



# Point to Point

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**ANNUAL SHIPPER SURVEY RESULTS ISSUE!**

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## SHIPPERS BID FAREWELL TO A TUMULTUOUS YEAR WITH RENEWED HOPES

Toward the end of last year, we invited shippers from a wide variety of industries to participate in our sixth annual State of the North American Supply Chain Survey. Our goal was to gauge the challenges that shippers faced in 2020 and to gain a better understanding of their outlook heading into the new year. Nearly 1,800 individuals from across North America participated.

### LOOKING BACK AT 2020

It goes without saying that this past year marked one of the most challenging periods in both modern American and global history. The COVID-19 pandemic caused major disruptions to supply chains throughout the first half of 2020 as businesses and everyday citizens struggled to adapt to the crisis around them.

In terms of the economic toll, the U.S. gross domestic product (GDP) sunk to -31.4% in the second quarter of 2020, according to the U.S. Bureau of Economic Analysis. Our 2020 Midyear Supply Chain Survey of more than 800 shippers conducted in July illustrated the direct impact the pandemic had on many shippers. When we asked respondents what their biggest supply chain challenges were in the first half of 2020, the top three issues were a decline in customer demand (42.34%), mandated closures and stay-at-home orders (39.17%), and shortages of supplies and materials (28.22%).

As the year progressed and more shippers adapted to a new normal, fears of a total economic meltdown eased. Fewer mandated closures and stay-at-home orders in the U.S. led to increased consumer spending beyond online shopping, while construction surged as many traditional city dwellers sought a change of pace in less crowded regions. As a result, the U.S. GDP

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in the third quarter reversed course and surged to a positive 33.4%.

While official numbers for the fourth quarter will not be released until late January 2021, the holiday season tends to fare well as retailers see an increase in consumer spending both online and in physical stores.

### ALL EYES AHEAD FOR 2021

The personal toll that 2020 took on many cannot be underestimated. Perhaps the silver lining to the end

of the year, however, was what we hope will be the beginning of an end to the pandemic. As vaccines are rolled out across the U.S. and around the world, a hopeful return to normalcy is on everyone's mind. What that normal will look like and when it will be here isn't exactly known yet, but the desire to move forward is certainly here already.

Shippers, for the most part, are looking ahead with renewed confidence that business will increase in 2021. In North America, this will also be a defining year in terms of how the new United States-Mexico-Canada Agreement (USMCA) will impact trade and hopefully provide a positive stimulus for domestic manufacturing. From a global perspective, ongoing trade negotiations and tariffs will be at the helm of a new U.S. presidential administration. There may be a lot of uncertainty ahead, but the determination and hope shared within the transportation industry will keep us moving forward. **PtoP**

# SHIPPER CONFIDENCE:

## A POSITIVE FORECAST FOR FREIGHT MOVEMENT



Taking a step back, it's clear that many shippers envision an economy that is increasingly open for business this year. Though it will take several months before COVID-19 vaccines are fully distributed throughout the U.S., consumer spending and travel is expected to grow as more individuals are able to move about with confidence.

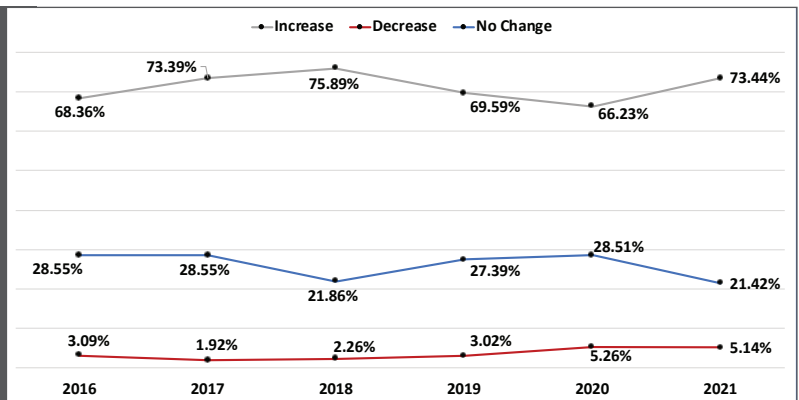
At the same time, many economists are predicting strong growth as the year progresses. Morgan Stanley projects a global GDP growth of 6.4% as economies in the U.S. and Europe begin to reopen. Given the ability of the U.S. economy to weather the pandemic strain last year, it could come as no surprise to see increased demand for products and services across many industries that had been hard hit in 2020.

