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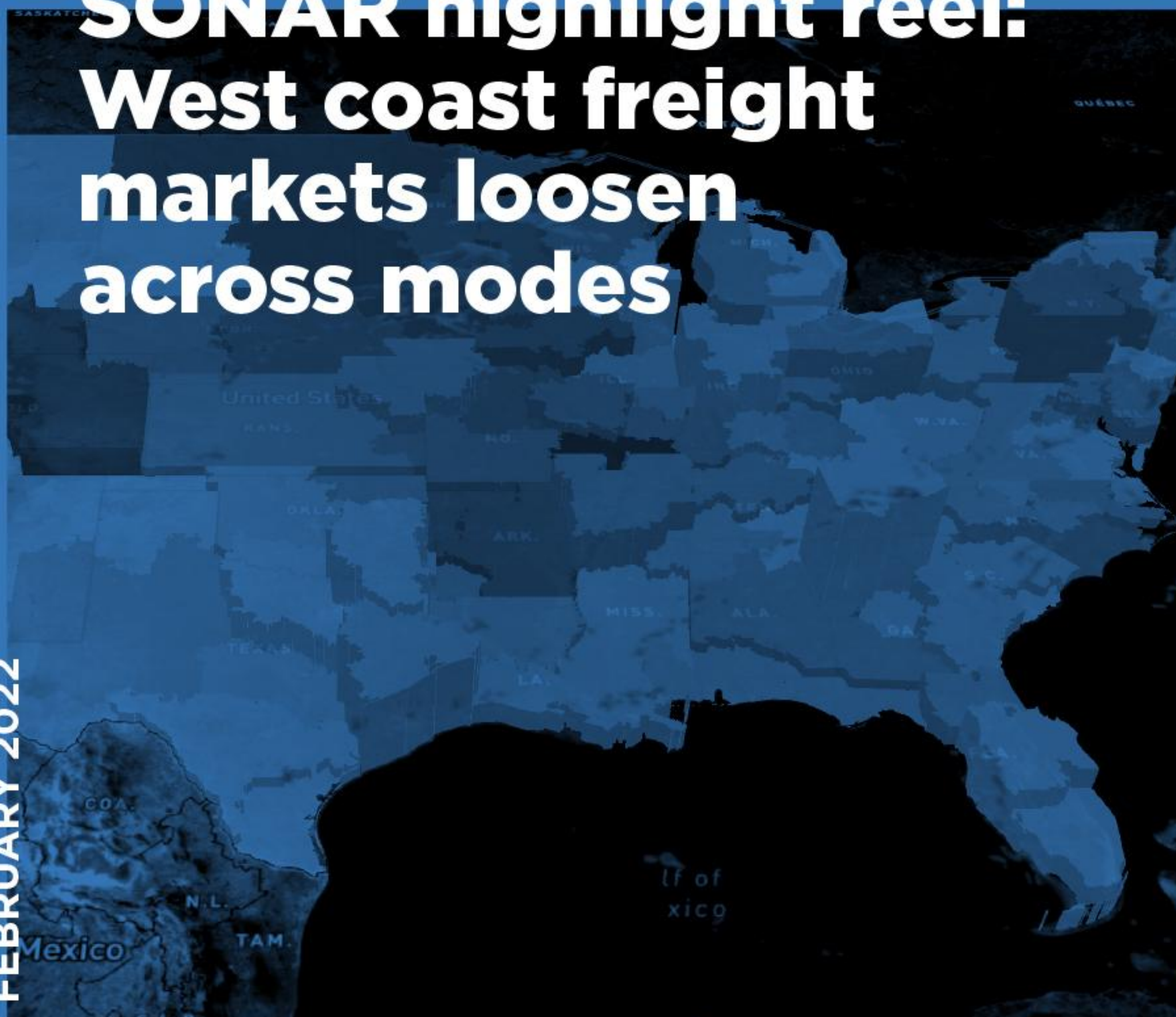
SONAR highlight reel: West coast freight markets loosen across modes



FEBRUARY 2022

WHITE PAPER

SONAR highlight reel: West Coast freight markets loosen across modes

This "SONAR highlight reel" hits data highlights/trends in truckload, intermodal and maritime in 2-3 pages for each mode.

The truckload market (pages 3-7) is finally showing signs of easing as rejections have continued to decline throughout February. Accepted tender volumes continue to outpace year-ago levels, despite difficult comps. The decline in rejections can largely be attributed to contracts being repriced higher and capacity entering the market, though constraints are still prevalent. Spot rates have yet to retreat significantly from recent highs even with rejection rates pulling back.

