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SONAR highlight reel: Shippers have already experienced the worst

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.

The end of the second quarter is typically a strong period for truckload freight and this year is no exception. While volumes remain elevated, tender rejection rates have declined steadily since early April. We attribute that to increases in contract rates, which have increased over 8% since last April, rather than any meaningful loosening in the freight market. Elevated import volume, inventory replenishment and capacity constraints are likely to keep the truckload market tight, but it is hard to see a catalyst that will make it incrementally worse from a shippers' perspective.

Major trends in intermodal data include: (1) international intermodal volume showing y/y growth when revenue empties are included; (2) the volume of loaded international intermodal containers is now flat y/y; (3) domestic intermodal volume is lower y/y against difficult comps; (4) eastbound headhaul lanes continue to show far greater volume and pricing growth than backhaul lanes; (5) spot rates have spiked in certain domestic intermodal lanes as carriers price to the market; and (6) shortages of chassis and labor at port cities has worsened.

Meanwhile, elevated import volume and ocean capacity constraints continue to put upward pressure on ocean rates, particularly in the China to North America East Coast lane.

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

LAX-DAL	$3.33 (+ $0.03)
CHI-ATL	$2.71 (+$0.03)
PHL-CHI	$2.12 (+$0.10)
ATL-PHL	$3.55 (-$0.09)
DAL-ATL	$2.45 (+$0.06)
DAL-LAX	$1.45 (Unch.)
National	**$3.19 (+$0.08)**

Freight volume index (weekly change)

Ontario, CA	717.68 (+12.28%)
Atlanta	703.65 (+8.46%)
Dallas	526.19 (-0.12%)
Harrisburg, PA	451.96 (-0.49%)
Los Angeles	419.09 (+3.75%)
Elizabeth, NJ	391.99 (+13.99%)
National	**16,115.65 (+1.92%)**

Tender rejection rates

Ontario	23.19% (+0.24%)
Atlanta	29.23% (-0.86%)
Harrisburg	25.12% (+0.29%)
Los Angeles	23.20% (+0.25%)
Elizabeth	21.20% (+0.28%)
Dallas	29.99% (+2.47%)
National	**25.21%(+0.26%)**

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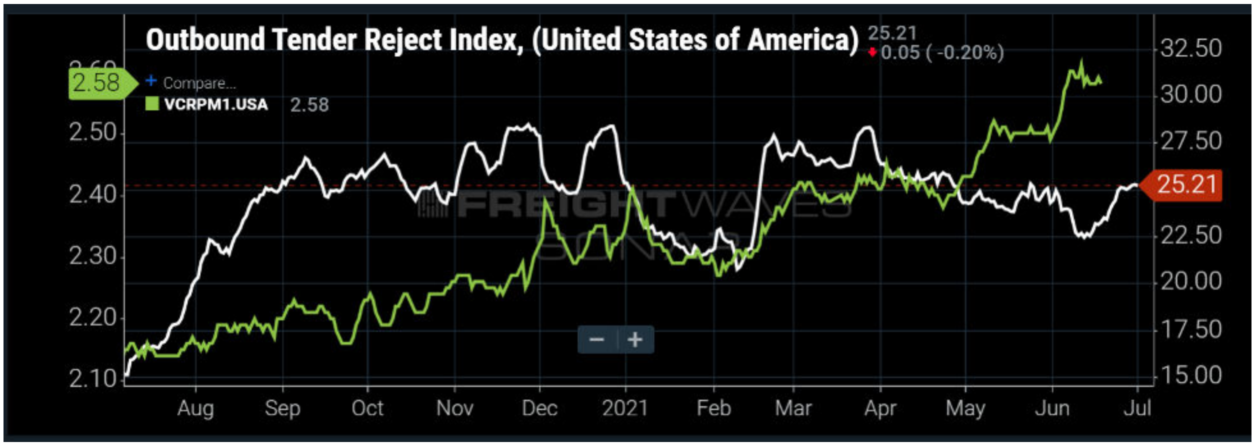
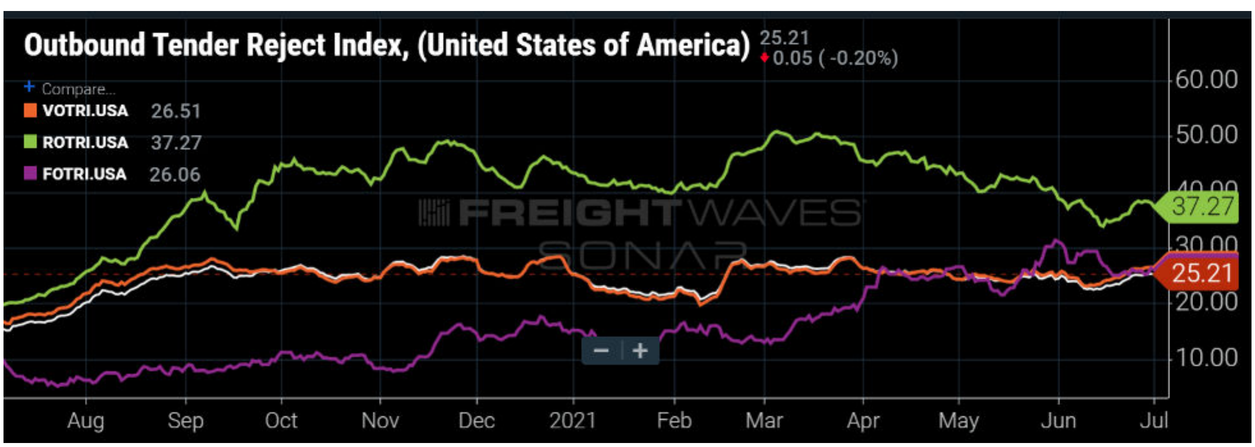
[1] Truckstop.com all-in per-mile rate

