Intermodal Agonistes

The word “Agonistes” following a person's name commonly signals a struggler or combatant. Its origin is believed to be John Milton’s “Samson Agonistes,” a 1671 poetic tragedy about the end of Samson's life.

The U.S. intermodal industry is struggling to replicate the stunning growth of years past. Through September, year-over-year volume is up a meager 0.3 percent. Given the general economy, those numbers are stronger than many other transportation modes.

As the intermodal industry assembles this month for the annual Intermodal Expo in Fort Lauderdale, the industry seeks to renew its faith in the underlying promise of the intermodal product. Valid questions exist.

- Where is the economy heading? Although the “technical” criteria for a recession has not quite been met (a decline in GDP for two or more consecutive quarters), the decline in consumer confidence and the increase in unemployment would indicate that we are near — or in — a recession.

The outlook for the freight industry, in general, and the intermodal industry, specifically, will be driven by economic results. Traditionally, freight transportation has been considered a cyclical industry — rising and falling with the general economy. There is now evidence that that is changing. Railroads have shown their ability to maintain earnings in a down market, while other sectors have seen their earnings decline.

- What about oil? The price of fuel has been on a roller-coaster ride the past year. At one point, the cost of fuel surpassed labor expense as the leading cost component for many carriers. Despite the cost impact, the results are not always predictable. Many carriers realized that earnings increase by the ability to impose — and maintain discipline — with fuel surcharges.

The impact on intermodal is sometimes counterintuitive. Traditional thinking says that intermodal increases with high fuel prices because rail is a more cost-effective transportation mode than highway. This theory ignores the door-to-door factor. Yes, railroads can provide linehaul at $1 per mile, or less — significantly better than motor carrier rates of up to $3 per mile. However, rail intermodal requires local pickup and delivery, with drayage rates that can approach $5 a loaded mile. The substitution effect of intermodal vis-a-vis truck is a Rubik’s Cube of competitive factors (i.e., length of haul, drayage distance and balance, service).

- What will intermodal look like? The intermodal traffic mix has changed profoundly. When looking at year-to-date volumes compiled by the Intermodal Association of North America, several results stand out. Although volume increased (0.3 percent), intermodal’s “sweet spot” — transcontinental volume — decreased 12.9 percent. (The largest factor was a 25.1 percent decrease in international ISO containers.) Meanwhile, a success story emerged with the eastern railroads’ ability to increase volume.

- What about the international business? This has been a challenging year for ocean carriers. Imports have dropped — and the outlook for 2009 is not optimistic. Exports have increased, but they may suffer if the dollar strengthens and the global economy suffers.

A surfeit of new capacity also is coming on line. Some lines are considering adding new capacity to existing (and slower) strings to absorb capacity. However, the price of fuel is a major factor. Expensive fuel would make the all-water Panama Canal route between Asia and the East Coast price-prohibitive, while cheaper fuel would enable lines to maintain (or increase) such routes.

Meanwhile, the West Coast calculus continues to change. The national decrease in international containers almost directly corresponds to the increase in domestic containers. As ocean carriers struggle with inland domestic expense, and retailers seek ways to decrease inventory, West Coast transloading is becoming a more popular alternative.

- What about re-regulation? Recent economic events seem to have inspired a nostalgic look at regulation. If railroads become swept up in this sentiment, the implications will be serious for the industry. A formulaic pricing discipline would be disastrous for intermodal. Intermodal also could be affected by new regulations imposed on their customers (including liner shipping) or the railroad’s customers (such as coal-burning utilities).

Despite these challenges, I remain bullish on intermodal. It has performed well in the past, and I believe it will continue to do so in the future. Past struggles have served as a prelude to explosive growth.

May today’s challenges become tomorrow’s opportunities.

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