



25th Annual “State of Logistics Report[®]”

Ready for a New Route?

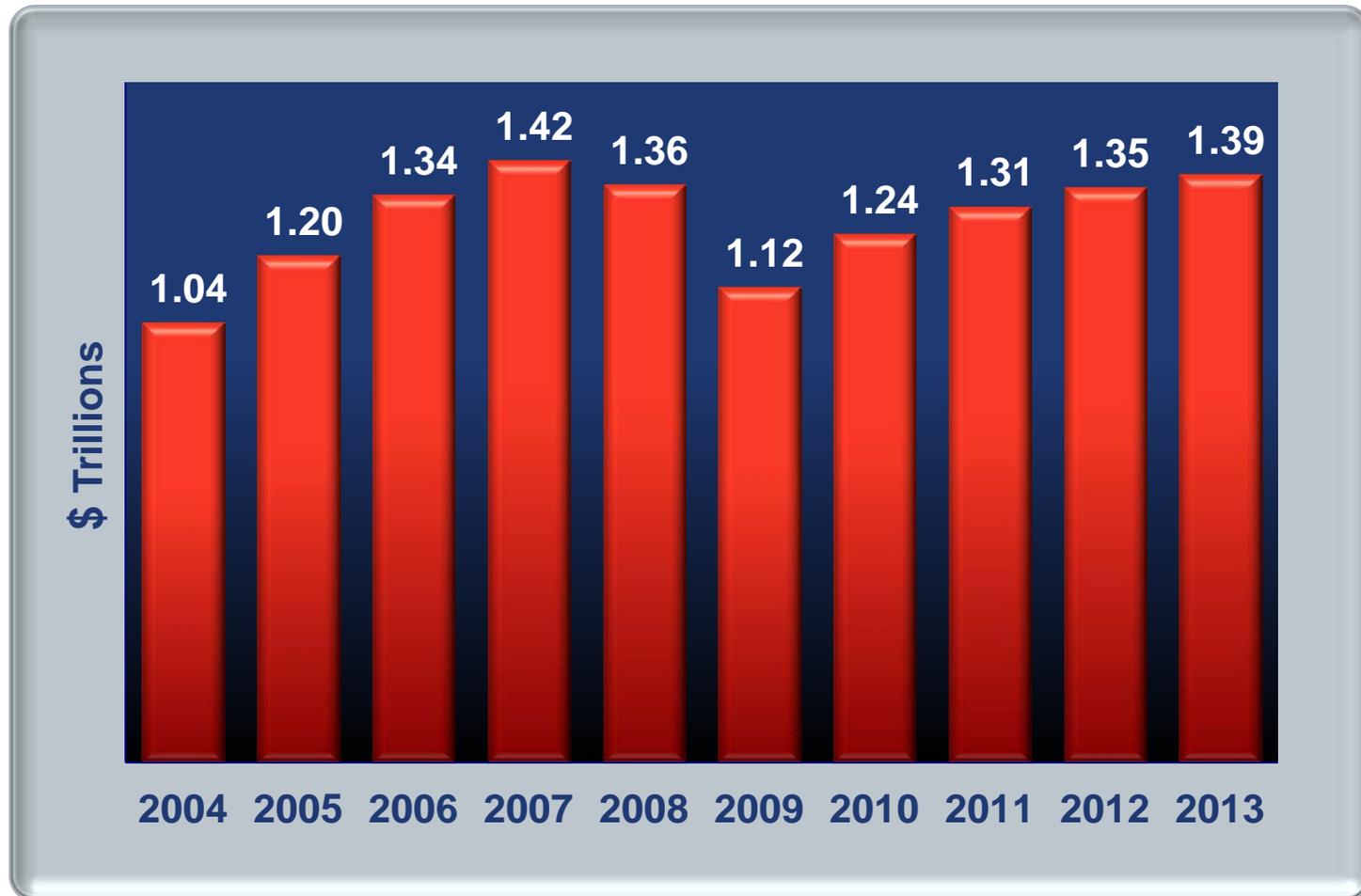
**FHWA Talking Freight Webinar
August 20, 2014**

