Intermodal Markets

Overview

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

Each week we will characterize intermodal markets in terms of supply, demand, and prices for the benefit of FreightWaves Passport clients.

The current intermodal freight market is structured by soft demand and railroad-imposed capacity constraints following the demarketing of unprofitable lanes and rationalization of intermodal networks during the implementation of precision scheduled railroading (PSR).

After years of fast growth, intermodal volumes plateaued and then crashed as trucking spot rates fell precipitously from historic highs. Last week, intermodal volumes dropped 7.9% compared to the same week in 2018, according to the Association of American Railroads (AAR) data. Still, intermodal accounts for about half of all Class 1 railroad unit volume and more than 25% of Class 1 revenue.

We believe that the demarketing of low-margin intermodal lanes has been completed, and railroads in the later stages of PSR implementation, particularly the Canadian rails, have embraced intermodal as a growth opportunity.

This series will track intermodal's competitiveness with over-the-road trucking as the Class 1 railroads decide how hard to lean in to this commodity type over the next few years.

Spot Rates Per Mile

Chicago, IL to Linden, NJ	$2.02
Los Angeles, CA to Dallas, TX	$1.59
Linden, NJ to Chicago, IL	$1.02
Los Angeles, CA to Chicago, IL	$1.16
Chicago, IL to Los Angeles, CA	$0.96

53' Container Vol. 7-Day MA (Weekly Change)

Los Angeles to Chicago	1208.29 (0.00%)
Chicago to Los Angeles	855.71 (0.30%)
Chicago to Elizabeth	716.00 (1.10%)
Los Angeles to Dallas	454.14 (1.20%)
Elizabeth to Chicago	396.86 (1.20%)

Outbound Intermodal Tender Rejections

Savannah, GA	3.6%
Joliet, IL	2.4%
Chicago, IL	1.83%
Memphis, TN	0.77%
Los Angeles, CA	0.2%

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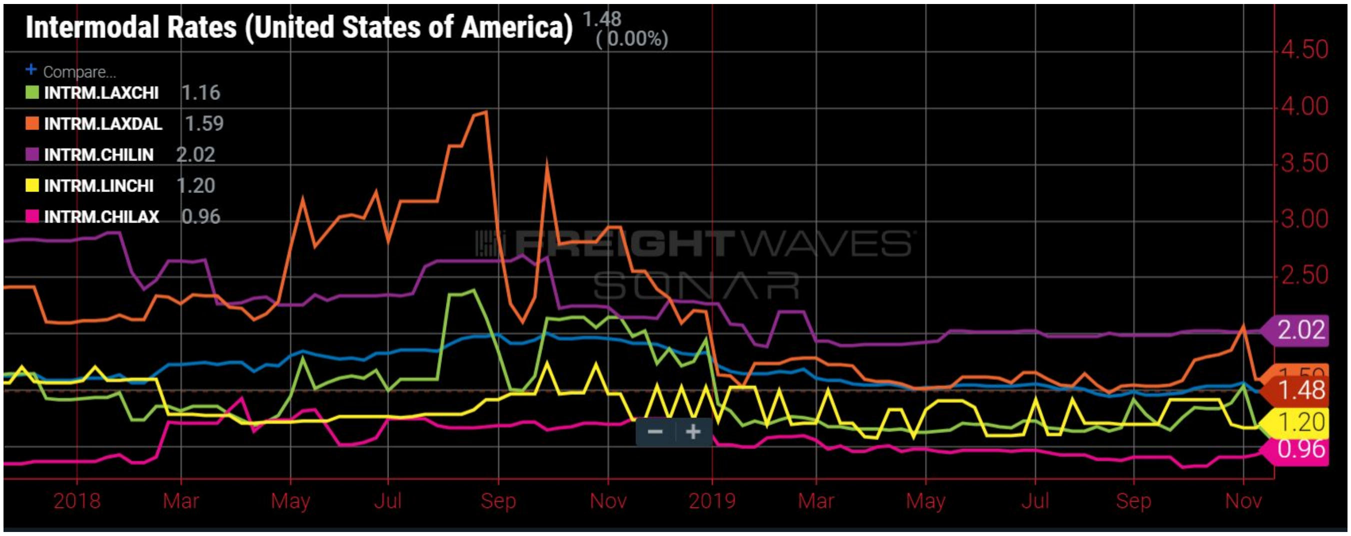
Intermodal Spot Rates



As seen above, intermodal rates are well off their highs from the summer of 2018. Trucking rates have a lot to do with this. In July of last year, the DAT national average for dry van spot rates started to fall. In order for intermodal rates to stay competitive with trucking, intermodal marketing companies had to price aggressively. It is clear that unlike trucking, there is a clear floor with how low railroads are willing to go with their rates. Rates trended up over the past month even as intermodal volumes continued to decrease y/y. With implementation of PSR, railroads manage for yield and operating ratio rather than chasing volumes, and it shows in the intermodal numbers (both on a volume and price basis).

