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Trucking Markets

Overview

Volumes are just negative on a year-over-year basis; capacity is loosening; rates are falling.

That's a typical setup for the seasonal trough in late January, and conditions should start to improve over the next few weeks. One major risk to the downside is the Wuhan coronavirus, which we discuss below. If widespread quarantines and work stoppages deepen and extend CNY-related volume drops, West Coast ports could find themselves starved of freight.

First, companies like FedEx — which has substantial Transpacific air exposure — would feel the pain, followed by Expeditors International, then intermodal providers like J.B. Hunt and Union Pacific.

We believe that the coronavirus outbreak will have to continue spreading uncontrollably for several weeks before the Chinese macroeconomy and Transpacific freight lanes will be materially affected; we also note that this is precisely what some epidemiological models call for.

Barring a worsening outcome for the coronavirus, freight market conditions should improve in the United States in the next few weeks.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.82
CHI-ATL	$1.69
PHL-CHI	$1.67
ATL-PHL	$1.58
DAL-LAX	$1.40
SEA-LAX	$1.50

Freight volumes (weekly change)

Atlanta, GA	411.42 (+5.46%)
Ontario, CA	335.16 (+6.42%)
Harrisburg, PA	291.77 (+3.36%)
Elizabeth, NJ	270.98 (-1.73%)
Dallas, TX	262.98 (+7.37%)
Joliet, IL	260.76 (+5.01%)

Tender rejection rates

Atlanta	4.77%
Ontario	5.01%
Harrisburg	7.04%
Elizabeth	3.47%
Houston	2.76%
Los Angeles	5.01%

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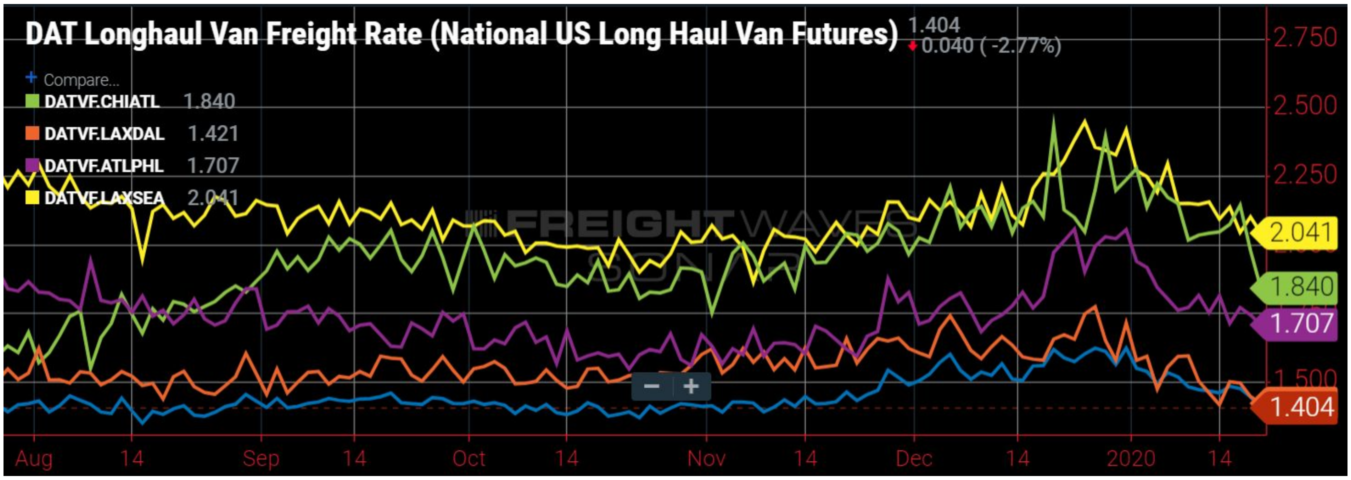
Trucking spot rates



