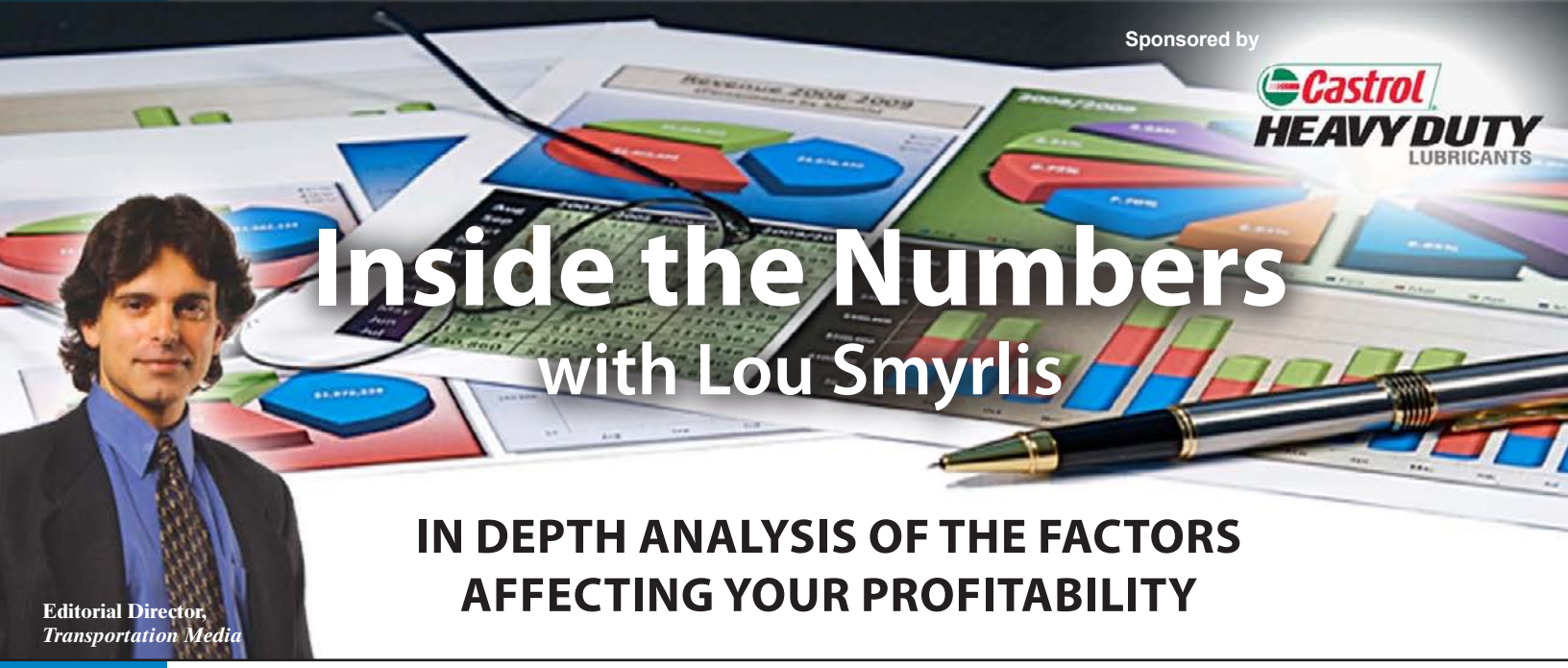


Inside the Numbers
with Lou Smyrlis

IN DEPTH ANALYSIS OF THE FACTORS AFFECTING YOUR PROFITABILITY

Editorial Director,
Transportation Media

VOLUME 1, ISSUE 1

Where's the money?

Why the "perfect environment" for rate increases has so far proved elusive

In this inaugural issue of our Inside the Numbers e-newsletter I want to tackle the concern that is tormenting just about every motor carrier executive I speak to these days: rates, and more specifically, why this far into the economic recovery it's still proving difficult to push through increases.

After surviving through two nightmarish years where they saw their rates contract in the range of 15% to 25%, I know carrier executives are very anxious to see an upward bounce in what they get paid for their services. As John Lepore from Maritime-Ontario (one of Canada's 50 Best Managed Companies) emphasized during an interview with me: "There needs to be improved communication with customers (regarding rates and ancillary charges) and instant response is needed." I also know that carrier executives are looking to a confluence of events – an improving economy, higher freight volumes and tighter capacity – to create the right conditions for significant rate increases.

So why is strong upward pressure on rates proving so elusive for motor carriers more than half way into 2011? Let's go inside the numbers to find out.

