Ex Works, Inc.
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Everyone likes to start the year with optimism, and this could be, and hopefully will be, an upbeat year for our industry. But there are some important issues that your critical trucking vendors will likely face in 2020.

Their labor costs will probably be increasing.

For starters, truckers face the following regulatory changes:

- Effective January 1: Mandatory random drug and alcohol testing has increased to 50% of drivers annually (previously 25%)
- Effective January 1 (although temporarily blocked until a hearing on January 13th): California Assembly Bill 5, puts significant – possibly prohibitive – burdens on California trucking companies using owner-operators. CA5 is under legal challenge – but in a state where 28% of the trucking capacity has been provided by owner-operators until now, the impact on many trucking companies is potentially severe[1].
- Effective January 6: All drivers and new hires must be checked against the Drug and Alcohol Clearing House, a new shared-data service that will pare the pool of available drivers.

Each of these developments will likely exacerbate the driver shortage issue that plagues the industry (especially in California) – and driver shortages tend to lead to higher labor cost.

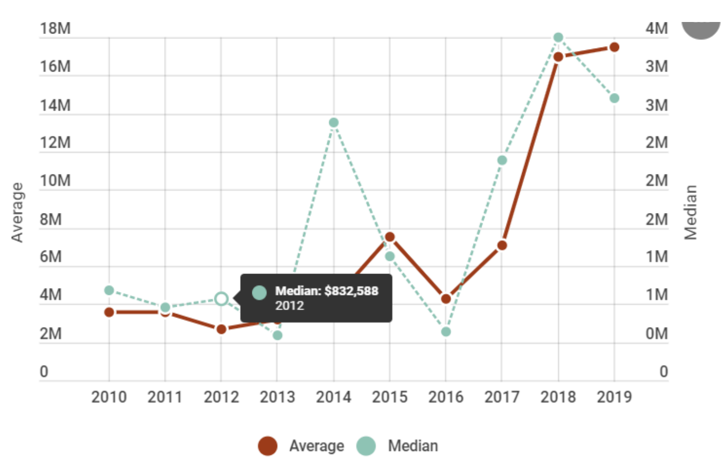
Their insurance costs will <u>definitely</u> be increasing.

Perhaps even more significant to trucking companies are skyrocketing insurance costs, caused in part by increasingly onerous jury settlements, such as:

- $280 million (Schnitzer Southeast)
- $89 million (Werner)
- $75 million (Omega Freight Logistics)
- $70.5 million (RAI Transport).

Premiums in general are expected to rise 10-20%; in some cases, a single accident can result in a small company's insurance costs doubling.

Average jury settlements against trucking companies in the Southeast.



Source: CaseMetrix LLC, Alan Pershing, CEO and Co-Founder

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[1] New Jersey is considering legislation modeled on AS5, and other states may follow suit.

Supply and demand will remain out of sync.

The industry faces excess vehicle capacity – and expects no foreseeable relief from growth in volumes (demand is expected to be flat). This will continue to put downward pressure on rates.

Larger, sophisticated trucking companies are able to indulge in advance planning – and have access to capital that will enable most of them to finesse these issues until conditions change. Even so, two larger companies suddenly closed their doors last year.

But while the shuttering of big players like Celadon and NEMF gets most of the press, recent history sounds an ominous warning: **the more serious danger is to the smaller guys.** In just the first six months of 2019, 280 smaller trucking companies suddenly went belly-up. In 2020, the four factors at right could create something of a perfect storm for many – especially smaller companies based in California.

2020 conditions: not a pretty picture	
Too many vehicles	Not enough drivers
Skyrocketing insurance cost	Not enough freight

What it means for forwarders.

The good news is that if a forwarder uses a small cartage or drayage trucker strictly for pickup and delivery, a sudden bankruptcy would likely not be highly disruptive – there are many options available to forwarders in every airport, seaport or railhead.

But the stakes are considerably higher if a forwarder is dependent on a house trucker for physical handling, bonded warehousing, etc. Those services cannot easily be replaced overnight, and the operational and financial impact if that trucker suddenly closes their doors would likely be severe.

Even short of trucker bankruptcy, we believe that there are likely to be issues that require closer attention in the coming months as small companies struggle with the aforementioned difficult conditions. Service levels could be impacted, and truckers will likely attempt to increase their prices to forwarders, despite the overcapacity. Under these circumstances, we believe it will be more important than ever to keep a close eye on overarching issues such as insurance coverage and TSA compliance, that could easily (and dangerously) go ignored if small companies let administrative discipline slip as they struggle to deal with more immediately perceptible threats.

Take aways

1. Be alert to potential bankruptcies -- particularly for local truckers performing physical handling on your behalf.
2. Watch for slippage in compliance discipline among smaller truckers.
3. Anticipate service issues and efforts to increase rates, especially in California.

One positive note for cartage truckers is that more airlines and container freight stations are adopting scheduling software, such as SprintPass from CargoSprint, to reduce congestion when picking up or delivering freight. It will take some years to be fully implemented, but the new technology is already having a positive impact at several airports.

Ex Works WatchDog is published periodically to provide air and sea forwarder management with information and insights related to ground transportation. Ex Works is the leader in connecting air and sea forwarders with their trucking networks.