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SONAR highlight reel: Truckload demand stabilizes; 4Q surge may be forthcoming

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

Truckload demand has stabilized at a high level after declining seasonally to start the fourth quarter. Our data suggest that freight volume in the 4Q is likely to outperform 2020; accepted tender volume is up 7% y/y. Tender rejection rates have fallen some, but dry van and reefer tender rejection rates of 20.1% and 37.4% highlight a still-tight capacity environment for shippers. Plus, spot rates remain at or near their recent highs in many major lanes.

The recent growth in domestic intermodal volume in October, which is up 8% from August-September levels suggests intermodal congestion might be getting "less worse." While that is partially driven by transloading, the month-over-month improvement in domestic intermodal volume in most major lanes suggests that transloading is not the only factor contributing to domestic intermodal volume improvement.

Eastbound trans-Pacific ocean rates declined for the fifth consecutive week. Ocean booking volume has picked up some for early November sailings, but the outlook for next month remains below September-October levels with most holiday-related imports already stateside. We expect a pickup in maritime imports later in the year as shippers look to get ahead of disruption from Chinese New Year, but the Asian energy crisis threatens to slow exports from China.

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

LAX-DAL	$3.65 (+$0.03)
CHI-ATL	$3.58 (-$0.10)
PHL-CHI	$2.33 (-$0.09)
ATL-PHL	$2.82 (-$0.10)
DAL-ATL	$2.43 (-$0.07)
DAL-LAX	$1.26 (-$0.03)
National	**$3.45 (-$0.03)**

Freight volume index (weekly change)

Ontario, CA	661.23 (-8.0%)
Atlanta	586.44 (+0.9%)
Harrisburg, PA	497.96 (+10%)
Dallas	491.38 (+2.9%)
Elizabeth, NJ	434.58 (-1%)
Los Angeles	415.17 (-7.5%)
National	**15,546.98 (+0.9%)**

Tender rejection rates (weekly change)

Ontario	15.55% (-238 bps)
Atlanta	17.55% (+108 bps)
Harrisburg	21.2% (-247 bps)
Dallas	18.41% (-157 bps)
Elizabeth	17.69% (-284 bps)
Los Angeles	15.54% (-238 bps)
National	**20.53% (-33 bps)**

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

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Volumes steady as rejection rates continue to move down

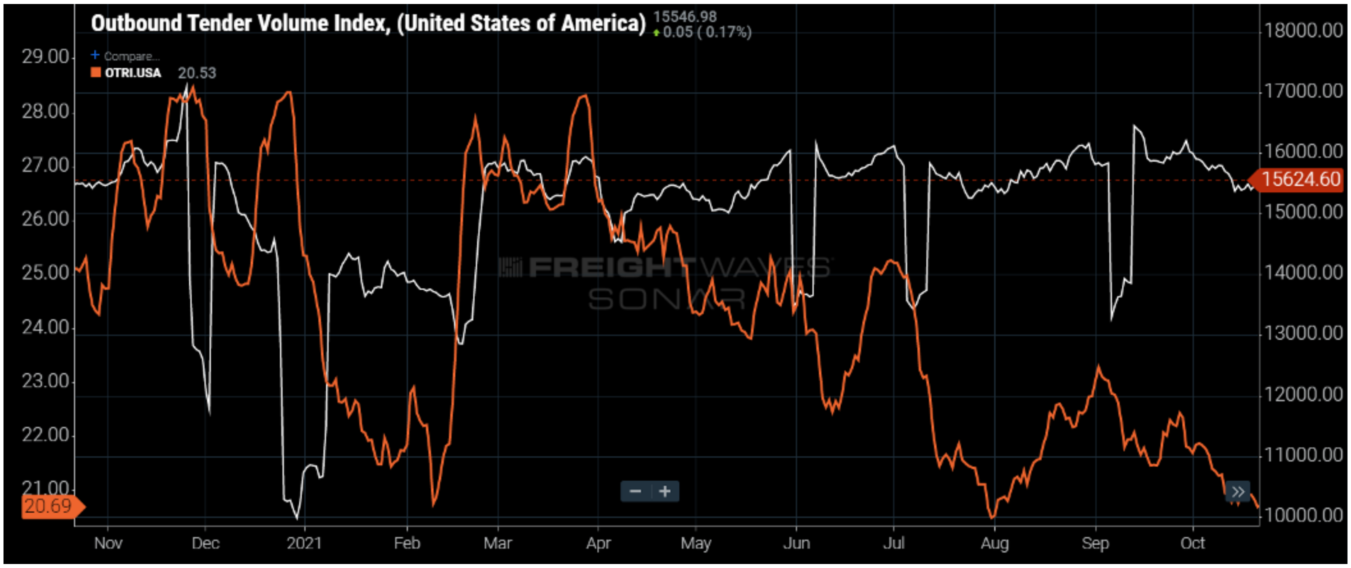


Chart: FreightWaves SONAR. Outbound Tender Volume Index {white, right axis} and Outbound Tender Reject Index {orange, left axis}

The Outbound Tender Volume Index (OTVI), shippers' requests for capacity, has started to stabilize and has broken the downward trend established over the past couple of weeks.

The fourth quarter is traditionally soft at the beginning before showing strength in the retail peak season. Consumer strength has been a primary driver of freight demand for the better part of the past year. Retail sales numbers were a surprise in September, rising 0.7% and beating expectations of a 0.2% decline.

According to Bank of America, total card spending continues to run up over 15% year-over-year (y/y) and nearly 20% above 2019 levels, signaling that the American consumer is quite strong. One of the highlights has been the rise in spending on clothing, which is 23% higher y/y and 25% higher than 2019 levels.

