Owner-Operator Independent Drivers Association Foundation
A subsidiary of Owner-Operator Independent Drivers Association Inc.

2019 Freight Rate Survey

12/30/19

Looking Back at 2019

In many ways, the trucking industry is the lifeblood of the nation as it not only employs approximately 3.9 million commercial driver's license holders, but it is also responsible for delivering 70 percent of all freight worth $11.6 trillion[1] while collecting $796.7 billion in gross revenue.[2] For obvious reasons, trucking is vital to the overall economic health of the United States, and thus serves as a barometer for the current state of the economy. When the freight market experiences higher freight volumes and strong rates, this typically indicates a healthy economy, along with sturdy consumer confidence levels, housing and construction starts, oil prices, industrial production, and manufacturing output.

The trucking industry in general however is always in flux, marked with numerous government regulations and mixed economic growth. The 2019 freight market was no different, especially following a record-breaking year for owner-operators in 2018 who saw a 12 percent increase in per mile pay, from $1.71 in 2017 to $1.92 in 2018. In 2019 however, the trucking industry experienced an oversupply of truckload capacity which effectively drove rates downward for much of the year, albeit not below 2017 levels, and helped to create a freight recession scare. Nonetheless, while freight rates contracted in 2019, especially in the spot market, compared to the previous year, it is imperative to keep things in perspective as 2018 was not a normal year.

The freight market in 2018 capped the highest year ever of realized pricing according to the Cass Truckload Linehaul[3] Index[4] since deregulation in 1980. Setting a new all-time high of 144.2, a 44 percent increase from the 1990 baseline, which was due primarily to three important factors. Namely, increased freight volumes due to reciprocating tariffs between the U.S. and China, strong consumer spending, and tightened capacity partially due to the implementation of electronic logging devices (ELD). These combined factors pressured shippers to find ways to unlock hidden capacity, largely in small, one-to-six truck carriers who depend on the spot truckload market.[5] Thus creating a perfect storm for truckers and OOIDA members which allowed them to increase their gross revenue in 2018. Nevertheless, this perfect storm also facilitated the same factors that drove freight rates down in 2019, as OOFI will clarify in this report.

The following figures were generated using SONAR, an analytics platform which collects data from hundreds of different indices, such as CASS, Freightos Baltic Index, Institute of Supply Management Metrics, Logistics Managers' Index, etc., to provide a comprehensive view of the freight market. **Figure 1**

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[1] Bureau of Transportation Statistics, *Transportation Statistics Annual Report 2017*, Department of Transportation (2017) pg. 3-2

[2] "Trucking Industry Revenues Top $796 Billion in 2018," American Trucking Association, https://www.trucking.org/article/Trucking-Industry-Revenues-Top-$796-Billion-in-2018

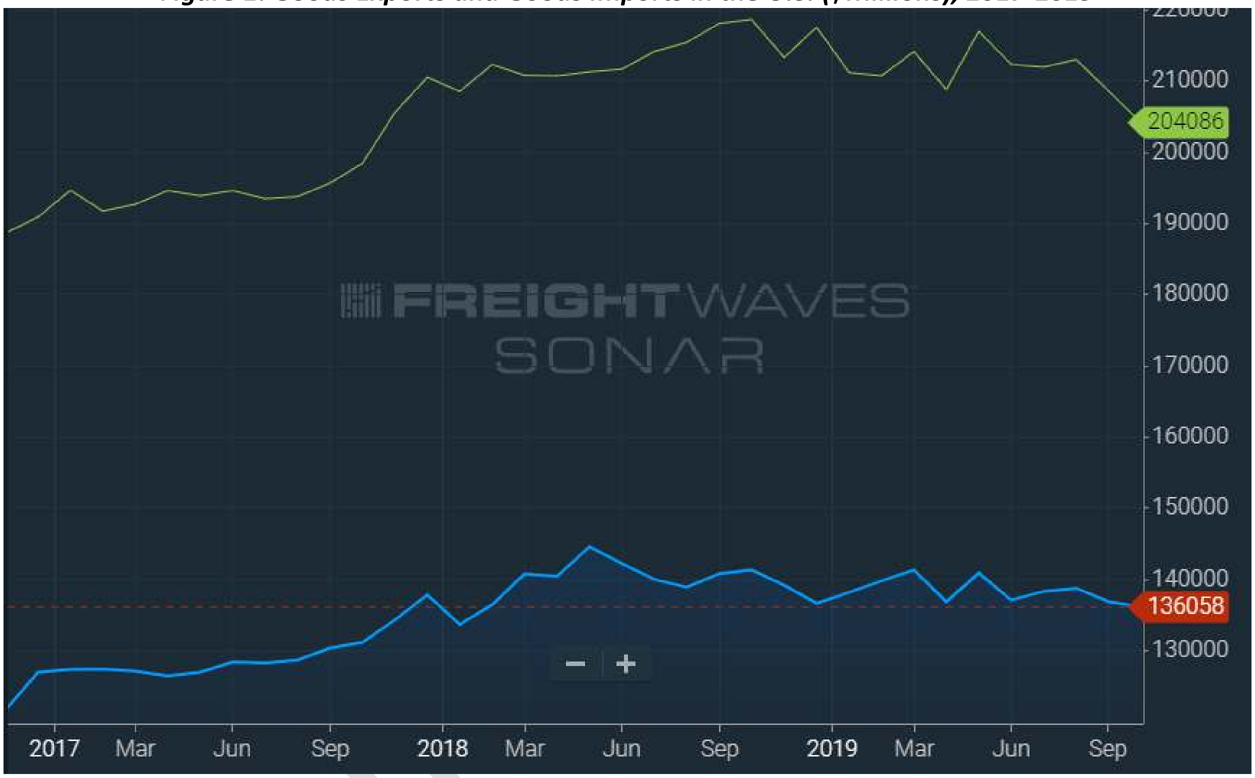
[3] It is important to note that the data within the Truckload Index includes actual freight invoices paid on behalf of Cass' clients. It is important to note however that Cass focuses on contract rates. While these indexes can be helpful in understanding the overall market, they do not tell the whole story as owner-operators operate in the spot market.

[4] https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/truckload-linehaul-index

[5] William B. Cassidy, "US truckload capacity pressure eases slowly," *Journal of Commerce* (Jan 24, 2019)

compares the amount of exported and imported goods in the U.S. in millions of dollars, both of which have increased by 7 percent and 5 percent respectively since 2017. Although the value amount of traded goods slightly decreased from 2018, trade overall has remained elevated, which has helped to keep freight volumes high.

Figure 1: Goods Exports and Goods Imports in the U.S. ($Millions), 2017-2019



SONAR: Exports (GOEX.USA, blue line); Imports (GOIM.USA, green line)

The increase in trade is also interconnected with higher industrial production, which increased 5.5 percent from 2017, and strong retail sales, which increased 11 percent, as demonstrated in **Figure 2**. Industrial production is perhaps the largest single contributor to domestic surface freight movements in the economy, of which manufacturing makes up approximately 75 percent. Hence industrial output, as measured by the Industrial Production Index, serves as a starting point for most of the goods that end up flowing through various supply chains to the end consumer.[6] While retail sales, which is utilized to indicate consumer spending, provide a general idea of economic well-being because it highlights the end point for finished goods.[7]

Growth in both of these measures indicates a healthy economy and an increased demand for goods, which is further validated by the goods-adjusted gross domestic product (GDP). While GDP is able to provide general insights into the nation's economy overall, it fails to address the true freight conditions as it primarily consists of service sector activity and excludes imported goods from the final number. However, goods-adjusted GDP, which excludes services and non-tangible goods from the equation, offers a better

[6] https://knowledge.freightwaves.com/industrial-production-ipro-iprog/
[7] https://knowledge.freightwaves.com/retail-sales-year-over-year-change-resl-reslg/

representation of freight activity by focusing on the GDP figures that are more relevant to the freight market. According to **Figure 3**, goods-adjusted GDP has increased 9 percent since 2017.

