Keep on Truckin': Could a Shortage of Drivers Threaten the Economy?

Tina Jones
Portfolio Manager
Industry *Experience: 22 yrs.*
Joined Rothschild in 1995.

Luis Ferreira, CFA
Portfolio Manager
Industry *Experience: 24 yrs.*
Joined Rothschild in 2006.

Michael Kehoe
Associate Portfolio Manager
Industry *Experience: 17 yrs.*
Joined Rothschild in 2008.

Executive Summary

Freight trucking is the backbone of the U.S. economy, yet the investing public greatly underappreciates the importance of the sector. Recently, the combination of rising fuel costs, extensive regulation, and a shortage of qualified drivers has led to increased expenses for moving freight. Left unaddressed, side effects could include increased inflation, decreased margins for clients, and transportation bottlenecks.

On the Move

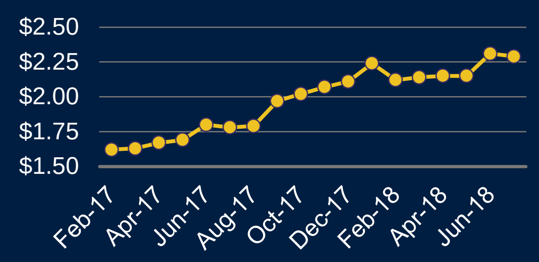
Trucks move roughly 71% of America's freight,[1] and the industry currently employs around 1.67 million people.[2] Additionally, the health of the trucking industry is closely tied with that of the economy, with the sight of well-loaded eighteen-wheelers transporting goods indicating that commerce is flowing smoothly through the nation's arteries. However, low overall unemployment, coupled with an inability to attract new recruits has led to a major shortage of truck drivers, which economists worry may result in higher inflation, or delivery bottlenecks.

Coming up Short

Despite the growing economy, there is an insidiously growing shortage of truck drivers. With the national unemployment rate hovering around 4%, there are 63,000 open trucking positions, a number which is expected to almost double by 2026.[3]

Accompanying the hiring problem is an even more alarming retention problem. According to a survey conducted earlier this year, on average, nearly 60% of all drivers will leave within the first six months, while 35% will leave within the first 90 days.[4]

Monthly Average Cost per Mile (spot market)
Source: DAT Solutions LLC, Wall Street Journal



This is not to suggest that all of these drivers are leaving the industry: in fact, the vast majority of drivers move from carrier to carrier, looking for better opportunities and better pay. The trucking shortage has grown more acute as many of the current fleet of drivers is close to retirement, and the public's perception of the occupation is negative, making it unlikely that retiring truckers will be replaced in the future. In prior times, particularly when economic conditions were slack, trucking was seen as a way for individuals with limited skills and education to earn a fairly good living. However, between 1994 and 2015, wages for flatbed drivers actually fell 3.86%, while those for drivers of refrigerated trucks dropped 5.31%.[5] These lower wages and harmful conditions have pushed people to opt for jobs in manufacturing and construction, fields that both pay better and allow employees to go home at night.

Finally, the industry is losing its drivers because it is failing to replenish retirees with new recruits. Current regulation delays younger people from becoming long-haul drivers until they are 21 years old. The average age of freight truck drivers is 55 years old, and many of these truckers are set to retire in the coming years.[6] At the same time, trucking companies are struggling to attract and retain younger drivers. For example, whereas the overall turnover rate within the first six months of hire is about 60%, the figure jumps to 69% for drivers between 26 and 30 years old.[7]

Although the Trump administration is working to lower the minimum age for commercial drivers from 21 to 18, such a change would not be a panacea. Some younger individuals are dropping out of commercial-driving school as they see trucking as a dying industry, and because they have to pay for their own training.

Setting aside age, another regulation constraining the supply of workers is the Electronic Logging Device (ELD) rule, which tracks the number of hours logged per driver. While the ELD is meant to ensure safety by limiting driver hours, it at once reduces available man-hours and caps the potential earnings of drivers. Over the next decade, the trucking industry will have to hire a projected 898,000 drivers, 49% of which will be replacing retiring drivers, while industry growth will account for 28% of new drivers.[8]

The Limits of Wage Hikes

Trucking companies have turned to increased wages to recruit and retain their truckers; however, instead of fixing the trucking shortage, the increase in wages has led to higher transportation and shipping costs. According to a recent study by the ATA, more than 100,000 truckers saw an annual salary increase of 15% to $53,000 between 2015 and 2017, and private fleet drivers' salaries increased 18% to more than $86,000.[9] Some examples of companies that have increased their wages are Ozark and Daseke. These wage increases have resulted in slightly lower turnover rates: in the fourth quarter of 2017, the turnover rate fell 7% to 88%, according to the latest ATA report.

However, these wage hikes have done little to decrease the demand for truck drivers. The shortage has afforded trucking companies unprecedented pricing power; as a result, pay increases and tight capacity are hitting retailers and distributors with higher shipping costs. The cost to haul a full truckload of finished product across the country has jumped 9% in May 2018 from a year earlier, the largest increase for 13 years.[10]

For example, General Mills said this year that its freight costs had soared to near 20-year highs in February, cutting into margins for some of its products. Similarly, Tyson Foods, Hormel Foods, and B&G Foods have alluded to higher freight costs, lower earnings, and increased consumer food prices.[11] Tyson, example, expects its freight costs to rise by $250 million this year.[12] These are not the only companies that have transferred the toll of the increased costs to their customers. Amazon is also raising its shipping costs, as customers appear willing to pay more for Prime membership. Distribution and manufacturing companies have expressed their concerns over the shortage of truck drivers, stating that this problem is projected to be their most significant headwind in 2018.

