

PERSPECTIVE

The Trucking Industry: At the Heart of the Economy

The trucking industry has grown significantly in the last decade or so. The number of trucks for commercial, professional or institutional use has climbed rapidly, salaried jobs have risen, real GDP growth has increased faster than growth of the Quebec economy overall and that of the manufacturing sector—it's enough to make the head spin. One has to wonder how long the industry will be able to keep up this pace, as the labour shortage has been plaguing this sector for many years. Moreover, the expected slowdown in the economy and global trade could throw a wrench into things. In terms of challenges, environmental issues, along with those surrounding energy savings, road congestion and public health, must be taken into account. What if the slower pace that is developing provided an opportunity to think about other ways of doing things?

A Major Player in Transporting Freight by Road

Transporting freight by road has long been a highly visible economic activity: trucks are a part of the landscape, whether urban, rural or highway. In 2017, a total of 149,294 trucks or road tractors were registered in Quebec for institutional, professional or commercial use. This is up 5.3% from the previous year and 25.6% from 2009, the year that will be used for comparison purposes in this study.

Transporting freight by road comprises four major groups: trucking, couriers and courier services, road transportation support services, and freight transportation intermediaries such as shipping agents and customs brokers (graph 1). Trucking holds

the lion's share (81.7%) and will be the primary subject of this analysis.

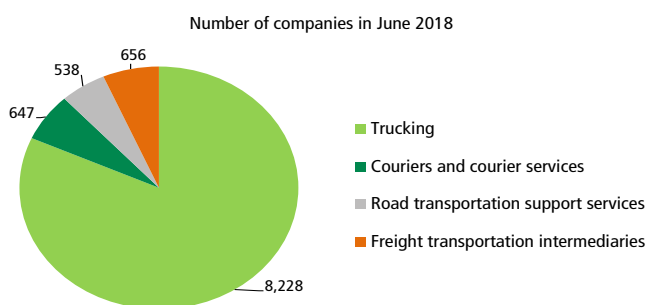
Statistics Canada counted 8,228 companies working in the trucking industry in Quebec in June 2018. The sector can be divided into two major business categories: general freight and specialized freight. General freight includes products usually packed on pallets and shipped in a crate, or even a container or semi-trailer. Specialized freight includes freight transported in tanker trucks (e.g., milk, petroleum products), trailers with a dumpster, or even refrigerated vans. Two-thirds of the companies fall under the general freight category, while the remaining one-third fall under specialized freight.

We're talking about very small companies here: 75.2% had fewer than five employees and 86.0% fewer than ten. Needless to say, the industry counts on a lot of self-employed workers who have their own truck.

A Decade of Rapid Growth

The trucking industry has advanced at warp speed over the last ten years. A quick glance at GDP shows that the industry has continuously expanded over the entire decade. How does this growth compare with that of other sectors? Between 2009 and 2018, real GDP growth in the trucking industry (+34.6%) was almost twice that of the Quebec economy in general (+17.5%) (graph 2 on page 2). It surpassed that of manufacturing (+10.9%), water transportation (+8.0%) and its primary competitor, rail transportation (+18.6%). Still, it remains below that of air transportation (+97.5%).

GRAPH 1
Quebec: trucking holds the lion's share of road transportation



Sources: Statistics Canada and Desjardins, Economic Studies

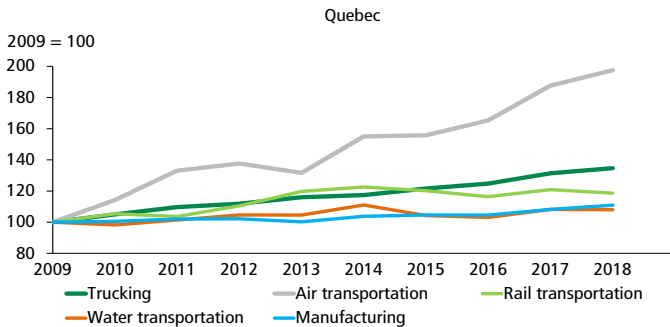
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Joëlle Noreau, Senior Economist

