

Capacity Tightening Earlier Than Expected

For many months analysts, carriers, transportation industry officials, and government economists have been predicting that driver shortage and truck capacity constraints would begin to impact the market in the 2nd to 3rd quarter of 2011 and continue to build in severity through 2012. It appears that industry experts were correct in forecasting driver and truck shortages. However, like weather forecasters, the transportation forecasters seem to have missed the mark somewhat. The capacity shortage began impacting freight movement late in the 1st quarter 2011 - earlier than expected. And like the Perfect Storm, things are only going to get more demanding as peak flatbed shipping season hits stride in May / June. For more insight, please scan the articles below

Spot Market Truck Rates Jump 4 Percent Truckload spot rates seen rising in March as freight demand outstripped capacity

Journal of Commerce
4/14/11

Spot market truckload rates rose 4 percent in March from February and were up 15 percent year-over-year, according to TransCore Freight Solutions.

Truck pricing is chasing shipping demand as the economic recovery quickens its pace. The Cass Freight Index reported freight shipments rose 6.9 percent in March.

Truckload freight volume on TransCore's load boards has been "unusually high," the company said, setting same-month records in each month of the first quarter.

The company matches more than 60 million loads and trucks a year.

Load posts on TransCore's network increased 42 percent in March from February, and were up 61 percent from March 2010, the company said.

Spot market capacity actually jumped 10 percent in March after months of contraction, but **rising demand pushed the load-to-truck ratio up to 10 to 1.**

"There is a measurable increase in truck freight," TransCore Industry Pricing Analyst Mark Montague said in an April 13 note to customers.

In the first quarter of 2011, dry van spot rates rose 13 percent, while **flatbed pricing increased 11 percent.**

As capacity tightens, shippers are turning more to freight brokers and third-party logistics companies to secure capacity, TransCore said.

"Shippers are reporting turndowns from their favored carriers, resulting in more business channeled to brokers and 3PLs," he said.

This is an incredible increase! The increase in load posts provides a couple of key indications. First, manufacturing activity is indeed improving as more goods are being manufactured for distribution. Second, at the same time, asset-based trucks are in shorter supply. Hence, shippers who normally load directly to an asset-based carrier are now being forced to solicit brokers to try and find trucks. This presents an interesting scenario as most solid, asset-based carriers have more loads than they can take with their regular direct shippers and do not have capacity to allocate to brokers on the spot market. The majority of trucks contracted by brokers are comprised of very small carriers,

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independents, and owner operators - the same market segment that many in the industry feel will be most severely impacted by CSA. If this is true, where will brokers find trucks?

In return, "brokers are posting loads more aggressively on load boards, where freight availability more than doubled year-over-year," said Montague.

Brokered loads rose 10 percent per month on average in 2010, TransCore reported in its fourth annual Broker Benchmark Survey, released last week.

Truckload Capacity Index Drops 1.4 Percent 'Moderation' follows 5.9 percent jump, indicating tightening capacity

Journal of Commerce

4/14/11

Truckload capacity slackened slightly in the week ending April 11 but is still much tighter than it was a year ago, according to a key measure of capacity and demand.

The Longbow Research Weekly Trucking Barometer dropped 1.4 percent last week after shooting up 5.9 percent the prior week, the investment research firm said.

The truckload capacity index has increased 47.4 percent since the beginning of 2011 and is up 46 percent year-over-year, an indication that **capacity is contracting**.

"We continue to see relative tightness in the Southeast," Longbow said in a note to investors. "The West Coast and Mountain regions have experienced a moderation in freight demand over the past month resulting in a more abundant capacity environment."

We at Melton have seen the same softening in outbound freight from Colorado and California. Like many carriers, we have been forced to reduce the number of trucks inbound to Colorado and California as there is an imbalance of outbound freight from these states. Alternatively, some carriers are pricing freight from East of the I-35 to the Western 11 states to include deadhead back to the Midwestern reload points.

