Inflation and the Trucking Industry

House Majority Policy Committee

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June 14, 2022

Chairman Causer, and members of the committee, it is my honor to be part of the important discussion you are having on inflation, a phenomenon that the trucking industry both suffers from and, in many ways, unfortunately contributes to. My name is Rebecca Oyler, and I am President and CEO of the Pennsylvania Motor Truck Association.

PMTA represents almost 1200 members of the trucking industry, but we speak on behalf almost 66,000 companies that drive trucks in Pennsylvania, the vast majority of which are small, locally owned businesses like farmers, contractors, landscaping companies, utilities, trash and recycling haulers, foodbanks, and even hospitals. Trucks are an integral part of Pennsylvania's economy, transporting more than 96% of our manufactured tonnage and ensuring that businesses and consumers have access to the goods they need in every facet of life.

Over 323,000 hardworking Pennsylvanians are involved in trucking in the Commonwealth, accounting for one in every 15 jobs, which is a testament to how critical the industry is to our economy.

The committee has already heard testimony about the causes and impact of inflation. My testimony will focus specifically on how inflation affects the trucking industry. As I mentioned, the industry both affects and is affected by inflation.

Trucking represented 80% of U.S. freight costs in 2019.[1] Since that time, truckload costs per mile have increased almost 30%.[2] This was due in part to the overwhelming demand for consumer goods during the pandemic. Combined with labor and equipment shortages in the trucking industry, many of which continue to this day, consumer demand drove costs up for the transportation of goods. Given the key role the trucking industry plays in the delivery of consumer products, it is clear that higher freight rates affect prices. In 2021, transportation costs contributed more than half of overall price growth.[3]

First, I'd like to address some of the reasons why trucking costs have increased so drastically by focusing on three of the primary drivers: diesel, the truck driver shortage, and supply chain issues.

Treasurer Garrity last week mentioned the impact of the record-setting cost of diesel. Three out of four trucks on the road and 97% of large Class 8 trucks are powered by diesel, and prior to the pandemic, fuel typically represented about 26% of their cost of operation, exceeded only by driver wages.[4] Suffice to say, fuel is a major driver of costs for the industry, and it has been rising since 2020. In Pennsylvania, the cost of a gallon of diesel is up 75% just since last year. This is a staggering increase, especially when you

[1] https://www.trucking.org/news-insights/trucking-moved-1184-billion-tons-freight-2019
[2] https://www.ttnews.com/articles/freight-costs-expected-remain-high-2022
[3] https://economics.td.com/us-infl-transportation
[4] https://www.cloudtrucks.com/blog-post/trucking-trends

consider that the two tanks in a semi-truck can hold up to 300 gallons of diesel. Last year, filling those tanks cost an average of just over $1000. This year, that trucker will pay $1856 to fill up.

Put another way, that truck will use an average of 20,500 gallons of fuel this year, resulting in an increase of $54,243 per truck over last year. A typical PMTA member with six trucks will need to figure out how to manage an expense increase of more than $325,000 this year, to say nothing of the fleets with hundreds of trucks.

Much of this cost increase is passed directly by trucking companies onto customers through diesel surcharges on top of standard rates. However, a few facts about surcharges I want to share. First, they are calculated based on the previous week's prices, so when costs are rising rapidly, there is a lag between actual prices and the surcharge a company can collect, which reduces the company's margin week-to-week. Plus, most companies do not get reimbursed for 30 days or more, so they must cover cost increases upfront, which puts a squeeze on many companies, especially the 97% of trucking companies that are small businesses. To make matters worse for small companies, many do not have surcharges built into their contracts or operate in markets that where surcharges are not possible. Many small companies simply will not be able to compete in the current environment and will decline routes and contracts. Some have already closed their doors, further exacerbating the supply chain crunch.

I wanted to talk briefly about the truck driver shortage, which is also making things challenging for the industry. The American Transportation Research Institute estimates that there is a shortage of about 81,000 truck drivers nationwide, roughly 3,600 of which are in Pennsylvania. Not only does this driver shortage make it harder for trucking companies to do their jobs and respond to the demand for their services, it also further increases freight costs throughout supply chains.

The last cost increase I would like to discuss is that caused by supply chain problems. We are all familiar with the supply chain issues over the past couple of years, leading to empty shelves and shortages of products like cars, Gatorade, iPhones, school lunches, and most recently, baby formula. And of course, trucking is a critical piece of the supply chain puzzle. What you may realize about is how much trucking is affected by supply chain issues too. Too many trucks have been sidelined or not making it to the road at all because of component parts shortages, even while demand for freight is sky high.

All parts are affected, but increased demand for electronics during the pandemic, disasters, and COVID-related production problems limited the supply of electronics components at the worst possible time for the industry. Technologically advanced vehicles use hundreds of sensors and controllers, many of which are critical to safety. If even one is unavailable, it can keep a damaged truck off the road or stop one from rolling off the assembly line. The semiconductor shortage led manufacturers to shut down or slow production to a crawl at times, and the shortage has driven the cost of those trucks that are available up substantially since last year.

I wish I could say that semiconductors are the only supply concern we have, but the truth is that other component parts are experiencing shortages too. Last year, the industry experienced a critical shortage of diesel exhaust fluid (DEF) sensors, which left thousands of trucks parked because replacements were unavailable. The issue was only resolved when manufacturers developed a software fix that was finally approved by the EPA.

