KC SMARTPORT

TRANSPORTATION 2018 OUTLOOK

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Intro

Throughout 2017 the transportation industry has faced numerous disruptions, political uncertainty, and new technologies. With these issues comes the opportunity to change and improve an industry at the heart of the world's economy. Global economic growth has set the foundation for an increase in demand and volume in transit.

With that comes more air, rail, truck, and ocean traffic. The United States plays a significant role in the world's economy, so a strong national economy and a new presidential administration will both impact the world. Within the United States, the Kansas City region has emerged as a logistics hub with cost-saving advantages that are unmatched. The transportation outlook for 2018 looks to be promising and optimistic.

Global Trade

After slow GDP growth in the first quarter of 2017, The World Bank expects GDP to rise to 2.7% by the end of the year. The uncertainty of 2017 has bled into global trade predictions for 2018. The world is watching the United States to see what policy changes the Trump administration will enact. In Europe, early conversations and market indicators show that more than just the United Kingdom and the European Union will feel the effects of Brexit. While there are reasons to be wary, other indicators show an opportunity for improvement.

The World Trade Organization (WTO) predicts global GDP to rise anywhere from 2.1% to 4% in 2018. A pick up in manufacturing and trade is expected to contribute to this increase. In the Council of Supply Chain Management Professional's (CSCMP) 28th Annual Report, they note that the United States is already experiencing an increase in consumer spending, an increase in inventories, and low inflation, which all indicate expansion. The World Bank expects Asia to grow as a whole. Some countries will grow more than others, considering that countries like China, Taiwan, and Sri Lanka continue to see a boom in exports. Emerging markets, especially China, Russia, and Brazil are expected to come out of a slump. Even with uncertainty coming from different areas of the world, the global outlook for 2018 shows growth.

So far, 2017 has been a rocky year for ocean shipping, but now that the major disruptions have settled, the industry can return to business as usual. At the end of June, Maersk suffered a cyber-attack that halted the world's biggest carrier's global operations. This showed the vulnerability of its system and how many businesses rely on them. Maersk implemented a new security system, with other carriers considering a system revamp to avoid another global disruption.

2016 saw the end of Hanjin, 2017 saw the switch from four major carrier alliances to three, and 2018 is expected to bring better port infrastructure, low rates, and overcapacity. According to CSCMP, the Panama Canal expansion is causing ports in the United States to improve their infrastructure in order to handle the influx of Neo-Panamax vessels. Global Trade Magazine reports that since the improved canal opened, tonnage increased 2.2% in 2017 and more ships than expected are passing through. Overcapacity is no stranger to the shipping industry, but 2018 could be another year of struggle due to a projected increase in global trade.

After a disappointing 2016, the air cargo industry bounced back in 2017. JOC.com reports that global air traffic increased 12.7% as of May of this year. Growth in eCommerce is one of the biggest factors in the expansion of global trade and air traffic. Every region in the world reported double-digit air traffic growth except for Latin America. Like global shipping, air cargo deals with overcapacity. American Airlines Cargo says that they have yet to experience a significant growth in revenue because the market price is still too low. Looking ahead to 2018, industry rates should return to the carriers' hands given that they are able to contain the overcapacity issue. With that would bring more stability to the industry and a boost in profit to both carriers and shippers.

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The trucking industry is officially back on track after a disappointing 2015 and slow 2016, but technology disruptions, overcapacity, driver shortages, and cost increases continue to impact the industry. LogisticsManagement.com and the American Trucking Association (ATA) report that an annual increase of 3.4% in freight tonnage should continue into 2023. The industry should also expect an increase in LTL volumes and truckload volumes through 2023.

JOC.com reports that fuel prices are slowly rising after hitting historic lows. This means that overall transportation costs are increasing. In addition, the fuel surcharge component will dictate how much shippers choose to ship and potentially drive business away from trucking and to rail where overall prices are lower. However, 3PLs will capitalize on fuel charges, which further contributes to the success of the 3PL sector.

The boom in eCommerce business also impacts the trucking industry. ATA's report of an increase in freight tonnage is good for business, but carriers still deal with a driver shortage. Inside Sources mentions that Electronic Logging Devices (ELD) will be required in all trucks starting in December of this year. The legislation is intended to improve public safety by monitoring driver hours of operation. However, the legislation is receiving backlash for restricting the flexibility that once made the profession appealing. The driver shortage greatly hinders the potential revenue that eCommerce is bringing to the industry. If the situation worsens, rates will increase significantly and cause carriers to be more selective in the orders they choose to transport.

