Pay and the driver shortage

Exploring the disconnect between the money and the mantra by Todd Dills

Owner-operator Allan Lester sees the driver shortage discussion as the “same old thing we’ve been talking about for the last 30 years” — namely, how to pay drivers adequately. Lester drives this 2014 Peterbilt 379 and 48-foot Reitnouer all-aluminum trailer.
With the exception of 2014-15, pay evidence of a supply/demand imbalance in OTR truckload drivers’ favor is not found during 2005-15, during which a driver shortage was documented for nearly every year by one analyst or another, excepting during the worst part of the recession. Even with strong increases in 2014-15, pay is only now returning to inflation-adjusted 2005 levels.

Inflation-adjusted mean U.S. household income

SOURCE: U.S. Census Bureau. These averages skew higher than trucking pay because of dual-income households and because of a small but relatively high set of outsize earners at the top. The median income (the midpoint between the group of top and bottom earners) ranges over this same time period between $58,000 and $53,000. Data is unavailable for 2015.

Inflation-adjusted owner-operator income

SOURCE: Averages of ATBS owner-operator clients, most of whom are leased. Over this period, their annual miles fell slightly more than 20 percent, reflecting long-term downward trends in length of haul and other operational factors.

Inflation-adjusted company driver pay

SOURCE: National Transportation Institute, averaged based on driver pay packages in NTI’s long-running survey of medium-to-large truckload fleets, converted to an hourly rate and based on a 40-hour week.
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Even so, would higher pay bring in enough qualified drivers to keep carriers happy?

That’s a moot issue as long as freight rates won’t support it, says Gordon Klemp, principal of the National Transportation Institute, longtime publisher of the National Survey of Driver Wages. Klemp routinely hears from many of the largest fleets about their recruitment challenges and has measured their pay packages for decades.

Driver demand and rising freight rates contributed to a round of strong pay raises in 2014-15, but demand has now softened. “Rates are not supportive of additional increases,” he says.

Many in the driving community, like Clark, see the hiring problem in simpler terms.

Given that carriers are recruiting constantly, for-hire truckload driver pay becomes a function of “what you can be replaced for,” and not what the work is or should be worth, says Todd Spencer, executive vice president of the Owner-Operator Independent Drivers Association. “Carriers can make money off a truck even if its driver doesn’t make enough to survive,” Spencer adds.

And if there were truly a shortage of drivers, freight rates would certainly reflect that and move up substantially, say many Overdrive readers.

Contract linehaul rates have been fairly flat overall this past year, but spot market rates have been on a downswing. “Rates are down so low because of demand that it feels like there are too many truck drivers,” says owner-operator LeAnn McKee.

Adjusted up to 2014 dollars and despite recent gains, most average annual driver compensation and owner-operator income levels in recent years have been well below highs experienced for company drivers and independent contractors more than a decade ago.

Inflation-adjusted company driver pay rose sharply between 2003 and 2004, hovering at just above $59,000 annually in 2005 before dropping before and during the 2008-09 recession. Owner-operator income was steadily about $61,000 between 2003-06 before also dropping.

Those earlier periods were times of relatively high demand during which income levels rose in tandem with the inflation rate, showing little year-to-year variation when adjusted.

Factors affecting the fall in income following those years include a marked reduction in annual miles per truck during the recession, ATA says, softening the effect of any pay rate increases. For owner-operator clients of ATBS, annual miles dropped from almost 140,000 in 2003 to 108,000 in 2014.

Warnings of current and future driver shortages, after abating slightly during the last recession, returned quickly following it. But inflation-adjusted income continued flat for a few more years before finally rising in 2014 and, based on estimates, in 2015.

The most high-profile recent quantification of a driver shortage was ATA’s 2015 “Truck Driver Shortage Report.” Its projection: “If the current trend holds, the shortage may balloon to almost 175,000 [drivers] by 2024.” ATA’s 2012 estimate had predicted a bigger gap.
WHERE ARE THE EMPTY SHELVES?

Thanks to detailed analyses following the first one in 2005 by the American Trucking Associations, the driver shortage has become a media staple. Local newspapers and television stations have developed stories on the topic, often stressing the job opportunity angle — and occasionally conjuring images of empty trucks and bare store shelves.

The shortage story’s been heard in prominent places in recent months: the Wall Street Journal (“Trucking industry will need 890,000 new drivers in next decade”), National Public Radio and CNBC.

