January 21, 2020 | 11:34 AM EST

Trucking Markets

Overview

In our view, the most notable aspect of trucking markets into 2020 so far is that outbound tender rejections have stabilized — so far — above 7.5%, a level that will eventually be supportive of higher spot rates.

J.B. Hunt management fielded questions from equity analysts last Friday in response to the company's fourth-quarter results. EVP, CCO and President of Highway Services Shelley Simpson confirmed that capacity has tightened in the discussion with analysts about Hunt's brokerage business.

"I will say the available carriers went down considerably in both December and in the first couple of weeks here in January," Simpson said. "That was a surprise even from normal seasonality. So, for us, it's too early to call on what that means in the market. Certainly, it feels, from a supply side, like a tighter environment than really what people are talking about. We'll see if something starts to shake loose here in the next couple of weeks and then return more to norm."

For non-asset freight brokers, that setup is not particularly constructive — a combination of tight capacity and flat to low volumes are the "worst of both worlds." Asset-based carriers will eventually fare better as long as truckers continue to exercise their options in a disciplined way.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.82
CHI-ATL	$1.68
PHL-CHI	$1.68
ATL-PHL	$1.58
DAL-LAX	$1.40
SEA-LAX	$1.53

Freight volumes (weekly change)

Atlanta	390.13 (+1.79%)
Ontario, CA	314.94 (-3.46%)
Harrisburg, PA	282.28 (-11.85%)
Elizabeth, NJ	275.75 (+0.98%)
Houston	257.41 (-3.72%)
Los Angeles	252.53 (+1.14%)

Tender rejection rates

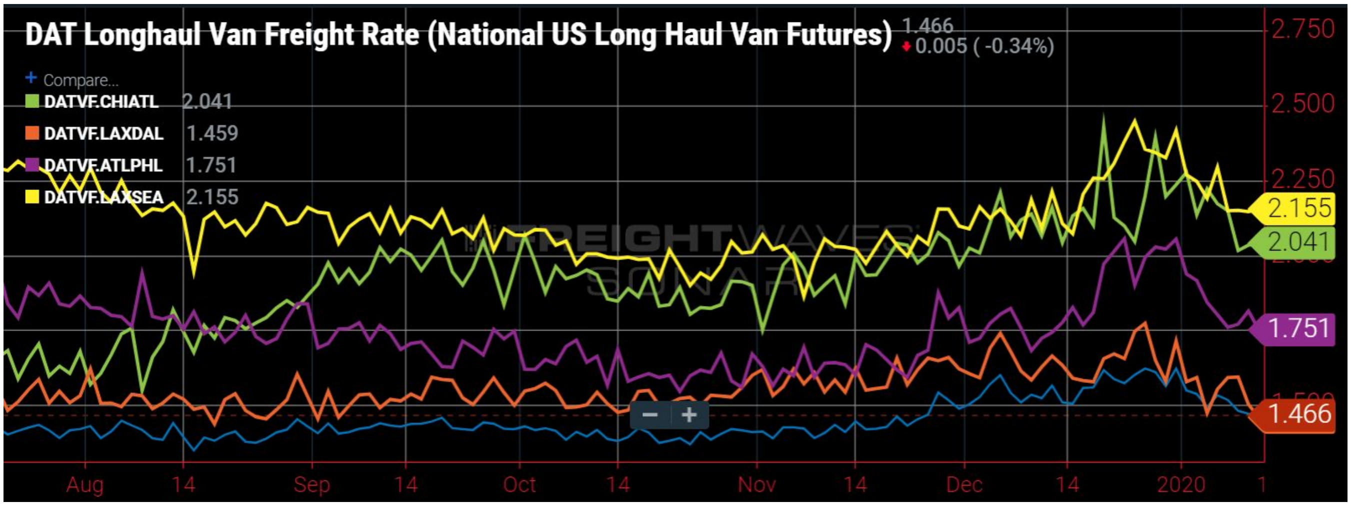
Atlanta	4.16%
Ontario, CA	5.32%
Harrisburg, PA	7.75%
Elizabeth, NJ	4.47%
Houston	3.26%
Los Angeles	5.32%

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 noted that trucking rates had fallen in most major markets since the end of last year. That continues to be true. Our base thesis that trucking rates would likely be stable to slightly weaker in the beginning of the year because January is typically the weakest freight month still holds. We note that outbound tender rejection levels have stabilized above 7% over the past couple of weeks, which we consider supportive of higher spot rates.

