Business Expectations Survey

TRANSPORT CAPITAL PARTNERS

Rates Currently on Hold, but Optimism Increases for Future Rates, Volumes, and Capacity

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Second Quarter 2013

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Transport Capital Partners, LLC
Business Expectations Survey Results

Second Quarter 2013

Since the 2nd Quarter of 2008, Transport Capital Partners' (TCP) quarterly Business Expectations Survey (BES) has been a frequently quoted bellwether indicator of the American trucking industry. By taking the pulse of trucking company executives across the country, the survey asks core questions every quarter on recent rate trends, future volume and rate expectations, and interest in buying or selling their firms in the future. Topical questions are also incorporated in each survey depending on current events, with previous topics including credit and financing, equipment issues and plans, drivers, new regulations, trade cycles, and other fleet sentiment opportunities and concerns. This is coupled with observations of TCP partners and associates engaged in advisory activities throughout the industry.

Rates Still on Hold, but Optimism Increases for Future Rates, Volumes, and Capacity

OF THE LEADERS SURVEYED:

- **Rates continue to remain in neutral.**
- **The majority believes that rates and volumes will increase over the next twelve months.**
- **Two-thirds of carriers plan to add *modest* capacity in the next 12 months.**

For the first time in three years, the carriers are no longer fearing the 2nd quarter curse. Over the past three years, carriers lowered expectations for higher volumes in the second quarter. This year they see volumes holding steady – concurring with most economists that, this time, the recovery will hold (see Graph 1A). However, there is a major difference of opinion in this outlook between larger carriers (over $25 miillion in revenues) and smaller carriers (see Graph 1B). Among both groups, 50% expect volumes will increase. The groups contrast in the remaining 50% - almost 40% of smaller carriers think volumes will decrease, contrasting with only 3% of their larger competitors. Fourty-four percent of the larger carriers expect volumes will remain the same, compared with 11% of the smaller carriers. This divergence in expectations reveals the widely differing perceptions, reflected by varied responses, of carriers with revenues under $25 million and those above that dividing line.

Mirroring volume expections, carriers also see rates increasing in the next 12 months. By a three to one ratio, carriers expect rates will increase (73% vs. 25%) compared to remaining the same. The expections of large and small carriers reported in this question were quite similar (see Graphs 2A and 2B).

This optimistic view on rates is based on the fact that 80% of the carriers have seen rates hold in the past quarter. Eighteen percent have seen rates increase, up from 11% last quarter, but down from 45% a year ago. Small carriers have seen rates increase more than larger carriers - 25% vs. 14% (see Graphs 3A and 3B).

The modest optimism regarding rate and volume expectations continues to influence whether carriers will add capacity. Nearly two-thirds of the carriers surveyed indicate that they plan to increase capacity – approximately the same percentage as last quarter, and a year ago. However, carriers remain conservative in estimating how much capacity they will add. Forty percent indicated they plan to add 5% or less while only 24% of carriers plan to increase capacity by more than 5%. Larger carriers are more conservative than smaller carriers in their buying plans. Among smaller carriers, 36% intend to add more than 5% capacity. Only 19% of the larger carriers plan such capacity increases (see Graphs 4A and 4B).

For the past three years, the percentage of carriers intending to add capacity through the use of independent contractors has decreased by 50% (from 30% to 15%). Smaller companies are more likely than larger carriers to still seek out independent contractors (21% vs 13%). The most commonly reported method for adding capacity is through company equipment that is either financed or purchased on a Trac Lease (34%). Adding capacity by buying used trucks has droped from 8% in October ’11 to 0% today. Eight percent of the larger companies intend to add capacity by buying an existing company’s fleet (see Graphs 5A and 5B).

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- Only 50% of carriers believe they are getting an adequate rate of return on their investment.
- Further, only 45% see any relief in their ability to renegotiate accessorial charges.
- Drivers may be squeezed if their miles are reduced because of new hours of service regulations; carriers cannot raise wages before rates are increased.

The percentage of carriers who believe they are getting a rate of return on their investment adequate enough to justify reinvesting in new equipment is slighty higher than 50%, up only four percentage points from November '12. Larger carriers are only slightly more positive (52% vs 50%). With only 50% of the carriers reporting an adequate rate of return, it is understandable that one-third still do not intend to add equipment (see Graphs 6A and 6B). Replacement of aging fleets remains the primary driver of new purchases. In addition, according to our first quarter survey, there are mixed reviews of new engine fuel economy and maintenance experience.

While 73% of the carriers expect to be able to raise rates over the next 12 months (See Graph 2A), 45% do not believe they will be able to renegotiate accessorials. However, 43% believe they will be able to address detention times, probably in light of the pending changes in hours of service. While approximately the same percentage of large and small carriers expect rate increases in the next 12 months, larger carriers are more confident than smaller carriers that they will be able to raise accessorials in all categories. In fact, 64% of the smaller carriers do not believe they will be able to renegotiate accessorials, compared with 37% of the larger carriers (see Graphs 7A and 7B).

In light of the inadequate rates of return noted (in Graphs 4A and 4B) by half of the carriers, it is unsurprising that 88% of the carriers need to see rate increases before they can raise driver wages. Interestingly, larger carriers are more insistant that smaller carriers in the sequencing of rates and wage rates. Ninety-one percent of larger carriers are insisting that rate increases precede wage increases, compared with 79% of the smaller carriers (see Graphs 8A and 8B).

In addition to problems hiring qualified drivers, carriers are also experiencing problems finding other qualified employees. Sixty-five percent of the carriers noted having difficulty finding qualified maintenance technicians, and 30% indicated they were having problems filling operations staff and fleet manager level positions. All three of these shortages (drivers, technicians, and fleet managers) reinforce the carriers' concerns about adding more capacity. Larger carriers (70%) seem to be having more trouble finding technicians than smaller carriers (50%) (see Graphs 9A and 9B).

On July 1, motor carriers will operate under a new set of hours of service rules. The impact will differ depending upon the type of operations – short haul vs. long haul; irregular routes vs. dedicated service. It is interesting to note that only 3% of the carriers indicate the changes will not have an impact. However, it is discouraging to see that almost 20% have not yet determined the impact. Forty-one percent of the larger carriers believe the new HOS regulations will result in lowering utilization by less than 5%, compared with 32% of the smaller carriers. More markedly, 29% of the smaller carriers have not yet determined the impact, compared with 14% of the larger carriers. Smaller carriers have some work to do in determining and then mitigating the potential impact of the changing HOS regulations (see Graphs 10A and 10B).

Only 7% of the carriers do not believe that they will need to make changes to respond to the new hours of service regulations. Fifty-three percent say they will have to rework routing and load assignments, 76% see new scheduling and detention charges, and 53% want to seek rate increases. Only 13% of carriers plan to raise driver wages to compensate for fewer miles driven. The responses from large and small carriers here were remarkably similar (see Graphs 11A and 11B).

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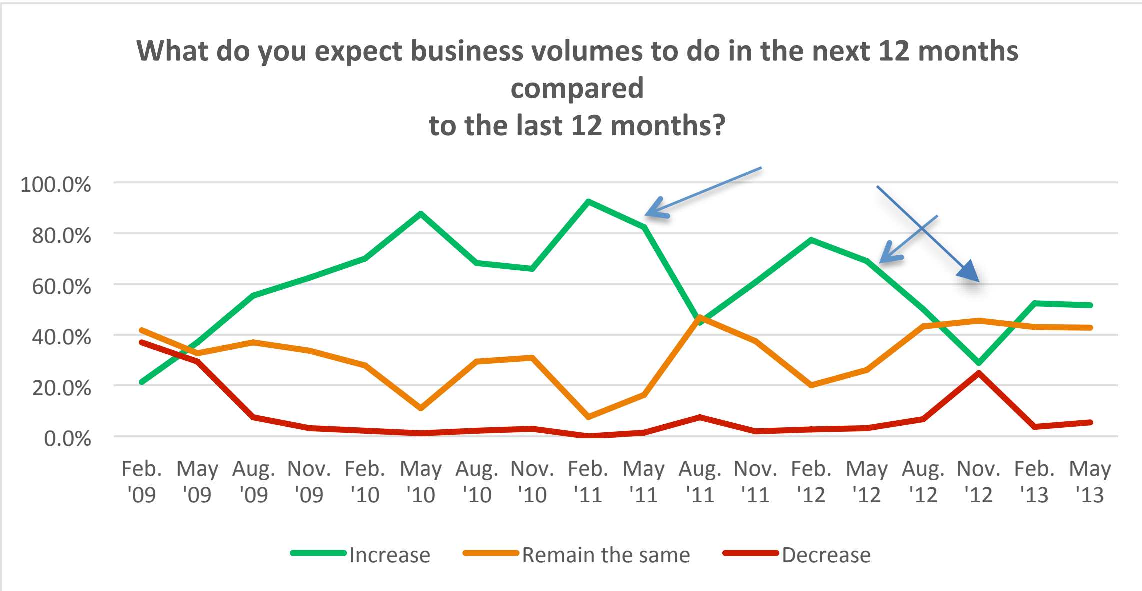
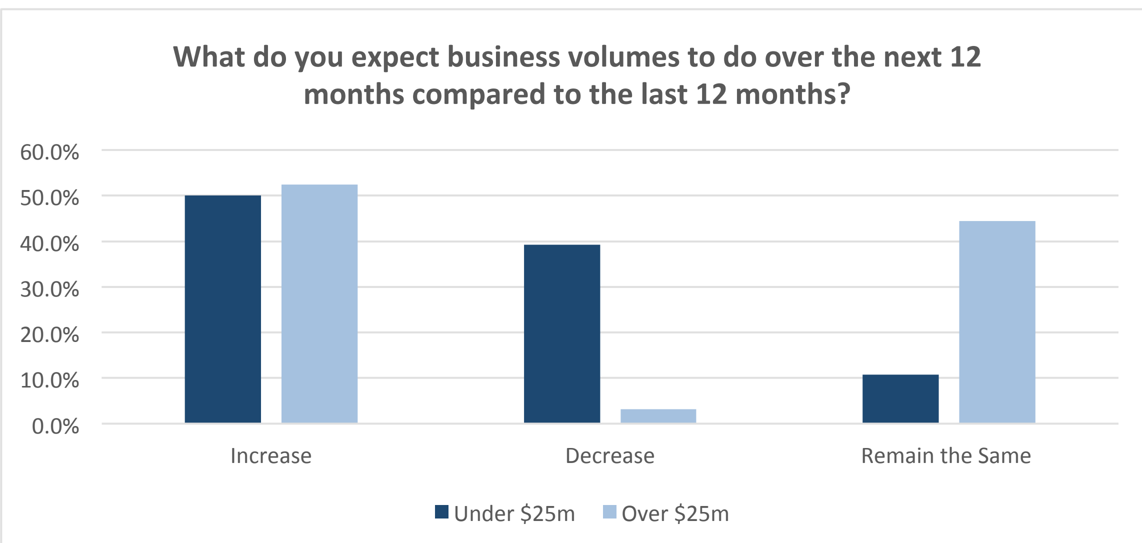
Despite the loss of utilization and productivity, many shippers have yet to recognize that they also must be part of the solution (as noted in Graphs 11A and 11B). Sixty percent of the carriers report that shippers are not working with them to minimize the impact of the HOS changes. Seventy-one percent of the smaller shippers report that none of their shippers are helping, and 46% of the larger carriers are reporting that only some of their shippers are cooperating (see Graphs 12A and 12B).

