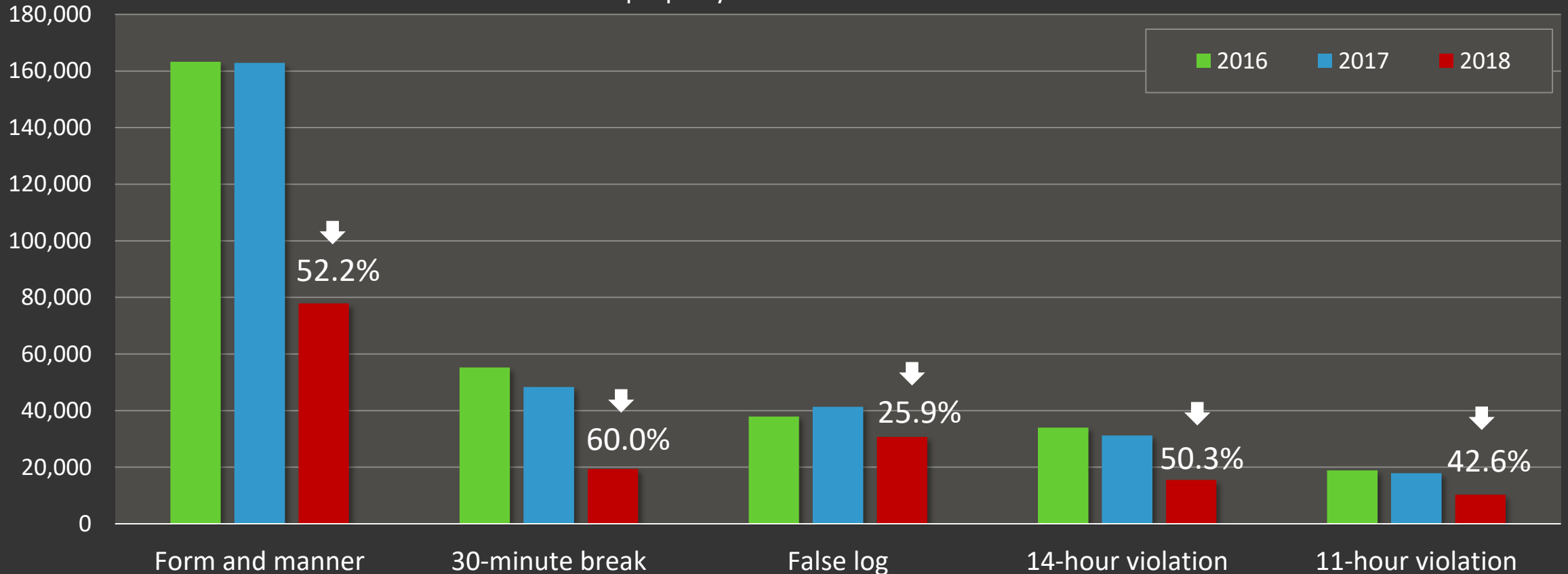
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- ELDs significantly hit productivity, especially among small carriers

MAJOR HOS VIOLATIONS BY YEAR

Selected Part 395 violations for U.S.-based property carriers

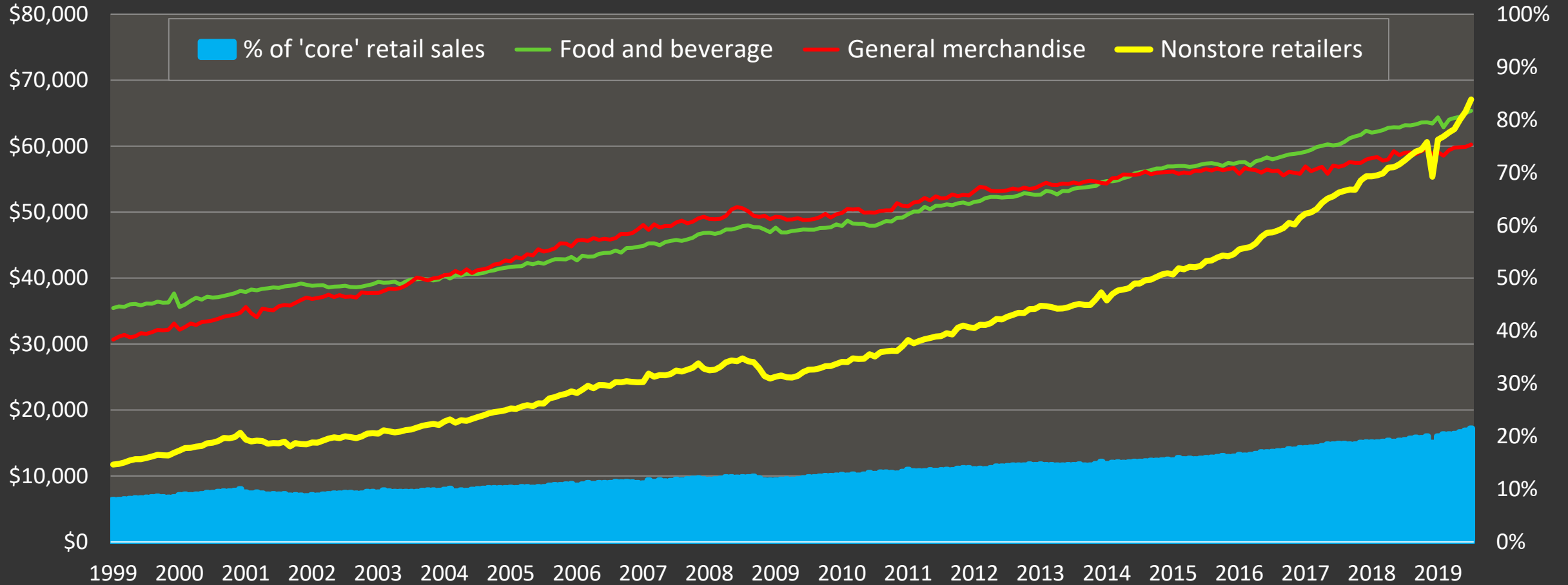


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RETAIL STORES VS. NONSTORE RETAIL

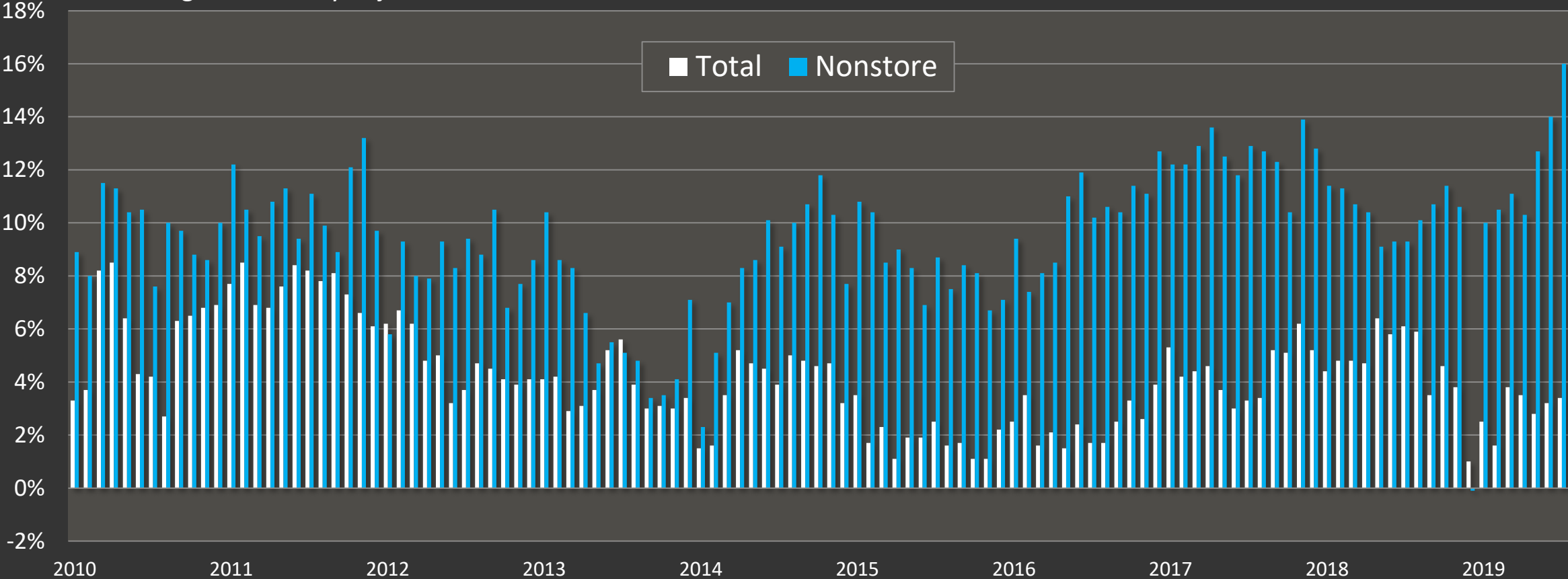
Sales in \$Millions, seasonally adjusted



