

The Winds of Change

Storms

Last month we talked about the fact that freight rates may have hit bottom. This month we are able to see through the February storms that it does not take much for freight rates to tighten.

Morgan Stanley indicated that a strong inflection in their Truckload Index over, the past few weeks, is likely to have been caused by the recent blast of snow storms that hit various areas of the country. Evidence comes from their regional analysis. Regionally, the largest spike was in the Northeast, followed by the South-Southeast, and Midwest. The West remained strong but relatively constant through this period. These trends mirror the degree of weather disruptions across the US. They suspect that winter storms forced a number of trucks off the road and tied up capacity with longer transit times. This would explain the downturn in incremental supply. With less supply available, the incremental demand for capacity (or backlog) rose as did spot prices. The Morgan Stanley Truck Load Index increased 24.4% in the Midwest in early February. The quick snap back in prices caused by the snow storms is yet another sign to shippers that we are reaching a tipping point with rates that have been soft for so long.

Drivers

The decline in demand for trucks over the past 18 months has resulted in a loss of drivers. If the economy picks up, as is expected in the second half of 2010, driver shortages could result in an increased cost of transportation. Carriers are facing tougher Federal safety regulations (CSA 2010) and it is expected that this may be the beginning of driver shortages. In the past we have seen how driver shortages force freight costs to increase. Schneider National surprised many in the transportation industry when they said they expected to hire 2,100 drivers for their growing regional business. In general, trucking is a leading economic indicator and recovers faster than the economy. With current capacity down by 15%, it will not take much to cause rates to tighten. Carriers are already starting to talk about how driver shortages will result in increased costs in the future.

For those not familiar with CSA 2010, it is short for Comprehensive Safety Analysis 2010. This is a Federal Motor Carrier Safety Administration (FMCSA) initiative to improve large truck safety, ultimately reducing commercial motor vehicle related crashes, injuries and fatalities. It introduces a new enforcement and compliance model that allows FMCSA and its state partners to contact a larger number of carriers to address safety problems before crashes occur. When the program is fully rolled out by the end of 2010, FMCSA will have a new nationwide system for making the roads safer for motor carriers and the public. CSA 2010 will build on FMCSA's current processes for assessing and improving the safety performance of motor carriers and drivers through a new safety measurement system and a new suite of tools. CSA 2010 is currently being tested in six states. In summer 2010, the program launches, replacing the current SafeStat system with the more comprehensive Safety Measurement System (SMS). While making the roads safer it is also likely to result in higher transportation costs.

YRC

With key debt equity program in hand and an \$85 million tax refund, YRC is winning back customers. This should put a stop the predatory pricing that had been taking place while YRC was on the ropes. YRC has the industry's largest customer base but its market share has dropped from 25% to less than 20%. Other carriers have paid a high price for their actions, trying to lure away YRC's customers. For example: Con-way was able to increase freight tonnage per day by 20.6%, but their yield declined 11.7% with fuel excluded. It would seem that the price attacks on the YRC customer base will now subside.

Smart Shippers should be aware that the second half of 2010 is likely to bring about a change in the market place that has not been seen for the past 18 months. Data2Logistics' robust information and experienced Business Intelligence Team is working with shippers today to help them prepare for the inevitable improvement in the economy and changes in the transportation marketplace which likely will occur.

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