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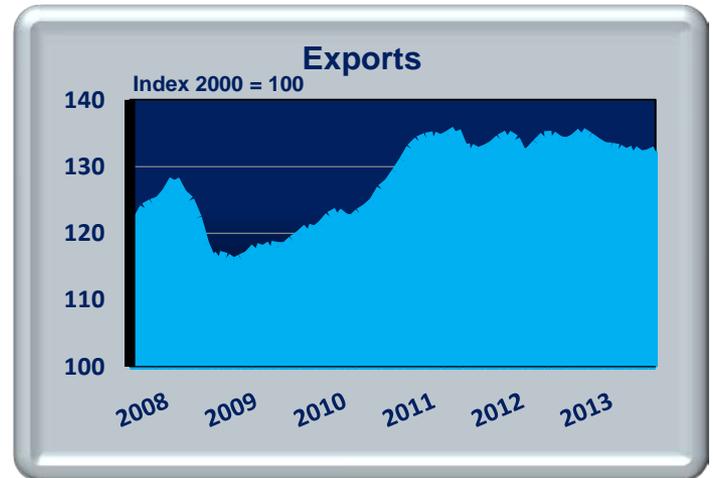
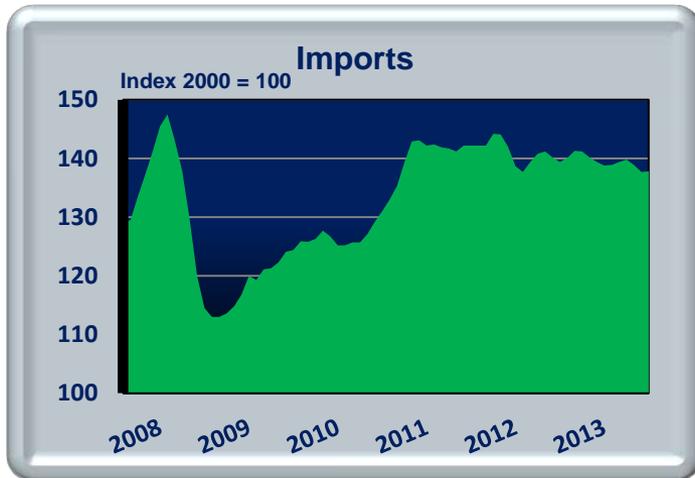
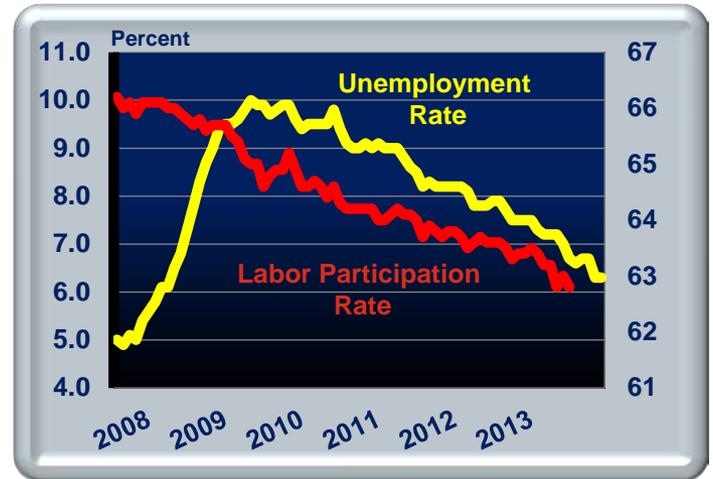
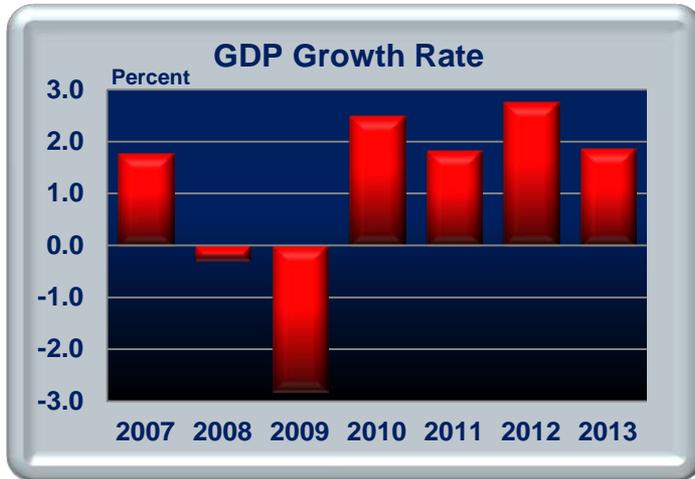
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U.S. Business Logistics Costs