The University of Michigan's Consumer Sentiment Index did increase ever so slightly in September, but the number continues to be the lowest level in more than a decade. If there is a slowdown in consumer spending, freight demand may fall off, though shippers are attempting to restock inventories across the country.

Even with the risks associated with truckload demand over the next couple of months, freight volumes are likely to continue to outperform 2020 levels. 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 jumped nearly 2% week-over-week (w/w), maintaining strength compared to last year, running up over 7% y/y.

Across the country, 72 of the 135 markets tracked by FreightWaves SONAR were lower over the past week. The smallest market in the country (Green River, Wyoming), experienced the largest increase in freight volumes over the past week as a snowstorm swept across the area. Overall, the increase in volume levels in the market is a mere blip on the radar but shows how winter weather can affect freight markets in the upcoming months.

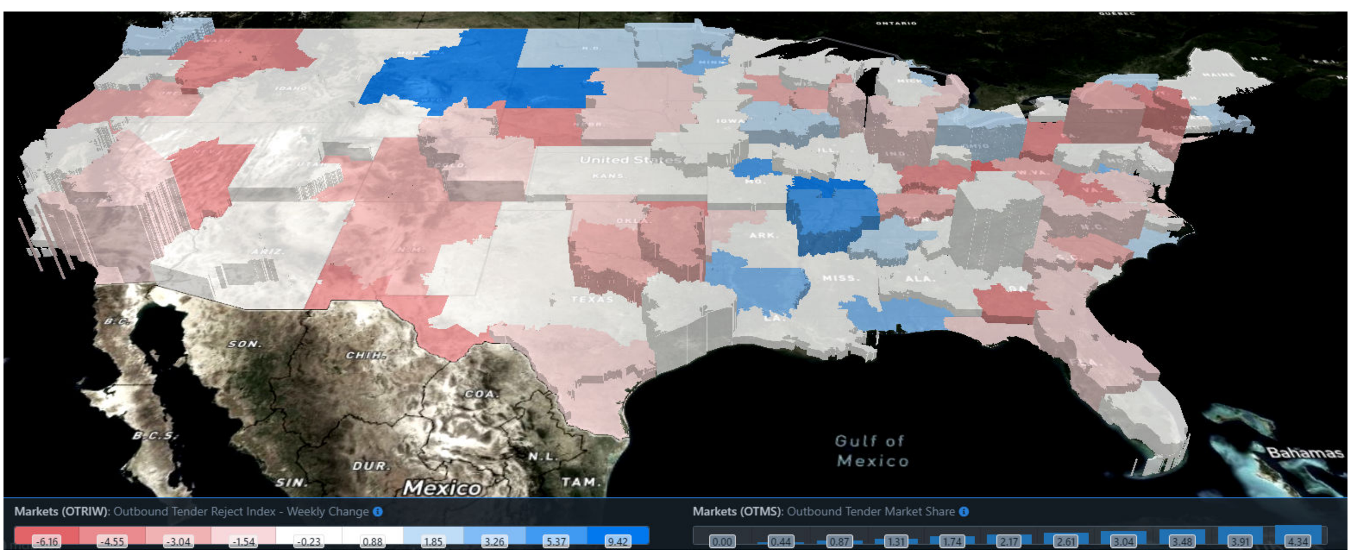
The largest markets in the country have experienced an uptick in freight volumes over the past week. Elizabeth, New Jersey, which houses the Port of New York/New Jersey, experienced freight volume growth of over 7% in the past week. The Port of New York/New Jersey has experienced an increase in imports as congestion has intensified in San Pedro Bay in Southern California.

Interior markets, which had been lagging behind the markets with major ports, saw an uptick in freight volumes as well. Volumes in both Chicago and Dallas rose by nearly 4% in the past week. Volumes in Dallas continue to outperform 2020 levels, now running up over 21% y/y.

The Outbound Tender Reject Index (OTRI), a measure of relative capacity in the market, has been trending sideways for more than a week now. Over the past week, OTRI fell by 23 basis points (bps) to 20.69%.

While freight volumes have started to pick up in a seasonal trend, rejection rates continue to fall in a seasonal trend as well. Rejection rates traditionally start rising after freight volumes do. The overall decline in rejection rates started in February after the winter storm caused capacity to tighten rapidly.

The slowdown in rejection rates signals that the overall capacity situation has improved but is still quite difficult for shippers. Contract rates have already been repriced ~25% higher y/y, which is aiding the improved carrier compliance. Even with higher rates, large truckload carriers expect that rates will continue to climb in 2022 as capacity constraints will remain in place.



Difficult capacity conditions continue to sweep the nation. SONAR: OTRIW (color) and OTMS (height).

As the overall OTRI was down just 23 bps w/w, more than half of the markets within SONAR tightened over the past week. Out of the 135 markets within SONAR, 74 markets experienced increases in rejection rates w/w.

The markets that experienced the biggest jump in tender rejection rates over the past week are some of the smallest freight markets in the country. Based on the overall volume levels in these markets, rejection rates are quite volatile, causing rapid tightening and loosening of relative capacity. Additionally, winter weather swept through the area, which aids in driving rejection rates higher in affected markets.

The largest markets in the country experienced muted changes in rejection rates over the past week, especially in Southern California. The two large Southern California markets, Ontario and Los Angeles, were unchanged over the past week, still hanging around the 17% mark.

The markets that experienced strong upticks in freight volumes over the past week also experienced relative capacity loosen. Rejection rates fell by 411 bps w/w in Elizabeth, signaling that true volume flowing out of the market is picking up strength. Additionally, Dallas and Chicago had rejection rates fall by 257 bps and 214 bps over the past week, respectively.

