December 10, 2019 | 3:44 PM EST

Trucking Markets

Overview

Welcome to the fourth 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.

Truckload volumes have returned, and the post-Thanksgiving recovery looks better on an absolute basis than the same period in 2018. The Rust Belt and Midwest have perceptibly tightened this week, and national tender rejections are still over 8%, which will pull spot rates up.

At present we do not see a significant pull-forward effect related to the Dec. 15 tariffs, which may be delayed in the next few days, and we are not bullish on West Coast imports for the next few months. In our view, high inventory levels and over-utilization of warehouses will reduce demand for containerized imports during the rest of 2019 and into the fourth quarter, despite the Chinese New Year.

Celadon Group, a top 20 truckload carrier and a top cross-border carrier, ceased operations at the beginning of this week. Anecdotes from other carriers with cross-border capacity and freight brokerages that play in the space suggest that much freight was stranded on a short-term basis and that some lucrative contracts (Honda, Walmart, FedEx, ConAgra) may be in play over the longer term. But spot activity generated by providers getting Celadon customers out of the jam they're in will not be efficiently captured in SONAR's electronic tender data, which is biased toward contract freight.

Dry van spot rates per mile ex. fuel

Lane	Rate
LAX-DAL	$1.77
CHI-ATL	$1.76
PHL-CHI	$1.67
ATL-PHL	$1.63
DAL-LAX	$1.47
SEA-LAX	$1.59

Freight volumes (weekly change)

Market	Volume
Atlanta, GA	413.30 (39.67%)
Ontario, CA	336.41 (22.35%)
Harrisburg, PA	323.85 (33.44%)
Elizabeth, NJ	303.58 (29.98%)
Joliet, IL	298.41 (50.18%)
Los Angeles, CA	254.69 (24.48%)

Tender rejection rates

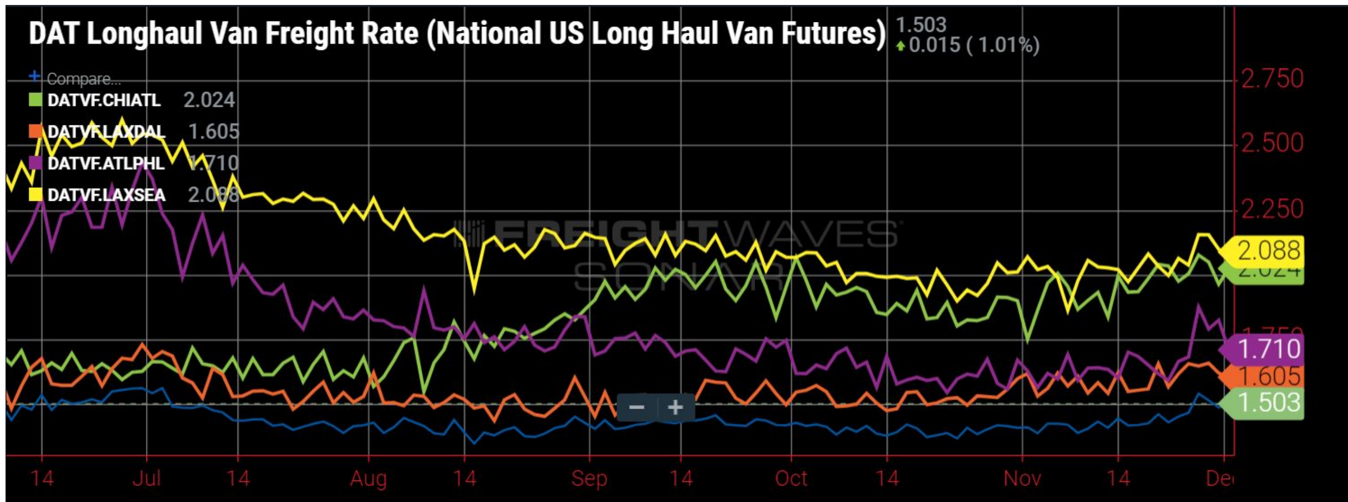
Market	Rate
Atlanta, GA	5.07%
Ontario, CA	4.34%
Harrisburg, PA	7.72%
Elizabeth, NJ	4.61%
Joliet, IL	7.26%
Los Angeles, CA	4.34%