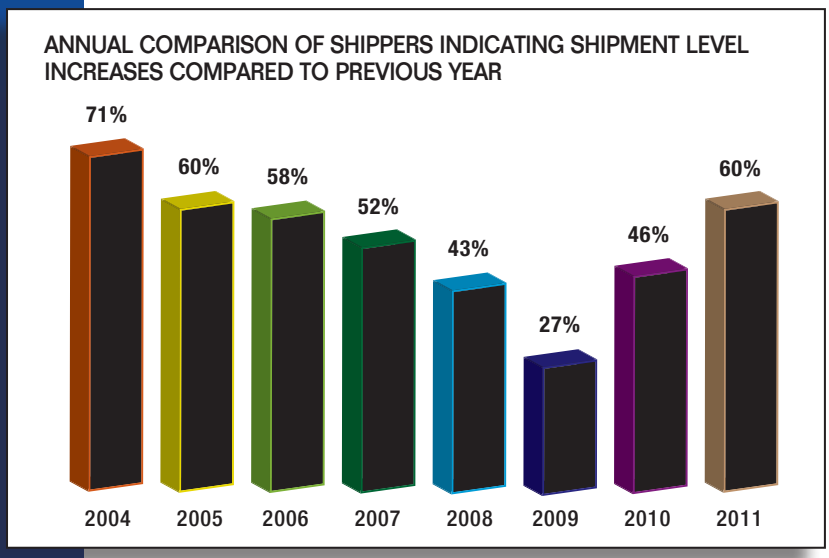


Figure A

FREIGHT VOLUMES

First, it's important to point out that carrier expectations about upward pressure on rates were based on solid assumptions about market demand for their services. Sixty percent of Canadian shippers were forecasting growth in their freight volumes for 2011 (*see Figure A*), according to our annual Transportation Buying Trends Survey, conducted last fall in coordination with the Canadian Industrial Transportation Association (CITA) and the Canadian Institute of Traffic and Transportation (CITT). As you will note, that's a significant improvement over 2009 and 2010.

Our survey also found that trucking would be the main beneficiary of this forecasted increase in shipment volumes with 43% of Canadian shippers

PERCENT OF SHIPPERS PLANNING TO INCREASE USE OF TRANSPORTATION IN 2011 BY MODE

	Increase	Decrease	Stay about the same	Not sure
LTL Trucking	43%	8%	44%	5%
TL Trucking	48%	8%	39%	5%
Courier	30%	10%	53%	7%
Rail	19%	6%	58%	17%
Marine	27%	5%	50%	18%
Air	22%	10%	50%	18%
Intermodal	31%	5%	48%	16%

Figure B

SHIPPER EXPECTATION FOR FREIGHT RATES IN 2011 BY MODE

	Increase	Decrease	Stay about the same
LTL Trucking	52%	4%	43%
TL Trucking	48%	6%	46%
Courier	47%	4%	50%
Rail	38%	4%	58%
Marine	47%	10%	42%
Air	49%	4%	47%
Intermodal	44%	3%	53%

Figure C

using LTL services and 48% of Canadian shippers using TL services expecting to increase their use of those services in 2011 (*see Figure B*). Trucking is also a beneficiary of the decade-long trend, which picked up steam during the recession, of shippers moving away from premium transport services such as domestic air freight towards more cost-effective modes of transportation with time definite guarantees.

The data from Transcore's monthly Canadian Spot Market Freight Index is consistent with our research findings, reflecting year-over-year increases in spot market freight volumes above 30% for the first quarter of 2011.

South of the border, US truck tonnage was up 3.8% year-over-year in the first quarter, according to the American Trucking Associations.

CAPACITY

The other side of the rate equation, of course, is supply and that's what has cost motor carriers dearly over the past couple of years. There was a considerable glut of capacity in the trucking market by 2009 just as freight volumes nosedived. Transport Canada numbers show that there was a 42% increase from 2003 to 2009 in the total number of for-hire motor carriers serving the Canadian market. By far the largest portion of that increase was in the small carrier segment (companies with 10 or fewer trucks and earning less than $1 million in annual revenues).

But a considerable amount of capacity has been removed from the market since 2009. Capacity reductions have not been as significant as in the US market, largely due to fewer bankruptcies particularly among medium and large-sized carriers. Still we estimate a good 10% to 15% of capacity has been removed from the Canadian trucking market. The latest available data on Class 8 truck registrations from Transport Canada is from 2009 but it clearly shows the first drop in heavy duty truck population since the boom times of 2004 to 2008 when capacity grew rapidly. In 2004 there were 294,076 Class 8 trucks servicing the Canadian market; by 2008 that had ballooned to 327,106. A year later, the number dropped to 317,219.

Canadian motor carriers are probably operating the oldest equipment they have in some time but sales of new Class 8 trucks were lacklustre in 2010. The only thing that kept 2010 from looking like a disastrous year in new truck sales was that it could be seen as an improvement over the horrific performance in 2009. Truck sales have improved in 2011 but motor carriers do seem to be sticking to their vows to keep a tight rein on capacity and concentrate on growing their bottom line rather than their top line. Class 8 sales up to May of 2011 were still far below the banner years of 2004 to 2008 and 1999 to 2000.

