The PULSE

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About Gallop Logistics

Gallop Logistics Corporation is one of North America's leading transportation solutions providers, with a proven track record for best-in-class customer responsiveness and guaranteed competitive rates. Working with the industry's best carriers and warehouse companies; we provide you with trucks and compounds that meet the highest standards in safety and security.

The Gallop Difference

What sets us apart from the crowd? Two words: Superior Service. Through a strategic, intelligent approach to transportation logistics services, we've succeeded in delivering freight and warehousing services that are safe, highly reliable and cost-efficient.

When you deal with Gallop, you can count on:

- A more effective and efficient freight service based on comprehensive market analyses
- Consistently high service and security standards built on years of experience in the food and beverage industry
- Competitive rates, extensive geographic reach and leading-edge services achieved through ongoing acquisitions and alliances with qualified partners

With Gallop Logistics, you save time and money. And you can always rest assured that your shipment will arrive safely, and right on schedule.

Message From Lorne

In an industry that moves to the beat of an accelerated time clock, and where success hinges on being just in time every time, it pays to have a current understanding of the various factors that affect the shipment of your products.

That's why you're reading The Gallop Pulse today.

The last couple of years have seen shipping costs shooting high, higher and higher still. At the same time, freight capacity has failed to keep up with the growing demand for over-the-road transportation services. Through The Pulse, we hope to enhance your understanding of the context in which all these changes are taking place, and to help you view the industry from an informed perspective.

To make your job – and your life – a little easier, Gallop Logistics has recently upgraded its Web site and added several time-saving features. We built an interactive quote generator that gives you freight rates instantly and in real-time. And once your shipment is on the road, you can keep an eye on it with our daily online tracker. You'll be notified of delivery through our Rapid Fax Delivery confirmation.

We have also expanded our Internet capabilities by allowing our carriers to post their truck availability on our Web site. This builds on our existing online booking system, which lets carriers view current available loads online and sign up for the ones they want to take on. And yes, we've launched this newsletter, which is available in print and electronic versions.

The trucking industry has undergone dramatic changes in recent years, and will continue to do so in the next decade. What the industry will look like when the dust clouds of evolution finally settle is anyone's guess at this point.

Through this publication, I hope to help you keep your finger on the pulse of the trucking industry. But keep in mind that The Pulse is not a one-way channel. If you have any questions, opinions or information that you wish to share with me, I'd love to hear them. Send me an email or a fax. Or hey, just pick up the phone and call me. You'll find my contact information at the back of this newsletter.

Bustling Economy, Strong Exports Drove Up Freight Prices in 2004

With the demand for freight services far exceeding the supply of trucks, the shipper-carrier relationship is now decidedly tipped in the carrier's favour.

From an economist's point of view, 2004 was a good year on both sides of the border. Consumers in Canada and the United States were consuming, exporters were exporting, and manufacturers were … well, you get the picture.

For shippers, a bustling economy translates to more goods leaving the docks more frequently. And while this is clearly good for business, the current shortage of carriers – combined with record-high fuel prices – probably has you and hundreds of other shippers reaching frequently for that bottle of Tylenol.

The problem, of course, can be boiled down to the simple law of supply and demand; the demand for trucks exceeds the supply of trucks. And while this has been the case now for some time, the last couple of years have seen trucking capacity squeezed even further, to the extent that most carriers are now picking and choosing who they do business with. And with the shipper-carrier relationship decidely tipped in the carrier's favour, trucking companies are seizing the opportunity to widen profit margins considered by many owners to have been too narrow for too long. The result: freight charges that have climbed steadily in the last couple of years.

Is there relief in sight for shippers?

The answer is a very faint but hopeful maybe. The latest reports show the Canadian and U.S. economies slowing down slightly, although both countries continue to enjoy solid growth. Tonnage volumes for the first quarter of 2005 reflected this modest decrease in economic activity. The American Trucking Associations' for-hire Truck Tonnage Index dipped 3.3 per cent in March – the first year-over-year decrease recorded since November 2001.

Bob Costello, the ATA's chief economist foresees a continued slowdown through 2005, with real Gross Domestic Product growth resting somewhere between 3 per cent to 3.5 per cent. Last year, real GDP in the U.S. grew 4.4 per cent. Costello's long-range forecast calls for an average annual increase in real GDP of 3.3 per cent over the next decade.

In Canada, analysts are also predicting a softer economy this year. The outlook is brighter for 2006, when real GDP is expected to grow 3.2 per cent, compared to 2.8 per cent in 2004.

So if the law of supply and demand holds true, could trucking capacity actually loosen up a little this year?

"Even with the economy decreasing, carriers would be still be unable to expand capacity because of many factors, including the lack of drivers," says Costello.

"This year, capacity is expected to remain tight, and when we get into the fall freight season, some people are predicting it's going to be very tight again, just as it was in 2004."

