WINTER 2020

Point to Point

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ANNUAL **SHIPPER SURVEY** RESULTS ISSUE!

Logistics insights provided to you by AVERITT

A SHAKY END TO THE DECADE, BUT SIGNS OF HOPE ARE THERE

Toward the end of last year, we invited shippers from a wide variety of industries to participate in our fifth annual State of the North American Supply Chain Survey. Our goal was to gauge the challenges that shippers faced in 2019 and to gain a better understanding of their outlook heading into the new year. More than 1,800 individuals from across North America participated.

With five years of data for many of the questions answered, we can see a much fuller picture of where the shipping community has come from, where it is and where it might be heading in 2020.

LOOKING BACK AT 2019

After analyzing the data, it was clear that 2019 was a year of relative calm for most shippers. While there were no steep downturns or upticks, the U.S. economy maintained a steady pace of growth throughout the year. Hiring and wages also continued to climb over the course of 2019, but our survey shows that these numbers don't necessarily reflect the near-term outlook for all freight markets.

Notably, the truckload sector experienced a challenging year marked by abundant capacity in certain markets and numerous high-profile carrier bankruptcies. By mid-December, nearly 800 trucking companies had shut down – removing nearly 24,000 trucks from the country's capacity pool. Though the closures did not have a dramatic effect on the majority of shippers in 2019, the drop in capacity could lead to challenges in 2020 as new industry regulations and international trade relations are also taken into consideration.

STEADY IN THE FACE OF TARIFFS

After almost 2 1/2 years of ongoing trade renegotiations and tit-for-tat tariffs, our survey revealed only a modest change in the perception of the trade war's impact on shippers in 2019. While the results revealed very little positive sentiment, shippers remained resilient over the course of a year painted with tariffs on goods flowing between the U.S. and China.

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Recent indications of warming relations between the U.S. and several of its key trading partners, however, could potentially pave the way toward a more positive year ahead for international shippers and those downstream.

PLANNING AHEAD

As we delve further into these hot topics on the minds of shippers, we will also discuss other key data points we found that indicate changing sentiments toward final mile, air cargo and rail transportation, among others.

By taking a step back to look at the data, we hope that you will find valuable information that will help you better plan out your shipping and supply chain management strategy for the year ahead. PtoP

POINT 2

SHIPPER CONFIDENCE
HITS A SNAG GOING INTO 2020

One of the most insightful questions asked in our survey is whether businesses foresee an increase or decrease in shipping volumes for the upcoming year. This year's results yielded the lowest forecast for increased volumes since the survey began five years ago. Of those surveyed, 66.23% expect to ship more in 2020 – a 3.36 percentage point drop from the year before.

Perhaps a more revealing factor behind the drop can be seen from the results of the same question posed for expectations in 2018. Leading up to the 2018 survey, President Trump and Congress passed the Tax Cuts and Jobs Act of 2017, a tax cut package that would go on to benefit many businesses in 2018. The prospect of the tax cuts boosted anticipation of higher shipping volumes to 75.89% of those surveyed.

With the prospect of having additional capital to spend through 2018, many businesses invested in growth and new products. At the same time, the surge in investment also spurred a tight truckload capacity market that led to higher transportation costs throughout the U.S.