Our Transportation Buying Trends Survey shows that as far back as last fall, Canadian shippers noticing these developments were starting to change their perception about capacity, at least in the TL sector, which they believed was approaching balanced capacity. LTL, still has capacity challenges, but will see overflow business come its way if shippers face tightening capacity in the TL sector.

RATES

Shippers themselves looking at the supply-demand equation were expecting a return to increased truck transportation pricing. Forty eight percent of those using TL and 52% of those using LTL services were expecting higher rates this year, according to our Transportation Buying Trends Survey (*see Figure C*).The majority expected their rates to increase in the range of 2.1 - 4%, exclusive of the fuel surcharge. That was in line with motor carrier expectations. Our research last fall found 53% of carrier executives expecting to be able to raise rates for 2011.

Looking at such data many industry experts were forecasting the same upward pressure on rates as motor carrier

executives were hoping for. Consider this statement from a report I recently read entitled Domestic Transportation, Finding the Right Balance of Volume, Capacity and Pricing: "Supply chain professionals who are responsible for securing transportation services – regardless of mode – are about to reap the benefits (or pay the price) for how strategic and mutually beneficial their company's carrier relationships have been over the past two years. But make no mistake, costs are on the rise in either case. The only question is whether a company's increase will be closer to 2% or 20%."

Back in April, Larry Gross, a senior consultant with FTR Associates in the US looking at the monthly data from his company's Shippers Condition Index (SCI) was commenting: "The SCI Index is moving into territory that we have not seen since 2004. Shippers are being hit in two ways as both base rates are moving higher for all major modes and fuel surcharges are surging."

Yet almost all of the increase in rates in 2011 has come from the fuel surcharge, which is now up to almost 20% of the base rate on average, according to the latest data from the Canadian General Freight Index published by Nulogx. The best the Base Rate Index, which excludes the impact of Fuel Surcharges assessed by carriers, has done is show an increase of 1.1% from March to April of this year. The average rate increase was down 3.1% last year, despite a recovering economy and has bounced up and down each month of 2011 with no steady upward momentum, according to the Canadian General Freight Index.

So if freight volumes are on the increase and capacity is on the decrease, why isn't the capacity squeeze placing greater upward pressure on rates?

Because over the past couple of months both the Canadian and US economic recoveries have hit a soft patch that is giving shippers breathing space. Every major economic indicator I've been looking at lately – from RBC's Canadian Manufacturing Purchasing Managers Index to ATA's US Truck Tonnage Index to The Shippers' Condition Index published by FTR Associates – confirms that the second quarter was a dud as far as economic growth is concerned.

Here's more detail on what these indices are showing:

Canadian Manufacturing Purchasing Managers Index

The Canadian manufacturing sector's output and new order growth weakened further in June, according to the RBC Canadian Manufacturing Purchasing Managers Index, a newly launched monthly survey, which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The RBC PMI found that business conditions within the Canadian manufacturing sector improved only modestly in June, which partly reflected further new order and output growth, although both have slowed since May. Notably, new export business fell during the latest survey period, with firms attributing the decrease to weak global demand and unfavourable exchange rates.

At 52.8, the headline RBC PMI - a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector - remained above the 50.0 no-change level that separates growth from contraction for the ninth month running in June. That said, the PMI fell sharply from 54.8 in May, and signaled only a modest improvement in the Canadian manufacturing sector's operating conditions.

The RBC index is conducted in association with Markit, a global financial information services company, and the Purchasing Management Association of Canada.

Canadian Spot Market Freight Index

The Spot Market for freight has proved the most resilient so far. TransCore's Canadian-based Loadlink freight-matching service showed an 8% increase in spot market load availability in May, compared to May 2010. Month-over-month, spot market freight availability was up 2% compared to April. That followed a sharp drop in volumes that occurred from March to April. Providing some historical context, TransCore indicated May 2011 load postings were the second highest monthly total in three years.

US Truck Tonnage Index

US truck tonnage dropped 2.3% in May after a revised decline of 0.6% in April, according to the latest data from the American Trucking Associations.

Tonnage is still up 2.7% year-over-year, however that is the smallest year-over-year gain reported since February 2010. In April, the ATA For-Hire Truck Tonnage Index was 4.8% better than April 2010.

US Shippers Condition Index

In a significant reversal of recent trending, the FTR Associates' Shippers' Condition Index (SCI) for June improved to a reading of -5.4 from -11.4 the prior month. The healthier environment for shippers is due to a slowdown in freight demand growth thanks to the current lull in economic activity.

As disheartening as the latest economic figures may be to carrier executives' plans to restore their rates to pre-recession levels (it's estimated there has been an attrition of 18-25%), it's important to remember that no recovery is a straight upward line. Brief periods of slow economic activity are the norm, not the exception. I would not be surprised if by the end of summer or early fall, that confluence of events that carrier executives were banking on placing upward pressure on rates did come into play.

