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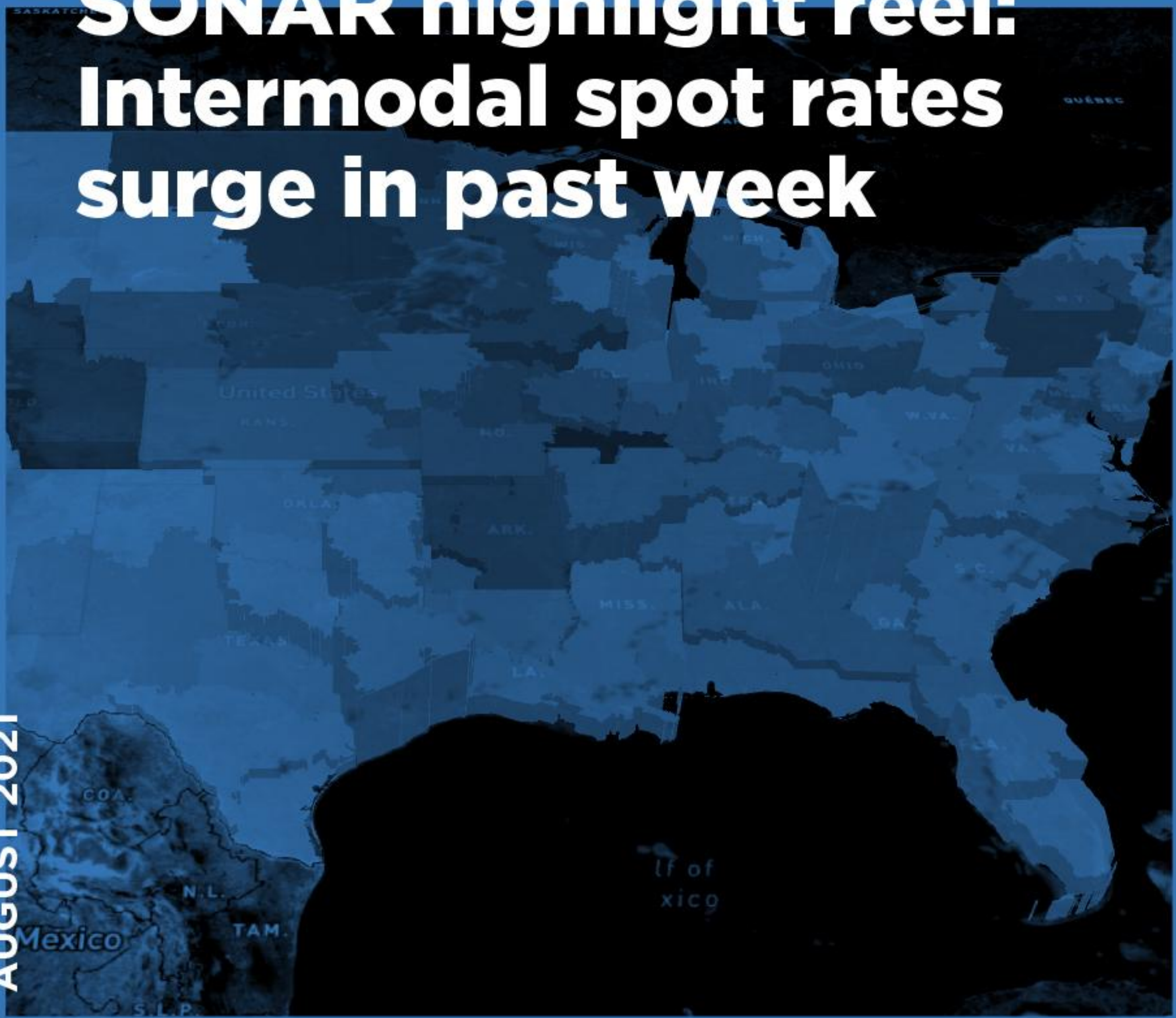
SONAR highlight reel: Intermodal spot rates surge in past week



AUGUST 2021

WHITE PAPER

SONAR highlight reel: Intermodal spot rates surge in past week

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

Freight volumes continue the robust growth though relative capacity has started to tighten again, following a seasonal pattern. The rise of volumes in the shorter lengths of haul have led to spot rates setting new all-time highs in both the dry van and reefer market, although rejections hit the lowest level in more than a year.

As intermodal service continues to be an issue for shippers and impairs intermodal volume (intermodal volume is failing to keep pace with domestic truckload and import volumes), the railroads increased intermodal spot rates dramatically in the past week. That has put intermodal further out of reach for spot shippers in the lanes outbound from L.A. and has placed intermodal and truckload spot rates at close to parity from Chicago to Elizabeth, NJ.

Maritime data suggests that further shipment delays, elevated ocean rates and a strained domestic transportation network should be expected. The National Retail Federation expects August to set a new record for U.S. imports, eclipsing the record set in May. Nearly 30 containerships are at anchor in the San Pedro Bay, which suggests additional delays in getting consumer goods to market. Further complicating matters for shippers, a COVID outbreak at one terminal at the Port of Ningbo, the world's third-largest container port, has reduced its capacity to 80%.

