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SONAR highlight reel: Still waiting on 4Q truckload demand surge

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WHITE PAPER

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This "SONAR highlight reel," which we publish every other week, is intended to concisely hit data highlights and trends in truckload, intermodal and maritime.

See description of the just-released FreightWaves Trusted Rate Assessment Consortium (TRAC) spot rate data on pages 6-7.

Truckload demand has yet to intensify in the final quarter of the year. Our data suggest that freight volume in the 4Q is likely to outperform 2020; accepted tender volume is up 7.8% year-over-year (y/y). Tender rejection rates continue to decline but the OTRI above 19% highlights a still-tight capacity environment for shippers. Plus, spot rates remain at or near their recent highs in many major lanes.

Domestic intermodal volume continues to show signs of improvement, likely related to improvements in railway fluidity following the many actions the railroads have taken to address congestion. Specifically, domestic intermodal volume in the past week is up 10% from average volume levels in August and September and is now down only 1% y/y, a big improvement from double digit declines this summer.

Eastbound trans-Pacific ocean rates continued to slide for the seventh consecutive week, falling in unison with new bookings volumes destined for the US. As congestion persists, port commissioners voted in favor of new fees for lingering containers within the San Pedro Bay port complex. The new fees, while directed at mitigating congestion, could potentially exacerbate chassis shortages and shipper transportation costs.

Dry van spot all-in rates per mile[1] (w/w chg.)

LAX-DAL	$3.62 (-$0.04)
CHI-ATL	$3.60 (+$0.06)
PHL-CHI	$2.32 (-$0.04)
ATL-PHL	$2.90 (+$0.01)
DAL-ATL	$2.48 (-$0.18)
DAL-LAX	$1.37 (+$0.08)
National	**$3.43 (Unch.)**

Freight volume index (weekly change)

Ontario, CA	706.26 (+5.7%)
Atlanta	595.07 (-3.3%)
Harrisburg, PA	486.88 (-1.1%)
Dallas	485.76 (+0.6%)
Elizabeth, NJ	441.68 (+3.9%)
Los Angeles	434.68 (+2.3%)
National	**15,387.17 (-1.62%)**

Tender rejection rates (weekly change)

Ontario	16.38% (+77 bps)
Atlanta	15.93% (-143 bps)
Harrisburg	21.11% (-49 bps)
Dallas	17.45% (-32 bps)
Elizabeth	16.7% (-338 bps)
Los Angeles	16.37% (+77 bps)
National	**19.32% (-75 bps)**

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

Slight slowdown in tender levels as rejections continue downward slide

Chart: FreightWaves SONAR. Outbound Tender Volume Index {white, right axis} and Outbound Tender Reject Index {pink, left axis}

The Outbound Tender Volume Index (OTVI), which tracks shippers' requests for capacity, started the week with some positive momentum. However, that momentum halted in the back half of the week. OTVI is back below the 15,500 level, falling by 1.6% week-over-week (w/w).

Tender volumes had maintained strength compared with 2020 levels against extremely difficult comps over the past two and a half months. The recent slip in tender volumes caused OTVI to turn negative y/y, currently sitting 1.35% below 2020 levels. Outside of the Labor Day-affected week, this is the most negative the index has been this year.

While tender volumes are below 2020 levels, they are still extremely high. In comparison to 2019, current tender volume levels are up more than 60%. The strength in tender volumes for the better part of the past 18 months has been riding the heels of strong consumer spending and the replenishment of depleted inventories.

The inventory-to-sales ratio, while off the lowest level, is still well below pre-pandemic levels. The ratio, currently sitting at 1.1, shows just how thin inventory levels continue to be, especially when the ratio hovered around the 1.5 level before the pandemic.

Adjusting OTVI, which includes both accepted and rejected tenders, by the tender rejection rates shows the true level of freight moving through networks. Accepted tender volumes are running down 0.7% week-over-week (w/w), maintaining strength compared to last year, running up 7.8% y/y. The wide gap in the y/y comparison is caused by the rapid increase in rejection rates at the beginning of November in 2020.

Across the country, volume levels in 55 of the 135 markets tracked by FreightWaves SONAR were higher over the past week. The largest freight markets in the country have recovered after a couple of slow weeks, especially in markets surrounding the largest ports in the country.

