December 3, 2019 | 2:28 PM EST

Trucking Markets

Overview

Welcome to the third edition of Passport Research: Trucking Markets, a weekly proprietary research report from FreightWaves that blends quantitative and qualitative perspectives to arrive at a comprehensive, near-time view of the trucking freight market.

Volume numbers are noisy again this week due to the Thanksgiving holiday. Outbound tender volume indexes (OTVI) in SONAR are calculated as a seven-day moving average to smooth out weekly rhythms in freight flows. For example, volumes are almost always higher on Thursday and Friday than on Monday and Tuesday. Current volume numbers still include Thanksgiving but will return to normal next week.

Freight brokers told us that this week started off “busier than expected,” in the words of a logistics executive at a publicly traded trucking carrier. The weekend following Thanksgiving was also busy, and he reported that trucking capacity was “tight in multiple regions.”

A second brokerage executive, who is based in the Northeast but sources refrigerated capacity nationwide, said today that California was lightening up while Minnesota was busy and the larger Midwest was tight.

We note that significant snow events are hitting the Northeast. We will monitor supply and demand in affected markets as the week progresses.

Dry van spot rates per mile ex. fuel

LAX-DAL	$1.78
LAX-SEA	$1.99
PHL-CHI	$1.67
ATL-PHL	$1.62
DAL-LAX	$1.49
SEA-LAX	$1.59

Freight Volumes (Weekly Change)

Atlanta, GA	295.92 (-28.43%)
Ontario, CA	274.96 (-25.51%)
Harrisburg, PA	242.70 (-25.24%)
Elizabeth, NJ	233.56 (-24.09%)
Joliet, IL	198.70 (-28.14%)
Los Angeles, CA	204.60 (-26.29%)

Tender Rejection Rates

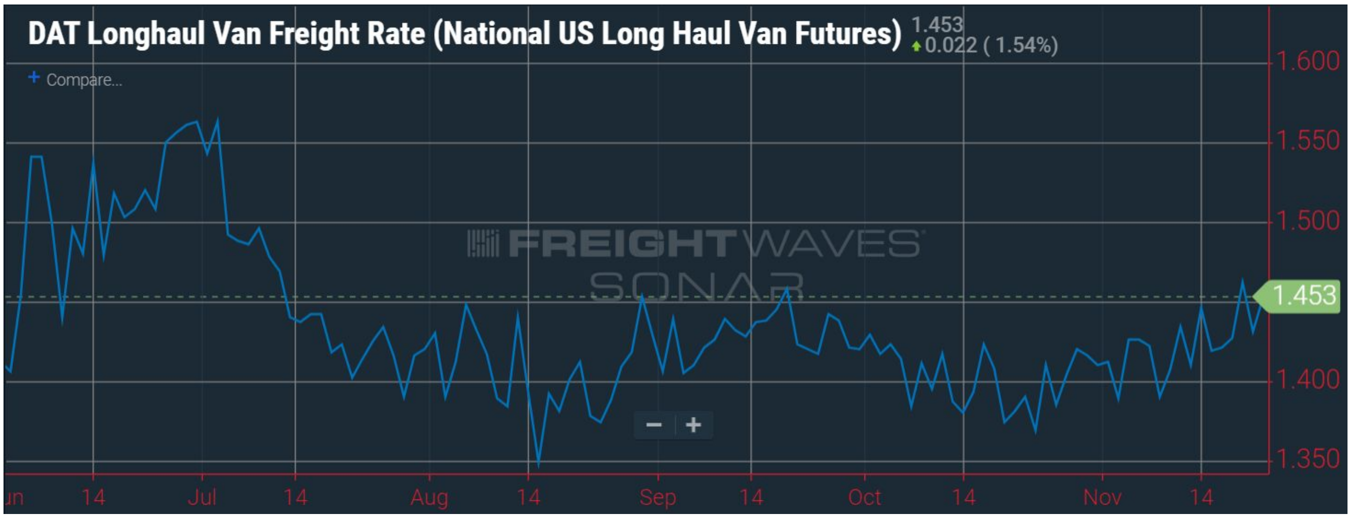
Atlanta, GA	4.72%
Ontario, CA	4.36%
Harrisburg, PA	8.27%
Elizabeth, NJ	3.95%
Joliet, IL	5.81%
Los Angeles, CA	4.36%

JP Hampstead
Director, Passport Research
jphampstead@freightwaves.com
(865) 388-1708

