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Rising fuel costs driving US LTL, truckload costs higher

Diesel fuel prices rose 49 cents per gallon on average in August from July, pushing up fuel surcharges and the US producer price indexes for trucking. Photo credit: Vitpho / Shutterstock.com.

William B. Cassidy, Senior Editor | Sep 19, 2023, 12:05 PM EDT

A 20% increase in the price of diesel fuel at the pump over the past three months is putting pressure on US trucking costs, and shippers can expect to see their transportation costs creep higher this fall amid seasonal freight demand and a forecast for higher fuel prices and surcharges.

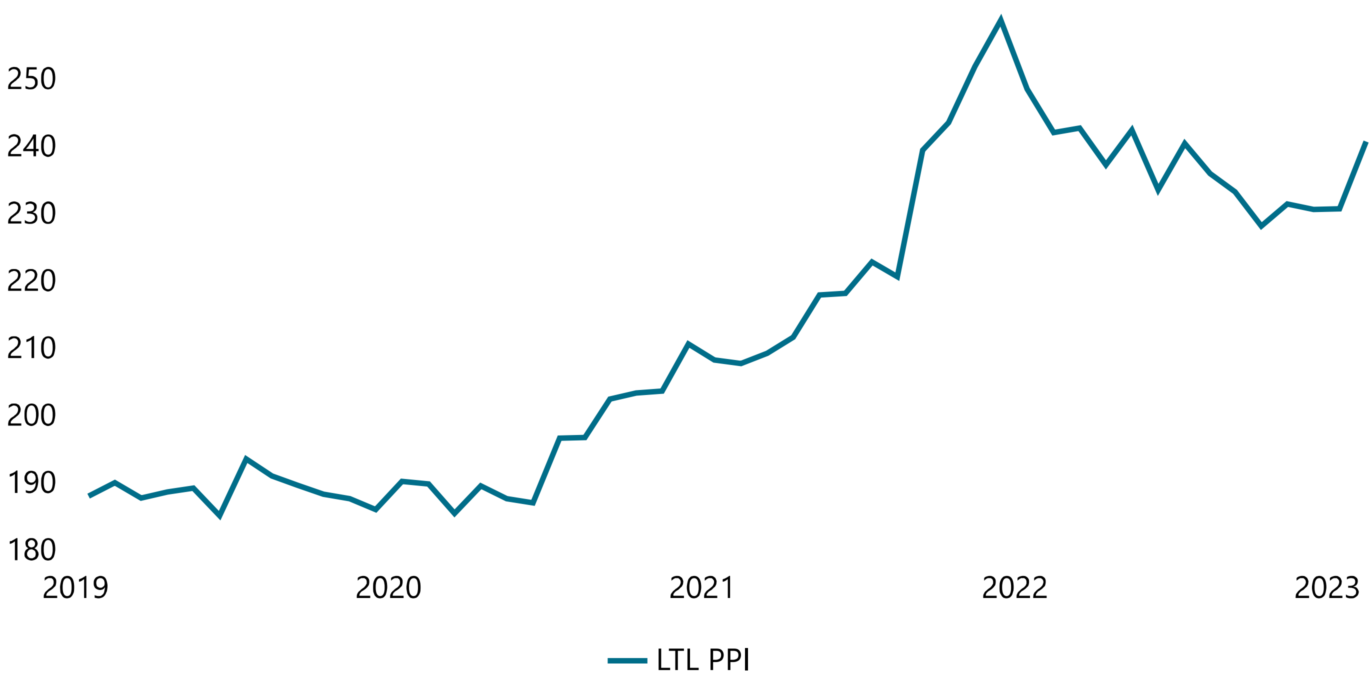
The impact is being felt by trucking companies and their customers, who are already paying higher fuel surcharges.

“Rising fuel prices affect different carriers in different ways,” said Geoff Muessig, chief marketing officer at regional less-than-truckload (LTL) carrier Pitt Ohio in

Pittsburgh. “The more sustainable you are as a carrier, the less emissions, the less impact fuel has on your network than someone else’s.