The weekly index measures available freight against available truckload equipment, climbing higher as capacity contracts, the Wall Street investment firm said.

Longbow's Weekly Flatbed Barometer dropped 7.6 percent last week, but remains 18.6 percent higher than a year ago and 33.5 percent above last August.

Longbow and other research firms forecast increasingly tight truck capacity thanks to higher equipment costs, fuel costs, driver costs and financing costs.

ACT Research, a vehicle market research firm, predicts a 75,000-truck shortfall by the first quarter of 2012, and a 180,000-truck shortfall by the end of next year.

"We are starting to accumulate a shortage of freight-hauling capacity," said Steve Tam, vice president of the commercial vehicle sector at ACT Research.

That's pushing truckload spot market rates higher, according to TransCore. The trucking load board operator said dry van rates rose 4 percent in March.

Year-over-year, those dry van rates were up 15 percent, TransCore said. Loads posted on TransCore's boards were up 61 percent from March 2010.

Truck Broker Loads Rose 10 Percent in 2010

More shippers turned to brokers as truck capacity tightened, TransCore says

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Truck freight brokers moved 10 percent more loads per month in 2010 than in 2009, underscoring growing use of brokers by shippers, according to TransCore.

The average number of brokered loads per month rose from 616 in 2009 to 685 in 2010, with average margins ranging from 14.6 percent to 15 percent.

Brokers paid more to move that freight for customers, however, and found it increasingly hard to locate and secure truckload capacity, TransCore said.

The transportation services company, which operates several load-matching services, said the **availability of spot market trucks dropped 27 percent last year.**

The ratio of spot freight loads per available truck shifted from 1.8 to 1 in 2009 to 5.5 to 1 in 2010, boosted by a 131 percent year-over-year increase in spot loads.

Nearly half the brokers surveyed said truck capacity is their chief concern in 2011, while last year's respondents were more worried about growing their business.

For the reasons I mentioned above, indications are that brokers will have an increasingly difficult time securing trucks to meet desperate shipper demand. Look for mild panic to abound in late May as the economy continues to improve and manufacturing of traditional flatbed type products hits full pace.

Surprisingly strong freight demand spurs truck capacity concerns

Logistics Management
3/24/11

The combination of the fragile-but-improving overall U.S. economy and tighter enforcement of unsafe truck drivers is reigniting fears of truck capacity shortages later this year, top trucking officials and analysts are saying.

Freight conditions currently in this country are "surprisingly strong in light of all the economic headwinds," veteran trucking analyst John G. Larkin recently said in his analysis of transportation supply, demand and pricing.

The coming capacity seems to be a matter of if, not when, according to Larkin and others.

Despite \$100-a-barrel crude oil, unrest in the Middle East, persistently high unemployment in this country, the Japan earthquake and tsunami, unprecedented deficits in federal spending, still-depressed U.S. housing and only a partial recovery in the U.S. auto industry, freight levels in this country are booming.

Truck tonnage surged 87 percent in January from year-ago figures to their highest level since January 2008, according to the American Trucking Associations' truck tonnage index. That's the **14th straight month of increases.**

"I'm hearing a significant amount of positive news from fleets and that **the largest concern continues to be the price of diesel fuel, not freight levels,**" Costello said.

This is causing some equipment shortages in specific geographic regions, trucking executives say.

Specifically, the **upper Midwest is tight right now.** Also, **capacity is tight in Southern California** because of intermodal traffic at the ports of Los Angeles and Long Beach, carriers say. Even parts of the **Southeast,**

which usually has an abundance of quality, low-cost, non-union carriers, are becoming tight for capacity, trucking officials say.

An analysis by Transport Capitol Partners, a leading trucking advisory firm which tracks industry operations and strategy, shows that **capacity has dropped between 12 and 16 percent since its peak in 2006-07**. The lack of buying new trucks, used truck exports to Eastern European countries and elsewhere and trucking bankruptcies are cited by TCP as factors in the reduced capacity.

Meanwhile, **demand for trucking services is forecast to grown annually by 4 to 5 percent for at least the next two years**, experts predict.

