



Evans State of the Market – Mid-Year Review, Aug. 3, 2021

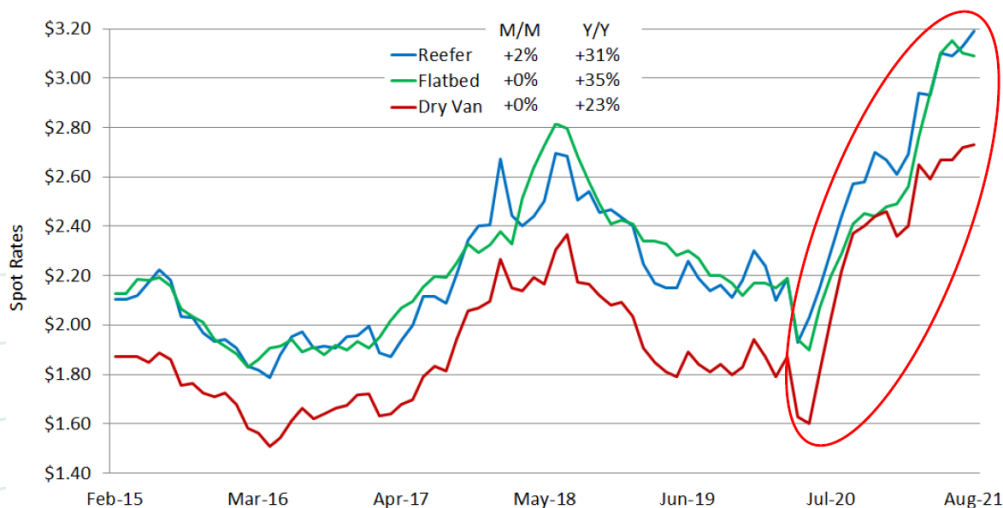
Offentimes it is difficult to understand how we got to where we are today, and is even harder to see what lies ahead. So, we pulled together some of the best talent at Evans to help illustrate what has transpired and where are we headed.

LTL /TL Covid Disruption

In 2020, we saw drivers and office employees laid off due to the pandemic's initial freight impact. Then the entire interaction process around LTL had to change due to the overall safety concerns. This caused a delay in how carriers were handling and processing freight.

When the unexpected surge in the marketplace happened in mid-2020, the carriers were not prepared to onboard at the same speed. Many drivers were either reluctant to come back on board due to health concerns or they were comfortable with the income from federal and state unemployment.

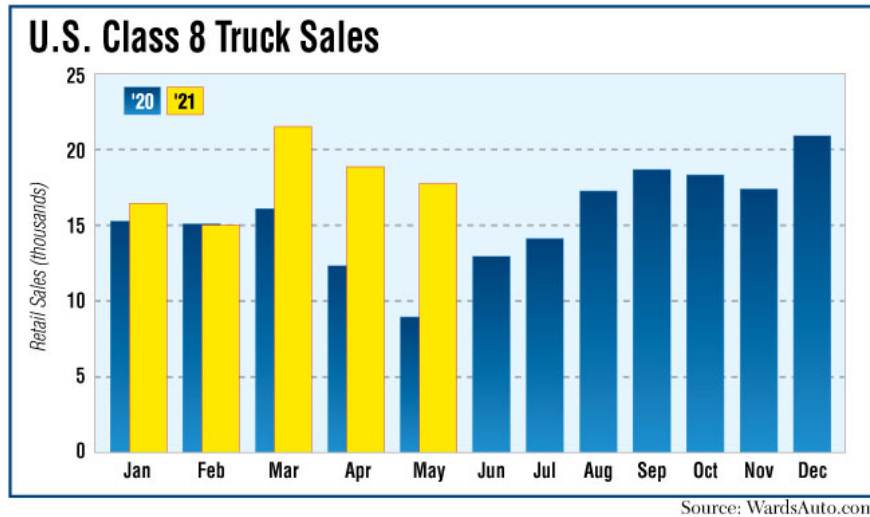
Now that almost every company in the US is looking for employment, carriers are having to compete for talent. LTL carriers can fill the local positions a little easier compared to the long-haul positions. A lot of that talent enjoyed time spent at home with their families and are now seeking positions that keep them home. Now, if carriers had enough drivers and dock workers, they have a lack of resources to service the increased freight demands that have taken off. We are still well below the level of pre-pandemic carrier employment but are hitting record freight levels.