TransCore Canadian Spot Market Freight Index 2007-2011						
	2007	2008	2009	2010	2011	Percent Change Y-O-Y
Jan	173	214	140	171	222	**30%**
Feb	174	217	117	182	248	**36%**
Mar	228	264	131	249	337	**35%**
Apr	212	296	142	261	300	**15%**
May	280	316	164	283	307	**8%**
Jun	288	307	185	294		
Jul	219	264	156	238		
Aug	235	219	160	240		
Sep	206	203	180	234		
Oct	238	186	168	211		
Nov	227	143	157	215		
Dec	214	139	168	225		

TransCore Canadian Spot Market Freight Index 2007-2011

Spot market load volumes recover in May after April misstep

TransCore's Canadian-based Loadlink freight-matching service showed an 8% increase in spot market load availability in May, compared to May 2010.

Month-over-month, spot market freight availability was up 2% compared to April, the company announced. That followed a sharp drop in volumes that occurred from March to April. Providing some historical context, TransCore indicated May load postings were the second highest monthly total in three years. Equipment postings were also up in May, reaching a new high for 2011.

The Loadlink freight matching database constitutes the largest Canadian network of carriers, owner/operators, freight brokers and intermediaries and has been available to Canadian subscribers since its inception in 1990. More than 13 million full loads, LTL (less-than-truckload) shipments and trucks are posted to the Loadlink network annually. As a result of this high volume, TransCore believes its Canadian Freight Index is representative of the ups and downs in spot market freight movement and provides a historical account of the domestic and cross-border spot market freight movement. The first five columns in the table above include monthly index values for years 2007 through 2011. The last column indicates the percentage change from 2010 to 2011. For the purpose of establishing a baseline for the index, January 2002 (index value of 100) has been used.

Freight costs increasing for Canadian shippers

Results published by the Canadian General Freight Index (CGFI) indicate that the cost of ground transportation for Canadian shippers increased notably in April when compared to March due to increases in both base rates and fuel surcharges assessed by carriers.

The CGFI Total Freight Cost Index rose by 1.7% in April when compared to March, the largest one-month gain since July 2010. The Base Rate Index, which excludes the impact of fuel surcharges assessed by carriers, increased 1.1% during the same period. In addition, average fuel surcharges assessed by carriers increased from 18.8% of base rates to 19.9%, and contributed significantly to the rise in freight costs.

Of note is that fuel surcharges increased for the seventh consecutive month, and have reached their highest point since November 2008.

"Lately, increasing fuel prices have been the major factor affecting transportation costs," said Doug Payne, president and COO of Nulogx. "However, in April, we saw a notable increase in truckload base rates begin to contribute to this rise in freight costs."

For full details on the CGFI, visit www.cgfi.ca.

Manufacturing output and new order growth weakens further in June

The Canadian manufacturing sector's output and new order growth weakened further in June, according to the RBC Canadian Manufacturing Purchasing Managers Index, a newly launched monthly survey, which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The RBC PMI found that business conditions within the Canadian manufacturing sector improved only modestly in June, which partly reflected further new order and output growth, although both have slowed since May. Notably, new export business fell during the latest survey period, with firms attributing the decrease to weak global demand and unfavourable exchange rates.

At 52.8, the headline RBC PMI – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – remained above the 50.0 no-change level that separates growth from contraction for the ninth month running in June. That said, the PMI fell sharply from 54.8 in May, and signalled only a modest improvement in the Canadian manufacturing sector's operating conditions.

"The overall index moderated once again in June, with weakness in the Canadian manufacturing sector spread broadly across all of the survey components and across the Canadian regions," said Craig Wright, senior vice-president and chief economist at RBC. "The moderation is consistent with the trends we are seeing around the globe pointing to a temporary soft patch in the economic recovery."

The RBC index is conducted in association with Markit, a global financial information services company, and the Purchasing Management Association of Canada.

inside the numbers

Growth in transportation volume 2008 to 2010

	2008	2009	2010
Reducing slowly	5%	16%	13%
Remaining about the same	24%	37%	25%
Increasing slowly	48%	26%	38%
Increasing quickly	24%	21%	25%

18%

That's the percentage of Canadian manufacturers who reported stock accumulation in May, according to the new RBC Canadian Purchasing Managers Index.

Border Programs

	Already in use	Applied	Planning to Apply	Sub Total	Will not Apply	Undecided
Customs Trade Partnership Against Terrorism (C-TPAT)	53.3%	0.0%	13.3%	66.7%	20.0%	13.3%
Partners in Protection (PIP)	20.0%	0.0%	20.0%	40.0%	33.3%	26.7%
Free and Secure Trade Program (FAST)	21.4%	7.1%	7.1%	35.7%	50.0%	14.3%
Customs Self Assessment	7.1%	0.0%	14.3%	21.4%	35.7%	42.9%

