Economic & Trucking Update

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American Trucking Associations
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Economic Forecast Highlights:

• After a great year in 2018, back to trend growth - “Slowing, but Growing”
• While prospects of a recession in 2019 are still low, if all of the proposed tariffs actually go into effect, it raises the possibility significantly.
• Excluding tariff threat, GDP growth slightly above trend in 2019 for the year, then at trend in 2020.
• Consumer fundamentals are good, including a solid job market, but retail sales growth slows this year.
• Housing starts continue to disappoint – flattish to down slightly in 2019.
• Manufacturing activity grows this year, but at a slower rate.
• Inflation to remain subdued.
• Moderating GDP growth and modest inflation have the Fed on pause for the moment.
Real Gross Domestic Product Growth
Annualized Rates

Sources: BEA & ATA

Cannot average to get annual number.
Drivers of Truck Freight
Job Market

Monthly Job Changes
(Thousands)

Unemployment Rate
(Percent)

Sources: BLS & ATA
Wage Data

Wages & Salaries

Average Hourly Earnings
(Year-over-Year Percent)

Sources: BLS & ATA
Retail Sales

Sources: Census Bureau & ATA

<table>
<thead>
<tr>
<th>Year-over-Year Percent</th>
<th>Avg 2010-15</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Growth</td>
<td>4.7%</td>
<td>2.9%</td>
<td>4.7%</td>
<td>4.9%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Level
(Millions of $)

Sources: Census Bureau & ATA
Housing Starts are Leveling Off

**Total Housing Starts**
(Monthly; Annualized Rate; Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>H.S.</td>
<td>1.18 M</td>
<td>1.21 M</td>
<td>1.25 M</td>
<td>1.23 M</td>
<td>1.28 M</td>
</tr>
</tbody>
</table>

Sources: Census & ATA

**Single-Family vs Multi-Family Units**
(Monthly; Annualized Rate; Millions)

- Red: Single-Family
- Black: Multi-Family
Factory Output Outlook

Sources: Federal Reserve & ATA

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output</td>
<td>-0.7%</td>
<td>2.0%</td>
<td>2.7%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>
Total Business Inventory-to-Sales Ratio
(Data adjusted for seasonal, holiday, and trading-day differences, but not price changes)

Likely Optimal Range

Source: Census Bureau
Trade Policy Update
**U.S. Exports by Country (2018)**
Top 5 countries & all others
Total Exports: $1.66 trillion

- Canada: 18.0%
- Mexico: 15.9%
- China: 15.9%
- Japan: 7.2%
- United Kingdom: 4.5%
- All Others: 50.4%

Source: U.S. Census Bureau

**U.S. Imports by Country (2018)**
Top 5 countries & all others
Total Imports: $2.54 trillion

- China: 21.2%
- Mexico: 13.6%
- Canada: 12.5%
- Japan: 5.6%
- Germany: 5.0%
- All Others: 42.1%

Source: U.S. Census Bureau
2018 U.S. Trucking Employment from Truck Transported Trade

- 89,526 employed in US Trucking industry from truck transported trade
- 46,847 of which from trade with Mexico
- 42,679 of which from trade with Canada
- U.S. trucking companies paid $3.28 billion in wages, not including benefits, to U.S. drivers to haul freight to and from Canada and Mexico

2018 U.S. Trucking Revenue from Truck Transported Trade (Billions)

- $12.62 billion in US Trucking revenue generated from truck transported trade with Canada and Mexico in 2018
- $6.63 billion in US Trucking revenue generated from trade with Mexico
- $5.99 billion in US Trucking revenue generated from trade with Canada

Source: American Trucking Associations’ Economics Department
USMCA Overview

• On November 30, 2018, all three countries signed the United States-Mexico-Canada Agreement or USMCA, which is meant to replace NAFTA.
• Now, all three countries need to ratify the USMCA for it to go into effect.
• The Trump Administration is close to providing Congress with final agreement legislative language, which is necessary for Congress to ratify. The U.S. Congress needs to ratify by October or a path forward gets very difficult due to the 2020 Presidential election.
• In Canada, Prime Minister Justin Trudeau introduced implementing legislation for the USMCA to the House of Commons on May 29.
• Mexico's government recently sent a USMCA bill to its Senate for approval. President Obrador said the deal had “majority support” in Mexico and predicted that the three parties to it would ratify it “without difficulty and soon.”
USMCA Overview