The worst of rate inflation is here, but the pressure remains for the foreseeable future



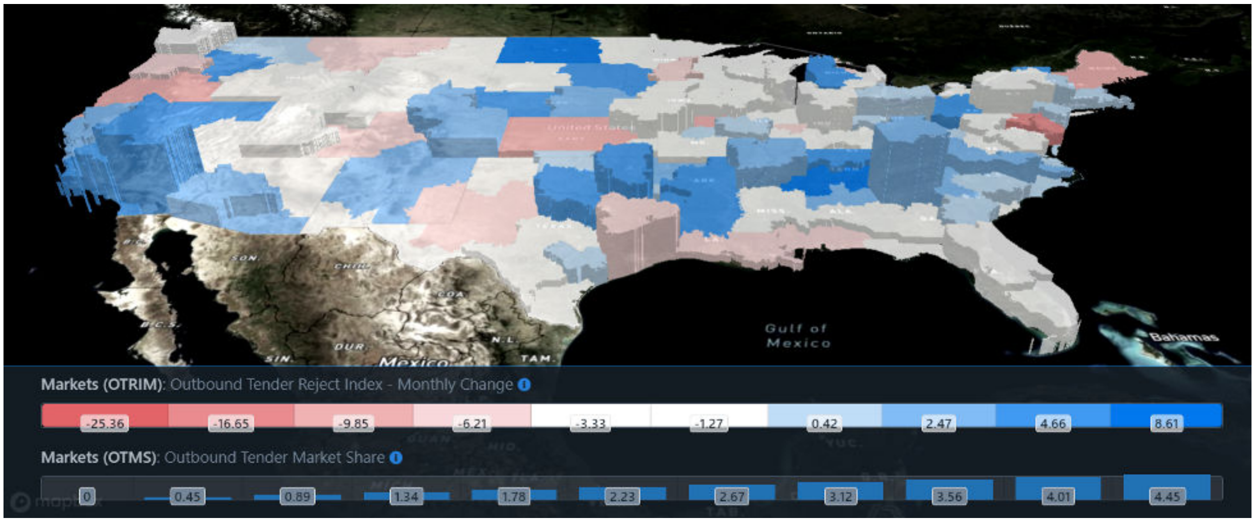
(FreightWaves SONAR: Outbound Tender Reject Index {white} and initially reported dry van contract rates, reported on 14-day lag {green})

