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Trucking markets: Reefer madness

Overview

Contracted truckload volumes in the United States hit new records and are up 6.73% week-over-week, and trucking capacity continues to tighten as carriers and brokers reject 10.69% of loads tendered to them.

There are a couple of things we're keeping our eyes on – if the consumer food-buying spree extends into produce season, refrigerated capacity may be significantly impaired in April. In the 'Freight demand' section, we lay out why it's difficult to predict when consumer food-buying will slow down.

Secondly, we've heard reports from freight brokers that some shippers are holding back freight that is not time-sensitive, critical or otherwise in demand due to the coronavirus outbreak, hoping to wait out what they believe to be a temporary capacity constraint. That may be a temporary adjustment, or it could foretell a more profound mix-shift in demand away from significant categories of consumer goods.

Finally, another major freight broker told us that two large retail customers approached him and offered the use of their dedicated fleets for food and beverage and CPG loads, presumably to maintain asset utilization if their own freight demand is low. In our view, sophisticated 3PLs and major shippers will need to continue working together as the outbreak unfolds to creatively allocate capacity, keep freight moving, and minimize the pain for transportation companies.

Dry van spot rates per mile, excluding fuel[1]

LAX-DAL	$1.80
CHI-ATL	$1.68
PHL-CHI	$1.70
ATL-PHL	$1.54
SEA-LAX	$1.44
DAL-LAX	$1.42

Freight volumes (weekly change)

Atlanta	494.96 (+8.91%)
Harrisburg, PA	435.15 (+30.21%)
Ontario, CA	419.2 (-0.08%)
Dallas, TX	366.85 (+6.74%)
Allentown, PA	359.69 (+8.94%)
Joliet, IL	308.01 (+3.91%)

Tender rejection rates

Atlanta	8.74%
Harrisburg	17.22%
Ontario	9.77%
Dallas	8.17%
Allentown	16.41%
Joliet	6.61%

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[1] SONAR Rate Predictor.

Trucking spot rates

Over the past six months, three out of the four markets we monitor experienced rising dry van rates. The increase in rates is especially evident over the past month, which is due to tightening capacity because of the coronavirus. We expect that rates will continue to rise for the next few weeks as panic-buying continues, but capacity will loosen and rates will fall abruptly once consumer spending slows down.

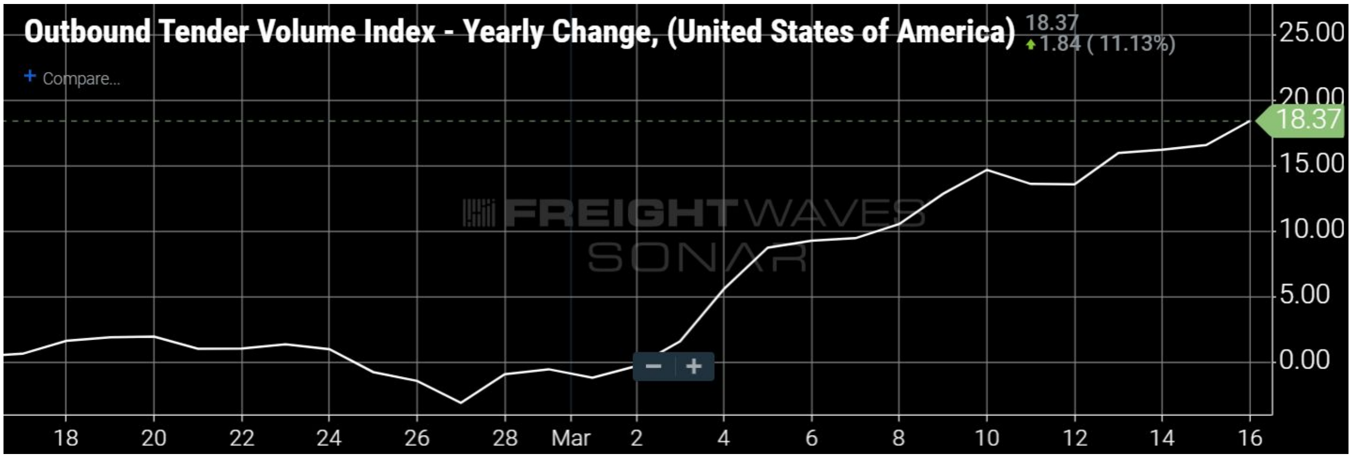
Our data suggests that short-haul and refrigerated rates will likely be the strongest going forward. Amazon announced yesterday that it is hiring an additional 100,000 workers and boosting pay $2 an hour to help keep up with demand. A similar shift occurred in China during the peak of the outbreak. This will likely fuel short-haul truck volumes and rates over the short-term.

