



TPP Quarterly Update

Analysis and Market Commentary.

January 2023 Edition

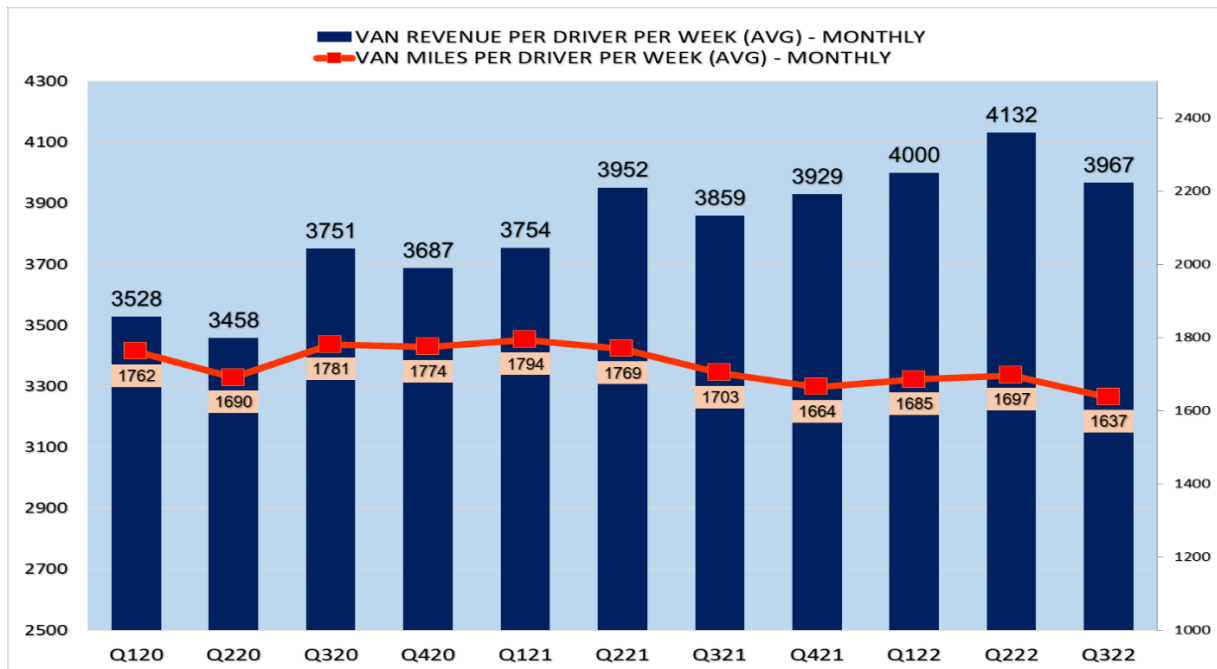


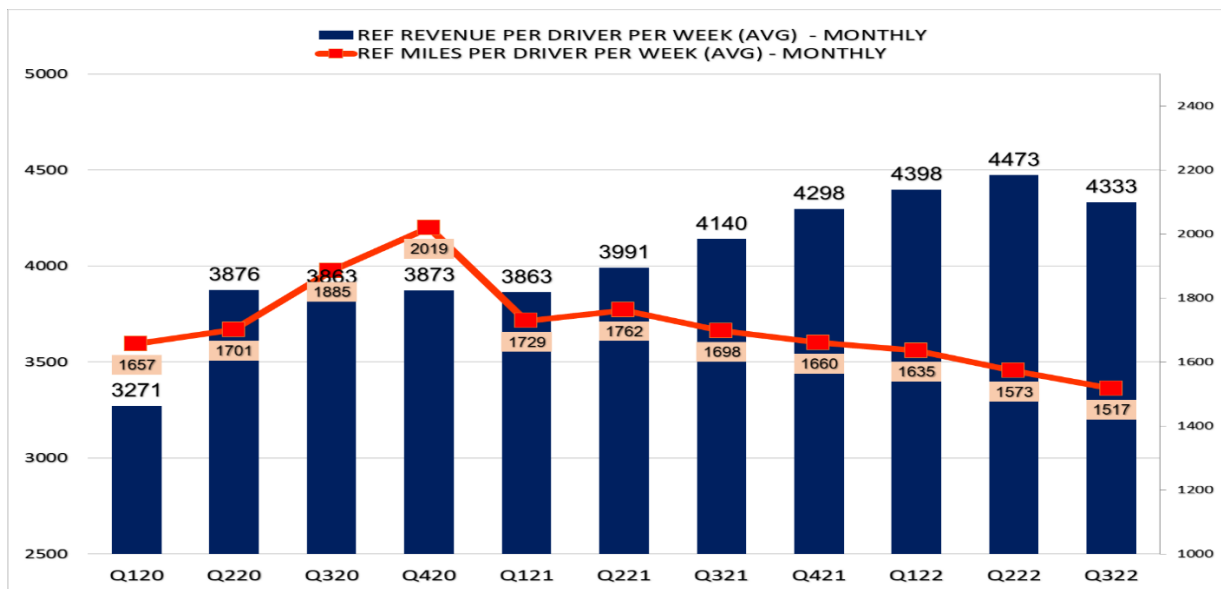
TPP Market Update - January 2023 – “2022 As I See It” – Jack Porter, TPP Managing Director