Freight demand maintains strength throughout the beginning of the summer season as the Outbound Tender Volume Index (OTVI) hovers around non-holiday season-related highs. The continued growth in tender volumes, as rejection rates fell steadily since early April, shows that more freight is moving through the contract market instead of falling through the routing guide to the spot marker. The result of the increased contract activity is that shippers are paying elevated contracted rates. The Van Contract Rate per Mile – initial, which is reported on a two-week lag and is just the base linehaul rate, has increased by over 8% since late April, outpacing Truckstop.com's national spot rate. In comparison, Truckstop.com's national spot rate, which includes fuel surcharge and other accessorials, has increased by 3.5% during the same time. The increase in contract rates means that shippers are opting to lock-in a higher rate in order to secure necessary capacity instead of relying on the spot market, signaling that the tightness in the freight market is likely to continue through the rest of the year.



(FreightWaves SONAR: Outbound Tender Reject Index {white}, Van Outbound Tender Reject Index {orange}, Reefer Outbound Tender Reject Index {green}, Flatbed Outbound Tender Reject Index {purple})

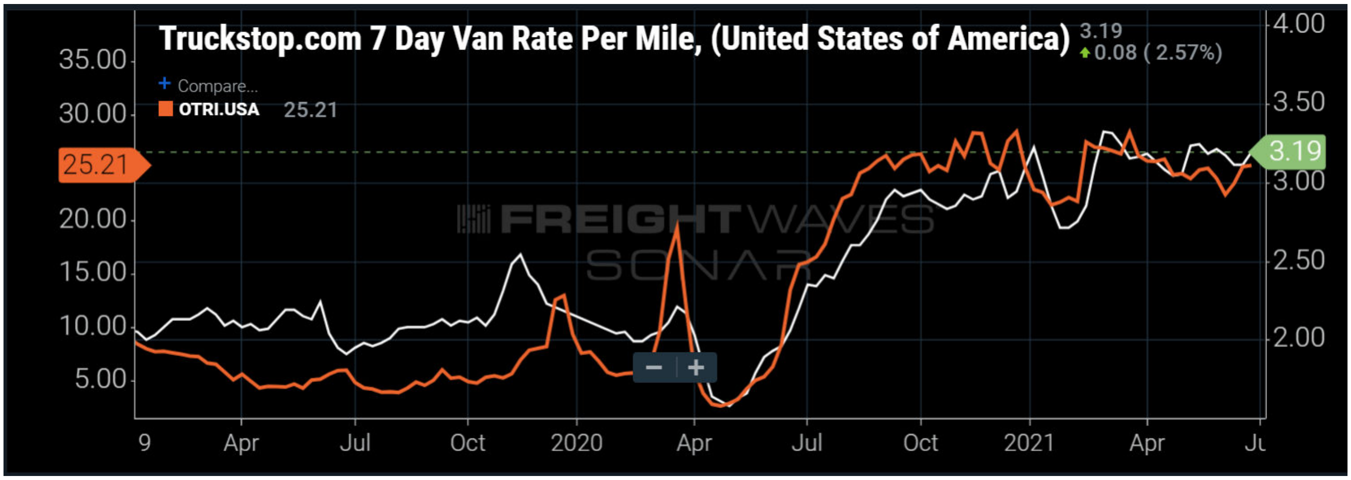
The tightness in the freight market is no longer isolated to just dry van and reefer equipment types. The smaller, more specialized equipment types, like flatbed, are finally experiencing the tightening that has kept the pressure on rates for the other equipment types for much of the past year. The nearly 2,000 basis point (bps) increase in flatbed rejection rates has led flatbed spot rates to increase by 160% on a year-over-year (y/y) basis.



(Map: FreightWaves SONAR, Outbound Tender Reject Index monthly change {color} and Outbound Tender Market Share {height})

The loosening in the truckload market experienced following Memorial Day has largely been offset by now as the Outbound Tender Rejection Index (OTRI) is down just 4 bps month-over-month (m/m). Roughly half the freight markets tracked by SONAR have tightened over the past month as rejection rates are higher in 65 of the 135 SONAR markets.