Figure 2: Industrial Production and Retail Sales in the U.S., 2017-2019

SONAR: Industrial Production Index (IPRO.USA, blue line), Retail Sales (RESL.USA, orange line)

The increase in exported and imported goods, industrial production, retail sales, and goods-adjusted GDP have created a new floor for freight volume levels through both 2018 and 2019. These figures are also supported by the American Trucking Association's (ATA) seasonally adjusted For-Hire Truck Tonnage Index, which has increased 4.1 percent year-to-date compared with September 2018.[8] It is important to note that the Truck Tonnage Index, which primarily focuses on contract rates, is utilized more as an indicator of shipping activity of raw materials and consumer goods than it is as an accurate gauge of rates, as OOFI will demonstrate below.

Though freight volumes have remained elevated, freight rates have actually declined 27 percent from their peak in June 2018 to December 2019 according to DAT's Longhaul Van Freight Rate, which does not include fuel surcharges. The reason behind this apparent enigma, which goes against the grain of the Truck Tonnage Index, is explained in one, simple word, "overcapacity." Whereas shippers were scrambling in the first half 2018 to secure trucks by turning to the spot market, sending truckload rates soaring to record highs, 2019 has been marked with an oversupply of trucks that has placed downward pressure on freight rates.

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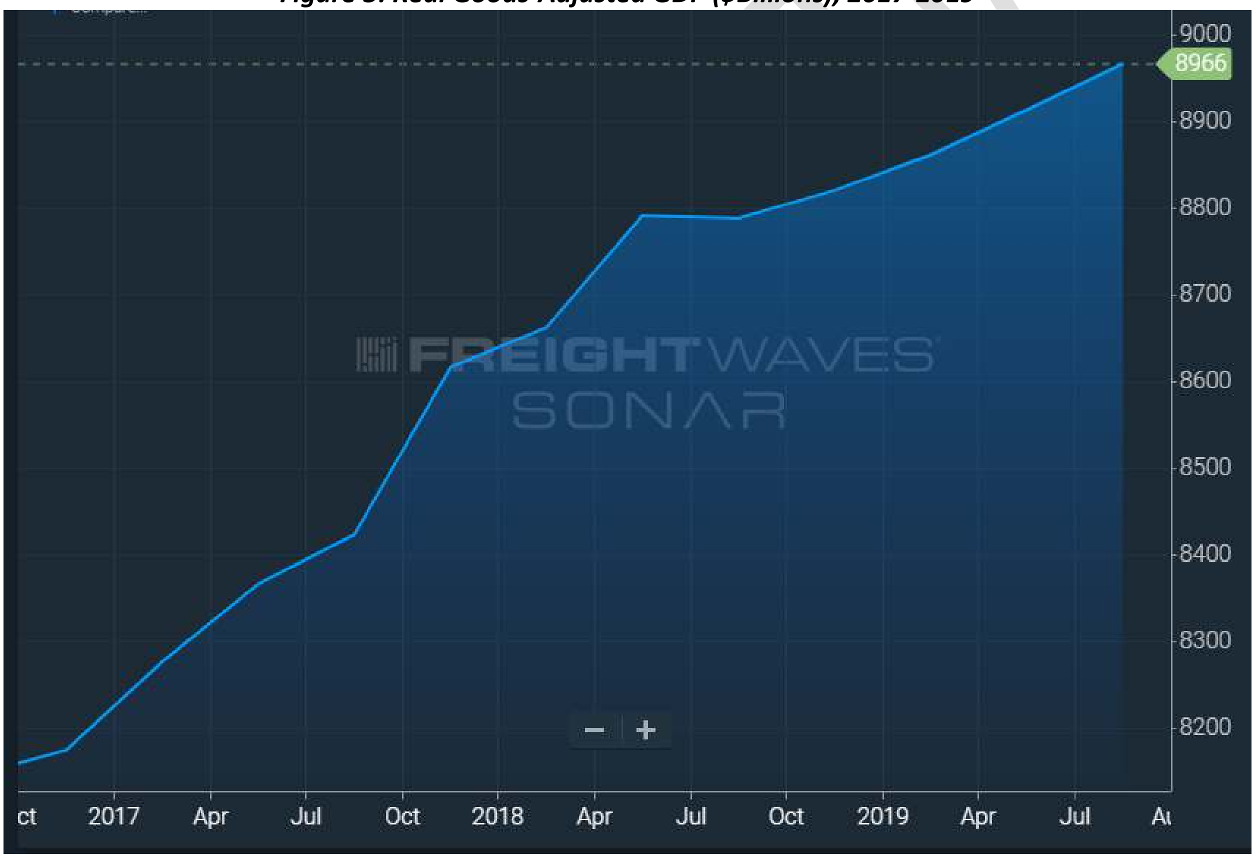
[8] Dan Ronan, "ATA's Truck Tonnage Index Rises 3.5% Over September 2018," *Transport Topics* (Oct 22, 2019)

Trucking, as part of the overall economy, obeys the basic laws of supply and demand. Thus when freight volumes rise and or the supply of trucks and drivers fall, demand increases and the rates go up. Conversely, when volumes decline and or the supply of trucks and drivers increase, demand decreases and the rates fall, which is precisely what occurred through late 2018 and into most of 2019. Many carriers unwisely utilized their increased revenue to purchase more trucks and trailers, thereby increasing capacity (e.g., supply) and decreasing demand. According to Landstar's President and CEO, "Softer demand, driven by slowing production in the U.S. manufacturing sector, and more readily available capacity drove Landstar's truck rates and volumes below prior year levels in the 2019 third quarter.[9]" Moreover, some of the largest third-party logistics providers in the U.S. see truckload capacity as overabundant. C.H. Robison's CEO told Wall Street analysts on October 29, that "we believe capacity will exceed available shipments for the next few quarters.[10]"

Figure 3: Real Goods-Adjusted GDP ($Billions), 2017-2019



SONAR: GAGDP.USA

While rates overall have declined through much of 2019, operating costs have continued to rise. The Truckload Carriers Association's (TCA) Benchmarking Index shows that the operating ratio for company fleets and leased fleets hauling dry van trailers has consistently been above 2018 levels. The trucking industry utilizes the operating ratio as a common measure to express a carrier's degree of profitability. In

[9] William B. Cassidy, "US truckload carriers slam revenue brakes," *Journal of Commerce* (Oct 29, 2019)
[10] William B. Cassidy, "Truck capacity 'correction' changes little for shippers," *Journal of Commerce* (Oct 30, 2019)

other words, the ratio demonstrates what percentage of a carrier's revenue is used to cover costs and what percentage goes to their net income. A carrier with an 85 percent operating ratio, means that 15 percent of their gross revenue is contributing to their net. Thus, the lower the operating the ratio, the more profitable a carrier is. During strong economic periods, current results will be below historical levels (e.g. 85%-95%), whereas weak economic periods are indicated by results above historical trends (e.g. 95%-105%).[11] The average operating ratio for company fleets and leased fleets pulling dry van equipment in 2019 has been 97.8, with a maximum of 101.6 in February, indicating a weaker economic period. In other words, large carriers were barely making a profit through most of 2019, while some were actually in the red in February.

