TRUCKING IS RIDING HIGH FOR NOW – BUT IT'S TIME TO PREPARE FOR THE ROAD AHEAD

AN EQUIPMENT FINANCING & LEASING PERSPECTIVE

Citizens Commercial Banking®

While trucking industry growth is setting new records for revenue, much of its current success depends on external factors that could quickly reverse. What can transportation companies do now to keep their future direction in their own hands?

REVENUES ARE ON A ROLL

Trucking has made a record-breaking comeback from the depths of the recession, with revenues topping $700 billion for the first time ever in 2014.[1]

- The Truck Tonnage Index reached 135.8 in January 2015 – an all-time high.[2]
- Employment rebounded to 1,449,900 in May 2015, its highest level in five years – up 38,400 in a single year.
- The industry's gross output reached $310 billion in 2013 – a dramatic recovery from its $233 billion nadir in 2009, when output declined nearly 20% in one year.[3]

WHAT'S FUELING GROWTH?

The economic recovery was the chief driver of growth. Since 2009, trucking has closely tracked the performance of manufacturing and other industries rich in goods and equipment.[3] Adding to demand, the construction industry rebound has resulted in 80% of firms planning on several dimensions of growth, notably, payroll.[3]

Low interest rates and fuel prices also helped curb costs and spur investments, while falling fuel costs drove Freight Trucking Research (FTR)'s Trucking Conditions Index up 30% in December 2014.

And, with the price for ultra low sulfur diesel down 36% from May 2014 to 2015 (currently $2.89), the industry's commitment to fuel efficiency is paying off.[4] New standards for Class 8 trucks are projected to save $5 billion over the assets' lifetimes, driving development of new technologies like automated manual transmissions.[5] Omaha-based Werner Enterprises – the 14th largest for-hire U.S carrier – announced that various efficiency moves have saved 120 million gallons of fuel since 2007.

POTENTIAL BUMPS AHEAD

Even as the industry celebrates its success, the winds may be shifting.

- **Cost of capital** will increase once the Fed's looming interest rate boost takes effect.[6]
- **Fuel costs** cannot go down forever; FTR sees strong potential for diesel prices to rise later this year.[7]
- **Cost of regulation** is increasing, as the EPA proposes a 24% improvement in fuel efficiency for heavy trucks by 2027.[8]
- **Employment**, specifically the driver shortage, may be further compromised by the upswing in construction, as trucking pulls from the same labor force. More than half of construction firms are increasing base pay rates.
- **Capacity constraints are easing** compared to 2014, meaning that the tension between the freight volumes and distribution capacity is diffusing and fleets ramping up to meet today's tighter constraints may be caught with more assets than required in tomorrow's marketplace.[9]

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INVESTING FOR THE FUTURE

To capture the economic momentum, safeguard against over-extending growth and anticipate market factors poised for change, trucking executives should evaluate three categories for investment. These areas for financing focus have been identified as they continue to capture market value while balancing corporate fitness:

- **Intermodal integration.** Intermodal tonnage is expected to rise 5.5% annually through 2020, then at 5.1% a year through 2025[10] – gaining market share from trucking.[11] Capital investments can play to this growth by upgrading fleets to interlock with intermodal cargo containers or establishing strategic partnerships with rail and marine. Faster adoption of compressed or liquified natural gas fuel could also make intermodal more viable, as the longer routes demanded by multi-method transportation networks become more efficient for trucking.[11]
- **Fuel efficiency and alternatives.** Switching to LNG or CNG from diesel offers potential savings of $30,000-35,000 a year according to engine manufacturer Cummins, Inc.[12] Truckingefficiency.org estimates that adopting only 7 out of 70 available efficiency technologies could save an average of $25,400[13] per truck per year. Automatic transmissions are estimated to pay for themselves in little more than a year.[14]
- **Advanced supply chain/logistics technology.** Technology will be critical in addressing safety, efficiency and the human capital shortage, projected by the American Trucking Association (ATA) to reach a shortfall of 240,000 drivers by 2022.[15] Early adopters are touting the power of electronic on-board recorders to improve driver performance.[16] New apps offer capabilities ranging from driver-centric route planning[17] to Uber-like digital brokerage platforms.[18]

Recent record-breaking revenues have proven the trucking industry to be a hidden giant within the commercial transportation network. However, the industry's fate is linked with the greater economy and therefore, market factors likely to change in the coming months – including but not limited to low interest rates and fuel costs – will have an echo effect on trucking. Testing into innovations in logistics tech and diversifying fleet assets are a few of the preparations trucking firms can make now, in a time of industry boom, for the purpose of sustained success during future fluctuations.

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