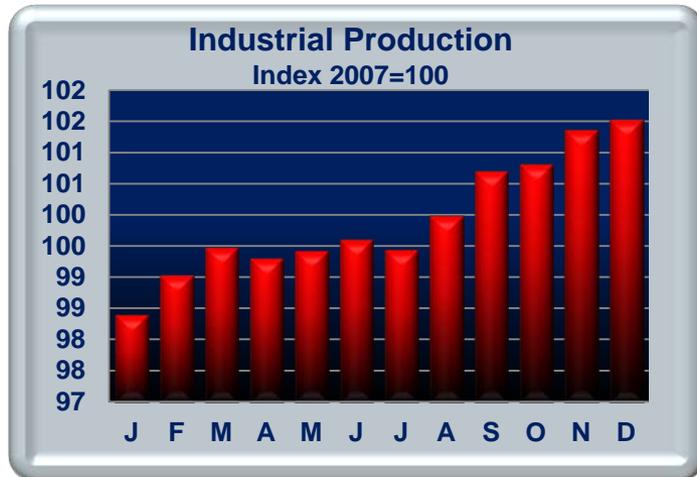
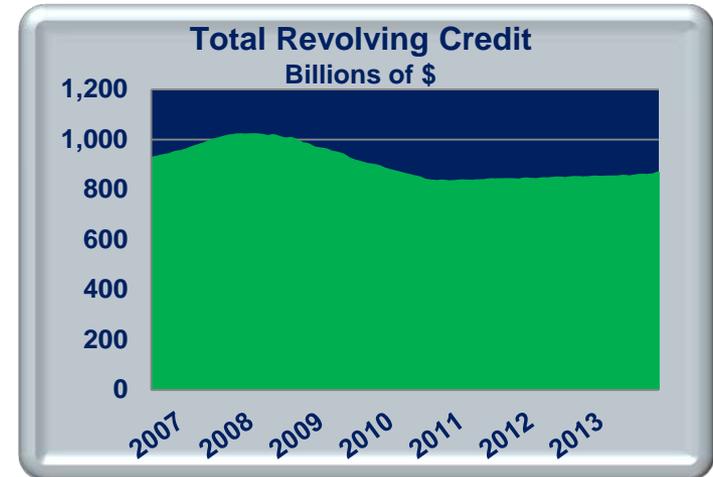
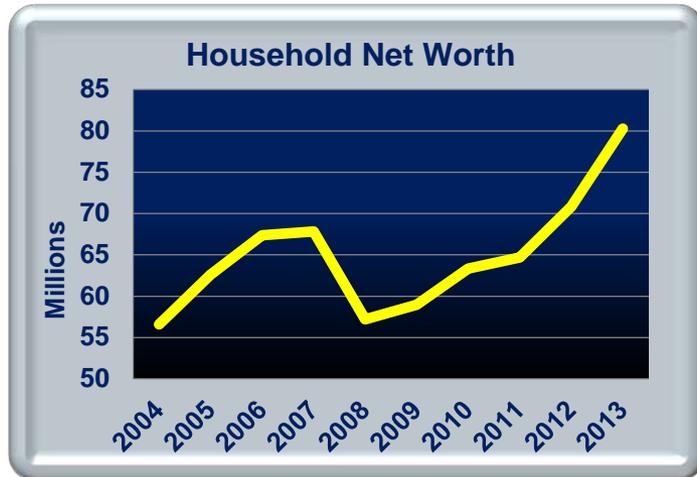
Note: Revised to reflect updates in BEA Private Inventories series.

