October 27, 2020 | 11:10 AM ET

Trucking markets: Lull persists as operators adjust

Overview

The national average dry van truckload spot rate fell 1% last week to $2.83/mile, which is certainly expensive but lower than the levels reached in the first week of September and thereafter. Tender rejection rates breached 25% last week again but fell Monday to 24.76%.

At this point, most non-asset 3PLs have repriced large portions of their contracted freight — we hear from freight brokerage executives that shippers "started paying up in September" — which will ease some pressure on gross margins.

At the same time as shippers raised rates on contracted truckload freight, railroads have been hard at work restoring fluidity to intermodal networks and growing volumes. So far, the rails have accommodated higher intermodal demand by simply building longer trains, but we've noticed a drop in intermodal tender rejection rates that suggests IMCs have found it easier to procure containers too.

We also know that capacity is coming back into the market, whether measured by new truck orders, employment or used truck prices. What remains to be seen is whether the adjustments made by these operators will be enough to keep freight flowing smoothly through the fourth quarter or whether unpredictably volatile e-commerce and retail demand will create the chaos that many anticipate. This week, the last week in October, should be a bellwether for peak season.

Dry van spot all-in rates per mile[1]

LAX-DAL	$2.95
CHI-ATL	$3.08
PHL-CHI	$1.69
ATL-PHL	$2.50
DAL-ATL	$2.07
DAL-LAX	$1.34

Freight volumes (weekly change)

Ontario, CA	690.14 (-1.32%)
Atlanta	593.65 (-1.19%)
Los Angeles	503.99 (-4.46%)
Harrisburg, PA	488.53 (+1.64%)
Elizabeth, NJ	418.97 (+6.74%)
Dallas	415.12 (+9.2%)

Tender rejection rates

Ontario	22.4%
Atlanta	20.89%
Los Angeles	22.39%
Harrisburg	26.81%
Elizabeth	19.3%
Dallas	18.57%

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[1] Truckstop.com all-in per-mile rate

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Trucking spot rates

Last week the national average dry van truckload spot rate on Truckstop.com's load boards fell 1% to \$2.83/mile, inclusive of fuel. The decline in the national average came despite slight increases in rates on major lanes, including Los Angeles to Dallas, which was up 1.3% w/w, and Chicago to Atlanta, which was up 1.6% w/w.

Conditions in trucking markets are still relatively easy compared to the prior two months, although capacity is still expensive and tight. The tender rejection rate in Los Angeles fell to 22.4%, its lowest level since late July; rejections in Chicago are at 21%, lower than Los Angeles but high relative to where the market was at in July and August.

One freight brokerage executive that we spoke to said that "most brokers are out of their contracts" and that shippers started paying up in September. He thought that non-asset brokerages would see their gross margins squeezed in the third quarter but might actually be able to widen margins in the fourth quarter.

Meanwhile, as capacity on the rails has become somewhat easier to procure, intermodal volumes have increased steadily. Those changes in shipper behavior — putting more freight on trains and raising rates for contracted truckload freight — may be taking some of the pressure off trucking spot markets. There's also some evidence that trucking capacity may be returning to the market, as used truck prices for 3-, 4- and 5-year-old models have all come up in a synchronized fashion since July.

In our view, this week should still give us a first look into peak season trucking market conditions. If in the last week of October tender rejections take a leg up and we see widespread rate pressure to the upside, we can expect a volatile peak season. Continued softening would signal that perhaps more capacity than expected has been added into the industry and that the operational changes made by shippers and transportation providers — including rails — have been effective at keeping freight flowing smoothly.

For an example, look at Atlanta. After an incredibly volatile June and July that saw rates peak and then cool suddenly, outbound spot rates from Atlanta rose slowly and then tailed off. Last week, most outbound Atlanta lanes were actually cheaper than they were in the first week of September. Atlanta to Baltimore was down 3.64% since Sept. 6 to $2.64/mile inclusive of fuel; to Charlotte was down 2.3% to $2.09/mile; to Dallas was down 3.7% to $1.81/mile; to Miami was down 2.5% to $2.71/mile; to Philadelphia was down 6.3% to $2.50/mile; and to Louisville was down 2.5% to $2.28/mile.

