

## The Road Ahead

July 2020

Following up on our June newsletter, the predictions of significant cost increases in truck transportation are holding true. All analysts and industry watchdogs are reporting that although freight volumes are down from a year ago, they have been growing on a month to month basis. ATA Chief Economist Bob Costello reported that the sequential gain in freight volume from May to June of this year was the best month over month improvement since January of 2013.

For our good customers with whom we have contract rates in place, we continue to gratefully move their freight when we can, but our margins are not sustainable. Being students of commodity prices, we know our customers are not making much or any money either. That is particularly true in manufactured goods. Something will have to give for us all. For our customers with whom we spot price each individual shipment, we are seeing increases averaging 15 percent compared to pre-COVID freight pricing. In some lanes, we have seen increases of 20-25 percent.

All the conditions we reported last month are still true, if not even more glaring. The used truck market is stagnant. A rush to buy used trucks points to the smaller trucking companies seeing blue skies ahead and having the cash or ability to finance. New truck sales are far below normal trade cycles. In June, Class 8 tractor sales were down 43.5 percent compared to June of 2019. For the year, retail sales are down 38.7 percent.

A new and hot topic is the \$1.5 trillion "Moving Forward Act" that recently was passed by congress. In it is a provision to increase trucker auto-liability insurance from \$750,000 to \$2 million. What we really need is some major tort reform like what the state of Louisiana just passed after years of truckers being slammed by a very well-organized criminal group of "victims," doctors, and attorneys.

Large carriers will be in a better position to negotiate premiums as they have the means to invest in safety technology and have better economies of scale. However, it is the smaller companies and independent operators that make up over 90 percent of the industry. That fragmentation helps to keep freight costs in check, and it is hard to imagine that they could absorb a 166 percent increase to mandated coverage.

By the way, the legislation also grants the US Postal Service \$25 billion to help move their trucks away from fossil fuels. As of April, the USPS was \$161 billion in debt and is handling two-thirds of the volume it was 10 years ago. I digress.

On a personal note, we wish all of you and your families good health and peace in these very trying times. I pray every day that our country will unite for the common good and that we all will stand proud of our country and our flag despite our differences and grievances.

- Mark