The two large Southern California markets, Ontario and Los Angeles, have been underperforming in recent weeks but finally broke the downward trend this week. Tender volumes in Ontario increased by 5.7% w/w. Even with the recent uptick in freight volumes in the market, volumes in Ontario are 5.3% lower than a year ago, thanks to difficult comps. In Los Angeles, tender volumes increased by 2.3% w/w but are now down over 17.5% y/y.

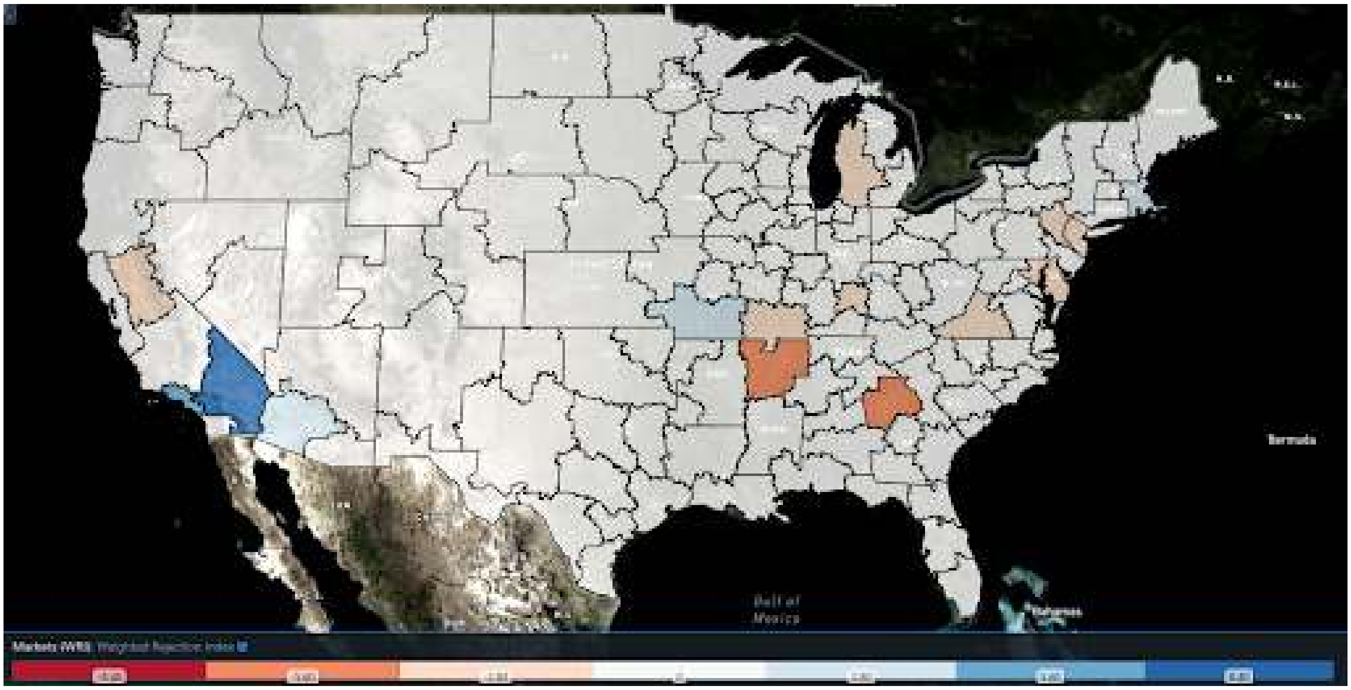
Freight volumes in the Northeast picked up over the past week as well. Elizabeth, New Jersey, which has been an outperformer in recent weeks, witnessed another uptick in tender volumes over the past week, jumping 3.9% w/w.

The Outbound Tender Reject Index (OTRI), a measure of relative capacity in the market, has increased over the past week, but after a brief stint above 20% is back sub-20%. Over the past week, rejection rates are down 75 basis points (bps) but are sliding to kick off November.

Rejection rates in October followed a seasonal pattern, albeit at an extremely high level. Rejection rates exited October lower than where they began the month, falling by 162 bps during the month. What is more interesting is that rejection rates haven't started to pick up during November in any significant way.