Hunter Carroll
Research Associate
hcarroll@freightwaves.com
(423) 650-5702

Tony Mulvey
Research Associate
tmulvey@freightwaves.com
(423) 637-1940

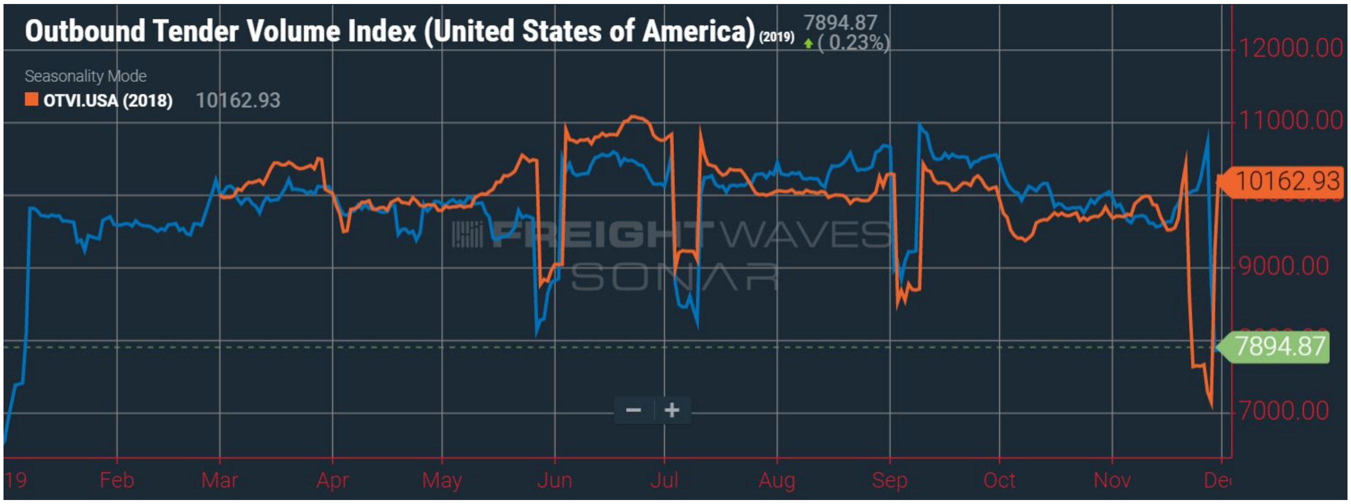
Trucking spot rates



Last week we wrote that longhaul van rates had stabilized and started to turn higher. That trend has continued, and now national average rates are near three-month highs. As mentioned later in this note, capacity is starting to tighten with outbound tender rejection rates being the highest since late January. This could lead to higher rates throughout the rest of the year heading into next year.

Using SONAR's rate predictor, we are able to see what rates are probably going to look like up to one year in the future. We believe it is important to display weekly one lane from the East and West coasts. The predicted rate from Atlanta to Philadelphia in one month is $1.97 per mile (ex. fuel), which is above the current rate of $1.62 per mile. The predicted rate from Los Angeles to Dallas in one month is $2.08 (ex-fuel) which is above the current rate of $1.78 per mile. It should be noted that both of these predicted rates are higher than they were just one week ago, which suggests our model is seeing tightening capacity.