“We think our sustainability efforts are muting some of the impact” of rising fuel costs, Muessig added.

US BLS long-haul less-than-truckload producer price index (PPI)
Producer price indices based on selling prices for trucking services



Source: US Bureau of Labor Statistics data, JOC analysis

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The average retail diesel price in the US over the past week was $4.63 per gallon, according to weekly data published Monday by the US Energy Information Administration (EIA); that’s up 9 cents from the prior week. The average price in California alone was $6.19 per gallon, up 22 cents on the week.

From July to August, the average fuel surcharge tracked by DAT Freight & Analytics rose 8 cents to 52 cents per mile — an 18.2% gain. That surcharge rose 12 cents per mile, or 28% for contract and spot-market carriers from June through Sept. 15, reaching 55 cents per mile, according to DAT data.

Shippers can’t control carrier fuel surcharges — although many shippers build their own fuel surcharges into contracts. They can control how they ship LTL and truckload freight.

“We have to be better at packaging the freight, not only end-consumer packaging but shrink wrapping and communicating with the carrier,” said Jeannie Carpenter, senior director of global logistics at custom manufacturer Jabil. The company has had to adjust its US LTL network following the late July collapse of Yellow, she said.

LTL represents a small part of Jabil’s transportation spend, but the company, which has 30 global manufacturing locations, does extensive business with freight forwarders that use LTL for inland transportation and distribution, Carpenter told the *Journal of Commerce*.

“Yellow took a lot of ugly freight” that other LTL carriers either can’t or won’t handle, she said — oversized freight, for example. To find space in LTL trailers and reduce costs, “you have to find ways to make that ugly freight pretty again.”

But it takes a great deal of efficiency to counter a 20% increase in fuel prices, which means shippers are going to receive higher transportation bills as prices rise at the pump.

LTL, truckload PPIs rising

The biggest impact from higher fuel prices has been in the LTL sector. The US producer price index (PPI) for long-distance LTL services rose 4.4% in August from July, while the long-haul truckload PPI rose 1.2%, according to data released last week by the US Bureau of Labor Statistics.

The PPI indexes are based on all-inclusive shipper-paid “selling prices” that include fuel surcharges. They indicate rising fuel costs to date have been enough to prop up at least a floor in truckload pricing while contributing to higher LTL costs despite the lack of a fresh source of freight demand.

Fuel prices propelled the bulk of the trucking price increases reflected by the PPI, according to Jason Miller, associate professor of logistics at Michigan State University.

“Once you remove diesel from the equation, the change in August [for LTL pricing] is 1.13%,” Miller, a *Journal of Commerce* contributor, said Monday. “This is certainly positive, but nothing like the 4.4% headline figure.”

Miller's analysis has fuel costs and surcharges accounting for about 75% of that 4.4% increase — the biggest increase in the LTL PPI since an 8.5% spike in March 2022 following Russia's invasion of Ukraine.

The August rise in the LTL PPI seems low after the collapse of Yellow, which pushed up LTL rates for many shippers by 5 to 15%, according to numerous sources.

But the PPI is an aggregate index based on industry-level changes and volumes of data. Yellow accounted for 6.8% of US LTL shipments, according to data from SJ Consulting Group. Shifting 7% of LTL freight to other trucking companies "won't move an industry-level aggregate that much even if pricing [for that 7% of LTL freight] goes up 10%," Miller said.

The smaller 1.2% rise in the truckload PPI also may be attributed to higher fuel costs, Miller said, although many small truckload carriers do not levy fuel surcharges.

Increased volumes are also driving up LTL costs and rates as shippers search for carriers to take on freight once hauled by Yellow, which moved 49,050 shipments a day on average in 2022.

"That has to be having an impact," Muessig said. Pitt Ohio's volumes surged in August and again in September, as shippers continued to shift freight formerly tendered to Yellow to new carriers, he said.

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