Truckload Market Sees Bottom Having Arrived, but Fundamentals are Still Rotten

Used Ford Pick-Up Worth More Than Class 8? Questions around Market Capacity

SCDigest Editorial Staff

While truckload carriers in the US seem to think the bottom has at last arrived for volumes and rates, the financial environment continues to be brutal for carriers, and large questions remain about what the capacity situation will look like after the recession ends.

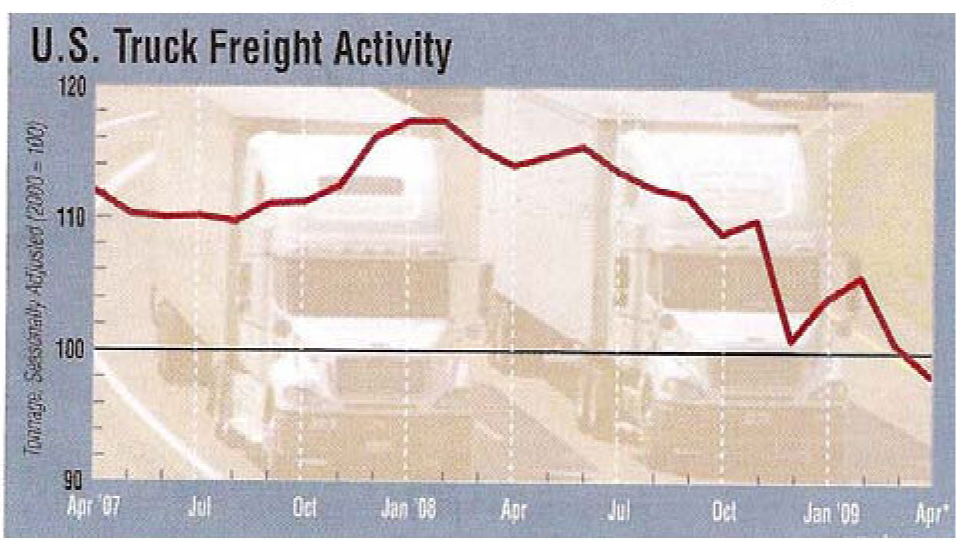
Those are among the conclusions from a recent interview with **Lana Batts**, an analyst at Transport Capital Partners, conducted by **John Larkin**, who follows the transportation industry for investment firm Stifel Nicholas.

Batts noted the incredible drop in freight volumes that really started to be seen three years ago, and which turned into what Batts calls a "depression in tonnage" upon the financial meltdown of September, 2008.

The trucks of both bankrupt carriers and trucks voluntary idled are still here – and most of them could be brought back on-line when volumes return.

Amazingly, that depression has taken freight vol-

The Last 36 Months Have Been Rough



Source: American Trucking Associations, Lana Batts

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umes below levels seen in 2000, as shown in the graphic on page 1, in which the 100 level on the index represents volumes from that 2000. The ATA data includes volume across all truck modes, and Batts notes that as bad as things have been for dry van carriers, they have been even worse for flatbed.

On a brighter note for carriers, the truckload "spot market" volumes were up in both February and April of this year, though Batts says volumes are back to Q1 2003 levels, when spot market activity was first tracked.

Carriers Showing Some Optimism

Transport Capital Partners conducts a quarterly survey of carriers, and in the most recent one, carriers appear to think the market has finally reached bottom.

When asked about their prospects for the next 12 months, 36% of carriers in the survey expect to see an increase in volumes, versus just 16% that felt that way in the November, 2008 results.

"I think what this reflects is the optimism in the truckload industry that we have in fact seen the bottom and that things will start to get better in the future," Batts says.

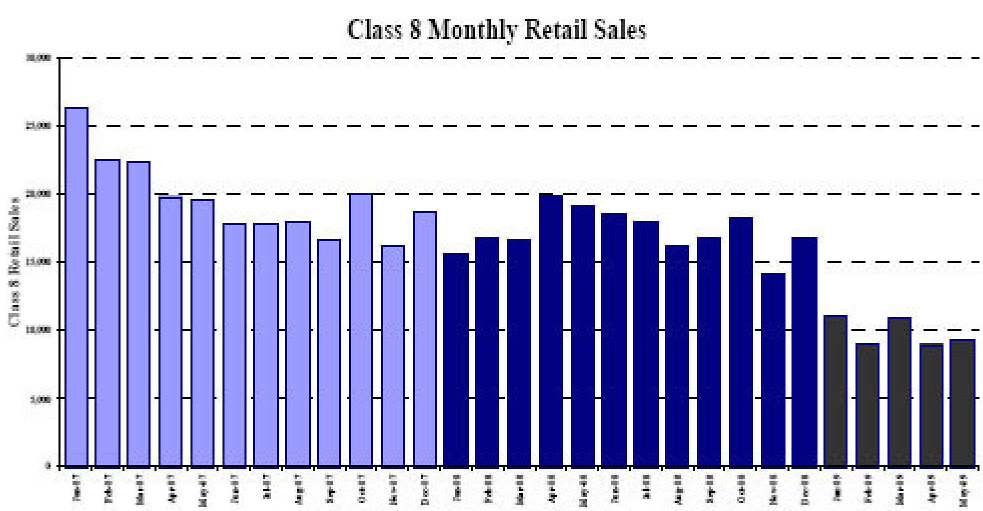
Where is Capacity Headed?

Of course, the dramatic fall off in volumes has meant extreme excess capacity in the market, a resulting implosion in freight rates, and many carriers leaving the marker.

Batts estimates that bankruptcies have idled around 150,000 trucks over the last five quarters, representing a reduction in capacity of 8% to 9%. In addition, many other still solvent TL carriers, especially larger providers, have voluntarily idled trucks.

As SCDigest has noted before, the market should have seen even more bankruptcies and lost capacity, except that many banks have not foreclosed on carriers that are not making payments or have defaulted on load covenants.

Class 8 Truck Sales at 17-Year Low



Source: Transport Capital Partners

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"I think over time what we're learning is that lenders are not pulling the plug as we had expected, and again, it's primarily because of the used truck prices," Batts says. Because the domestic and especially overseas market for used trucks has also imploded, banks are reluctant to force a carrier into bankruptcy, because they can recover so little from the carrier's assets.

"We were joking one day that a two-year old Ford 250 pickup is in fact worth more than a four-year old Class 8 truck," Batts said.

That's more than just a funny observation – it also brings into question whether the idled capacity is actually leaving the market. In the past, the equipment of bankrupt carriers was generally sold off to international markets in Eastern Europe or South America; now the trucks of both bankrupt carriers and trucks voluntary idled are still here – and most of them could be brought back on-line when volumes return. That means the concerns of some that we could quickly return to tight capacity upon a recovery due to truckers leaving the market may be overblown.

On the other hand, sales of Class 8 trucks in 2009 will likely see a 17-year low (See graphic on page), and Batts expects very few "pre-buys for 2010" as well. In addition, rising fuel prices, should they occur, could also trigger a fresh wave of carrier bankruptcies.

Batts says rising fuel prices have traditionally been a major drivers of trucking firm failure. While "A lender may say to a trucking company, "Well, just make interest payments on these trucks or every other payment," most fuel companies want to be paid within 24 hours, if not immediately." Batts notes. "In fact, as fuel prices go up, we expect to see bankruptcies go up regardless of what the lenders do."

Next week, we'll share Batts' views and research on the prospect for truckload rates.