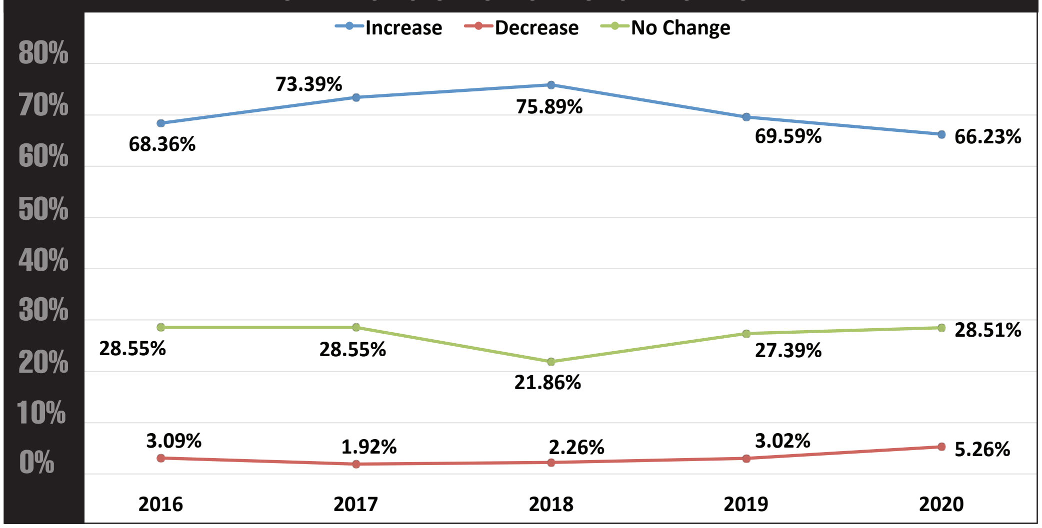
In the two years since the 2018 survey, expectations for increased shipments have declined by nearly 10 percentage points. At the same time, those that expect to see a decrease in volume increased to a five-year high of 5.26%. More than a quarter of those surveyed (28.51%) predict their volumes will remain relatively equal to volumes of 2019.

The waning positive sentiment also correlates with other U.S. economic indicators, such as the real gross domestic product (GDP). While the GDP of the first quarter (Q1) of 2019 (3.1%) outpaced 2018 Q1 (2.5%), the GDP of 2019 Q2 (2.0%) and 2019 Q3 (2.1%) fell short of matching or exceeding the previous periods of 2018 Q2 (3.5%) and 2018 Q3 (2.9%).

NO NEED TO PANIC

While many analysts predict the U.S. economy to continue to grow slowly in the years to come, anticipation of a steep downturn is limited. According to economist Kimberly Amadeo with The Balance, unemployment and inflation rates are expected to remain low in the face of slow growth. In the same breath, the U.S. Federal Reserve's fear of detrimental damage to the economy caused by the ongoing trade wars had eased considerably by the end of 2019. **PtoP**

WILL SHIPPING VOLUMES INCREASE OR DECREASE NEXT YEAR?



TRUCKLOAD MARKET
LOOKING BACK AND AHEAD

Three years ago, we predicted the truckload market would face a capacity crunch in our 2017 article "Warning Signs: A Perfect Storm for Truckload Capacity." Three factors weighed heavily into that forecast, including economic optimism, the driver shortage and the implementation of Phase 2 of the electronic logging device (ELD) mandate.

When we asked shippers what their biggest challenges were with carriers in 2017 and 2018, capacity was top of mind. From a five-year low in 2016 (11.12%) that increased in 2017 (19.29%) and peaked in 2018 (26.05%), capacity was the chief challenge that caused much concern for many truckload shippers.

However, 2019 marked a sudden downturn for the truckload market and many full-load carriers. The data from our most recent survey revealed that capacity issues dropped significantly year over year to 12.34% in 2019, marking a nearly 14 percentage point decrease. In terms of capacity, 2019 issues returned to levels experienced prior to the capacity crunch of 2017-2018. This sudden downturn was felt by full-load carriers across the country.

