Inside the Numbers
with Lou Smyrlis

Editorial Director,
Transportation Media

IN DEPTH ANALYSIS OF THE FACTORS AFFECTING YOUR PROFITABILITY

VOLUME 3, ISSUE 1

Stuck in Neutral

Shipper and carrier surveys indicate meagre gains expected in freight volumes and rates

We recently completed an extensive survey of 326 shippers and 106 carriers across Canada in association with our sister publication Canadian Transportation & Logistics, the Canadian Institute of Traffic and Transportation (CITT), Canadian Industrial Transportation Association and Cormark Securities. The annual research aims to gauge trends and the current state of the freight markets.

Included below are the highlights. More detailed reports on freight volumes, rates and Class 8 sales are included in this issue of Inside the Numbers along with the analyst's view. For a copy of the full report on the Shipper-Carrier Survey, **click here**.

Highlights:

- **Shippers' Optimism A Positive For Carriers In 2013:** Both carriers and shippers have called for slow and steady growth in 2013, albeit with slower expected volume growth in 2013 versus 2012 (and steady price increases). Shippers were more optimistic than carriers, which is a positive sign and perhaps a leading indicator for carriers. Carriers projected low single-digit, top-line growth in 2013, on average, while shippers projected 6%, excluding fuel surcharge.
- **Capacity Well Balanced; Pricing To Improve Further In 2013:** Shippers in our survey pointed toward a balanced freight capacity situation, while more carriers expressed intention to buy new trucks, especially heavy-duty trucks, in 2013, to renew aging fleets and perhaps reflective of the new emissions regulations coming into effect in 2014. Carriers continue to post inflation-plus type price increases.
- **Driver Shortage A Much Bigger Issue In 2013:** Carriers continued to point toward the economy, freight rates, fuel costs, driver shortages and volume uncertainty as the most pressing issues facing the industry. The driver shortage issue is quickly turning more serious, taking fourth spot in our 2012 survey, up from fifth in 2011. By 2020, the Canadian industry could be short 25,000 drivers off a base of 300,000 today.

The Investment Analyst's View

Hoping to gear up in the second half

By David Newman and Konark Gupta, Cormark Securities

While there are early signs of an economic and freight market rebound in the US and China, our survey of shippers and carriers, corroborated by the various freight metrics and leading indicators we track and our channel checks, point toward relatively tepid volume growth in 2013, at least in the first half of the year. We believe the road and rail industry may witness tepid volumes in H1/13, with a recovery more likely in H2/13, aided by relatively easy comparables, offset by pricing gains and cost discipline. That said, despite similar end markets, we expect the rails to continue to outperform trucks in terms of freight volumes, and perhaps pricing (varies from carrier to carrier), given a more diversified business mix, with significant leverage from the growing energy business (especially crude-by-rail) and other commodity markets, an ongoing recovery in the US housing and automotive markets, and consistent GDP+ growth in the intermodal business. In all, we maintain our neutral stance for the next six months or so for the road and rail industry, with specialized segments likely once again outperforming the rails and traditional trucking, in general, in our view. The bottom line is we are highly encouraged to see continued optimism amongst the shippers, which serves as a leading indicator for the carriers.

Motor carrier executives less optimistic about freight volumes in 2013

Canadian motor carrier executives are less optimistic about freight volume growth in 2013 than they were a year ago, results from our annual Transportation Buying Trends survey indicate.

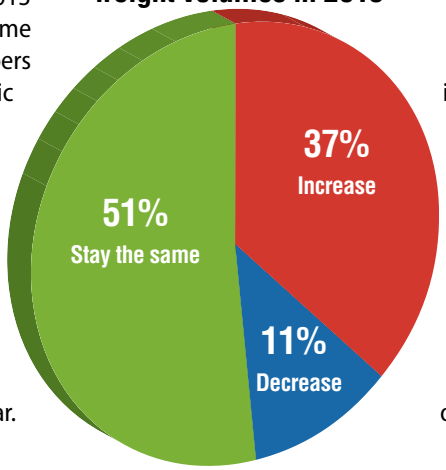
The national survey, completed in December and early January, shows that only 37% of responding Canadian motor carrier executives expect shipment volumes to be higher in 2013. In comparison, 44% thought likewise a year ago. The majority of respondents (51%) believed freight volumes would stay about the same.

