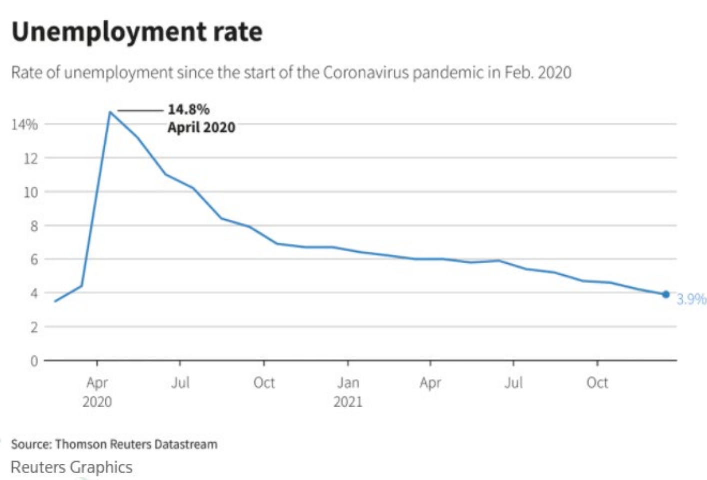
2021 Recap and 2022 Crystal Ball

When you step back and reflect on the year 2021, it is hard to believe how much we endured as an industry, an economy, and a country. If we look back to last January, it seems like it was five years ago. It will be from our struggles and challenges last year that we enter a new chapter of our ever-evolving supply chain. Let's take a step back and understand where we came from in 2021 to help us know what is ahead of us in 2022 and beyond.

A Look in the Rearview

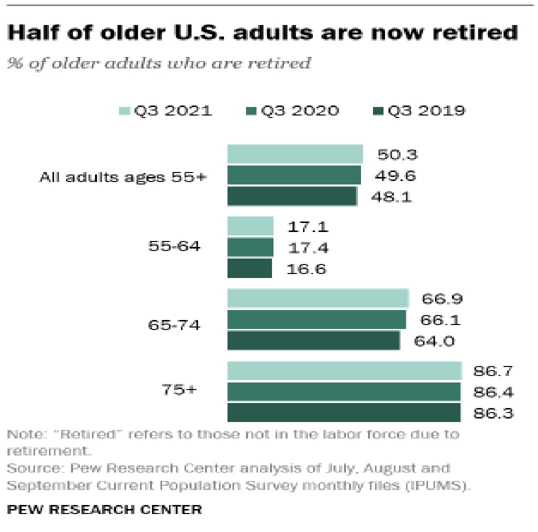
Covid Continues

Throughout last year we learned to live with what most are calling the "new norm." We created new laws and self-imposed rules on how we should interact and live with new variants of Covid. Each State and Company enforced its guidelines around Covid, but for the most part we have eased the restrictions. We did see the evolution of new variants, that are even more contagious than the original strains. However, the hospitalization and death rates from the new variants were much lower. Yet, despite the fear of infection, many began to return to work as unemployment rates have returned to pre-pandemic levels.

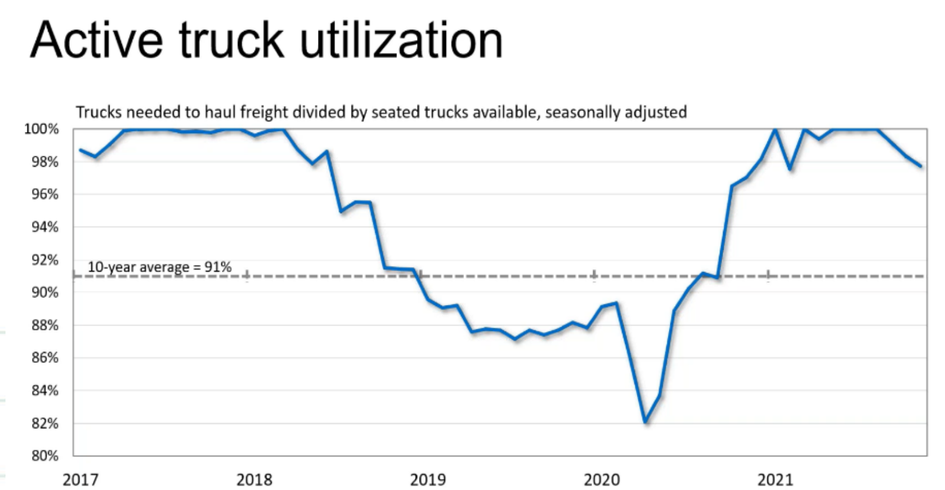


Shortages Everywhere

If there is anything 2021 will be known for, it will be shortages. One of the most significant shortages was people. In almost every industry labor is needed. If you do not have a "Now Hiring" sign in the window or job posted online, you are in the minority right now. A major factor that led to the lack of employees was the volume of people retiring last year. In 2021 we had 1.5 million more people retire than the trends predicted. We had the older group of Baby Boomers holding onto their careers and the younger group of Baby Boomers who saved enough to retire early. The mass exodus of management and middle management has led to what some call the "Great Resignation."

