KC SMARTPORT

TRANSPORTATION OUTLOOK

2022

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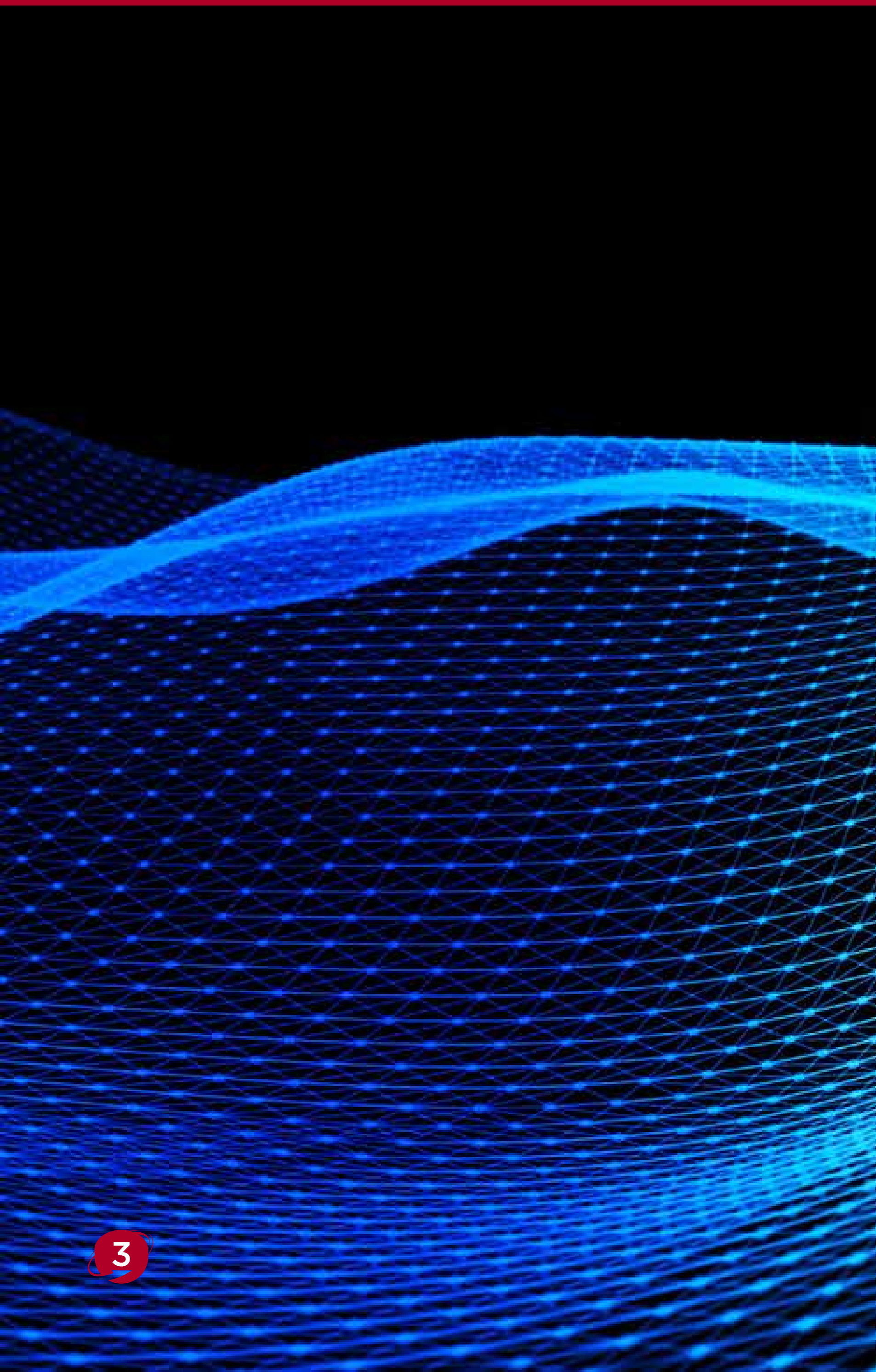
Intro

