Looking Back at 2018

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 $726.4 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. Higher freight volumes and strong rates typically indicate a robust economy, along with sturdy consumer confidence levels, housing and construction starts, oil prices, and manufacturing output.

The trucking industry in general is always in flux, marked with numerous government regulations and mixed economic growth. However, the outlook for the freight market in 2018 was positive at the close of 2017 as large carriers such as Landstar and Werner Enterprises noted an increase in average revenue per mile while also experiencing a decrease in average miles per truck. Landstar’s President and CEO Jim Gattoni noted, “The pricing environment for our truckload services was strong throughout the fourth quarter [of 2017]. Industry-wide truck capacity was tight resulting in year-over-prior-year increases in revenue per load on loads hauled via truck of 11%, 14% and 14% as compared to October, November and December of 2016, respectively.”\(^3\)

The fourth quarter revenues were not the only indicator of a healthy 2018. Increased freight volumes, partially due to reciprocating tariffs between the U.S. and China, mixed with the implementation of electronic logging devices (ELDs) helped to create a perfect storm for truckers. Overall, 2018 was a record-breaking year for trucking in many respects as demonstrated in both the Cass Truckload Linehaul\(^4\) Index and the Cass Freight Index\(^5\) shown in the graphs below. In fact, 2018 capped the highest year ever of realized pricing for truckload since deregulation in 1980. Setting a new all-time high of 144.2, a 44 percent increase from the 1990 baseline. It is important to note that the data within the Truckload Index includes actual freight invoices paid on behalf of Cass’ clients while the Freight Index\(^6\) includes all domestic freight modes and is derived from $25 billion in freight transactions from hundreds of large shippers who

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


\(^3\) “FTR: Freight conditions still favoring trucker,” *American Trucker* (Feb 1, 2018)

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

\(^5\) [https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index](https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index)

\(^6\) The Cass Freight Index uses January 1990 as its base month. The index is updated with monthly freight expenditures and shipment volumes from the entire Cass client base. Volumes represent the month in which transactions are processed by Cass, not necessarily the month when the corresponding shipments took place. The January 1990 base point is 1.00. The Index point for each subsequent month represents that month’s volume in relation to the January 1990 baseline. Each month’s volumes are adjusted to provide an average 21-day work month. Adjustments also are made to compensate for business additions/deletions to the volume figures. These adjustments help normalize the data to provide a sound basis for ongoing monthly comparison.
represent a broad range of industries. 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. In regards to the spot market, DAT’s Trendlines provides a more relevant source of information, which are depicted in Graphs 1 through 3 starting on page seven.
The freight market experienced record highs in both volumes and spending on truckload and intermodal freight for most of 2018, which tipped the balance of pricing in favor of the carriers. This was evident within the Shippers Expenditures Index as higher outlays indicate tight capacity and strong demand,
thereby increasing the willingness of shippers to pay higher rates to move their goods. Tight capacity continued to plague shippers throughout 2018, keeping market conditions on the side of carriers and forcing shippers to search for new ways to mitigate price hikes by changing their behavior as well as contracting terms. Charles W. “Chuck” Clowdis, Jr., founder and principal at consulting firm Trans-Logistics Group, told the Journal of Commerce, “Shippers understand the economic realities but that doesn’t mean they like the fact that they’re paying more. There are forces at work that you just can’t hold back.” Thus, a small but growing number of shippers have started to work their suppliers on assurances that might not “guarantee” specific volumes or capacity levels but come close enough to help secure the capacity they will need.7

Capacity concerns were, in part, due to increased delays in transit times because of the ELD mandate. Andrew Lynch, president of Zipline, a logistics company that works with consumer package goods manufacturers that sell and ship products to retailers such as Wal-Mart, Target, and Best Buy, was able to identify increased transit times on 450- to 550-mile routes in particular. On those lanes, transit times on average rose from 1.05 transit days before Dec. 18, when the ELD mandate took effect, to 1.22 transit days after the mandate, an increase of 16.2 percent. Equating to four additional hours of travel time, enough to push drivers against their hours-of-service limits.8 Shippers therefore scrambled to find capacity, sending truckload rates to record highs in the first half of 2018, which was not only indicated by the Cass Truckload Index but the DAT Trendlines as well.

