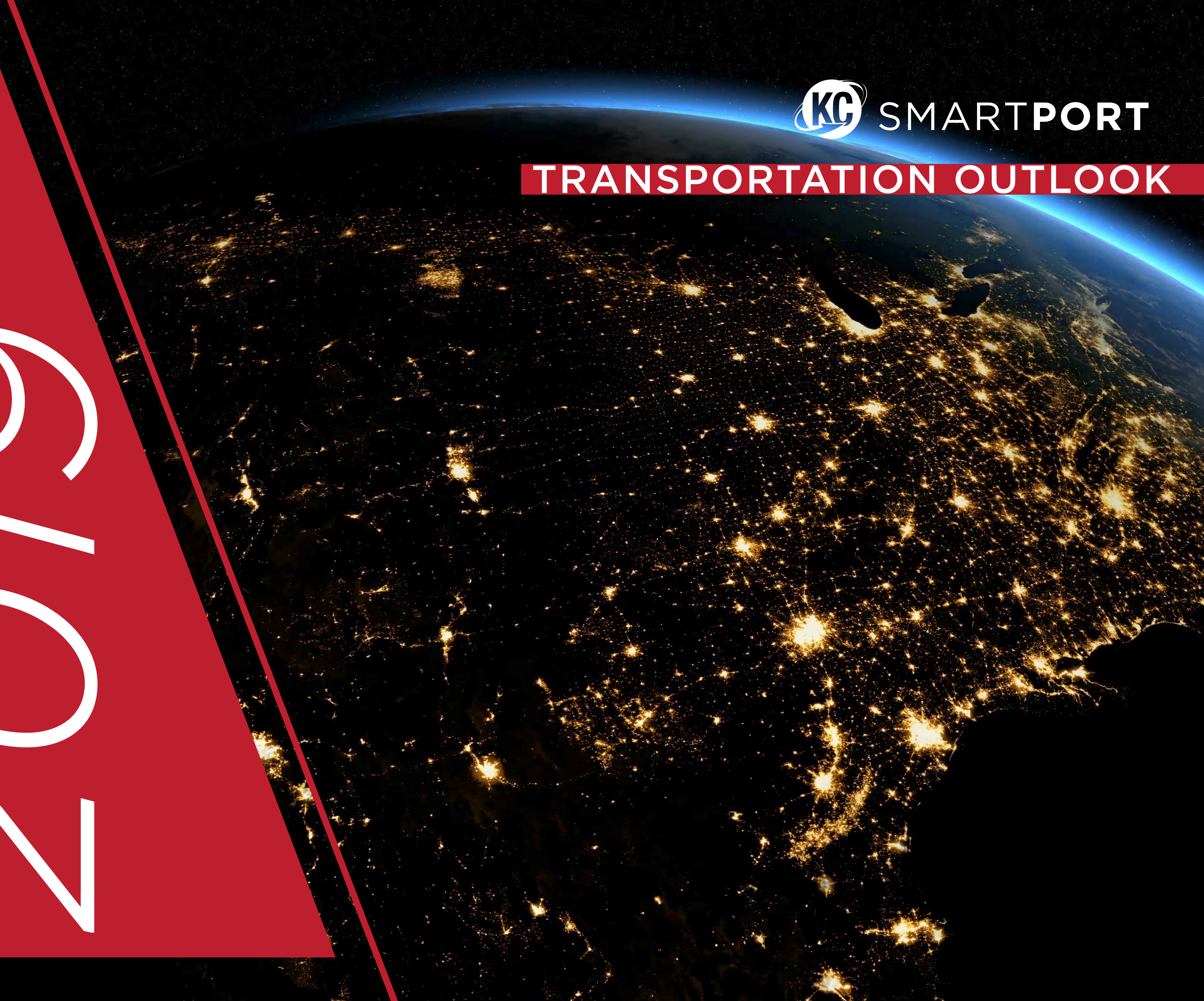


KC SMARTPORT

# TRANSPORTATION OUTLOOK

# 2019

## Introduction

From late 2017 to mid-2018 the transportation industry has seen excellent growth and numerous setbacks. The growth the industry has faced and the current global economy equated to an excellent paring that helped many sub transportation categories flourish. As demand and volume increase, suppliers are looking for the most effective and cost efficient mode of transportation that will remain stable through the years.