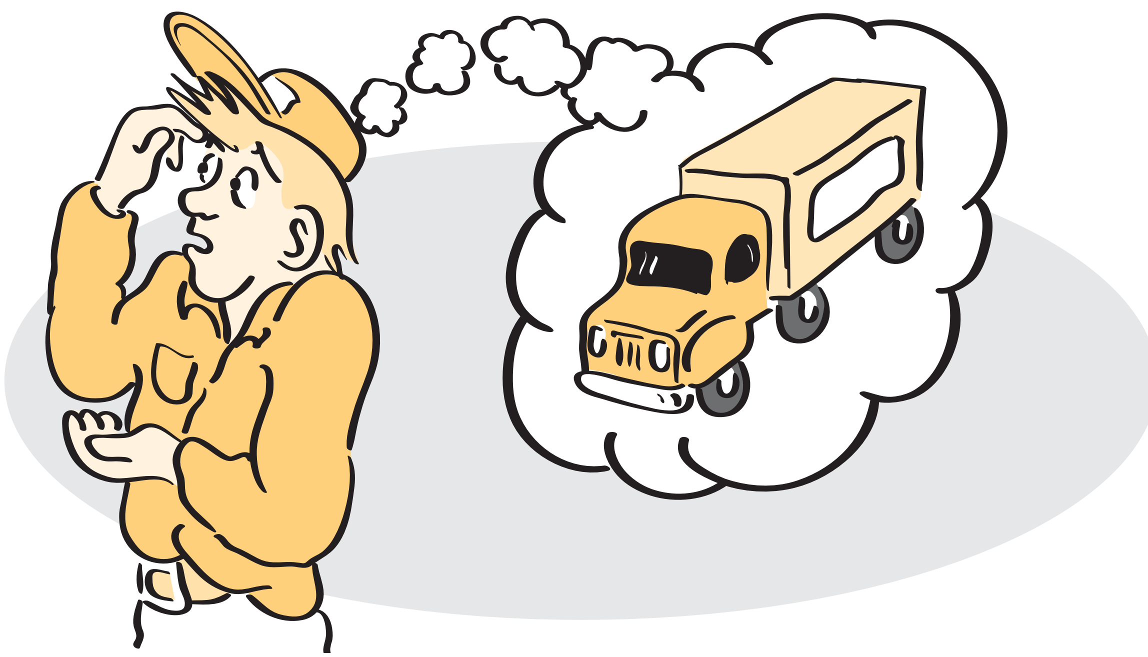
Like Costello, David Bradley, CEO of the Canadian Trucking Alliance, doesn't see an end to the industry's capacity crunch anytime soon.

"There's currently no excess capacity in Canada and we're not seeing any new capacity in the marketplace," he says.

In other words, even as demand goes down, supply will remain tight. And although diesel prices have decreased slightly in some areas, they're still a long way off from cheap. Logical conclusion: freight prices are unlikely to go down, at least not in the near future.

While that's not exactly good news, it can at least help you plan and allocate your resources more effectively in the months to come. And while you're at it, keep an eye on the economy – you'll never know when that old law of supply and demand might start working in your favour again.

Dude, Where's My Truck?



It doesn't take an Einstein to figure out the root cause of today's steep freight charges: not enough trucks on the highways. Fixing this problem, however, may well require Al's genius and determination.

"The trucking industry is facing what some people are calling the perfect storm," says David Bradley, CEO of the Canadian Trucking Alliance. "A host of factors that affect our industry have all come together in the last few years, resulting in extremely tight capacity and rate increases."

Caught unexpectedly in the eye of this perfect storm, many shippers feel confused and frustrated by what they view as unfair pricing. To help you understand the recent but drastic developments in the trucking industry – and hopefully make better business decisions as a result – The Gallop Pulse has put together a brief overview of the factors that have contributed to this so-called perfect storm:

Increasing mobile fuel prices

We're talking prices so high you may as well call it rocket fuel. As an example, take the week ending April 25, 2005, when the U.S. Energy Information Administration reported an average increase in diesel prices of 3 cents (U.S.) a gallon. Pumps along the Gulf Coast logged in the highest increase during this period – 5.1 cents per gallon for a staggering US$2.23 per gallon.

Liability insurance premiums that are, well, a liability

"Good luck getting coverage, let alone paying for it," says Bob Costello, chief economist for the American Trucking Associations. Burned too many times by frivolous lawsuits, insurers are now proceeding with extreme caution – making it nearly impossible for start-ups to qualify for coverage – and charging prohibitively high rates at the same time.

Hard-to-get financing

In recent years, financial institutions have become somewhat skittish around trucking firms, making it difficult for new operators to buy or lease new trucks, or for existing owners to expand their fleets. Why? Costello points to the lean years between 2000 and 2003, when many carriers simply parked their trucks and called it quits. "So now financing companies are a lot more selective in who they give financing to," he says.

Aging truck fleets

They're costly to maintain, even more so to replace. And with new regulations, expected to come into effect next year, that will require truck manufacturers to install smog-free engines into new models, the cost of owning a truck is not about to get any cheaper. "They will be more expensive to operate and maintain," Bradley says of the next-generation trucks.

Aging drivers

Sure, carriers could go out and buy more trucks. But finding people to drive them – now that would be a neat trick. Bradley says the Canadian trucking industry has the oldest work force in the country, with about 13 per cent of drivers over 50 years of age. And according to a joint study by the Canadian Trucking Human Resources Council and Human Resources Skills Development Canada, close to 224,000 new truck drivers will be needed between 2003 and 2008 to keep up wifh forecast economic growth. The situation is much the same in the U.S.

Higher wages

Between 1997 and 2003, average driver salaries in the U.S. increased to about US$45,000 from US$35,000. In Canada, the same period saw average driver wages rise to about CDN$38,000 from CDN$33,000. But drivers aren't the only ones who have enjoyed bigger paycheques in recent years; Bradley says the wages for practically every position on a carrier's payroll – from dispatchers and operations managers, to sales and fleet maintenance staff – have gone up in the last several years. "In fact, wages are the industry's Number One component of cost," says Bradley.

These factors, combined with strong economic growth in Canada and the U.S., have certainly brewed up a tempest in the trucking industry in the last two years. The questions now is, can shippers look forward to this perfect storm subsiding in the near future?

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