

June 7 Industry Update

A couple of notable topics in this update. My comments are in blue with each article below.

Truckload Capacity Index Up 14 Percent

Weekly Longbow barometer indicates for-hire truck availability is tightening again

Journal of Commerce

6/3/11

Truckload capacity appears to be tightening again, after loosening in April, according to a key measure of industry equipment supply and demand.

The weekly Longbow Research Truckload Barometer rose 14.1 percent week-to-week in the last week of May, the research firm said in a June 1 note to investors.

That jump followed a 6.1 percent increase in the barometer the previous week, after dropping for several weeks in April and early May, according to Longbow.

The weekly index measures available freight against available truckload equipment, climbing higher as capacity contracts, the Wall Street investment firm said.

In mid-May, the barometer fell 9.2 percent below year-ago levels, its first year-over-year decrease since late 2009. The index is now up 5.4 percent from a year ago.

"Recent channel checks have noted a slight pullback in freight demand in late April and early May," Longbow said. Other indicators point to a slowing recovery.

The long Memorial Day weekend holiday may have contributed to a temporary contraction in available capacity, Longbow said, as drivers returned home. Seasonal produce demand may also be tightening truckload capacity in parts of the country.

Longbow and other research firms forecast increasingly tight truck capacity thanks to higher equipment costs, fuel costs, driver costs and financing costs.

We at Melton saw similar trends to what is pointed out in the above article. We saw good, steady freight each week during April - not over the top, but solid. The first couple of weeks in May started off a little softer than what we anticipated but we still had no trouble loading trucks with reasonable freight. As the JOC article above points out, the 3rd week of May saw significant uptick in activity, and the last week in May was crazy.

With all we are hearing on the news about the economy slowing, the budget deficit, raising the ceiling on national debt, etc., some economists are now predicting a slight slowing of the growth rates projected last quarter. And some shippers are now thinking that if this does happen, the truck/driver demand/capacity squeeze will be avoided. A word of caution when listening to the TV analysts, generally they refer to overall GDP which includes the service sector as well as consumer consumption elements. Keep in mind that in the flatbed transportation world, a few key indicators are reasonably accurate predictors of flatbed freight. These key indicators center around industrial production and manufacturing - not the service sector which weighs heavily in the GDP. While GROWTH in industrial production and manufacturing have slowed slightly, they are still growing faster than other sectors in the economy. The slight drag in these sectors can be linked to an overall slowing in the auto industry which is a major consumer of raw materials such as steel and aluminum. The slowdown in auto production can further be linked to unavailability of component parts from Japan due to the earthquake. This is probably a short-term blip and production levels should normalize in the June time period according to industry experts.

In my next weekly update, I will provide more detailed information regarding the key economic indicators relative to flatbed demand.

NAFTA Surface Trade Tops \$80 Billion for First Time

Transport Topics
5/31/11

Surface transportation trade among the United States, Canada and Mexico jumped 15.6% in March from a year ago, topping \$80 billion for the first time on record, the Department of Transportation said Tuesday.

Trade among the North American Free Trade Agreement partners rose to \$80.8 billion - 8.8% higher than April 2008, which had been the highest on record, DOT's Bureau of Trade Statistics said in its monthly report. Records have been kept since 1994.

Freight value jumped 21.5% from February. Monthly changes are affected by seasonal factors, DOT said. The level was 14.2% over the early-recession level of March 2008.

U.S. truck imports rose 13.7% year-over-year to \$27.5 billion, while exports gained 17.2% to \$29 billion.

Rail imports rose 8.3% to \$8.4 billion, while exports increased 12.5% to \$4.8 billion. Pipeline imports rose 14.1% to \$6 billion and exports rose 21%, to \$729 million.

U.S.-Canada trade rose 15.7% year-over-year to \$48.7 billion, DOT said.

U.S.-Mexico trade improved 15.3% to \$32.1 billion, the first time that level has topped \$30 billion.

Surface transportation consists largely of freight movements by truck, rail and pipeline. Almost 90% of U.S. trade among NAFTA partners moves by land.

Not only did domestic U.S. freight shift gears the 3rd week, but Mexico (Northbound & Southbound) was off the charts. I have not seen demand in Mexico like this since 2006! Mexico is a key player in the US manufacturing chain. Northbound & Southbound Mexico freight levels usually lag US trends by 3 - 6 months - and that is exactly what we are seeing here.

This dramatic uptick in Mexico activity is a mixed blessing. On the positive side, it strongly supports the argument that US economic growth will be sustained in the medium term. Indications are that these higher freight levels will continue in Mexico. On the flip side, Northbound and Southbound Mexico shippers need to be aware that Mexican carriers that US carriers interline with are in the process of raising rates. Each of the seven major Mexican carriers that Melton does business with have approached us with increased rates. Frankly, this is understandable when considering that diesel prices in Mexico have increased 38+% in the last 24 months, the average interest rate in MX on trucks is over 15%, insurance rates in MX have skyrocketed (due in large part to increased violence and hijackings) AND their rates have not increased in the last 4 years. U.S. carriers will have to pass MX carrier rate increases through to their customers.

Active 2011 Hurricane Season Predicted

Transport Topics
6/1/11

This year's Atlantic hurricane season, which starts Wednesday, could produce more storms than usual and include three to six major storms, according to the U.S. Climate Prediction Center, Bloomberg reported.

Forecasts call for a 65% chance of 12 to 18 storms - more than the average 11 named storm systems per year, the center said. Hurricane season runs from June 1 through Nov. 30.

Storms can affect the price of oil by threatening or damaging refineries along the U.S. Gulf Coast in Louisiana and Texas, as was the case with Hurricanes Katrina and Rita in 2005, which sent diesel and gasoline prices to then-record highs.

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The last hurricane to hit the U.S. mainland was Hurricane Ike, a Category 2 storm, in 2008. Categories run from 1 to 5, with 5 being the most powerful.

There has not been a three-year period without a U.S. hurricane strike since the 1860s, according to Weather Services International, a software maker owned by the Weather Channel, Bloomberg reported.

I truly hope Mother Nature gives us a break and keeps the hurricanes at sea. We've all seen the recent devastation caused by tornados ripping across Alabama to the Mid-Atlantic as well as the destruction in Joplin, MO. What the flatbed industry has not felt yet, but will soon, is the unexpected demand for flatbed trucks to move construction, roofing, wallboard, and repair products to these tornado stricken areas. Historically, disaster recovery type materials begin moving on flatbeds 2-3 months after a major disaster. We have already been contacted by two major roofing manufacturing companies notifying us that they are bringing additional production shifts on line to get materials to these areas. This unanticipated spike in flatbed needs during the peak of flatbed season will put further pressure on tight capacity. If we sustain hurricane(s) damage in the U.S. in addition to the current situation, all bets are off regarding truck availability. Van carriers might have to chop the boxes off their trailers to help out with capacity!



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