Drags on the Economy



Source: Federal Reserve Bank of St. Louis

Economic News is Not All Bad



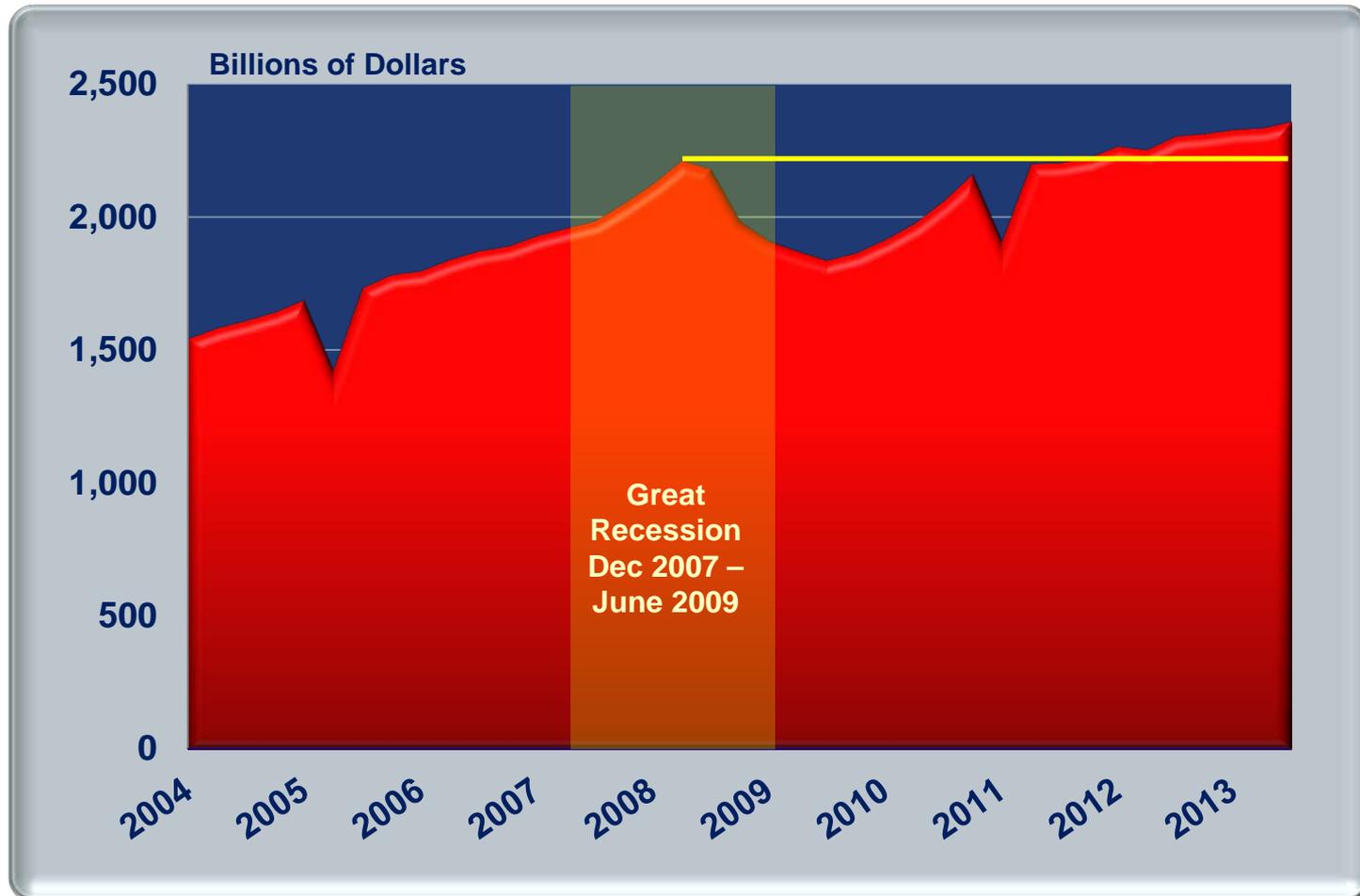
Source: Federal Reserve Bank of St. Louis.

The U.S. Business Logistics System Cost is the Equivalent of 8.2 Percent of Current GDP in 2013

	\$ Billions	
Carrying Costs - \$2.459 Trillion All Business Inventory		
Interest	2	} Up 2.8%
Taxes, Obsolescence, Depreciation, Insurance	330	
Warehousing	137	
Subtotal	469	
Transportation Costs		
Motor Carriers		} Up 2.0%
<i>Truck – Intercity</i>	453	
<i>Truck – Local</i>	204	
Subtotal	657	
Other Carriers		} Up 2.0%
<i>Railroads</i>	74	
<i>Water (International 30, Domestic 7)</i>	37	
<i>Oil Pipelines</i>	13	
<i>Air (International 13, Domestic 20)</i>	33	
<i>Forwarders</i>	38	
Subtotal	195	
Shipper Related Costs	10	
Logistics Administration	53	
TOTAL LOGISTICS COST	1385	Up 2.3%