Figure 4: Operating Ratio (Company Fleet and Leased Fleet – Dry Van)

SONAR: 2019 Operating Ratio (OPRAT.VCFOO (2019), blue line), 2018 Operating Ratio (OPRAT.VCFOO (2018), green line)

The low profitability within certain portions of the trucking industry has spurred numerous bankruptcies and failures. According to transportation industry data firm Broughton Capital, nearly 800 carriers went out of business in the first quarters of 2019, more than double the 310 trucking failures in 2018.[12] In response, many large carriers have curtailed their orders for Class 8 trucks. While 2018 shattered a 14-

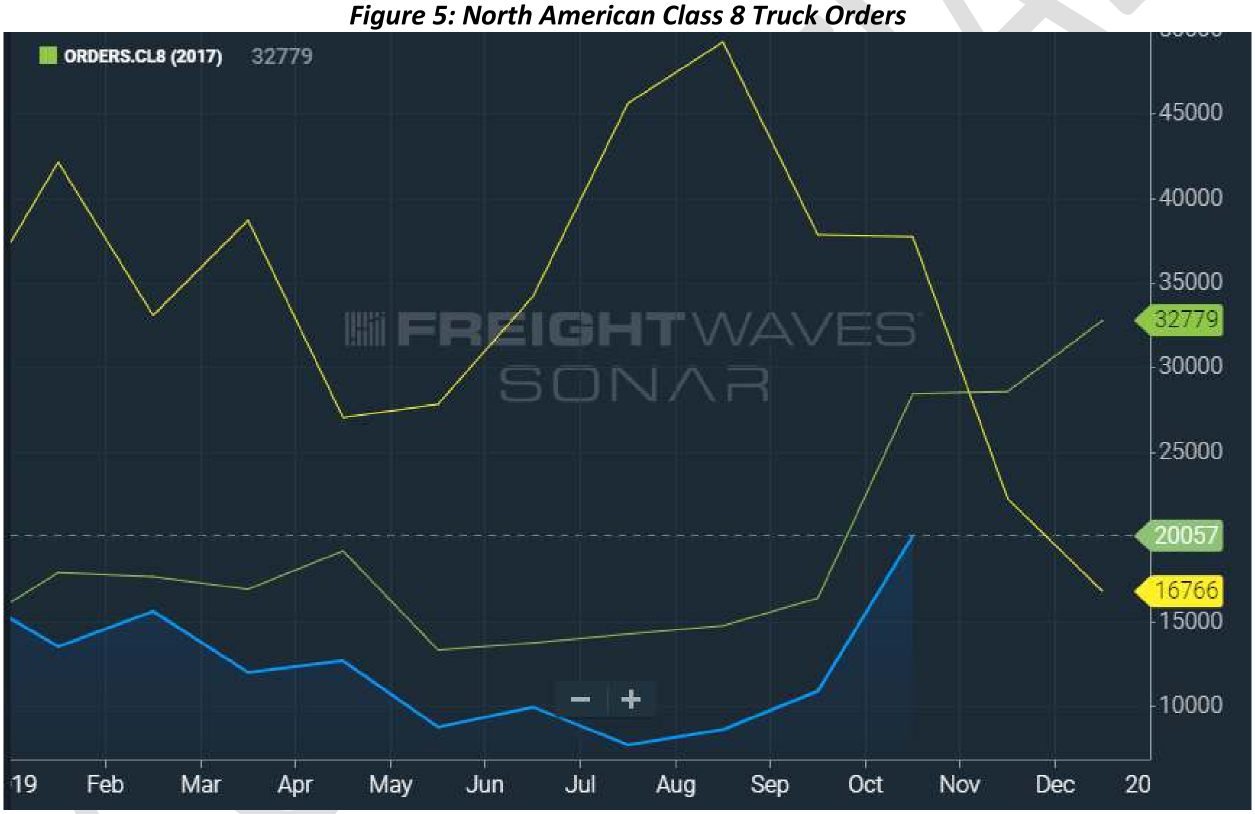
[11] https://knowledge.freightwaves.com/operating-ratio-opra/

[12] Kate Gibson, "Celadon bankruptcy biggest of nearly 800 truck company failures this year," CBS News (Dec 11, 2019), https://www.cbsnews.com/news/celadon-bankrutpcy-biggest-of-nearly-800-trucking-companies-failures-in-first-three-quarters-of-2019/

year industry record for Class 8 truck orders with 482,000 units according to FTR and 490,100 units according to ACT Research,[13] orders in 2019 were well below these figures, even falling below 2017 levels.

The increased bankruptcies and company failures experienced in 2019, coupled with a decrease in Class 8 truck orders, has yet to curb the oversaturation of trucks currently in the market due to the record-breaking Class 8 truck orders and trailer sales last year. The President and COO of the Chicago-based logistics company, Echo Global Logistics, stated on an October 23 earnings call that though there are more trucks parked on the sidelines, it has not affected their ability to source capacity and execute for their customers. Saying, "And obviously, when you look at the rates, it hasn't dramatically impacted a change in rates.[14]"

Figure 5: North American Class 8 Truck Orders



SONAR: 2019 Class 8 Orders (ORDERS.CL8 2019, blue line), 2018 Class 8 Orders (ORDERS.CL8 2018, yellow line), 2017 Class 8 Orders (ORDERS.CL8 2017, green line)

The dynamics of the current freight market highlight perhaps the greatest enemy the trucking industry has. Namely, the trucking industry itself. The freight market is highly cyclical as it ebbs and flows with the basic economic tenets of supply and demand. However, unlike other areas of the economy, the trucking industry has more control over capacity, meaning the number of trucks on the road. Nevertheless, when freight volumes increase thus putting a strain on capacity and increasing rates, a number of motor carriers, especially mid-sized companies, immediately utilize their increased revenue to purchase more assets,

[13] https://www.fleetowner.com/economics/class-8-orders-december-dips-2018-sets-new-record
[14] "Truck capacity 'correction'"

such as trucks and trailers, in order to gain more of the market share. However, in so doing, they are also shooting themselves in the foot. For as they increase the supply of trucks, they are putting downward pressure on demand for those trucks, which in turn decreases rates. Doug Waggoner, chairman and CEO of Echo, confirmed this fact by saying, “The asset-based trucking industry added an enormous amount of capacity in 2018, and then that's come back to bite the industry in 2019.[15]”

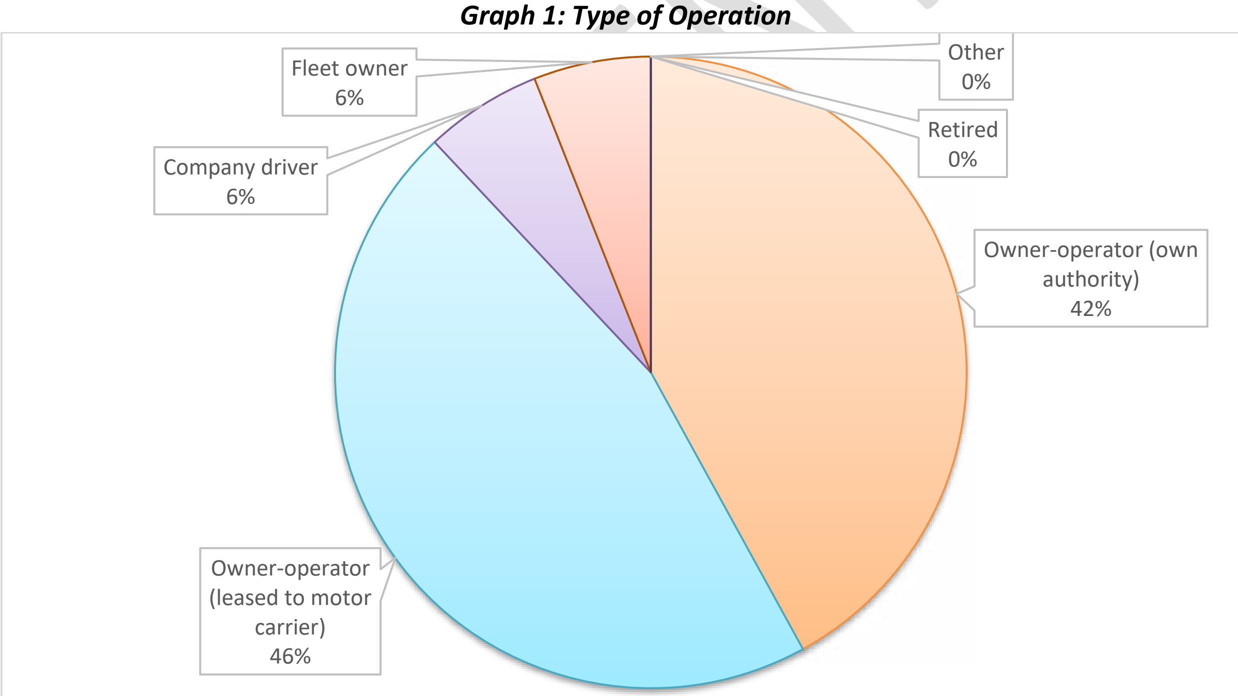
[15] Ibid.