To help encourage consumer spending while also walking a tight rope through the current economic

turmoil, the U.S. Federal Reserve has maintained that interest rates will remain low at 0-0.25% for the foreseeable future. The potential for additional stimulus packages for the general public and businesses could also help increase consumer demand in the first half of the year.

While current forecasts and sentiments generally paint a positive outlook, will shippers take lessons learned early in the pandemic to tackle a potential surge in consumer demand? Keeping backup inventory in stock may be the key to capitalizing on the potential recovery. This past September, for example, Walmart raised the bar for its suppliers to meet its "On-Time, In-Full" guidelines to ensure that its shelves are continuously stocked for its patrons – a lesson learned from 2020 when supplies were low as demand ran high. **PtoP**

Will shipping volumes increase or decrease next year?



The most significant question asked in our survey is whether businesses foresee an increase or decrease in shipping volumes for the upcoming year. This year's results revealed the largest jump in shipper confidence since we began the survey six years ago. Of those surveyed, 73.44% expect to ship more in 2021 – a 7.21 percentage point increase from the year before.

# FREIGHT CAPACITY:

## HIGHER DEMAND POSES POSSIBLE DILEMMA

When we asked shippers if finding adequate freight capacity overall in 2020 was a challenge, 24.88% said "yes," nearly double the previous year's response of 12.34%. Much of the issue stemmed from the surge in consumer spending in the second half of 2020. However, there were sleeping giants beneath the surface during the first half that have continued to affect freight capacity on the ground.

As manufacturing temporarily shut down across North America during the first several months of the pandemic, many drivers were suddenly furloughed

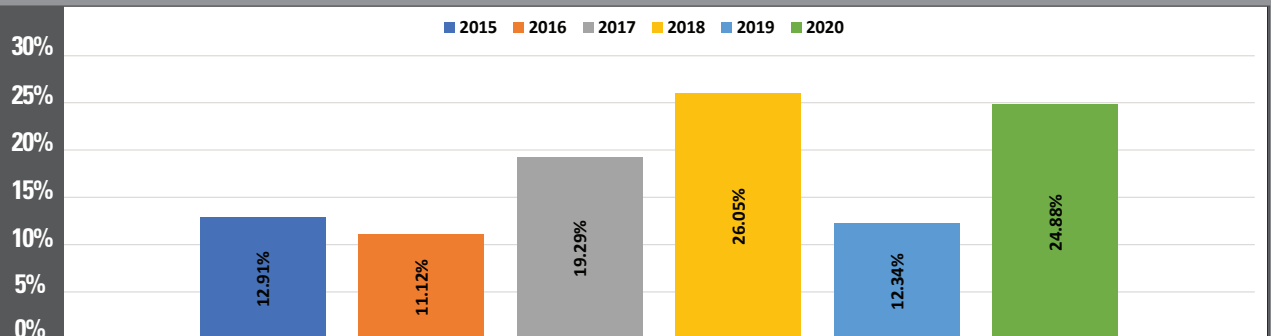
and even laid off. Already met with an ongoing driver shortage, many carriers have been challenged to find drivers to fill and refill the seats needed to meet the growing demand for LTL and full-load freight needs once businesses and manufacturers began to reopen.

At the same time, domestic freight capacity has been strained by cargo congestion at ports throughout North America. In previous years, shippers were not as concerned about having imported cargo idling at nearby warehouses. Unfortunately, closures and reduced operations

at origin manufacturing facilities and ports abroad early in the pandemic led to dramatic delays that lasted weeks and even months. Today, backlogs of imported goods from Asia and abroad are still seeing delays due to decreased capacity created by ocean carriers in 2020.

With shipments expected to continue to grow throughout 2020, freight capacity could become a primary concern for many shippers. Consequentially, as supply and demand collide, rates may also ebb and flow over the course of the year – particularly during retail-heavy seasons. **PtoP**

Was freight capacity a challenge for your business in 2020?





# INTERNATIONAL SHIPPERS:

## A YEAR LIKE NO OTHER & ISSUES THAT MAY LINGER

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One of the primary driving forces behind supply chain disruptions in 2020 was international trade. In previous years, ongoing trade negotiations and back-and-forth tariff fights were the major topic of tensions among international shippers. However, it was the pandemic that led to large-scale challenges for cargo moving by sea and air.

As manufacturing abroad shut down in the early months of last year, ocean carriers took actions to fend off what was perceived as a long-term downturn in cargo volume. Numerous blank (canceled) sailings quickly led to diminished capacity at sea at a time when product demand in North America was escalating.

