Truck Carriers Push Rate Increases

by Gerry McDevitt - Thursday, October 23, 2014

If you look in any transportation trade journal, you may have seen articles about driver shortages, equipment investments, and the rising costs of regulations, taxes, tolls and other carrier expenses. These factors are what many carriers speak about when talking rate increase with shippers.

Some experts are predicting rates to increase in the next year by an average of 3-5%. A few carriers have already pushed through increases over 10%. Is this a scam or some kind of shady sales pitch designed to make shippers agree to rate increases? Let’s dive a bit deeper into the factors being attributed to the need for higher rates.

Impact of the driver shortage

For the last two years we have been seeing nothing but dire predictions about a shortage of at least 100,000 drivers and its inevitable impact on rates. The size of the shortage, once considered an overestimate, is now firmly planted in reality. Truckload carriers are desperate for drivers to operate the equipment they’ve invested in, with many instituting hefty pay raises to keep warm bodies behind the wheel. Although not all would reveal details, one announced a pay raise of $0.425 per mile?a huge increase.

While the long haul full truckload (FTL) market bears the brunt of the impact from the driver shortage, its effects have made waves throughout the entire trucking industry. It has led some shippers to go outside their comfort zone, pushing their FTL loads toward an intermodal (truck/rail) combination. This is despite reduced performance of the rail. Although intermodal transportation is nearly 9% slower today than it was just a year ago, that did nothing to prevent a record number of intermodal shipments (280,000) being reached during a single week in September.

Other reasons behind rate increases

Many carrier costs are going up due to factors outside their control, such as the costs associated with new regulatory requirements, as well as toll hikes, employee benefits, and insurance.

Why now?

No one is questioning the legitimacy of the reasons that carriers have cited for their current and upcoming increases. After all, the driver shortage has been in the news for years now. New and more onerous regulations seem to always be on the horizon. The cost of employee benefits has and will likely continue to increase considerably for businesses in every industry across the country. This has been the state of affairs for quite a few years in the U.S. So why are rate increases getting pushed through now by so many carriers? The simple answer is because they can. With more loads to carry than there are trucks and drivers, carriers are in a better position than they have been in years to demand rate increases. It’s the perfect storm. If they manage it right, some of the revenue from those increases may even end up in the pockets of owners and stockholders.

Shipper Takeaways

Regardless of where the money from the increases goes, rates are on the rise. Shippers should budget for increased transportation costs starting now—that’s a given. However, it’s just as important for shippers, if not more, to keep levels of service stable for the benefit of their own customers. The harsh reality is that even with rate increases, many carriers will continue to be understaffed and over-committed. What can you do to avoid getting caught in the snares of an industry undergoing volatile change?

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MGL Domestic
Phone: (315) 414-0453
domestic@mohawkglobal.com

Gerry McDevitt is Vice President, Domestic Services for Mohawk Global Logistics. Click here to read more about Gerry.

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