

State of Trucking

August 15, 2011
3 p.m. to 4 p.m. EST



Noël Perry
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Housing starts surge in June

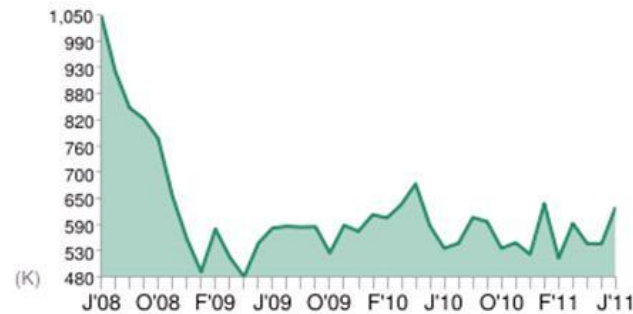
JULY 19, 2011

Housing starts jumped 14.6 percent in June over May, suggesting a continued stabilization in the troubled residential construction segment. Based on the seasonally adjusted housing starts rate in June the economy would build 629,000 housing units in a year, according to preliminary data from the Census Bureau and Department of Housing and Urban Development. June represented the third month this year in which month-over-month growth was in the double digits. But in June, the jump followed a flat May while the other increases followed months in which the rate of housing starts declined. The rate of Housing starts in June was 16.7 percent higher than June 2010.

Permits authorized for privately-owned housing were at a seasonally adjusted annual rate of 624,000 in June — an increase of 2.5 percent in May and 6.7 percent in June 2010.

Side from the significance as a general economic indicator, housing permits represent the outlook for future housing construction and would be of particular interest to carriers, such as flatbed carriers, that are involved with housing construction. Housing starts are of particular interest to van carriers whose customers supply home furnishings, such as

Housing starts (seasonally adjusted annual rate)



Source: www.TruckGauge.com

RECENT INDICATORS

Inventories remain lean in June

Driver shortage continues, sluggish economy has reduced the...

FTR Driver Labor Index dropped again in July

Trucking companies add jobs in July

TL rates continue to remain strong in Q2, economy...

Food loadings up 0.3% in June

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Two Intermodal Paths in the West

The Big 3: Japan, Oil, and Inflation (Part 2)

May 2011 trucking conditions



Manufacturing sector practically flat in July

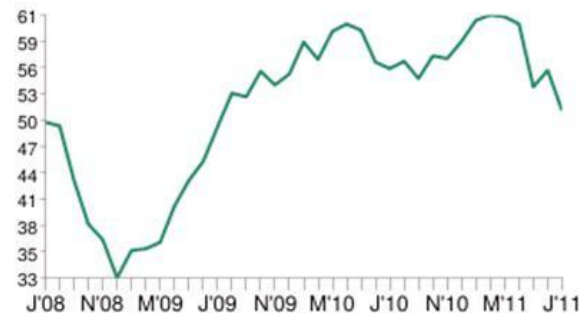
AUGUST 1, 2011

Economic activity in the manufacturing sector expanded in July for the 24th consecutive month, but just barely, according to the latest report on manufacturing from the Institute for Supply Management. ISM's composite PMI plunged 4.4 points to 50.9 percent. The threshold between an expanding manufacturing sector and a contracting one is 50 percent.

Another near-term worry for trucking is that the new orders index — one of the PMI components — dropped 2.4 points to 49.2, meaning that orders actually are contracting. Until July, the new orders index had grown for 24 consecutive months. Comments provided on the survey suggest that the slowdown in orders came from domestic demand and that export orders remain strong, said Bradley Holcomb, chair of ISM's Manufacturing Business Survey Committee.

Seven of 18 industries that ISM tracks reported contraction during July: Apparel, leather & allied products; plastics & rubber products; textile mills; electrical equipment, appliances & components; food, beverage & tobacco products; machinery; and chemical products.

ISM Manufacturing Index (50 percent or higher = expansion)



Source: www.TruckGauge.com

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Factory orders down in June

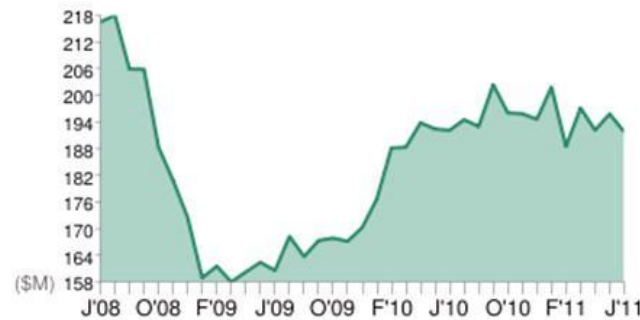
AUGUST 3, 2011

New orders for manufactured goods dropped \$3.8 billion, or 0.8 percent, in June compared to May. Excluding the transportation equipment category, however, factory orders actually increased a slight 0.1 percent.

New orders for durable goods dropped 1.9 percent in June following a 2 percent increase in May. Transportation equipment orders, which fell 8.6 percent, was a major drag on durables.

New orders for all manufactured goods and durable goods both are down in two of the last three months, suggesting a somewhat weaker outlook for transportation shipments than what May numbers on their own indicated.

Durable goods orders (in \$millions)



Source: www.TruckGauge.com

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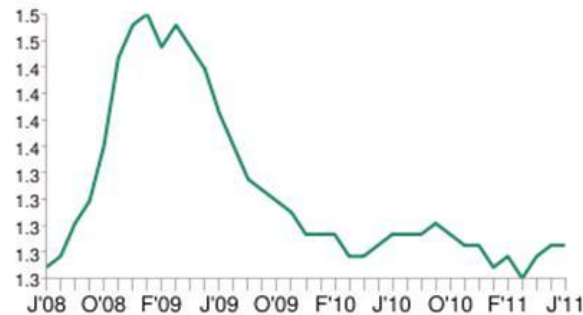
AUGUST 12, 2011

After inching higher for two months, the ratio of inventories to sales remained at a seasonally adjusted 1.28 in June, easing any fears that manufacturers, wholesalers and retailers might curtail their buying due to fattening inventories.

