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SONAR highlight reel: Shippers are frustrated, but at least football is back on TV

SEPTEMBER 2021

WHITE PAPER

SONAR highlight reel: Shippers are frustrated, but at least football is back on TV

Holiday noise is dramatically impacting the major truckload indicators. Shippers' requests for capacity are down mid-double digits in the past week, thanks to the Labor Day holiday. A snapback in freight volumes is expected in the coming days. Even with the holiday, securing capacity is still extremely difficult as the dizzying high spot rates prove.

There is plenty of demand for intermodal, but numerous capacity constraints (chassis, containers, drayage, terminal congestion, port congestion) continue to impair intermodal volume. In the most recent week, loaded international and domestic intermodal container volume is down 3.4% year-over-year (y/y) and 10.5% y/y, respectively. The Class I railroads have left intermodal spot rates essentially unchanged the past few weeks after increasing rates in early August, but rising dry van spot rates suggest that further spot rate increases may be forthcoming.

Maritime capacity also remains elusive for shippers. While CMA CGM capped its spot rates, vessel charter prices, congestion, and even overall spot rates show no signs of easing. Congestion in San Pedro Bay is expected to worsen in the coming weeks with the number of container vessels at anchor forecast to increase to more than 50. Delays near ports, such as in San Pedro Bay, are reducing trans-Pacific capacity by ~20% and are keeping ocean capacity very tight.

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

LAX-DAL	$3.47 (+$0.06)
CHI-ATL	$3.62 (+$0.09)
PHL-CHI	$2.35 (+$0.03)
ATL-PHL	$3.14 (+$0.11)
DAL-ATL	$2.47 (-$0.07)
DAL-LAX	$1.36 (+$0.03)
National	**$3.60 (+$0.11)**

Freight volume index (weekly change)

Ontario, CA	576.5 (-16.4%)
Atlanta	553.16 (-15.5%)
Dallas	453.62 (-13.9%)
Harrisburg, PA	439.88 (-14.4%)
Allentown, PA	383.03 (-17.9%)
Los Angeles	380.53 (-10.2%)
National	**13,854.87 (-12.5%)**

Tender rejection rates (weekly change)

Ontario	18.1% (-81 bps)
Atlanta	19.37% (-294 bps)
Dallas	22.35% (-332 bps)
Harrisburg	26.63% (-176 bps)
Allentown	25.84% (-222 bps)
Los Angeles	18.1% (-90 bps)
National	**21.94% (-109 bps)**

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

Holiday noise masks where the current truckload market stands

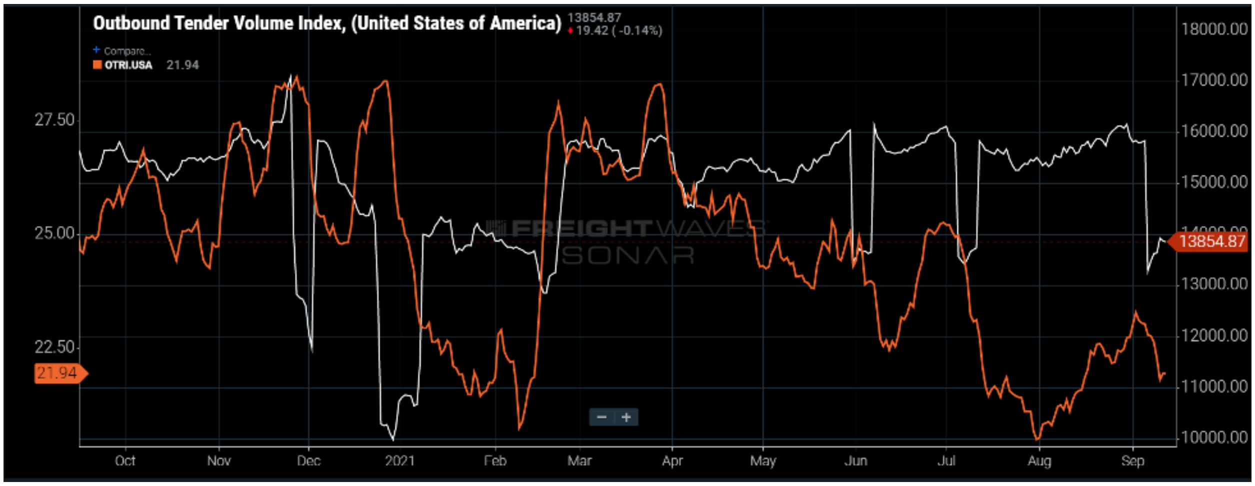


Chart: FreightWaves SONAR. Outbound Tender Volume Index {white, right axis} and Outbound Tender Reject Index {orange, left axis}

Freight volumes are impacted more significantly by holidays than at any other point during the year. In 2021, freight volumes have fallen by 15% on average around the holidays. Prior to Labor Day and Hurricane Ida, absolute freight volumes were at the highest point of 2021 and the highest point since Thanksgiving 2020. OTVI in August climbed nearly 5% from the beginning of the month through the time that Hurricane made landfall in Louisiana.

