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Shippers told to brace for record US trucking rates

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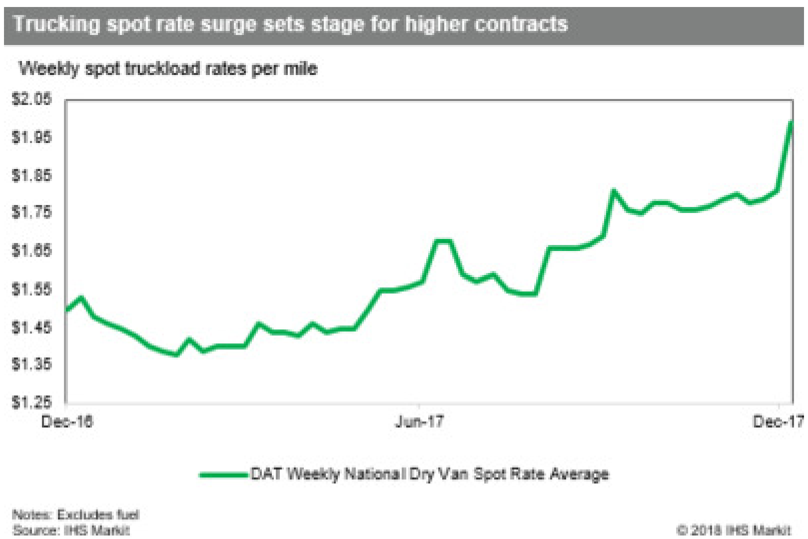
William B. Cassidy, Senior Editor | Jan 23, 2018 8:29AM EST

This year looks to be the strongest year for truckload and less-than-truckload pricing since 2005 and 2010. Photo credit: Shutterstock.

ATLANTA — US freight rates are set to rise not just this year, but into the near future, an investment analyst and economist said at the SMC3 2018 JumpStart Conference. "We could break records this year" in an economic cycle "unlike any other," said Benjamin Hartford, senior research analyst at investment firm Robert W. Baird & Co.

At the logistics conference, Hartford and consulting economist Donald Ratajczak on Monday painted an economic picture that should concern shippers moving goods in North America. On the positive side, their goods or raw materials will see higher demand. Barring a significant, and unexpected, expansion in capacity, however, it will cost more to deliver products to market.

Spending on freight is already rising faster than shipment volumes, which rose 7.2 percent year over year in December, according to the Cass Freight Index. The Cass Truckload Linehaul Index, which measures pricing excluding fuel surcharges, rose 6.2 percent year over year in December, climbing for the ninth consecutive month with no sign of reaching a plateau. The DAT national dry van spot rate average of $1.53 per mile on January 6 is up 30 percent year over year, according to the JOC.com Market Data Hub. The DAT spot rate also does not include fuel surcharges.



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This year looks to be the strongest year for truckload and less-than-truckload (LTL) pricing since 2005 and 2010, "when we had 4 to 5 percent core pricing growth" excluding fuel costs, Hartford said. "In 2005, housing was artificially inflated, and then in 2010 we had a pricing recovery of 5 to 6 percent coming off a steep decline" during the [2008 to 2009] recession," he said.

In 2018, "we've been saying expect an increase of 5 percent plus, and there could be upside on that," he said. "We're hearing anecdotal reports of contract renewals at 10 percent. If volume growth does accelerate, we could get into a situation in the spring where if there are capacity issues and intermodal service problems, there's suddenly no relief valve" for shippers.

"That sets the stage for carriers to march into [contract] negotiations and say, 'What more evidence do you need? We need price.' This year could be similar to prior peaks in rate growth." Even if rates peak in terms of rate of actual increase in 2018, they could continue to rise into 2019 and even 2020, he said, barring a recession that he does not immediately foresee.

"We've got some underlying changes, including an improving demand environment, new regulations, and rising energy prices, that will lead to higher freight rates for the foreseeable near future," he said. In specific, he mentioned the electronic logging device (ELD) mandate for truck drivers, depleted inventories and rising industrial production, and higher fuel prices.

The biggest factor priming rates is not the ELD mandate or lack of transportation capacity; it is the economy. Ratajczak expects US GDP grew 3.1 percent in the fourth quarter, which would make the last quarter the third in which GDP expanded 3 percent or greater. The International Monetary Fund (IMF) now expects the US economy will grow 2.7 percent in 2018.

The United States is not alone. "We have three years in our back pocket now when world trade grew slower than global economic activity," Ratajczak said. "This year, however, I'm expecting 4.5 percent growth in global trade. The IMF just raised its forecast for global economic growth to 3.9 percent. They'll get to 4 percent," he said. Growth in global trade will fill more US trucks.

"The global economy is rebounding, showing strength, and it's more uniform," Ratajczak said. "It's not only China now. It's the rest of Asia, pieces of Latin America." Although Europe's economies are expanding more slowly, the value of the euro is rising, he noted. "The big issue with Europe is Brexit," he said. "Not just the United Kingdom, the rest of Europe has a Brexit problem too."

In Atlanta, trucking and logistics executives were more worried about the US NAFTA problem. "We do believe there should be modernization of NAFTA, but scrapping the whole deal would be detrimental not just to our business but to the economy right now," said Jason Hess, vice president and general manager of premium services at Union Pacific Railroad.

The lack of US transportation and distribution capacity could be a bigger worry, Hess said. "It's a little early to tell you what's happening with capacity, but it does appear that capacity has tightened" in early 2018, he said. He is not just talking about trucks or trains. Due to high chemical and resin demand, "the Texas Gulf Ports will run into capacity issues," he said.

To deal with those issues, "we're opening a facility in Dallas where plastic resins will be bagged and put into containers for shipment," Hess said. UP calls that its Dallas to Dock service, which starting later this year will ship resin to ports via premium intermodal service. UP also is expanding warehousing on the West Coast to handle higher food shipment volumes.

"We think there's a tremendous opportunity, especially if truck capacity does tighten, to move food product from the West to the East Coast," Hess said. Other speakers, including Hartford, warned that intermodal capacity could be challenged too. "There will be some interesting things to watch as the spring peak approaches," James Welch, CEO of YRC Worldwide, said.

Welch believes tightening truckload capacity is already shifting freight to his LTL carriers, nationwide YRC Freight and regional carriers Holland, Reddaway, and New Penn. "We're seeing a weight for shipment trend rise, and that's the first indication we're starting to see a spillover," he said. "I've heard some of our competitors are starting to see it as well."

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