Analysis of the Freight Rate Survey

While most economic and trucking industry analysts focus primarily on large carriers and shippers, as well as various macro-economic factors, few remember the small owner-operators and professional drivers. Therefore, in order to gauge the current freight market for this unique segment of trucking, OOFI emailed a thirty-two question survey to nearly 18,000 members who allow for email communication on November 8, 2019. The Survey generated 707 responses for a started/viewed rate of 54 percent and a 99 percent confidence level with a 5 percent margin of error, thus the Survey provides an essential snapshot of what is occurring within the small carrier population today.

In particular, the survey respondents were comprised almost entirely of owner-operators (88%), with a small segment of company drivers (6%) and fleet owners (6%). The owner-operators consisted of two distinct segments, owner-operators under their own authority (42%), which was a three-percentage point increase from the previous year, and owner-operators leased-on to a motor carrier (46%). A majority of members indicated that they are truckload carriers (87%) regardless of the type of equipment or freight they haul. It is interesting to note that those pulling hazmat (84%) and oversize loads (45%) were more likely to be a leased on owner-operator than most other types of operation.

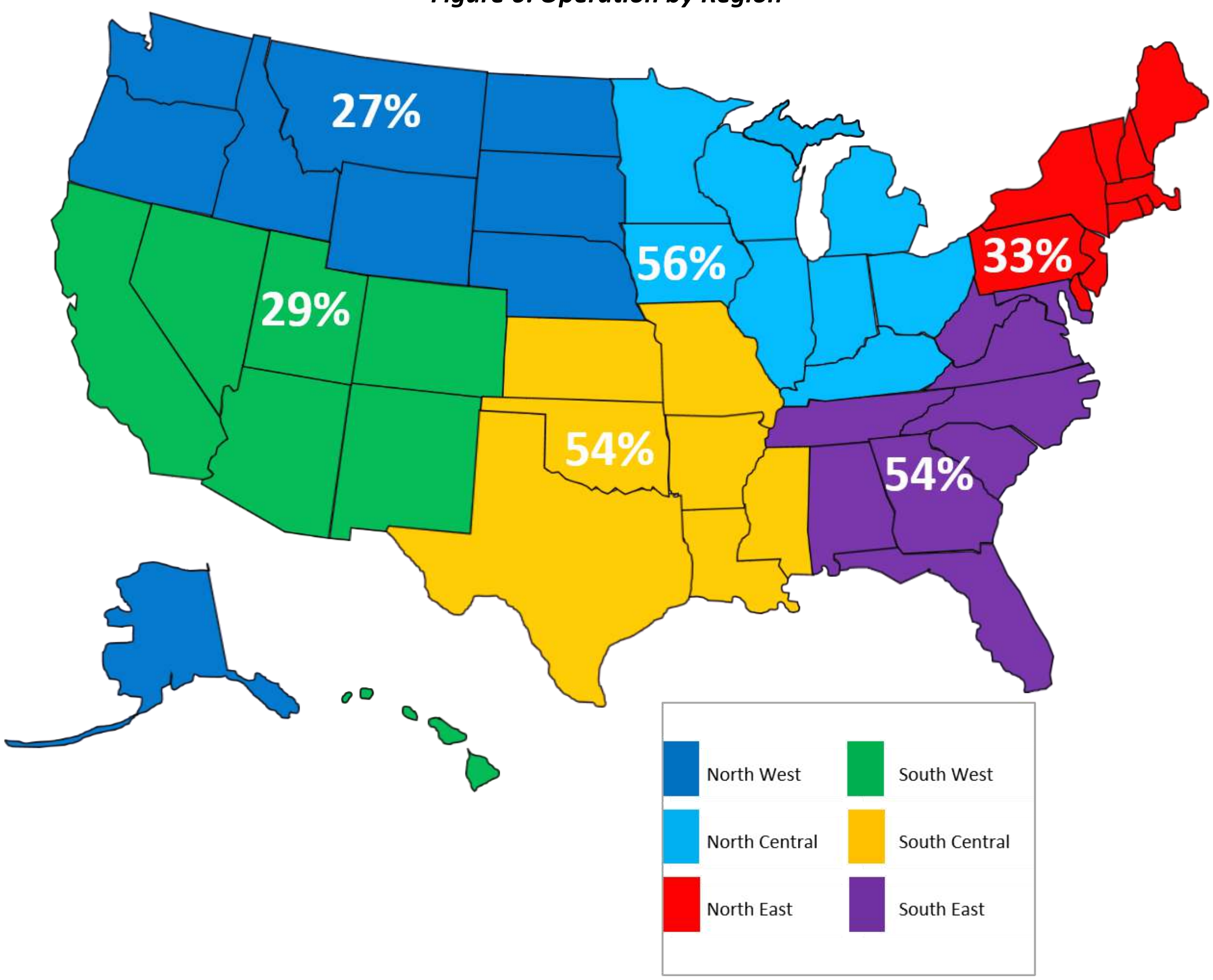
Graph 1: Type of Operation



Consistent with other surveys of OOIDA members, OOFI found that dry vans, flatbeds, and refrigerated trailers, or reefers, were the three most common types of trailers pulled. Fleet owners primarily pulled flatbed trailers, opposed to refrigerated trailers from the previous year, while the other operational types predominately hauled dry van trailers. General food products were the most common type of freight regardless of operational type. Although most members indicated that they were long haul operators, meaning that their average distance hauled was over 500 miles, fleet owners (47%) and those pulling hazmat (45%) were principally regional, i.e. operating between 151 and 500 miles. Most members continue to drive in the north central, south central, and south east regions of the United States. However, both owner-operators under their own authority and fleet owners tend to operate primarily in the south east.

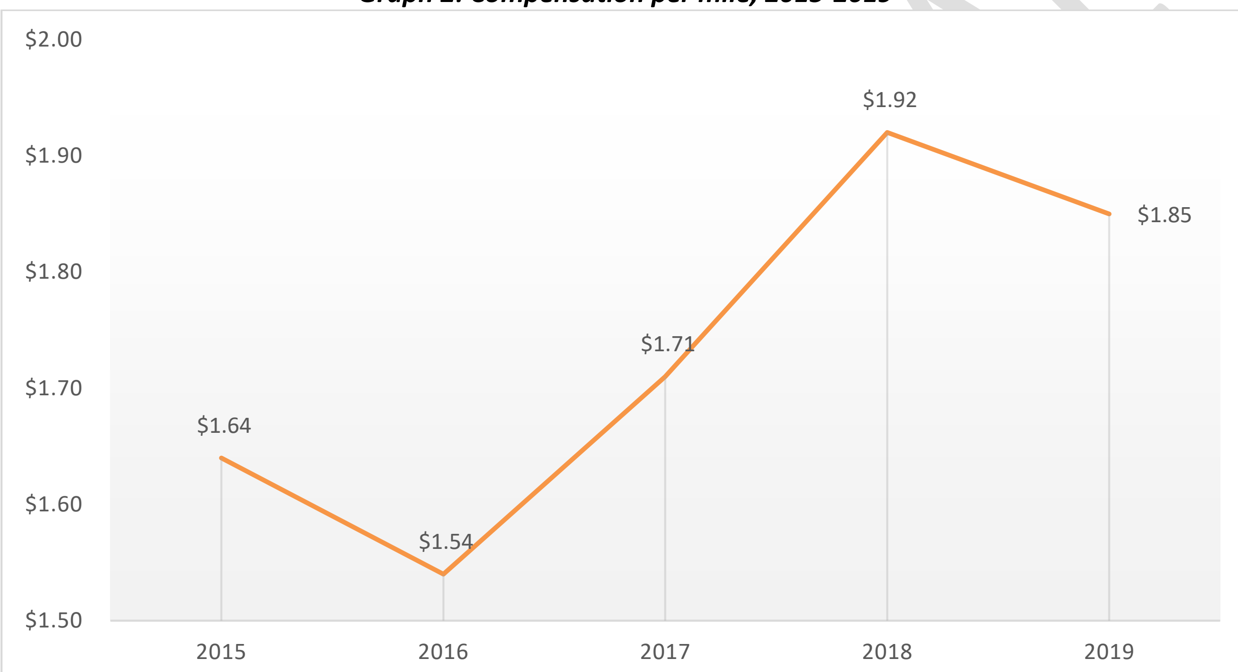
In terms of compensation, "per trip" and "per mile" pay continue to be the primary methods of payment for all operational types except for those members who are leased-on. They primarily receive compensation by the "percentage of the load," which was also true for those hauling hazmat loads. Although the methods of compensation were fairly similar across the various operational and equipment types, the rates were not as owner-operators under their own authority received the highest average compensation rate per trip, $1,664, and fleet owners experienced the highest average per mile at $2.14. Company drivers on the other hand received the lowest compensation overall at $0.63 per mile, but yet experienced the greatest increase from 2018, as they experienced a 21 percent gain in compensation. This is in harmony with several articles stating that mid- to large-sized carriers are increasing driver wages in attempt to retain the best drivers.