We believe that it is crucial to monitor volatility in reefer markets for the foreseeable future. Just two weeks ago, reefer volumes were roughly flat year-over-year (y/y), in stark contrast to current levels of +33.91% y/y. Consumer food-buying depleted grocery store inventories, which are now being replenished.

Reefer rates from Chicago to Atlanta spiked 12.90% over the past week. Reefer rates from Atlanta to Dallas increased 5.66% week-over-week (w/w), but that doesn't tell the whole story: over the past three months, reefer rates have risen ~11% on this lane.

SONAR's rate predictor forecasts trucking spot rates up to one year in the future. We believe it is important to regularly check one major dry van 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), 1 cent above the current $1.54. The predicted rate from Los Angeles to Dallas in one month is $1.78 (excluding fuel), 2 cents below the current $1.80. We note that our predictive tool calls for tighter capacity from Atlanta to Philadelphia, whereas capacity should be looser from Los Angeles to Dallas in one month.

Freight demand



National truckload volumes are now over 11,841, the highest level recorded, and up 6.73% w/w. Truckload demand has experienced an unprecedented surge due largely to consumer panic-buying of food and other household goods. We don't have a firm thesis on when volumes will return to normal (or even go negative year-over-year), although current volume and volume growth rates are clearly unsustainable.

First, while we're aware of widespread stock-outs and shortages, and have seen the same images of empty grocery store aisles circulating on social media, we don't have a good sense of how many households have built up their stocks of food and cleaning supplies. We don't know how many relatively sanguine households are waiting until the outbreak hits their community harder to begin buying.

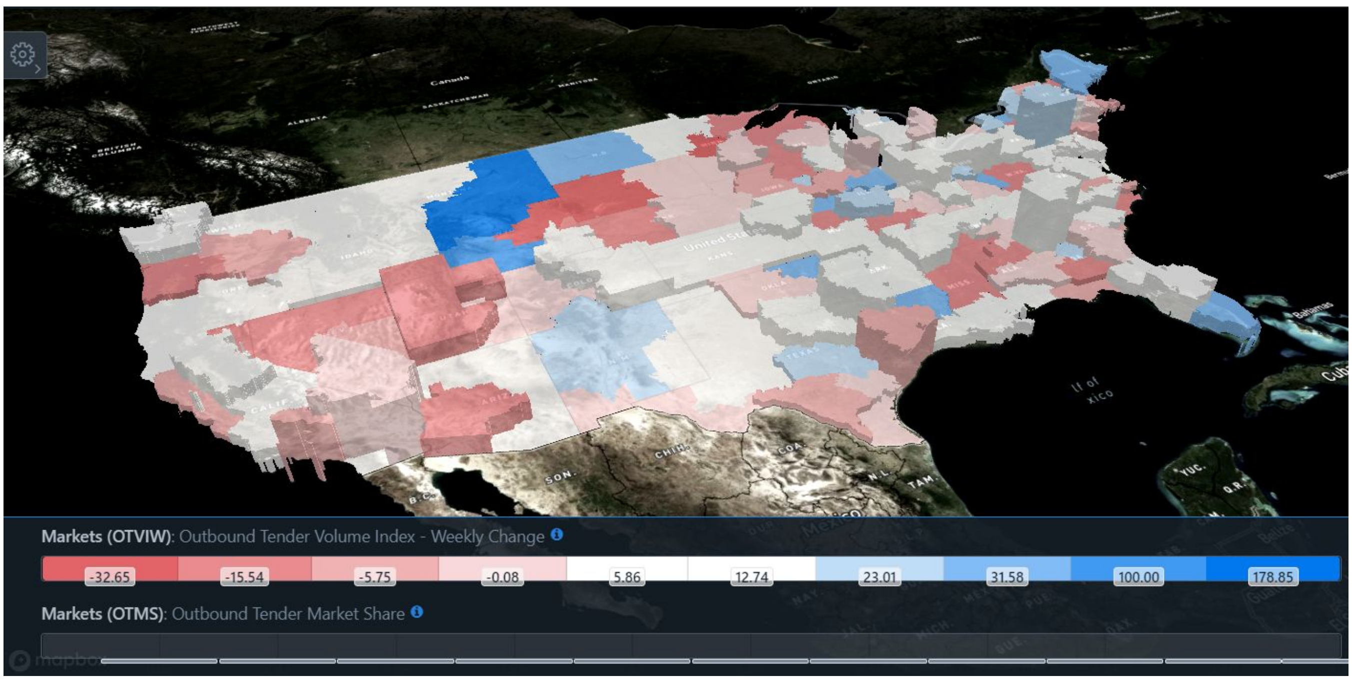
In other words, we don't have a clear understanding of the breadth and depth of food stocks, and calculations based solely on reported volumes from grocers (one national grocery chain said its sales are 4x a typical Thanksgiving lead-up) are problematic for at least two reasons. First, school closures are keeping children at home, shifting food consumption from schools to households. Families with school-aged children will go through more groceries in a week than they would when schools or daycare centers were operating. Secondly, there are early reports that dine-in business at restaurants has fallen by 75% in some major markets, which again will shift food consumption back inside the home. We think more of that lost restaurant revenue will go to grocers than food delivery services.