Inventories and sales both rose slightly in June. Total trade and manufacturer sales, seasonally adjusted, were \$1.188 trillion, up 0.4 percent from May and 12.4 percent higher than June 2010. Meanwhile, adjusted manufacturers' and trade inventories totaled \$1.519 trillion, up .03 percent from May and 11.1 percent from June 2010.

The inventories-to-sales ratio remains just slightly above the historic low of 1.25 matched in March. This generally is good news for trucking companies because it means that any uptick in sales should immediately translate into shipments.

Inventories-to-sales ratio (Total business, adjusted)



Source: www.TruckGauge.com

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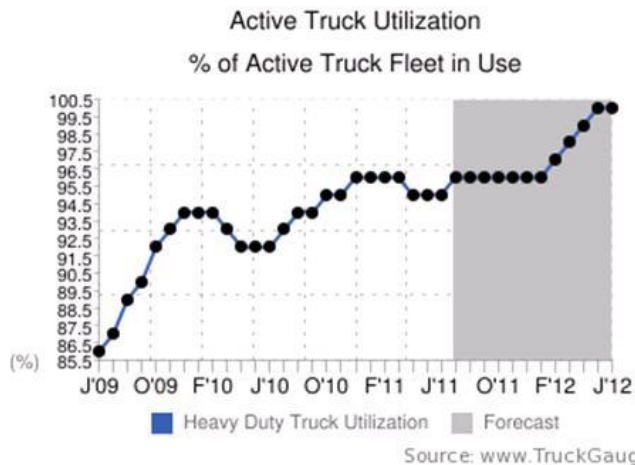
Two Intermodal Paths in the West

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Truck capacity eased during Q2, still at a high level

JULY 29, 2011



FTR's estimate of truck utilization shows that the active fleet utilization eased during the second quarter after rising during the latter half of 2010 and settling at a high level during the start of 2011. We are still approaching the second peak seasonal point in the year at relatively high truck utilization. A strong recovery during the fall peak would push utilization into very tight conditions. The coming regulatory drag will do that anyway in 2012, even without strong economic growth in the second half of 2011.

Figuring out truck capacity remains an inexact science, but we continue to say three things: The market is tight. It will get tighter. Coming regulations are about to create the mother of all capacity crunches.

Utilization shows that the active fleet utilization eased to 95% for all of Q2 – as weaker economics began to filter through to the truck sector. Despite the very weak economic data, the truck markets have, so far, had only a limited negative impact.

We have likely peaked out until regulatory impacts come. Our data assumes that the HOS regulations are implemented in mid-2012. If that is the case, it will have a significant impact on the utilization of the active fleet. It is also possible that the HOS regulations will be implemented in late 2011, which would have a similar impact on the utilization of the active fleet.

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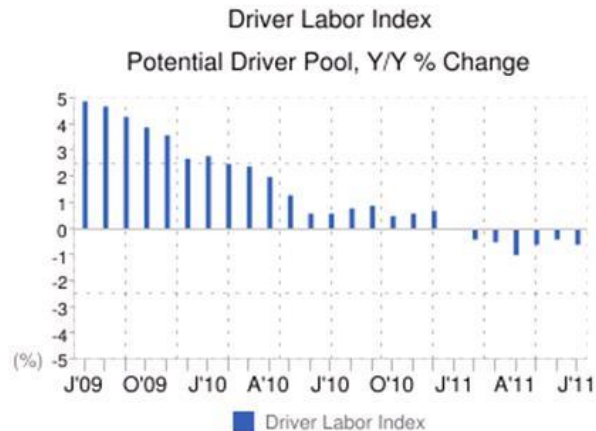
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FTR Driver Labor Index dropped again in July

AUGUST 9, 2011



Source: www.TruckGauge.com

Driver markets continue to tighten – despite labor weakness.

The FTR Driver Labor Index dropped 0.2% in July, its second consecutive decline. The index remains below its year-ago level for the sixth straight month, down 0.6%. A falling index indicates a smaller pool of possible drivers.

U.S. Employment Situation

July's employment report was welcome news. The addition of 117k jobs was still below replacement levels but was significantly higher than both expectations and recent months. Plus, June and May were both revised upwards

Trucking added only 1k jobs in July.

Manufacturing continued its nine month streak,

up 24k. Construction also rose, gaining 8k jobs. The labor force dropped for the second straight month and the unemployment rate inched down to 9.1%. It has hovered around the 9% mark since the start of the year.

NOTE:

A rising index indicates that the potential driver pool has increased. A falling index indicates that the potential pool has shrunk.