Domestic intermodal (pages 7-10) volume is showing mid-single digit growth year-to-date while international intermodal volume is showing double-digit declines as port congestion impairs loadings. Plus, a loosening dry van market on the West Coast presents the highway as a more viable option in the densest intermodal lanes. Domestic intermodal contract rates in SONAR show 2022 rates 13% above 2021 averages – that spread will decline as the year progresses, but it's clear that intermodal rates will be higher y/y in 2022, particularly in the first half of the year.

Maritime import (pages 11-14) volume levels remain near peak-season levels despite a decline in bookings following the Lunar New Year. Bookings levels are set to rebound in the coming week, especially from China to the U.S. where bookings fell to the lowest level since June 2020. Ocean rates have remained relatively stable over the past month as securing capacity on the ocean remains remarkably difficult.

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

LAX-DAL	$3.12 (-$0.15)
CHI-ATL	$4.19 (-$0.05)
PHL-CHI	$3.20 (-$0.03)
ATL-PHL	$3.81 (-$0.10)
DAL-ATL	$2.85 (-$0.06)
DAL-LAX	$1.58 (±$0.00)
National[2]	**$3.73 (-$0.05)**

Freight volume index (weekly change)

Ontario, CA	582.24 (-3.24%)
Atlanta	626.13 (+2.57%)
Dallas	464.92 (+2.79%)
Harrisburg, PA	481.77 (-4.64%)
Los Angeles	357.53 (-2.19%)
Joliet, IL	368.83 (+4.09%)
National	**14,646.38 (-0.58%)**

Tender rejection rates (weekly change)

Ontario	7.02% (-61 bps)
Atlanta	13.51% (+14 bps)
Dallas	15.86% (+100 bps)
Harrisburg	22.39% (-165 bps)
Los Angeles	7.02% (-60 bps)
Joliet	20% (-67 bps)
National	**18.67% (-50 bps)**

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[1] FreightWaves TRAC spot rates
[2] Truckstop.com's national average spot rate

Capacity loosens in the face of elevated freight demand; rates are still near record highs

The Outbound Tender Volume Index (OTVI) has undergone an exceptional quarter thus far to kick off 2022. Far from being "quiet," as is traditional in the first quarter, shippers have shown an unabating appetite for moving their freight in the winter months.

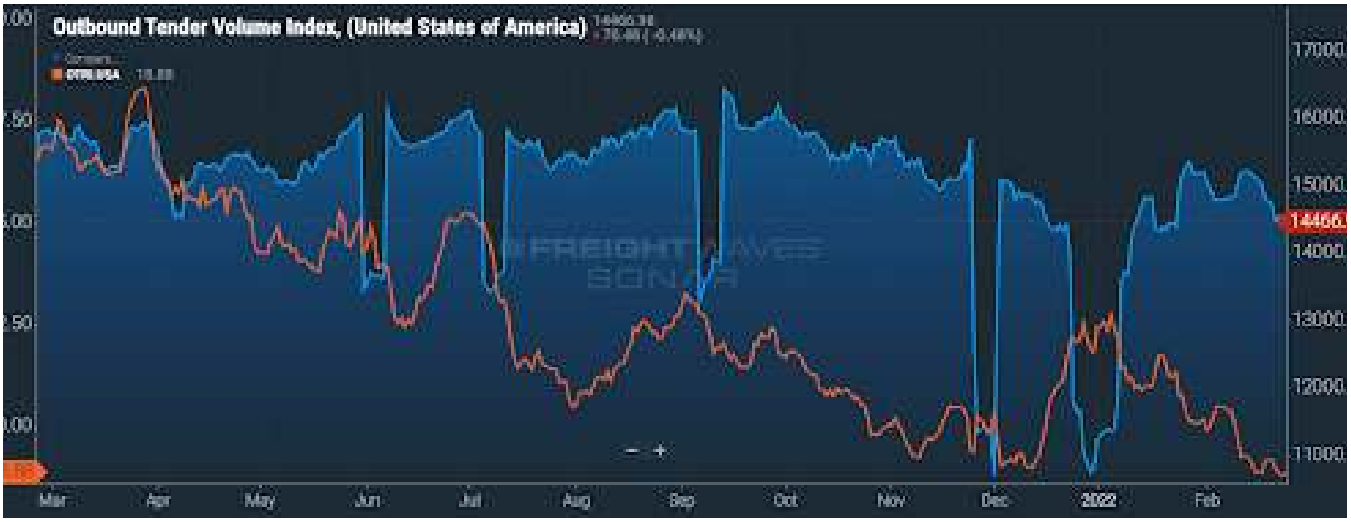


Chart: FreightWaves SONAR. Outbound Tender Volume Index {blue, right axis} and Outbound Tender Reject Index {orange, left axis}

Tender volumes have, on average, outperformed 2021 levels by 6.29% year-over-year (y/y) thus far in 2022. At present, OTVI is down 8.12% y/y, albeit in the week of a federal holiday and against difficult comps.