Source: DAT



Another bottleneck includes carriers not being able to purchase tractors and trailers fast enough. The primary challenge is due to production log jams lead by the microchip shortage. Factoring in the record level cost of raw goods, to manufacture the equipment like steel, it becomes a challenge to get caught up.



Another barrier for the LTL carriers is that they are heavy users of real estate due to the hub and spoke models. Real estate is at an all-time high, and we are sitting at a 4% warehouse vacancy level, which has never been seen before. This creates a challenge for carriers to expand networks quickly to prepare for ongoing heightened freight levels.

Rents rise in each region of the U.S.

Overall weighted asking rents for all industrial property types

2021 Q1 2021 Q2

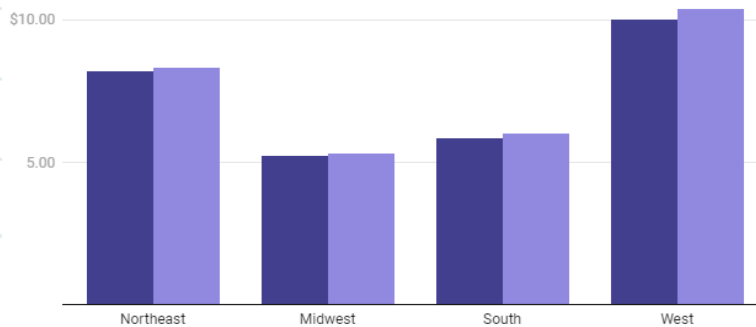


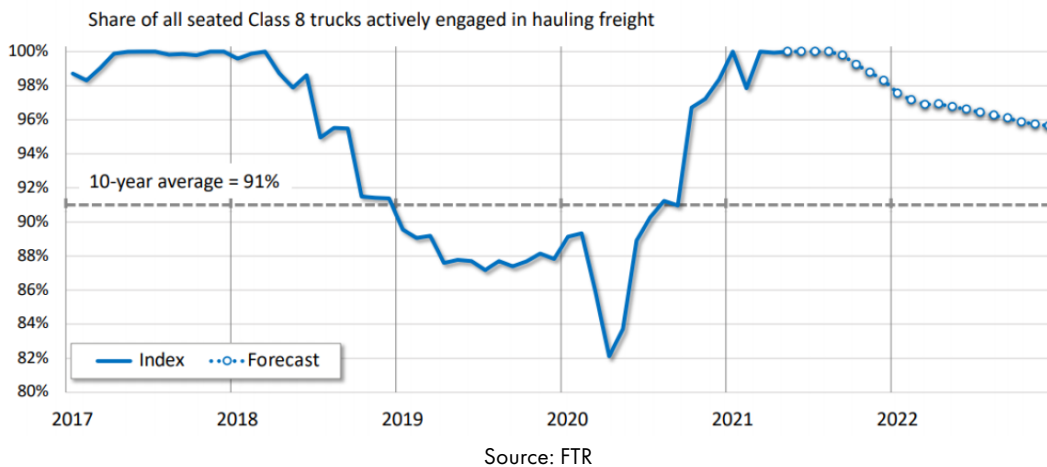
Chart: Shefali Kapadia / Supply Chain Dive • Source: Cushman & Wakefield • Get the data • Created with Datawrapper