Figure 6: Operation by Region



All portions of the industry OOFI surveyed, including operational and equipment types, experienced a decrease in pay per mile year-over-year except for company drivers and those hauling flatbed trailers. Owner-operators under their own authority experienced the largest decrease among operational types, earning $2.12 per mile in 2019, compared to $2.51 per mile in 2018. Almost a 16 percent decrease. Those members who experienced other notable decreases in compensation across the various trucking segments include those pulling dry van trailers (9%) and those hauling general food products (12%), hazmat (11%), and oversize loads (31%). Members overall experienced almost a 4 percent decrease in pay from $1.92 per mile in 2018 to $1.85 per mile this year. Nevertheless, no member experienced a decrease in compensation below 2017 levels, which is in harmony with the rest of the industry.

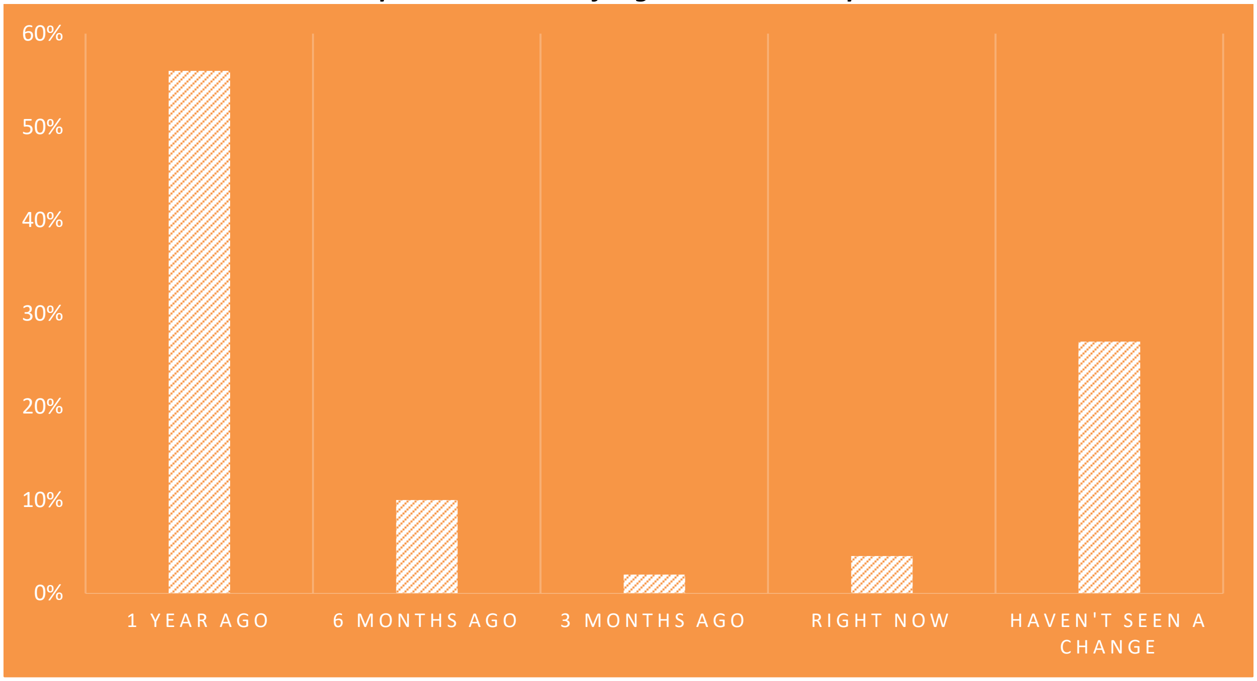
Graph 2: Compensation per mile, 2015-2019



Interestingly, while pay per mile increased in 2018, pay per trip decreased that same year. In 2019, members experienced the exact opposite. In other words, though per mile pay decreased overall, compensation per trip actually increased 6 percent from $1,519 to $1,609. The most noteworthy increases were experienced by those operating under their own authority (4%), those leased-on (20%), and those hauling refrigerated freight (9%). It is important to note that nearly 48 percent of those who receive per trip pay operate locally and regionally, meaning routes under 500 miles.

Although the freight rates rose through most of 2018, the member's outlook for the overall freight market that year was negative due to a contraction of rates toward the end of 2018 according to last year's survey. This sentiment not only continued for 2019, but the percentage of members who stated that rates were decreasing rose from 45 percent in 2018 to 70 percent in this year's survey, a 56 percent increase. This trend was consistent across all operational, equipment, and freight types save hazmat. The majority of members hauling hazmat stated that they have not seen a change in rates over the past year.

Graph 3: When were freight rates at their peak?



The acquisition of loads is vital for both those under their own authority and fleet owners. Both of these operational types tend to utilize brokers and load boards over other avenues, albeit at different usage levels. For those utilizing load boards, the top three are DAT, Internet Truckstop, and 123 Load Board. While load boards have become highly popular over the past few years, a somewhat new option has entered into the market place. Namely, digital load matching.

Digital load matching primarily consists of a technology company, acting as a broker, who develops a platform which automates the load acquiring process by allowing a driver to match their truck with a pending load. The platform then utilizes machine learning and artificial intelligence in an attempt to match that driver to future loads of similar kind. Thereby bypassing the various brokers who typically post loads on load boards. According to the *2019 Freight Rate Survey*, four percent of members utilize such applications. For those who do, the most popular load matching apps are Convoy, Uber, and JB Hunt 360.

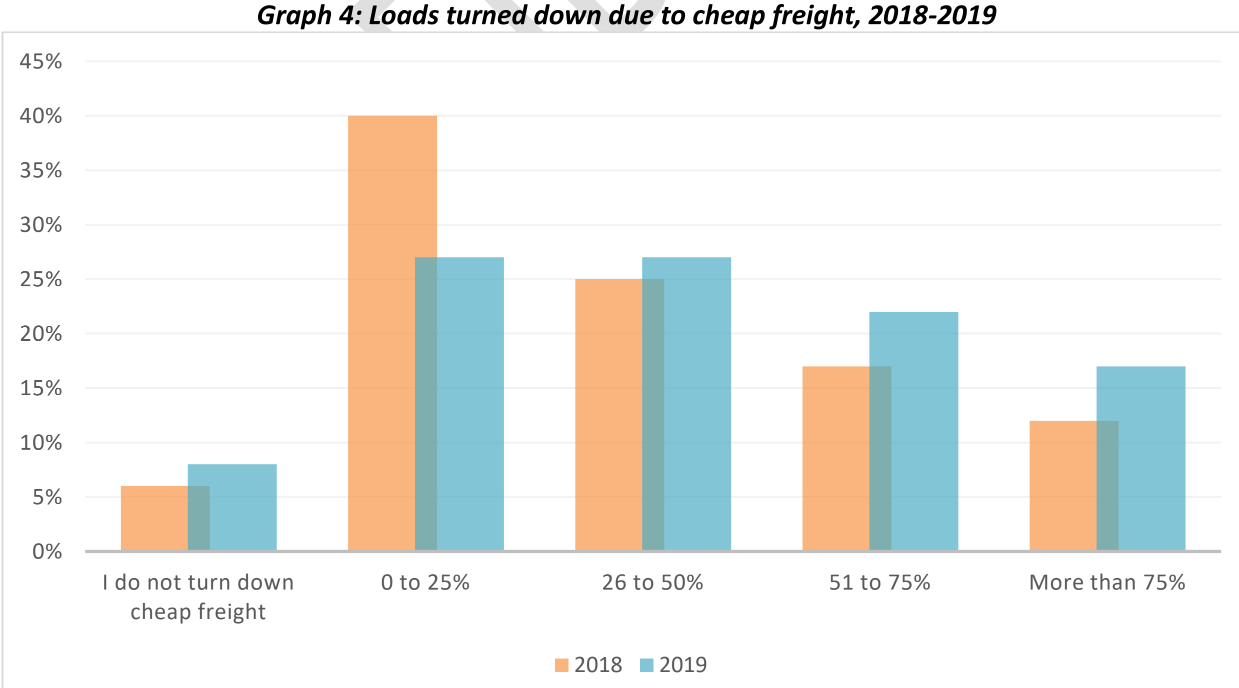
When asked how they set their rates, several fleet owners and owner-operators under their own authority calculated their rates by determining the minimum price per mile they needed in order cover their operating costs, including fuel, insurance, tolls, truck payments, etc. Others included additional information such as region, state, season, and weight, as well as various economic data such as DAT's 15-day rate view. Unfortunately, however, some members were unable to negotiate their own rates and instead were pressed to obtain a certain benchmark of compensation. For example, several members stated that they always strive to earn a certain benchmark, or more, on all miles, while others felt forced to settle for less than their operating costs. Another member stated that they only receive enough to cover their costs and pay their bills, writing, "Right now, that is about all we are able to do with rates dropping."

