

TIS THE SEASON TO BE JOLLY?

This is not the case in the transportation marketplace. According to the Morgan Stanley Freight Index there was a significant drop in TL demand in November. This is a trend that has been gaining momentum with tonnage on the decline since June of this year. The same is true for the rail marketplace which has seen year over year declines of 8.7% through the first week of December. Intermodal rail freight seems to be the area that is being most effected while coal managed to post some growth. Container traffic in the nation's ports fell for the 16th consecutive month. Parcel carriers are feeling little holiday cheer this year. The economic slowdown has resulted in the lack of a real pick-up in holiday traffic. The current economic ills have also resulted in a modal shift by many shippers from air express to ground to reduce costs, resulting in a negative impact on carrier margins.

U.S. manufacturing activity is at its weakest levels in 26 years. This, coupled with less consumer retail purchases, is having a dramatic effect on freight. The declines in shipping activity that began at the end of the third quarter, have worsened in October and November, and are continuing in December. This comes as we are approaching the seasonal low point that traditionally takes place in the first quarter. Simply put it looks like tough sledding for the transportation markets.

However, if you sit on the other side of the table as a shipper looking to reduce costs there is some good news - but there should also be concern. Yes, the pendulum has swung in favor of shippers when it comes to negotiating with carriers. Yes, shippers are asking for extended terms to preserve their own cash flow. However, transportation buyers should be aware that carriers can be pushed only so far.

If you take a look at YRC you will see what we mean. They are looking to significantly reduce costs as they try to maneuver through this time of tough economic activity. They have managed to negotiate approximately \$250 million in concessions from the teamsters and non-union staff has taken 10% pay cuts. While YRC appears to be taking action right now to preserve its franchise, shippers must be aware of the impact that the loss of YRC could have on the trucking industry as well as the shipper community. This could lead to the domino effect that we saw in the financial services community.