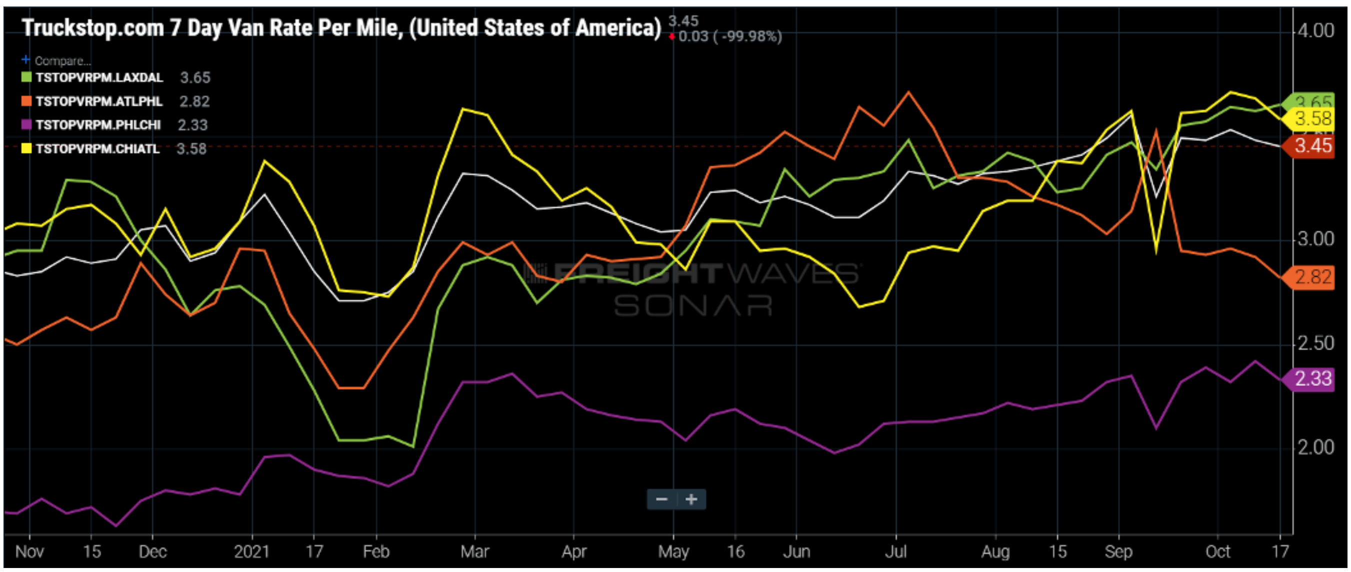


Chart: FreightWaves SONAR. Truckstop.com's dry van spot rates: National {white}, Los Angeles to Dallas {green}, Atlanta to Philadelphia {orange}, Philadelphia to Chicago {purple} and Chicago to Atlanta {yellow})

Truckstop.com's national spot rate, which includes fuel surcharge and other accessorials, fell by another 3 cents per mile over the past week to $3.45/mi. The pullback in spot rates was the equivalent to last week's increase. Of the 102 lanes from Truckstop.com's load board, 41 reported increases last week, with outbound Los Angeles increasing again.

The LA-to-Dallas lane, which is the largest of the lanes out of Los Angeles, set a new all-time high this week, climbing 3 cents per mile to $3.65/mi. Only the LA-to-Phoenix and LA-to-Seattle lanes were lower this week.

The national spot rate finally joined both tender volumes and rejection rates, pulling back last week. However, the national spot rate is still well above last year's level, running up 19% y/y.

Dry van contract rates did reverse in the most recent week, increasing by 1 cent per mile to $2.71. Dry van contract rates, which are reported on a two-week lag, are off the all-time high set in mid-September. Expect contract rates to make a slight upward move in the next week, following the move spot rates experienced two weeks ago.

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 continue to run up 24% y/y and likely face more upward pressure heading into 2022.

The Class I railroads throw the kitchen sink at the intermodal congestion issue.

Intermodal congestion remains one of the largest issues in the freight rail industry (perhaps other than the activist drama at Canadian National) and, on their third quarter earnings calls, the Class I railways presented laundry lists of actions they are taking to help alleviate congestion. Those actions include reopening intermodal terminals, leasing real estate to store containers, making extra arrangements to secure additional drayage capacity, taking additional steps to reposition equipment, extending the operating hours at rail ramps, among many others. Plus, for their part, the domestic intermodal companies are taking delivery of thousands of incremental domestic containers. Chassis availability is arguably the largest intermodal capacity constraint; this is partially a byproduct of U.S. manufacturers winning an anti-dumping case against the Chinese manufacturers, which resulted in steep tariffs on chassis manufactured in China. The chassis issue should be helped some; Norfolk Southern is nearing completion of its program to refurbish chassis that contained a manufacturing defect. However, chassis availability remains a major issue that has been exacerbated by congestion at/near intermodal terminals.

On that topic, I find the following SONAR chart below to be encouraging. It shows the seven-day moving average of daily domestic intermodal container volume (i.e, 53' containers). That volume is still down y/y, but it is now down 3% rather than the 8%-10% it had been down in recent months. In October, another encouraging sign is that domestic intermodal volume is up 8% compared to the average volume levels in August and September.

In an unconstrained network, intermodal volume would be a measurement of demand. But, numerous recent intermodal operational issues have constrained volume amid a surplus of demand. Therefore, the recent increase in domestic intermodal volume is an indication that the impact of those constraints may be lessening. It's worth pointing out that there is no similar rise in international intermodal volume (which consists primarily of 40' containers and is down 3.3% in October 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.

In the first week of October, domestic intermodal volume rose 8% from August-September averages.

