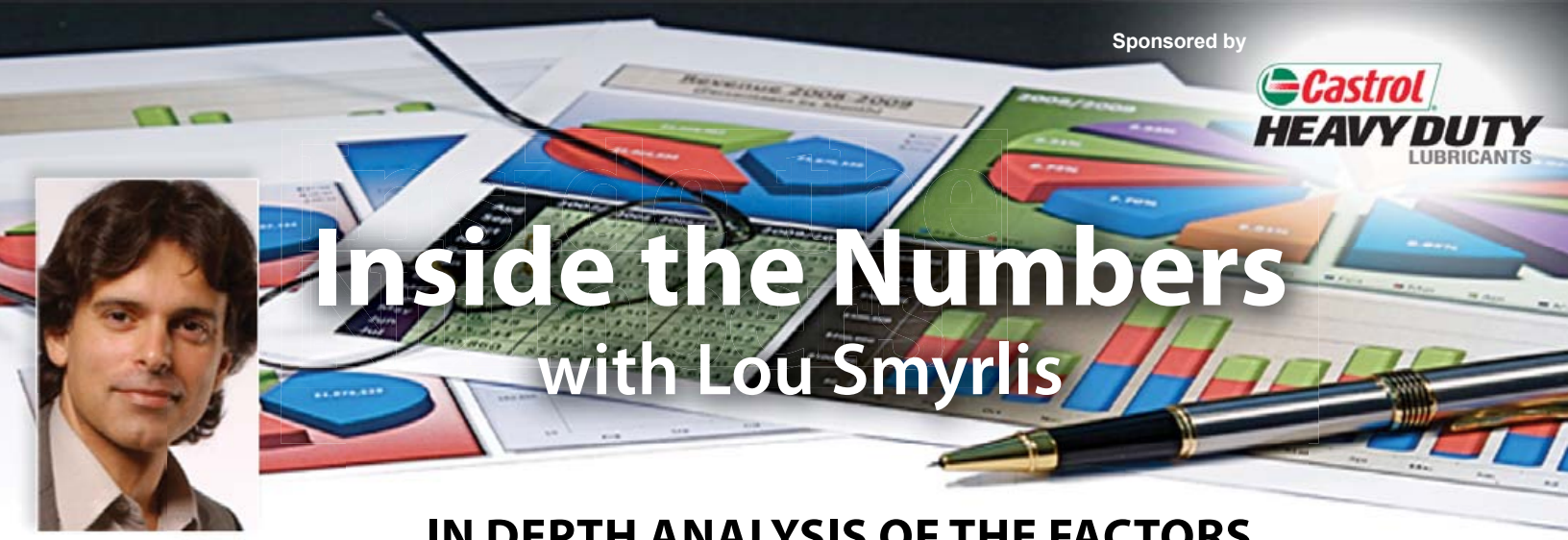

Inside the Numbers
with Lou Smyrlis

Editorial Director,
Transportation Media

IN DEPTH ANALYSIS OF THE FACTORS AFFECTING YOUR PROFITABILITY

VOLUME 2, ISSUE 2

Should you brace for a slow down?

Why Canadian economists and trucking executives remain upbeat in the face of troubling news

If you're worried that the troubling economic news from Europe and the United States will lead to a sharp downturn in freight activity in Canada for the remainder of the year, you may be worrying a bit too much.

The leading economists I've been listening to over the past month say that although the summer and fall will not exactly be smooth sailing, the economic recovery for North America is not falling apart.

Consider the words of Paul Ferley, assistant chief economist with the Royal Bank of Canada. I attended Ferley's address to the International Warehouse Logistics Association a couple of weeks ago. He readily concedes that with still high levels of unemployment (particularly south of the border) dampening consumer confidence and spending, we are vulnerable to shocks that could send investors and consumers to the sidelines. But he believes the issues in the US and in Europe, although troubling, can be contained.

"There are certainly challenges out there. But our view is that the challenges will be addressed in a manner that allows growth, although not as rapid growth as we would like," Ferley says.