Freight demand

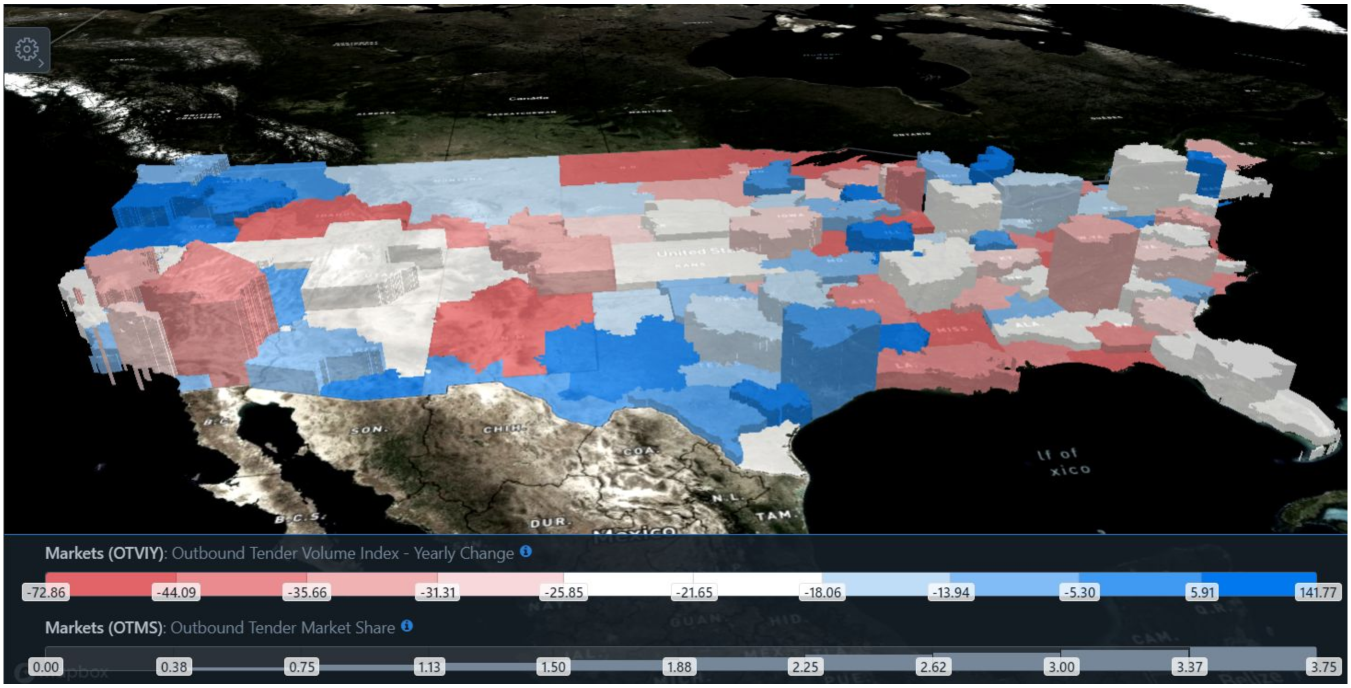


National outbound tender volumes have whipsawed over the past two weeks as Thanksgiving was a week earlier in 2018. While that makes for a funky-looking chart, the more important implication is that Thanksgiving this year was on the latest possible date, compressing holiday peak season into four weeks. All else being equal, a shorter peak season and positive year-over-year growth in retail spending and consumer demand should translate to tighter trucking capacity (higher tender rejections, higher trucking spot rates).

One catalyst could be last-second front-running of the potential tariffs imposed on Chinese goods on Dec. 15. The consensus agreement over the past month and a half has been that there would be a Stage 1 trade deal and that would include a halt on increased tariffs. The language over the past week has changed, and companies could be trying to stockpile at the last moment before a potential tariff increase. If tariffs increase on Dec. 15, virtually all products imported from China will have a duty. There has been a slight increase in rates from China to North America East and West coasts, which indicates some rise in demand.

Independent of a possible spike in freight volumes, we still expect capacity to tighten through December because truck drivers will be increasingly direction-bound as the Christmas holiday approaches. In other words, as trucking carriers work to get their drivers home, routing will become more rigid, more freight will be turned down, empty miles will increase, and capacity will be effectively removed from the market. That effect, more than absolute truckload volumes, will tighten capacity into the holiday.