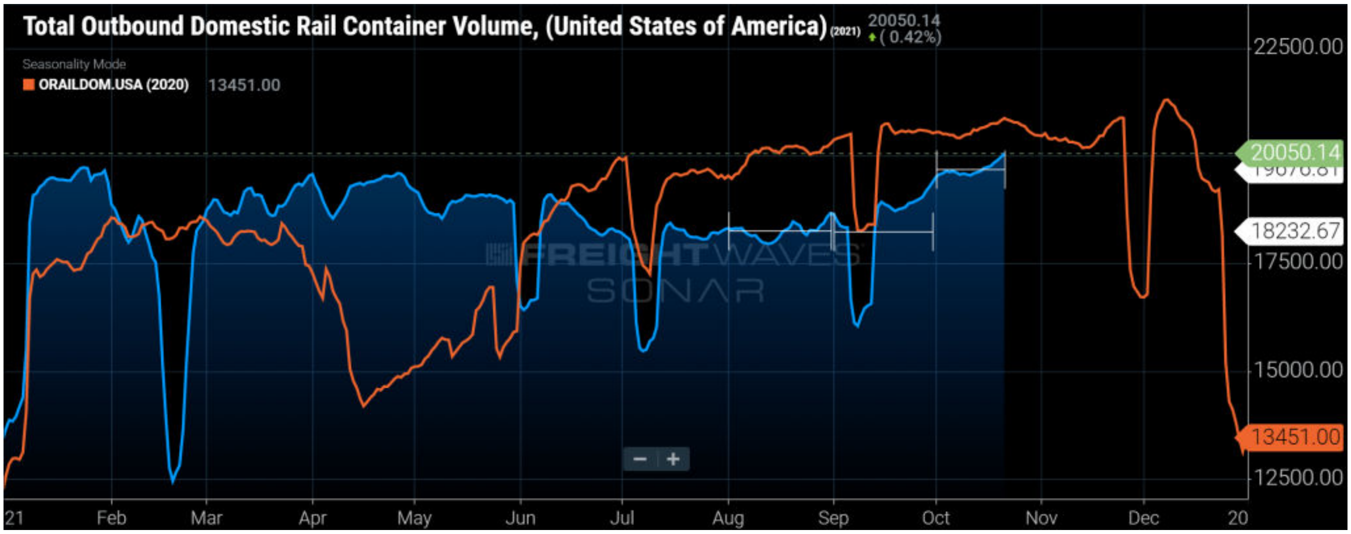


Chart: FreightWaves, SONAR. Total outbound domestic intermodal containerized volume is shown for 2021 and 2020 in blue and orange, respectively.

It certainly seems that more transloading of imports from 40' international containers to 53' domestic containers appears to be playing a role in the increase in domestic volume, but that isn't the whole story. The increase in domestic intermodal volume in the past month has not been limited to lanes outbound from the major ports, but instead has been widespread among the densest domestic intermodal lanes.

Domestic intermodal volumes are higher month-over-month in most of the densest domestic intermodal lanes.

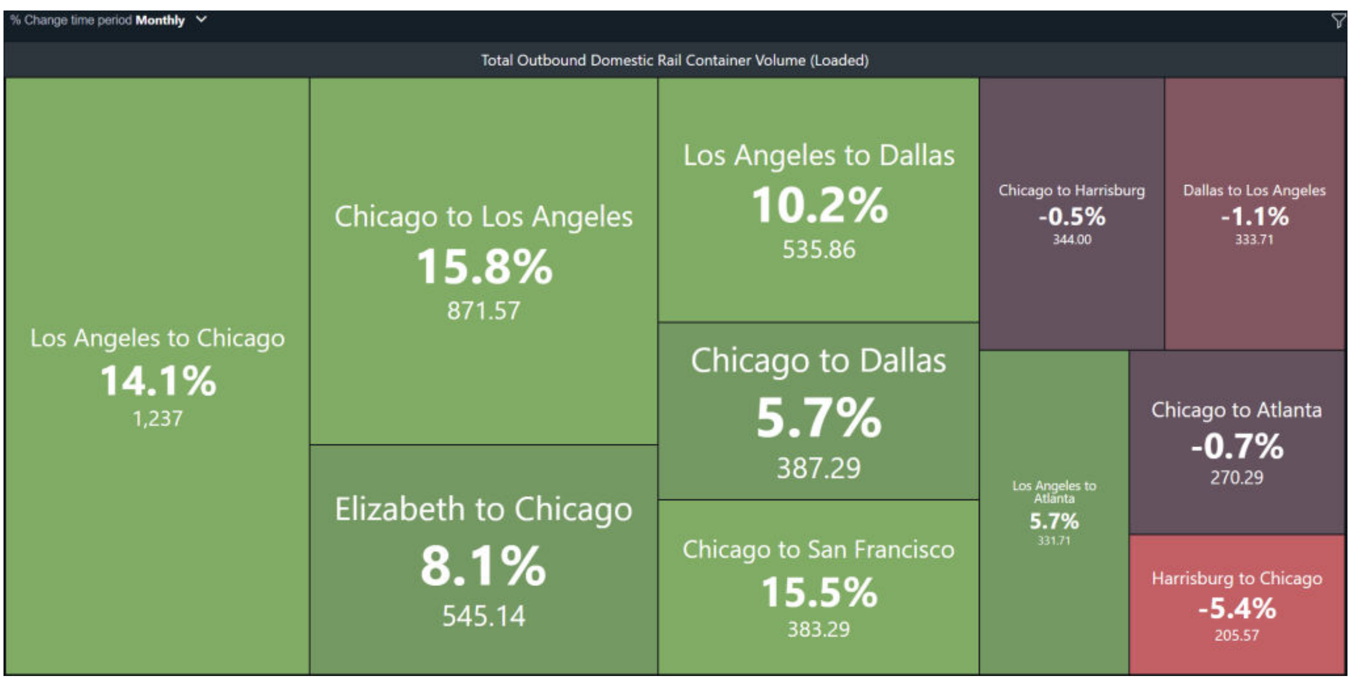


Chart: FreightWaves, SONAR. Total loaded domestic intermodal containerized volume is shown for the densest domestic intermodal lanes and their respective month-over-month changes.