Driver Shortage

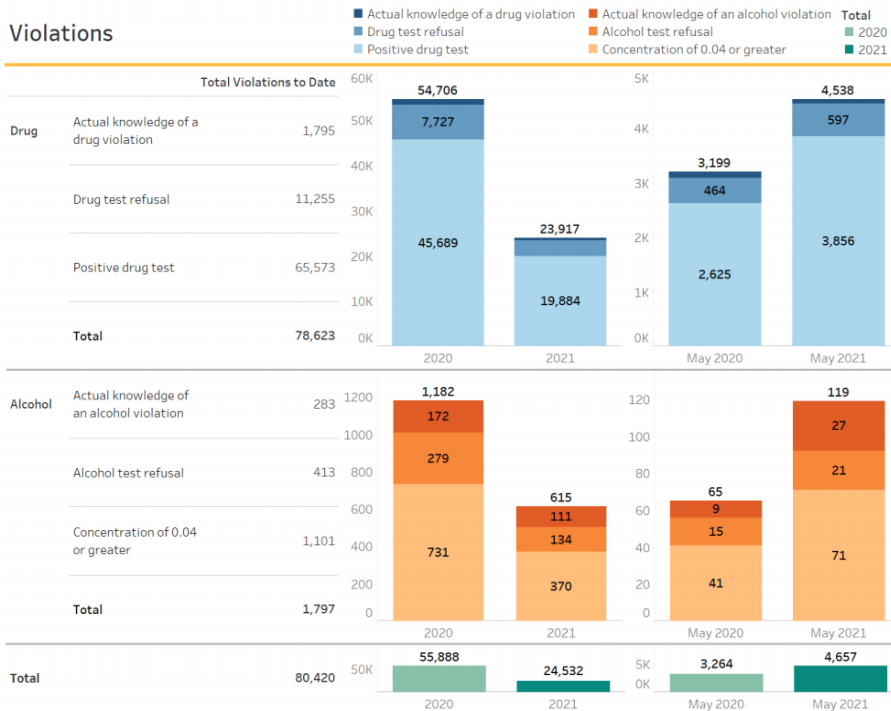
This is a topic that has been brought up for several decades now. We have flirted with it in the past and saw a glimpse of it after Hurricane Harvey and the ELD mandates in 2018. We have seen driver utilization soar over the 95% mark in mid-2020 to holding strong at nearly 100% the entire year of 2021. When we hit that 100% mark, that means every driver is behind the wheel at that given time. When you have that tight of a market, the highest bidder usually wins.

Active truck utilization



Truck utilization is also impacted by the pool of qualified candidates. The employee pool that drivers are selected from is typically the same pool of employees that work in the construction industry and in warehousing. Both of those industries have seen record level pay increases as well. It seems the scenario of swinging a hammer and sleeping at home wins over driving 10 hours a day and sleeping in the truck.

One of the more recent changes in the industry that has had a profound impact on drivers is the start of the Drug and Alcohol Clearinghouse. Prior to the Clearinghouse, the government would track performance violations at a carrier level. Now with the adoption of the new Clearinghouse, they can track it at the driver level. In the past, if a driver had an issue, the carrier would get a ding and the driver would jump to another carrier. Today, they are tracking individuals and keeping them from working with another carrier. In 2020 alone, there were a total of 54,000+ violations (another 24,000 from Jan-May of 2021). Of those, only a very small fraction even tried reentering the marketplace as a driver.



The graph to the left illustrates the number of violations reported to the Clearinghouse since January 6, 2020.

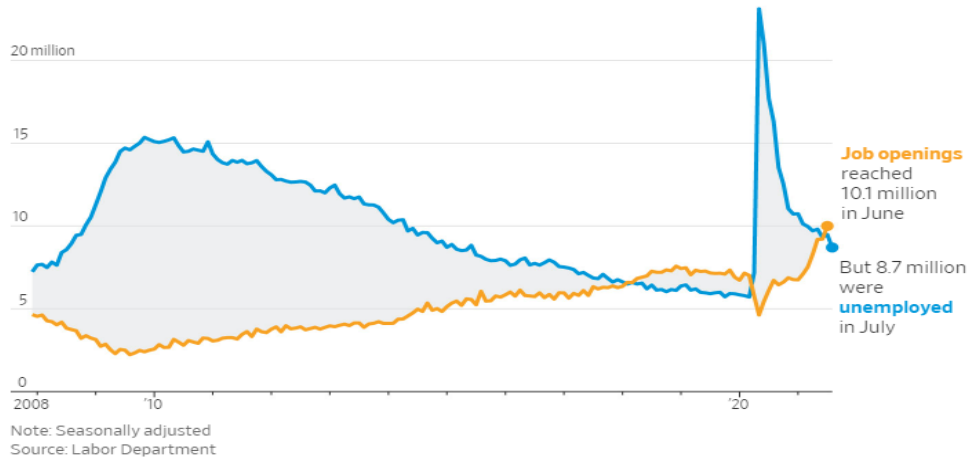
Violations reported or modified through May 2021, as of 6/1/2021.