Given all the changes affecting carriers (volumes, rates, drivers, capacity, HOS), 76% of the carriers still report having not made major shifts in their business, types of haul, equipment, or commodities. If they have made changes, it has been primarily in types of haul. Contrasts in results between sizes of carriers here are remarkedly small. Rather than making basic changes to their businesses, we believe carriers are making changes in the execution of their business models and have focused on operational metrics and improvements to improve service and reduce costs (see Graphs 13A and 13B).

The trend in carriers wishing to exit the industry in the next six months is down from 19% to 13% from last quarter. However, 25% of smaller carriers are thinking about exiting the industry in the next six months if revenues do not improve, compared to just 8% of larger carriers. Those carriers wishing to sell in the next eighteen months is down from 21% to 15%, with more small carriers wanting to sell than large carriers (29% vs. 10%). The overall number of carriers wishing to buy a company in the next 12 months is steady at 47%, with buyers concentrated among the larger carriers at 56% vs. 29% (see Graphs 14A and 14B, 15A and 15B, and 16A and 16B).

Graphs 1A & 1B





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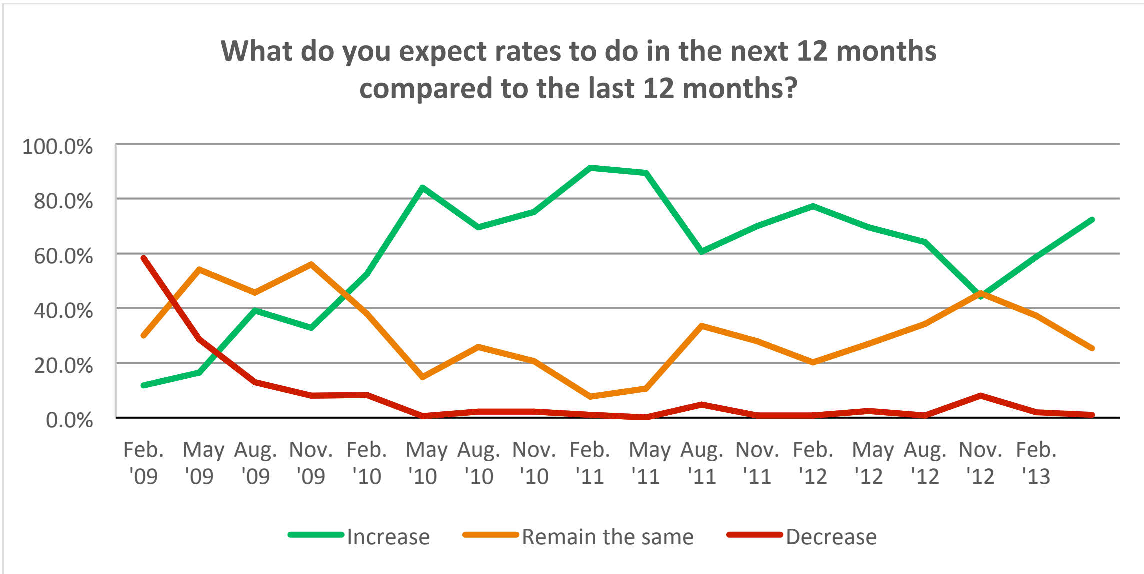
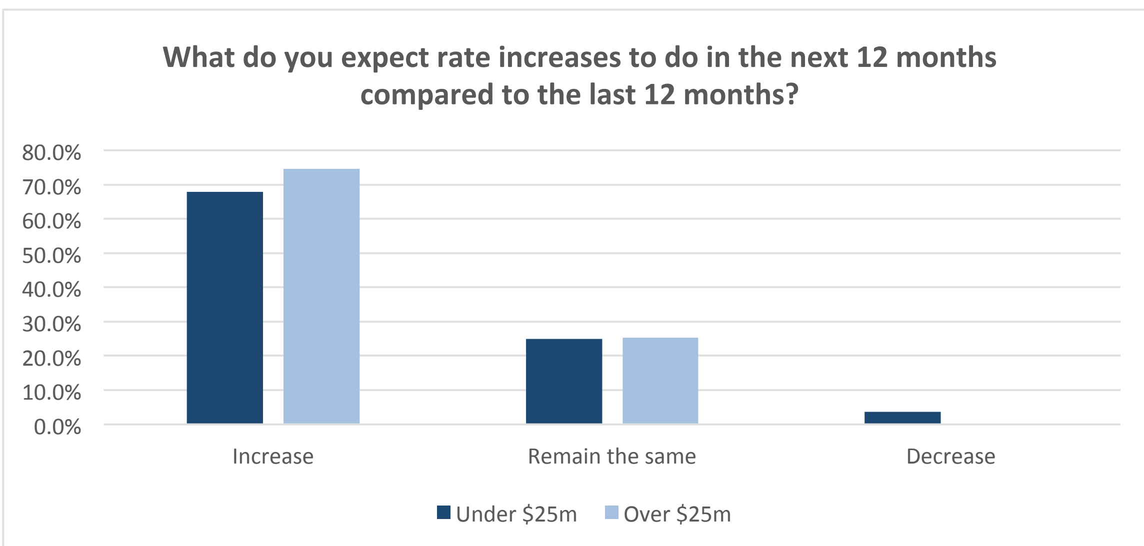
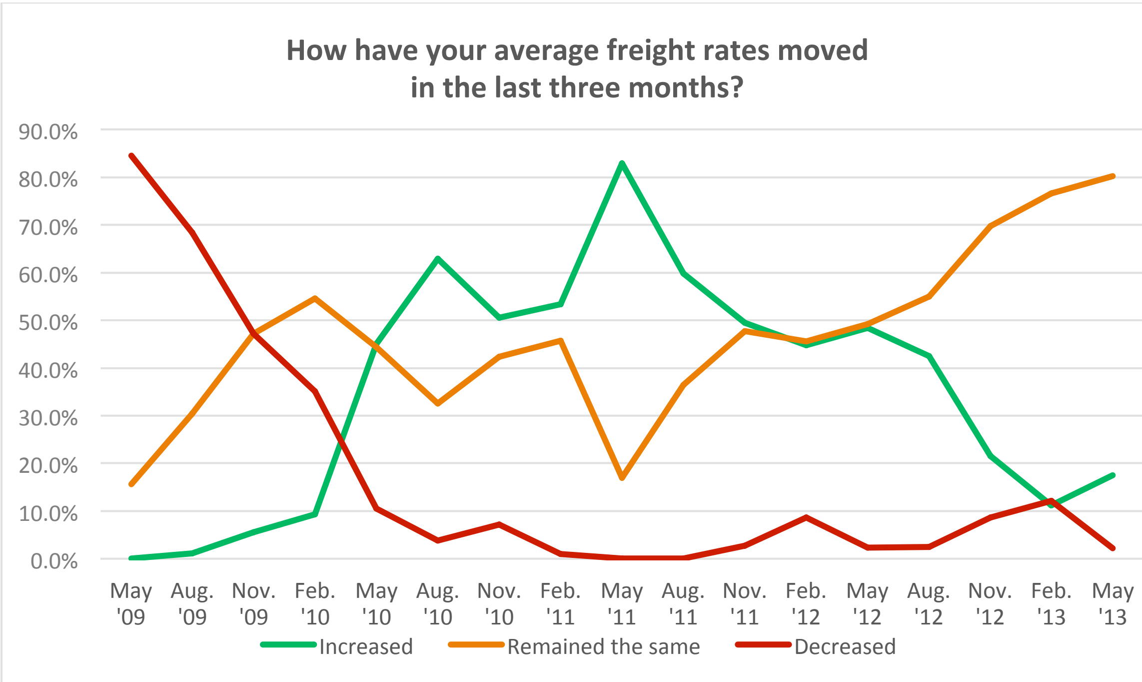
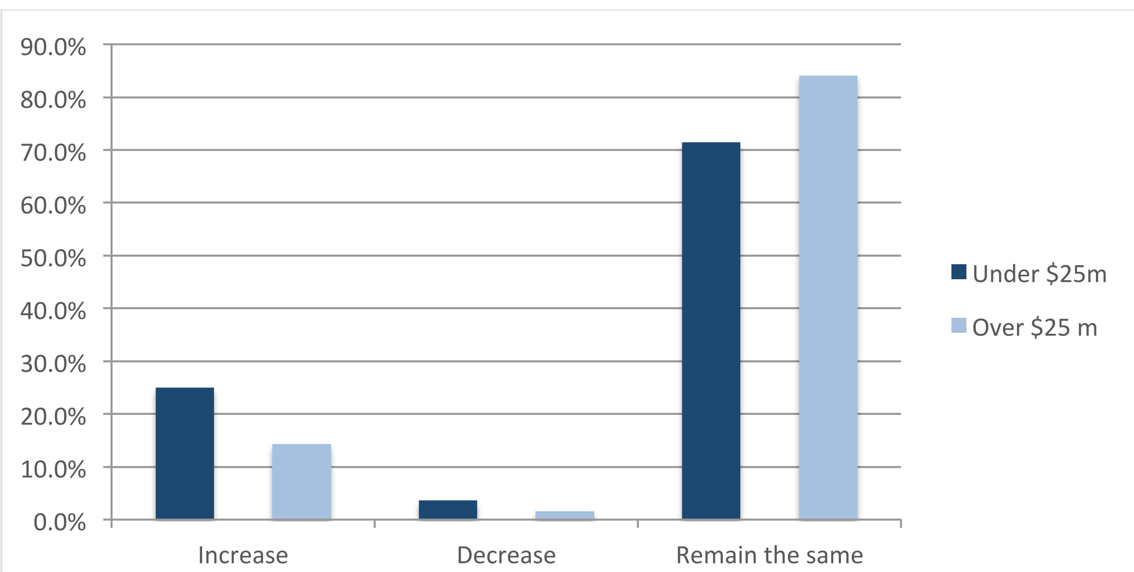
Graphs 2A & 2B