In fact, the gap with 2020 levels is now the widest it has been. Rejection rates are now 735 bps lower than where they were in 2020. Even in 2019, rejection rates had started to pick up at the beginning of November and carried that momentum through the Thanksgiving holiday.

New capacity in the form of new Class 8 trucks isn't likely to enter the market for a prolonged period as OEMs continue to be cautious, working through their own set of supply chain constraints. New Class 8 orders in October were down 12% from September levels and down 39% y/y. Backlogs are now stretching well into the back half of 2022 and putting constraints on the used truck market as well. A used 3-year-old truck now costs over $95,000, an increase of 67% y/y.



Difficult capacity conditions continue to sweep the nation. SONAR: WRI (color)

Though the national rejection rate decreased by 75 bps over the past week, the majority of the country experienced rejection rate increases. Of the 135 markets within SONAR, 75 experienced rejection rate increases over the past week.
The map above shows the Weighted Rejection Index (WRI), the product of the Outbound Tender Reject Index - Weekly Change and Outbound Tender Market Share, as a way to prioritize rejection rate changes. A blue market is any market that is tightening faster, highlighting increased prices as well as markets that should take priority. Conversely, red markets are loosening faster relative to the size of the market, where shippers are gaining some pricing power.

Over the past week, Ontario has tightened significantly as rejection rates have increased by 77 bps w/w. The rejection rate in the market is currently 16.38%, the highest it has been in three weeks. With the increase in rejection rates over the past week, expect that spot rates out of the region will pick up next week.

Atlanta and Memphis, Tennessee, are two markets that have loosened faster than other markets of similar size. In Atlanta, rejection rates have fallen by 143 bps over the past week to 15.93%, the lowest they have been since June 2020. The deterioration in rejection rates in the market is a welcome sight for shippers that have been trying to drive improved carrier compliance through higher contract rates. Any time a large freight market is loosening, shippers can claw back some pricing power.

In Memphis, rejection rates fell by 427 bps w/w. The market has seen an influx in activity thanks to BNSF opening an intermodal facility just across the Arkansas border in an attempt to alleviate congestion in Chicago and Dallas. Even with the decline over the past week, Memphis remains tighter than the overall market as the rejection rate currently sits at 27.5%, but is still 775 bps lower than year-ago levels.

Chart: FreightWaves SONAR. Truckstop.com's dry van spot rates: National {white}, Los Angeles to Dallas {green}, Atlanta to Philadelphia {orange}, Philadelphia to Chicago {purple} and Chicago to Atlanta {yellow})

Truckstop.com's national spot rate, which includes fuel surcharge and other accessorials, was flat w/w, currently sitting at $3.43 a mile. Spot rates are still 5% off the all-time high but will face upward pressure over the next two months.

