January 14, 2020 | 1:52 PM EST

Trucking Markets

Overview

In the truckload industry, volumes precede tender rejections, which precede spot rate movement, which precedes contract rate movement. We're seeing that freight market dynamic play out now: In most regions of the country, volumes are weak, capacity is loosening and rates are falling. One temporary exception is in Southern California, where ports are experiencing a pre-Chinese New Year volume surge.

The United States and China are expected to sign the Phase One trade deal Wednesday. The details of that agreement have not been released, but it's clear that it's an incomplete resolution of limited scope. Still, it's an unequivocal positive for global trade sentiment and could be the start of increasing business confidence and willingness to invest.

While the macro trend is toward looser capacity, some markets are tightening. Significantly tighter than the national average are Boston; Charlotte, North Carolina; Detroit; Louisville, Kentucky; and Joplin, Missouri. Meanwhile, Harrisburg, Pennsylvania, which outperformed in November and December, is loosening.

Weekly volume comps are distorted due to last week's inclusion of the New Year holiday; next week will be a return to normal for those comparisons.

The third week of January is often cited as the traditional bottom of trucking volumes in the United States; after next week, downward pressure on spot rates should ease.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.83
CHI-ATL	$1.67
PHL-CHI	$1.71
ATL-PHL	$1.61
DAL-LAX	$1.42
SEA-LAX	$1.56

Freight volumes (weekly change)

Atlanta	383.26 (+20.82%)
Ontario, CA	326.24 (+32.77%)
Harrisburg, PA	320.22 (+24.48%)
Elizabeth, NJ	273.08 (+25.92%)
Houston	267.35 (+16.02%)
Dallas	260.09(+22.26%)

Outbound tender rejection rates

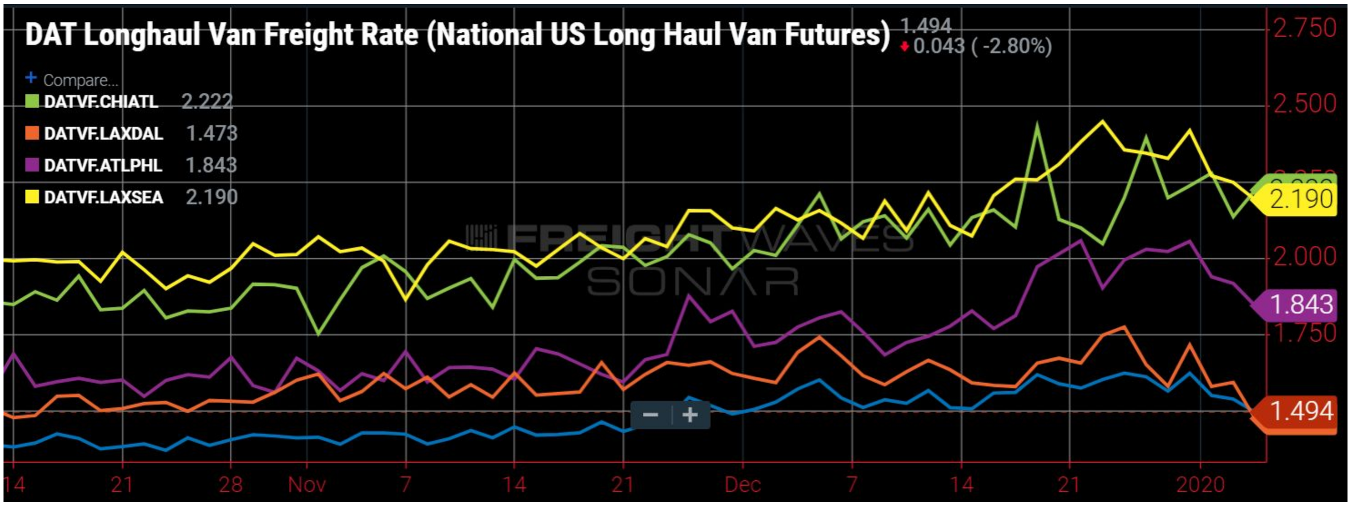
Atlanta	5.36%
Ontario, CA	6.93%
Harrisburg, PA	8.46%
Elizabeth, NJ	4.78%
Dallas	4.28%
Houston	2.79%

