

# The Pendulum Swings

Presented at  
Metropolitan Council of Governments  
Regional Freight Forum

## Identifying Regional Freight Transportation Priorities

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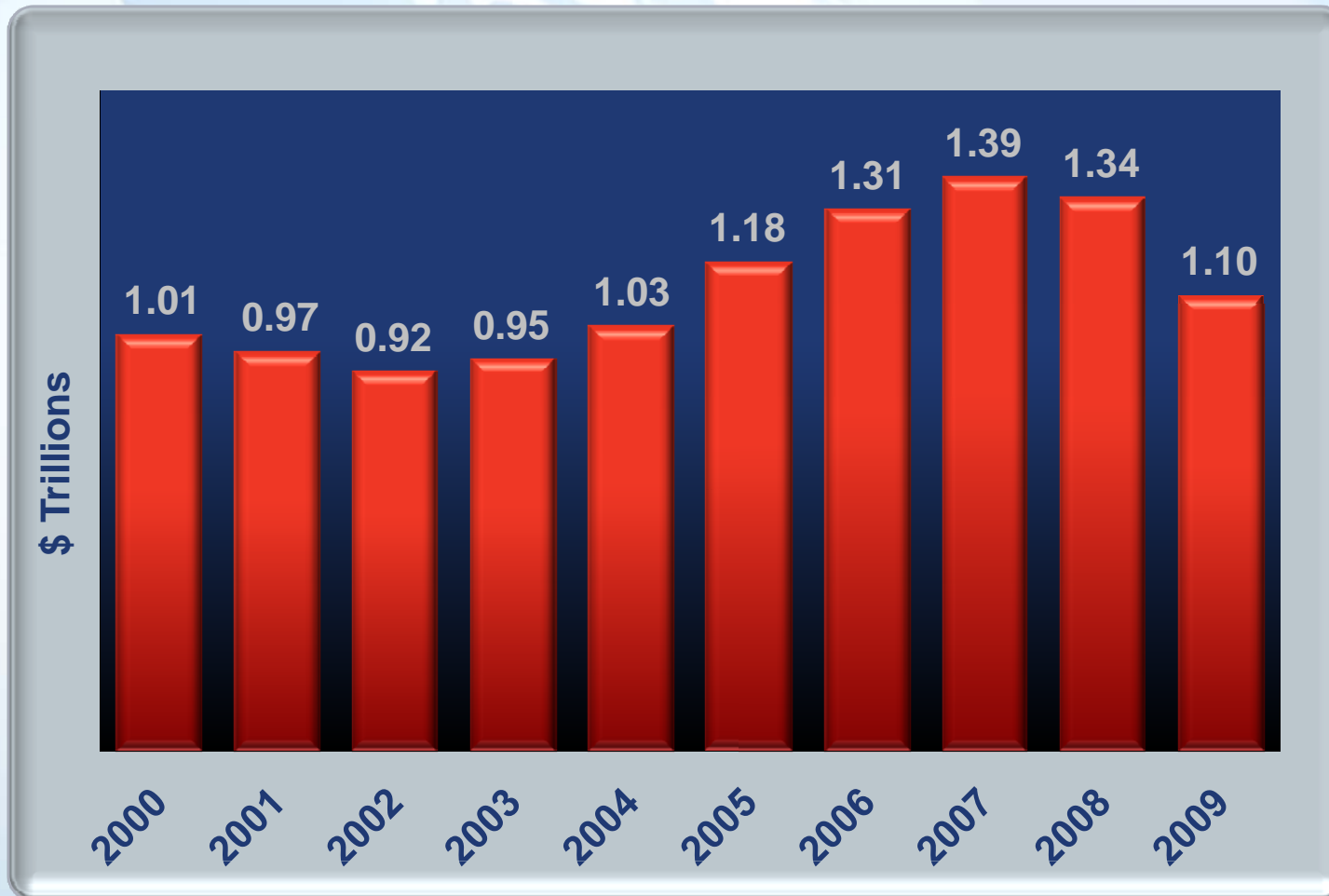
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# National Perspective

