

The Price War Is Over

As we progress into 2010, shippers across the country benefited from unprecedented pricing power throughout 2009 in all modes of transportation, excluding Ocean container movements.

This can clearly be seen in the earning results recently posted for the fourth quarter of 2009. Old Dominion's revenue fell 7.4% to \$310.9 million; its year-over-year tonnage improved slightly in December, which was the first month of 2009 without a decline.

Hub Group's fourth-quarter revenue fell 5%. This decline was attributable to a 7% decrease in prices, partially offset by a slight increase in volume.

ABF Freight System's revenue fell to \$347.7 million, from \$375.2 million. "The results illustrate the impact of an extremely weak and uncertain freight environment that has continued now for forty months," said Judy McReynolds, the company's Chief Executive Officer.

The overall industry estimate is that less than truck load shipments declined by approximately 10% last year. This condition was made worse by too many LTL carriers attempting to take advantage of the precarious position that Yellow Roadway found themselves in. However, that was not the sole reason for the decline. There has been only a slight buildup of inventories during the past year. This has dampened hopes that carriers may have had for price stability in 2009. The marketplace remained unbalanced with capacity outstripping supply by estimates that range from 15% to as much as 30%. With excess capacity at these levels, we continued to see carrier bankruptcies at unprecedented levels as carriers offered discounts as high as 80% from published rates just to buy market share.

This is a scenario that can not go on forever. Carriers have nominally raised rates as we have seen in the general rate increases published by FedEx Freight and Old Dominion Freight Lines. Old Dominion took a 4.4% increase effective January 18th. FedEx announced a 5.9% general rate increase effective February 1st. These increases are for non-contracted moves but they should be seen as a signal. Carriers are saying that we may be at the bottom of this cycle. While it may be some time before we see prices increase, the predatory pricing to buy market share has probably ended.