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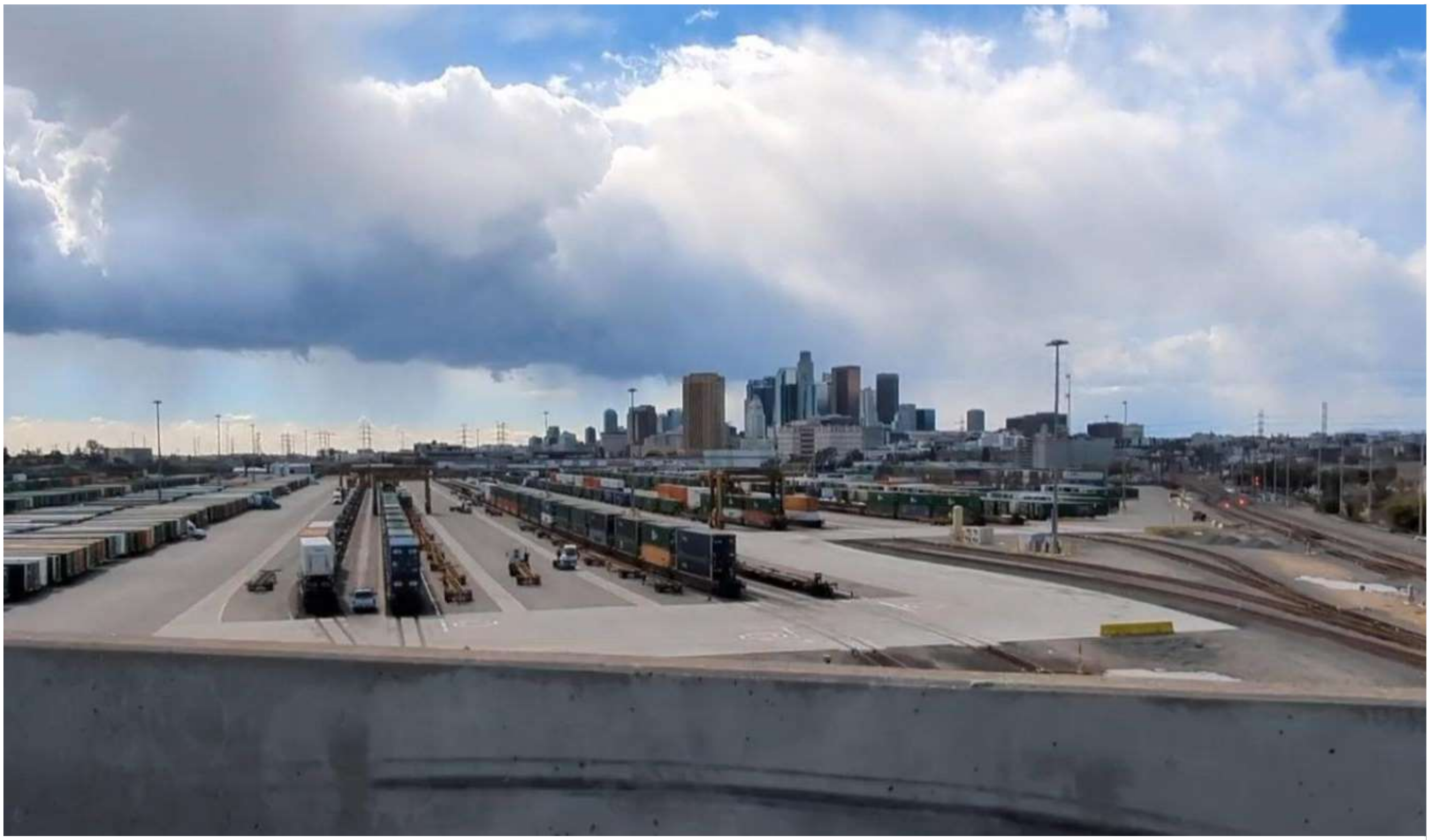
Weak Southern California port volumes hurting domestic intermodal



Schneider CEO Mark Rourke said port volumes in Southern California are "highly correlated" to the company's intermodal business in Los Angeles. Photo: Julie Bertling for the Journal of Commerce.

