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Trucking Markets

Overview

Welcome to the fifth 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 capacity is ratcheting tighter as we approach the Christmas holiday, driven more by supply-side constraints than anomalous demand. Los Angeles and Ontario are experiencing tender rejection rates above the national average, likely because truck drivers are attempting to stay in regions where they are domiciled and are less willing to camp out near productive freight markets.

An Atlanta-based brokerage executive confirmed that freight volumes out of Los Angeles were low this morning.

“Southern California always gets a little hot before Christmas, but it has not been nearly as bad as usual for us,” one Chicago-based brokerage executive said. “Timelines for coverage are extending but the top line rates are remaining relatively stable.”

We heard reports today from freight brokers specializing in refrigerated freight that Yuma and Salt Lake City also saw elevated levels of secondary activity – i.e., spot freight rejected by a shipper’s primary carrier.

Dallas and Houston joined the top six markets by volume, replacing Los Angeles and Joliet, but both of those Texas markets are still fairly loose.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.76
CHI-ATL	$1.79
PHL-CHI	$1.64
ATL-PHL	$1.62
DAL-LAX	$1.52
SEA-LAX	$1.59

Freight volumes (weekly change)

Atlanta, GA	419.77 (+1.57%)
Ontario, CA	363.27 (+7.98%)
Harrisburg, PA	316.07 (-2.40%)
Elizabeth, NJ	300.51 (-1.01%)
Houston, TX	267.86 (-1.57%)
Dallas, TX	265.14 (-1.89%)

Tender rejection rates

Atlanta, GA	4.81%
Ontario, CA	8.40%
Harrisburg, PA	8.83%
Elizabeth, NJ	5.37%
Dallas, TX	3.17%
Houston, TX	2.01%

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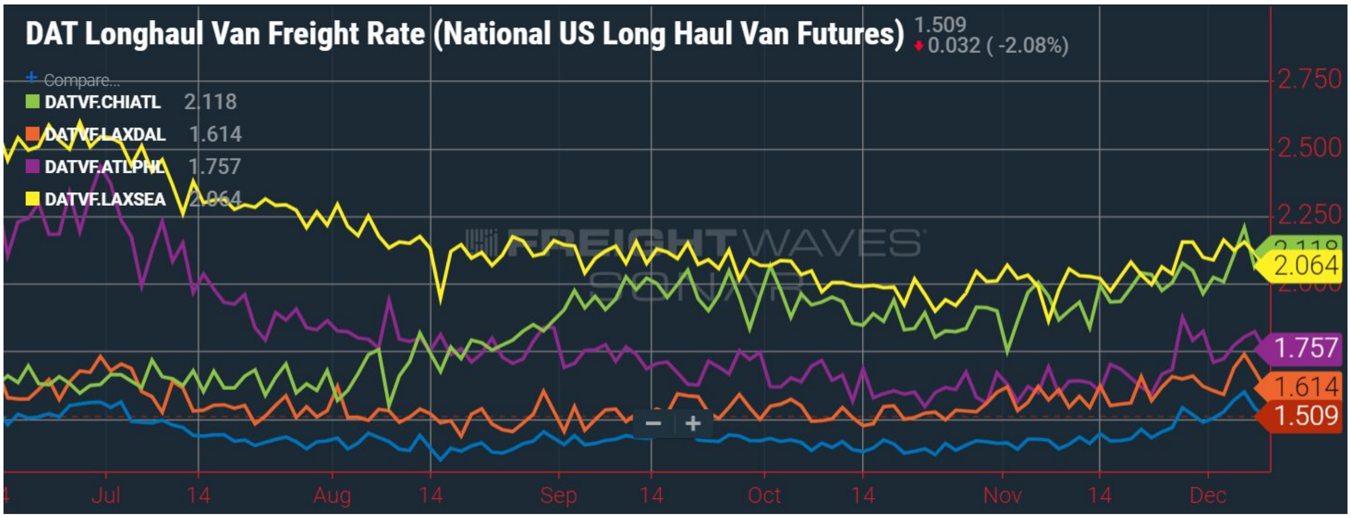
Trucking spot rates