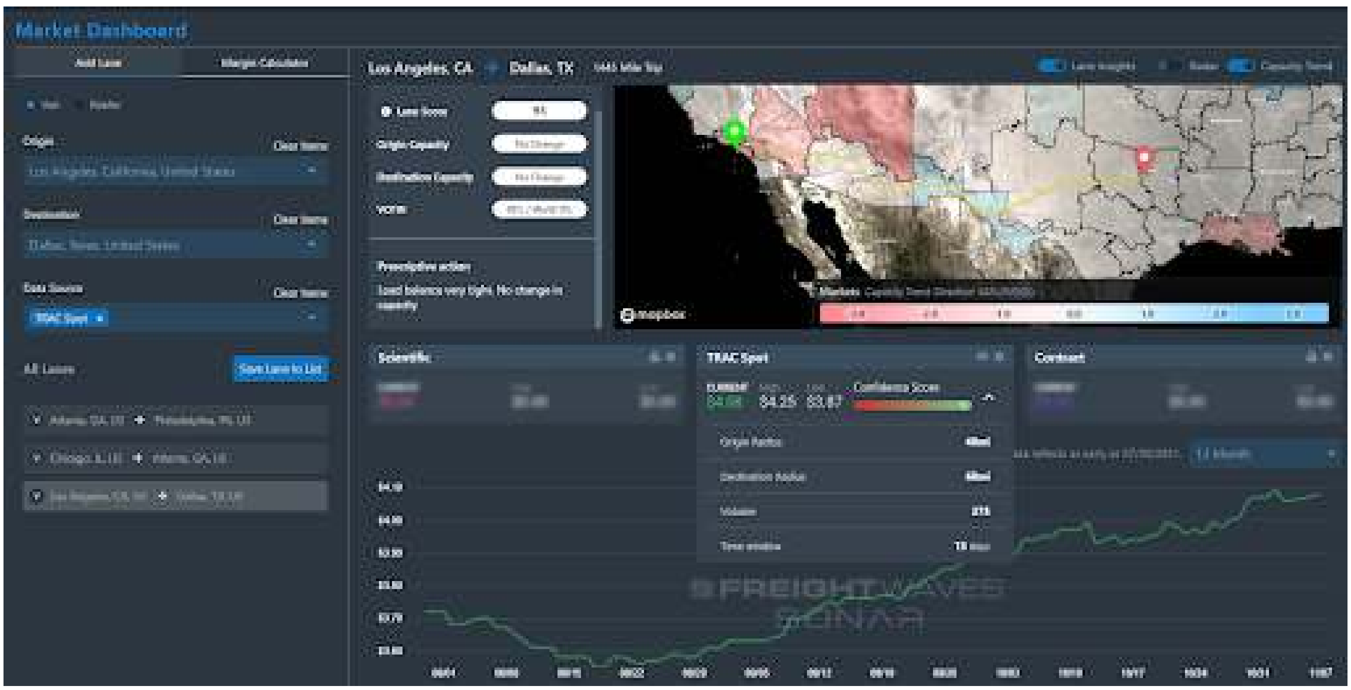
Of the 102 lanes from Truckstop.com's load board, 45 reported increases last week. Of the seven inbound Atlanta lanes, five reported increases over the past week, with the largest mover being Indianapolis to Atlanta, which rose 8 cents, to $3.57 a mile.

Even with the recent decline, national spot rates continue to run over 20% higher y/y. Pressure will intensify for spot rates over the next couple of weeks as peak season kicks off.

Contract rates also pulled back over the past week, increasing by 1 cent per mile, to $2.70. Dry van contract rates, which are reported on a two-week lag, are just 7 cents per mile off the all-time high set in mid-September.

Contract rates, which are just the base linehaul rate excluding fuel surcharges and other accessorials that are included in spot rates, have closed the gap with spot rates significantly over the past year. Contract rates are outperforming spot rates, continuing to run over 22% higher than in 2020.

FreightWaves' new Trusted Rate Assessment Consortium (TRAC) spot rates bring real-time buy (to the carrier) rates to the market.



FreightWaves TRAC spot rates are derived from 3PLs and freight brokerages reported by book and covered date. As opposed to simple averages, FreightWaves weights the values based on: 1) the proximity to the specific origin/destination with a maximum of a 300-mile radius; and 2) length of time to the current date. The further away in both geography and temporal distance, the lower the weight.

Rather than a weekly update, the FreightWaves TRAC spot rates update daily at 11 am ET in the new Market Dashboard application within SONAR.

The Market Dashboard pairs the FreightWaves TRAC spot rates to show how pricing conditions have been changing over time as well as where the market may present opportunities. The Market Dashboard allows for easy viewing of:

1) The current van or reefer FreightWaves TRAC spot rate and statistical price range
2) Confidence score of the rate based on geographical and temporal difference in a lane. 1 indicates the lowest confidence level and 5 indicates the highest confidence level.
3) Capacity changes based on tender data and the current radar in a map
4) Historical rates
5) Margin calculations, either flat or percentage markup
6) Lane insights, including Lane Score, daily capacity changes in both origin and destination, OTRI for the lane and prescriptive action on how to use information in terms of pricing

In the screenshot above, the Market Dashboard highlights the Los Angeles to Dallas lane, arguably one of the densest lanes in the country. The current FreightWaves TRAC spot is $4.08/mi, which is the all-in rate. The range is $3.85/mi on the low end (representing the 33rd percentile value) and $4.25/mi on the high end (representing the 67th percentile value). The confidence score on the lane is a 5, due to the geographical radius being quite small at both the origin and destination: 40 miles in Los Angeles and 60 miles in Dallas.

Since the end of July, the FreightWaves TRAC spot rate has increased by nearly 10%, but the lane insights along this lane show that the load balance is extremely tight.

Domestic intermodal fluidity shows signs of improvement.