Ari Ashe, Senior Editor | May 4, 2023, 10:19 AM EDT

Shippers are moving less freight in 53-foot containers so far this year, and intermodal providers are highlighting a key factor behind the decline in demand: softer volumes into the ports of Los Angeles and Long Beach.

Import volumes through the Southern California gateway plunged more than 30% year over year in the first quarter, according to PIERS, a sister product of the *Journal of Commerce* within S&P Global.

Domestic intermodal providers such as Hub Group and J. B. Hunt Transport Services underscored the importance of import volumes to domestic intermodal during recent earnings calls.

J. B. Hunt CEO John Roberts said the impact of declining imports into Southern California spreads inland. The company reported its transcontinental volume fell 9% year over year in Q1.

“International intermodal is down, but so are the imports feeding the warehouses through California, which then create full truckload shipments out of those facilities and our transload model [into 53-foot containers],” Roberts said on a mid-April earnings call. “We need imports to improve. We need a West Coast labor agreement to finalize and give customers confidence in the West Coast for imports more than anything we need in the economy.”

Mark Rourke, CEO of Schneider National, said multiple times on an April 27 earnings call that West Coast port volumes are “highly correlated” to its intermodal business. The company did not break out its intermodal results by US region.

“We need to see some increased import activity, which is driven by the replenishment cycle,” Rourke said. “The replenishment cycle remains spotty and delayed compared to our original expectation. This dynamic has been especially evident in low import volumes.”

Hub Group reported its transcontinental volumes from west to east declined 6% year over year in the first quarter, while local western US volumes fell 12%.

“We're anticipating when West Coast port labor challenges are behind us, we'll see the import volume getting back to a more normalized level and that'll be a good driver of growth,” Hub Group CEO Phil Yeager said on an April 27 earnings call.

There is some optimism that a West Coast longshore labor deal could be reached soon after local labor and management reached a deal Tuesday on manning requirements for non-automated marine terminals in Los Angeles and Long Beach. But the damage from 12 months of talks and union job actions is undeniable, with shippers diverting a growing share of their discretionary cargo to ports along the East and Gulf coasts to avoid labor disruption on the West Coast. The West Coast’s share of imports from Asia in March was 58.4%, down from 59.9% in March 2022, according to PIERS, and has been under 60% since last June; contract talks began May 10.

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Dean Croke, a principal analyst of DAT Freight and Analytics, told the *Journal of Commerce* in March that there is no region with a greater correlation between port activity and domestic freight movement than Los Angeles-Long Beach. What happens in those ports trickles down to truckload and domestic intermodal, so as imports surged at the height of the pandemic disruption between mid-2020 and mid-2022, so too did truckload and intermodal rates and volumes. Now the downturn in port volumes is pulling rates and volumes lower on the domestic front.

Domestic intermodal resistant, but not immune to port slowdowns

Despite the coastal share shifts of ocean containers to East and Gulf coast ports, the share of domestic intermodal coming from the West Coast hasn't moved much since the COVID-19 pandemic. In 2020, about 20.1% of domestic intermodal loads originated in the Southwest, defined as Arizona, California or Nevada. The share grew to 21.3% each of the last two years, and was about 21.1% through the first three months of 2023, according to the Intermodal Association of North America (IANA).

That lack of movement is because intermodal is not as predominant on the East Coast given that the length of haul is shorter and so trucking rates are more competitive with rail.

However, Larry Gross, president and founder of Gross Transportation Consulting and a *Journal of Commerce* analyst, said that domestic intermodal is less susceptible to the swings in port volume in Los Angeles and Long Beach than international intermodal.

Gross said TEU volume declined 24 percent from the third quarter of 2022 to the first quarter of this year in all California ports. He estimated that while international intermodal volume fell 32 percent during that period, cargo transloaded into 53-foot containers slipped just 11 percent.

“Transloads into domestic containers are not immune from a decline in port volumes, but it is more resistant than international intermodal,” Gross said.

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