Domestic intermodal volume outbound from L.A. has risen while international intermodal volume outbound from L.A. has fallen sharply, which suggests greater transloading volume (as well as the West Coast congestion) is having a negative impact on international intermodal volume.

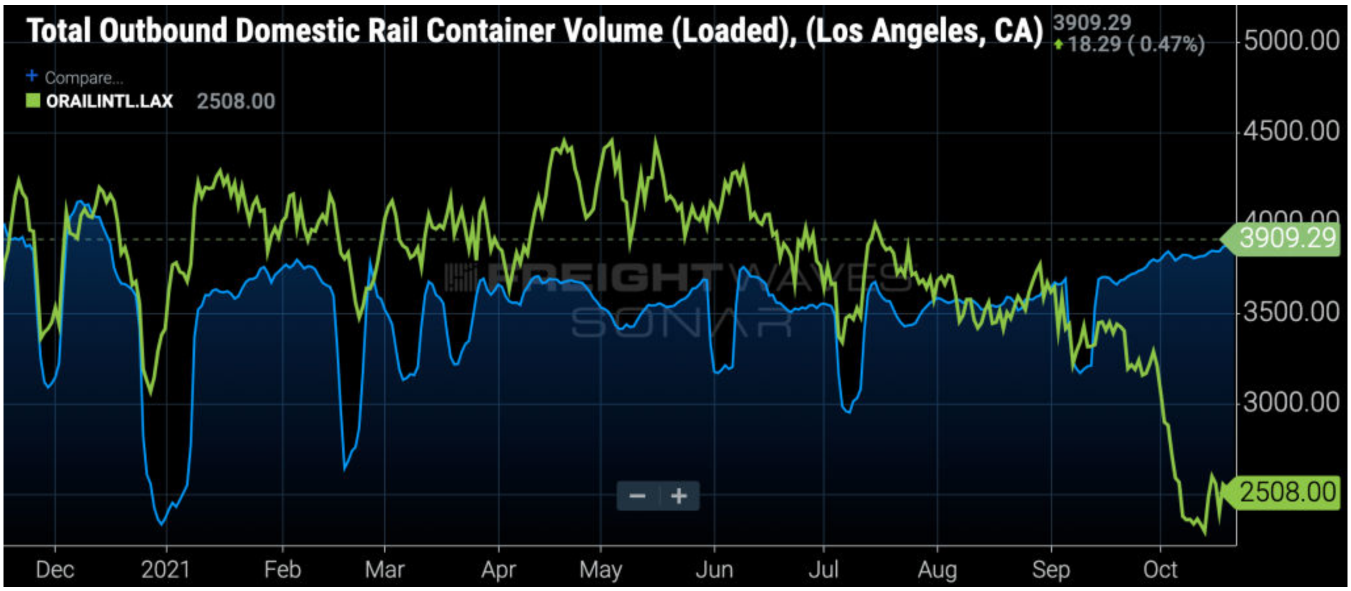


Chart: FreightWaves, SONAR. Domestic containerized intermodal volume outbound from L.A. is shown in blue and international containerized intermodal volume is shown in green.

Intermodal spot rates rose only modestly (from an already-high level) in the past month.

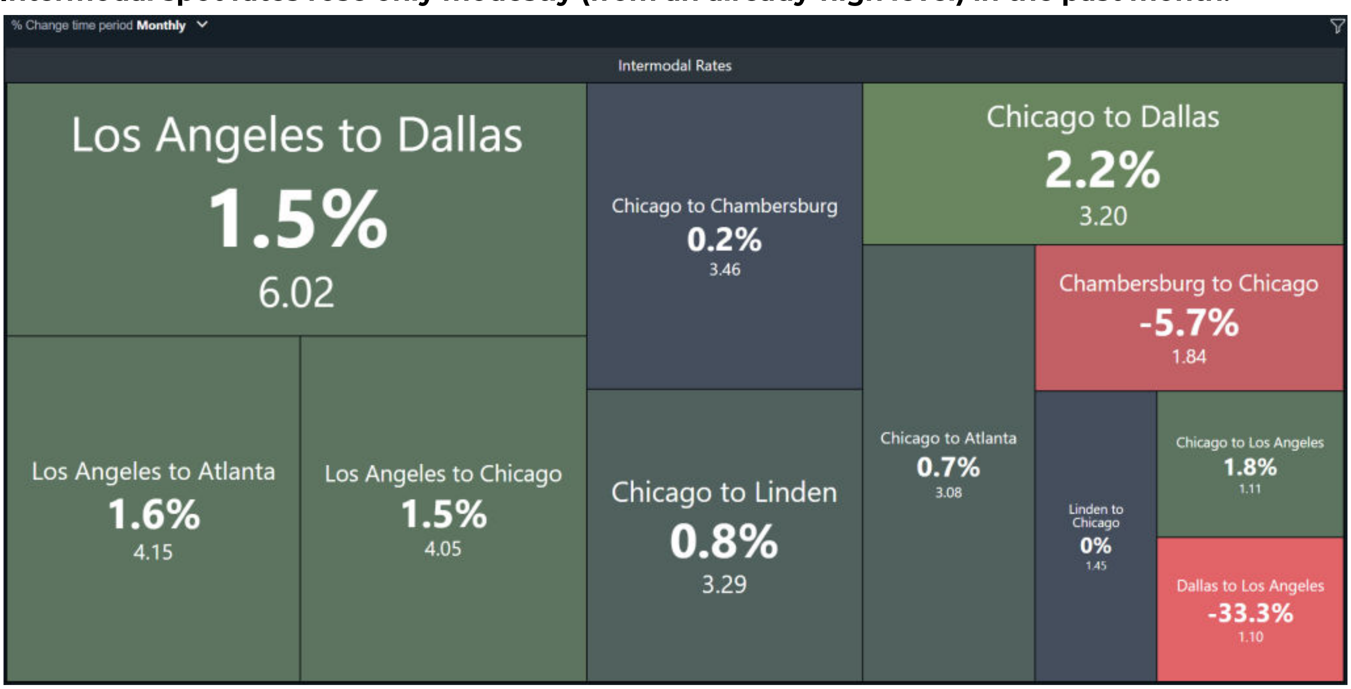


Chart: FreightWaves, SONAR. Tree map showing intermodal spot rates to move 53' containers door-to-door, including fuel surcharges.