With the new year here, I wanted to provide my perspective with a look back in 2022, and share some observations of a few key metrics from our TPP group members. While the industry experienced some significant rate erosion in the spot market early in the year, the contract rate market remained stable. As we collect data monthly from approximately 175 Member For-Hire Truckload carriers, some of the trends in our benchmarking data reinforces what you are most likely experiencing in the market.

Generally, it has been well documented that the softening spot market has resulted in greater supply of capacity in that segment of the business, however, most of the carriers represented in our groups focus on the long-term relationships they have with their contracted customers. While the litmus test of rate fluctuations has been led by the decline in the spot market, the first half of 2023 challenge to both shippers and carriers alike fall into some fairly consistent buckets; service levels need to be high, capacity needs to remain reliable to service customers needs, rates need to hold to allow carriers to achieve an adequate return on invested capital so that “core carriers” that remain dependable, and have experienced a significant increase in their overall costs are profitable.

A few key metrics reflected in our *top 10 carriers* that reinforce these facts are referenced in this newsletter. For example; Revenue per truck (less fuel surcharge) has increased, and the number of miles that the trucks are running is on the decline.

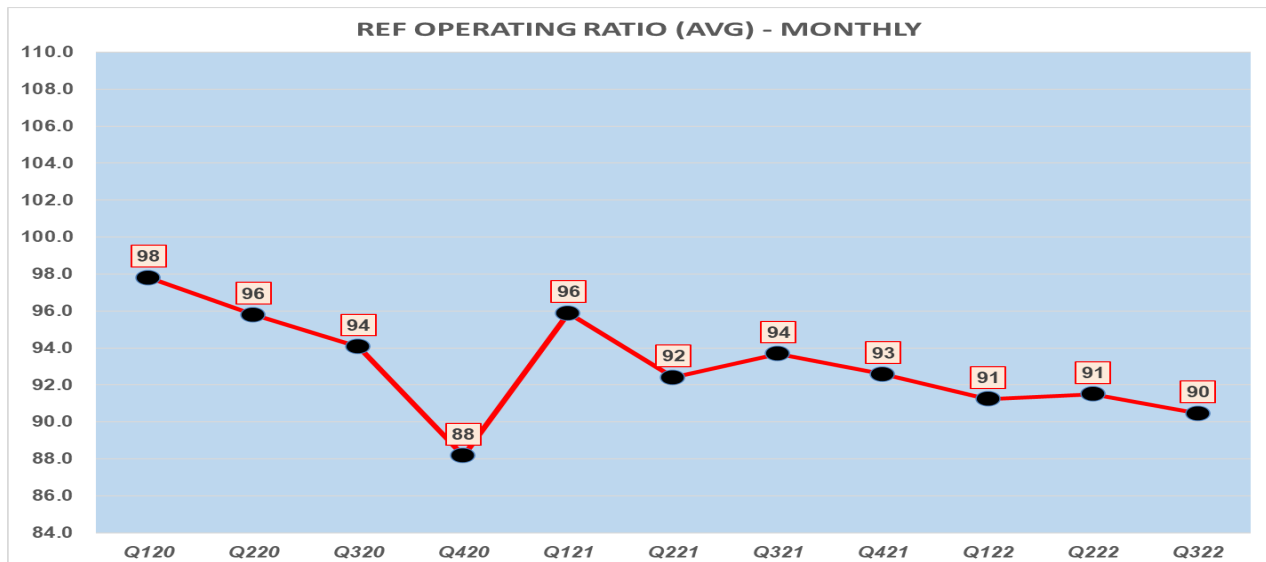
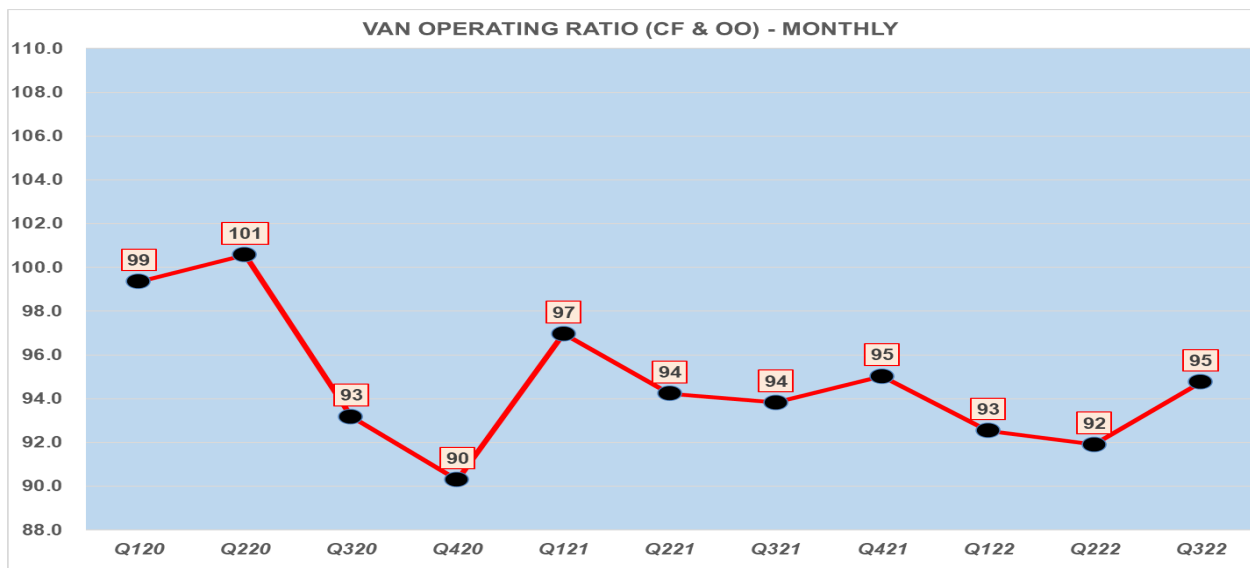