Rising Costs, Falling Margins

As noted above, higher transportation costs have already depressed margins for some customers. But to the degree that these customers then pass on (rather than absorb) higher trucking costs to *their* customers, the risk of broader inflation could rise. Specifically, the producer price figures within the freight trucking sector advanced 9.4% in June 2017, which represented the largest year-over-year increase in a decade. The broader producer price index was up 3.4%, the most since November 2011.[13] That said, Federal Reserve Chairman Jerome Powell has signaled that he is watching core inflation and is aware of the shortage problem. At the time of writing, data from CME Group showed that federal-funds futures trading implied a 70% probability of two more rate hikes by year-end, up from 65% odds a month ago.

What happens next? Three pending developments could potentially address the shortage of truck drivers, though they may take time to pan out.

Scenario 1: Improve working conditions to widen the scope of recruits

Many truck drivers share their grievances about their jobs, as they often work long hours, are away from home for weeks at a time, and deal with the dangers of the road. Some argue that investing in programs that allow truckers to see their families during the week or spend time at home in the evening would lower turnover.

Regulatory reform could also alleviate the lack of qualified drivers via a new House bill called The Developing Responsible Individuals for a Vibrant Economy, or DRIVE-Safe Act. Presented by Representatives Duncan Hunter and Trey Hollingsworth (of California and Indiana, respectively) and supported by the International Foodservice Distributors Association and the American Trucking Associations, this new regulation may be successful in attracting high school graduates.

Scenario 2: Shift to private fleets & rail

As with any other issue that touches retail, Amazon may potentially disrupt the freight transportation industry. The e-commerce mammoth has begun to explore private truck fleets to offset the increasing transportation and shipping costs. In April 2017, Amazon sought to recruit 30,000 drivers to haul the company's last-mile delivery services.[14] Many of these hauls would fall within shorter mileage ranges, and would thus avoid federal regulations. With $20 billion in cash, Amazon may very well be capable of launching their own fleet. Currently, the company has nearly 50% share of e-commerce sales in the U.S., which is around 3.5% of all truckload freight.[15]

Some freight companies have moved from trucking to rail to combat rising transportation costs. In March 2018, intermodal traffic on rails increased by 6.5%.[16] There are some trade-offs when moving from trucking to rail: despite the lower prices, rail is slower than trucking and may require additional transportation (often in the form of trucking) when the train reaches the end of the line.

New York City is already beginning the shift to rail with a new plan, dubbed Freight NYC. The city plans to invest $100 million to bring in goods by rail and water.[17] The New York City Economic Development Corp. plans to allocate $65 million to the sea and $35 million to rail lines. The city relies heavily on trucks: 90% of the city's freight is transported by truck. The plan hopes to lessen the city's reliance on trucks and modernize the railroad freight system.

Scenario 3: Deploy self-driving trucks

Longer term, automation is likely to address the shortage of truck drivers, perhaps rendering the position obsolete. Whereas much of the media coverage of autonomous vehicles has been focused on cars, widespread adoption of driverless trucks could have a much greater economic impact.

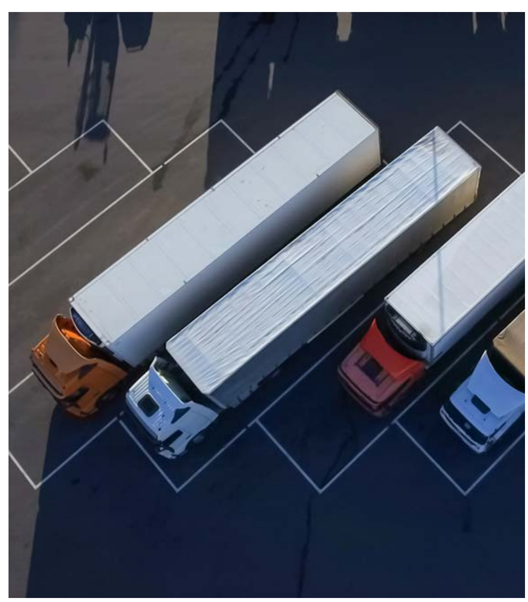
Autonomous trucks would get around ELD and other regulatory restrictions. Even if deregulation took place, autonomous trucks would overcome the physical limits of humans; driving through the night would become a low-risk proposition and eliminate hotel stays. Early signs are promising: in 2016, a convoy of self-driving trucks successfully completed a trip across Europe.[18] More recently, Uber has caught on to this trend, announcing that it has begun to move freight in Arizona with autonomous trucks. Other companies, like Embark, Daimler, and Tesla have also explored and tested this new form of transportation.[19]

One obvious downside is that an estimated 1.6 million jobs could disappear. Since trucking provides a reasonably good level of income for those with limited skills or education, such job cuts could hit hard. In addition, the longer drive time of autonomous trucks could reduce the need for large fleets. This impact could in turn be felt by truck markers, part suppliers, and other segments of the auto industry, which accounts for over 7 million U.S. jobs.[20]

Our view is that while autonomous trucks would prove highly beneficial in terms of both reducing costs and improving delivery times, widespread adoption of automated fleets is still probably five years out, if not further.

Conclusion

Freight trucking is closely correlated to GDP, so it provides some color on the speed at which our economy is growing. Currently, the truck driver shortage has not only increased transportation costs, but also created some transportation bottlenecks. Solutions such as better driving conditions, railroads, and ultimately, automated trucks have the potential to reduce the country's reliance on truck drivers and the subsequent exposure to price hikes. In the short term, however, companies highly dependent on trucking may be faced with lower profitability if they are unable to pass on these increased costs.



Important information:

Notes:

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For more information, please contact

Benjamin Poor,
Head of North America Marketing
E: benjamin.poor@rothschild.com

www.rothschild.com