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As Truckload Rates Continue Freefall, Middlemen Actually See Margins Grow

A Freight Recession like No Others, as One-Third of Freight Out Volume Leaves the System; Can Rates Go Any Lower?

SCDigest Editorial Staff

This has been a freight recession not like any other in recent decades.

While year-over-year volume declines have remained consistently in the double digits, from their peak truckload volumes in the US are down by an incredible 33%.

That is the number, according to **Lana Batts**, an analyst at Transport Capital Partners.

"If you told any of us two or three years ago that we would lose one-third of the freight in the system, people would have thought you were crazy. But that's precisely where we seem to be right now," said **John Larkin**, who follows the transportation industry for investment firm Stifel Nicholas, in response to Batts' data. (For Batts' view of where TL capacity is headed, see: **Truckload Market Sees Bottom Having Arrived, but Fundamentals are Still Rotten**

Larkin and Batts surmise, however, that not all of that loss is due to lower economic activity. Some is due to supply chain improvements designed to reduce transportation miles for both cost and Green Supply Chain reasons. Many companies, such as Kimberly-Clark, have recently redesigned their supply chain networks to reduce total miles driver. Others are using TMS software and other techniques to optimize routing and reduce miles driver, while many other companies have changed packaging designs to get more of the same goods on a pallet or truck.

Still, Larkin says, "I would suggest that maybe only 10% or 15% of that one-third decline in the overall tonnage being hauled within the U.S. transportation system is related to supply chain redesign. The rest of it is due to just a good old fashioned deep recession that really, for the first time since deregulation, is involving the consumer in a big way."

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Batts also notes an interesting phenomenon: that many brokers and Logistics Service Providers (LSPs) that buy freight on behalf of clients have actually been seeing their margins – the percentage difference between their buy and sell prices – increase over the past year, even as volumes have plummeted.

Batts says that is simply the result of middlemen being very good at playing off carriers desperate for business off each other even more than usual – a pocketing some of the profit for themselves. She says, however, that something isn't right in that equation.

"All I can say is something is wrong….when the

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carriers who actually own the assets are not being rewarded for the associated risks, and the companies that have no asset risks really are seeing their margins rise," she says.

Gene Tyndall, Executive Vice President at Tompkins Associates and former executive a major LSP, isn't surprised at this – but says it comes with the territory.

"Yes, there is something that can be considered unfair about an LSP increasing its transportation management margins at the expense of the motor carriers," he told SCDigest. "However, especially during this severe downturn, it is in everyone's best interest -- including the consumer -- to work toward lower prices for goods and services. The LSP margin is an effect of its obtaining reduced rates, not a cause; and lower freight rates should translate into a net benefit to the overall economy. Asset owners have to live with supply-demand imbalances all the time, it comes with the industry."

Carriers Think We Have Hit Bottom

Truckload rates obviously have been declining precipitously, with many saying some carriers are accepting loads at rates below variable costs. In a recent survey of some 150 truckload carriers conducted by Transport Capital Partners, for example, none of the carriers said their rates had increased in the past three months. The survey found 15% of the carriers said that their rates have remained the same, but 50% or more have seen at least a 5% decrease in their rates. 49% saw a decline of 5%, 23% saw of decline of 10%, and 12% saw a decline of 15% or more in the last three months, according to Batts.

Interestingly, the survey found a much higher percentage (24%) of small carriers (under $25 million) said their rates had remained at least flat, versus just 10% of the larger carriers – which Batts says is probably related to smaller carriers in many cases operating in more protected, regional lanes.

The smaller carriers are "trying to keep themselves hidden from the big guys, but it probably also is another reason why you're seeing more of the large long-haul carriers trying to move in to the regional markets," Batts says.

All told, a rising percentage of carriers (over 50%) at least now believe rates will remain constant over the next 12 months, versus the darkest days of last November, when just 30% felt that way.

Still, constant rates at these levels won't do much to get carriers healthy again.

"I don't need rates to stabilize, I need them to increase," the CEO of one TL carrier told SCDigest recently. "We are losing money at these rates."