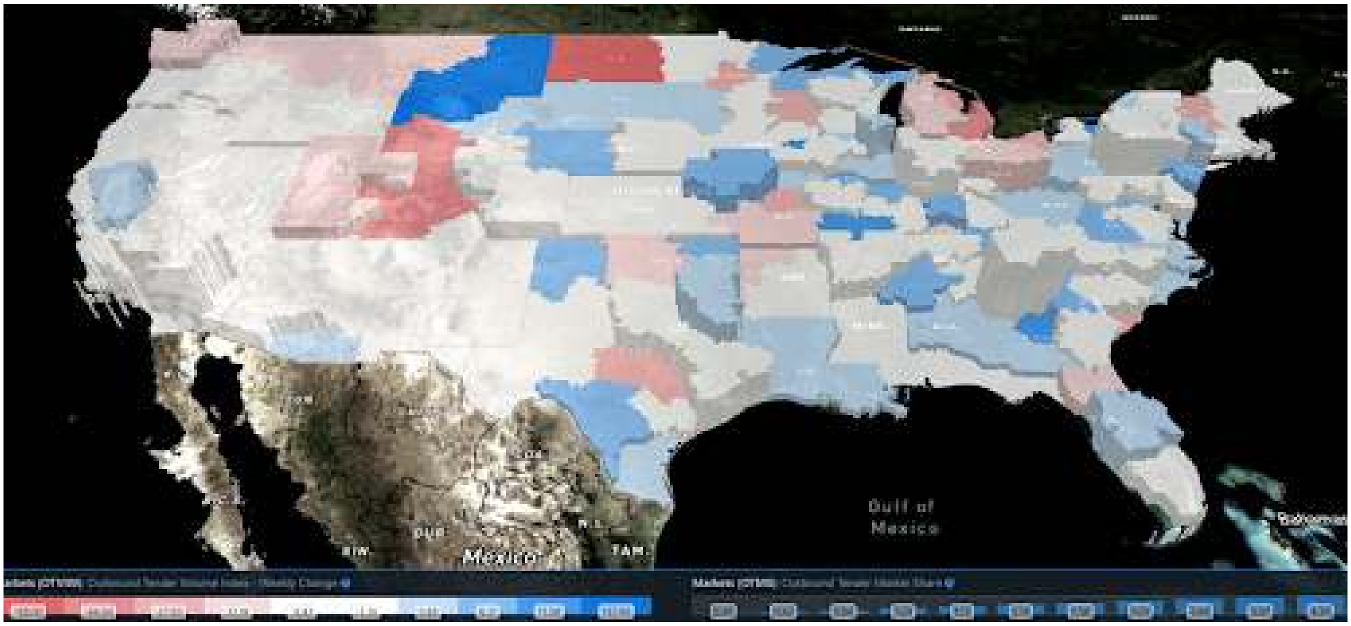
Exactly one year ago, the week following vicious winter storms saw rapid growth in freight volume, sending tender rejections spiraling upward to almost 30% while the national average spot rate climbed by 23% during February. Thanks to the proactive efforts of shippers in 2022 and relatively mild weather, the upcoming weeks are not predicted to be nearly as dramatic. Nevertheless, expect both elevated volumes and tightening capacity, the latter of which is still constrained by persistent shortages of new drivers and trucking units.

Accepted tender volumes, which is OTVI adjusted by the Outbound Tender Reject Index (OTRI), continue to impress. In the year-to-date, accepted tender volumes have averaged a 10.7% increase y/y; currently, accepted tender volumes are up 5.9% over 2021 levels, even against the aforementioned tough comps.

These numbers are helped greatly by declining rejection rates. Throughout February, OTRI averaged around 19.5%, although it presently sits at 18.88% – a staggering 810 basis points (bps) below year-ago levels.

Unfortunately, this marked improvement in carrier compliance has been won at a steep cost.