Service levels continue to be the largest issue in the rail industry. On that topic, the Surface Transportation Board, the federal agency charged with economic regulation of the railroad industry, granted a sanitation shipper's request to partially revoke commodity exemptions and allow for a case against Union Pacific to proceed. That has implications for intermodal, also a segment deemed to be competitive with the highway, and thus, normally granted commodity exemptions from regulatory oversight.

Also newsworthy in the area of rail service, three terminal operators formed a joint venture to improve efficiency at the Port of Savannah. That adds to the long list of actions that various parties have taken recently to contribute to improving railway fluidity. SONAR intermodal volume data suggests that intermodal network fluidity is improving, at least in the domestic intermodal segment. While still constrained by congestion and with volume still below year-ago levels, domestic intermodal volume in the past week is up 10% from average volume in August and September. The chart below also shows that domestic intermodal volume improvement has been widespread (not just a function of more transloading near the ports) and has increased month-over-month in nine of the 11 densest lanes. That data is consistent with comments made by truckload-based domestic intermodal companies Schneider National and Hub Group last week, which indicated that rail network fluidity has improved.

As network fluidity has improved, domestic intermodal volume increased month-over-month in nine of the 11 densest domestic intermodal lanes.

Chart: FreightWaves, SONAR. In the chart on the above left, loaded domestic intermodal volume is shown for 2021 and 2020 in blue and orange, respectively. The chart on the above right shows the one-month change in loaded domestic intermodal volume in the densest domestic lanes.

It's worth pointing out that there hasn't been a similar rise in international intermodal volume (which consists primarily of 40' containers and was down 4.2% in the most recent week from the August-September average), due to congestion at/near ports, a shortage of chassis and container ship companies' reluctance to send international containers inland. This has led to more transloading of imports from 40' containers into 53' containers, as well as more truckload movements and more imported goods delayed near the ports.

International intermodal volume has been trending downward in recent months. However, loaded international intermodal volume has risen in most of the headhaul lanes in the past 30 days, which may indicate that a broader rebound is forthcoming.

Chart: FreightWaves, SONAR. In the chart on the above left, loaded international intermodal volume is shown. The chart on the above right shows the one-month change in loaded domestic intermodal volume in the densest lanes.

Domestic intermodal volume outbound from L.A. has risen, while international intermodal volume outbound from L.A. has fallen sharply. This is due to a combination of more transloading and congestion having a greater impact on international intermodal.

Chart: FreightWaves, SONAR. Domestic containerized intermodal volume outbound from L.A. is shown in blue and international containerized intermodal volume is shown in purple.

Intermodal spot rates are higher y/y in all of the densest domestic intermodal lanes with the exception of L.A. to Atlanta. That's important because it sets up domestic intermodal contracts for another year of meaningful rate increases.

Chart: FreightWaves, SONAR. Tree map showing intermodal spot rates to move 53' containers door-to-door, including fuel surcharges.

Intermodal contract rates took another step up in mid/late September. Those rates are likely to rise further with the main question being whether they will again rise double-digits in 2022.

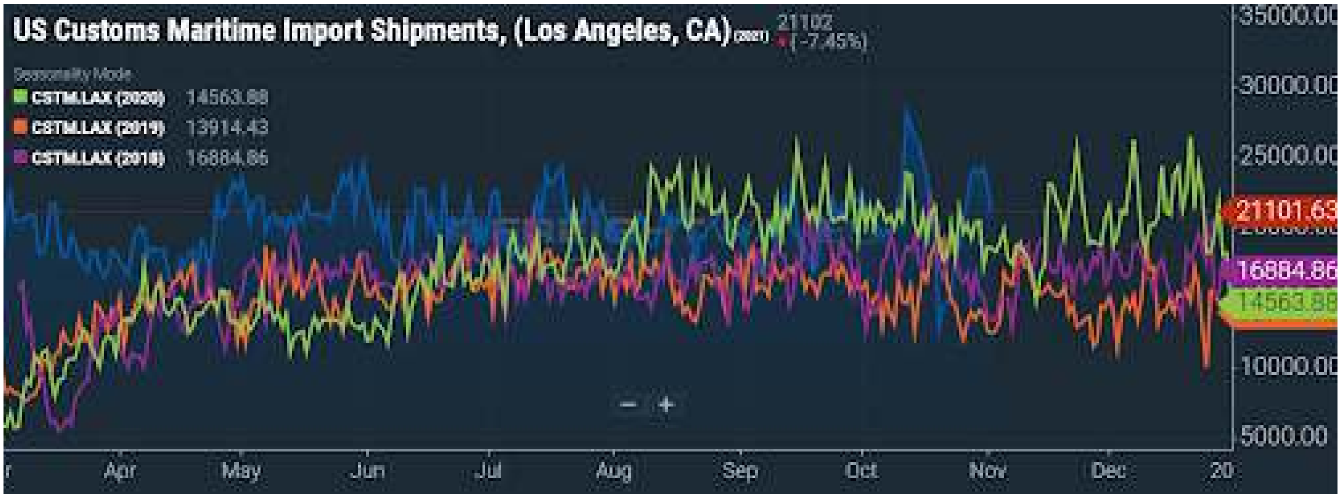
Chart: FreightWaves, SONAR. The initial reporting of intermodal contract rates.