Source: Census Bureau, FTR (www.ftrintel.com)

TOTAL RETAIL VS. NONSTORE RETAIL

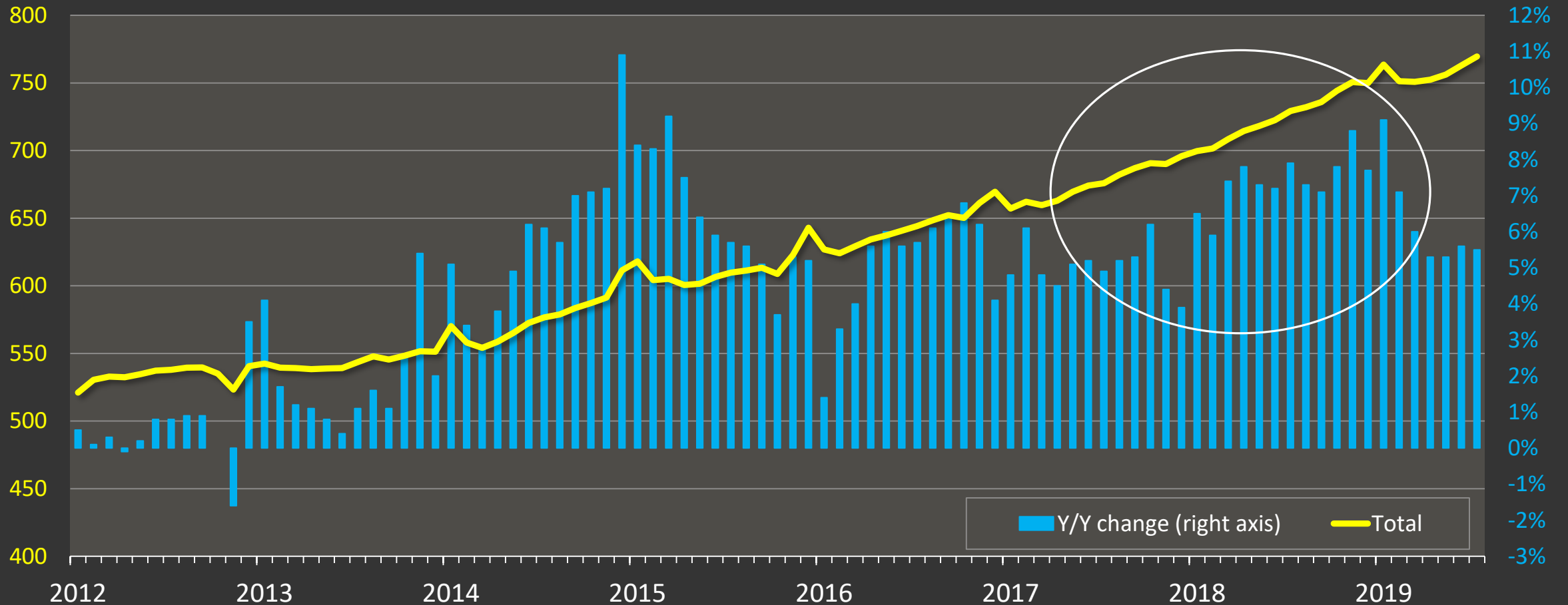
Y/Y change, seasonally adjusted



Source: Census Bureau, FTR (www.ftrintel.com)

PARCEL AND LOCAL DELIVERY JOBS

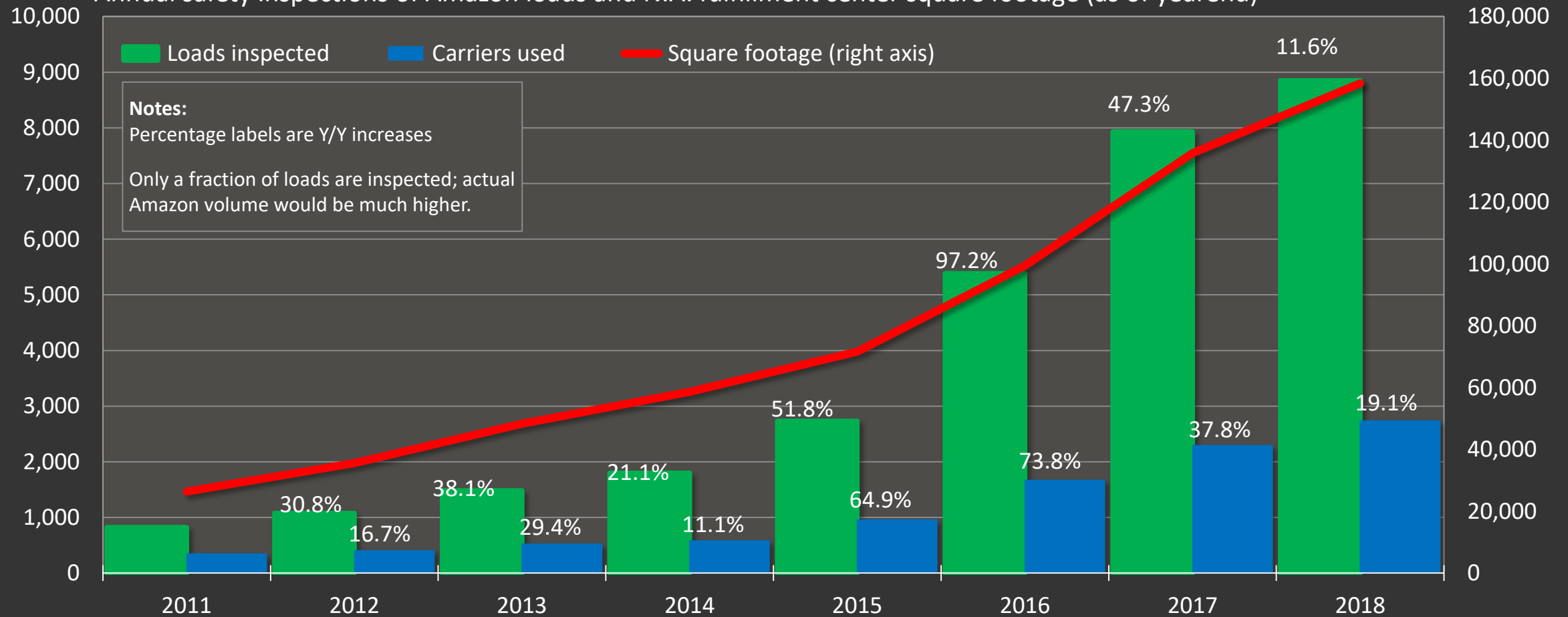
Couriers and messengers payroll employment, in thousands, seasonally adjusted and y/y change



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

AMAZON TRUCKLOADS & WAREHOUSING

Annual safety inspections of Amazon loads and N.A. fulfillment center square footage (as of yearend)



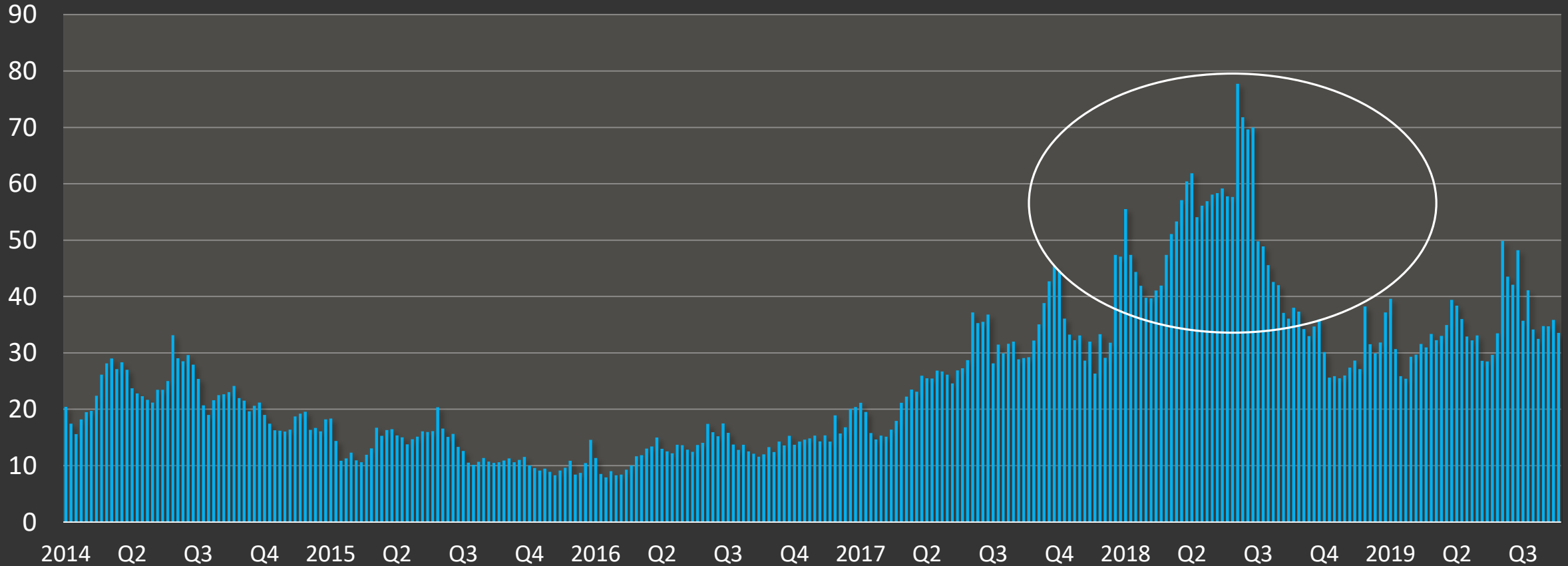
Source: FTR analysis of FMCSA MCMIS data, Amazon annual reports (www.ftrintel.com)

