

# FLATBED CARRIERS AND THE SPOT AND CONTRACT MARKETS





## Key Highlights

- Throughout 2019, flatbed tender rejections declined, suggesting that there is a lack of optionality for carriers.
- Sixty percent of carriers reported an increase in contracted loads for October from September; in the same survey, 31% of carriers reported no change in loads, and 9% reported a decrease in loads.
- Housing starts declined, beginning in 2018 only to recover in August, suggesting that more loads are becoming available for flatbed haulers.
- New oil and gas wells have remained level for 2019, likely not impacting loads available in the oil fields.
- Industrial production slowed down and declined in 2019, reducing the amount of flatbed loads available.
- Industrial loads are being competed for by railroads. With a large decline in rail carloads in 2019, rail carriers have extra capacity to fill more railcars.
- Flatbed contract and spot rates diverged through 2019, generating no incentives for carriers to enter the spot market. Carriers will not reject the higher paying contract loads to haul a spot market load, but they will accept spot loads between contract loads when convenient.
- Carriers that have capacity to contract more loads for the next month have been doing so because of the better rates.



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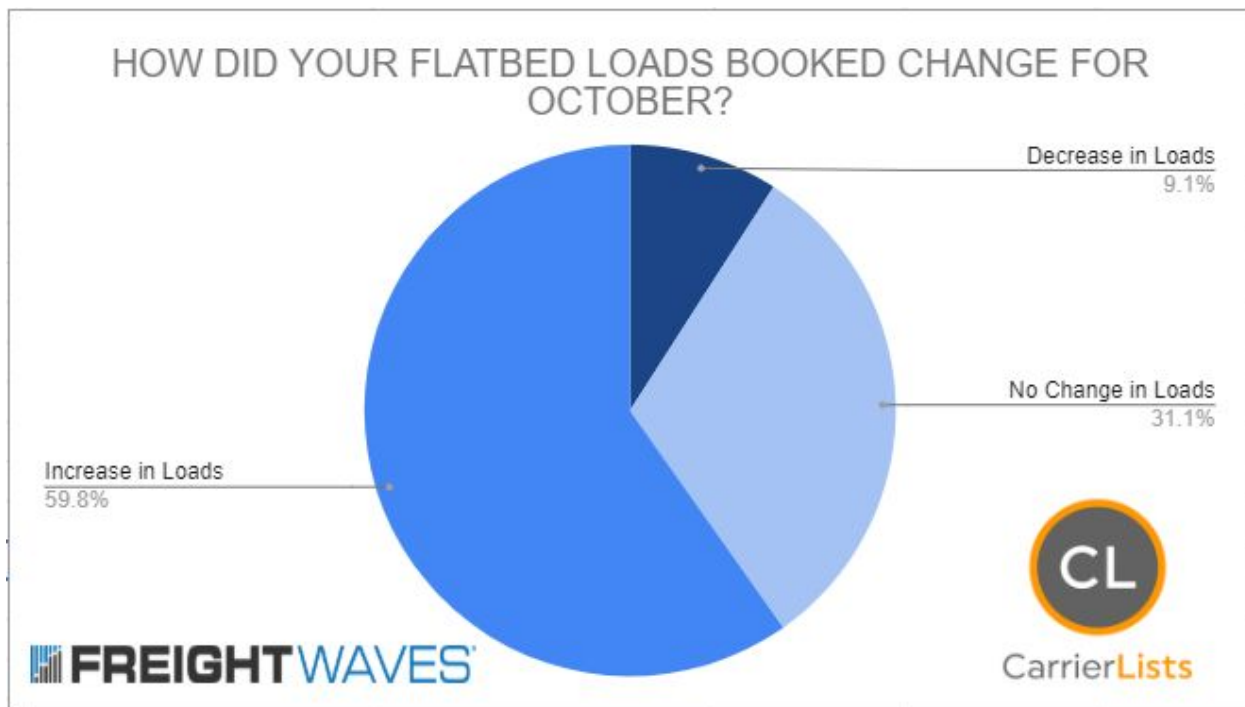


Flatbeds typically haul pipes, construction materials, metals and heavy machinery, which means they serve the construction, oil and manufacturing industries. As the industries expand and contract, flatbed capacity can fluctuate. This can influence the flatbed spot market and change the dynamics between contract and spot rates.

Shifts into and out of the spot market can be seen in the second half of 2019. Tender rejections have been on a steady decline for all of 2019, but within the year, some drops were larger than others, with little explanation for the month-to-month changes. The markets that influence the use of flatbeds fluctuate, increasing or reducing the number of flatbed loads over a given period of time. July and August saw a drop in tender rejections, yet there seemed to be an increase in loads available. Then September rejections stayed low until October, which saw some growth. Yet the month-to-month changes do not always show in the rejection rates. Why?