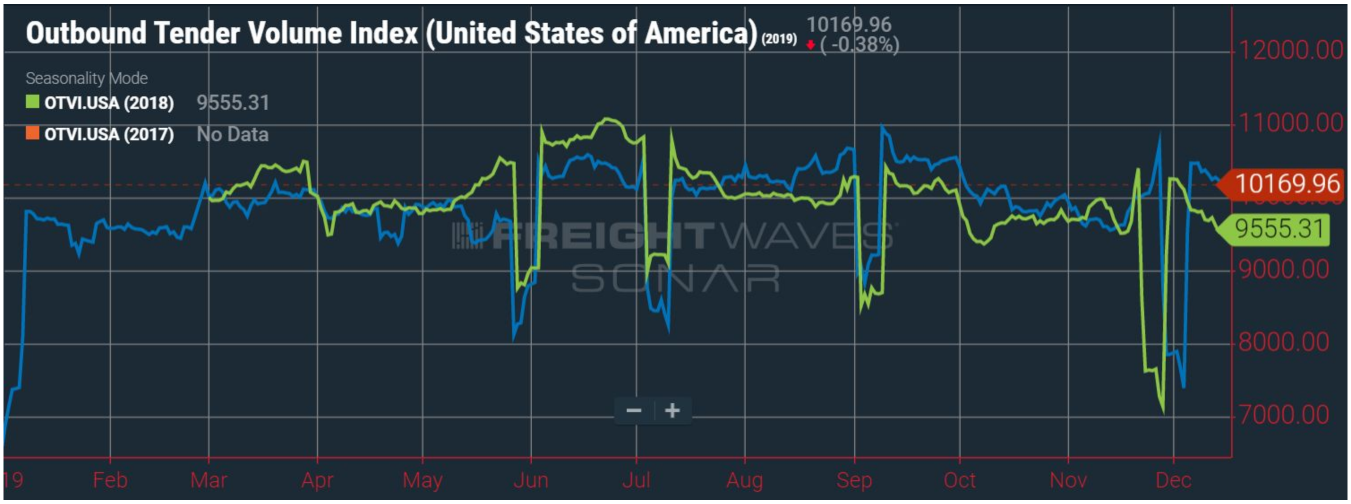


Last week we wrote that tightening capacity could lead to higher rates going into next year. We continue to see similar conditions and rates are reflective of incrementally tighter capacity. Although price increases are not staggering, it is apparent that rates have been in an uptrend since the middle of October. With national outbound tender rejection levels (OTRI.USA) continuing to rise from already elevated levels, it is likely that rates will continue to have upward pressure.

Improving economic data from the United States (business activity) and China (consumer spending and factory production) in November could be a sign that global growth is poised for a rebound, which would be bullish for domestic trucking rates as early as the second quarter of 2020.

