A compilation of News About the Freight Market

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Market Watch

Ontario Trucking Association

2016 Shaping Up as Great Risk-Reward Year for Trucking

With the U.S. economy so inextricably linked up to the world economy, including Canada's, 2016 is shaping up as a risky year trucking and could usher in a global recession, according to Noel Perry of FTR Associates. As *Truck News* reports: "There's a real chance of troubles in the global economy and we think there's about a 15 to 20 percent chance those troubles could be severe enough in the year 2016 that they could lead to the beginning of substantial economic troubles for us sometime later in the year," Perry warned. So far through the last recovery, trucking's growth outpaced that of general GDP by a greater margin than in the past, Perry said. If that changes, it could be bad news for trucking. Still, FTR is projecting freight growth of around 3% in 2016. FTR continues to warn of the effect regulatory drag could have on capacity in 2017 and beyond. If capacity utilization crosses the 100% threshold – and it's expected to in 2018 when the impact of upcoming regulations are felt – the trucking industry will struggle to find enough drivers to move freight. "We're already hiring a million people a year and if you ask us to hire another 100,000, we can't keep up," Perry said. Currently, capacity utilization is at about 95%, resulting in a soft pricing environment, though Perry said some forward-thinking shippers are accepting rate increases and locking in capacity in advance of the coming capacity crunch. He also warned diesel prices should start rising. Showing how diesel prices track in relation to crude, diesel prices in the US have actually fallen more than they should have versus crude. As this relationship normalizes, coupled with an expected increase in crude oil prices, diesel could be in for a considerable hike later in 2016, Perry warned. When fuel prices rise suddenly, trucking bankruptcies occur, Perry said, because there's a lag between when fleets are paying for fuel and when they can recover increases via the fuel surcharge. "When (diesel) prices are falling like they have been over the past year, people get a nice infusion in cash. When prices rise, the opposite happens," Perry reasoned. "This affects owner/operators and the big guys; it may affect the owner/operators a little bit more because they're less able to manage those kinds of things." Asked if this is a good time to be entering the trucking industry or investing in new equipment, Perry said it depends on a carrier's situation. "This is not a good time to enter the marketplace, there are big exposures in terms of downturns in demand and also in fuel," he said. "(However,) this is right now is a good time to young-up your fleet. Get rid of the last 10% of dogs you have that drivers don't like and that have high maintenance costs. This is a great time to be buying equipment because it will make your cash flow position very strong if the market does weaken over the next two to three years."

Down By the Re-shore

Reshoring – the idea to bring back so-called "advanced manufacturing" back to North America – could create a "multiplier effect" for freight flows, leading to more "freight touches" and translating into greater need for capacity, according to some freight market analysts. As reported by *Fleet Owner*: The logistics system may "touch" freight once or twice if it is delivered via containers to West Coast ports, explained John Larkin, managing director and head of transportation capital markets research at Stifel Capital Markets. But if the goods are produced in North America, that results in many more touches. "Thus reshoring presents a multiplier effect on freight moving around," he said. Rosemary Coates, executive director of the Reshoring Institute, noted there are many transportation and logistics effects associated with reshoring, a concept strategy that began to pick up steam in 2012 following an 11-year period of strong "offshoring" of manufacturing from the U.S. predominantly to China. her estimation, reshoring can bring jobs back to North America largely in the "advanced manufacturing" sector, where the production of more "high dollar" finished goods such as small motors, molded plastics, and high-end textiles. Though such operations will require more robotics, 3D printer, and higher skilled – and thus more expensive – labour, shorter and more secure supply chains will help reduce the "structured cost" of such goods over time, she said. Reshored manufacturing brings production as close to the consumer as possible, meaning more regionalized – even localized – distribution patterns for goods, she indicated; a trend that could potentially help motor carriers develop more "balanced" lanes that get drivers home more frequently. Still, Coates thinks reshoring is returning manufacturing to North American shores "like raindrops" as opposed to the "Tsunami-like" offshoring induced.

Diesel Prices