BUSINESS EXPECTATIONS SURVEY

TRANSPORT CAPITAL PARTNERS

ACT Research

High Optimism for Future Volume and Rate Increases Now Coupled with Actual Rate Increases

Prepared by
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Since the 2nd Quarter of 2008, Transport Capital Partners' (TCP) quarterly Business Expectations Survey (BES) has been a frequently quoted bellwether 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.

This survey was conducted in cooperation with Americas Commercial Transportation (ACT) Research, Co., LLC. ACT Research is the recognized leading publisher of commercial vehicle (CV) industry data, market analysis, and forecasting services for the North American market.

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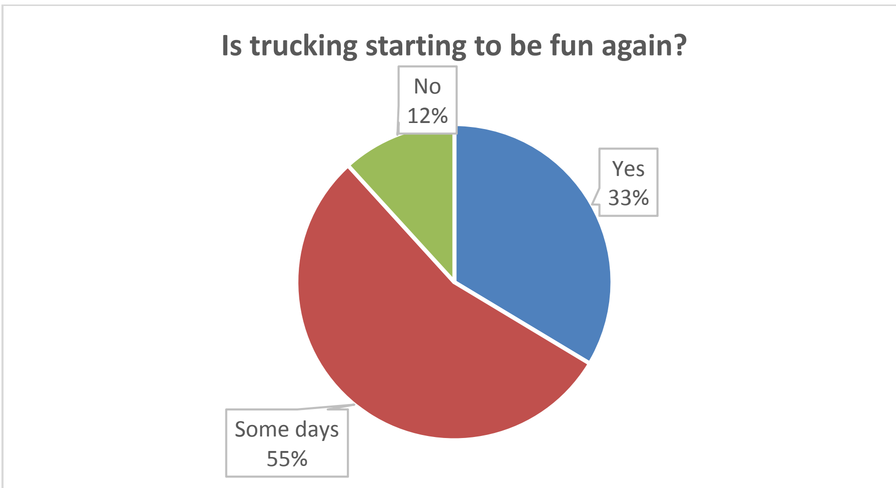
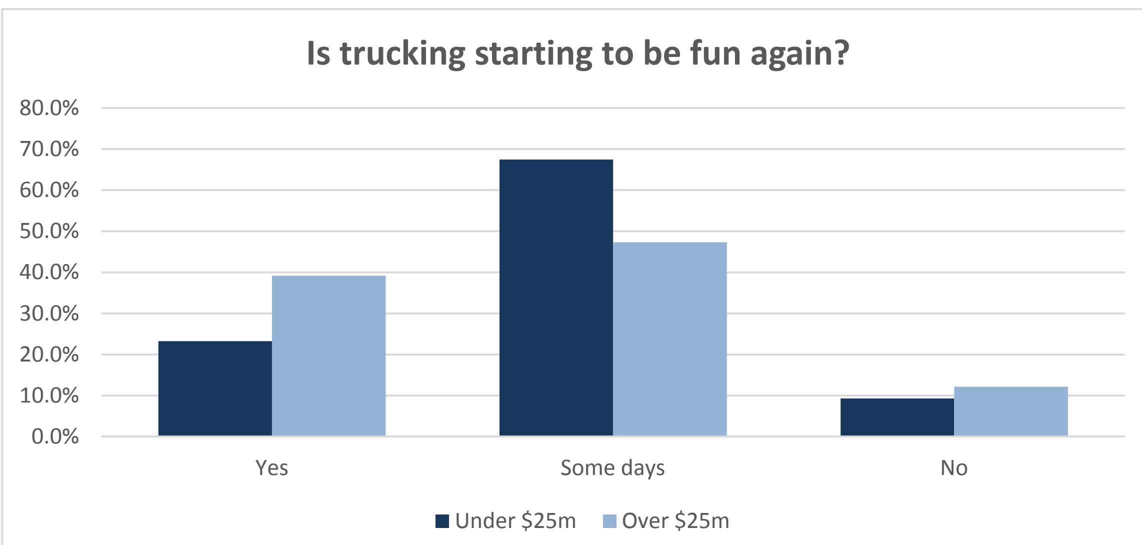
High Optimism for Future Volume and Rate Increases Now Coupled with *Actual* Rate Increases

Over the last several months, we have noticed a clear shift in the attitudes of trucking company executives toward their industry. So, in this survey, we cut to the chase and asked, "Is trucking starting to be fun again?" Just over 55% of carriers said, "Some days," but one-third gave a resounding, "Yes!"

However, as will be shown over subsequent pages, the perceptions of large versus small carriers can vary. Larger carriers appear to be enjoying the ride more than smaller carriers, by a margin of two-to-one.





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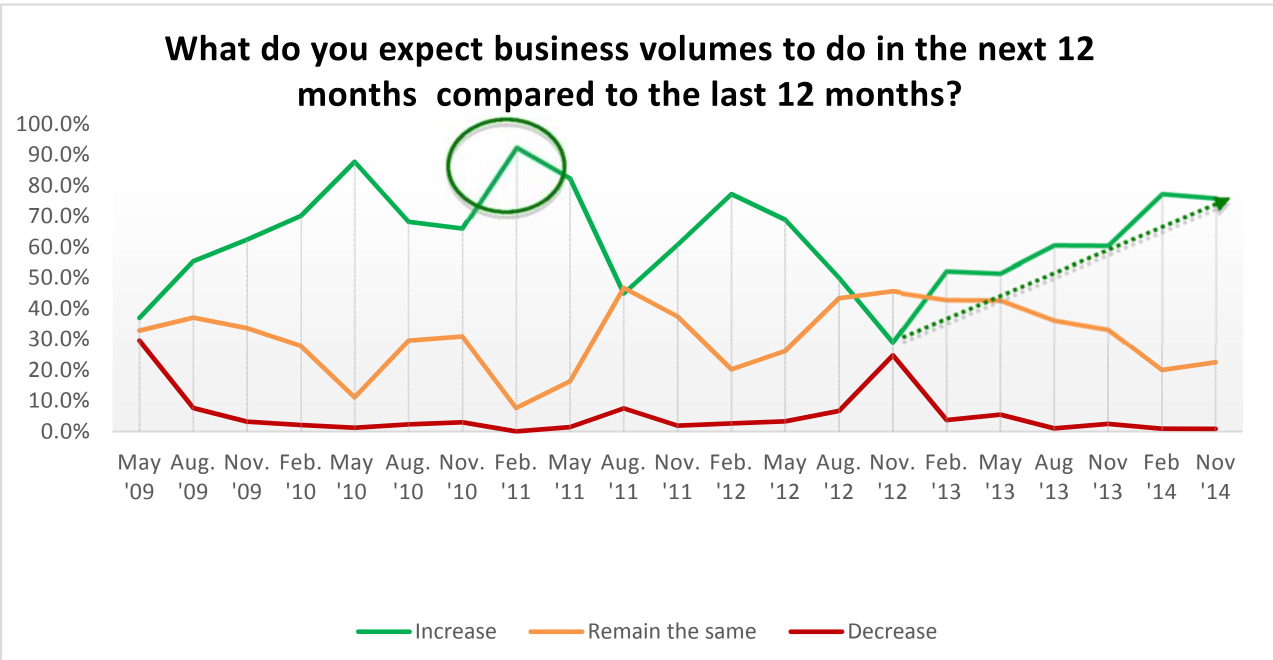
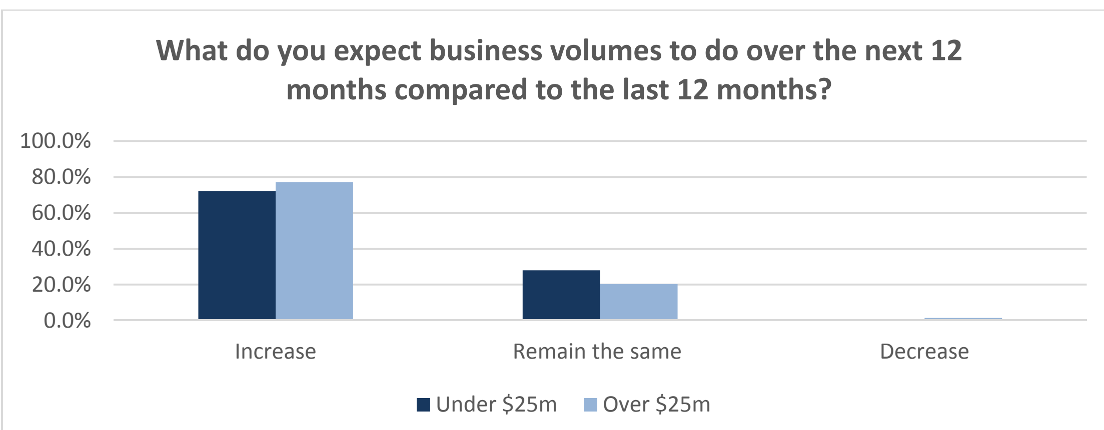
Carrier optimism has been a trend over the last eight quarters of surveys - carriers have tended to believe volumes will increase over the following 12 months. This optimism reflects a slowly improving economy and a return to confidence in trucking, as capacity stays tight and rates increase.

While still off the peak of 92% in February 2011, over the last 24 months, carrier confidence that rates will increase has risen from a low of 45% to 76%. Larger carriers are slightly more optimistic about increased volumes than smaller carriers.





