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THE SOURCE

Inside this issue

Cover Story:

Freight Costs on the RISE

Freight Costs Weighing on Earnings at Consumer-Goods Makers

Coca-Cola, Procter & Gamble and other suppliers are finding it harder and more expensive to get shipments to stores, distribution centers

By Jennifer Smith. WSJ, 4/24/2018

Coca-Cola says its freight costs rose 20% in the first quarter from a year ago, part of the growing impact of tight trucking capacity on consumer-goods suppliers. Photo: Tim Boyle/Bloomberg News

High freight costs are weighing on earnings at big consumer-goods companies as they try to get products from soda and toys to deodorant and household chemicals to stores. Some companies and analysts expect the pressure on shipping, which began late last year, to extend into the spring, when the seasonal growth in volumes of produce, food and beverages could place additional strain on already-tight trucking capacity.

Freight costs were up 20% from a year ago in the first quarter at the Coca-Cola Co. North American division, the company said Tuesday. “Like other [consumer packaged-goods] companies, we face significant freight headwinds in North America this year,” **Kathy Waller, the company’s chief financial officer**, said in a call Tuesday on the company’s first-quarter earnings.

Increased transportation expenses also hurt first-quarter profits at toy maker Hasbro Inc., which said Monday it expects the issue to persist through 2018 as shippers compete for a limited number of available trucks. Procter & Gamble Co. and food companies Danone SA and Nestlé SA all cited rising freight costs in recent earnings calls, as did lubricant-maker WD-40 Co.

“Everybody is seeing an increase,” **Graeme Pitkethly, chief financial officer at Unilever PLC** said in an earnings call last week. The seller of Dove soap and Lipton tea expects U.S. freight costs to rise by the “high-single digits to high-teens,” Mr. Pitkethly said, on higher demand and requests by retailers for more frequent deliveries.

Manufacturers and retailers have been scrambling to book transportation in recent months as freight volumes have expanded in a surging U.S. economy. Bad weather, high turnover among truck drivers and a new federal rule requiring drivers to electronically track their hours behind the wheel have contributed to the tighter capacity. “It’s really coming from the trucking industry and…the new electronic logging-device rules and driver shortages,” **Hasbro’s chief financial officer, Deborah Thomas**, said Monday. “The contracting supply and increasing demand is expected to manifest itself really kind of throughout 2018.”

Truck capacity loosened up somewhat in February and March, which tend to be slower shipping months. But demand was still elevated compared to prior years, according to online freight marketplace DAT Solutions LLC. Last month, there were 6.9 loads to be moved on the spot truck transportation for every available dry van, the most common type of big rig, compared to 3.2 loads in March 2017.

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Freight Costs Weighing on Earnings at Consumer-Goods Makers

Freight rates also remain elevated. In March, the average rate on the spot market for dry vans was up 32% year-over-year, according to DAT. Spot rates are a leading indicator of the contractual rates that shippers set with large trucking companies. With capacity tight as those negotiations get underway, some in the industry now expect contract rates could increase by as much at 9.2%, according to KeyBanc Capital Markets Inc. At Werner Enterprises Inc., a large truckload carrier based in Omaha, Neb., higher contract rates contributed to a 10% increase in average revenue per total mile in the first quarter, compared to the same period in 2017.

Demand for truckload services "was much stronger than normal for the first quarter," **Werner** said in an earnings release last week. "Freight volumes thus far in April 2018 continue to be much stronger than normal."

NUMBER OF THE DAY

7.5%

Decline in flatbed truck capacity in U.S. spot trucking markets in the last week of March, as flatbed demand rose 7%, according to DAT Solutions LLC.

Why we are now at an inflection point in US trucking

By Theodore Prince, executive vice president/chief operating officer, Tiger Cool Express 4/26/2018

Twenty years ago, in his book, *Only the Paranoid Survive*, Andrew S. Grove, as president and CEO of Intel Corporation, described Intel's survival through the existential threats created by the drastic changes in its primary market. Grove framed the concept of strategic inflection points as "an event that changes the way we think and act."

