

Truckload Rates Show Slight Increase As Failures Cut

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Truckload rates should continue to inch upward in the coming months after record diesel prices and weak demand squeezed weaker carriers out of the market and brought an end to substantial overcapacity during the second quarter, industry analysts said.

A Transport Topics review of second-quarter results from publicly traded truckload carriers showed a slight year-over-year increase of 1.4% among truckload carriers to \$ 1.575 per loaded mile excluding fuel surcharges, compared with a 0.4% increase in the first quarter.

Six of 10 carriers were able to raise rates on a year-to-year basis, compared with just two of 10 carriers in the first quarter.

“Shippers are very aware of the drop in capacity that has been created by fleet downsizing, company failures and truck repossessions,” said Stifel Nicolaus analyst John Larkin. “Modest rate increases are being granted, even though demand remains anemic. More dramatic rate increases aren’t likely until demand rebounds.”

“After two years of overcapacity, the truckload market has reached a state of equilibrium,” said Ed Wolfe, principal of Wolfe Research, who expects truckload rates to rise 1.6% during the rest of the year. Wolfe said in a report that a shipper survey found almost equal amounts of respondents who said there was overcapacity and tight capacity. In the second quarter, half as many shippers surveyed reported overcapacity compared with his first-quarter survey.

Stephens Inc. analyst Thom Albrecht said truckload capacity has dropped 6% since last fall, helping to bring supply and demand close to equilibrium.

Despite the rate gains, higher costs led to deteriorating operating ratios at all but three carriers. On average the operating ratio was 96, or 1.7 percentage points worse than last year’s second quarter.

On a sequential basis, the second quarter was better in two respects. The ratio improved from the 98.7 average in the first quarter and the gap between quarters narrowed from the 4.1 percentage-point deterioration in the first quarter.

All of the rate changes in the second quarter over the prior year period were less than 3% up or down, with the exception of Universal Truckload Services, which reported an 11% rate increase to \$2.33 a mile. Don Cochran, chief executive officer of Universal, said rates per mile for his company are higher because the company’s length of haul is shorter than other truckload carriers and 63% of its business comes from flatbed traffic such as steel that typically commands higher rates than dry van freight.

Universal also raised rates per mile because it hauled more business for the industrial sector of the economy, including energy-related loads, he said.

Individual carrier comments about capacity also showed positive signs in second quarter earnings, despite profits that were lower for all but one asset-based truckload carrier.

“Years of continuous fleet growth coupled with the current economic environment have made it difficult to reach an acceptable balance of fleet capacity and freight demand,” said Cliff Beckham, chief executive officer of USA Truck, whose company was the only asset-based truckload carrier to boost second-quarter profit over the same period of 2007. “We believe that we are now approaching such a balance.”

“We are encouraged and cautiously optimistic that the second quarter reflected a first step toward a more favorable relationship between freight tonnage and industry wide trucking capacity,” said Kevin Knight, chief executive officer of Knight Transportation, in its second quarter earnings announcement.

“If freight demand improves in the third quarter, the potential exists to begin obtaining necessary rate increases in the second half of 2008,” said Werner Enterprises in a statement.

How far that cautious optimism will translate into stronger demand and higher rates remains to be seen. Wachovia Securities analyst Justin Yagerman said in an Aug. 25 investor note he was “increasingly cautious about overall freight demand as we enter what would typically be peak shipping season. Quarter-to-date freight demand has been down year-over-year and August volumes have been lackluster to date as the benefit of the tax rebates has abated and consumers contend with inflationary pressures.”

“September typically provides much of the quarter’s volumes (and earnings),” Yagerman said. “However, expectations appear to have been tempered since June when a tightening of capacity temporarily improved the pricing environment.”

Next year might be a different story.

“Major price increases (3% to 4% and up) are more likely next year, as slowly recovering demand and additional capacity reductions will likely set up a very strong pricing environment,” Larkin said.

Wolfe said he doesn’t expect truckload rates will rise as much as the 7% or more that some other analysts are forecasting for next year unless demand increases significantly.

“Truckers are going to be challenged during the next 12 to 18 months to get enough rate increase to cover continued weak volumes and increasing cost pressures, excluding fuel,” Wolfe said.

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