Other products critical to the industry are not as easy to get around. For example, rising costs of timber, aluminum, steel, and polyethylene have resulted in an $8000 – 9000 cost increase for what used to be a $30,000 trailer. And the price of used trucks increased by almost 40% in 2021.[5]

Of course, the most important critical supply for the industry is diesel fuel. Many experts are predicting a shortage of diesel over the coming weeks and months, and PMTA has already heard from some PA companies that cannot get fuel from their normal suppliers and others that have experienced rationing. I do not think I need to elaborate on how devastating a diesel shortage would be to the industry and to the overall economy! But tires have also been an issue, and we are hearing about shortages of diesel exhaust fluid (DEF), without which trucks produced after 2010 (about 50% of those on the road) cannot operate.

I hope this overview of some of the causes of the cost drivers in the trucking industry – diesel prices, the driver shortage, and supply chain issues – has been helpful in explaining the impact transportation has on inflation. It is consumers who ultimately pay these cost increases through higher prices on the goods and services delivered by truck – which is almost everything. But an important thing to remember is that it is not just the trip from the factory to the store where higher transportation costs affect consumer prices; it is at every point of the supply chain where transport occurs.

Attached to my testimony is a chart that illustrates this well – in this case for eggs. The chart tracks all the intermediary steps between chicken (or egg) to the consumer product that you purchase in the grocery store. Every part of the process that includes a truck is noted. On the low end, there may be only two trucks involved for transporting the unfortunate chicks reprocessed for animal feed to zoos and farms. However, on the upper end, if you track a final product containing eggs through the supply chain – let's say a Pennsylvania whoopie pie – there may be as many as eight trucks involved in getting that product to your dessert table! Factor in the increased costs we have discussed on every one of those trips on a truck, and you begin to understand part of the reason why consumer goods costs are increasing so much.

Now that we understand some of the problems, what can be done at the state level to help the trucking industry and reign in some of the inflationary impact of transportation costs on consumers? I offer the following suggestions:

1. **Stop bridge tolling.** PennDOT's plan to toll nine interstate bridges will have a devastating impact on Pennsylvania's trucking industry. The cost increase for just one truck crossing a bridge twice a day will add over $5000 per truck. Not only will that extra $5000 per truck affect the company's bottom line, it will also increase the cost of all those goods and services carried across the bridge with it. Pennsylvania is already the third most expensive state in which to operate a truck. Let's stop this initiative before it sets us further back.

2. **Ease regulations and other requirements that increase costs for truckers.**

    - First, we would suggest easing truck emissions regulations that tie Pennsylvania to regulations adopted by California. These regulations already increase the cost of new trucks for companies in Pennsylvania by several thousand dollars, but future California

[5] https://logiflexinc.com/inflation-and-trucking

standards are so aggressive that manufacturers are not sure how they will meet them. The cost impact will be substantial. Now is the time to adopt the federal emissions standards instead of California mandates. We would like to thank the House for passing Rep. Knowles bill, HB 2075, which puts a halt to California mandates, at least through 2024.

- Second, it makes sense to allow federal vehicle inspections to be valid for Pennsylvania-registered tractors, rather than requiring a state inspection too, as is already permitted for trailers. Extra inspections are an unnecessary cost that can easily be eliminated, especially for national companies that need to bring every truck in their fleet back to Pennsylvania for an inspection under current law.

3. **Address transportation workforce needs.** Addressing the driver (and diesel tech) shortage will require effort, but ultimately will help ease the labor shortage that contributes to higher costs in trucking. Re-orient job training programs to needs of local employers in the industry, including technical schools and high schools. Making some of the more frustrating parts of the job more palatable will help recruit and retain drivers as well. For example, ensure that truck drivers have access to restrooms at public facilities by passing Rep. Silvis's HB 2465, the Truck Driver Restroom Access Act.

4. **Provide truck parking facilities** Currently, there is one parking space available for every eleven truckers in the U.S. So it is not surprising that 98% of truck drivers report having problems finding a place to park their trucks. Strict federal hours of service regulations make it necessary to provide areas where truck drivers can safely park for breaks, but the lack of available parking spaces costs the industry. The average driver spends 56 minutes a day looking for a parking space. That means 56 minutes less time they can spend in route to their destination, a profound loss of productivity that affects supply chains. Not to mention the frustration involved in this task makes it even more difficult to recruit and retain drivers. Truck parking should be a public-private partnership priority.

5. **Ensure U.S. energy production.** Ensuring that the domestic supply of oil is abundant, and that refining capacity can produce sufficient fuel is essential. Trucking is, for the foreseeable future, dependent on a reliable supply of diesel. It is therefore essential to ensure that the U.S. can produce the diesel the trucking industry needs to support the economy. There are many ways the U.S. can encourage the development and distribution of domestic energy supplies, which are beyond the scope of this hearing, but it is worth emphasizing the importance of refineries to the supply of diesel fuel. U.S. refineries have been closing at an alarming rate, with Philadelphia's own Energy Solutions (PES) refinery closing after a fire in 2020. The pandemic's decrease in demand for motor fuels and federal policies hostile to fossil fuels were the nail in the coffin for many refinery operators, and in 2021 U.S. refining capacity reached its lowest annual level since 2015. Encouraging American production of diesel fuel should be a high priority.

Again, thank you for the opportunity to discuss inflation and the trucking industry in Pennsylvania. I am happy to take any questions you may have.

The Life of an Egg

Taken from: https://www.seleggt.com/supply-chain-of-shell-eggs/
With additions from the PA Motor Truck Association