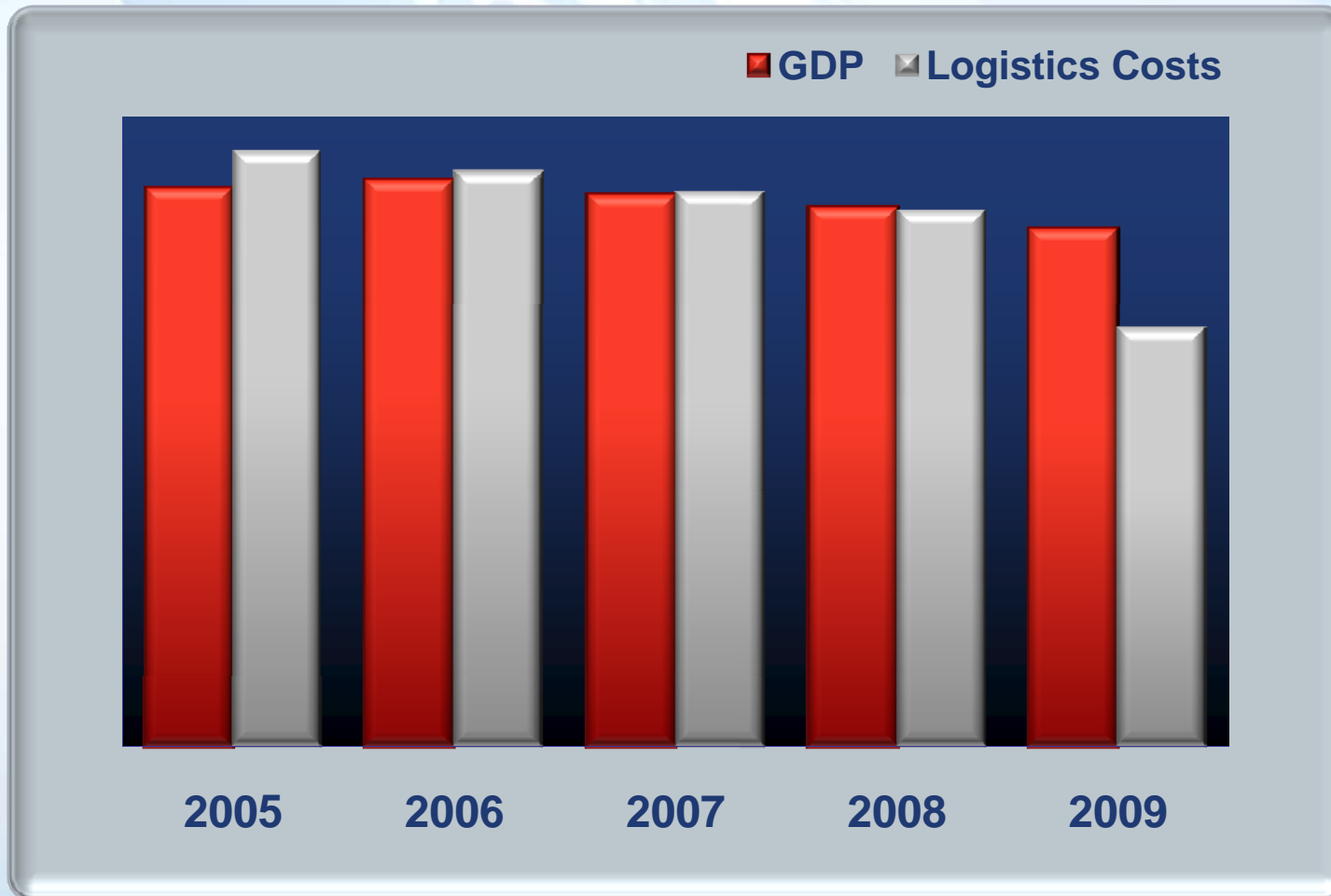
## Cost of the U.S. Logistics System



Source: CSCMP's Annual State of Logistics® Report

# National Perspective

## GDP Growth and Logistics Cost Growth



Source: CSCMP's Annual State of Logistics® Report

# The Recession Hit the Logistics Industry Hard

	\$ Billions
<b>Carrying Costs - \$1.851 Trillion All Business Inventory</b>	
Interest	5
Taxes, Obsolescence, Depreciation, Insurance	233
Warehousing	119
<b>Subtotal</b>	<b>357</b>
<b>Transportation Costs</b>	
<b>Motor Carriers</b>	
<i>Truck – Intercity</i>	368
<i>Truck – Local</i>	174
<b>Subtotal</b>	<b>542</b>
<b>Other Carriers</b>	
<i>Railroads</i>	50
<i>Water (International 25, Domestic 4)</i>	29
<i>Oil Pipelines</i>	10
<i>Air (International 14, Domestic 15)</i>	29
<i>Forwarders</i>	28
<b>Subtotal</b>	<b>146</b>
Shipper Related Costs	9
Logistics Administration	42
<b>TOTAL LOGISTICS COST</b>	<b>1,095</b>

