Intermodal to Face More Challenges in 2020, Experts Say

Intermodal providers can look forward to continued challenges in freight market conditions during 2020 as North American economic growth slows further and overcapacity lingers, experts believe.

A group of seven expert sources delivered that message to *Intermodal Insights* during separate interviews, stressing market conditions such as OTR overcapacity that has forced floundering truck fleets to cut prices to grab market share from rivals and intermodal. The importance of continued rail service improvements was another key theme for next year.

There was broad agreement about the macro trends in 2020 from economists James Meil of ACT Research and Bob Costello at American Trucking Associations, along with others.

"We are faced with a slowdown, not a recession," said Meil, who is principal, industry analysis at ACT. "The Federal Reserve acted in a timely manner to lower interest rates enough to dodge a recession. We think 2020 will start weaker and end stronger. The second quarter will be the low point of 2020."

Consumers will continue to buoy the economy, while industrial activity will remain weak and pressure mounts on exports due to trade uncertainty, a strong dollar, and deteriorating market conditions overseas, Meil said, gauging that GDP growth will slow to 1.8% next year from 2.3% in 2019 and 2.9% in 2018.

"Intermodal will have to compete in a very aggressive environment in 2020," Meil believes, citing the change in market conditions from 2018 when very tight freight capacity in a stronger economy produced strong shipment and rate growth. In 2019, those favorable fundamentals were reversed as OTR fleets added more and more capacity at the same time that demand softened.

'Concerned'

"I am not predicting a recession, but I am concerned," said Costello, chief economist at ATA, stressing the continued uncertainty surrounding trade negotiations as well as industrial sector weakness. The latter situation was illustrated by negative trends in the Institute of Supply Management's index that is based on purchasing managers' expectations. In August, that index slipped into negative territory for the first time in more than three years.

Costello anticipates 2.1% to 2.2% GDP growth next year. Like others, he believes uncertainty will rise in a presidential election year.

"There is plenty of reason for businesses to take a pause," he said.

Daniel Hackett, principal at Hackett Associates, now is predicting less than 2% GDP growth in 2020, saying "Our concern is that the economy is really relying more and more on consumers."

Cowen & Co. analyst Jason Seidl said that multiple shipper and carrier surveys done by his company have shown that nearly 70% of businesses believe there won't be a recession. Business leaders believe that resolving trade issues would boost the economy, he noted.

Alix Partners' Managing Director Marc Iampieri made an important point, saying that overall macroeconomic conditions will likely have more of an impact on intermodal than industry specific factors.

"We believe we are already seeing declining growth and if the overall trade issues are not resolved, that may shift toward an overall decline," he said. "Geopolitical concerns in the U.S., U.K., and China are significant wild cards that need to be watched closely."

Important Lessons

This year's freight market delivered important lessons, two experts said.

"We learned this year that intermodal is not indestructible," said Todd Tranausky, a vice president at FTR. "It won't continue to grow just because it's there. Some parts of the intermodal chain took growth for granted, he said, without naming specific companies or modes.

"Conditions can change very quickly," said Larry Gross, who heads Gross Transportation Consulting. "We learned that driver shortages are not forever, and that intermodal can't count on a lack of truck capacity to drive traffic to the rails. Intermodal ignores truck pricing at its peril."

Several industry statistics illustrate the situation intermodal providers face as 2019 moves toward a close.

IANA statistics through the first three quarters of 2019 represent a volume decline of about 3% from the record pace in the same period of 2018, a year which ended with all-time high traffic levels. This year's dropoff has occurred in the domestic sector. International volume is keeping pace with last year.

Meanwhile, trucking shipments are slightly ahead of last year after three quarters, Costello said, and ATA's tonnage index is up more than 4% on the same basis.

In addition, spot market truck volumes and rates both are off around 15% this year compared with 2018, creating pressure on OTR carriers that has led to a sharp spike in fleet failures, which after two quarters of 2019 were double the total number recorded in 2018, experts said.

Gross said intermodal now is moving just 6.5% of domestic long-distance freight, compared with 7.1% before the decline began as truck markets weakened. That drop in market share, he said, hasn't previously occurred in an industry whose North American markets thrived between 2010 and 2016 as domestic container volume surged and railroads added new services and routes.

Given those conditions, what's ahead for 2020?

Potential Growth Opportunities

There are a variety of approaches that have the potential to help intermodal regain its momentum. One important theme was stressed by Alix's Director Peter Appel as well as Gross, Seidl and Tranausky: continue the pace of service improvement.

"It continues to be important for intermodal operators to offer more reliable and predictable services to capture share from truck," said Appel.

Seidl, Gross and Tranausky made several related points.

Seidl said he expects further improvement in rail service to take hold during the year, particularly in the second half of 2020, hopefully leading to an increase in intermodal freight volume.

Gross cautioned that service improvements alone won't be enough.

"Running the trains on time is just the cover charge to get into the party — it doesn't get you a date," he noted. "Intermodal will have to offer the right price and service combination to win business back off the highway."

Tranausky agreed, noting that publicly available metrics show intermodal train speeds have improved steadily during 2019, though they still trail some earlier years.

"Intermodal has to continue to show value for shippers," he stated. "If the economics don't make sense, and the drayage won't make sense, shippers will go another way."

Appel said intermodal can particularly benefit by tailoring service to the overall trend in consumer behavior toward greater use of e-commerce, which will continue next year.

"There may be several factors that could turn intermodal back up," according to IANA's third quarter Intermodal Market Trends & Statistics report, citing trade deals, fuel price increases, tighter truck capacity and the railroads' growth-related initiatives.

Economic growth should be strong enough as truck capacity tightens to generate a volume increase of 0.5% to 0.6% next year above 2019 levels, said Tranausky. The improvements should come in the domestic sector, particularly containers, he said.

Other steps could help intermodal to have a better year in 2020, the experts said, such as improving freight visibility.

"Once multiple carriers are involved, there is no way to track freight every step of the way," Seidl said, while noting that some carriers have made important strides to achieve greater visibility while they have control of the freight.

Intermodal also could capitalize on new business opportunities, such as U.S.-Mexico cross border freight, he added.

Fuel Price Wild Card

In addition to other conditions, one major uncertainty is fuel prices.

Fuel price increases are expected next year, Hackett said, as the new International Maritime Organization rules that require ocean carriers to use lower sulfur fuel take effect, resulting in increased costs and higher freight rates.

It isn't clear yet whether carriers, shippers or third parties will wind up paying for those increases, Hackett said.

That outlook represents a change from the very stable diesel prices this year, said Iampieri, but could be an advantage for intermodal compared with domestic OTR moves of international cargo because of greater fuel efficiency for combined rail/truck moves.

Additional intermodal volume information is available in Intermodal Insight's *Intermodal Data & Statistics section.*