What do you expect rates to do in the next 12 months compared to the last 12 months?
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
Feb. '09
May '09
Aug. '09
Nov. '09
Feb. '10
May '10
Aug. '10
Nov. '10
Feb. '11
May '11
Aug. '11
Nov. '11
Feb. '12
May '12
Aug. '12
Nov. '12
Feb. '13
Increase
Remain the same
Decrease


What do you expect rate increases to do in the next 12 months compared to the last 12 months?
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Increase
Remain the same
Decrease
Under $25m
Over $25m

Graphs 3A & 3B





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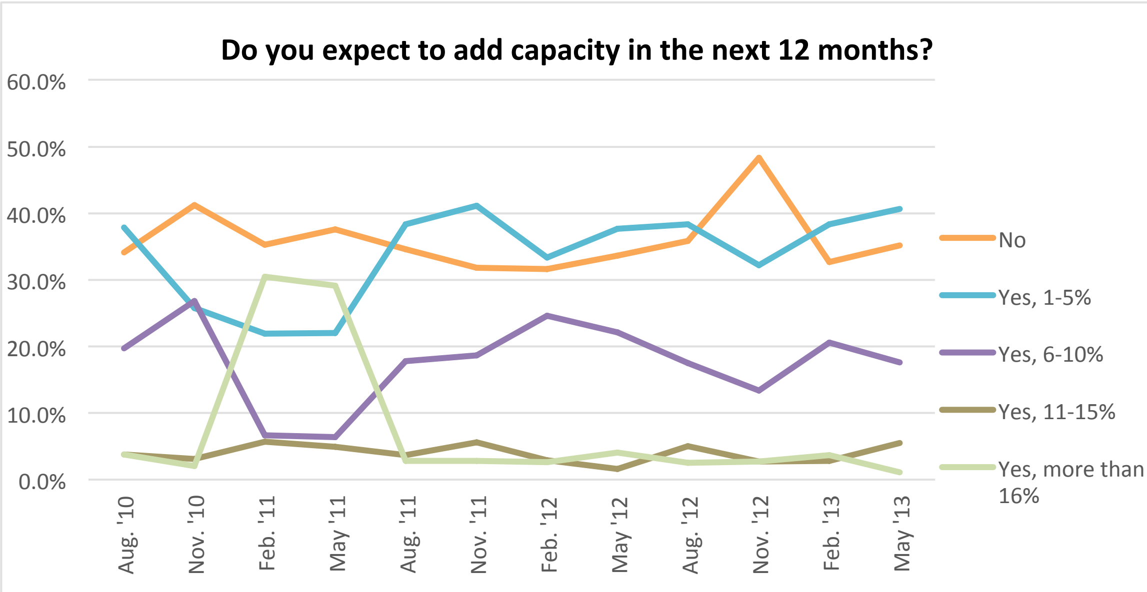
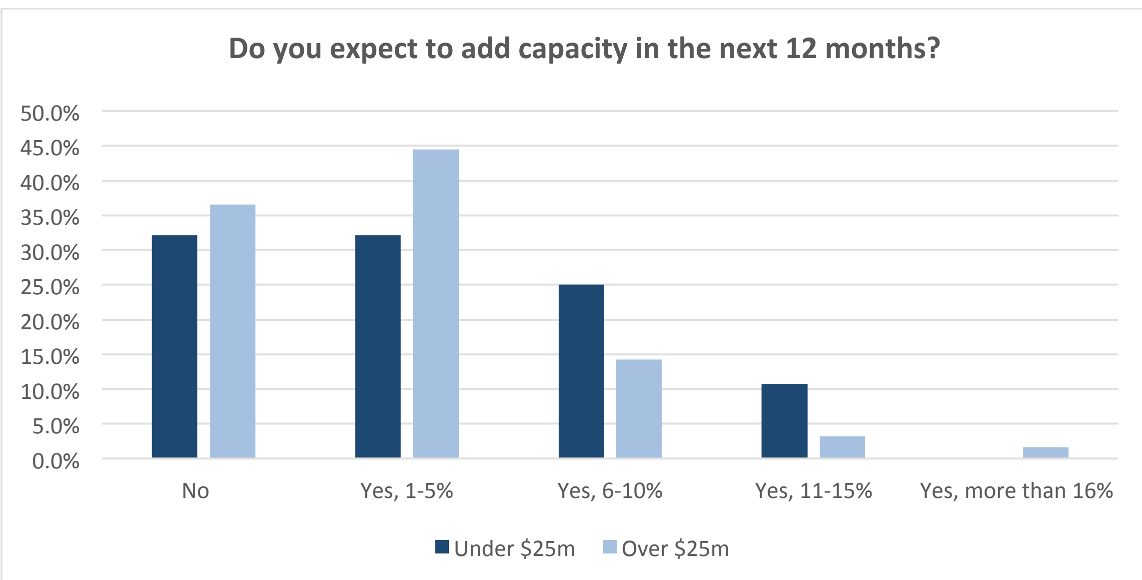
Graphs 4A & 4B





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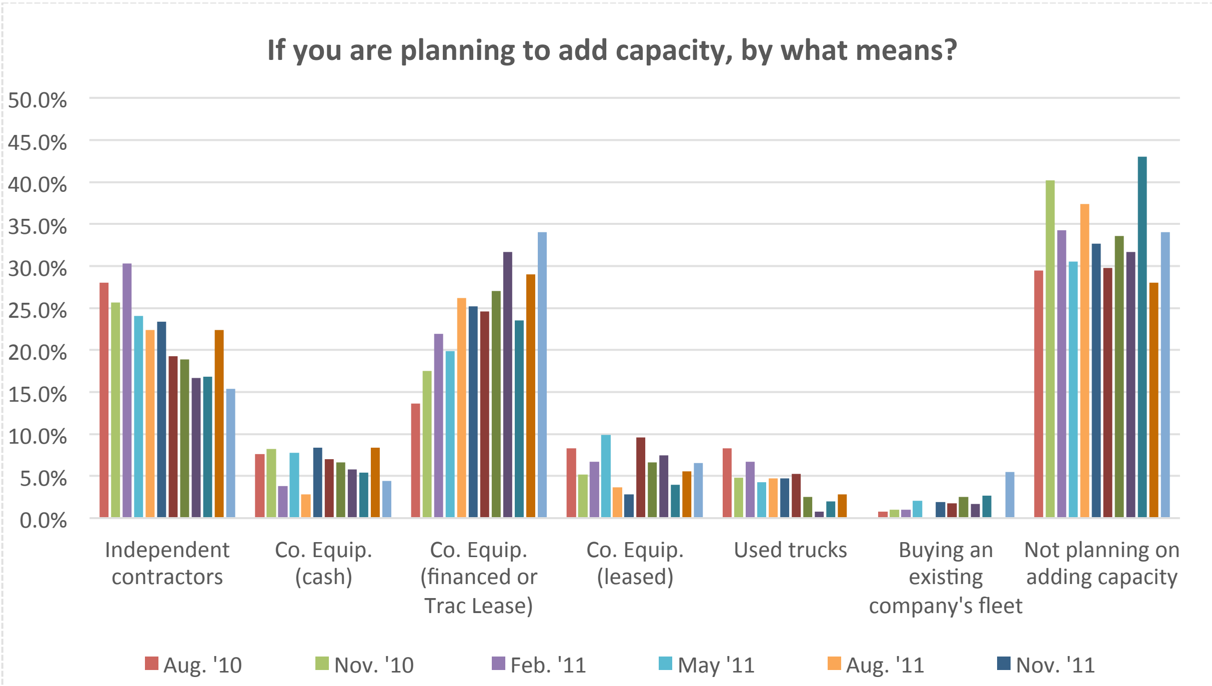
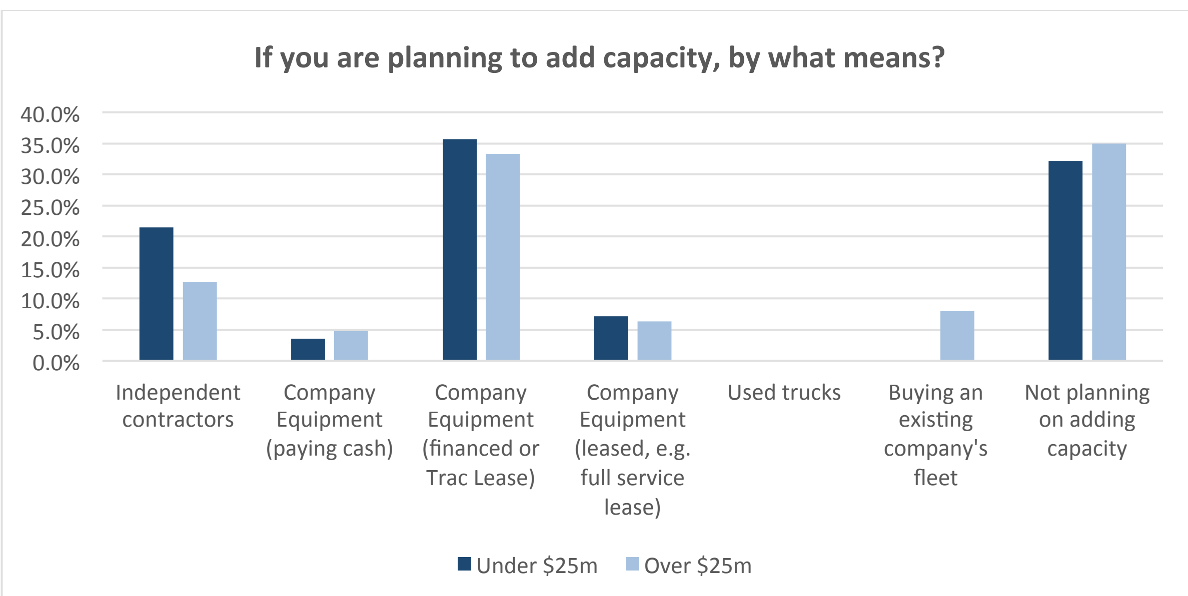
Graphs 5A & 5B