Similar to trucking, lanes that carry freight into headhaul markets like Los Angeles are much less expensive than routes into typical backhaul markets like New York City (Linden, NJ is a proxy for New York in our data). As in trucking, some of the most violent price shocks (Los Angeles to Dallas) were associated with tariff pull-forward in the back half of 2018 and are still having an impact in late 2019.

At this point, we believe that it will take several quarters of meaningful positive inflection in intermodal volumes before we see intermodal spot rates rise significantly, though temporary capacity crunches caused by, for example, severe winter weather, could occur.

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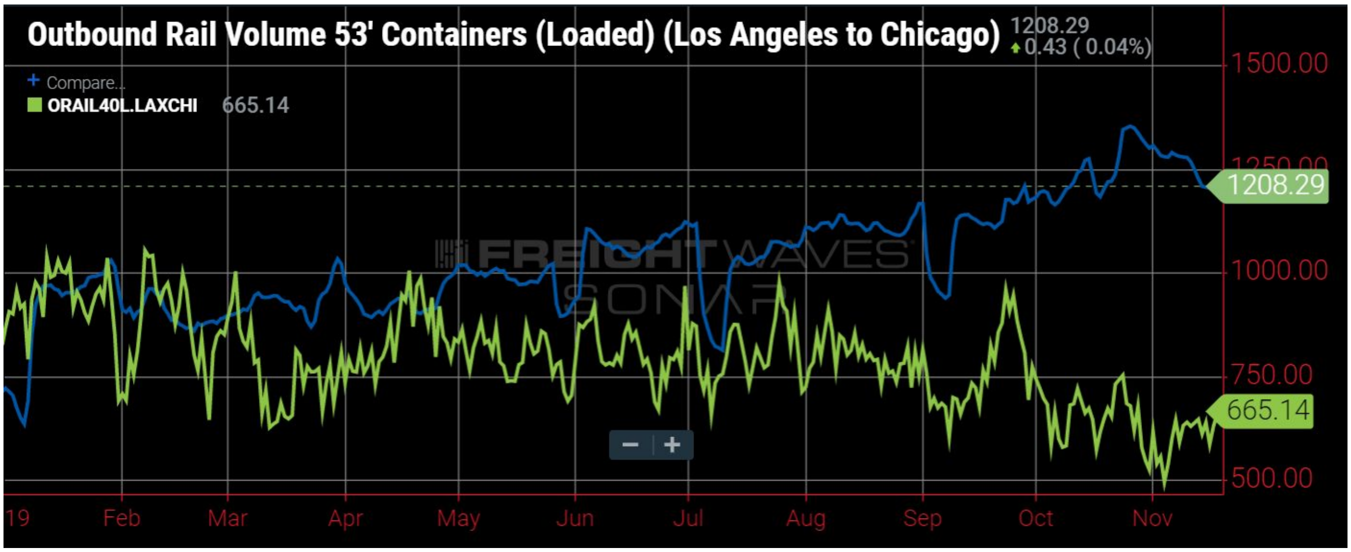
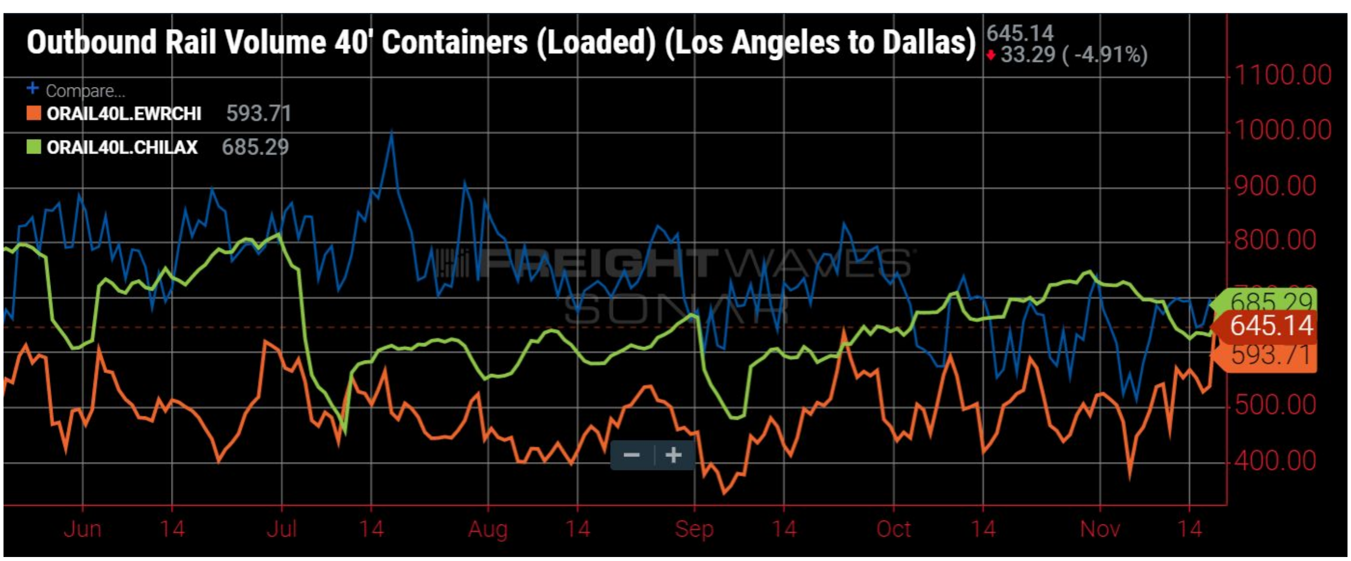


