BNSF LOGISTICS

MARKET TRENDS
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Market Trends & Analysis

Electronic Logging Device (ELD) Mandate

With the Electronic Logging Device (ELD) mandate in effect freight hauling capacity will tighten and spot market rates will rise, according to trucking industry analysts. The mandate could result in a 3-7% loss in productivity for the industry overall. When Schneider, a Green Bay Wis. based company, switched to electronic logs in 2010, it saw a 4% productivity loss even though it had previously passed a Department of Transportation audit using satellite technology to check its paper logs, Chief Operating Officer, Mark Rourke said. Like Schneider, C.R. England experienced a productivity impact of 3-5% when it made the switch to e-logs in 2009, but other fleets could see higher numbers because C.R. England employs many team drivers, Chief Sales Officer Brandon Harrison said.

Drivers won't be able to manipulate their logs and will spend less time on the road, according to ACT research president Kenny Vieth. As a result Vieth expects a 5-15% increase in spot rates, and "really a re-benchmarking of the industry." Customer surveys conducted by Truckstop.com have shown a 2-4% capacity reduction, but doomsday predictions are much higher, said Thayne Boren, general manager of Truckstop.com's mobile division. Boren and the company's chief economist say that rates could increase 20% year-over-year at peak seasonal times. Vieth said spot market rates rose 25% year-over-year in March 2014 based on several factors. The most notable was tightened hours-of-service rules in 2013 that reduced capacity by 4%, a comparable amount with what he expects this time.

Rourke compared the impact of ELDs with the Commercial Vehicle Safety Alliance's annual Roadcheck event, during which law enforcements officer emphasize inspections that historically have resulted in productivity losses. The ELD mandate will have at least that much of an effect, Rourke said.

Supplier Incentive Program (SIP)

BNSF Logistics is making compliance with the ELD mandate easier for our approved carriers by allowing Transflo to offer its advanced ELD product at a special price. The BNSF Logistics Supplier Incentive Program is designed to help our approved carriers operate more successfully. It delivers significant savings with special pricing through strategic relationships. Our partnership with Transflo gives carriers access to the Transflo Telematics solution which includes an ELD device, integrated mobile application, and reporting and analytics portal. This solution helps BNSFL carriers comply with the new FMCSA requirements at a discounted rate.

MARKET TRENDS

> "Unlike asset-based providers who are driven first and foremost by the need to utilize and balance their assets, BNSF Logistics has the ability and experience to engage providers whose asset needs mirror the service needs of our client. The impact of ELD's on 400-600 mile runs will reduce driver productivity and drive mode conversion opportunities. As this freight becomes less desirable for truckload carriers, and rates increase accordingly, regional intermodal and even LTL may become a more optimal option for shippers. BNSFL's rail neutral intermodal solutions provide a unique capacity option for clients who are most likely to be impacted by this effect. In addition, due to our financial stability, a virtually limitless carrier base which has confirmed its compliance with all FMCSA requirements, including the ELD mandate, and a single operating system, we arguably offer the largest, most dynamic, and incredibly flexible source of capacity and service of any provider you may be considering.
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> -Dan Curtis, COO

ELD Mandate Impact on Drivers

The Commercial Vehicle Safety Alliance (CVSA), which is made up of enforcement officials and meant to provide uniformity in enforcement of trucking regulations, has announced a phased-in approach to the ELD Mandate consistent with past implementation of significant changes in regulatory requirements. This means that enforcement will likely gradually become more stringent between December 2017 and April 2018. Motor carriers operating vehicles without ELD after December 17, 2017 will not be placed out of service until April 1 or thereafter, but are subject to citations at the jurisdiction's discretion. Beginning April 1, 2018, motor carriers not in compliance with the ELD mandate will be placed out of service.

Carrier productivity will likely be impacted by 3-7%. The impact will be felt most acutely on one-day hauls of more than 450 miles. When ELD requirements push trips to a second day, appointments will have to be rescheduled and reloads missed. Many 400- to 600-mile jobs will go from a one-day haul to a shift-and-a-half. Carriers will be able to charge for challenging service-level agreements, next-day service and long detention times. It has been postulated that small carriers and owner-operators (most of which just recently implemented ELD) would suffer a larger reduction in productivity. Drivers will demand higher pay per mile if they're driving fewer miles. Others may leave the industry all together, further tightening capacity. According to Overdrive, the percentage of owner-operators planning to leave the industry rather than comply with the ELD mandate was at 26% as of June 2017. This would lead to an even larger than anticipated reduction in truck capacity available to the marketplace after the deadline for mandatory ELD.

Increased Rates

As the spot market took off in October and November rates began to increase for the first time in a year and a half. There are many factors that go into rate increases. Activity in the market related to volume, capacity, fuel prices and bankruptcies can impact rates. The trucking industry is so large and fragmented that it can absorb gradual changes in supply and demand, but spikes are caused by disruptive events, and the ELD mandate will be one. 2017 has seen several other disruptive events already. Hurricanes Harvey and Irma hitting the U.S. mainland followed by historic fires in California further ignited already rising volumes and spot rates in late Q3/early Q4. Recovery and rebuilding efforts in storm-stricken areas boosted flatbed loads which typically decline in September. Pricing power has shifted back to the carrier post hurricanes and fires and we are seeing a fundamental change in demand on top of it. The effect of the natural disasters on our industry will be amplified by the regulatory changes that just became effective.