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



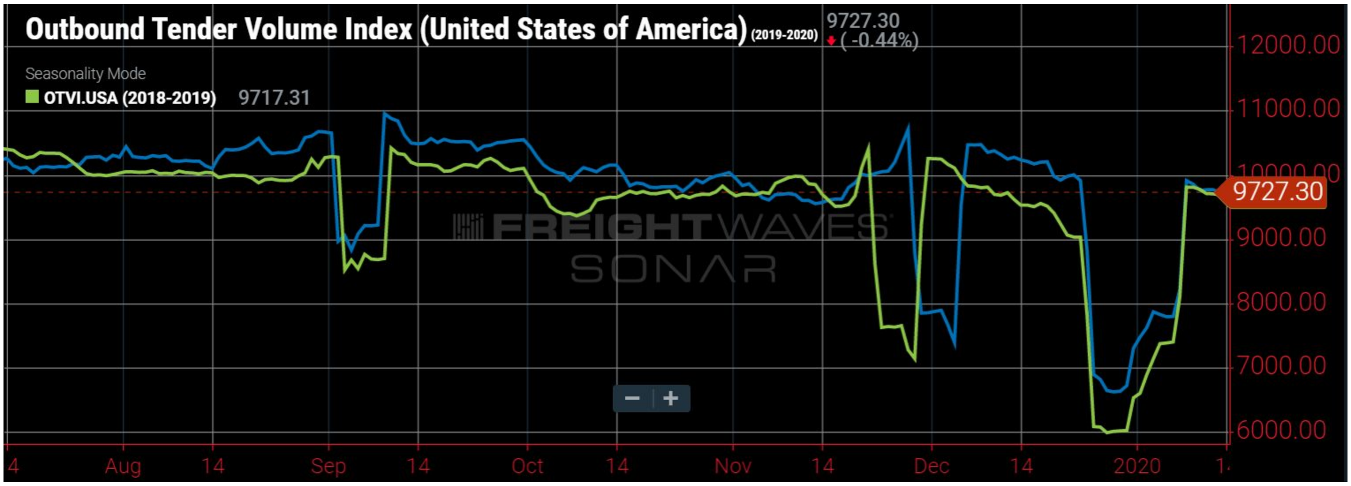
(Chart: FreightWaves SONAR. DAT dry van spot prices on major lanes)

We predicted that rates would likely stay firm at the beginning of the year before weakening due to seasonally weak demand and loose capacity. We have seen rates start to drop, which should not be surprising given the pullback in outbound tender rejections. Outbound tender rejections have fallen from a high of about 14.25% to 7.57%. We have seen outbound tender rejection levels stabilize over the past few days, which should help stabilize rates.

The Bureau of Labor Statistics released the nonfarm payroll report Friday. There were 145,000 nonfarm jobs created in December, while the unemployment rate stayed steady at 3.5%. Although the jobs number missed consensus estimates, this is still a strong number. Wage growth came in at 2.9% y/y. This was seen as a slight disappointment considering this was the first time wage growth has been below 3% since July 2018.

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 $1.61 per mile (ex. fuel), which is the same as our current calculated rate of $1.61. The predicted rate from Los Angeles to Dallas in one month is $1.88 (ex. fuel), which is above the current calculated rate of $1.83. We note that our predictive rates for one month are seeing rates remain close to current levels.