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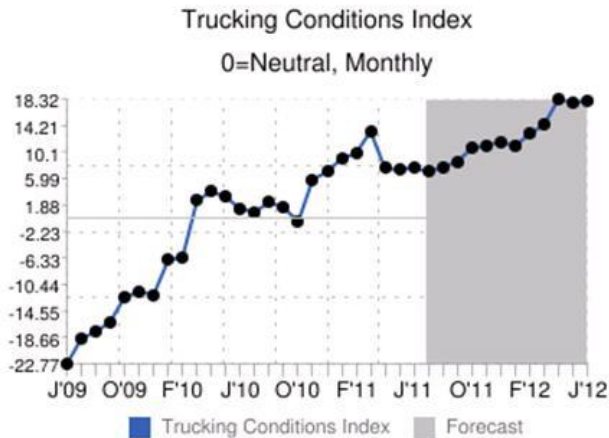
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May 2011 trucking conditions

TCI in June is little changed for last 2 months

JULY 29, 2011





Noël Perry
Principal
Transportation Fundamentals, Inc.
and
Partner
FTR Associates

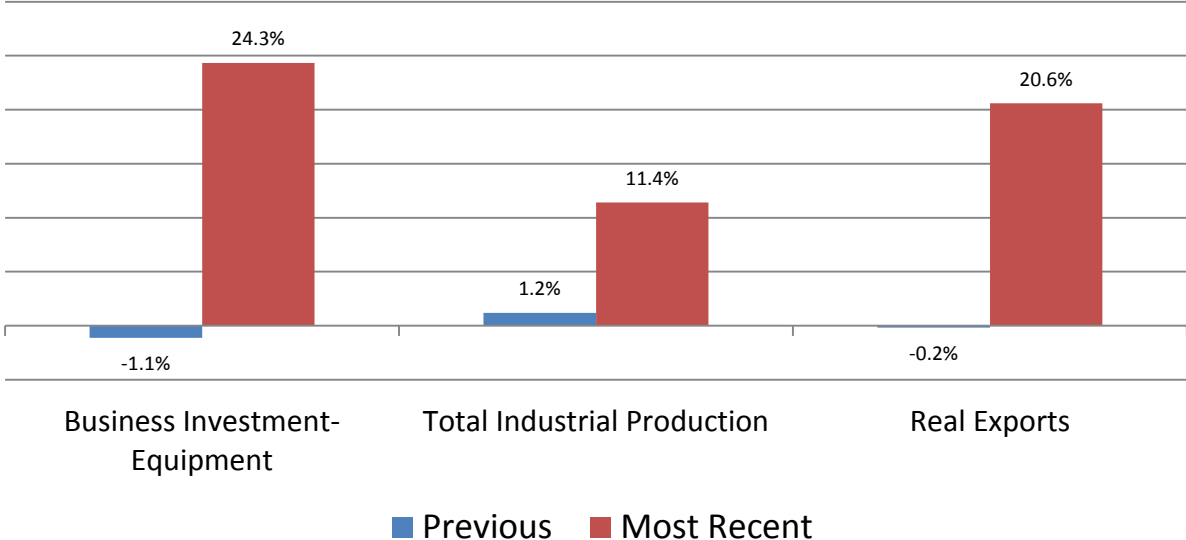
Transport Review

Noël Perry
FTR Associates

August 2011

This recovery has been good for manufacturing.

Manufacturing Recoveries Compared – Growth In First 7 Quarters

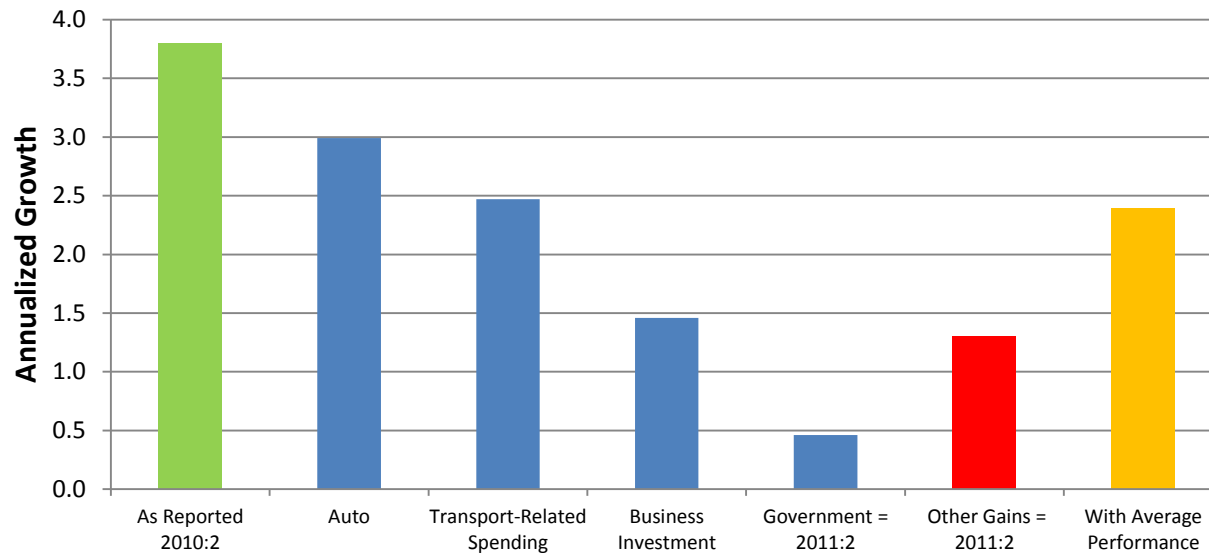


Sources: FTR Associates, Transport Fundamentals

➤➤➤➤➤ Manufacturing is good for freight.

