

Ring Out The Old Ring In The New Year!

With 2007 behind us, both shippers and carriers are generally happy to see the year come to a close. It has been a year marked by softer demand for transportation services, as well as higher diesel and jet fuel costs that have squeezed carrier margins in an already soft marketplace. While shippers may feel they have an edge in their negotiations with carriers in all modes of transportation, the truth is that many of the issues for

concern have only been mitigated by the economic slow down and have not disappeared. This includes general rate increase adjustments that most carriers will take, increased security measures, the shortage of drivers, hours of service issues, fuels costs, and elimination of collective rate making by the rate bureaus. The economic outlook for the first half of 2008 will present a challenge to all, especially motor carriers. But for the moment let's just say Happy New Year!

FedEx - UPS Announce General Rate Increase

FedEx

FedEx Corporation said it will raise shipping rates 5.48% for its less-than truckload FedEx Freight unit and will put in place a "commensurate increase" for its long haul FedEx National LTL division. The increase will be effective Jan. 14, FedEx said in a statement. The company last raised rates 5.6% in April 2007 for its LTL units. In November 2007, the company had indicated that it would raise FedEx Ground rates by an average of 4.9%, matching rival UPS Inc.'s increase.

This increase comes after FedEx said that its second quarter profit fell to \$479 million or \$1.54 a share, down from \$511 million or \$1.64 a year earlier. Revenue for the fiscal quarter ended November 30 rose 6% to \$9.45 billion, the company said in a statement. This was attributed to higher fuel prices and continued weak growth in the U.S. economy that have hindered profitability.

Rates for other FedEx Corp. units, including specifically FedEx Express and FedEx Ground, are not affected by this increase, the company said. FedEx had said in October 2007 that it would boost 2008 air shipping prices 4.9% - 6.9% minus a 2% reduction in its fuel surcharge.

UPS

UPS new list rates for 2008, include an average 4.9 percent increase for UPS Ground and Ground Hundredweight shipments and a net average increase of 4.9 percent on all air express and U.S. origin International shipments.

The increase for air express and international shipments is based on a 6.9 percent increase in the base rate, less a 2 percent reduction in the current fuel surcharge. The new rates will take effect on December 31, 2007.

It should be recognized that each shipper must look more deeply into their own shipment characteristics to determine how the announced price increases will impact their actual transportation spend. For example, if you look at the increases in base rates announced by UPS between 2004 and 2008 they amount to approximately 20%. The actual costs by shippers can be as much as 10% higher over this period of time based on their shipping zones, weights and the accessorial charges they incur.

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FedEx - UPS Announce General Rate Increase (continued)

We can help!

Our business intelligence team has helped many major customers review the impact of carrier increases based on historical data. Our team is also available to support bid proposal analysis and carrier negotiations. This analysis

can be done on either a contingency or flat fee basis. Contact Karin Speaker at 239.707.7204 to learn more about these services.

A Look At The Recent Past And To The Future

First the past ...

The Department of Transportation Services Index is a seasonally adjusted monthly index measuring the output of services provided by the for-hire transportation industries, including railroad, air, truck, inland waterways, pipeline and local transit.

The TSI for October slipped 0.3% from the same month last year, although it rose from September's level. The freight TSI rose 1.3% from September, the biggest increase since May 2006, DOT's Bureau of Transportation Statistics said in its monthly report.

The month-to-month increase pushed the freight index into positive territory for the year after having been down for the first nine months. Through October, the freight TSI was up 0.6%, DOT said. At a reading of 109.5, the freight index is down 3.2% from a peak of 113.1 in November 2005.

Now the future...

The three major integrated carriers have continued to expand their service foot print and acquired additional assets of motor carriers in 2007 and we feel they will continue to do so in the future. This is based on a research report produced by Global Insight, an economic research firm for the American Trucking Association. It

indicates that Trucking will continue to be the dominant mode of freight transportation in the United States over the next 10 years.

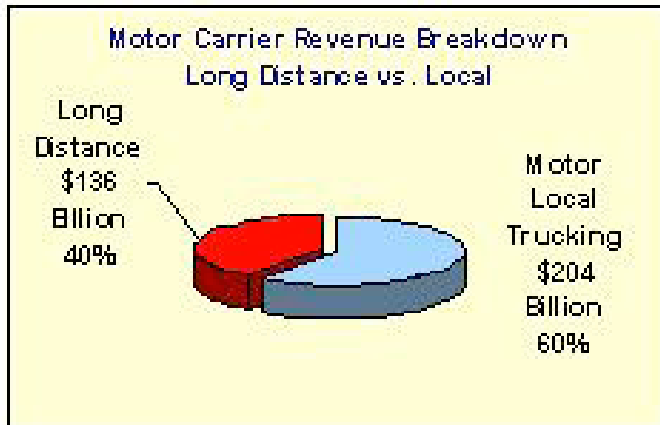
The "U.S. Freight Transportation Forecast to 2018" predicts growth for all modes, with motor carrier's share of freight tonnage increasing from 69% in 2006 to 70% in 2018. Despite current weakness in truck tonnage, growth will be driven by above-average growth in key truck commodities, and shipper demand for flexibility and on-time delivery (remember the report covers a 10 year span).