Down 14.1%

Down 20.2%

Down 18.2%

Source: CSCMP's Annual State of Logistics® Report



# Setting the Stage

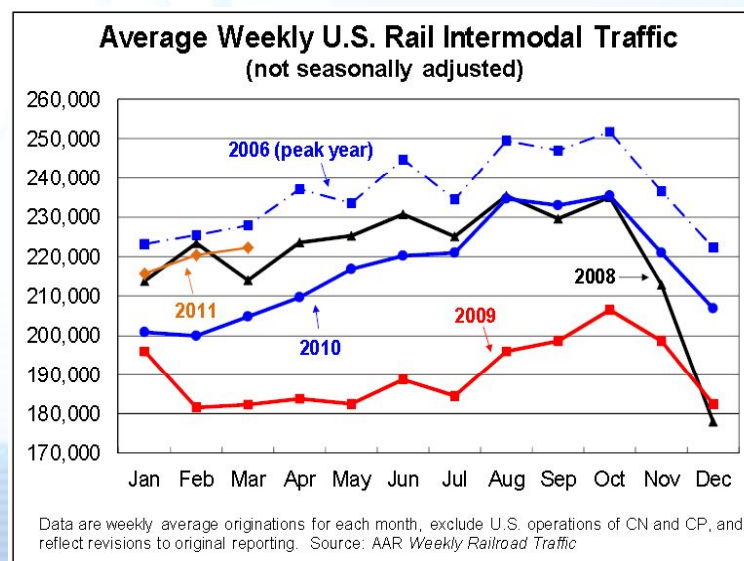
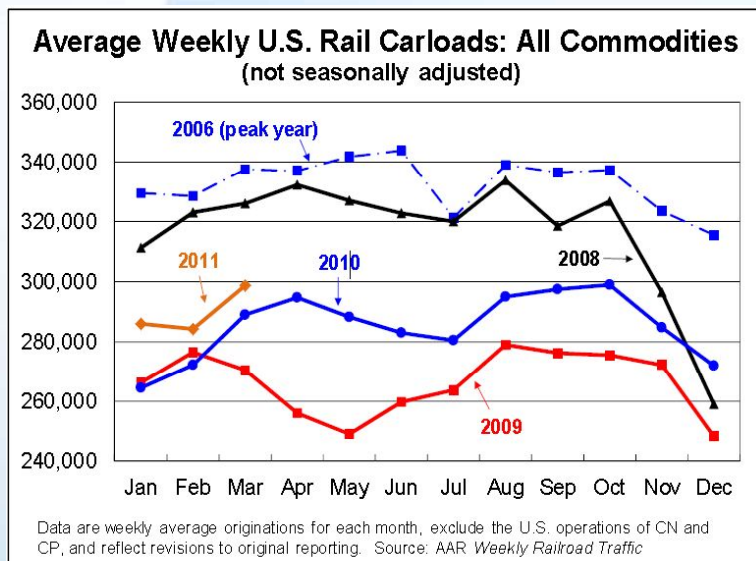
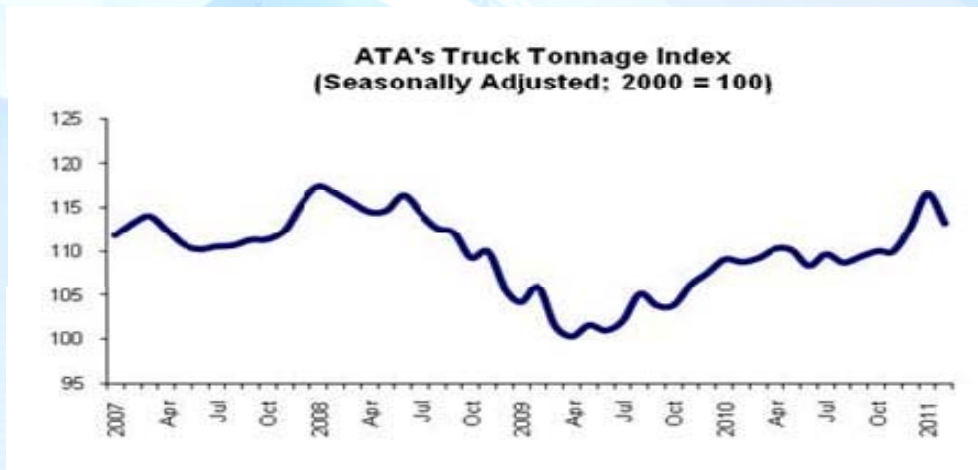
- ◆ Reduced carrier capacity
  - Truck – over 6,000 bankruptcies, overall truck capacity down 13 percent – not just parked
  - Rail – almost 32 percent of freight cars in storage during recession, \$43B in assets idle, capacity can be brought back on line
  - Ocean – overcapacity despite 25 percent of fleet laid up or removed, fewer routes, longer travel time
  - Air – 12 percent of fleet retired or scrapped, capacity shortage in early stages of recovery, equilibrium now
- ◆ Severe downward rate pressure – shippers have control
- ◆ Fuel costs stabilized – fuel surcharges not an issue
- ◆ Inventory levels are down and more inventory is being held downstream