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

LAX-DAL	$3.38 (-$0.04)
CHI-ATL	$3.19 (Unch.)
PHL-CHI	$2.19 (-$0.03)
ATL-PHL	$3.21 (-$0.07)
DAL-ATL	$2.51 (-$0.06)
DAL-LAX	$1.32 (-$0.24)
National	**$3.35 (+$0.02)**

Freight volume index (weekly change)

Ontario, CA	666.74 (+2.2%)
Atlanta	658.73 (+1.8%)
Dallas	538.23 (+6.8%)
Los Angeles	478.66 (+7.7%)
Harrisburg, PA	452.47 (-1.7%)
Elizabeth, NJ	358.43 (+3.1%)
National	**15,745.62 (+1.5%)**

Tender rejection rates (weekly change)

Ontario	17.14% (-150 bps)
Atlanta	21.64% (-9 bps)
Dallas	24.86% (+146 bps)
Los Angeles	17.14% (-149 bps)
Harrisburg	24.31% (+194 bps)
Elizabeth	17.8% (+187 bps)
National	**21.58% (+34 bps)**

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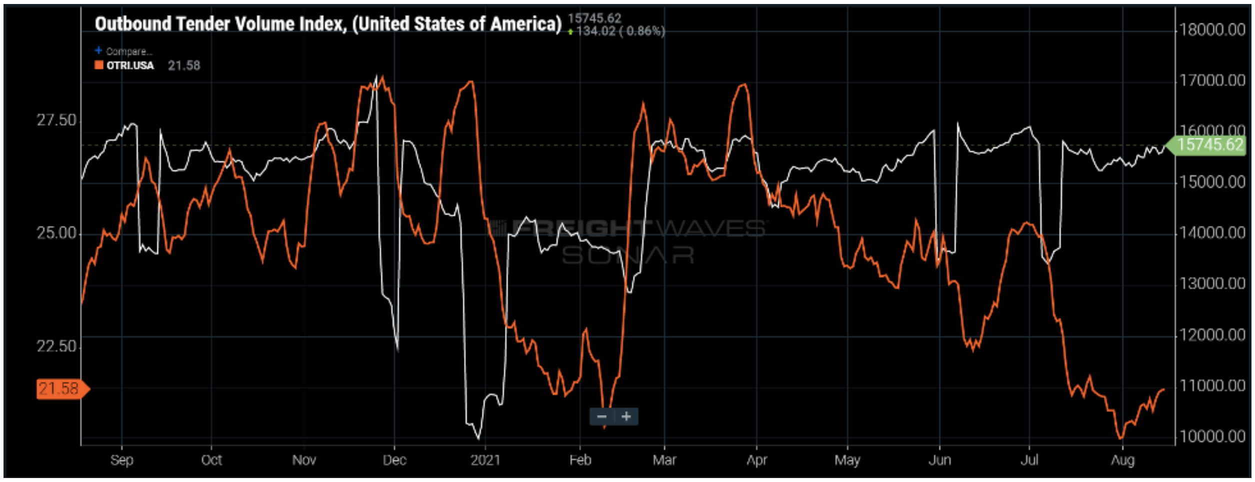
[1] Truckstop.com all-in per-mile rate

Rejections increase, truckload capacity tightens in the largest markets and spot rates hit new highs

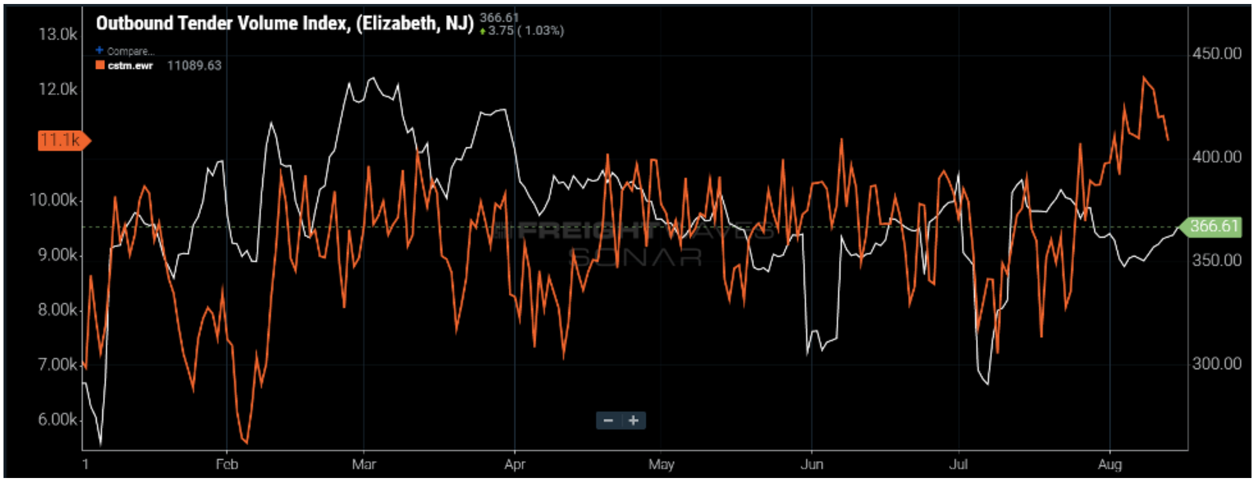


The rise in volumes continues to outpace the rise in rejection rates, signaling that overall accepted freight volumes are continuing to set new highs. While volume levels have been range-bound for the better part of six months, there are trends within the underlying index that are worth mentioning.