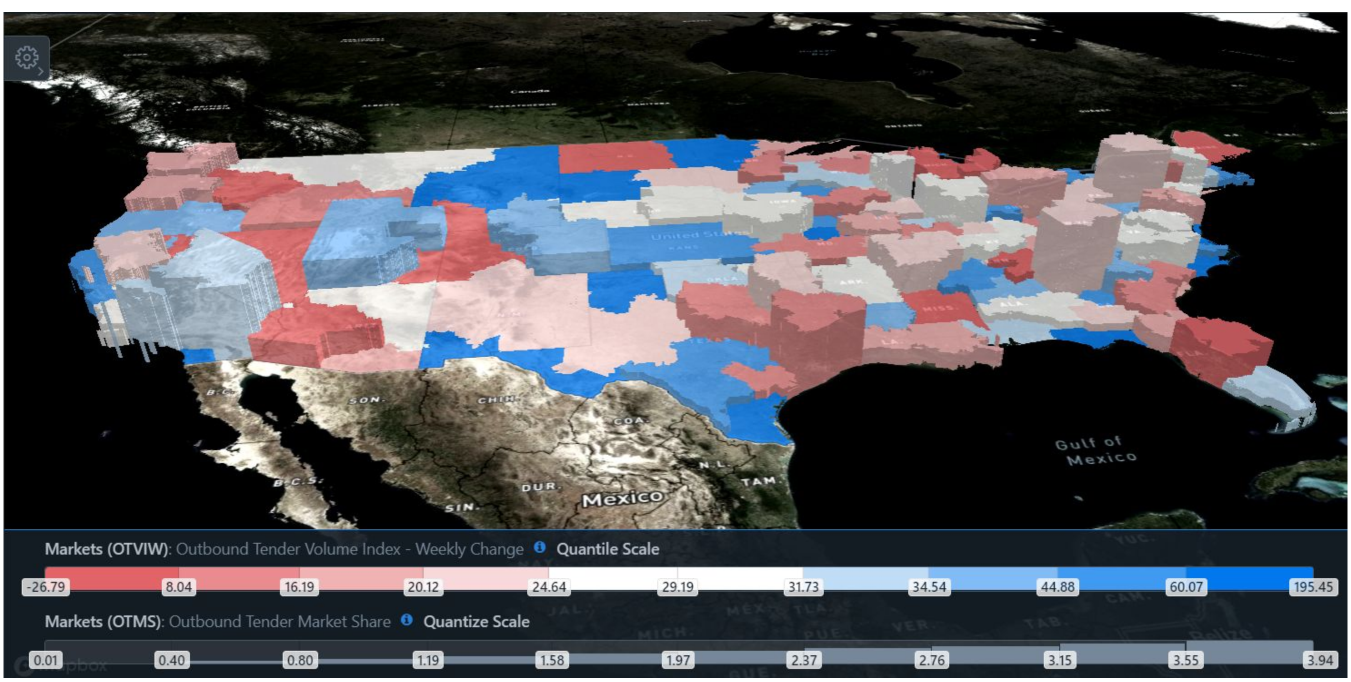
Freight demand



(Chart: FreightWaves SONAR. Stacked volume indices for 2019/18)

National truckload volumes are again below 10,000. We expect weak volumes for the next month, then a rebound. The one positive that we continue to highlight is the fact that volumes remain stronger year-over year. The holiday season in 2019 had a much higher trough than the previous year, a constant theme during most of the second half of the year.

Although the jobs report was weaker than expected, we believe that the consumer is strong enough to contribute to economic growth, although manufacturing is weak. We're waiting to see whether a partial resolution of trade disputes will be enough to spur business investment and, in turn, industrial and manufacturing production growth in 2020.



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

Outbound tender volumes strengthened significantly over the past week. We note that a large portion of the volumes shaded red are actually positive comparables w/w. This is due to a strong skew to the upside. The nation's largest markets saw strong comps across the board: Ontario (+32.77), Atlanta (+20.82), Houston (+16.02%) and Harrisburg (+24.48%).

For the first time since we initiated truckload coverage, the West Coast held its own compared to the East Coast. The Ontario market struggled at the end of 2019, yet was one of the strongest markets on a w/w basis. Part of the reason the West Coast was strong was due to the Chinese New Year.

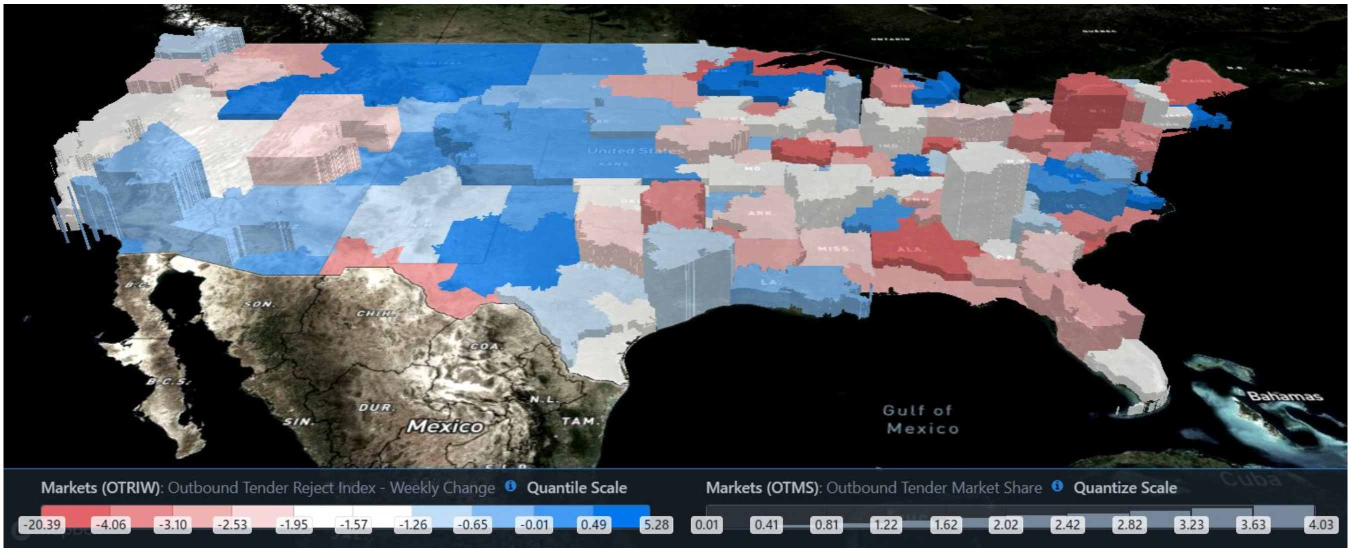
In our view, although volumes may surge due to the Chinese New Year, the past 10 years of port data tell us that any spike will be followed by a significant hangover when volumes slow to a trickle.