He points out the US has enjoyed 11 quarters of growth since the Great Recession and fears of a double dip that arose after an anemic first quarter this year did not materialize. Scotia Bank's Aron Gampel points out that US output has become more balanced, with household spending and residential activity helping to counter the renewed softening in business investment and exports, in addition to ongoing fiscal drag. As a result, households and financial institutions are on a much better financial footing because of the continued efforts to repair balance sheets.

Ferley also believes the European central bank will be able to inject enough liquidity into the banking system to contain any pressures caused by the problems in Greece and Spain.

He sees Canadian GDP growing 2.6% this year and also in 2013 with increased capital expenditure in natural resources being the major driver of economic growth. The GDP of all four western provinces is forecast to outpace the national average. Alberta's GDP is forecast to grow by 3.9% in 2012 and 2013 while Saskatchewan is forecast to lead all of Canada with growth of 4.6% this year and 4.7% in 2013. Ontario, on the other hand, is forecast to trail the economic average, pulling off growth of 2.5% this year and 2.3% in 2013, thanks to a high dollar and the province's reliance on US trade.

Dina Cover, an economist with TD Economics, agrees with the modestly positive outlook for the Canadian market. She points out that while economic growth in the first quarter came in below expectations at 1.9% annualized, excess slack in the economy has continued to diminish.

The results from a PriceWaterhouseCoopers (PwC) barometer report for first quarter of 2012 released May 30 also found encouraging results. It revealed that 76% of Canadian industrial manufacturers surveyed are optimistic about Canada's economic prospects over the next 12 months, up 19 points from last quarter. And the headline RBC PMI – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled a strong improvement in Canadian manufacturing business conditions during May. At

54.7, up from 53.3 in April, the RBC PMI recorded the strongest monthly improvement since September 2011 and slightly above the historical average for the series (54.3).

Ferley expects the Canadian dollar to remain strong in relation to the US dollar, likely at $1.02 this year and on par next year.

"If commodity prices remain high, the dollar will remain high. This is the new normal for the Canadian economy. You are going to have to operate with a high dollar," he said. He added the dollar would drop if oil prices fell to about $80/barrel.

Ferley also said he is not concerned about a housing bubble in Canada, arguing that while some cities such as Vancouver may have pricing issues, nationally there isn't a bubble.

Even though new home starts were down in May, the month's 211,400 unit tally is still one of the highest recorded since the recession, points out TD Economics' Cover, and remains well above the pace of household formation in Canada (roughly 180,000).

"With interest rates at such low levels, we suspect that housing starts will remain around the 200,000 mark, suggesting that residential construction will continue to be a key contributor to economic growth this year," Cover says.

The high levels of Canadian household debt (we now hold the dubious distinction of being in greater debt as individuals than the spend-happy Americans) is a concern but it needs to be placed in context. Canadian homes have not lost a large chunk of their value as is the case in the US and at the current low interest rates Canadian households are not finding servicing their debt loads particularly onerous. Should interest rates rise, Ferley doubts the rise will be aggressive enough to prevent Canadian consumers from spending but it may limit the pace of growth.

He doesn't see the Bank of Canada moving to raise rates till at least the final quarter of this year and only if it's certain the Canadian economy can handle it.

"That's what a slow recovery buys you: low interest rates. The Bank of Canada doesn't want to derail the recovery with high interest rates," Ferley pointed out.

Speaking of derailing the recovery, Ferley said the economic troubles surfacing in Europe can be linked in part to government spending restraints being too front end loaded. Overly aggressive restraint can damage the economy, he pointed out, as it did in the US during the 1930s and in Japan during 1980s and 1990s.

He said fiscal restraint is certainly necessary in countries such as Greece and Spain but backloading some of the restraint measures would be a good compromise to keep those economies from going into shock.

Things look rosier this side of the border, according to Canadian trucking CFOs

The chief financial officers of Canadian trucking companies are more positive about the current state of their industry than most of their peers, according to the first Canadian Mid-Market CFO Survey by GE Capital, Canada.

The survey, which took place during the first quarter of 2012, included responses from 186 CFOs of companies in three major industries in addition to trucking: Metals, mining and metals fabrication; food, beverage and agribusiness; and retail. Among the 44 trucking CFOs who were surveyed, their average annual revenue was C$85 million.