The annual survey is conducted by our research division in partnership with the Canadian Industrial Transportation Association, Cormark Securities and CITT.

Our research also tracks Canadian shipper projections for freight volume growth, employing a separate survey conducted in late fall. Those survey findings are cause for a small degree of optimism. Shippers are more upbeat about shipment volumes in 2013 than carriers are with 53% forecasting volume growth (compared to 49% in 2012). Shippers traditionally tend to have a more optimistic view of freight volume projections but it's also reassuring that we found fewer shippers (8%) forecasting a contraction in their volumes in 2013, compared to the 19% who said likewise in 2012.

There were also fewer carrier executives surveyed who expected a drop in their freight volumes in 2013 compared to the previous year. Only 11% projected a drop in business versus 18% the previous year.

Motor carrier projections for freight volumes in 2013



This divide in carrier projections is borne out by research conducted by the American Trucking Associations stateside. While large carriers in the US are doing better, small carriers actually experienced a 4.6% drop in freight volumes from September 2011 to August 2012.

Another positive note from our survey is that of the Canadian shippers forecasting growth in freight volumes in 2013, the majority expect to grow their business with trucking. Our mode by mode net growth analysis shows 31% net growth for LTL, the highest of all the modes. That is followed by 29% net growth for intermodal and 22% for TL. In comparison, other modes such as air cargo and marine are forecast to have considerably lower net growth – 9% and 17%, respectively. (Net growth is the sum of the percentage of shippers planning to increase freight volumes placed with a particular mode minus the percentage of shippers forecasting a decrease in volumes placed with that mode.)

Our annual Transportation Buying Trends surveys, conducted since 2004, probe motor carrier and shipper executives on a number of key issues, including rates, surcharges, capacity additions and overall business confidence. Watch for more results on www.trucknews.com in the days to come. The research is also presented to interested industry and educational groups across the country.

More than 100 motor carrier executives across the country responded to the carrier version of the survey. More than 300 Canadian shippers responded to the shipper version of the survey.

Small business can have a big impact on your operations

UPS recently conducted a survey on Canadian small business to determine how optimistic they are about the upcoming year. It seems Canadian small business owners are adopting a positive outlook for 2013. The survey suggested that:

- 60% of small business owners believe that they will see an increase in revenue in 2013 when compared to 2012.
- Nearly 60% expect to see at least moderate growth in Canada's economy.
- One in four businesses would welcome support and advice related to infrastructure, shipping and logistics in order to increase business success.
- When searching for a new service or supplier, small businesses consider value and reputation, in addition to cost, to be the most important criteria for consideration.

The needs of small business are important to take into consideration because 98% of businesses in Canada have fewer than 100 employees and small businesses contribute slightly more than 30% to Canada's GDP.

Motor carrier hopes for higher rates greatly differentiated by fleet size

Canadian motor carrier hopes for higher rates seem to be tempered by the reality of a slow growing economy and differentiated by their fleet size.

Only 51% of Canadian motor carrier executives responding to our latest Transportation Buying Trends Survey indicated they expected their core pricing (excluding surcharges) to increase in 2013. In comparison, two thirds of carrier executives expected core price increases a year ago.

The national survey, conducted in late December and early January and including responses from more than 100 carrier executives from across Canada, also found that 39% of motor carrier executives expect rates to remain flat this year. In comparison, only a quarter expected rates to remain flat back in 2012.

Of those who did expect an increase, the majority (41%) expect to raise core pricing in the range of 2.1 to 4%. Another 37% of respondents expected rate increases in the 1 to 2% range. Only 6% expected to raise rates more than 6%.

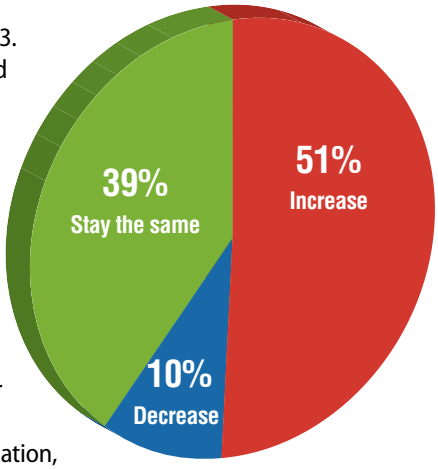
The overall numbers from the survey belie a great divide in how carriers, depending on their fleet size, view rate increases for 2013.