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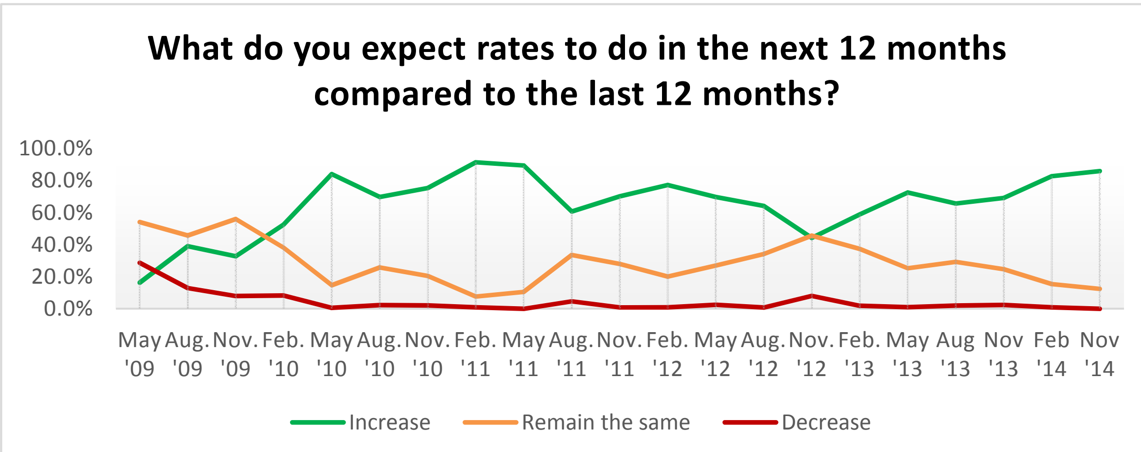
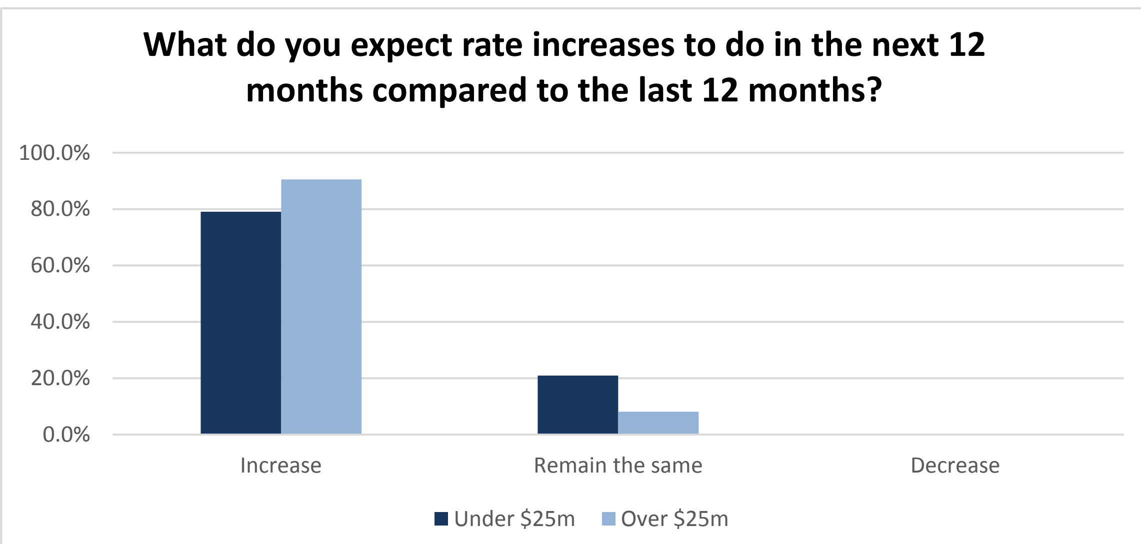
It follows from expectations of increased volumes that rates will also increase. In fact, the responses between volumes and rates are remarkably similar. Eighty-six percent of carriers surveyed expect rates to increase over the next 12 months, continuing a trend that began in November 2012.

As with volumes, larger carriers expect rate increases slightly more than smaller carriers (91% vs. 70%). This bucks a trend. Historically, smaller carriers have been the more optimistic about rate increases, despite their actual rate increase numbers not always reflecting that optimism. We suspect shippers have been focusing attention on larger carriers who, they believe, are able to commit more capacity.





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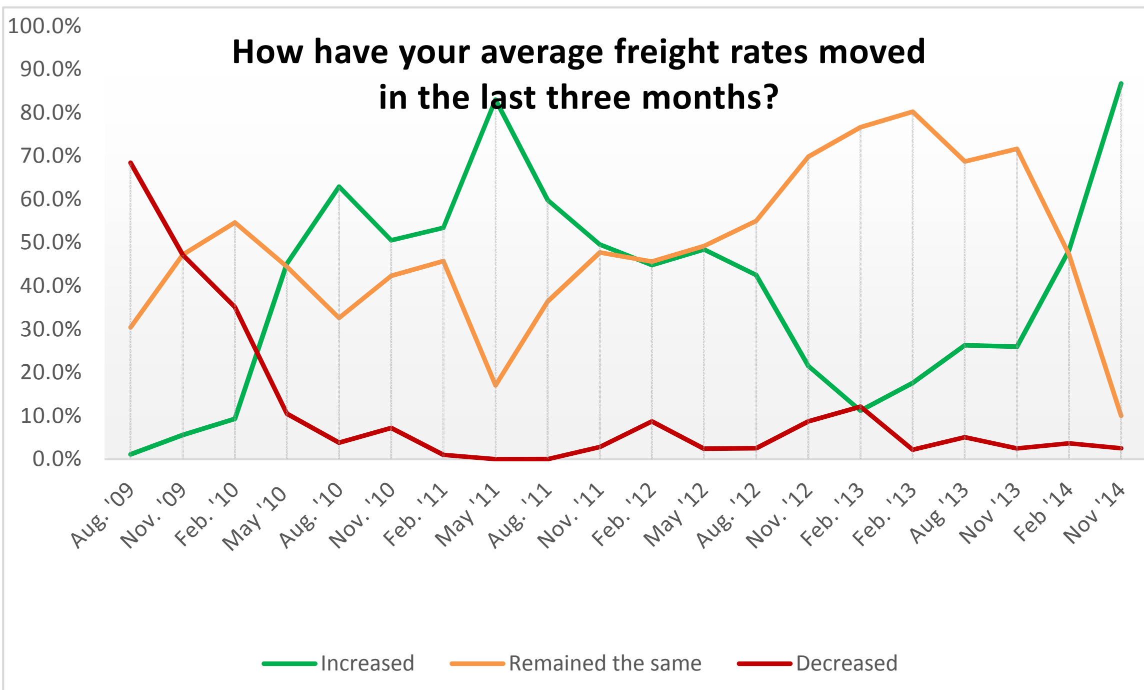
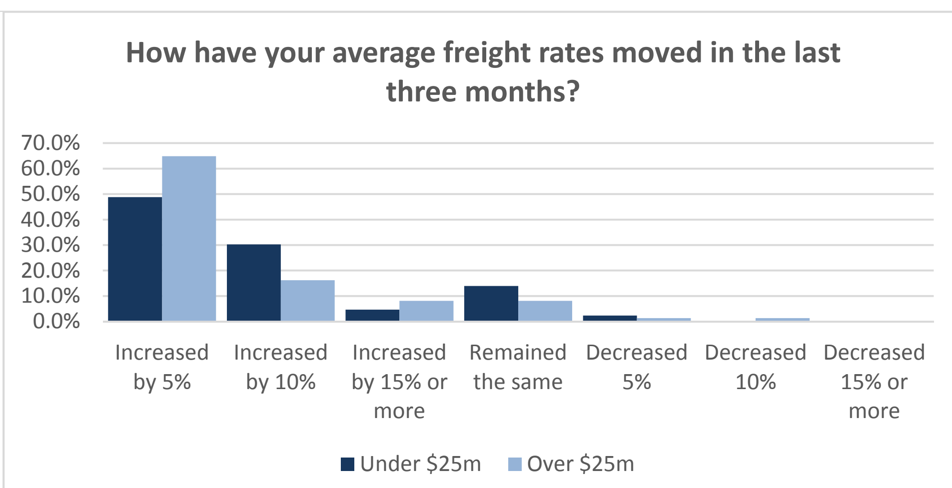
Of course, optimism alone is not enough. The important question is whether the carrier optimism of the last 24 months has actually translated into increased rates. With 1- to 2-year economic growth projections up modestly, coupled with exceptionally tight capacity, carriers, at last, are seeing counter seasonal freight rate increases.

Two notable data points emerged from the statistics this quarter: (1) the number of carriers seeing increases is seven times the number seeing rates remain the same, and (2) the percentage of carriers who experienced rate increases jumped almost 50%. A larger share of smaller carriers had rate increase of 10% to 15% than larger carriers. Possibly they were more successful capturing the rapidly increasing spot market rates, which exceeded contract rates in many situations.





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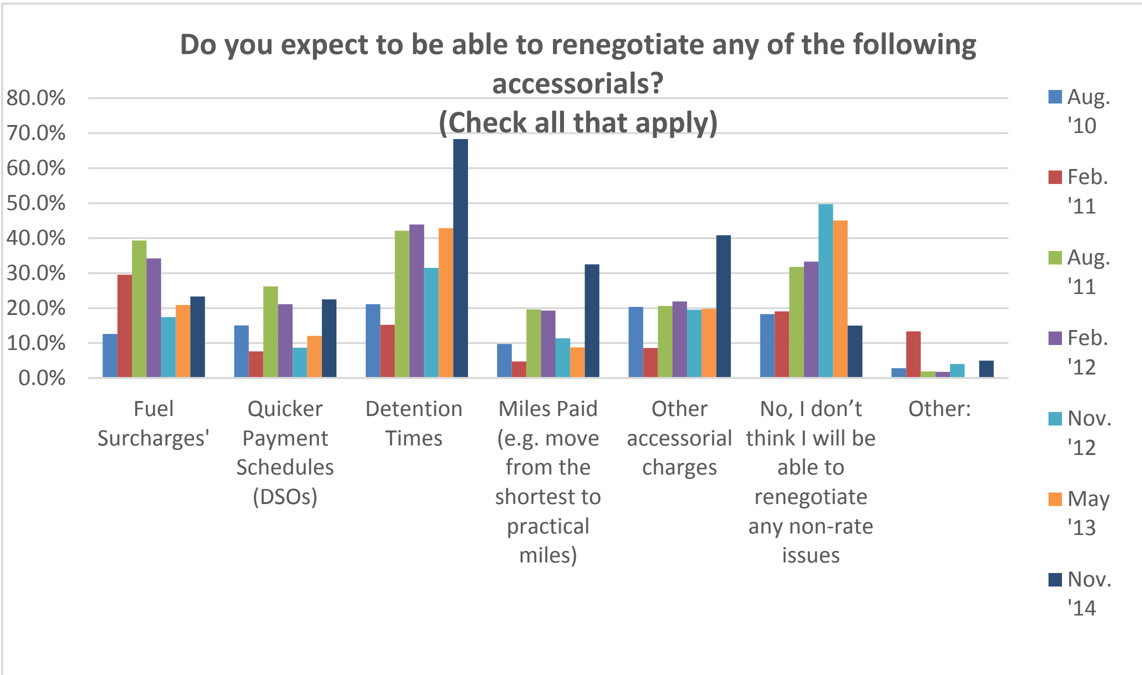
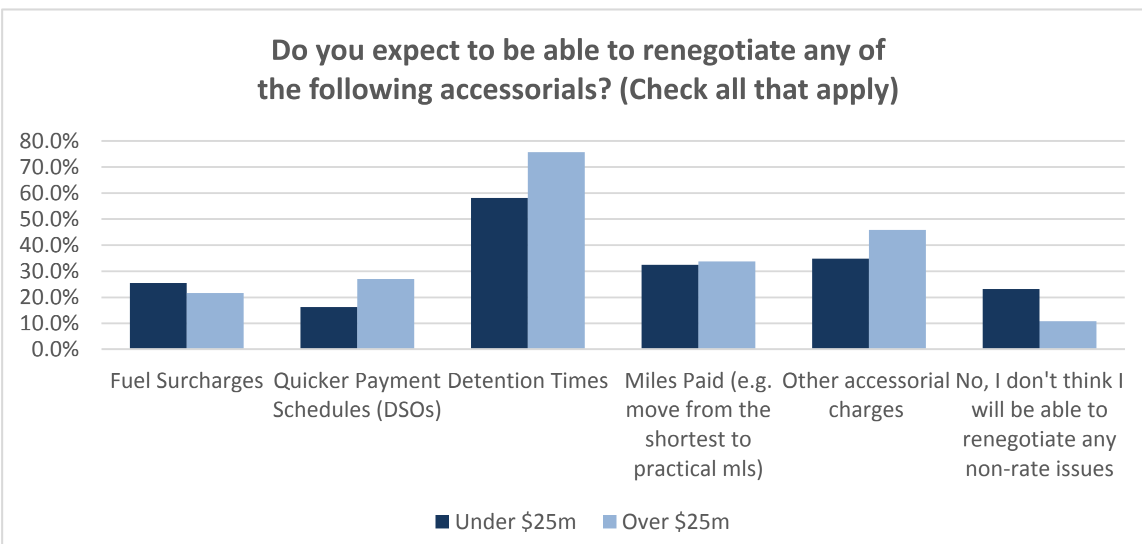
An ancillary component of rates is accessorial rates. In every category, carriers expect to re-negotiate accessorials. The most popular accessorial is detention times, with 68% expecting to re-negotiate. This is almost twice the number of a year ago.