Grove observed that "not only didn't we realize that the rules had changed — what was worse, we didn't know what rules we now had to abide by." While strategic inflection points offer an opportunity to elevate performance to new heights, they can also signal imminent demise. The need to make dramatic changes is frequently anathema to providers and purchasers. It also flies in the face of the traditional transportation credo, "It's not the way we've always done it."

In the past 40 years, our industry has experienced several inflection points.

- Motor carrier deregulation transformed domestic supply chains by replacing motor freight carriers (and their unionized workforce) with advanced truckload carriers (deploying owner-operators).
- Globalization and the development of double-stack transportation restructured the intermodal industry.

Y2K accelerated the development of enterprise planning and the deployment of transportation management systems.

Since 1980, the US economy has become based on just-in-time trucking with an underlying reliable supply of trucking capacity and generally "reasonable" rates, both of which were expected to last forever.

To Read the Complete Article please click the below link (Editor's note: Ted Prince is one of the foremost intermodal Executives in the USA)

https://www.joc.com/trucking-logistics/why-we-are-now-inflection-point-us-trucking_20180426.html

TRIVIA QUESTIONS

-OUTSOURCE-
THE FREIGHT MANAGEMENT COMPANY

1) The fastest animal on earth is a CHEETAH. What is their fastest speed?
A. 35 MPH **B.** 115 MPH **C.** 70 MPH **D.** 55 MPH

2) Lima is the capital city of which country?
A. Chile **B.** Ecuador **C.** Peru **D.** Colombia

3) How many countries does Mexico border?
A. 3 **B.** 4 **C.** 2 **D.** 5

4) Which country does "Leffe" beer come from?
A. Germany **B.** Belgium **C.** France **D.** Netherlands

5) What are a group of Turkey's called ?
A. Drift **B.** Gathering **C.** Congress **D.** Rafter

6) The Japanese "Shinkansen" is also known as what type of train?
A. Supersonic Train **B.** Bullet Train **C.** Mach Train **D.** Thomas

Answers Later In The Newsletter

FUEL REPORT

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) http://www.eia.gov/petroleum/gasdiesel/

	4/9/18	4/16/18	4/23/18	Change from week ago	Change from year ago
U.S. National Average	$3.043	$3.104	$3.133	↑0.029	↑0.538

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outsourceoperations@outsourcefreight.com John Nickandros, VP Sales Tel # 774 222-0087

NAFTA officials put top-level talks on hold until May 7

by David Lawder

WASHINGTON (Reuters) - Top-level U.S., Canadian and Mexican negotiators trying to hammer out a quick deal to update NAFTA will take a break until May 7, officials said on Friday, as work to resolve major differences including auto content rules continues. The pause underlined how much work remains to be done on the North American Free Trade Agreement despite pressure from Washington to nail down a deal. The Trump administration has threatened to impose sanctions on Canadian and Mexican steel and aluminum on May 1 if it deems that not enough progress has been made in the NAFTA talks. "We ministers will be meeting again on Monday the 7th," Mexican Economy Minister Ildefonso Guajardo told reporters after a fourth straight day of top-level talks in Washington.

The break will allow U.S. Trade Representative Robert Lighthizer to visit China with other senior Trump administration officials next week as planned. Canadian Foreign Minister Chrystia Freeland is scheduled to be in Bangladesh on May 3.

Freeland, speaking separately, said the ministers would reconvene in Washington "in a week or so" after they had carried out political consultations at home. "We have made a lot of progress here in Washington this week," she said. Freeland did not answer directly when asked whether the United States would impose the tariffs on May 1. The question of how much NAFTA-produced content a vehicle should contain to qualify for duty-free status is proving to be one of the hardest issues to solve. Freeland had earlier said on Friday that the three nations were consulting stakeholders in the auto industry.

Maersk CEO Calls For End to Shipping Subsidies

By Costas Paris, WSJ, April 26, 2018

Soren Skou, head of the world's biggest container ship operator, says government backing of carriers is creating overcapacity, distorting markets and pricing

AP Moller-Maersk A/S Chief Executive Soren Skou is calling for governments to withdraw their financial support for container shipping lines, saying subsidies and other backing are causing overcapacity and profit-crushing price reductions across the maritime industry. "I don't think any government needs to throw money at container shipping, building ships that are not needed," Mr. Skou told a maritime conference in Singapore. Denmark-based AP Moller-Maersk operates Maersk Line, the world's biggest container shipping line by capacity, and a pioneer in the use of so-called megaships—massive vessels capable of carrying around 20,000 twenty-foot containers.

