

Cass Freight Index: Rate Increases Hold Despite Lack of Imminent Capacity Threat

The key points below are simple and to the point.

- For the most part, rate hikes passed along in 2011 have stuck but carriers did not gain any ground, they just kept pace with increasing costs.
- Rail rates increased as much as 15% while motor carriers have, on average, managed increases of 4% on average in most markets.
- Expect slow volume growth and higher rates in 2012 if carriers are to have any financial resources to re-invest in new equipment - especially incremental equipment gains.



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Motor carriers and railroads were successful in passing along rate increases in 2011. For the most part, the rate hikes stuck, but carriers didn't gain any ground, they just kept pace with increasing costs.

The Cass Freight Index Report for December 2011 and the Year-End Review, released on Friday, revealed freight costs were up an astounding 18.8% in 2011 compared to 2010, while freight volumes increased just 0.7%. Comparing November and December, Cass reports no change in volumes, but a 1.8% increase in costs to shippers.

However, Q4 2011 was very weak, with freight volumes falling 12% from Q3 - a much larger decrease than is seasonally normal.

The Cass Freight Index tracked substantial increases in rail rates over the year -- some as much as 15%, motor carriers have, on average, managed increases of 4% on average in most markets.

Even with steady growth in rates, Cass says carriers facing cost pressures from labor, fuel and regulations just held their own. There was little left over for new capital investments in equipment. "Although orders for Class 8 trucks are healthy, they still are not meeting much more than replacement needs," the report notes.

Intermodal volume continued to grow in 2011 as more trucking companies faced with capacity or driver shortages turn to railroads for some part of a move, the report suggests. "Railroad rates rose faster, on average, than truck rates, which factors into the magnitude of the change in overall transportation costs."

Freight Volume

Freight shipment volumes halted their downward slide in December, staying the same as November. The flat volume was not unexpected at this time of year, but the erosion of volume in the second half of the year, resulting in a level that is just one percent higher than the second half of 2010, was unanticipated.

For 2012, Cass is forecasting another year of below three percent GDP growth, giving carriers, especially the trucking sector, the chance to rebuild capacity before demand returns to pre-recession levels.

"Expect slow volume growth and higher rates in 2012. The truck driver shortage will get worse and truck capacity will tighten, leaving some shippers with few alternatives to move their goods," the report says.