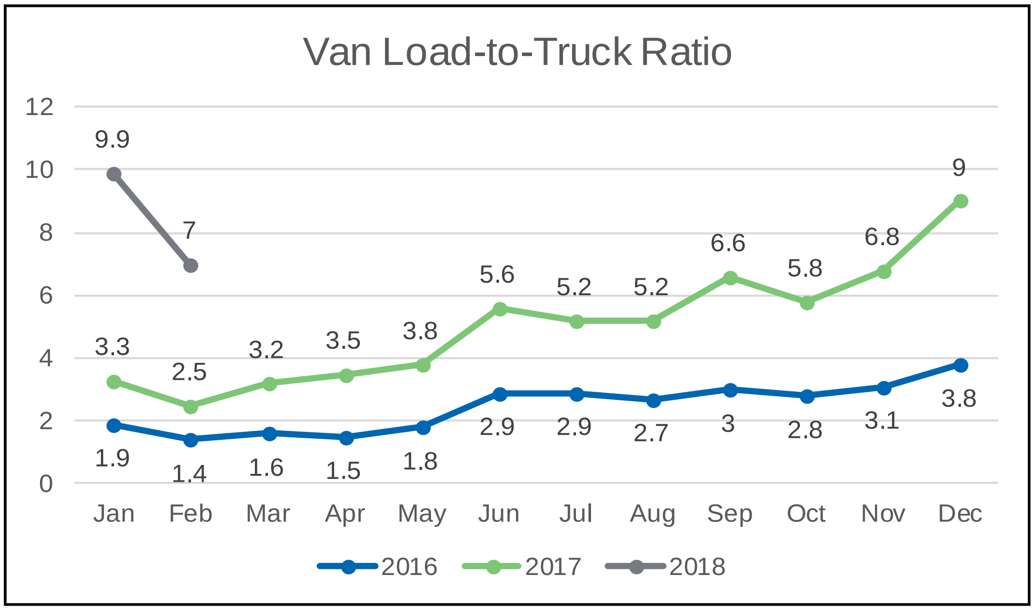
The U.S. Truck Market In Crisis

After an extended period of ample truckload capacity and weak carrier pricing power, U.S. shippers are now finding themselves in a tight market with rapidly rising rates. Major truck shippers are having trouble covering loads, paying higher spot rates and are facing increasing intermodal costs.

A shortfall of capacity

The Load-to-Truck Ratio from DAT Load Boards, a view of demand vs. supply for the U.S., reached 9:1 in January 2018 and remains at high levels in early 2018. For comparison, the load-to-truck ratio was just 2:1 in January 2016. Discussions with clients and carriers have borne out that it has been very difficult to cover loads. The pain is especially sharp for shippers with low negotiated contract rates who are unable to get trucks and are now paying significant premiums to get their loads moved. Beyond these premiums, the same capacity issues are driving a general increase in truckload rates.

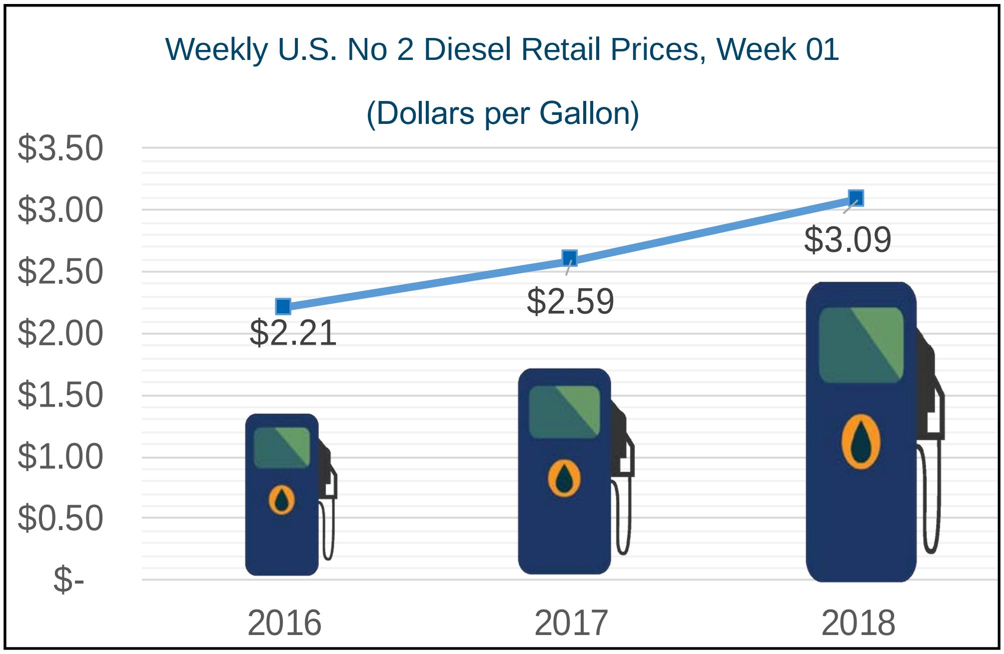


www.dat.com

Factors involved in the runup of pricing

- ***High demand for trucking services****:* The U.S. is in its ninth year of economic expansion, and demand for goods and services continues to rise in a healthy market
- ***Changes in distribution patterns:*** Movement to omnichannel fulfillment strategies by retailers (the "Amazon Effect") has changed traditional truck usage patterns, creating imbalances in supply and demand
- ***Rising fuel costs:*** On-road diesel costs are up 54% compared to January 2016
- ***Electronic logging devices (ELDs)*****:** The imposition of ELDs has taken an estimated 4% of capacity off the road as drivers are forced to keep legal running hours
- ***Short-term factors*****:** Hurricane recovery and a difficult winter storm season have also impacted demand and capacity
- ***Driver shortages:*** Drivers are difficult to recruit and turnover remains high

Regarding the driver shortage, one broker told us truck drivers are switching to driving for Uber, making more, and sleeping at home every night. BigCityDriver.com, a trucker-oriented website, even has specific advice for truck drivers considering making this switch.