Both long- (800+ mi) and short-haul (100-250 mi) tender levels propped up the overall index as both increased by more than the absolute Outbound Tender Volume Index (OTVI). Short-haul volumes were up 4.4% w/w while long-haul volumes increased by 2.6%.

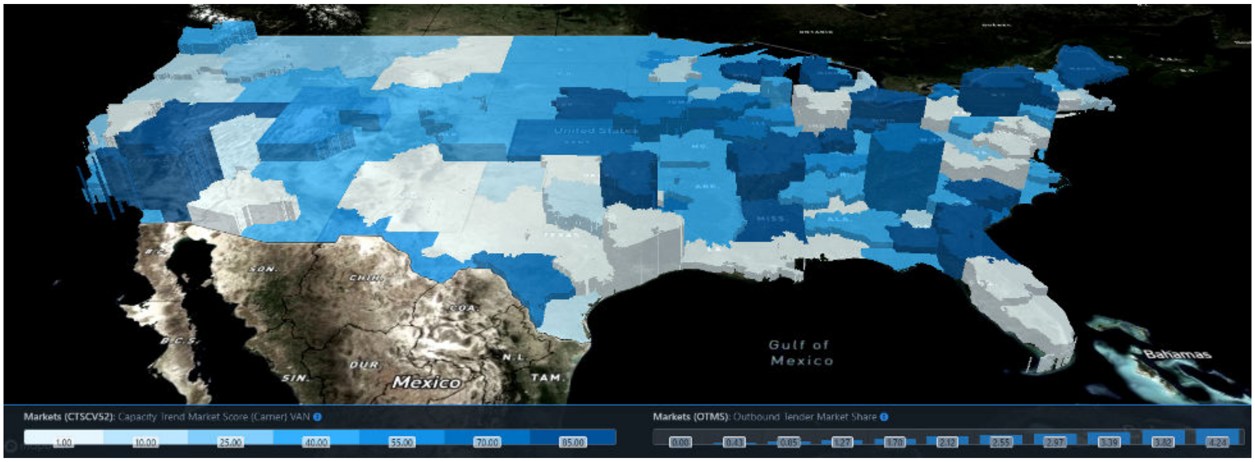
Fourteen of the 20 largest freight markets in the country had a strong week as volume growth outperformed the overall index. The Southern California markets (Ontario and Los Angeles), which are the largest and fourth-largest freight markets in the country, posted strong increases over the past week, as tender volumes increased 2.2% w/w and 7.7% w/w, respectively. The increases in volumes outpaced rejection rates as more freight flows through San Pedro Bay and its ports of Los Angeles and Long Beach.

As congestion mounts in San Pedro Bay, beneficiaries will be the major East Coast/Gulf Coast ports – New York/New Jersey, Savannah and Houston, as well as auxiliary West Coast ports like Oakland, which has been dealing with congestion itself for much of the year.



SONAR: OTVI.EWR (White); CSTM.EWR (Orange): *Import volumes in the Port of New York New Jersey are leading outbound truckload volumes out of Elizabeth, NJ*

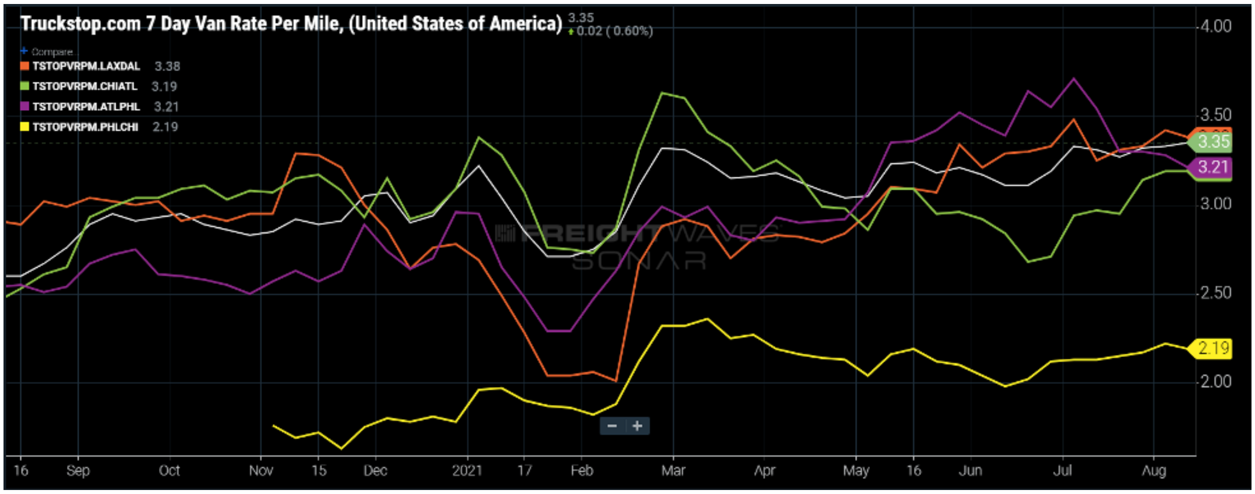
Ports like Savannah and New York/New Jersey are processing a record number of imports at this time. The proximity of these ports to large consumption centers compared to the West Coast ports allows for a significant increase in shorter length of haul volumes, thus keeping upward pressure on rates, especially longer lengths of haul out of markets like Elizabeth, New Jersey, Philadelphia and Baltimore.



