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US shippers face unprecedented truck, intermodal cost hikes

William B. Cassidy, Senior Editor, Ari Ashe, Associate Editor | Mar 08, 2018 1:15PM EST

For years, North American shippers were warned a truck capacity crunch was coming, but that crunch never materialized. This year, with the accelerating US economy, that crunch finally arrived. Photo credit: Shutterstock.

For years, North American shippers were warned a truck capacity crunch was coming, a crunch that never materialized, thanks to a stop-and-go, slow US economic recovery. After three quarters of steady economic growth, however, that crunch finally arrived this year, clenching supply chains with a vise-like grip, and shocking shippers who expected a slow first quarter.

That is pushing up inland supply chain costs and transport rates across the board, and shippers should not expect relief soon. These market conditions are likely to last into 2019, most experts say. In order to not be washed away by the oncoming wave, shippers will have to rigorously rethink how they ship goods, gather detailed data on their operations, and collaborate.

Not since 2014 have US shippers and beneficial cargo owners seen such disruption to domestic and international containerized freight movement. And what they have seen starting in the autumn of 2017 and early 2018 makes 2014 look like “a blip compared with the environment we’re in now,” said Jeffrey Tucker, president and CEO of logistics firm Tucker Company Worldwide.

Shippers ripped through trucking routing guides in January looking for space for freight. They found little relief on rails, as drayage truck capacity at either end of the tracks seemed to vanish, especially in Chicago, the largest US transportation hub. The impact of the capacity crunch rippled back to ports and ocean shipping lines, affecting plans for store-door deliveries.

Tight capacity and high freight demand are propelling pricing for truckload, less-than-truckload (LTL), drayage, and intermodal rail services skyward. Dry van truckload rates across the United States were up 17 to 25 percent on average in January, according to the Trans-Logistics Group North American Truckload Rate Index.

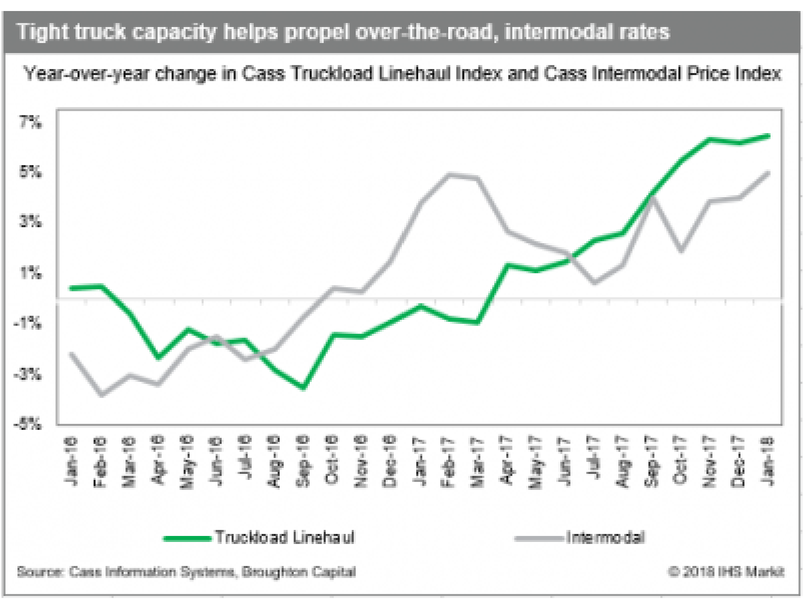
“There is no place that rates are the same or lower than a year ago,” said Charles W. “Chuck” Clowdis Jr., founder and managing director of Trans-Logistics Group. The group’s analysis of contract and spot market prices in 14,700 unique origin-and-destination-point lanes shows a surge in medium-range hauls and rates, with lanes running 450 to 550 miles, Clowdis said.

Networks out of kilter

Some of that was caused by e-commerce, he suspects. But the electronic logging device (ELD) mandate, imposed on truck drivers Dec. 18, also is lengthening and shortening lanes and exacerbating shortages of trucks, equipment, and drivers, throwing shipping networks out of whack. One reason capacity is tight is because it is not where shippers expect.