Although most company drivers and leased on owner-operators did not know how their carrier sets their rates (72%), those who did said their carrier utilized various market information, including volume, demand, distance, season, freight lane, spot rate, and what specialized equipment is needed to complete the shipment.

However, for owner-operators and fleet owners to both meet and exceed their cost of operations, it is imperative that they are able to negotiate and establish their own rates. While 84 percent of members did not feel they were in a better position to negotiate rates in 2019 compared to 2018, the majority (46%) always attempt to do so. This was especially true for those under their own authority (64%) and for fleet owners (63%). Though some members chose not to negotiate their rates because they were afraid of losing business, did not feel they would receive it anyway, or were not comfortable with negotiating, many others stated they did not negotiate because the rates were in the range of what they were asking for. Other members stated the rates were pre-set or that the rates have always been this way. One member wrote, “I only negotiate if I feel the rate is substandard.”

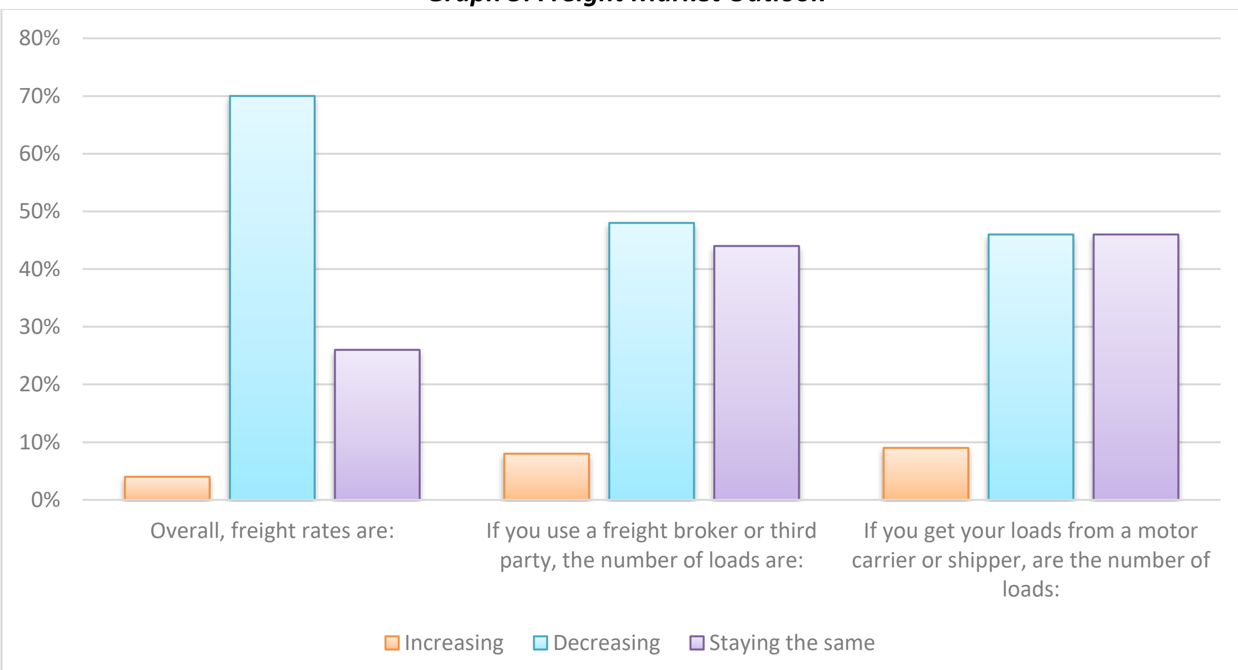
Regardless of operational type, many members struggled to negotiate rates this year simply due to the current state of the freight market. For company driver members, 71 percent stated that their carrier was better equipped to negotiate rates in 2018 rather than in 2019. This negative trend also transitioned into the number of loads hauled overall, as both those who receive loads through freight brokers or a third party, and those who utilize carriers or shippers indicated that loads were decreasing. However, members also demonstrated that they are turning down more loads than before due to cheap freight, with 39 percent stating they turned down over 50 percent of loads in comparison to 29 percent in the previous survey.

Graph 4: Loads turned down due to cheap freight, 2018-2019



The number of overall loaded miles also decreased in 2019 compared to the previous year, with 48 percent of members stating their loaded miles shrank in comparison to only 22 percent who indicated so in 2018. Conversely, deadhead or unloaded miles increased. In fact, 50 percent stated their deadhead miles grew in 2019 compared to 34 percent who said so in 2018. The average member drove approximately 94,000 loaded miles and 23,500 unloaded miles, representing a 9 percent decrease in loaded miles and a 10 percent increase in unloaded miles. Those hauling reefers continued to incur the most loaded miles at 101,000, while company drivers drove the fewest and yet experienced the second most unloaded miles behind leased-on owner-operators, which aligns closely with TCA's Benchmarking Index. The index showed that the average driver for a company fleet and leased fleet hauling dry van trailers drove 80,300 loaded miles and 15,300 unloaded miles in 2019. In general, a majority (52%) of members were able to negotiate a fuel surcharge into their freight rates.