Three quarters of large carriers (100 Class 8 trucks or more in their fleets) expected to raise their core pricing in 2013. In comparison, only 40% of medium-sized carriers (10-99 Class 8 vehicles in their fleet) expected rate increases and only 39% of small carriers (those with 5-9 trucks in their fleets) expected to hike their pricing.

The majority of this year's survey respondents (59%) were headquartered in Central Canada; 13% in Eastern Canada; and 23% from Western Canada.

The annual survey is conducted by our research division in partnership with the Canadian Industrial Transportation Association, Cormark Securities and CITT.

Motor carrier projections for rates in 2013



Large Canadian carriers growing more interested in purchasing new trucks; small carriers holding back

Intent to purchase new Class 8 trucks in 2013 – By Fleet Size

More than half of Canada's for-hire carriers have plans to purchase new trucks this year, our latest Transportation Buying Trends Survey of trucking executives shows.

The national survey, conducted in late December and early January and including responses from more than 100 carrier executives from across Canada, found 53% ready to invest in new heavy duty trucks in 2013. That represents a notable increase from the 47% who said likewise last year and certainly a sizeable increase from 31% willing to invest new trucks in the midst of the recession back in 2009.

Meanwhile, sales of Class 8 trucks hit 30,586 in 2012, according to data released by the Canadian Motor Vehicle Manufacturers Association. That made 2012 the fourth best year since 1999 in Class 8 truck sales.

The year's totals were on track to make 2012 the third best year since 1999 but a slowdown in the final quarter nixed that opportunity.

The 30,586 trucks sold in Canada were well within our own forecasted estimated range of 30,319 to 31,227.

How do Class 8 sales look for 2013? This year is particularly difficult to forecast because the industry appears to be on a holding pattern in terms of adding capacity. Assuming an 8-year life cycle for Class 8 trucks (a truck could go through several owners), there are more than 35,000 trucks due for renewal. But many fleet owners are reluctant to purchase trucks that actually add to their fleet size due to concerns about the slow growing economy.

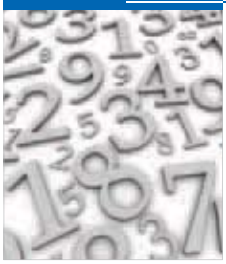
Our research is also finding a wide gap in purchasing plans based on fleet size. While two thirds of large fleets (100 or more Class 8 vehicles) intend to purchase new trucks in 2013 only 17% of small fleets (5-9 trucks) have similar plans. Also important is that while 38% of large carriers expect to grow their business volumes in 2013 only 27% of small carriers expect the same. And while three quarters of large carriers expect to charge higher rates, only 39% of small carriers do. As a result, large carriers are considerably more upbeat about business prospects in 2013 than small carriers. Large carrier optimism for 2013 averages out at 6.6 out of 10, compared to just 5.6 for small carriers.

Balancing the reality that small carriers (which make up 3/4 of Canada's for-hire fleets) won't be a factor in truck sales along with the fact there are many trucks up for replacement, we are being cautious with this year's Class 8 sales projections.

We forecast sales in the range of 35,000 to 35,986 Class 8 trucks for 2013. At the moment, considering both the Canadian and US economies shrank in the final month of 2012 and the fact that what is widely believed to be a resurging US economy may be set back by political wrangling, this is an optimistic estimate and may require trimming by the end of the first quarter.

When looking at Class 8 orders in the broader NAFTA market, they actually shrank in 2012 in comparison to 2011. In 2011 there were 305,759 orders placed whereas orders came in at 229,427 in 2012, a 25% drop. The start of 2013 is continuing the downward trend with 22,191 orders placed compared to 25,264 the previous year.

At a recent press conference, Daimler Trucks North America forecast that Class 6-8 sales for this decade would trail behind the previous decade's. DTNA's forecast for Class 6-8 sales in the NAFTA region was 353,000 for 2010-2020, compared to 364,000 for 2000-2009 and 346,000 for 1990 to 1999.



TransCore's Canadian Freight Index starts 2013 with record results

TransCore's Link Logistics Canadian Freight Index recorded the highest spot market load volumes for January, surpassing the record set for the month in January 2011 by 3%. January's load volumes increased 25% from December and year-over-year volumes increased by 4% from January 2012.

Equipment postings increased 17% from the previous month's levels and increased 13% from January 2012.