SONAR: Capacity Trend Market Score (Carriers - VAN) *The darker the blue the better conditions are for carriers in a given market. The whiter markets are better for shippers. The height of each market represents its market share. The tallest markets are the largest and are also often the tightest currently.*

The combination of Los Angeles and Ontario are often deemed the heartbeat of the U.S. freight market. Together, they represent over 7% of total requests for capacity in the country and are among the tightest markets, even though rejection rates are well off the late April highs.

In the past week, rejection rates in both Los Angeles and Ontario have been increasing steadily, up 130 basis points (bps), compared to the national rejection rate, which has increased just 23 bps. The intermodal value add typically felt on long-haul moves has broken down in recent weeks as loaded intermodal volumes out of Los Angeles are at the lowest level since early March. This has led to increased pressure on truckload capacity as requests for capacity in Southern California are on the rise.



The national average truckload spot rate, according to Truckstop.com's load board, set yet another new all-time. National dry van spot rates climbed another two cents per mile to $3.35/mi including fuel surcharge. Comps have become increasingly difficult over the past several weeks, which has led the gap in spot rates to narrow to 34% y/y. Reefer spot rates continue to climb as well, reaching $3.99/mi including fuel surcharge, which is an all-time high in the data set as well.

The rise in dry van rates over the past two weeks has occurred while rejection rates have fallen to the lowest levels in the past year. Concurrently, the rise in shorter lengths of haul has propped up spot rates. On the reefer side of the market, reefer rejection rates are still at stubbornly high levels (in excess of 33%), but after falling from over 50% in March, the slight increase to begin August has provided the pressure to drive reefer spot rates higher.

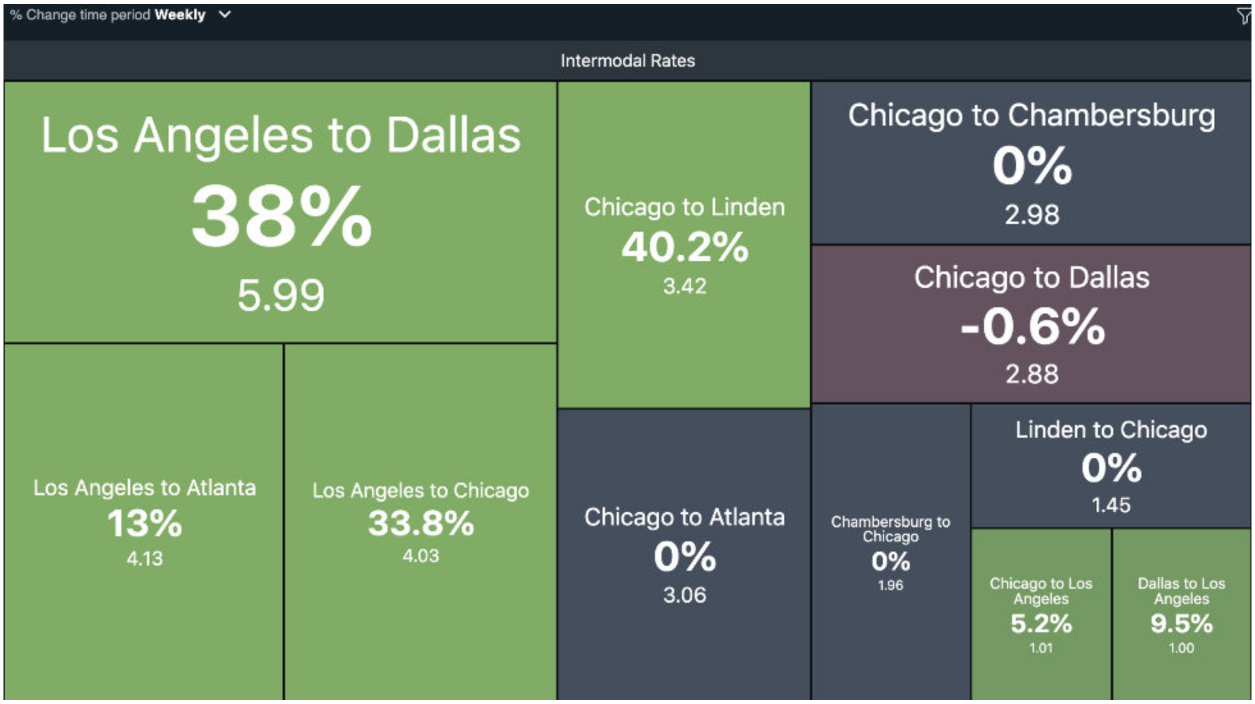
When is relief coming?

The short answer is not for a while. The largest infrastructure bill in the nation's history passed the Senate and now moves to the House of Representatives, where it is expected to pass. The bill will likely keep the already tight labor market tighter over coming years. Trucking is still driver- dependent and will be for a while as autonomous methods are still being tested. Many drivers will opt for other blue-collar jobs that keep them near home. This will add pressure to the capacity side of the trucking industry for a prolonged period. We expect that the tightness currently felt in the marketplace is here to stay into 2022, which will keep rates elevated as well.