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- These stresses on the system sent spot market metrics soaring

MARKET DEMAND INDEX (MDI) – TOTAL

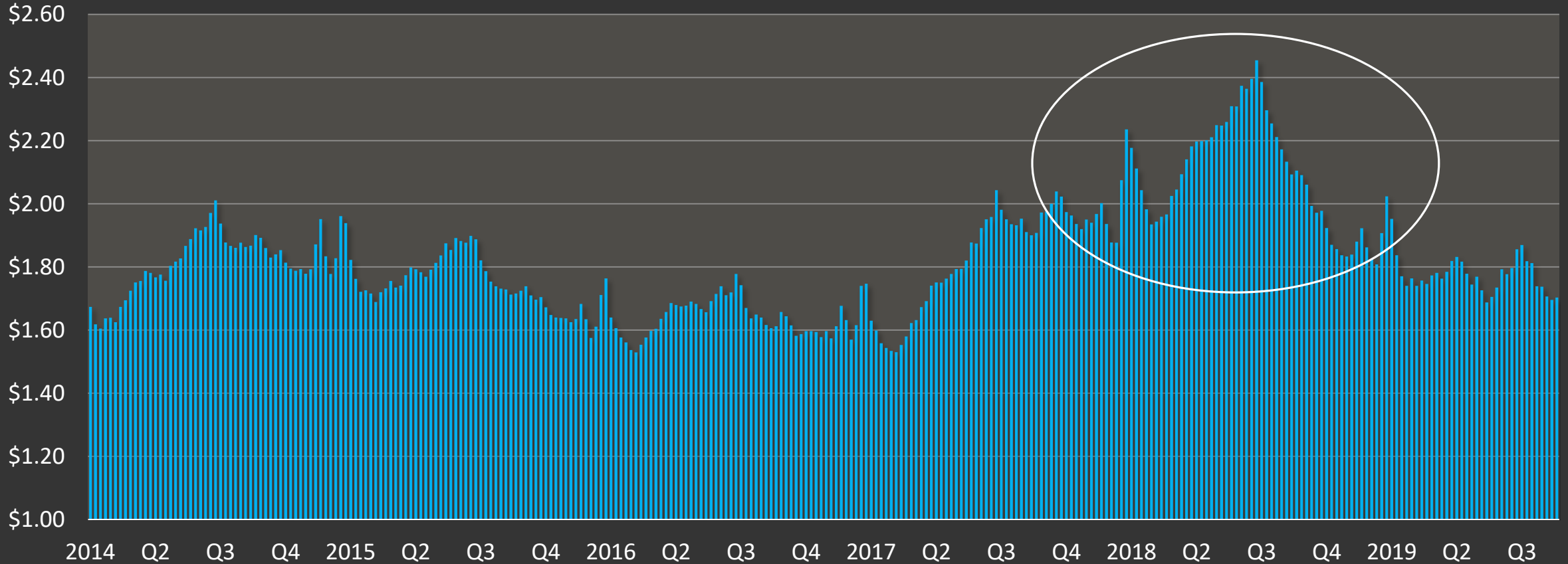
Ratio of loads available to trucks available



Source: Truckstop.com, FTR; www.trans4cast.com

TRUCK SPOT RATES – TOTAL

Weekly broker-posted rate per mile, excluding fuel surcharge



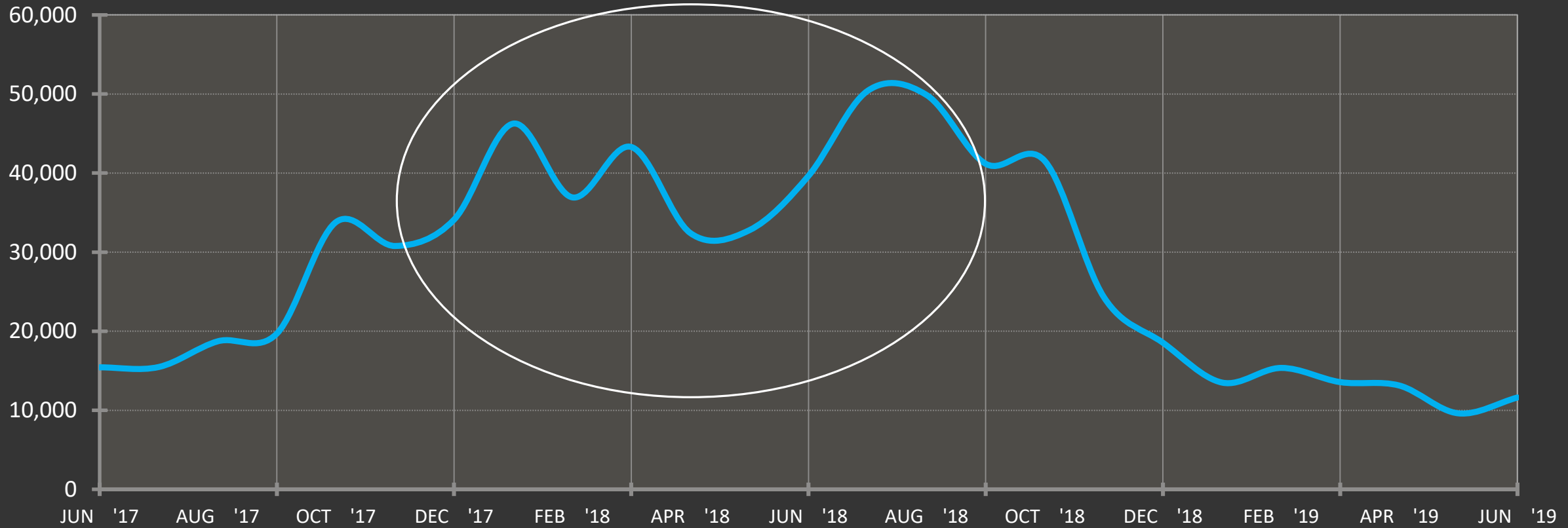
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- Carriers added capacity in response

