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SONAR HIGHLIGHT REEL:

Intermodal congestion worsens

WHITE PAPER

JULY 2021

FREIGHTWAVES SONAR

SONAR highlight reel: Intermodal congestion worsens

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

Truckload demand remains elevated with accepted tender volume hitting a new high, even surpassing holiday 2020 levels. Meanwhile, tender rejection rates have fallen to their lowest level in five months, which reflects recent increases in contracted rates. Those rates are now at their highest level in recent years. Elevated import volume, inventory replenishment and continued capacity constraints are likely to keep the truckload market tight, but with carriers rushing to add capacity, conditions are unlikely to get worse for shippers.

This past week was one where we heard numerous complaints from intermodal shippers regarding service. More than just anecdotes, we believe that the service issues can be seen in the domestic intermodal volume data which is now down year-over-year (y/y) in 10 of the 11 densest domestic intermodal lanes and may be losing share to the highway.

Meanwhile, import volume remains well above year-ago levels and ocean capacity constraints have put tremendous pressure on ocean rates, particularly from China to North America, although those rates are finally off their highs. While the past year has felt like a non-stop peak season for imports, pent-up demand from China's Guangdong Province and our forecasts for strengthening import volume at the ports of L.A. and Long Beach promise to keep import volume elevated.

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

LAX-DAL	$3.25 (- $0.23)
CHI-ATL	$2.97 (+$0.03)
PHL-CHI	$2.13 (Unch.)
ATL-PHL	$3.54 (-$0.17)
DAL-ATL	$2.63 (+$0.11)
DAL-LAX	$1.44 (-$0.01)
National	**$3.31 (-$0.02)**

Freight volume index (weekly change)

Ontario, CA	674.18 (+13.77%)
Atlanta	648.68 (+10.08%)
Dallas	471.62 (+10.51%)
Harrisburg, PA	441.51 (+10.82%)
Los Angeles	434.02 (+16%)
Elizabeth, NJ	374.33 (+13.01%)
National	**15,668.56 (+14.05%)**

Tender rejection rates

Ontario	19.05% (-19 bps)
Atlanta	24.07% (-200 bps)
Harrisburg	21.76% (-69 bps)
Los Angeles	19.05% (-19 bps)
Elizabeth	15.79% (-68 bps)
Dallas	24.84% (-24 bps)
National	**21.58% (-154 bps)**

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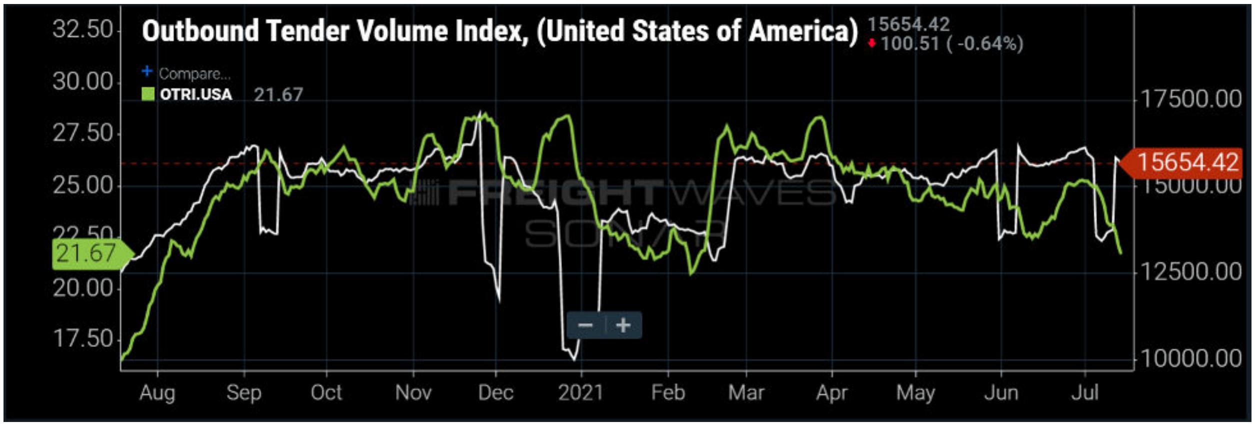
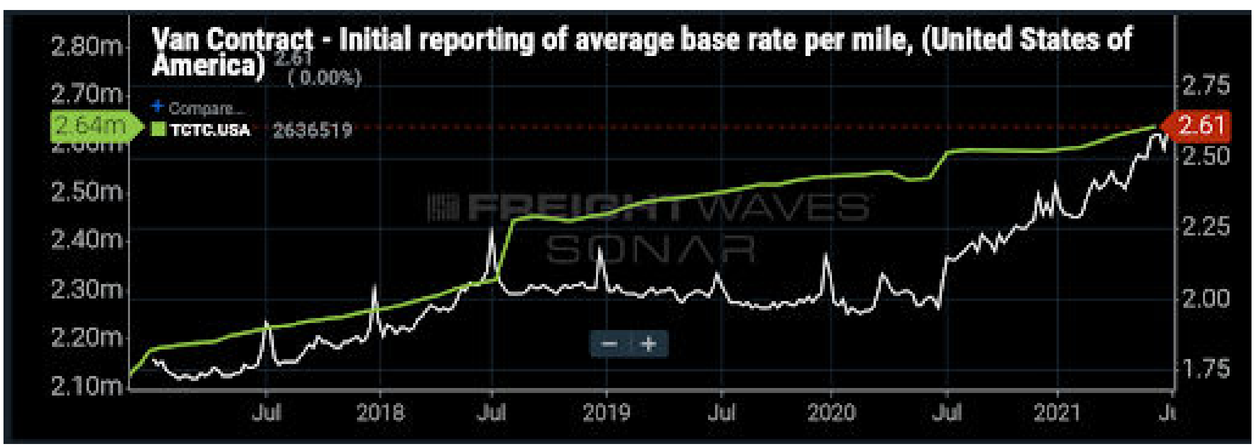
[1] Truckstop.com all-in per-mile rate

