

Logistics News: Worst May be Behind Truckers in Terms of Volumes, Rates

After Steep, Recession-Led Declines, Shippers Can Expect Flat to Slightly Increasing Rates in 2010, Say Baird Analysts

SCDigest Editorial Staff

It has been an incredible buyer's market for transportation services over the past two years, with even more significant discounts in the market emerging in 2009 after the financial meltdown in Fall 2008. Many carriers have been said to be pricing below variable cost to keep market share amid the double digit drops in freight volumes.

How have so many carriers managed to stay afloat in this environment? As SCDigest has reported earlier, in an interesting twist, the recession has caused global demand for transportation assets to also crater. That means that banks foreclosing on financially troubled carriers can extract little value from their trucks and terminals, so the smarter path for now is to let them make interest only payments or other accommodations and keep the business going.

A new report from the stock market analysts at Robert W. Baird says that there are signs that the worst is at long last behind the carriers, and that this should lead to some modest rebalancing of the demand-supply equation in the carriers' favor as we head into 2010, something shippers should consider in budgeting and contract negotiations.

The ATA Truck Index continues in general to show improvement, with 1.2% increases in July and August, followed by a small decline in September (down .3%, all numbers seasonally adjusted).

The ATA also said tonnage in September fell 7.3 percent, which while a strong negative was at the same time also the best year-over-year showing since November 2008. In August, the index was down 7.5 percent year over year.

Still, to what the economy has done to the trucking industry, the ATA truck index now stands at 103, just 3 percent above the 100 index benchmark established all the way back in 2000.

Spot market pricing has also stabilized. As shown in the graphic below, Baird sees spot market demand remaining steady or actually increasing a bit right now during a period where such demand usually falls sharply during the latter months of the year.

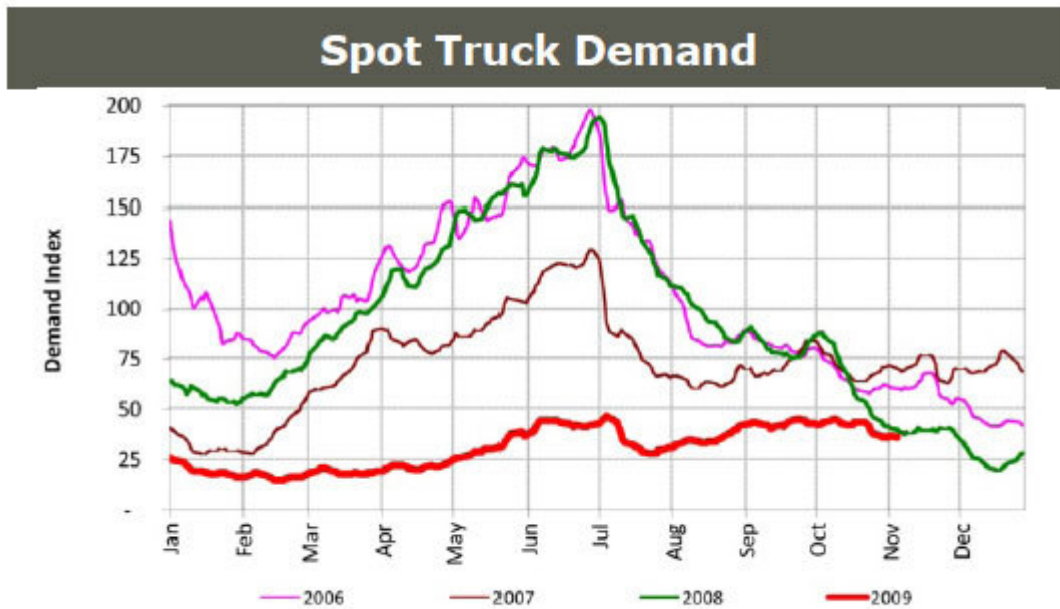
(See graphic on page 2.)

The Transcore Freight Index has also shown spot market improvement for truckers, with spot market volumes in October up 10% over a dismal 2008 number, the first year-over-year monthly increase in 2009.

As a result of all this, Baird believes "Freight rate deterioration appears to have abated, with pockets of pricing improvement," according to a just released analysis.

It says shippers can expect "more widespread price increases as positive demand emerges with a stronger economy and as the supply/demand balance normalizes, given the ongoing below replacement-demand in new truck ordering."

Logistics News: Worst May be Behind Truckers in Terms of Volumes, Rates (Con't)



Source: Industry data, Baird estimates.

These dynamics should lead to a different environment in 2010 than the previous two years, and “produce flat-to-positive truckload rates in 2010,” according to Baird.

Still, to what the economy has done to the trucking industry, the ATA truck index now stands at 103, just 3 percent above the 100 index benchmark established all the way back in 2000.