Of the Canadian transportation CFOs, 48% say their industry will grow over the next 12 months and half believe it will stay about the same. They are more positive about the domestic economy with 55% saying their own economy will grow, while 34% believe it will stay about the same and 11% say it will shrink. In comparison, 47% of US transportation CFOs say the US economy will grow over the next 12 months, while 90% say their industry will grow or stay the same. In fact, US transportation CFOs are the least optimistic of all industries when it comes to the current state of the US economy.

When asked to describe the business phase their company will be in for the next one to three years, 59% of Canadian CFOs said moderate, followed by 20% who said they predict a cyclical or limited growth phase.

Nearly three-quarters (73%) expect their company's revenues to increase this year – the most optimistic of all survey respondents. Half of transportation CFOs expect to increase the pricing of their services this year; 39% expect pricing to remain the same.

They're divided on how their company's profit margins will shift this year, with 41% expecting an increase and 45% expecting them to remain about the same.

Their optimism may be based on how their companies have fared so far this year. The survey found 59% of Canadian transportation CFOs reporting their new order pipeline performed better in the first quarter of this year versus the same period last year, while 30% said their pipeline remained the same.

More than three-quarters (77%) said they've already begun hiring this year.

They are equally divided – 41% each – over whether their company's amount of capital expenditures will be greater or about the same as in 2011.

When it comes to issues that can directly affect their business, transportation CFOs are most concerned about cash flow (48%). That's followed by worries about the retention and recruitment of quality drivers as freight improves, and safety / truck accidents; each was selected by 45% of respondents.

They say their greatest business opportunities this year are acquiring new customers, selected by 68% of respondents, and increasing tonnage volume from existing customers, 55%.

They consider the biggest internal challenge facing their company to be talent / leadership development, cited by 56% of respondents. Service process improvements were the second-most cited challenge (50%).

What do these INDUSTRY LEADERS have in common?

Jack T. Ampuja
President, Supply Chain Optimizers

Dan Einwechter
Chairman & CEO, Challenger Motor Freight

Steve Morandi
Analytics Solutions Leader, Deloitte Analytics

Ron Mosey
Principal Consultant, RM2 Associates Inc.

Mr. Wesley Armour
President & Chief Executive Officer, Armour Transportation Systems

Carlos M. Gomes
Senior Economist, Scotiabank

Lee Palmer
President, Palmer Marketing

Mark Murrell
President, CarriersEdge

Mark J. Gallant
Director of Transportation, The Home Depot Canada

Douglas J. Harrison, MBA, CMA, C.I.T.T., ICD.D
President, Day and Ross General Freight

Mark Seymour
President, Kriska Holdings Ltd.

Rob Penner
Executive Vice President and Chief Operating Officer, Bison Transport

Dan Goodwill
President, Dan Goodwill & Associates Inc.

Marvin Joel Huberman
Senior litigation lawyer

Brian Springer
V.P. Transportation Eastern Canada, Loblaw Companies

Lou Smyrlis
Editorial Director, Transportation Media

Greg Hewitt
CEO, DHL Express

Jim McKay
Director Transportation, Walmart Canada Corp.

Rick Tucker
S.V.P., Global Technologies

Michael Tan
Divisional V.P. Supply Chain & Transportation, Hudson's Bay Company

Jim Angel
Safety Security and Compliance Product Manager

All of them will be participating in the...

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TransCore Canadian Spot Market Freight Index 2007-2012								
	2007	2008	2009	2010	2011	2012	% Change Y-O-Y	% Change M-O-M
JAN	173	214	140	171	222	220	-1%	1%
FEB	174	217	117	182	248	222	-10%	1%
MAR	228	264	131	249	337	276	-18%	24%
APR	212	296	142	261	300	266	-11%	-3%
MAY	280	316	164	283	307			
JUN	288	307	185	294	315			
JUL	219	264	156	238	245			
AUG	235	219	160	240	270			
SEP	206	203	180	234	263			
OCT	238	186	168	211	251			
NOV	227	143	157	215	252			
DEC	214	139	168	225	217			

TransCore Canadian Spot Market Freight Index 2007-2012

TransCore's Canadian Freight Index dips slightly in April

TransCore's spot market Canadian freight index saw a 3% decline in April, down from a high mark set in March, but remains well above recessionary levels. Year-over-year volumes were down 11% from the record highs in 2011.

