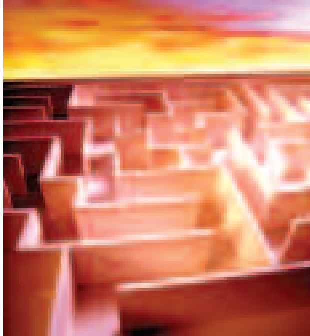


intermodal

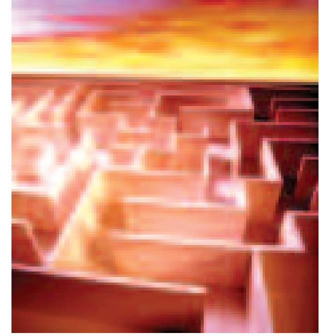
Why we may be entering the golden era of intermodalism, despite the current freight volume slump

By Dan Goodwill

Intermodal transportation which typically involves a local truck pickup at one end (i.e. Montreal), transfer to one or more railways for furtherance to its ultimate destination (i.e. Los Angeles) and then delivery by truck, has evolved into a very cost effective service for shippers moving freight a distance of 1000 miles or more. However intermodal has been feeling the effects of the so-called freight recession. To catch up on what is happening in this industry, I was recently in contact with a number of the key players. According to Jim Van Hefty, Schneider's vice president of intermodal commercial operations, based in Green Bay, Wisc., the current slump in freight traffic is producing some migration of intermodal traffic back to trucks. "Over the road (OTR) carriers including Schneider National have made huge fixed-cost investments in rolling stock (trucks/trailers) and need to keep it moving. Plus, drivers are a precious resource that we invest heavily in, in order to recruit and retain; therefore you need to get them miles so they make money. During times like these, OTR carriers reduce rates as necessary to keep trucks moving and to ensure drivers make a living. When this happens (reduced industry volume and lower OTR trucking prices – i.e. more supply than demand), shippers find OTR truck capacity available at rates that are attractive and comparable to intermodal rates, yet have faster transits. The sophisticated shipper knows however that this worm will turn and will not want to lose intermodal capacity for the long term so they manage through this by trying to balance the situation," he explained.

This erosion of intermodal freight to trucks is not having a noticeable effect on intermodal volumes. Paul Waite, vice president of intermodal operations at CN Rail, Mississauga, Ont., has not seen any erosion in their intermodal volumes. James R. Hertwig, president of CSX intermodal, Jacksonville, Fla., commented that "we do not show a big loss to truck. In fact, we are showing a significant volume and revenue growth with truckload carriers."

According to Steve Ramescu, president of Axsun Logistics, a



Montreal based IMC (Intermodal Marketing Company), "we are seeing a tremendous amount being converted to intermodal. With the lack of Canadian truckers in the US as a result of the recent slowdown, intermodal has begun picking up freight in what was perhaps considered truck lanes. We have also seen a great rise due to the Canadian dollar picking up strength. As Intermodal costs are 100% in US dollars, customers paying in Canadian funds have realized that intermodal is now a better buy. Example: Montreal to Chicago by truck would run around $1500 plus fuel. Intermodal runs around 1100 US. Take the exchange factor and now intermodal runs at around $1175 CDN. That's a substantial savings from the $1500 charged by trucks. When the exchange level was in the 20's and 30's there was no advantage to intermodal on this lane.

Intermodal growth has been spurred by the rapid rise in container movements to and from China and then their subsequent movement across Canada and the United States by rail. Jim Van Hefty of Schneider expressed the view that "there will clearly be growth in this area but not as fast as was experienced in the early 2000s. Port traffic, which was predominantly via the western (US) ports, will continue to be diversified into ports in the southeast and northeast. This traffic will be destined to places such as the Midwest. It remains to be seen if this will move via intermodal or OTR truck, as the length of haul of this freight is such that OTR truck may have an advantage." Paul Waite also expects this trend to continue at CN "as Prince Rupert comes on-line, the Port of Vancouver continues to expand and new all-water services are introduced at the Port of Halifax."

Jim Hertwig expressed the view that "growth in the international marketplace has proven to be consistent and it is projected to get stronger in the next few years. Experts advise that US imports are projected to grow at a rate of 5% - 6% annually for the next ten years. CSXI is investing in our infrastructure to accommodate the anticipated growth by increasing pier services along the east coast." Some of these projects include intermodal rail service at NYCT, service from Elizabeth Marine Terminal to New England, upgrading rail services at Virginia Port Authority to include on-dock rail service at the new A.P. Moler terminal as well as Portsmouth Marine Terminal and Norfolk International Terminal. Additionally, CSXI is working with GPA to create a new on-dock rail facility in Savannah and expanding its Jacksonville terminal to prepare for new vessel services starting in 2008.

In recent years, the railroads have appeared to show preference to IMCs that provide their own assets. "Clearly the direction of the railroads is to focus on what they do best and that is run a railroad by getting goods moved on time," stated Jim Van Hefty. "With the investments that are needed in rail infrastructure, it makes sense that they look to IMCs to provide the capital for the box. The IMCs are in a much better position to manage the box, as they have the relationship with the customer. We have positioned ourselves via trailer and container purchases to be a significant player in this new world." It was Hertwig's view that the "IMC is a valued channel of sale and we currently have 13,500 containers and will continue to provide rail controlled assets to this channel of sale. We also find that many brokers and midsized truckers like to utilize our rail controlled assets when they begin to convert OTR to intermodal."