Recent changes in Hours of Service have made detention times a hot button on driver efficiency and equipment efficiency. Unfortunately, it looks like larger carriers are expecting to re-negotiate more than their smaller competitors.





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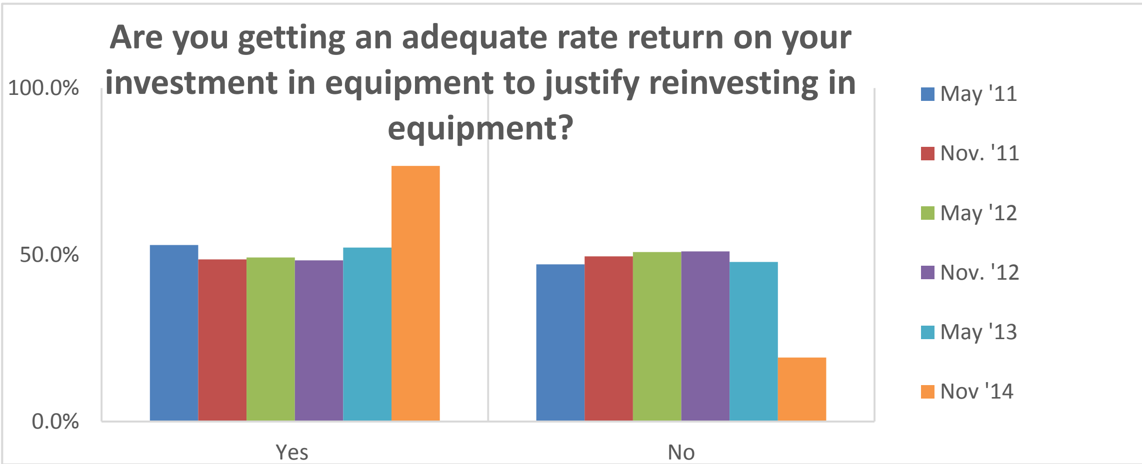
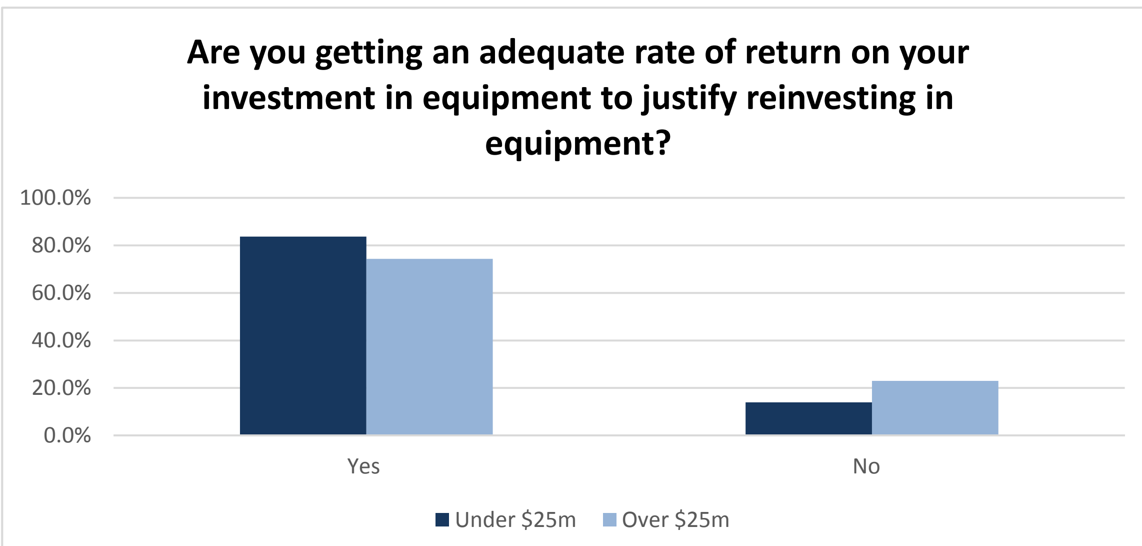
With volumes and rates up and accessorials being re-negotiated, the next question is whether carriers are earning a sufficient rate of return to invest in new equipment. The answer here is a resounding "Yes." Over 75% of carriers gave a positive response. Interestingly, smaller carriers are slightly more likely to say yes than their larger competitors.





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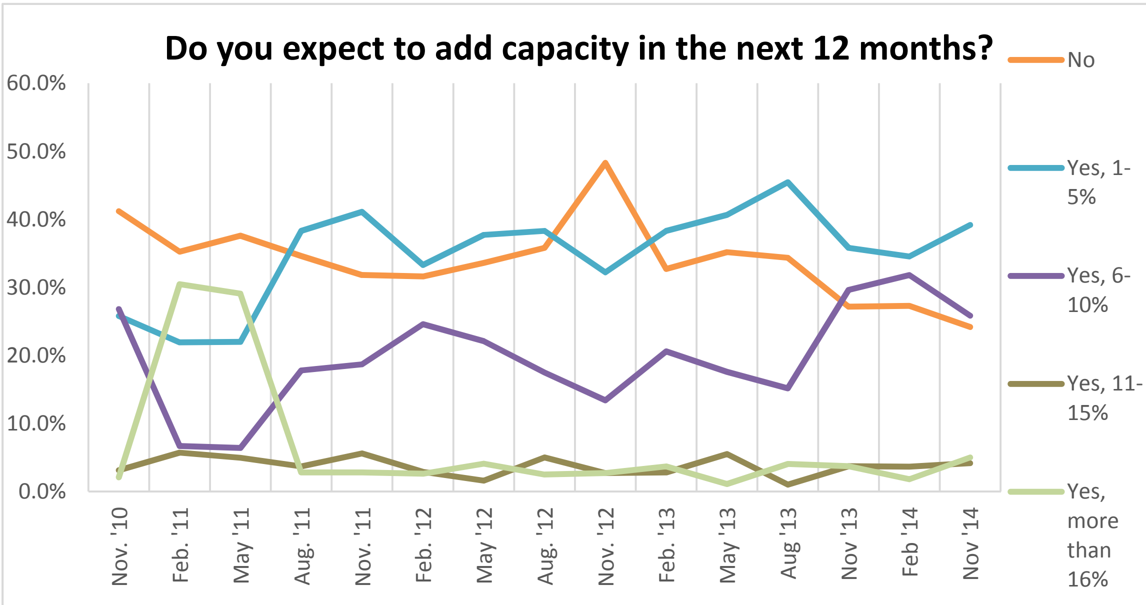
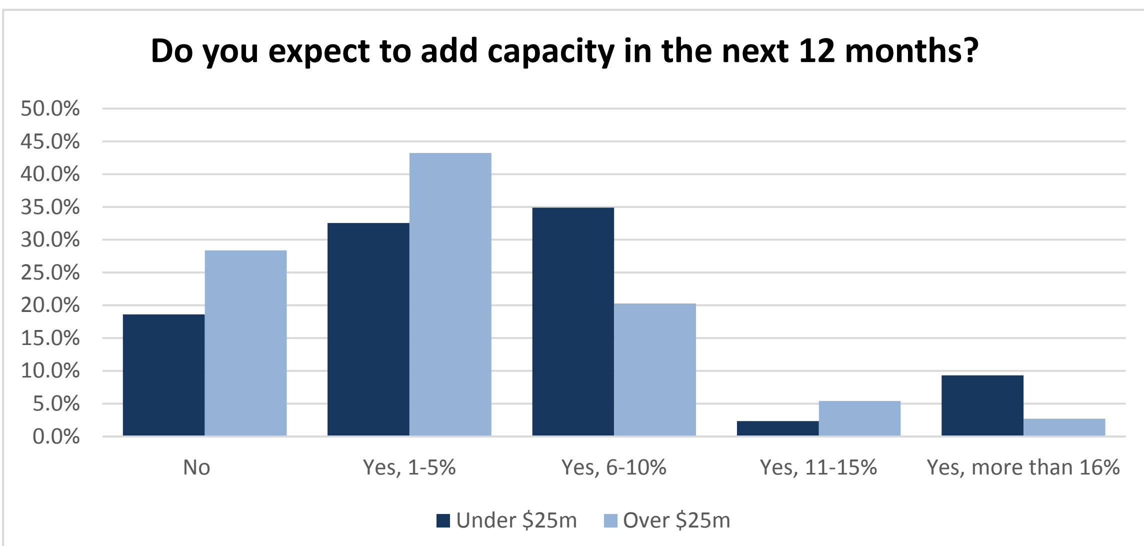
While carriers indicate they are getting a better rate of return, they are still being judicious in the amount of capacity they intend to add. Forty percent indicate they intend to add 1-5% over the next 12 months while 25% indicate they will add 6-10%. Still, 25% indicate they intend to add no capacity. Larger carriers are more likely to add no capacity than smaller carriers (28% vs. 18%). But, larger carriers are also more likely to add between 6-10% more capacity than smaller carriers (35% vs. 20%).





