January 7, 2020 | 11:28 AM EST

Trucking Markets

Overview

In the first week of 2020, the setup for trucking continues to improve.

Truckload volumes in some major markets have posted a strong recovery after the holiday, keeping spot rates relatively firm. We do expect rates to moderate in the first quarter as demand weakens, but we note that refrigerated year-over-year volume comps have outperformed since November.

In our view, contract rates follow spot rates, which follow tender rejections (capacity trends), which follow volumes. We're seeing downward movement in tender rejections, implying underlying weakness in the spot markets that will manifest itself in the near term.

We're encouraged by new data on the capacity side: New truck orders in December amounted to 20,000, 6.5% lower than in December 2018. Total orders in 2019 ended well below the sustainable replacement rate for the industry, indicating that fleet managers have tightened their belts and allowed assets to age and are not growing fleet counts.

Meanwhile, 3-year-old used truck prices have slipped due to factors on both the supply side (replaced trucks flooding the market) and demand side (tough business environment for carriers). We read those prices as further evidence of the industry's discipline around capacity.

We believe that Q1 will be the decisive period for determining how much capacity will leave the trucking industry. Expect more carrier exits in the coming months.

Dry van spot rates per mile excluding fuel

LAX-DAL	$1.78
CHI-ATL	$1.75
PHL-CHI	$1.63
ATL-PHL	$1.67
DAL-LAX	$1.49
SEA-LAX	$1.59

Freight volumes (weekly change)

Atlanta, GA	317.21 (+23.94%)
Harrisburg, PA	257.24 (+5.79%)
Ontario, CA	245.72 (-0.07%)
Houston, TX	230.44 (+18.38%)
Elizabeth, NJ	216.87 (+12.32%)
Dallas, TX	212.73 (+6.12%)

Outbound tender rejection rates

Atlanta, GA	6.38%
Ontario, CA	6.11%
Harrisburg, PA	11.30%
Elizabeth, NJ	6.08%
Dallas, TX	5.98%
Houston, TX	3.32%

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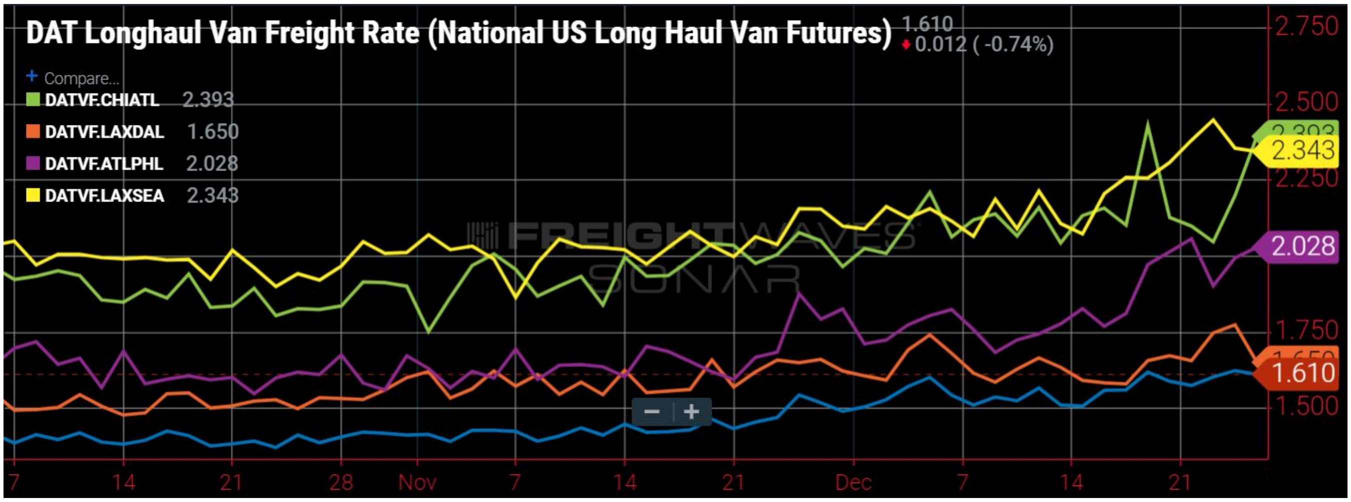
Trucking spot rates