Cross-border postings continued to dominate in April, accounting for 73% of activity by Loadlink's Canadian customers. Intra-Canada postings made up 23% of the total load volumes.

Top regions for import loads into Canada were: Ontario (55%), Western (22%), Quebec (20%), and Atlantic (3%). Top regions for import equipment into Canada were: Ontario (50%), Western (24%), Quebec (22%), and Atlantic (4%).

Top regions for loads within Canada were: Western (48%), Ontario (25%), Quebec (20%), and Atlantic (7%).

Total equipment postings in April decreased 3% from the previous month, while year-over-year capacity was up 19% from April 2011. Capacity has tightened compared to earlier in the year; however, equipment availability remains more abundant than the tight capacity crunch and record low from April 2011.

The first six columns include monthly index values for years 2007 through 2012. The seventh column indicates the percentage change from 2011 to 2012. The last column indicates the percentage change from the previous month to the current month. For the purpose of establishing a baseline for the index, January 2002 (index value of 100) has been used.

GFI sees first rate decrease in over a year

Results published by the Canadian General Freight Index (CGFI) indicate that the cost of ground transportation for Canadian shippers decreased 1.7% in March when compared with February results. This is the first decrease the index has seen since February 2011. However, costs are still up 8.1% year-over-year.

The Base Rate Index, which excludes the impact of accessorial charges assessed by carriers, decreased by 1.77% when compared to February.

Average fuel surcharges assessed by carriers have seen an increase from 20.42% of base rates in February to 21.9% in March.

"The results in this month's index were driven by a downward trend in the domestic truckload and transborder LTL, while domestic LTL saw a marginal increase," said Doug Payne, president and COO of Nulogx.

Canadian rail freight volumes 'virtually unchanged' in March

Canadian railways carried 26.7 million tonnes of freight in March, virtually unchanged from March 2011. A drop in domestic loadings was fully offset by an increase in cargo received from US connections, according to Statistics Canada.

Total domestic freight loadings, composed of non-intermodal traffic (i.e., carried in bulk or loaded in box cars) and intermodal traffic (i.e., containers and trailers on flat cars), fell 1.6% to 23.4 million tonnes over the same 12-month period.

Non-intermodal cargo loadings declined 2.8% to 20.9 million tonnes. The decrease was the result of reduced traffic in more than one-third of the commodity classifications carried by the railways. The commodity groups with the largest declines in tonnage were potash, iron ores and concentrates, and coal.

In contrast, several commodity groups registered increases. Loadings of wheat increased the most, followed by fuel oils and crude petroleum, and colza seeds (canola).

Intermodal freight loadings rose 9.7% to 2.5 million tonnes. The increase occurred solely on the strength of containerized cargo shipments, as trailers loaded onto flat cars declined.

Traffic received from US connections advanced 13.1% to 3.3 million tonnes. The increase was driven by both non-intermodal and intermodal traffic.

Geographically, 59.6% of the freight traffic originating in Canada was in the Western Division of Canada, with the remainder loaded in the Eastern Division. For statistical purposes, cargo loadings from Thunder Bay, Ont., to the Pacific Coast are classified to the Western Division while loadings from Armstrong, Ont., to the Atlantic Coast are classified to the Eastern Division.

DASHBOARD

ATA Truck Tonnage falls 1.1% in April

US for-hire truck tonnage fell 1.1% in April, on the heels of a revised 0.6% gain in March.

The seasonally- adjusted index was up 3.5% compared to April 2011, which is stronger than March's 3.1% year-over-year improvement.

Tonnage is up 3.8% year to date over the same period last year, according to the index compiled by the American Trucking Associations.

"While April's decrease was a little disappointing, the March gain turned out to be stronger than originally thought," ATA chief economist Bob Costello said. "The ups and downs so far this year are similar to other economic indicators."

RBC Manufacturing Purchasing Managers Index at eight-month high

Canada appears to be bucking the international trend of slumping economic news. While the news out of the US, Europe and Asia is focused on slower job growth and output, Canadian manufacturing business conditions improved to the greatest extent in eight months during May, according to the RBC Canadian Manufacturing Purchasing Managers Index (RBC PMI).