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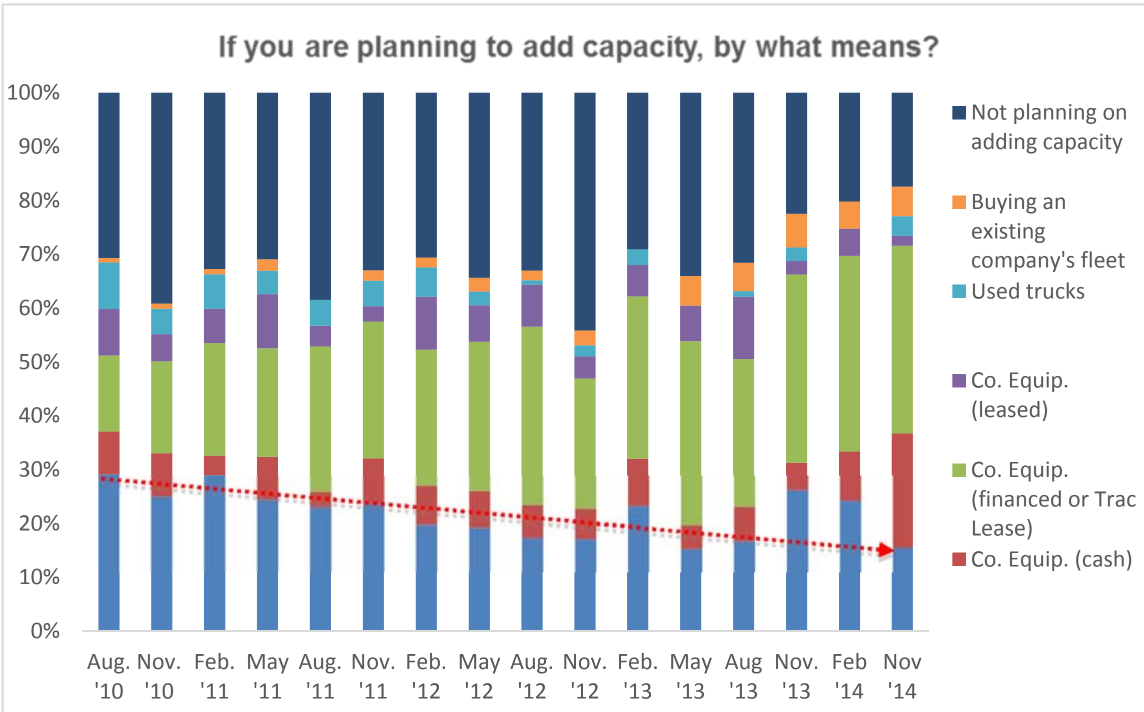
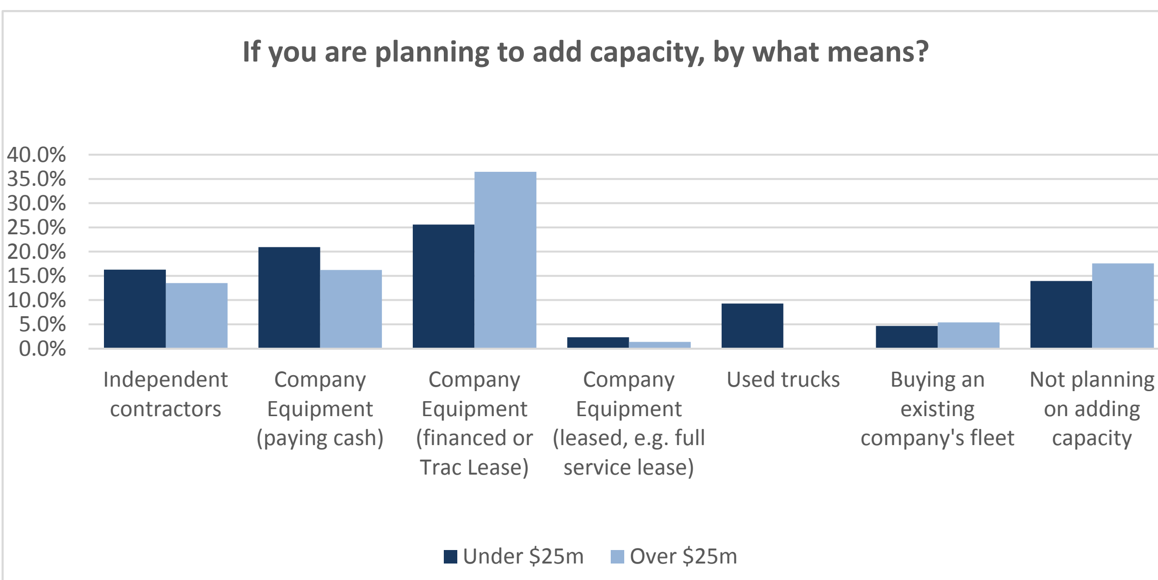
For those adding capacity, the most popular method (32%) is through "Company Equipment (financed or on a Trac Lease)." The number expecting to add capacity through independent contractors dropped to an all-time low of 14%, continuing a trend we have seen since late 2010. Smaller carrier are either buying with cash or buying used trucks.

We believe this is because smaller carriers tend to be more risk adverse over time, based on their experience in recessionary cycles where lenders tighten up or leave the industry. Smaller carriers manage risk by either (1) waiting until they have enough capital (i.e., cash from earnings to buy new), or (2) buying used trucks and conserving capital.





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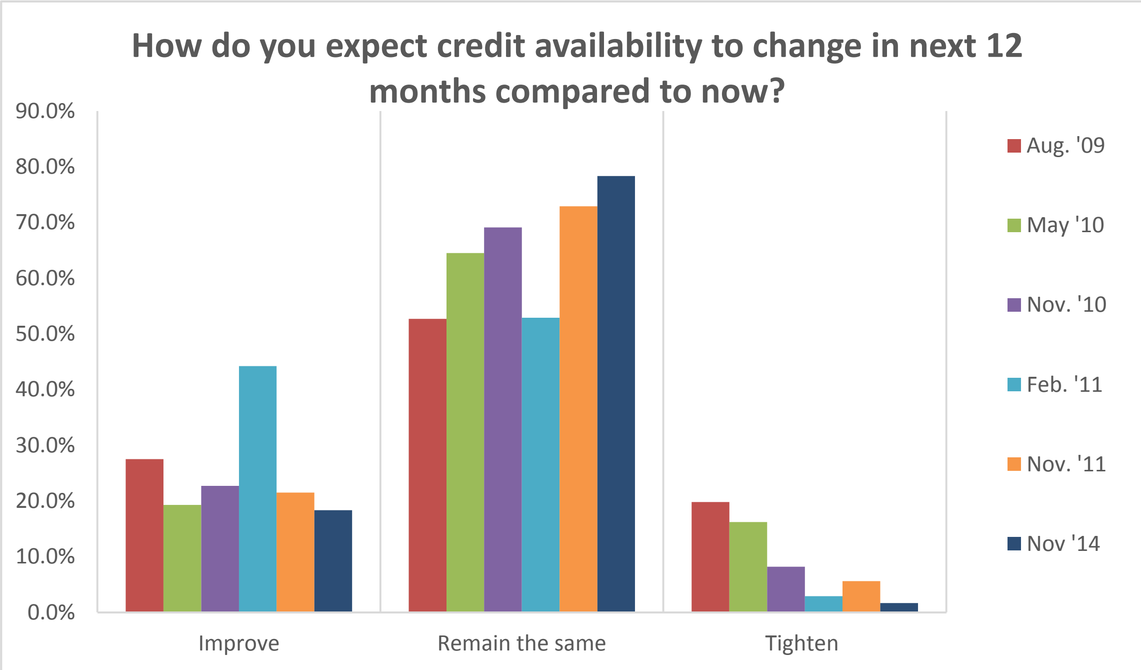
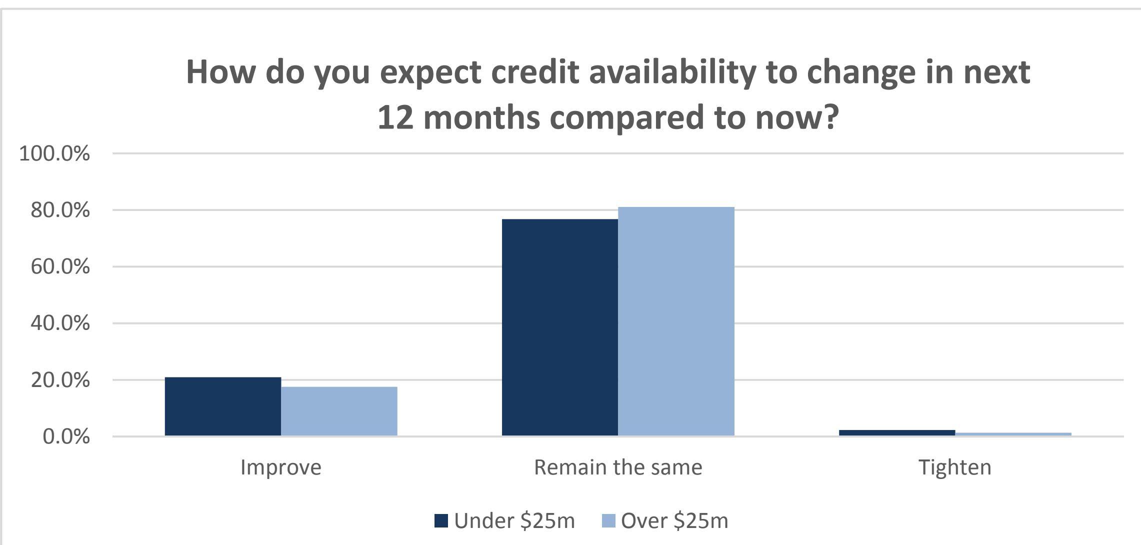
With continuing low interest rates, almost 80% of carriers expect credit availability to remain the same over the next 12 months. Expectations between large and small carriers are about the same here. We believe smaller and midsize carriers have found traditional trucking credit sources to be available.