Whether choosing air, rail, truck, or ocean traffic, shippers have several options that could be beneficial in 2018-2019. In the Kansas City region, cost savings abound as the centralized location allows for a variety of effective options. All of this in consideration, the 2019 transportation outlook looks encouraging and optimistic.

**The World Bank predicts global GDP to grow 3.1 % by the end of 2018.** However, global expansion is limited by policy and in such times where policy is constantly being renegotiated, it is difficult to predict. As trade negotiations continue, the risk of a trade war looms over head as each country attempts to protect itself from potential threats. Since October 2017, there have been double the number of trade restrictions put in place including taxes on imports. These sanctions have already affected roughly $74.1bn of trade. The World Trade Organization has expressed concern over these continuing struggles. "At a juncture where the global economy is finally beginning to generate sustained economic momentum following the financial crisis, the uncertainty created by a proliferation of trade restrictive practices could place the economic recovery in jeopardy." [The World Trade Organization]

> "The increased number of trade restrictions in place have already **affected an estimated $174.1 bn of trade.**"
>
> *-The World Bank*

Maersk Group, the largest ocean freight company, announced they will set a goal to become less dependent on freight rates. Maersk plans to accomplish this by growing the non-ocean part of the business, by focusing more on end-to-end logistics and removing some of the freight forwarding aspects. This is an effort to reduce vulnerability and prevent lower revenue quarters that were a result of higher rates and rising fuel costs. Ocean rates have increased by 7% as of the second quarter of 2018, parallel to demand and volume of ocean transportation, however in east-west trade routes they have actually declined.


"Ocean rates have **increased by 7%** as of the second quarter of 2018, parallel to demand and volume of ocean transport."

*-Maersk Group*

2018 has been year of change and a call for action in the ocean transport industry. In the State of the Union Address, President Trump called for a $1.5 trillion infrastructure investment. That investment will benefit seaport cargo activity and help to secure the 23 million American jobs generated by this future deal. **The American Association of Port Authorities (AAPA) will look to invest $66 billion in federal port-related infrastructure over the next ten years.** The AAPA also announced its digital shipping platforms that are capable of speeding up global trade flows for years to come. The ocean cargo industry is updating its systems to digitalization of international supply chains that all port authorities will recognize. After the completion of the Panama Canal expansion, the port is now fully operational and canal officials predict that by 2019-2020 LGN vessels traffic will double. With all these changes being made companies have also made drastic changes to their own companies. Across the industry, companies have been forming alliances and merging creating stronger, larger companies. In 2017, Maersk acquired Hamburg Süd and in 2018, the formation of Ocean Network Express was completed as part of a joint consolidation between Nippon Yusen Kaisha, Mitsui O.S.K. Kines and K Line. **The continued consolidation of these massive ocean shippers swells their market shares with the largest shippers having control of over 90% of the market.**


2017 was the strongest year for air demand growth since 2010, with 9% demand growth, more than 2 times faster than goods trade. At the end of 2017, all regions reported growth in demand with African carriers showing the fastest growth at 25% annually. This boost in African trade is directly related to the increased trade between Africa and Asia.

With the increased demand for air space and increased ecommerce eating up demand cargo, companies are seeing their capacity shrink to almost nothing. To combat the waning capacity, large suppliers have attempted to lock in space over longer periods of time to avoid backorders. For example, Air Atlas has a long-term deals with DHL, the world's largest air freight forwarder, and Amazon to use more than 60% of the fleet. If large companies continue to absorb the available capacity, smaller shippers will have a difficult time obtaining air space for their freight. **JOC.com reports that if this condition continues in 2019, finding air space will be easier by leaving a longer lead time between pickup and delivery, allowing suppliers to find cost controlled air space.**

With market speculation and positive forecasts, 2018 and beyond seems to show an increased demand for truck freight transportation. Driver shortages continue to constrain availability along with the enforcement of the 2017 Electronic Device mandate reducing the number of miles that can be logged, further tightening trucking capacity. **The industry is estimated to be 50,000 drivers short and companies are feeling the squeeze as costs rise.** This, combined with higher salaries and rising fuel prices, have created higher overall transportation costs. These constraints could lead suppliers to find alternate modes of transportation.

Despite these setbacks, the trucking industry is undergoing its best period of growth in years and should remain strong through 2019. **Current truck tonnage is up 9.5% compared to this time last year outpacing the 2017 annual gain.** With 70% of domestic tonnage being carried by trucks, the American Trucking Association (ATA) is optimistic that freight volumes will continue to reflect rising consumer spending.