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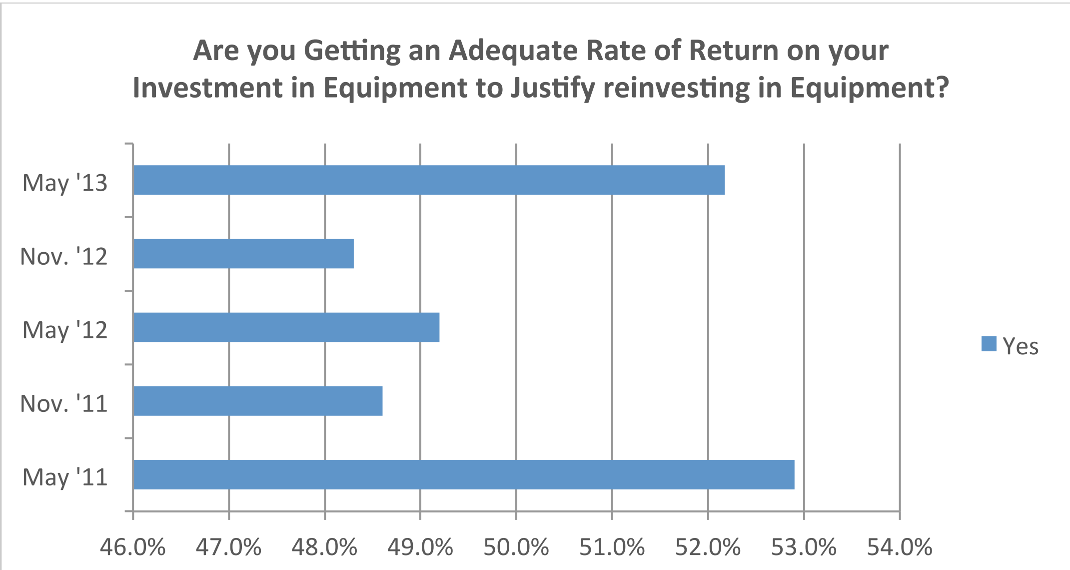
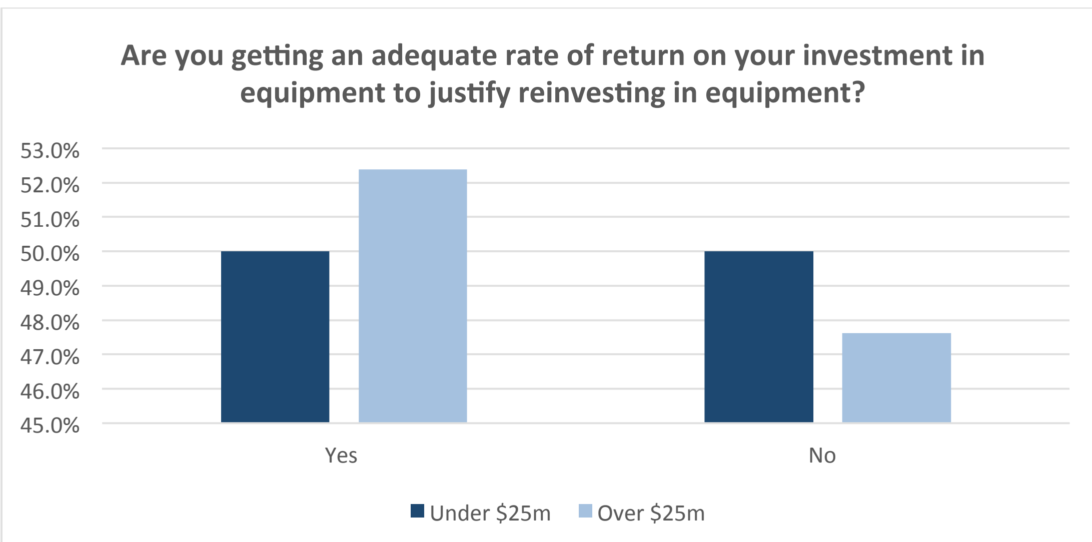
Graphs 6A & 6B





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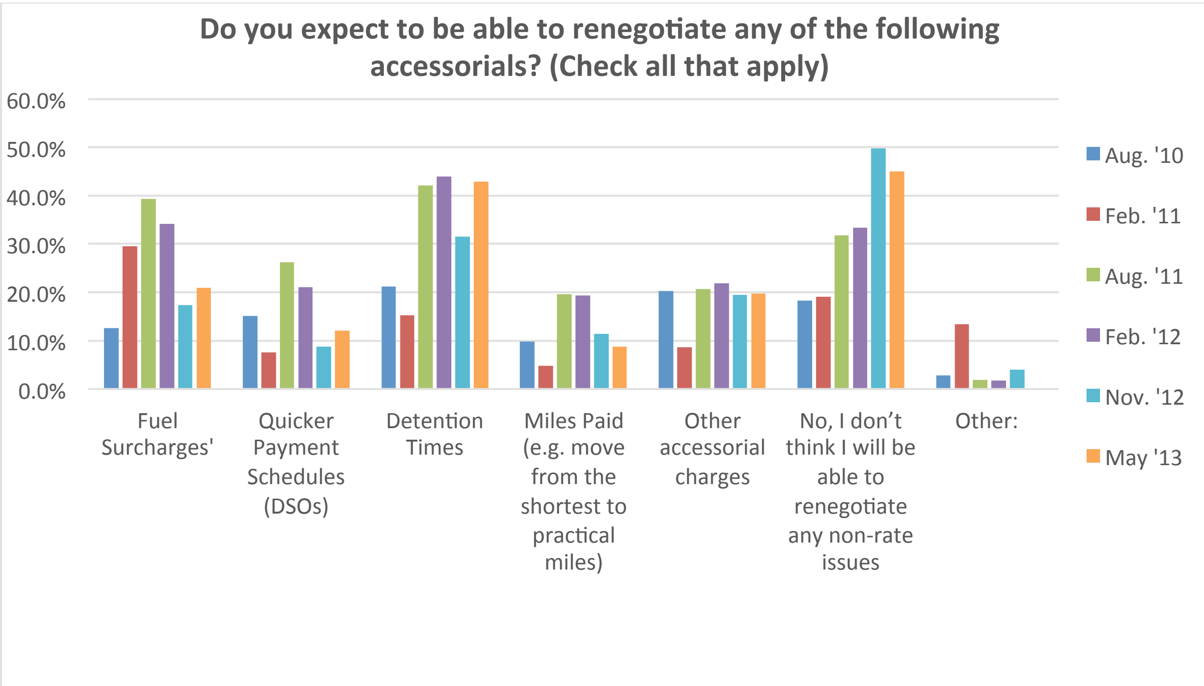
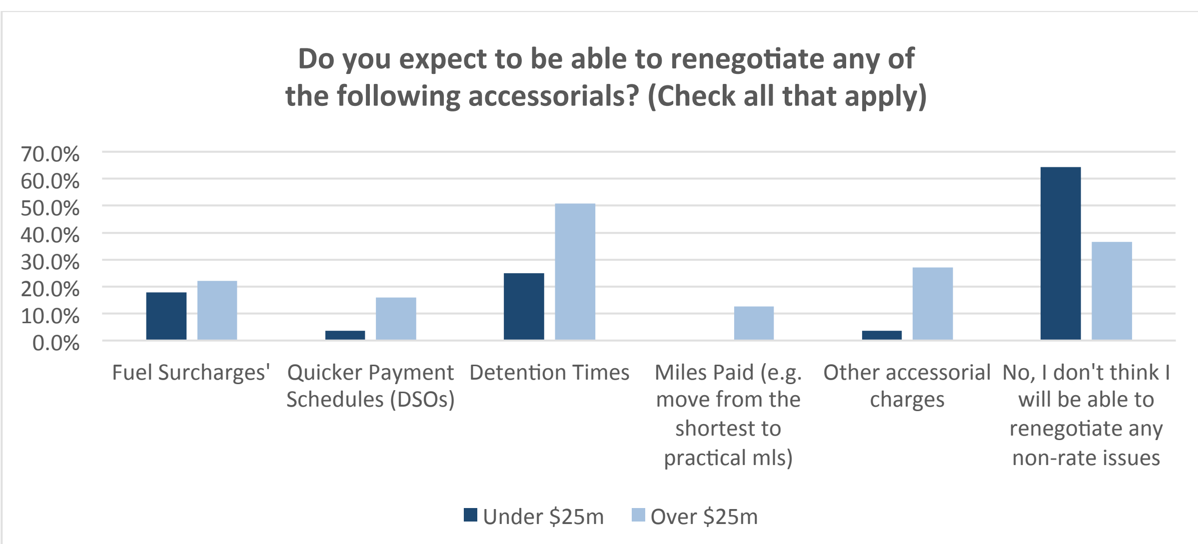
Graphs 7A & 7B