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

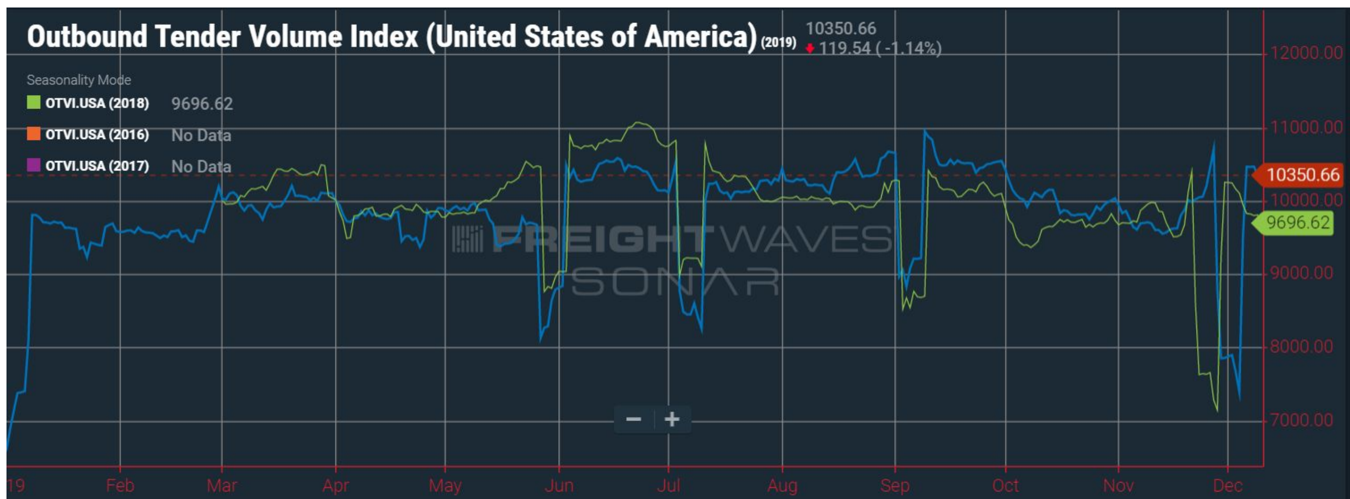


Last week we wrote about how tightening capacity could lead to higher rates going into next year. We have continued to see similar conditions, and rates are reflecting that. Longhaul van rates have continued their trend up since our last report. With outbound tender rejections also continuing their uptrend, we remain confident that rates have an increased likelihood of remaining elevated going into the new 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 one month from now is $1.67 per mile (ex. fuel), which is above the current rate of $1.63. The predicted rate from Los Angeles to Dallas in one month is $1.81 (ex-fuel) which is above the current rate of $1.77. It should be noted that both of these predicted rates are considerably lower than they were just one week ago, which suggests our model is seeing loosening capacity.

It is also worth noting that although we are seeing an increase in volume and tightening of capacity, the predictive rate tool is taking seasonality into account. Historically January has been the worst month for freight. It appears that seasonality going into the new year is outweighing the current conditions and trends.