This indicates the increase in revenue that the industry has experienced, but it is exasperated by 2 key metrics; 1) shipper load counts reduced among our carrier groups in 2022, 2) while the driving time for drivers eroded, also. These 2 metrics challenged the industry in the last 2 quarters of 2022 while the shipping community was challenged with higher inventories as they moved from "just in time" to a "just in case" scenario while recovering from the supply chain challenges early in the year, thus less demand for shipments. On the other hand, the drivers are feeling the nationwide inflation on their paycheck-to-paycheck lifestyle and are now needing more miles, as seen in the graph above we have a market that needs more utilization of drivers when they need higher weekly take home pay (due to inflation) the most, however, the shipments are still lagging.

The overall profitability of our groups has leveled off as they have started to feel the impact of cost increases lowering their Net Operating Ratio.

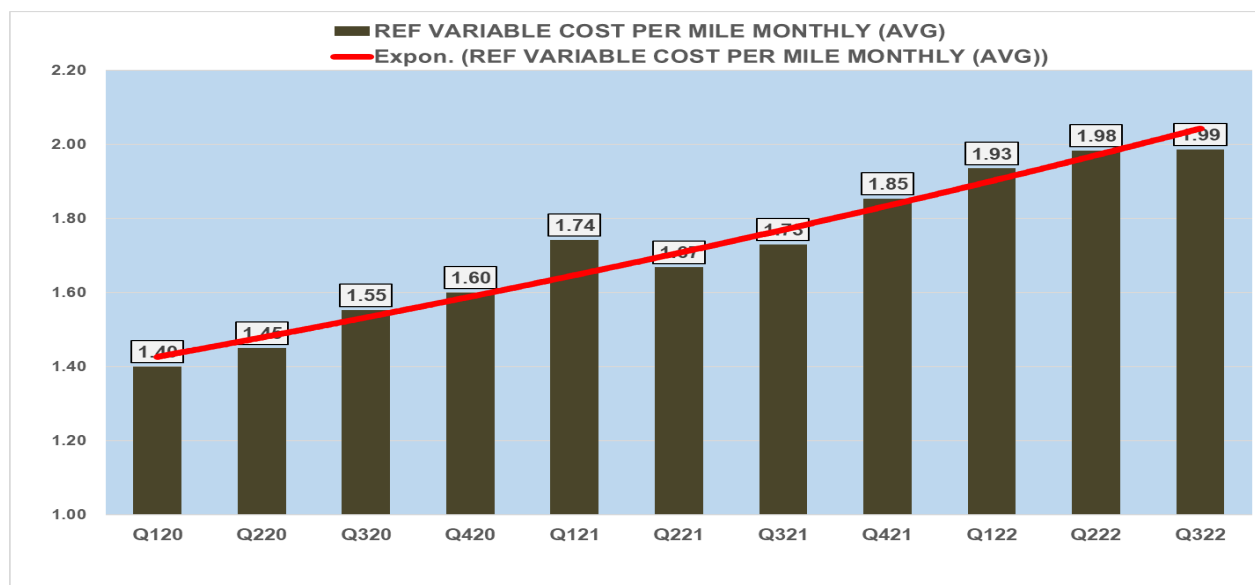
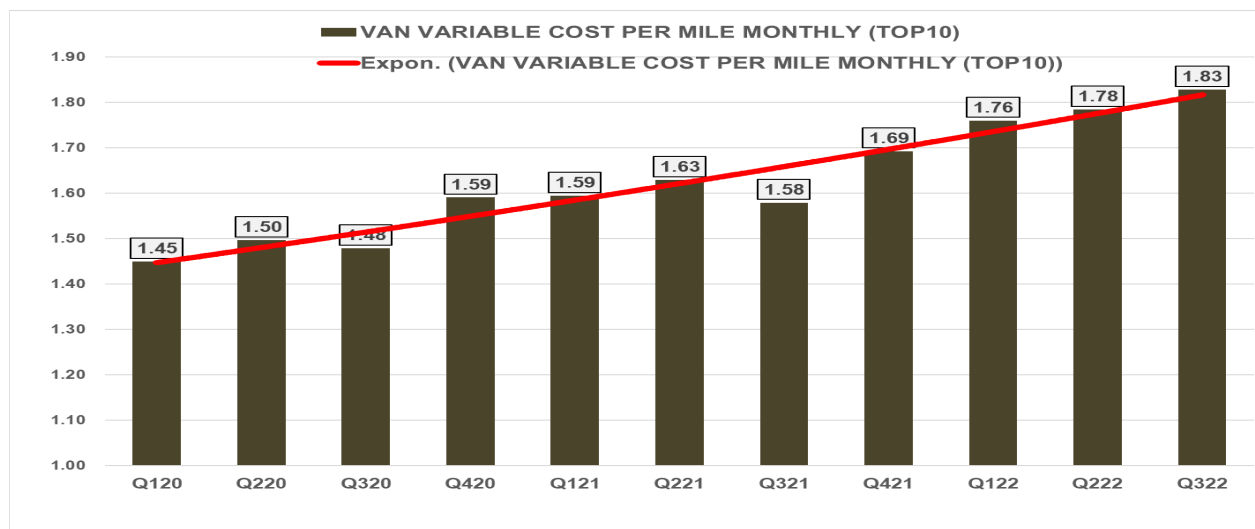




While some of the public truckload carriers are reporting exceptional financial results, our privately held “mainstream” carriers have seen a small increase in profitability over the past 2 years, but not to the same level as some of the mega carriers that can rely on scale to bolster their network capacity and reduce costs due to volume. Many of the mainstream carriers we follow have seen some bottom-line growth, most have been given back to the higher costs they are encountering on a few fronts. First, the approximately 30% increase in driver wages, second, the extra