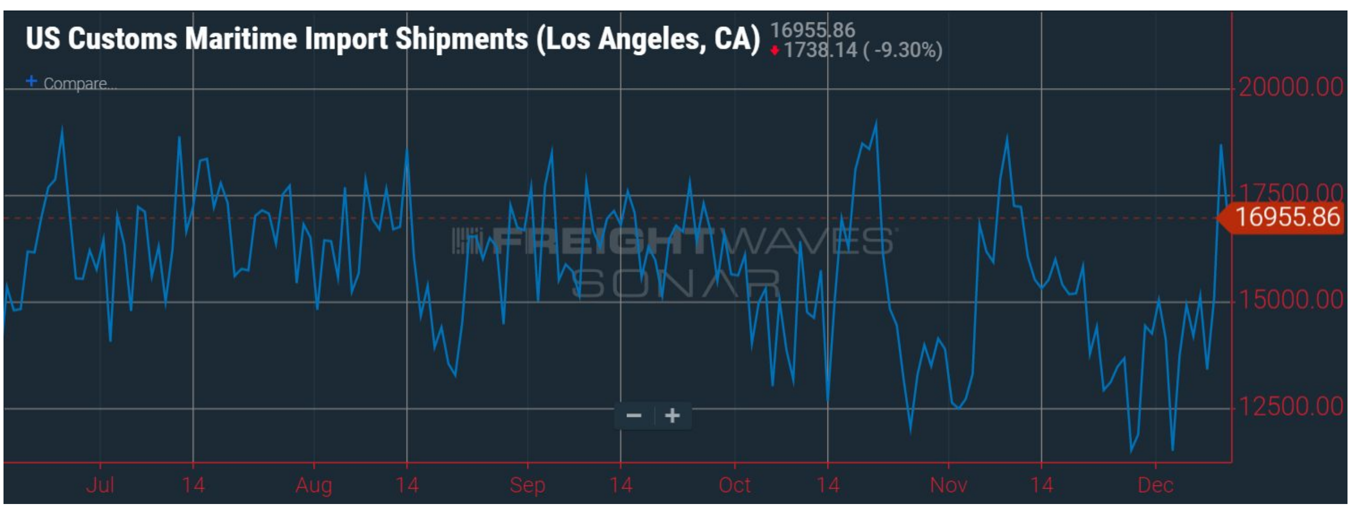
Using SONAR's rate predictor, we are able to see what rates are probably going to look like up to one year in the future. We believe it is important to display every week one lane from the East and West coasts. The predicted rate from Atlanta to Philadelphia one month from now is $1.61 per mile (ex. fuel), which is below the current rate of $1.76. The predicted rate from Los Angeles to Dallas in one month is $1.82 (ex. fuel), which is above the current rate of $1.61. It should be noted that our predictive tool is seeing relative weakness in the ATL-PHI lane and relative strength in the LAX-DAL lane one month from now compared to last week.

