

THE TOP FREIGHT TRANSPORT STORIES OF 2014

Among the major news stories in the world of freight transportation in 2014, the following struck me as being the most impactful.

1. The Economy - Two Steps Forward/One Step Back

US GDP grew by over 3% in 2014, its best showing in several years. A rise in employment levels, coupled with an increase in consumer spending, helped lift the American freight market. The long, slow post Great Recession recovery finally kicked into a higher gear, driving an upswing in freight activity.

However, November data highlighted a slowdown in the pace of recovery across the US manufacturing sector. At 54.7, down from 55.9 in October, the seasonally adjusted Markit Flash US Manufacturing Purchasing Managers' Index (PMI) indicated the weakest overall improvement in business conditions since the snow-related setback in January.

2. America - the Super Energy Power

At press time, crude oil was priced at ca. \$50.00 US a barrel. While bad news for the energy producers, this is good news for truckers and shippers. Heavy-duty vehicles represent 4% of registered vehicles on the road in the U.S. but 20% of on-road energy use and greenhouse gas emissions. The movement of crude oil by train has become a major source of revenue for the rails. Taken as a whole, this is a good news story for the economy and freight transportation.

3. Truckers made Big Purchases of Class 8 Trucks

Preliminary Class 8 net orders for 2014 were up 70% year/year. The most recent preliminary monthly Class 8 order number was also the highest since January on an unadjusted basis, and was the best order month since April 2011.

4. The Winter Storms of Quarter 1, 2014 - Climate Change comes to the Freight Industry

Parts of America experienced their worst winter in 30 years. The severe weather took its toll on the US's economic recovery and on the transportation systems that move goods throughout the country. Rail operators, intermodal drayage and trucking companies, airlines and marine operators all faced service failures and bottlenecks. These problems were exacerbated by chassis shortages (see below) and other problems. What did we learn from the nasty storms of 2014 and will the freight infrastructure be better prepared in 2015?

5. Tight Capacity Became the Norm in Many Parts of North America

Warnings of a tightening freight capacity have been heard for a number of years. After the rocky, wintry start in quarter 1 2014 and a second quarter freight surge to offset the freight backlog, coupled with the challenges faced by intermodal providers, this produced a noticeable tightening in freight



capacity. The tight capacity was fuelled by several other factors. The leading check on capacity was driver shortages. This has been a familiar theme in previous years. This year it became more pronounced.

6. The Incredible Choking Sound

In 2014, gridlock, delays and labour problems disrupted the flow of freight at Port Metro Vancouver, the Port of New York and New Jersey, the Port of Virginia on the east coast and the ports of Los Angeles and Long Beach on the west coast. In addition mid-western terminals, most notably Chicago, contributed to the congestion and delays. In addition to the weather, these terminals faced chassis shortages and dislocations, yard congestion, turn time problems, appointment scheduling problems, limited driver availability to perform drayage work and driver wage issues. The combined costs of these infrastructure problems are in the hundreds of millions of dollars.

7. Intermodal conversions slow down

Conversion of over the road

truckload shipments to intermodal service has been a consistent part of the Top 20 story in previous years. Many current truckloads should be moving via intermodal service, provided there is sufficient capacity available. Because of the capacity constraints noted above and the resulting deterioration in services levels, the rate at which intermodal is taking market share from the highway slowed down in 2014.

8. HOS have significant impact on trucking company productivity

The Hours-of-Service (i.e., HOS) rule change implemented by the Federal Motor Carrier Safety Administration on July 1 of 2013 did not appear to accomplish the objectives of creating a safer, healthier, and more enjoyable environment for the industry or for the scarce driver resources in the U.S. In December, two provisions of the 2013 changes to hours-of-service regulations for truck operators were suspended at least until Sept. 30, 2015, and FMCSA will be required to further study the rules and their impact before the rules can take effect again.

9. Driver Wages - “Show me the Money”

This was the year many trucking companies threw money at the driver shortage problem. In the battle to retain existing drivers and recruit new ones, carriers increased driver pay by the highest amount in decades. While many people thought that increasing driver pay would solve the driver shortage problem, it didn't. The issues are far more complex than just lifestyle but include HOS, congestion and many of the other productivity-reducing activities.