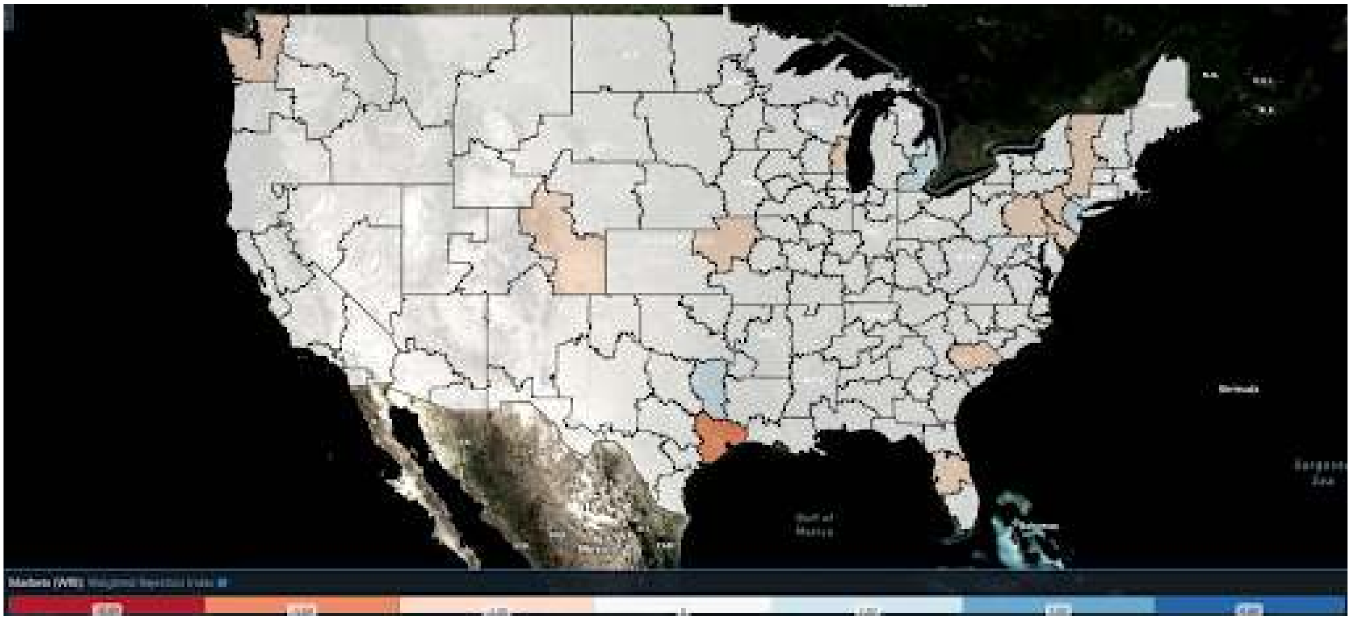
Contract rates, which were fairly slow to catch up to the truckload market in 2021, are now almost 25% higher than they were last year. Given the stability of both contract rates and tender rejections over the course of February, it appears that equilibrium has been reached between shippers and their contracted carriers. As a result, drastic upswings are not anticipated for either contract rates or tender rejections, though both will face upward pressure in the coming produce season.



Map: FreightWaves SONAR. Many markets remain solid despite weekly contraction: SONAR: OTVIW (color) and Outbound Tender Market Share (height).

Regionally, it was a strong volume week for many large and small markets across the country. Of the 135 freight markets, 65 reported weekly increases. Tender volumes declined on the West Coast, especially in the important Ontario market, due to shippers choosing to move their freight over the rails.

Atlanta, now the largest market in the country by outbound tender volume, posted a modest gain in volume (0.6% w/w). The Texan cross-border markets of Laredo and McAllen fared well, reporting weekly volume increases of 9.2% and 2.9%, respectively. As spring draws nearer, these markets will continue to see plenty of produce coming up from Mexico.



Capacity tightens in Dallas/Fort Worth: SONAR: WRI (color).

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. As capacity is generally finding freight, there are only a handful of blue markets, which are the markets to focus attention on.

Of the 135 markets, 69 reported higher rejection rates over the past week, though 24 of these markets posted only a slight w/w increase of 100 or fewer bps.

Dallas and Fort Worth were the biggest markets to experience tightened capacity last week, as winter storms drove ice and sleet into the region on Wednesday, February 23. Tender rejections rose by 2.4% in the two markets due to treacherous roads.

Savannah saw rejection rates fall by 3% w/w, while the Georgia Ports Authority reflected on plans to expand berth capacity and deepen the river channel for the state's seaport. Among the GPA's stated intentions was one to accommodate and grow the available trucking base in Savannah.

