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Intermodal Markets

Overview

Intermodal volumes finished Week 51 and entered year-end down high single-digits from last year, but improving from their four-week moving averages. Week 52 data will be released by the Association of American Railroads on Friday, Jan. 3, due to the holiday.

The railroads appear to be waiting for the trucking cycle to roll over before attempting to grow intermodal volumes, but the timing of that market shift is anything but certain. Of the Class Is, Norfolk Southern appears to be one of the few planning to further reduce intermodal capacity in 2020; the others are holding firm on price and waiting for intermodal - trucking spreads to widen.

In our view, there are still a couple of quarters of softness left in U.S. trucking (the first quarter is typically weakest on the demand side). A resolution to the U.S. - China trade dispute, a rapid accumulation of violations in the new Drug & Alcohol Clearinghouse database, and a macroeconomic surprise to the upside might be enough to heat up the trucking spot market, opening up an opportunity for intermodal.

We'll be watching to see the effects of Norfolk Southern's TOP21 Phase 3 in the first quarter. Other than that, and external factors like Transpacific container volumes, trucking's competitiveness with intermodal should largely govern intermodal volumes, capacity, and rates in the near future.

Spot rates per mile

Lane	Rate
Chicago to Linden, NJ	$1.88
Los Angeles to Dallas	$1.58
Linden, NJ to Chicago	$1.20
Los Angeles to Chicago	$1.18
Chicago to Los Angeles	$0.92

53-foot container volume seven-day MA (weekly change)

Lane	Volume
Los Angeles to Chicago	628.43 (-38.91%)
Chicago to Los Angeles	474.29 (-36.87%)
Chicago to Elizabeth, NJ	452.29 (-31.32%)
Los Angeles to Dallas	251.71 (-34.60%)
Elizabeth, NJ to Chicago	232.86 (-39.10%)

Outbound intermodal tender rejections

Location	Rate
Savannah, GA	3.52%
Joliet, IL	0.00%
Chicago, IL	0.00%
Memphis, TN	0.88%
Los Angeles, CA	2.94%

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Intermodal spot rates

(Chart: FreightWaves SONAR)

Intermodal rates are largely stagnant and continuing their walk along the x-axis. We aren't surprised by this because it's been the case most of the year. Three major lanes saw movement: Los Angeles-Chicago (-0.8%), Los Angeles-Dallas (-1.3%), and Linden-Chicago (-3.3%). We note that Linden-Chicago and Los Angeles-Dallas were two lanes that saw a large increase in rates in our Dec. 18 report.

We continue to expect rates to hold steady with an upward bias going into 2020, partly due to our views on trucking rates. We believe that tightening capacity in the trucking market and rising rates will result in intermodal rates rising to keep the gap in rates close.

We have seen railcar lease rates drop recently due to excess supply in the market. We think that railcar lease rates will be pressured to the downside for the immediate future.

Intermodal expert Mike Baudendistel said this in a recent Daily Watch, "With railcars widely available for most categories (tank cars that meet certain specifications are the exception), we recommend that shippers negotiate leases aggressively, pushing for lower rates. Meanwhile, we recommend that leasing companies keep lease durations short to avoid locking in a low rate in the event that the railcar leasing market improves."

Freight demand

U.S. Class I intermodal volumes were down 9.5% Y/Y in week 51. Although this is a negative number, it should be noted that this is an improvement over the 4-week average of -13.3%. The negative comps throughout the end of 2019 were not surprising due to the large pull-forward of freight in 2018. We did think that there could be a small short-lived bump in volumes heading into the potential December 15 tariff deadline, but that faded after the last week in November.