Anatomy Of A Slowdown

Changes to GDP Growth Since 2010:2 By Major Sector

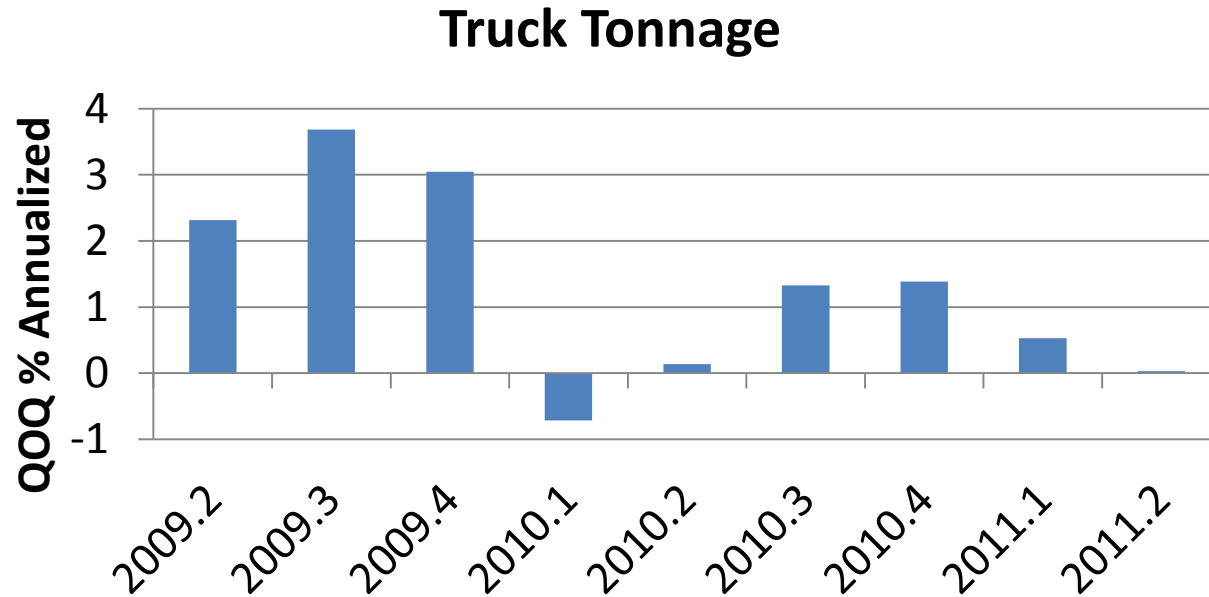


Sources: FTR Associates, Transport Fundamentals



We should expect some additional growth just by returning to recent averages.

The FTR Measure is flat.

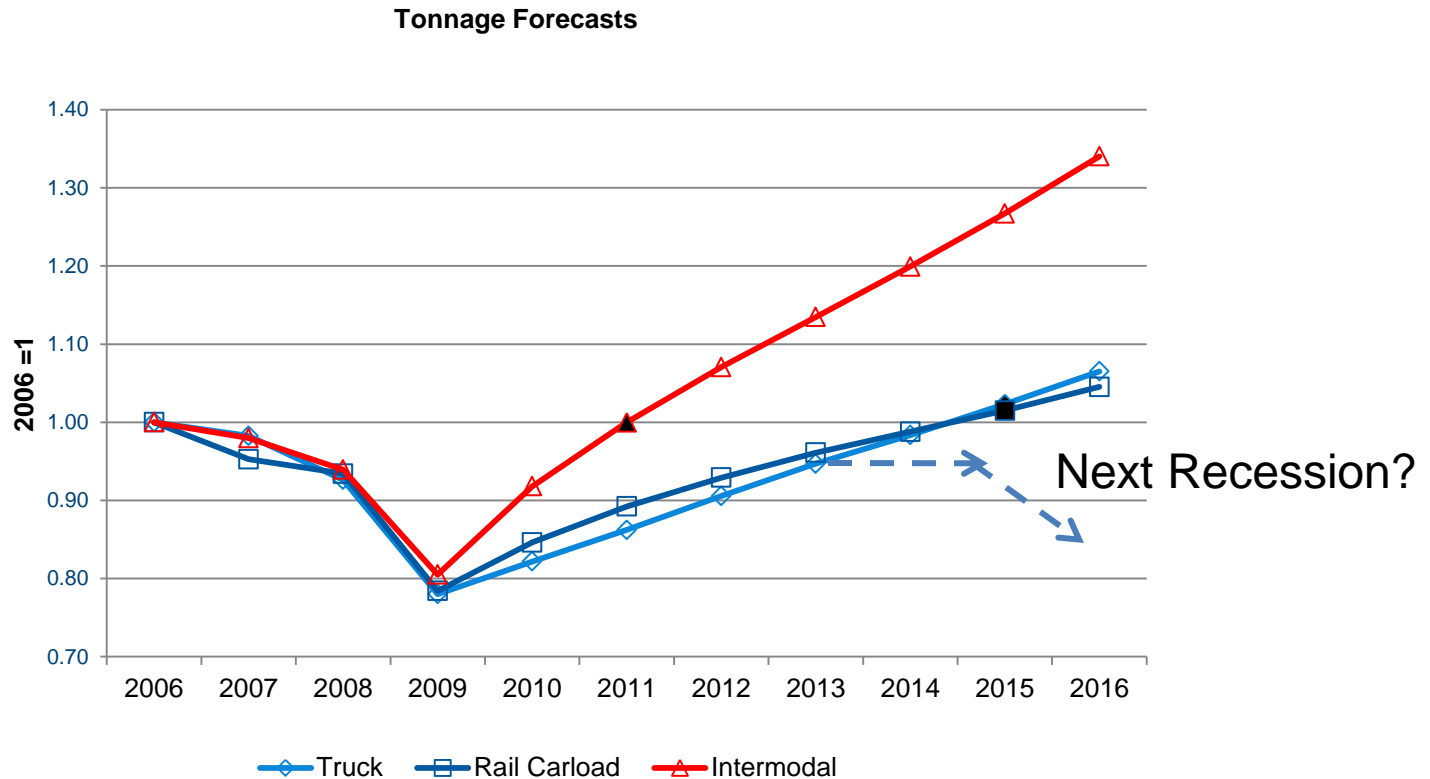


Sources: FTR Associates



The is before the latest economic revisions.

