

Transportation Outlook 2008

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Recent data increasingly provide support for the thesis that the recent economic slowdown is more likely to transition to trend growth than to recession.¹ Leading economists conclude that many favorable multiyear trends are likely to persist despite episodes of shorter-term volatility.

Reflecting recent slow domestic growth, both the trucking and rail freight industries have begun to fall behind their 2006 figures. According to the American Trucking Association, the seasonally adjusted For-Hire Truck Tonnage Index decreased 1.3 percent in May, marking the second consecutive month-to-month drop. ATA Chief Economist Bob Costello said one of the primary reasons for the continued year-over-year index contractions is that manufacturing activity by weight, not value, fell again in May. Manufacturing activity declined 1.4 percent when compared with the same month in 2006.²

The slowing of the trucking industry has affected rail and intermodal freight as well. Matt Rose of BNSF Railway explained recently that some trucking companies "are moving intermodal freight behind truckload carrier over-the-road drivers" to find loads and thereby "hold onto the drivers they fought so hard to get" when business was heavy and trucks were hard to find. That is giving shippers more options and has started to affect pricing. Although it is still holding up better than carload bulk freight in the ongoing freight-sector slump, long-haul rail traffic in merchandising-laden truck containers and trailers has started to trail the 2006 pace.³ US freight railroad carload traffic fell 2.7 percent in June 2007 compared with June 2006, while intermodal traffic fell 1.8 percent compared with the same month last year according to the Association of American Railroads.⁴

Despite these declines in overall figures, trade using surface transportation, including rail, truck, and pipeline, between the US and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico is growing, valued at \$65.0 billion in April 2007. This is 5.3 percent higher than in April 2006 and marks the biggest percentage increase from the same month of the previous year since August 2006, according to the Bureau of Transportation Statistics.⁵

Such figures indicate the importance of strong international trade in mitigating the sluggish trends of domestic activity and further validate the new Kansas City intermodal ports, which are very well positioned to serve international trade between America and its NAFTA partners. In June 2007, Kansas City transferred ownership of more than half the former Richards-Gebaur Air Force Base near Belton to Chicago-based developer Center Point Realty Services Corp. The company will spend \$250 million or more in coming years to redevelop the site as an intermodal rail and trucking port serving the Midwest and markets in Canada and Mexico. After demolition of the airport runway and about half the site's 40 or so buildings in the second half of 2007, the first tenants will move in as early as spring 2008. This is just one of three new intermodal developments coming online in the Kansas City area, along with Trammell Crow's development at Kansas City International Airport and the upcoming logistics hub by Burlington Northern-Santa Fe Railroad and the Allen Group in Gardner, Kansas. Kansas City's new intermodal ports will capitalize on Canadian and Mexican trade that continues to flourish despite the overall downward trend.

North American trade is not the only reason to expect a strong 2008. Despite slow months in early 2007, the National Retail Federation expects traffic at the nation's major retail container ports to hit record highs in July and August 2007 and grow steadily through the next year. Mike Andrews, chief economist for PIERS Global Intelligence Solutions, said import volume grew 10.6 percent in 2006 and projects a growth level of 9.2 percent in 2007 and 9.9 percent in

¹ Hoey, Richard B. "Economic Update." . 15 June 2007. The Bank of New York Mellon. 13 July 2007
<<http://www.bnymellon.com/news/economicupdate.html>>.

² "ATA Truck Tonnage Index Falls 1.3 Percent in May." American Trucking Associations. 27 June 2007. 16 July 2007
<<http://www.truckline.com/NR/exeres/F441DBD7-BF5C-45C7-A865-43A9A68F1B71.htm>>.

³ Boyd, John D. "Boxed and Battered." Traffic World 4 June 2007: 26.

⁴ "U.S. Rail Traffic Down in June ." Association of American Railroads. 5 July 2007. 16 July 2007
<<http://www.aar.org/Index.asp?NCID=4033>>.

⁵ "April Surface Trade with Canada and Mexico Rose 5.3 Percent from April 2006." Data and Statistics. 28 June 2007. Bureau of Transportation Statistics. 16 July 2007 <http://www.bts.gov/press_releases/2007/bts031_07/html/bts031_07.html>.

2008. "We think the economy will be starting to pick up by the end of this year," he said. Andrews said a major component in the forecast for continued growth in imports is that the process of globalization hasn't yet finished.⁶

The air and ocean freight industries will certainly be prime beneficiaries of this continued globalization. The International Air Cargo Association (TIACA), in its long-range forecast, predicts that its cargo by weight will grow at a 6 percent average annual rate through 2025. The export of more time sensitive, high-value and high-tech goods has grown fastest among globally traded commodities, largely contributing to the growth of air freight. This is significantly driven by trade with China, where international freight traffic has expanded 9.6 percent per year for a decade. Rapid economic expansion in India is expected to raise air freight traffic to and from that country by a staggering 20.3 percent per year through 2025; such a prediction is lofty but indicates the scale of the emerging market to be captured by attentive international air freight companies.⁷ In the short term, FedEx President and CEO Frederick W. Smith, for one, anticipates an improved US economy toward the fall of 2007, and therefore expects an upswing in the air cargo business.⁸