The three largest markets in the country, in terms of outbound volume are Ontario, California, Atlanta and Dallas. They have all experienced significant tightening of relative capacity over the past month. Rejection rates have increased by over 600 bps in Dallas, the largest single m/m increase since the winter storm in late February that drastically disrupted transportation markets across the country. The largest market in the country, Ontario, has experienced an increase of 466 bps in rejection rates over the past month. The market is now the tightest it has been since mid-April as rejection rates currently sit over 23%. The Atlanta market, which has experienced some loosening over the past few days, is among the tightest large markets in the country as rejection rates have increased by 317 bps m/m. Rejections in Atlanta eclipsed 30% for the first time since 2018 in recent weeks, signaling the market's tightness.



(FreightWaves SONAR: Truckstop.com National Average Spot Rate {white} and Outbound Tender Reject Index {orange})

"For inflationary concerns related to freight: The worst is already here. Everyone is frantically trying to add capacity. While shippers won't see capacity or rate relief for some time, we are unlikely to see similar dramatic freight inflation beyond today's levels," said Craig Fuller, Founder and CEO of FreightWaves. National spot rate levels are $0.13 per mile off the all-time high set in late February, while OTRI has fallen by over 300 bps since that time. Short-term catalysts for tightening capacity, like hurricanes, could drive rejections higher temporarily, but rejections are likely to revert quickly toward the 25% mark, where they have hovered for a prolonged period. This will remain the pattern until meaningful capacity reenters the market, which is not likely until the end of the year and into 2022.

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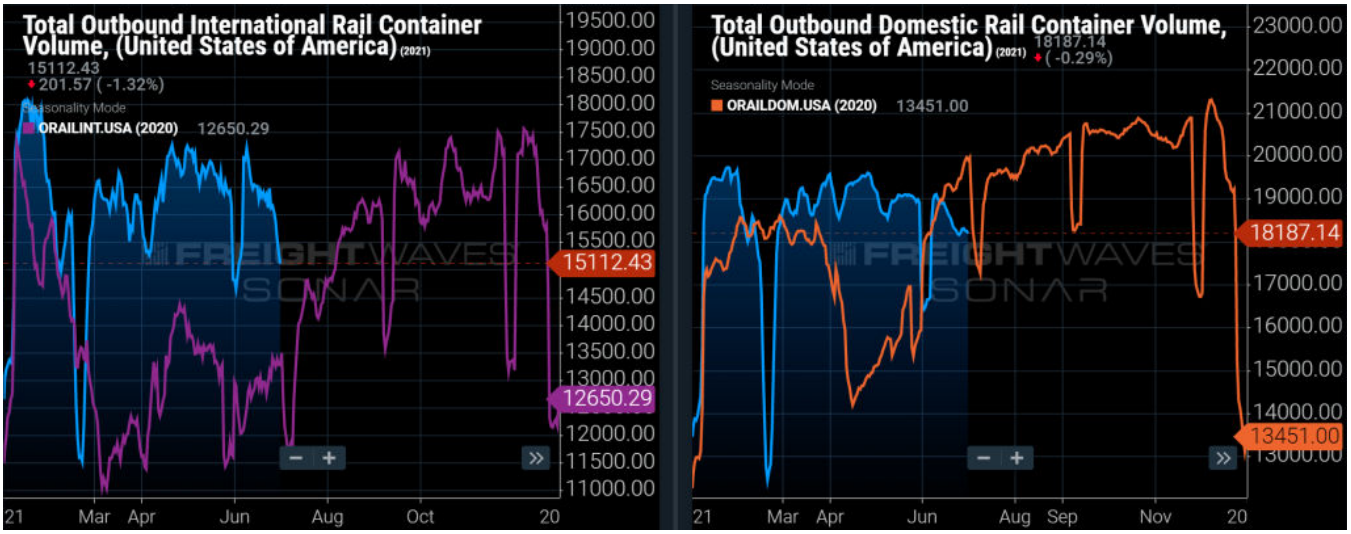
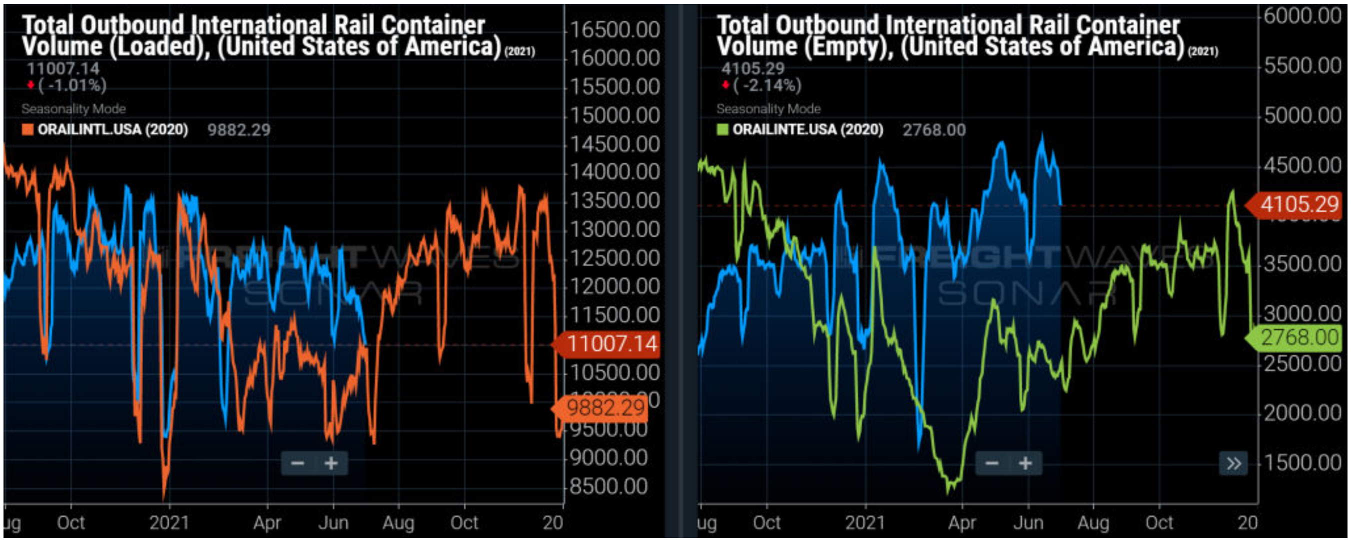
The intermodal market remains tight amid equipment shortages