Strong freight environment, even amid loosening of relative capacity



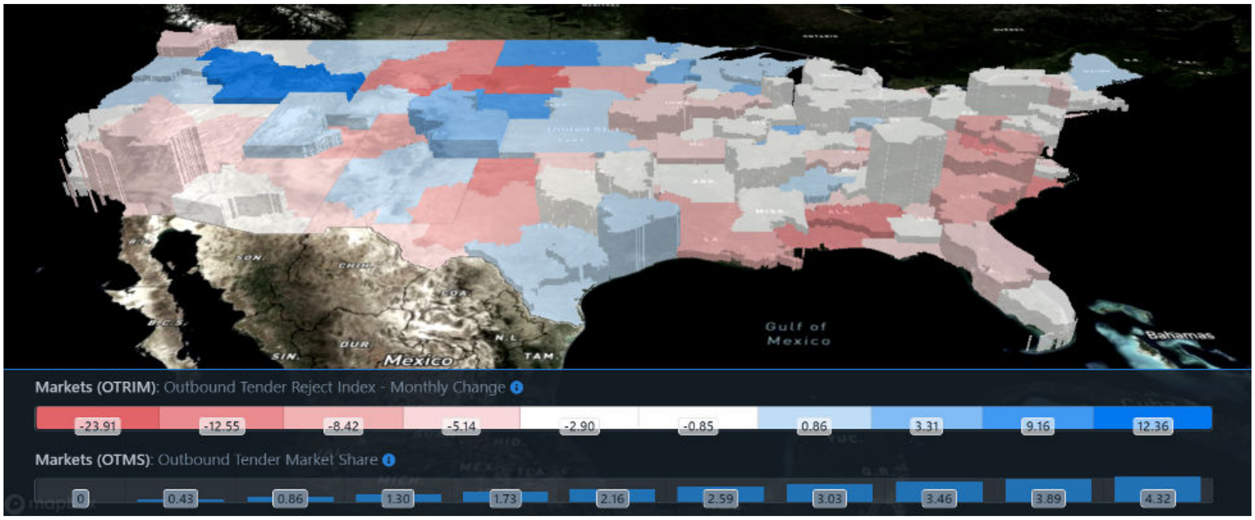
Accepted tender volumes set a new all-time high to begin the week, even surpassing holiday 2020 levels. The Outbound Tender Reject Index (OTRI), a measure of relative capacity based on the rate at which contract loads tendered to carriers and brokers are rejected, has fallen to the lowest level in more than five months. The decrease in rejection rates comes as contracted truckload rates have increased to the highest level in the dataset, which dates back to January 2017.

In the chart below, the initially reported contracted rate, which excludes fuel surcharge and other accessorials that are included in spot rates, set a new all-time high over the past three weeks. As expected, contract rates have continued to climb throughout the first half of the year. It is likely that rates will remain at these elevated levels even as capacity has been steadily added to the market.