Surging intermodal spot rates in key lanes highlight capacity constraints

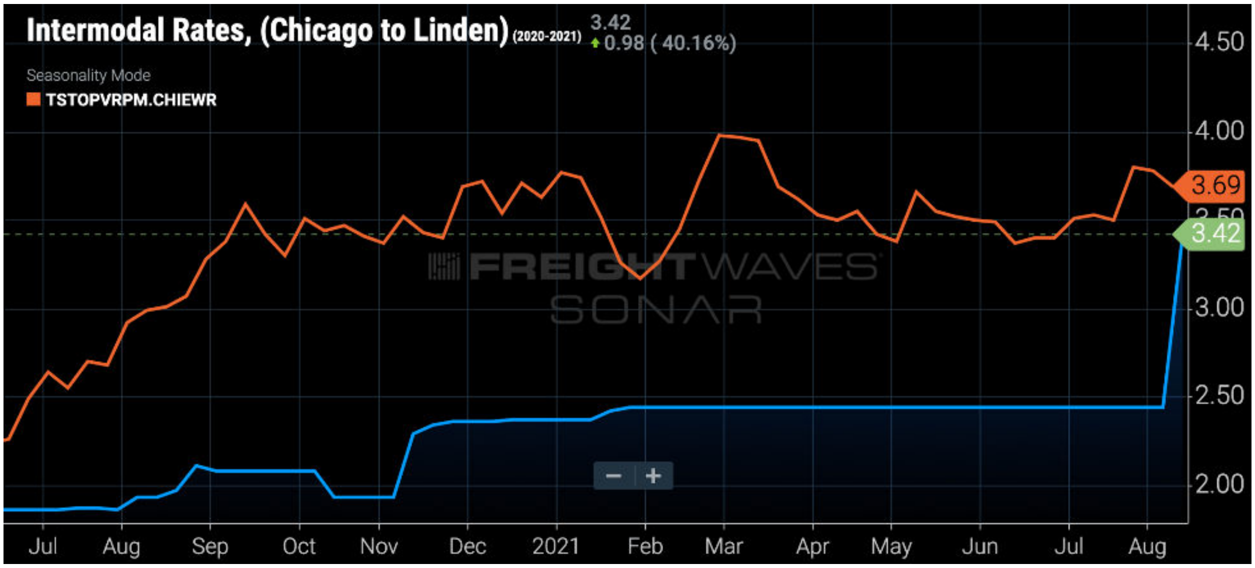
Intermodal spot rates for the movement of 53-foot containers door-to-door are updated in SONAR first thing each Wednesday morning. Often, there are few changes in the rates from the prior week, but there were many sharp changes in the past week. The SONAR chart below shows domestic intermodal spot rates in the 11 densest domestic intermodal lanes. The pattern in the past week is that rates on domestic intermodal loads moving outbound from LA all increased sharply from the prior week. Rates rose 38%, 34% and 13% from LA to Dallas, Chicago and Atlanta, respectively, all to levels that are uncompetitive with dry van truckload (if they weren't uncompetitive already).

The sky-high intermodal spot rates in those lanes indicate that carriers are taking further steps to protect capacity for domestic intermodal shippers that move loads under annual contracts. In addition, the steep one-week changes suggest that carriers are expecting continued or worsening tightness in intermodal capacity in the coming weeks.



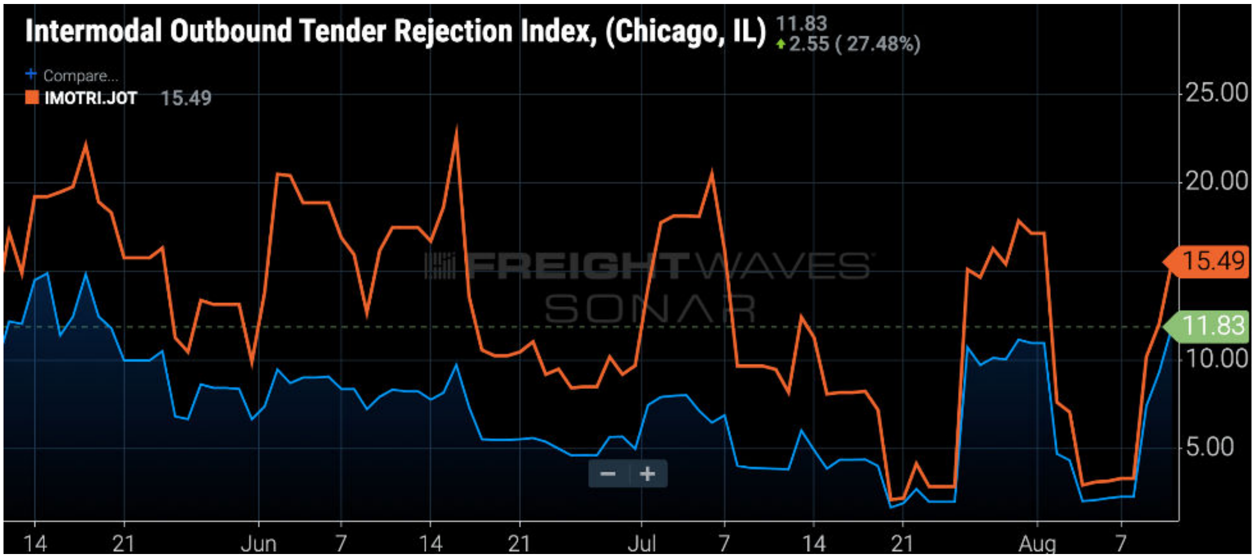
(Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door-to-door, including fuel surcharges, for the 11 densest domestic intermodal lanes.)