### **Were there more, less or no changes to flatbed loads booked according to carriers?**

At the beginning of October, FreightWaves commissioned CarrierLists to conduct a survey to gauge the flatbed market changes for that month. The results collected showed that carriers are mostly experiencing an increase in loads, seen in the figure below. Almost 60% carriers cited that they had more loads booked for October than September, and about 31% said that they had no change in loads booked. Only about 9% of carriers said that they experienced a decrease in loads.

**Figure 1 - Difference in October Contracted Loads from September**

Source: CarrierLists Flatbed Survey – October 2019

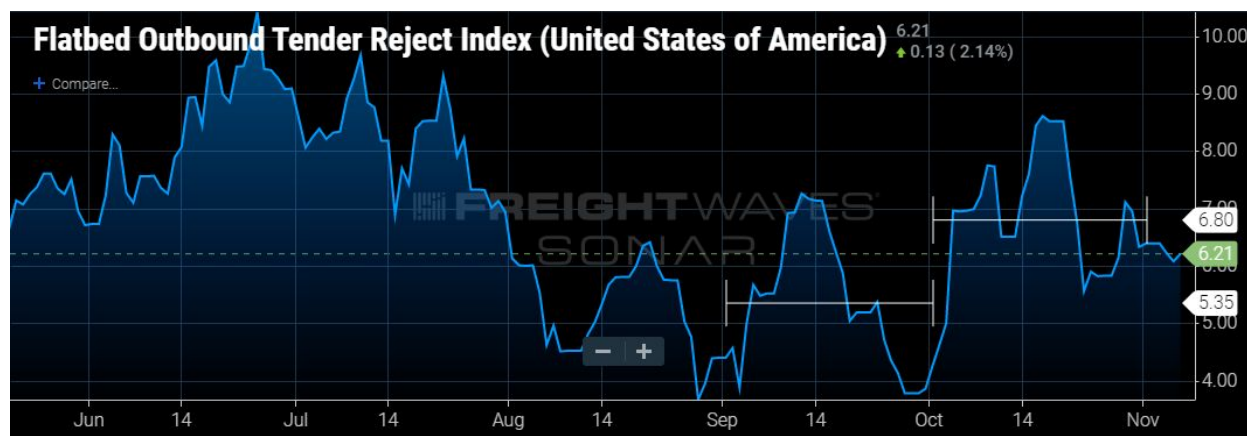
Some of the carriers said they booked two to nine fewer loads. Some pointed to weather and seasonality, as well as not having enough drivers to book more loads. The survey results show an increase in contracted loads, which has implications into the spot market.

### **The relationship between contracted and spot loads**

Tender rejections can show the power dynamic between the shipper and carrier, as well as if carriers are rejecting contracted loads to enter the spot market. Higher rejection rates suggest that carriers have more power because they have more options and will seek better loads, whether it be better prices or better locations. If rejections are low, it suggests that shippers have more power because they can set prices and the carriers are choosing to keep their contracted loads since there are fewer options that are better.



**Figure 2 - Flatbed Outbound Tender Reject Index**



Source: SONAR, Outbound Tender Rejections Index for the United States

According to the figure above, there was a clear increase in tender rejections for flatbed loads from September to October, which means there were more loads in the market for the United States and that carriers had options. The CarrierLists' survey results indicated that there would be a shift in the flatbed market. As more loads were booked, carriers had more loads available to them, which resulted in more carriers entering the spot market and rejecting contracted loads.

### **New construction and the flatbed market**

Housing starts have been on the incline since the end of the 2008-09 recession. In the beginning of 2018, new construction began to slowly decrease, but in August of this year, housing starts recovered. As the amount of housing starts increases, the demand for flatbed trucks hauling materials increases. Therefore, the volume of loads tendered should have increased in August.



**Figure 3 - Flatbed Outbound Tender Rejections and Housing Starts**



Source: SONAR, Flatbed Outbound Tender Reject Index; Housing Starts in the U.S.

The figure above shows the number of housing starts in thousands and the flatbed outbound tender rejections. There is a clear relationship between the two indices in the figure above, yet there were not many loads being rejected when housing starts spiked in August. Furthermore, tender rejections declined in that period. The separation suggests that there are other influences lowering the available or wanted loads on the spot market, or that the contracted rates were significantly higher than the spot market rates. Yet, there were more housing starts in October than September, and there was an increase in tender rejections, which implies that flatbed truckers were entering the spot market then.