Source: <https://clearinghouse.fmcsa.dot.gov/Resource/Index/monthly-report-May2021>

Looking back in time, another area that has plagued capacity has been the age you can legally drive a full tractor trailer. To be a long-haul driver, you must be 21 or older. Some states have intra-state laws, but for the most part you must be 21 to be a driver. Most young adults out of High School that do not pursue a college education look for trades they can jump straight into. To be a driver, you would have to delay your career for 3 years. By this time, most young adults have already embarked on a journey that is providing them the financial support they were looking for.

Fast forward to today, this is not just an issue that is plaguing transportation. Shippers are feeling the pinch with dock and warehouse workers. There are good signs with the unemployment rate dropping to 5.4%, which is the lowest since the pandemic. We still have 8.7 million people unemployed on top of a record number of jobs available at 10.1 million positions. Until there are some major changes in the federal law, major pay increases, driver retention strategies, or a major headwind with autonomous vehicles, there may not be any relief in the near term.

Job openings and unemployment level in the U.S. since December 2007



Source: https://www.wsj.com/articles/millions-of-americans-are-unemployed-despite-record-job-openings-11628587802?mod=hp_lead_pos5

Weather

Despite this hurricane season being relatively calm, experts are still saying it will be extremely volatile. It only takes one major landfall, and the entire US freight network could be disrupted for weeks, if not months.

NOAA Atlantic hurricane forecast 2021

	Issue Date August 4th	Average (1991-2020)
Named Storms	15-21	14
Hurricanes	7-10	7
Major Hurricanes	3-5	3

SOURCE: NOAA

Another major mother nature-related event is this year’s wildfires. It seems like every year we break new records with wildfires. Currently in California, drivers are having to reroute- not because of the fires, but because of the smoke that comes with them. The visibility in certain areas is so poor, they cannot make it through safely. Some of the smoke clouds can travel several hundred miles. This is impacting service levels on top of higher-than-normal freight demands.



For newcomers in the transportation industry, it seems farfetched that a weather event in one state could impact the entire US. However, we saw this with the record freeze in Texas this winter. The transportation industry is a finely balanced spider web of interactions. One adjustment could cause a major impact on the other side of the US. Drivers need to be able to get into and out of areas in-order-to keep the balance.

A high-level example is a carrier that has a typical triangle route. They pick up a shipment in Chicago and take it to Dallas- they then pick up a shipment that goes to New York, then back to Chicago. In the scenario of the Texas freeze, they could no longer take that shipment to Dallas. In return, the shipment in New York will go missed as well. This is not an uncommon practice in the industry.

Ports

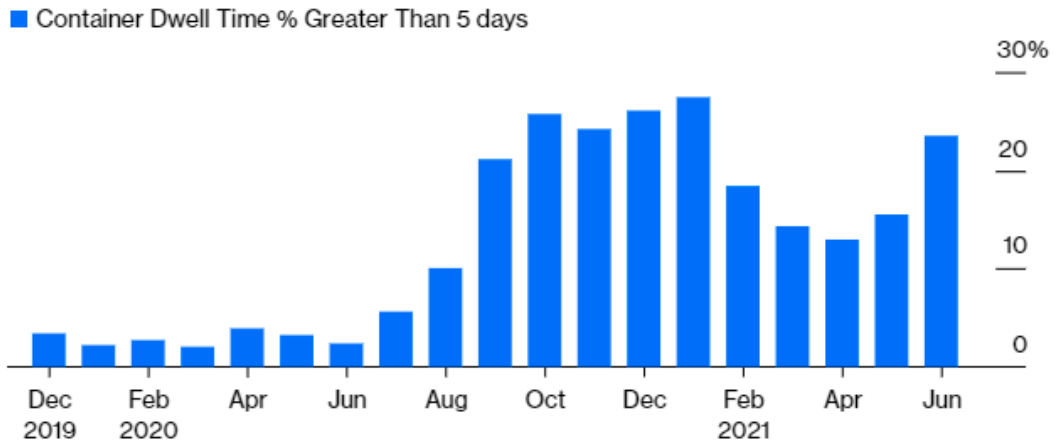
Like the rest of the world, international shipments came to a screeching halt in 2020 until everyone got a grasp of the new reality. With the panic buying and eventual federal relief packages, freight from overseas came screaming back with vengeance.