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Statistics from the American Trucking Association (ATA) revealed that the volume of hauled freight has steadily increased throughout 2018. ATA’s seasonally adjusted For-Hire Truck Tonnage Index increased 6.6 percent in all of 2018, the largest annual gain since 1998 (10.1%) and significantly better than the 3.8
percent increase in 2017. Moreover, 2018 ushered in what would be the best year ever for North American Class 8 truck orders, shattering a 14-year industry record with 482,000 units according to FTR, and 490,100 units according to ACT Research.\(^\text{10}\)

\[
\text{ATA's Truck Tonnage Index} \\
(\text{Seasonally Adjusted; 2015} = 100)
\]

Though large motor carriers, such as those represented by ATA, continue to blame capacity issues on a chronic driver shortage, real-world facts produced by DAT, the Journal of Commerce, IHS Markit, the Bureau of Labor Statistics, and the Federal Motor Carrier Safety Administration (FMCSA) demonstrate that the primary issue is actually driver retention. According to Craig Callahan, executive vice president at Werner Enterprises, “There’s not a shortage of truck drivers, there’s just a shortage of really good ones.”\(^\text{11}\) Throughout 2018, the industry witnessed an ongoing migration of drivers joining smaller fleets or becoming owner-operators at a pace of more than 2-to-1 — companies operating 100 trucks or fewer have gained 345,925 drivers since 2012, while fleets with 501 or more trucks have snagged only 169,467 drivers.\(^\text{12}\) That trend has contributed to the biggest carriers’ inability to add capacity and is exacerbated

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\(^9\) Fleet Owner Staff, “ATA Truck Tonnage Index increased 6.6% in 2018,” Fleet Owner (Jan 26, 2019)
\(^{10}\) https://www.fleetowner.com/economics/class-8-orders-december-dips-2018-sets-new-record
\(^{12}\) Jeff Tucker, “E-commerce pushing US trucking to up its game,” Journal of Commerce (Jan 22, 2019)
by poor driver wages. A Business Insider analysis showed that median wages for truck drivers have decreased 21 percent on average since 1980. In some areas, they have declined as much as 50 percent.\[^{13}\]

**Analysis of the Freight Rate Survey**

While most economic and trucking industry analysts primarily focus 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 from those who actually move the nation’s economy, OOFI emailed a thirty-five question survey to nearly 18,000 members who allow for email communication on December 3, 2018. The Survey generated 801 responses for a started/viewed rate of 68 percent and a 99 percent confidence level with approximately 4.5 percent margin of error, thus the Survey provides an essential snapshot of what is occurring within the trucking industry today.

In particular, the survey respondents were comprised almost entirely of owner-operators (85%), with a small segment of company drivers (8%) and fleet owners (5%). The owner-operators consisted of two distinct segments, owner-operators under their own authority (39%), and owner-operators leased-on to a motor carrier (46%), which was a two-percentage point increase from the previous year. A majority of members indicated that they are truckload carriers (87%) regardless of the type of equipment or freight

\[^{13}\] Rachel Premack, “Truck driver salaries have fallen by as much as 50% since the 1970’s – and experts say a little-known law explains why,” *Business Insider* (Sep 26, 2018)
they haul. It is interesting to note that those pulling hazmat (78%) and oversize loads (57%) were more likely to be a leased on owner-operator than any other type of operation.

Consistent with other surveys, OOFI found that dry vans, flatbeds, and refrigerated trailers, or reefers, were the three most common types of trailers pulled. Fleet owners primarily pulled refrigerated trailers and goods while the other operational types predominately hauled dry van trailers and general food products. Although most members indicated that they were long haul operators, meaning that their average distance hauled was over 500 miles, those pulling hazmat were principally regional, i.e. operating between 151 and 500 miles. Most members continue to drive in the north and south central regions of the United States.

