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INDUSTRY ECONOMICS

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Trucking Industry Economic Update

The United States (U.S.) experienced the longest economic expansion in history—an upswing that lasted 128 months from June 2009 to February 2020. What followed was the shortest economic recession in U.S. history—a decline that only lasted two months from March 2020 to April 2020. Currently, we are in a new run of economic expansion that began in May 2020 and has, by many measures, surpassed even the strongest metrics of the previous economic expansion. However, the overall economic picture is complicated by many factors, including the impact of the COVID-19 pandemic, supply chain issues, inflation and unemployment. This white paper will describe current macroeconomic conditions, current microeconomic conditions and, hopefully, provide some context for considering what lies ahead on the economic horizon.

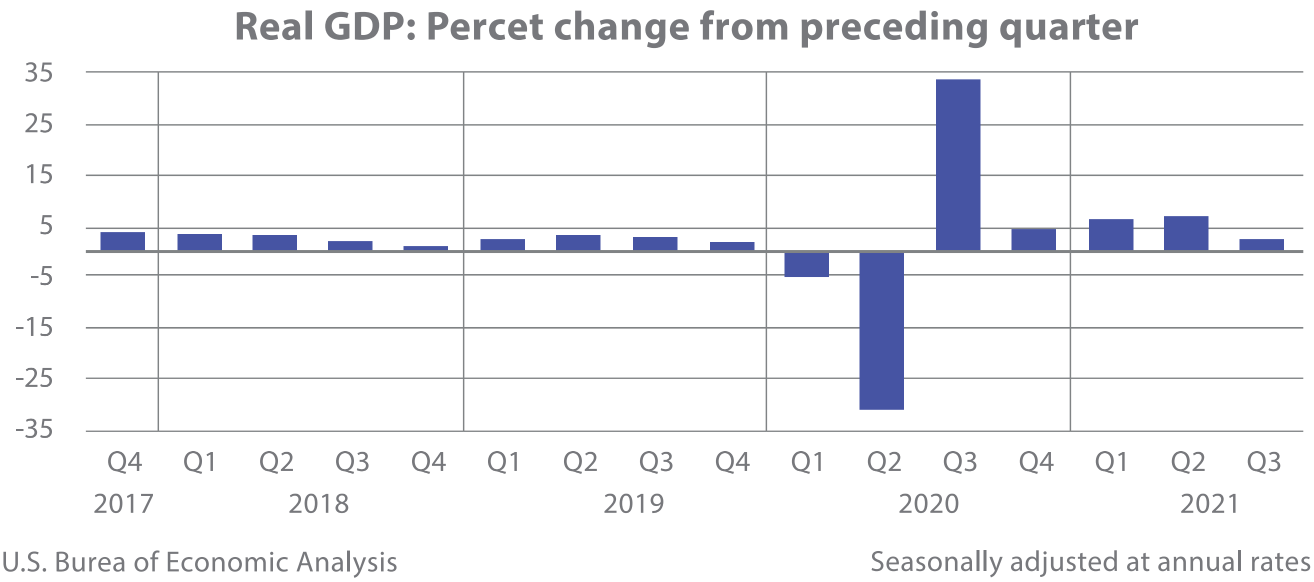
Macroeconomic Conditions

From a macroeconomic perspective, we will focus on three measures of economic performance: (1) Gross Domestic Product; (2) Unemployment Rate and (3) Consumer Sentiment.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annualized rate of 2.0 percent in Q3 2021, compared to a 33.8 percent increase in Q3 2020. However, the results of Q3 2020 were extraordinarily impacted by the "V recovery" experienced following the economic recession from March 2020 - April 2020. GDP decreased at annualized rates of 5.1 percent and 31.2 percent in Q1 2020 and Q2 2020, respectively, due to the aforementioned recession. Following Q3 2020, GDP increased at annualized rates of 4.5 percent, 6.3 percent and 6.7 percent in Q4 2020, Q1 2021 and Q2 2021, respectively. The Q3 2021 increase of 2.0 percent is sharply lower than these preceding three quarters.

The U.S. Department of Commerce Bureau of Economic Analysis (BEA) provides several explanations for the results of Q3 2021 GDP. The COVID-19 pandemic continued to play a role as a resurgence of cases resulted in new restrictions and delayed business re-openings in some parts of the country. In addition, government assistance payments to businesses, individuals and government agencies decreased from prior quarters.