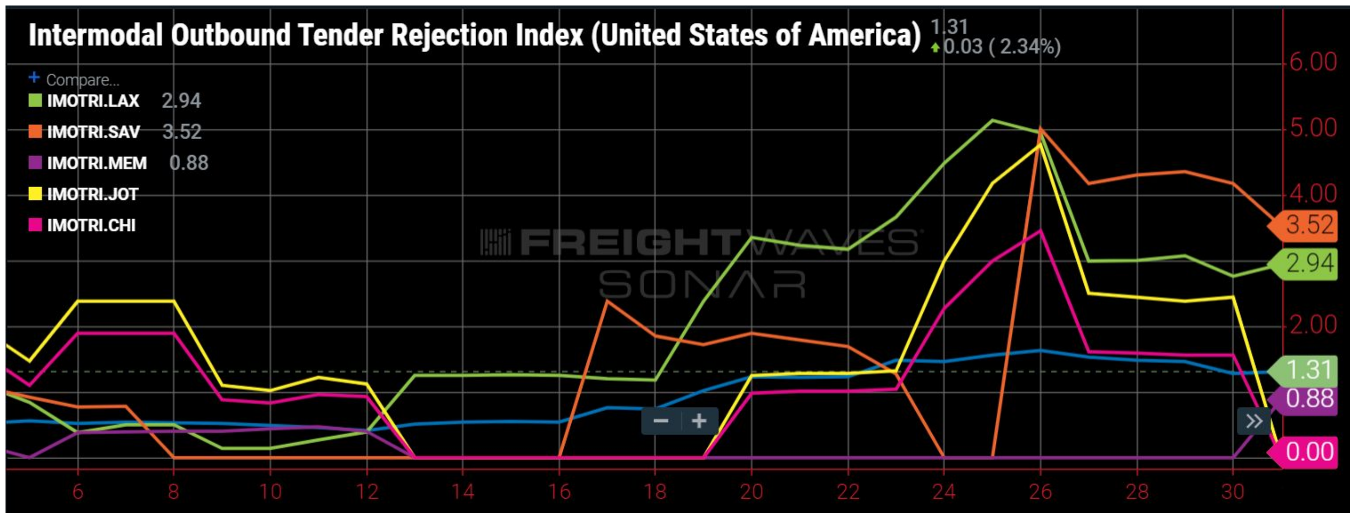
The railroad that continues to get hit the hardest is Union Pacific. Union Pacific's intermodal volumes were down 17.4% Y/Y in week 51. The one bright spot was Canadian Pacific which saw

intermodal volumes rise 1.0% Y/Y in week 51. Looking back on 2019 as a whole, CSX was the most aggressive in demarketing undesirable intermodal lanes, and by Week 51 its intermodal volumes were down 7.8% YTD. Canadian Pacific is the only major rail with positive intermodal volumes YTD at +1.8%.

(Chart: FreightWaves SONAR)

In the fourth quarter, intermodal volumes (white line) were less volatile than truckload volumes (green line), but both transportation modes experienced a steady fade in traffic from the end of September. Intermodal, which tends to be slightly further up the supply chain than trucking in that it isn't truly point-to-point and often takes a few days longer, sees volume spikes that are softer and earlier than trucking. Shippers obviously favor trucking for the last-minute retail surge.