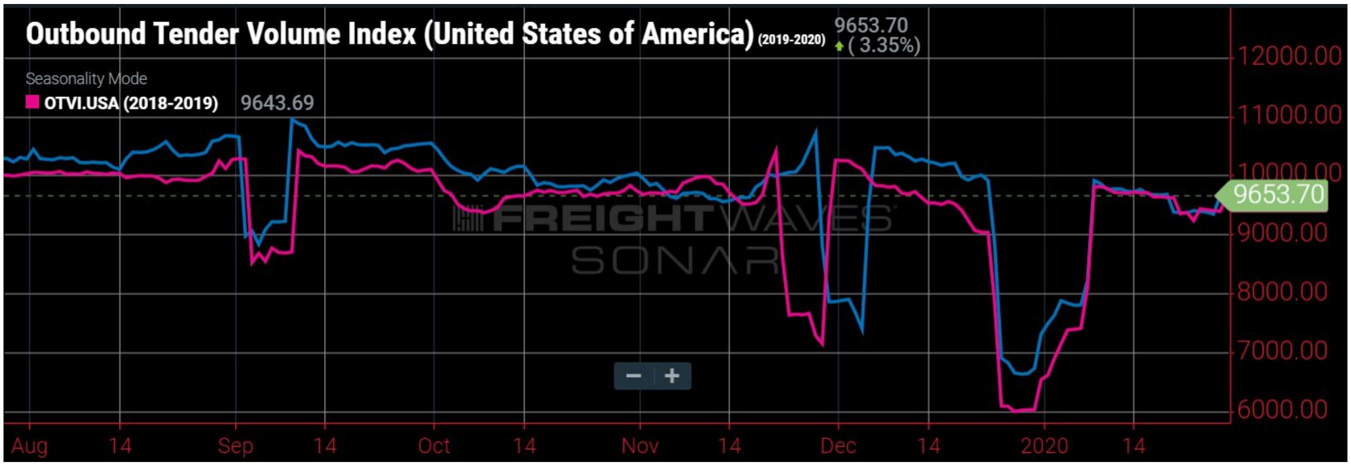
Trucking rates continue to slide, which has been the case since the beginning of the year and coincides with a dropoff in volumes and a slide in outbound tender rejection levels. We expect that rates will likely stabilize in the near-term as we exit January, the weakest freight month of the year.

A "black swan" event could always boost or derail the freight market: We may have found that in the novel coronavirus. The number of cases in China is rising rapidly with ~4,600 cases worldwide and 17 Chinese cities quarantined. A quarantine of a major port city, such as Shanghai, Hong Kong, Shenzhen or Ningbo, would suppress Transpacific trade, soften demand further, and likely drive down rates. China has also extended the Chinese New Year through Feb. 3.

If the coronavirus has a significant effect on North American trucking markets, it will start by deepening and extending the CNY volume trough out of West Coast port markets like Los Angeles and Long Beach.

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 regularly display one lane from the East and West coasts. The predicted rate from Atlanta to Philadelphia one month from now is $1.55 per mile (excluding fuel), just below the current rate of $1.58. The predicted rate from Los Angeles to Dallas in one month is $1.83 (excluding fuel), just above the current rate of $1.82. We note that our predictive tool calls for looser capacity in the Atlanta-Philadelphia lane while capacity is expected to tighten in the Los Angeles-Dallas lane one month from now.

