

Carriers Resist Adding Capacity on Poor ROI

The article below does not bring any new info to light - it just quantifies what the industry has been saying for many months about reduced truck capacity and carrier reluctance (and/or inability) to add incremental capacity. The takeaway points are:

- 1) 73% of carriers will not be adding capacity until rates improve and they can get a better return on investment
- 2) Only 53% of large carriers said they were achieving an adequate rate of return to spur investment in new equipment
- 3) 70% of carriers are unable to seat all the trucks they currently have
- 4) With a forecasted 2% GDP growth, the 15-20% reduction in the national fleet seen during the recession is not going to be made up until higher rates compensate for escalating costs and regulatory constraints.



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TCP: Carriers Resist Adding Capacity on Poor ROI

The Transport Capital Partners (TCP) 4th Quarter 2011 Business Expectations Survey finds 73 percent of responding carriers will not be adding any significant capacity until rates improve, providing a better return on their investment.

The total number of carriers who expect to add 0-5 percent capacity has remained steady for the last two quarters, TCP reports.

"Carriers tell us that rates are not covering investment risks, nor are they close to covering the record prices of new trucks," says Richard Mikes, TCP Partner and survey leader.

Mikes says about 25 percent of the carriers surveyed said they would need an operating ratio in 87-90 range before they would see an ROI sufficient to prompt investment in new tractors.

"Half the group says they would need an operating ratio of 91-94," Mikes notes. "If a carrier is asset intensive and financing equipment, it is difficult to show a net margin with a 95+ OR."

When split between large and small carriers (more or less than \$25 million in revenue), the survey found 53% of larger carriers said they were achieving an adequate rate of return to spur investment in new equipment compared to just 41% of smaller carriers.

"Fifty-three percent is hardly a ringing endorsement that rates are adequate for the investment needed and the risks taken by the larger carriers," notes TCP partner, Lana Batts.

Operating ratios and return on investment aside, nearly 70 percent of the carriers surveyed indicated they were currently unable to seat all the trucks they currently have.

Those three factors alone explain why carriers, as a whole, are not interested in growing their fleets dramatically, even in the face of expected volume increases. Most truck purchases today are intended to replace aging equipment, not to expand operations, the survey finds.

Both Mikes and Batts agree that with low, two-percent GDP growth forecasts for 2012, the 15-20 percent reduction in the national fleet seen during the recession will not be made up until carriers see higher rates to compensate for escalating costs and regulatory constraints of CSA and hours of service.