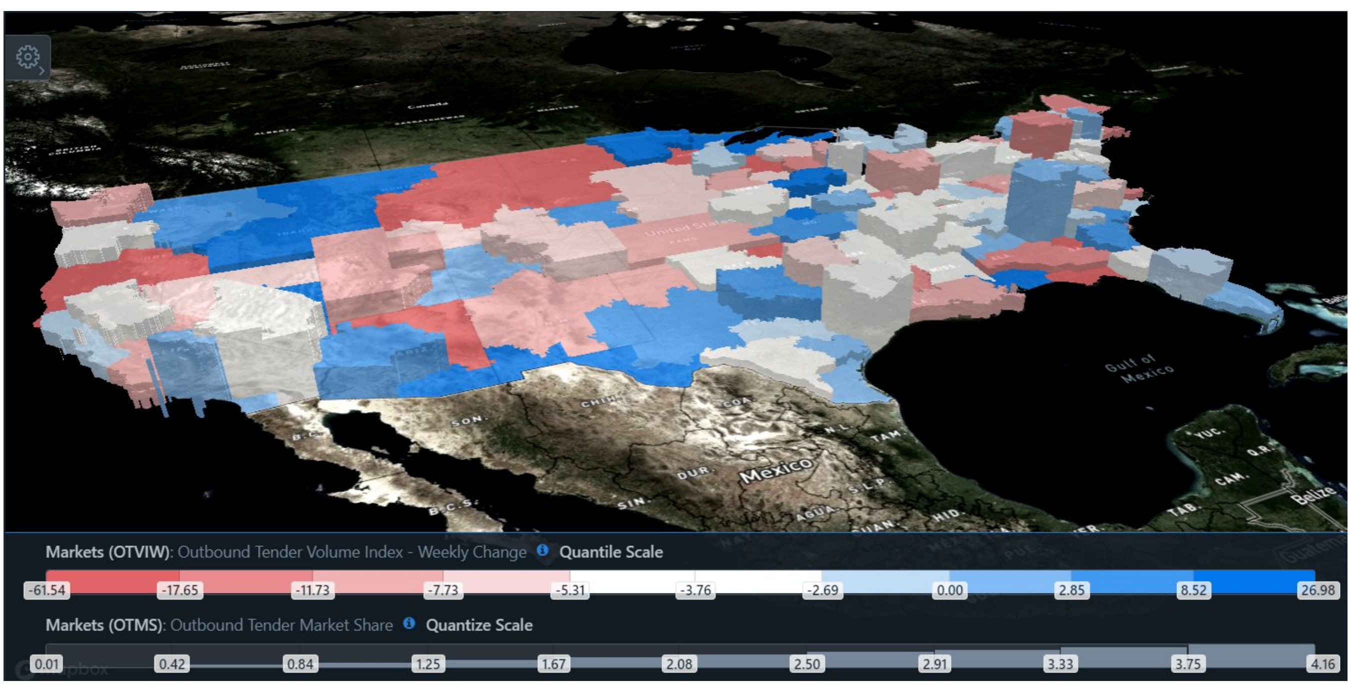
This week world leaders and billionaires gather in Davos, Switzerland, for the World Economic Forum. The list of guests ranges from CEOs to heads of state. The wide range of influential speakers should yield diverse views into what political leaders and investors expect for the global economy.

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 one lane from the East and West coasts. The predicted rate from Atlanta to Philadelphia one month from now is $1.57 per mile (ex. fuel), just below the current rate of $1.58. The predicted rate from Los Angeles to Dallas in one month is $1.88 (ex. fuel), above the current rate of $1.82. We note that our predictive tool calls for relative weakness in the Atlanta-Philadelphia lane compared to last week and for the Los Angeles-Dallas lane to stay constant one month from now.

Freight demand

National truckload volumes remain below 10,000, up just 0.3% year-over-year, as we tread water through the seasonally toughest period for volumes. One potential catalyst for a positive inflection is the Phase One U.S.-China trade deal. We saw Chinese exports to America plunge last year amid the trade war; a reversal or just reversion to the mean of the China-U.S. trade flow would be a positive for transportation demand.