# How Did 2010 Look?

- ◆ Better than 2009, but not really a stellar year – growth was very uneven
- ◆ During 2010 real GDP increased 2.8 percent, after rising only 0.2 percent during 2009.
- ◆ Private inventories rose 10.7 percent, but interest fell again in 2010
- ◆ Employment at 10 percent, and slow job creation still dragging down the economy
- ◆ Housing values still falling, mortgage bankruptcies climb again – consumer confidence slightly positive now
- ◆ Consumer spending and retail sales growing modestly
- ◆ Industrial production and manufacturing for businesses is up, while consumer goods production is almost flat

# How Did the Carriers Do in 2010?



# The Pendulum Begins to Swing Back....

- ◆ Truck capacity is tightening and pricing control is shifting – by end of 2Q to mid 2011 we will start to see some very significant rate hikes
- ◆ The truck driver shortage is coming
- ◆ Truck sales – new and used – are up
- ◆ Diesel prices are on the rise once again with fuel surcharges growing
- ◆ Rail carloadings got off to a slow start because of the bad weather, but have posted good growth in 2011 and intermodal is soaring
- ◆ The railroads are ready for expansion, but it will come gradually; they could handle another 10 to 15 percent of volume before there are any worries about capacity issues in select corridors



# Expectations for the Rest of 2011

- ◆ Pricing control is shifting back to the carriers – rates are trending higher...quickly
- ◆ Volume is growing steadily
- ◆ Capacity is getting tight in the trucking segment
  - Carriers being more selective who they carry freight for
  - Will experience both an equipment and a driver shortage
  - Perfect storm...economic improvement + impact of CSA + proposed hours of service rules
- ◆ Shift to intermodal is increasing
- ◆ Fuel prices still on the rise – more surcharges
- ◆ Infrastructure vs. capacity to be the big issue

