

SMARTER PERSPECTIVE: TRANSPORTATION

Navigating Market Shifts in the Intermodal Chassis Industry

By John Fenn and Brendan Corboy

January 2025 The intermodal chassis industry, a critical component of global supply chains, has experienced significant stressors in recent years. From the ongoing impact of tariffs to post-pandemic shifts in pricing and leasing strategies, stakeholders across the sector are coping with a softer demand market requiring tactical adjustments. This article examines the key factors shaping the chassis market in 2024 and their implications for industry participants and lenders.

The Ongoing Impact on Tariffs

The domestic and marine chassis market has operated under the shadow of tariffs since September 2018, when the U.S. administration imposed a 10% tariff on Chinese-manufactured chassis – a rate which subsequently increased to 25% in January 2019 and then again in May 2021 to a staggering 246%.

This protracted period of elevated tariffs has not only sustained higher prices for chassis but has also catalyzed significant shifts in manufacturing strategies. Notable players like China's CIE Manufacturing (formerly CIMC) have made the strategic decision to relocate production facilities to the United States in an attempt to circumvent punitive taxes on their imports. Non-Chinese chassis

production has also by and large seen a geographic shift, with other parts of Asia and Mexico stepping forward to fill the manufacturing gap.

The persistence of these tariffs—which have spanned two administrations with otherwise differing trade philosophies—suggests a bipartisan consensus on their necessity. The party-agnostic nature of those policies and the precedent set by the past six years indicate that aggressive tariffs are likely to persist regardless of the change in political administration determined by the recent presidential election.

Post-Pandemic Pricing Trends

As supply chains stabilize from the difficulties of the COVID-19 pandemic

and operational inefficiencies ease, the market is experiencing a recalibration of demand. This shift is evident in the current utilization rates. At the height of the pandemic, these rates were at 90% for total fleet and 71% for pool only; as of 2023, they have settled at 73% and 53% respectively.

This drop in utilization rates is exerting downward pressure on pricing in the used chassis market, though the extent varies across market segments. The cost of purchasing chassis from manufacturers has seen dramatic increases since the pre-pandemic era. The price of marine chassis has risen from a range of \$10,000 to \$12,000 per unit in 2019 to a range of \$19,000 to \$21,000 in 2023. Similarly, domestic chassis prices have increased from a 2019 range of \$13,000 to \$14,000



per unit to a 2023 range of \$20,000 to \$24,000.

Leasing costs have followed a similar trajectory. From 2019 to 2022, term contract rates increased by over 80%, mirroring the rise in equipment pricing. However, more recently, pricing has plateaued and even decreased somewhat in both the equipment and leasing markets for chassis. While there have been some minor pricing declines, the market seems to have found a new equilibrium at these elevated levels.

Shift From Terminal Pools to Direct Term Leases

Marine chassis demand was suppressed in 2023 and remained recessed through the first half of 2024; however, IEPs have reported strong demand in Q3 as the intermodal industry approaches the Q4 peak season. With that recent suppressed demand and an uncertain economic future, intermodal equipment providers are transitioning units out of terminal pools and into direct term contracts. This reorientation is both a response to a softer intermodal market and an active risk management technique.

This shift presents a double-edged sword for market participants. For lessors, the move towards direct term leases offers a buffer against market volatility, providing the allure of predictable, locked-in cash flows and price certainty. The ability to secure longer-term commitments from customers not only stabilizes revenue streams but also optimizes asset utilization, a critical factor in capital-intensive industries. These extended commitments also appeal to lenders, who value the stability of long-term contracts.

Lessees, on the other hand, find themselves navigating a new landscape of financial planning. The transition to fixed-rate, longer-term agreements provides a foundation for more accurate budgeting, reduced administrative overhead, and minimized contract renegotiation. However, this comes at



the cost of the flexibility inherent to the pool system, potentially leaving lessees exposed during periods of rapid demand fluctuation. These types of leases also constrain the upside for equity investors.