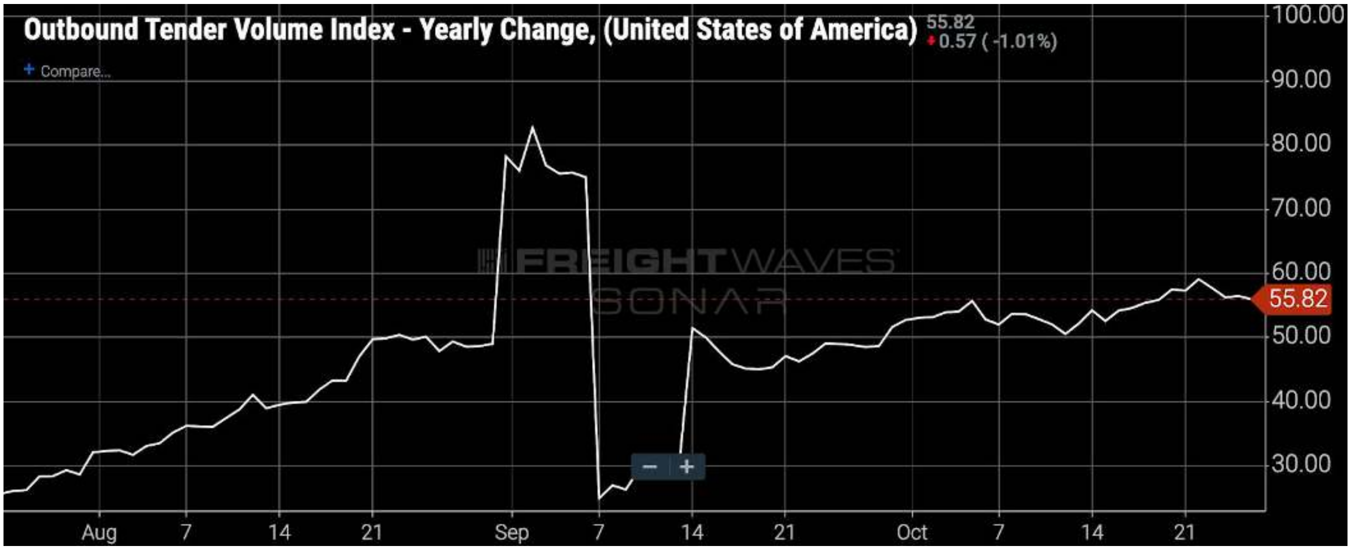
Rates outbound from Chicago, displayed in the chart below, were also mostly flat to down, although they peaked later than Atlanta.

(Chart: FreightWaves SONAR. Outbound spot rates from Chicago)

Freight demand

Truckload tenders are flat over the past week on a year-over-year basis (y/y) but expanded on an absolute basis. Tender levels are below the highs set at the beginning of September but are at extremely strong levels. Taking into account the national Outbound Tender Reject Index, tenders are higher by 31.06% y/y.

We expect strong holiday truckload and parcel demand on the back of a consumer spending portfolio weighted heavily toward tangible goods since the pandemic began. Consumer sentiment surveys are improving: In, September Conference Board's Consumer Confidence Index hit a pandemic high of 101.3 before falling slightly in October to 100.3.



Our special report this week will be an analysis of the 3Q earnings results of non-asset 3PLs. While we will gain valuable insights into gross margin expectations going forward, we're also anticipating management guidance on the contract/spot markets. Considering those forecasts alongside truckload companies' commentary and our data, we expect to achieve more clarity on the outlook for trucking next year.

