Intermodal drayage market tightens more in frigid US cities

William B. Cassidy, Senior Editor | Jan 02, 2018 5:44PM EST

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A cold snap has further constrained the nation's supply of truckers, particularly in the Midwest. Photo credit: Shutterstock.

Temperatures in Chicago are frigid right now, but the freight market is unusually hot. Intermodal drayage demand in Chicago spiked in the last weeks of 2017 and has not cooled in the first week of 2018, said Jason Hilsenbeck, president of the online trucking directory Drayage.com.

Based on his data, shippers are paying more to secure drayage trucks and drivers and having a harder time in the Midwest than on the coasts as 2018 begins, Hilsenbeck said, citing cold weather, higher container volumes, and the electronic logging device (ELD) mandate.

There are indications drayage capacity is tightening in several markets, although Chicago, hit by an extreme cold front even as freight demand remains strong on a year-over-year basis, may be the tightest spot on the map for now. Cold weather may be affecting freight rates, too.

Current tightness in drayage capacity could be an early sign that intermodal and over-the-road capacity will get much tighter this spring, when freight volumes typically rise following a first-quarter lull. That is a possibility experts say shippers should consider now.

“In 18 years, I’ve never seen as much demand for dray power as I’ve seen here in the past three to four weeks,” Hilsenbeck said. His online directory includes links to drayage markets throughout the United States. In the past 60 days, Chicago demand has outstripped them all, he said.

In the past 60 days, the Chicago market received 40,154 clicks on his website, while Los Angeles received 24,465 clicks and Savannah 23,952. New York-New Jersey placed fifth, with 19,954 clicks. Those numbers underscore Chicago’s importance as a central intermodal hub.

“Chicago is absolutely tapped out,” said Hilsenbeck. “There’s power in New York, power in Los Angeles and Long Beach, and not enough power in Chicago.” He believes one reason, though not the only factor, is the mandate that requires truck drivers to use ELDs to log their hours.

“Chicago is a mess this week,” Rick LaGore, CEO of InTek Freight and Logistics, said, with many carriers booked through the end of next week. However, “the spot market rates that we’ll pull this week will tell a much different next story than what we’ve seen the last couple of weeks.”

“It’s not just Chicago,” said Vince Paperiello, executive vice president of pricing and yield management for Hub Group. “We see tightness in markets you think of as surplus markets, like Harrisburg in eastern Pennsylvania,” he said. “We’ve had challenges finding enough drivers.”

The ELD mandate, which took effect Dec. 18, could make that challenge more difficult. The mandate requires drivers to ditch paper logbooks and switch to electronic logs. Many truckers were slow to install ELDs last year and some said they would quit rather than use them.

Although the ELD mandate is expected to hit long-haul trucking hardest, the impact on drayage is expected to be substantial, owing to delays at US ports, chassis yards, and rail terminals. Hilsenbeck thinks Chicago’s drayage community has been hit worse than other markets.

That is because a large portion of the containerized goods delivered to Chicago is routed to secondary markets, often more than 100 miles away, rather than consumed close by. “In LA and New York, a lot of containers are transloaded and drayed less than 100 miles,” he said.

“When you get to Chicago, a lot more of those containers are being routed through [the city],” said Hilsenbeck, to final destinations elsewhere in the US heartland. “The mandate would affect drayage markets in the Midwest more than those on the coasts, which we didn’t foresee.”

Longer dray hauls from Chicago and other points are more likely to be imperiled by congestion and delays that cut into driving time. That has pushed some intermodal trucking operators to set up relay systems and to reconfigure their drayage networks to build more freight density.

InTek Freight and Logistics also saw some fall-out from the ELD mandate, and not just in the Chicago area, as 2017 ended. “We are seeing ELD issues coming out of a number of markets across the United States,” LaGore said. “Some of our best small- to mid-sized carriers have imploded.”

A more predictable factor affecting capacity is Chicago’s brutal weather. “From our perspective, the problems are coming from the extended holiday weekend combined with the extreme winter conditions,” said LaGore, whose intermodal logistics company is based in Indianapolis.

The Windy City and much of the surrounding multistate area was under a wind chill advisory as the new year began, with temperatures running as low as -20 to -35 degrees Fahrenheit at some locations with wind chills, according to the US National Weather Service.

“Coming out of a holiday here you’ve got sub-zero temperatures across the northern United States,” Paperiello said. “We’re tight with power on the street because trucks just can’t get started.” Weather-related delays could ripple from Chicago across the continent for some time.

There is also more business out there. “We saw good demand during the peak, and it kept on going,” he said. “We see demand remaining strong into 2018.” Hub Group expects single-digit year-over-year gains in intermodal freight volume this year, while capacity remains tight.

Hub Group’s fleet of containers is “entirely deployed and has been since mid-September,” Paperiello said. “We have had no equipment stacked from the mid-third quarter on.” The company’s non-asset truck brokerage business has been strong, too, he said.

Trailer-on-flatcar intermodal shipping — not part of Hub’s business — surged in the last half of 2018, Paperiello noted. “That’s because package shippers in particular are trying to recruit every piece of capacity available” as e-commerce sales remained strong through December, he said.

All those factors combined will lead to “a pretty favorable environment for pricing into 2018 and even perhaps into 2019,” Paperiello said. The sharp wintry start to 2018 also brings to mind the polar vortex of 2014, which disrupted transportation networks in the first quarter that year.

“We haven’t seen a pronounced spring peak in the past few years, but we’re expecting that to be different this year,” Paperiello said. That could mean more pressure for shippers to rethink supply chains and how they use intermodal rail in concert with other modes, he said.

“For 2018, the story is going to be an improved demand environment and pretty tight capacity that will impact both the over-the-road and intermodal market,” said Paperiello.