Intra-Canada loads represented 24% of the total load volumes. Top regions for loads within Canada by region of origin were Western (50%), Ontario (29%), Quebec (16%), and Atlantic (5%).

Cross-border postings represented 71% of the overall load postings. Top regions for loads into Canada by region of destination were Ontario (58%), Western (20%), Quebec (20%), and Atlantic (2%).

Equipment postings also started the year with positive increases. January's postings increased 17% from the previous month and 13% from January 2012.

The first six columns include monthly index values for years 2008 through 2013. The seventh column indicates the percentage change from 2012 to 2013. 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.

TransCore Canadian Spot Market Freight Index 2008-2013

	2008	2009	2010	2011	2012	2013	% Change Y-O-Y	% Change M-O-M
Jan	214	140	171	222	220	228	4%	25%
Feb	217	117	182	248	222			
Mar	264	131	249	337	276			
Apr	296	142	261	300	266			
May	316	164	283	307	301			
Jun	307	185	294	315	295			
Jul	264	156	238	245	233			
Aug	219	160	240	270	235			
Sep	203	180	234	263	200			
Oct	186	168	211	251	215			
Nov	143	157	215	252	215			
Dec	139	168	225	217	182			

TransCore Canadian Spot Market Freight Index 2008-2013

Fuel, freight costs decrease for Canadian shippers

The total cost of ground transportation for Canadian shippers declined by 0.86% in November when compared with October, results published by the Canadian General Freight Index (CGFI) indicate.

The Base Rate Index, which excludes the impact of accessorial charges assessed by carriers, decreased by 1.2% when compared to October. Average fuel surcharges assessed by carriers have seen a decrease from 21.27% of base rates in October to 20.4% in November. This is the first decrease in fuel since July.

"Total costs for domestic LTL and truckload continued their increase again this month, while cross border LTL and truckload costs continue to decline," said Doug Payne, president and COO of Nulogx. "Accessorial charges rose marginally after three months of steady costs."

The CGFI is sponsored by Nulogx, a transportation management solutions provider, and is used by shippers and carriers to benchmark performance, develop business plans, and secure competitive agreements. It was developed with the assistance of Dr. Alan Saipe. The most recent results are available at the CGFI Web site, www.cgfi.ca.

International shipments help maintain Canadian rail freight increases

Canadian railways carried 27.4 million tonnes of freight in November, a 0.8% rise from November 2011 and the third consecutive year-over-year increase for the month. The gain occurred almost entirely on the strength of international rail traffic shipments.

Within Canada, combined loadings of intermodal traffic (i.e., freight moved via containers and trailers on flat cars) and non-intermodal traffic (i.e., freight moved via box cars or loaded in bulk) decreased 0.4% to 24.2 million tonnes. The drop in domestic loadings was the result of reduced loadings of non-intermodal traffic, which offset the gains in intermodal traffic.

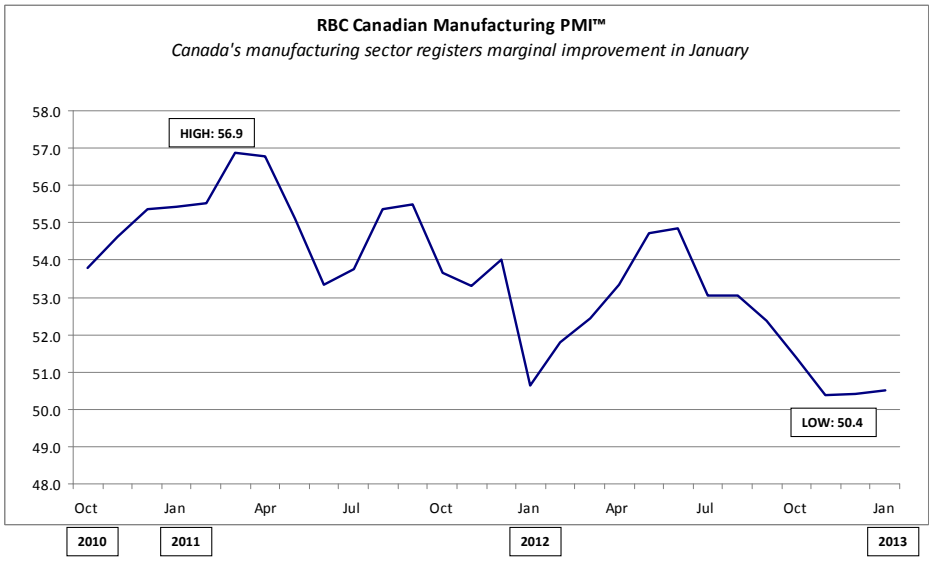
Domestic intermodal freight loadings rose 4.2% to 2.5 million tonnes, solely attributed to increased loadings of freight in containers as freight moved via trailers on flat cars dropped.