In addition to the outbound L.A. lanes, intermodal spot rates also shot up in the Chicago-to-Newark/Elizabeth/Linden, NJ lane in the past week. Intermodal spot rates in that lane increased 40% to $3.42 a mile, including fuel surcharges. Prior to that very steep increase, intermodal spot rates in that lane had been anywhere from 20% to 40% below dry van spot rates published by Truckstop.com, which have ranged from $3.40 to $3.80 per mile and also include fuel surcharges. Following this past week's increase, the domestic intermodal spot rates in the Chicago-to-Newark/Elizabeth/Linden lane are now within 7% of the latest dry van rate of $3.69 published by Truckstop.com. A single-digit savings is not usually enough to entice shippers to use rail intermodal over the higher and more consistent service levels associated with truckload.



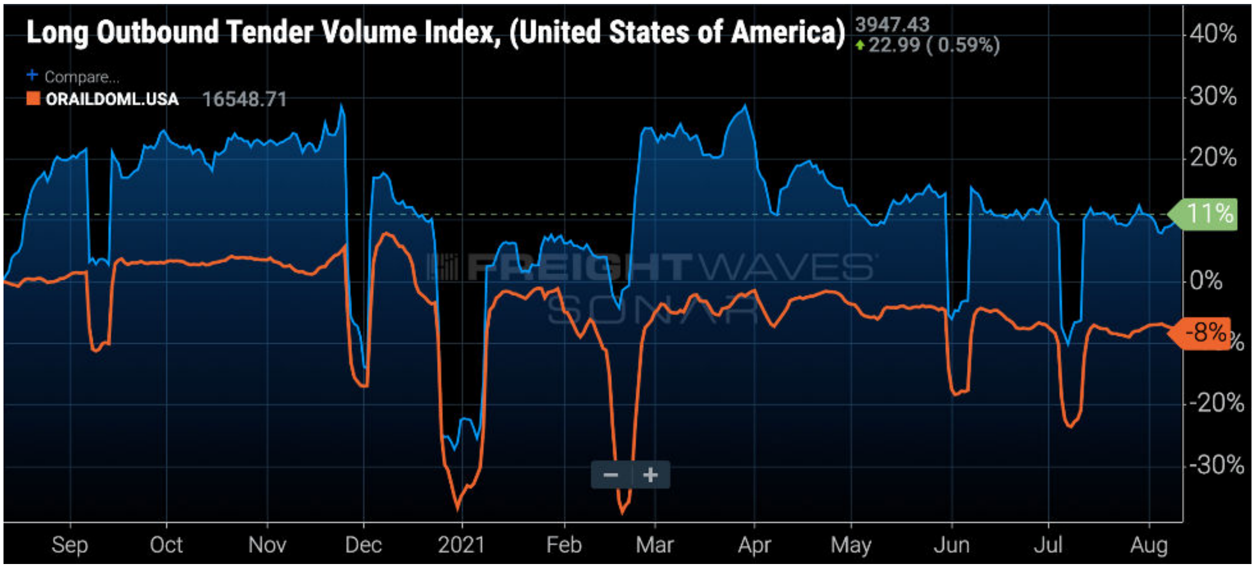
(Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door-to-door for the Chicago-to-Linden, New Jersey, lane are shown in blue. Dry van truckload spot rates on the same lane are in orange. Both indexes include fuel surcharges.)

Domestic intermodal is currently presenting its own issues for shippers that typically move intermodal loads under annual contracts. Two SONAR data points that stand out in the past week that are relevant for contractual intermodal shippers are the sizable increases in the Chicago and Joliet, Illinois, intermodal outbound tender rejection rates, which increased from less than 5% in the first week of August to 12% and 15%, respectively. While those intermodal tender rejection rates are still well below the national truckload tender rejection rate of 21%, intermodal shippers are quick to point out that intermodal tender rejection rates do not tell the whole story. In fact, carriers often automatically accept intermodal tenders, which tends to keep overall intermodal tender rejection rates low. During times of unacceptable service, shippers sometimes take back their auto-accepted intermodal loads and move them by truckload in order to meet time requirements.