(Chart: FreightWaves SONAR: Initially reported van contract rate {white} and Total count of tractors reported monthly by the FMCSA {green})

The fall in rejection rates recently is more of a seasonal trend than any meaningful flood of capacity entering the market. That occurred in the back half of July 2018, which ultimately led to a dip in rejection rates to below 10% and for spot rates to walk the x-axis. While July is traditionally a stronger month, rejections typically fall during the back half of the month as drivers return to the road following the Fourth of July holiday. This year has been no different except that demand for drivers remains intact and strong seasonally, holding the upward pressure on freight rates for the foreseeable future (likely into 2022 before the relief valve is released). Given the deep backlogs of new Class 8 truck orders at truck manufacturers, the rate at which new trucks can be delivered is unlikely to help the elevated freight demand across the world. The recent pullback in rejection rates is more likely rate-driven rather than an influx of new equipment entering the market. Look for ejection rates to stay elevated against tougher comps as we enter the strongest period for freight leading into the holiday season. It is widely expected to be one of the strongest holiday seasons in recent memory.



Truckload capacity in the Southeast was starved heading into the Fourth of July. However, relative capacity has returned to the region. Over the past month, rejection rates across the region are down 454 basis points, the most of any region in the country. Relative capacity in the West region, home to the two large southern California markets, Los Angeles and Ontario, has loosened significantly over the past month. In addition, rejections have fallen by nearly 300 bps. Only the Northwest and Mountain Prairie regions have tightened over the past month, but given the relative size of the freight markets within the regions, the tightening is unlikely to have a large impact on the overall freight market.

While capacity in the largest markets in the country has loosened over the past month, truckload volumes in some of the largest markets have moved higher. Ontario is the second-largest market in the country; volumes were up 1.93% m/m, which signals that more freight is moving through the market. Additionally, Atlanta, which is the largest market in the country, experienced a 1.28% m/m increase in requests for capacity.

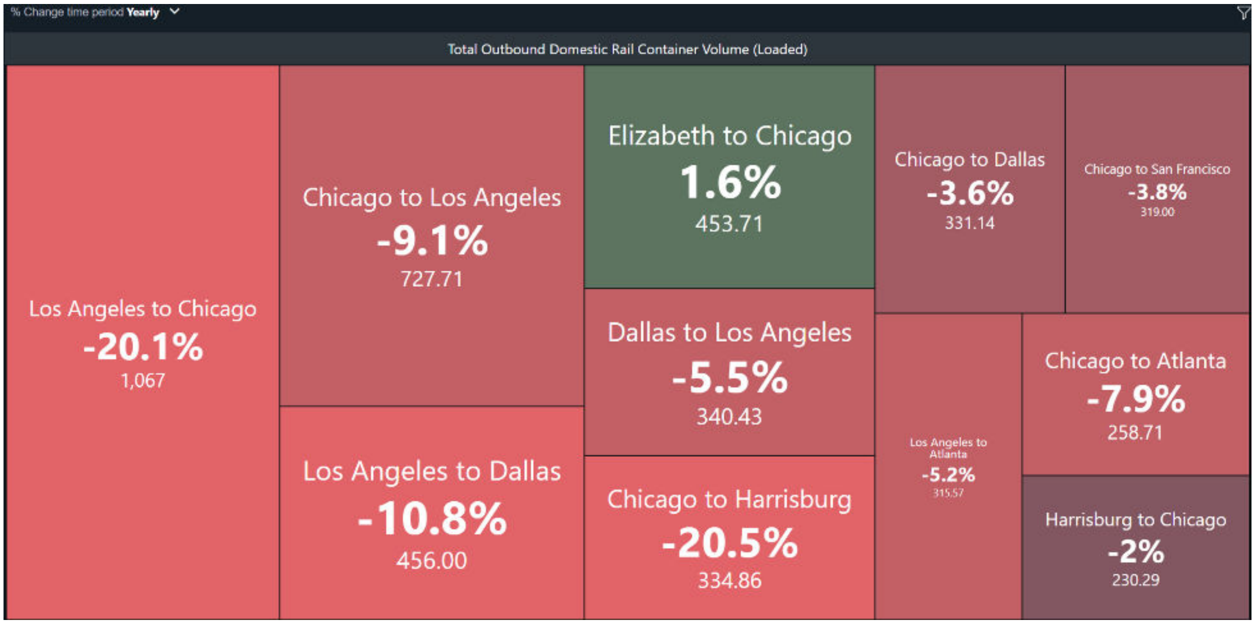
Ultimately, the backdrop for truckload remains strong as the third quarter gets underway. As second quarter earnings results are released over the next several weeks, commentary around rates and capacity coming back online will provide insight to where the freight market is headed through the rest of the year and into 2022.

