

All Eyes on the Economy

As Shippers, most, if not all, of you are kept abreast of developments within your own industries and are well-versed in the Shipper perspective regarding truck transportation. In this update, I want to share with you the comments and perspectives from the truck carrier. The American Trucking Association, which is the largest trucking association in the United States, is commonly viewed as the voice of the U.S. trucking industry. The following article is a brief synopsis of the viewpoints shared by leading economists at the recent ATA convention.

As always, if you have questions or would like to discuss further, please contact your Regional Sales Representative or me.

Best regards,



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"All Eyes on the Economy" Panel Offers Insights into Trucking, Energy, Growth

By Deborah Lockridge, Editor in Chief

A panel of economic experts said while economic growth will still be too slow to make a dent in unemployment numbers, they don't see the United States sliding into a double-dip recession - and trucking can outperform the macro economy, especially if manufacturing continues to grow as it has been.

The panel, "All Eyes on the Economy," was held during the American Trucking Association's annual Management Conference and Exhibition in Dallas and was moderated by Stuart Varney of Fox News, who declared that "trucking, in my opinion, is the best indicator for what's coming in the general economy."

In dismissing the likelihood of a double-dip recession, Martin Regalia, economic forecaster for the U.S. Chamber of Commerce, noted that many people were spooked by slower economic growth caused by the earthquake in Japan, floods in the Midwest, uprisings around the Mediterranean. "I think we're going to reaccelerate to the 2.25, 2.5% range over the next year," he said, referring to predictions for GDP growth, but noted that's not enough to create job growth.

What Government Can Do

Varney noted that "government gridlock is a major issue of contention and concern," and asked Regalia what the government can - and should - do to help the economy. Regalia listed five things:

1. Get trade agreements signed and operative, which they have started doing. "We're losing market share to competitors around the world," Regalia said.
2. Get the energy sector going again. There are projects not being done because they are waiting for government permits.
3. Make it easier for international travelers to come to this country and spend their tourism and vacation money while the dollar is weak.
4. Focus on infrastructure - not simply more spending, but better spending and better prioritization.
5. A better tax system, one that's more efficient and promotes growth.

Trucking

While acknowledging that the recovery is "choppy," especially for some sector of trucking, ATA Chief Economist Bob Costello pointed out that while the industry isn't back to where it was before the recession, "we have come back nicely."

Following on Varney's remark about trucking as an economic indicator, Costello said the industry has forecast recessions that didn't happen, but that the country has never had a recession that trucking did not predict. As a result, he feels confident we are not headed back into another recession.

He pointed out, for instance, that truckload volumes fell 23% during the recession but are back up about 10%. The industry shed itself of excess capacity after freight levels plummeted; the number of tractors in the truckload industry is down 20% from where it was before the recession. In fact, Costello said, "if we are wrong and the economy takes off, I really don't think there are enough trucks out there to haul all the freight that would need to be hauled." Because of this tighter capacity, revenue per mile is increasing, he said. For large truckload carriers they are up 9.1% since January 2009; for small TL fleets, 3.2%.

Costello is not expecting fleets to add capacity quickly, but he did say there is a lot of activity now and in the future when it comes to replacing aging trucks in the fleets. The average age of a Class 8 truck is now nearly 7 years, and once trucks get past the half-million-mile mark, there is typically an enormous jump in maintenance costs. Of course, this is easier said than done, he noted, as we've seen the average price of a Class 8 truck rise about \$30,000 over the past five years. Other capacity constraints include government regulations and the fact that carriers are already seeing the beginning of what Costello says will be the worst driver shortage the industry has ever seen.

Energy

Energy, of course, especially the price of oil and diesel, is a concern for the trucking industry as well as the general economy. John Felmy, American Petroleum Institute, shared his organization's belief that the government could do much to stimulate the economy as well as moving toward energy self-sufficiency.

When asked by Varney whether we truly could achieve the latter, Felmy said, "I think we can get close." New technologies have allowed the U.S. to access a massive amount of natural gas, as well as new oil sources in North Dakota and in deep water, he said. "If we were as a country focused on developing energy, as Marty said, we could double crude oil production, increase natural gas production by 60%, import oil from Canada through the new pipeline that needs to be finished. With that, along with biofuels, we could be 100% self sufficient in North America."

While crude oil prices rose sharply in the spring, rising as high as \$113 per barrel, they recently fell to \$75 and then back up to \$86. What future prices will do, Felmy says, will largely depend on the European Union financial situation and other global supply and demand factors. The International Energy Agency, he noted, has predicted record demand for this year.

Felmy warned the audience to look out for a couple of things when it comes to demand issues that could drive up the cost of diesel fuel.

One, in some states in the Northeast, heating oil suppliers have pushed through some mandates for ultra-low-sulfur heating oil - essentially the same thing as ULSD diesel fuel. So that could lead to a surge in

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demand this winter.

Two, late last year, the federal government decided to sell its 2 million barrels of heating oil in the Strategic Petroleum Reserve. The government announced just recently it would start refilling that reserve, and that's more additional potential demand.