Q4 2020
RUN HARD NOW!

Summary

Why Should Drivers Run Hard Now?

1. Freight rates are *currently* near record highs, we recommend you run hard through the end of the year to maximize your income heading into an unpredictable Q1.
2. The Pandemic, along with political and economic uncertainty, may break this current rate spike at any moment.
3. Build a financial buffer to help you cover end of the year bills (like holiday spending).

Oftentimes, when there is a boom in freight rates, we see a counter-intuitive pattern develop among the Owner Operator population. Generally speaking, Independent Contractors tend to run fewer miles, while rates are high.

To the outside eye, that may seem puzzling "*Why not run harder when rates are high*?" However, to many drivers, this is an opportunity to take advantage of extra time off by running fewer miles and making the same or better income than during average or down rate periods. After all, this is a demanding job, both physically and mentally. Taking advantage of the high rates by taking time off while making a similar income can be the reset many drivers need to keep going.

However, this current high freight rate period feels different. There is so much that is unprecedented & unpredictable happening within the nation & global economy, which makes this high freight rate season tough to predict. How much longer will it last? How far will rates drop once this surge is over? No one can confidently say…

Below are a few of the trends and uncertainties we see going on today that make the duration of this high freight rate season specifically hard to forecast. This year's unpredictability is why, as a business owner, you should consider running hard now while freight rates are high to position yourself successfully & give you more financial flexibility in case freight rates change suddenly.

Pandemic & Political Uncertainty

Regardless of your political preferences, Joe Biden has reportedly won the election to become the 46th President of the United States of America. As such, he brings with him a new plan for handling the pandemic and the possibility of another nationwide shutdown. This quote, taken directly from Joe Biden's campaign website, helps to illustrate his strategies for tackling the pandemic & the possibility of another shutdown:

Social distancing is not a lightswitch. It is a dial. Joe Biden will direct the CDC to provide specific evidence-based guidelines for how to turn the dial-up or down relative to

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the level of risk and degree of viral spread in a community, including when to open or close certain businesses, bars, restaurants, and other spaces; when to open or close schools, and what steps they need to take to make classrooms and facilities safe; appropriate restrictions on size of gatherings; when to issue stay-at-home restrictions.

Many drivers during this year's shutdown were severely impacted financially. You may recall that many manufacturers were delivering products at a slower rate or shut down entirely. With less freight available to ship and thus more drivers available to haul, the spot market rates were critically low during the early shutdown months (weeks 12-27 of this year, according to TruckStop.com Spot Market Insights). It's possible this could occur again if the coronavirus infection rates continue to climb throughout the nation.

There is also the possibility of a more long term recession if the virus continues to spread. For months, we have heard that a vaccine is coming, but the reality is no one can confidently say when the FDA will approve a vaccine or how fast manufacturers can produce the vaccine to immunize the entire country & globe. The coronavirus's impact on employment and consumer spending cannot go without concern.

In March, the U.S. government passed the CARES Act, which adopted policies like the PPP loans and extra unemployment benefits to stave off the first wave's recession. However, we do not yet know if the policies will be enacted again or be as successful if the virus's second wave continues to ramp up. Nor do we know for sure what the impact of these policies will be long term on the US economy. Below is an excerpt from a simulation analysis done by the Penn Wharton Budget Model regarding the short term and long term effects of the first wave's CARES Act:

The deficit-financed CARES Act provides a short-term boost to GDP as well as relief to families, workers, business owners, health care institutions, and governments affected by the pandemic. Moreover, the relief can be especially valuable to people who have lost their jobs and businesses that are no longer able to produce goods and services in this environment. Nonetheless, without fiscal policy to reduce the debt in future years, the CARES Act will result in a small but long-term decline in GDP as the additional debt crowds out private capital and lowers wages.

The Holiday (Spending) Season

The next problematic factor to consider is the typical spending & time off around the holiday season. It's a cliche at this point that every year people spend much more than they budgeted for on holiday gifts, travel, and treats. This extra spending is generally true for everyone during the holiday season, and speaking in generalities, our clients are no different. There is nothing inherently wrong with taking time off and treating your friends and family or yourself during this time of the year, but you must plan for it.

With the typical slow freight season coming directly after the holiday season and the possibility of another shutdown, you must be prepared financially for the possibility of much lower rates on the horizon, especially when you factor in time off. Time off & extra spending means less revenue, continued payments on fixed costs, and a much tighter personal & business budget following the holidays.

So What Does All This Mean?

All of these unprecedented and unpredictable factors combined with yearly trends are why this year's inflated freight rates must be taken advantage of while you can.

The old saying "Make hay while the sun shines" rings more accurately than ever. Run hard now, while freight rates are high and freight is abundant, so you can set your business up to have enough cash flow to survive a freight recession if/when freight rates come back to earth.