10. Higher driver wages and tight capacity - a Recipe for Higher Freight Rates

This was one year in a series of years when freight rates are on the rise. Many carriers are focused on allocating their capacity to the best paying customers. With the challenges facing the intermodal industry, this reduced the leverage available to shippers in playing the modal switching game. For shippers needing good service, they had to “pay the piper.”

11. The US Currency Strengthened as the Canadian Dollar Sank in Value

As the year unfolded, the US dollar rose against other currencies. The drop of the Canadian dollar to \$.85 (press time) US sparked a 70% year/year growth in export truckloads. It quickly and profoundly changed the north/south flow of goods across the Canada/US border.

12. The M & A movement continued in the US and Canada

Industry consolidation continued on both sides of the border. In Canada, the largest truckload conglomerate, TransForce made an offer to purchase another

large trucking conglomerate, Contrans for \$495 million. If approved this would place many of Canada's major truckload properties in Ontario and Quebec in the hands of one company.

Mullen Group Ltd. and Kriska Holdings Limited signed a letter of intent (“LOI”) in which Mullen Group and Kriska Holdings have agreed to create Kriska Transportation Group Limited (“Kriska Transportation”) which will be a new growth orientated transportation and logistics company based in Prescott, Ontario. The deal is quite different from the usual M & A deals and will be interesting to see how it unfolds.

13. Let's Work Together

More and more carriers and shippers are embracing this last frontier of efficiency, collaboration. Shippers are increasingly collaborating with each other to combine volumes, increase leverage and drive efficiencies. Carriers are collaborating amongst themselves more frequently to balance lanes and improve profits. Shippers and carriers are collaborating to share information, improve planning, and ensure adequate supplies of equipment.

14. Dedicated Transportation continued to make sense for Shippers Seeking Capacity

Rather than rely on the capacity available in the for-hire transportation industry, dedicated transportation continued to be an attractive option for companies that do not have a core competence in managing freight transportation and that wish to ensure consistent capacity. What

many shippers realize as well is that by going the outsourced route, they can achieve economies that they were not capable obtain on their own.

15. Freight Brokers - being in the Right Place at the Right Time

Freight brokers, whether tied to an asset-based transportation company or purely non-asset based, were able to benefit in 2014. For shippers, freight brokers represent a mechanism to find capacity and pricing options that they cannot find themselves. This was a year when freight brokers expanded their service footprints (e.g. LTL service) so they could deliver more value.

16. 3PLs - We can do it better than you can

The 3PL movement continues to maintain its momentum. The opportunity to utilize a company whose core competence is logistics, that has a broad network of carriers and warehouses, and can remove costs from many operations is compelling. It is not uncommon for shippers to use several 3PLs in their operation. Large multi-national companies can employ 40 to 50 3PLs. This was a very positive year for this industry.

17. Some Manufacturing is returning to the United States

Cheaper energy costs (fracking) have made manufacturing in the US more competitive by reducing logistics costs. Automation/robotics has led to increased productivity and offset the advantage of cheap labour.

18. Near-shoring comes to Mexico


The stars have aligned for Mexico. Increasing costs in China, long cycle times, port congestion, its proximity to the US and improvements in transportation between Mexico and the United States (and Canada) have served to expedite the near-shoring movement in Mexico.

19. E-Commerce spurs new Distribution Channels and New Transportation Services

Omni-channel distribution (the use of multiple service mechanisms such as stores, warehouses, home delivery) has been one of the hottest topics in freight transportation in 2014. A by-product of omni-channel distribution has been the emergence of various last mile delivery strategies such as same day delivery (or “same day insanity as described by one industry expert) to meet the changing needs to consumers. Stay tuned for more in 2015.

20. Big Data and Control Towers - Technology comes to Transportation

Of course, managing freight transportation requires data, good data and “big data.” It also requires KPIs and the technology to manage the big data. Control towers become one of the tools that some advanced shippers used to oversee their freight operations. This will be another story to watch in the years ahead.

Thank you for following this blog in 2014. To follow me on Twitter, click on @Dan-Goodwill. 



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