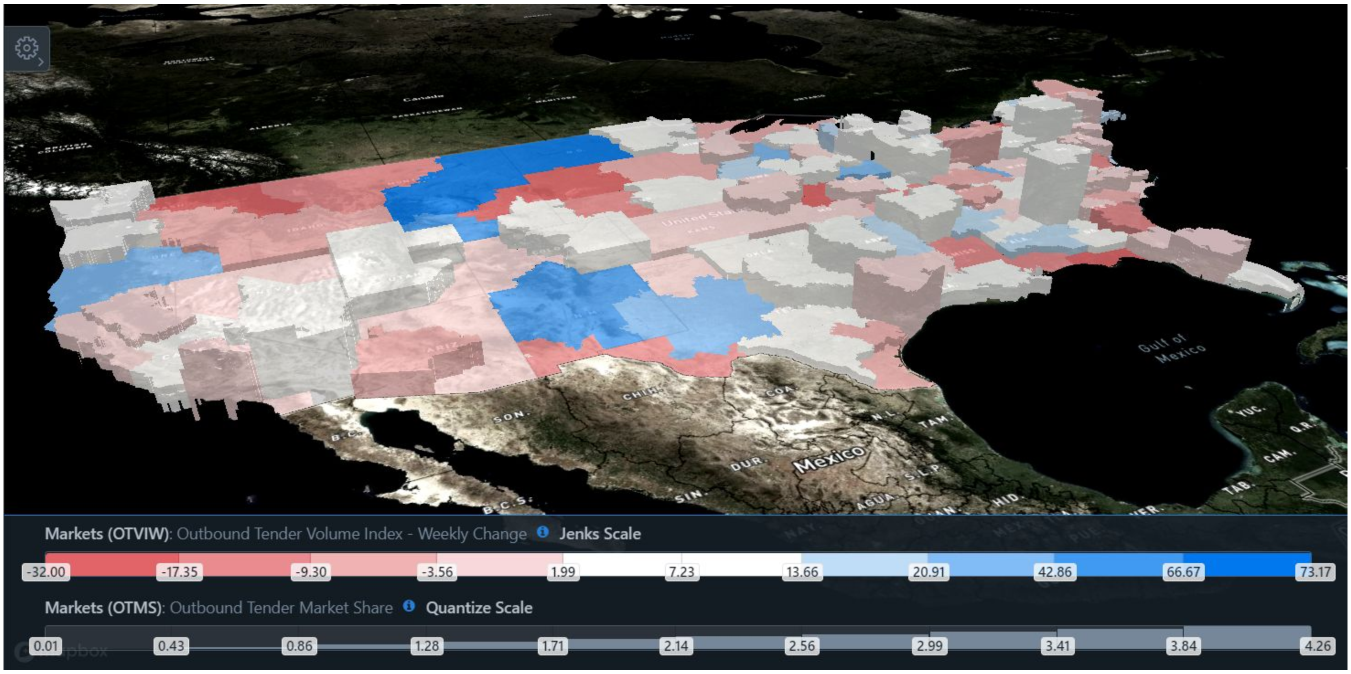
Freight demand



National truckload volumes remain below 10,000, but up ~2.7% year-over-year, as we tread water through the seasonally toughest period for volumes. We continue to think that the Phase 1 U.S.-China trade deal is a positive for global trade although it will likely be weeks to a couple months before we see the impact in data.

As mentioned earlier, the novel coronavirus has the potential to drastically disrupt supply chains linking China to the rest of the world. While the WHO's official number of worldwide cases is ~4,600, it is likely that the true number will be much higher as suspected cases are confirmed.

During the SARS outbreak of late 2002-2003, Chinese authorities hid the total number of cases and eschewed public transparency, exacerbating the problem. Because China is taking such drastic steps to curtail the illness this year, we believe that the number of sick and deceased is likely much higher than the official number.



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

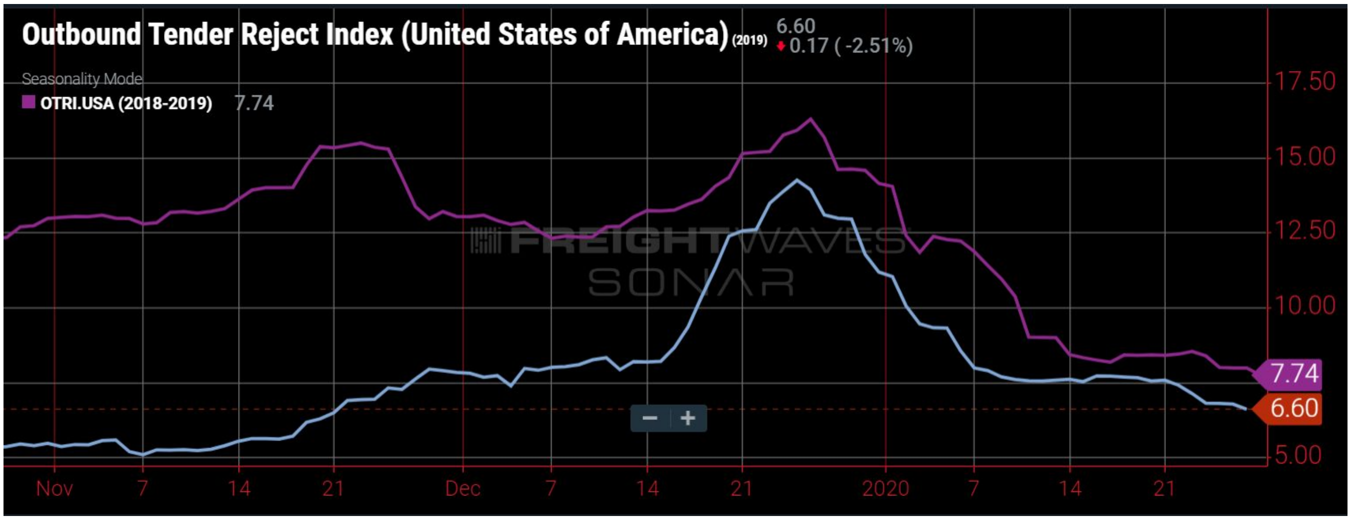
U.S. contracted truckload volume changes were generally positive this week. The lightest shade of red is still positive week-over-week. The West Coast had a strong week, which likely had to do with the Chinese New Year.