Desjardins, Economic Studies: 418-835-2450 or 1 866-835-8444, ext. 5562450 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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GRAPH 2
Since 2009, real GDP in trucking has grown much faster than that of manufacturing

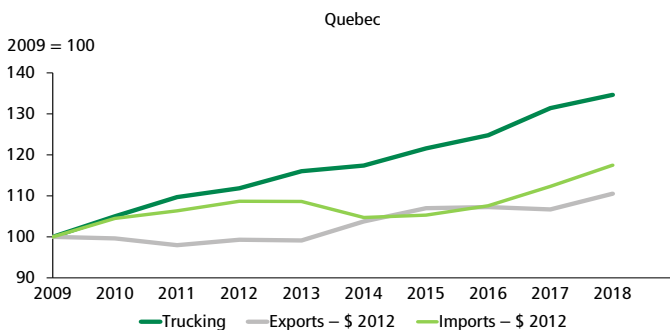


Sources: Statistics Canada and Desjardins, Economic Studies

Insofar as trucking grew three times faster than the manufacturing sector, the assumption is that the primary sector (mining, forestry and agriculture) contributed to its surge.

The growth of trade with other provinces and countries also played a role in the rising demand for trucking services. According to the statistical and economic review *Le camionnage au Québec*, published by the Ministère des Transports du Québec in 2018, trucking remains the most common form of transportation for trade between Quebec and the United States. Graph 3 shows that the increase in the volume of imports from other provinces and countries outpaced the volume of exports (17.5% and 10.5% respectively) between 2009 and 2018.

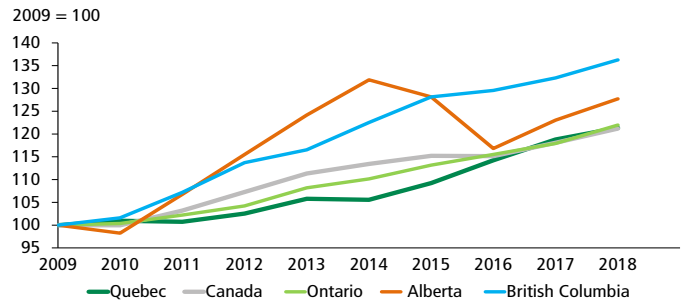
GRAPH 3
Since 2009, growth in real GDP in trucking has exceeded that of export and import volumes



Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Another indicator attesting to the strength of the industry is the gain in salaried jobs. This figure does not take into consideration business owners, but it does provide a snapshot of the boom that has characterized this sector in recent years. Graph 4 compares Canada, Ontario, Alberta and British Columbia for the years 2009 to 2018. The number of salaried jobs in trucking in Quebec rose from 39,099 in 2009 to 47,446 in 2018. This a 21.3% gain, whereas the Quebec economy as a whole grew

GRAPH 4
Since 2009, the rise in salaried jobs in trucking has matched that of Ontario and Canada



Sources: Statistics Canada and Desjardins, Economic Studies

9.6%. Quebec scored practically the same as Canada (+21.2%) and Ontario (+22.0%).