We are a long way from fully recovered from the recession.

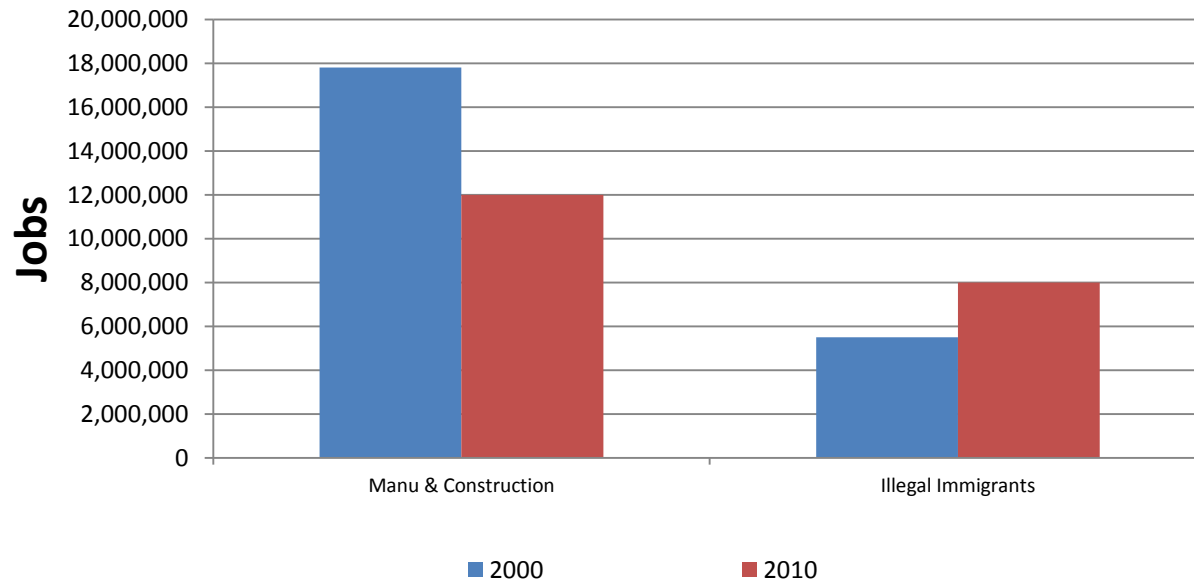


Sources: FTR Associates, Transport Fundamentals

➤➤➤➤➤ We are half way back.

The big industry problem remains drivers. Let's look first at the long term issues

Supplemental Labor Force Statistics

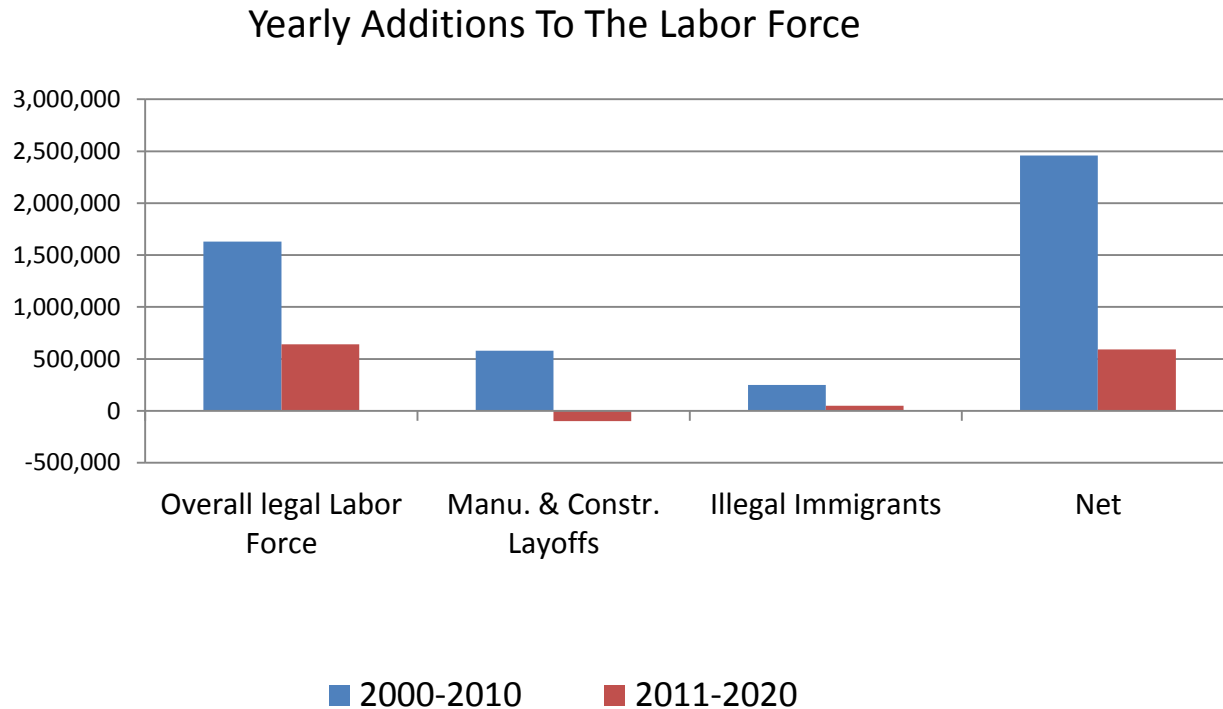


Sources: Eaton, BLS, Transportation Fundamentals



During the 'Oughts these stats added driver candidates.