Atlanta had a strong week with an outbound volume increase of 5.46%; Ontario grew 6.42%, which is encouraging because the West Coast has struggled for the majority of our coverage period. Of the six largest markets, only Elizabeth saw volumes contract, by 1.73% week-over-week.

Hartford, Connecticut, and Boston were two bright spots in the Northeast over the past week. Hartford volumes surged 44.17% while loads outbound from Boston jumped 14.21%.

We will watch to see how the market share claimed by West and East Coast ports changes if indeed the coronavirus suppresses Transpacific volumes; will shippers source their products from other markets or choose to bide their time and run down existing inventories?

Trucking capacity

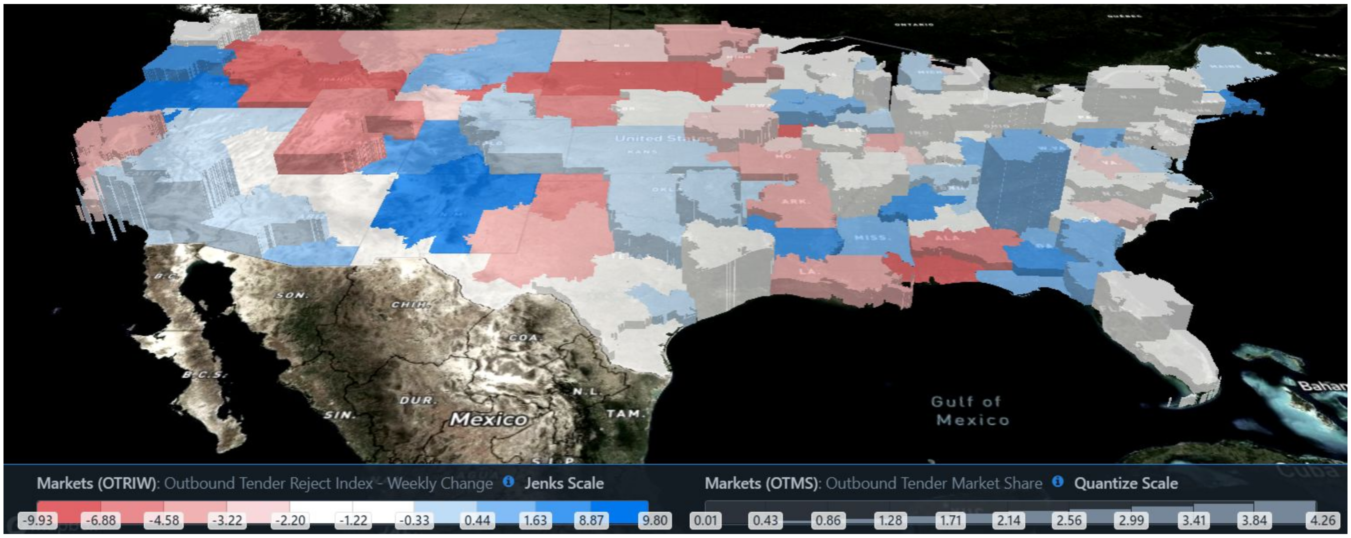


Capacity has begun to loosen again following a stabilization period after the holidays. Outbound tender rejections (OTRI.USA) fell below 7% for the first time in 2020. Tender rejections have experienced a widening spread from year-ago levels as they now sit 94 bps below 2019 levels.