"Tesla has made plans to replace current trucks, by developing **a fully electric semi-truck** that will go into production in **2019**."
*-Fortune*

In recent years there has been a shift in the industry to move away from typical current reliance on low technology diesel trucks. To create this change companies like **Nikola Motor plan to build a $1 billion hydrogen-electric semi-truck factory in Phoenix, Arizona.** Tesla has also made plans to replace current trucks by developing a fully electric semi-truck that will go into production in 2019. Hopefully these investments will dissolve the reliance on diesel, lowering future shipping rates.

In 2018, the first self-driving truck completed a coast to coast test drive. San Francisco start-up company, Embark, announced that its machine learning software had successfully driven from Los Angeles to Jacksonville, Florida. While the truck is autonomous on freeways, it does require human drivers to get on and off exits. This concept would make it possible for truckers to keep their jobs but cover longer routes, while making more deliveries with less lead time.


Industry analysts observe that 2018 is anticipated to be a better year for railroad shippers.  Due to the decline of coal reliance and other rail freight, railroads are operating at 80% of their previous peak volumes from 2006. Because of this, railroads have surplus capacity that needs to be filled and lowering rates seem to be the solution to the problem as lowered trucking capacity grips the freight industry. In an effort to raise demand for rail freight, the industry is attempting to reposition itself in the international logistics world. **Industry is taking steps to show its compatibility with current intermodal transports and flexibility with time lines as well as it's cheaper fuel costs.** Current railway undertakings plan to modernize the industry with new technology to increase efficiency and quality. **The industry has also called for better access for freight trains to current railway infrastructure that connects to major access corridors.**

**Since mid-2017, intermodal transport has been experiencing record volumes.** The Intermodal Association of North America (IANA) reports that first quarter of 2018 was the best it's seen in almost four years. This is due to the high cost of other freight modes, lowered capacities and an overall strong economy. IANA also reports that the rising container import volumes are a significant factor for growth. This growth is expected to remain stable if current trade agreements remain in place.

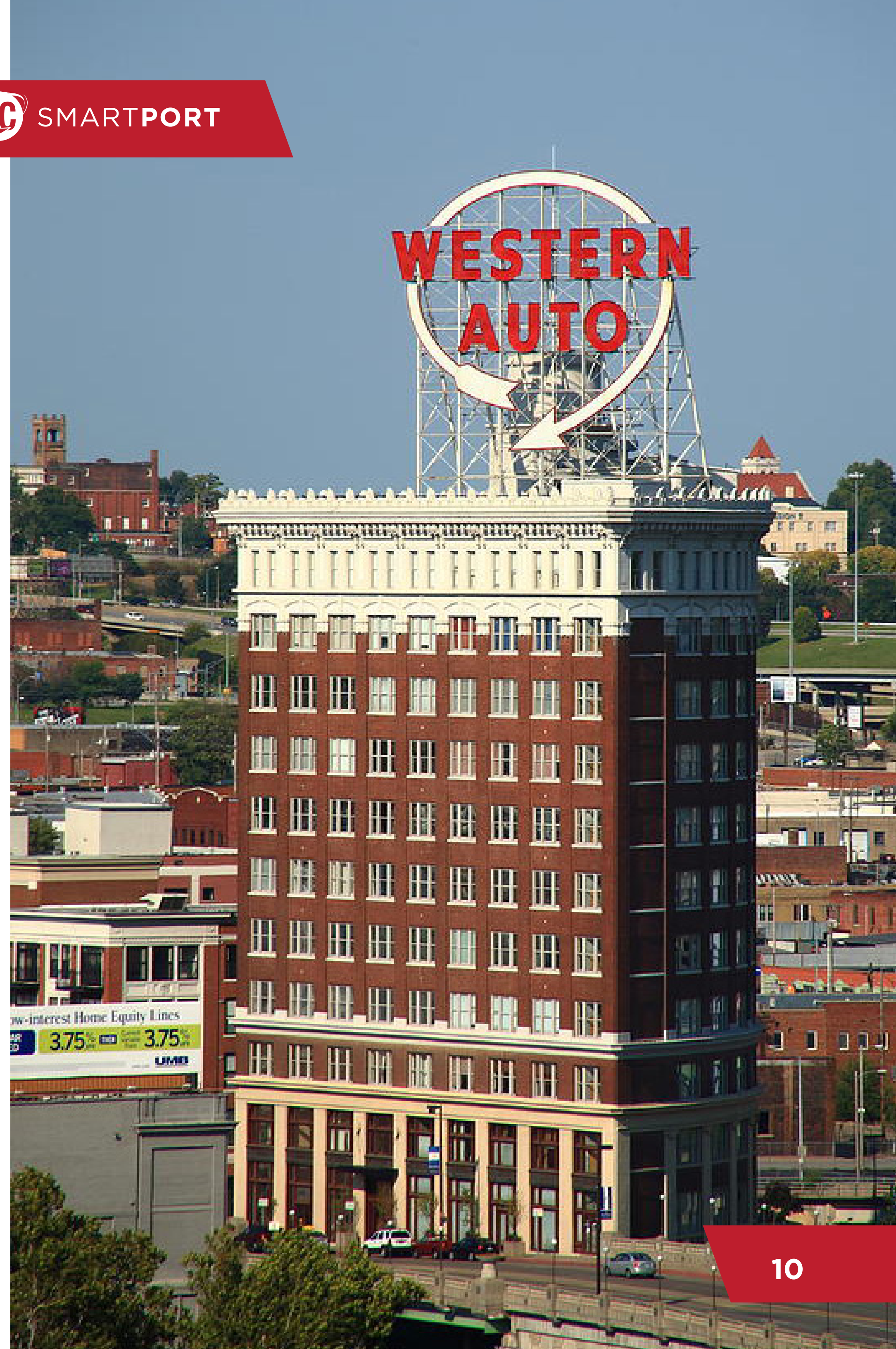
As President Trump rolls out new trade policies, U.S. trade and GDP are subject to mass speculation and variation. According to The Trade Partnership Worldwide, LLC, the prospective tariffs, quotas and retaliations on steel and aluminum would have mixed results. U.S steel and aluminum producers would have a positive employment rate, but the overall U.S. economy will not fare as well. Overall, the policies could result in a 0.2% reduction in annual U.S. GDP, and a decline in imports and exports. These tariffs then begin to affect the automotive industry and the 2.5 million auto manufacturing jobs in the U.S.

