

LTL Business Called 'Soft'; Operating Ratios Worsen

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Less-than-truckload pricing rose during the second quarter, but mainly from fuel surcharge recovery rather than from trucking companies being able to boost basic freight rates.

As a result, operating ratios deteriorated compared with the same time in 2007. LTL executives and analysts were hesitant to predict a substantial recovery until well into 2009. While second-quarter activity did improve from the usually slow January-to-March period — as it is supposed to — there is a consensus that the LTL sector lags behind truckload in terms of a recovery in demand for services.

“Business is soft. Our total revenue is about the same or maybe up a hair, but that’s all because of fuel surcharges. Our count for number of shipments is down around 6% or 7% from a year ago,” said David Vander Pol, co-president of Oak Harbor Freight Lines, a western regional LTL based in Auburn, Wash.

A. Duie Pyle Co. is doing more business, said its president, Steve O’Kane, but that is because it has picked up market share, especially in the wake of Jevic Transportation’s closing. He said Pyle, West Chester, Pa., is expanding its LTL terminal capacity for long term needs, but the company’s customers are currently tendering less business.

“If a company used to send us five bills a day, maybe now it’s four, or if it was 15, it’s now down to 12,” said O’Kane. He added that the number of firms in his total customer base has increased from a year ago, but his “bill count,” or number of invoices sent out for shipments, has not risen by as much.

A Transport Topics survey of financial reports by publicly traded LTL carriers shows revenue per hundredweight, including fuel surcharges, a popular measure of pricing, increased by 8% from a year ago for seven regional carriers and by 7.1% for the two longhaul specialists.

At the same time, operating ratios, or expenses as a percentage of revenue, deteriorated by an average of 1.5 percentage points for the regional companies and by 1.3 points for the longhaul carriers.

During the first quarter, the year-over-year pricing gains were generally lower, while the increases in operating ratio were more severe.

“Second-quarter margins declined primarily due to the weak shipping environment with expenses further impacted by escalating fuel cost and pricing pressure. We continue to address the current challenging environment,” said Rick O’Dell, chief executive officer of Saia Inc.

“We improved our operating ratio by three points compared to the seasonally weak first quarter,” O’Dell said in his company’s earnings statement.

The sequential improvement was particularly critical at YRC Worldwide, which endured operating ratios

above 100 during the first quarter and brought them down below the break-even point into the 90s during the second quarter.

"We are pleased with Vitran's top and bottom line performance in the second quarter, especially in light of the continued economic softness and the challenges of operating in the face of record fuel costs. Our sequential earnings growth was highlighted by a significant 3.7-point improvement in Vitran's LTL operating ratio, compared to the 2008 first quarter," said Vitran CEO Rick Gaetz.

Pittsburgh-based consultant Satish Jindel said the two things less-than-truckload carriers need most to recover are robust retail sales and growth in imports. He also said a good omen for the sector will be if the two big parcel carriers show growth in their volumes.

None of those things seem to be happening though.

UPS Inc. and FedEx Corp. both reported poor results for domestic parcels in their most recent quarters, imports are in decline from a year ago and retailers are not predicting a booming fall. "If you're working for retailers that's a negative, and if you're working for construction that's another big negative," said Oak Harbor's Vander Pol.

That is why Jindel is predicting more of the same. "Market conditions won't change materially until the second quarter of 2009," he said, adding that "a few smaller LTL carriers — with less than \$100 million in annual revenue will probably close their doors this year.

"Stock analyst Thom Albrecht of Stephens Inc. offered a similar assessment that was endorsed by Pyle's O'Kane.

"Approximately 1.2% of the [LTL] industry has failed; however, another 5% to 7% is vulnerable, depending upon fuel prices, demand and the appetite of owners to see their equity whittled away," Albrecht wrote to his firm's clients.

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