"While we've just had a seasonally down first quarter, carriers see strong freight and remain optimistic about the year ahead," Lana Batts, a TCP partner and veteran trucking industry official, said. **"Truckers are convinced they must receive (higher) rates to compensate for rising costs across the board with the need to replace the aging tractor fleet."**

What is happening, trucking executives agree, is a result of significant capacity coming out of the TL market during the depth of the recession in 2008-2009. During that period, as much as perhaps 15 percent of truckload capacity exited as fleets such as J.B. Hunt, Schneider National, Werner Enterprises and others reduced their fleets by tens of thousands of units. Also, as fuel spiked to \$4.50 during the summer of 2008, an untold number of owner-operators simply parked their trucks and exited the market. Not all of those have returned.

And **capacity may not return to the peak levels of 2006 any time soon**, leading trucking executives say.

"We're no longer building the church for Easter Sunday," is the way Mark Rourke, president of transportation for Schneider National, put it.

Usually, Schneider adds about 3 percent every year to its fleet of 19,000 or so over-the-road tractors to keep pace with economic growth. But this year, Schneider is taking a more cautious approach, a view shared by others in the industry.

That's all going to put stresses on capacity-even without any change in drivers' hours of service. The federal government is hinting at reducing by one hour the number of hours per day a driver could drive-from 11 to 10-an effective 9 percent drop in productivity that would require hiring more drivers, which could be more difficult in the wake of government's new CSA 2010 safety push.

"Drivers are always valuable but it's certainly getting more difficult," Rourke said. "It continues to put stress on an already stressed system of finding enough drivers for this industry."

Phil Pierce, executive vice president of sales and marketing for Averitt Express, a major southeast regional LTL carrier with nearly \$495 million in revenue last year, predicted that **carriers with deficient safety scores under CSA will exit the industry, thus taking more capacity out of the market place**.

"We expect CSA to worsen the ongoing driver shortage in this industry," Pierce told LM. "The reduction in capacity and driver pool could cause rates to rise over time."

Steve O'Kane, president of A. Duie Pyle, the nation's 20th-largest LTL carrier, said **capacity is tied to driver availability, which is getting increasingly difficult**.

"Driver availability is the biggest issue facing this industry, and will change several dynamic," O'Kane predicted.

During the 2008-09 recession, Pyle (like many other truckers) did not put anyone through its driver academies because it didn't have jobs for those students. It has since graduated three classes to meet increased freight demand.

"But the industry needs a steady stream," O'Kane says. "Add to the supply disruption the fact that CSA is likely to make some of the current population inappropriate for employment, and the revised HOS proposal seems destined to reduce productivity further, and we think driver supply is likely to become the perfect storm for the industry."

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As a result, **driver wages will rise, forcing shippers to pay higher freight rates, O'Kane predicted. He also said the lack of drivers inevitably will tighten the supply side of the trucking equation, raising the cost for fleet operators.**

"These two factors could combine for rate increases of a magnitude not previously experienced by the shipping public," O'Kane warned.

"I think there is maybe a bigger labor pool out there," Eaton's Meil says. "This recovery does not hold a candle to the recoveries of the 1980s and early 2000s. But it's the one we've got and we'll have to deal with it. The industry is very resilient. The thing that keeps me up at night is the industry's long-term viability. In the short term, shippers and the upstream structure of the supply chain has to absorb it. Over the long term, there are cost-out pressures. You will see solutions that might be so subtle as to be unrecognizable."

Factors such as relocation of warehouse locations, changing shipper patterns, changes in packaging to become more environmentally friendly and the volatile price of fuel could all cause longer-term changes in trucking patterns that could hurt transportation profitability, Meil predicted.

"Changes in supply chains and packaging already has started happening, and it's started with Wal-Mart," analyst Larkin of Stifel Nicolaus says. "The freight that exits the market due to package redesign is permanently gone. Unless the cost of transportation drops precipitously, that freight is gone forever."

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