December 31, 2019 | 10:47 AM EST

Trucking Markets

Overview

Happy Holidays from your friends on FreightWaves' Passport Research team!

Trucking capacity has already begun moderating after the tightness of the Christmas holiday; the national average tender rejection rate has loosened from more than 14% to 11.7%. Contracted truckload volumes, which we measure on a seven-day moving average to smooth out persistent intra-week differences (i.e. between Mondays and Thursdays), are still recovering from the holiday.

This week's New Year's Day, which also falls in the middle of the week, will be similarly disruptive to freight movement and should have an overall dampening effect on volumes.

Just five or six weeks ago, there was not much encouraging data that pointed to a robust retail season, but in the past few weeks, spending and shipping heated up, delivering a much-needed bounce to volumes and spot rates.

In particular, refrigerated capacity in the Midwest, especially for long-haul loads, is particularly tight. We've also heard anecdotal reports that team capacity has significantly tightened, perhaps in response to the final transition from AOBRDs to ELDs.

We note that the FreightWaves DHL Supply Chain Pricing Power Index has shifted to 45 (0 being full pricing power to the shipper, 100 being full pricing power to the carrier) this week. These conditions should not persist long into January and February, a seasonally soft period when we expect more capacity to exit the market.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.76
CHI-ATL	$1.82
PHL-CHI	$1.59
ATL-PHL	$1.67
DAL-LAX	$1.51
SEA-LAX	$1.62

Freight volumes (weekly change)

Atlanta, GA	255.94 (-35.01%)
Ontario, CA	245.89 (-32.18%)
Harrisburg, PA	243.16 (-32.59%)
Elizabeth, NJ	193.07 (-30.58%)
Houston, TX	194.67 (-27.40%)
Dallas, TX	200.46 (-24.44%)

Tender rejection rates

Atlanta, GA	9.65%
Ontario, CA	10.31%
Harrisburg, PA	15.26%
Elizabeth, NJ	8.29%
Dallas, TX	9.49%
Houston, TX	4.23%

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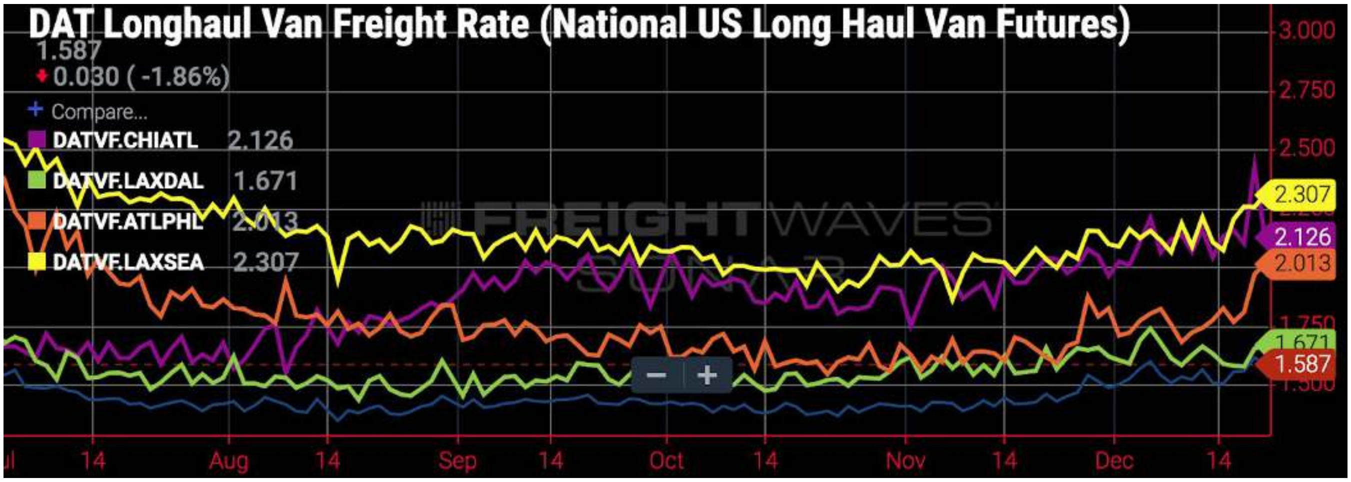
Trucking spot rates