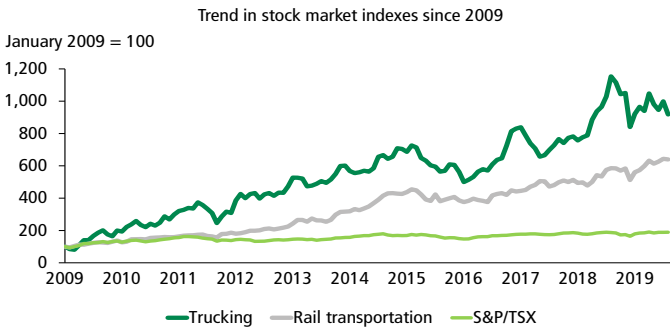
Note that the fastest growth occurred in Alberta (+27.7%) and British Columbia (+36.3%). In the first case, we can guess that the vitality that characterized the oil industry in some ways shaped the changes in the salaried job curve in the province's trucking industry. Furthermore, there was a marked decrease in 2015 and 2016 when crude oil prices collapsed. In British Columbia, the growth in recent years was driven in large part by trade with Asia. The province's Pacific flank has truly become the Canadian port of entry and exit for products moving to and from this continent. The frenetic activity in the forestry sector early in the decade also boosted hiring.

It's noteworthy that the growth of salaried jobs in trucking in Quebec was higher on the general freight side, up 26.9% from 2009 to 2018 versus 14.2% for specialized freight.

Another way of measuring the industry's vigour is to look at trends in the stock market indexes. In terms of the Canadian market, the trucking index advanced much more quickly (more than eight times the initial value in January 2009) than the rail transportation index (more than five times) and even more than the broader S&P/TSX index, which did, nevertheless, advance at a fast clip (nearly double) (graph 5 on page 3). In all instances, the stock market gains reflect a rebound after the fall during the financial crisis.

Although rail transportation has been in high demand, especially by the oil industry in recent years, it has expanded more slowly than trucking. It is true that the stock market's enthusiasm for trucking has cooled somewhat since August 2018. It's easy to see that the tariffs on aluminum and steel (imposed from May 2018 to May 2019), the acrimonious tone of trade relations with the United States, and the drop in exports to the United States have all played a role in the decline noted since mid-2018.

GRAPH 5
Since 2009, the trucking industry has outperformed rail and the S&P/TSX



Sources: Datastream and Desjardins, Economic Studies

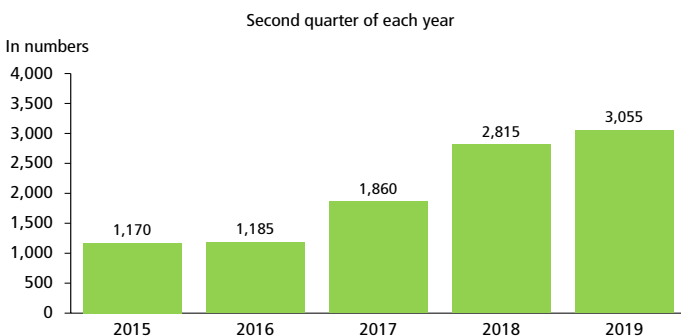
Several indicators are pointing to the same finding: the trucking industry’s growth in Quebec and Canada has been extremely strong over the last decade, surpassing expansion of the economy in general in more ways than one. It has, among other things, created jobs. The reasons behind its surge are largely found in the general health of the economy, the growth in the manufacturing and commodity sectors and the increased volume of trade with the other provinces and outside Canada. Which begs the following question: is this pace sustainable in the long term?

Labour Shortage Putting on the Brakes on Things

The labour shortage is already working against the industry. The lack of workers is nothing new in the trucking sector. In February 2013, the Conference Board of Canada was already predicting a lack of drivers in a study on the future of the trucking industry. The Board forecast that the Canadian industry would be short 30,000 drivers in 2020.

For now, Statistics Canada is reporting an increase in the number of vacant jobs in the trucking industry across the country. In Quebec, the number has gone from 1,170 in Q2 of 2015 to

GRAPH 6
Quebec: the number of vacant jobs in the trucking sector is continuously rising



Sources: Statistics Canada and Desjardins, Economic Studies

3,055 for the same period in 2019 (graph 6). In concrete terms, at the beginning of October 2019, the Government of Canada’s Job Bank site listed just over 1,350 trucker jobs in Canada, with more than half in Quebec.