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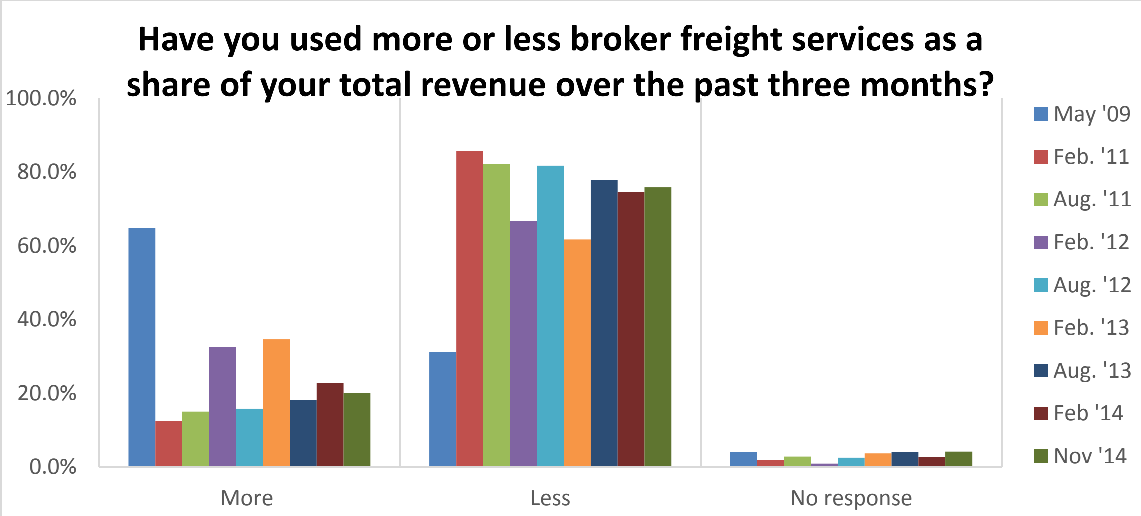
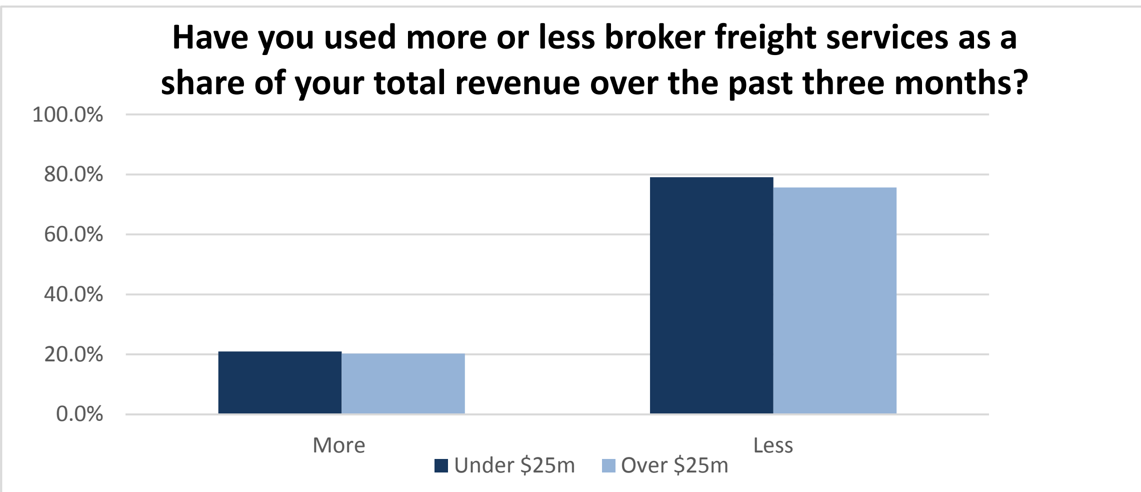
The trend of carriers using less broker freight services continues, with 76% indicating they intend to use less broker freight. This is a logical fall out from tighter capacity and rising rates, and a consistent trend since the end of the recession. Usage between large and small carriers is virtually identical.





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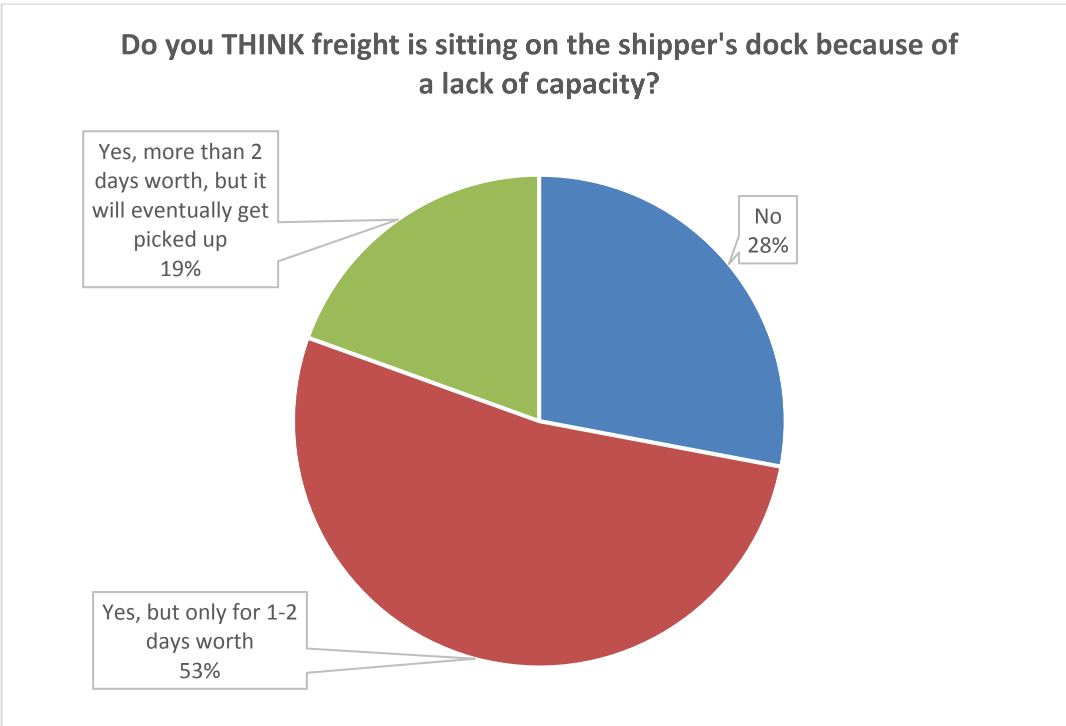
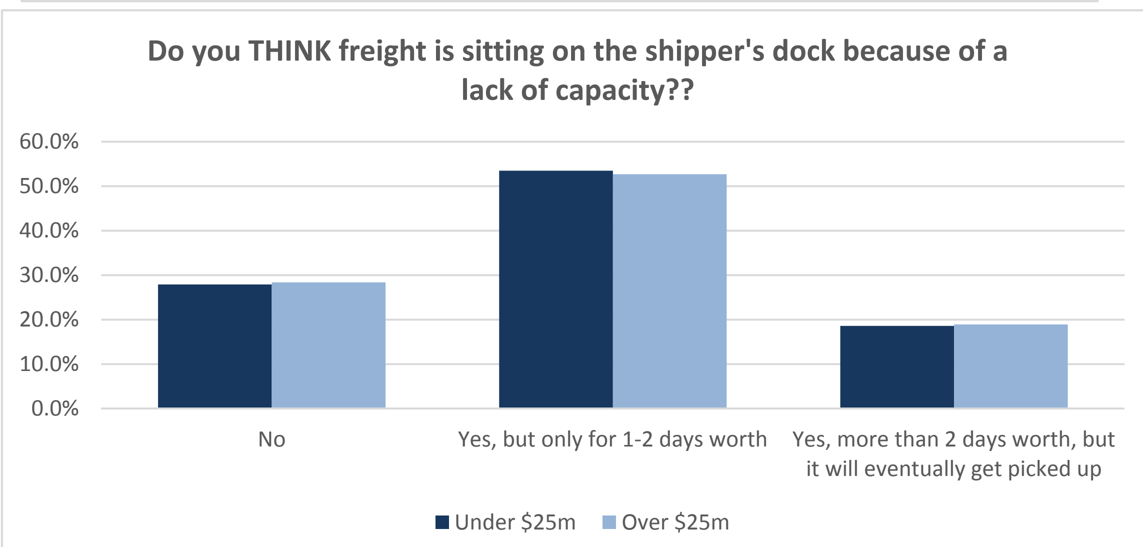
Based on stories of shippers unable to find enough trucks, the trade press is alive with news of a capacity crunch. But, is the size of this crunch being overestimated because we are hearing about the same freight marketed to many carriers? We decided to pose the question a little differently. If there is a true capacity crunch, is freight being left on the shipper's dock?

Nearly three-fourths of carriers responded that they "think" freight is sitting on the shipper's dock. This lack of capacity comes as the industry faces increasing volumes but decreasing availability of drivers, along with lowered driver and truck efficiency due to HOS and rising costs. There was virtually no difference in opinion between large and small carriers.





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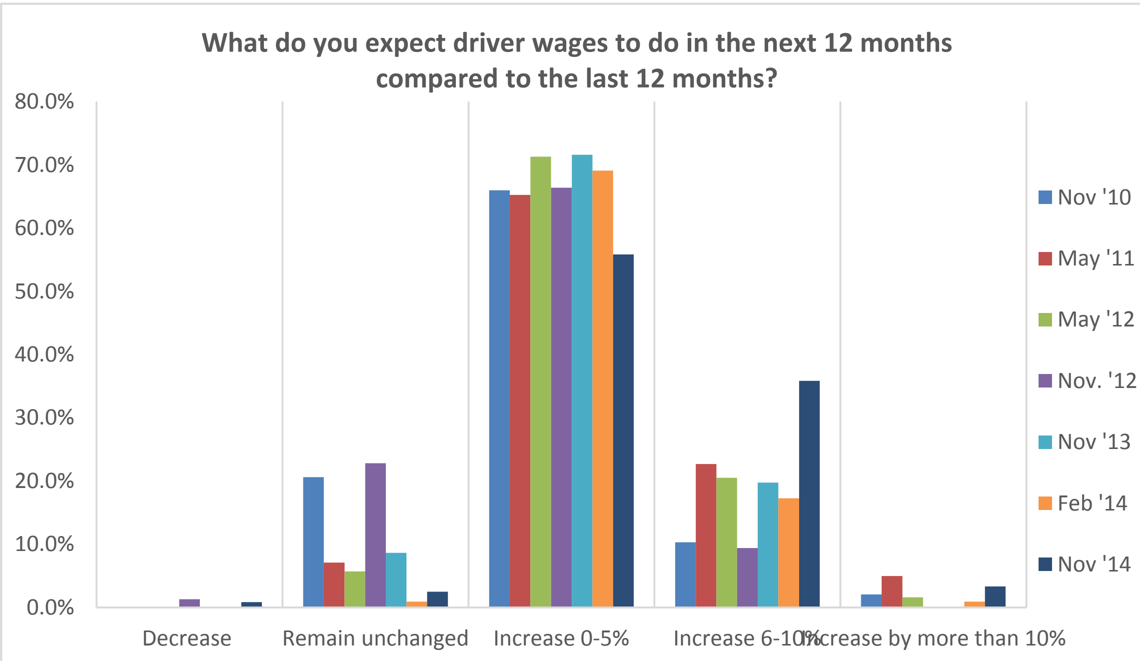
Even if the capacity crunch is real, part of the historic hesitation to adding more capacity has been the lack of drivers. Increasing wages is one way to attract and retain drivers, and over 90% of carriers are reporting driver wage increase expectations. Over one-third say increases will be in the range of 6-10% – double what was reported six months ago.