Transportation department changes & initiatives underway

Change	%Yes
Aligning transportation more closely with related departments	42.9%
Implementing a Transportation Management System – TMS Implementing other information technology	42.9% 41.7%
Centralizing transportation management De-centralizing transportation management	66.7% 18.2%
Adding staff Reducing staff	21.4% 15.4%
Outsourcing some transportation management activities Insourcing some transportation management activities	7.1% 15.4%

Environmental Considerations Questions (% of replies '05-'10)

When selecting a transportation service provider today . . .	2010 Yes	2009 Yes	2008 Yes	2007 Yes	2006 Yes	2005 Yes
Do you consider any environmental factors that reduce greenhouse gas emissions?	40%	33%	48%	26%	17%	20%
Do you consider any environmental factors that reduce air pollutant emissions?	47%	39%	45%	29%	N/A	N/A
Are you aware if they use hybrid or alternative fuels?	60%	33%	38%	53%	33%	40%
Do you consider the age of the engines in the carrier's fleet?	47%	33%	30%	32%	28%	25%

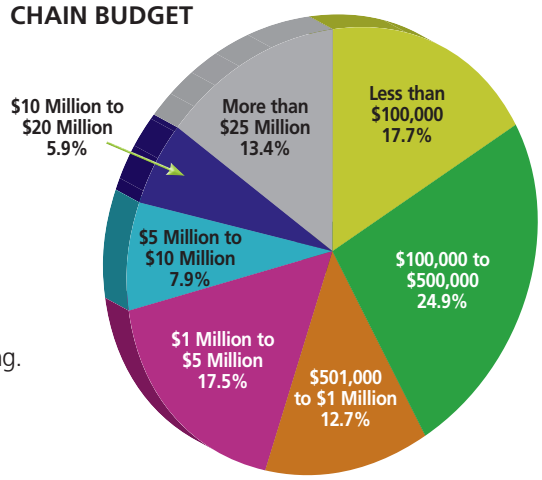
GROWTH MINDED: HOW CANADIAN SUPPLY CHAINS ARE ADAPTING TO THE RECOVERY

Growth in freight volumes as well as customer demands over the next few years will place greater strain on supply chain practices that have become less flexible after being subject to cost cuts during the recession. How are shippers planning to respond? An annual survey of large shippers conducted by Dr. Alan Saipe on behalf of the Canadian Industrial Transportation Association sheds some light on that question. Centralizing transportation management is an endeavour underway by two thirds of the shippers responding to the survey. Aligning transportation more closely with related departments is also a popular approach as is investing in a Transportation Management System. Efficient transport of freight across the border is a key concern for many large shippers and the survey found fairly strong penetration of the C-TPAT program but considerably less penetration of other border security programs, such as PIP, FAST and CSA. Environmental considerations are also growing in importance when shippers look for carriers to haul their freight, the survey found.

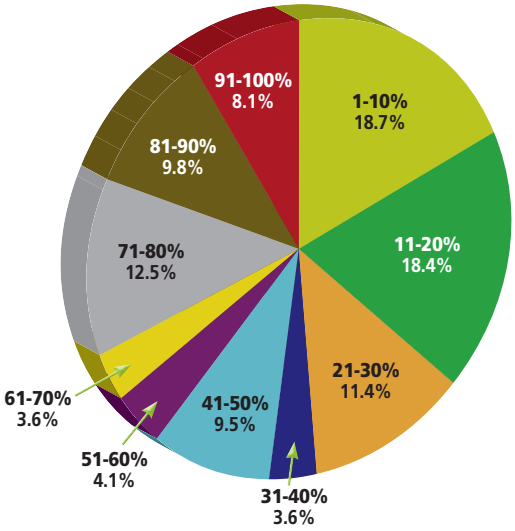
6.3%

That's the percentage of Canadian GDP accounted for by commercial transportation. More than one third of that is generated by trucking.

SIZE OF ANNUAL SUPPLY CHAIN BUDGET



PERCENT OF ANNUAL SUPPLY CHAIN BUDGET SPENT ON TRANSPORTATION



IMPORTANCE OF PERFORMANCE CRITERIA

Mode	On-Time Performance	Quality of Equipment & Operations	Information Technology	Competitive Pricing	Customer Service	Leadership in Problem Solving	Ability to Provide Value-Added Services	Sustainable Transportation Practices
LTL	4.738	4.229	3.981	4.659	4.662	4.327	3.443	4.073
TL	4.850	4.456	4.076	4.710	4.611	4.312	3.723	4.176
OCEAN CARRIERS	4.541	4.362	4.286	4.736	4.579	4.357	3.838	4.134
COURIERS	4.844	4.310	4.537	4.697	4.644	4.324	3.700	4.122
AIR CARRIERS	4.863	4.415	4.495	4.574	4.635	4.401	3.831	4.186
RAIL CARRIERS	4.498	4.259	4.174	4.658	4.487	4.204	3.618	4.099