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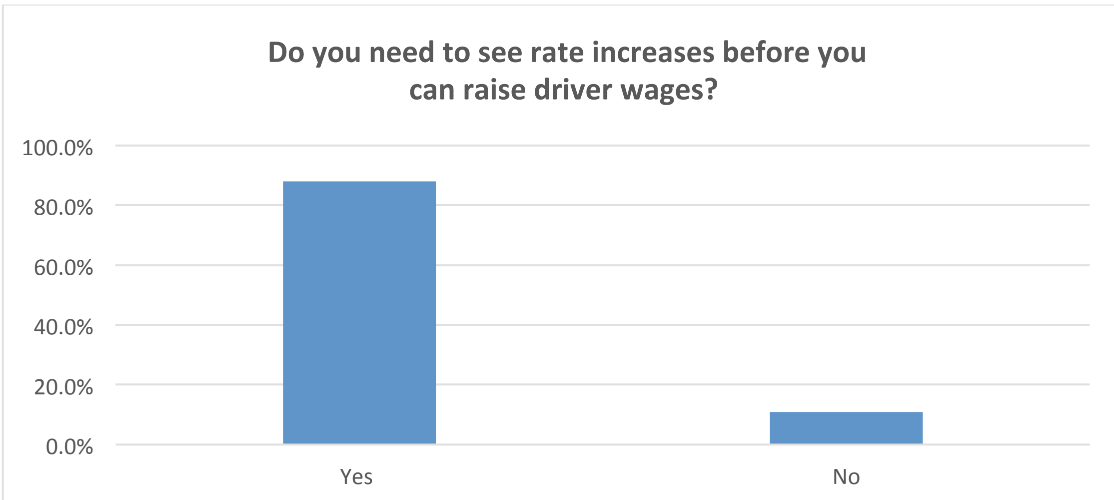
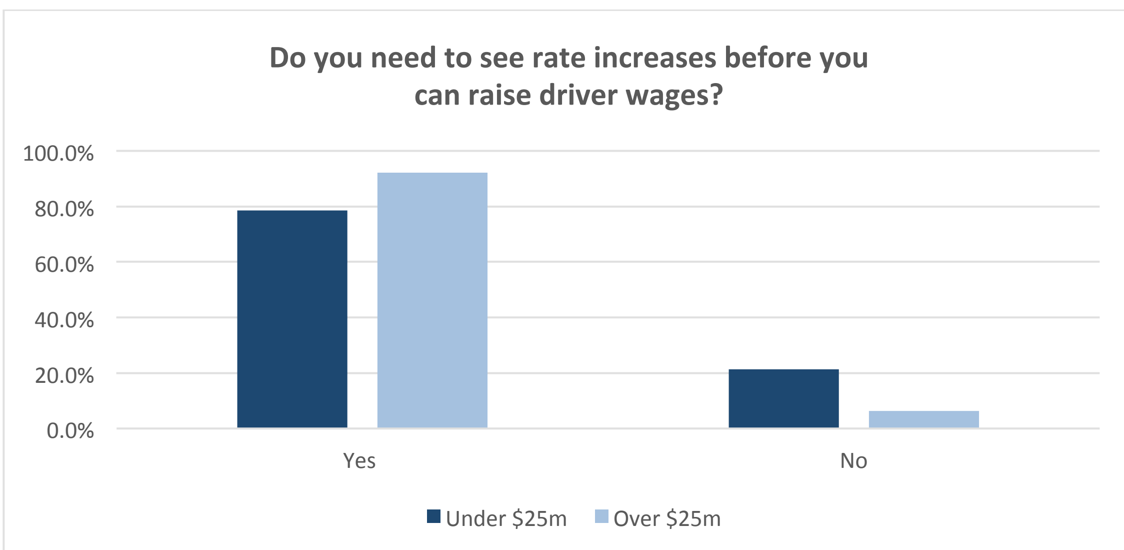
Graphs 8A & 8B





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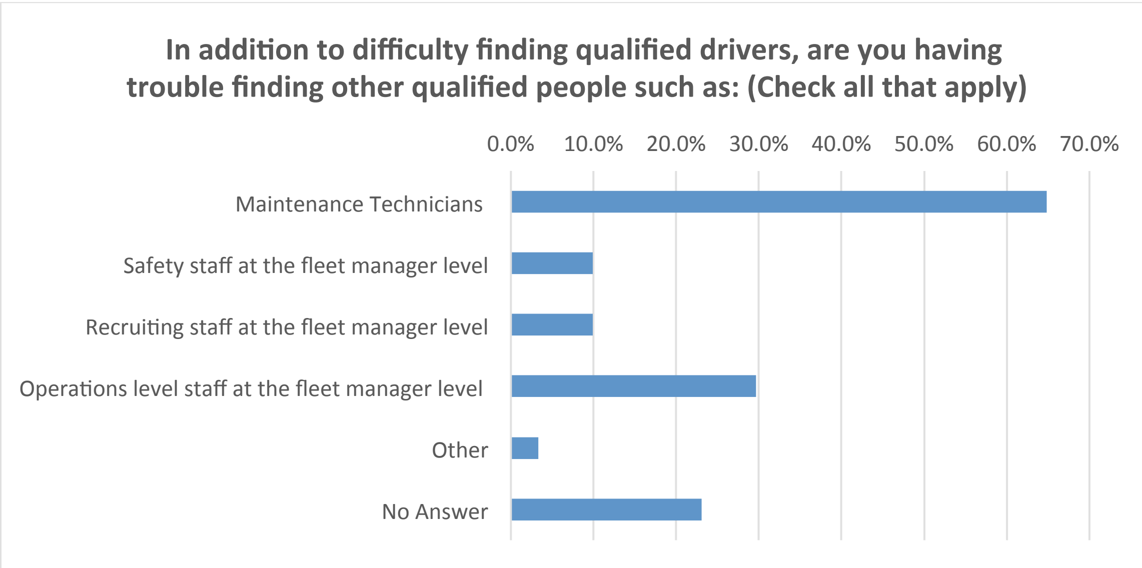
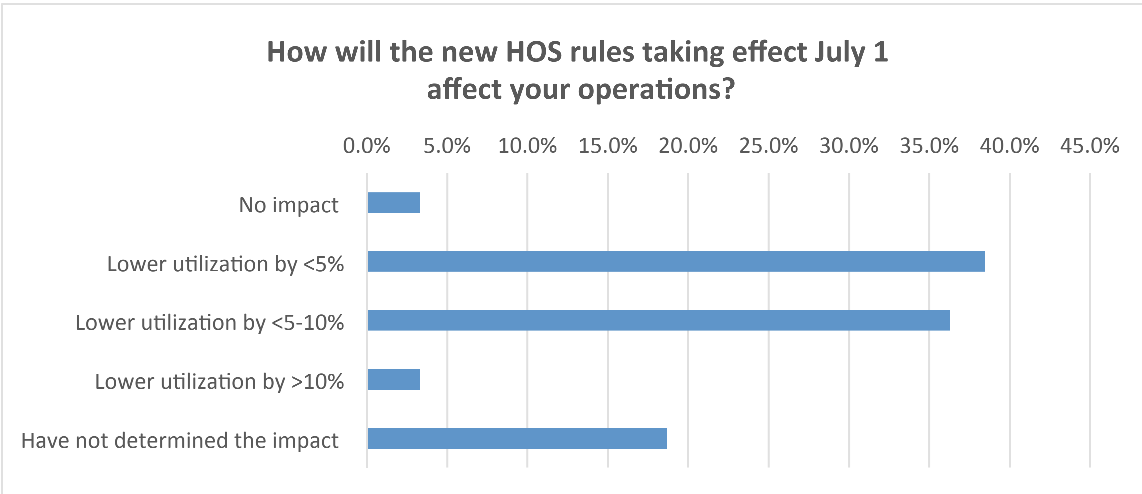
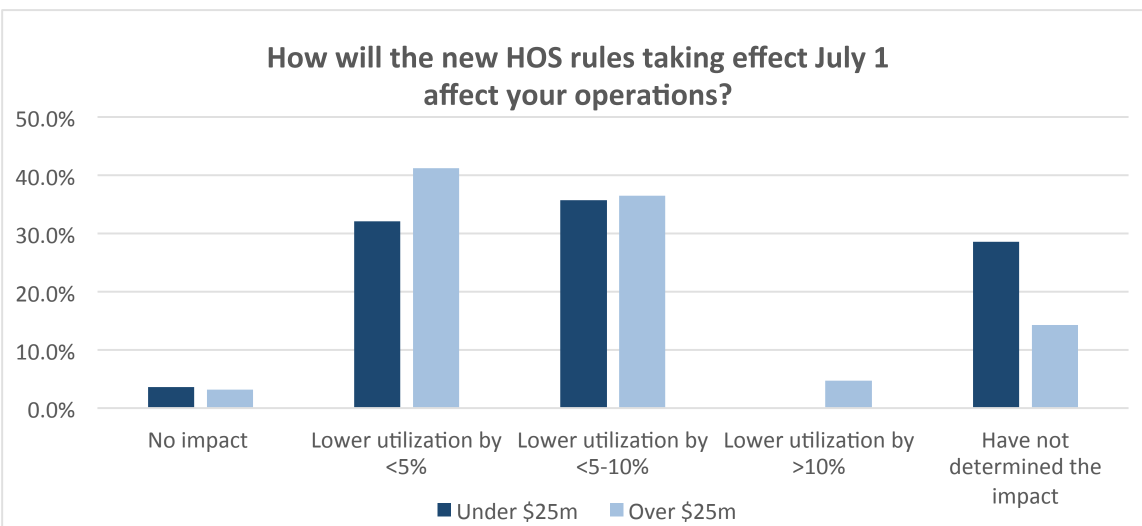
Graphs 9A & 9B