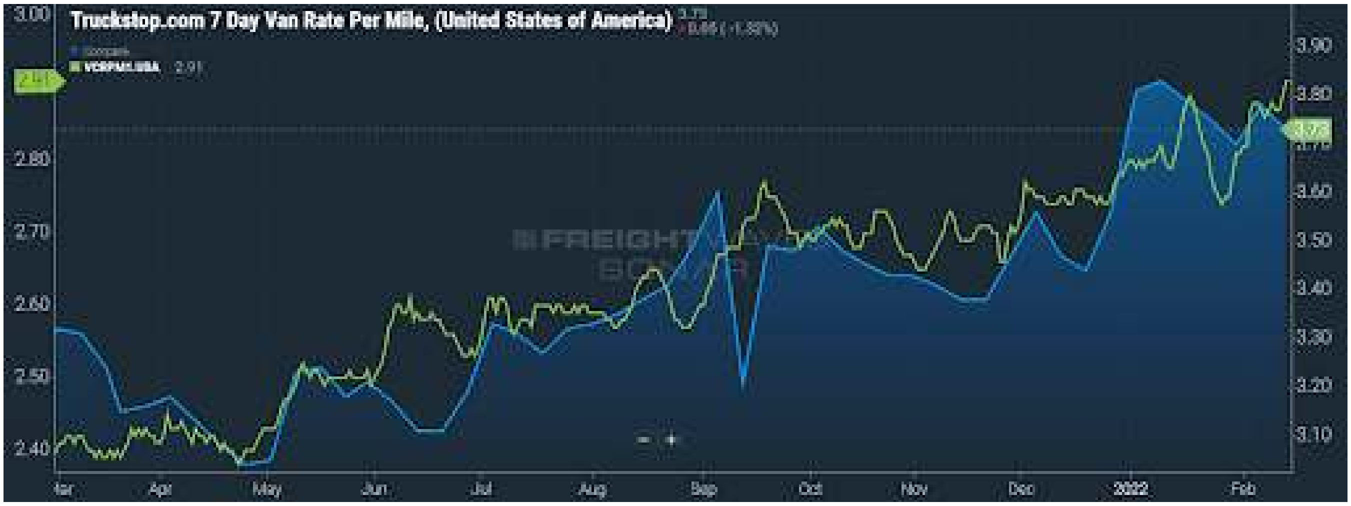


Chart: FreightWaves SONAR: Truckstop.com's national spot rate (blue, right axis, includes fuel surcharges) and dry van contract rate (green, left axis, excludes fuel surcharges).

Contract rates rose by $0.06 per mile in the first few days of February, after which they began to oscillate by only a couple of cents per mile. Currently at $2.91/mi, contract rates are now at an all-time high in the dataset that has tracked rates since January 2017. This latest increase puts contract rates $0.03/mi above the previous record high set in mid-January.

WTI crude oil prices (a benchmark for domestic oil production) neared $100 per barrel, as supply disruptions caused by the Russia-Ukraine conflict stimulated global demand. Accordingly, the national average diesel price remains above $4 per gallon, its highest price point since early 2013. Rising diesel prices will soon be reflected in carrier rates, so shippers should expect a strained wallet if they need to move freight on the spot market.

FreightWaves' Trusted Rate Assessment Consortium (TRAC) spot rate from Los Angeles to Dallas remained in freefall as capacity lingers in Southern California, falling another $0.15 per mile to $3.12/mi. This lane has consistently seen weeks of consecutive decline since the beginning of 2022, when spot rates were more than $4.00/mi. Since rates have continued to slide even as capacity tightens in Dallas, there is no foreseeable floor to rates along this lane.

Chart: FreightWaves SONAR. FreightWaves TRAC spot rate from Los Angeles to Dallas.

Although still well above rates in the last quarter of 2021, the Freightwaves TRAC spot rate from Atlanta to Philadelphia continued its gradual descent this week as tender volumes rose in Atlanta. The rate from Atlanta to Philadelphia currently sits at $3.81/mi, down $0.07/mi from the previous week. Capacity is beginning to tighten in Atlanta, so a slight reversal of spot rate trends might be in the cards for next week.

Chart: FreightWaves SONAR. FreightWaves TRAC spot rate from Atlanta to Philadelphia.

Domestic intermodal contract rates begin the year up double-digits.