Intermodal service issues constrain volume growth.

In the past week, we have heard numerous anecdotes from shippers describing subpar intermodal service. For instance, one large shipper that exports bulk commodities described difficulty in getting containers in-gated at convenient times and said that it is "pretty impossible" to find international containers. Also last week, a large consumer goods company said that its intermodal shipment volume is being rationed to a limited number of containers and the intermodal on-time performance it is experiencing is in the 70% range. Then, the news broke that Union Pacific had temporarily suspended eastbound intermodal movements from the West Coast terminals (including L.A., Long Beach, Oakland and Tacoma) to the Global IV facility in Chicago for a period of seven days starting yesterday.

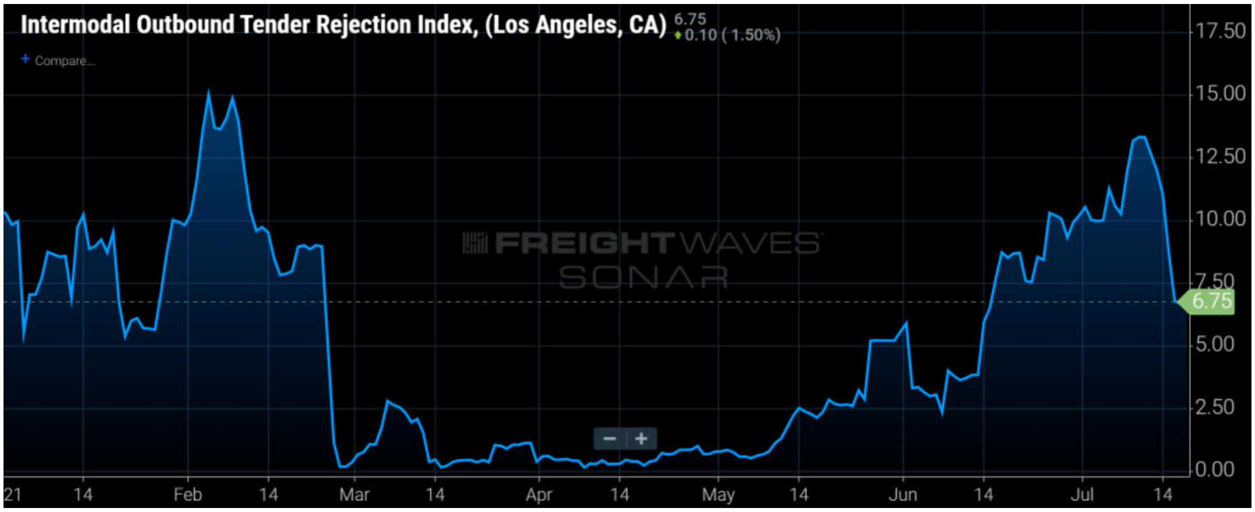
The service issues are clearly hitting intermodal volumes. Against difficult year-ago comps, domestic intermodal volume is now down 6% y/y. Total international intermodal volume is up 6.5% y/y, but loaded international intermodal volume is down 5% y/y in the past seven days as higher volumes of empty international containers return to the ports empty.

Against difficult comps, loaded domestic intermodal volume is down y/y in 10of the 11 densest domestic intermodal lanes in the U.S.



(Chart:FreightWaves SONAR, loaded domestic intermodal volume in the 11 densest U.S. domestic intermodal lanes.)

As congestion worsened, the L.A. outbound tender rejection rate increased steadily in June and July.