OTVI has briefly dipped below year-ago levels, due both to the timing of Labor Day as well as Hurricane Ida impacting freight volumes. Accepted freight volumes, which account for the tender rejection rate, is positive y/y as rejection rates are lower than year-ago levels. Prior to Hurricane Ida making landfall, accepted tender levels increased by 2% from the beginning of August.

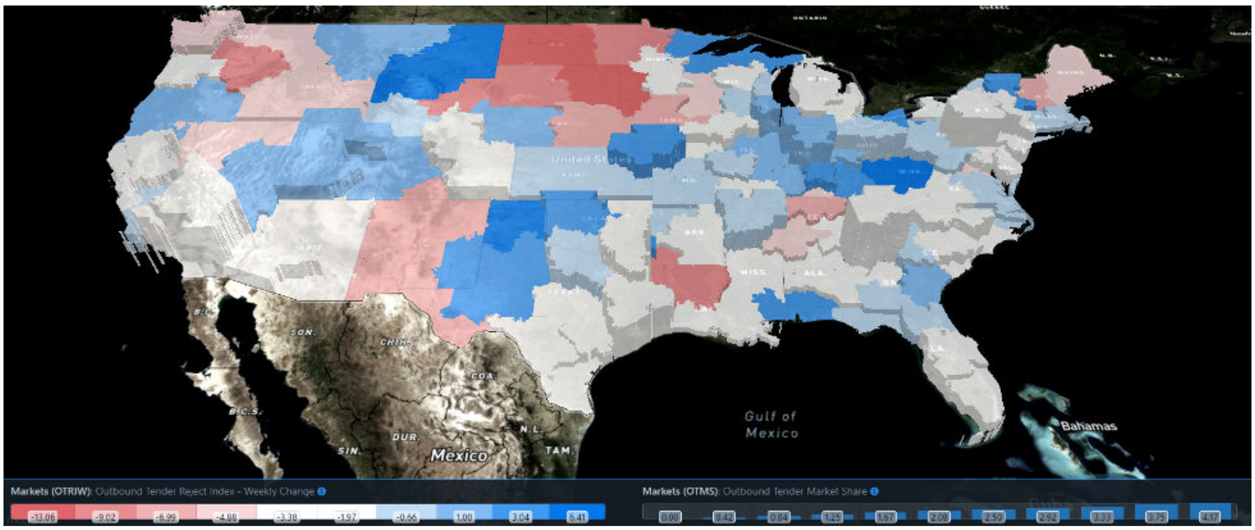
These increases follow a seasonal trend as volume levels typically increase throughout August before stabilizing in both September and October ahead of the holiday season getting kicked off in November.

Overall, freight volumes will erase holiday noise in the coming week and pop back up to elevated levels. Freight demand in the maritime sector is as strong as it has been throughout the entire pandemic, which will eventually spill over into domestic transportation markets. Because of the congestion on the railroads, they have effectively priced themselves out of any excess freight. Therefore, the outlook for elevated truckload volumes into the holiday season remains strong.

The Outbound Tender Reject Index (OTRI), a measure of relative capacity in the market, has taken a slight step-back from recent highs over the past week. OTRI is back to nearly 22% after a brief stint above 23%. Over the past week, rejection rates have fallen by 109 basis points (bps), breaking the upward trend established in August.

Rejection rates have been stuck in a range between 20% and 25% for much of the past year. Rejection has been negative y/y since early August, but the gap has widened over the past two weeks. The Labor Day holiday is largely impacting relative capacity as a whole.

Traditionally, rejection rates increase ahead of holidays as drivers opt to stay off the road to spend time at home. Following holidays, as drivers return to the road, tender rejection rates typically slide. Last year, rejection rates slid following Labor Day through the first half of September before relative capacity ratcheted tighter into October. It remains to be seen if this will be the case in 2021. Even if capacity doesn't ratchet tighter in September, rejection rates above 20% signal extremely tight capacity conditions and keep upward pressure on rates.