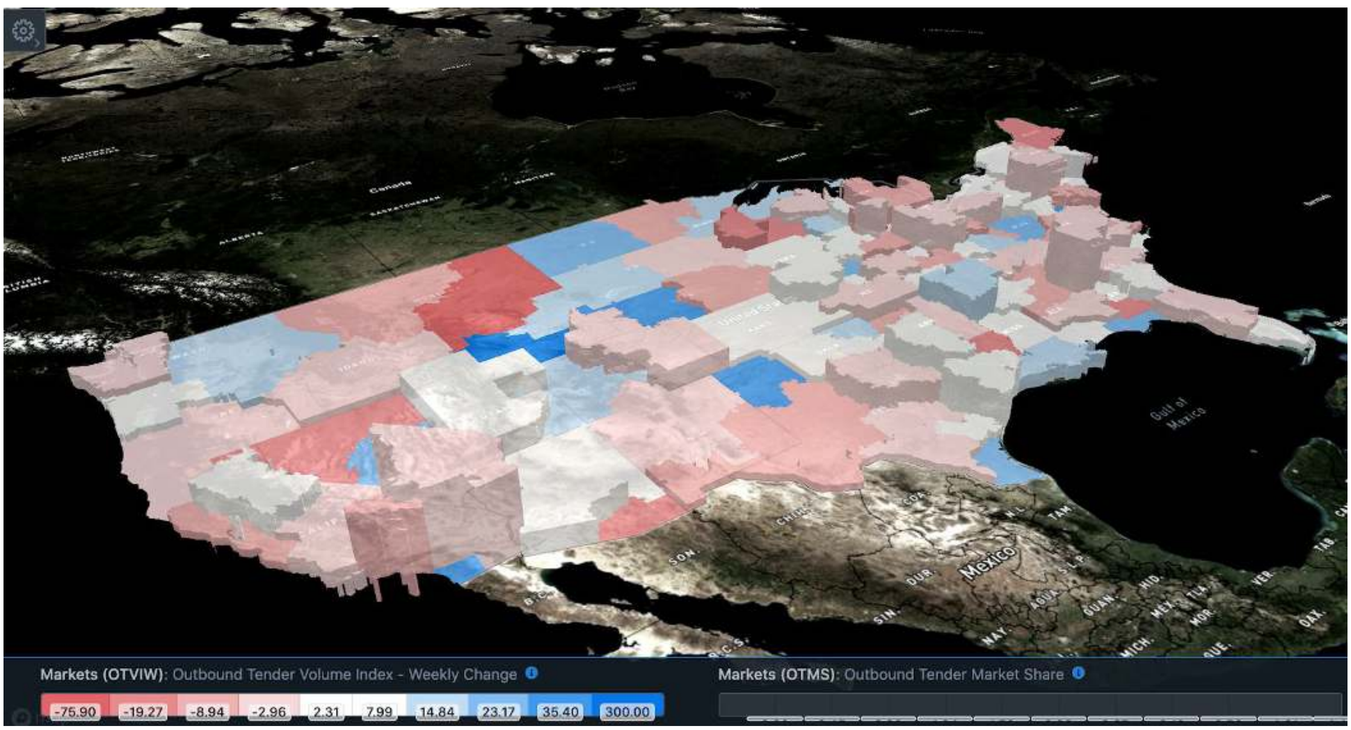
Truckstop.com spot volumes ticked up on half of the four lanes that we monitor each week, with the outbound Los Angeles market being responsible for both of these lanes. Relative capacity is roughly at the same level it was last week, which translates to approximately the same tight trucking capacity we have experienced since August.

We're constructive on Q4 from a volume, capacity and rates perspective. On a national level, volatility has reemerged over the past week. Spot volumes skyrocketed on multiple lanes, which was reminiscent of what we experienced earlier in the summer.

For the first time since the middle of September, one outperforming market stood out from the pack, and that was Los Angeles. Some of the lanes that experienced the largest spikes in Truckstop.com spot volumes out of Los Angeles were LAX-DEN (+116.1%), LAX-SEA (+47.4%), LAX-SCK (+41.9%), LAX-DAL (+37.7%) and LAX-SLC (+11%).

Truckload tenders expanded at a rate of 1.34% w/w, which was stronger than last week when tender volumes were roughly flat w/w. We have written multiple times about the effect that tender rejections have on tender volumes. As fewer tenders are rejected and retendered, the overall number of tenders decreases and OTVI falls.