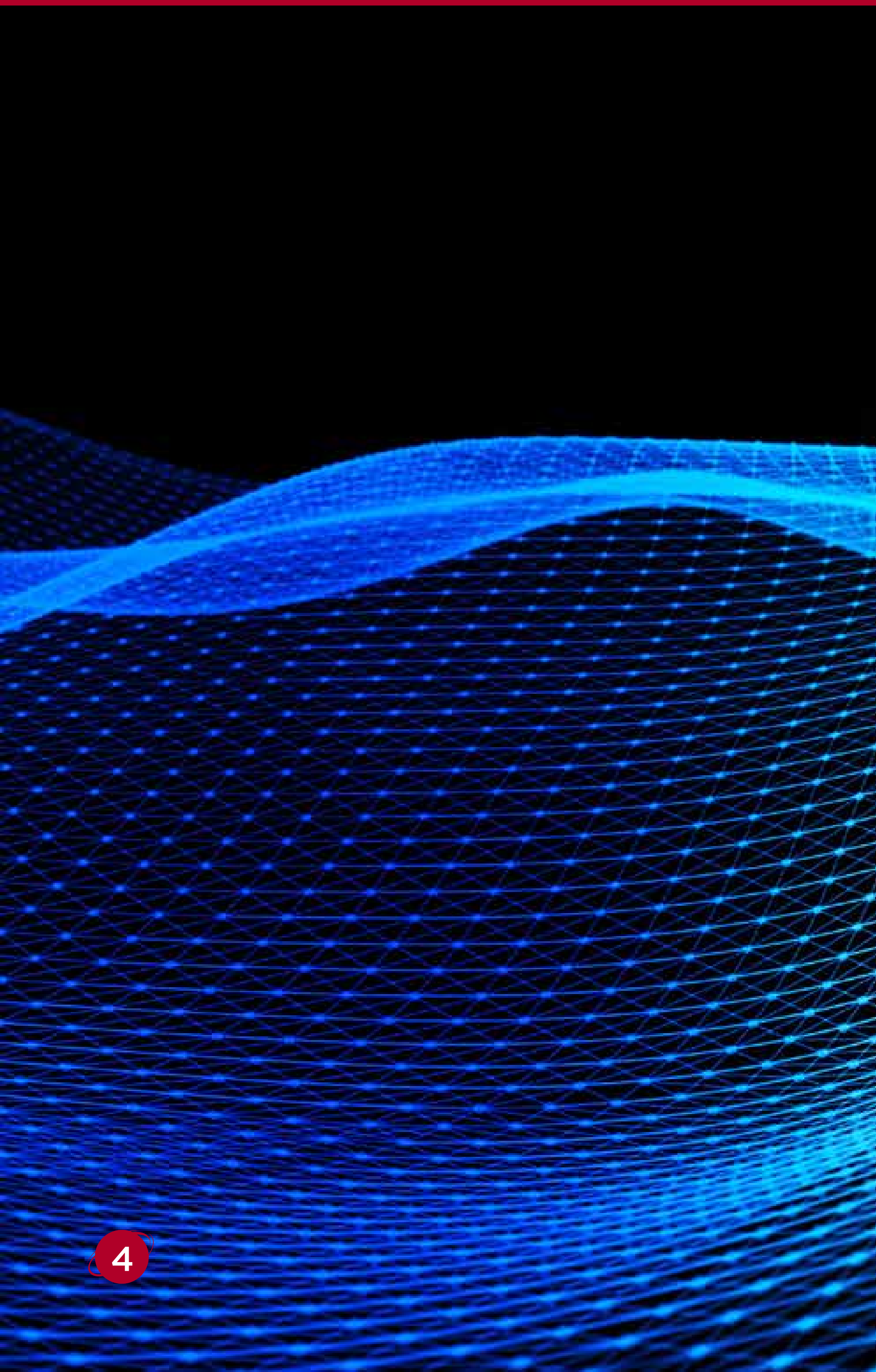
Over the past year the world, more specifically the U.S., freight industry has seen changes like none other. From being completely shut down to continuing work at half strength, companies throughout the U.S. have looked for solutions as consumers have transitioned to a work-from-home mentality. Despite the country still recovering from the Covid-19 pandemic, the industry has seen profound growth. These past couple months, I have been taking an in-depth look at a number of factors to create an outlook that shows promising signs for 2022 and into the future.