For those reasons, it's difficult to say how much food Americans have on hand, who will need to buy soon, or when they'll need to do it. That said, it's also an issue of psychology – will American households continue building food stocks until new infections slow down, or is there a point in the near future when they become comfortable with their inventories and food-buying slows dramatically?

Despite the uncertainty around grocery store volumes and food-buying, we do expect other consumer purchases to slow down quickly. In China, car and real estate purchases crawled to a virtual standstill. Although the Chinese consumer is imagined to be more cautious/easily spooked than the American consumer, we anticipate deeply negative growth in both of those verticals until uncertainty around coronavirus outcomes dissipates. Home appliance purchases are also likely to be put on hold.

We've seen reports that computer monitor, laptop and tablet device sales have soared, but inventories of electronic goods will be tested, especially following the shutdown of Chinese production. Customs imports from China have begun a halting recovery, but are still roughly 25% below weak comps from last year.

Spring and summer freight, including outdoor recreational equipment and gardening supplies, should provide a boost to volumes in the coming months and may be less affected by a consumer shock than other commodity types.



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

National contracted truckload volumes grew 6.73% over the past week. It should be noted that due to high volume growth, that the white colored areas are actually largely positive. Due to the nature of current consumer buying, we believe that it is most important to look at short-haul and reefer volumes.

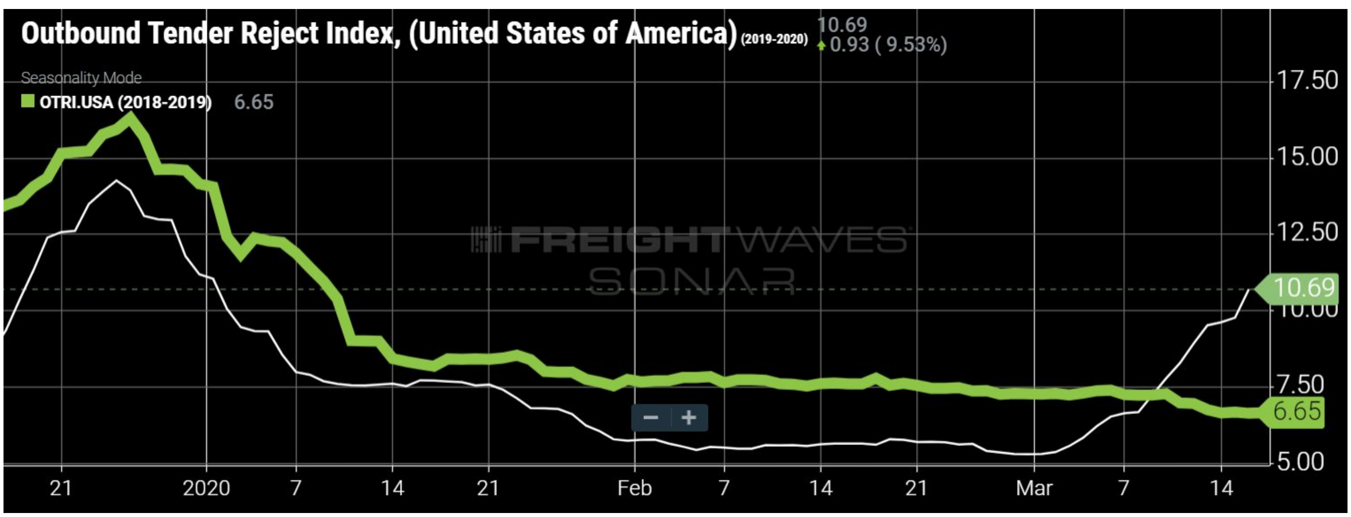
Outbound reefer volume growth has been on fire over the past month as volumes rose more than 30% in some of the country's largest markets. Outbound reefer volúmes increased 24.05% in Atlanta over the past month, along with a 63.84% spike in Elizabeth, NJ. The huge surge in reefer volumes are not restricted just to the East Coast – outbound reefer volumes also jumped 28.97% m/m in Ontario, CA.

