Intermodal looks MARVELOUS!

The red-hot intermodal sector is "in fashion" these days as shippers opt for lower rates at near-truck service levels. Our intrepid trucking correspondent examines the factors driving this impressive growth as well as how logistics professionals are using the option as part of their 2011 transportation tool kit.

BY **JOHN D. SCHULZ,** CONTRIBUTING EDITOR

Whether it's truck-rail for domestic freight or ocean-rail for international moves, the situation is the same no matter how you analyze the numbers: Intermodal is the hottest game in town.

At the end of this year's first quarter, intermodal freight volumes are up 10 percent from year-ago volumes—11 percent up on international moves and 9 percent up on domestic moves. That's roughly twice the rate of growth of all North American rail traffic, and three times the growth in the U.S. trucking industry.

"Intermodal is looking very strong as we roll into the middle of 2011," says Larry Gross, an intermodal expert and a consultant with FTR Associates and principal of Gross Transportation Consulting. "It's been a bang-up year."

Analysts, academics, and some industry officials have long called intermodal the "sexiest" part of freight transportation due to several factors. One is its inherent ability to take the best efficiencies from the various modes—cheap ocean transport, long-haul rail shipment, and just-in-time truck transport—and use them in one coordinated move. And then, of course, there's intermodal's "green" appeal as it reduces overall diesel fuel usage.

For various reasons, from the staggering rise in crude oil prices to shippers and manufacturers increasingly wanting to reduce their carbon footprint and "go green," analysts predict intermodal growth will continue to exceed overall freight demand as the nation ramps up from the recession.

So how big is intermodal in 2011? According to the Intermodal Association of North America, intermodal revenue was $13.5 billion. About 45.9 percent of that is purely domestic moves with international accounting for the rest.

While IANA does not do forecasts, analysts are conservatively predicting total intermodal growth this year to rise between 5 percent and 6 percent year-over-year, more if the price of crude oil continues unabated.

And while Class I rail volumes were up 5.1 percent year-over-year for all five North American railroads (6.1 percent for the four U.S. carriers), the intermodal share at each of the five railroads was significantly higher in the first quarter of 2011. Depending on the carrier, intermodal rose between 8 percent and 10 percent year-over-year at Burlington Northern Santa Fe and Union Pacific in the West as well as CSX and Norfolk Southern in the East.

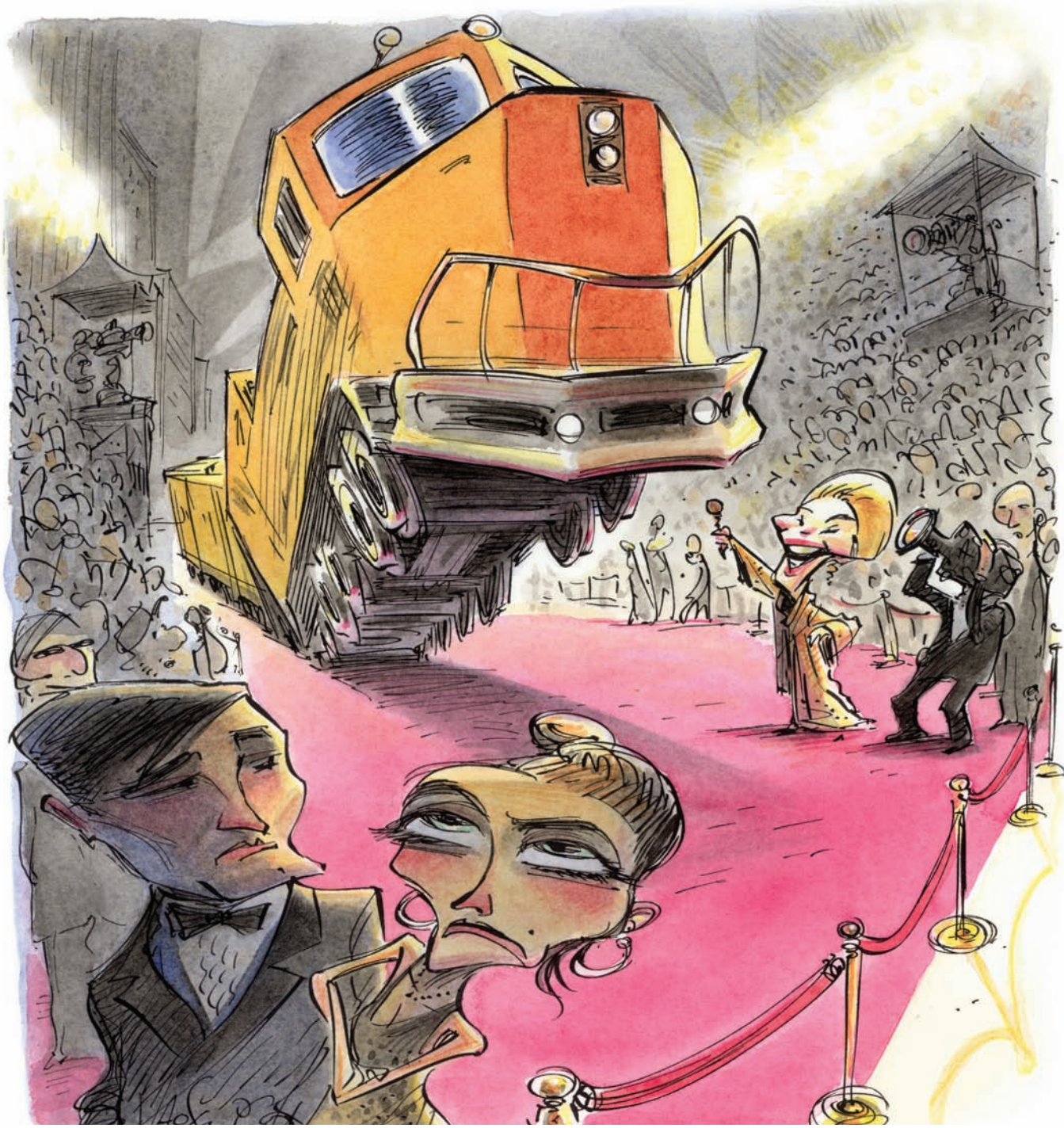
Over the next few pages we'll example the factors that are driving this impressive growth as well as how shippers and carriers are best using the intermodal option in their transportation tool kit.