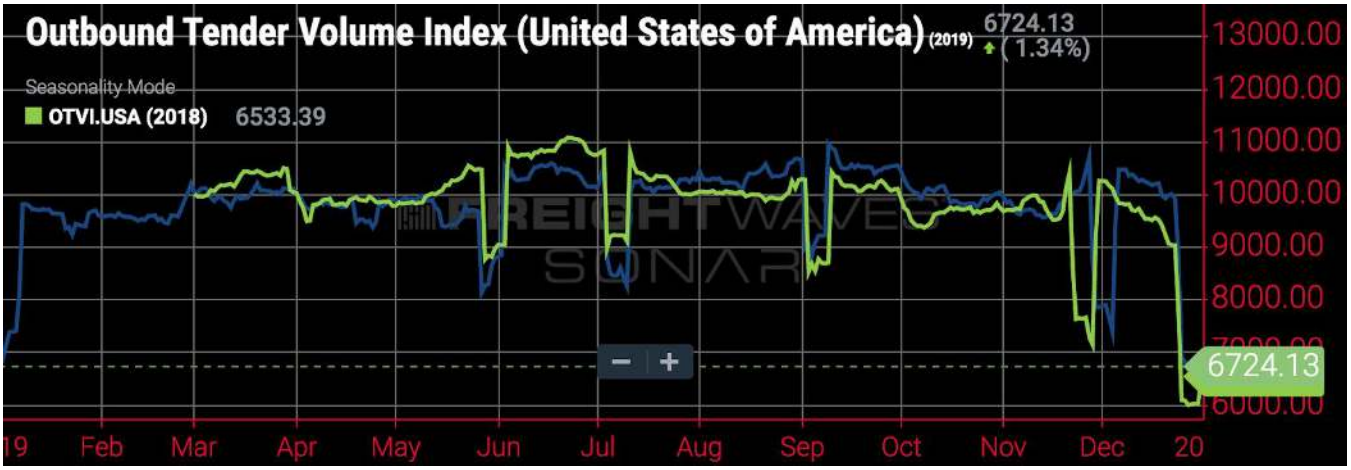
(Chart: FreightWaves SONAR)

In our last report, we saw progressively tightening conditions in the dry van market. As we expected, dry van rates responded to the upside. Atlanta to Philadelphia rose dramatically over the past month. Rates on the Atlanta to Philadelphia increased ~19.82% since December 10 compared to the national long-haul van rate increasing ~3.25% over the same period.

Tender rejection levels, while still elevated, are now moderating, leading us to believe that rates will stay firm for at least the immediate future. We believe that capacity will loosen again during January due to seasonal weak freight demand, driving down rates.. Economic data out of the United States and China makes us optimistic about volumes going into next year, and President Trump's promise this morning to sign Phase 1 of the trade deal on January 15 can only be a positive.

Using SONAR's rate predictor, we use fundamental data to estimate rates up to one year in the future. We believe it is important to display one lane from both the East and West coasts each week. The predicted rate from Atlanta to Philadelphia one month from now is $1.60 per mile (ex. fuel), which is below our current calculated rate of $1.67. The predicted rate from Los Angeles to Dallas in one month is $1.83 (ex. fuel), which is above the current calculated rate of $1.76. We note that our predictive rates tool has kept the one-month outlook roughly the same since our last report two weeks ago.