In addition to difficulty finding qualified drivers, are you having trouble finding other qualified people such as: (Check all that apply)
0.0%
10.0%
20.0%
30.0%
40.0%
50.0%
60.0%
70.0%
Maintenance Technicians
Safety staff at the fleet manager level
Recruiting staff at the fleet manager level
Operations level staff at the fleet manager level
Other
No Answer


In addition to difficulty finding qualified drivers, are you having trouble finding other qualified people such as: (Check all that apply)
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Maintenance Technicians
Safety staff at the fleet manager level
Recruiting staff at the fleet manager level
Operations level staff at the fleet manager level
Other
No Answer
Under $25m
Over $25m

Graphs 10A & 10B





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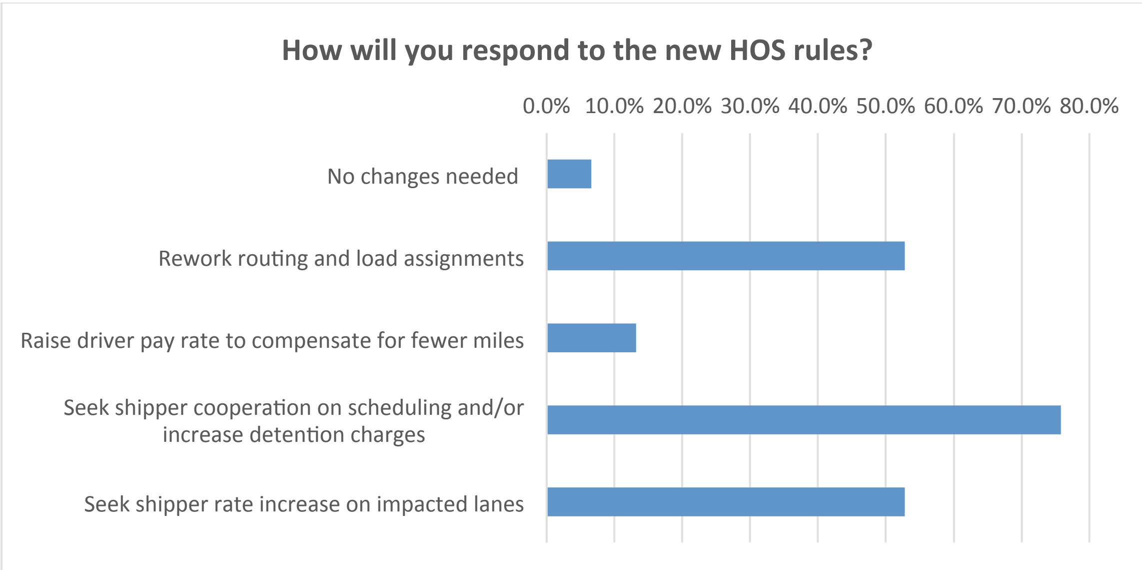
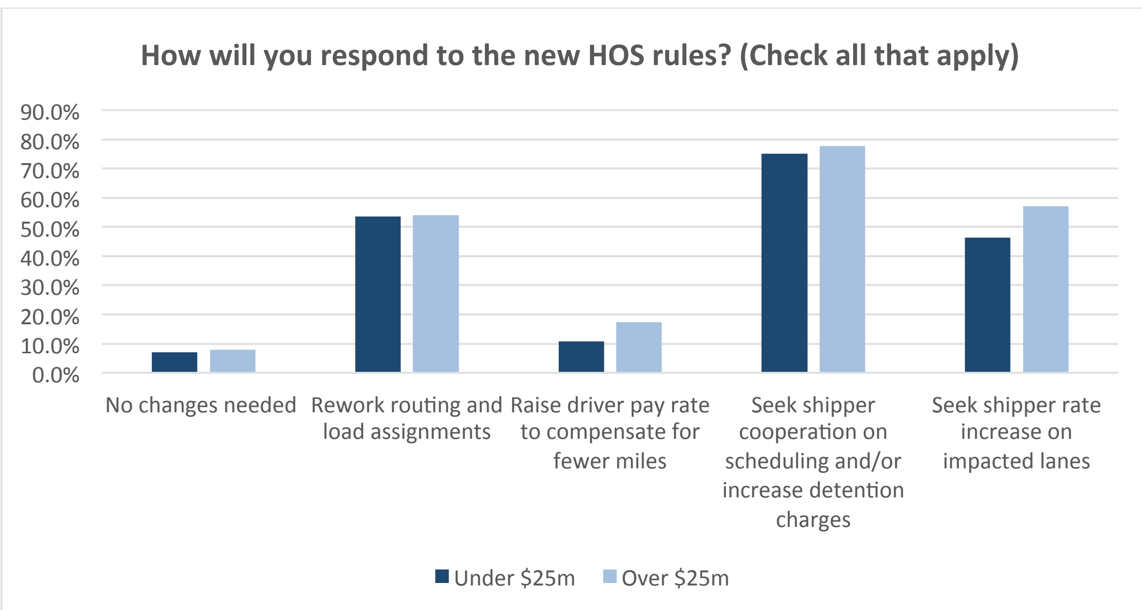
Graphs 11A & 11B





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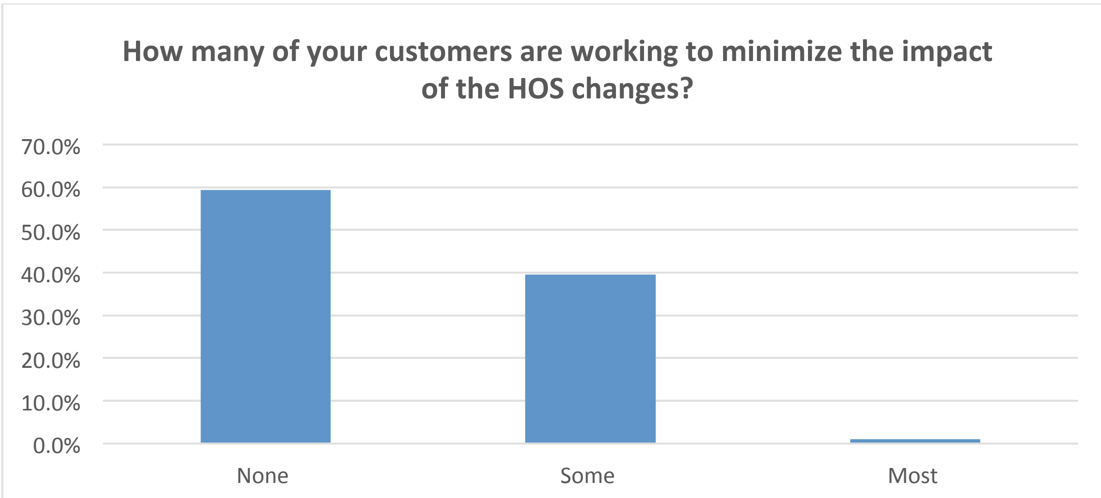
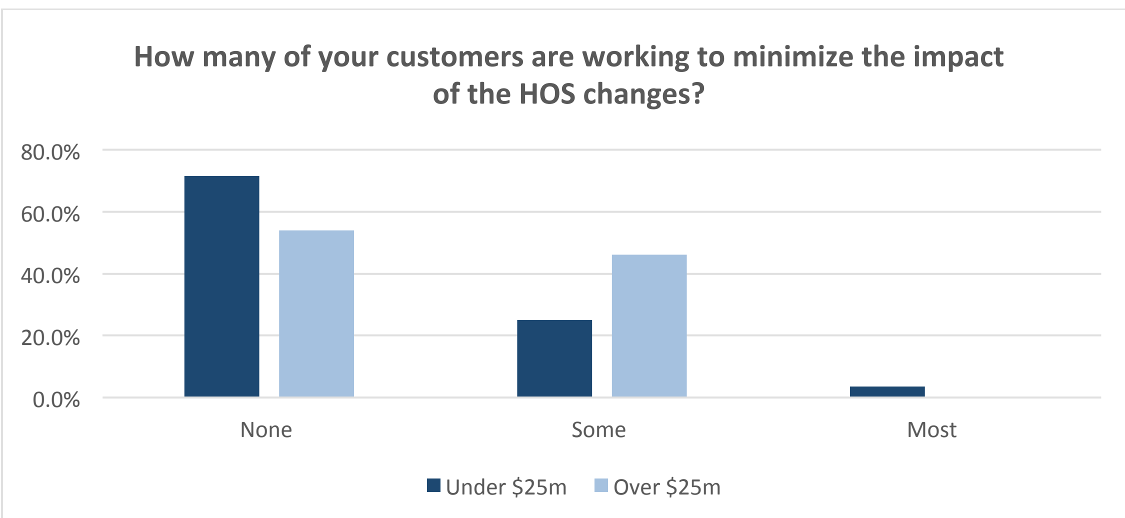
Graphs 12A & 12B