SHIPPER SATISFACTION RATINGS BY MODE

Mode	On-Time Performance	Quality of Equipment & Operations	Information Technology	Competitive Pricing	Customer Service	Leadership in Problem Solving	Ability to Provide Value-Added Services	Sustainable Transportation Practices	TOTAL SATISFACTION SCORE
LTL	20.11	17.44	15.44	19.36	19.54	16.91	13.30	16.23	138.326
TL	21.31	19.13	15.83	19.97	19.86	17.58	14.42	17.05	145.135
OCEAN CARRIERS	18.70	17.87	16.94	19.14	18.47	16.59	13.90	15.71	137.309
COURIERS	20.44	17.87	18.57	18.75	17.95	15.64	13.27	15.91	138.399
AIR CARRIERS	20.82	18.86	17.97	18.49	18.82	17.08	14.14	16.49	142.674
RAIL CARRIERS	15.57	15.82	15.43	16.83	14.66	12.89	11.53	14.86	117.598

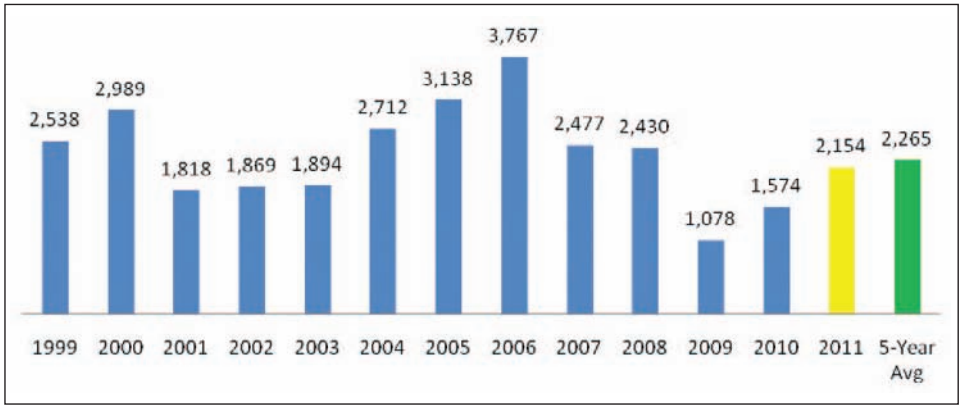
The importance of competitive pricing is evident in our annual Shipper's Choice Awards research, which asks more than 2,000 shippers across Canada to rate the importance of eight Key Performance Indicators when it comes to selecting one carrier over another. The "Importance of Performance Criteria" chart above shows the value shippers place on each of the eight KPIs on a scale of 1 to 5 and provides a comparison for all modes. While on-time performance remains the top priority when it comes to selecting both LTL and TL carriers, competitive pricing is the second highest consideration when shippers select a TL carrier and the third most important when selecting an LTL carrier. The "Shipper Satisfaction Ratings By Mode" chart shows that motor carriers are doing better than other modes in satisfying shipper needs for competitive pricing. However, just providing low rates does not ensure success among shippers. Our research also shows that customer service is also highly valued among shippers, followed by quality of equipment and sustainable transportation practices.

CLASS 8
Truck Sales Trends

Monthly Class 8 Sales – May 11

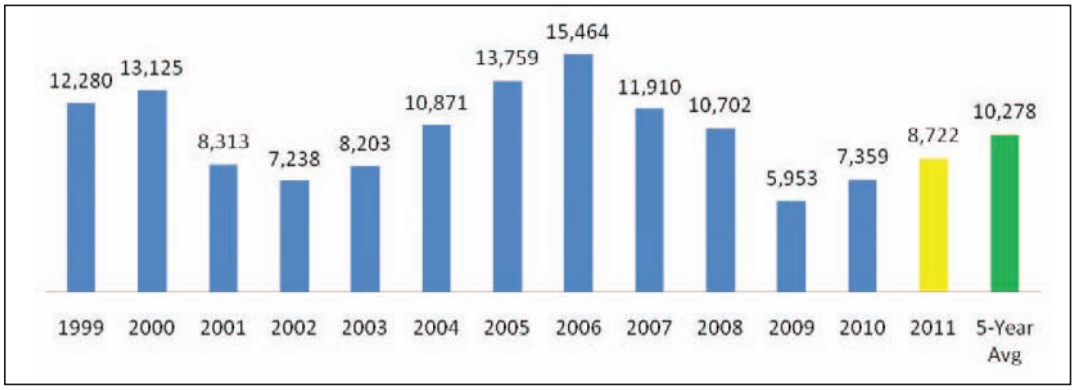
OEM	This Month	Last Year
Freightliner	468	277
International	444	416
Kenworth	448	342
Mack	174	83
Peterbilt	257	168
Sterling	0	30
Volvo	186	153
Western Star	177	105
TOTALS	2154	1574

Historical Comparison – May 11 Sales



The 2,154 Class 8 trucks sold in the Canadian market this May continued the healthy upward movement in Class 8 sales for the second quarter. The total was an improvement over not only the severely depressed 2009 totals for the month but also May 2010. More significantly, the recent trend of surpassing the monthly totals set back in 2001, 2002 and 2003 continues. The month came in just about 100 trucks short of the five-year average for truck sales, also an encouraging sign.