December 3, 2019 | 2:28 PM EST

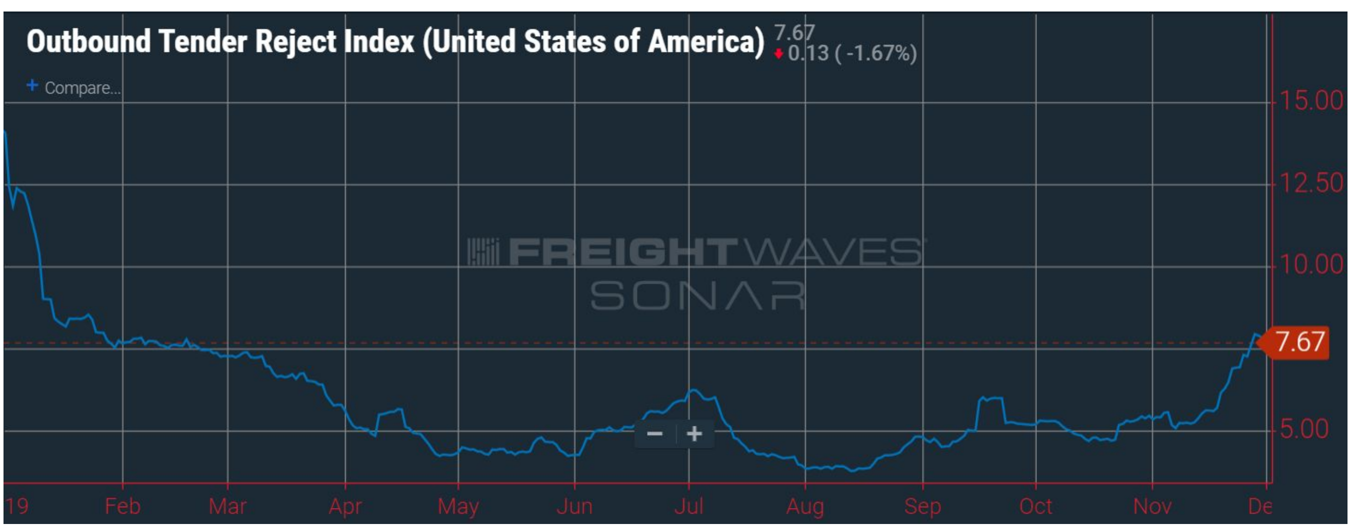


(Map: FreightWaves SONAR. Color is yearly volume change; height is market share.)

There has been a decrease over the past year in most major markets with tough Y/Y comparisons from last year's front-running of the tariffs. Although there are a lot of negatives, a few large markets have been able to buck the trend.

Elizabeth, New Jersey, is one market that has done well this year. Outbound volumes have grown 6.45% Y/Y. Another bright spot is the Portland, Oregon, market. Outbound volumes have grown 6.17% Y/Y. This comes as two of the biggest markets, Los Angeles and Atlanta, are down over 30%.

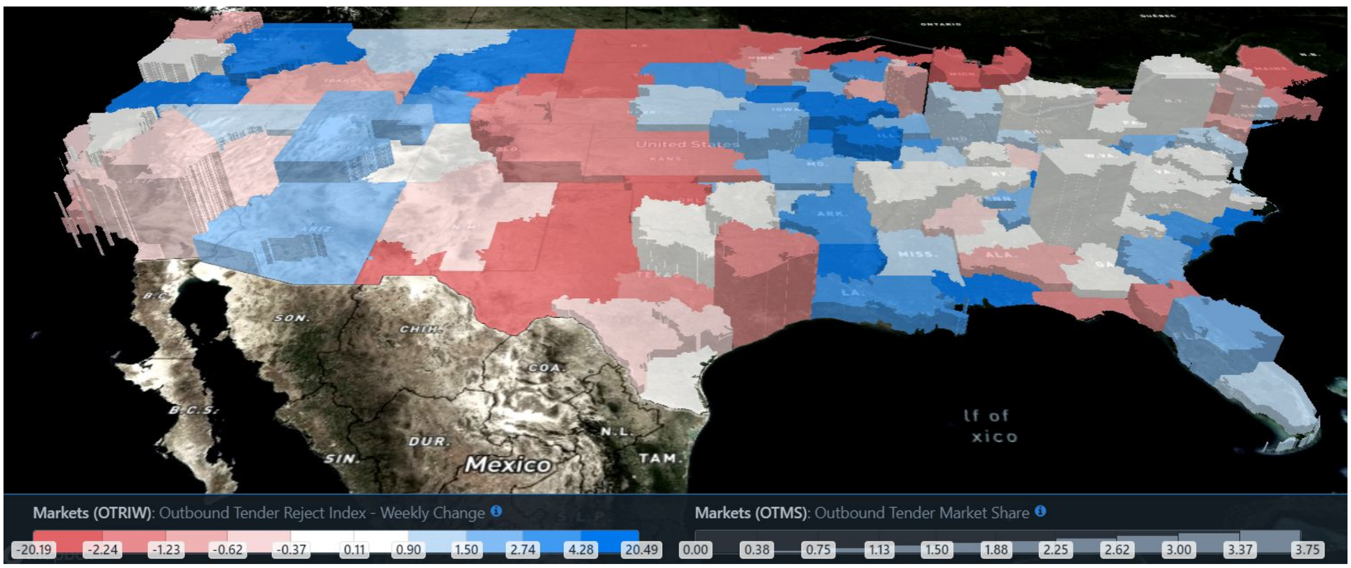
Trucking capacity



December 3, 2019 | 2:28 PM EST

Trucking capacity tightened at the beginning of last week before the Thanksgiving holiday but has loosened each day since. Outbound tender rejections rose 62 basis points from Monday until Thanksgiving before falling 28 basis points to 7.67% of contracted freight being rejected.