Freight demand

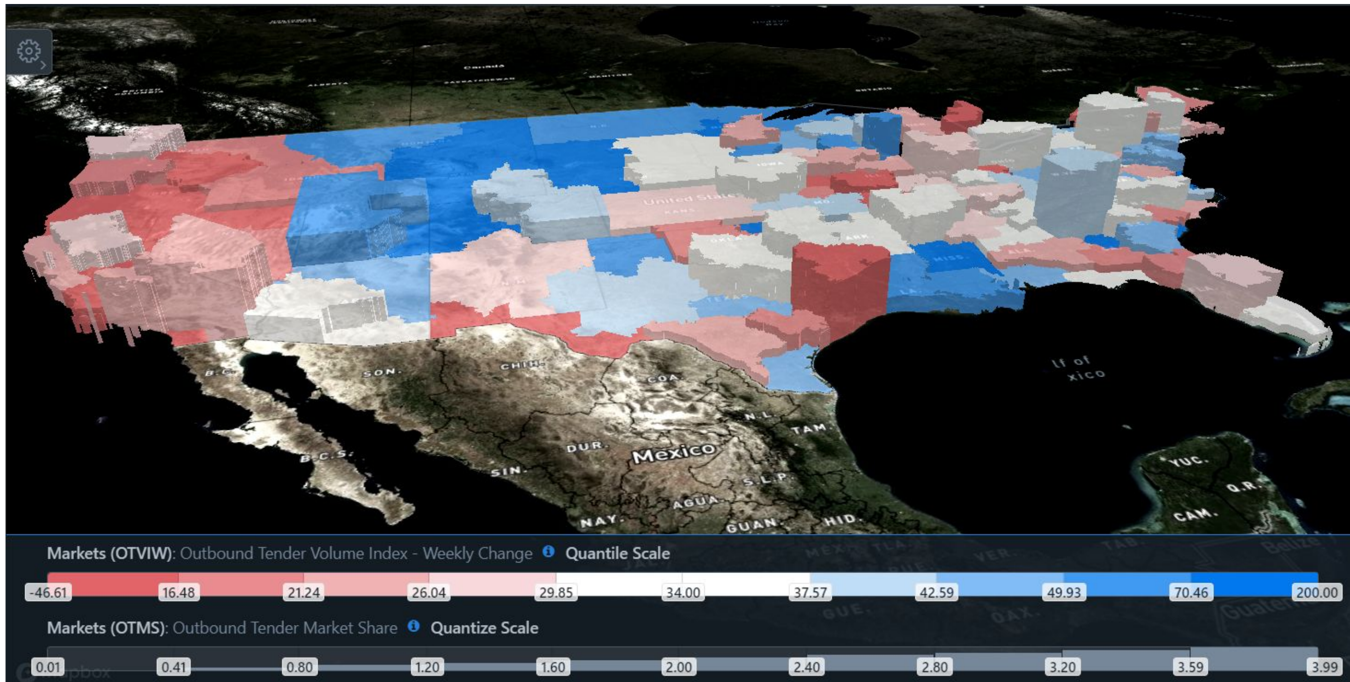


National truckload volumes have now completely rebounded from the Thanksgiving holiday season, and the numbers are encouraging. Volumes have retaken the important 10,000 level. (The Outbound Tender Volume Index was indexed to 10,000 on March 1, 2018.)

Another positive angle is that volumes are now higher than they were during this period last year; rates tend to fall going into the end of the year and into the new year. In most holiday periods, contrary to conventional wisdom, freight markets heat up due to supply-side capacity tightness and drivers sitting at home rather than unusual freight demand.

Lastly, front-running the potential Chinese tariffs on Dec. 15 could impact volumes. As of this morning, there have been reports that the tariffs are going to be postponed as both sides work out details over agricultural purchases. Keep in mind that it takes approximately 15 days to get to American West Coast ports from mainland China. If companies were anticipating an increase in tariffs, they would have shipped their products over a week ago and could not have reacted to the recent news.

However, in our view, the cumulative effect of the China-U.S. trade war has been a suppression of international trade volumes; the disruptive effects of lumpy pull-forward freight appear to have been limited to last year. West Coast ports have not seen anomalous spikes in freight but instead are losing share to their East Coast competitors as the year drags on.