While ATA has played a key role in publicizing the issue, it has never “said or suggested that store shelves are empty or will be in the near future” as a result of any driver shortage, says Bob Costello, the group’s senior vice president and chief economist.

Instead, it issues forecasts “as a warning that if things don’t change, that is how bad it could be. Instead, things will change, because trucking is too vital to the nation’s economy.”

ATA’s 2015 report, quoted by the Wall Street Journal story, did invoke the specter of empty shelves, though it didn’t predict when: “If the trend stays on course, there will likely be severe supply chain disruptions resulting in significant shipping delays, higher inventory carrying costs and perhaps shortages at stores.”

Ron Hazel, traffic manager for manufacturer GEA, is one of those who perceived those early shortage reports as alarmist. Recalling the 2005-06 period following ATA’s first commissioned study, Hazel likened it to the nationwide frenzy over a feared computer-systems meltdown that preceded the year 2000 (Y2K). “I call it the ‘driver shortage hype’, like the Y2K hype,” he says.

“As long as a consumer is able to buy it, he really has to be skeptical that a shortage exists,” says analyst Gordon Klemp, who himself has no doubt about the driver shortage’s existence. “As long as he can buy corn every time he goes to the store, there may be a corn shortage, but not in his house.”

As principal of the National Transportation Institute, longtime publisher of the National Survey of Driver Wages, Klemp routinely hears about fleets’ recruitment efforts.

Even with demand forcing up rates in 2014 and 2015, “we’re not at that point yet” where the supply chain will have visible problems, Klemp says. However, over the last year or so, the demand for labor “has been closer to creating a crisis.”

Klemp points to drivers aging out of the workforce and too few replacing them.

From Tennessee-based small fleet owner Cline Everhart’s perspective, though, all the talk of a driver shortage isn’t going to affect pay significantly until shippers can really feel it — at any price. “Today, everybody’s looking for a bargain when it gets slow,” he says, referring to negotiations with customers over freight rates. “The message needs to get to the shippers, the people who are paying us. ... When people’s stuff stops getting there when it’s supposed to be there, then it will change, but probably not until.”

If the trend stays on course, there will likely be severe supply chain disruptions resulting in significant shipping delays, higher inventory carrying costs and perhaps shortages at stores. — ATA, 2015 driver shortage study

media coverage of the driver shortage places trucking job opportunities in the minds of readers, listeners and viewers who may never have considered them.

Texas-based owner-operator Allan Lester faults the industry in this.

“Instead of working with the talent that it has” to keep seats behind the wheel

..."
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occupied, “we’ve shot ourselves in the foot” with so much emphasis on recruiting, he says. So many companies bring in newbies and “train them enough to get their license, then train them for a few more weeks. How do you take a guy like that and put him up the Rockies?”

Some commenters wonder whether heavy mainstream press coverage in fact attracts too many workers, skewing the balance of labor supply and demand. Noted Richard Verdejo, among others with similar thoughts under an OverdriveOnline.com poll, “Sounds like ‘the industry’ is just trying to flood the driver rolls to help keep wages low.”

“We have seen no evidence of this yet,” responds Bob Costello, ATA senior vice president and chief economist. Trucking isn’t a job, after all, “where you just go down to the local store, fill out an application and get hired. Can we soften the shortage? Sure. Will we completely eliminate it anytime soon through pay hikes? Probably not.”

One challenge in framing the trucking labor situation is that “labor shortage” can mean different things. Today it’s considered to describe a condition where demand is greater than supply at current market prices. In essence, that’s what ATA and FTR Transportation Intelligence attempt to illustrate with their driver shortage tracking.

But a more traditional definition describes not supply/demand imbalances at current market prices but a shortage of manpower to do the job at any price. This might be seen during mass mobilizations during wartime, or in an industry needing workers with a rare technical skill. This kind of labor problem can be implied in driver shortage stories that suggest a disruption to the supply chain that consumers will see and feel.

Peter Capelli, a management professor at the Wharton School of Business at the University of Pennsylvania, has written widely on consultancies’ and business associations’ claims about skill gaps/shortages in the U.S. labor force. He’s cast a critical eye at such reports’ refrains of “skill gaps, skill shortages and skill mismatches.”

Much of the evidence of such shortage claims is not apparent in market analyses, Capelli notes, but rather “comes directly from employers … who report difficulties hiring the kind of workers they need” rather than “where labor market experts might expect to see [evidence], such as in rising wages.”