Signs of life in the Los Angeles market are another positive development. Los Angeles had fallen out of the top six U.S. freight markets by volume for a few weeks. We believe the recent bump is likely due to an increase in volumes ahead of the Chinese New Year; expect that volume to pull back.



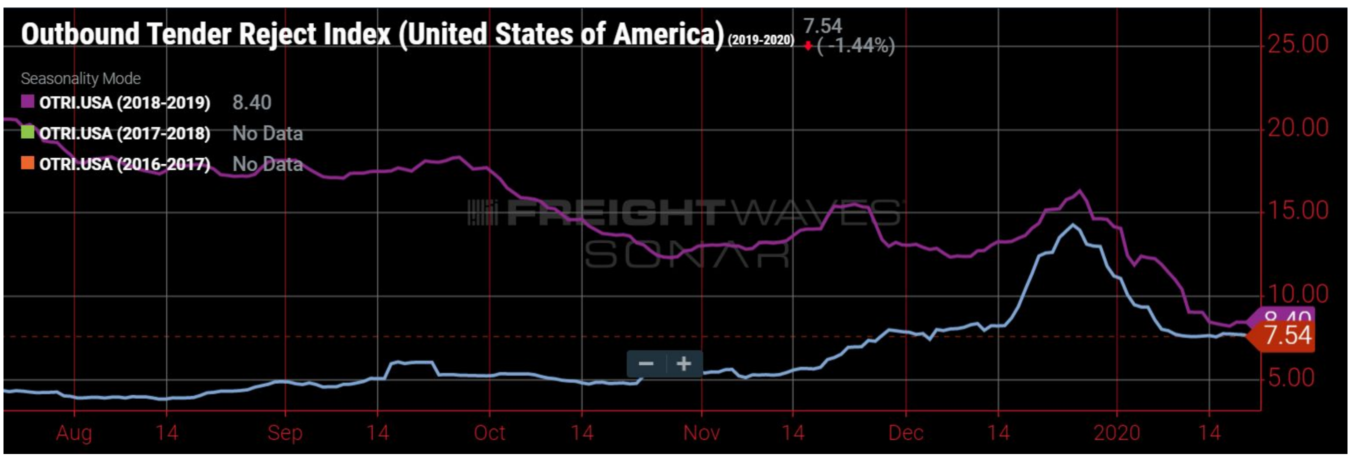
(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

Contracted truckload volume changes were generally negative over the United States. The lightest shade of blue is still negative week-over-week. The East Coast has returned as the relative out-performer when compared to the West Coast.

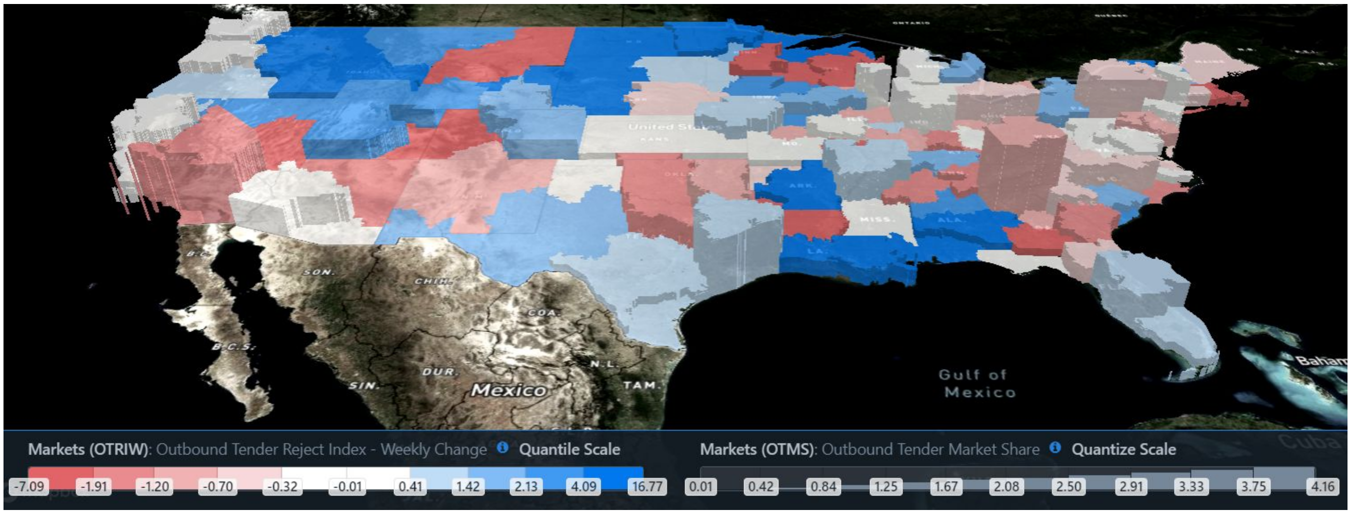
Savannah, Georgia, had a strong week with outbound volumes increasing 4.69% w/w. Richmond, Virginia, and Elizabeth, New Jersey, also had strong weeks, with outbound tender volumes rising 2.62% w/w and 0.98% w/w, respectively.

