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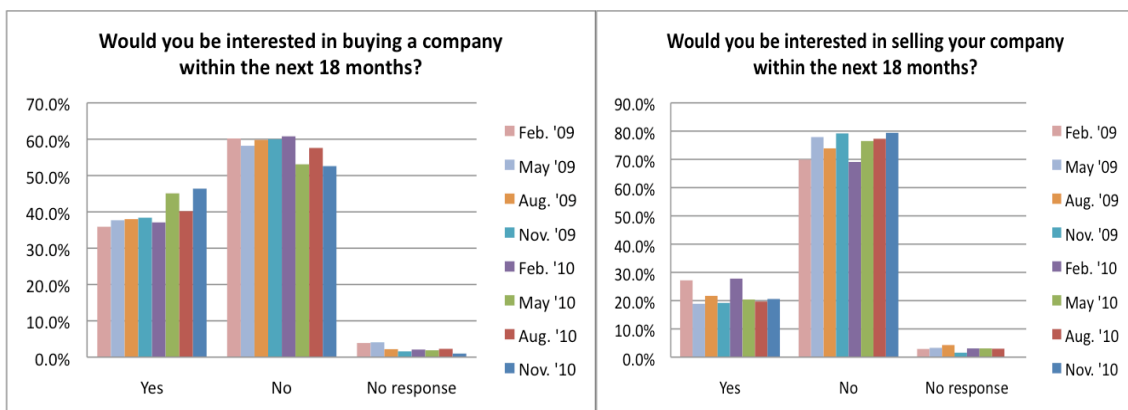


WHERE IS THE INDUSTRY HEADED? Just Another Cycle or a New Beginning?

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Not since Deregulation in 1981 has the trucking industry faced the degree of growing demand coupled with unbridled opportunity, over-written with the degree of uncertainty of new regulations, rising costs and an economy emerging from a recession. Transport Capital Surveys over the past two years clearly show a re-born cautious optimism.

The Transport Capital Partners (TCP) 4th Quarter Business Expectation Survey showed two-thirds of truckers optimistic about the year ahead of expected volume and rate increases. Average freight rates were still increasing in the prior quarter for half the responding carriers. The Mergers and Acquisitions market that was some hat constrained last year is moving to a higher level with 45% of the carriers indicating an interest in buying over the next 18 months; about 1 in 5 carriers indicated an interest in selling per the survey. We are seeing a mounting interest daily.



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Even with the good news, the industry faces some very tough issues: Uncertain freight demand; tight industry capacity with a reduced tractor fleet; CSA effects on drivers, carriers and shippers; Hours of Service proposals/costs, overall operating cost inflation such as double digit tire price increases and fuel prices more than \$3.50 per gallon.

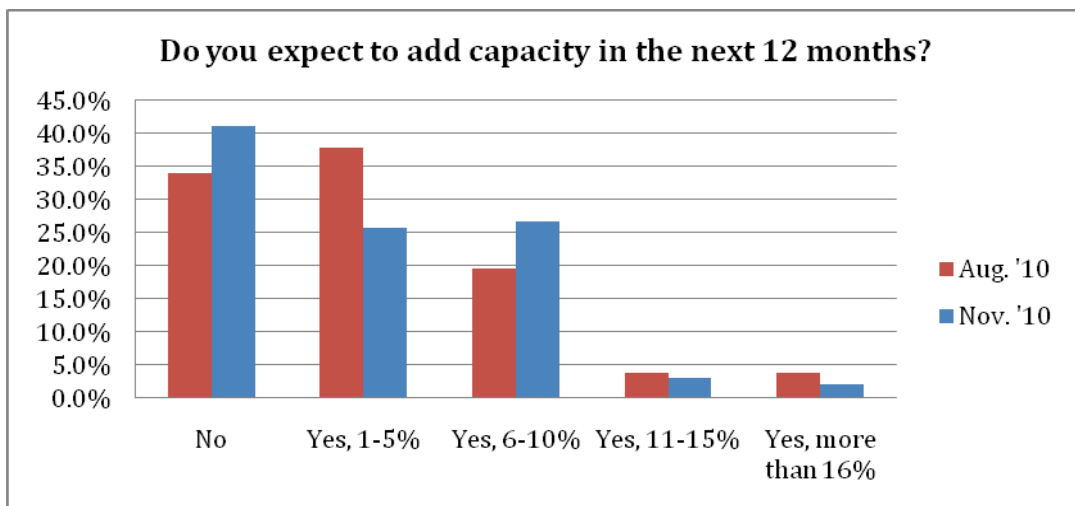
Demand for trucking services:

The last quarter of the year ended on a high note. In the spot market, TransCore reported that December was another record month. The Cass shipment index was up 14% y/y in December and the Ceridian fuel consumption index was up 4% y/y. Manufacturing expansion and inventory restocking were the key demand drivers in 2010 with public carriers’ stock rising over 20% compared to the S & P’s 500 15% gain.