Consequently, many shippers were forced to look into air services as a backup option. However, the demand for air cargo space quickly outpaced actual capacity, and rates surged as high as four times the normal prices that were seen in 2019.

When we asked respondents what their biggest challenges were with international shipping, capacity issues nearly doubled to 11.77%. Domestic delivery of international cargo also saw increased challenges with delivery to ports increasing by 1 percentage point to 22.46% and inland delivery of imports climbing a little more than 2 percentage points to 16.75%.

Interestingly, the biggest challenge noted by international shippers for the sixth consecutive year was customs clearance with 30.73% of respondents citing customs clearance as a hurdle. The results shouldn't come as a big surprise. As noted, the back-and-forth trade war with China and other

countries of import origin have kept shippers on their toes the past few years.

Additionally, the passing of the USMCA led to major changes in the customs clearance process for freight moving across the continent in 2020. While cross-border shippers will stand a better chance of quickly adapting to the new rules, the uncertainty of the future of trade relationships across the sea will continue to cause challenges for importers and exporters for the time being.

### PERCEPTION OF THE TRADE WAR

On a positive note, the perception of the impact of the current state of international trade negotiations softened in 2020. Respondents who viewed the trade war as having a negative effect significantly decreased from 2019 (43.32%) to 2020 (28.84%). Though more individuals shifted their sentiment toward the "unsure" bracket in 2020 (63.20%), those who felt the trade negotiations were creating a positive impact increased approximately 3 percentage points to 8.39%.

Still in its infancy, the USMCA may lead to increased confidence in the U.S.' handling of foreign trade this year. However, as large swaths of manufacturing are still handled in Asian countries, including China, Vietnam and India, all eyes will inevitably be focused on the Biden administration's handling of picking up where the prior administration left off.



### THE ROAD AHEAD

Today, many of the issues that international shippers faced last year are still prevalent. Capacity on the ocean continues to be outstripped by domestic demand for imports. Though costs for air shipments have declined, they are still considerably higher than they were prior to the pandemic. It may still be several months before the ocean lines are able to open up enough capacity that will meet the domestic market's appetite. **PtoP**

## CROSS-BORDER: WILL USMCA BOOST TRADE?

Expected to boost North American manufacturing and create a more-level playing field for businesses across the continent, the USMCA year – having replaced the decades-old North America Free Trade Agreement – went into effect only last year. While perceptions of trade negotiations have improved over the past two years, the excitement for a boom in cross-border trade has yet to materialize.

When we asked respondents about their cross-border shipping expectations in 2021, the needle barely moved from the previous year. In fact, those that plan to ship to or from Mexico and Canada with the U.S. slightly decreased.

The signing of the USMCA, however, was overshadowed by the pandemic in 2020. Many shippers were hesitant, and in many cases simply unable, to make big moves with their supply chain strategies. The USMCA is expected to create a resurgence in nearshoring of manufacturing that had moved across the sea in previous decades. Mexico is already seeing a growth in automobile manufacturing that also feeds into manufacturing and assembly operations in the U.S.

With the pandemic still ongoing, major changes to supply chains that could boost cross-border trade may be boiling beneath the surface – set to surge when calmer times prevail. **PtoP**





# PLANNING AHEAD: A LIGHT AT THE END OF THE TUNNEL?



If 2020 has taught us anything, it is that we can never fully rely on predictions to make all our decisions. The emergence of the pandemic was an invisible enemy that forced shippers and service providers to adapt and change plans without hesitation.

With vaccines being rolled out, predictions of an economic rebound – and subsequently freight levels – are top of mind for 2021. For most, domestic ground transportation may pose challenges in terms of capacity and rates in certain markets in the first half of the year. Elongated lead times for imports will also be amplified by the upcoming Chinese New Year celebrations when factories across Asia close for weeks at a time.



At the same time, the adopted practices of conducting business throughout the pandemic may become the standard going forward. Fewer in-person visits between shippers and service

providers, however, does not mean relationships cannot be fortified. Video meetings and socially distanced visits outside will still be in common practice for many months to come.

When it comes to uncertainties in the months ahead, shippers and service providers will need to rely on one another more than ever. As the North American and global economies awaken from a hopeful post-pandemic environment, new challenges are certain to arise that may or may not be foreseen. **PtoP**

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[PointToPoint@AverittExpress.com](mailto:PointToPoint@AverittExpress.com)