**The U.S labor market continues to tighten leaving many companies shorthanded in skilled workers, contributing to rising freight costs in certain regions.** With elevated fuel prices affecting all modes of transportation, it's possible that we will see prices rise to the highest point yet. This all relative, the United States is experiencing economic growth that coincides with the rising costs.

Kansas City is known for its great location and low costs within the transportation industry. **As the mid-west continues to boom, Kansas City is at the forefront.** The KC area is thriving, manufacturing growth has risen in 2018 with a manufacturing index increase of 60.2 (*anything above 50 indicates growth*). Manufacturers reported growth in their companies despite staffing shortages and this streak of growth is expected to continue.

Kansas City's location has also influenced development as companies continue to recognize opportunity and invest. **KC is located within 2 days driving distance to 85% of the continental U.S and 3 days to 98% of the U.S. by other transit.** Recently, the National Real Estate Investor rated Kansas City as the number one mid-country intermodal market. Port KC has also experienced record growth with a 106% increase in tonnage since it reopened in 2015. The terminals in the KC region are doing well and are predicting a 10-12% annual increase in tonnage by 2019. **As more barges and water transport are used, freight rates in all industries will lower, attracting even more suppliers to the region.**

This past May, Kansas City joined the ranks of cities that offer direct trans-Atlantic flights, with the introduction of the airline IcelandAir that flies from KCI to Iceland's capital, Reykjavik. This connection will allow for an easier route for travelers headed to continental Europe and beyond.




## Conclusion

While there will continue to be trepidation about new policies, the overall forecast looks promising. With the increased demand in ecommerce and technological advances in autonomous vehicles, the industry has great potential. The forecast for 2019 looks to be full of innovation that can only help move the industry forward. As truck driver shortages continue, new ways of transport will be utilitized, pushing the freight industry into the future. The continuation of this growth will create more jobs and in turn contribute to national and global GDP.

The World Trade organization remains optimistic through 2018 and beyond, predicting trade growth to hold steady in 2019. They expect that any factors that could disrupt this growth are based on policy and are somewhat unpredictable. While change is inevitable, Kansas City stands at the epicenter of opportunity with a prime location and continued economic growth.

KC SMARTPORT

TRANSPORTATION & LOGISTICS ACROSS THE KC REGION

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