Non-COVID-19-specific drivers of the Q3 2021 GDP include the following:

Positive Drivers

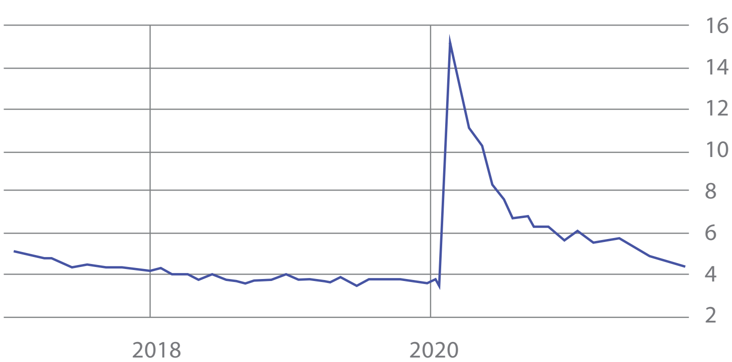
- Increased private inventory investment, led by nondurable goods (wholesale) and motor vehicles and parts dealers (retail)
- Increased personal consumption expenditures (PCE), led by widespread increases in services (most significantly, international travel, transportation and health care), but offset by decreases in goods (primarily, motor vehicles and parts)
- Increased state and local government spending, led by employee compensation (notably, education)
- Increased nonresidential fixed investment, led by increases in software, but offset by decreases in structures and equipment

Negative Drivers

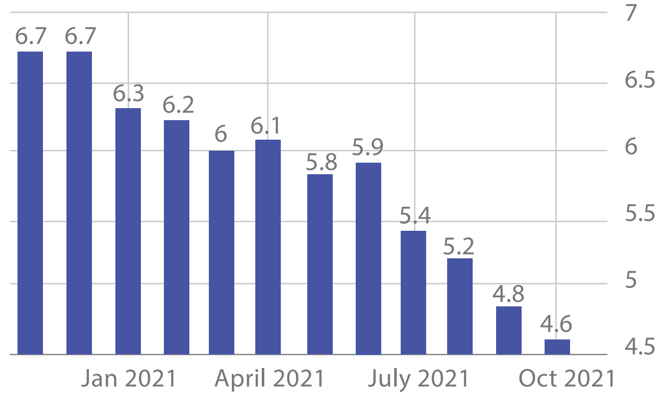
- Decreased residential fixed investment, led by a decrease in improvements and new single-family structures
- Decreased federal government spending, driven primarily by the decrease in nondefense spending post-Paycheck Protection Program loan program
- Decreased exports, led by a decrease in goods, but offset by an increase in services
- Increased imports, led by an increase in services (primarily, travel and transport)

The BEA further attributes the deceleration in Q3 2021 GDP primarily to the decreases in PCE, both goods and services, led primarily by decreased spending on motor vehicles and parts (goods) and food services and accommodations (services).

Unemployment Rate



SOURCE: TRADINGECONOMICS.COM I U.S. BUREAU OF LABOR STATISTICS

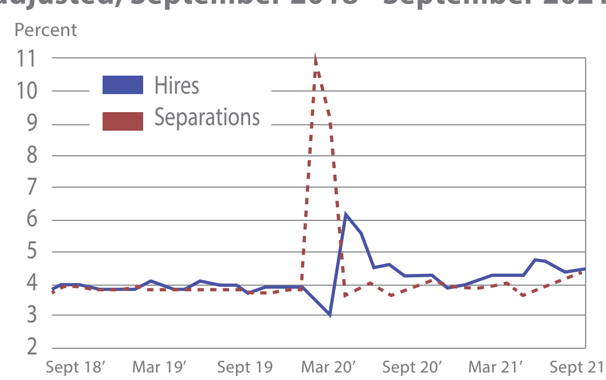


SOURCE: TRADINGECONOMICS.COM I U.S. BUREAU OF LABOR STATISTICS

The tables above depict unemployment levels for the preceding five years and 12 months, respectively. In February 2020—prior to the COVID-19 pandemic, unemployment was at a very low rate of 3.5 percent. Immediately following the onset of the pandemic, and coinciding recession, unemployment increased dramatically to a pandemic-high of 14.7percent in April 2020. These levels quickly decreased to 6.9 percent by October 2020 and have continued to steadily decline (with the exceptions of a couple of minor upticks in April 2021 and June 2021) to 4.6 percent in October 2021. At first glance, these statistics seem promising. However, the picture becomes less clear as we dig further into data.