Carriers are seeing potential applicants go to other sectors, like construction, where there is more predictable home time and where extra pay is not limited by Federal Hours of Service regulations. Larger carriers are more like to expect increases over 6% than smaller carriers. The end result is that revenue from rate increases will go into either purchasing new equipment or driver wages – and not into the carrier's pockets.



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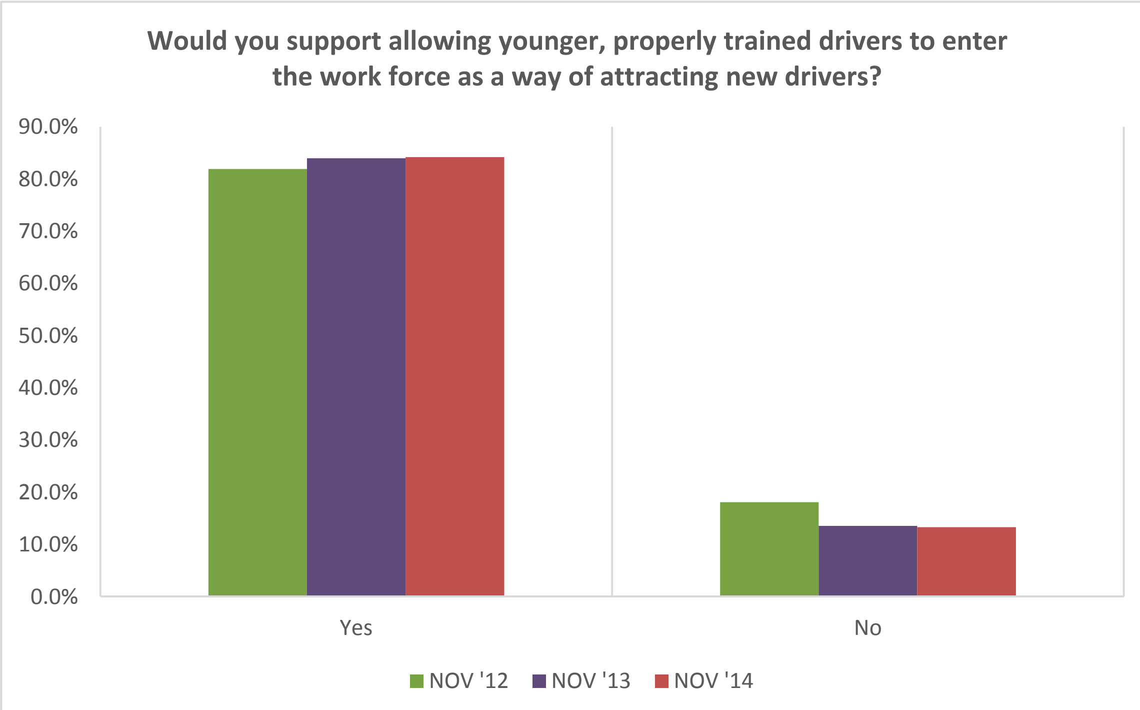
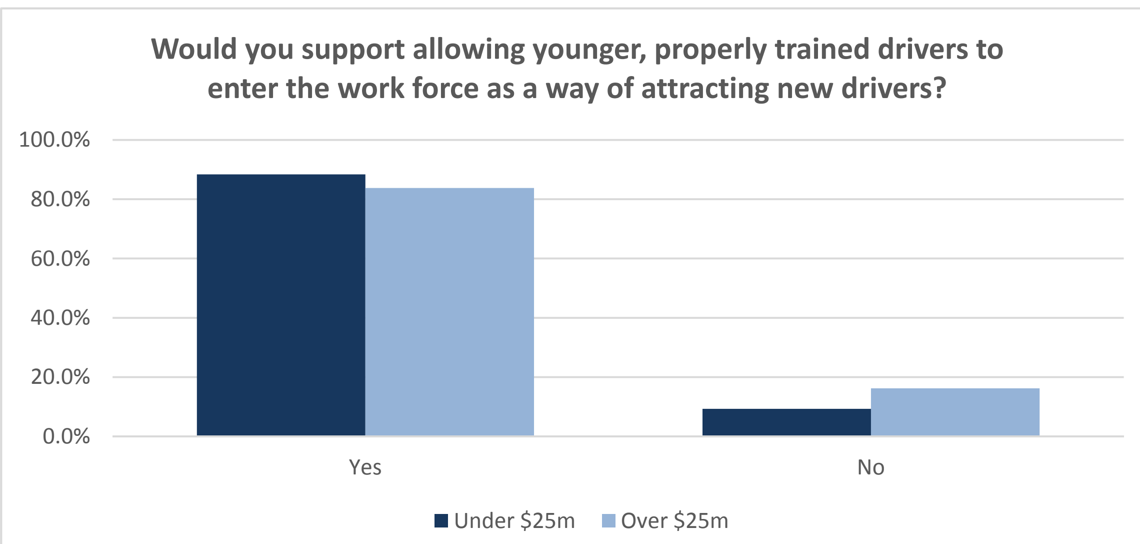
For many years there has been a proposal to allow younger drivers (i.e., under 21 years old) to drive, with proper training, in interstate commerce. This concept enjoys large support in the industry - 84% of carriers are in favor. Support is similar between large and small carriers, despite smaller carriers tending to hire fewer inexperienced drivers.





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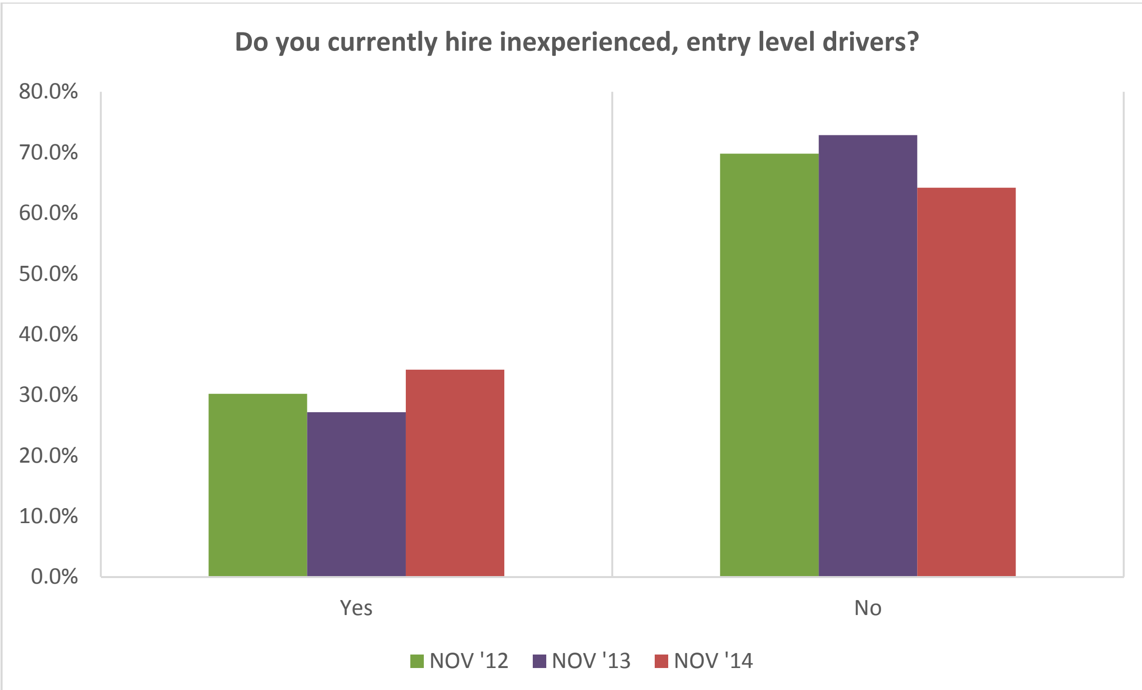
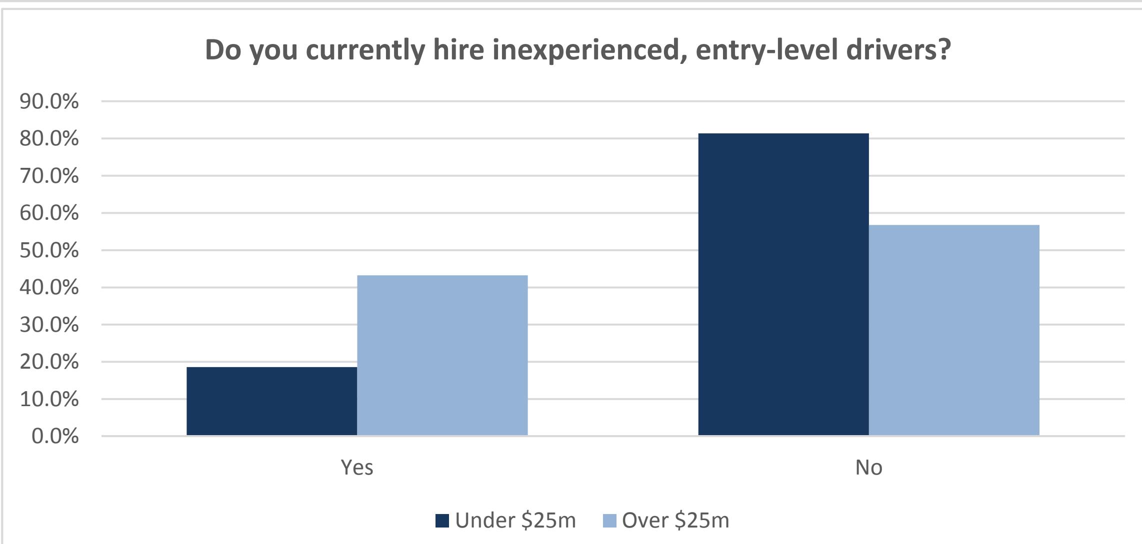
Although 80% of the industry supports hiring younger drivers, the percentage of carriers actually hiring inexperienced drivers is only at 33%. Even with a major driver shortage, over the last two years, there has not been a major shift in hiring entry-level drivers. Larger companies are twice as likely to hire inexperienced drivers as smaller companies, perhaps because they have the staff and resources to invest in training facilities and co-drivers.