He didn't mention specific carriers. But operators like state-run Chinese behemoth Cosco Shipping, South Korea's Hyundai Merchant Marine Ltd. and Taiwan's Yang Ming Marine Transport Corp. which have been benefiting from cheap state financing, bailouts and other perks for years. In many cases, governments like those in Seoul and Taipei have pressed ahead with the support because of broader industrial and trade policies that support vast numbers of jobs, such as those in South Korea's shipbuilding sector, and provide critical transportation for exporters. "In my mind there is no longer anything strategic about governments investing in shipping. The market will sort it out," Mr. Skou said. Without pointing the finger at any one nation, he said companies are building ships that were "not needed, for companies who were not profitable and who do not have a profitable business model," he added.

His criticism comes as shipping rates on key global trade lanes have been slipping, threatening to undermine a recovery for ship operators from a recent downturn that led to broad consolidation among shipping lines. The cost for sending a container from Asia to Europe, the world's biggest trade route stood at around $600 this week, less than half what industry experts say is a $1,400 break-even rate. Maritime executives estimate capacity outweighs demand by 20% on the route. Alphaliner, a global shipping research group, forecasts that overall container vessel capacity world-wide will grow 6% this year, ahead of its projecting for 5.1% growth in demand. Capacity across the industry grew at a double-digit annual pace during the mid-2000s across the industry and has nearly doubled since the end of 2008, according to the group's figures. "This is a very competitive industry," Mr. Skou said. "Even after we have consolidated, there are still more than 10 global carriers and we fight like only siblings can fight for market share, amongst other things."

Quotable

"I don't think any government needs to throw money at container shipping, building ships that are not needed."

— A.P. Moller-Maersk Chief Executive Soren Skou

ILA, USMX plan June meetings aimed at contract deal

Joseph Bonney, Senior Editor |Apr 12, 2018

Negotiators for the International Longshoremen's Association (ILA) and United States Maritime Alliance (USMX) have scheduled meetings June 5 through 7 in hopes of finishing a East and Gulf coast labor contract months before the current one expires Sept. 30. The meetings between USMX officials and the ILA's 200-member wage scale committee will follow what the two sides described as "significant progress" during bargaining last month on a six-year extension of their Maine-to-Texas master contract.

US beneficial cargo owners (BCOs) are anxious for a deal that spares them the need to activate costly strike contingency plans. In early March, the National Retail Federation and more than 100 other organizations representing BCOs urged the union and employers to act promptly.

Shippers have warned that cargo they shifted to ILA ports to avoid West Coast labor turmoil could be shifted back if the ILA-USMX contract extension remains unsettled. The East and Gulf coasts' share of US containerized imports from Asia rose to 34.7 percent last year from less than 22 percent in 2005, according to PIERS, a sister product of JOC.com. BCOs are hoping for the kind of assurances the International Longshore and Warehouse Union and the Pacific Maritime Association provided last year when they signed a five-year West Coast contract extension. Although the ILA has not had a coastwide strike since 1977, it came close to one in 2012-2013, when negotiations dragged on for a year and included two contract extensions.

FOR IMMEDIATE RELEASE April 26, 2018

ATA Thanks Congress for Affirming Federal Role in Highway Safety Rules

Bipartisan Vote on Denham-Cuellar-Costa Amendment Blocks Regulatory Patchwork

Arlington, Virginia — Today, the American Trucking Associations thanked members of the House of Representatives for passing – in a bipartisan vote – an amendment to the FAA reauthorization bill that would prevent states from creating a patchwork of meal and rest rules for interstate truck drivers.

"Since our republic was founded, the federal government – not individual states like California – has had the power to regulate interstate commerce. Congress reaffirmed this for the trucking industry first in 1994 and again today by approving the Denham-Cuellar-Costa Amendment," said **ATA President and CEO Chris Spear**. "Thanks to the leadership of Congressmen Denham, Cuellar and Costa for raising this critical issue, and to the bipartisan majority for affirming that the federal government has the last word on interstate safety rules."