In the most recent week, intermodal containers originated in the U.S. increased 4.6% y/y. Breaking that volume down between international intermodal and domestic intermodal reveals that positive y/y volume comparison is driven entirely from the international intermodal segment. In the past week, international intermodal volume is up 14% y/y, while domestic intermodal volume is down 8.6% y/y, against much more difficult comps.



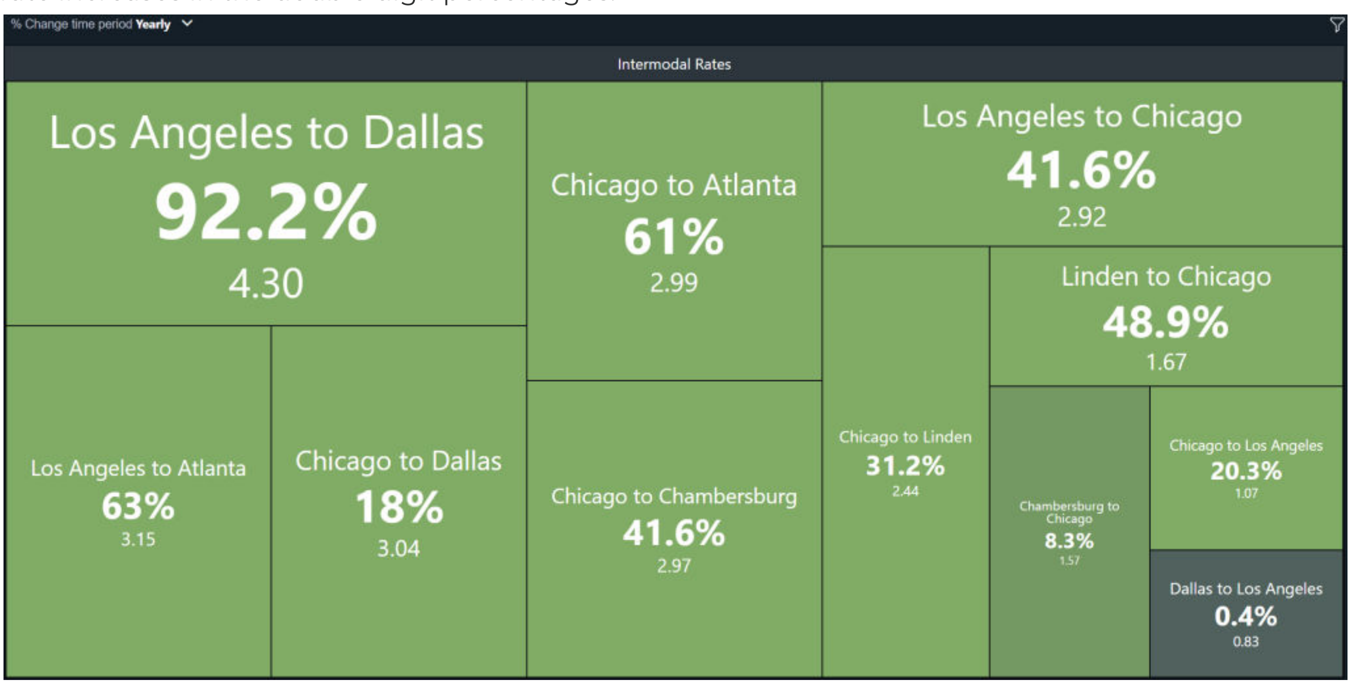
(Chart:FreightWaves SONAR, international intermodal volume versus last year {left} and domestic container volume versus last year {right})