There were not enough ships, nor containers for the demand from the US. The immediate push caused record level delays with steamships anchored outside Los Angeles and Long Beach. That dwell forced some to reroute their containers thru east coast ports like Savannah. The demand was so high that the glass ceiling of \$10,000 for a FEU (Forty Foot Equivalent container) was surpassed. The same rate a year ago was \$3,000 and in 2019 it was at \$1,500.

We were finally getting freight to the shores of the US but due to Covid precautions and lack of dock workers, the offloading time was slow. On top of that, the same bottleneck was happening with drayage carriers pulling the containers. These containers are either stripped in warehouses close by or put on rail to areas inland, like Chicago. The congestion backed up many rail ramps and it was taking weeks to even get to the containers. The rail stopped LA to Chicago rail traffic for days until they were able to catch up.

More recently, we finally started to see some relief. The ports were getting caught up to some extent until about three weeks ago. The warning bells are starting to go off again with ship anchorage times starting to pick back up. Buyers, in a panic to not miss a probable record Holiday season, ordered early. The holiday push has already begun, and we do not see it slowing in the next couple months.

The current thought is if you do not have your freight in the US by October, it will not see the shelves for holiday season.



Source: <https://www.pmsaship.com/wp-content/uploads/2021/07/June-2021-Container-Dwell-Time-Press-Release.pdf>

Fuel

Fuel used to be a major topic, as the fluctuations were frequent or on a continual rise. The past few years, fuel has been an afterthought, as it has been extremely steady. Now, fuel has had a major jump this year and it is still unknown what it will look like for the next year, let alone the next 5 months.

The fuel adjustments happened with the global demand tanking due to everyone working from home or not working at all. As Americans are ramping back up, the demand is shooting up and everyone seems to be struggling to be fully ready for it.

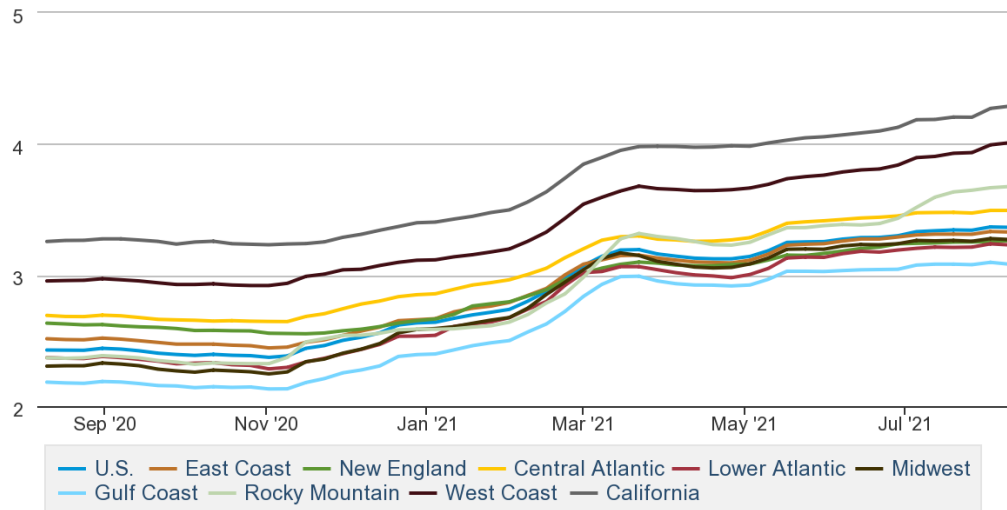
Another major impact was the lack of drivers to support the delivery to the pumps. Drivers who drive tankers are even more rare than drivers of a normal dry van trailer. They must have specific certifications and training. These do not come lightly and are typically held by seasoned drivers.





