

Diesel Prices Rising

Please take a moment to scan the two articles below before reading my comments (in blue) at the end of this email.

Diesel Jumps a Dime to Top \$4 a Gallon Gas Gains 10.7¢ to \$3.791; Oil Falls Below \$110

Transport Topics
4/12/11

Diesel's national average jumped over \$4 for the first time since September 2008, gaining 10.2 cents to \$4.078 a gallon, the Department of Energy said Monday.

The increase was the 18th in the past 19 weeks, in which time it has gained 91.6 cents, and the price is now \$1.009 higher than the same week last year, DOE said.

Gasoline, meanwhile, leaped 10.7 cents to \$3.791 per gallon, its biggest increase in five weeks and 17th gain in the past 19 weeks, in which it has risen 93.5 cents.

Diesel last topped \$4 a gallon on Sept. 15, 2008, at \$4.023, and Monday's price is the highest since two weeks prior to that, when it averaged \$4.121.

Gas is at its highest since that same date, when it registered \$3.835 per gallon. The price is now 93.3 cents over the same week last year, according to DOE records.

The increases follow a more than \$5 spike in crude oil prices last week to over \$112 a barrel on the New York Mercantile Exchange, Bloomberg reported. The gains have been pegged in part to ongoing civil unrest in Libya, an OPEC oil producer.

Crude futures fell to finish to close the Nymex trading day Monday under \$110 following an International Monetary Fund report that cited lower growth forecasts for the United States and Japan, Bloomberg said.

July 2008 saw record highs for diesel, gas and oil, with diesel hitting its peak \$4.764 per gallon, gasoline's topping out at \$4.114, and oil's closing-price record of \$145.29 per barrel.

Each week, DOE surveys about 350 diesel filling stations to compile a national snapshot average price.

Diesel to Remain Over \$4 a Gallon, DOE Says Price Outlook Bumped 18¢ from Last Month

Transport Topics
4/13/11

Diesel will remain over \$4 a gallon this summer, the Department of Energy said in its monthly short-term energy outlook released Tuesday.

Trucking's main fuel will average \$3.98 this year, DOE said - about \$1 over last year's \$2.99 average and 18 cents higher than its forecast last month.

The higher price forecast - which follows a 38-cent jump in last month's outlook - is pegged to higher crude oil prices, DOE said.

Trucking's main fuel is already close to the projected summer level, with diesel averaging \$4.078 nationwide, according to DOE's most recent weekly filling-station survey released Monday, marking the first time it averaged \$4 nationwide since September 2008.

Regular-grade gasoline will average \$3.70 this year, DOE said in boosting its price outlook by 51 cents - 92 cents over last year's \$2.78 average and 41 cents higher than last month's forecast.

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The price of regular gas during this year's "driving season" from April through September will be more than \$1 over last summer, rising to \$3.86 a gallon, from \$2.76 last year.

Gasoline averaged \$3.791 in DOE's most recent weekly survey, with both diesel and gas jumping more than a dime from last week. Both fuels have soared close to \$1 since Thanksgiving.

The price gains are being led by higher crude oil prices, which have skyrocketed to more than \$112 a barrel this month from \$85 in mid-February.

DOE said crude will average \$106 a barrel this year and rise to \$114 in 2012 - up \$5 and \$9, respectively, from last month's outlook.

Crude plunged more than \$3 Tuesday to near \$106 a barrel on the New York Mercantile Exchange on reports of slower economic growth, Bloomberg reported.

I've received several inquiries as to why I have not sent out weekly industry update articles and comments for the last couple of weeks. I have been travelling extensively visiting customers and discussing the issues that you see referenced in my updates. Also, last week I attended the annual Trucking Profitability Strategies Conference hosted by the University of Georgia. This is a unique conference in that **ONLY** trucking companies are allowed to participate - absolutely no vendors, suppliers, brokers, or shippers are allowed. The topics focus on emerging and current issues in transportation including hiring, productivity, best practices, benchmarking, new technology, and DOT/FMCSA legislation, fuel and maintenance cost control, etc. That being said, great efforts are made to ensure that all legal guidelines are strictly adhered to.

