

## **OBSERVATIONS OF THE ATA ANNUAL MEETING**

Turbulence in world credit and equity markets reverberated through the American Trucking Associations' annual meeting, leaving trucking industry leaders and suppliers focusing their immediate attention on economic concerns above most other topics. The diversity of opinions and actions contemplated reminded us not only of the breadth of our industry but also of its resilience.

The freight environment has switched from a discussion of modest growth and tighter capacity to a realization of shrinking tonnage and predictions of early 1980s depth and duration of recession. Speakers at the outlook session agreed that a recession was upon us, the only two questions being: how long and how deep? Despite the overall economy, some carriers remain relatively profitable and are well positioned. Tank carriers continue to have favorable volume trends and are in good positions. Flatbed carriers experienced some relief from the construction industry slowdown as steel volumes rose. This was driven by shrinking steel imports caused by rising container charges resulting from fuel costs. Also, imported steel prices rose with the declining value of the dollar (which maybe bottoming). Refrigerated carriers are historically more stable, as food product volumes tend not to rise and fall as fast as other retail areas. In general, van carriers continue to feel both volume and rate pressures. Retail remains weak and consumer confidence levels low in advance of a fourth quarter holiday spending season that may be below prior years.

Carrier bankruptcies small and large (Jevic, e.g.) have been at high levels but will change from being caused by high fuel prices and inadequate fuel surcharges to being caused by other cash flow issues, overvalued assets, and credit availability. However, lower fuel prices have and will relieve some of the pressure on carriers' cash flow and, subsequently, their lines of credit. We are wrapping up conversations with a number of financial sources and will be summarizing our findings on the current and projected lending environment for carriers in a special report in the coming week.

Truck and truck component manufacturers have experienced the largest wave of the economic sea change, as orders continue to shrink while "dead phones" grow. More capacity has been taken out of the industry: about 2.6% in 2007 and 1.3% in the first half of 2008. Used Class 8 trucks hit a record export of over 20,000 in 2007 with a high demand from Russia and Eastern Europe. As many trucks were exported in the first half of 2008 as in all of 2007, but this cannot continue as Russia cuts back because of the

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faltering economy there and elsewhere. Some carriers have noted about a 15% drop in used prices since this spring, and Rush Enterprises just reported a 16% used truck inventory value write down. There was general agreement that there will be no pre-buy in 2009. Carriers have reached the conclusion that they can make more money by raising rates than by buying trucks. Most believe it won't be until late 2010 before there is any buying other than simply replacement.

Even though gas prices have dropped below \$3 per gallon in some places, it is likely that diesel fuel prices will retain their high spread above gas. With the winter heating oil season approaching and both Europe and Asia adopting diesel-fueled cars faster, the demand for diesel will continue to put pressure on prices. Booths for fuel economy enhancement devices and measures were popular at the trade show. Investment costs and constricted cash flow were mentioned as primary reasons carrier adoption is slowing. Europe's long-term experience with higher fuel prices has made its technology more popular in the U.S. market.

Many carriers have shortened their length of haul in reaction to distribution pattern changes, inability to get sufficient fuel surcharges, and the desire to attract drivers with more home time. One of the most surprising statistics presented by Bob Costello, ATA's chief economist, was that the average "tonnage" consumption per capita is down 4%, reflecting shippers' efforts to take tons and miles out of the supply chain. Drivers remain in ample supply with lower turnover levels being noted by most carriers.

Transport Capital Partners (TCP) is seeing more interest in both operational and financial advisory services to improve processes and restructure credit usage and flexibility. Many carriers are seeking to use the freight down time to make the necessary changes for when tonnage and profitability return. Most everyone agreed that the carriers who make adjustments now will emerge from the current recession bigger, stronger, and more profitable.

Merger activity has taken two positions: some carriers with cash flexibility have adopted a "wait and see" model while others want to begin searches now for profitable, well-managed, and well-positioned operations. We have been discussing varied strategies with carriers on both the buy and sell sides and have encouraged several to be open to either. We see a limited market for distressed carriers who desire to exit. In these cases, market prices tend to primarily be a function of asset valuations

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The current economic environment may be especially concerning to those who have not experienced what one called a “normal recession” like in the early 1980’s, which lasted over a year with very low and negative GDP growth. Our industry turned around with rising personal incomes and business profits. It is human nature to focus on the dark skies of the moment (like the “Perfect Storm” of a few years ago) and forget that “this too shall pass and the light of day will be with us once again.” Carriers who set their long-term strategy and successfully execute it will seize the opportunity during these difficult times. TCP stands ready to advise and assist you in achieving your goals in both the short and long term.

Sincerely,

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