According to the most recent sectoral diagnosis by the [Comité sectoriel de main-d’œuvre de l’industrie du transport routier au Québec](#) (Camo-route), companies mostly need drivers, but they also need freight handlers, dispatchers and mechanics. Demand is expected to remain high for many years to come. Why? According to Camo-route’s assessment contained in the survey behind the diagnosis, on average, half of the hires occur as a result of employee turnover. The remaining hires were in response to the growth of the business (36%) and employees retiring (14%). The share attributable to the latter group is expected to rise over time taking given the aging workforce.

What makes recruiting so difficult? Drivers need a licence that meets specific conditions. They can’t learn how to drive a heavy-duty vehicle overnight. Beyond this requirement, some jobs are seasonal and, in light of the labour shortage, full-time job offers abound.

In the case of long-distance routes, drivers need to have some flexibility in terms of their schedules, they must know English, be in good health, have no previous criminal record, possess good interpersonal skills and the ability to read maps, and be able to work with equipment that is becoming increasingly sophisticated. Here as elsewhere, employers have had to increase compensation and ease the working conditions to attract candidates, keep their employees and retain older workers.

Despite this, companies are feeling the consequences of this shortage. Camo-route reported that 50% of the companies that had difficulty hiring saw the effect on their businesses. For example, profits fell for 53% of these businesses, 46% had to turn down contracts, and 23% recorded delivery delays.

Coming to Terms with the Economic Situation

The factors that drove the industry forward in recent years could fade in the coming quarters. In light of the economic forecasts for late 2019 and early in the next decade, the global, continental and Quebec economies are expected to slow, which will have repercussions on the trucking industry.

Why? Several reasons come to mind. At the time of writing North America is not expected to go into a recession, but the risk of the economy slipping is undeniable, especially in the countries most affected by stagnating international trade. The struggles in Germany in particular will have an impact on Euroland’s economy; real GDP growth worldwide for 2020 has been revised downward. The modest period of growth of the global economy could extend into 2021 and indirectly affect the U.S., Canadian and Quebec economies. However, what can’t be denied is that the risk of a recession will remain in the United States as long as

the trade dispute with China remains unresolved. The strength of the Canadian economy and, in particular, that of Quebec, lessens the fear of a hard landing, yet a slowdown is inevitable.

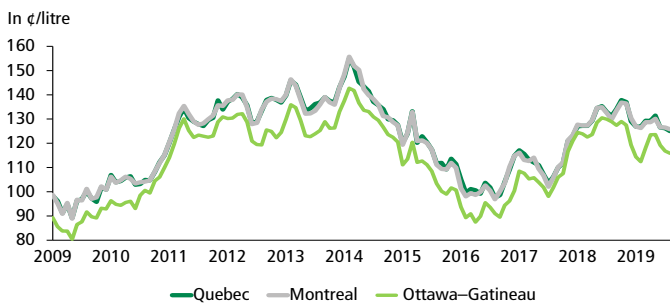
We can also assume the pace will decrease as well, based on the slowdown in economic growth. Moreover, rising protectionism has consequences that are already evident. The rate at which the volume of global trade is growing has fallen and is expected to continue to slow in the coming quarters. This will no doubt affect the volume of goods traded with the United States and shipped there, as well as within Canada and Quebec.

Additionally, slower economic growth usually means a slower manufacturing sector. This is currently the case as the manufacturing sector seems to be affected more deeply by the trade disputes. As for commodities, demand is expected to cool. Consequently, the demand for trucking services will no doubt also drop.

Are all of these factors combining to put a wrench in the industry? No. Energy prices, for their part, should not rise significantly. Efforts were made in recent years to reduce fuel consumption by using more aerodynamic trailers, minimizing the number of trips with no load, avoiding driver route errors, changing driving habits or using natural gas for vehicles, to name but a few examples.