NEW TRUCK ORDERS

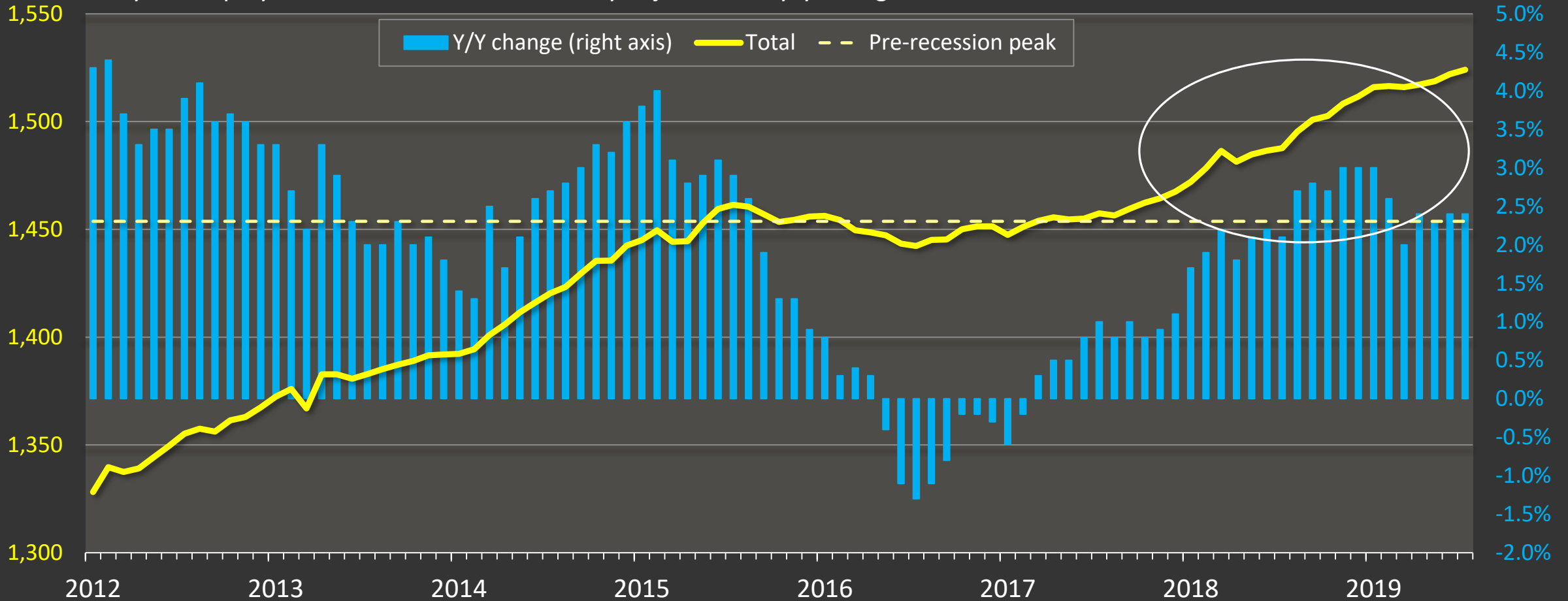
U.S. and Canada net Class 8 orders



Source: FTR (www.ftrintel.com)

FOR-HIRE TRUCKING JOBS

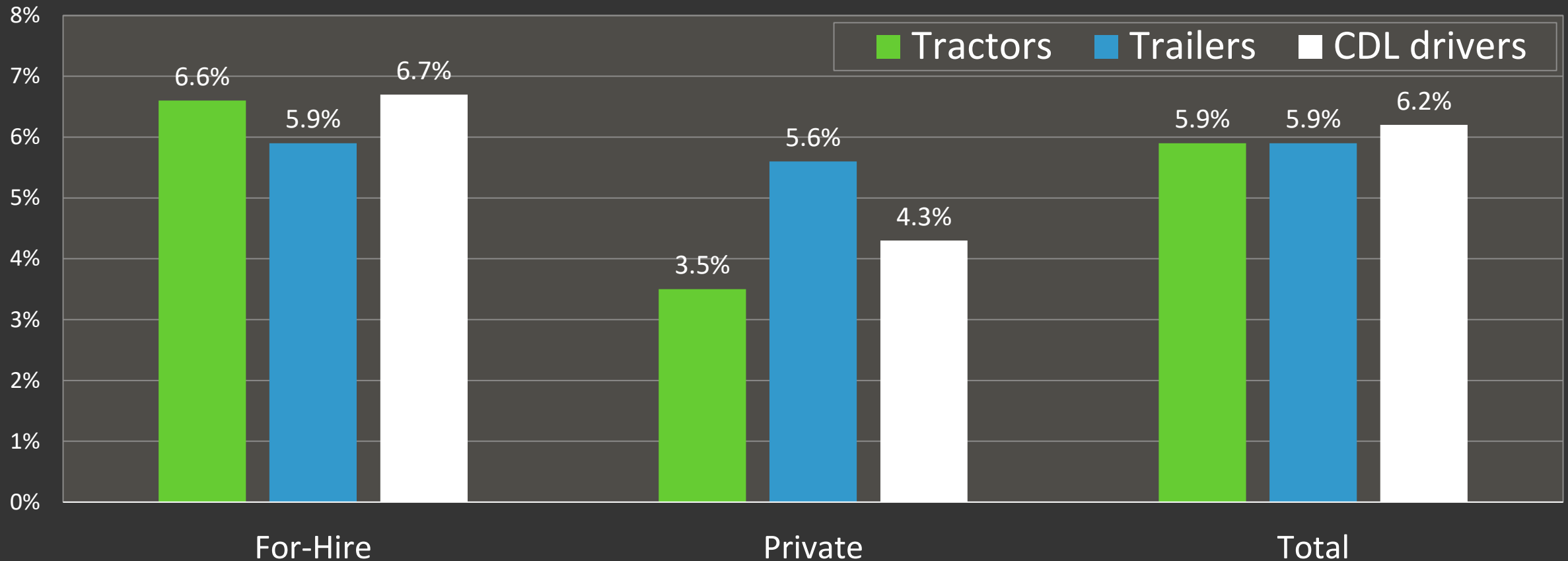
Payroll employment, in thousands, seasonally adjusted and y/y change



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

TRACTOR-TRAILER OPERATION GROWTH

U.S. interstate tractor-trailer operations, 2019Q2 vs. yearend 2017Q2



Source: FTR analysis of FMCSA MCMIS data (www.ftrintel.com)

Current market conditions



CURRENT MARKET CONDITIONS

- Market conditions began to settle in Q3/Q4 of 2018

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- Carriers' capacity additions hit as industrial sector began slowing

FREIGHT-RELATED INDICATORS

Current as of August 26, 2019



Manufacturing

ISM index lowest since October 2016 and trending downward, but still above 50. The Fed index is weakening, but durable goods orders are steady.



Construction

Total construction spending is down with non-residential fading and residential even weaker.



Housing

Residential construction remains weak, but home sales are solid. Mortgage rates are the lowest since November 2016. One area for upside potential.



Consumer

Retail sales were at an all-time high in July. Y/Y growth is solid, though not as high as last summer. However, that was a period when gas prices were rising.



Inventories

The inventory-to-sales ratio is stuck at near the highest level since before the 2017 hurricanes. A higher ratio generally means less velocity in replenishment.



Employment

Payroll job growth is slowing a bit, but job openings are still high and the unemployment rate is near a 50-year low.



Energy

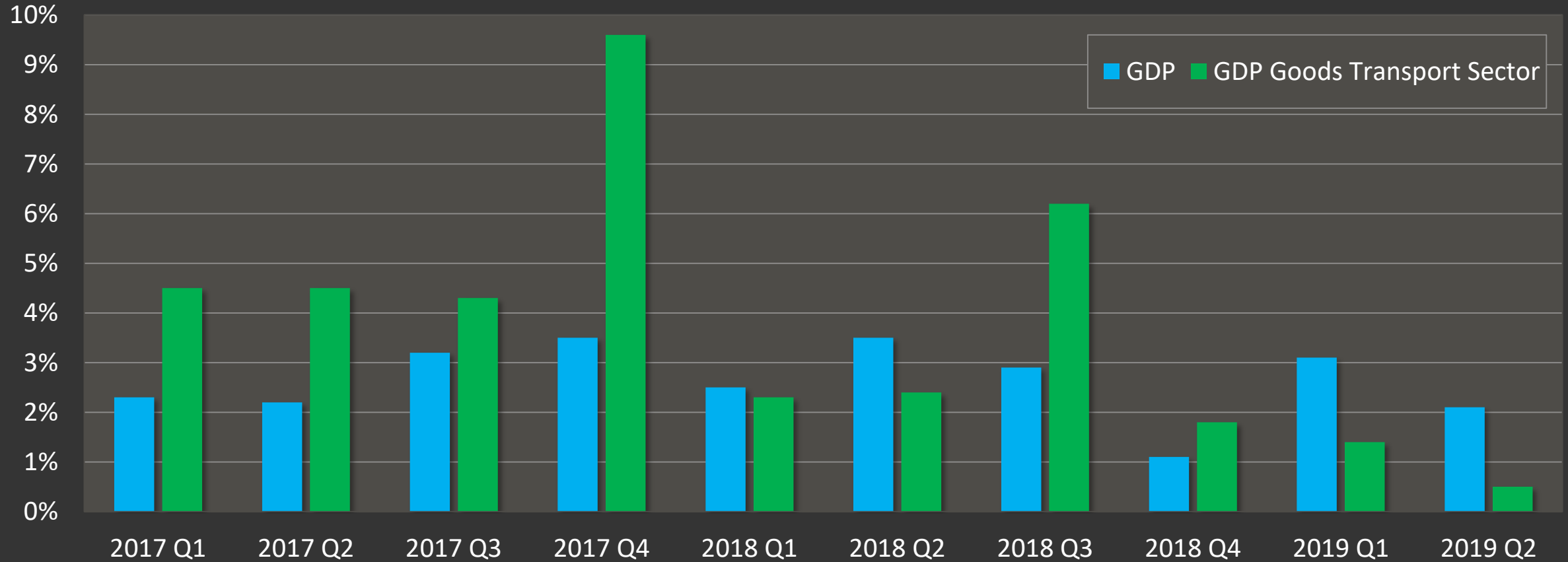
Crude prices are in the mid-\$50/barrel range. Diesel prices are stable and about 20 cents lower than a year ago.