ATA and FTR defend their driver
Respondents to polling conducted in December and January expressed widely different views about a driver shortage. About half (44 percent) consider it real, while the other half (48 percent) view it as myth or primarily a function of other forces, not any real shortage of available workers. Responses to the poll at OverdriveOnline.com from readers follow.

**ROGER:** If there was a shortage of drivers, freight wouldn’t get hauled, and rates would be up. Don’t know about the rest of you, but I’m not seeing it.

**M.J. ZURICH:** The “shortage of qualified drivers” is largely a byproduct of deregulation. That saw the elimination of any meaningful carrier fitness standard. A total abandonment of that federal standard over the years has brought some seriously bad actors into the trucking business, resulting in, among other things, the decades-long wholesale drop in driver wages. Based on my own 44 years in trucking, I’ll still say that if the drivers’ wages and benefits packages are where they’re supposed to be, the people needed for the OTR long-haul jobs will show up. Word-of-mouth about a wage/benefits package will travel faster (and is a more effective recruiting and retention tool) than any slick ad campaign or trucking show kiosk will ever hope to be.

**ED:** The problem is the fact that freight rates are in the crapper and that the new generation of drivers that go through these driving schools is not taught to drive, for the most part. A fellow I know just spent over $6,000 to go through a driving school. Of the 160 hours of the course, he was able to get less than six hours behind the wheel, and by the way, his driving instructor had completed the course less than one year prior. With all the regulations coming down the pike – be it FMCSA or EPA – there may likely be a real shortage soon, though.

**DENNIS BRANNON:** We’ve seen a shift in interest from drivers leaving company employee roles to become owner-operators, but not a shortage. Shortage to me implies that there aren’t enough drivers to meet demand.

The 1099 [independent contractor] economy is gaining traction because millennials aren’t interested in working for the man. I believe that generation will create unconventional ways to meet demand and provide capacity. However, not in the traditional sense the ATA and big-box truckers want it done. Watch for spikes in leased equipment and increased urgency for automation.

**LEANN MCKEE:** The big picture suggests that in the next five to 10 years, there will really be a shortage, as no one wants to get into this business. ... With no incentive for new drivers (signing bonuses are meaningless in the long term, and irrelevant to owner-ops), there will indeed be a shortage. As I’m stuck in this, I hope that shortage truly hits soon, so rates go up!

**TIM:** There probably is an excess of people that could be qualified to drive a commercial vehicle. The problem is that they all have real jobs.
shows average miles per truck per month fell over 25 percent from 2007 through 2012,” he says. Since then, miles per truck are “up 6 percent, but still off significantly overall.”

ATA’s 2015 shortage analysis acknowledges surplus numbers in the driver supply/demand equation in the worst years of the recession, with the shortage returning in slight form in 2011.

Starks, too, sees the forces behind the up-and-down “lumpiness” of the long recovery from the recession as the principal reason for anemic driver pay.

He describes a significant disconnect between shippers’ and carriers’ views of pricing throughout the post-recession period, making rate growth – and consequently driver pay growth – less possible. Because many shippers were growing only modestly, “their expectations for transportation price increases were low.”

Starks says his company’s driver shortage trend estimates offer value mainly because “there are no real actual numbers” of drivers short. A trend of growing numbers in his view illustrates a market that isn’t operating “as efficiently as it potentially could” and getting worse.

When combined with capacity utilization numbers, averaging above 95 percent in recent years, Starks says, the driver shortage estimate has been a good indicator of when pricing will in fact move, as it did significantly in 2014 and, less so, this past year. Based on current trends, he adds, 100 percent utilization could come by 2017, and the market “will have to respond.”

The industry’s typical cycle of pay advances takes 33 to 36 months, Klemp says. It starts when a major fleet is the first in a long time to announce a major pay raise. It ends when the last of the large influential fleets brings its pay in line.

“It did it this time in 17 months,” Klemp says, starting in 2014 with U.S. Xpress. That compressed cycle indicates a strong sense of a driver shortage.

Owner-operator Lester sees the driver shortage debate and statistics as the “same old thing we’ve been talking about for the last 30 years”: how to pay drivers adequately for a tough job in a competitive market. “I hate to hear that there’s such a dilemma when I just can’t see it,” he says.

“What do football teams do? They throw gobs of money at players because they know these guys are who they want. The market demands it. There’s just not that many players that are out there who are first-rate. They get these unbelievable contracts because they’re a rare breed. Are drivers that rare of a breed? I would like to think that.”

– Max Heine contributed to this report.

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