In terms of compensation, “per trip” and “per mile” pay continue to be the primary methods 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 and oversize loads. While the methods of compensation were fairly similar across the various operational types, the rates were not as owner-operators under their own authority received the highest average compensation rate both per trip, $1,600, and per mile, at $2.23. Company drivers on the other hand received the lowest at $0.52 per mile, a 16 percent increase from 2017, which is in harmony with several articles stating that mid to large carriers are starting to increase driver wages in attempt to retain the best drivers.
All portions of the industry, including operational and equipment types, experienced an increase in pay per mile year-over-year, while all experienced a decrease in pay per trip. Those members who lease their truck to a carrier received the largest increase from $1.58 a mile in 2017 to $1.94 a mile in 2018, equaling a 23 percent upsurge in pay. Members overall experienced a 12 percent increase in compensation from $1.71 per mile in 2017 to $1.92 per mile this year. This follows an 11 percent increase from 2016 to 2017. Concerning per trip pay, compensation decreased 14 percent from almost $1,800 to $1,500 from 2017. The implementation of ELDs might be the culprit for the decrease in trip pay as loads that took one day to complete before the rule are now taking longer. It is important to note that nearly 40% of those who receive per trip pay operate regionally, meaning routes between 151 and 500 miles.

Although the freight rates continued to rise through most of 2018, the member’s outlook for the overall freight market diminished when asked. Whereas the various operational and equipment types indicated that freight rates were largely staying the same or going up in 2017, a majority of members stated this year rates were decreasing (45%). For those under their own authority, 51 percent believe rates are going down facing 2019, and while 51 percent of those under their own authority felt they were in a better position to negotiate rates at the end of 2017 compared to 2016, 67 percent felt that they were in a worse position at the end of 2018.
These responses seem to contradict the positive gains the trucking industry made over the past year. However, this is most likely due to the timing of the survey as respondents are looking at the last few months rather than all of 2018 together. Regardless, this negative trend continued for those members who are receiving loads from freight brokers or a third party, and for those utilizing motor carriers or shippers, as the number of those indicating that loads were decreasing more than doubled from the previous year.

*Graph 5: Compensation per mile, 2015-2018*

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 pressed to obtain a certain benchmark of compensation. For example, one member stated that they always strove to earn $2.50 or more on all miles, while others felt forced to settle for less than their operating costs. Data from other Foundation surveys suggest that some members simply do not feel comfortable with negotiating, as many do not feel that it will make a difference. Although most company drivers and leased on owner-operators did not know how their carrier sets their rates (69%), those who did said their carrier utilized various market information, including volume, demand, distance, season, freight lane, and what specialized equipment is needed to complete the shipment.

Interestingly, while members experienced an increase in compensation, the number of loads hauled and miles driven, both loaded and unloaded, decreased from 2017. These statistics could possibly offer a counter argument to the driver shortage claim as demand has continued to remain high and ATA’s Truck
Tonnage Index increased 6.6 percent in 2018. However, these statistics might also indicate an increased efficiency in operations as ELDs caused many motor carriers to rethink their business model.

The average member drove approximately 104,000 loaded miles and 21,000 unloaded miles, representing a 15 percent and 7.5 percent decrease, respectively. Those hauling reefers continued to incur the most loaded miles at 181,000, while company drivers drove the fewest and yet experienced the most unloaded miles. Company drivers also experienced the least amount of layover time between loads with 73 percent stating they are loaded the same day as when they unload.