Relative capacity loosening across a majority of the country SONAR: OTRIW {color} and OTMS {height}

Relative capacity across the majority of the country loosened over the past week as rejection rates in 91 of the 135 markets within SONAR were lower week-over-week (w/w). While most of the country was looser in the past week, one of the larger freight markets in the country experienced tightening of relative capacity. Joliet, Illinois, a suburb of Chicago, is the 11th largest market in the country, and rejection rates over the past week increased by 141 bps.

Relative capacity in other large freight markets (Ontario, California and Atlanta), loosened over the past week as carriers reentered the markets. Rejection rates in Ontario fell by 89 bps w/w, bringing the rejection rate to 18.1%, roughly in line with where it has been since mid-July. In Atlanta, rejection rates fell by 294 bps w/w, as the rejection rate dipped below 19.5%, the lowest the rejection rate has been since early February.

Like Atlanta, rejection rates in Elizabeth, New Jerseu fell by 294 bps over the past week. Carriers are entering the market again following Hurricane Ida, making it slightly easier to secure capacity for outbound freight , although the rejection rate is still over 20%.

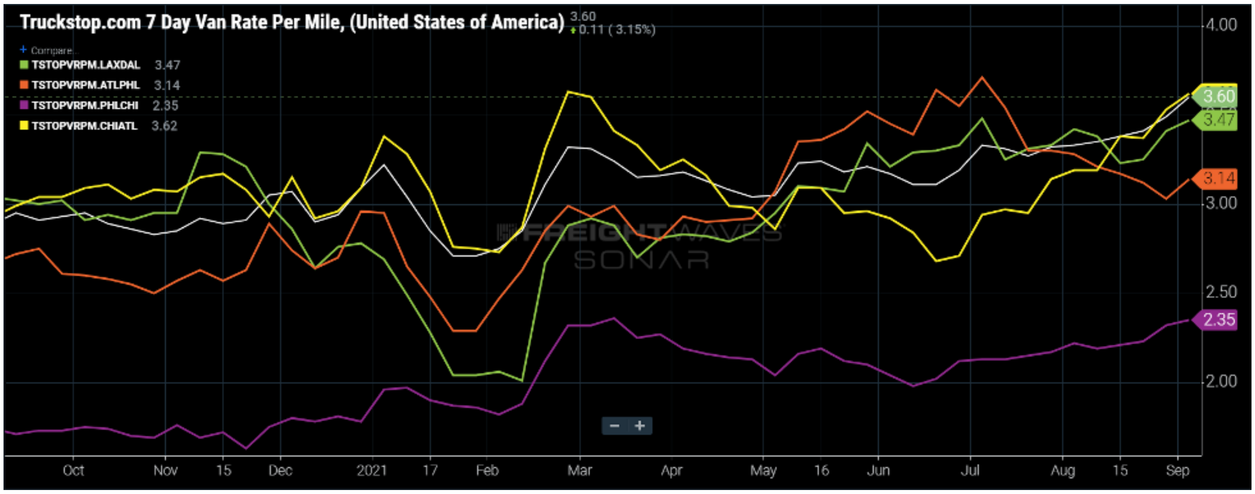


Chart: FreightWaves SONAR. Truckstop.com's dry van spot rates: National {white}, Los Angeles to Dallas {green}, Atlanta to Philadelphia {orange}, Philadelphia to Chicago {purple} and Chicago to Atlanta {yellow})

The national average spot rate notched yet another all-time high last week. The national spot rate, according to Truckstop.com's load board, which includes fuel surcharge and other accessorials, jumped 11 cents per mile to $3.60/mi. The national spot rate is more than 30% higher than year-ago levels, even though volume levels and rejection rates are up against difficult comps.

Spot rates continue to climb higher as fluidity across transportation markets is tested. Last week's spot rate increase was more likely impacted by Hurricane Ida than Labor Day. The data runs through Sunday, September 5, so we expect that during this week spot rates will notch yet another all-time high thanks to the Labor Day holiday, though relative capacity loosened following the holiday.

The spot rate increases aren't just happening in the dry van segment of the market; national reefer spot rates continue to surge. The latest national reefer spot rate, according to Truckstop.com's load board data, is a dizzying $4.39/mi. Reefer spot rates eclipsed $4/mi in early August and have shown no signs of slowing down. Reefer spot rates have maintained around a 30% increase over 2020 spot rates, even as comps became increasingly difficult throughout the summer months. As reefer demand continues to grow (even though peak produce season is behind us), upward pressure on spot rates isn't subsiding.

while being the smallest segment in the data, the flatbed segment is the only segment where spot rates seem to have peaked. Since the Fourth of July holiday, flatbed rates have fallen by 20 cents per mile to $3.51/mi. Even with the recent pullback in flatbed spot rates, the year-over-year gap is currently the widest of the three equipment types, sitting at 34.5%. The pullback in flatbed rates from the July highs isn't a surprise given that flatbed demand is typically highest during the summer months.