Domestic non-intermodal freight loadings decreased 0.9% to 21.7 million tonnes. Loadings declined in 33 of the 64 commodity groups, led by iron ores and concentrates, potash, wheat and colza seeds (canola). The decline was partially offset by gains in a number of commodity groups, most notably, fuel oils and crude petroleum.

The western division accounted for 57.7% of the domestic freight

loadings, virtually unchanged from the same month in 2011. The remainder was 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.

Freight traffic received from US connections advanced 10.9% to 3.2 million tonnes, driven by increases in both non-intermodal and intermodal traffic movements.



US truck tonnage robust in January: ATA

US for-hire truck tonnage surged 2.9% in January, following up a strong 2.4% gain in December, according to the American Trucking Associations.

December's gain was revised down from the originally reported 2.8%. Still, tonnage has now increased at least 2.4% every month since November, gaining a total of 9.1% over that time, the ATA reports.

The seasonally-adjusted for-hire truck tonnage index was up 6.5% year-over-year in January, marking the best y-o-y gain since December 2011. In fact, January's index was the highest on record, the ATA reported.

"The trucking industry started 2013 with a bang, reflected in the best January tonnage report in five years," ATA chief economist Bob Costello said. "While I believe that the overall economy will be sluggish in the first quarter, trucking likely benefited in January from an inventory destocking that transpired late last year, thus boosting volumes more than normal early this year as businesses replenish those lean inventories."

RBC PMI signals only slight growth of output, new orders in January

The RBC Canadian Manufacturing Purchasing Managers' Index pointed to only marginal increases in both output and new orders in January; however, this marks the first rise in production levels since last October. A monthly survey, conducted in association with Markit, a global financial information services company, and the Purchasing Management Association of Canada (PMAC), the RBC PMI offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline RBC PMI – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled only a marginal improvement in Canadian manufacturing business conditions in January. At 50.5, the RBC PMI was only slightly higher than the survey-low of 50.4 recorded in both November and December.

The RBC PMI found that output increased for the first time in three months in January, albeit only slightly, but new order growth slowed since December and was only marginal. The rate of job creation also weakened, easing to a 12-month low, while the rate of input price inflation strengthened to its fastest since last September.

"The Canadian manufacturing sector experienced a relatively lacklustre start to the New Year amid ongoing global economic uncertainty," said Craig Wright, senior vice-president and chief economist at RBC. "As some of the more extreme downside risk scenarios look less likely now, we should see confidence in the global economy improve, paving the way for a stronger recovery in Canadian manufacturing."

In addition to the headline RBC PMI, the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times.

Although the volume of new orders received by Canadian manufacturers rose further in January, with one in four panellists reporting an increase since December, the rate of growth was only marginal. Firms generally cited weak client demand. New export orders, meanwhile, were broadly unchanged in the latest survey period, but this was nonetheless an improvement from the declines recorded in the previous two months.

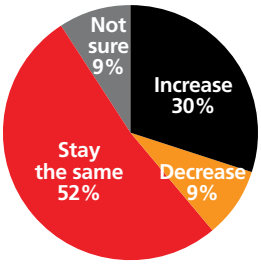
After having fallen for two consecutive months, manufacturing production increased in January. However, output growth was only slight. Meanwhile, stocks of finished goods decreased at the sharpest rate since last July, and backlogs of work fell solidly and for the fourth month running.

Reflective of higher output requirements, the quantity of inputs bought by manufacturers increased in January. Purchasing activity rose modestly, but growth remained weaker than the series average. Input inventories, meanwhile, fell for the third consecutive month and at the strongest rate in a year.