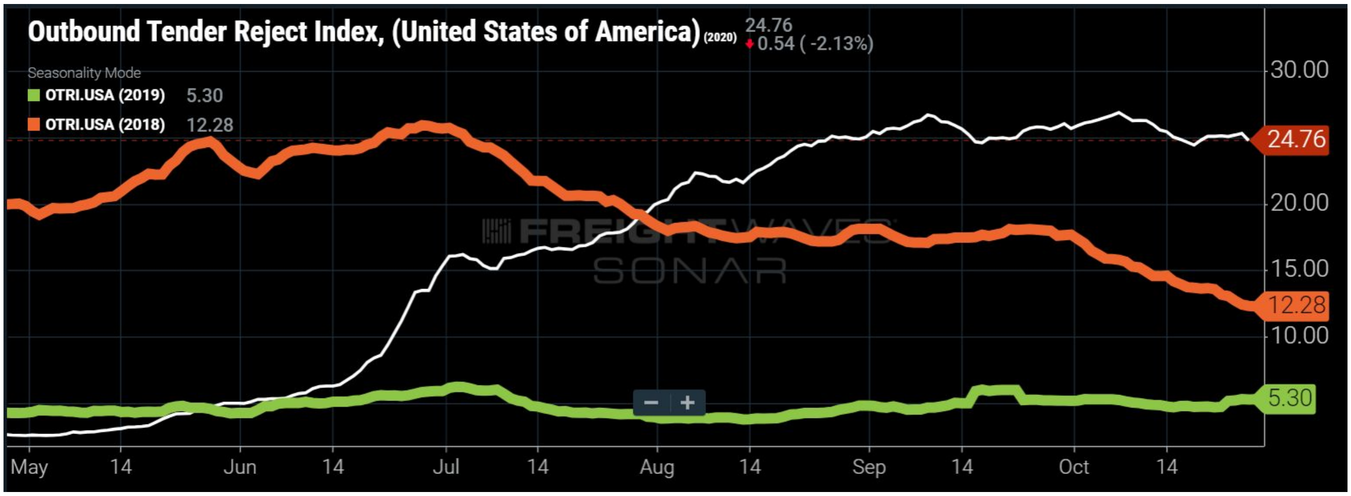
Due to the scale being skewed heavily positive, the markets that are white and light red are in fact positive w/w. The strongest performing regions were parts of the Southeast and the Gulf Coast markets. Markets in these regions that performed well week-over-week were McAllen, Texas (+31.59%); Tallahassee, Florida (+28.03%); New Orleans (+21.09%); Memphis, Tennessee (+15.53%); Decatur, Alabama (+10.99%); Miami (+13.44%); and Jackson, Mississippi (+9.12%).



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

Our thesis remains largely the same: Strong volumes will persist through the fourth quarter on the back of strong consumer spending and retail restocking inventory. Tight capacity will present opportunities in the spot market for margin improvement and flexibility for drivers. As always, we will update our view of the markets as the data changes.

Trucking capacity



(Chart: FreightWaves SONAR. Outbound Tender Reject Index 2018, 2019 and 2020)

The difficulty securing spot capacity persists as the Outbound Tender Reject Index (OTRI), a measure of relative capacity in trucking markets, was flat over the past week, sticking around 24.75%, a remarkably high level. In the back half of last week, rejections rebounded above 25%; however, Monday was the largest single-day drop in rejection rates since Sept. 16 as rejection rates fell 54 bps.

The gap between current rejection rates and year-ago levels remains very wide. Current rejection rates are still more than 1,900 bps higher than year-ago levels, signifying the pressure being put on shippers and 3PLs to cover loads and the optionality that carriers are experiencing across the country. Unlike in 2018 when rejection rates fell steadily throughout October heading into the holiday season, current rejection rates have held strong and we expect them to remain elevated through the rest of the year before cooling into the first quarter of 2021.

Reefer carriers are being much more selective than dry van carriers as national reefer rejection rates have been above 43% since Sept. 28. Reefer rejections are more than 2,800 bps higher than year-ago levels and nearly 2,000 bps higher than dry van, the largest segment of the overall index. Dry van rejections continue to track the overall market closely, though van rejections over the past week jumped 20 bps to the overall market that fell just 2 bps w/w. Flatbed rejection rates had another strong week, increasing by over 100 bps again this past week and are nearly double year-ago levels.

Over the next few days, three large publicly traded 3PLs — C.H. Robinson, Echo Global Logistics and Hub Group — report third-quarter earnings and we will monitor management commentary around margins, productivity and how capacity constraints (average depth of tender and first tender acceptance rates) were handled and what is occurring in the fourth quarter to date.