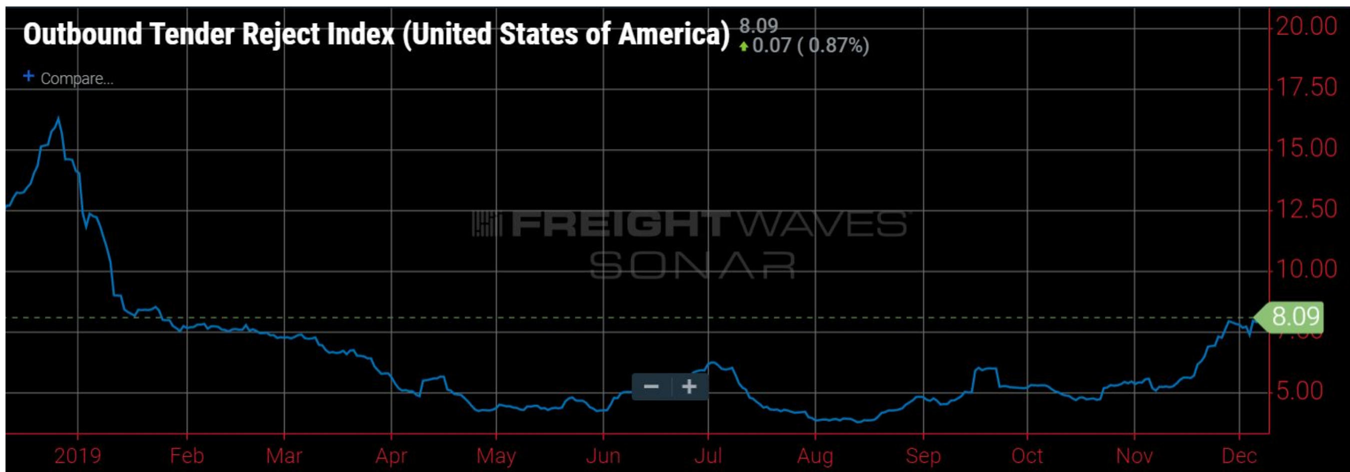
(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

The map above is slightly deceptive because of very robust weekly comparisons against the holiday. Therefore, some “red” markets actually did have positive volume growth; closely inspect the legend to understand the magnitude of that growth.

Truckload volumes grew over the past week in most markets, although we note weaker growth in the Western 11. This is the first week that volumes are back to normal Y/Y comparisons. It should be noted that although there are two different colors, there were only three markets with negative W/W comparisons: Reno, Nevada; Pendleton, Oregon; and Medford, Oregon.

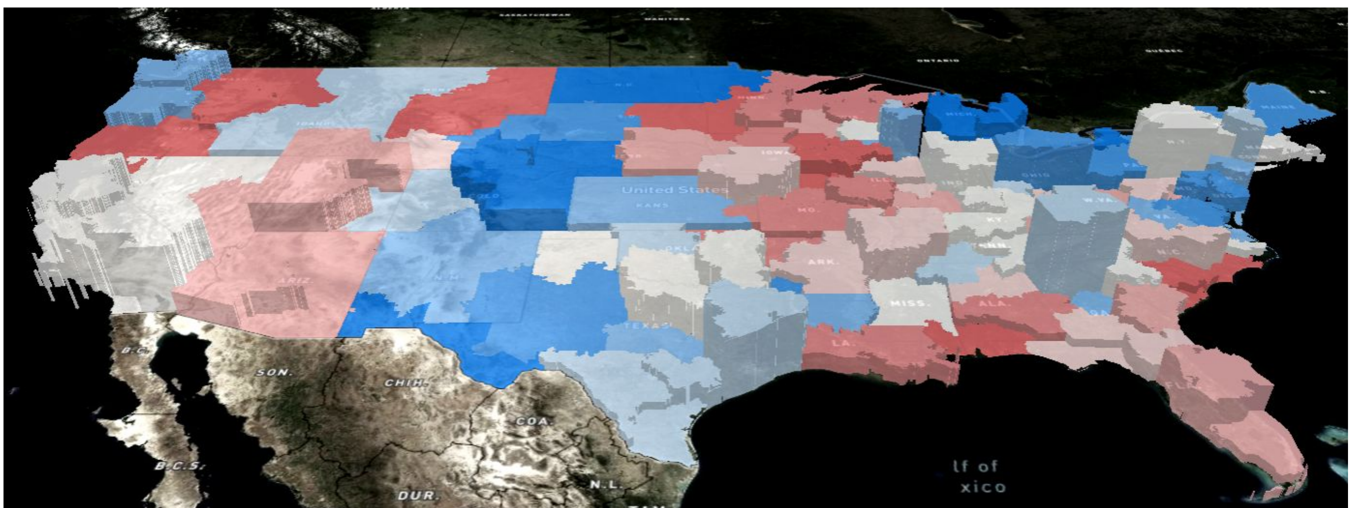
The central United States has seen the largest increases over the past week, partly due to better weather. This Thanksgiving holiday had particularly brutal weather in the central United States, which made the comparables much easier. The three markets with the largest increases in volume are Rapid City, South Dakota; Green River, Wyoming; and Billings, Montana.