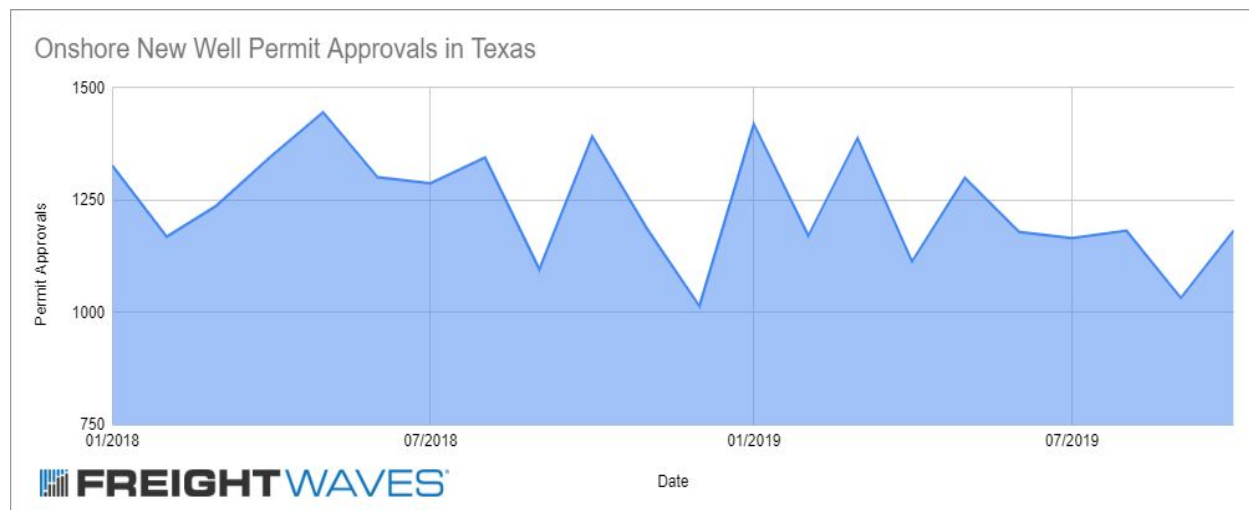
**Flatbeds and new oil well sites**

Heavy machinery, like oil rigs, and materials have to be moved between oil and gas well sites, especially in the drilling and exploration phases. Oil rigs are typically moved short distances between wells, but pipeline and drilling pipes have to be hauled in from farther away. A way to measure areas that are in need of materials is to view permit approvals for new well sites. Texas is the largest producer of oil in the United States and is representative of the U.S. oil market.





**Figure 4 - Onshore New Oil and Gas Well Permit Approvals in Texas**



Source: Texas Railroad Commission, New Well Permit Approvals in Texas

The figure above shows new oil and gas well permit approvals in Texas. These are sites where companies have bid on land in order to drill a well and will later begin exploration of what is below that land. If there are more well approvals, it suggests that there is more production capacity for oil and gas. If well approvals decline, it suggests that oil and gas production has overheated or the costs are too high for new land or additional production capacity.

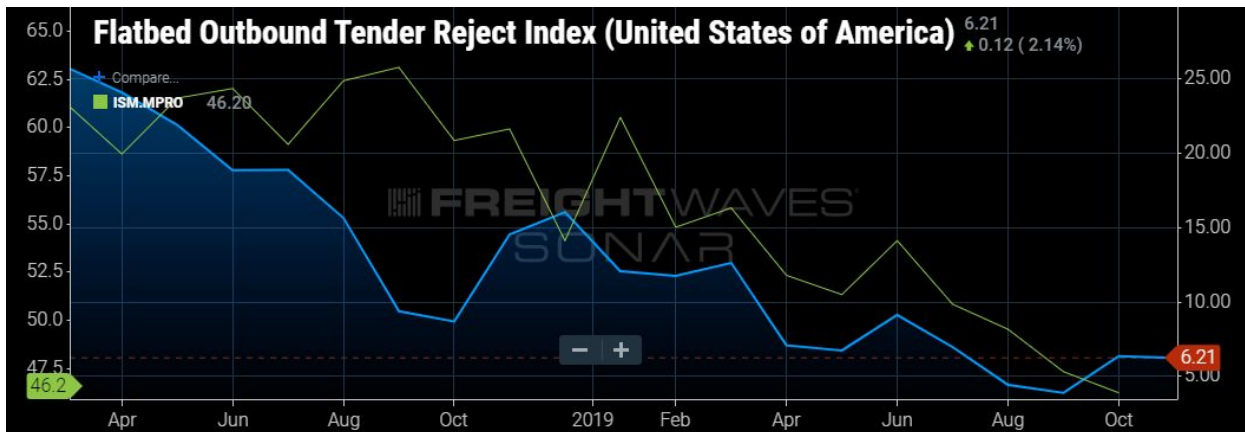
The figure above shows that for July and August, permit approvals leveled before dropping in September and then recovering in October. Flatbed tender rejections are likely least impacted by the oil market unless there is huge growth or a huge decline in oil and gas exploration. Fewer permit approvals could lead to fewer loads, but pipeline and materials needed can vary from well type, depth or lateral length. Oil production has been steady, and therefore, it likely had no impact on flatbed volume changes or carriers entering the spot market.