In 2022, domestic intermodal contract rates are set to again increase on top of the double-digit contract rate increases in 2021. To help gauge the magnitude of those contract rate increases (the main question may be whether they will rise by a single-digit or a double-digit percentage), I recommend monitoring the intermodal contract rate data in SONAR. That SONAR domestic intermodal contract rate data show that base intermodal contract rates (i.e., not including fuel surcharges) year-to-date are higher by 13% relative to average intermodal contract rates for all of 2021. That y/y comparison will likely decline as 2022 progresses because intermodal contract rates rose steadily throughout last year, but it’s clear that shippers should expect meaningfully higher intermodal contract rates this year. One caveat to that dataset is that it is weighted toward purely domestic lanes (i.e., it primarily includes lanes that do not include port cities).

Intermodal contract rates marched higher throughout 2021, setting up further contract rate increases in 2022.

Chart: FreightWaves, SONAR. Intermodal contract rates on a sample of domestic intermodal lanes.

Another way to gauge the relative tightness in domestic intermodal capacity, as it relates to potential changes in contract rates, is comparing the current intermodal spot rates in the densest lanes to year-ago levels. While a small minority of intermodal volume moves on spot rates, we believe they are still useful for assessing whether carriers are protecting capacity for contractual shippers and for finding changes in marketplace conditions in the major lanes.

For most of the past year, the intermodal spot rate chart shown below was entirely green – that is, domestic intermodal spot rates in the densest lanes had been up y/y. Now, domestic intermodal spot rates in the densest lanes are mixed. That is partially due to the rates facing a more difficult comp compared with one year ago, but it is also largely due to the volatility in the outbound LA lanes. In recent weeks, the Class I carriers' spot rates in the outbound LA lanes have risen or fallen sharply from one week to the next. Relative to last year at this time, the intermodal spot rates in the LA to Chicago, LA to Dallas and LA to Atlanta lanes are down 20.5%, 11.2% and 15.2%, respectively. We interpret that to mean that in many recent weeks, carriers have been somewhat less concerned with protecting capacity in the LA market for the majority of domestic intermodal shippers that move 53' containers under contracts than they had been for much of the past year.

Domestic intermodal spot rates are mixed compared to one year ago as rates for the outbound LA lanes have been volatile in recent weeks.

Chart: FreightWaves, SONAR. Tree map showing intermodal spot rates to move 53' containers door-to-door, including fuel surcharges and their respective y/y changes. Those rates are shown on the above-right for LA-Chicago, LA-Dallas and LA-Atlanta in green, orange, and blue, respectively.

Intermodal spot rates are well below dry van spot rates between Chicago and Newark/Elizabeth/Linden and near parity from Chicago to Atlanta.

Chart: FreightWaves, SONAR. Door-to-door domestic intermodal spot rates are shown in blue while dry van spot rates from Truckstop.com are shown for the same lanes in yellow/orange/green

Containerized intermodal volume has shown divergent trends between international intermodal (primarily 40' containers) and domestic intermodal (primarily 53' containers). While overall U.S. containerized intermodal originations are down 9.8% year-to-date according to the Association of American Railroads, the charts below show domestic intermodal volume holding up better than international intermodal volume. SONAR shows that international intermodal volume is down 18%, while the larger domestic intermodal segment is up 6%. We attribute that to the congestion and productivity issues at the West Coast ports having a greater negative impact on the domestic intermodal segment.

Domestic intermodal spot rates are mixed compared to one year ago as rates for the outbound LA lanes have been volatile in recent weeks.