“This may well be one of the most unpredictable and quickly changing freight environments that many of us have ever experienced,” Douglas R. Waggoner, chairman and CEO of Echo Global Logistics, said last month. “January and February are traditionally the slowest months of the year, and right now the market is not as tight as [the fourth quarter], but it’s still tight.”

“This was an entirely predictable surprise,” said Mike Regan, chief relationship officer at TranzAct Technologies and advocacy chair for the National Shippers Strategic Transportation Council. Shippers knew trucking conditions, especially a shortage of qualified drivers, would likely lead to a sharp contraction in capacity if the US economy expanded faster.



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But many shippers, lulled perhaps by the failure of a driver or capacity crisis to materialize in 2015, and the steep drop in US surface transportation rates in 2016, did not expect the market to swing so suddenly. “The reality is it’s going to get a lot worse over the next couple of months,” Regan said. “People are worried about how they’re going to move freight in April and June.”

Large retailers, he said, “to a person will tell you they’re not going to run out of trucks. They’re going to pay what they need to pay to get the trucks they need to move the freight they have. The question then becomes, if large shippers are willing to pay above-market rates to guarantee capacity, what does that say about what’s coming to the small to midsize shipper?”

Higher costs are inevitable, Regan said, especially for those shippers who book freight on a mostly transactional, load-to-load basis, rewarding low bidders. “If you’re a great customer, a collaborative shipper, you might see an increase of 5 percent” in truckload rates, he said. “If you’re a transactional customer, you can expect your rates to rise 15 percent or more.”

Another measure of truckload pricing, the Cass Truckload Linehaul Index, dropped from 134.5 in December to 133.5 in January, but was still up 6.5 percent year over year, compared with 6.2 percent in December. The Cass Intermodal Pricing Index hit an all-time high of 141.4 in January, a 5 percent year-over-year gain and a 5.3 percent increase from December.

“In just the last seven months, our pricing forecast has increased from minus 1 to 2 percent, to 6 to 8 percent, and now we have reason to believe the risk to our estimate continues to be on the upside,” said Donald Broughton, managing partner at Broughton Capital and commentator for the Cass indices. “Contract pricing should keep rates in positive territory well into 2018.”

In the fourth quarter, truckload rates paid by C.H. Robinson Worldwide, the largest US freight broker, rose 15 percent year over year. The logistics provider boosted its own truckload charges to shipper customers by 14.5 percent. “We continue to be active in repricing business where appropriate across all our modes and services,” CEO John Wiehoff said Jan. 31.

ELD out-of-service enforcement nears

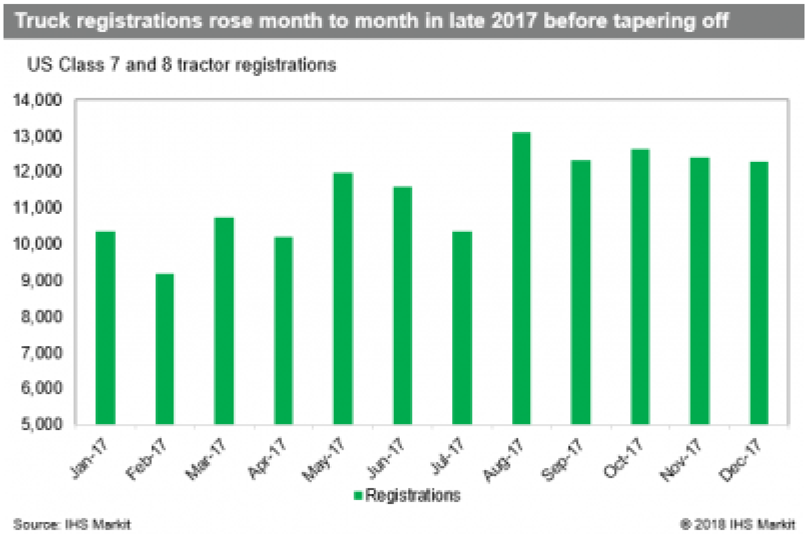
Shippers are racing the clock to find ways to lock in capacity and restrain pricing before full-fledged out-of-service enforcement of the ELD mandate begins April 1. “I’m not waiting for trucking companies to come to me, I’m going to them,” said John Janson, global logistics director at SanMar, an Issaquah, Washington-based supplier of apparel and accessories.