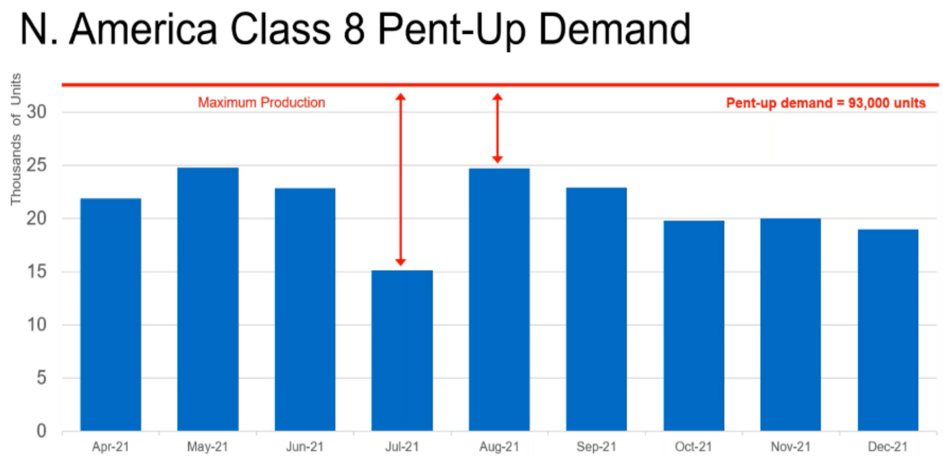


The labor shortage was even more impactful to the trucking industry, with the average age of a truck driver being 48 years old. When you add that you cannot obtain a Class A license until the age of 21, many candidates fall into another trade before even being eligible to drive a truck across state lines. For most, this is still a challenging lifestyle even as the average pay for drivers pushed higher than the years past.



Source: FTR Transportation Intelligence

Another significant shortage was with microchips. They are in everything from toasters to a Tesla. We had a bottleneck of production due to Covid and increasing demand for products requiring more technology. An average gas vehicle requires around 300 microchips, while an electric car takes over 3,000. Even our toothbrushes need microchips now. These same shortages have led to many electrical items missing in our everyday lives. We have had a hard time ordering computers, cell phones, and cars. The same issues exist in the transportation industry as well. Even if we did not have a driver shortage, we still would not have enough tractors to put them in. Currently, there is a pent-up demand for 93,000 Class 8 vehicles.



Source: FTR Transportation Intelligence

Although microchips and labor are 2 of the most significant shortages, we see targeted shortages on the shelves of retailers and grocery stores as well. If you do not get a few items on your shopping list, chances are you will get them on your next run. It has become an economy of inconveniences and finding supplementary products that will get you by.

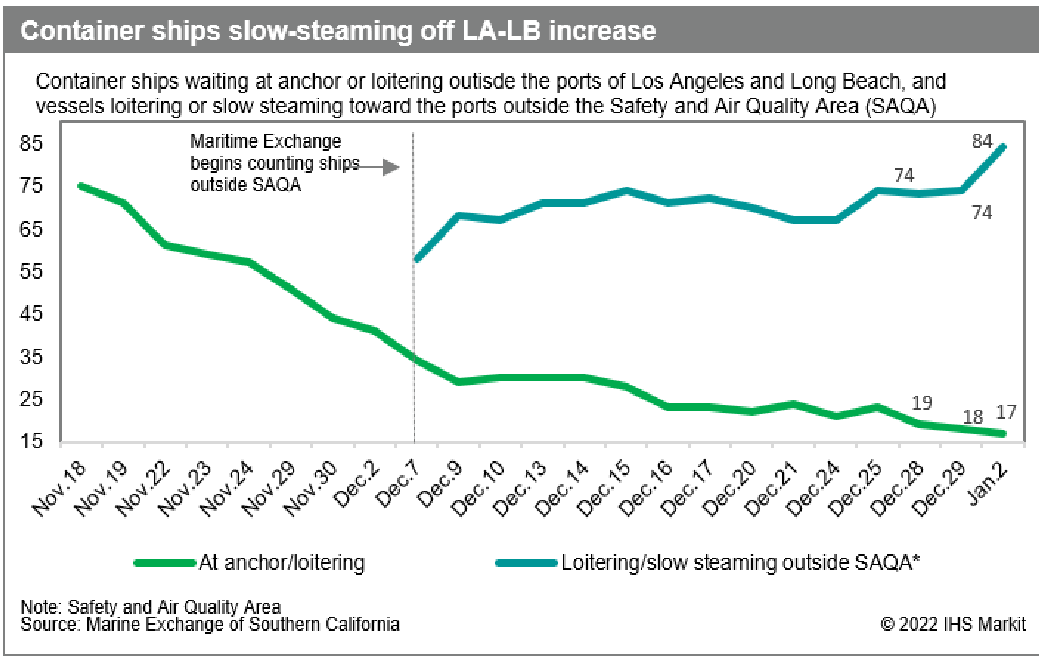
Never Relenting Weather

There was not a major weather event we did not see in the past year. We had a snowstorm that knocked out the whole state of Texas, leading to the first billion-dollar disaster to heatwaves that hurt the Northwest. Hurricane Ida was disastrous and even caused a refinery to shut down for good. We had wildfires in the west that decimated an entire town. This past December there was even an abnormal tornado outbreak. Individually, each event does not cause significant market shifts. However, the weather events happening one after another did not allow the market to catch back up.