Two topics that dominated these meetings as well as my own conversations with shippers and other trucking companies are 1) truck demand vs capacity along with 2) CSA and proposed HOS rules. The third topic of discussion is the most important, and will ultimately affect your capacity and your rates more than CSA or HOS - **SKYROCKETING FUEL COSTS!** In previous communiqués, I outlined how fuel and maintenance costs are the two largest immediate drains on cash flow since carriers do not receive payment terms (i.e. net 30 days for example) on fuel expenditures and road repairs but must be paid as you go - so I won't elaborate further on the financial impact of poor fuel surcharge scales. Instead, I will outline what I see happening with carriers and shippers in the **next 60 days**. ***No matter what your line haul rates are, if you are a shipper with a poor fuel surcharge scale you will ultimately plummet to the bottom of carriers' priority list.***

Line haul rates are moving back to levels more reflective of operating cost recovery with a reasonable profit. At the same time, many carriers are reporting that several shippers (especially those with long load/unload times) are increasing accessorial fees such as detention, tarp, and stop fees to help offset the impact of lost productivity caused by delays in these areas. On the other hand, some shippers are resisting or procrastinating the adjustment of their fuel surcharge scales to reasonable levels. A reasonable fuel surcharge begins with a base of no more than \$1.20 and increases \$.01 for every \$.05 in the weekly national DOT diesel price.

From a carrier perspective, this is what will happen with shippers who pay below-cost recovery fuel surcharges:

- 1) Carriers know that increases in line haul rates alone cannot offset the continued rise in fuel costs. Carriers will **NOT** continue to roll fuel adjustments into the line

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haul rate. It takes too much time and administrative effort to constantly adjust line haul rates to make up for poor fuel scales.

2) Carriers are taking their **INITIAL** line haul rate increases now and moving on in order to adjust rates to market levels across their entire customer base with plans to return to shippers for additional increases by late Spring/early Summer.

3) Once the full impact of the driver & truck shortage hits the market at peak season (May/June), truck availability will be at all-time lows and carriers will leverage this market imbalance. Shippers can expect carriers to return for not only another round of line haul rate increases BUT this time carriers will **REQUIRE** poor fuel surcharges be adjusted to adequately compensate for cost of fuel. Those carriers who do not recover adequate fuel costs will simply not have the financial fortitude to handle the increased cash flow requirements.

4) Shippers who refuse to pay a **reasonable** fuel surcharge will be impacted....

- a. Larger, better managed, higher capacity carriers will simply walk away and allocate their trucks to Shippers who pay **BOTH** a reasonable line haul rate **AND** a reasonable fuel surcharge. Long-term relationships alone cannot compensate for financial losses and carriers will have no choice if they are to remain solvent.
- b. Carriers will not allow negotiations for rate or fuel adjustments to drag out for weeks or months. Other load opportunities abound and carriers will shift trucks to better opportunities.
- c. When "a" and/or "b" above occurs, these shippers will be pushed to use smaller, lower capacity carriers and / or owner operators. Forced to use more carriers to move the same amount of loads will present additional challenges for transportation managers. Managing more carriers, dealing with more carrier CSRs/Dispatchers, more emails & phone calls, more late trucks or no shows will undoubtedly increase transportation manager headaches as well as overall costs.

Aside from all the doom and gloom above, a few shippers are actually approaching carriers with rate improvements and fuel surcharge revisions to get ahead of the game before peak season. Needless to say, these shippers are and will remain at the top of carriers' truck allocations. If it is not already too late, now is the time to ask "Where do I fit in my key carriers' priority list"?

If you have any questions or need additional information, please don't hesitate to contact us.

Sincerely,



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