On-Highway Diesel Fuel Prices

(dollars per gallon)

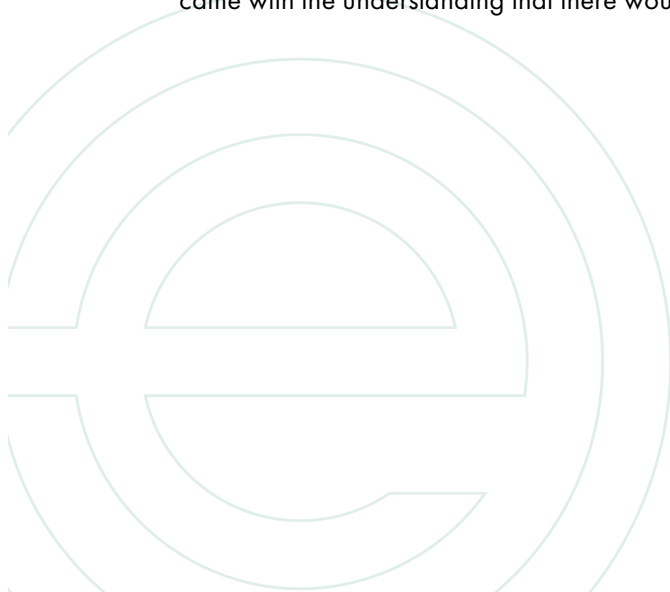


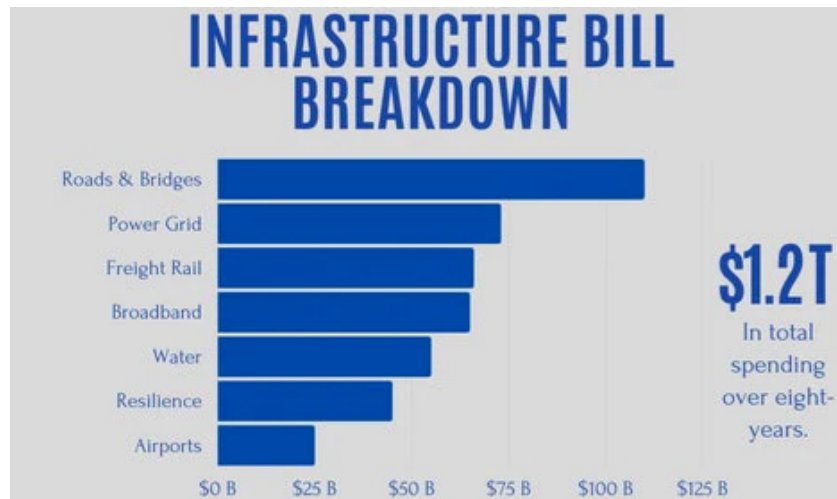
Source: Energy Information Administration

OPEC does not play as much of a role in the rise and fall of US Oil and Gas prices, but they are still important, nonetheless. The countries involved in OPEC recently came to an agreement to increase output but not to the extent of what others would like to see. The White House recently announced they will attempt to have open discussions with OPEC to open the tap a bit more. It is still uncertain what fuel will do in the coming year, but many forecast we will see a slight climb at the pumps for the next year.

Infrastructure Bill

When looking at future disruptors, the biggest offenders would have to be the Infrastructure Bills being worked in DC. A bipartisan committee came to an agreement on a \$1 trillion package. That agreement came with the understanding that there would be a \$3.5 trillion dollar Bill to follow.





Source: <https://www.forconstructionpros.com/business/article/21591040/top-10-construction-stories-this-week-whats-the-senate-got-for-infrastructure-and-how-well-pay-for-it#&gid=1&pid=10>

Although they are now going to one another for further debates, if either one of these Bills makes it into law, we are going to see a market tighter than what we see today. Capital will flood into infrastructure, pulling workers for the construction driver pools and warehouses. The unstable flatbed market will get even more unstable, in order to service the major construction projects that follow.

Wrapping Up

Know that you are not alone in these crazy times. Everyone with freight to move is feeling the pinch from multiple angles. To fix the current state of your supply chain, it will not be a quick sprint to the finish line, or even a marathon. We think of it as more of a Triathlon. It will be a process with multiple stages of complexity before we cross the finish line.

One of the best pieces of advice we can give is to be open and transparent from the start. Being open about your current situation allows your partners to help build better solutions. Do what you can to be the best Shipper of Choice you can be. Flexibility and willingness to work with carriers will make it more favorable for them to pick up from your dock. Finally, be open to change. We understand not everyone has the capital or manpower to make major organizational shifts. However, everyone can make small shifts in their processes to help alleviate some of the capacity constraints in the marketplace.

Here at Evans, we have devoted professionals ready to help you navigate the current challenges in your supply chain. Reach out to your Evans contacts to learn about the #EvansExperience today!