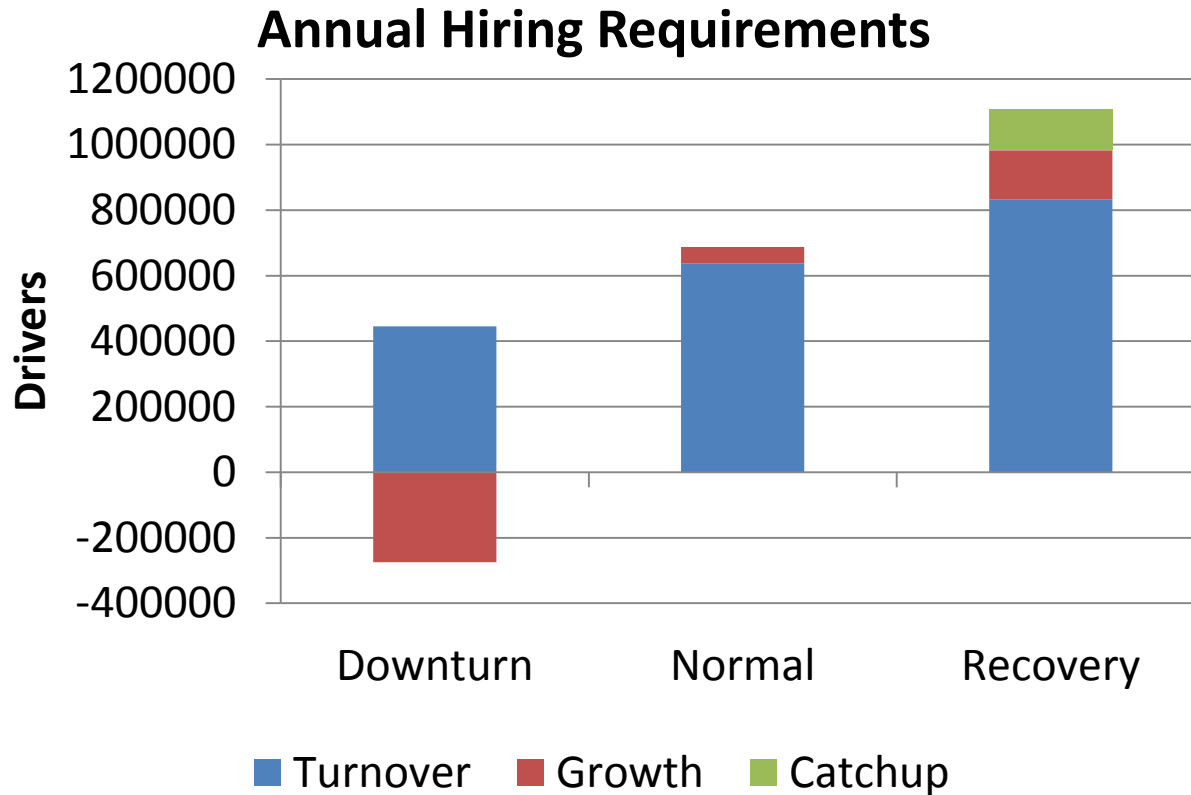
In the 'Teens the trends turn negative.



Sources: Eaton, BTS, Transportation Fundamentals

➤➤➤➤➤ The additions to supply drop by 75%.

The big immediate problem is the need to expand hiring capacity.