CURRENT MARKET CONDITIONS

- Market conditions began to settle in Q3/Q4 of 2018
- Carriers' capacity additions hit as industrial sector began slowing
- The freight sector has begun to lag behind GDP

GDP VS. GDP GOODS TRANSPORT

Q/Q seasonally adjusted annual rate (SAAR)



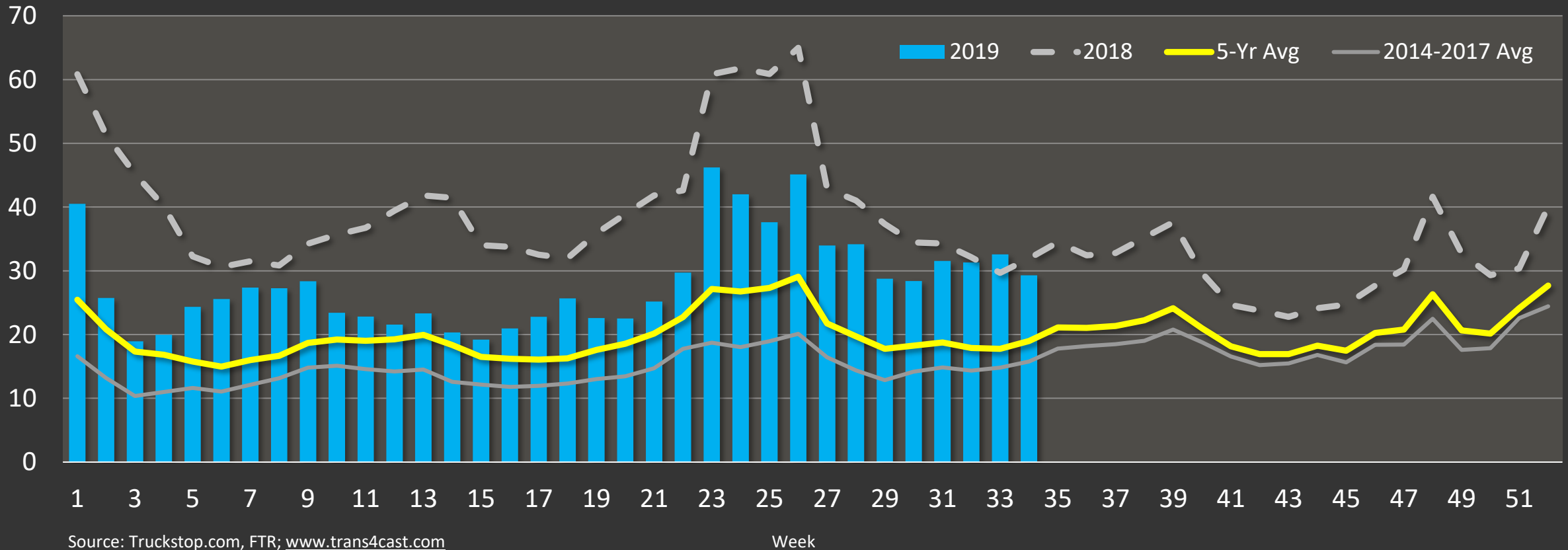
Source: Bureau of Economic Analysis, FTR (www.ftrintel.com)

CURRENT MARKET CONDITIONS

- Market conditions began to settle in Q3/Q4 of 2018
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- The freight sector has begun to lag behind GDP
- The spot market remains tighter than average...

MARKET DEMAND INDEX (MDI) – DRY VAN

Ratio of loads available to trucks available



Source: Truckstop.com, FTR; www.trans4cast.com

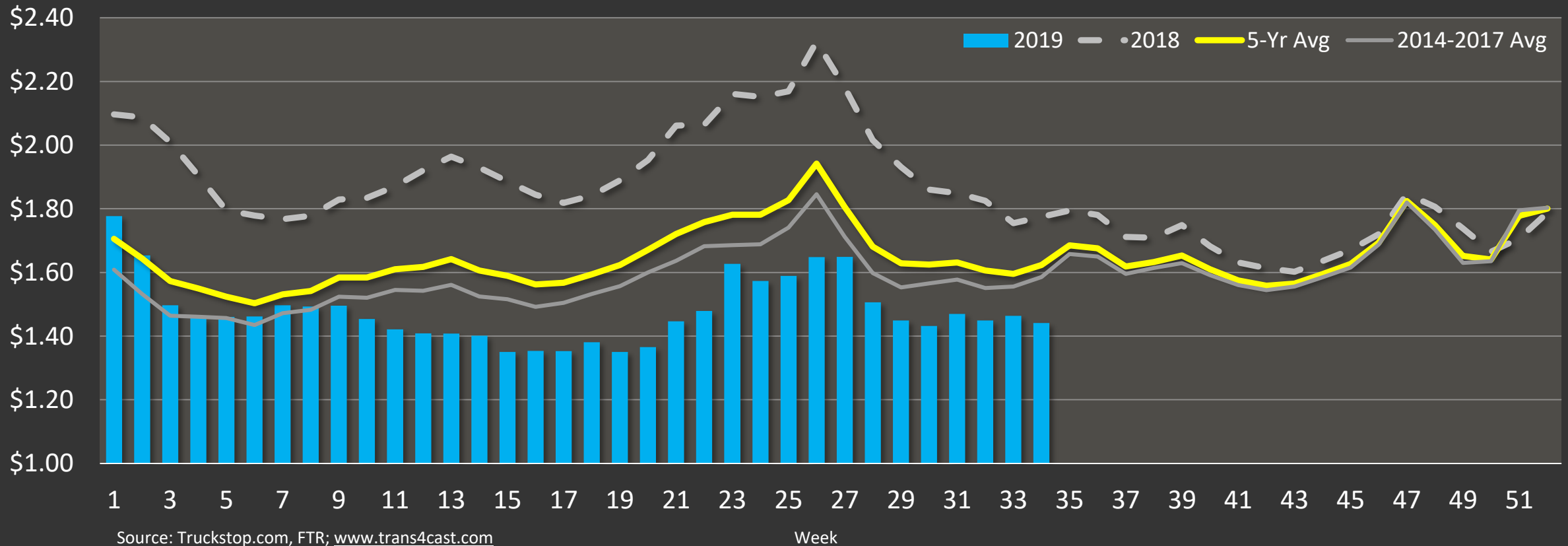
Week

CURRENT MARKET CONDITIONS

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- ...but spot rates are soft...

TRUCK SPOT RATES – DRY VAN

Weekly broker-posted rate per mile, excluding fuel surcharge

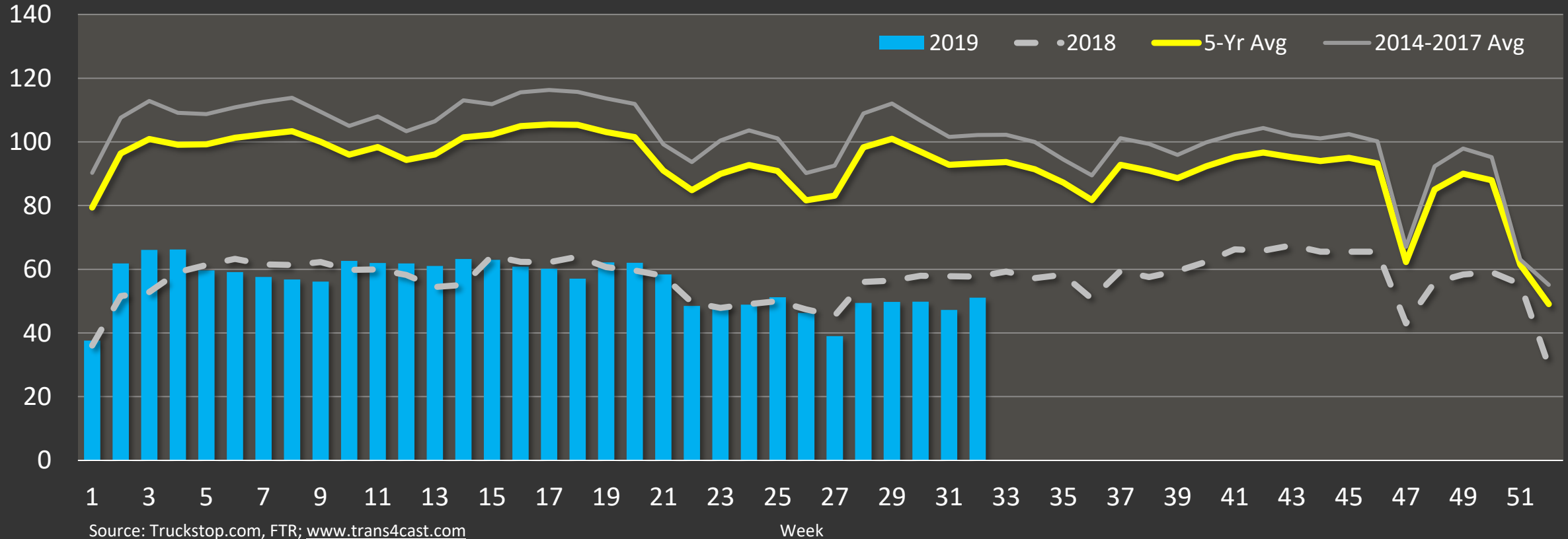


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- ...but spot rates are soft...
- ...despite truck availability being below even last year