This high note is expected to continue. Blue Chip Economic Indicators (a survey of 50 economists) has GDP growth of 3.3% in 2011 and slightly more in 2012 with and industrial production rising 4.1% in 2011 and 3.8% in 2012. Manufacturing, the prime demand driver for freight is likely to continue strong. ACT Research forecasts robust freight growth of 5.2% and 5.6% in 2011 and 2012. For more details, see www.actresearch.net/reports/truckersdigest.pdf

Trucking Capacity:

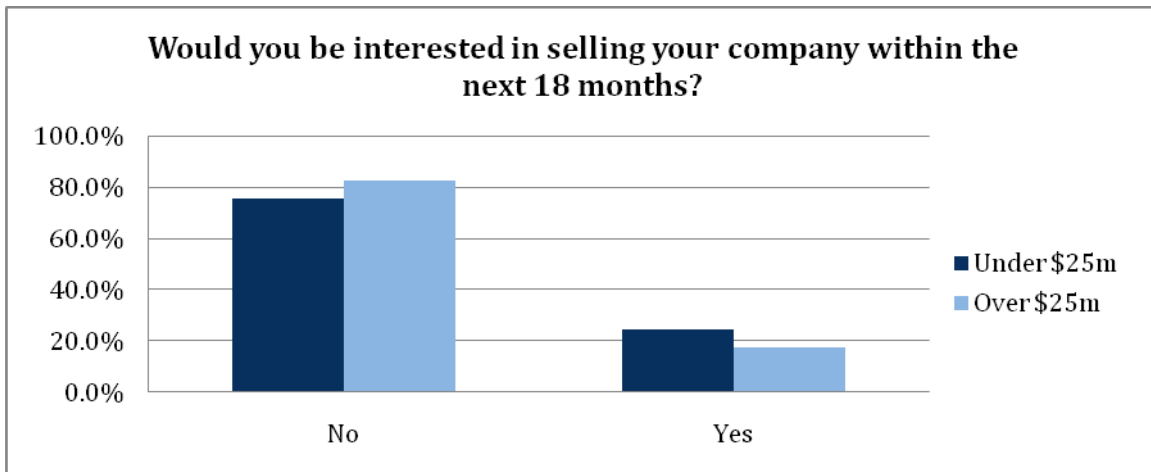
Trucking capacity has been tightening with bankruptcies, exporting of used equipment, scraping without replacement, and few new truck purchases, all making contributions. Avondale Partners says bankruptcies took 12% of gross capacity off the road while many trucking companies cut fleet size resulting in a net reduction of 15%. ATA data suggests small fleet size shrunk 16% from peak to now, while large fleets fell 13%. ACT Research estimates that the active population of Class 8 trucks dropped from about 2.3 million in 2006 to 2.0 million currently (-13%); this level is forecast to be flat for the next two years, even with new U.S. Class 8 sales of 179,000 in 2011 with 85/90% for replacement. TCP’s survey reinforces this replacement rate with 61% of the carriers responding expecting to add no capacity to less than 5% capacity in the next 12 months.



New Equipment Cost Escalation:

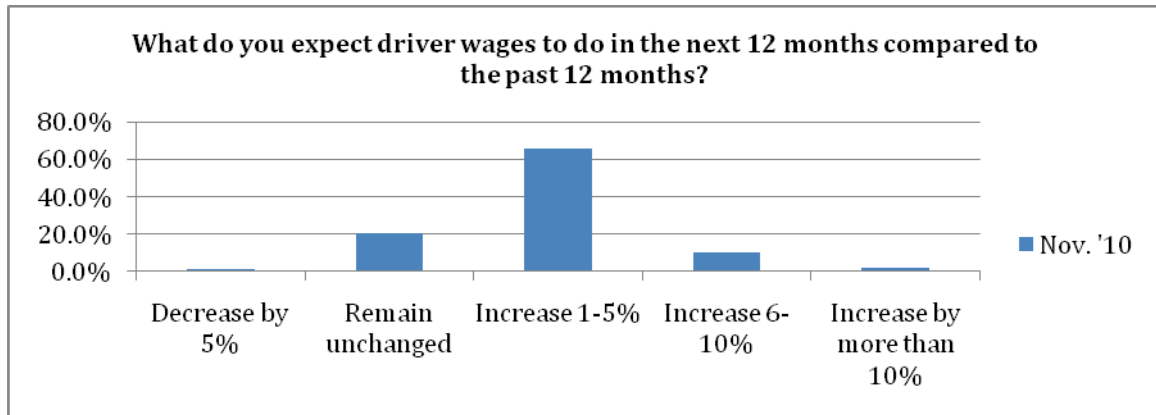
Annual cost increases for equipment in the last two decades has been around 7 percent per year. Most of the increases incurring in the last decade as EPA mandated engine changes have added about \$15,000 per truck coupled with poorer fuel economy and increased maintenance costs. Clearly someone must pay the equipment bill as freight moves on truck assets that have to be owned by someone (obviously the brokers do not want to own while some carriers do not either preferring contractors). Contractors have fled the industry without adequate compensation for their capital or labor. The economic returns to capital must be there or capital will not flow to the industry long term. This was evidenced by the fleet downsizing of the last few years. Lenders who have been ‘burned’ by repossessions and bankruptcies are not likely to return without seeing solid earnings evidence. The recent upward trend in Class 8 purchases is not to expand but to replace as carriers face mounting maintenance costs and a looming driver shortage with an older fleet.

The industry has recovered about half of the freight volume lost from the past economic high and is close to capacity. Pricing pressures for drivers, other costs, and equipment are clearly on carriers’ minds per the TCP’s 4th quarter survey. A quarter of the smaller carriers said they are considering selling their company if things don’t improve



Regulatory Issues—Drivers:

The flip side of the equipment constraint is a driver constraint. TCP surveys indicate 92% of the fleets are preparing for driver wage increases of up to 5%. This is in spite of 9% plus unemployment in the general economy. With an extension of unemployment benefits, it is hard to attract some potential drivers who trade off leisure time and reduced earnings with returning to a life behind the wheel. Negative long-term demographics are still a challenge.



CSA safety enforcement has the most immediate potential to remove unsafe drivers (as well as fleets) who do not meet the new guidelines. Larger fleets are purging high-risk drivers. We expect shippers will be gravitating away from marginal carriers as CSA is implemented and understood during 2011. This could take 2-5% of drivers off the road.

Hours of Service (HOS) regulations are less certain in terms of timing and final form. However the suggestion of reducing driving hours from 11 to 10 coupled with other forms of constraints is keeping carriers scrambling. Fleet utility could drop up to 10% as well as driver paychecks; that will result in needed pay increases to retain drivers in the industry.

Fuel Cost considerations

The potential of fuel cost escalation driven by global recovery raises the issue of timely compensatory fuel surcharge coverage. Rapidly rising fuel costs have an almost one-one correlation with trucking company bankruptcies. With rising fuel prices, we expect bankruptcies will increase, thus further driving out capacity. While for hire fleets have a plethora of fuel adjustment methods for dealing with rapidly rising fuel prices, they have varying degrees of success. In essence, it is the rare carrier who can actually recover the brunt of fuel prices due to rates not based on actual miles traveled, but out of route miles and congestion, reefer fuel and day-to-day-increases, none of which are reflected in the weekly DOE index.

Adding to the complexity are those shippers who:

- Desire to change the base rate for fuel surcharges from \$1.15 per gallon to over \$2.00;
- Demand that the average fuel consumption increase to 7 miles per gallon for surcharges, and;
- Delay paying their bills in a timely manner.¹

¹ We find it amazing that prior to deregulation, shippers managed to pay their bills in 7 working days. With today's technology of the internet, the web and EDI, it takes them 30-45 days.

TCP anticipates that most carriers will bring these issues to the negotiating table as their pricing power increases to recoup these losses.

The consequences of all these factors will result in second half of the year rate increases of middle to upper single digits plus equitable compensation for fuel. Clearly as each month passes and demand rises, a fleet with a constant capacity will gravitate to its highest and best use, i.e. to shippers who will have compensatory pricing not only on line haul rates and realistic fuel surcharges, but also synchronize their dispatches to maximize carrier capacity while minimizing delays; this has already begun. Over the last half of 2010, fleets began servicing preferred customers and freight movements to increase earnings by as much as 4-7 cents per mile, in addition to spot price spikes and contract renegotiations.

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TCP is cooperating with ACT Research quarterly
to discuss trucking trends in their publication "Truckers Digest."
For more information see www.actresearch.net/reports/truckingexecpromo.doc

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