



LTL Industry Expects Limited Growth for 2010

Economic experts from SMC³ and the industry at large address unusual volatility in the U.S. and global economies

This SMC³ industry brief outlines the economic factors and rationale behind the 2010 CzarLite update process.

Microeconomic Factors

In microeconomics, decisions for allocating finite resources are examined to determine the cyclical relationship between supply and demand and pricing. The following microeconomic factors were cited by our expert panel as having a bearing on the LTL industry:

- **Shifting and erratic U.S. consumer purchasing patterns** continue to affect distribution trends and the small-package/parcel, less-than-truckload (LTL) and truckload (TL) business mix.
- **Slow carrier infrastructure divestment** of tractors, trailers and real estate—with a corresponding lack of credit—has placed financial burden on many carriers, as capacity exceeds demand and debt servicing consumes cash reserves.
- **The increasing economic burden of employee salaries and employee-related costs**—ranging from wages to unemployment insurance and increased health benefits—has severely affected carriers.

- **Fourth quarter 2009 increases in inventory and retail sales** did not counterbalance the slashed inventory and dismal purchasing trends of 2008 and early-to-mid 2009.

Macroeconomic Factors

The macro branch of economics focuses on the performance, structure and behavior of an entire community, whether a geographic region or the whole world. The following macro-

economic factors were cited by our expert panel as having a bearing on the “communities” in which the LTL industry operates:

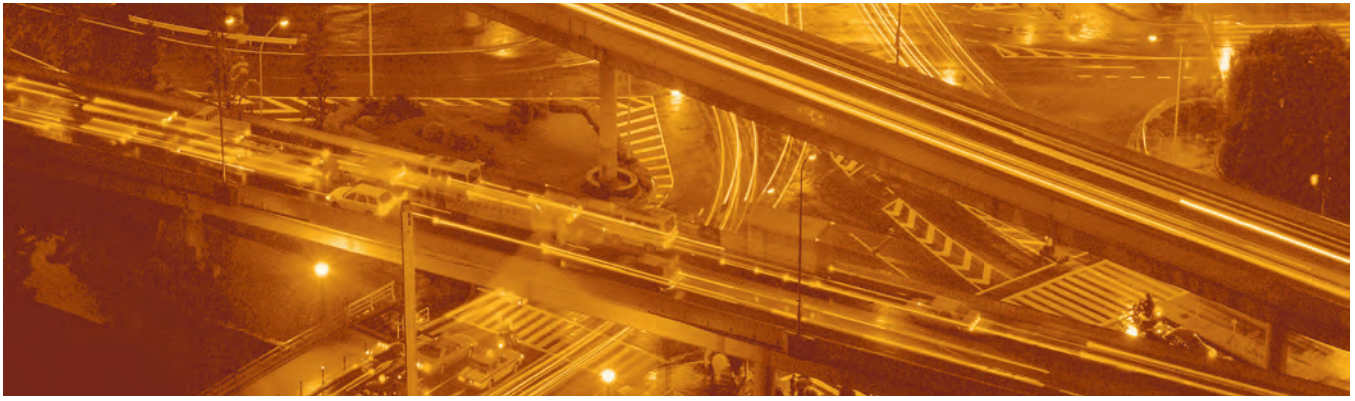
- **Lack of consumer demand is reflected in stagnant or deflated price indices**—specifically the Consumer Price Index, the Producer Price Index and the Employment Cost Index—which affect the SMC³ Carrier Cost IndexSM (CCI). The CCI measures the impact of changing prices on carriers’ operating expenses and unemployment deflates wages.

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At-A-Glance

The regular updates SMC³ makes to CzarLite[®] maintain its long-standing reputation as the industry’s premier LTL base rate and benchmarking system for shipments within and between the United States, Canada and Mexico. The latest SMC³ CzarLite update, released Feb. 1, 2010, was once again the product of careful analysis by a panel of economic experts. These experts, both internal and external to SMC³, are Daniel M. Acker, SMC³ senior vice president of research and economic analysis, and consulting economists Donald Ratajczak, Ph.D. and Irwin Silberman, Ph.D. A CPA also reviewed the CzarLite process and calculations to ensure they are adhered to. Acker notes: “Each CzarLite update reflects a proven system of economic analysis. Rigorous checks and balances throughout the process mean CzarLite is based upon science that is repeatable, valid and applicable.”





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- **Several ongoing global factors affect U.S. freight volumes**, including the financial meltdown of the international economy; ongoing recessions in many countries; China's inflationary annual growth rate and its governmental efforts to quash inflation; and industrialized nations' competition for affordable energy to fuel future economic expansion.

"The instability in the global and national economies and financial markets are all affecting LTL dramatically. To make an accurate adjustment for CzarLite, we've preserved our past methodology, but tempered it to meet the LTL industry's realities."

Donald Ratajczak, Ph.D.

- **High unemployment in the industrialized nations has stymied wage growth.** For its part, the United States is struggling with roughly 15.4 million unemployed and approximately 10.5 percent unemployment. Employed consumers have been paying down their unsecured debt with the discretionary income they have above their increased savings, further reducing consumer spending. All the while, businesses have maintained a "wait-and-see" attitude toward inventory investment. U.S. exports are slowly increasing, due to the falling value of the dollar, but are nonetheless limited by overseas economies that are themselves struggling with tenacious recessions. U.S. employers are exhibiting caution with only limited rehiring. (In the United States alone, over 7 million jobs have disappeared, some never to return).

SMC³ has used the economic studies, analysis and procedures outlined in the white paper, "The SMC³ Update Methodology for its CzarLite[®] Base Rate," to determine that the 2010 CzarLite adjustment has an overall impact of 2.5 percent. ■

**SMC³
CZARLITE[®]**

For a complete description of the formal SMC³ CzarLite update methodology, visit: www.SMC3.com/go/update10



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