The headline RBC PMI – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled a strong improvement in Canadian manufacturing business conditions during May. At 54.7, up from 53.3 in April, the RBC PMI recorded the strongest monthly improvement since September 2011 and slightly above the historical average for the series (54.3).

The RBC PMI found that both output and new orders increased further in May, with firms generally citing greater client demand. Moreover, the rates of expansion were strong and the fastest in 2012 to date. Manufacturing employment increased for the fourth consecutive month in May, while the rates of input and output price inflation both slowed from those recorded in April.

"The Canadian manufacturing sector has proven to be quite resilient over the past several months against a backdrop of market uncertainty and softening conditions in many other parts of the world. Employment gains across the sector have been particularly strong since the beginning of the year, with the overall rate of job creation rising at the fastest pace since September 2011," said Craig Wright, senior vice-president and chief economist at RBC. "Manufacturing plays an important role in the country's economic growth and we expect Canada's GDP to grow by 2.6% in 2012."

The Index, conducted in association with Markit, a global financial information services company, and the Purchasing Management Association of Canada (PMAC), offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

INSIDE THE NUMBERS

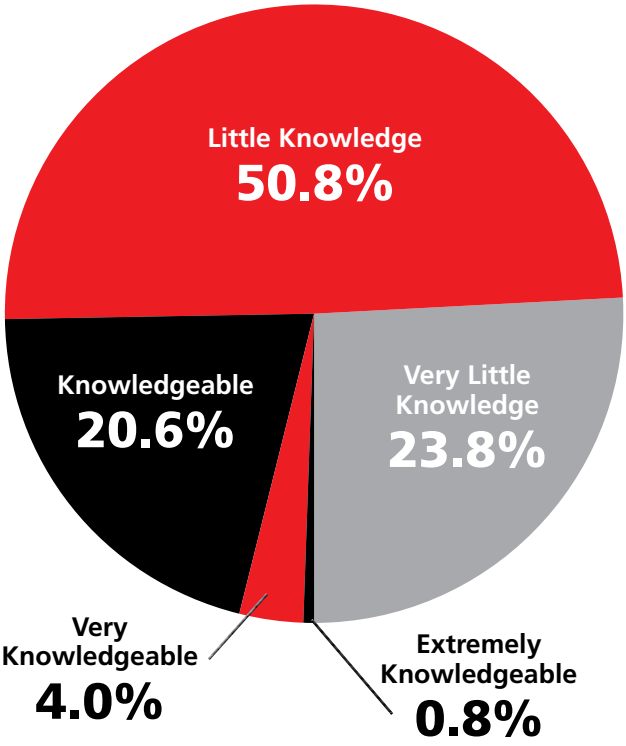
Environmental performance measurement

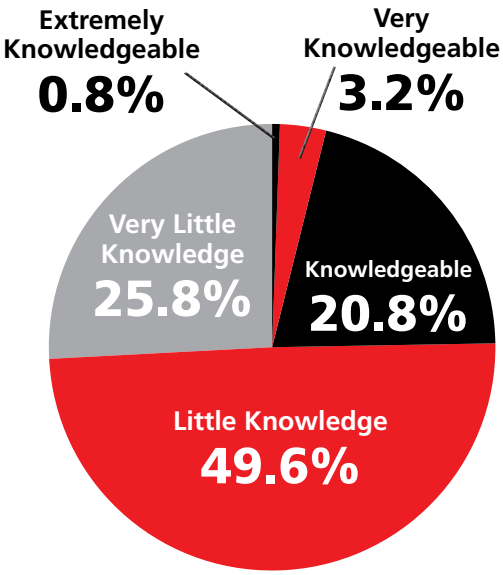
Company has environmental management plan – **57.0%**

Company reports on environmental performance – **39.8%**

Environmental performance includes transportation – **32.9%** air pollutant and GHG emissions

Knowledge of transportation air pollutant emissions and effects





Knowledge of transportation GHG emissions and effects

Environmental considerations in carrier selection

Consider environmental factors that reduce GHG emissions – **39.2%**

Consider environmental factors that reduce air pollutant emissions – **37.8%**

Aware if carrier uses hybrids or alternative fuels – **27.0%**

Consider age of the engines of carrier's fleet – **64.9%**

DO ENVIRONMENTAL CONCERNS AFFECT CARRIER SELECTION?