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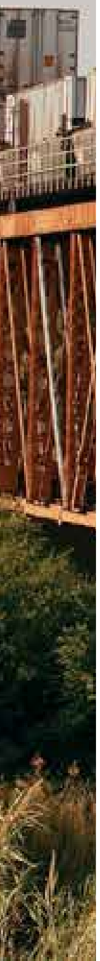
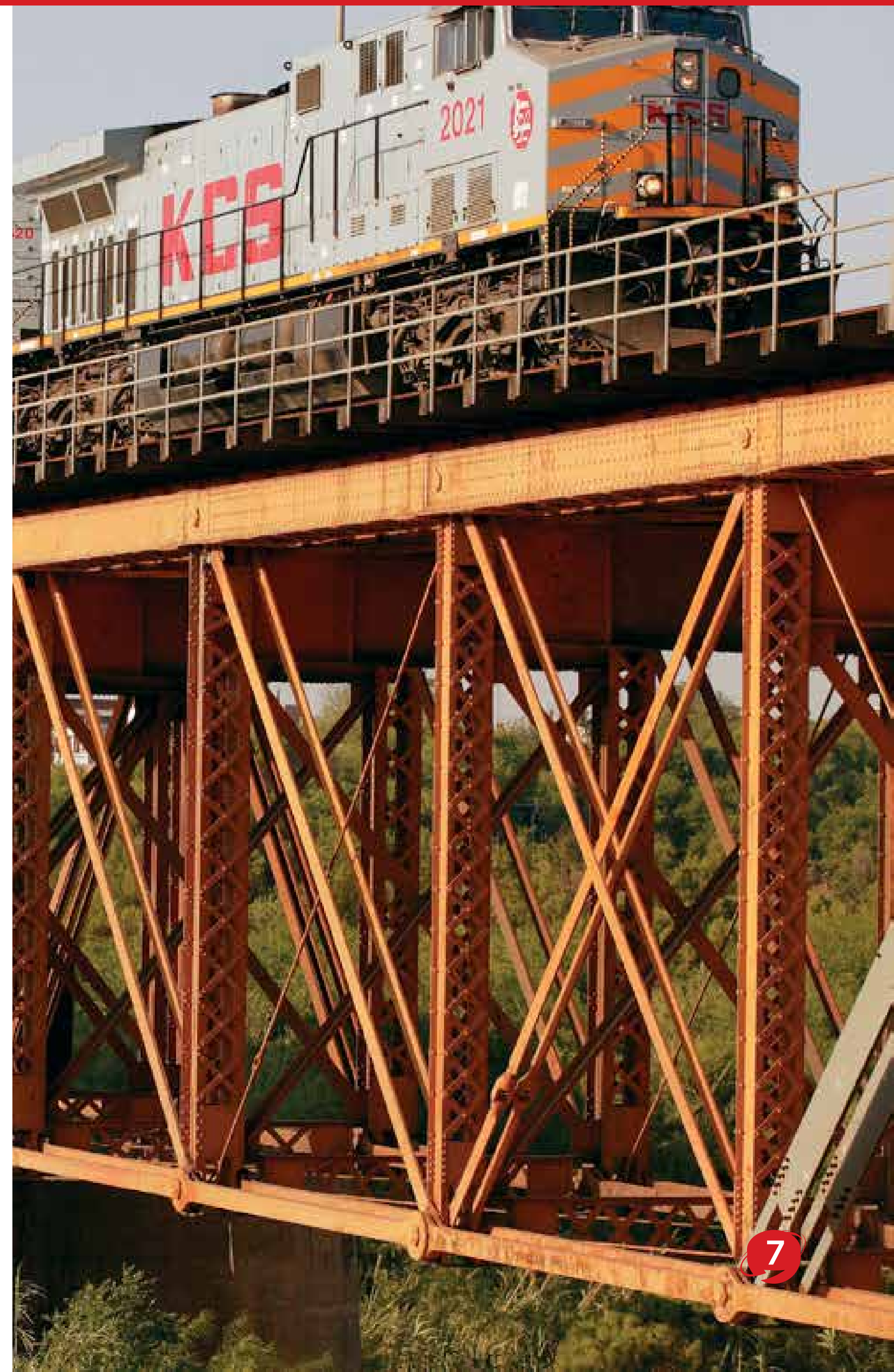
Another technology disruption is Uber's newest venture, Uber Freight. The Dallas News reports that the technology giant's new sector is only operating in Texas so far, but both Uber Freight and its customers are already seeing the benefits. The app features a quick way for drivers to find a load and the potential to add useful features such as reserved parking spots, a guide to rest stops, and passes to skip weigh stations. With an effective app, Uber says that it could help bring younger drivers into the industry and assist in the battle over driver shortage. Businesses say that using Uber Freight cuts down on brokerage fees, invoices are processed faster, and it takes less time to find someone to pick up a load. In an industry where technology adaptations occur slowly, Uber Freight hopes that its model will change how freight is transported faster than its competitors.