Freight demand



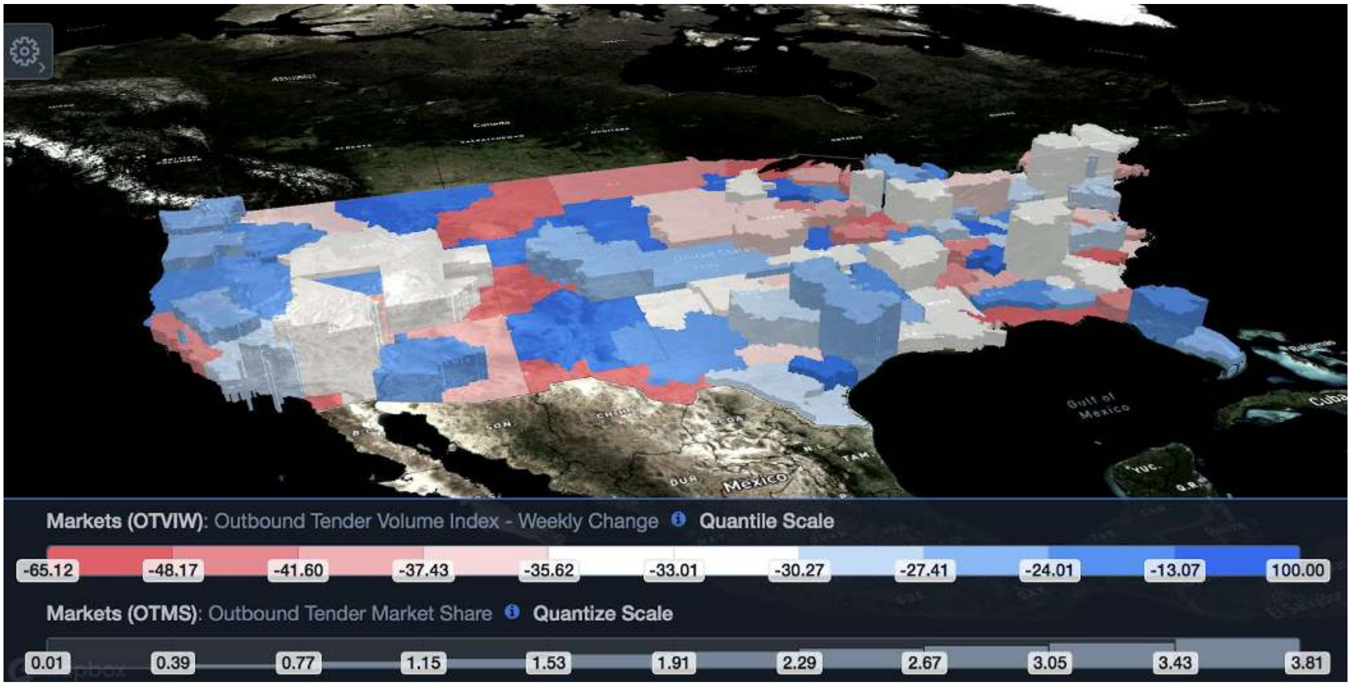
(Chart: FreightWaves SONAR. Stacked volume indices for 2019/8.)

National truckload volumes have fallen below the 10,000 level. This is not unexpected as volumes always fall off heading into the holiday season. One positive note regarding this pull-back in volumes is that it was shallower than last year, continuing a theme over the past several months of relative y/y outperformance, likely due to a strong consumer and a particularly strong holiday season.

(Chart: FreightWaves SONAR. Year-over-year change in reefer volumes [green] and retail sales [white].)

While government data for December hasn't been released yet, November's retail spending was solid, up 3.35% compared to November 2018. That retail growth outpaced growth in the overall economy—particularly the industrial economy—is consistent with our thesis on the source of freight volumes in the present environment.

Food and beverages, and refrigerated trucking volumes in general, are performing especially well, up more than 8% year-over-year. That figure is somewhat surprising because, all other things being equal, food shipping should be relatively steady, with growth lengthed to demographic changes (and this winter hasn't been especially harsh, which would have required the use of more reefer equipment for freeze protection).