CARRIERS STRUGGLE THROUGH 2019

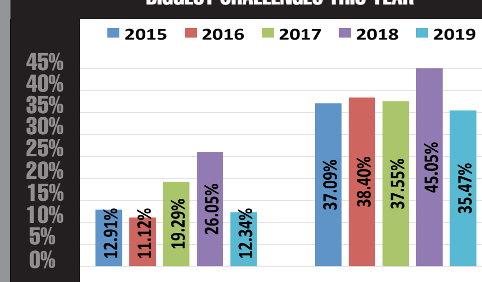
As noted earlier, nearly 800 trucking companies shut down by mid-December. High-profile bankruptcies were reported frequently throughout the year as long-standing carriers, including New England Motor Freight Inc., Falcon Transport, LME, Celadon and GDS Express, permanently turned off the key to the ignition. Driving factors behind the closures in 2019 ranged from lower shipping volumes to ELD mandate strain, increased driver pay, higher insurance coverage and relying too heavily on a handful of large shippers that eventually switched to other carriers.

FACTORS TO KEEP AN EYE ON

What about 2020? The coming months will reveal how the implementations of new regulations, including Phase 3 of the ELD mandate (Dec. 16, 2019) and the Drug and Alcohol Clearinghouse (DAC) [Jan. 6, 2020], play out in the market. Many analysts expect the DAC to have a significant impact on the amount of truck drivers that are taken off the road. The effects of the DAC won't be felt immediately but should have a growing impact in the months and years ahead.

It's difficult to predict whether truckload capacity will tighten, and if rates will increase in 2020 or not. However, the truckload market may have reached a low point in 2019 that could lead to potentially higher rates and renewed capacity constraints in the face of new regulations with fewer trucks on the road. **PtoP**

BIGGEST CHALLENGES THIS YEAR



INTERNATIONAL SHIPPERS
HOLD THE LINE THROUGH 2019

POINT 3

When President Trump entered the White House in January 2017, he promised to upend decades-old trade relations. For better or worse, depending on how the cards eventually play out, he did just that with a flurry of tariffs that have been tossed back and forth with key trade partners ranging from China to Canada, Mexico and Europe. For many in the U.S., the trade wars have been embraced as an effort to bring about a more even-leveled playing field in global trade. On the other side, tariffs imposed back on the U.S. have been costly and detrimental to business. One thing is for sure: International supply chains are adapting as indicated by the growing number of businesses that have begun offshoring manufacturing and production from China to other Asian countries, such as the Philippines and India.

BEFORE THE TARIFFS

Before the first round of major tariffs were exchanged with China and other nations, we asked shippers in 2017 how they thought the tariffs would impact their business. That year, 39% believed the effect would be positive, 17% said it would be negative and 44% said there would be little to no impact.

AFTER THE TARIFFS

Since 2017, we have asked how the trade war has impacted business. The results have shown a complete reversal in comparison with what was anticipated prior. In 2018, 41% of shippers said the tariffs had a negative impact, while only 5% reported positive effects. The remaining respondents were unsure.

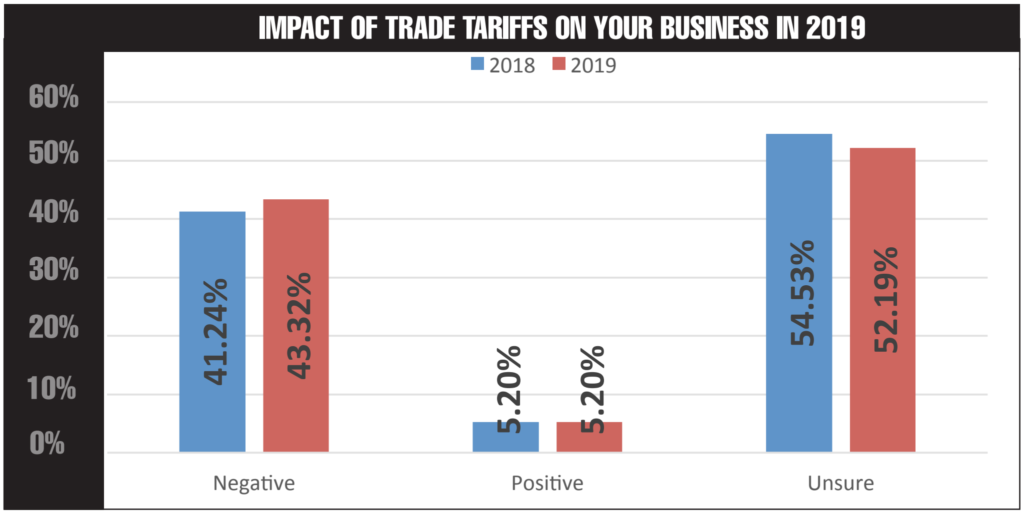
The results from the most recent survey, however, indicate that sentiments remained steady year over year. An increase of only 2 percentage points to 43% in 2019 indicated that the tariffs had a negative impact. At the same time, those who said it had a positive impact remained
at 5% compared with 2018. These results should bring a certain amount of relief to shippers that for the most part, the economy is remaining resilient in uncertain times.