The common theme regarding volume growth is that it is being fueled by shorter lengths of haul. Long-haul growth pales in comparison to shorter length of haul among the three markets we highlighted experiencing rapid reefer growth. In Ontario, outbound long-haul volumes are actually down m/m while overall outbound volumes are up 23.09% m/m.

Elizabeth outbound volume growth was driven heavily by city-length hauls, which have increased 28.00% m/m. City is the only length of haul that has outperformed the general outbound tender volume index, which has risen 15.72%.

Outbound tender volumes growth in Atlanta has been driven by both short and tweener length of hauls. Short-haul loads have risen 39.64% m/m while tweener volumes have jumped 39.52%. Outbound tender volumes in Atlanta have expanded 26.85% m/m. Lastly, growth in outbound tender volumes in Ontario has been driven by city (+47.73% m/m) and mid-haul (+31.44%) lengths of haul.

Trucking capacity



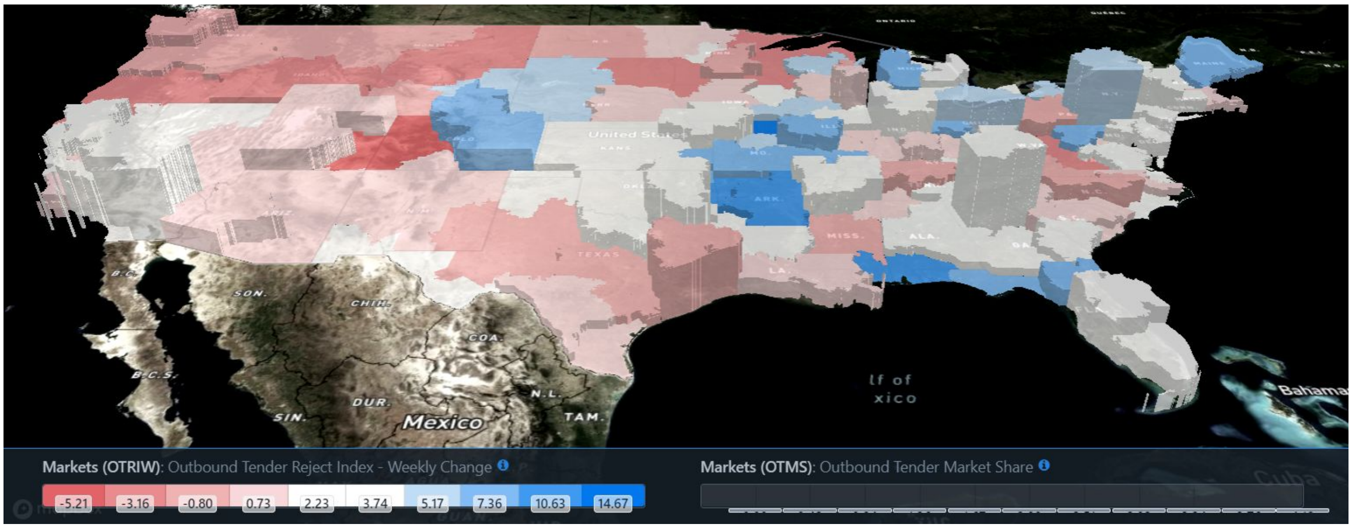
(FreightWaves SONAR: Outbound Tender Reject Index 2019 and 2020)

Trucking capacity tightness has roared back as trucking is the backbone of America during the COVID-19 pandemic. National contracted truckload tender rejections (OTRI) ripped up 347 basis points in the past week. OTRI.USA is now more than 60% above year-ago levels as carriers and brokers reject more than 10.5% of contracted loads.