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

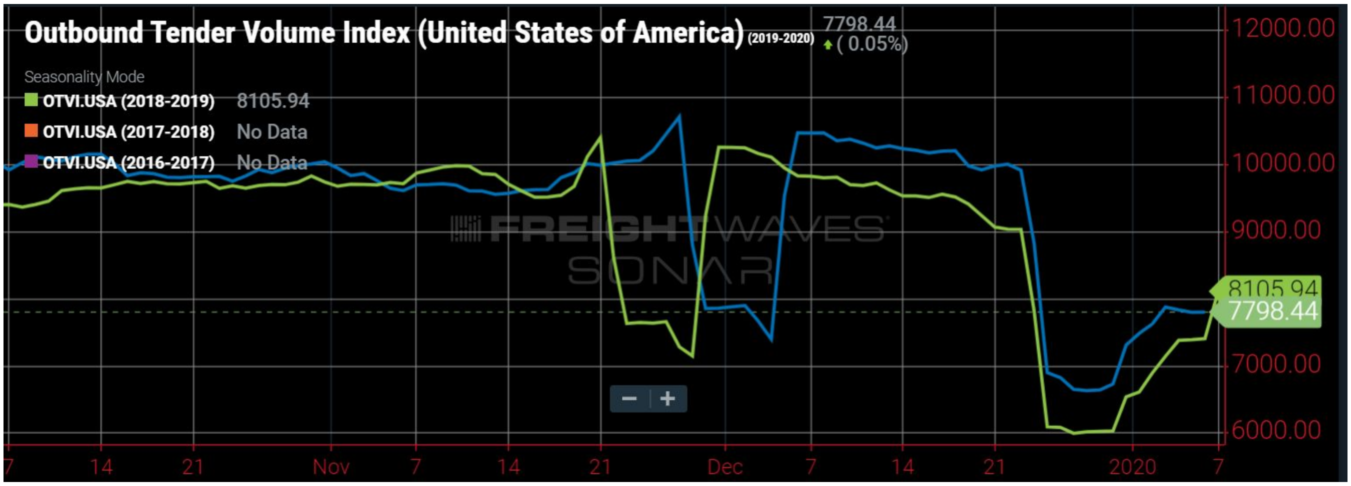
Last week we predicted that rates would likely stay firm at the beginning of the year before weakening slightly due to seasonally looser capacity. We are seeing this play out in the major markets we monitor weekly. The rates for the last week of the year are very similar to the rates we reported in our last report, and we continue to expect rates to stay firm before falling off slightly due to excess capacity and seasonally weak demand.

Outbound tender rejections have started coming back to earth in what is historically the softest demand period for truckload freight. In our view, volumes move first, then tender rejections, then spot rates, then contract rates. As rejections moderate, expect downward price action in the spot market in the near future.

On Jan. 3, the ISM manufacturing index fell to 47.2, which not only missed estimates but was the weakest reading since June 2009. On Jan. 10, the Bureau of Labor Statistics will release the non-farm payroll numbers for December. We will see if the job market can continue to build steam after the blockbuster November report.

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 $1.62 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 $1.84 (ex. fuel), which is above the current calculated rate of $1.78. We note that our predictive rates for one month out have remained roughly the same for the past three reports, dating back to the middle of December.