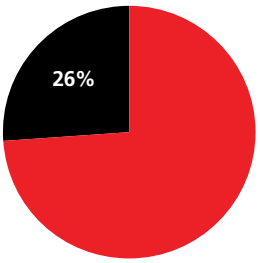
INSIDE THE NUMBERS

TL FREIGHT SHIPPERS

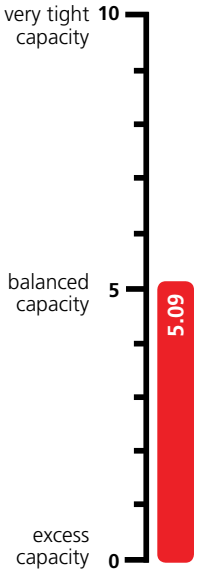
CHANGE IN USE OF MODE 2013



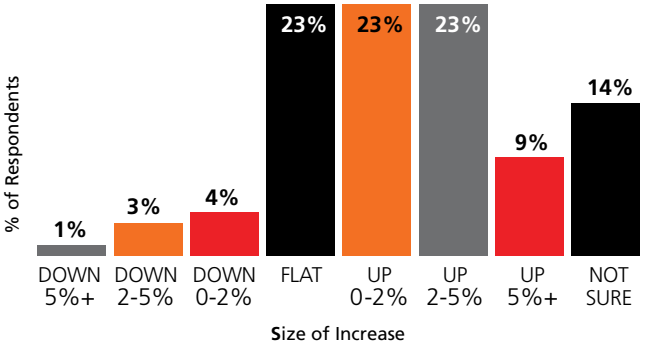
% EXPECT THIS MODE TO HAVE HIGHEST PRICING POWER 2013



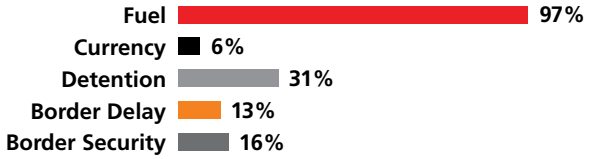
CAPACITY CONCERN



EXPECTED RATE INCREASES 2013

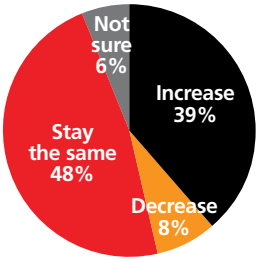


SURCHARGES % RESPONDENTS PAYING

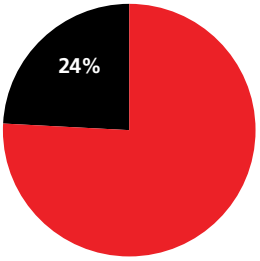


LTL FREIGHT SHIPPERS

CHANGE IN USE OF MODE 2013



% EXPECT THIS MODE TO HAVE HIGHEST PRICING POWER 2013



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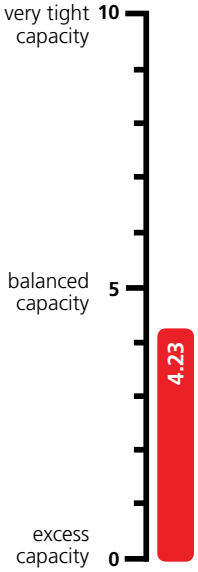
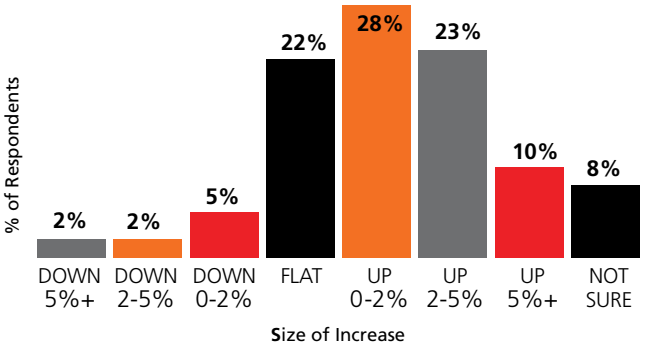
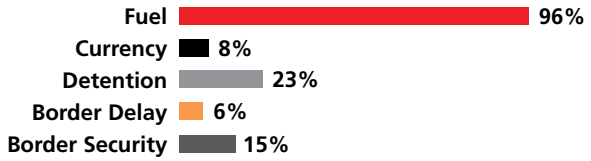


EXPECTED RATE INCREASES 2013



SURCHARGES % RESPONDENTS PAYING



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Norm Sneyd, V.P. Business Development, Bison Transport

"It was a very good conference. I noticed most people were actually listening and not playing on their phones. I think these days that is a way to determine the quality of a presentation."