But their options are narrower than ever before. Domestic intermodal rail traffic began 2018 with a 7.4 percent year-over-year jump in January, according to the Intermodal Association of North America, compared with a 3.7 percent expansion in January 2017. Railcar provider TTX forecasts the number of 53-foot containers will rise 4.4 percent to 309,000 by year’s end.

The ability to shift more freight off the highway to rail is limited by intermodal’s reliance on drayage — which faces the same capacity constraints as over-the-road trucking and the extra burden of chassis — and rail service reliability issues. “The trains are not running on time right now,” Ron Joseph, chief operating officer at Direct ChassisLink (DCLI), said in late February.

“If you’ve got them running behind, it’s hard to make projections on when to move chassis in and have them ready,” Joseph said. “If we’re planning a train arriving at a certain time and it gets delayed for some reason, if they don’t tell us that, we can’t get the right amount of chassis to the right place at the right time.” That is the US capacity problem in an intermodal nutshell.

Shippers told *The Journal of Commerce*variable service makes it tough to shift freight off-highway to intermodal containers, especially when they face increasingly stringent delivery requirements from retail customers. “Truck plus one is fine, but when you don’t know if it’s going to be plus one or plus three, that volatility kills us,” said a shipper who requested anonymity.



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“Shippers have two challenges: rate increases and more and more demanding delivery times,” said Ben Cubitt, senior vice president of engineering and procurement at third-party logistics (3PL) company Transplace. “They need highly capable service-oriented carriers, so they can’t offset the prices. There’s lots of discussion about how to lock in capacity, but still no resolution.”

In February, some shippers said it took days to get containers out of Chicago railyards. Other midwestern markets were disrupted. DCLI shifted chassis from the East Coast to several Midwest locations in reaction to the disruption, reallocating 450 chassis from the South Atlantic and Northeast by late February, with plans to move about 1,600 chassis to the Midwest.

“We continue to work with our supply chain partners to manage traffic flows and alleviate the delays,” Canadian National Railway said in a statement. “We are working to secure more driver power in the Chicago area to increase terminal fluidity, and have encouraged carters to schedule appointments at off hours such as nights and weekends,” the railroad told customers.

Drivers contemplate shift

Just as shippers look to expand use of intermodal rail, more drayage drivers are thinking of moving to over-the-road trucking. “I would say 50 percent of the drivers or more are considering flipping [to over-the-road] to avoid the ramps,” Susan Keldani, vice president of On Track Transportation in Illinois, told *The Journal of Commerce*. “Owner-operators just get fed up.”

Among several factors influencing the capacity crunch, two identifiable causes stand out: the US economy and a resurgent driver shortage. “The ELD is easy to blame for all of our sins, but the root problem is not recruiting, training, and paying drivers enough,” Clowdis said. If real GDP was still growing at 2016 rates, the ELD’s arrival might have gone unnoticed.

But with the slack gone from the US economy, which expanded between 2.6 and 3.2 percent over the last three quarters and is expected to continue growing at a faster pace this year, the ELD mandate adds a new layer of complexity to the transportation capacity issue. The mandate’s add-on impact may be enough to keep capacity tight when freight demand ebbs.

For one, the effect of the mandate is very broad. The mandate covers more than 3 million commercial truck drivers who kept (or keep) paper logs to track their working hours. The introduction of the mandate is arguably the biggest regulatory change for US truckers since the introduction of the commercial drivers license and mandatory random drug testing in the 1980s.

The main obstacle to hiring more truck drivers is money. Plenty of factors feed the driver shortage, from the demographics of an aging workforce to a tightening regulatory net, led by the ELD mandate. But pay is the axle on which all those factors turn. For proof, just look at the current wave of truckload driver pay and benefit increases and bonuses.