May not sum to total due to rounding

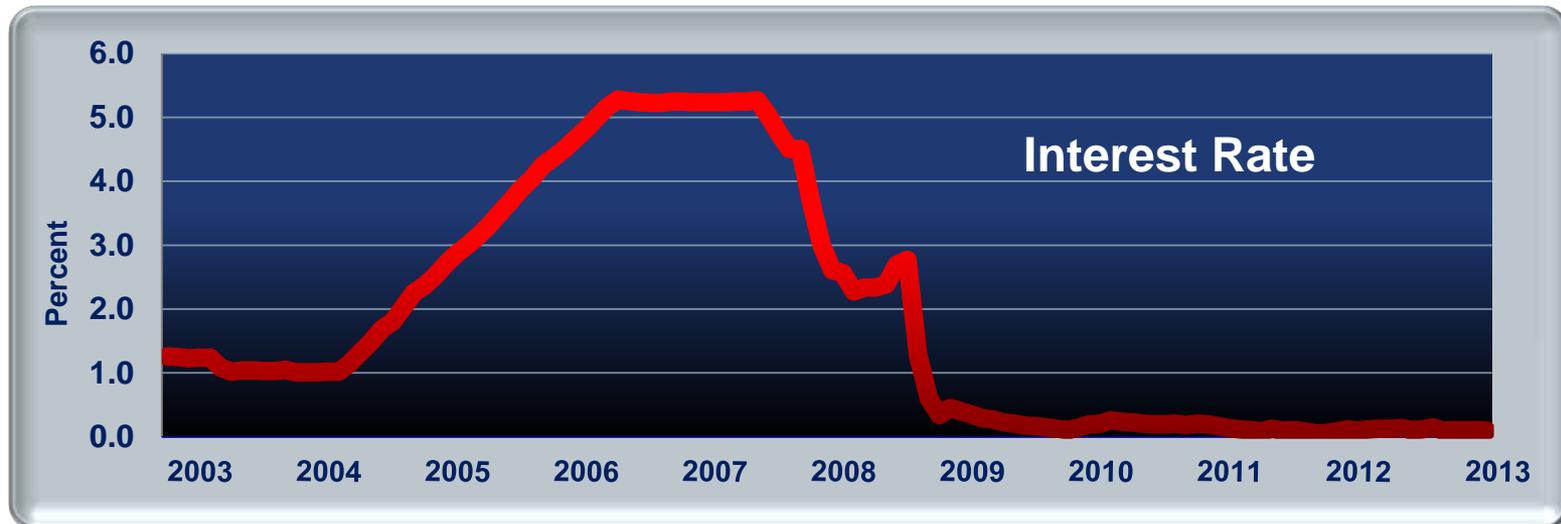
Total U.S. Business Inventories



Source: U.S. Department of Commerce, Census Bureau

Recap of Inventory Carrying Costs

- Inventory carrying costs were up 2.8 percent in 2013
- Interest dropped 22.6 percent as rates fell from 0.11 to 0.09 percent from 2012 to 2013
- Total business inventory levels rose 3.0 percent in 2013
- Taxes, obsolescence, depreciation, and insurance increased 1.9 percent in 2013 because of the growth in inventories
- The cost of warehousing was up 5.6 percent in 2013



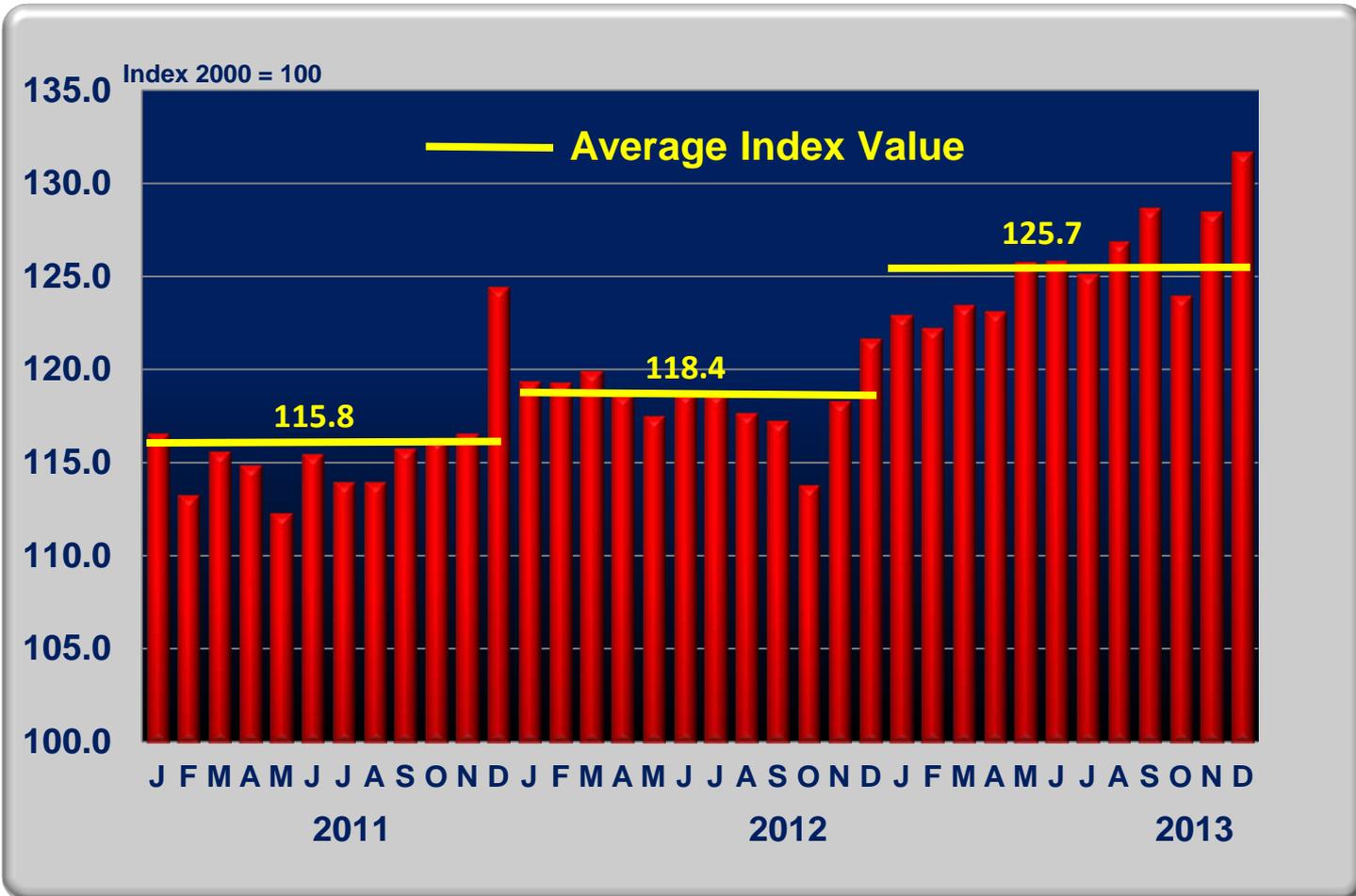
Source: Board of Governors of the Federal Reserve System