POSITIVE SIGNS ON THE HORIZON?

While the trade war is a major contributing factor that is holding back the U.S. and global economies from reaching higher year-over-year growth, there are positive signs that resolutions could be reached across borders and oceans.

In January, Congress approved the United States-Mexico-Canada Agreement to replace the decades-old North America Free Trade Agreement. Already approved by Mexico, and with an expected approval from Canada to come, the agreement could go into effect this spring.

The U.S. and China also passed a phase one trade deal on January 15, 2020. Though it won't solve the entire problem, if agreed upon, the deal marks the most significant de-escalation in tensions since the beginning of the trade war. PtoP



ADDITIONAL POINTS OF SHIPPING INTEREST
AIR AND RAIL USE LAG AS RESIDENTIAL SHIPPING GROWS

In another sign of tightening supply chain practices over the past year, shippers indicate that they anticipate their use of air and rail transportation to slow this year. Although the numbers don't indicate significant declines, they do reiterate the results that were shown when survey respondents were asked about anticipated shipping volumes in 2020.

In terms of air transportation, 25.17% of respondents said they planned to use the service in 2020. This marked a 3.34 percentage point decline from the previous year (28.51%). At the same time, interest in rail services also took a hit with 19.63% of respondents saying they plan to use the service this year – a 2.71 percentage drop from the previous year.

GROWTH IN THE FINAL MILE

If there's one hot topic of conversation that shows no signs of going anywhere soon, it's the increasing demand that shippers are experiencing for residential delivery. Given that most shippers that took part in this survey primarily utilize less-than-truckload and full-load services, our question about final-mile-delivery use is particularly revealing about the growing need for residential and white-glove services for bulky and oversized products.

When we first asked shippers in 2017 if they engaged in residential deliveries, 33.63% of respondents said yes. In the most recent survey, that number reached 38.08% - more than a 4.5 percentage increase. Though this increase may seem small, it also illustrates the growth that online sales continue to have – even as other services showed strain throughout 2019. PtoP

POINT 4

PLANNING FOR THE YEAR AHEAD

A MOST INTERESTING TIME FOR FREIGHT LOGISTICS

Drawing from the results of our fifth annual survey, it's clear that 2020 may be shaping up to be one of the most interesting and potentially challenging years for carriers and shippers alike.

The U.S. and global economies, for the most part, are simply coasting along just waiting for further major breakthroughs in trade relations. If 2020 is the year that things turn around, "agreement" might just be the word of the year. Still, the uncertainty can be felt at nearly every turn of the supply chain. It seems that the more we look ahead each year, it's ever clearer how globalized economies and supply chains truly are.

On top of trade uncertainty, the trucking industry is also evolving and facing challenges. We know that regulations such as DAC will have an impact on an already strained labor pool of drivers, but it's also a necessary good for the industry and the general public. Carriers will adapt, and so will shippers.

The best fuel for growth will continue to be communication. Working together–from shipper to carrier to driver–is the best hand that anyone can bet on when the future is unclear. Know your service providers that are always willing to go the extra mile, and keep the conversation going back and forth. If there's no conversation being shared, is anyone truly listening? **PtoP**