Further breaking down intermodal volume into loaded and empty container volume reveals that despite the 14% y/y growth in international intermodal volume in the past week, the volume of loaded international intermodal containers is essentially flat with year-ago levels (left chart below). That higher volume of empties (right chart below) is being driven by the container ship lines demanding that international containers be returned to ports quickly instead of being reloaded with freight moving to export markets. Therefore, analysts looking at the positive y/y intermodal volume in the AAR data should also know that the overall volume of loaded intermodal containers is now down y/y if empties are excluded.



(Chart:FreightWaves SONAR – the volume of international intermodal containers moving empty, shown in blue and green, respectively.)

Door-to-door domestic intermodal spot rates are higher in each of the 11 densest domestic intermodal lanes, as shown below. Relative to last year and what is normal, the headhaul intermodal lanes are even tighter than normal and the backhaul intermodal lanes are even looser than normal. As a result, intermodal spot rates in eastbound lanes from the West Coast are up as much as 92% y/y (L.A. to Dallas) and have often exceeded truckload rates as carriers have endeavored to protect capacity for contracted shippers. Spot rates in other lanes have been more reasonable, but the latest data points suggest that carriers have adjusted rates closer to the truckload market in many lanes, as shown below. Amid tight intermodal capacity, domestic intermodal contract rates are renewing with rate increases in the double digit percentages.