Inventories Continue to Climb



Source: U.S. Department of Commerce, Census Bureau

Truck Tonnage Index



Source: American Trucking Associations

Recap of Truck Sector Costs

- Rates were flat in 2013; tonnage up 6.1 percent
- Truck utilization rates remain close to 100 percent and fleet capacity is actually declining
- Driver shortage is the number one issue; turnover rates are still high
- Driver wages have risen back in line with similar industries; bonuses are in place to encourage good driving habits to reduce fuel usage, utilization, safety and length of service
- Bankruptcies are on the rise
- Class 8 truck registrations declined 4.5 percent in 2013
- Regulations are reducing the productivity of industry assets and deterring drivers from remaining and entering the industry



Recap of Railroad Sector Costs

- Freight revenue increased 3.6 percent
- Revenue per ton-mile rose 2.6 percent
- Carloadings were up 8.1 percent
- Intermodal volume increases 10.6 percent
- Ton-miles rose 1.6 percent
- Increased reports of car and locomotive shortages
- Weather created serious problems for the industry in the first quarter



Recap of Water Sector Costs

- Costs for the water sector rose 4.5 percent in 2013
- Ocean carriers financial position slowly improved in 2013; tonnage was up slightly
 - The industry is concentrating – the top 20 container lines now control more than 80 percent of the fleet capacity, up from around 55 percent; alliances are becoming more prevalent world wide
 - The move to larger TEU ships is reducing operating costs
 - Slow steaming is the norm now
 - Number of sailings and the frequency of port calls is declining



U.S. Ports Performance is Mixed in 2013



Port	2013 TEUs	2012 TEUs	Percent Change
Los Angeles	7,868,582	8,077,714	-2.6%
Long Beach	6,730,573	6,045,662	11.3%
New York	5,467,347	5,529,908	-1.1%
Savannah	3,033,727	2,966,213	2.3%
Oakland	2,346,528	2,344,392	0.1%
Norfolk	2,223,532	2,105,887	5.6%
Houston	1,950,071	1,934,845	0.8%
Tacoma	1,891,568	1,711,289	10.5%
Charleston	1,601,367	1,514,587	5.7%
Seattle	1,592,753	1,885,680	-15.5%

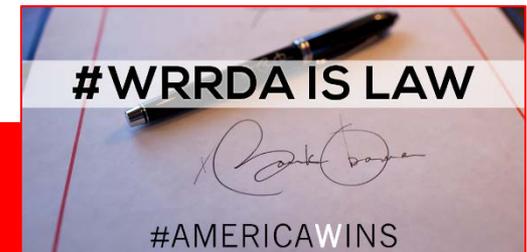
Source: Individual port reports

Recap of Water Sector Costs (cont.)



- Inland waterway system volumes fell in 2013
 - The system was plagued with weather extremes that made navigation difficult
 - Coal and farm products shipments moderated for most of the year, but export demand for farm and food products picked up at the end of 2013

The biggest news in this sector is the passage of WRRDA, the Water Resources and Reform and Development Act