Graph 5: Freight Market Outlook

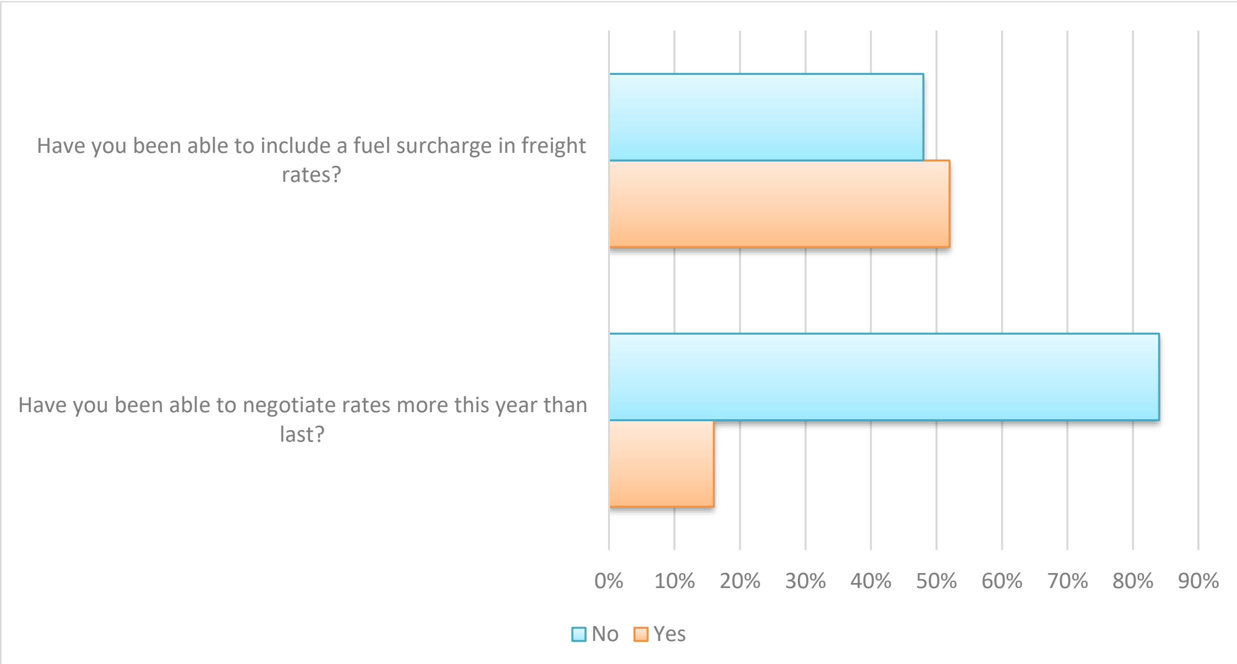


OOFI also inquired to know how many members utilize factoring services, which are designed to help motor carriers to obtain finances for their immediate cash needs in return for a percentage of their accounts receivable or invoices. A vast majority do not use a factoring service in their trucking business (77%). The average fee overall for those who do use such a service was 3.2 percent, a slight decline from the 4 percent fee in 2018.

When asked concerning their professional opinion of factoring in the *2018 Freight Rate Survey*, most members responded that they were not supportive of such a service, stating, "It's better to manage your own money, than to pay someone to pay you." Many wrote that the fees were too high and that factoring simply enables those that cannot manage their cash flow properly. However, others view factoring as a necessary evil and even a useful tool for small carriers and independents who do not have the funds to run their business for 30, 90, or 180 days while they wait to be compensated. One member said, "Honestly

I think they provide a very important service to those of us looking to get a foothold in the industry." However, many noted that individuals should use factoring sparingly.

Graph 6: Negotiating Rates and Fuel Surcharge



Lastly, in order to obtain a better understanding of the current freight market, as well as to ascertain the accuracy of other freight indicators, OOFI posed three different questions concerning the average spot and contract rates as indicated by DAT Trendlines for the dry van, flatbed, and reefer segments of the industry. Although a majority of respondents stated the figures published by DAT were correct, the members' average compensation rate per mile for each equipment type was often below DAT's numbers except for those pulling flatbed trailers.

Of those members earning less than the average pay per mile, 50 percent were leased-on owner-operators and 42 percent stated that they never try to negotiate their rate. These figures suggest that members who are receiving less than average compensation are those same individuals who are not asking for more pay. Conversely, of those members who receive more than the average per mile pay, 57 percent were owner-operators under their own authority and 58 percent said they always attempt to negotiate their rates.

Regardless, the table below demonstrates that DAT's Trendlines is an accurate barometer of the current freight rates across the trucking industry according to OOIDA's members.

Table 1: Accuracy of DAT Trendlines

These figures are:	The average spot and contract rates for ***vans*** has been $1.85 and $2.23 respectively	The average spot and contract rates for ***flatbeds*** has been $2.28 and $2.61 respectively	The average spot and contract rates for ***reefers*** has been $2.19 and $2.49 respectively
Far too high	19%	16%	12%
Slightly high	26%	19%	19%
Correct	33%	45%	46%
Slightly low	14%	12%	15%
Fart too low	9%	9%	9%

Conclusions and Economic Outlook

From 2018 to 2019, OOIDA members have seen dramatic shifts in the overall freight rates as the freight market reached record highs in June 2018, but began to slowly contract through the later part of the year and into 2019. In particular, the number of respondents who indicated that freight rates had dropped, increased 56 percent over the past year, coupled with a 71 percent decrease in those who stated rates were improving. IHS Markit predicted this trend would continue into 2020, as they expect to see a soft growth for the freight economy. Thus the parent company to *Journal of Commerce* stated late in 2019 that they foresee that shippers and third-party logistics providers (3PLs) will have the negotiating advantage next year.[16]

Other forecasters such as Coyote Logistics and DAT Solutions estimate contract truckload rates will rise sometime after the mid-year point in 2020. Coyote Logistics, a large 3PL, believes November was the turning point in freight rates for 2019, stating, "After six consecutive quarters of deflation, the market is rebounding, heading back towards an inflationary environment. With spot rates trending upward toward equilibrium, the spot market will reach an inflationary environment by Q1 2020.[17]" Coyote believes that unplanned exposure to the spot market will eventually trickle down to contract rates later into the second quarter. DAT estimates an increase for both spot and contract rates, predicting a 5 percent and 2 percent increase year-over-year respectively for 2020.

Financial services firm Morgan Stanley is predicting an even greater boost in freight rates, largely due to five catalysts they believe could potentially tighten truckload capacity. Those five factors are: (1) the final phase of the ELD rule which requires carriers to switch from automatic on-board recording devices to ELDs; (2) higher insurance premiums due to an increase in "nuclear verdicts"; (3) the implementation of the Drug and Alcohol Clearinghouse; (4) the International Maritime Organization IMO 2020 regulation which could increase diesel prices by 5 to 33 percent; and (5) the California Assembly Bill 5 (AB 5) which could force thousands of leased-on owner-operators out of trucking. Subsequently, other states are beginning to follow California's lead, such as New Jersey.[18]

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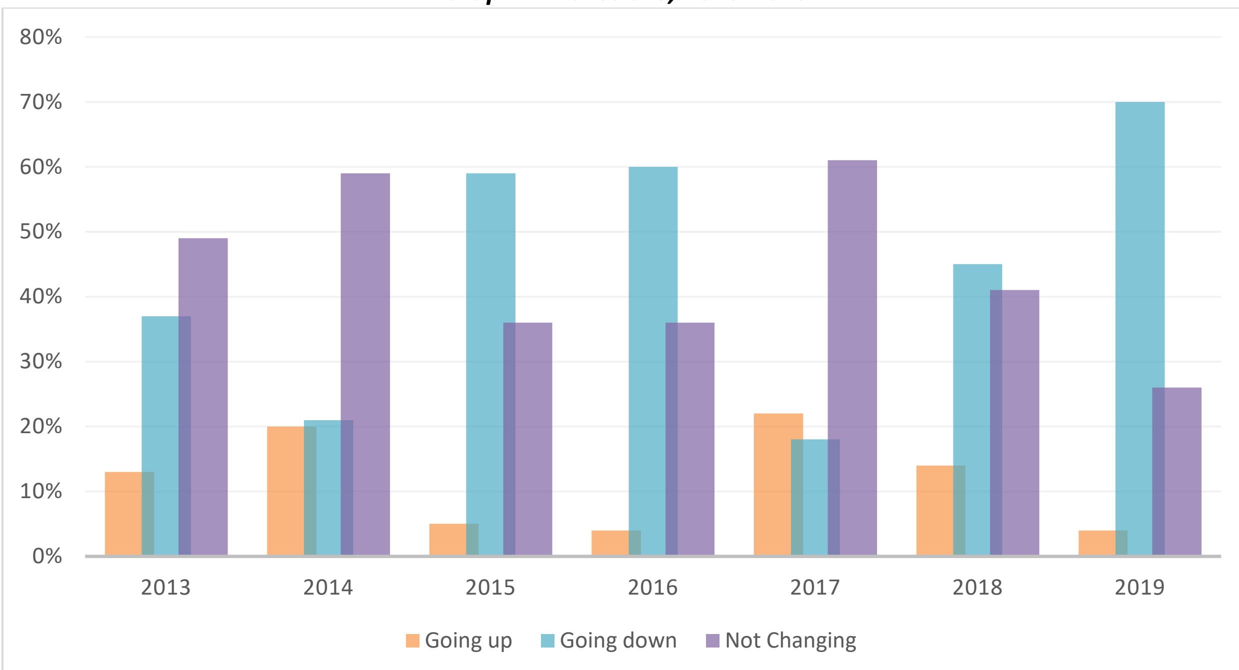
[16] "Truck capacity 'correction'"

[17] William B. Cassidy, "US truckload rates forecast to rise in 2020," *Journal of Commerce* (Nov 20, 2019).