Freight demand

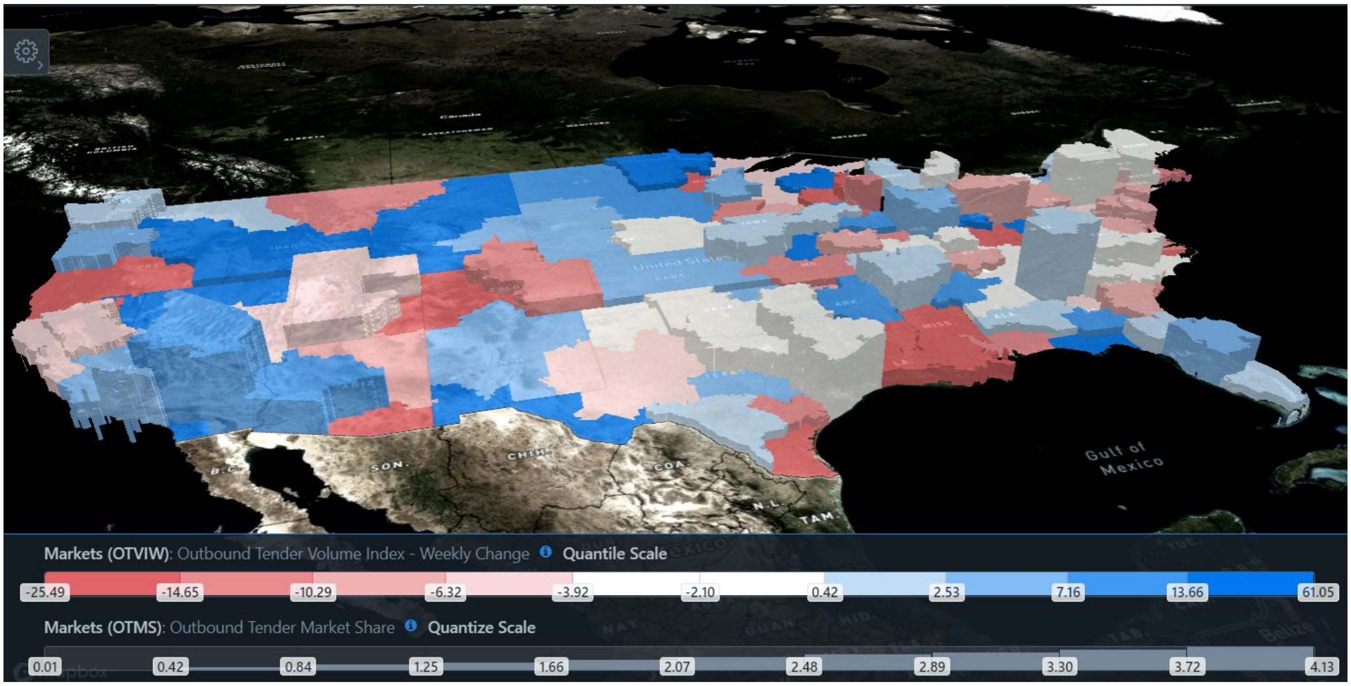


National truckload volumes are still strong above the 10,000 level (The Outbound Tender Volume Index was indexed to 10,000 on March 1, 2018). Although tendered loads are starting to slope downward, they remain 6% above last year's levels. That year-over-year outperformance is an encouraging sign as we close out 2019.

One notable development in freight volumes this week was the fact that two large markets fell out of the top six markets. These two markets are Joliet and Los Angeles; both markets have consistently been in the top six for outbound volumes. This week, we saw the Houston and Dallas markets overtake them.



For weeks, we have warned transportation providers about the potential for a late import push into Los Angeles as Chinese firms try to front-run the (now cancelled) December 15 tariffs. Although the effect was certainly muted compared to last year, there was a steep increase in imports over the past few days into Los Angeles and surrounding markets. We will watch, as customs data becomes available for the week of the 15th, to see whether this spike can sustain itself.



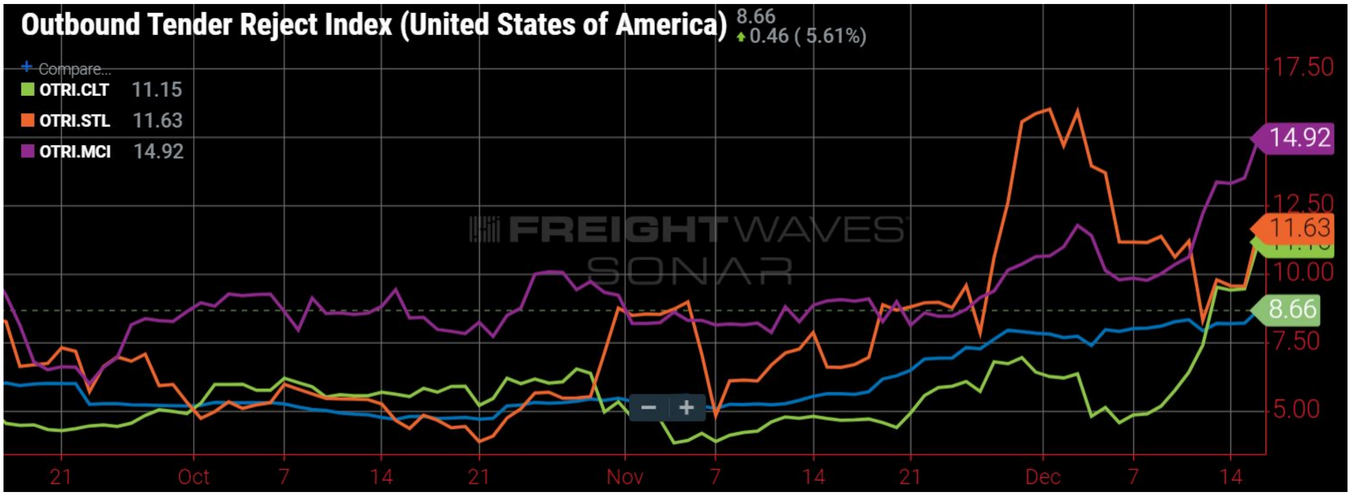
(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

The map above has returned to a more normal color distribution. This is the first chart with normalized week-over-week comparisons since before Thanksgiving. Note that some of the light colored markets are negative week-over-week or slightly positive w/w, rather than flat.