Continued Port Congestion

When looking at the US's port distribution, some may say we are over-leveraged, with 40% of all imports shipping through the LA/Long Beach terminals. We had the original choking of the ports when the first wave of containers came from Asia after opening back up in mid-2020. Since then, we have not been able to catch our breath. Instituted fines would have led to millions of dollars a month coming in. However, the penalties were put on hold because the authorities advised that they had improved their dwell times and that the ports could perform more ideally. Month over month, ports have hit record highs in both containers imported and ships anchored at sea. Then there were threats of adding fees for containers sitting too long at the docks.

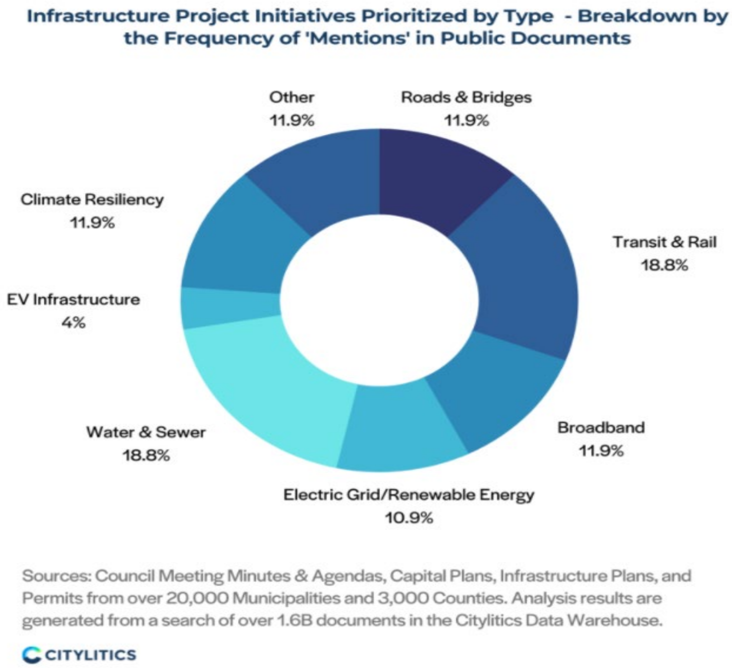
However, shortly before the discussions of the fines, the ports changed their rules. They advised the carriers to slow steam into the ports. Then when they got to the 100-mile mark, they had to sit at anchor. The definition for determining if a ship is at anchor in port is within 40 miles. We have all seen the ships sitting 60 more miles out, and we are currently sitting at well over 100 ships at anchor.



Infrastructure Bill Passed

This past year was a balancing act on what would pass and what it would look like. Would there be one Bill or two? After many attempts, the Infrastructure Bill passed in September for $1.2 trillion. However, the secondary Build Back Better bill was not passed with the core Infrastructure Bill as planned. This does not mean it is entirely dead. We should expect more debating in 2022, and depending on how this year's elections go, it could sway one way or the other.

No matter the side of the aisle you fall on, our country needs updates to our highways and bridges. $550 billion is for roads, bridges, and other primary transportation needs in the bill. The passing should allow for work to start sometime this year. When the capital for these projects starts getting spent, we may see rising costs and further transportation challenges.



Summary

We found the idea that "things can only get better" does not always hold true. Many believed that was the motto going into 2021, yet we continued to hit record figures as the year progressed. We saw historical costs, month after month of record indexes, and never-ending bottlenecks. Now that we all have learned from our experiences in 2021, this year may not get "better." However, everyone is now better equipped to understand and manage their supply chains as we move forward.

Taking a step into 2022

Although it is early, everyone should be in a better position in 2022. Last year's education will help many not be surprised with blown-out budgets or unforeseen supply chain delays. Transportation may have been a side note for most businesses in past years; it was never front and center and was rarely in the news. Today, everyone is talking about it. To prevent a repeat of the past two years, we need to continue to educate ourselves on the current events and trends. Let's go into a few key topics that could shape your 2022 and the future of your supply chain.