Intermodal tender rejection rates have declined in the past month, most notably in Chicago.

Chart: FreightWaves, SONAR. The intermodal tender rejection rate percentage in select cities and their respective month-over-month changes.

Congestion persists as port commissioners push forward new San Pedro Bay fees

In the most recent week, port commissioners voted unanimously (4-0) in favor of fining ocean carriers when their containers linger within the San Pedro Bay port complex. The complex (which includes the ports of Los Angeles and Long Beach) will now fine ocean carriers $100 when a box scheduled to move via truck sits nine or more days. The fees, set to become effective on November 15th, compound in $100 increments every day over the limit. The same rules apply to containers scheduled to move via on-dock rail, with the cut-off being six days rather than the nine for truck bound containers. The new fees have been met with steep opposition by those in the logistics space, as ocean carriers have little to do with the inland movements of their containers and will likely pass the new charges on directly to shippers.



(Chart:FreightWaves SONAR. US Customs Maritime Import shipments into the LA truck market, which includes both the ports of LA and Long Beach. YTD levels {blue} compared to the previous three full years)

The fees were introduced after seemingly no progress was being made in clearing the existing congestion at the ports, as >70 vessels currently remain at anchor waiting for berthing space. The twin ports combine to account for 39% of all containerized and non-containerized import shipments and should process over 20 million TEUs this year. Import shipment volumes arriving to the LA market (which accounts for both ports) have trended higher through October, eclipsing 2020's heightened levels by 11% and pre-pandemic 2019 levels by 59%.

(Chart:FreightWaves SONAR. Inbound ocean TEU volumes from any point of origin to the U.S., classified by departure date from the origin {blue}, with next seven days {dashed white})

Aggregate levels of U.S. import demand continue to slide through the beginning of November, with the Inbound Ocean TEU Volume Index falling to 155 points. The reading is the lowest it's been since late January, and now resides 13% below year-ago levels. Inventory frontloading by shippers through April and August is likely the largest contributing factor to the current booking slump. Many new orders have either been cancelled or pushed back by U.S. importers, as holiday inventory replenishment deadlines have long passed. We anticipate the lull in import bookings to continue as we move into the domestic surface-side peak season, potentially ramping back up again ahead of the Chinese Lunar New Year.

(Chart: FreightWaves SONAR. Drewry World Container Indexes Shanghai to New York assessment {white} compared to the Shanghai to Los Angeles assessment {green})

The reduction in confirmed booking volumes over the past two months has had a fairly pronounced impact on trans-Pacific spot rates. The Drewry World Container Index, which depicts the average spot rate paid per 40' container, has now decreased for seven consecutive weeks on its trans-Pacific assessments. Shanghai to New York spot rates currently sit at $12,667/FEU, down 6.5% w/w and below $13,000 for the first time since July 22nd. The Shanghai to Los Angeles spot rates fell a substantial 10% in the most recent week, now at $9,857/FEU. The lane assessment is now below $10,000 for the first time since July 15th. Despite the recent cooling, the two trans-Pacific rate indices are still more than 140% higher than year-ago levels. While spot rates have subsided from their record highs, any substantial relief to shippers is likely a distant sight, as congested capacity and persistent demand will keep rates buoyed well above pre-pandemic levels for months to come.

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