Shift From Carrier Haulage to Merchant Haulage

Over the past 10 years, there has been a gradual mix shift within these pools from a carrier haulage (CH) dominant industry to a merchant hauler (MH) dominant industry. In MH contracts, the Beneficial Cargo Owner (BCO) is responsible for organizing inland transport. This often means the BCO hires a third-party haulage company to move its goods from the port to its inland location, such as a warehouse or distribution center. In CH contracts, the shipping line (the carrier that brings the cargo by sea) arranges the inland transport as part of their service. The carrier is responsible for moving the container from the port to the BCO's chosen inland destination using the carrier's own logistics network.

A major drive of the mix shift has been ocean carriers continuing to distance themselves from land transportation logistics, in an attempt to focus on their core services. This distancing is a long standing trend, as prior to 2008 most ocean carriers owned their own chassis fleets. Additionally, as the inland logistics

competitive landscape has improved, BCOs have found it beneficial to choose MH, allowing them more control over their logistics providers, costs, and timelines.

The IEPs charge high rates for MH primarily because the motor carrier market is vast and fragmented, while the ocean carrier market is more concentrated, brings significant predictable volume, and is driven by long-term pool contracts. Consequently, the shift from CH to MH has resulted in higher average rental pricing, benefiting IEPs.

One concerning trend would be the rise of shippers opting for merchant haulage in which their nominated trucker provisions the chassis on their own rather than using one from a pool. These private chassis may be owned by the merchant hauler or leased from an IEP under a term contract. Adding fuel to this trend is the February 2024 ruling by the Federal Maritime Commission (FMC) affirming a 2023 decision that major ocean carriers had violated the Shipping Act in their handling of port-to-port shipments. The FMC's February decision ratified that ocean carriers can mandate which chassis to use for carrier haulage but not for merchant haulage. It's unclear what effect this will have on the port terminals because IEP pooled chassis



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Key Market Players and Their Strategies

As a result of these shifts, major market players have adopted strategies that significantly influence the chassis landscape. Amazon, for instance, has the greatest need for equipment from October to January. To ensure availability during this peak period, the e-commerce giant is willing to commit to four to six-month contracts, even at premium rates.

UPS and USPS are pursuing similar strategies, with all three of these companies maintaining private fleets supplemented by peak flex contracts. This approach ensures that they have a guaranteed supply of chassis during their most crucial operational periods—a paramount requirement for these entities. Instead of relying solely on chassis pools, these companies are increasingly opting for year-round contracts, even if it means higher costs. This shift toward private fleets and term leases that can flex up and down represents a significant departure from traditional reliance on chassis pools.



Outlooks and Implications for Lenders

Given the above changes, several key considerations have emerged for lenders and industry stakeholders. Management teams have become increasingly aware of market variability and are leveraging various tools to manage risk effectively in the shift from pools to direct leases when the conditions dictate. The focus on term leases, while potentially reducing equity returns, provides more stable and predictable cash flows. From a lender's perspective, this trend offers greater certainty in repayment scenarios. However, equity investors may find this approach less appealing due to the reduced potential for high returns.

The chassis market remains intrinsically tied to global economic production and consumer demand. Q1 and Q2 of 2024 saw year-over-year increases in imports—17% and 12% respectively—indicating some growth despite a larger decline in profitability. Rather than deteriorating, the market appears to have reached a plateau.

Despite this relative stability, the specter of a potential recession looms large in industry discussions. The impact of any future economic downturn on the chassis market would largely depend on its effect on consumer spending patterns, particularly in e-commerce and retail goods. A recession that significantly reduces spending in these areas would likely lead to a sharp decline in demand for chassis, as fewer goods would need to be transported. Conversely, an economic contraction that primarily affects other

sectors while leaving e-commerce relatively unscathed might have a less severe impact on the chassis market. This uncertainty underscores the need for lenders and industry stakeholders to closely monitor economic indicators and consumer behavior trends.



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