As consumers clean out grocery stores of essential items, trucking capacity continues to tighten. At this point, we don't think that tightness is coming from the supply (capacity) side of the marketplace, but rather shippers with exposure to food and beverage and consumer staples are tendering large volumes in excess of the capacity committed by their carriers.

With non-essential stores closing across the country, we expect that consumer demand will soften, shift to essential goods and groceries, thereby loosening relative capacity.

Yesterday, a brokerage executive at a large publicly traded trucking carrier said that two major retail customers offered the brokerage the use of their dedicated fleets, presumably to maintain asset utilization while consumer spending undergoes a mix-shift. We expect sophisticated 3PLs and large shippers to find creative ways to allocate capacity as the pandemic develops.



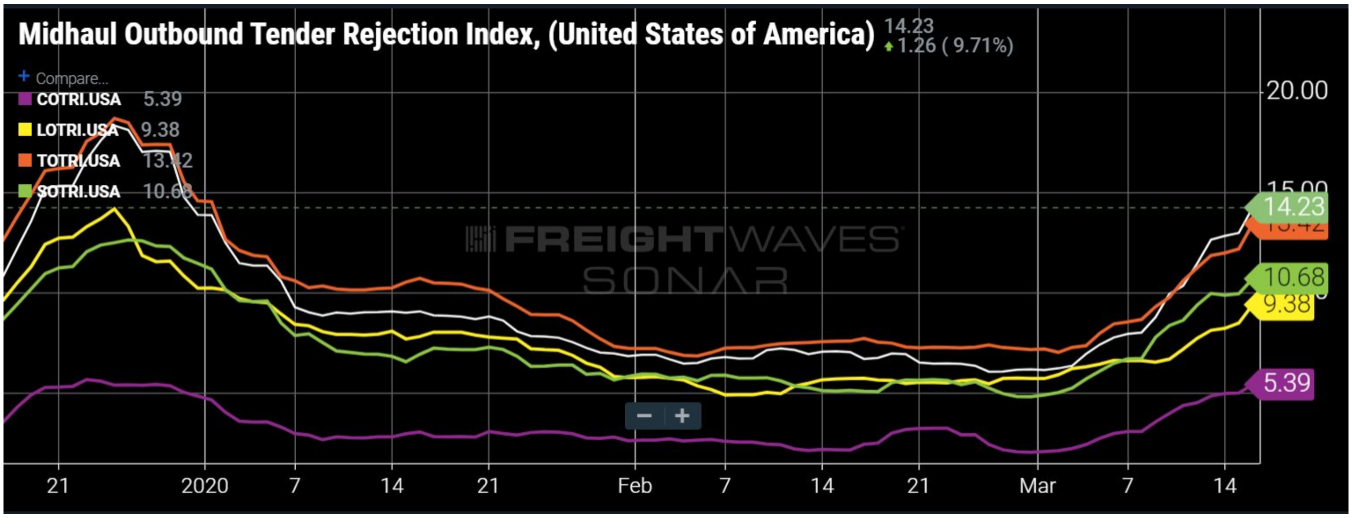
(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Relative capacity across many of the markets in the U.S. has loosened over the past week. Relative capacity in Washington state, ground zero for COVID-19 in the U.S., has remained flat over the past week, as OTRI.SEA sits at just 3.31%.

Harrisburg, PA is now the second-largest market in the country by contracted truckload volume; OTRI.DT jumped 578 basis points in the past week. While capacity has been tightening in the market, wait times have also been lengthening. Wait times, a monthly reported metric, increased 22.5% in February to almost 3 hours. We have heard anecdotes of trucks going into the Harrisburg market waiting longer than 4 hours to get loaded.

Relative capacity in Lakeland, FL is tightening as produce, specifically strawberries, are coming into season. Reefer outbound tender rejections (ROTRI) have more than doubled in the past week. While not a large market, produce coming into season during the COVID-19 outbreak will make it tougher for shippers to secure capacity, tightening relative capacity and driving spot rates up.