International intermodal volume (orange) has greatly underperformed U.S. maritime imports (purple). Meanwhile, domestic intermodal (blue) has outperformed long-haul truckload (green).

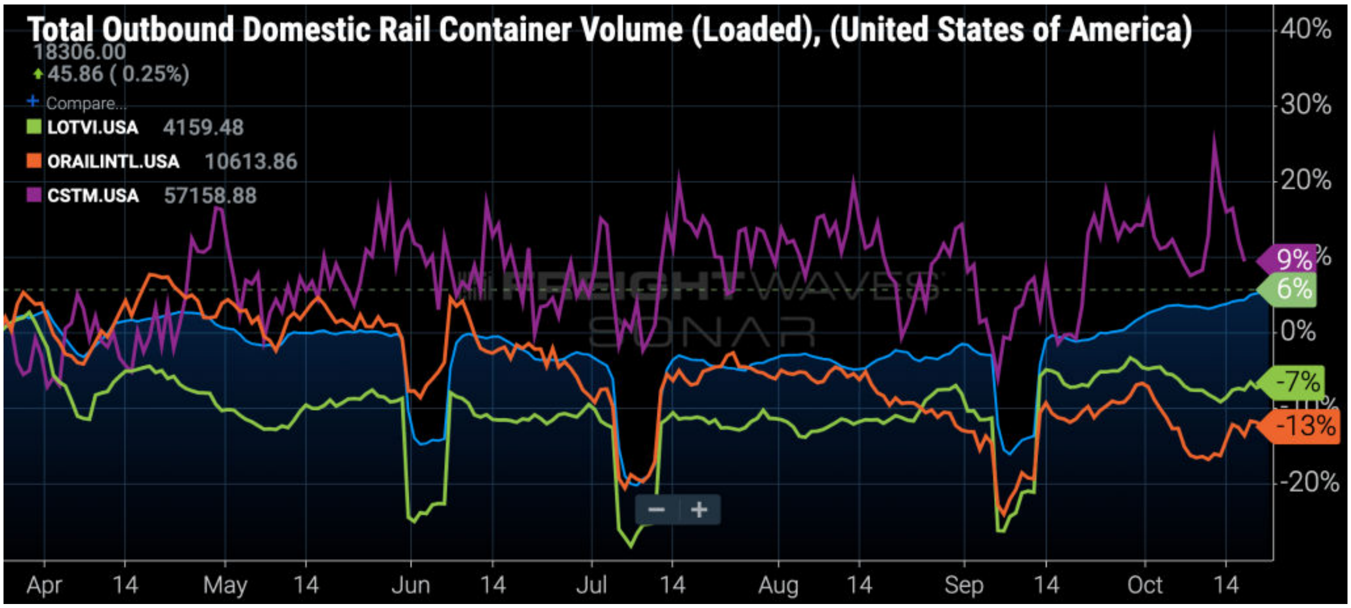


Chart: FreightWaves, SONAR. The relative change compares domestic intermodal volume (blue), long-haul (800+ mile) truckload tenders, maritime import shipments clearing U.S. Customs (purple), and international intermodal volume (orange).

Intermodal tender rejection rates have declined in the past month.