Detention time, or in particular the period that a driver is not paid while he or she waits to be loaded or unloaded, is an issue of primary concern for the trucking industry and one that greatly impacts the bottom line for small business owners and professional drivers. A report published in January 2018 by the DOT Office of Inspector General concluded that detention time costs for-hire truck drivers $1.1 to $1.3 billion a year, reducing the annual earnings per driver between $1,281 and $1,534 per year—a reduction of between 3.0 and 3.6 percent. In comparison, motor carriers lose approximately $250.6 million to $302.9 million in net income every year, equating a total net loss of $1.35 to $1.60 billion for the trucking industry overall. OOIDA’s own detention time study found that a driver could potentially lose $110 per hour spent waiting in detention.

According to the 2018 Freight Rate Survey, 70 percent of members expressed that they spend between 3 and 20 hours a week on average waiting to load and unload. Those pulling reefers experienced the most detention time, with 72 percent stating they spend between 6 and 30 hours a week in detention, and yet they earned the least amount of detention pay compared to other equipment types. Overall, 72 percent of members indicated that they receive some level of compensation. However, only 16 percent earn detention pay on all loads. For those individuals who did receive pay, they earned nearly $50 per hour on average. Nevertheless, it is important to note that very few receive detention pay for all the time they spent waiting.

For a small business owner or professional truck driver to both meet and exceed their cost of operations, it is imperative that they are able to negotiate and establish their own rates. Unfortunately, as 2018 ends and the freight market has started to slow, 51 percent of members stated that they, or the carrier they work for, have not been able to negotiate their rates more than last year. Again, this might be because some are not willing to negotiate or perhaps feel uncomfortable with negotiating their rates. Only those members pulling flatbed trailers expressed otherwise. However, most (51%) have been able to include a fuel surcharge as a part of their rates, especially those hauling hazmat and oversize loads.

In terms of acquiring loads, most owner-operators under their own authority continue to utilize brokers (45%), followed by contracting with a shipper/receiver and utilizing a load board. Nearly 55 percent of

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14 This figure includes fleet owners, which helps to explain the elevated number of miles. When fleet owners were filtered, the number of miles for reefers dropped to 102,000


16 *2018 Detention Time Survey*, OOIDA Foundation (Jan 2019), pg. 10
those utilizing load boards, use DAT. Nevertheless, most members, with the exception of fleet owners, do not utilize published economic data (52%). Overall, 18 percent did not know that such information was available.

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 have never used a factoring service in their trucking career (76%). Of the 24 percent who have, 58 percent still use a factoring service today. Those members under their own authority were most likely to utilize such a service at some point in their career. The average fee overall was approximately 4%, but there were some who paid up to 25%.

**Graph 6: Detention Time**

How many hours per week do you spend in detention?

- 31+ hours: 3%
- 21 to 31 hours: 10%
- 11 to 20 hours: 24%
- 6 to 10 hours: 25%
- 3 to 5 hours: 21%
- 0 to 2 hours: 17%

If you collect detention pay, it is:

- On all loads: 16%
- ¼ of loads: 37%
- ½ loads: 10%
- ¾ of loads: 9%
- No loads: 28%
- 31+ hours: 3%

**Graph 7: Freight Market Outlook**
When asked concerning their professional opinion of factoring, 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 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.

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 that the figures published by DAT were correct, the
members’ average compensation rate per mile was often below DAT’s numbers. 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.

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<td>Far too high</td>
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<td>Slightly high</td>
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<td>Correct</td>
<td>32%</td>
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<td>Far too low</td>
<td>13%</td>
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Table 1: Accuracy of DAT Trendlines

Conclusions and Economic Outlook

From 2017 to 2018, OOIDA members have seen some dramatic shifts in the overall freight rates as the
freight market reached record highs in June and July, but began to slowly contract through the later part
of the year. In particular, the number of respondents who indicated that freight rates had dropped,
increased 150 percent over the past year, coupled with a 36 percent decrease in those who stated rates
were improving. According to the Shippers Condition Index (SCI), a product of FTR, a forecasting and
market analysis provider, conditions have improved noticeably for shippers in the last few months of
2018.17