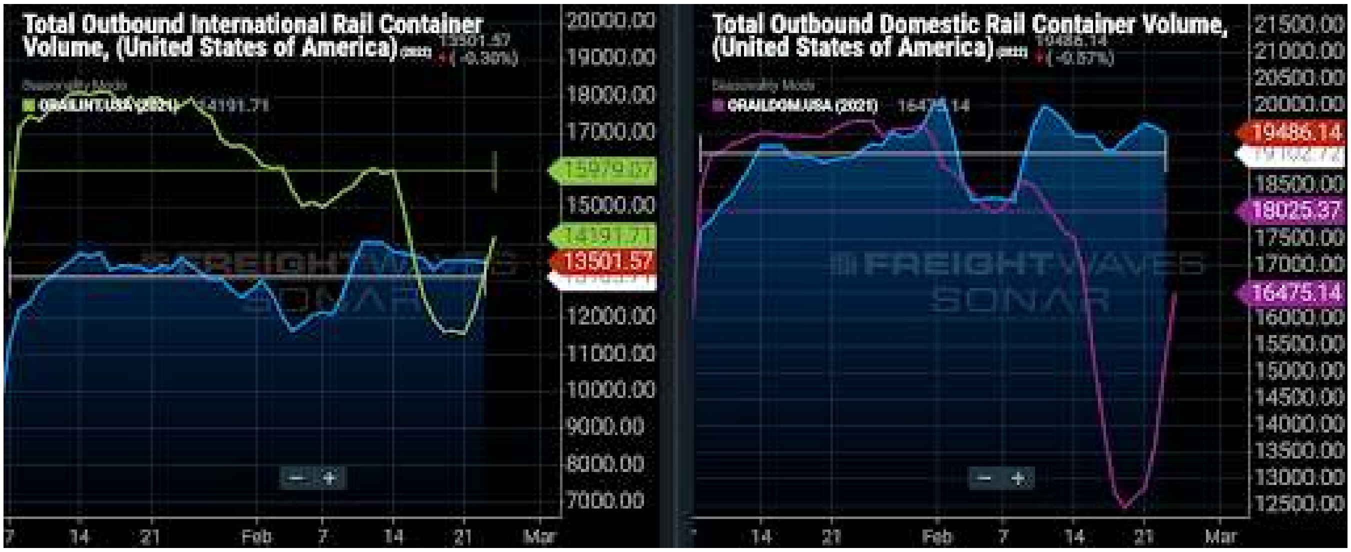


Chart: FreightWaves, SONAR. Containerized international intermodal volume for 2022 and 2021 is shown on the left in blue and green, respectively. Containerized domestic intermodal volume for 2022 and 2021 is shown on the right in blue, and purple, respectively.

U.S. import demand is starting to rebound following the Lunar New Year lull.

The ocean market continues to battle with increased demand and capacity constraints across the board. Congestion remains in and around the ports despite the number of vessels waiting off Southern California's ports declining significantly from the more than 100 that awaited berths earlier this year. The congestion has shifted to secondary ports, including the Port of Charleston, which experienced the number of vessels off the coast increase to 25, as of February 27.

The post-Lunar New Year lull in ocean bookings from China to the U.S. is starting to reverse course.

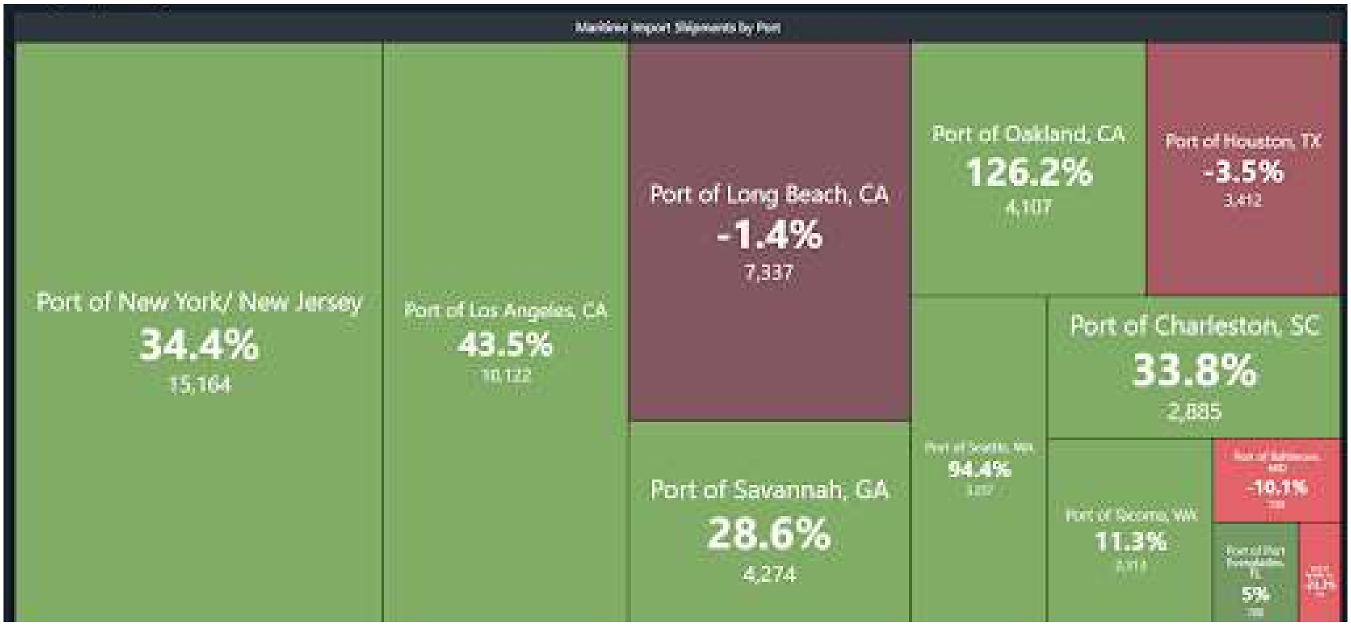
(Chart:FreightWaves SONAR. Inbound Ocean TEU Volume Index fell to the lowest level since June 2020.)

