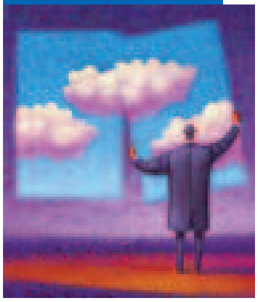

plan ahead

We are at the beginning of the end of the Freight Recession. Now is the time for the "wise" shippers to develop their transportation strategies for the turnaround.

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Over the past couple of months, many folks in the business, financial and government sectors have come to the realization that the North American economy is in a slowdown, downturn or possibly even in a technical recession. This is not news to those of us in the freight industry that have been living with a "freight recession" for some time. In fact, "freight recession" was the topic of a blog that I wrote back in April. That blog, based on the previous six months of published shipping data, outlined how we had witnessed two consecutive quarters of declining freight volumes. That was back in April.

The fact is that we have been in a freight recession for over a year. What brought this issue to the attention of the general public in the United States is the combined impact of the sub-prime mortgage mess, the drop in the value of real estate in many areas and the spike in the cost of fuel. In Canada, the dramatic rise in the value of the Canadian dollar as compared to the greenback and the impact this has had on exports to Canada's largest trading partner has had a similar impact. The decline is freight volumes has finally caught up with companies' balance sheets and income statements. It is a sure sign that consumers are not buying what they did before. December shopping data indicate that as well. There is greater anxiety about the economy among the general public at this time. The media has finally taken an interest in these issues over the past few months and this has served to raise the level of anxiety for everyone. This anxiety manifested itself in spectacular fluctuations in the stock market the past few days.

With the economy almost on its knees, the US Federal Reserve finally took drastic action with an unusual but much needed three quarters of a per cent cut in the prime lending rate and US President Bush called for the approval of a large spending initiative to "jump start" consumer buying by proposing a set of tax breaks for individuals. The question is whether this is too little, too late.

So what impact will all of this have on the current freight recession? In my view this is the beginning of the end of the freight recession. January 2008 will probably mark the date when the economies of North America will begin a slow but ultimately steady turn. Since interest rate cuts take time to work through the system, it is unlikely that we will observe any immediate change in freight volumes. The financial experts are warning that there will likely be further "corrections" in the stock market and further declines of 5, 10 or more per cent are not just possible but likely. Freight volumes will likely continue to be weak for another six months to a year.

However, the fact that the Fed has acted decisively and will probably continue to act decisively is likely to increase consumer confidence. It will likely reduce home foreclosures in the United States which is critical to a turnaround. It may encourage people to start buying real estate and cars again which have a cascading effect on so many industries. In other words, action is being taken to turn this situation around. So what can we expect in the future?

According to Noel Perry, corporate economist for Schneider National Inc. (as stated in a recent *Traffic World* article), there are three things about these economic cycles that guide supply chain behaviour:

- First, slowdowns are always followed by upturns. We just don't know exactly when the swing will begin. The wise get ready even at the cost of being early.
- Second, spot markets are more affected than contractual markets. Those buyers who are price-shopping today will have the highest prices and shortest supply when the recovery occurs. The wise will lock up capacity now, even though they could find cheaper capacity in 2007.
- Third, during a recovery, no carrier wants low-productivity freight (i.e. no backhaul, uneven volumes, low-volume destinations, uncertain loading dock conditions). Moreover, carriers have been getting smarter about such freight and will be pickier about what they accept during the recovery than the last. What does this mean for shippers? The wise will budget extra funds to ensure their promotion and emergency resupplies get through during the critical recovery quarters when margins are the best.

Industry consolidation is taking place and capacity is leaving the market. It may take time for the housing and auto parts industries and others to pick up before they impact significantly on truck capacity. It is likely that it will take four to six quarters to "turn the ship around." Now is the time for the "wise" shippers to develop their transportation strategies to best position their companies for the turnaround that is about to take place. **CT&L**

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