While tender rejections in Lakeland are only at 5.98% so far, the rapid run-up is a sneak peek at how sensitive agricultural markets will be if elevated consumer food-buying extends into produce season. That story will play out at different times in different markets, moving north in latitude from northern Mexico to southern California and south Florida as time passes. **Depending on how long consumer grocery buying stays hot, reefer capacity could be significantly impaired in April.**

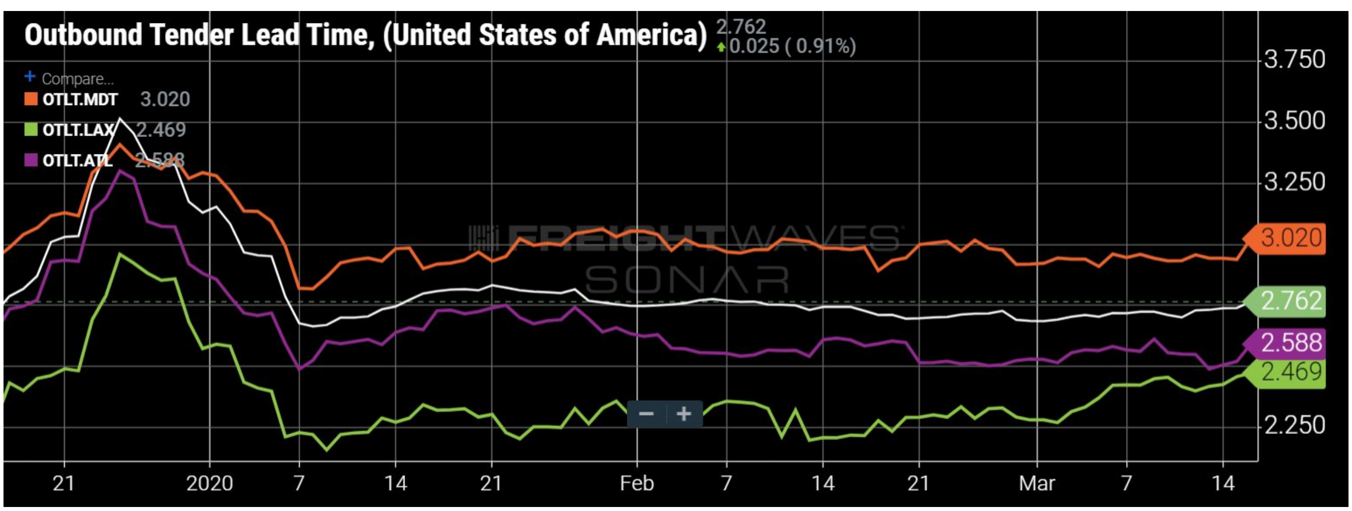


(FreightWaves SONAR: Outbound tender rejections via length of haul)

Mid-haul (250-450 miles) and tweener (450-800 miles) lengths of haul are pulling overall tender rejections higher. Mid-haul rejections are up 548 basis points over the past week, while tweener rejections are up 414 basis points.

Local (COTRI, <100 miles) lengths of haul are still dragging on overall relative trucking capacity as carriers are rejecting just 5.4% of contracted loads, roughly half of OTRI.USA.

Mid-haul and tweener having the highest tender rejection rates doesn't come as a surprise to us. Consumption correlates to population, and the U.S. population is concentrated on the East Coast.



(FreightWaves SONAR: National tender lead time with 3 of largest U.S. markets)

National tender lead times remained flat during the demand surge in the past two weeks at around 2.75 days. As contracted loads are tendered by shippers and rejected by carriers, the load falls down the routing guide and tender lead times tend to contract. While OTLT or OTRI don't measure first tender acceptance levels independently, when combined it gives a better outlook to capacity in markets.

It's worth noting here that freight brokers told us yesterday that customers without time-sensitive or critical freight are holding back shipments in hopes that temporary strains on capacity are alleviated; those adjustments may explain why tender lead time is still flat.

While demand in Harrisburg has grown in the past week, outbound tender lead times have lengthened to more than three days as shippers are having to give carriers more time prior to loads being picked up. Increasing outbound tender leads times are allowing carriers more time to route their drivers efficiently as well as receive competitive rates during a volatile time.

Shippers are giving carriers under 2.5 days lead time prior to the load being picked up in Los Angeles. As China comes back online after a month-long shutdown, port activity in Los Angeles will increase volumes out of the market, but because of COVID-19, capacity will be focused on essential goods. Shippers will have to give carriers more time to move their assets into the market, especially during the outbreak of COVID-19.

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