Truckload volumes saw solid w/w growth in the southern California markets. Los Angeles and Ontario saw outbound tender volume growth of 2.63% and 7.98%. This is solid growth for two very large markets (Ontario is the largest outbound market in the country). The Thanksgiving-related peak in southern California was not as massive as last year's, but it has sustained itself longer.

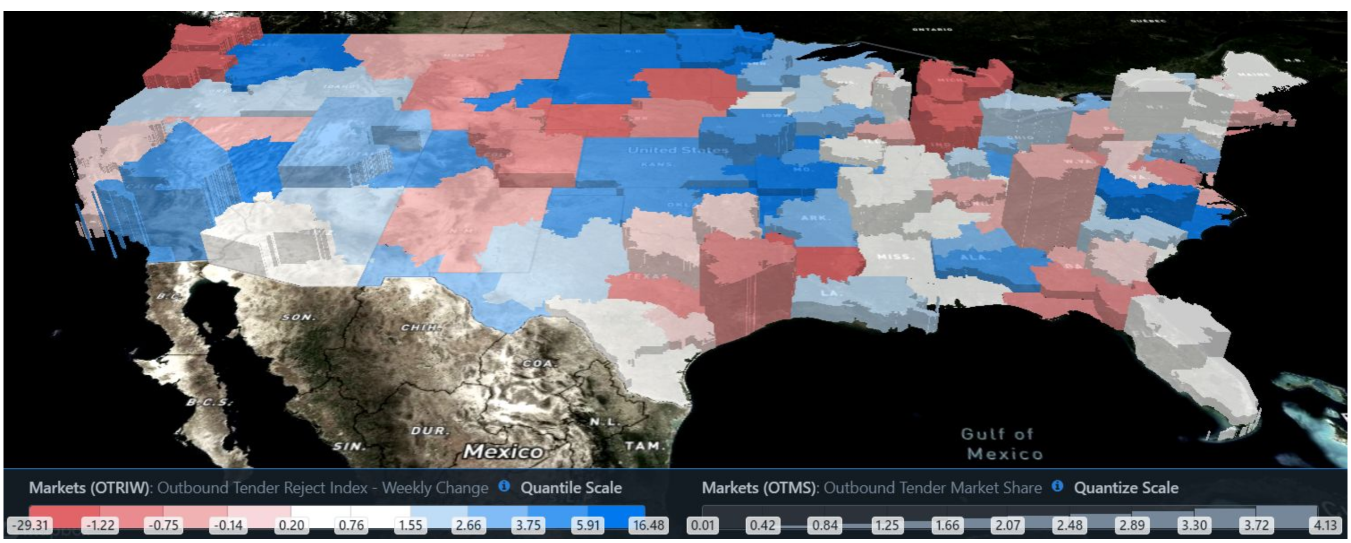
The Midwest continues to be strong with Fargo, North Dakota seeing strong w/w growth of 20.94%. There was relative weakness over the past week in northeastern markets. Baltimore, Philadelphia, and Boston were all down at least 7% and every port market north of Florida saw w/w decreases.

Trucking capacity



Trucking capacity is ratcheting tighter throughout the country. Outbound tender rejections have reached their highest peak since the middle of January at 8.66% of contracted loads being rejected by carriers. We don't see this trend breaking until after the New Year's holiday. OTRI still remains almost 5% below where it was a year ago, but those comparisons will begin to ease once we enter 2020.