Canadian companies are starting to include environmental considerations in their carrier selection process. The latest Shippers' Pulse Survey, conducted by the Canadian Industrial Transportation Association in partnership with *Transportation Media*, documents the level of awareness of environmental issues among shippers and the degree to which such considerations shape their carrier selection.

Almost six in 10 shippers now have an environmental management plan and a third of them include transportation emissions in that plan, the survey found. Close to 40% consider GHG and air pollutant emissions during their carrier selection. However, the vast majority acknowledge their knowledge of both GHG emissions and air pollutant emissions and their effects is negligible. This presents an opportunity for carriers willing to help shippers understand the issues and best practices involved with sustainable transportation practices.

The full Shippers' Pulse report, which includes other quality assessment metrics, as well as projections on shipper volumes, pricing, priorities and more, is available on the Web site of our sister publication *www.ctl.ca* for just $49.99. On the top navigation bar, click on reports and select Pulse Survey Report from the drop-down menu.

INSIDE THE NUMBERS

45%

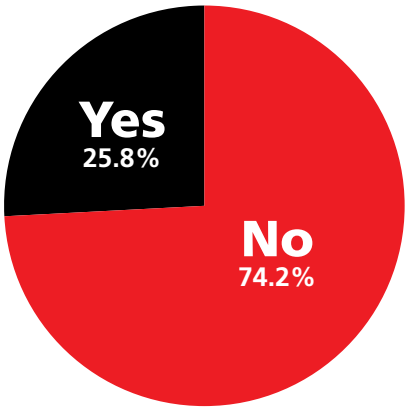
That's the percentage of shippers who expect to put at least a portion of their freight out for bid in 2012, according to the latest Shippers' Pulse Survey.

Year-over-year average in fuel surcharges

	2010/2009	2011*/2010
Domestic LTL	8.9%	38.5%
Domestic TL	22.0%	35.1%
Cross Border LTL	5.7%	47.8%
Cross Border TL	9.3%	39.2%
Overall	**9.8%**	**39.7%**

Canadian General Freight Index *To November

Own fuel surcharge index



Shipper opinions about fuel surcharges

Fuel surcharges are necessary as long as fuel costs continue to be highly volatile – **68.5% agree**

Carriers generally apply fuel surcharges correctly – **45.6% agree**

Fuel surcharges are a way for carriers to squeeze additional revenues from their customers and improve their profits – **61.1% agree**

Carriers should adjust their freight charges to market rates that include fuel surcharges and as a result simplify their billings – **55.6% agree**

AS FUEL SURCHARGES RISE, IS A BACKLASH AMONG CANADIAN SHIPPERS LOOMING?

Surcharges have been in place for more than a decade to help the transportation industry deal with the persistent variability in the price of fuel. Carriers need a way to pass sudden and unpredictable extra costs along to their customers. Failure to have surcharges in place at the start of the previous decade was a major factor in causing the demise of one quarter of the small carrier base in Canada.

Using surcharges is a practical solution that gets the job done, however, the latest Shippers' Pulse Survey shows that shippers are growing uncomfortable with the process. The Shippers' Pulse Survey is conducted by the Canadian Industrial Transportation Association, this year in partnership with our sister publication ***Canadian Transportation and Logistics***.

Average fuel surcharges increased in 2011 by just shy of 40%, with the highest increases being felt in the cross-border segments. This is the second year in a row that surcharges increased after having fallen sharply in 2009. The survey asks shippers for their opinions about fuel surcharges and we were surprised by the large number of shippers who were unhappy with how things work. In the first question, while two-thirds of the group agree that fuel surcharges are necessary, just under 30% disagree. In the second question, just over half of the replies with an opinion disagreed that carriers generally apply fuel surcharges correctly. In the third question, more than 60% of the group see fuel surcharges as a source of profits for their carriers, rather than as a neutral cost pass through. Finally, more than half of the group thinks carriers should move to market rates that include fuel surcharges.