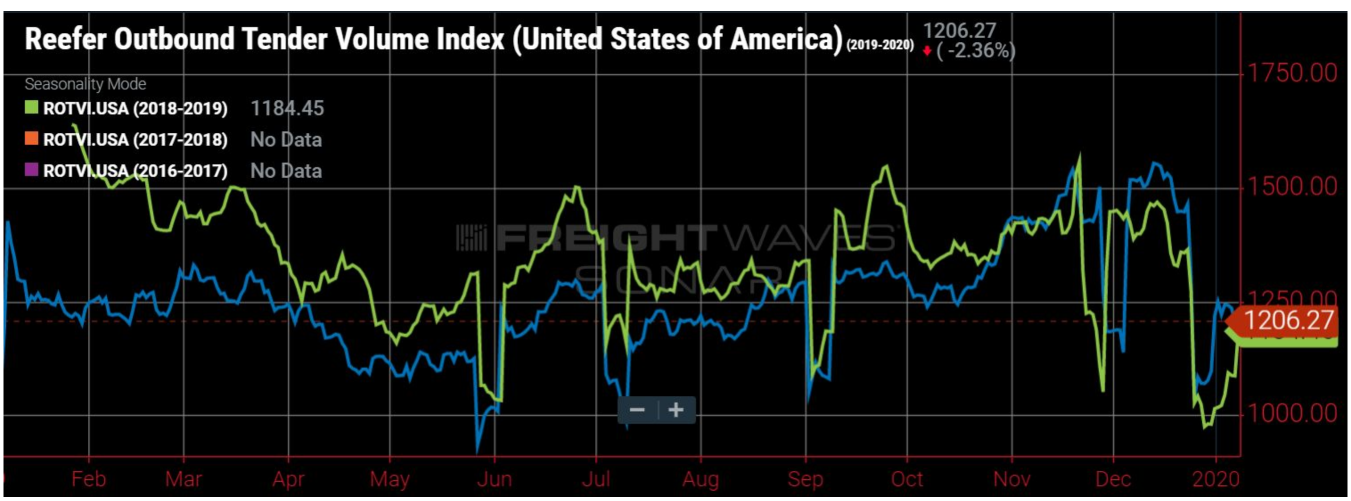
Freight demand



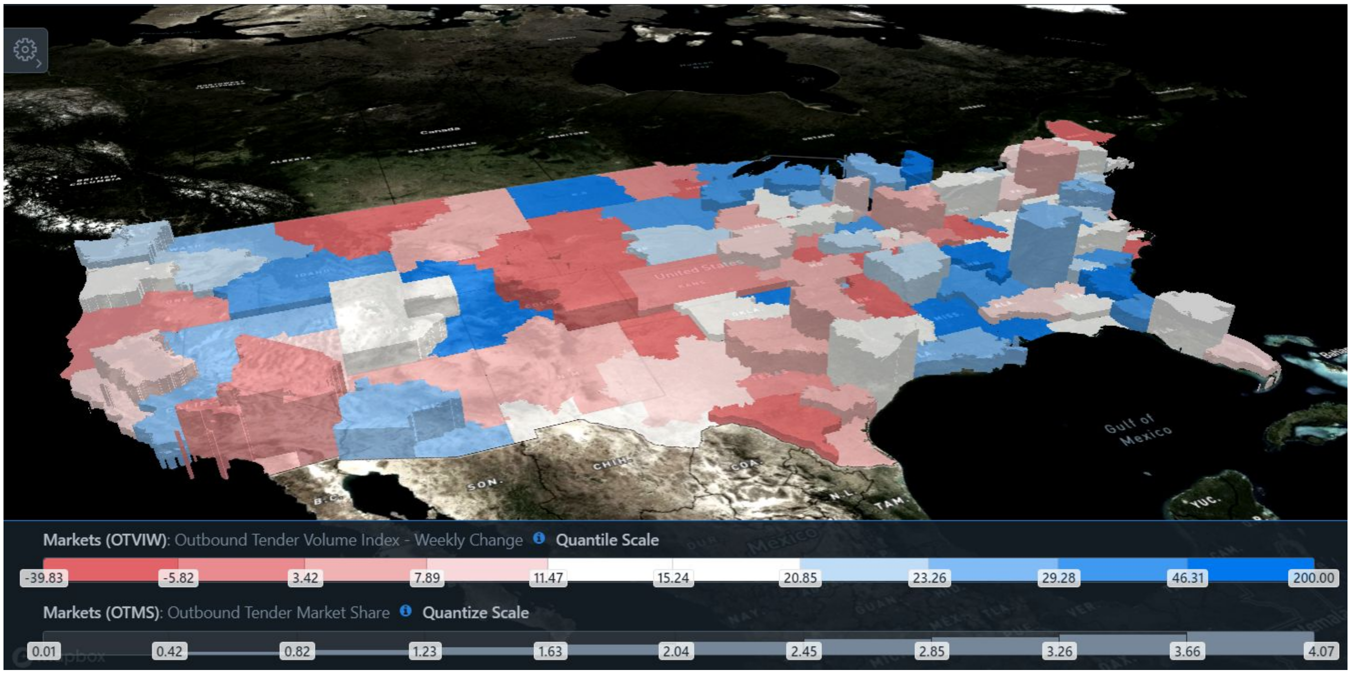
(Chart: FreightWaves SONAR. Stacked volume indices for 2019/18)