Intermodal capacity



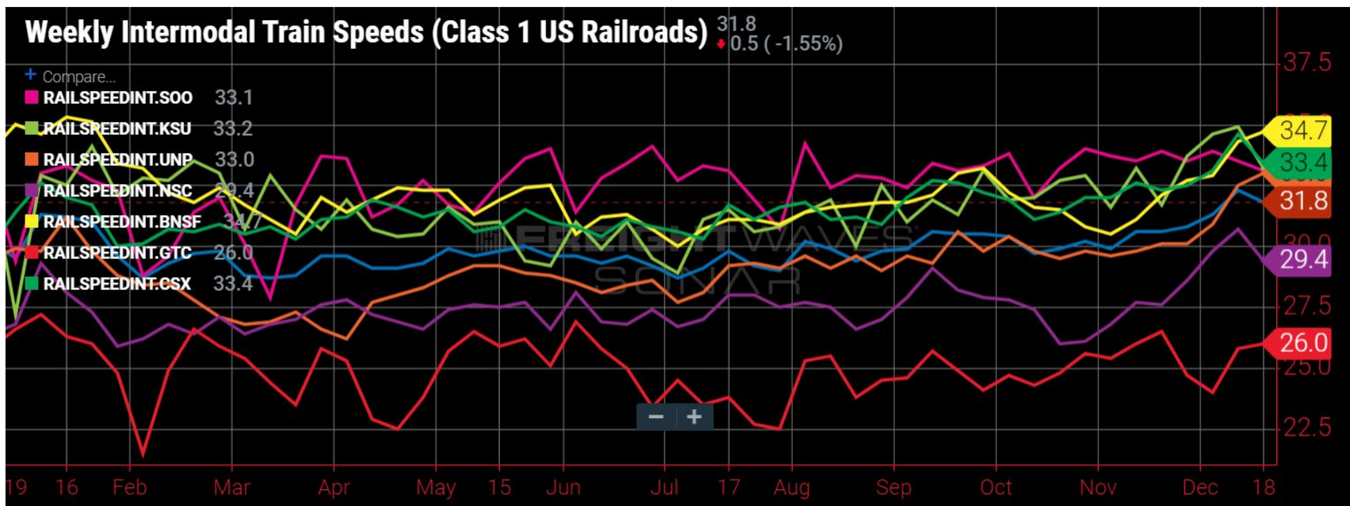
(Chart: FreightWaves SONAR)

Intermodal capacity tightened last week through Christmas as intermodal tender rejections saw the first significant bump and hit the highest level of December. National intermodal rejection rates climbed above 1.3%, one of the highest levels of 2019. However, tender rejections in the majority of the major intermodal markets fell back to near-normal 2019 levels.

As we enter 2020, intermodal capacity will remain loose well into the first half of the year as the first quarter is typically the softest time in the freight market. As trucking tender rejections fall alongside trucking rates, shippers will continue to move their freight via trucks because intermodal companies are unable to offer the typical 10-15% discount to trucking. The implementation of precision scheduled railroading across the Class I rails has already had and will continue to have an impact on overall capacity in the market. Norfolk Southern, in particular, is less far along in its PSR journey than the other rails; the railroad will begin implementing the next phase of TOP21, its PSR program, in 1Q20 which will be focused more on intermodal traffic as opposed to the first two phases.

“We have also begun the process of ‘clean sheeting’ our intermodal terminals and preparing for the third phase of TOP21, which remodels all traffic for additional opportunities,” said Norfolk Southern EVP and COO Mike Wheeler on the company’s Q3 earnings call. “This will drive further cost and resource reductions and improve our fuel efficiency.”

Capacity could tighten if Norfolk Southern decides to demarket select intermodal lanes. Additionally, if BNSF announces plans to implement precision scheduled railroading, there could be additional constraints on capacity.



(Chart: FreightWaves SONAR)

Intermodal Railroad Speeds (RAILSPEEDINT.x) is the average speed at which an intermodal train moves across the railroad’s network. The data point is a service metric that the railroads work to improve under the aegis of the Surface Transportation Board. The higher the rail speed, the faster assets are moving across the network, thus the better – and more ‘truck-like’ – service that the rails provide to their customers.

The average speed across all Class I intermodal traffic increased by 6.92%, from 31.8 mph to 34.1 mph. In general, the railroads are moving fewer assets more efficiently across all their networks, at least during a low-volume environment. All of the Class I railroads moved their trains faster over the past week, except for the Eastern rails, NSC and CSX. Canadian National has continued to improve its train speeds, but still has a long way to go if it wants to rival the other Class I rails. Ultimately, as long as railroads continue to make improvements to their service, either by terminal dwell times or rail

speeds, their offering will be more attractive to customers and they will again be able to compete with the highway.