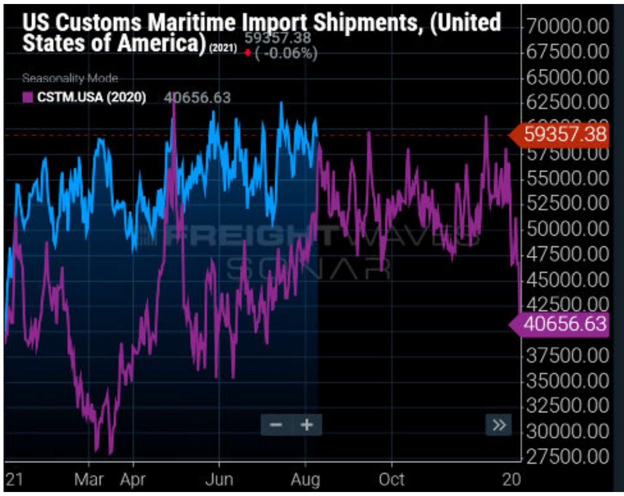


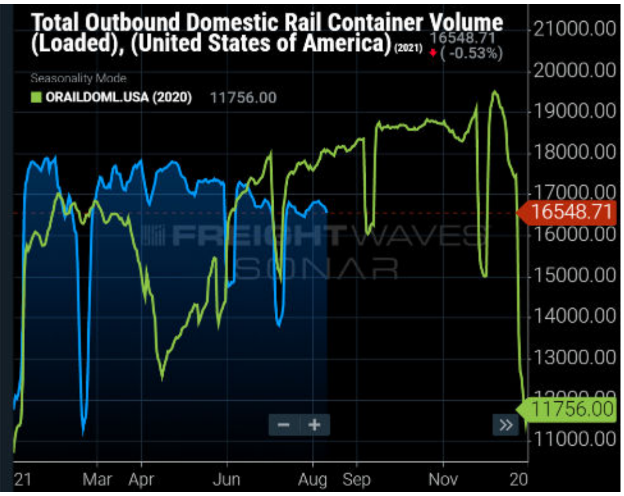
(Chart: FreightWaves SONAR. Intermodal outbound tender rejection rates for the Chicago and Joliet markets are shown in blue and orange, respectively.)

As a further indication that shippers are not seeing as much value in intermodal as they often do, we compared domestic intermodal volume to other measurements of freight demand/volume that typically move in line with domestic intermodal volume. As shown in the SONAR charts below, intermodal volume has underperformed both import shipment volume and long-haul domestic truckload demand when compared to one year ago.



(Chart: FreightWaves SONAR. The Long-Haul Outbound Tender Volume Index is a measure of long-haul truckload demand [shown in blue]. It has outperformed loaded domestic intermodal volume [shown in orange].)



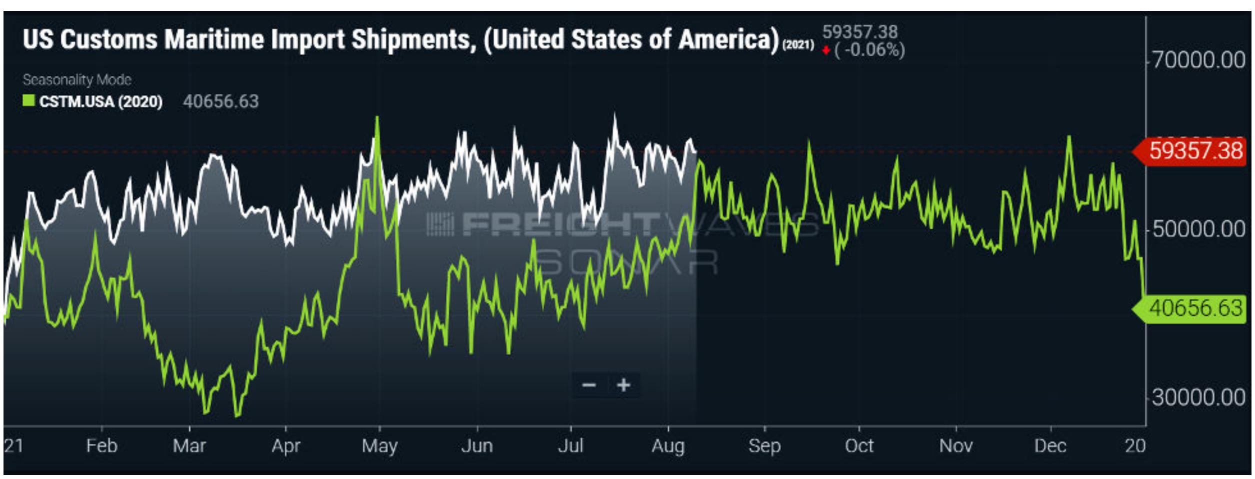


(Chart: FreightWaves SONAR. U.S. maritime import shipments passing through U.S. Customs [left chart above] are above year-ago levels, while domestic intermodal volume [right chart above] is 8% below year-ago levels.)

Ningbo's terminal closure sparks fear of further global supply chain disruption

U.S. containerized import volumes are expected to hit 2.37 million TEU in August, 40,000 greater than the 2.33 million record set back in May. Those figures, according to the National Retail Federation, indicate that peak season has now descended upon us. Any increase in volume couldn't come at a worse time for the congested and backlogged maritime sector.

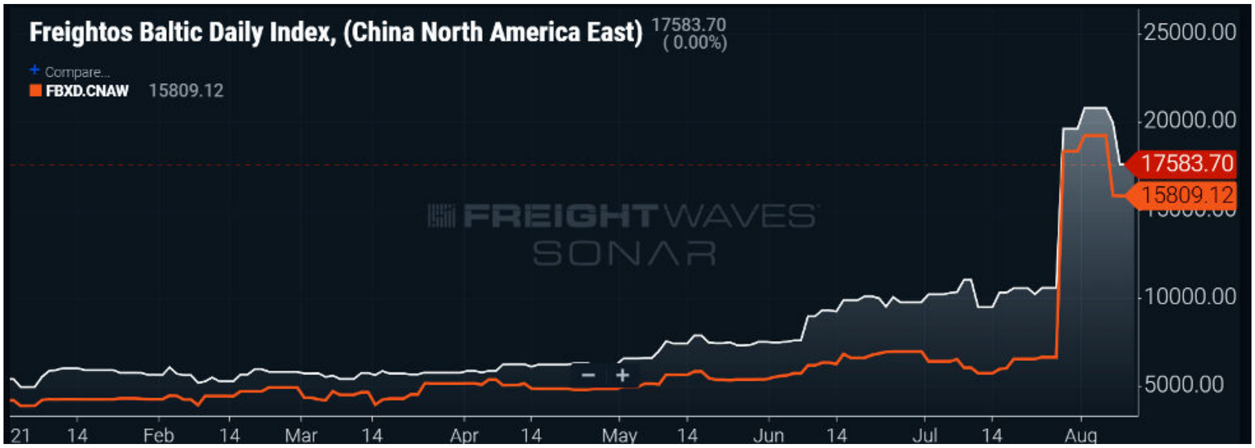
In the most recent week, congestion continued to mount in the U.S., particularly along the West Coast in San Pedro Bay. According to MarineTraffic, nearly 30 container vessels await a berth at one of the two port complexes within the bay. As more vessels become involved in the congestion, capacity and equipment is effectively stripped from the market.