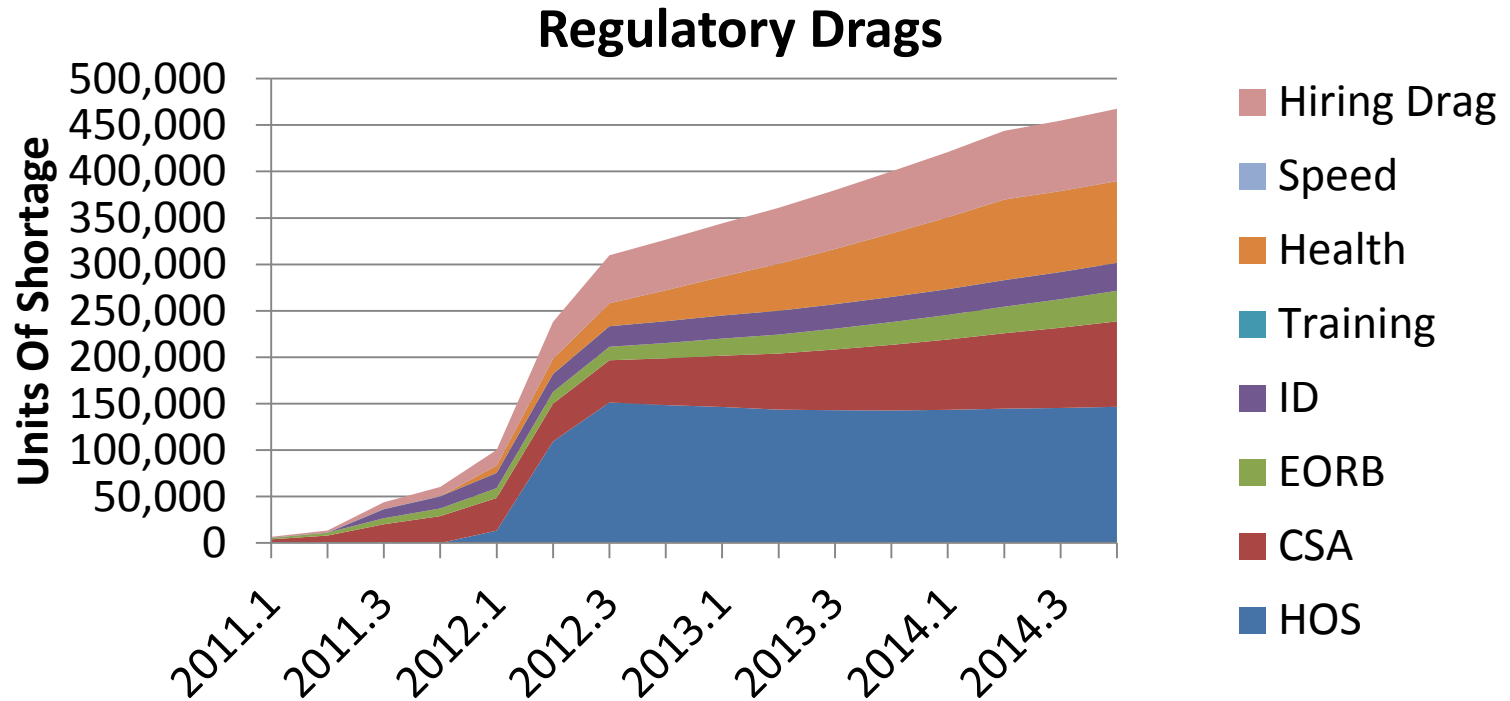


Source: FTR Associates, Transport Fundamentals



It will take several years before the conservative fleets build sufficient hiring capacity to meet this demand.

Next year the government will be magnifying the challenge.

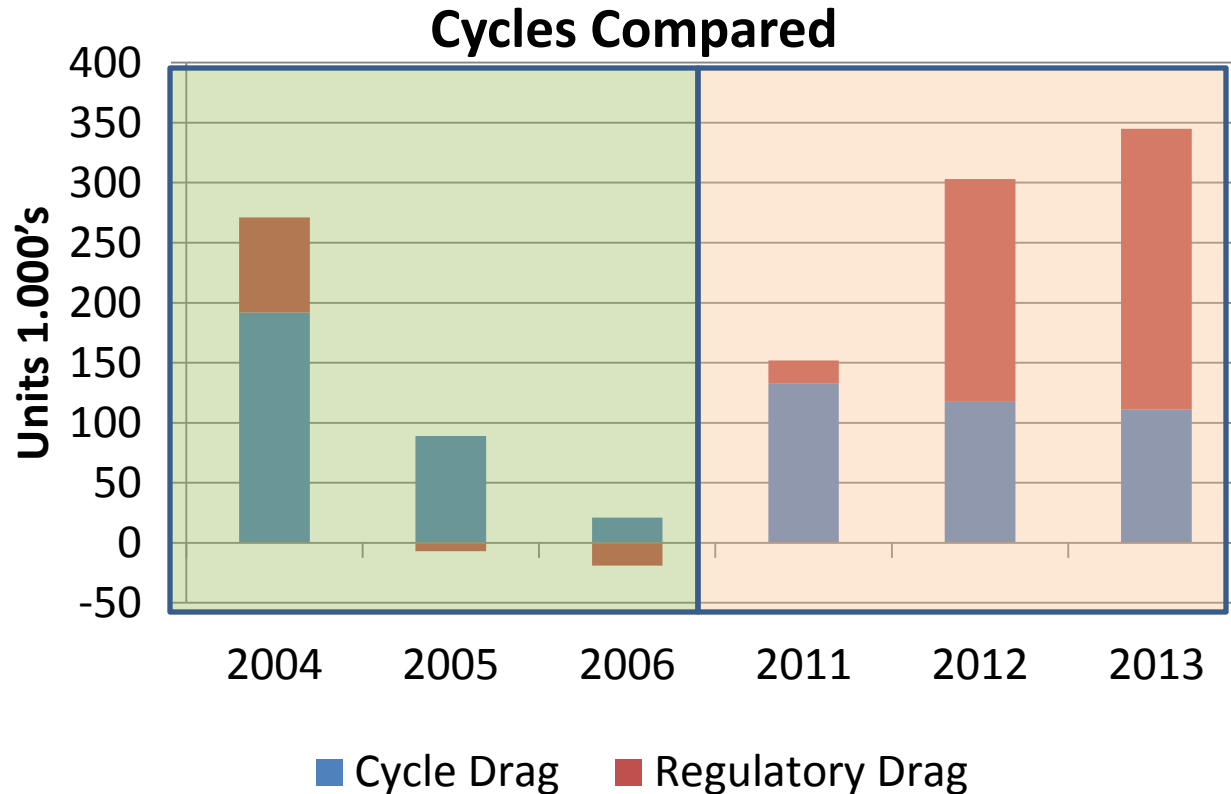


Sources: FTR Associates, Transportation Fundamentals



When monthly variation is added the peak shortage tops 500,000 units.

Here is how this cycle compares to the last one.

