



PACIFIC AMERICAN SERVICES, L.L.C.

9401 San Leandro Street Oakland, CA 94603 main 877-304-4003 fax 510-568-4483 www.pac-am.com

Reality Check: US Logistics Execs Say 1Q Business Healthy --Some Inventories Fattening; Firms Prepare for Supply Chain Shocks --Warehouse Locations Multiplying, Reversing Previous Trend --Trucker Shortage Eases; Demand Softer Amid Alternatives

By Claudia Hirsch

NEW YORK, March 28, 2007 (MNI) - U.S. logistics executives who manage the supply pipeline reported strong first-quarter business amid growing demand by importers and manufacturers for outsourced warehousing and distribution functions.

Third-party logistics executives said the industry is adapting to a chronic shortage of truck drivers by utilizing rail services and reopening shuttered warehousing facilities to cut down on transportation time and costs. As demand softens slightly, trucking capacity constraints have also eased, they said.

The previous trend of consolidating warehouses appears to be reversing some, according to those at the center of the supply chain.

And while inventories continue to turn faster overall, some clients are fattening their safety stock rather trimming their product supply. They don't want to be caught short if shocks to the pipeline, like hurricanes or port congestion, should recur.

A recent trade association survey forecast continued double-digit growth for the third-party logistics industry this year, nearly as robust as 2006. One quarter of all new revenues made by logistics companies comes from customers new to outsourcing, according to the survey assembled by the International Warehouse Logistics Association, in Des Plaines, Ill.

Rick Blasgen, president of the Council of Supply Chain Management Professionals, headquartered near Chicago, said inventory levels are rising because of transportation volatility.

In 2005 alone, transportation costs rose more than 14%, driven by fuel prices and capacity constraints, he said. "Whiplash" in fuel costs, he said, means that most surcharges remain, and many companies continue to struggle to meet their transportation budgets.

**PACIFIC AMERICAN SERVICES, L.L.C.**

9401 San Leandro Street Oakland, CA 94603 main 877-304-4003 fax 510-568-4483 www.pac-am.com

An Oakland, California-based logistics provider reported "very healthy" business so far this year, continuing a couple of years of good growth fuelled by globalization and customers' expansion.

"In 2006 we were up 21%, and we're forecasting double that for this year," said Linda Hothem, chief executive of Pacific-American Services, which provides warehousing, transportation and value-added services like packaging to clients in the wine and spirits, cosmetics, apparel and food sectors. "In the first quarter, we're double digits ahead of last year. We're very encouraged by how 2007 has started."

She noted a recent trend toward more safety stock in the supply chain. And beginning mid-year 2006, some clients started to "expand their warehouse footprint around the country," for transportation and customer-service reasons.

These are the same forces that compelled importing retailers to diversify points of entry to the U.S. and to establish distribution centers in a variety of regions, particularly after the congestion that snarled Southern California ports in 2004, she said.

Hothem said the slowdown in automotive and residential construction might be providing some of the recent slack in trucker supply. As much as 20% of truck capacity was at one time dedicated to the automotive industry, but part of that is now freed up, she said.

Signs of inflation in the supply chain include labor, insurances and land costs, according to Pacific-American. Internal wages rose about 4% in the last year, she said.

"There's a real scarcity of land for industrial use in Oakland," Hothem said. "Residential takeover of industrial property continues to be rampant. The vacancy rates have dropped well below what they were in the dot-com era, which had been the high point for Bay Area real estate."

A supply chain executive who focuses primarily on trucking said housing- and automotive-related business remains soft, but his first quarter overall is up from late last year.

"We're seeing that rates truckers charge to shippers to move freight are significantly lower," said Dick Metzler, chief commercial officer at Dallas-based Greatwide Logistics Services, whose clients include retail, grocery, consumer goods, produce, automotive, steel and building material producers. "The empire has struck back."

He sees this as a temporary phenomenon and predicts that trucking demand will far outweigh supply during the course of 2008.

**PACIFIC AMERICAN SERVICES, L.L.C.**9401 San Leandro Street Oakland, CA 94603 main 877-304-4003 fax 510-568-4483 www.pac-am.com

"There aren't enough drivers," Metzler said. "It's going to get a lot worse, and it's not going to get better in our lifetime, because nobody's raising their child to be a truck driver."

He said Greatwide has seen an increase since mid-year 2006 of export-related business. While heavy import flows continue, the firm is also hauling more products to ports for outbound shipment.

"I can definitely point to specific export accounts that we hadn't seen before," Metzler said.

Greatwide's first-quarter performance is so far about steady with a year ago, he said. Full-year figures for 2006 beat 2005 by 11% in organic growth, or about 30% including a major acquisition.

In the Upper Midwest, the logistics industry is thriving, according to a third-party provider.

"We came out of the chute this year way ahead of where we expected to be," said Richard Murphy, president of Murphy Warehouse Co., in Minneapolis, which services a range of industries and specializes in food and paper products. Two food-related clients, in sugar and dates, are leading this year's growth, he said. Paper, medical and industrial clients are also continuing strong, he said.

He said he expects business this year to top 2006 by more than 10%. Last year, growth came in near that figure.

Murphy said clients are increasingly turning to rail for goods transportation in response to high diesel prices and tight trucker supply during the past few years. And one rural customer has opened a new warehouse location in Minneapolis to access trucks that won't drive the extra 100 miles.

Inflationary signals include labor, fuel and construction costs, according to Murphy. Land is pricier, and steel and concrete costs have skyrocketed due to rising global demand, he said.

"For the first time in five years, industrial space prices in our area are going up," Murphy said. He noted the proliferation of "logistics corridors" outside major urban centers like Chicago, Columbus and Memphis, where several companies share million-square-foot complexes and reduce their costs as a result.

Farther east, an Ohio-based logistics provider said activity has been mixed, with automotive-related business ebbing and value-added services flowing.

**PACIFIC AMERICAN SERVICES, L.L.C.**

9401 San Leandro Street Oakland, CA 94603 main 877-304-4003 fax 510-568-4483 www.pac-am.com

"There have been some new opportunities in packaging, repackaging and bundling of services," said Doug Sibila, president of People Services, based in Canton, Ohio, which provides warehousing and transportation to plastics, chemicals and finished goods industries in Ohio, West Virginia, Virginia and North Carolina.

"The chemical and plastics industry overall is in a consolidation mode. A lot of plastics in this region are automotive."

Peoples Services booked a modestly better first quarter this year over last, while 2006 revenues were down slightly compared to 2005. But Sibila sees some relief ahead.

He said economic growth has been consumer-led during the housing boom, but going forward, capital investment in equipment and a renewed focus on productivity may take the reins. The chemical and plastics industries supply equipment makers, steel production and oil and natural gas drilling, he said. Sibila expects a return to growth this year of better than 5%.

The American Trucking Associations' for-hire truck tonnage index rose 1.6% in February from a particularly weak January, but fell 1.7% compared to a year ago, the eighth monthly year-over-year decline.

Editor's Note: Reality Check stories survey sentiment among business people and their trade associations. They are intended to complement and anticipate economic data and to provide a view into specific sectors of the U.S. economy.

*** Market News International New York Bureau, phone 212-669-6430 ***