Ocean freight is looking up also, thanks again to strong international trade. The Transpacific Stabilization Agreement said its ships are nearly full on trade lanes from Asia to the United States. A flurry of orders for new cargo ships reflects the ever-increasing demand for cargo transported via ocean freight; cargo growth of nearly 20 percent in the Asia-Europe trade and similar strong intra-Asia demand have tightened space and equipment availability. Charter owners bet double-digit growth in box traffic, driven mainly by China, will continue into the next decade.⁹

Gas prices continue to rise nationally, contributing heavily to rising transportation costs and, as a result, rising costs of raw materials and finished goods. Summer floods have done some serious damage to a key refinery in Coffeyville, Kansas and given the overall tightness in refinery capacity nationwide, there is little opportunity to replace its output from elsewhere. This caused gas prices in the Midwest to rise to the highest in the nation in the second half of 2007, but when the Coffeyville facility has returned to previous capacity, prices should return to normal levels in 2008.

Efficiency and security go hand in hand in cargo transportation, and efforts to improve both for the supply chain are being pursued by all sectors of the industry. The Department of Homeland Security awarded port security grants totaling \$202 million in port security grants to ports across the nation in May 2007. They are part of a larger initiative designed to strengthen the ability of ports, transit, and intercity bus systems to prevent, protect against, respond to and recover from terrorist attacks, major disasters and other emergencies.¹⁰ Securing ports is only one part of the battle, though; according to the Transported Asset Protection Association, 85 percent of cargo losses occur in the trucking sector, and only 15 percent comes from warehouses, air, and rail.¹¹ Kansas City SmartPort, for its part, is developing the Trade Data Exchange – A Global Secure Freight Solution. The TDE will operate as a third party data warehouse offering real time visibility and efficiency to the supply chain. The TDE will work within any supply chain from any country to any country on any mode and provide levels of security needed by the public sector and will be up and running by the beginning of the second quarter of 2008.

Though many Wall Street forecasters predicted slow 3 percent growth in the first quarter of 2007, earnings in fact surged ahead by 8 percent as the global side of the equation kicked in. The sense is that the majority of the pessimists are neglecting the impact of the strong foreign market – both the impact of the weak dollar in promoting US exports and in making foreign profits more valuable. Converting the sales and profits of foreign sales and operations into dollars from the stronger euro and other world currencies means a bonus for all overseas activity and that falls right to the bottom line. US corporate profits through foreign trade are up 10.3 percent, while in the US they have only gained by 7.3 percent. The impact of the US economy's mighty gains through foreign trade is becoming ever more obvious.¹²

⁶ Nall, Stephanie. "Rising Tide of Imports." Traffic World 4 June 2007: 31.

⁷ "Global Market Forecast: The future of flying." The International Air Cargo Association. 4 July 2007. 16 July 2007 <http://www.tiaca.org/content/media_object_file_AirbusGMF2006-2025.pdf>.

⁸ "This Week." Traffic World 2 July 2007: 9.

⁹ Barnard, Bruce. "Bigger Box Fleet." Traffic World 25 June 2007: 32.

¹⁰ "DHS Awards \$445 Million to Secure Nation's Critical Infrastructure." Homeland Security. 10 May 2007. Department of Homeland Security. 16 July 2007 <http://www.dhs.gov/xnews/releases/pr_1178811654577.shtm>.

¹¹ Barnett, Chris. "Security Gets Certified." Traffic World 11 June 2007: 18-23.

¹² "Business Intelligence Brief." . 9 July 2007. Greater Kansas City Chamber of Commerce. 16 July 2007 <<http://www.kcchamber.com/Resource/Index.asp?IdS=0038FF-28B5000&x=050|010&~=&Id=817>>.

After-tax profits for retail corporations with assets greater than \$50 million averaged 3.2 cents per dollar of sales for the first quarter 2007, down 0.7 cent from the average of 3.9 cents in the preceding quarter.¹³ The gross domestic product grew at a 0.7 percent real annual pace in the first three months of the year, the slowest pace in four years, but economists expected the economy to expand at about a 3.2 percent rate in the second quarter. Inflation still stands a little higher than the optimal level, at 2.4 percent for the first quarter of 2007.¹⁴ Though economic growth has slowed, it is generally agreed that this will not transition to overall decline, but rather to trend growth. The transportation industry has reflected the overall economic trend in 2007, but international trade has proven an anchor to the US economy. Continually strong trade growth with our NAFTA partners and consistently rising retail imports, both of which have been resiliently steady, provide growth opportunities for transportation companies, regardless of the climate of the economy as a whole.

¹³ "Economic Indicators." 13 July 2007. U.S. Census Bureau. 16 July 2007 <<http://www.census.gov/cgi-bin/briefroom/BriefRm>>.

¹⁴ Nutting, Rex. "Growth, inflation revised higher in first quarter." MarketWatch. 28 June 2007. DowJones. 16 July 2007 <<http://www.marketwatch.com/news/story/us-growth-inflation-revised-higher/story.aspx?guid=%7BAF34BA5E-F1D2-48D5-A99D-2F8D7E2C24E9%7D>>.