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Latest Quarterly Shippers Survey Finds Some Signs of Truckload Capacity Tightening, Continued Move of Freight from Truck to Rail

Wolfe Research Continues Survey Previously Performed by Bear Stearns; LTL Capacity Remains Loose

SCDigest Editorial Staff

With the collapse of Bear Stearns, we were glad to see top notch transportation industry analyst **Ed Wolfe** move forward with his own firm, Wolfe Research, and that he is continuing the always informative Shippers Survey he published for many years at his old firm. It is now called "The State of the Freight," and the results from the Q2 2008 survey of some 200 shippers is now out.

One of the more interesting findings is that shippers perceive tightening in terms of truckload carrier capacity, after almost two years of increasing perceptions of overcapacity that reached record levels for the 7+ year history of the report.

Now, Wolfe Research says, "the truckload market has reached a state of equilibrium… and expectations are for further tightening." Only 38% of shippers said they thought the TL market was characterized by "overcapacity," versus an amazing 75% who said the same in Q1. 35% see tight TL capacity, while 27% saw balanced supply and demand.

It appears quite likely that the substantial number of carriers and independents exiting the market is having an impact on bringing capacity back into balance even in the face of a slow growth economy, and "after two years of a TL market awash with trucks."

Other highlights from the report:

- **Expectation for Transportation Spend Changes**: Shippers expected on average a 3.5% transportation budget increase over the next 12 months, nearly all of which was the result of expectations for fuel surcharges, as carrier rates are actually expected to remain very soft. However, that survey was taken before the dramatic drop in oil prices, down to the $90 per barrel level seen this week.
- **Shippers Less Happy with Rail Service**: Shippers were not well satisfied with rail carrier service in Q2, as all five of the major rail carriers were rated as having service level decreases year over year. Wolfe Research speculates that some of those service issues were caused by the flooding problems in June in the Midwest, however.
- **Movement from Truck to Rail:** As we reported last week in our Supply Chain Graphic of the Week, rising diesel costs and probably to a lesser extent Green Supply Chain concerns are driving more and more shippers to look for opportunities to move greater volumes of freight to rail carriers. With a shift of almost 5% from truck to rail in the current survey results, that's substantially more than the 3% or so that went from rail to truck (which typically happens over service concerns) in the same period. The Q2 results follow the same pattern

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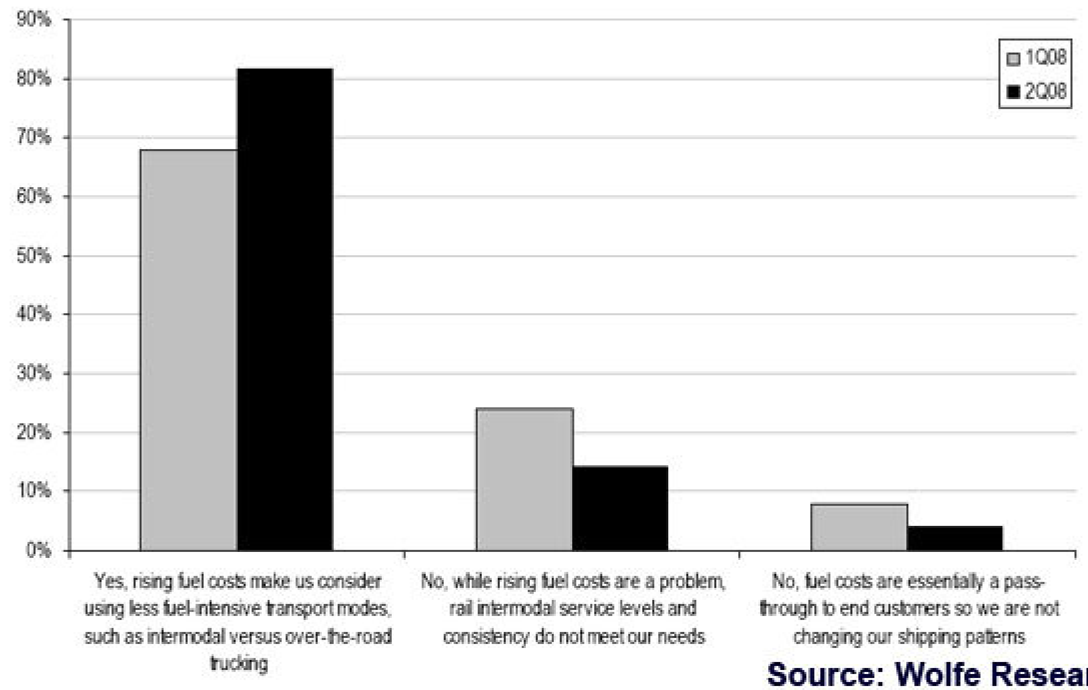
Exhibit 17. Are Rising Fuel Costs Forcing You to Re-examine Your Supply Chain, Particularly Your Use of Rail Intermodal?