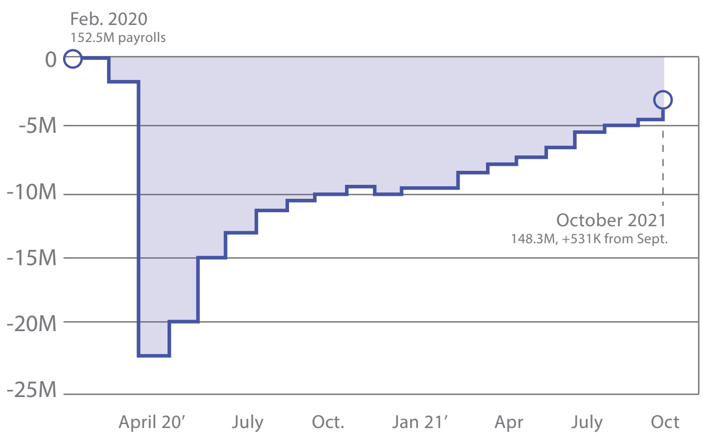
Job openings rate, seasonally adjusted, September 2018 - September 2021

Hires and total separations rates, seasonally adjusted, September 2018 - September 2021



The tables on the previous page, also from the Bureau of Labor Statistics (BLS), depict job openings and hire/separation rates, respectively, over the two years leading up to September 2021 (October 2021 data was not available at the time of writing this article). Despite the significant decrease in unemployment (from 14.7 percent in April 2020 to 4.8 percent in September 2021), the percentage of seasonally adjusted job openings during this same period has increased from 3.4 percent in April 2020 to 6.6 percent in September 2021. Further, the separation rate of employees at the onset of the pandemic (nearly 11.0 percent in March 2020) far exceeded the increased hire rate of employees (just over 6.0 percent around May 2020) shortly thereafter.

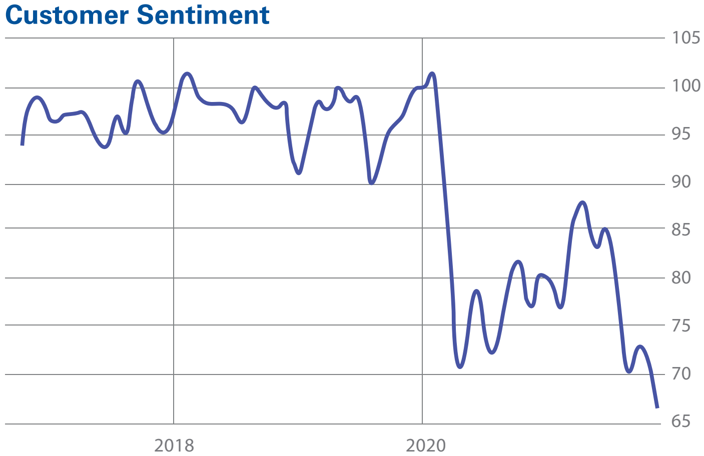
Change in total U.S. employment from pre-pandemic levels in February. 20'



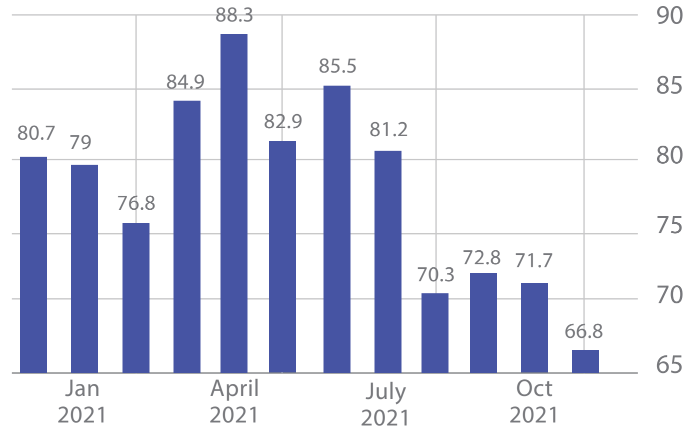
SOURCE: BUREAU OF LABOR STATISTICS. DATA IS SEASONALLY ADJUSTED

The table above, courtesy of CNBC, provides perhaps the clearest picture of the overall jobs market. As of October 2021, total U.S. payrolls remain 4.2M below pre-pandemic levels of 152.5M in February 2020. This would appear to underscore the highly publicized worker shortage being experienced by many, if not most, industries within the economy.