Regarding trade, the Phase One trade deal is expected to be signed Wednesday. This is an unequivocal positive for global trade — especially sentiment, we feel — which in turn should translate to demand for domestic trucking capacity. The exact details have yet to be officially released, but it has been a top priority for U.S. officials to get China to agree to substantially increase agricultural purchases. U.S. farmers have arguably been the hardest hit by the China-U.S. trade war.

Trucking capacity

(Chart: FreightWaves SONAR. National tender rejections stacked seasonally: orange is 2018-19, blue is 2019-20.)

Trucking capacity largely stabilized after drivers returned to their trucks following the holidays. Outbound tender rejections (OTRI.USA) are plateauing at approximately 7.5% of contracted loads being rejected by carriers. Carriers reject contracted freight for a few reasons: better freight, better rates or a lack of available assets. The difference in tender rejections between today and a year ago has been narrowing over the past week as rejections are now just 10% below year-ago levels compared to -30% a week ago.

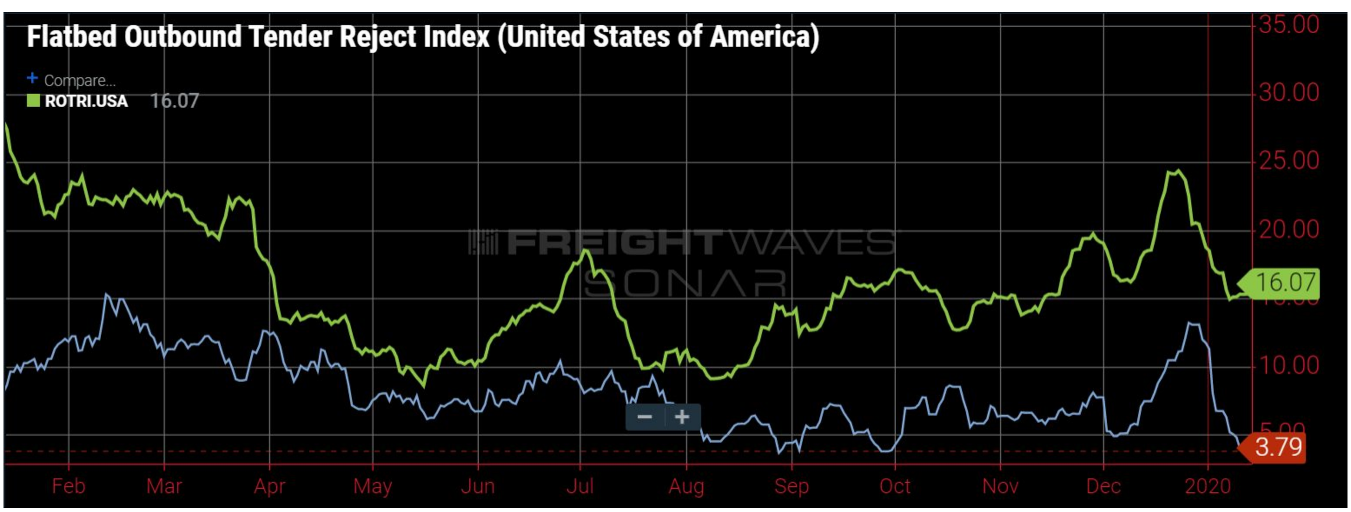


(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Capacity in Southern California tightened over the past week as rejections increased by 13.44% from week-ago levels. Rejections in Ontario are 71.1% above where they were a year ago.

There are a few theories as to why capacity has tightened so much in a period when drivers were getting back on the road and, in theory, loosening capacity. The first theory is that the AB5 decision may have moved some drivers out of the Southern California markets. The second is that there has been a surge of freight shipped to West Coast ports prior to the Chinese New Year (Jan. 25).

Trucking capacity across the entire U.S. Northeast, Upper Midwest and Pacific Northwest has loosened considerably as severe winter storms settle in and shut down mountain passes. As the weekend approaches, look for capacity to tighten considerably in markets around the Great Lakes like Detroit, Milwaukee, Albany, Cleveland and Erie.



(Chart: FreightWaves SONAR. Flatbed capacity remains loose as rejections fall off a cliff.)

Flatbed trucking is tightly correlated with industrial production as well as housing starts in the U.S. Flatbed trucking rejections are low compared to overall tender rejections and well below another specialized form of trucking, reefer. Flatbed capacity for the most part is seasonal, with increases in rejections happening in February as housing starts seem to get a bump at this time in order to be ready by the spring selling season.

Flatbed capacity should be tightest in the Southeast, where residential construction is concentrated. Look for flatbed capacity to tighten as March approaches, especially in Southeast markets.