Global Trade

With global economic struggles forced by the Covid-19 Pandemic, the U.S. GDP saw a loss of 3.5% in 2020, but through the first quarter of 2021 GDP rose 6.4% according to the Bureau of Economic Analysis. As the country looks towards 2022, GDP forecasts have the U.S. GDP growing anywhere from 5-7% depending on Covid-19 spread and vaccine rollout. International imports and exports have increased volume rapidly in 2021. The World Trade Organization expects volume to grow by 8% in 2021 and another 4% in 2022 as the world begins to reopen its borders and willingness to trade.



Ports throughout the U.S. have been plagued with problems this past year. As many ports throughout the country are looking to become fully operational, they are still faced with their largest problem, worker shortage. Third party logistics companies and other high tech freight shippers are looking to import freight from Asia, and many of the large west coast ports are experiencing major congestion. With these ports having no solution to continue to move imports through their systems they have resorted to charge demurrage to companies that cannot move an empty container from the port. This problem is mainly due to the worker shortage at the ports and not the importers/exporters refusing to move their containers. These companies have looked to the Department of Justice to try to find a solution to help relieve them of these fees.



The other disruption with the supply chains in the industry is that many of these empty containers sitting at the ports unable to be moved are needed in China and throughout the Far East. Since companies were not able to receive empty containers, they began to cancel arrivals to ports that are congested and could not move their product fast enough. This caused a major hold up in the industry until spring 2021 when sea fairing shippers were willing to move empty containers from west coast ports back to Asia. Things have taken a turn for the better in 2021 as the Port of Los Angeles reported a rise in volumes of 13.3% from 2019. This data is consistent throughout ports on the west coast, east coast and Gulf of Mexico.

Kansas City is located on the Missouri River which is the largest navigable inland waterway in the U.S. The Missouri River Terminal has given the region the ability to promote agricultural, industrial, and manufacturing development by efficiently moving goods through their inland port.

The U.S. railroad system is one of the most important assets in the supply chain of the freight industry. As the e-commerce industry has taken off, the demand for railroads will increase 30% by 2040 according to the Association of American Railroads. With this expected increase in demand comes the need for low-cost, environmentally safe way for freight companies to meet this demand. The answer is the ever-expanding network of tracks and the 140,000 miles of already existing tracks. Future projections show that the U.S. population will continue to move towards large metropolitan areas.

With significant increase in population in these large regions, the amount of freight demanded by the region will grow just as fast. This means the railroads could be faced with greater congestion, increased emission output, more frequent infrastructure maintenance, and potential loss of economic stability. Finding a solution to this problem for the seven Class I railroads is the upmost priority to not only sustaining but thriving in this competitive industry into the future. Many of these railroads have begun offering double-stacked containers to allow for more volume to transfer through their already busy intermodals while also spending large sums of money to expand their networks.

The Kansas City Region having access to five Class I railroad systems allows shippers to find competitive, low-cost shipping around the country. With four intermodal parks strategically placed, there has been a steady growth of freight-based shippers throughout the region.

As trucking still remains one of the cheapest forms of transportation for regional shipping, trucking companies are looking to expand their reach, but are being held back by a shortage of workers. According to the American Trucking Association (ATA), the industry was short just under 70,000 workers in 2019. The ATA is not optimistic about solutions to address this shortage and projects that number could rise to 160,000 workers by 2028 if action is not taken. One potential solution to this problem is being discussed in Washington D.C. as senators have proposed the DRIVE-Safe Act. The bill would lower the age of requirement for young truckers from 21 to 18 allowing for high school graduates to join the industry. A study completed by the ATA in 2019 shows that the average salary of a trucker is $67,000 which is 57% more than the average high school graduate salary. Lowering the trucking age would incentivize younger workers to move into the industry.