The Inbound Ocean TEU Index (IOTI) provides a seven-day look ahead into confirmed ocean bookings on a country-to-country level. The Lunar New Year caused the traditional downturn in February, but IOTI from China to the U.S. is starting to show signs of life again. The downturn in February was more extreme than in 2021 as bookings were coming off higher highs and the trough was deeper than before.

The reversal in bookings signals that demand is unabating, despite record inflationary pressures impacting both manufacturers and consumers. While the increase, at least in the next 7 days, doesn't bring the number of TEUs being booked to the levels experienced in both December and January, it is still well above pre-pandemic levels.

Even with the decline in bookings throughout February, import shipments remained at peak season-like levels as the ports worked through the backlogs. On a national level, customs import shipments have remained well above last year's, currently almost 25% above 2021 levels. The slowdown in bookings throughout February may not impact import levels too dramatically, given the backlogs across many of the ports.

Increased ocean demand has allowed a majority of the ports in the country to experience upticks in volumes flowing through.



(Chart: FreightWaves SONAR. Maritime import shipments by port, with percentages calculated from the previous month comparisons.)

Various ports across the country have experienced the uptick over the past month, despite that slowdown in bookings and record volume levels in January. The largest increase has been at the Port of Oakland, as 126% more shipments have cleared customs month-over-month(m/m). Oakland was one of the key beneficiaries of the congestion at the Southern California ports throughout the past year, with import shipments running up over 115% y/y.

The import volume growth hasn't been isolated to the West Coast ports. The Port of New York/New Jersey is the second-largest port in the country; it has experienced import volumes increase by 34% over the past month. That increased throughput at the port will lead to increased truckload volumes at some point.

The Port of Charleston has become a talking point in recent weeks as it looks more and more like Southern California as the backlog has grown to over 20 ships. The 34% m/m increase is likely to increase again in March due to the backlog. What is more interesting is that the queuing hasn't been occurring at the Port of Savannah, the larger port to the south, despite the fact that import shipments that have cleared U.S. Customs and Border Protection are up nearly 30% m/m.

The largest port complex in the country, the ports of Los Angeles and Long Beach, were mixed, as the number of shipments in Long Beach declined by 1.4% m/m but increased by 43.5% m/m at the Port of Los Angeles. Both are negative on a y/y basis, but the comps for these ports are increasingly difficult. Factoring in delays as well are causing slower (or negative) import volume growth in the Southern California ports.

New project44 datasets within FreightWaves SONAR allows for additional insights into the ocean market. FreightWaves, in partnership with project44, has released new datasets that show container rollover percentage in the port of origin, container dwell times at both the port of lading, the port of discharge and the transshipment ports as well as the container port pair delays.

(Chart: FreightWaves SONAR. Project44 Ocean Container Port Pair Delays from the Port of Shanghai to the ports of Los Angeles {blue} and Long Beach {green})

The average delay between Shanghai and the Southern California ports has drastically increased since the first half of 2020 (when the average delay was around one day). As capacity constraints have intensified, the average delay has increased to over 13 days from Shanghai to Los Angeles and over 15 days from Shanghai to Long Beach. When the ocean market starts to correct itself, expect that the average port-to-port delays will come well off the current highs.

Ocean container rates are off the highs set in September 2021, but are reluctant to decline further as capacity constraints are prevalent.

(Chart: FreightWaves SONAR. Drewry World Container Index – Shanghai to New York assessment {blue} compared to the Shanghai to Los Angeles index {green})

Despite a slowdown in new bookings in February, shippers haven't seen any relief in ocean rates. According to the Drewry World Container Index, spot rates per 40' container signal that securing necessary ocean capacity is still quite difficult. The index's Shanghai to New York assessment has ticked back up to $13,160/FEU, a 0.7% increase from the previous week and now up 101% y/y. The Shanghai to Los Angeles assessment continued to rise in February, now up to $11,030, a 3.3% w/w increase, putting the index up 154% y/y.

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