The amendment would clarify Congress' intention to have primary regulatory authority over interstate commerce and end the erosion of this authority by states who impose meal and rest break rules that run counter to national uniformity. These unnecessary and duplicative laws are not grounded in safety, nor being enforced by the states. Rather, they are being used to fuel spurious litigation designed to extort the trucking industry, impairing the safe and efficient movement of interstate goods.

"Our industry's trucks routinely cross state lines to deliver America's food, fuel, medicine and other essential goods," said **ATA Chairman Dave Manning**, president of TCW Inc., Nashville, Tenn. "Today's vote is a key step in making sure the interstate supply chain continues to run safely and efficiently and without a hodgepodge of confusing and duplicative state rules. The entire trucking industry thanks Congressmen Denham, Cuellar and Costa for their leadership on this matter, and we urge the full Congress to quickly move to protect the federal government's authority to oversee highway safety."

The Denham-Cuellar-Costa Amendment was approved by a bipartisan 222-193 vote as part of the FAA reauthorization bill currently being debated by the House. ATA urges the House and Senate to quickly pass a bill – which includes this provision – on to the president for his signature.

Answers to Trivia

FOR IMMEDIATE RELEASE **April 17, 2018**

ATA Chairman Highlights Positive Impact of Tax Cuts on Trucking

Event on Tax Day Highlights Boost to Industry from 2017 Reform Package

Arlington, Virginia — Today, American Trucking Associations Chairman Dave Manning participated in a Congressional roundtable highlighting the positive impact last year's tax cuts and reform package have had on the trucking industry.

"Trucking is the engine that keeps America moving – and last year's passage of historic tax reform and tax cuts has supercharged that engine in several ways to help us give the economy a boost," said Manning, president of TCW Inc., speaking at the event convened by House Speaker Paul Ryan (R-Wisc.), House Republican Conference Chair Cathy McMorris Rodgers (R-Wash.), and House Ways & Means Committee Chairman Kevin Brady (R-Texas).

Manning said as a result of savings from the tax cuts, TCW has been able to give its drivers an average raise of almost $3,000 per driver and boosted benefits, pushing the average salary of a driver at the company to $62,000 annually.

"These investments have had immediate impact. In the first quarter, we had our lowest rate of driver turnover in 30 years, all while growing our company by 15 drivers," he said.

In addition, Manning said TCW has been able to – because of accelerated depreciation – invest $20 million in new trucks, trailers and intermodal chassis.

"Our story is not unique in trucking. Because of tax reform, fleets across the country are making new capital expenditures, re-investing in our people and putting more money in their pockets," Manning said. "This historic package has been a win not just for my company and my industry, but for businesses and workers across the country. Congress and President Trump should be commended for their leadership in getting it done."

UPS first quarter profits increase 15% to $1.3 billion

By James Muir – 4/27/2018

UPS net income increased 15 per cent in the first quarter of 2018 with international packages and supply chain & freight making up for weaker US domestic profits. Net income increased by 15 per cent to $1.3 billion and revenue was up 10 per cent to $17.1 billion, with average yields rising by 4.3 per cent led by international and US deferred air products. The International segment's revenue increased by 15 per cent to $3.5 billion despite two fewer operating days in many countries, with export, domestic and cargo product groups achieving double digit revenue. Export volume growth in Europe and the US was strong during the quarter and operating profits increased 15 per cent to $594 million.

UPS chairman and chief executive officer, David Abney says: "The execution of our diversified global strategies and our investments produced double-digit growth in revenue and profit. Each of our International regions is contributing to our financial gains, and we expect this strong momentum to continue."

Supply chain & freight revenue increased by 16 per cent to $3.3 billion and operating profits were up 14 per cent to $170 million with the business unit focusing on high quality, middle-market customers. The US domestic segment experienced strong demand in the first quarter but both unexpected and planned items hitting operating profits. Revenue increased 7.2 per cent to $10.2 billion but operating profits were down from $950 million in the first quarter of 2017 to $756 million this year. Severe winter weather hit operating profits by $85 million, along with Saturday deployment, network projects and higher pension expenses.

