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Quarterly Wolfe Research Shippers Survey Delivers more Bad News for Carriers – but Some Signs of Hope

Rate Environment Slows Move to Rail and Intermodal; Spot Market TL Rates often Well Below Contracts

SCDigest Editorial Staff

SCDigest was anxiously awaiting the Q1 shipper survey (now called "The State of the Freight.") from Ed Wolfe and Wolfe Research. The Q4 2008 report was certainly downbeat, but it was not clear if the full impact of the financial crisis had been captured in that quarter's data.

Now we have the results for Q1 2009, where clearly the financial crisis and deep recession were fully felt by the hundreds of shippers that participate in the survey. The bottom line: more bad news for carriers in terms of falling volumes and rate expectations, but with some rays of hope that we have bottomed and that freight volumes and the overall economy will start to recover.

The bottom line, says Wolfe, is that "Despite increasing signs that the general economy and sentiment have not only stabilized but also recently have begin to improve, most freight signs point to continued deteriorating freight demand," and that freight rates may not begin to move upward again until after 2010.

Key highlights from the report:

Transportation Budgets Shrinking in 2009: On average, shippers expect transportation budgets to drop a sharp 12% in 2009 without considering fuel, and 3.5% including fuel costs. Given the current level of fuel costs versus 2008, however, it seems to us that there is some disconnect between those two numbers.

Some Improvement in Expectations: While 63% of shippers expect to ship less in Q2 than they did in the same period for 2008, that's actually down from 70% with those expectations in the last quarter's survey. However, Wolfe notes they have not seen any uptick in freight volumes through April.

29% of respondents said that spot market truckload rates were 5-10% below there current contract rates, and another 28% who said spot rates were more than 10% lower.

Some Movement from Rail to Truck: Other industry experts have noted that the extreme deals available in the truckload market are causing some shippers to move freight from rail to truck. The Wolfe survey supports this view, noting that "our survey results suggest that trucks will regain some modest market share back from rails over the next 6-12 months." On a related note, the respondents on average see rail rates are about 11% lower than comparable truckload rates, the smallest delta since the survey began many years ago.

Lower Oil Prices Curb Intermodal Fervor: In Q3 2008, an astounding 80% of respondents said they were looking at moving some truckload movements to intermodal, mostly in response to then soaring fuel costs. In Q1, only 27% of respondents were looking to move more freight to intermodal.

Companies Delaying Inventory Builds: Even with signs of recovery, 70% of respondents do not think they will start to build inventories until at least Q3 2009, and 30% not until 2010.

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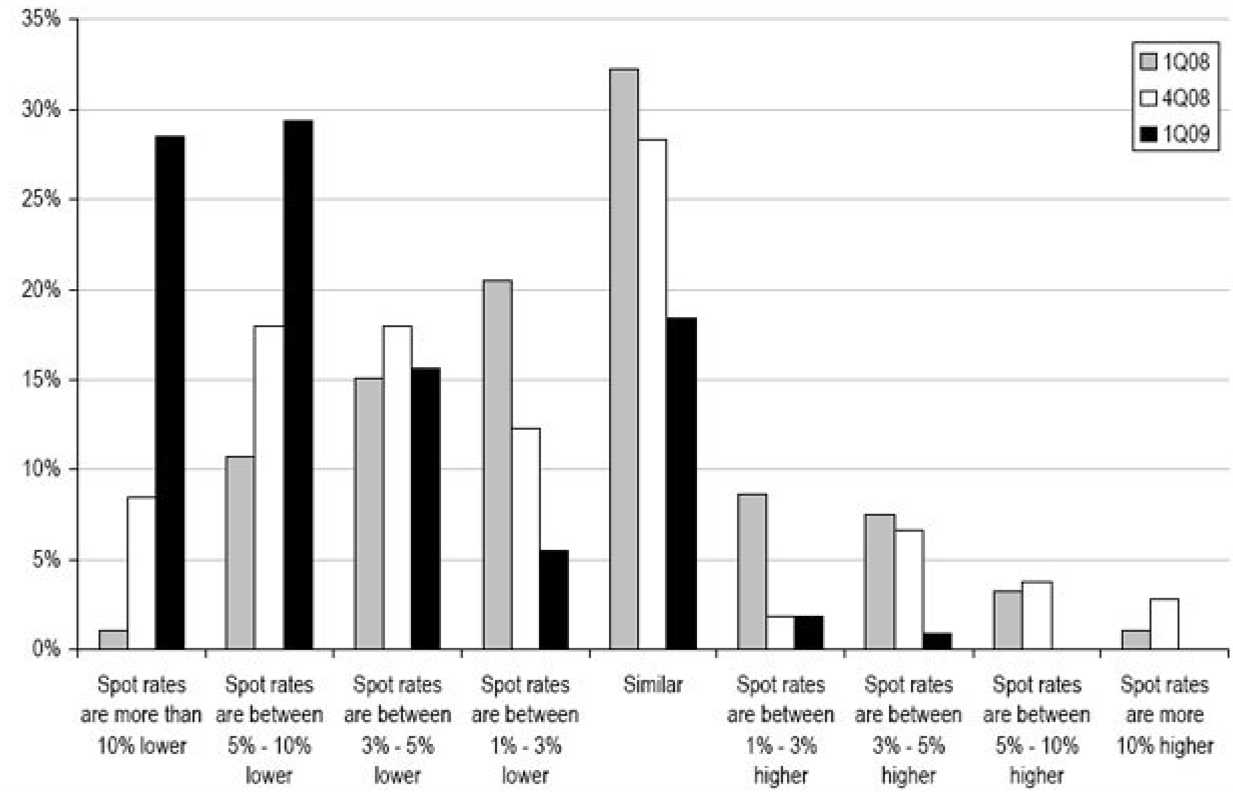
Exhibit 46. How Do Current Spot (Non-Committed, Non-Contractual) TL Rates Compare with Current TL Contractual Rates?



Source: Wolfe Research, LLC.

Rail Carriers Still Show Some Pricing Power: While most other modes have seen steep declines in rates, shippers on average expect rail rates to increase about 1.6% in both 2009 and 2010. Some of that, however, is due to many respondents being "captive" shippers to specific rail lines.

TL Spot Rates Beat Contracts: 29% of respondents said that spot market truckload rates were 5-10% below their current contract rates, and another 28% who said spot rates were more than 10% lower.

Perceptions of Overcapacity in Trucking Remain Staggering: It's not surprising, but staggering nonetheless, 91% of respondents see over capacity in the truckload market and 85% in the less-than-truckload (LTL) market. For the first time since the Q2 2008 survey, however, more respondents (31%) expect tighter TL capacity over the next 12 months than increases in over capacity (24%), perhaps simply a sign that most believe it couldn't get any worse for the carriers.

Parcel Rates also Under Pressure: UPS and FedEx also retain some pricing power, as 67% of respondents expect to pay 2009 rates increases from the parcel carriers; however, that is down slightly from the 71% that felt that way last quarter.

In conclusion, Wolfe says that "We continue to believe that any improvement in demand will likely be gradual and over several quarters, and that the longer weak demand exists, the worse the pricing environment [from a carrier's perspective] likely will in 2010 across all freight modes."