

Like The Temperature, LTL Prices Heat UP

UPS, the nation's fourth largest LTL carrier, announced on July 1st, 2011 a General Rate Increase (GRI), averaging 6.9 percent covering shipments in the United States, Canada and Mexico. This GRI takes effect on August 1, 2011, and applies to minimum charge, LTL rates and accessorial charges. While this generally does not apply to contractual shipments it is sending a strong signal about expectations when it comes time for contract renewals. The impact will vary based on specific lanes or shipment characteristics, such as weight or class and will not be made public until the effective date but at that time you can download them from www.ltl.upsfreight.com.

This is the first rate hike in 2011 and will most likely not be the last. Last September UPS took a 5.9% increase without much pushback. Many were surprised to see 2010 increases sticking and slowly working their way into higher contract rates. Again this year they are raising the pricing bar with this action and others are likely to follow. This comes at a time when over capacity is on the decline and demand is moving in the right direction.

This first step by UPS will make it easier for others like FedEx Freight who took a 5.9% increase last September. It will also certainly be a benefit to YRC Worldwide who has been struggling to improve margins. YRC continued to reduce the size of its network during the first quarter, closing or selling more than 30 terminals, bringing its total facility count in the national network down to 296. Yet the country's largest standalone LTL carrier still has 10 percent overcapacity.

Although volume was not that robust at the end of the second quarter of this year, pricing power seems to be slipping in favor of the carriers. They point to the rising cost of equipment, fuel, the new HOS legislation and CSA rating as reasons for pricing going up. Equities analyst Ed Wolfe of Wolfe Trahan & Co. estimates average LTL carrier yield grew 4.9 percent in the second quarter following 2.8 percent growth in the first quarter.

Less-than-truckload carriers spent last year stuck behind truckload operators, struggling to raise rates. They gained ground in the first quarter as excess capacity diminished and freight demand grew. Now in the heat of the summer they are sending a message before expected growth in the second half of the year.