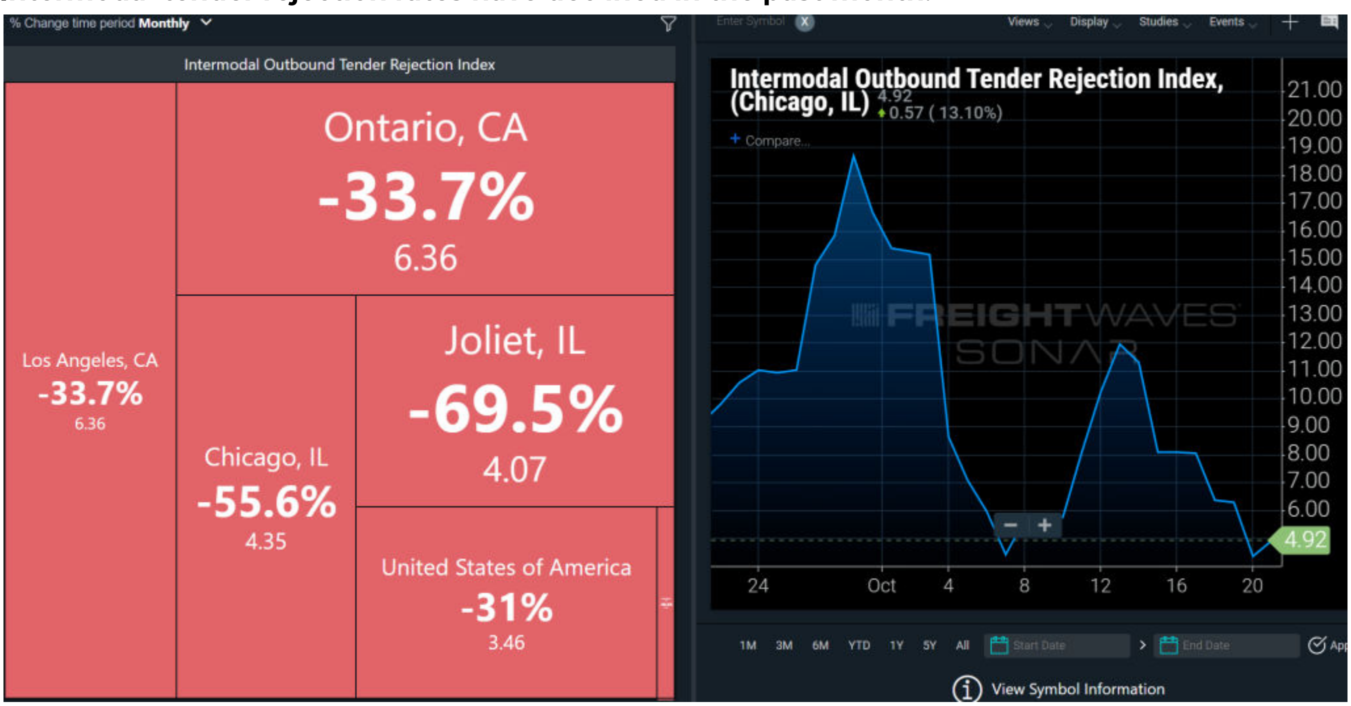
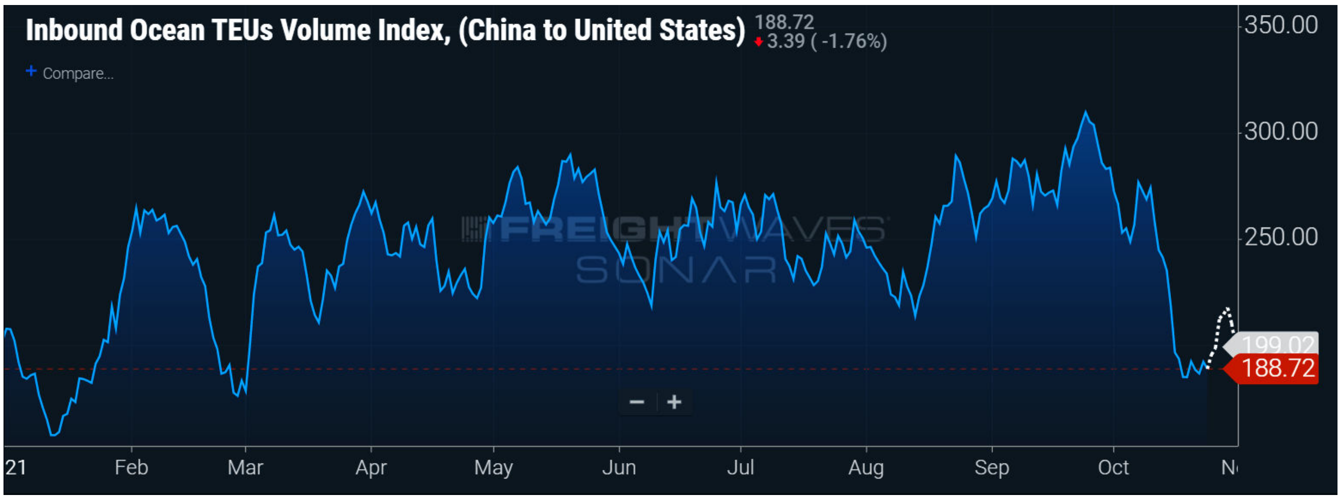


Chart: FreightWaves, SONAR. The intermodal tender rejection rate percentage in select cities and their respective month-over-month changes.

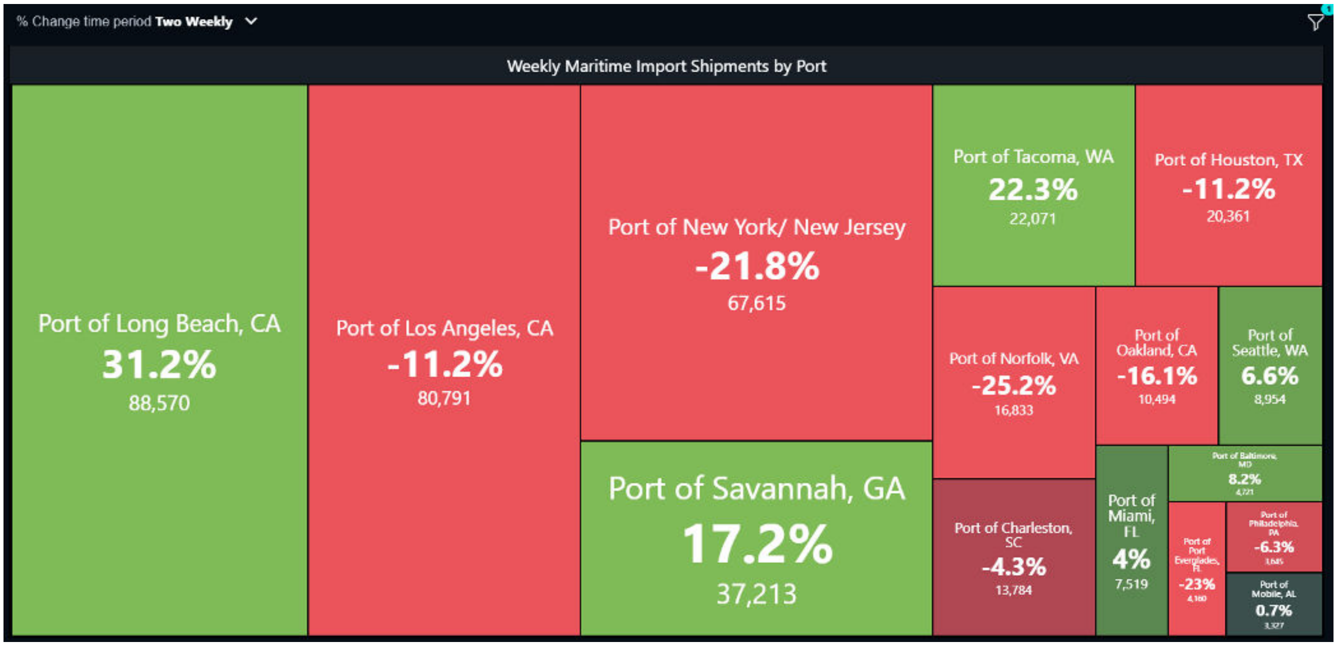
Eastbound trans-Pacific ocean spot rates decline for the 5th consecutive week