By region, the cross-border markets were by far the strongest. Phoenix had a very strong week, with outbound volumes rising 8.41%; Tucson, Arizona, and El Paso, Texas, also had very strong weeks, with outbound volumes rising over 15% w/w.

Trucking capacity

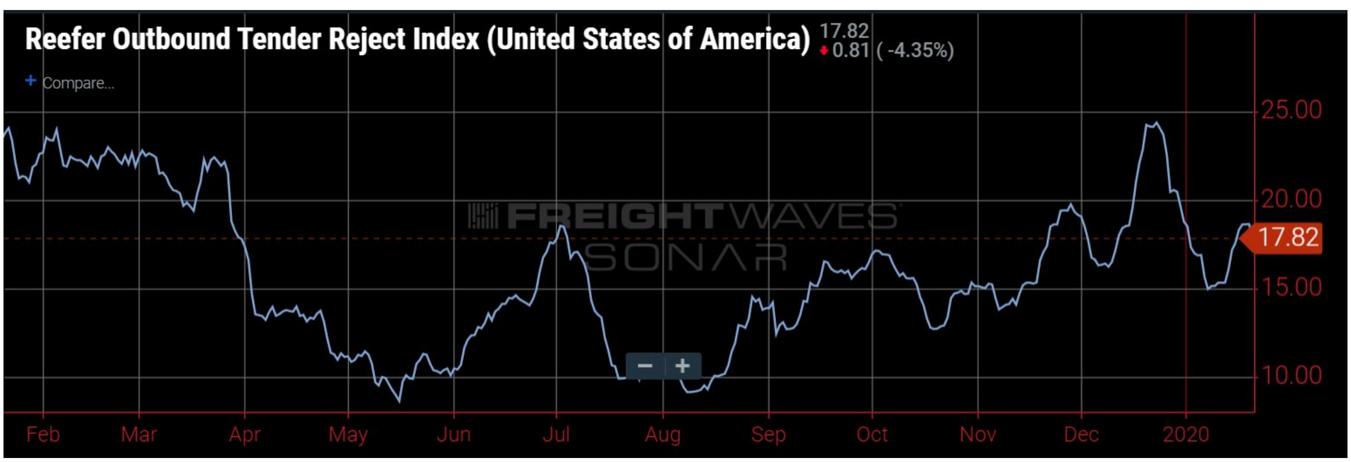


Trucking capacity has stabilized across the country as the market returned to normal after the holiday season. Outbound tender rejections continue to remain flat this week at just above 7.5%. Tender rejections still sit more than 10% below where they were a year ago, but the current level should support higher spot rates. Through the end of January and early February, comps will continue to ease. However, we do not have high conviction that the current capacity situation will persist indefinitely and note that demand may very well erode — which would be typical, seasonally speaking — through the end of January and into February.



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

Trucking capacity remains the tightest in the Pacific Northwest and the Upper Midwest as frigid temperatures and snowfall shut down crucial mountain passes and push carriers out of the regions. Tender rejections spiked in southern Alabama, Mississippi and Louisiana. The majority of the region has flood warnings in effect for the next couple of days. Much like winter weather, carriers avoid flooded areas because of personal safety concerns as well as delays and out-of-route miles.



(Chart: FreightWaves SONAR. Reefer capacity remains tight.)

Reefer capacity remains tight after another bump in outbound tender rejections over the past week. Capacity tightened in the Pacific Northwest and in the Midwest from Minnesota down through Arkansas. The Upper Midwest and Pacific Northwest have experienced brutally cold temperatures and winter weather, so shippers are having to send loads that would be in dry vans in reefer units to protect from freeze.