

MARKET TRENDS

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News at BNSF Logistics

- Bill Dering joined BNSFL in November as CFO.
- BNSFL refurbished and put into service a 20-axle depressed deck railcar that can haul 900K lbs.
- BNSFL offices support their local communities for holidays through various charities.

Market Trends Update

Market Indicators

- US PMI – 57.6
- Retail Sales – up 4.7%
- Unemployment – 3.7%
- Cass Freight Index – 1.22
- US EIA – \$3.28
- Tariffs – any pull forward of volume for the remainder of 2018 will potentially have a negative impact on Q1 volumes
- Housing market cooling – interest rates rising (5%+, highest since 2011), less need for new furniture, appliances, etc. This affects flatbed volumes as well.

Industry Indicators

- Truck utilization – 99%
- TL shipment growth – slowing
- Spot market easing across the board as volume remains flat to slightly elevated in certain markets, DAT spot market loads up 6.7% WoW approaching the holiday
- Van and flatbed capacity – Van up 12% WoW, down 32% MoM, Flatbed up 6.4% WoW, down 29% MoM, Reefer up 6.9% WoW, down 22% MoM
- IMDL growth – Sep growth slowed to 2%, cooling truck market makes OTR a more viable competitor to the mode
- Driver shortage – still in the mid-200k's - the forecast begins to improve next year, driven by better hiring and lower demand
- Truck orders – strong thought Sept, up 103% YoY, down 18% MoM, 2019 volumes will determine actual orders throughout the year
- Produce – Cranberries, potatoes (WI), Christmas trees (WA, MI)

Mexico & Canada Market Data

- Third quarter growth exceeded market expectations
- Leftist Andres Manuel Lopez Obrador (AMLO), who takes office December 1st, will implement many changes
- Peso has devalued 5% in the last month
- High degree of uncertainty regarding the next federal administration policy
- Interest rate increased 25 bps to a nearly 10-year high of 8.0%
- Canada Consumer Confidence – November – 57.05 index points (High 57.05 / Low 46.00). Record high (2010 – 2018)
- Canadian Unemployment Rate – November saw a slight decrease from 5.9% to 5.8%
- Canadian PMI – November saw a slight decreased from 54.9 to 54.8

Forward Statement

- Rates are expected to decline throughout 2019, partially driven by demand and partially driven by YoY comps
- As seasonal demand softens rates too will come down and even less spot market activity will happen
- If there is a strong pull-forward of imports in Q4 look for Q1'19 to be soft

Best Practice

- Keep a 3PL capacity strategy in place with a combination of contract and flex.
- Look to spread volume across base to keep them active should Q1'19 prove to be soft
- As the economy transitions to small, JIT orders due to the impact of e-commerce, partner with a provider who can satisfy all modes with an easy-to-use single point of contact