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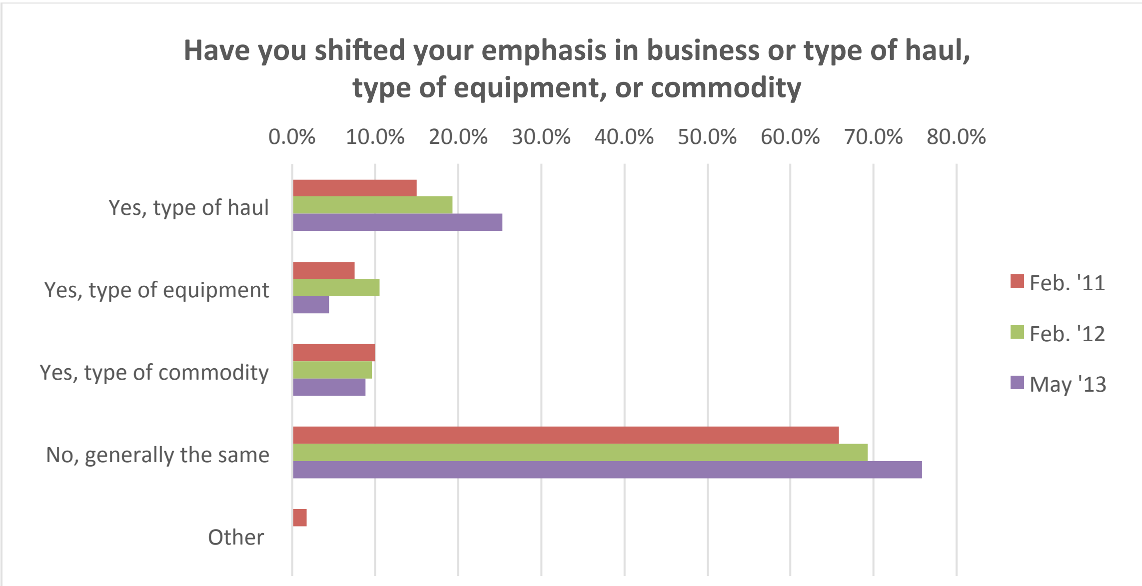
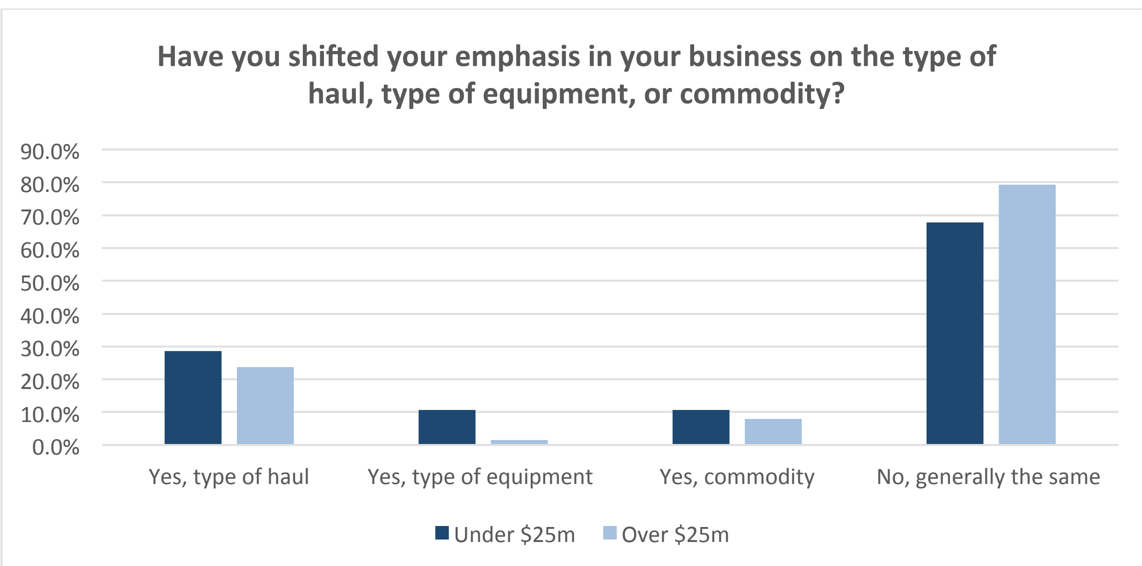
Graphs 13A & 13B





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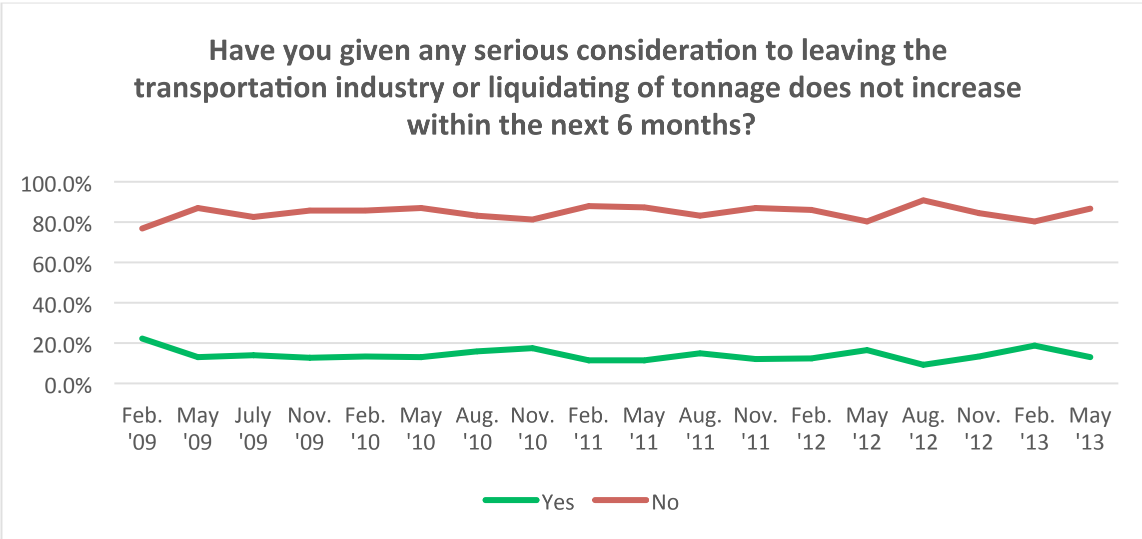
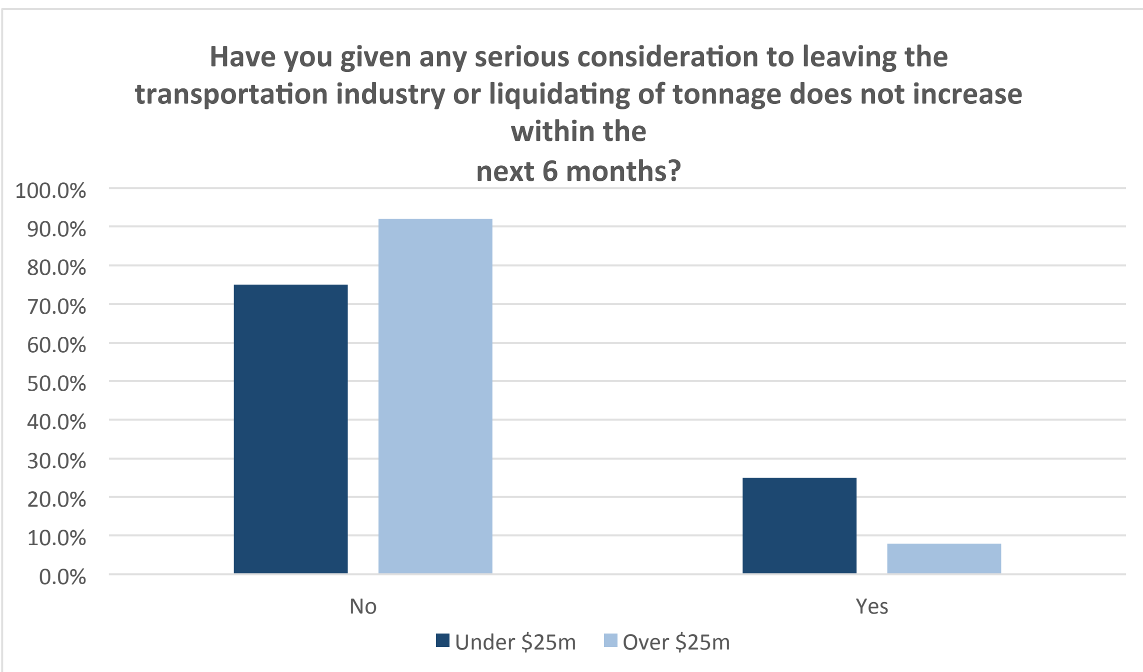
Graphs 14A & 14B





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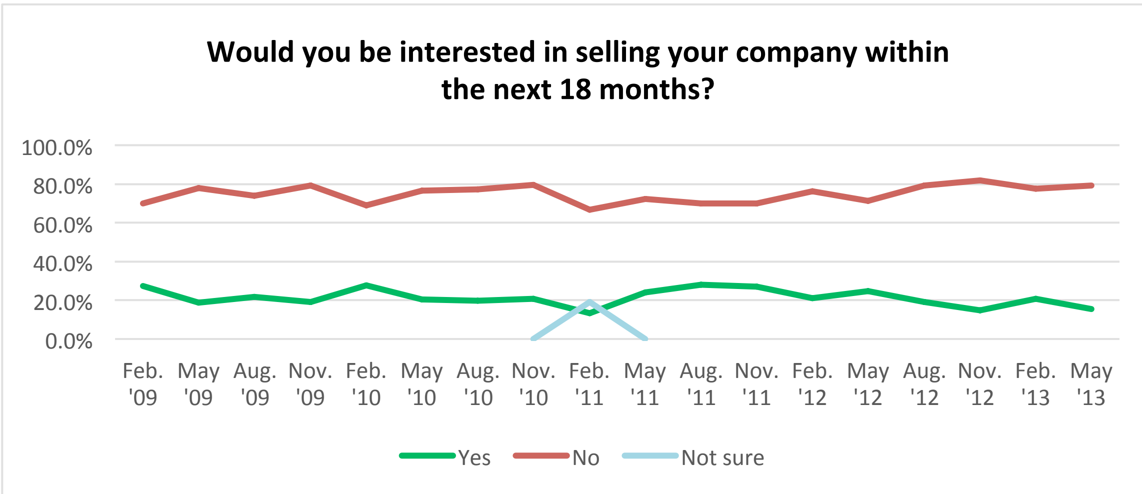
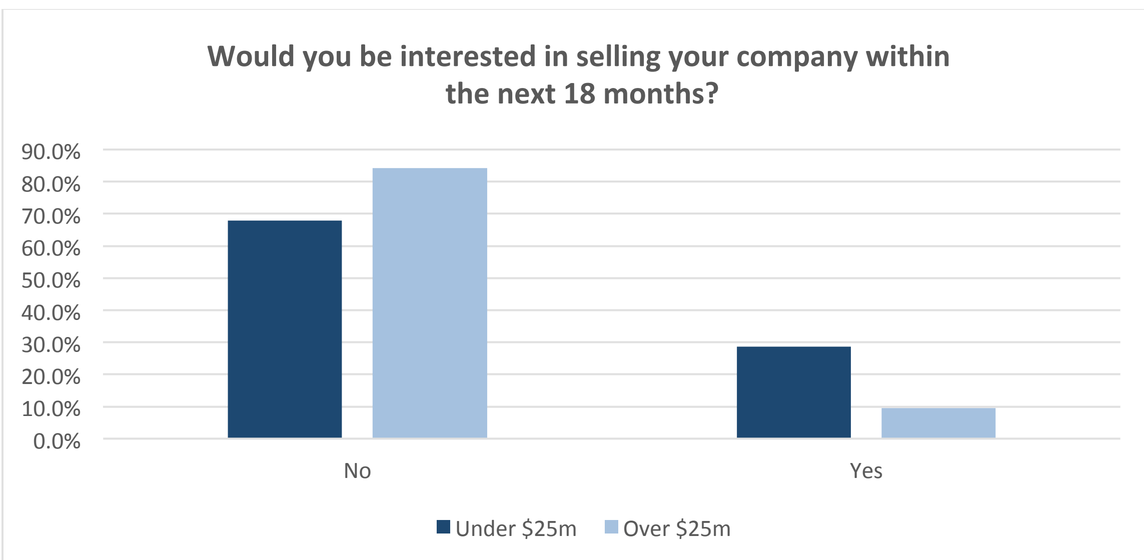
Graphs 15A & 15B