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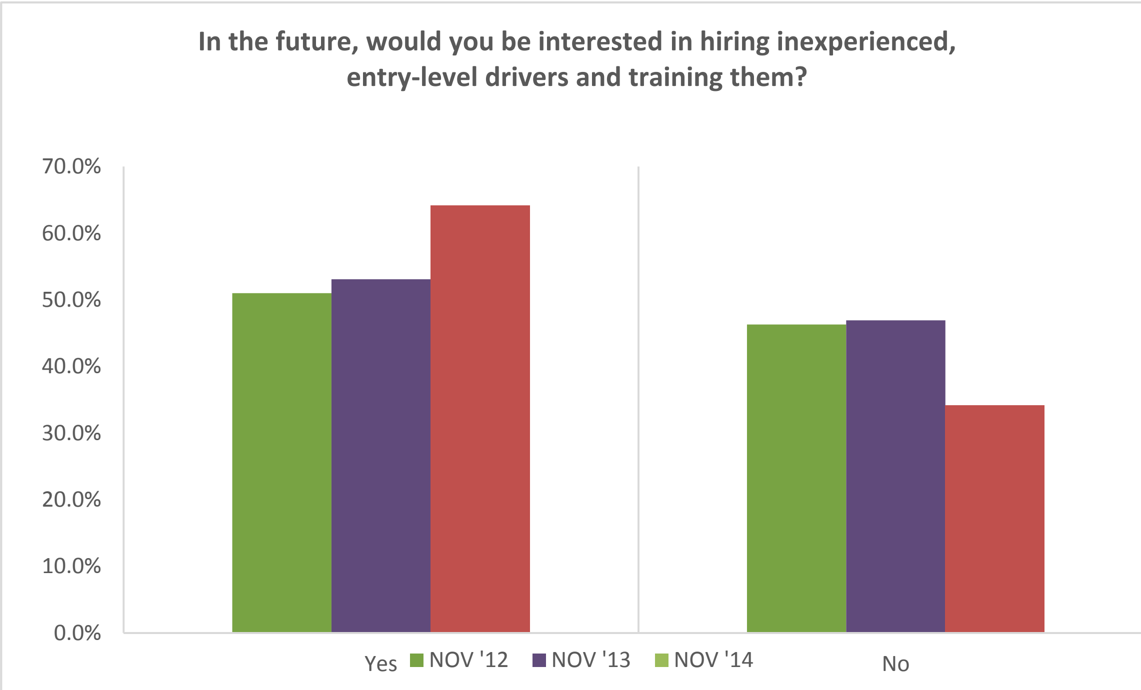
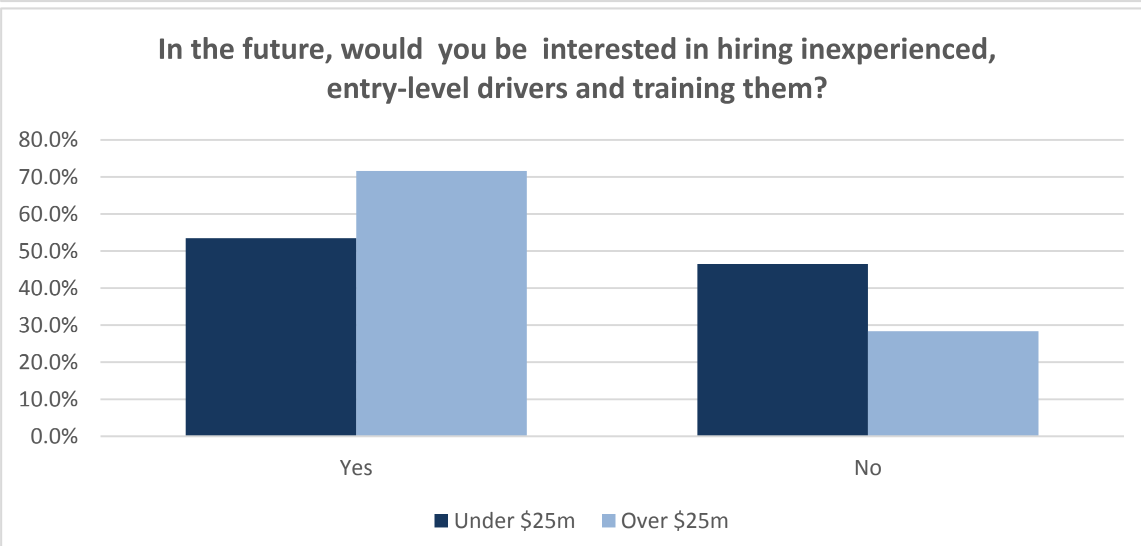
It is likely that the shift to hiring more inexperienced drivers will continue. Sixty-four percent of carriers indicated they would be interested. The interest remains higher among larger companies than smaller ones (72% vs. 54%).





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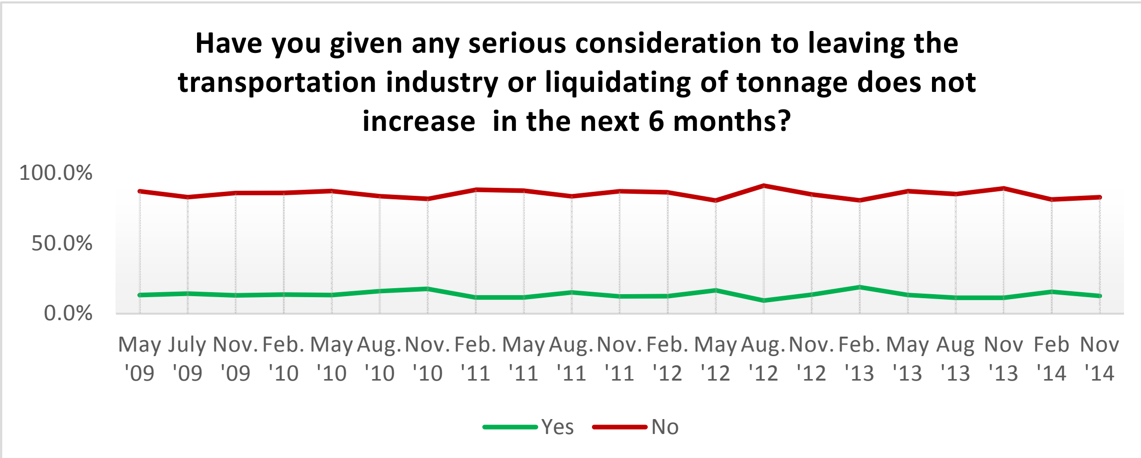
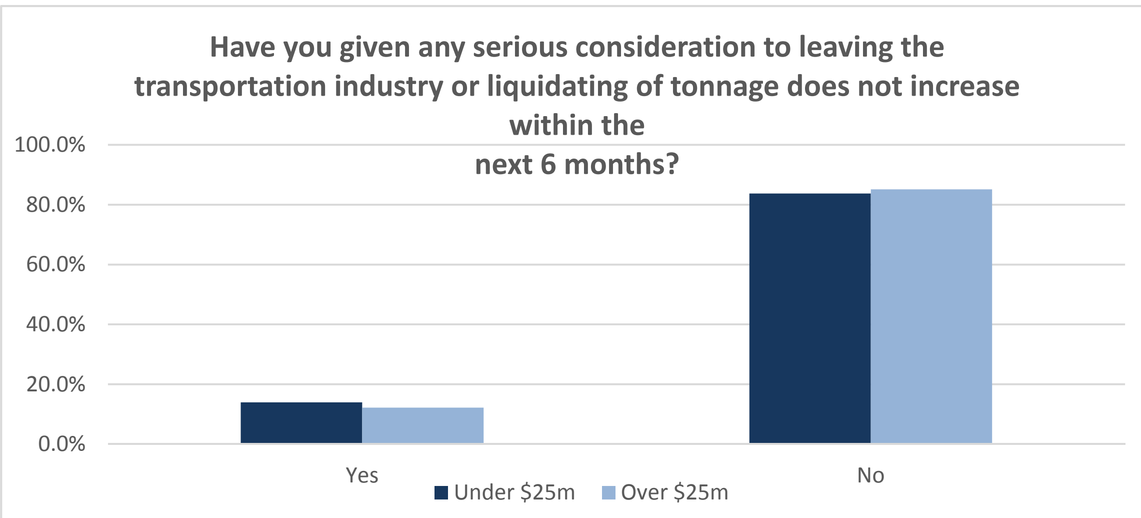
The share of carriers who have considered leaving the industry if tonnage does not increase in six months has varied over the years, but is currently at a lower ebb of 12.5%. The numbers considering an exit from the industry are close to equal between large and small company owners.