Customer Sentiment

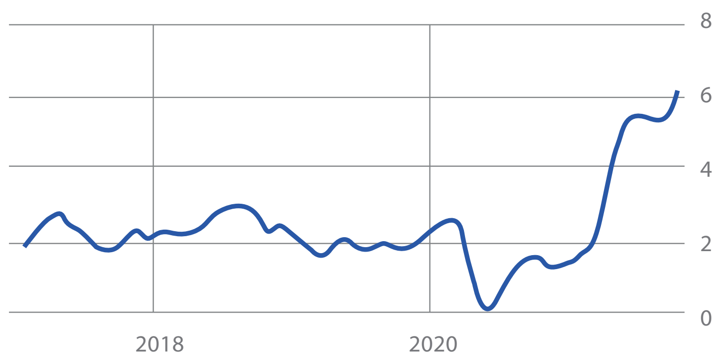


SOURCE: TRADINGECONOMICS.COM I UNIVERSITY OF MICHIGAN

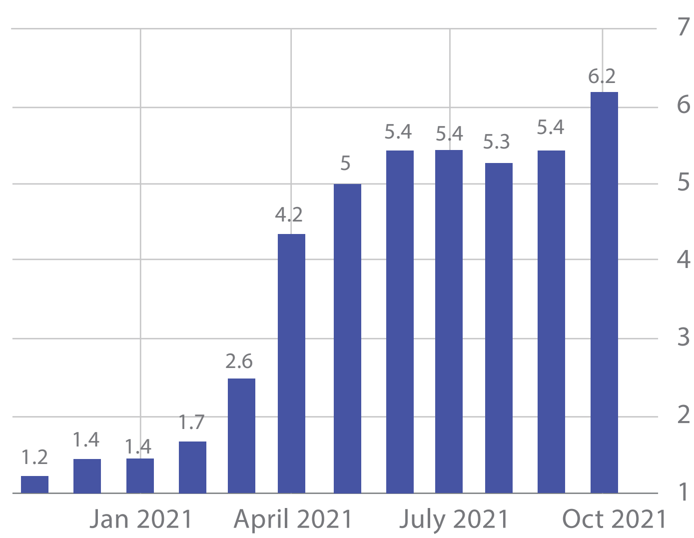


SOURCE: TRADINGECONOMICS.COM I UNIVERSITY OF MICHIGAN

The tables above depict U.S. consumer sentiment for the five years and 12 months, respectively, through November 1, 2021. The five-year data show high pre-pandemic consumer sentiment of 101.0 in February 2020, which quickly fell to 71.8 in April 2020, following the onset of the pandemic. Since then, the consumer sentiment has been on a rollercoaster ride reaching its current point of 66.8, which is the lowest it's been since November 2011. Despite the continued economic expansion, and seemingly endless job openings, the average consumer appears to be less confident than ever in the overall health and sustainability of the U.S. economy.



SOURCE: TRADINGECONOMICS.COM I U.S. BUREAU OF LABOR STATISTICS



SOURCE: TRADINGECONOMICS.COM I U.S. BUREAU OF LABOR STATISTICS

One reason could be inflation. The tables on the previous page depict the U.S. inflation rate over the five years and 12 months, respectively, through October 2021. Since the onset of the pandemic, the U.S. inflation rate has seen a drastic uptick, rising above pre-pandemic levels in April 2021, and remaining at or above 5.0 percent since May 2021. Since the inflation rate is tied to the Consumer Price Index (CPI), this means that consumers are seeing a consistent increase in prices of the "basket of goods" the average consumer typically purchases. Without going into the details of how CPI is calculated, it's worth mentioning that the basket's pricing is heavily weighted toward costs for housing, commodities (such as transportation and medicine) and food, as these typically represent some of the highest levels of the average consumer's spending.

The table at the bottom of this page, from the BLS, shows that U.S. wages and benefits for all civilian workers increased by an average of only 3.7 percent as of September 2021, compared to the 12 months prior (October 2021 data was not available at the time of writing this article). This pales in comparison to the 5.4 percent inflation rate seen in September 2021, and even more so to the 6.2 percent inflation rate reported in October 2021. This data would suggest that the rate of inflation has eclipsed the otherwise positive impacts of increased wages.

Microeconomic Conditions

Performance in the trucking industry is often driven by the performance of several key customer industries. Four of the most relevant industries have historically been construction, manufacturing, wholesale trade and retail trade. The following table illustrates historical and forecasted growth within the aforementioned industries.

