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In general, there is more freight than trucks and more trucks than truck drivers.

That is largely because over the last two years, capacity has tightened considerably and the position of strength in the transportation market has shifted from the shipper to the carrier. ***Prices are going up***; ***acceptance rates for tenders are dismal because carriers can choose more attractive options for deploying their assets***; and shippers are spending too much time just trying to cover their loads.

The transportation issues of 2004 are still with us:

- Truckload and railcar capacity are still tight and not likely to improve anytime soon.
- Intermodal is growth is lacking but still growing and has pricing and service issues.
- Qualified drivers are still in short supply and no one has come up with a single solution to the problem, although it receiving greater attention. Wage increases can be expected to continue as the driver shortage continues.
- While motor carriers are buying additional equipment, is it replacement equipment or buy ahead of the new engine requirements. With the driver shortage it is hard to believe it is incremental capacity.
- The countries transportation infrastructure is at or over capacity, especially ports and roads.
- Diesel fuel costs are higher than in 2004 and still escalating. There will be cost and engine reliability issue with the new low sulfur diesel fuel mandated for the middle of 2006. Environmental standards requiring a sharp cut in the sulfur content of heavy-duty diesel fuel could help push the price of truckings' main fuel beyond recent record levels, to as high as $2.50 or $2.75 a gallon, according to a key fuel analyst.
- The new engines mandated for 2007 not only cost more, they will less reliable, more costly to maintain, and less fuel efficient.
- Business growth is still relatively strong.
- Shipper requirements for EDI, proof of delivery as well as new security related requirements for Heavy Driver's Licenses are increasing carrier overhead.
- ***Carrier costs continue to rise in terms of fuel, driver recruiting, training, retention and salaries; insurance, maintenance and equipment purchases.***

In any event, the dynamics of the trucking industry appear to have shifted in ways that make it unlikely we'll see a return to the kind of buyer's market that dominated most of the last two decades anytime soon. Shippers lucky enough to find trucks to move their freight these days know there will be a price to pay—and it will be a lot higher than what they paid a year ago. The balance of power has shifted; ***today's freight market is a seller's market***. And rate increases have stuck.

Carrier rates are increasingly cost based and carriers are being selective about who gets the capacity (e.g., shippers that are "carrier friendly"—profitable and easy to do business with, including limited loading and unloading delays, a main cause of driver turnover). We are moving to 2 truckload carrier types; those that will deliver grocery to warehouses and those who won't.

Carriers are no longer accepting freight that is not profitable for them to haul. Nor are they willing to put up with the inaccurate documents, poorly staged freight and shipping dock delays that shippers got away with in a buyer's market.

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Capacity

Drivers

"The driver market is the tightest it has been in 20 years," says Bill Graves, president and CEO of the ATA. "It's a major limitation to the amount of freight that motor carriers can haul. It's critical that we find ways to tap a new labor pool, increase wages and recruit new people into the industry that keeps our national economy moving."

The long-haul, heavy-duty truck transportation industry in the United States is experiencing a national shortage of 20,000 truck drivers, the American Trucking Associations reported in its newly released US Truck Driver Shortage: Analysis and Forecasts.

The report on the present and future of the long-haul truck driver pool, predicts that the shortage of long-haul truck drivers will increase to 111,000 by 2014 if current demographic trends stay their course and if the overall labor force continues to grow at a slower pace.

Large truckload carriers reported an average annual turnover of 121% last year.

If current demographic trends continue, the supply of new long-haul heavy truck drivers will grow at an annual rate of just 1.6% in the next decade. But the economic consulting firm conducting the study for ATA, predicts over the next ten years, economic growth will generate a need for a 2.2% average annual increase in long-haul heavy truck drivers, or 320,000 jobs overall.

Another 219,000 must be found to replace drivers aged 55 and older who will retire in the next decade, putting total expansion and replacement hiring needs at 539,000 or an average of 54,000 new drivers per year for the next decade.

Scores of drivers exited the long-haul trucking industry after average weekly earnings fell 9% below average construction earnings in the 2000 recession. Driver wages have since failed to regain pre-2000 levels when they averaged 6% to 7% higher than construction wages. Long-haul drivers also cited extended periods away from home and unpredictable schedules as reasons for transitioning to other occupations.

At the same time, the industry also is challenged with finding qualified drivers. Many trucking companies reject a high percentage of driver applicants because they lack qualifications or have unstable employment histories. The best TL carrier goes through 25 applicants to get one driver. Those challenges escalated in recent years as the industry tightened its security and safety measures. The driver shortage comes as the trucking industry is hauling more freight than ever. Total annual tonnage hauled by truck is expected to increase to 13 billion tons by 2016 from 9.8 billion tons in 2004. Some of the longer haul traffic comes as a result of poor rail service and/or capacity.