Abney says: "Top-line growth in our business was strong across all business segments, reflecting the power of UPS's global solutions and continued favorable economic conditions. When combined with our transformation initiatives, these favorable trends position UPS for strong returns going forward."

United Parcel Service Inc. is undertaking a balancing act in parcel shipping. The the parcel carrier's U.S. operation is now delivering more packages to consumers than to businesses, the WSJ's Paul Ziobro reports, a more expensive endeavor since it requires more stops and there are fewer items to drop off at each stop. And while the firm is looking to cut costs in staffing and procurement, it's also kicking off a planned three-year investment plan to upgrade and expand its network, including up to $7 billion in capital spending this year. Earnings reflected the shifting business, as domestic package revenue rose 7% to $10.2 billion but profits fell on higher costs. UPS's international and freight businesses offset the domestic parcel segment, and overall profit rose 15% in the first three months of the year.

QUOTABLE

A supply chain is unique from one company to the next—whatever their particular pain points are, that's where the technology comes in.

Cathy Roberson, a logistics industry analyst.

INFRASTRUCTURE AND ROAD UPDATE

SAVANNAH HARBOR EXPANSION PROJECT

- Savannah Harbor Expansion Project is 35 percent complete.
- Vital link to the future of maritime trade for Georgia and the nation
- Provides deeper water necessary to better accommodate today's larger vessels.
- Port of Savannah already serving ships carrying more than 14,000 twenty-foot equivalent container units.
- U.S. Army Corps of Engineers estimates benefit to cost ratio of the project at 7.3:1.
  - That means $7.30 in economic benefits for every dollar spent on construction.
  - One of the largest returns on investment on a navigation project for taxpayers in the country.
- Net benefit of cost savings for shippers and consumers $282 million per year.

GEORGIA PORTS

THE FOLLOWING PROGRESS HAS BEEN MADE ON THE HARBOR EXPANSION:

- Contribution to striped bass stocking program — COMPLETE
- Purchase 2,245 acres wetlands for SNWR — COMPLETE
- Remove CSS Georgia — COMPLETE
- Deepen entrance channel to 49 feet; extend 7 miles — 60% Complete
- Construct dissolved oxygen injection systems — 52% Complete
- Construct raw water storage impoundment — 91% Complete
- Raise disposal area dikes — 75% Complete
- Remove tide gates, abutments — 91% Complete

GROWING CRANE FLEET

- Port of Savannah has 10 Super Post-Panamax ship-to-shore cranes on order, for a total of 36 cranes. Four will arrive in 2018, and the final six by 2020.
- 36 cranes on dock will allow Garden City Terminal to move 1,300 containers per hour on and off vessels

PORT OF BRUNSWICK EXPANSION

GPA is working to double vehicle processing capacity at Colonel's Island Terminal.

- In FY2017, GPA grew the terminal from 60,000 spaces to 90,000 spaces, a 50% expansion.
- Current annual capacity is more than 800,000 vehicles
- At full build-out the Brunswick expansion will provide 150,000 spaces for automobile processing, for an annual capacity of 1.4 million vehicles.

CARGO BELTWAY

Georgia is building a cargo beltway around the port, and a stronger logistics network across the state.

- 2012: Georgia completes $22.5M overpass at Highway 307, leading to the main gate of Garden City Terminal.
  - Overpass allows the unimpeded flow of truck and rail
- 2015: Georgia General Assembly passes Transportation Funding Act
  - Will generate $10 billion in new transportation funding over 10 years
  - Supports projects that create dedicated motor carrier lanes, alleviate traffic and improve safety.
- 2016: State opens the $121 million Jimmy Deloach Connector
  - Provides direct truck access between the Port of Savannah and Interstate 95.
  - Cuts 11 minutes from the drive time between the port and the interstate.
- 2017: Georgia Department of Transportation is expanding Grange Road.
  - The $12 million project will provide safe, fluid access between the Jimmy Deloach Connector and the new Gate 8 onto Garden City Terminal.

Within five years, Georgia's freight mobility plan will have delivered the Brampton Road Connector, linking Garden City Terminal to I-516, and have extended the Jimmy Deloach Parkway from I-95 to I-16. This will form a complete cargo beltway for motor carriers between the port and the interstate system.