Recap of Air and Pipeline Sectors Costs

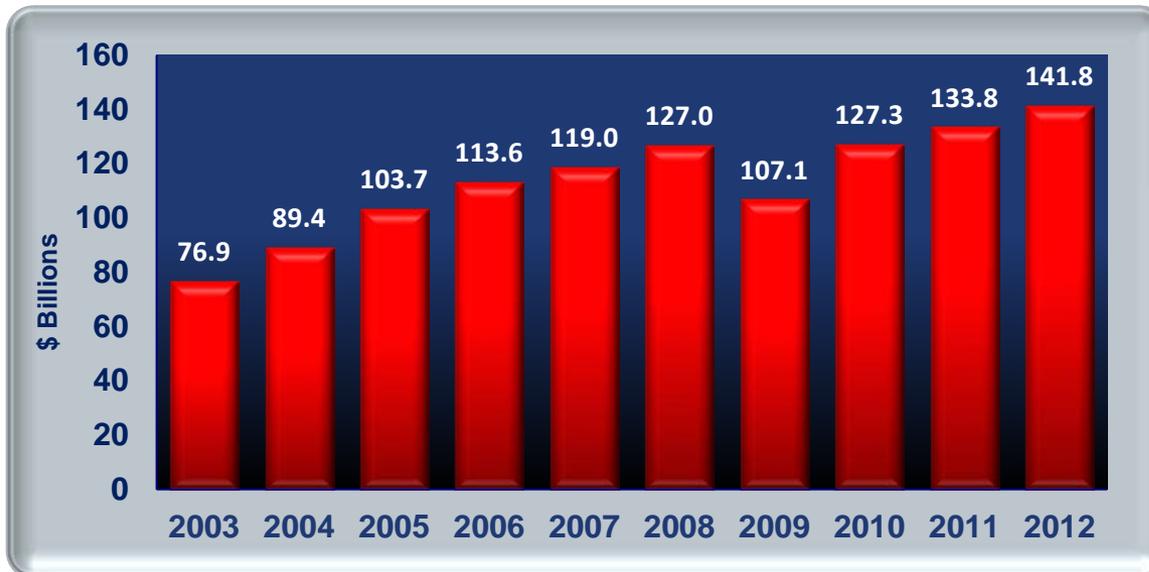
- Air cargo industry was lackluster; revenue ton-miles were up less than one percent for both domestic and international
 - Yields declined 5.3 percent for domestic shipments and 5 percent for international shipments
 - Cargo jet fleet declined by more than 30 aircraft in 2013
 - The growth of cargo space in passenger jet bellies and their relative cost advantage is putting significant pressure on all cargo jets
 - A recovery in this sector depends heavily on an improvement in shipment volumes and pick up in consumer purchases



- Oil pipeline costs were up 4.6 percent
 - Ton-miles rose slightly
 - The mandated rate increase accounted for most of the cost increase