UNDER THE HOT LIGHTS

Shippers are being inundated right now. Fuel surcharges are rising to the point where they can be 50 percent of their bill for a long-haul truckload move.

And while this is going on, there are growing capacity concerns in the trucking industry. Because of CSA 2010 and other initiatives, truck drivers are under increased scrutiny and are in short supply.

During the recession, many large truckload carriers such as J.B. Hunt, Swift, Werner, and others parked as many as 10 percent to 15 percent of their fleets to match reduced demand levels. Some of those carriers have been slow to replace those trucks, creating spot shortages along some lanes, particularly in the Upper Midwest, parts of the Southeast, and in and out



DANIEL VASCONCELLOS

of California.

But while this was occurring, the railroads were investing billions in their infrastructure, double-tracking, and increasing capacity where needed. Burlington Northern Santa Fe, for example, bought 331 new locomotives in 2009. Union Pacific (UP) added 127.

They've also become creative in seeking out help from the government. Most recently, UP announced in April that the New Mexico legislature has granted the railroad a locomotive fuel tax deduction. That paves the way for UP to start construction on a new $400 million intermodal center near Santa Teresa, N.M., that will have an annual lift capacity of up to 250,000 intermodal containers. UP Chairman Jim Young calls the move a "strategic investment" that will improve intermodal capacity and efficiency.

Rails have also spent the better part of the past decade tightening up their service standards. Trucking companies, meanwhile, are facing ever-higher fuel costs and driver shortages. Analyst Noel Perry of FTR Associates is predicting that the trucking industry will face a shortfall of as many as 400,000 drivers as early as 2012.

Today, truckers are increasingly eying the railroads as "partners" instead of competitors and are using the rails for their line hauls, particularly over 1,500-mile lengths of haul.

"Intermodal is in fashion right now," says John Larkin, managing director of transportation equity research for Stifel, Nicolaus. "The service is as good or better than solo driver truckload both in terms of transit times and reliability. The base price is 10 percent to 15 percent below truckload, and the fuel surcharges can be half as much."

Considering all these factors, Larkin is predicting that intermodal will grow this year at about twice the rate of growth as trucking. That is as long as there's sufficient capacity both in terms of equipment and terminal capacity.

"The future is bright as long as sufficient boxes, chassis, locomotives, intermodal rail cars of the right type, and terminals capacity exists," explains Larkin. "Line capacity is less of an issue, especially as more sidings are added or extended."

Larkin noted that most intermodal loads will still go via truck as intermodal is service limited to a relative handful of lanes—Chicago to the West Coast, Chicago to Dallas, and, to a lesser extent, along the I-95 corridor in the East Coast.