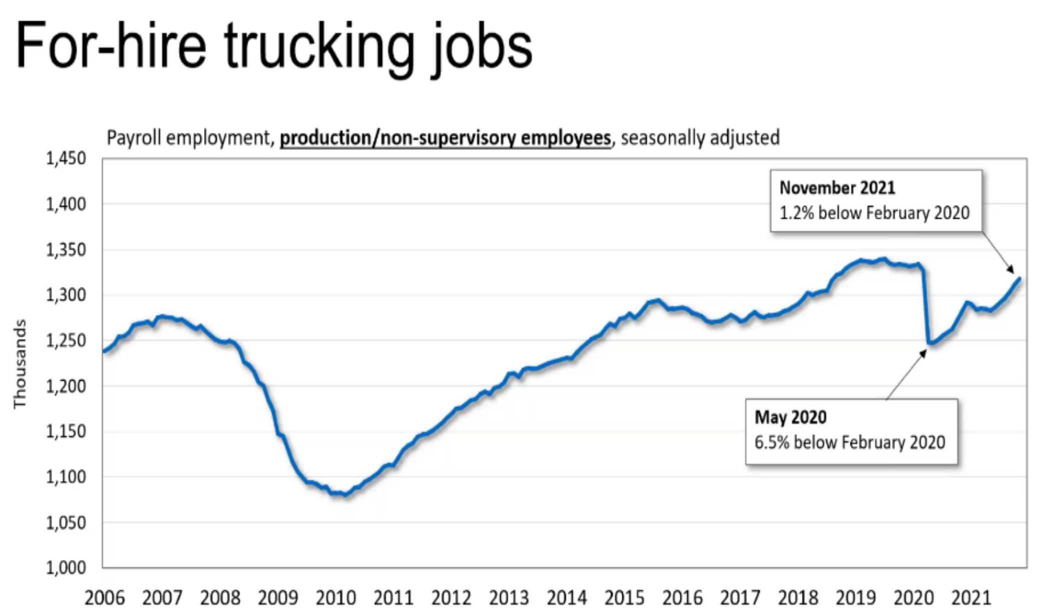
Covid and the Supreme Court Decision

Many analysts say we are on the final uptick with Omicron before Covid becomes less of a driving force in our day-to-day lives. Covid could become more of a seasonal virus like the flu or even become a less common illness to catch. That does not mean we will see the precautions companies and governments have put into place suddenly disappear.

EVANS

An impactful headline here in early 2022 was with the recent Supreme Court ruling on vaccine mandates for large companies. Last year the current administration set into motion the tracking of vaccines or weekly testing for companies of 100 or more employees via OSHA. The thought process was to keep the public safe from further outbreaks and deaths. Such a mandate is the impact on the already hurting labor force. If a mandate were to go into effect, the financial burden and physical burden of tracking the compliance might become overwhelming. Any misstep and the companies were looking at significant fines. Most industrial workers and those in the trades are anywhere from 40%-70% vaccinated.

Since the line in the sand was 100 employees, larger companies could have seen an exodus of employees unwilling to get vaccinated. The transportation industry is in the same boat. The ATA and OSHA agreed that single long-haul drivers, for the most part, will not be affected. It would be local drivers, such as LTL, who have day-to-day interactions with dock personal. If the mandate had gone into place, we would have seen several drivers steer towards the long haul or leave the industry altogether.

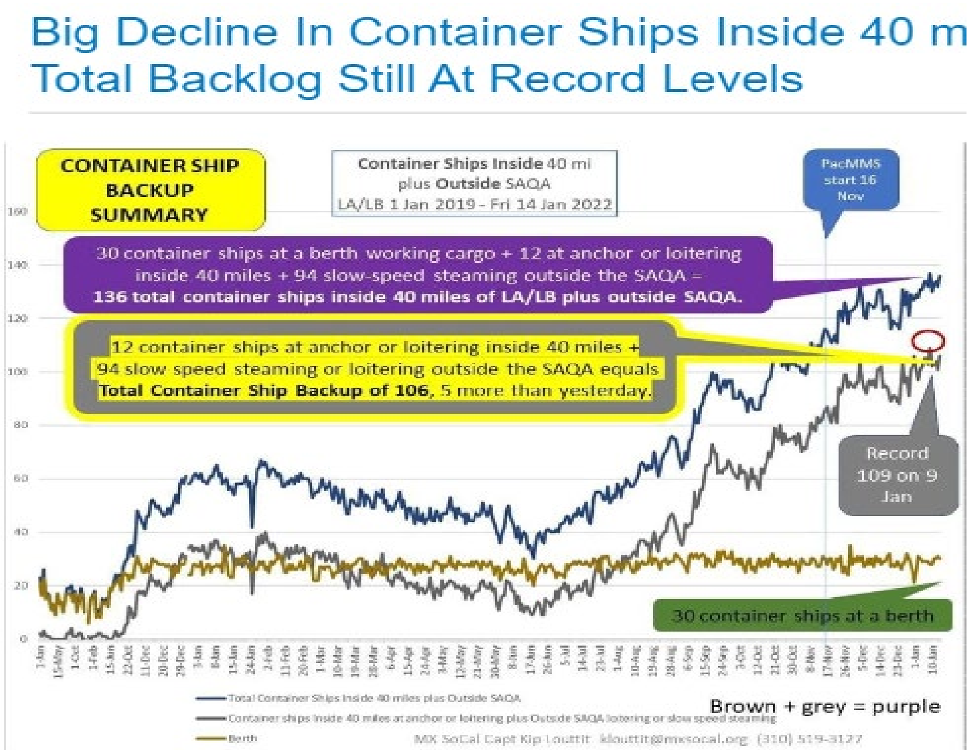


Source: FTR Transportation Intelligence

Fortunately, the Supreme Court came in before the OSHA regulation officially took off. The justices ruled in a 6-3 decision that OSHA does not have the right to mandate vaccinations. They did have a side ruling that allowed for providers of Medicare and Medicaid to require vaccinations. It does not mean that the idea behind vaccines is dead via the government, but for now, it is non-enforceable. We will continue to see the occasional mask requirement and some businesses requiring vaccinations.

Port Congestions

This could be one of the more confusing messages throughout last year and this year. We are being told that we are in a much better position than last year, and it is only getting better. They even placed the fines on hold due to the backlog improving. Despite the redefinition mentioned earlier in the article and without diving deeper into some of the other issues, it would seem congestion could trend in a positive direction soon.