SPOT TRUCK AVAILABILITY – DRY VAN

Index, 100 = 2014 average



Source: Truckstop.com, FTR; www.trans4cast.com

CURRENT MARKET CONDITIONS

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- ...but spot rates are soft...
- ...despite truck availability being below even last year
- FTR analysis: Overall truck freight market in close balance

Volume and rates outlook

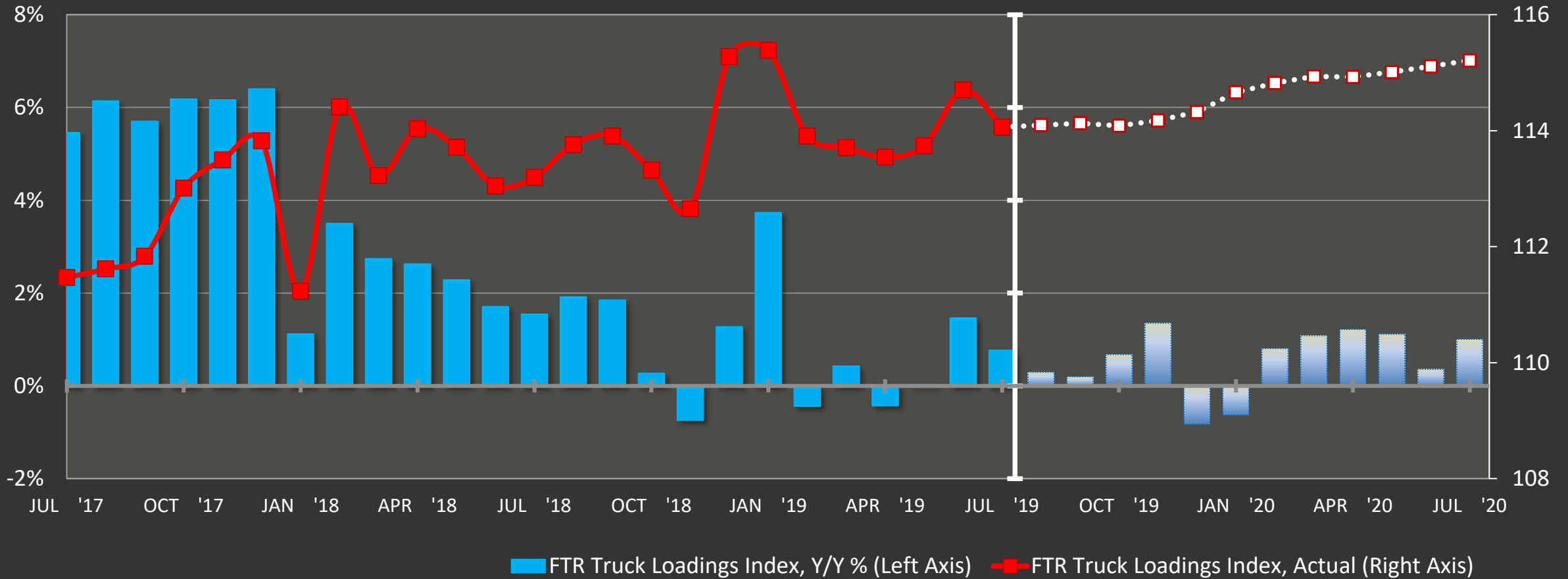


VOLUME AND RATES OUTLOOK

- Freight the outlook for freight volume is weak, especially for dry van

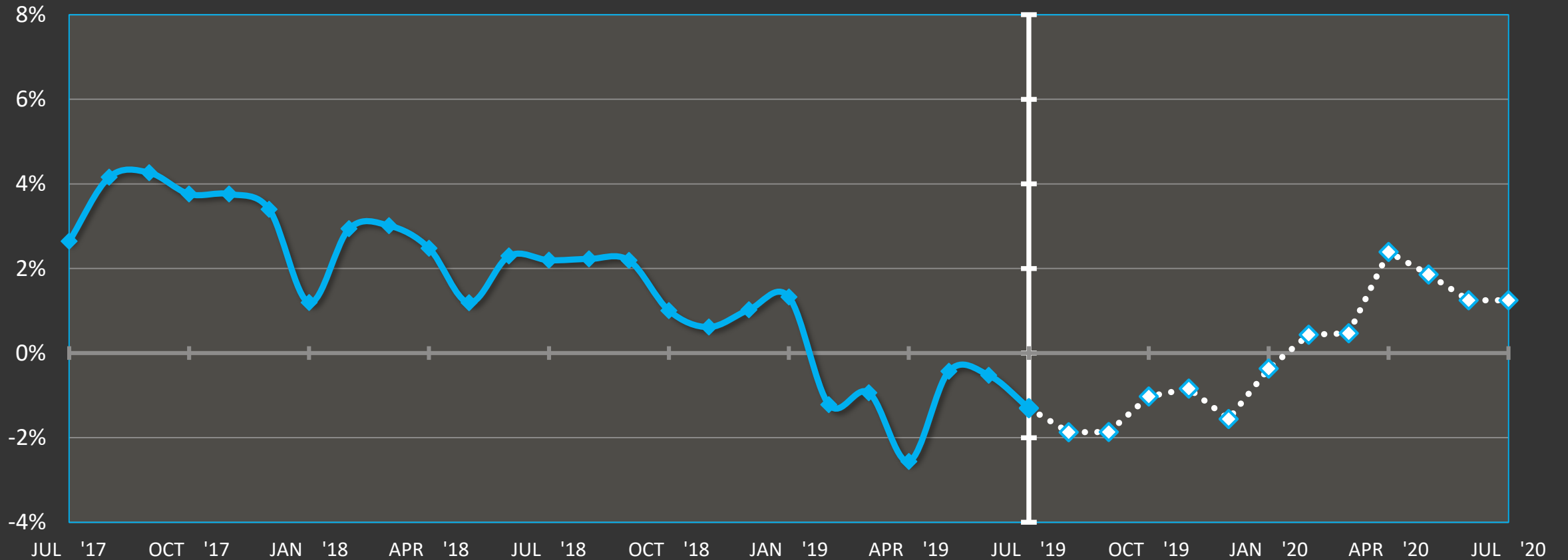
FTR TRUCK LOADINGS INDEX

Actual & Y/Y change



Source: FTR (www.ftrintel.com)

DRY VAN TRAILER LOADINGS – Y/Y CHANGE



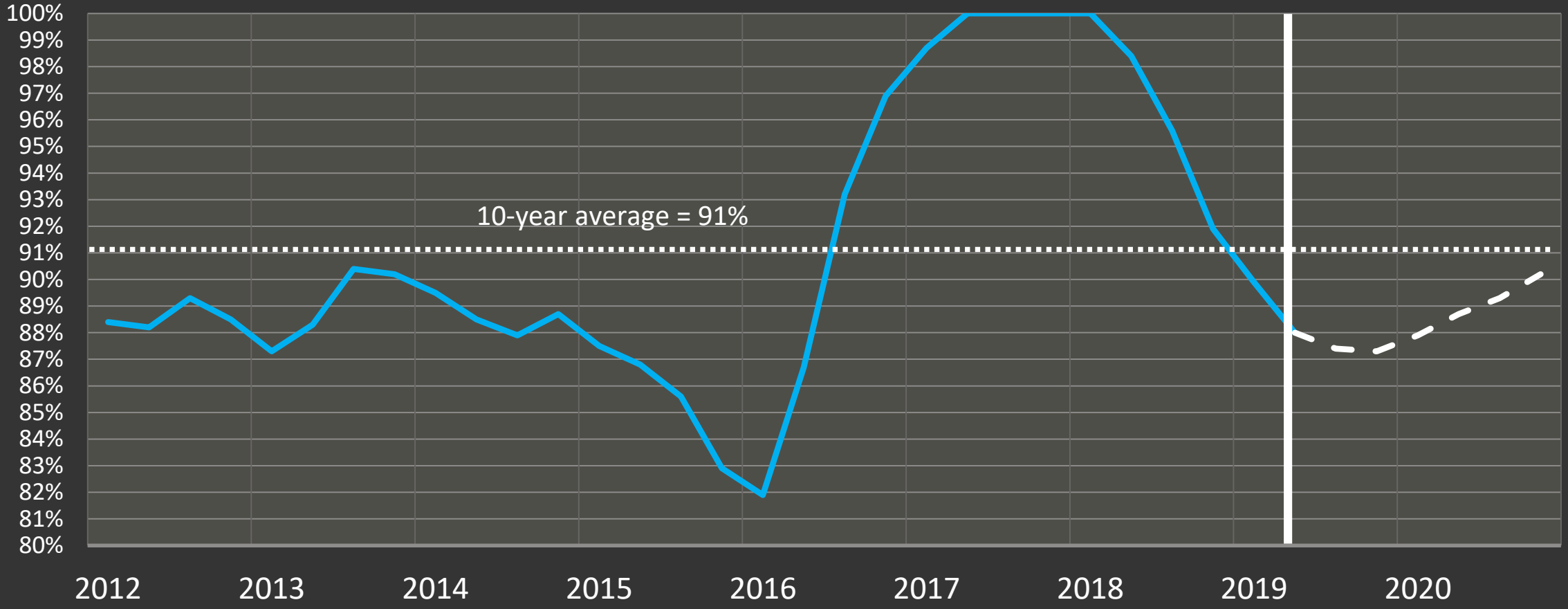
Source: FTR (www.ftrintel.com)