Historical Comparison – YTD May 11



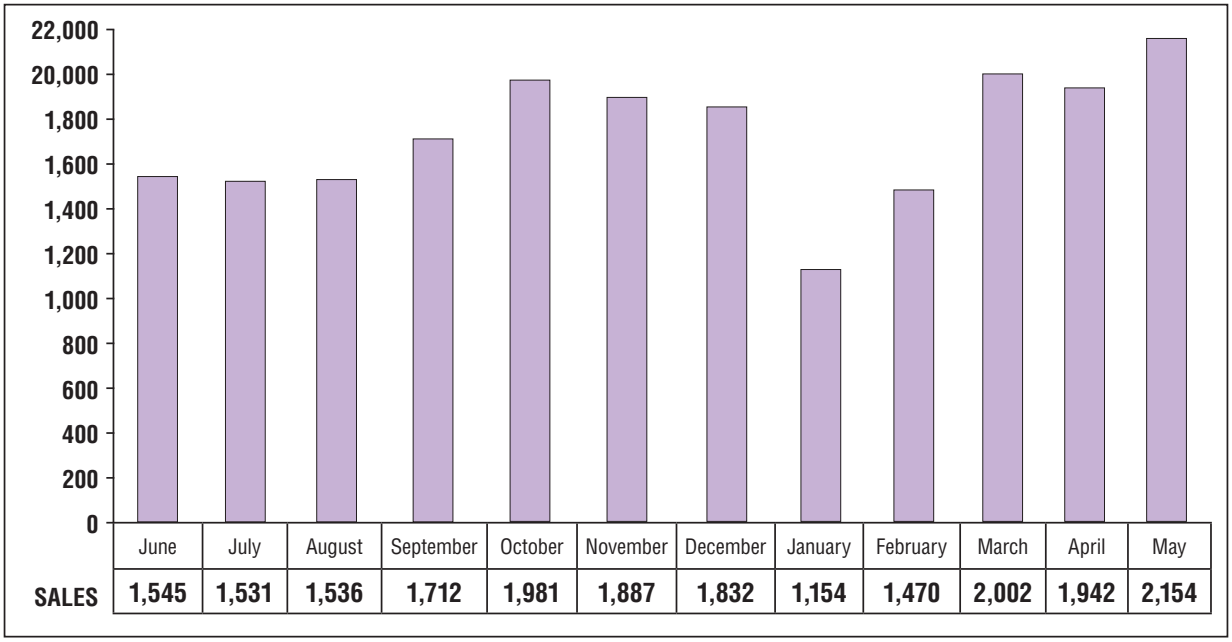
Class 8 Sales (YTD May 11) by Province and OEM

OEM	BC	ALTA	SASK	MAN	ONT	QUE	NB	NS	PEI	NF	CDA
Freightliner	124	220	65	182	1,232	373	123	34	0	11	2,364
Kenworth	142	532	104	85	273	367	44	0	0	0	1,547
Mack	20	84	43	47	279	91	13	10	0	6	593
International	144	298	31	127	579	439	111	48	8	29	1,184
Peterbilt	72	308	65	67	225	152	52	10	0	0	946
Volvo	53	79	23	117	346	181	45	31	0	4	879
Western Star	141	186	30	19	79	82	20	14	1	7	579
TOTALS	**696**	**1,702**	**361**	**644**	**3,013**	**1,685**	**408**	**147**	**9**	**57**	**8,722**

So far the YTD sales totals are significantly better than the sales figures posted in both 2009 and 2010 and also better than the results after the first five months of 2001, 2002 and 2003. The YTD totals are about 1,500 units off the five-year average but still far below the industry's greatest growth years of 2004 to 2008 and also behind the sales totals of 1999 and 2000, which indicates trucking in Canada may still be a year away from true strong growth.