National truckload volumes remain below 10,000. This is not unexpected as we just exited a long holiday season and have entered a seasonally weak time period. We continue to preach the positive news of this year's trough being higher than the trough of last year, largely due to strong retail spending.

Although a fraction of overall trucking, refrigerated volumes have performed extraordinarily well on a relative basis over the past month and a half. This comes as a complete contrast to the rest of 2019. The gap started to narrow in the middle of October before 2019 volumes became higher in the middle of November.



(Chart: FreightWaves SONAR. Refrigerated truckload volumes stacked seasonally)



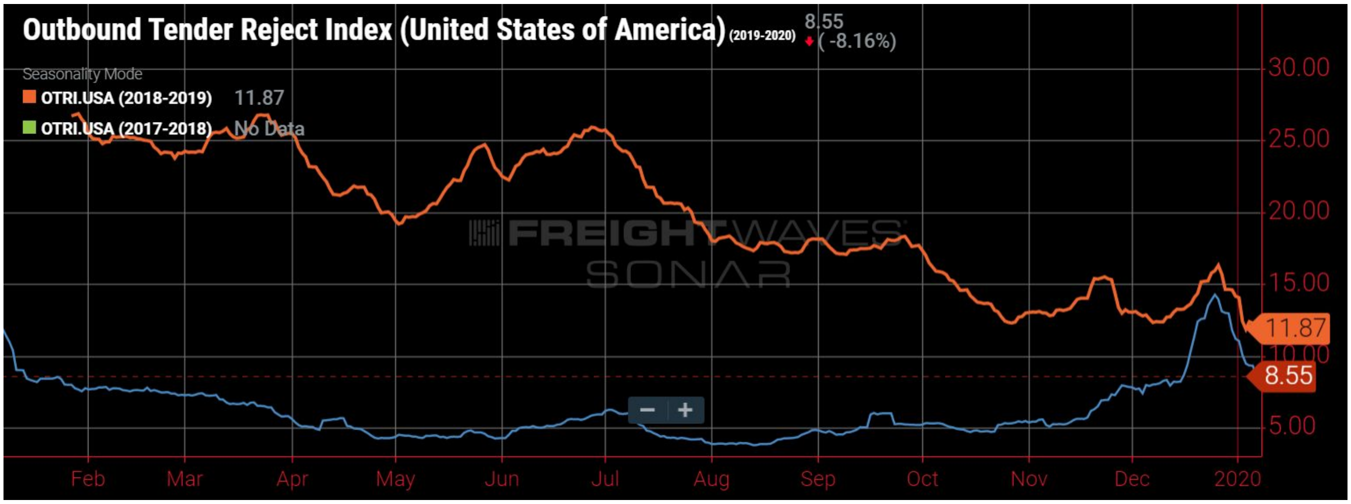
(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

In the first week of 2020, volumes rebounded nicely across most markets. We note that some of the markets shaded light red are positive w/w but since the skew is so large to the upside that the coloring remains red. Some of the nation's largest markets posted strong w/w comparisons: Elizabeth, New Jersey (+12.32%), Atlanta (+23.94%) and Houston (+18.38%).