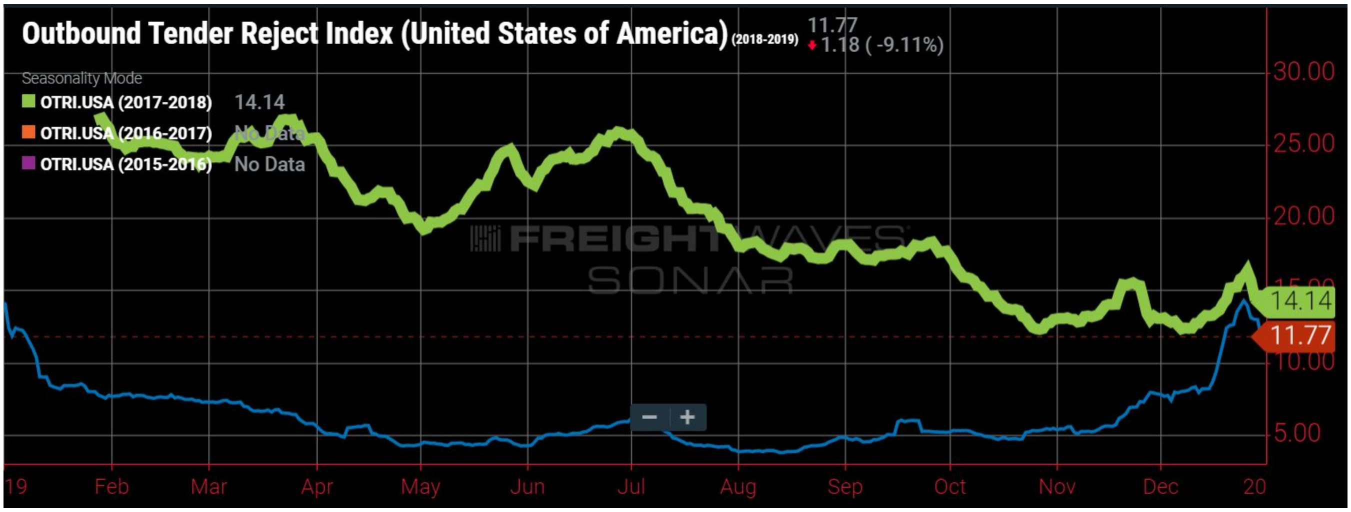


(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

Due to the holidays, this map can be slightly misleading. The vast majority of the X-markets are seeing decreasing volumes over a week ago. This is not to be alarming though as this is common every year. We will likely see a dramatic increase in the weeks ahead as everyone gets back to work after the holidays.

On a relative basis, the east coast was much weaker than the west coast. This comes as somewhat of a surprise since the west coast markets have been weak as of late. All in all, there aren't many things to be positive about on an absolute basis this week. One bright spot comes from the Texas ports. Although they did not see increases W/W, they performed well relative to most of the country.

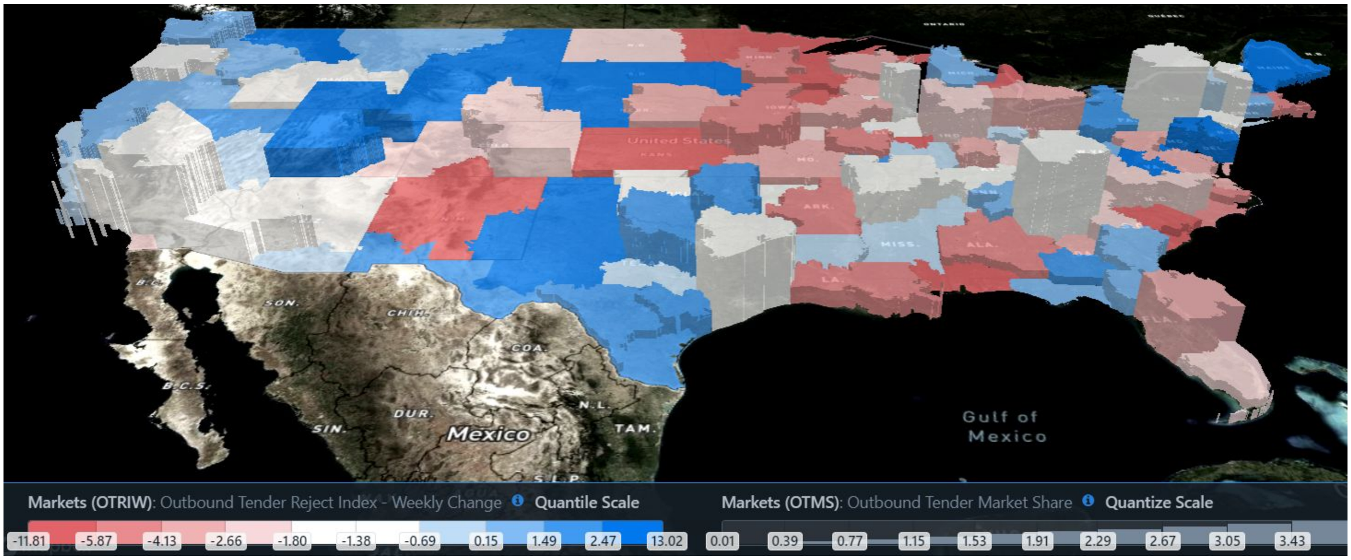
Trucking capacity



Trucking capacity has begun to moderate after outbound tender rejections (OTRI.x) hit their peak on Christmas day. Overall tender rejections still sit down slightly year-over-year, but that doesn't discount the post-Thanksgiving bull run. Drivers opted to stay closer to families and not drive as far around Christmas. We believe that capacity will ease this week following the New Year holiday, returning to similar numbers seen earlier in 2019.