To increase the nation's driver pool, the industry will increasingly need to draw on a larger percentage of women, minorities or recent immigrants... Women currently represent 5% of truck drivers; African Americans represent 11.7% of long-haul drivers and Hispanics 9.7% of the long-haul driving sector.

If the trucking industry is to attract a higher share of drivers to match its growth projections for the next ten years, it will be necessary for earnings to, at a minimum, return to the wage position that prevailed in the 1990s. At present, weekly earnings in long-distance trucking are 1.5% below the average in construction. The industry also will have to address the quality of life issues, including driver home time, highway and shipper/consignee delays and schedule flexibility.

"It's a favorable supply-demand market for us," Graves said. ***"But the ability to add truck capacity is based on the market's ability to find drivers. A tight driver market will keep capacity tight."***

ATA said finding drivers will grow more difficult in coming years as adverse demographic trends limit the size of the pool of workers that traditionally fill truck driving jobs. For example, one-fifth of all heavy-duty truck drivers are aged 55 or older. Replacements must be found for nearly all of these because only a small fraction of heavy-duty truck drivers work or owner operators past age 65. The ability to replace these drivers will be further constrained by insufficient growth of new entrants into the labor force, which is expected to decelerate after 2007 from a 1.4% annual pace to only 0.5% growth in 2014. More importantly, the number of men aged 35 to 54, which make up the primary driver demographic, will be flat or declining over the next 10 years.

The economy remains heavily dependent on trucks to move freight and capacity will continue to be an issue for the near term. One average carrier said it has to reach 500,000 prospects to get 120,000 driver applicants. From that, it is able to get about 12,000 to 13,000 who enter training. Only about 10,000 emerge from training after getting a taste of the job and lifestyle. Driver churn, the 120% turnover rate, makes the 20,000 industry shortage of drivers seem larger, says the American Trucking Associations. But, if ATA projections of a shortage of 110,000 drivers over the coming years are accurate, and if the carrier experience recruiting drivers is any indication, the industry will have to approach 5.5 million prospects to fill the shortfall.

Several major U.S. carriers say trucker pay has to increase to as much as <u>$65,000 a year</u> from the present $50,000 before fleets will have enough drivers to meet demand. But per-mile incremental pay raises may not be enough to draw the tens of thousands of drivers that the industry needs.

The shortage of drivers has become a major problem for the industry, and two issues will have to be addressed to improve the situation. One is that salaries must be attractive. The other is what is characterized as lifestyle issues. At times more money doesn't offset the desire by drivers to be at home what they consider a reasonable amount of time.

With the national economy still growing as carriers and shippers gird for the peak shipping season, and the ATA report raising new warnings that the nationwide need for drivers will far outpace the trucking industry's ability to fill the positions. Truckers and shippers say the uncertainty in hiring may trigger shifts in trucking industry operations to meet driver needs and that ***<u>operations at shippers loading docks play a growing role in attracting drivers and keeping them.</u>***

A manager of transportation at a Fortune 100 company said a trucking company told him pricing was only one factor in allotting loads. ***"They told us, if they have a customer who may have an impact on a driver, who may have them wait a long time and cause them to quit, that is a big factor," he said.***

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Equipment

Equipment is not the problem, in discussions with carriers last fall a number of them indicated that they had trucks parked for lack of qualified drivers.

Orders for new equipment are up over 2004, but if this is incremental equipment and not replacement equipment we have to wonder where the drivers are coming from.

There is also a shortage of used low mileage trucks, and those trucks in the desirable mileage ranges are commanding prices close to a new truck. This also makes the price to finance a purchase higher for the small fleet and owner-operator customer who is the traditional market for a used truck. That raises questions on financing and creditworthiness and the ability of the owner to survive economically. This is one area where capacity will need to build to satisfy current demand, and conditions aren't that positive.

Freight Costs

Line haul

Despite a number of other considerations in making transportation purchasing decisions — reliability, timeliness and the like — price is always a factor, though not always the primary determinant. ***Freight costs are on the rise following are some examples and predictions:***

- From the first quarter of 2004 to the first quarter of 2005, average prices overall were up 5.5%. That's the largest quarterly price gain since the 6.5% hike in the final quarter of 2000. Less-than-truckload and truckload carriers contributed to this growth with respective first-quarter hikes of 5.2% and 7%.

- Legg Mason notes that carriers believe that rates will move up dramatically this year, "between 5% and 10% again this year before settling into a normalized 2% to 4% range in 2006 and beyond."

- Freight rates rose 6% to 9% percent last year. According to a recent survey nearly nine out of 10 of the respondents reported that their rates had risen. Although it appears that the rate of growth may be slackening a bit, freight rates continue to climb. On average, those polled expect that rates will rise approximately 7.0 percent this year.