“The driver market is really in flux,” said Lana Batts, co-president of Driver iQ, a driver screening and monitoring service. “Motor carriers are trying a lot of different things to recruit drivers. They’re all adding pay. About 50 percent are doing sign-on bonuses. I think, basically, motor carriers are optimistic they can find drivers. I don’t think they’re optimistic they can keep them.”

Time, not trucks, trailers, chassis or containers, terminal doors or drivers, may be the determining factor in capacity. The biggest impact on capacity from the ELD mandate is loss of time for those drivers still behind the wheel. Less time means fewer weekly turns, which means more trucks and drivers are needed simply to haul the same number of shipments.

Ken Spicer, director of transportation and carrier management at chemicals distributor Univar, saw three small motor carriers shut down in December. “It’s a shame these carriers came to us too late in the game,” Spicer said in an interview available on TranzAct Technologies’ Market Storm Center website. “We could have paved the way for them to run our dedicated lanes.”

“Before the ELD mandate took effect, I thought the primary impact would be carriers leaving the marketplace,” Regan said. “That’s still a legitimate concern. But the real impact is how the ELD mandate is changing lanes and equipment utilization. We had several lanes that were one-day lanes before Dec. 18 that now are two-day lanes because carriers won’t risk log violations.”

In a detailed analysis of the impact of the ELD mandate on shipping lanes, Zipline Logistics found transit times creeping up. “We’ve been able to identify the subset of lanes that will be most drastically affected,” Zipline president Andrew Lynch said, “anything between 450 and 550 miles,” the same length of haul highlighted by Clowdis’s Trans-Logistics Group.

On those lanes, transit times on average rose from 1.05 transit days before Dec. 18, when the ELD mandate took effect, to 1.22 transit days after the mandate, a 16.2 percent increase. That accounts to about four additional hours of transit time, on average, enough to turn a seven-hour haul into an 11-hour trip, pushing drivers to the limit of their daily legal driving time.

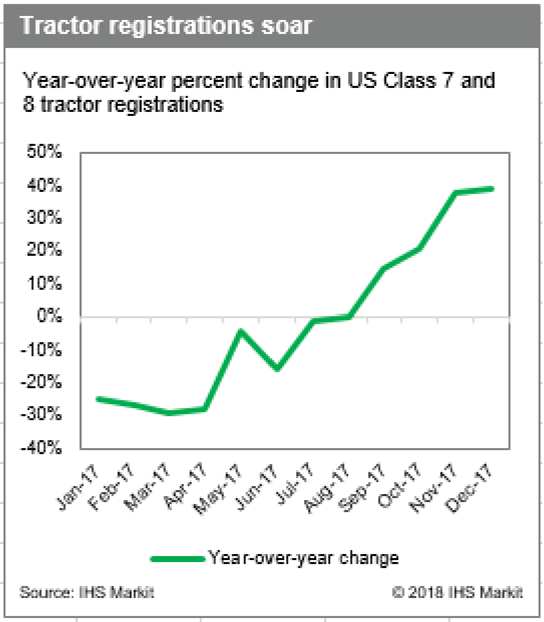
Tripping the time limits

Truckers would likely clock out beyond the legal limit when any delays or unexpected stops come into play. That’s enough to turn a same-day trip into a next-day delivery. “That’s a pretty big impact,” Lynch said. “The cost to run the truck hasn’t changed, so these guys are just losing time.” That additional time alone translates to a 4 percent increase in freight costs, he said.

That is real money to SanMar’s Janson. “We didn’t expect as big of an impact [from the ELD mandate] on five- to six-hour runs,” he said. “We would have expected it on longer hauls, but these shorter runs are well within the legal limits and have always been acceptable. Now they’re getting turned down.” When he asked truck drivers why, the answer surprised him.

Although the five- to six-hour length of haul was well within the 11-hour daily driving limit, extra hours were easily racked up because of unexpected delays at pickup and delivery points and because of congestion, especially on multistop routes, Janson said. That meant drivers often found themselves short of the time needed to deliver goods and find backhauls.

