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How and when will this recession end?

The average forecast of the 52 economists surveyed by Blue Chip Economic Indicators calls for growth in real domestic product of 2.7% in the US over the next four quarters, with the annual rate in any one quarter no greater than 3%. It is hard to argue with these forecasts. Unemployment in the US is just under 10% and rising. Then you have to layer in the number of people who have received one or more salary cuts and the millions of Americans whose mortgages are larger than the value of their homes. These are very powerful headwinds and compelling reasons to support the consensus economic forecast.

However, "the correlation between the depth of recessions and the strength of recoveries over the last nine business cycles is unmistakable," argues James C. Cooper in the current issue of *Business Week*. In the first year after the severe slumps in 1973-75 and 1981-82, real GDP grew 6.2% and 7.7% respectively. "Like a rubber band, the economy snaps back in proportion to how far it was pulled down."

Robert J. Barbera at the research and trading firm ITG notes that after each of the past nine recessions, deep or shallow, real GDP has never required more than three quarters to regain its peak level prior to the downturn. This view is also supported by FedEx's chief economist, Gene Huang. According to Huang, the average GDP growth rate in the year following the 10 recessions since World War II was 5.4%. Industrial production has historically jumped by 10% or more in the year after a recession.

Could history repeat itself and what would that mean for the beleaguered transportation industry?

The consensus "doom and gloom" scenario fails to recognize a few key points. Unemployment has been as high or higher in previous recessions. Canadian employers added to payrolls for the second month in a row, creating a better-than-expected 30,600 jobs last month and sending the jobless rate down in a sign the country's labour market is recuperating.

Many companies have drawn down inventories and would need to ramp up production to meet an upswing in demand. The large upsurge in the stock market over the past six months, usually a predictor of better times, restored \$4 trillion in household wealth, and a 4% savings rate is adding \$400 billion a year to household balance sheets, reported Morgan Stanley. Ninety per cent of the population is working and wealthier than it was six months ago. The index of leading indicators, a com-

posite of 10 gauges that tends to foreshadow recessions and recoveries, has made a sharp upturn. Since March, the index has grown at an 11.7% annual rate, the fastest five-month pace since the 1981-82 recession.

This begs the question of how much of this growth has been fuelled by the stimulus money and how much has been generated by a true upswing in non-stimulus related business activity? If history provides us with the answer, this could be a short-lived recession with a powerful turnaround. This is clearly the minority view.

What would that mean for shippers and carriers?

- **Capacity shortages:** The slow economic recovery forecast by many economists would likely allow sufficient time for parked trucks and railcars to be methodically brought back into service and for drivers to be hired and trained. A quick upturn could result in capacity shortages in certain locations.

Significant freight rate increases

A sharp upturn in truckload shipping activity could likely trigger capacity shortages and large rate hikes. The 13 members of the Transpacific Stabilization Agreement (TSA) announced there would be a general rate increase of \$800 per FEU for West Coast-bound cargo, and \$1,000 per FEU for cargo intermodal and US East-and-Gulf-coast all-water cargo.

- **Large spikes in fuel costs:** The cost of fuel seems to defy the standard laws of supply in demand. At this point in time, there appear to be substantial reserves of refined oil. However, since the cost of fuel is so largely driven by emotion and irrational behaviour, one could argue that fuel prices could certainly return to \$80 or \$90 a barrel if there is a spike in demand. Would this be enough to keep some of the trucking companies teetering on the brink of bankruptcy from going down? Not likely.

Could this fast turnaround scenario actually happen? Have the leading economists been wrong before?

It is possible that we may be in for a "W-shaped" recovery. Although the initial recovery may prove stronger than expected, it may stall within a few quarters as consumers "de-lever." Huang expects another two to two-and-a-half years of consumer caution. The current good news may be overshadowed by more bad news as the commercial credit market takes a hit and unemployment levels rise extending the current recession. CT&L