(Chart: FreightWaves SONAR, US Customs Maritime Import Shipments shown YTD {White}, vs. Full year 2020 [Green])

Even as a greater share of consumers' spend is reallocated to services, containerized and non-containerized import shipments passing through U.S. Customs remain elevated by 5% y/y. Unabating consumer demand, coupled with increased congestion and equipment shortages, has kept eastbound trans-Pacific rates at astronomical levels.

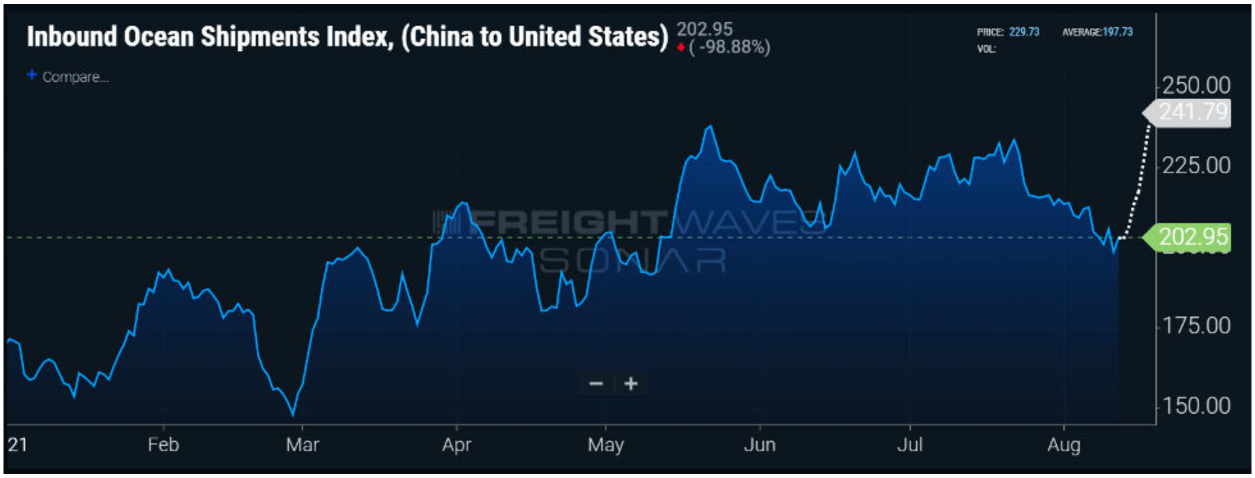
Despite cooling through the week, spot rates from China to the American East Coast are $17,584/FEU, up 407% from last year. Spot rates moving from China to the American West Coast are $15,809/FEU, an increase of 417% y/y. While trans-Pacific rates have increased substantially y/y, it should be noted that a large portion of the delta results from the index's calculation change in July.



(Chart: FreightWaves SONAR, Freightos Baltic Daily index depicting 40' spot rates moving from China to the North American East Coast [White], and China to the North American West Coast [Orange])

Last week, a positive COVID test sparked the closure of the Meidong terminal within the Port of Ningbo, China. While still remaining a fluid situation, the closure generated worries of additional delays on exports to the U.S., and further increases in already sky-high rates. Even with just one terminal offline, the third-largest container port in the world is restricted to operating at 80% of its maximum capacity.

The closure triggered ocean carriers to adjust schedule times, re-route services, and omit port calls on Ningbo in the coming weeks. Any sustained or escalated shutdown would be detrimental to the global supply chain. Vessels calling on the port could wait weeks for a berth, neighboring ports would become increasingly clogged due to re-routed services and heavy backlogs within ports, warehouses and factories would likely ensue. This marks the second closure of a Chinese port due to a COVID outbreak (the port of Yantian was compromised in late May).



(Chart: FreightWaves SONAR, Inbound Ocean Shipments Index, depicting daily bookings with ocean carriers from China to the US [Blue] along with departures for the next 7 days [White])

Operating on fears of more impending lockdowns within China, daily bookings with departures over the next 7 days have increased by 19%. The inbound ocean shipment index, depicting daily shipment volumes booked with ocean carriers, is forecasted to best an all-time high set in late May. The influx in bookings comes days after airlines were forced to cancel hundreds of cargo flights from China. The cancellations were a result of COVID restrictions placed on airports and crew. The developing situation in China can potentially inflict devastating consequences on U.S.-based shippers as we head into a pivotal peak season.

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