Todd Tranausky, vice president of rail and intermodal at FTR, stated, “The prospect of sustained lower
fuel prices, increasing capacity in the truck and rail sectors, and the first signs of a turn in rail service raise
the prospect of a much better 2019 than shippers expected during much of 2018.” The SCI tracks the
changes in four major conditions in the U.S. full-load freight market, namely freight demand, freight rates,
fleet capacity, and fuel price. FTR combines the metrics into a single index to gauge the market conditions
that influence the freight transport environment from the perspective of shippers. A positive score
represents good, optimistic conditions for shippers, while a negative score represents better conditions
for carriers. The SCI moved into positive territory for the first time in more than two years for November
2018.

Graph 9: Rates are, 2013-2018

17 Fleet Owner Staff, “Shipper Condition Index moves into plus territory,” Fleet Owner (Jan 25 2019)
Additional indicators that the market is beginning to slow include the widely used macroeconomic Purchasing Managers’ Index (PMI), which measures general economic health in the U.S. like GDP, the Cass Freight Shipments Index,\(^\text{18}\) and ATA’s Truck Tonnage Index. All three indexes dropped over the last few months of 2018. According to ATA Chief Economist Bob Costello, “The good news is that 2018 was a banner year for truck tonnage, witnessing the largest annual increase we’ve seen in two decades. With that said, there is evidence that the industry and economy is moderating as tonnage fell a combined total of 5.6% in October and November after hitting an all-time high in October.\(^\text{19}\)

Jeff Tucker, CEO of Tucker Company Worldwide, said, “Data from Truckstop.com, SONAR, and DAT Solutions all point to a softening in the spot market during the last half of 2018. There are many possible contributing factors. Has the market overcorrected, like markets often do? Did the addition of more than 555,000 drivers to for-hire fleets, bringing the number to just under 2.5 million, change the capacity equation? Have the impacts from the Trump administration tariffs halted trade enough to let the steam out of the market? In preparation for those tariffs — the latest round of which have been pushed from Jan. 1 to at least April 1 — have shippers overstocked in 2018? Any one of these factors is enough to prick the capacity shortage bubble, and restore pricing power, at least temporarily, to buyers.\(^\text{20}\)

\(^{18}\) Zach Strickland, “Purchasing Managers Index drops; shipment volumes next?” *FreightWaves* (Jan 12 2019)

\(^{19}\) “ATA Truck Tonnage Index increased 6.6% in 2018”

\(^{20}\) “E-commerce pushing US trucking to up its game”
Truckload capacity reached its tightest point in the first half of 2018 according to the Journal of Commerce, as shippers were paying an additional 25 to 50 cents per mile to move freight on the spot market when contract carriage was not available. By late November, the number had fallen to between a nickel and a dime, about a 4 to 6 percent gap. Thus, while multiple data sources point to a slowing, or even contracting, freight market, the question remains how long rates will continue at elevated levels. We asked the members for their perception concerning the prospects for the coming year based on their experience and professional opinion, to which 73 percent forecasted either similar or worsening prospects than 2018. This corresponds with IHS Markit’s prediction that annual US real GDP will drop from 3 percent in 2018 to 2.7 percent in 2019.

In response to these prospects, 44 percent of members indicated that they are planning to make changes in their business plan for next 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. One fleet owner said they would raise driver wages, while a few mentioned downsizing their operation. 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 securing backhauls, becoming more specialized, or simply focusing to reduce expenses and deadhead miles. Although there were a few members who are planning to leave the industry altogether, others stated they would seek to get their own authority and push out on their own.

*Graph 10: Prospects for 2019*

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In short, the data from the survey creates a picture of a freight market ready to continue its healthy trend overall, albeit a slower pace, all of which has been confirmed with information from DAT, IHS Markit, the *Journal of Commerce*, and others. The question remains however, how long will the freight market continue to perform well? It is important for any small business owner or professional truck driver to keep this question in mind moving into 2019.