

Where Are Freight Rates Going?

According to the recent CSCMP State of Logistics Report, motor carriers handle 78% of the transportation that moves in the US. That task will become a bit more daunting as the government applies additional economic stimulus and the economy begins to recover even at its current glacial pace.

The problem lies in the fact that the number of trucks and trucking companies are disappearing at a rapid pace. In the U.S., all but 2,000 truck companies closed their doors last year and another 2,000 are expected to fail this year. The economic downturn has wiped out a massive amount of capacity, which many companies have yet to recognize after last year's predatory price wars. However, this dramatic shortfall will become increasingly evident as soon as consumer spending rises. It may take time but spending will rise and when it does so will the demand for transportation. By then, carefully managed inventories will cause the need for inventory replenishment and transportation costs to rise. Last month we saw Federal Express announce a significant general rate increase. We should expect more of the same later this year and into 2011. It may be a choppy ascent in prices but the trend line is clearly going up.

ATA Chief Economist Bob Costello believes that "tonnage will likely see some moderate gains for the second half of the year. Because of the reduction in the number of carriers since the start of the recession, even a small improvement in tonnage will have a larger impact on the industry". We have also seen the spot market load index increase by 69% from September 2009 to September 2010.

Intermodal shipping is growing. The Association of American Railroads (AAR) reported during the first week in October that U.S. railroads saw the highest weekly intermodal volume for 2010 and highest container count on record for the second consecutive week. For the week ending Sept. 25, 2010, intermodal traffic on U.S. railroads totaled 241,167 trailers and containers, up 17.3 percent from the same week in 2009, but down 2.1 percent compared with 2008. Container volume last week increased 19.2 percent compared with 2009, and rose 6 percent compared with 2008. Trailer volume last week rose 7 percent compared with 2009.

Just over our northern boarder, results published by the [Canadian General Freight Index \(CGFI\)](#) indicate that the trend of increasing ground transportation rates continued through the July 2010 period in Canada. Overall Canadian freight costs increased by 3 percent in July when compared to June. Base rates, which exclude the impact of fuel surcharges assessed by carriers, also increased by 3.2 percent, while average fuel surcharges decreased slightly from 13.42 percent of base rates to 13.13 percent during the same period.

It appears that Canadian shippers hit bottom in April of this year. Since then there have been three consecutive months of increases, led primarily by activity in both the domestic and trans-border truckload sectors. Many experts are still anticipating major trucking capacity shortages in the near future in the US as 2011 approaches. Now more than ever shippers are looking to match loads and build round trips.

Smart shippers are recognizing that the reduced transportation costs achieved in 2009 that trickled through to 2010 will not be available in 2011. They must plan to use the information that Data2Logistics provides to budget better and make more informed decisions. To learn more about how we can help, please contact Karin Speaker at 239.707.7204 or via e-mail at Karin.Speaker@Data2Logistics.com.