The numbers game

Like most industrial organizations, the freight transportation industry has always revolved around numbers. With the increased focus of the financial community upon it, the numbers game has become a never-ending source of interest. Recently, it has been the source of speculation because of the divergence between the general economy and the economic life of the freight transportation industry. While the former is experiencing low interest rates and unemployment and a rising stock market, the latter is not universally enjoying good times.

This has given rise to whether we are experiencing a “freight recession,” since we have seen several quarters of mixed freight volume and financial results. There seem to be several contributing reasons. Two major pillars of the U.S. economy, the automotive industry and construction, are weak, and freight volumes have decreased. With fewer new homes, the retail sector sells less furniture, e-goods and appliances.

With construction down, many workers have returned to driving trucks. Since the extensive pre-buy of tractors last year to avoid the first year of new EPA-mandated engines, there has been a glut of trucking capacity. First-quarter results for major truckload carriers indicated market weakness for the first time in several years.

Carriers have to take rate action to protect existing customers while they try to attract new business. Shippers, recognizing favorable market conditions, have greatly increased the frequency of bid “packages” as a means to shop rates. (One carrier recently noted a 300 percent increase in bid packages this year over 2006.)

All of these conditions reinforce the perception of the transportation industry as cyclical. Only a year ago, tight capacity, driver shortages and escalating fuel prices made it seem that carriers would maintain pricing strength for the foreseeable future.

A nother traditionally cyclical sector, ocean shipping, seems a little more blended. In the just-completed service contract season, West Coast port-to-port rates remained fairly elastic — carrier price action generates large volumes. Although the Transpacific Stabilization Agreement sought price increases of $300 per 40-foot container for this business, rates seemed not to increase much. Perhaps it is a victory of sorts that these rates did not decrease. It would appear that the release of vessel utilization data is impacting the market by having transparent facts and figures (showing fairly full vessels) replace rumor and hearsay (of excess capacity).

Meanwhile, the TSA had pricing success with other services. With Panama Canal capacity tight and intermodal rates increasing, container rates using these services were able to retain price increases.

The intermodal segment faces a unique challenge. Many believe railroad models from cyclical to growth, where volumes will grow along with price. Railroad results are being parsed to determine the impact of pricing, organic growth and new business on quarterly results. While many rail carriers report that over-the-road trailers are competing with double-stack in long-haul corridors for the first time in a generation, beyond spot-market dynamics, this result seems to reflect a new intermodal system between legacy intermodal carriers and relative newcomers. The former have such a significant price advantage in their contractual cost that the latter often turn to truck for a service that is faster — and, sometimes even less expensive.

Of course, there are any number of externalities that could impact the system’s equilibrium. Oil prices as an input of transportation production — and a damper on the economy — cannot be dismissed. Global trade could be impacted by increased outsourcing. Regardless, we can expect the coming summer to generate a lot of numbers to watch closely.

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