- Turning the preferred carrier concept on its head is "very reasonable," said one supply chain industry analyst, "especially as truckload capacity remains constrained. Last year, the average truckload carrier took a 6 to 8 percent increase in rates. We expect that to follow a similar pattern this year.

- A recent study indicated that in 3 months starting Nov 2004 through Jan 2005 freight rates were up 4.9%.

- Scott Arves, president of truckload carrier Schneider National, told shippers at the National Industrial Transportation League's Spring Policy Forum that they should <u>expect rates to increase 4 to 7 percent this year</u>. Experts say that follows rate increases that ran as much as twice that last year on the spot market.

- A recent survey by Logistics Management magazine asked the question: How Much Do You Expect Truckload Rates to Change in 2005 Compared to 2004? And the answer:

Decline 0-3%	2%
No Change	3%
Increase 1-2%	18%
Increase 3-5%	40%
Increase 5-8%	27%
Increase more than 8%	10%

- Morgan Stanley's predictions that shippers should expect to spend 6% more on truckload this year, 4.4% more on rail and nearly 4% more on less-than-truckload (LTL).

Accessorial

Carriers are also taking the opportunity to impose added fees, like chargeback penalties on shippers that fail to meet requirements and accessorial fees for added services. Four out of nine shippers who responded to the above mentioned survey reported an increase in the chargebacks they paid. And nearly 60 percent said that accessorial billings by carriers had gone up—typically by double-digit amounts.

Diesel Fuel

Fuel surcharges and fuel costs are among the concerns for shippers and carriers. This is due in part to the clean air initiatives forcing truck manufacturers to meet tighter emissions requirements. Those engines will be more costly to operate and offer lower efficiency, the manufacturers admit. Carriers are concerned that the reliability and maintenance will be issues on new designs. The last round of standards moved the needle forward for an earlier design change, but this time around, some significant changes are being made to the engines, not just exhaust or other components. This has caused a surge in fleet purchases in an effort to move the replacement cycle ahead and avoid being in the first wave of users of the new engines.

Diesel fuel costs:

Date	**National Average Cost Per Gallon**
June 27, 2005	$2.336
December 27, 2004	$1.987
December 29, 2003	$1.502

Source: U.S. Department of Energy Information Administration

Transportation Cost Reduction and Control

Rising transportation costs and tight capacity are not going away anytime soon. So what are some moves you can take to insure that you get your share of the available capacity and keep your costs in control?

- ***Find ways to increase cube, increase weight, to ship more using fewer trailers***. You can't control fuel prices, but you can control how many trucks you ship.

- ***Making freight "carrier-friendly" – Become a customer of choice***

It's the carriers' economics that drives your cost. "So how do you help reduce those costs? Make your freight friendlier. Many best-in-class companies are implementing carrier-friendly programs in an effort to become lower-cost customers. In return, they are receiving much lower rate increases (and even rate decreases) from carriers. In addition, they are able to secure capacity more consistently from their primary carriers, even during peak seasons and holiday weeks. In fact, companies adopting these programs report 50 percent reductions in load-tender turndown rates. Key elements of these programs include: sharing rolling capacity forecasts with carriers, tendering earlier, reducing driver turnaround time at pickup and delivery locations, analyzing your customers' operations and how they affect your costs, increasing hours of operation or drop-yard use, and paying carriers faster. The shortage of transportation capacity is making it possible for carriers to focus on business that is attractive to them and to walk away from poor business.

Take real cost out of the process versus negotiating cost down from a volume perspective.

Talk with your carriers. Ask them how easy you are to do business with, and establish an open and respectful dialogue about working together more effectively.

Respect the driver.

Forecast future loads more frequently and accurately. This enables carriers to effectively plan the placement of its equipment.

Make it as easy as possible for carriers to make appointments. If drivers are treated well, and can get in and out early, they'll want to come back.

Work with carriers to create backhauls and continuous move loads within your own company or among other companies in your shipping region.

Measure your own performance, especially on-time and tractor dwell time. A growing number of shippers/receivers are measuring their own performance from the carriers' point of view. Also measure how good you are at: changed orders, insufficient or inaccurate documentation.

Spot trailers at the dock at no charge.

Expand the use of drop trailer yards where applicable.

Increase use of dedicated carriers. Dedicated fleet can predict the driver's time away form home, a key element in satisfaction.

- ***Work at building carrier/shipper partnerships with primary carriers***, especially those carriers that haul 80% of your freight and/or account for 80% of your freight bill. These partnerships should share costs and risks and build a more collaborative relationship. Ask carriers how you can work together to reduce costs and increase capacity.

- ***Implement and use the full potential of a TMS (transportation management system).***

- ***Centralize Transportation planning*** across the Corporation. Manage both outbound and inbound transportation. You can execute either centrally or locally.

- ***Create better more accurate transportation data*** to monitor operations and identify cost saving opportunities

- ***Centralize the transportation management organization***

- ***Take control of inbound freight.***

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