“In the past, I think they pushed the envelope, or maybe they fudged their logs a little bit to get home. Now they can’t do that,” Janson said. Now SanMar is looking for niche carriers that need freight "that balances their network," he said. The apparel shipper found one such carrier that needed freight between Southern California and Phoenix, for example, and signed it up.



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SanMar also dropped its former 3PL. "We kept getting calls from our 3PL that drivers were running out of hours. That caught the 3PL off guard. We believe the asset-based carriers provide better control over the situation," Janson said. And SanMar is considering a modal shift as it tries to meet delivery deadlines. "Our LTL business is seeing some growth," he said.

From Zipline to Transplace to TranzAct, companies arranging shipments and processing payments for shippers can provide dozens of similar examples of supply chains thrown off-kilter by the sudden dislocation of resources. It is the shipping lines' container matchback problem writ large and across modes throughout the inland supply chain and domestic transportation.

For some shippers, "it's getting harder to move loads over the weekend," Cubitt said. "Carriers are putting embargoes on certain destinations based on time constraints." They are also taking a page from the books of the parcel carriers, FedEx and UPS, and adding more accessorial surcharges and fees to recover rising costs that often are not covered by rates alone.

Reports are rife that surface transportation providers, over-the-road and intermodal, are reaching into their rules tariffs for little-used accessorial charges, such as congestion fees levied in certain markets, and also refusing new business as peak-level demand in January and February limited their ability to reposition tractor-trailers and containers to meet requests.

For example, intermodal marketing company Hub Group told *The Journal of Commerce* it charges certain customers fees that might total hundreds of dollars to move freight not covered by contracts in certain highly congested markets, including Chicago, Los Angeles, Seattle, Dallas, and Atlanta. The charges are dynamic and depend on the cost of getting equipment.

Changing behavior

"There are going to be times in which we will have to do unique things to provide capacity that comes with an additional cost, especially with surge capacity like the market we're seeing today," said Brian Meents, Hub Group senior vice president of enterprise customer solutions. The issue is being able to allocate drivers and equipment.

"I personally see a shift away from using assessorials to cover your costs, to trying to drive a change in the behavior of the shipper," said Brian Broadhurst, vice president of transportation solutions at consulting firm Spend Management Experts. Broadhurst and others see that accessorial trend starting in the parcel business and extending to LTL and truckload.

Increasingly, truckers simply refuse loads. "There's been a real drop in shipment tender acceptance," Cubitt said. "Everything has changed in this market. Last year, if your primary carrier didn't take a load, you could get a secondary carrier quickly. This year, you go to that secondary, and then a third carrier. On some lanes you can go to 50 carriers and not get a yes."

The tightness that gripped US supply chains in January eased somewhat in February, but "peak-like" conditions persisted in many markets during what is usually the slowest month of the year. With spring imports moving inland, the produce season on the horizon, and the April 1 deadline for full ELD enforcement coming fast, shippers are bracing for more disruption.

"People are in panic mode," Clowdis said. With more than 50 years of experience in trucking, Clowdis has seen tight markets before as economic cycles come and go, but this capacity crunch is "unprecedented," he said. Surviving it will require long-term thinking and lasting changes from shippers as well as their transportation and logistics partners.

"I've had a shipper tell me he's considering creating a 160-truck private fleet to ensure he has capacity when he needs it," Clowdis said. "I asked him, 'Where will you get the drivers?' He didn't know. I asked him why he didn't go to a dedicated operation. 'It costs too much,' he said. You'll have to ask what's really going to cost 'too much' if you want to keep freight moving."

"We're no longer going to be able to push the easy button," Janson said. He said shippers need to look at transportation less from a one-way perspective and think more holistically. "You need to look at the complete network now," including how the shipper's freight plans overlay and match up with truckers' transportation network and needs.

"If our business is meaningful to the carrier, that makes a difference," he said. "A strong relationship means a lot. We have to ask, does our freight balance their network" in terms of backhauls and the forward positioning of equipment, Janson said. "It's more than just trucking behavior that is changing," he said. "This situation is changing a lot of things."

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