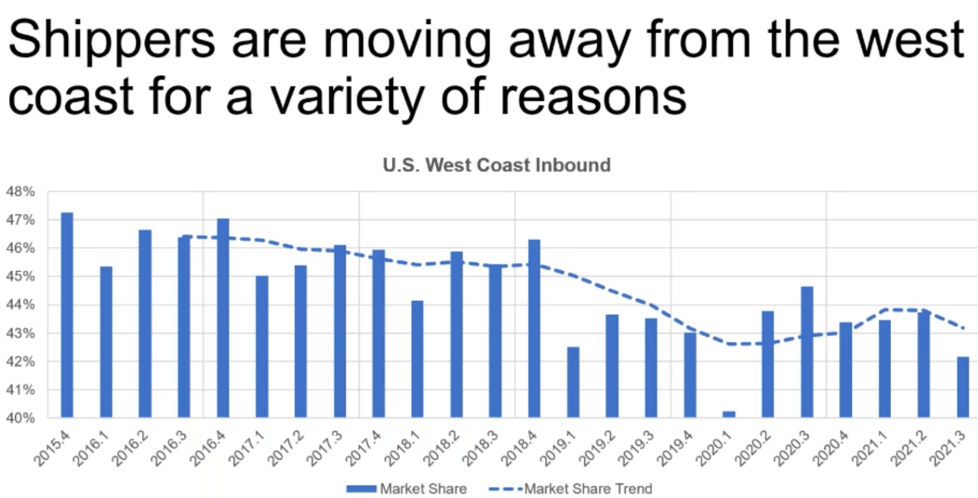
Source: Marine Exchange of Southern California

Unfortunately, there are a lot of other factors that will come into play this year outside of the labor crunch and the lack of infrastructure to support the volume of containers. First, with China's zero-tolerance policy, they are forcing businesses and areas to shut down if there are any positive cases of Covid. In addition, they are already seeing major stoppages due to their ongoing energy and water crises—all this leading up to the Chinese New Year here in February. The country shuts down for 2-4 weeks while families celebrate the New Year. Despite the government's involvement, families may still get together for the holiday, creating another opportunity for a potential outbreak.

On top of potential infections, Chinese New Year causes many workers to quit and seek other employment. If that floodgate opens, it will be just like the massive influx that started it at the onset of Covid. In return, this may likely cause delays in manufacturing and exporting of goods headed west to the US. Although, that could be positive and help with some of the backlogs.

Another major event taking place this year is the contract negotiation of the longshoreman. The contract extension is set to expire in July of this year. There was an attempt to add another 1-year extension to the contract, but it was denied as the power currently in the hands of the workers.
The biggest fear is a repeat of the stoppages in 2014 and 2015. During the last rounds of negotiations, we were shocked at the 40-50 ships waiting to unload. Container movement and traction came to a halt. If we hit the same issue in today's market, we could have ships sitting outside the ports for months. We all hope the situation does not come to an even more prominent head, with Chinese policies and contract negotiations. Hopefully, we can all come together and make sound choices to keep freight movement flowing smoothly.

Reevaluation of Overseas Supply Chain
After the significant halt of goods from Asia at the onset of Covid and the major backlogs at the ports, many companies are reevaluating how they receive their goods or where they manufacture them. Do they reroute their freight to a different port, or do you become more aggressive? The main goal is to mitigate their risk and exposure to forces outside their control.



Source: FTR Transportation Intelligence

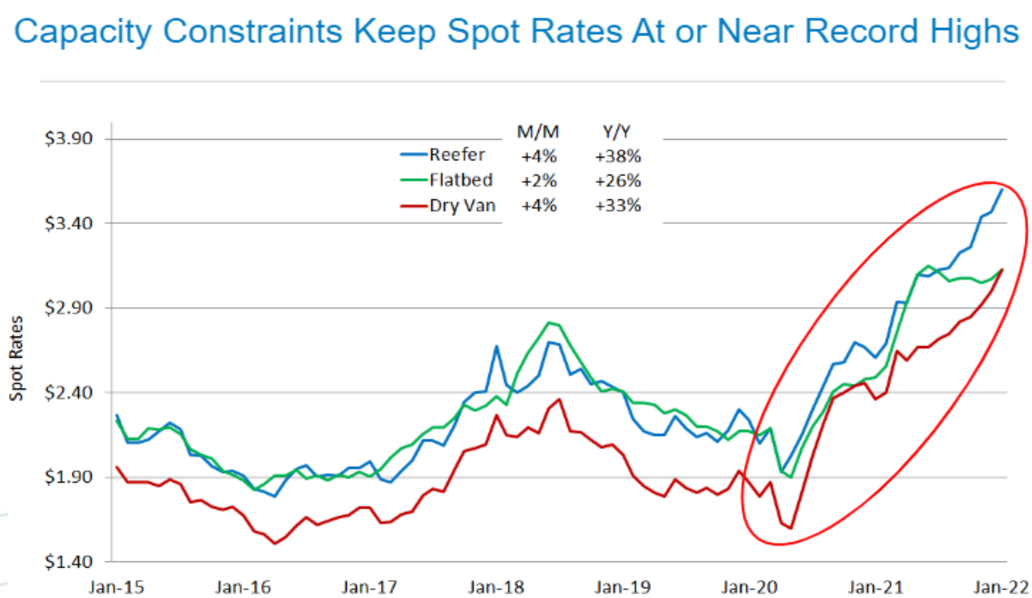
The origins of offshoring your supply chain and manufacturing stemmed from cost savings and just-in-time production. Until the recent pandemic and supply chain woes, we have not seen the JIT process fail in this magnitude. There are a few strategies companies are exploring could impact your manufacturing or supply from overseas.