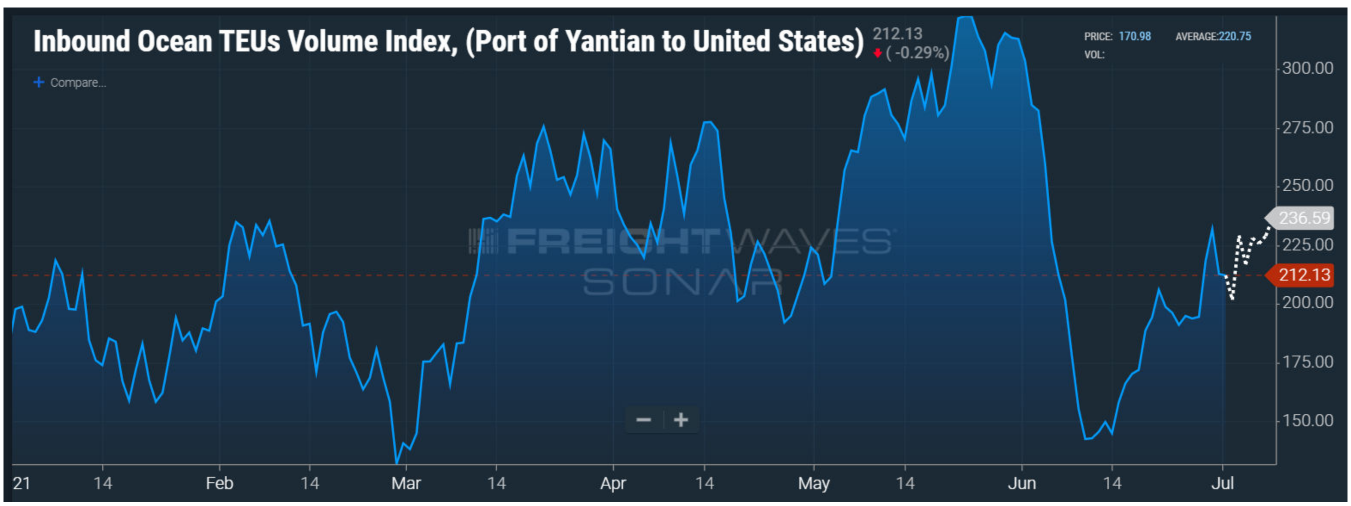


(Chart:FreightWaves SONAR – domestic door-to-door intermodal spot rates to move 53' containers, and their y/y changes, are shown for the 11 densest domestic intermodal lanes.)

Floodgates of import demand remain open, maintaining upward pressure on ocean rates

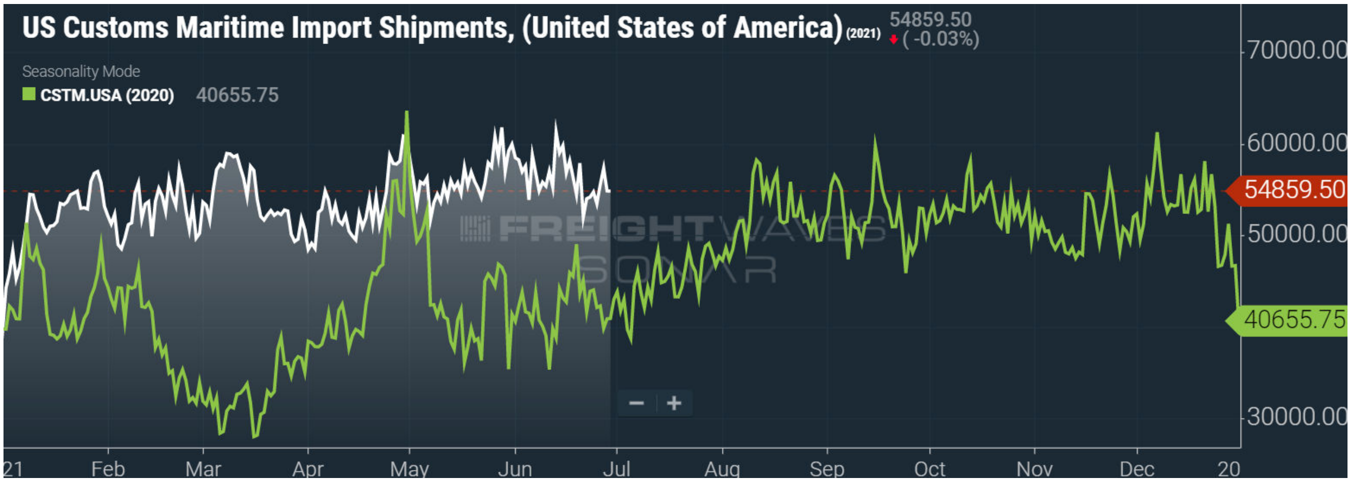
While maritime rates have plateaued from their upsurge at the beginning of June, conventional wisdom believes this period to be transitory. Recent bottlenecks in the global supply chain have subsided, but their ripple effect can only travel further downstream.

The Port of Yantian returned to full capacity this past week, welcoming vessels back to all 11 berths of China's largest container port. The port's reopening has caused a subsequent reduction in congestion at the neighboring ports of Nansha and Shenzhen, which took on atypical volume due to Yantian's limitations. In the coming weeks, the West Coast of the United States will begin to feel the pent-up backlog of Chinese exports leaving Yantian.