U.S. Energy Information Administration data

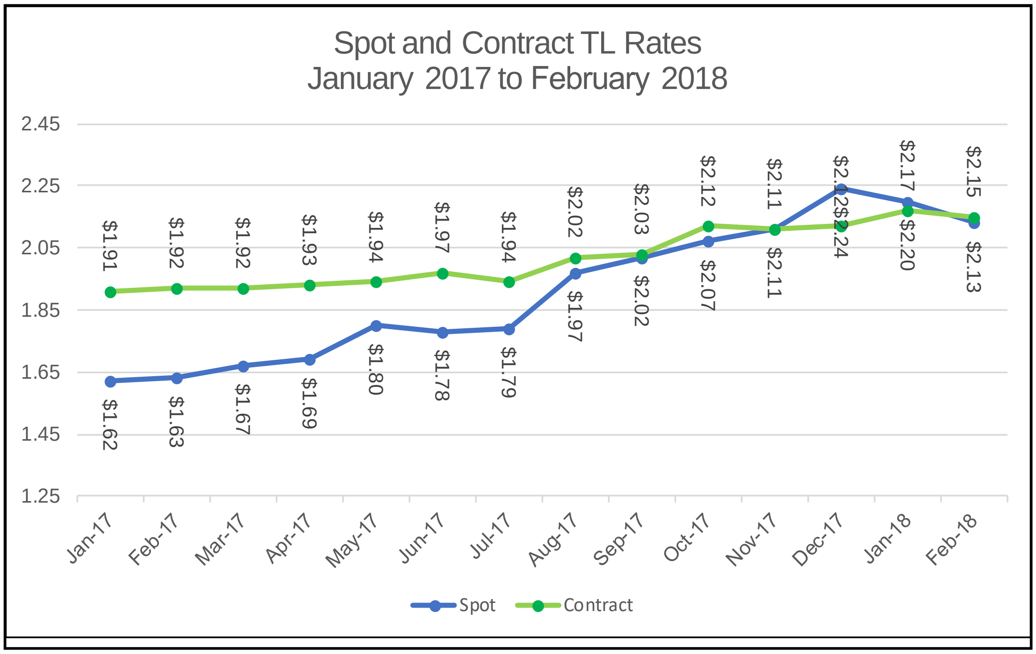
Impacts on Rates

Cass Truckload Linehaul Index rates, a measure of market fluctuations in per-mile truck-load linehaul rates, are up 6.5% year-over-year, intermodal linehaul rates are up 4.3% in the past 3 months and increased 21% year-over-year. Congestion at ramps at intermodal rail facilities is resulting in hundreds of dollars in surcharges on loads moving to and from the nation's largest freight centers.

Spot market truckload rates, below contract rates by as much as 15% as recently as 2016, are now at parity with contract rates. This means shippers who had once relied on brokerage to cover loads at lower cost are now finding themselves paying as much as or more than long-term committed contract rate shippers.

Overall, spot truckload rates have risen 36% in the past year, and contract rates have risen 14% in the same time period according to DAT.

Even with some recent slackening, there are indications that the current trends will continue until the next economic downturn finally tamps down demand to more manageable levels. Shippers can expect rates to rise further as we continue into Q2 and beyond in 2018.



Transcore DAT data

Shippers and carriers are having trouble maintaining service levels and pricing

The current situation has many major shippers on edge, and many are rethinking their approaches to managing truckload freight. Demand for trucks is inelastic in the short term because if product needs to move, it needs to move, truck rate notwithstanding. This means that rates will continue to rise as long as there is more demand than supply. With no immediate end in sight, we must confront the reality of this new market, with rate increases of 7% to 10% or more predicted for 2018.

Shippers are now forced to compete for scarce truck capacity and seek to maximize their relationships with core carriers. For spot market players who ran without contracts, this is a very trying time. Carriers are openly stating they are reserving capacity for their long-term committed accounts. Even for favored accounts, carriers are raising rates sharply.

On the brokerage side of the business, brokers have told us that asset-owning carriers are much less likely to broker out trucks in this tight market, instead reserving scant capacity for direct sale customers running in richer lanes. This greatly limits flexibility in the market and makes it more challenging to cover loads in lanes to rural and outlying destinations without much opportunity for backhaul reloading. Rates to these less desirable destinations are rising much faster than to traditional freight centers like Atlanta, Chicago, and Los Angeles.

All of this means that it will be increasingly challenging and expensive to get goods to market at least for the next several years.

What can you do?

Smart shippers are building on their existing relationships and developing new ways to find and efficiently utilize capacity. Rate bidding may be appropriate to capture and lock in capacity, but is unlikely to generate savings in the current market. Instead, shippers must look at ways to improve truck utilization, reduce network operating costs, find new and different types of capacity, and reduce loading and unloading cycle times. At PLG Consulting, we have helped hundreds of companies weather market fluctuations and remain competitive in their industries. Contact us today and see what we can do for you.

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