CLASS 8
Truck Sales Trends

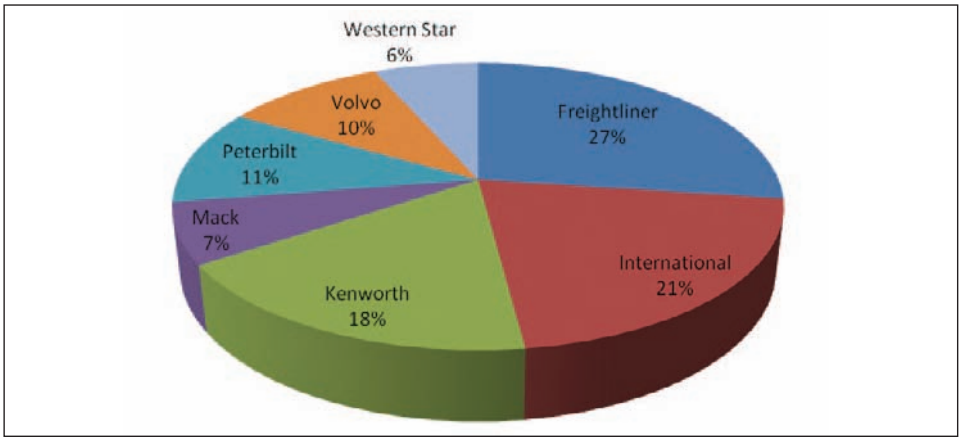
12 - Month Sales Trend



	June	July	August	September	October	November	December	January	February	March	April	May
SALES	1,545	1,531	1,536	1,712	1,981	1,887	1,832	1,154	1,470	2,002	1,942	2,154

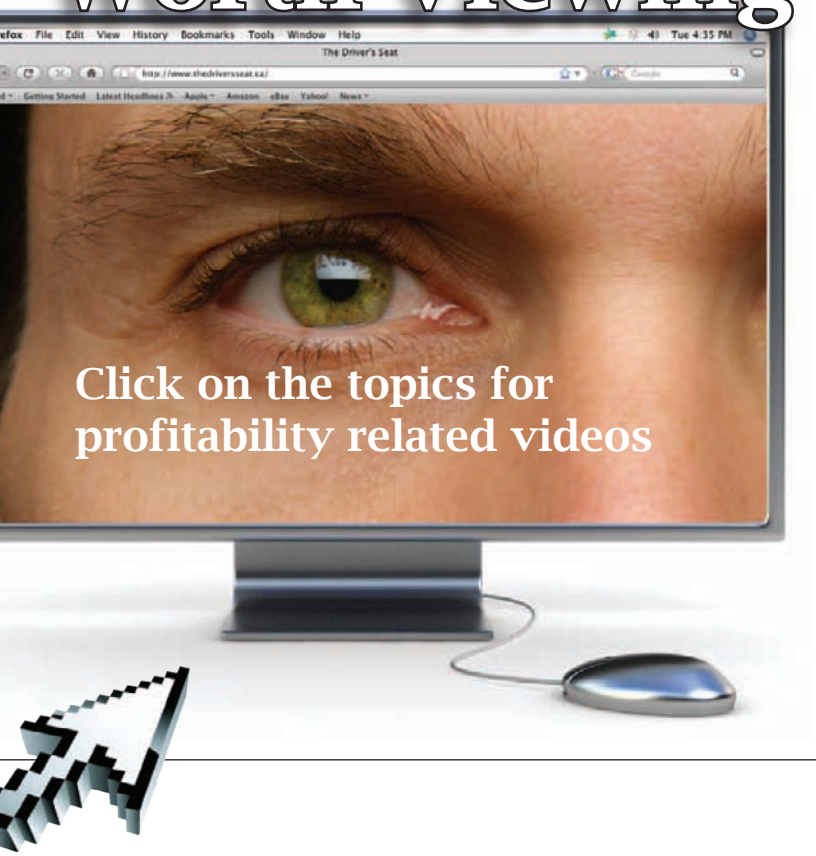
May is now the strongest month of the past 12-month period, climbing above 2,000 Class 8 trucks sold. This is the second time this year that Class 8 sales have managed to rise above 2,000. April was close with sales of 1,942 Class 8 trucks. After an improving close to 2010 with three straight months of truck sales coming in above 1,800 units, January was a disappointment with sales slipping below 1,200. February showed improvement with a climb to 1,470 before the sizeable jump in sales made in March and then April and May.

Market Share Class 8 – May 11 YTD



Freightliner, a market leader in the Canadian market for many years before International took over the top spot a few years ago, jumped out to an early lead at the start of the year with 28% market share and continues to hang on to that lead. It now stands with a commanding 27% lead, a 2% drop from the previous month, but still far ahead of International, whose market share has been on the decline over the past year, although it is now holding steady at 21%. Kenworth's numbers are also a drop from its 19% market share at the end of 2010.

Worth Viewing



THE NEW BARGAINING AGENDA:
Is ensuring capacity becoming the main concern in truck freight negotiations or does price still rule

IS BIGGER ALWAYS BETTER?
Find out what mid-sized motor carriers as well as shippers think of the drive to consolidate the trucking industry

ARE THE BIG ABOUT TO GET BIGGER?
Many large motor carriers are actively exploring opportunities to consolidate the industry. Hear first hand about the type of M&A activity we can expect

HOW DO YOU RESPOND TO AN RFQ? PERHAPS NOT AT ALL

WHERE DO WE GO FROM HERE?
They've downsized their fleets and their workforce. They've examined every cost centre two times over. Canada's top trucking executives are now ready and hungry for the rebound. Here's what to expect to see in the turbulent year ahead

HOW TO DEAL WITH REJECTION: A TRANSPORTATION SALES PROFESSIONAL'S BIGGEST CHALLENGE

Worth Reading