In 2020, truck tonnage saw a large decline due to the pandemic but is slowly beginning to recover. The current truck tonnage is up 3.5% in May 2021 compared to May 2019, but it is still well short of where the peak the index hit before the pandemic began according to the Federal Reserve Bank of St. Louis. If the index continues to rise at the same rate it currently is, don't expect the index to reach a new peak for at least another year.

As the U.S. approaches the dawn of a new age in the electric vehicle industry, many high-profile companies are beginning to look into electric powered trucking as the new and improved method of shipping freight across the country. Companies such as Tesla and Amazon are rushing to find solutions to electric cross-country trucking as the industry faces pressure to lower its carbon footprint.

In the face of global economic struggles the air cargo industry was affected. In 2020, the industry's global volumes fell 6.6% and international cargo decreased 7.7% from 2019 according to International Air Transport Association. Interestingly enough, aviation companies that had a focus on shipping freight were largely able to continue to work due to the minimal number of workers needed in the industry. As the world began to distribute the Covid-19 vaccine, this arose a very promising business opportunity for these shippers to capitalize on. The largest cargo shipping aviation companies took advantage of the opportunity and have seen revenue grow over 20% as of April 2021 according to the Bureau of Transportation Statistics..

This past year the Kansas City freight industry took a step forward as well. The new terminal at the Kansas City International Airport (KCI) is set to be completed in March 2023 which will allow the Kansas City Region to deliver more efficient airline and air cargo solutions. Earlier this year, Amazon Air announced it would service KCI on a daily basis. In 2020, UPS also announced it would expand and modernize its express package sorting capacity at KCI. Both of these projects only reinforce their commitments to serve Kansas City's e-commerce needs.

Despite the country experiencing major economic struggles in 2020, the Kansas City Region had a record year in attracting freight-based operations. This is primarily due to Kansas City's low operating costs, available real estate, skilled and available workforce, and an abundant infrastructure network allowing for shippers to reach 85% of the US population in two days or less. From the freight industry point of view, companies such as Niagara Bottling, Urban Outfitters, Dots Pretzels, Boxy Charm, Melaleuca and Chewy all moved into the region looking to either distribute their product from Kansas City around the country faster or manufacture their product in a central, cost efficient market.

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The Biden Administration is pushing a new infrastructure bill that could greatly affect how freight-based logistics operate in the U.S. The bill will allocate money for the expansion of railroad and interstate systems allowing for shippers to increase their speed to market. With the bipartisan bill under negotiation almost every day in Congress, lawmakers look to pass the bill before the end of the year. The bill would be a great help to the country's supply chain network as almost $300 billion will be invested into transportation focused projects around the U.S.

Conclusion

As I look towards 2022, I expect a rapid recovery and immediate growth in the industry. I see growth in all areas of transportation as companies continue to serve the country's demand for e-commerce. The largest concern that the freight-based industry is the workforce. Employers are in a frantic rush to fill their jobs as business continues to grow with speed to market as the priority. I think one solution to finding skilled and available workers is to offer wages and benefits that competitors cannot. Too many employers are strict with their expectations of the workforce and are frustrated when a worker moves to a different company that offers better wages, benefits and workplace environment. Once the workforce begins to grow, I suspect the freight industry will soar to new heights never seen before.

In summary, this past year was tough. It was tough for everyone from local delivery services to international global shippers. As the world went through one of the hardest hitting pandemics in history, companies were forced to pivot to work-from-home in a matter of days. Through all of this, companies continued to find solutions to ship their product around the world as the e-commerce market continued to grow faster than it ever had before. Now, as business begins to creep back to more in-person activities the drive for companies to continue to ship their product to their consumers as fast as possible continues to be the foremost priority. Companies throughout the world are utilizing all forms of transportation to find the cheapest, most sustainable option for their business to thrive in this ever-changing industry.

KC SMARTPORT

TRANSPORTATION & LOGISTICS ACROSS THE KC REGION

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