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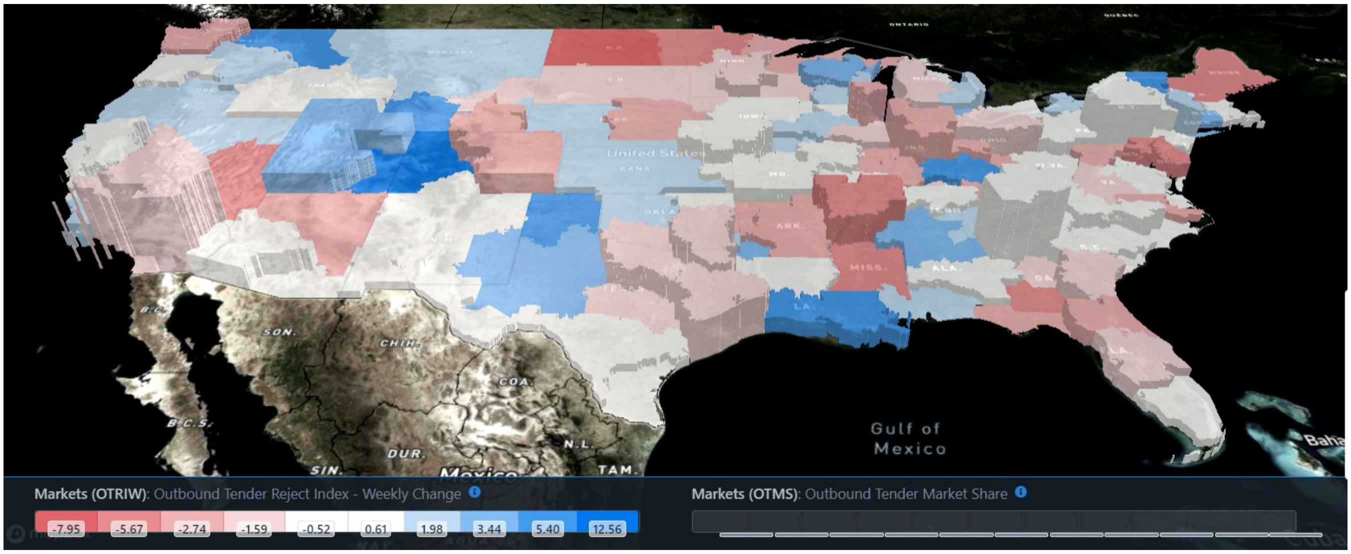

(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Widespread capacity tightening reappeared in the country over the past week as 79 of 135 freight markets tightened.

The Mountain Prairie region tightened the most again this week, though it includes some of the smallest freight markets in the country. Grand Junction, Colorado, and Green River, Wyoming, tightened the most over the past week as rejection rates jumped 1,256 bps and 773 bps, respectively. It is worth noting that Green River is the smallest freight market in the country currently, so a jump in rejections isn't a surprise due to the lack of freight in the market.

Turning to the largest freight markets in the country, Ontario, California, and Los Angeles loosened the most over the past week as rejection rates fell ~115 bps w/w. Rejections in Southern California are now at the lowest level since July 29, signifying that the market is cooling. Looking at the Ocean Shipments Index within SONAR, over the next seven days, twenty-foot equivalent units (TEUs) into the Port of Long Beach are expected to be up 145% year-over-year and into the Port of Los Angeles are expected to be up over 60% y/y.

Other large freight markets have cooled in recent weeks as well, especially in Dallas, which is the loosest of the top six markets. Rejection rates have been holding around 19% for much of the past two weeks. Rejections in Dallas fell 65 bps w/w, outpacing the entire Southwest region, where rejections were down 44 bps w/w. Harrisburg, Pennsylvania, split from the rest of the large markets as rejection rates climbed 77 bps w/w following an extremely soft week last week.

As another hurricane threatens the Gulf Coast again this week, rejections in both Mobile, Alabama, and New Orleans have jumped w/w. Rejections in New Orleans jumped 540 bps this week and rejections are up 288 bps in Mobile ahead of Hurricane Zeta.

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