VOLUME AND RATES OUTLOOK

- Freight the outlook for freight volume is weak, especially for dry van
- Capacity utilization is low, but it probably is close to bottoming out

ACTIVE TRUCK UTILIZATION

Truck fleet in use vs. seated trucks available, quarterly

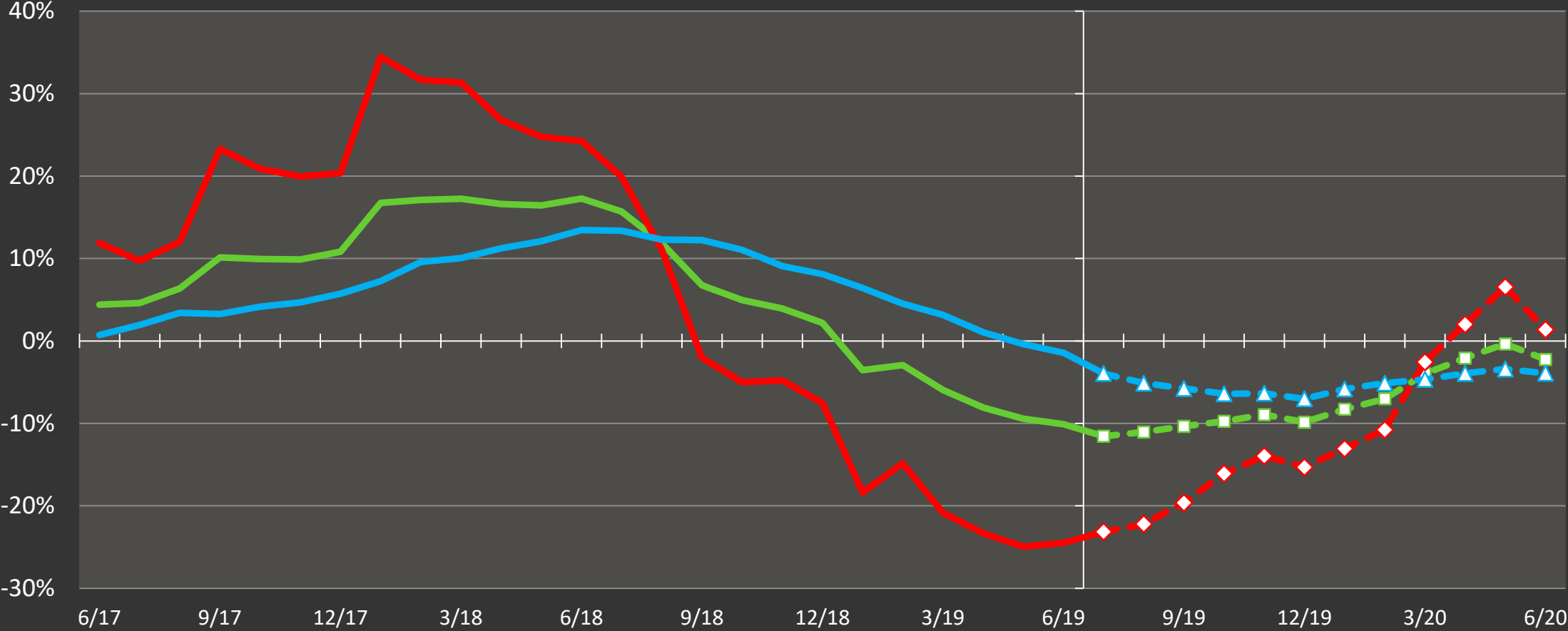


Source: FTR (www.ftrintel.com)

VOLUME AND RATES OUTLOOK

- Freight the outlook for freight volume is weak, especially for dry van
- Capacity utilization is low, but it probably is close to bottoming out
- After a very strong couple of years, dry van rates are forecast to be down 8.5% for 2019, but they are beginning to stabilize.
- The outlook is for another 1.9% drop in 2020

DRY VAN TRUCKLOAD RATES – Y/Y CHANGE



Source: FTR (www.ftrintel.com)

Issues to watch



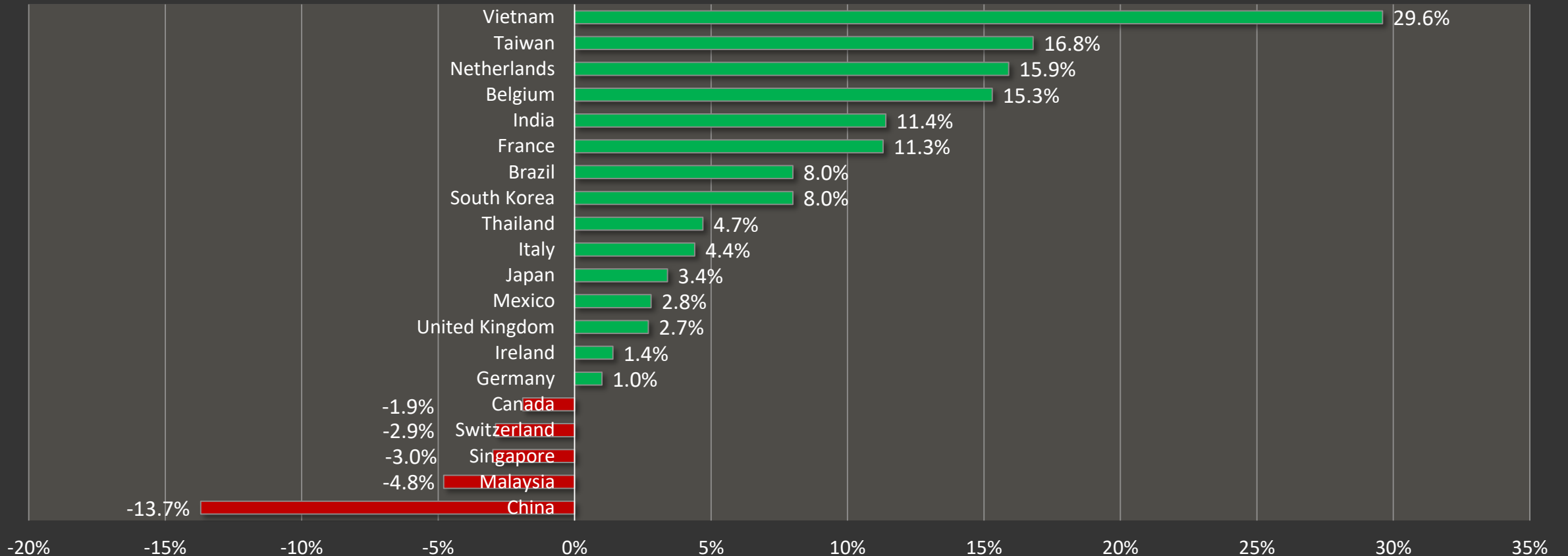
ISSUES TO WATCH

- International trade

U.S. TRADE WITH SELECT COUNTRIES

Y/Y change in value of exports + imports, 20 largest partners, 6 months 2019 vs. 6 months 2018

D



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

ISSUES TO WATCH

- International trade
- Regulation

PENDING REGULATIONS

- December 16, 2019: Automatic on-board recording devices (AOBRDs) → Electronic logging devices (ELDs) transition
- January 6, 2020: Drug and alcohol clearinghouse for CDL drivers
- February 2020: Entry-level CDL driver training standards