ordinary increase in equipment costs (New equipment delayed in building and the higher costs, plus the huge downtime component of older equipment on the road). Thirdly, the industry is still plagued with reptilian tactics from the legal folks with these nuclear lawsuits. Many of the mainstream carriers bolstered their financial bottom-lines by selling some of their used equipment into a record high selling environment, that has now normalized. The TPP



groups are now faced with higher Variable Operating costs as shown below, and extremely higher Fixed costs.



Outside of the operating cost increases, the non-operating costs have skyrocketed.

- Labor outside of the Drivers has increased 10-13% and have resulted in less productivity
- Driver Training has developed into one of the largest non-operational costs over the past few years. Fleets have invested millions in recruiting, training, and retaining their drivers.
- Safety costs have increased from the nuclear lawsuits to just minor fender benders.

Motor carriers in 2023 may struggle absorbing these increased costs and really should not rollback their driver pay increases that have long been needed. They will depend on



their shipper partners to develop a long-term strategy to keep capacity and service in the forefront, tighten up their mutual lanes for better coverage and service. The spot market will adjust to supply and demand. If a carrier purchased a used truck or trailer in 2022, they are probably concerned about the correction they are now seeing occur with used equipment.

We hope you find this helpful and will continue to provide you with quarterly updates on what we are seeing in our TPP Groups.