Source: Wolfe Research

that was seen in the Q1 survey, where the plans for modal shifting was even stronger (7.4% shift to rail), as fuel surcharges have pounded truck shippers in 2008.

- **Rising Fuel Costs Changing Transportation Strategies**: Not surprisingly, rising fuel costs are causing an increasing number of shippers to rethink overall transportation strategies. 82% of survey respondents said they are looking at more permanently moving some of their freight to rail/intermodal or some other mode change to reduce transportation costs.
- **Rail Prices Rising:** The gap between TL and rail rates was seen to be closing, to just a 12% difference between rail and TL, meaning rail was perceived to be 12% less expensive than TL to move the same amount of freight. That gap was down more than 2% from Q1 even in the face of more rapidly rising TL fuel surcharges, suggesting "that the underlying rail price relative to truck continues to climb faster than the disparity from the impact of fuel," the report says.
- **Rail Rate Expectations Vary Substantially**: There was a wide dispersion around what shippers expect for upcoming increases in rail carrier rates. About 19% expect rail rate increases of 5-6% in 2008, which is down from 32% who expected that level of increase in Q2 2007 but about the same as the Q1 2008 survey. Conversely, 14% expect rail rates to be flat, and 7% expect a decline. The vast majority (65%) expects rail rates to rise between 2-4%, and 14% expect 1-2% increases. Norfolk Southern was perceived as the most aggressive on rate increases – a perception borne out by the carrier's financial data, says the report, as NS reported pure price gains of 9% in Q2.
- **Shippers Favor more Rail Regulation, but Percentages Decline**: 52% of shippers in the survey support the "Rail Re-Regulation" bill cur-

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rently being discussed in Congress, and 77% support another railroad anti-trust bill, which would eliminate some current anti-trust exemptions for rail carriers. However, that's down from 65% and 86%, respectively, reported in Q1.

- **Less Tightening Seen in LTL Market**: While capacity is seen as tightening in truckload market, the same is not true in LTL. For the seventh straight quarter, more than 50% of respondents saw overcapacity in the LTL market, and 9% reported "extreme overcapacity."
- **Shippers See TL Carriers Leaving Market**: 73% report seeing an increasing number of TL carriers exiting the market in the last 12 months, up from 46% in Q1. 24% see no change in the rate of carriers leaving, but that is down 50% from Q1.
- **Shippers Trying to Lock in Lower Rates**: 17% of both TL and LTL shippers say they have already negotiated multi-year contracts currently with carriers to try to lock in lower rates now. That's up from 16% For TL and just 11% of LTL shippers in Q1. Interestingly, 11% of TL shippers and 10% of LTL shippers tried to negotiate multi-year contracts, but were not able to accomplish it and settled for one-year deals.

Those are the highlights from the Q2 report. SCDigest is glad to see this excellent work continued under a new banner.