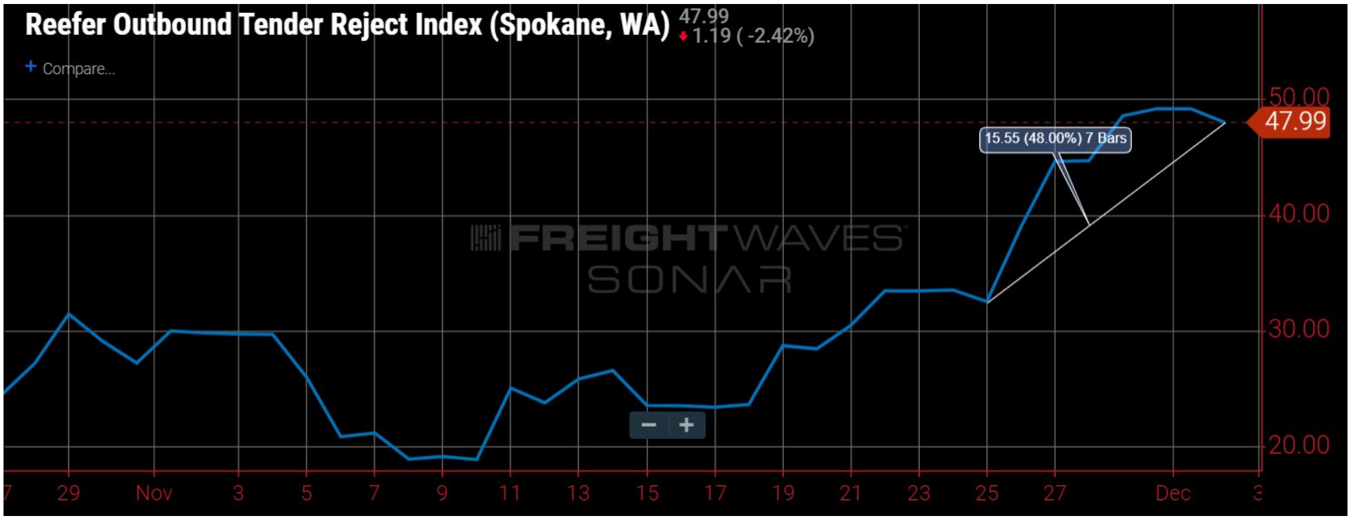
The tightening of capacity was no surprise because the Thanksgiving holiday signifies the start of peak retail season and capacity exits the market as drivers seek home time. Turndowns saw the same kind of spike and drop last year around Thanksgiving, even though rejections were at much higher levels. The next week or two will tell us how peak season will develop: Weather and rates will play a major role in encouraging or discouraging drivers from getting back on the road, which sets the amount of available trucking capacity in the market.



(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Outbound tender rejections have remained relatively flat in the largest six markets in the country; all moved less than 1%, positive or negative. Spokane, Washington, saw a spike in outbound tender rejections over the past week, up 9.52 to 24.09% of contracted loads being rejected. Reefer outbound tender rejections have remained high in Spokane as well, with nearly 48% of all contracted reefer loads being rejected — nearly double the rate from a week ago.

As our industry channel checks reported, Southern California has softened but there are pockets of tightness in the middle of the country. Harrisburg, Pennsylvania, although not moving much this week, is still one of the tightest major markets in the country.



Cosmic Crisp apples have been the hot topic of freight coming out of Washington state. The apple has been in the works for over 20 years and is starting to hit the shelves of grocery stores around the country. What's fascinating about this new varietal is that the Cosmic Crisp is expected to become the best-selling apple over the next few years and it shares the same peak season with Red Delicious, currently the top-selling apple. Because the Red Delicious is grown in the Midwest (Iowa, Nebraska, Illinois) rather than the Pacific Northwest, those overlapping peaks could put pressure on trucking capacity during future harvests.

Oregon is one of the largest producers of Christmas trees in the country; roughly 90% of the Christmas trees grown in Oregon are shipped to other states and countries. We have now entered the peak season for Christmas trees with the holiday being just a few weeks away. The rejections out of Oregon started to increase in the middle of November and should continue to rise over the next couple of weeks. We expect rejections in North Carolina and Oregon, the two largest producers of Christmas trees, to fall as we get closer to Christmas.