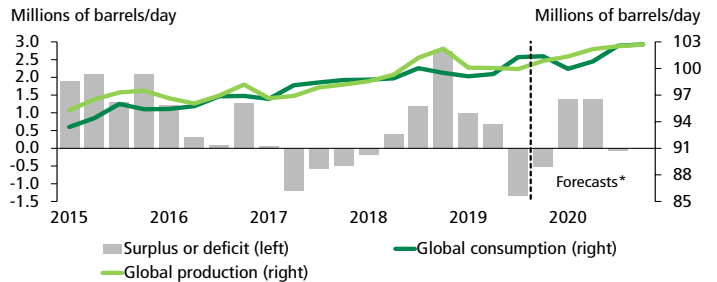
Also of note is the fact that diesel prices have risen since the lows of 2016, but they have not reached the heights last seen in 2014 (graph 7). At that time, these high levels did not slow down the industry (please refer to the previous section on GDP, hiring salaried workers, and stock market indexes), given the urgent need to move freight. Generally, oil prices are not expected to climb before the end of 2020 (graph 8). There is an abundant supply, and demand should be manageable due to the global economy's modest growth, which will limit overheating.

GRAPH 7
Although the price of diesel has risen in relation to 2016, it has not reached the peak of early 2014



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 8
Oil: surplus supply could hit the market in 2020 and hold back prices



* International Energy Agency (IAE) outlook assuming the Organization of Petroleum Exporting Countries (OPEC) maintains stable production.
 Sources: IAE and Desjardins, Economic Studies

Other Parameters That Will Impact the Trucking Industry

The volume of freight shipped is not the only thing that could affect the health of the trucking industry in Quebec and Canada. The shortage of drivers in particular could worsen due to the growth of e-commerce. Online shopping implies delivery, which is generally performed by courier services. They're hiring drivers and freight handlers, too.

The regionalization of manufacturing, i.e., companies that relocated abroad are returning and bringing some of the production closer to the North American market, could benefit the trucking industry. Still, this phenomenon is not yet widespread.

Environmental concerns could also have an impact. According to figures reported in the [Inventaire québécois des émissions de gaz à effet de serre en 2016 et leur évolution depuis 1990](#), road transportation emissions are estimated to have risen 52% in Quebec between 1990 and 2016. Heavy-duty vehicle emissions jumped 40%, while light-duty truck emissions (vans, pick-up trucks and sport utility vehicles) soared 234%.

At a time when people are calling for change to save the environment, and road congestion is a major source of frustration as well as wasted time and energy, everyone is looking for alternatives. Rail transportation could gain some ground due to its lower emission rate compared with that of trucking. Still, rail infrastructure remains limited. Furthermore, few transportation modes are as versatile as trucking. Flexible schedules, speed, competitive costs, and the ability to move goods door-to-door are all advantages in its favour.

Slow Down to Better Handle the Twists and Turns

The trucking industry has seen significant growth in the last decade. Several indicators confirm it. We only have to think of the rapid ascent of the sector's real GDP compared with that of the Quebec economy as a whole and the manufacturing sector in particular. In addition, the increase in the number of salaried jobs is more than double that of Quebec. It also bears noting

that the hike in the Canadian truck transportation index clearly outperformed the rail sector and S&P/TSX indexes. However, this kind of pace will not be sustainable for much longer. Recruiting workers remains a big problem and, for the moment, completely autonomous heavy-duty trucks are not ready. It's difficult to expect this situation to change any time soon, especially since the search for drivers and handlers is in direct competition with the popularity of online shopping.

More than just hiring problems are looming on the horizon. The expected slowdown of the global economy will impact the industry in the next few quarters. The probable reduction in the volume of goods traded locally, with the provinces and other countries, will likely lead to a reduction in the amount of trucking that goes on. As for challenges, environmental issues must be taken into account along with those surrounding energy savings, road congestion and public health. What if the slower pace that is developing provided an opportunity to think about other ways of doing things?

Joëlle Noreau, Senior Economist