The first change is not a new concept but is gaining steam: the idea of regionalization of facilities versus having a core production facility. Regionalization is the idea of taking one manufacturing facility and spreading it between several strategic locations. The concept allows you to pivot if a disaster or crisis occurs at one facility. This model will enable you to be nimble.

Another shift that has gained steam is reshoring. The thought of reshoring manufacturing and supplier network helps eliminate the barriers of transpacific transportation. Some drawbacks to bringing your locations back to the US include a potential manufacturing cost increase. However, this is traded for lower risk in transit delays and typically lower transportations costs.

The final shift we see in today's market is nearshoring, bringing the locations closer to home and not an ocean away. Here in the US, that would mean Canada, Mexico, or Central America. The most popular lately has been a trend towards Mexico, as companies look to grow their footprint south of the US. One challenge we have seen there, is the infrastructure to support the growing popularity. However, as that improves over time, it could only strengthen our economic stability.
Even if your supply chain does not have a significant footprint or connection to overseas production, thinking about your risk and exposure to these concepts will help you navigate your overall business better.

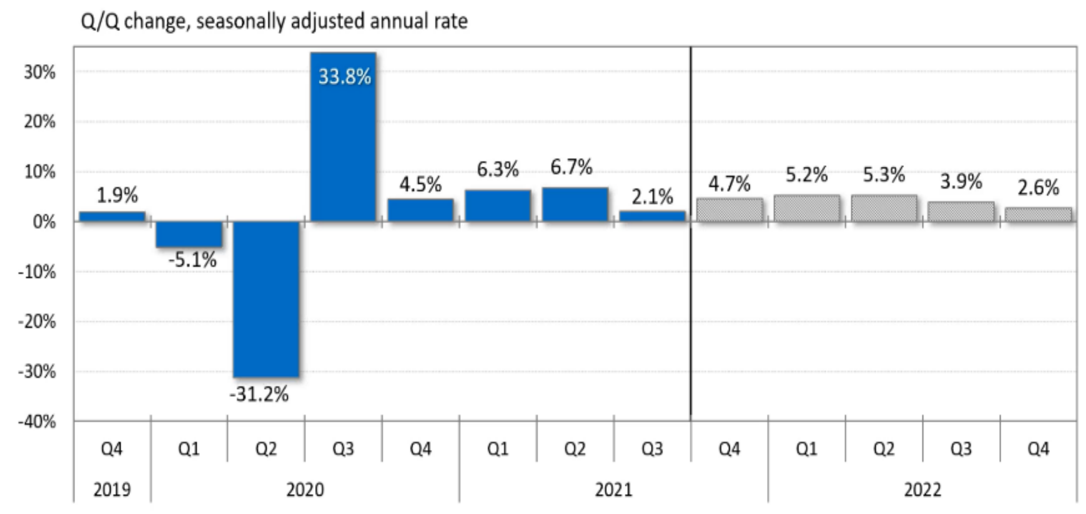
Price Increases
Whether you saw it on your shelves at the grocery stores, the purchase of a new vehicle, or in your freight spending, there is no doubt we saw pricing increases across the board. We are amid inflation, and it may stay for a bit. Many factors increase the cost of goods, but it boils down to the supply and demand of labor and raw goods.



Source: DAT

Unfortunately, we may not be at the peak of freight costs. You should expect pricing increases to happen this year, no matter the mode. However, the growth percentage will not be that high as we start to have tough numbers to compare ourselves to by the end of March.