PENDING REGULATIONS

- AOB RD → ELD Transition
 - Many carriers adopting electronic logs for the first time last year already use compliant devices
 - ELD standards allow fewer opportunities for fudging rules at the margin
 - Not likely to be as disruptive as the initial implementation, but the productivity impact could be noticeable
- Drug and alcohol clearinghouse
 - If FMCSA estimates of job-hoppers is correct, the impact on the driver supply should be at most 14,000
 - However, this assumes that carriers are disclosing positive tests and refusals to other carriers now
 - In any case, a bigger issue probably is marijuana legalization at the state level
- Entry-level training standards
 - First regulatory training standards in the history of the federal CDL program
 - FMCSA plans to delay implementation of part of the rule
 - Should not have a significant effect on driver availability

HOURS-OF-SERVICE REFORM

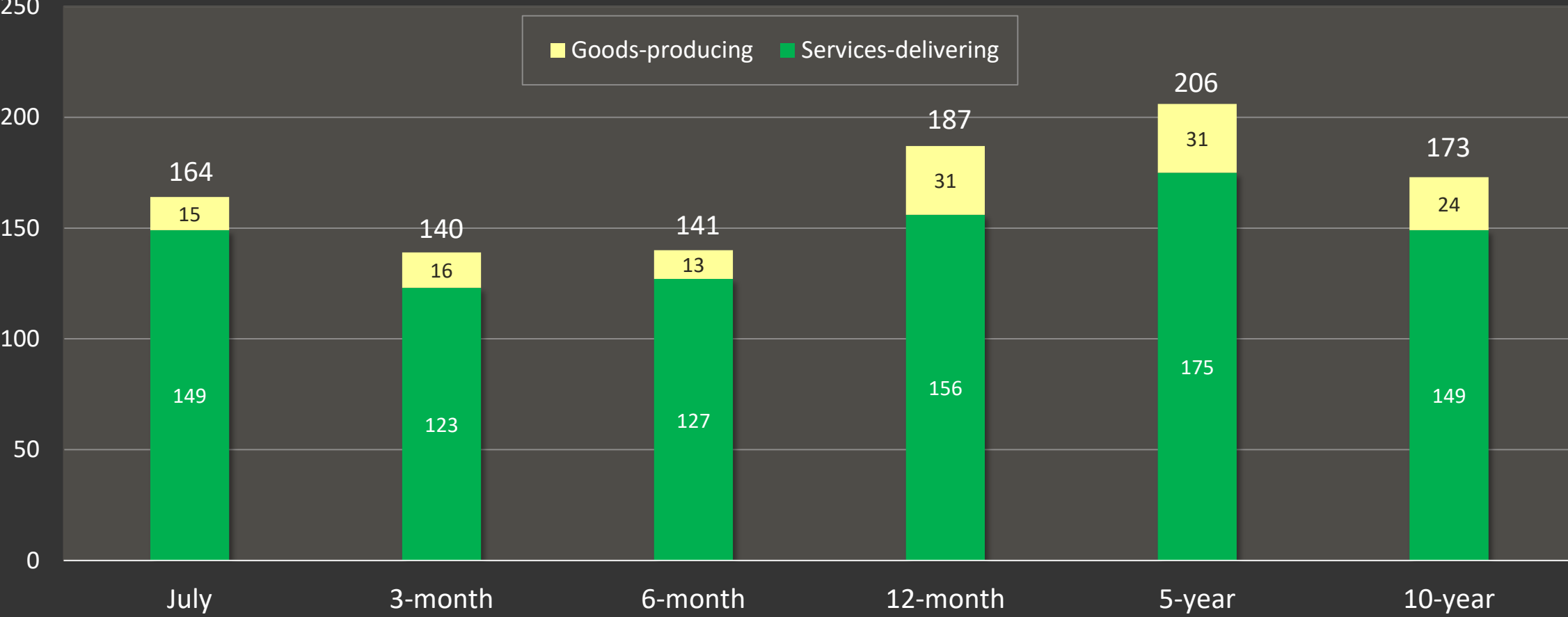
- Published August 22
- Major proposed changes
 - Adding 2 hours to allowed work day under the short-haul exception from ELDs
 - Adding 50 miles (to 150 air miles) to allowed radius under the short-haul exception from ELDs
 - Loosening the 30-minute rest break requirement
 - Making the sleeper berth split rest option more flexible and allowing the shorter period to “stop the clock”
 - Allowing drivers to pause their 14-hour driver window for up to 3 hours by taking off-duty time
- Provides much more flexibility for drivers held up at shipping and receiving docks
- Not likely to take effect before Q2 or Q3 of 2021 – if then

ISSUES TO WATCH

- International trade
- Regulation
- Jobs and wages

AVERAGE U.S. MONTHLY JOB GROWTH

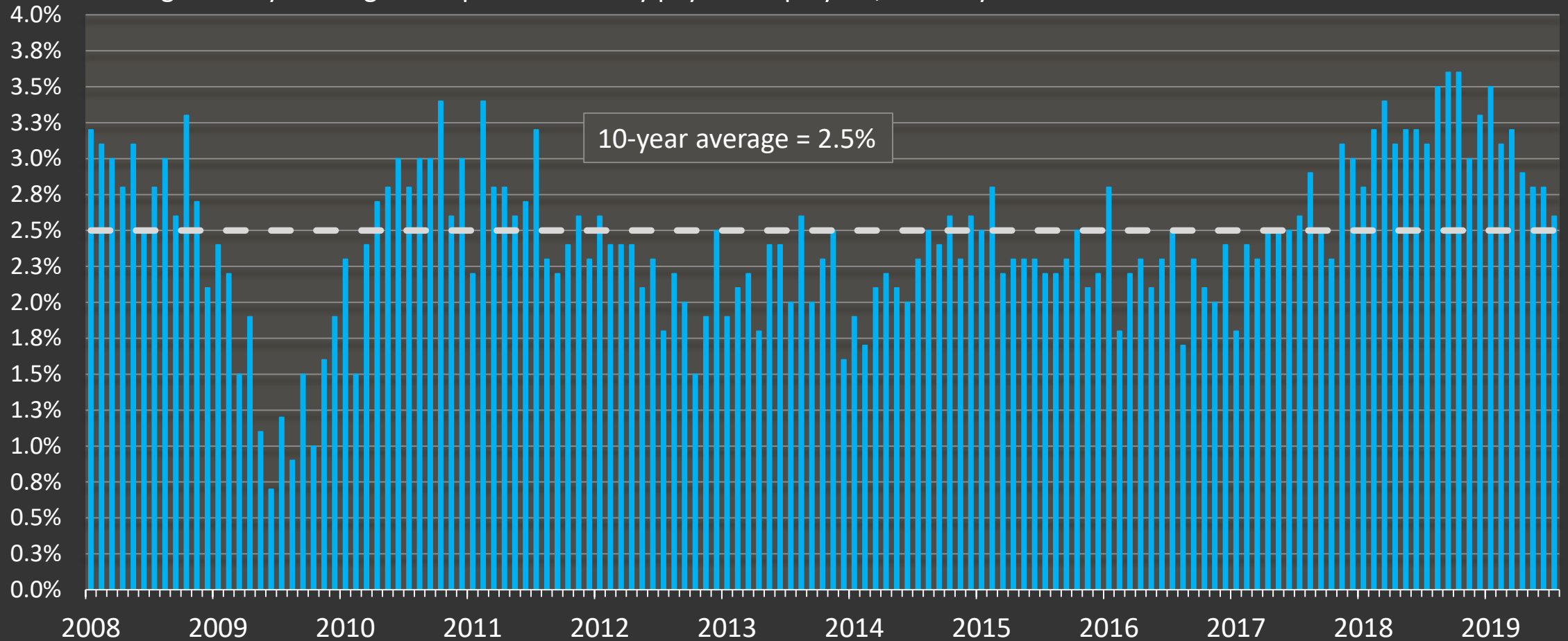
Payroll jobs in thousands, seasonally adjusted



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

U.S. WAGE GROWTH – Y/Y CHANGE

Average weekly earnings of all private industry payroll employees, monthly



Source: Bureau of Labor Statistics (BLS), FTR (www.ftrintel.com)

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Summary

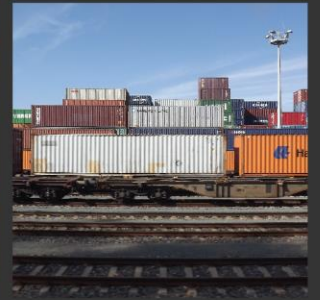


SUMMARY

- Freight demand has slowed but the outlook is reasonably stable
- The capacity crunch is history, and carriers are pulling back on drivers and trucks
- Dry van rates are forecast to be down 8.5% in 2019 and another 1.9% in 2020
- The trade war with China is the biggest economic risk in the near term
- Upcoming regulations *probably* won't have too effect on trucking, but the final ELD phase and drug and alcohol clearinghouse could surprise
- Although the labor market remains very tight, slower job growth *could* be an early warning sign for retail, food, and the housing market

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