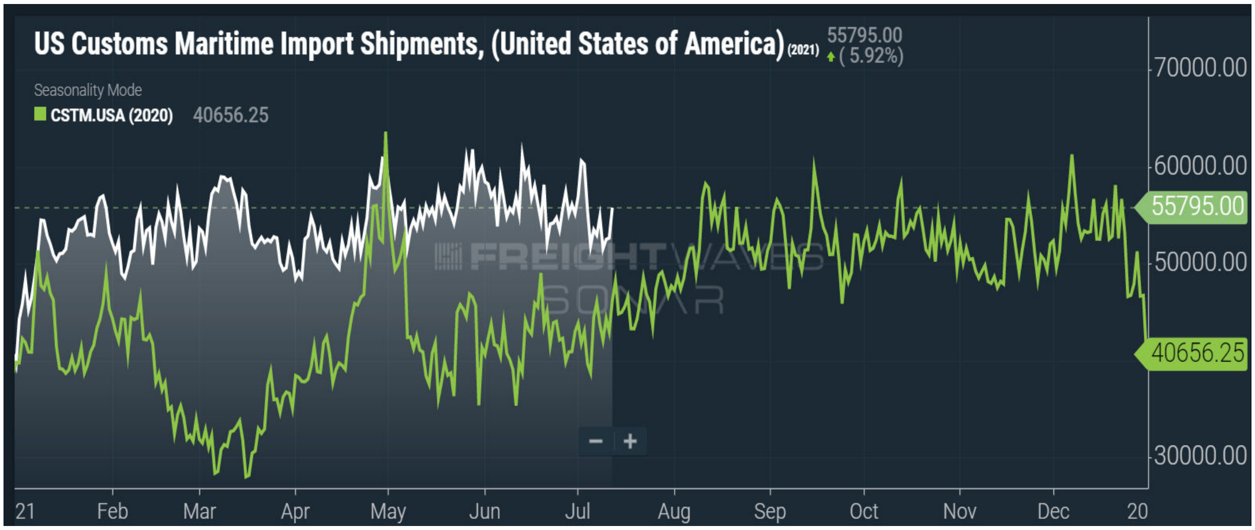
(Chart:FreightWaves SONAR – intermodal tender rejection rates outbound from Los Angeles.)

The door-to-door domestic intermodal spot rates are higher compared to one year ago in 10 of the 11 densest domestic intermodal lanes, as we highlighted in this report two weeks ago. During the past month, there have been very muted changes in intermodal spot rates, as shown in the chart below. We believe the lack of spot rate changes, relative to one month ago, reflects that the railroads had already increased their spot rates in recent weeks to close to, or above, the truckload rates in the same lanes in an effort to protect capacity for contracted shippers.

(Chart:FreightWaves SONAR – domestic door-to-door intermodal spot rates to move 53' containers, and their m/m changes, are shown for the 11 densest domestic intermodal lanes.)

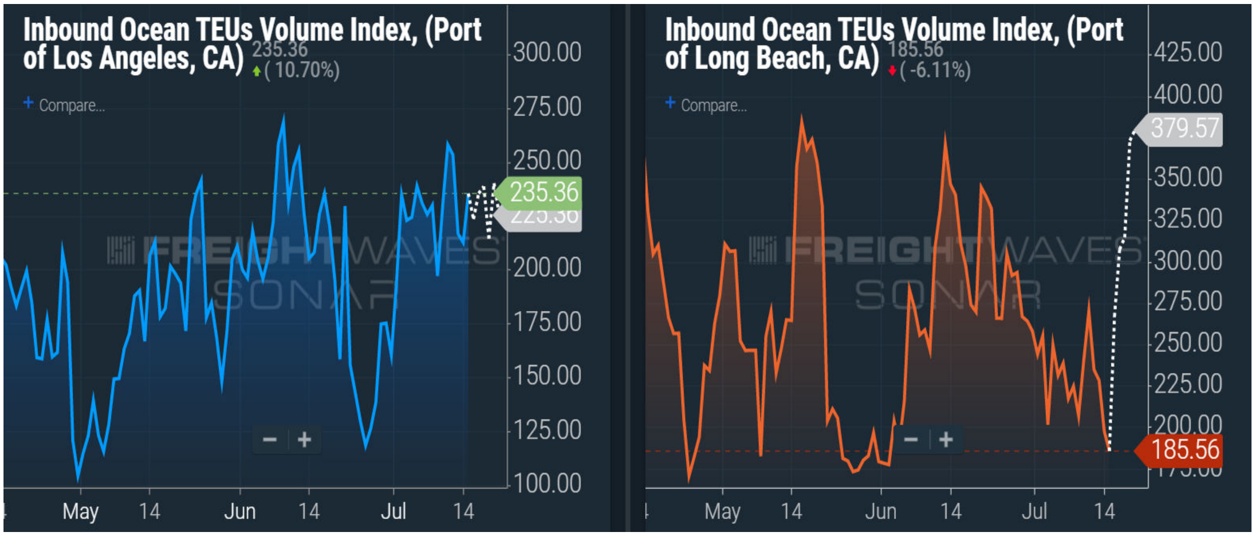
Capacity-stricken maritime sector awaits peak season demand.