(Chart: FreightWaves SONAR – Inbound Ocean TEU volume index on imports coming to the United States from the Port of Yantian)

The added traffic from Yantian to the United States will build upon an already clogged port network system, particularly on the West Coast. According to MarineTraffic's ship tracking intelligence, the ports of Los Angeles and Long Beach continue to have 10 to 20 vessels at anchor daily. Containerized and non-containerized imports, as reported by U.S. Customs and Border Patrol, have maintained heightened levels y/y, up 35%. Due to the volume of congestion and global disruptions, shippers will likely alter their strategies to secure capacity for holiday inventory fulfillment. While peak season comes into focus, it is imaginable that it will look different and likely come sooner than in prior years.

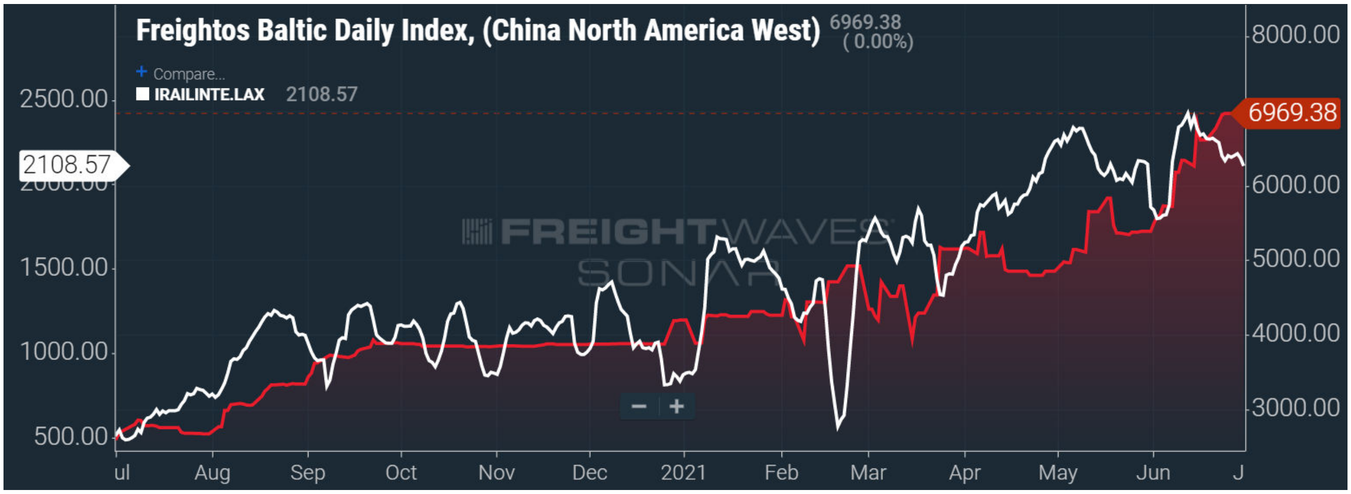


(Chart: FreightWaves SONAR – U.S. Customs Maritime Import Shipments to the United States YTD {White Line} as compared to 2020 full year {Green Line})

Elevated levels of demand have contributed to a wide array of supply side interference. Among this interference is the global international container shortage. The shortage is being driven by container vessel companies' demand to get empty containers back to support their more profitable headhaul services. Instead of waiting for revenue-bearing reloads, carriers are finding it much more financially viable to leave sooner with empties. Headhauls eastbound from China to North America's West Coast are earning rates per 40-foot container that are multiples higher than the return haul. When you multiply the ~$5,000 FEU container rate discrepancy by a 10,000 TEU vessel, the profitability margins are no comparison.

(Chart: FreightWaves SONAR – Freightos Baltic Daily Index of average rate per FEU going from China to North America’s West Coast {Orange} compared to rates from North America to China's East Coast {White})

As supply side disruptions persist and demand continues to be elevated, upward rate pressure will likely persist for the long-term. Peak season demand should escalate imports to record levels, further spreading the rate gap between Pacific head and backhauls. Ocean carriers will place added emphasis on relocating empty international containers to port markets for return to heavy exporting nations, such as China. As the rates per FEU continue to increase from China to North America's West Coast, trends on relocation of empty containers to West Coast markets like Los Angeles will maintain a similar trajectory.



(Chart: FreightWaves SONAR – Freightos Baltic Daily Index of average rate per FEU going from China to North America's West Coast {Orange} compared to inbound international empty containers being moved to Los Angeles {White})

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