Again, the Canadian perspective is somewhat different. "The rails are no longer interested in solely equipment providers," stated Ramescu. "Today Intermodal has modernized and as time goes on, the majority of the fleet will be impex boxes. IMCs are back in the lead as they are able to make stagnant equipment move. Impex boxes parked in rail yards are no longer an option as these boxes must move. IMCs will be the movers of these units as equipment owners are more interested in moving their own fleet. The second part is the private fleets that don't necessarily balance trains and I believe the railways are seeing this. In fact certain rails are getting away from certain equipment providers as it no longer fits the railways' long term plans," Ramescu explained.

"CN has had for many years, a very good balance of wholesale and retail business in Canada", commented Waite. "Historically, our product offering in the US has been restricted to use of NACS/EMPU equipment, with limited usage of CN cube (CNRU designation). That is changing. Starting in 2006, CN has been offering a domestic retail product in the US utilizing our modern 53' container fleet. This new service has been well received in both Northbound and Southbound directions. We also continue to work very closely with the IMC community. To date, they have relied heavily on NACS/EMPU for cube supply."

All of the folks contacted are very positive about the future of intermodal transportation. "I love intermodal," stated Waite. "It's fast-paced, growing in leaps and bounds, and quite frankly, a huge growth engine for CN. I am very bullish about intermodal at CN. We have a great franchise and a great value position for the marketplace. In the future, I see intermodalism morphing into a more inclusive format, in partnership with our carload franchise. The day is coming soon whereby a shipper will have a menu of value choices with CN: a premium railcar, modern 53' domestic and 20'/40' cube, door pick-ups & deliveries, warehousing and distribution. The list goes on."

Ramescu believes intermodal growth is going to explode as long as the rail infrastructures can handle the freight. "The driver shortages we have faced when the economy was at full tilt are still a problem. The long term situation with shortages of truckers and the need to eventually renew fleets for some companies puts intermodal in the forefront," he explained. That's a view shared by Hertwig as well.

Van Hefty at Schneider Intermodal also considers the intermodal business as a major source of growth for his organization, reasoning: "It is our belief that intermodal is the way to go for long length-of-haul freight. We believe that with the railroads continuing to focus on improving transit times and reliability, there is still a great deal of freight moving via OTR truck today that can be converted effectively to intermodal." **CT&L**

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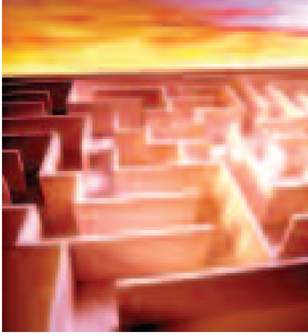
INTERMODAL NUMBERS NEEDED



another view:

Slumping intermodal volumes indicator of economic slowdown?

By Gordon Feller

Several container traffic measures, especially those related to the Transpacific trade, have been particularly weak in the last few months and are approaching levels similar to periods when economic activity was quite low.

Historically, the correlation between intermodal volume growth and US GDP growth seems quite high. Since 1990, intermodal volumes have turned negative three times, and during two of these periods the US economy fell into a recession. Intermodal volumes, which include both container and trailer traffic, are down 2.9% in the last six months.

Although during the 1995-1999 period the considerable consolidation activity in the railroad industry combined with the tech "bubble" might have distorted the relationship between the two parameters, once we look a bit further back, the 1990-1995 period also seems to point to a strong relationship between the US GDP growth and intermodal traffic.

Inbound container traffic better captures changes in economic activity than intermodal volumes which includes trailers. Although trailer activity also reflects the underlying economy, considerable recent excess capacity in the trucking space may cause divergence with the overall demand picture. As a result, container statistics relate more directly with aggregate consumer demand.

Looking only at container imports into the U.S. West coast ports, inbound trade seems to be slowing down. The combined container import growth into the five major ports (LA, Long Beach, Oakland, Tacoma and Seattle) has recently come to a standstill, while on a 6-month trailing basis (to adjust for the month-to- month volatility) import growth has recently turned negative for the first time in a while.

On the other hand, exports from the same west coast ports are hitting new highs, fueled by a record-low US dollar.

With container import growth in the two main West coast ports (LA and Long Beach) dipping below zero for the first time in at least 12 years (on a six month trailing basis), there could be some effect on relevant areas of the economy going forward.

Furthermore, long-term intermodal traffic trends might be heading for a slowdown, as recent volume growth has risen well above average rates observed over the last decade.

As a result, although the year-over-year comparisons might be more favorable as we head into 2008, the longer term trend may be pointing to a lower rate of growth for the next few years.

Although all of the above measures directly represent only the intermodal segment of railroad traffic, the housing market is also having quite a negative impact on total railroad volumes, which, combined with the above weakness in container traffic, is having a particularly negative impact on total revenue growth.

The housing-related commodities have experienced significant declines in volumes this year, and there is no indication that the market for such products is going to experience a recovery anytime soon.

Overall, the transportation market as it relates to traffic volumes is pointing to a much weaker economic environment going forward. Transportation stocks have underperformed the broader market in the last several months, and although there have been pockets of earnings strength for some transportation companies, top line growth has slowed to the low singe-digit range for railroads.

Although transportation and trade are only part of the overall economy, the important part they play in the non-services sector should not be discounted. Freight and trade markets are sending potentially negative signals for economic growth going forward, something that should at least limit the valuation upside potential for some transportation names such as railroads. **CT&L**