Trucking capacity



Trucking capacity has continued to tighten as we get closer to the holidays. Outbound tender rejections climbed above 8%, the highest they have been since January as market fundamentals deteriorated following the 2017-18 bull run. Turndowns remain almost 430 basis points down from where they sat at this time last year.

In 2018, tender rejections spiked around Thanksgiving followed by a fall immediately following the holiday. In 2019, the script has flipped, and we have continued to rise following the Thanksgiving holiday. As we inch closer to the holidays, we expect capacity to continue to tighten as drivers are routed so they can be with their families for the holidays.

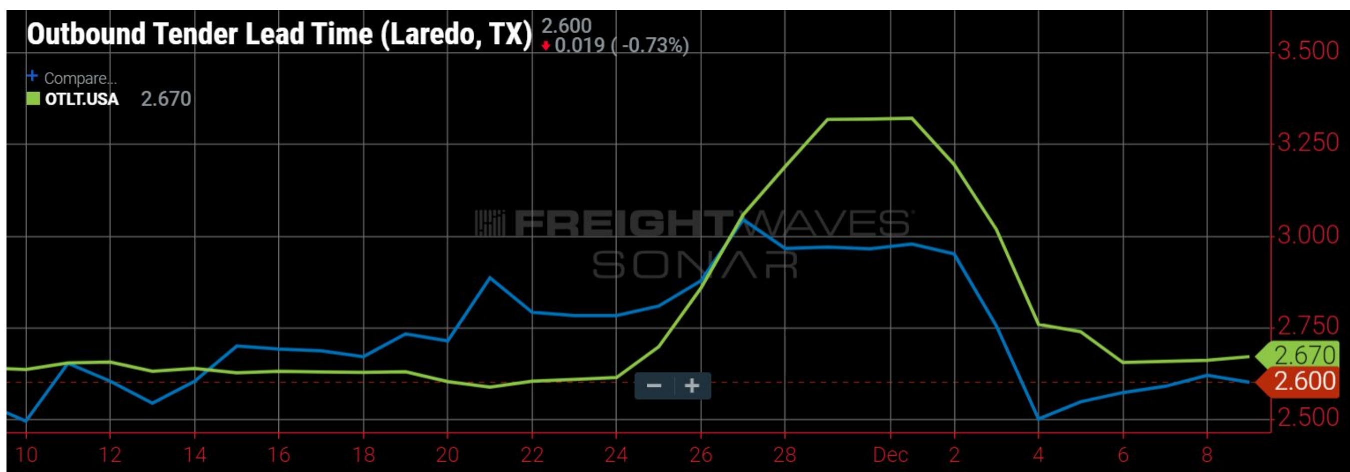


(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Outbound tender rejections have remained relatively flat in the largest six markets in the country; all moved less than 1%, positive or negative. Detroit saw a spike in outbound tender rejections over the past week, exploding from 4.9% on Dec. 4 to 26.19% of contracted loads being rejected.

Celadon Group Inc., based in Indianapolis, filed for Chapter 11 bankruptcy protection on Monday, Dec. 9, 2019, and Hendrickson Truck Lines of Sacramento, California, filed for bankruptcy protection this weekend as well. Celadon is the largest truckload carrier to go bankrupt in decades, and there are now 2,700 drivers without a job. Cross-border capacity may see temporary disruptions, but eventually other carriers will absorb those drivers back into the market if they choose to continue driving.

Because our electronic tender data is biased toward contract, intensified spot activity — for example, a shipper calling a freight broker to re-power abandoned Celadon freight — might not be captured in SONAR data.



(Chart: FreightWaves SONAR. Appears to be no disruption in lead times at the country's largest border crossing)

Celadon moved the most freight across the U.S.-Mexico border, as some of its largest customers were automakers with plants in Mexico. It might be expected that the capacity in the border markets would tighten, but rejections still sit way below the national level. Outbound Tender Lead Times (OTLT.x) have contracted in Laredo, Texas, while the national number stretched slightly. If capacity tightens, lead times will be cut as shippers have to re-tender loads that were expected to go out on Celadon trucks for new carriers. The next couple of days will tell us how the Laredo market reacts to the closure and whether capacity tightens as both drivers and shippers look for new carriers for their cross-border ventures.