Industry	Current Revenue	Projected 5-Year Annual Growth	Current 5-Year Annual Growth	Prior 5-Year Annual Growth
Construction[1]	$2.4tr	2.0%	2.4%	-1.0%
Manufacturing[2]	$6.0tr	0.8%	0.4%	-4.7%
Wholesale Trade [3]	$10.0tr	2.9%	3.9%	-0.6%
Retail Trade[4]	$5.4tr	3.2%	-0.2%	-0.8%

The construction industry has grown over the past five years (2.4 percent average annual growth), despite a steep decline in demand in 2020; industry revenue increased 2.6 percent in 2021, alone. The industry has benefited during this time from low interest rates and a rise in per capita income. While revenues have risen, profits have not been so fortunate. Average industry profit margin is expected to be 5.9 percent of revenue in 2021. The industry is projected to expand over the next five years, driven by expected recoveries from the COVID-19 pandemic, and assuming a continued relatively low interest rate environment. Much of this projected growth is anticipated to be driven by improvements in commercial and infrastructure construction.

The manufacturing industry has grown slowly over the past five years (0.4 percent average annual growth), due in large part to a 7.7 percent decline in 2020; industry revenue increased 9.8 percent in 2021. The industry has suffered during this time from government closures of nonessential businesses and tepid product demands. Increased coronavirus-related costs and volatile commodity prices are expected to constrain industry profit margins for 2021. The industry is projected to expand over the next five years, driven by stabilizing commodity prices (post-COVID) and renewed demand.

Table A. Major series of the Employment Cost Index
[Percent change]

Category	3-month, seasonally adjusted		12-month, not seasonally adjusted				
	Jun. 2021	Sep. 2021	Sep. 2020	Dec. 2020	Mar. 2021	Jun. 2021	Sep. 2021
Civilian workers(1)							
Compensation(2)	0.7	1.3	2.4	2.5	2.6	2.9	3.7
Wages and salaries	0.9	1.5	2.5	2.6	2.7	3.2	4.2
Benefits	0.4	0.9	2.3	2.3	2.5	2.2	2.5
Private industry							
Compensation(2)	0.8	1.4	2.4	2.6	2.8	3.1	4.1
Wages and salaries	1.0	1.6	2.7	2.8	3.0	3.5	4.6
Benefits	0.3	1.1	2.0	2.1	2.5	2.0	2.6
State and local government							
Compensation(2)	0.6	0.8	2.3	2.3	2.0	2.0	2.3
Wages and salaries	0.5	1.0	1.8	1.8	1.6	1.6	2.4
Benefits	0.7	0.4	3.2	3.1	2.6	2.6	2.1

Footnotes
(1) Includes private industry and state and local government.
(2) Includes wages and salaries and benefits.

1. IBISWorld. (September 2021). IBISWorld US Industry Report 23.
2. IBISWorld. (September 2021). IBISWorld US Industry Report 31-33.
3. IBISWorld. (August 2021). IBISWorld US Industry Report 42.
4. IBISWorld. (July 2021). IBISWorld US Industry Report 44-45.

However, uncertainties remain related to the ongoing impact of COVID-19 and the potential for future tariffs and trade agreements.

The wholesale trade industry has grown over the past five years (3.9 percemt average annual growth), despite a 3.4 percent decline in overall U.S. GDP during 2020. The industry has benefited during this time from demand for goods from the retail industry, due largely to greater consumer spending driven by increases in disposable income and confidence in the economy (pre-pandemic). However, the industry has been hit heavily by the impacts of the COVID-19 pandemic, primarily decreased demand, volatile commodity prices and supply chain issues. The industry is projected to expand over the next five years, driven by recovering downstream demand from retailers and businesses. Stabilizing prices and improved supply chain dynamics are expected to have a positive impact on the industry's bottom line.

The retail trade industry has declined over the past five years (-0.2 percent average annual growth), due primarily to the impacts of the COVID-19 pandemic; industry revenue declined 10.7 percent in 2020, alone. While retailers benefited from pre-pandemic increases in disposable income and consumer confidence, the effects of the pandemic have dealt the industry a crushing blow since March 2020. The industry is projected to expand over the next five years, as stores re-open and pandemic fears subside. However, as performance of the industry is closely tied to the shopping habits and confidence levels of end consumers, uncertainty exists as to the near-term discretionary spending of the average consumer. Consistent with most of the customer industries noted above, all subsectors of the trucking industry have seen strong improvements in average annual growth (multiple percentage point increases) since 2020. These improvements have been driven primarily by the sustained economic recovery since the economic recession in March 2020 - April 2020. Also consistent with the customer industries, the trucking industry is expected to see future growth over the next five years, driven by the increased demand from a post-pandemic economy.