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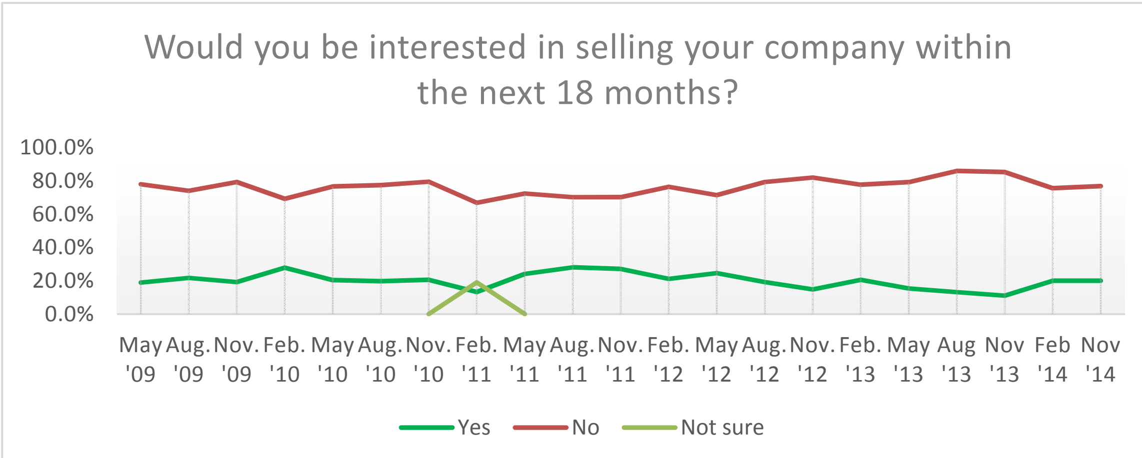
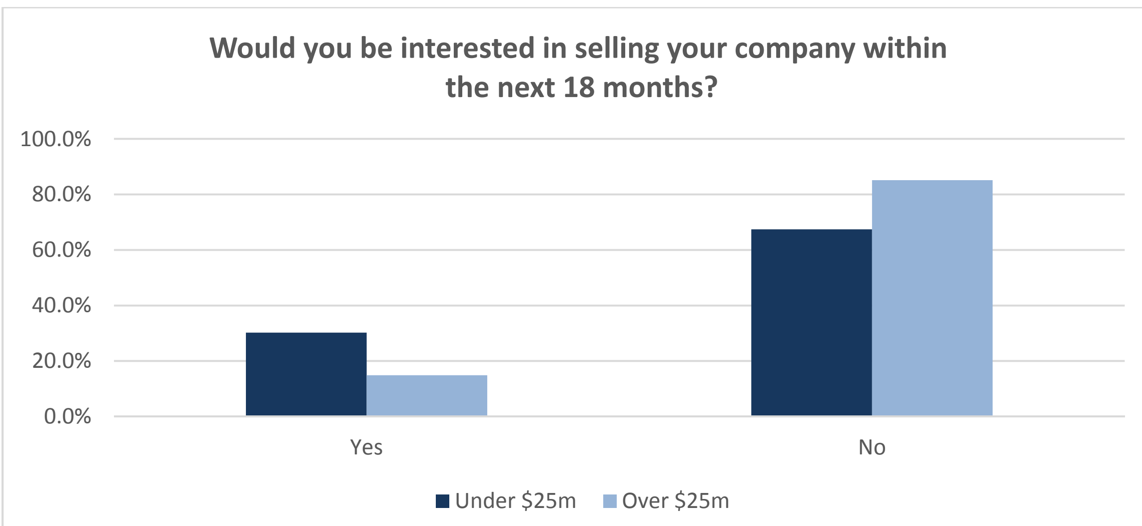
One year ago, 11% of carriers said they would be interested in selling their company, a low point over the last five years. In this survey, one in five expressed interest in selling. Selling a company is a complex and multifaceted decision, and this increase in desire to sell was not explored in detail in this survey. Smaller carriers are more interested in selling than larger carriers by a 2-to-1 margin.





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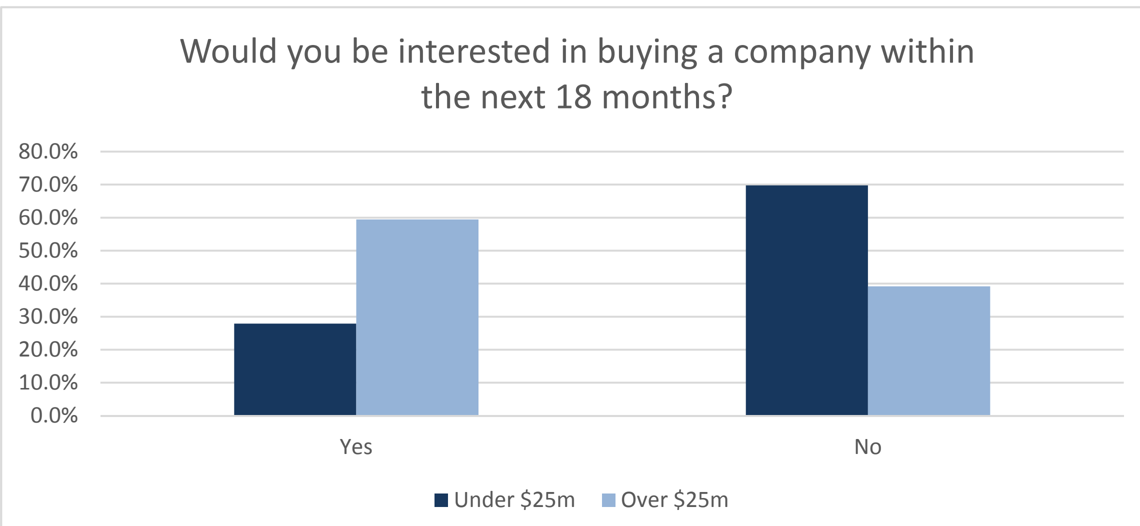
Carrier interest in buying a company has been above 40% since May 2010, peaking at 52% in August 2012. It is now at 47%. This is likely driven by economics as well as the need to acquire drivers, shippers, and/or equipment. Generally, carriers are more open to looking for a good fit. Larger companies are almost twice as likely to be interested in an acquisition than smaller companies (70% vs. 40%).



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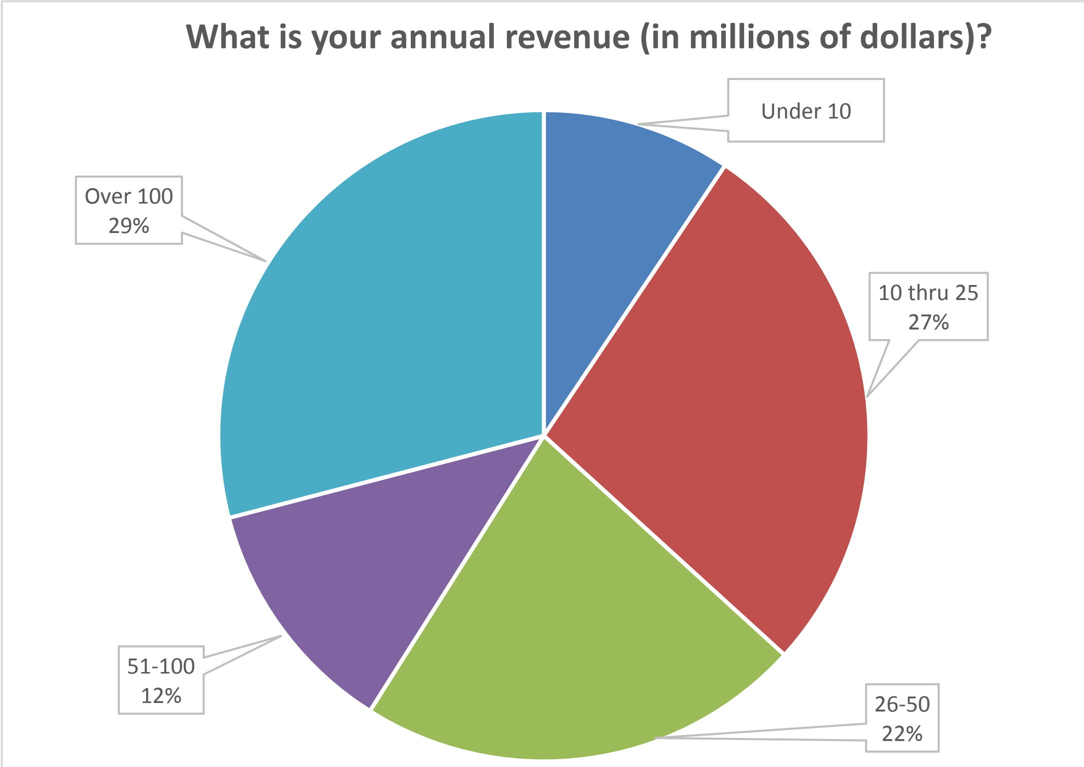

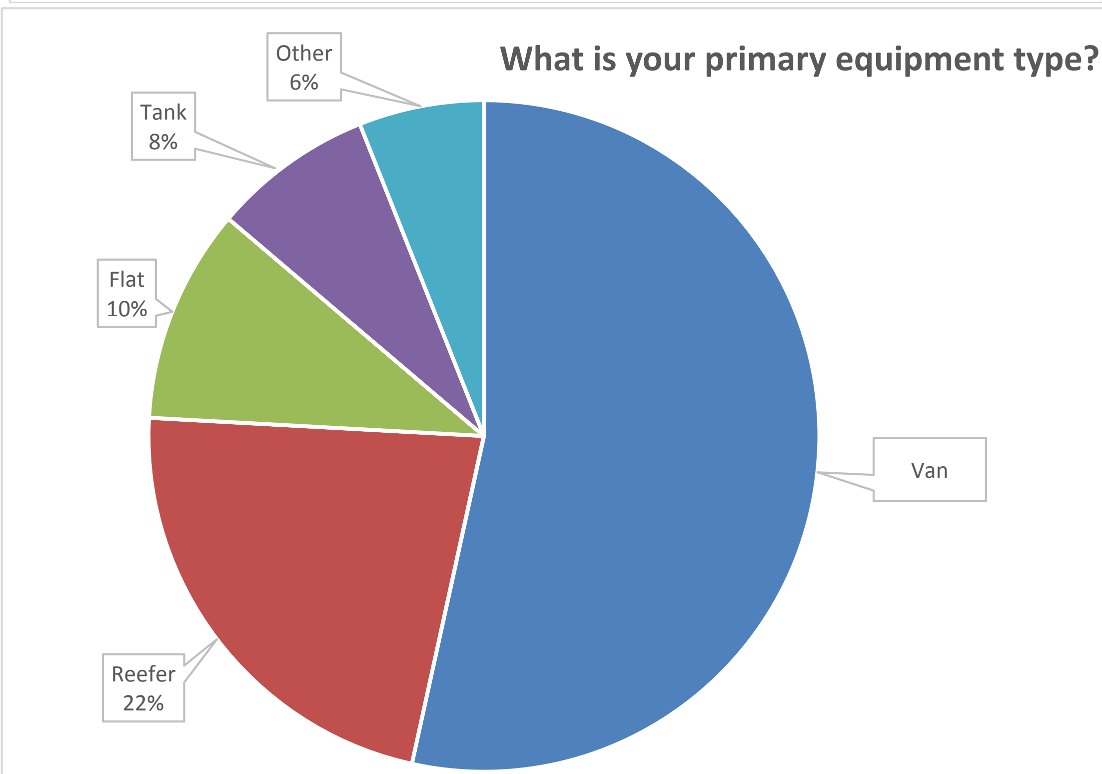

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