Clearly, many shippers would like things to work differently and some have found a change that appears to be better for them. About a quarter of the surveyed companies have developed their own fuel surcharge index that they require their carriers to use. Most base their index on the cost of diesel fuel, though some use the cost of crude oil; most update it monthly, although there is a range of practice here from weekly to quarterly, and, in fact, a small number of companies report that they do it annually. Eight in 10 shippers who have their own fuel surcharge index felt that their fuel surcharge costs are now in better control.

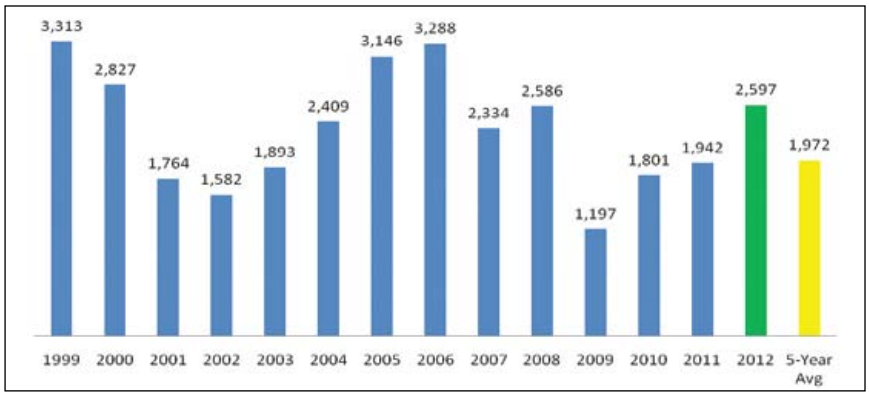
Shipper concerns over fuel surcharges are one of many topics covered by the Shippers' Pulse Survey. The research also examines on-time delivery and billing error standards, importance of value-added services and green transportation practices and the use of the spot market. The Shippers' Pulse Survey is available for purchase on ***www.ctl.ca***.

CLASS 8
Truck Sales Trends

Monthly Class 8 Sales – Apr 12

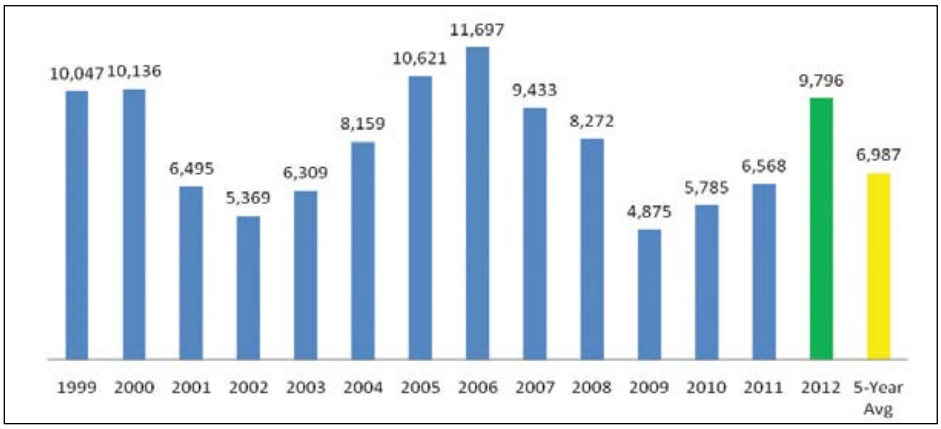
OEM	This Month	Last Year
Freightliner	556	513
International	400	411
Kenworth	550	342
Mack	228	164
Peterbilt	425	219
Volvo	273	191
Western Star	165	102
TOTALS	2597	1942

Historical Comparison – Apr 12 Sales



Every Class 8 truck manufacturer increased its sales this April compared to the previous year, with Navistar being the only exception. In total, the 2,597 Class 8 trucks sold in the Canadian market in April was more than 600 above last year's totals and continued the strong start to this year's sales. It also surpassed the five-year average by more than 600 units. The Canadian market had not seen an April this strong since the record-breaking years of 2005 and 2006.