Heightened levels of maritime shipment volumes continue to eclipse available vessel capacity. Excess import demand continues to manifest itself in the form of port congestion and container shortages, particularly at the ports of Long Beach, Oakland and Los Angeles. According to Port of Los Angeles Executive Director Gene Seroka, “The past 12 months have been like a peak season on auto repeat.” Despite sequential declines through June and July, U.S containerized and non-containerized import volumes remained up 16% y/y. In the most recent week, shipments from China to the United States increased by 13%, remaining flat at 1% y/y. There are tough comps to come as the peak season escalates.



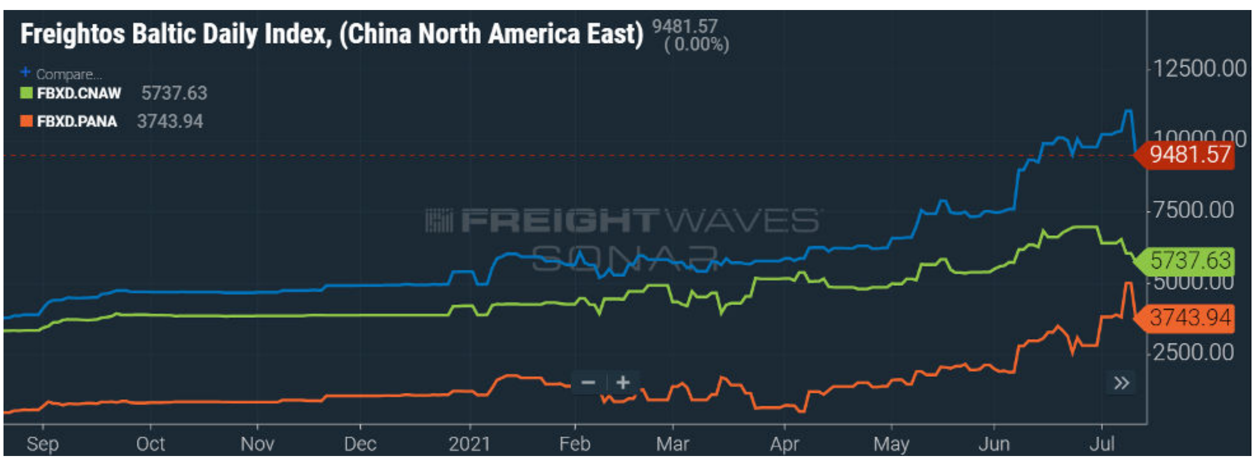
(Chart: FreightWaves SONAR – U.S. Customs Maritime Import Shipments to the United States YTD {White Line} as compared to 2020 full year {Green Line})

A current point of contention is the substantial bookings increase of Inbound ocean TEU volumes destined for the Port of Long Beach (right chart below). In the coming week, daily bookings have increased by 104% from its current levels. Pent-up departures from China's Guangdong Province, in conjunction with back to school and fall holiday demand, are contributing to the increase. The neighboring port of Los Angeles (left chart below) is faced with a much more modest increase of 4%. Both facilities have been affected by the Port of Yantian’s limited capacity in June. Nearly one-third of all vessels that call upon the San Pedro Bay complex originate in the Guangdong Province. Increased operating capacity in the East Asian region, along with peak season demand through September, should further escalate congestion, equipment shortages and trans-Pacific rates.



(Chart: FreightWaves SONAR – Inbound Ocean TEU volume index on imports destined for the Port of Los Angeles, CA {Blue} and Long Beach, CA {Orange})

Average rates per 40-foot container from Asia to North America have softened sequentially. Rates moving from China to the American East Coast (Blue) have fallen 8% in the most recent week, while China to the West Coast (Green) has decreased 12%. The cooling of eastbound trans-Pacific rates is anticipated to be short-lived as we await peak season demand and general rate increases. While rates have settled, they are still elevated significantly y/y. China to the American East Coast is up 183% y/y, while rates from China to the West Coast are up 108% y/y. The Panama spread (Orange) has stayed relatively flat, down just 2% w/w. The premium paid to get to the East Coast remains up substantially (525 y/y) when compared to last year.



(Chart: FreightWaves SONAR – Freightos Baltic Daily Index of average rate per FEU going from China to North America's East {Blue} and West Coast{Green}, along with the Panama East-West Spread differential {Orange})

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