On a relative basis, the story remains the same with the East Coast continuing to perform better than the West Coast. Ontario, California, struggled over the past week with a decrease in outbound tendered volumes of 0.07%. This does not sound like a large amount, but Ontario is the third-largest outbound market in the country and the five other markets that make up the top six saw strong increases in volumes.

It will be interesting to see whether a phase one trade deal will have a near-term impact on freight volumes and port activity. We saw the East Coast as a clear winner from tariffs with an increase in imports from Europe along with depressed volumes out of China. As companies shifted production from China to Southeast Asia, the Suez Canal and thus the East Coast are more economical routes.

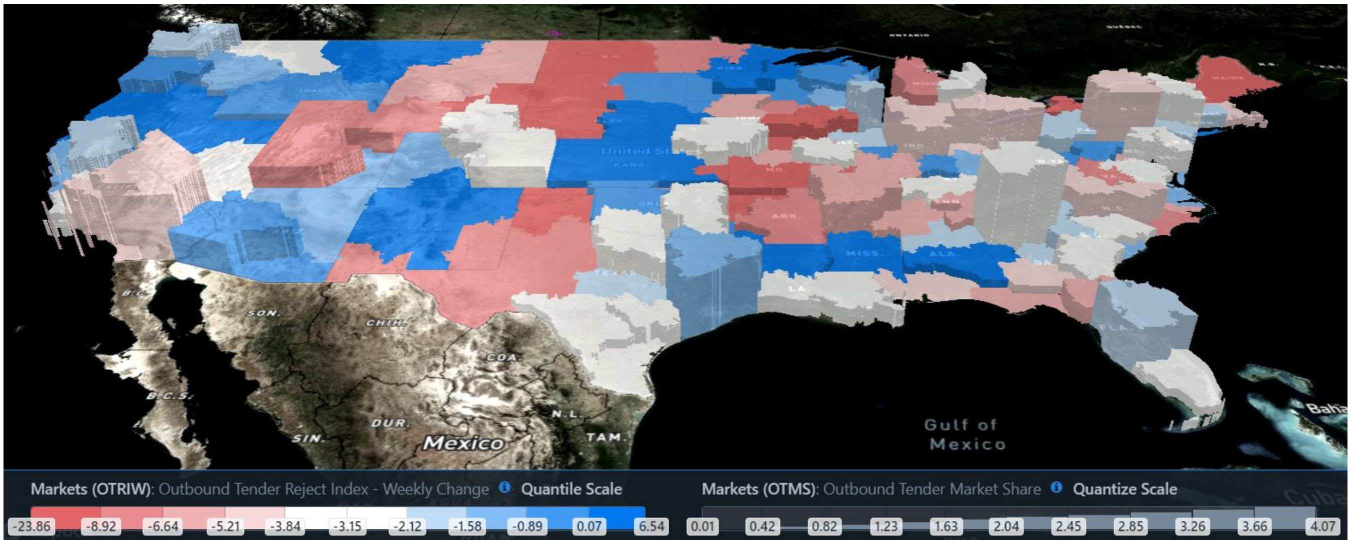
Trucking capacity



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

Trucking capacity continues to relax following the Christmas peak as outbound tender rejections (OTRI.x) sit almost 30% below year-ago levels. When the calendar turns to a new year, freight markets head into what is typically the weakest quarter of the year. Capacity will loosen through 1Q as the freight market works to correct itself. Comps will ease in late January and will paint a clearer picture of where the market currently is in the cycle.