THE CROWD IS LOVING IT

Intermodal has other things going for it as well. The mode's ability to reduce carbon footprint, coupled with the current, global sustainability drive, is certainly a large part of its appeal.

Recently, Whirlpool made a significant investment to increase its intermodal moves. The appliance giant reached a major milestone last year when it loaded its 3,000th boxcar as part of a revamped supply chain—that's the equivalent of taking 9,000 trucks off the road.

"Plus shippers get to check the sustainability box in their strategic plans," adds Larkin. "So, it will keep on grabbing market share in the long-haul, high-density lanes anchored by big cities and mechanized intermodal ramps."

Sustainability and the green movement is also a factor in manufacturers' preference for intermodal, which can reduce their carbon footprint by cutting fuel consumption and saving money. About two years ago, Whirlpool did this by conquering one of the centuries-old disadvantages of intermodal—lack of accessibility. It did this by building 10 new distribution centers, all with rail docks in key locations near mainline or short haul tracks and close to highway access. Whirlpool now reports that it's using fewer trucks, products are moving uninterrupted, and there's less damage when shipped by rail.

Whirlpool is not alone. Other manufacturers are making similar, if less dramatic, steps in increasing intermodal usage.

In the meantime, truckers are increasingly relying on intermodal service as well. UPS, the world's largest transportation company, is also the single largest rail shipper. UPS will spend more than $3 billion this year on rail transport, much of it on regularly scheduled, 50-hour nightly trains out of Chicago to just outside Los Angeles that run as smooth as most truck moves.

"UPS is in a class of their own," says consultant Gross. "They've used rail forever. For many, many years they were the backbone of intermodal service demand, and they really drive the high service side of the intermodal equation." In fact, adds Gross, their trailer trains tend to be the faster trains in the intermodal world.

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—Steve Van Kirk, Schneider National

But UPS is hardly alone among truckers utilizing rail. FedEx Freight, the nation's largest LTL carrier, recently began using intermodal when it started its "two-tiered" system of service—economy and priority. The unionized LTL carriers such as YRC Worldwide and ABF Freight System long have moved as much as one-fourth of their trailers on the rails, mostly for long-haul line haul efficiency.

Truckload carriers are increasing their intermodal usage as well. Steve Van Kirk, senior vice president of intermodal commercial management for Schneider National, says that intermodal's attractiveness will continue to grow as over-the-road capacity gets tighter.

"What you're seeing right now is really strong freight demand relative to capacity," Van Kirk says. "That applies to all modes—dry van, truckload, intermodal. Capacity is getting tighter, and intermodal is seen as a viable option for many shippers."

But there are other factors driving intermodal growth, including a shift in how it's perceived by shippers.

"The biggest thing intermodal has going for it is that it has moved from the mode of last resort to a core transportation function," says Gross. "That's a function of reliability and quality of intermodal product. It's never going to be as fast as a truck, but intermodal offers a combination of speed and reliability at a price that makes sense."

Gross adds that the proof of that was in the most recent recession. In the past, intermodal usage fell off during economic downturns as truck capacity increased and rates fell down. "That didn't happen this time," says Gross. "Intermodal share has been slowly, but steadily increasing, and I would certainly expect that to continue."

FUTURE PROJECTS

As long as fuel stays in the $4-a-gallon range and qualified truck drivers increasingly are difficult to hire and retain, intermodal should continue to gain market share, say our analysts, with a few caveats.

In general, analysts and intermodal experts say, the only thing that would threaten intermodal would be if the rail system starts to bog down and service begins to suffer. That is not likely, but rail service meltdowns have occurred in the past in the wake of industry mergers, and other factors.

One trend to watch for in the future is increased intermodal use in shorter lengths of haul. Right now the average length of an intermodal move is 1,575 miles. But increasingly intermodal is being used in "mid-lengths" of haul, or around 1,000 miles.

"It's a great challenge to bring down that average length of haul," says Gross. "You need a denser network of terminals. That gets more complicated and more expensive to operate. It's a change to move into these shorter lengths of haul. But I would expect these intermodal players to enter that market in the future."

Even a drop in the cost of diesel fuel may not hinder intermodal's growth, experts say. In the past, the "tipping point" for rail vs. truck moves seems to have been about the $3 per gallon price of diesel. That may not apply any longer.

"That day is done," concludes Gross. "Everybody understands that if fuel were to go down to $3, that situation is not going to endure. Intermodal's attractiveness is not totally dependent on the price of fuel any longer." □

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