On January 6th, the FMCSA Drug & Alcohol Clearinghouse database goes live which will prevent drivers who get fired from a trucking company for a failed drug test from getting hired at another carrier. In our view, the Clearinghouse will eventually put a substantial constraint on capacity as drivers will be forced to leave the market due to violations. The impact of the clearinghouse will ultimately take some time to play out as no drivers will be in the database on the day one, but we will start to see an impact by 2H2020.

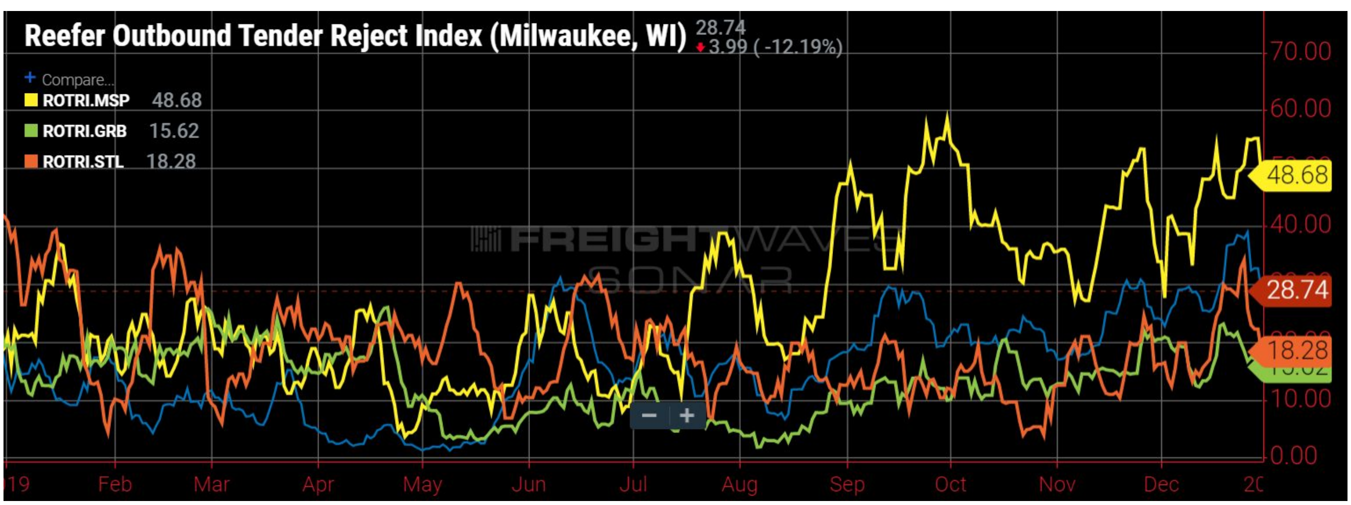
Capacity should continue loosening in early 2020, but against much more favorable comps as 2019 was a soft freight market. The weak environment in 2019 drove the rate of trucking failures to accelerate 4x compared to 2018, bleeding capacity from the market. If the trend from 2019 into early 2020 holds, more trucks will leave the market and capacity will tighten. The Clearinghouse will play an important non-seasonal role in this tightening and will grow more important as time goes on and violators accumulate in the database; any external factor like a natural disaster will intensify this process.



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

Freight markets around the Rocky Mountain range witnessed outbound tender rejections spike over the past week. Rejection rates in Salt Lake City broke 22% this week, up over 13% from last week. Much of this region is currently under a winter weather warning, so the step-up in tender rejections doesn't come as a huge surprise.

We believe many enterprise carriers, cognizant of jury awards and rising insurance costs, are increasingly prioritizing safety in adverse weather conditions. In fact, one freight broker told us last week that "nuclear verdicts have killed winter capacity."



(Chart: FreightWaves SONAR. Midwest reefer capacity remains tight)

Reefer capacity remained tight all winter, especially in the Upper Midwest. Contracted outbound reefer loads out of the Minneapolis-St. Paul market are being rejected almost 50% of the time. The extremely cold temperatures in this area have led to freight that is typically shipped via dry van being moved in temperature-controlled trailers. We presume reefer capacity will remain the tightest in the Upper Midwest and Northeast as extreme cold continues into 1Q20.