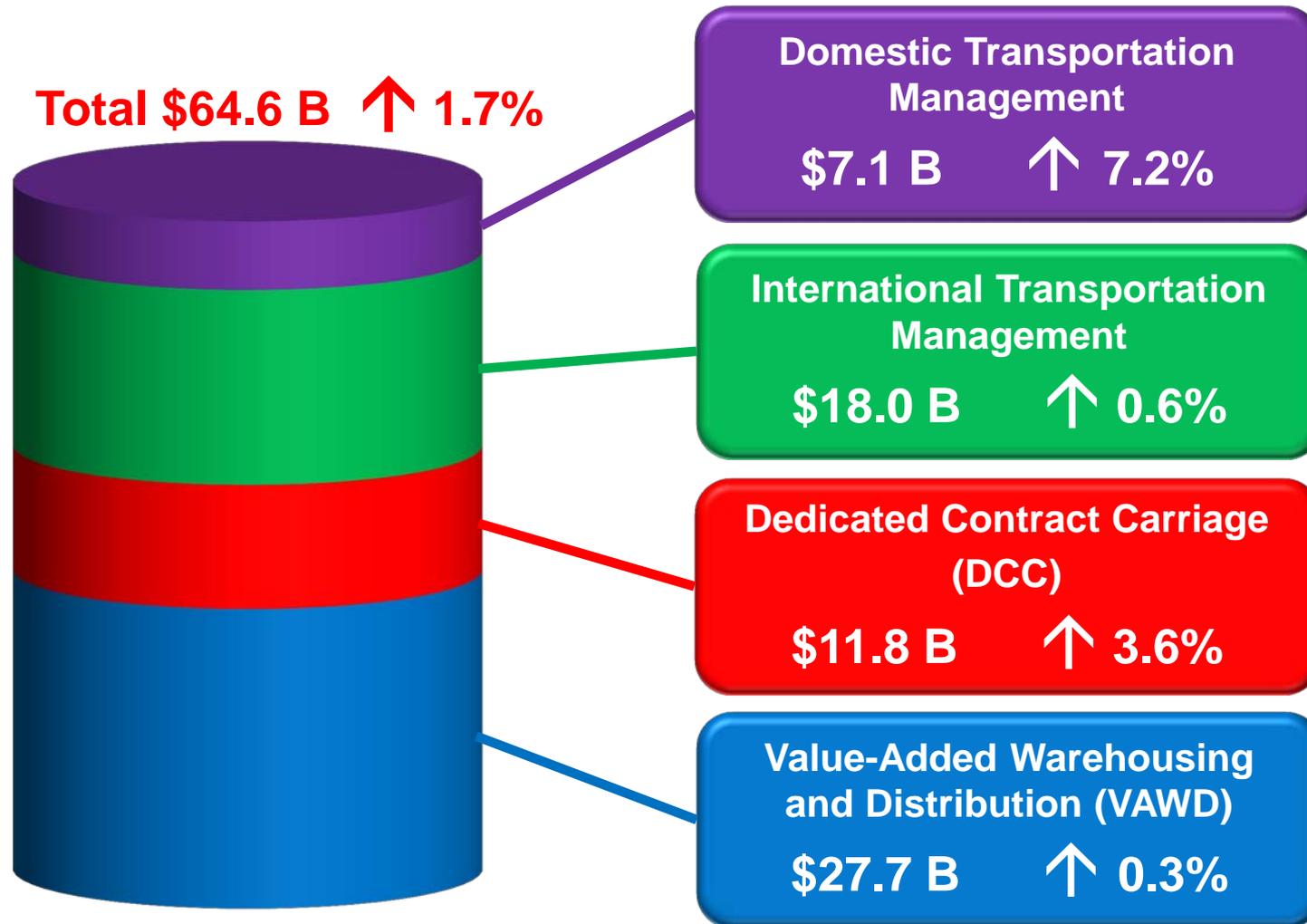
Recap of Freight Forwarder Costs

- Freight forwarder revenue rose 4.2 percent in 2013
 - Slow growth globally, but strong domestic growth
 - Concerns about capacity issues and service issues have pushed shippers to turn to third party providers to ensure the capacity they need when they need it

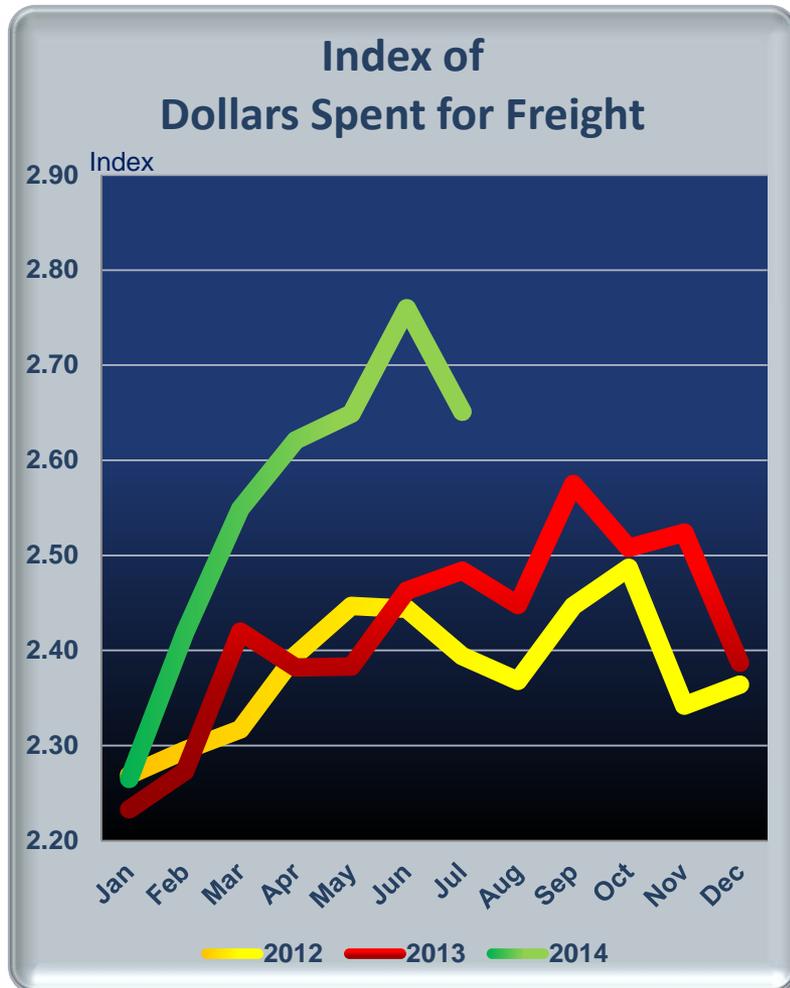


Source: Armstrong and Associates

U.S. 3PL Market Segments 2013 Net Revenue



Cass Monthly Freight Index



Source: Cass Logistics, Cass Freight Index, January 1990 = 1.0

Summing Up

- 2014 will be the best year we have experienced in the last 8 years
- The first seven months of 2014 have had the strongest freight performance since the end of the Great Recession
 - Freight shipments are up 11.3 percent
 - Freight payments are up 11.1 percent
 - Manufacturing and industrial production continue to grow
- The economy itself is climbing out its doldrums – and take note that some things that are good for the GDP calculation do not translate into good for freight (i.e., reduced imports and higher inventories).
- My expectations for the rest of 2014 are
 - continued freight improvement, but not without a mid-year slump
 - higher rates
 - more capacity problems
 - truck drivers, or the lack of, will rise to the top problem for the entire economy

Contact Me

Questions? Contact me at:
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State of Logistics Report
are available from CSCMP at
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