In the most recent week, delays and congestion continued to plague the maritime industry, bleeding into land-side drayage, transloading and warehousing operations. Seventy-nine container-bearing vessels were stationed either at anchor or at drift within San Pedro Bay on Friday, eclipsing yet another all-time record. Assuming all vessels are carrying full capacity, nearly 70% of the port of Los Angeles/Long Beach combined TEU volumes for the month of September await a berth.



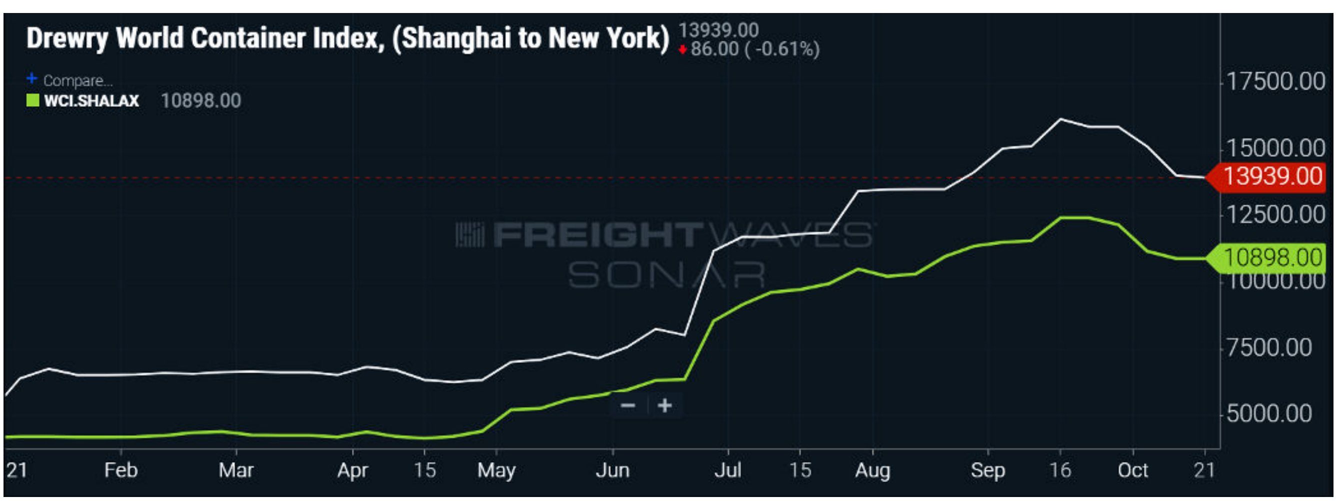
(Chart:FreightWaves SONAR. Inbound Ocean TEU Volume Index on confirmed bookings originating in China and destined for the US {blue} with next 7 days of departure {dashed white})

Current levels of congestion were initiated from a late September bookings spike from China, the largest foreign trading partner of the U.S. The full brunt of that surge in bookings should reach U.S. shores in the next two to three weeks, likely pushing levels of congestion to new highs. TEU volumes departing from China over the next 7 days have diminished significantly(shown above), signaling an easing in U.S. import demand through the near-term. With demand expected to ease in the coming weeks, spot rates should continue to experience some downward pressure, prolonging their slide.



(Chart:FreightWaves SONAR. Weekly maritime import shipments with percent change calculated using a two-week time period)

Despite significant congestion within San Pedro Bay, the port of Long Beach continues to post significant weekly import shipment volumes. Auxiliary ports have begun to receive significantly more shipments in recent weeks, as shippers look to navigate around the congestion hampering the West Coast. The port of Savannah, Georgia continues to be the most popular East Coast option, increasing shipment levels 17% over the past two weeks. Mounting shipments have now given Savannah the congestion bug, as ~30 container vessels currently await a berth. The port of Oakland, which was a popular destination during February's congestion debacle, has not received the same attention this time around. Port officials reported that during the month of September, just 54 vessels called upon the port, the lowest monthly total since 2015. As a result, weekly import volumes have declined 16% in the last two weeks.



(Chart:FreightWaves SONAR. Drewry World Container Index eastbound trans-Pacific assessment from Shanghai to New York {white} compared to the Shanghai to Los Angeles assessment {green})

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Eastbound trans-Pacific spot rates continued to cool for the fifth consecutive week, according to the Drewry World Container index. The index's Shanghai to New York assessment decreased to $13,939 in the most recent week, depicting the average spot rate paid per 40' container on that lane. Despite being up 186% y/y, the assessment has now decreased by 12% in the past month. For shippers that utilize the West Coast, Shanghai to Los Angeles spot rates now reside at $10,898/FEU, a 12% monthly decline and now up 170% when compared y/y. With demand expected to ease in the coming weeks, container rates eastbound on the trans-Pacific should continue to diminish. However, deteriorated supply side conditions will continue to subdue the rate at which spot rates decline.

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