After a few years of sluggish demand the rail industry is looking more optimistic. Mass Transit Magazine reports that rail operators across the world are hopeful for the future of the industry. Overall, demand is up and backlogs are more manageable than they were at this point last year. Technology disruptions are making their way into rail and changing standard business operations, which could potentially create efficiencies and cost savings.

Logistics Management advises that 2017 has already seen some of the highest carload volumes in history. Also, intermodal is outgaining carload volumes, which used to be uncommon, but is now becoming more frequent. RailwayAge Magazine shows that Union Pacific had an 11% volume increase from last quarter. They also saw an increase in coal, industrial, agriculture, and intermodal loads in the second quarter of 2017. Looking ahead, the rail industry should see small increase in volumes, but should expect a possible slowdown because an improving economy could cause businesses to use more expensive modes of transportation.

In 2018 the industry should keep an eye on CSX because of the company's internal leadership changes. According the Wall Street Journal, the new CEO, Hunter Harrison, wants to implement "precision railroading." His goal is to have a better railroad, more predictable delivery times, and increase revenue, which could set the standard for the rest of the industry if his plan succeeds.



National

One of the biggest problems plaguing United States business is the looming uncertainty of NAFTA, Reuters.com reports. All three countries involved agree that the deal needs to be renegotiated in order to keep it relevant and effective. Beginning talks will start on August 16th and Mexican and Canadian officials hope that the issues can be resolved by the beginning of 2018. Officials from each country recognize that business investments have decreased due to the nature of the renegotiations. Mexico and Canada have already met on the sidelines and are unsure of how the United States wants to change NAFTA.

Thanks to the new and improved Panama Canal, ports all around the country can expect more activity and bigger shipments. JOC.com says that ports and their surrounding areas are revamping their infrastructure in accordance with the demands of bigger ships. For example, the Bayonne Bridge at the Port of New Jersey and the Port of New York was raised to accommodate 18,000 TEU vessels. Ports are also planning on more extensive dredging. With better ports and a growing economy, the United States can expect a robust 2018.

In Kansas City, transportation costs are low and highways and railroads are easily accessible, so it is no surprise that businesses are seeing the opportunities Kansas City provides. One of region's best attributes is the fact that it is a two day drive from 85% of the United States. This makes getting goods to distribution centers and warehouses cheaper, but also last-mile costs are cheaper. CVS, Dollar Tree, and Amazon are all adding nearly six million square feet of warehouse and distribution space in the Kansas City market in 2018. Because these three major companies see the value in the Kansas City, expect more to follow their footsteps in 2018.

CBRE Kansas City announced that the region had 3.3 million square feet of net absorption in first six months of 2017. In the second quarter alone, the area added 1.2 million square feet of industrial space. Numerous buildings around the region at various locations are under construction and lease rates continue to rise. It seems that Kansas City is in demand and there are no indications of a slowdown. 2018 should be a promising year for the region in terms of industrial development and transportation services.

Conclusion

With new technologies, growth in eCommerce, and new political conditions, 2018 has the potential to greatly improve the transportation industry. If the shipping, trucking, and air sectors can conquer overcapacity issues they will make transportation more profitable, reliable, and efficient. Better technology in rail and trucking will improve efficiencies and keep each area competitive. The industry is hopeful that changes in NAFTA will create a better trade relationship between Canada, Mexico, and the United States, which would further boost transportation in the United States, especially in Kansas City.

Kansas City's prime location will continue to bring new business into the area and support the area's existing transportation demands. Overall, the uncertainty that 2017 carries provides the opportunity for 2018 to be a year of change, improvement, and growth.

KC SMARTPORT

TRANSPORTATION & LOGISTICS ACROSS THE KC REGION

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