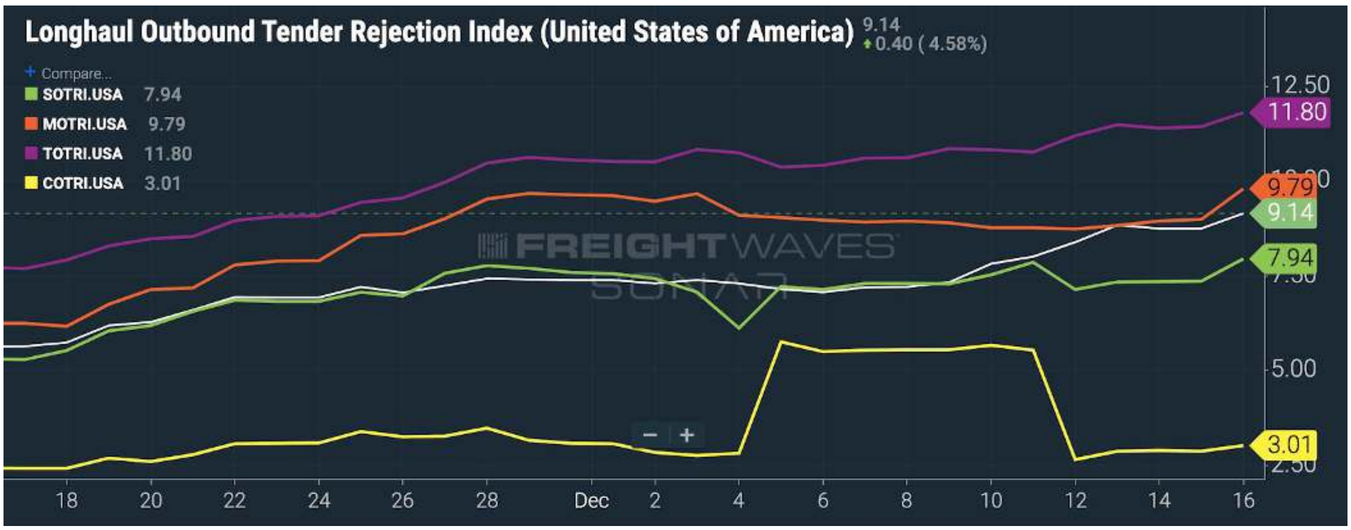
We anticipate tender rejections to spike early next week as carriers reject contracted loads and try to position drivers near their homes. Christmas falls in the middle of the week, creating a complex dynamic for both carriers and shippers. We expect both volumes and capacity to be disrupted by the mid-week holiday and spot rates to rally on the confusion.



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

Tender rejections have seen an explosion out of southern California over the past week, nearly doubling from where they were. This could be explained a couple of ways, but the overwhelming thought is that drivers are trying to get closer to home heading into the holiday weekend so they are no longer just camping out in southern California to get freight. We noted above that volumes on an absolute basis, while peaking lower than 2018's levels, have sustained themselves longer than last year's more volatile peak.

We are a week removed from Celadon's closing and the removal of 2,700 drivers from capacity. With Jaguar Transportation, the Mexican subsidiary of Celadon, closing as well, we might have expected that capacity may tighten in the Laredo market. That hasn't materialized as outbound tender rejections in Laredo are still well below the national level.



(Chart: FreightWaves SONAR. Tweener and Mid-haul Capacity remains the tightest)

Capacity measured by length of haul displays some trends that haven't shown up in overall tender rejections. All lengths of haul except local (COTRI.USA) have seen a steady tightening of capacity. Overall outbound tender rejections, OTRI.USA, is a weighted average of the length of haul outbound tender rejections with length of haul volumes.

Tweener length of haul, so-called but it is typically 'in between' a day's drive and two days' drive, is defined as a length of haul between 450 and 800 miles. Tweener lanes have had the tightest capacity since the ELD mandate and have tightened further from mid-November. City length of haul (i.e. local length of haul), has seen capacity remain loose after a bump in early December. Carriers operating on local lengths of haul are not rejecting their contracted loads in search of better rates. They are limited as to where they can operate as their networks are not diverse as those carriers who operate on mid-haul, tweener, and long-haul lengths of haul.