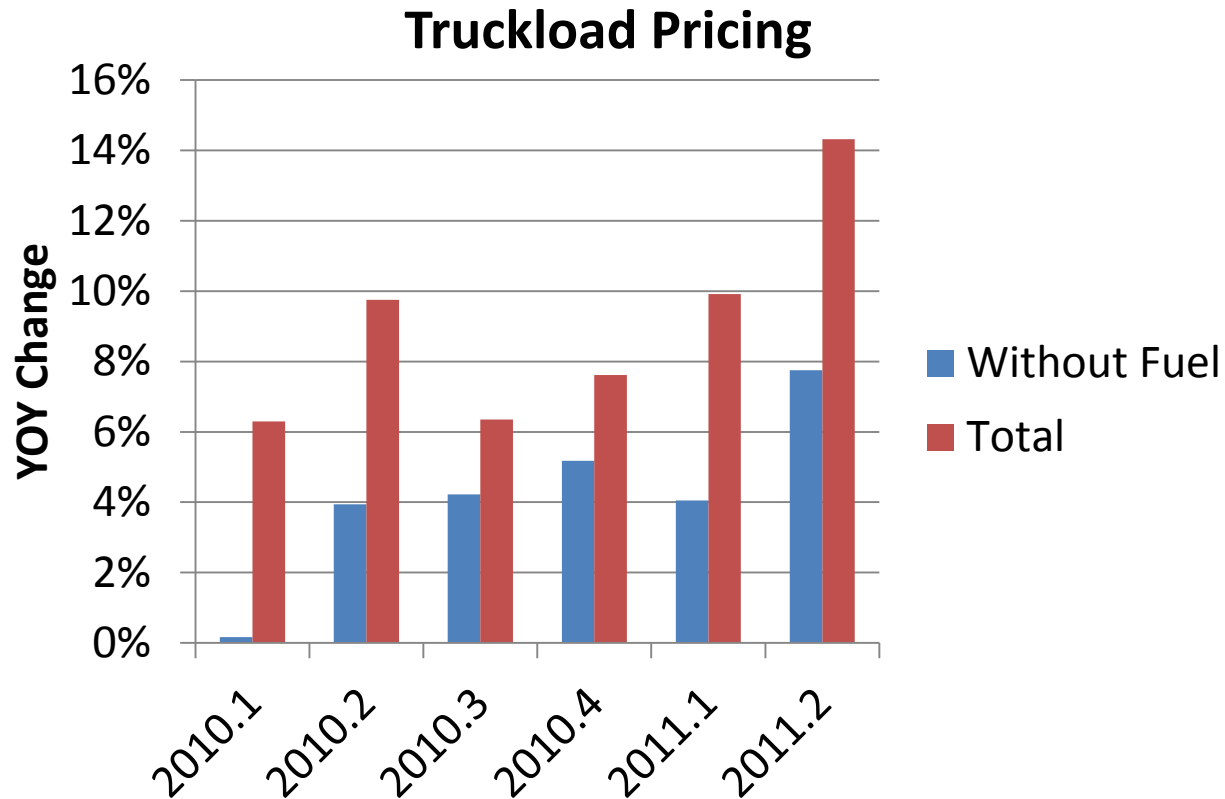


Sources: FTR Associates, Transport Fundamentals



The crisis is building as the recovery matures.

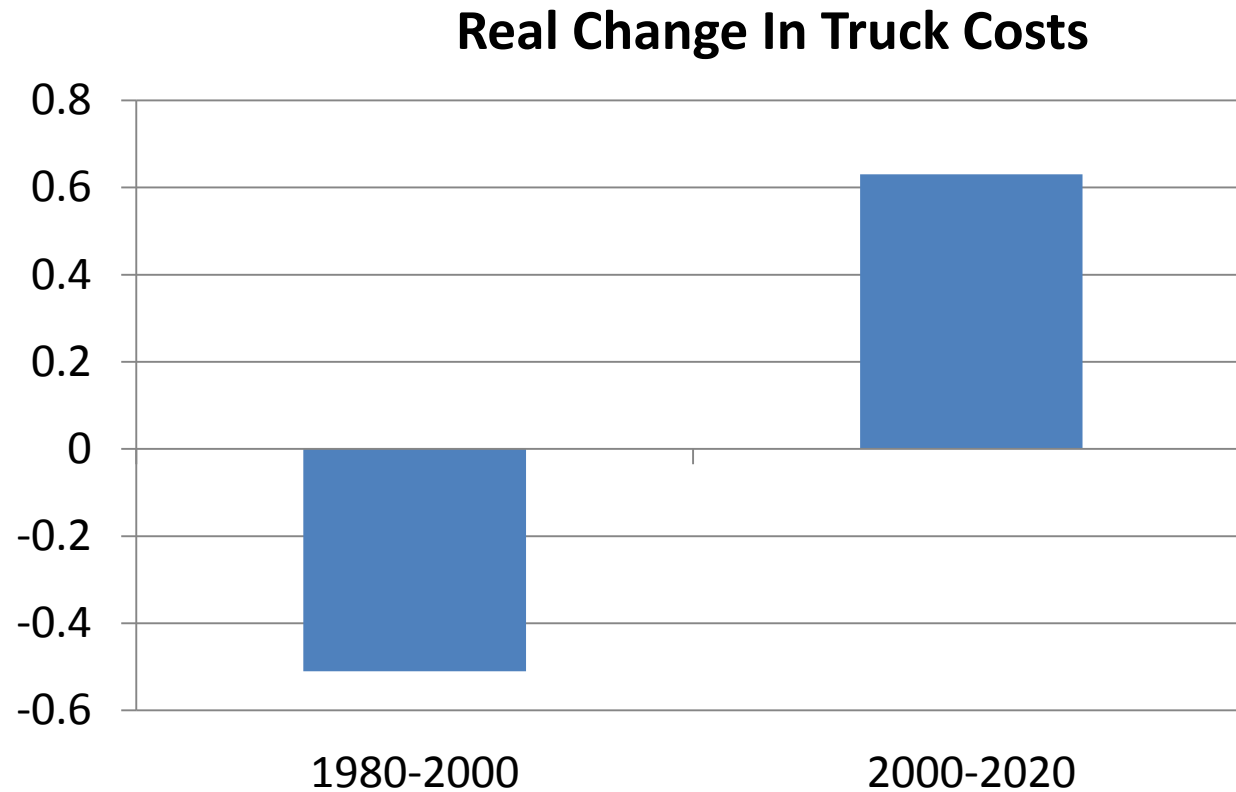
Truckers are pricing like they have some market power.



Sources: *Transport Fundamentals*

»»»»» They woke up this spring.

The pricing issue is a big deal for supply chains.



Sources: *Transport Fundamentals*



Supply chain design will change to include more inventory.



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