Mark Laine, Marketing Mgr., Mack Trucks Canada

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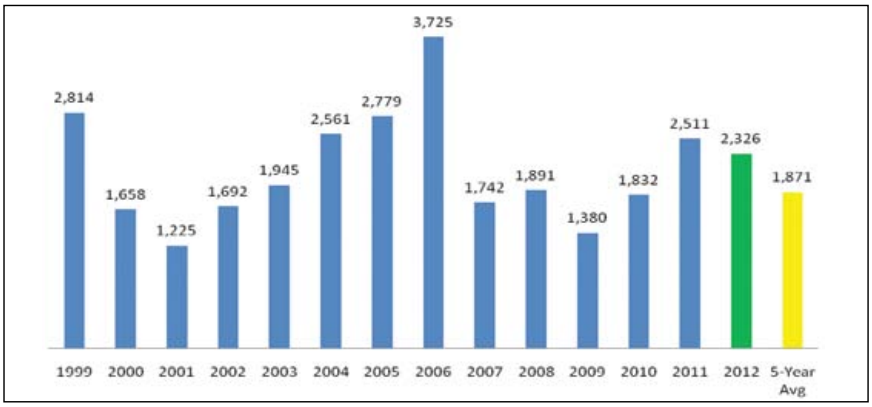
CLASS 8
Truck Sales Trends

Monthly Class 8 Sales – Dec 12

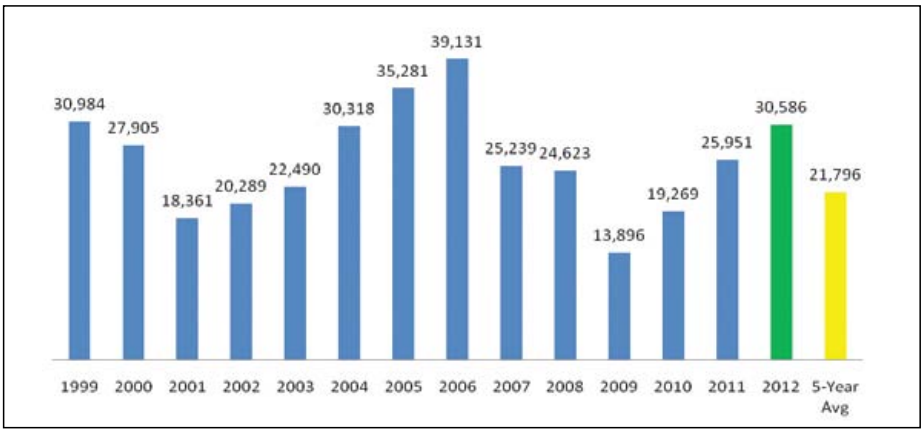
OEM	This Month	Last Year
Freightliner	575	696
International	224	288
Kenworth	276	534
Mack	314	121
Peterbilt	317	308
Volvo	357	403
Western Star	263	161
TOTALS	2326	2511

Historical Comparison – Dec 12 Sales



Class 8 truck sales in December, although above 2,000 once again, continued their 3-month slide below last year's totals. The top three market share leaders – Freightliner, International and Kenworth – all suffered setbacks compared to the previous year. Kenworth's numbers in particular took a turn for the worse during the month. Still, this was the sixth best December total since 1999. Monthly sales were also about 500 units above the 5-year average. Another positive note, both Mack and Western Star experienced gains from December last year.