Rail intermodal and air freight will be the fastest growing segments, but neither mode will have more than 2% of overall tonnage during the 10-year forecast period, ATA said. It is expected that U.S. railroads and trucking companies may see weak demand at least through the first half of next year, according to a report from Fitch Ratings. Railroads may fare better than truckers because tighter rail capacity will help boost rates. The outlook reflects the effects of the U.S. housing slump and global deterioration in credit markets. Fitch predicts U.S. economic growth of 1.7% next year, down from 1.8% for 2007.

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A Look At The Recent Past And To The Future (continued)

Here is how the motor carrier marketplace breaks down.



On The Labor Front

Last month, the UPS National Master Agreement was approved by 65% of the voting employees. In addition, UPS Inc. said "that the Teamsters Union notified the company that the union has certified, approved, and ratified a new contract covering about 240,000 UPS employees". The ratification came as five local supplemental or rider agreements received approval in a second round of employee voting.

The UPS -Teamster master contract was negotiated nearly a year in advance of the current contract's expiration on July 31, 2008, and will extend contract coverage to July 31, 2013.

YRC Worldwide based in Overland Park, KS and the Teamsters Union said they have agreed on a new five-year National Master Freight Agreement to replace the current pact that expires March 31. If ratified by YRC's Teamsters

employees, the deal will cover drivers, dockworkers and other personnel at the company's less-than-truckload carriers, including Roadway Express, USF Holland, Yellow Transportation and New Penn Motor Express.

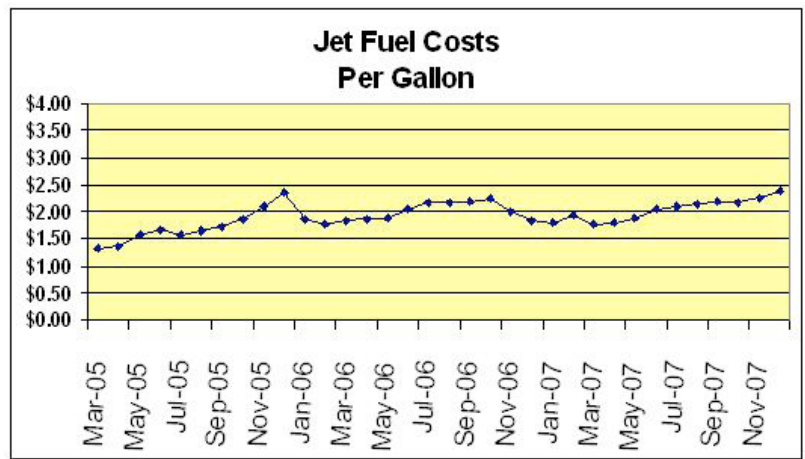
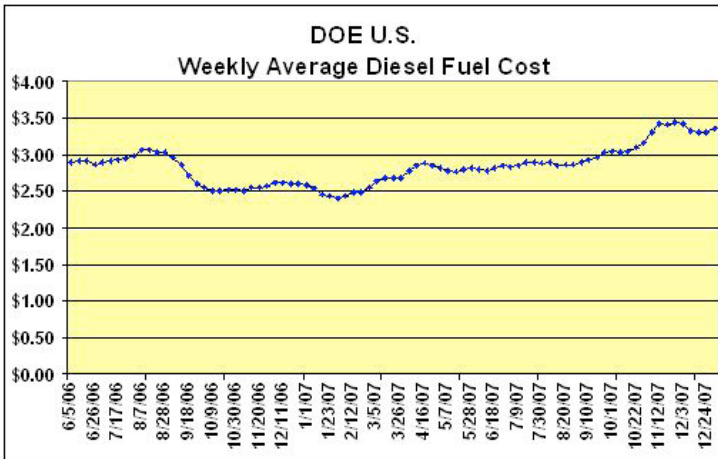
The early outcome of these negotiations is positive for shippers as well as both of these carriers. This insures that service will not be interrupted by work slow downs and/or stoppages and shippers will not need to develop strike contingency plans.

Fuel Charts

We have been asked by one of our customers to track Jet Fuel costs in addition to Diesel Fuel costs. We have implemented that suggestion in the chart below, and will be including this information in future issues of our Client Connection. Another reader asked why diesel fuel prices are higher than gasoline prices. Here is the answer.

Until several years ago, the average price of diesel fuel was generally lower than the average price of gasoline. In some winters, when the demand for distillate heating oil was high, the price of diesel fuel rose above the gasoline

price. Since September 2004, the price of diesel fuel has been generally higher than the price of regular gasoline all year round for several reasons. First, worldwide demand for diesel fuel and other distillate fuel oils has been increasing steadily, with strong demand in China, Europe, and the U.S. This has put pressure on the tight global refining capacity. In the U.S., the transition to low-sulfur diesel fuel has affected diesel fuel production and distribution costs. Also, the Federal excise tax on diesel fuel is 6 cents higher per gallon (24.4 cents per gallon) than the tax on gasoline.



Contact Us

If you have information you would like to see included in this and future issues please contact Cathy Candia at cathy.candia@data2logistics.com or 609.683.3934.