Trucking Sector	Current Revenue	Projected 5-Year Annual Growth	Current 5-Year Annual Growth	Prior 5-Year Annual Growth
Local Freight[5]	$63.3bn	2.3%	4.7%	-1.8%
Long-Distance Freight[6]	$239.4bn	2.6%	3.5%	-1.8%
Local Specialized[7]	$47.5bn	2.7%	1.1%	-3.1%
Tank & Refrigeration[8]	$45.7bn	2.8%	0.5%	-4.1%

What Lies Ahead

To recap:

- GDP remains positive and many measures of economic performance following the "V recovery" have exceeded pre-pandemic levels. However, Q3 2021 GDP decelerated sharply from the preceding three quarters. The BEA attributes this primarily to decreased spending on motor vehicles and parts, food services and accommodations.
- Unemployment has fallen sharply (to 4.6 percent) since the onset of the pandemic (from 14.7 percent). However, job openings continue to increase, and there remains a 4.2M negative gap in current and pre-pandemic workforces.
- Consumer sentiment is at its lowest point in a decade, driven arguably by inflation rates exceeding wage growth.
- Growth is expected for the trucking industry and its main customers' industries, but that growth is heavily dependent on assumed continued recovery following the COVID-19 pandemic.

It is interesting that the BEA attributes the deceleration in GDP to decreased spending on motor vehicles and parts, food services and accommodations. As it pertains to motor vehicles, there is the impact of stimulus funds that, during the pandemic, empowered many consumers to make large purchases (such as new and used vehicle purchases). This, combined with the chip (and other part) shortages, led to a decrease in supply and increase in prices for cars and passenger trucks. As supply chain issues improve, and supply returns to dealer lots, will the demand remain as strong as it was just a few short months ago? There are no further individual taxpayer stimulus payments currently on the horizon and expanded unemployment benefits have expired. Many consumers may find themselves in a less financially attractive position once supply returns, and dealers could find themselves in just the opposite position they are currently in.

5. IBISWorld. (April 2021). IBISWorld US Industry Report 48411.
6. IBISWorld. (September 2021). IBISWorld US Industry Report 48412.
7. IBISWorld. (August 2021). IBISWorld US Industry Report 48422.
8. IBISWorld. (April 2021). IBISWorld US Industry Report 48423.

As it pertains to food services and accommodations, since the GDP numbers are seasonally adjusted, it is assumed that the decrease from food services and accommodations is not driven by summer vacations. Could the decrease be driven by travel hesitancy and social distancing in the wake of the Delta variant? Much uncertainty remains with regard to the long-term impacts of the COVID-19 pandemic. We are just beginning to enter the traditional flu season, which tends to naturally increase the prevalence of bacterial and viral infections across the board. Should the U.S. see a third wave of coronavirus over the next several months, much in the way of economic performance will depend on the political and regulatory actions of our federal, state and local politicians. The potential for future shutdowns could significantly constrain the economic recovery we are currently experiencing.

The continued gap in the American workforce from pre-pandemic to the current time is troubling. The decrease in the unemployment rate to 4.6 percent, compared to the increase in the job openings rate to 6.6 percent, would suggest that there are not enough workers out there to fill open positions. This is especially concerning to the trucking industry, which has struggled to find interested drivers for years. In an effort to combat the driver shortage, trucking companies have seen significant increases in driver pay over the past several years. With the added pressures of inflation, this trend is not likely to change any time soon.

Ohio Trucking Association

The Ohio Trucking Association is a 100-year-old full-service trade association operating in Columbus, Ohio. With over 815 total members in the trucking, logistics, warehousing and moving industries, our promise to our members is simple: the Ohio Trucking Association will work to improve operational efficiency, profitability and relevancy for all of Ohio's transportation industry. Advocacy, professional development, networking and cost savings initiatives are the keys to carrying out this promise to our members. No matter what the cause, our industry is stronger when operating as one. We encourage you to explore more about becoming involved with the Ohio Trucking Association at **www.joinota.com**.

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