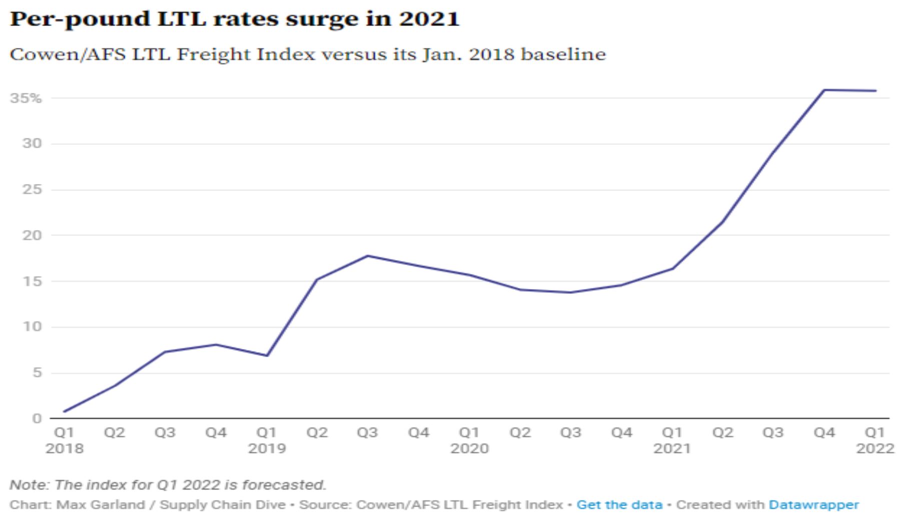
Real GDP



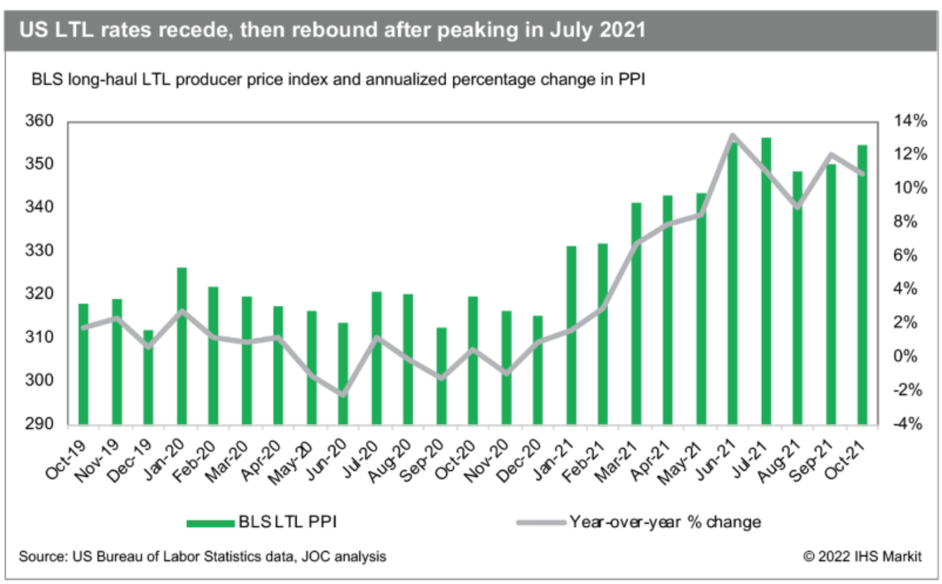
Source: FTR Transportation Intelligence

When it comes to LTL and local movements, we have almost caught up to pre-pandemic employment levels. We still have a shortage since the demand for these services has increased with e-commerce, but it Is doing better than the long-haul sector. Even though we are doing better on the labor side, this does not mean we will not see increases in LTL. Their costs continue to grow and are straining their networks.

Here in early 2022, we have already seen carriers announce higher than average GRI's, on top of significant changes in accessorial costs. This Is on top of the Increases that took place last year. We have also started to see major shifts in the overall structure of LTL, including carriers exiting the industry like Central Freight, carriers consolidated such as MME, and carriers being acquired such as AAA Cooper's acquisition by Knight-Swift. The top 10 LTL carriers still dominate 70+% of the LTL market, and there have been very few new entrants in the past several decades. As we see the market space dwindle, we start to lose the competition in the industry.



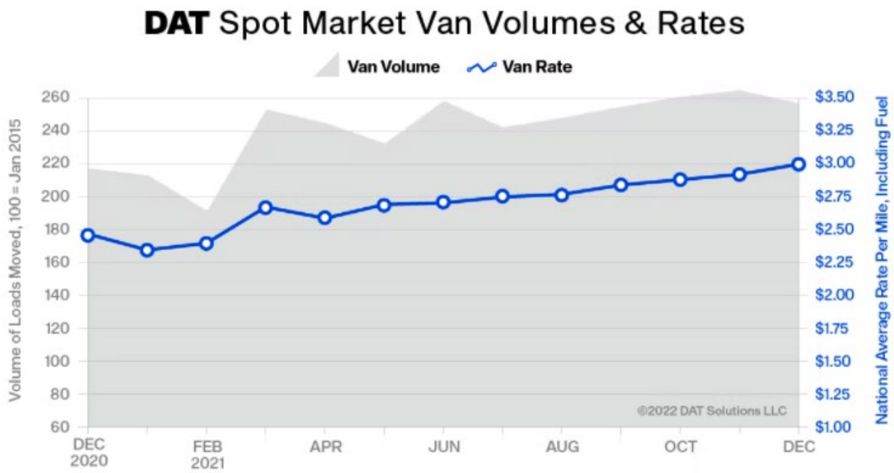
The timing has been right for LTL carriers as well. Carriers have been hammered on price since the recession of 2009. Volume was king, and carriers were operating at almost break even. Pre-pandemic, Old Dominion proved you could make a good profit. They paved the way for carriers to push higher profits during the pandemic. We do not see this mindset changing anytime soon.