(7 day moving average)

At first glance, the steadily mounting 53’ container volumes on the Los Angeles to Chicago lane — which today accounts for 17.6% of all U.S. 53’ container rail volumes — looks very healthy indeed. But that growth has to be balanced against a concomitant drop in 40’ container volumes on the same lane. In our view, domestic shippers’ preference for transloading 40s to 53s is for two reasons. First, 53’ containers are larger and more cost-effective to move. Second, transloading and re-consolidating containers later in the supply chain, once the freight has reached American shores, allows shippers to be more responsive to end customer demand signals.

Again, according to AAR data, overall intermodal volumes are down 7.9% year-over-year.

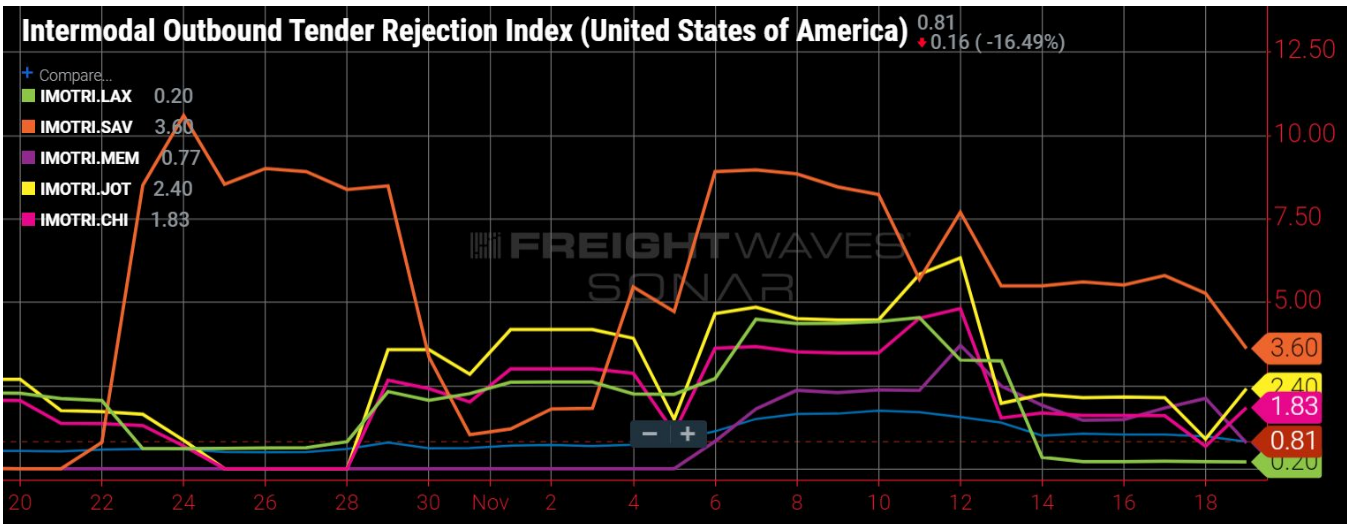


(7 day moving average)

Together, the three intermodal lanes displayed in the above chart — LA to Dallas, Elizabeth, New Jersey to Chicago, and Chicago to LA — account for just over 30% of all 40' container rail traffic in the United States. Judging from 2017 and 2018 data, 40' container rail traffic still has further to fall this year (it typically bottoms during the holidays at the end of December).

Unlike in previous years, October and November did not see a significant peak in intermodal volumes. This week, only Kansas City Southern had positive intermodal volumes (+3%) compared to the year prior. The worst performer was the Union Pacific, whose intermodal volumes dropped 14% compared to the same week last year.

Intermodal Capacity



It's clear from this chart that intermodal shippers and intermodal marketing companies enjoy far lower tender rejection rates than in the trucking industry, even during an industrial recession and soft freight market. Still, volatility exists.

The Port of Savannah has the most volatile capacity availability of any of the major intermodal origins, but that's because far smaller than the other markets it's being compared to. Georgia Ports have been aggressively selling capacity and expanding infrastructure — and as of October, Savannah TEU throughput was up 5.3% YTD — but the growth is still off a small base. Meanwhile, more 'inland ports', or drayage facilities deep in the Georgia hinterland directly connected to the port by rail, are growing volumes and the eastern rails, especially CSX, are adjusting their schedules accordingly.