[18] Todd Maiden, "Morgan Stanley sees lower truck capacity, higher rates in 2020," *FreightWaves* (Dec 13, 2019)

Graph 7: Rates are, 2013-2019



Each of these five catalysts, whether real or perceived, could potentially impact the truck capacity in some manner. The firm, which estimates that these factors could have a greater impact than what occurred in 2018, conducted three different scenarios in order to predict the freight rates in 2020. The "low case" presents a scenario in which contract rates increase 2-3 percent and spot rates climb 5-10 percent. The "medium case" calls for contract rates to increase 5-10 percent and spot rates to rise 20-25 percent. Finally, the "high case" predicts contract rates to rise 15-20 percent, with spot rates surging 35-40 percent.

Regardless of who is offering the prediction, capacity will be the ultimate key to how and if truckload rates rise or fall. The truckload market was awash with capacity throughout most of 2019, as economic growth slowed from the 2018 pace and a slew of new trucks ordered in 2018 arrived in motor carrier yards.[19] Additional economic indicators, including the widely used macroeconomic Purchasing Managers' Index (PMI), which measures general economic health in the U.S. like GDP, and the Cass Freight Shipments Index, have also slowed over the last months of 2019. Broughton Capital believes these indices show that the trucking industry faces an economic overhang due to a decrease in rail shipments for metals, forest products, construction materials, and chemical carloads. The firm believes this will delay a return to positive year-over-year pricing growth.[20] However, other analysts, such as Coyote, believe the economic trough of the last few months is beginning to bottom out and will start to swing upward in 2020.

According to the CEO of Roadmaster Group John Wilbur, "2019 would feel a lot better if it wasn't for 2018. 2018 was such a barn burner of a year for the entire industry, and everybody has short memories. But if

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[19] "US truckload rates forecast to rise in 2020"
[20] William B. Cassidy, "Rail volumes suggest bearish outlook for trucking," *Journal of Commerce* (Dec 17, 2019)

you could theoretically remove 2018 and stack 2019 up against 2017, ‘16, ’15 and ’14, it looks pretty good. So I would start from that perspective. I look at 2020 as a little bit more of the same pace that we’re seeing here in 2019.”

Mr. Wilbur continues by saying, “I think the good news from a trucking standpoint is that capacity might tighten up a little bit, which then manifests itself in pricing. And the reason is we’ve seen capacity drop out of the market with company closures and bankruptcies. That’s a normal part of our cycle when things soften up a bit. If you really look at the industry structure, it doesn’t have a lot of barriers to entry… the downside of that is that in good times weaker players get into the market and they stay in maybe longer than they should. Well, that all gets flushed out when you have some softening. And that’s what we’re seeing, and we may see some more, in terms of weaker players dropping out of the market, which ultimately is the market healing itself. I look at 2020 from the macro view, and say load volume will probably be flat to up a bit, and capacity may tighten a little bit, so you may have some price support.[21]”

While these predictions and comments originate from large companies, the purpose of the Freight Rate Survey is to gather information from the owner-operator and professional truck driver. Thus when members were asked for their perception concerning the prospects for the coming year based on their experience and professional opinion, 84 percent forecasted either similar or worsening prospects for 2020, compared with 73 percent in the previous survey. These results demonstrate the obvious disconnect between some market analysts and those truckers on the ground level. Though members stated that they were hoping for a better year, one member wrote “the future does not look promising.” Another wrote the freight market was only going to get worse “unless these trade wars get better and Congress passes USMCA [United States-Mexico-Canada Agreement].”

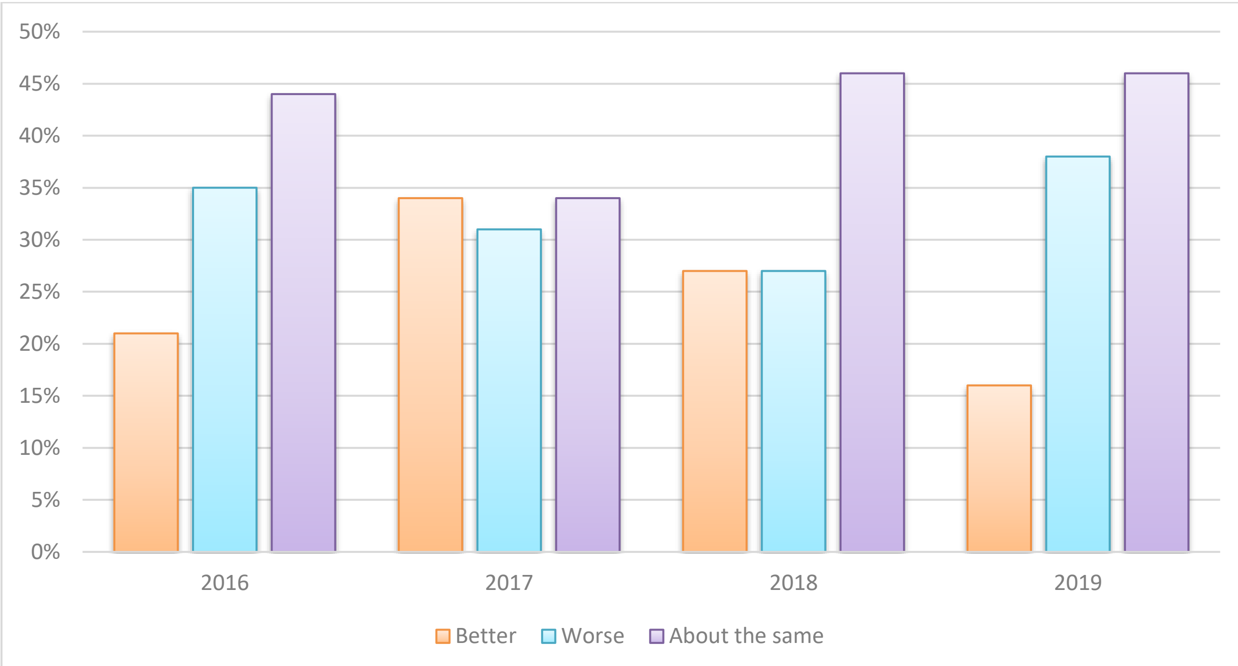
It is important to note that OOFI closed the survey Friday, December 6. Since that time, much of the uncertainty surrounding various trade agreements has cleared. On December 13, the Phase One trade deal between the U.S. and China was announced and the USMCA, HR 5430, was introduced in the House with a full House vote expected to take place December 19. Moreover, United Kingdom Prime Minister Boris Johnson secured an important election victory on December 12, which will set the stage for a more certain Brexit from the European Union. While these agreements appear overarching, they will have an impact on the global economy and trade, and thereby will impact the freight economy in the U.S.

Nevertheless, in response to the members’ prospects for 2020, 46 percent indicated that they are planning to make changes in their business plan for next year, a two percentage-point increase from last year. Several fleet owners and owner-operators under their own authority expressed their desire to expand their operations by either purchasing a new truck, new or newer equipment, or even both. Others mentioned downsizing their operation or leaving the business altogether due to poor rates and excessive rules and regulations. For leased-on owner operators, many are looking to file bankruptcy or to switch carriers, while a few wrote they are looking to obtain their own authority. However, regardless of operational type, many members pledged to increase the efficiency of their business, whether through more research into freight markets, changing lanes or regions, being more selective of their routes and

[21] Michael Catarevas, “Roadmaster CEO: Fleet shutdowns ‘cleanse’ the trucking industry,” *Fleet Owner* (Dec 3, 2019)

securing backhauls, becoming more specialized, or simply focusing to reduce expenses and deadhead miles.

Graph 8: Prospects for 2020



In short, the data from the survey creates a picture of a freight market ready to grow from a downturn in rates compared to 2018. The biggest question remains however, will the supply of truck capacity increase or decrease in 2020. Much of the freight market will hinge on this all important factor. It is crucial for any small business owner or professional truck driver to keep this question in mind moving into 2020. Depending on capacity and freight volume, members might consider consolidating their business, changing operations, or perhaps even obtaining their authority or purchasing another truck in order to expand their scope of operation. Either way, it is vital for members to follow the state of the market in order to make the best decision for their business and their livelihood.