Historical Comparison – YTD Apr 12



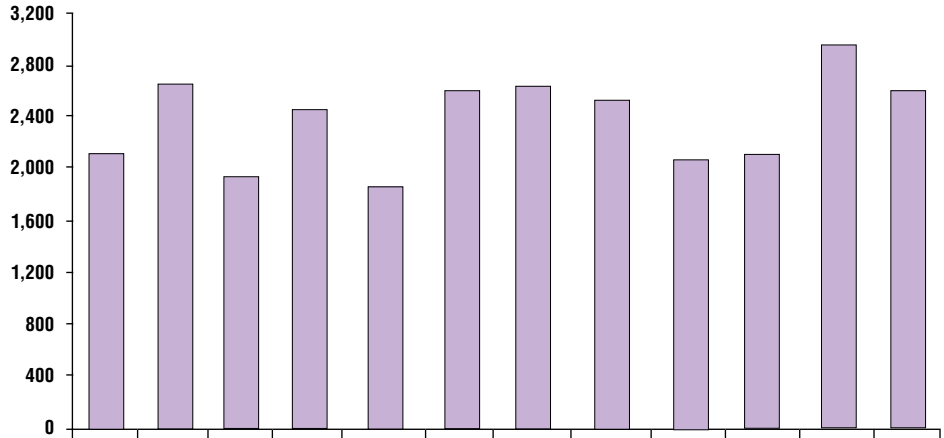
Class 8 Sales (YTD Apr 12) by Province and OEM

OEM	BC	ALTA	SASK	MAN	ONT	QUE	NB	NS	PEI	NF	CDA
Freightliner	160	219	80	215	1,359	377	78	63	1	6	2,558
Kenworth	205	875	101	81	360	362	36	0	0	0	2,020
Mack	28	108	68	45	271	112	20	13	0	4	669
International	56	205	33	99	676	340	68	26	2	26	1,531
Peterbilt	134	449	77	220	224	176	24	9	0	0	1,313
Volvo	72	90	41	92	501	206	27	8	0	1	1,038
Western Star	138	248	34	13	84	90	16	44	0	0	667
TOTALS	**793**	**2,194**	**434**	**765**	**3,475**	**1,663**	**269**	**163**	**3**	**37**	**9,796**

The 9,796 trucks sold so far in the Canadian market in the midst of a slowing North American economy and economic uncertainty indicates the importance of not falling prey to the daily fears of the stock market. Although not growing by leaps and bounds, there is significant growth in the Canadian truck market. The YTD totals are almost 3,000 better than the five-year average and more than 3,000 above last year's totals. To date, 2012 is shaping up as the 5th best year since 1999.

CLASS 8
Truck Sales Trends

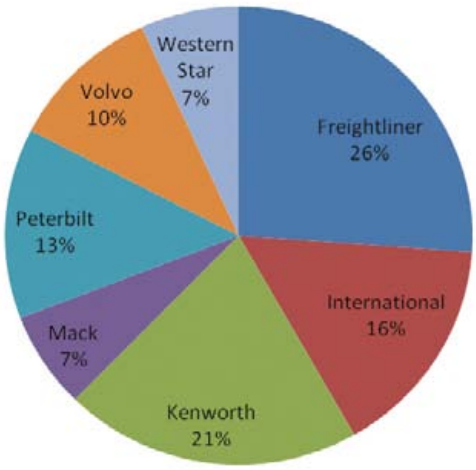
12 – Month Sales Trend



	May	June	July	August	September	October	November	December	January	February	March	April
SALES	2,154	2,677	1,956	2,425	1,873	2,606	2,663	2,511	2,113	2,151	2,937	2,597

For the seventh straight month, sales climbed above the 2,000 mark, reminiscent of the industry's capacity boom years of 2005 to 2007. Our Transportation Buying Trends Survey found that 46% of Canadian carriers expect to purchase new Class 8 trucks in 2012. Question is, if most carriers are looking to simply replace older equipment rather than add capacity, how long will the buying spree continue?

Market Share Class 8 – Apr 12 YTD



Western Star, Volvo, Peterbilt, Mack and Kenworth all made small gains to their market share with April's Class 8 sales. Freightliner, last year's Canadian market leader, saw its share nipped but it still retains a commanding 26% share of Class 8 sales so far this year. Navistar International is now down to 16% of the market.

Source: Canadian Motor Vehicle Manufacturers Association