Approaching the end of January, we should be near the trough of typical seasonal freight flows in the United States. The Wuhan coronavirus represents a risk to the downside. The Chinese government has extended the Chinese New Year celebration through Feb. 2. Shanghai, the largest port city in the world, has currently shut down all businesses other than pharmaceutical and medical supply companies until at least Feb. 9.

The extended holiday, coupled with the Shanghai shutdown, will diminish volumes coming into the U.S. If those conditions persist, capacity will loosen and spot rates will fall.

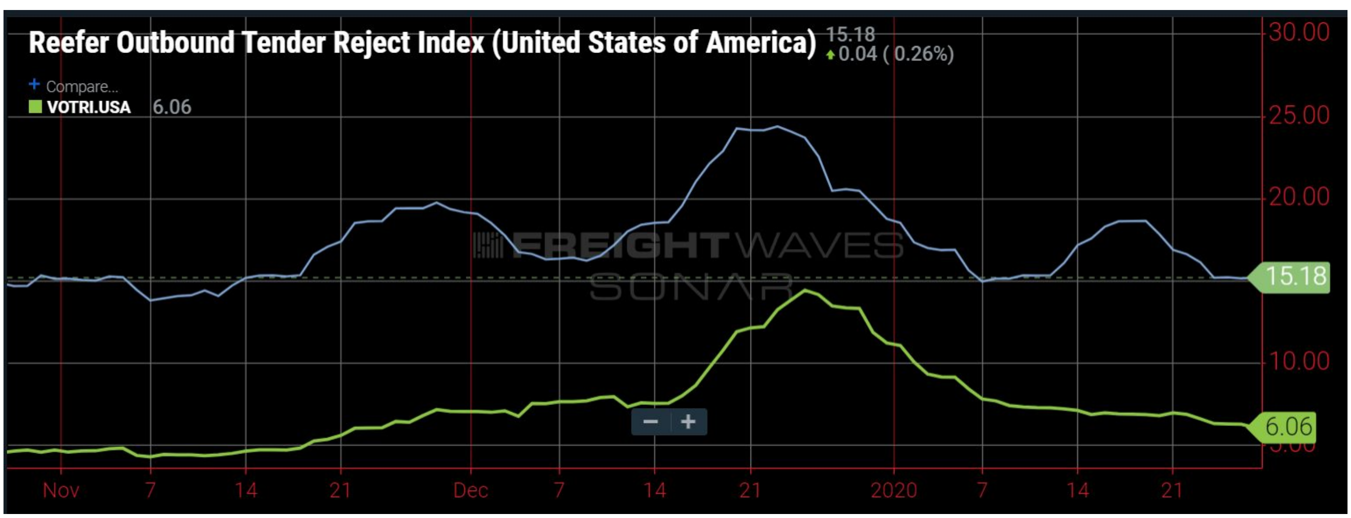
While Shanghai's shutdown is currently expected to last only two weeks, the impact on the U.S. trucking market could be felt for the next couple of months.



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

Trucking capacity in the markets affected by last week's winter weather all loosened this week as the frigid weather passed, but major markets like Los Angeles, Ontario and Atlanta tightened this week.

Atlanta tender rejections are up 60 bps from a week ago, a good sign for trucking; Atlanta is currently the largest freight market by truckload volume in the country. As freight lanes shift from the West Coast to the East Coast, major West Coast markets are no longer saturated by capacity seeking freight.



(Chart: FreightWaves SONAR. Reefer capacity remains tighter than dry van capacity.)

Reefer capacity remains tighter than dry van capacity but has loosened after a bump in reefer outbound tender rejections a week ago. As temperatures moderated, some freight returned to dry van from reefer as "protect from freeze" became less urgent. Throughout the next few months, the threat of extremely low temperatures remains elevated, so there could be bumps in reefer tender rejections especially as northern Mexico and Southern California begin produce season.