### Flatbeds and the industrial sector

The industrial sector has slowed down significantly since the beginning of 2019. The Institute of Supply Chain Management Metrics' (ISM) manufacturing production index is seasonally adjusted and measures the percent of responses from purchasing managers in the industry that say that manufacturing production is expanding. Since the beginning of 2019, fewer respondents surveyed by the ISM say that manufacturing production is expanding. The index value also fell below 50, which suggests that production is slowing and possibly dropping.



**Figure 5 - Flatbed Outbound Tender Rejections and Manufacturing Production**



Source: SONAR, Flatbed Tender Rejections in the U.S.; ISM Manufacturing Production Index

The relationship is clear between the flatbed trucking market and the manufacturing industry in the figure above. As production slows down and declines, the demand for flatbed trucks to haul machinery or products to and from the sites drops. This impacts the amount of loads rejected since the availability of better options beyond contracted loads is down.

The industrial sector accounts for the additional markets surrounding manufacturing. The increase of loads rejected between September and October is represented in the industrial sector seen in the figure below.

**Figure 6 - Flatbed Outbound Tender Rejections and Industrial Production**



Source: SONAR, Flatbed Tender Rejections in the U.S.; Industrial Production Index



The U.S. industrial sector, which includes the automotive industry, mining and manufacturing, also has been declining. The correlation between the industrial and the flatbed market becomes more apparent in the figure above. Not only is there a strong relationship between manufacturing production and the flatbed market, but the flatbed market follows much of the contributing segments of the manufacturing industry.

### Flatbed competitors

Like any market, there is not a perfect correlation between flatbed tender rejections and the industrial sector. For August and September, there is a clear deviation between the two indices. Certain segments in the industrial sector are less reliant on flatbed trucks and source other forms of transportation.

**Figure 7 - Total Rail Carloads and Industrial Production**



Source: SONAR, Total Rail Carloads in the U.S.; Industrial Production Index

The railroad industry plays a large role in the industrial sector as well. Total carloads moves similarly to total industrial production, seen in the figure above. Railroads largely move raw materials to then be manufactured and therefore act as a predictor of manufacturing. Much of the final products are moved by flatbed, which reacts after the manufacturing process.

Railroad carloads have been declining as well through 2019, likely suffering for similar reasons as flatbed carriers. There is some competition, which is clear from the figure above, that could likely impact the amount of available loads in the spot market.

### Conclusions

Many flatbed carriers have kept much of their contracted loads for 2019, rarely rejecting them for other loads in the spot market. This has much to do with the



limited amount of loads available to them due to the markets they serve. However, there are instances in which one would expect more carriers to reject more loads to enter the spot market, and that does not happen.

The first reason as to why this would occur is that carriers have the available capacity to accept more loads from the spot market without having to reject contracted loads. This would suggest that carriers are in need of more loads to maintain operations. It would also allow for shippers to set prices on the spot market, pushing rates lower and lower, which can be seen. Flatbed spot rates have been decreasing, while contract rates have remained relatively level. The divergence would also incentivize carriers to hold onto as many contracted loads as possible since these rates are much higher than the spot market.

The second reason is that there is competition for loads from other modes of transportation, mostly from railroads. The timing of the decrease in rail carloads suggests it occurred for similar reasons as the decline in the flatbed market. The large majority of that competition is within the industrial sector due to the nature of what is being hauled, which accounts for much of the decline in the rail industry.

Increases in housing starts and industrial production in August should have added more available loads into the spot market, but a key indicator of carriers going to the spot market suggested otherwise. While some of these loads were likely contracted out, there appeared to be more rail carloads in the same period and whatever was left over in available loads went to the spot market and did not influence contract loads.



## FreightWaves

FreightWaves is one of the fastest-growing enterprise software-as-a-service (SaaS) companies in the world. In less than three years, FreightWaves has become the leading provider of data and analytics for the global freight market. FreightWaves' team of 150 full-time employees captures, models and interprets near-time data from more than 1,000 sources to provide participants with the fastest insights into the global freight market. The company offers the fastest data in the industry and the most complete view across all modes of freight transportation. SONAR, the company's SaaS offering, is a market dashboard that provides companies involved in transportation with access to data sets that can help them optimize their routing, pricing and planning decisions.

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