• Recent action by President Trump could make the path forward for USMCA very difficult.
  • Due to the crisis on the southern border, President Trump announced that the U.S. will impose a 5% tariff on all imports from Mexico effective June 10, 2019. The White House issued a statement saying the U.S. “has been invaded by hundreds of thousands of people coming through Mexico and entering our country illegally” and blaming Mexico for not doing enough to stop it. According to the statement, “If the illegal migration crisis is alleviated through effective actions taken by Mexico, to be determined in our sole discretion and judgment, the Tariffs will be removed,” he said. “If the crisis persists, however, the tariffs will be raised:
    to 10 percent on July 1, 2019;
    to 15 percent on August 1, 2019;
    to 20 percent on September 1, 2019; and
    to 25 percent on October 1, 2019
ATA’s USMCA Efforts

Coalitions

- ATA is a founding member of the USMCA Coalition
  www.usmcacoalition.org
- ATA has participated in dozens of Congressional meetings with the USMCA Coalition pushing for ratification
- Coalition efforts have targeted House Members on Ways and Means and Senators on the Finance Committee

ATA Hill Efforts

- ATA staff met with House & Means Committee Trade Staff outside of our coalition efforts
- Industry Calls on Washington
- Will continue to work specific House and Senate offices as we move forward
- White House aware of ATA’s Efforts

Other Outreach

- ATA Submitted comments to the ITC on regarding its analysis
- Working with the Canadian Embassy
- Working with the Mexican Embassy
- Published one-pager on why USMCA is critical to the industry
- Expect Op-Eds and other pieces from ATA Comms office in the months ahead
Crisis at the U.S. Southern Border – Delaying Truck Transported Trade with Mexico

- Record number of asylum seekers entering the U.S. both legally (i.e., at POEs) and illegally (i.e., in between POEs). Expect large numbers to continue until higher summer temperatures – but so far no letdown. They recently had a daily high of over 5,200 in remote areas.
- This has put a significant strain on CBP resources.
- In March, CBP transferred 545 officers from clearing trucks to help with asylum seekers, which caused significant slowdowns at the southern border.
- April 23rd, 100 officers were returned to Laredo (75) and El Paso (25).
- April 28th, another 125 officers were returned to duty at southern POEs.
- May 12th, 75 are to return back to southern POEs, leaving a deficit of 245 officers.
- Officers replacing those returning personnel are coming from northern POEs, airports, and seaports.
- By mid-May, CBP took a total of 731 officers from POEs, airports, and seaports.
- Peak wait times are not back to normal, but down from highs in April.
- ATA has been actively involved, meeting with CBP on solutions.
- Underlying problem of lack of resources and limited overtime allowances remains despite returning officers to southern POEs. CBP recently requested from Congress more funding, which ATA supports.
Section 301 Tariffs with China

A Section 301 investigation determined that China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable and discriminatory. As a result, the Trump Administration has placed a series of tariffs on goods from China. China has since retaliated with tariffs on goods from the U.S.
Timeline of the U.S.-China trade dispute

June 15, 2018
Trump acts on his April threat and imposes tariffs on $50 bn in Chinese goods: duties on $34 bn of goods took effect on July 6, while those on a separate list of products worth $16 bn will apply on August 23

June 15, 2018
China retaliates with tariffs on $50 bn of U.S. goods, targeting U.S. agricultural products and manufactured goods

July 10, 2018
Trump escalates the dispute by announcing 10% tariffs on an additional $200 bn of Chinese goods; the tariffs will take

July 6, 2018
List 1 tariffs go into effect: U.S. and China impose tariffs on $34 bn of imports

July 20, 2018
Trump threatens tariffs on all U.S. imports from China, which would cover the remaining $262 bn of the $504 bn of Chinese goods imported to the U.S. in 2017

August 3, 2018
China threatens duties of 5-25% on $60 bn of U.S. goods after Trump threatened to raise proposed tariff rates on $200 bn of Chinese goods from 10% to 25%

August 23, 2018
List 2 tariffs go into effect: U.S. and China impose tariffs on the remaining $16 bn of imports

September 24, 2018
List 3 tariffs go into effect: U.S. imposes tariffs on $200 bn of Chinese imports and China imposes tariffs on $60 bn of U.S. imports

December 1, 2018
Trump and Xi Jinping meet at the G20 summit and declare a 90-day truce in the U.S.-China trade dispute

December 14, 2018
China agrees to temporarily lower tariffs on U.S. autos and buy U.S. soybeans

May 13, 2019
Trump announces 25% tariffs on $300 billion of imports, largely consumer goods

June 1, 2019
Tariffs of up to 25 percent on $60bn in US imported goods take effect in retaliation for US measures announced on May 13, 2019.