Historical Comparison – YTD Dec 12



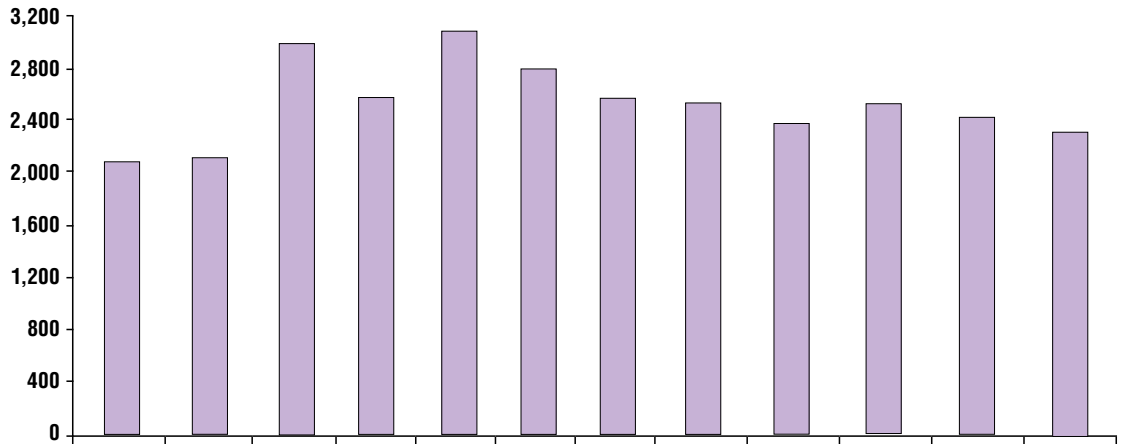
Class 8 Sales (YTD Dec 12) by Province and OEM

OEM	BC	ALTA	SASK	MAN	ONT	QUE	NB	NS	PEI	NF	CDA
Freightliner	608	822	222	622	3,583	1,271	343	143	29	29	7,672
Kenworth	648	2,432	392	212	997	1,045	125	0	0	0	5,851
Mack	103	415	200	111	951	391	82	42	0	32	2,327
International	154	764	81	300	1,888	861	191	81	26	62	4,408
Peterbilt	373	1,410	313	533	721	612	165	28	0	0	4,155
Volvo	232	305	110	247	1,839	786	111	78	0	9	3,717
Western Star	450	880	92	74	350	404	73	113	7	13	2,456
TOTALS	2,568	7,028	1,410	2,099	10,329	5,370	1,090	485	62	145	30,586

Class 8 truck sales are in their third year of recovery following their crash in 2009. The 30,586 trucks sold make 2012 the fourth best sales year since 1999 and almost 9,000 above the 5-year average. It could have been the third best year but slumping sales over the final quarter nixed that opportunity. The 30,586 trucks sold were also well within our own forecasted estimated range of 30,319 to 31,227. Assuming an 8-year life cycle for Class 8 trucks (a truck could go through several owners), there are more than 35,000 trucks due for renewal. But many fleet owners are reluctant to purchase trucks that actually add to their fleet size due to concerns about the slow growing economy. We forecast sales in the range of 35,000 to 35,986 Class 8 trucks for 2013.

CLASS 8
Truck Sales Trends

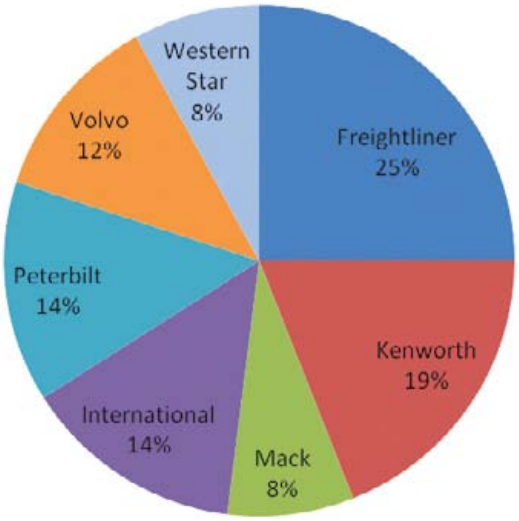
12-Month Sales Trends



	January	February	March	April	May	June	July	August	September	October	November	December
SALES	2,113	2,151	2,937	2,597	3,166	2,861	2,542	2,517	2,392	2,575	2,411	2,326

Truck sales came in above the 2,000 mark tor the 15th straight month, reminiscent of the industry's capacity boom years of 2005 to 2007. A worrisome trend, however, is that sales have been declining each month since October and have also been in general decline since the year's high mark of 3,166 back in May.

Market Share Class 8 – Dec 12 YTD



The sales totals for 2012 now completed, it's time to weed out the winners and losers. Freightliner, last year's Canadian market leader, had a banner year in terms of sales volumes and market share, commanding a quarter of Class 8 sales. Kenworth is in the number two spot for marketshare and enjoying the fact that its strong western network is able to tap into the stronger western economy. But the company faltered in December and ends up with less than 20% market share. Troubled Navistar International finished the year with 14% market share.

Source: Canadian Motor Vehicle Manufacturers Association