Source: US Bureau of Labor Statistics, JOC analysis

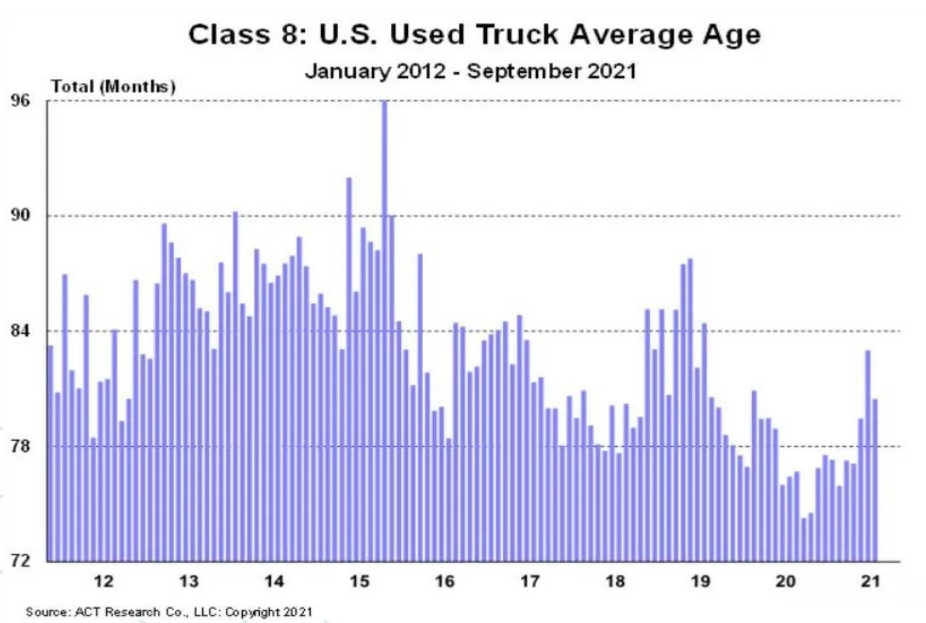
On the Truckload side, it is similar. Most companies have revamped their contracted lanes with RFPs and are willing to increase their cost to receive better service and commitment. The price per mile has already hit record levels this year. Since the supply is still well below the need in the industry, we should expect a bit of cat and mouse between the contractual business and spot market. They will push each other higher and as time moves on.

EVANS

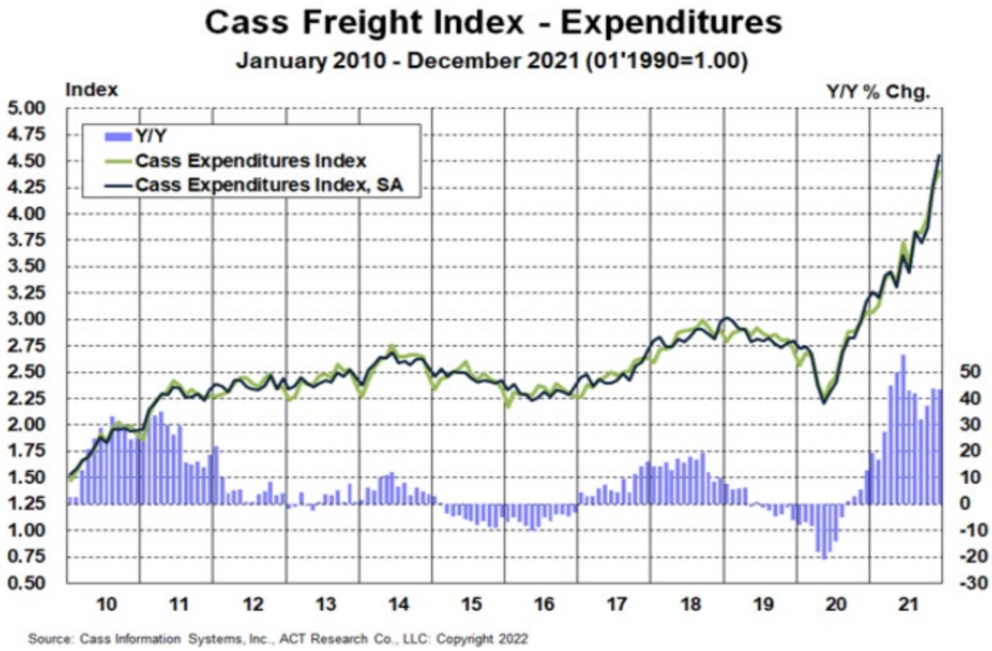


Source: DAT Solutions LLC

Another significant situation within the ground transportation sector is the production of Class 8 vehicles. The manufacturers cannot keep up with the demand, causing the industry to keep older tractors on the road longer than expected. Older equipment typically leads to more repairs and costs to maintain. Those expenses get passed down to the shippers and ultimately the consumers.



On the international side of the equation, we should also see increases. The container lines are already starting their negotiations and locking in deals as we move forward. The rates are pacing to be several thousand dollars over last year. They are even getting creative with tiered pricing. The further negotiations get during the year, the more shippers should expect higher costs.



Source: Cass Information Systems, Inc.

Final Thoughts

We all would enjoy headlines of price decreases and unlimited capacity; unfortunately, that isn't the case in the market today. We are currently not in a cycle that allows this kind of news. However, you can Implement strategies to keep ahead of the curve. That is why staying vigilant and abreast of the news relating to the industry is critical more now than ever. If you are unsure of where, or who, to go to for help, reach out to your Evans contacts today. At Evans, we have experts at all levels and would love to support you and your business needs. Enjoy the #EvansExperience !