June 2018: The U.S. imposed $50 billion of tariffs on Chinese goods and China retaliated with $50 billion of tariffs on U.S. goods

The first and second round of Section 301 U.S. tariffs affected about $50 billion of Chinese products

List 1: U.S. tariffs on $34 billion of Chinese products were applied on July 6

Automobiles 25%
Industrial machinery 25%
Electronic equipment 25%
Medical devices 25%

List 2: Tariffs on another $16 billion of these Chinese products were applied on August 23

Antennas 25%
Motorcycles 25%
Plastics 25%

China imposed retaliatory tariffs on $50 billion of U.S. products

Chinese tariffs on $34 billion of U.S. products were applied on July 6

Soybeans 25%
Meat 25%
Seafood 25%
Electric vehicles 25%

Tariffs on another $16 billion of these U.S. products were applied on August 23

Coal 25%
Chemicals 25%
Automobiles 25%

May 2019: After delays, the U.S. imposed tariffs on a new list of goods and started working toward tariffs on all remaining goods.

### Which Chinese products will be subject to tariffs?

*The May 13 list includes almost 4,000 products, including:*

- Household goods
- Kitchenware and appliances
- Clothing
- Smartphones
- Televisions
- Sporting goods
- Pens

25% tariff

### Which key products are not covered by tariffs?

- Rare earth metals and some other minerals
- Pharmaceuticals and certain medical goods

Sources: The New York Times; US Trade Representative
ATA’s Tariff Efforts

US Trade Representative

• ATA filed comments with the United States Trade Representative’s Office or USTR requesting that containers and chassis from China be excluded from the list of tariffs. ATA was successful in the exclusion for containers during the summer of 2018, but they are back on the most recent list.
• ATA will file comments again with the USTR to try and get containers excluded from the most recent list.
• If not successful, ATA will file a formal exclusion on behalf of the industry.
Freight Market
Trucking Trends:

- Freight fundamentals are ok, not great like in 2018
- Contract freight is doing better than the spot market
- Focus needs to be on level of freight, not growth rates
- Trade policy is making it difficult to read near-term tea leaves for freight volumes
- There has been some capacity additions from
- And, some efficiencies may have added effective capacity.
- It appears that there are some new, small entrants into the industry
- Drivers market remains tight, but large pay increases seem to be helping
Total For-Hire TL Loads

(Includes Dry Van, Flatbed, Temp Controlled, and Tank Truck)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loads Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg 1993-2018</td>
<td>1.9%</td>
</tr>
<tr>
<td>2016</td>
<td>0.1%</td>
</tr>
<tr>
<td>2017</td>
<td>3.0%</td>
</tr>
<tr>
<td>2018</td>
<td>3.2%</td>
</tr>
<tr>
<td>2019 Forecast</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: ATA’s Trucking Activity Report
Spot Market Loads

Sources: DAT.com and ATA
U.S. Bank Shipments Index

(Year-over-Year Percent)

Includes TL and LTL Freight

Quarterly Level of Shipments
(Q1 2010 = 100)

Source: U.S. Bank

https://freight.usbank.com
Industry Capacity Trends
For-Hire Net Tractor Changes

Year-over-Year Changes

- 2016: -1.8% Total TL, -2.4% LTL
- 2017: -0.2% Total TL, 0.2% LTL
- 2018: 1.0% Total TL, 1.0% LTL
- Jan-Apr 2019: 2.6% Total TL, 2.5% LTL

Includes company and independent contractor equipment

Source: ATA’s Trucking Activity Report
For-Hire Truckload Tractor Data

Company & I.C. Power Units
(Year-over-Year Percent)

Source: ATA’s Trucking Activity Report
Large TLs: Company Tractors vs Independent Contractor Equipment

Index: January 2017=100

Source: ATA’s Trucking Activity Report
U.S. Used Class 8 Tractor Exports

Units


* 2019 is a YTD annualized rate

Source: Census Bureau
For-Hire Truckload Revenue per Mile

Includes Dry Van, Flatbed, Temp Controlled, and Tank Truck
Excludes Fuel Surcharges

Source: ATA's Trucking Activity Report
The Driver Situation
Truck Driver Turnover Rates

All rates are annualized

Source: ATA
Driver Shortage

Source: ATA's Truck Driver Shortage Analysis 2017
The natural market reaction to any situation where demand outstrips supply is that price increases.

This is no different in the driver market. Pay rates have been, should be, and will continue to rise as long as demand is higher than supply.

However, pay rate increases have outpaced driver earnings as drivers are not getting all of the miles that they used to due to the changing supply chain and other issues.

Fleets that used to get 125,000 per year on their trucks struggle to get 100,000 miles today.
WHAT ELSE CAN BE DONE?

• DRIVE-Safe Act/Younger Drivers
• Improve driver efficiency/driving time – Reduce driver waiting times to increase driver miles
  • 8,500/month to 9,000 = 5.9%
  • 8,500/month to 9,500 = 11.8%
• Female Drivers
Thanks

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