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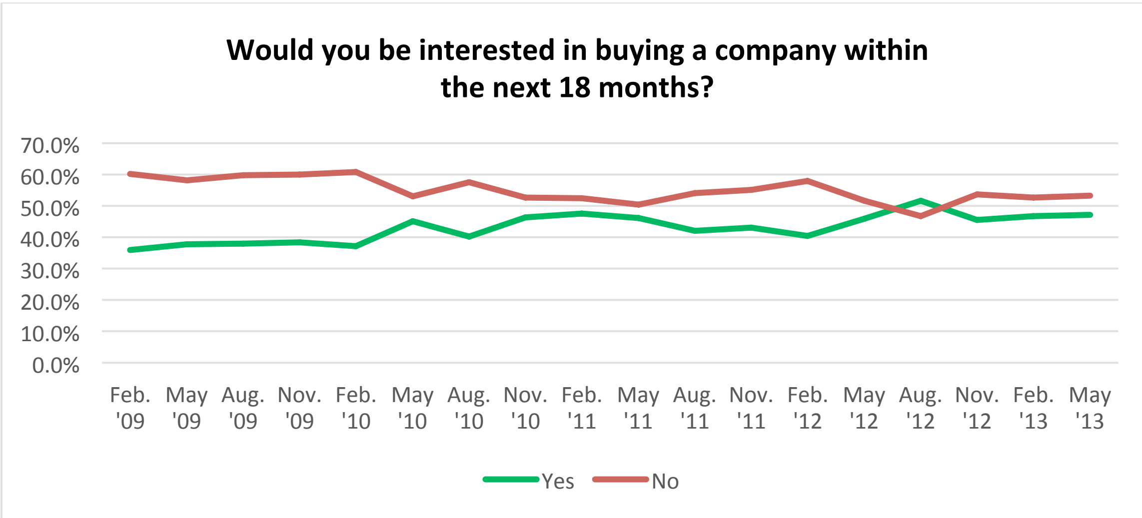
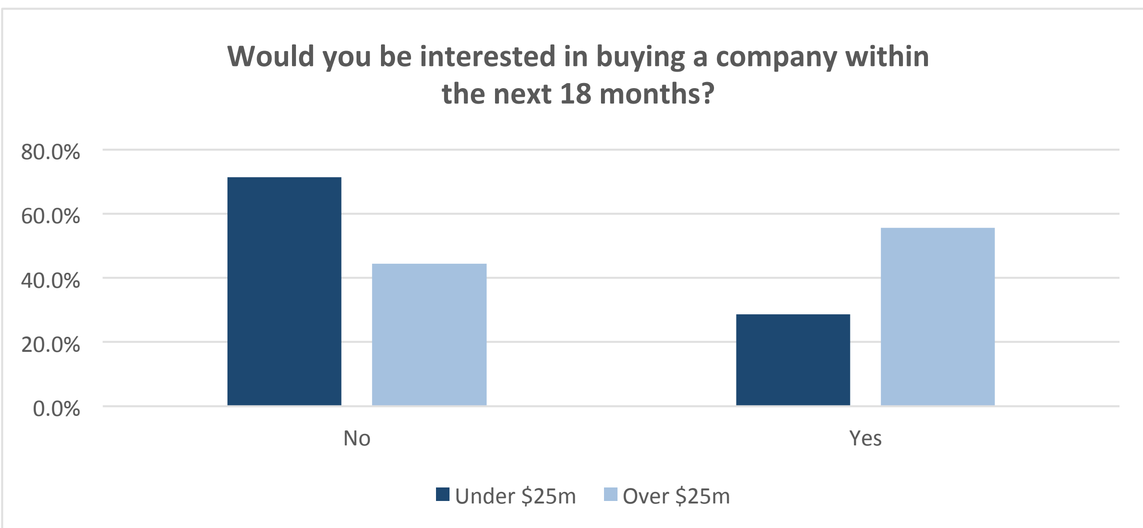
Graphs 16A & 16B





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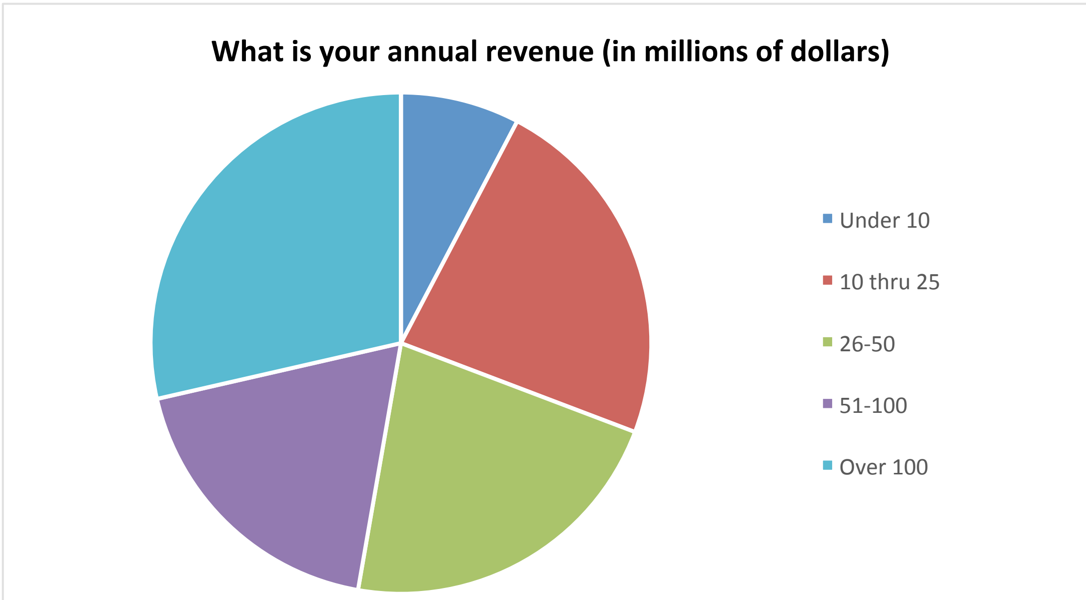
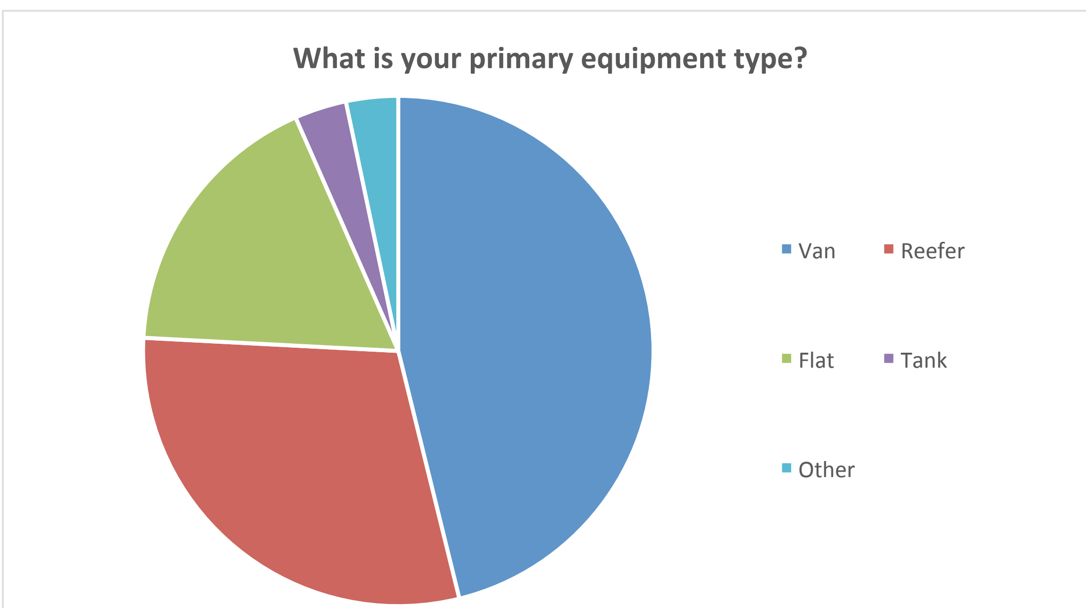
Survey Respondent Demographics





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