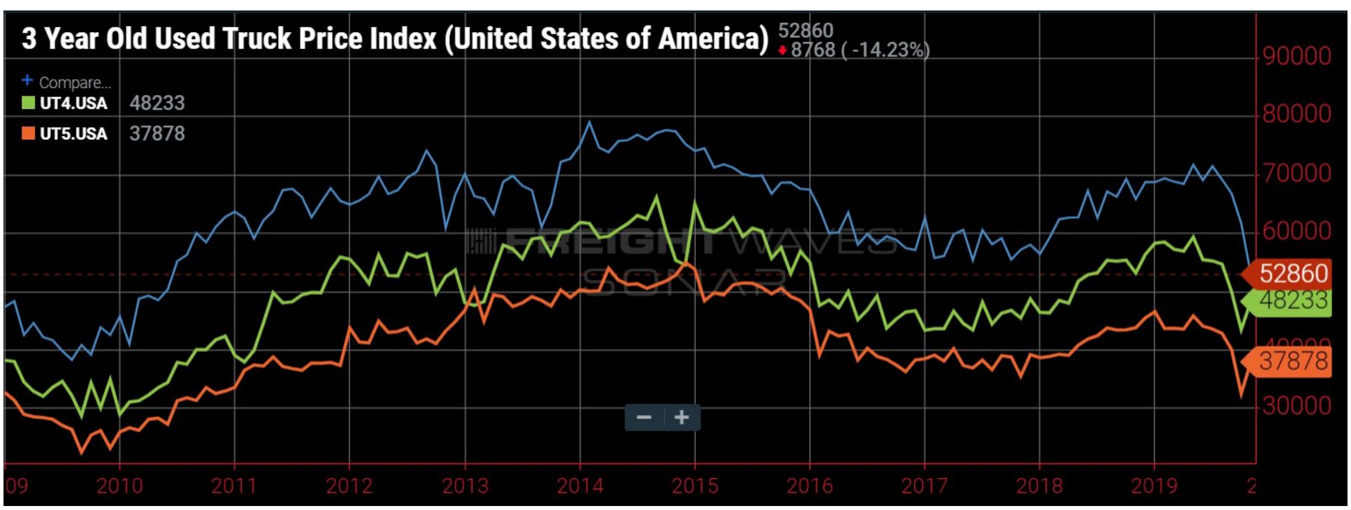
The FMCSA Drug & Alcohol Clearinghouse went live Jan. 6 and should prevent a driver who gets fired from a trucking company for a failed drug test from getting hired at another carrier. The FMCSA announced it would begin randomly testing 50% of drivers (up from 25% initially) as more violations were recorded than expected. The overall effect on capacity will play out over the next six months as the database populates and begins having a meaningful impact on driver recruiting.



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

Pacific Northwest freight markets are still tight in the first full week of the new year. The region has been under a winter weather advisory since Jan. 1 that is expected to remain in effect until Jan. 13.

Freight brokers have told us that amid rising insurance costs and a renewed emphasis on safety, carriers are increasingly reluctant to drive into backhaul markets during winter weather events. We expect trucking capacity to remain tight in these markets as well as markets in the Upper Midwest that are subject to frigid temperatures for the next week.



(Chart: FreightWaves SONAR. Three-year-old used prices continue to deteriorate.)

New truck orders in December were 6.5% below 2018 levels, bringing the total number of trucks down more than 60% year-over-year. The market for new trucks was overheated in the second half of 2017 and 2018; the hangover from that buying spree means that demand for new trucks now is near its bottom.

Trucks ordered in the back half of 2018 are now largely delivered and used markets have been flooded with the power units the new trucks replaced. The price for 3-year-old models has fallen to just over $4,000 more than a 4-year-old truck. That is the tightest the spread has been since the end of 2013, a comparable market to what we experienced in 2019 and into early 2020.