The pressure on the overall rate environment isn't going anywhere anytime soon. Capacity is going to be extremely difficult to secure during the final three and half months of the year.

Freight demand is as strong as it has been and congestion across other modes of transport is putting increased pressure on the truckload market.

Capacity constraints continue to impair intermodal networks

The many intermodal capacity constraints and congestion issues were outlined in great detail at the FreightWaves Intermodal Summit on September 1st (replays of all the presentations are available at tv.freightwaves.com). Those capacity constraints include a shortage of chassis, a shortage of domestic containers, a shortage of drayage capacity, intermodal terminal congestion and congestion at the ports.

Those capacity constraints have been the cumulative result of elevated import volume amid what many have referred to as a “continual peak season” for containerized imports. Typically, seasonal lulls in import volumes and intermodal demand give networks an opportunity to catch up, but no such lull has occurred in recent months. Hurricane Ida only exacerbated the rail service issues, which included Class I railroads suspending mainline operations and interchanges in affected areas.

The Class I railroads have responded to the service issues by reopening intermodal terminals (Norfolk Southern opened a terminal in Greencastle, Pennsylvania and Burlington Northern reopened a terminal in eastern Arkansas 27 miles from Memphis), leased industrial space near intermodal terminals and leveraged relationships to source incremental drayage capacity.

Loaded intermodal volume is sharply lower year-over-year in both the international intermodal segment (left chart below) and the domestic intermodal segment (right chart below). We stress that there remains plenty of demand to move intermodal containers and the decline in international loaded container volume and domestic loaded container volume in the past week of 3.4% y/y and 10.5% y/y, respectively, is a function of network capacity and fluidity.

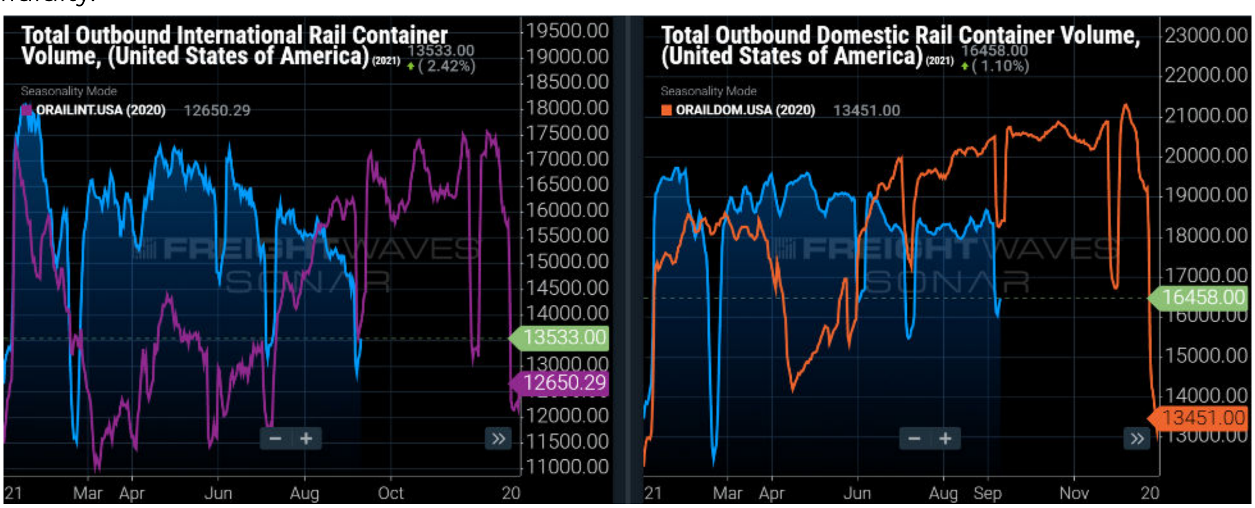


Chart: FreightWaves SONAR. Loaded international intermodal volume is shown on left relative to last year and loaded domestic intermodal volume is shown on right relative to last year.

Intermodal spot rates for the movement of 53-foot containers door-to-door, including fuel surcharges, are updated in SONAR first thing each Wednesday morning. Intermodal spot rates are not as important as intermodal contract rates because most intermodal volume moves under contracts, but we believe "there is information in prices." During the past five weeks, there hasn't been much movement in intermodal spot rates after the Class I railroads increased intermodal spot rates dramatically in early August.

Intermodal spot rates are higher year-over-year in 10 of the 11 densest domestic intermodal lanes.

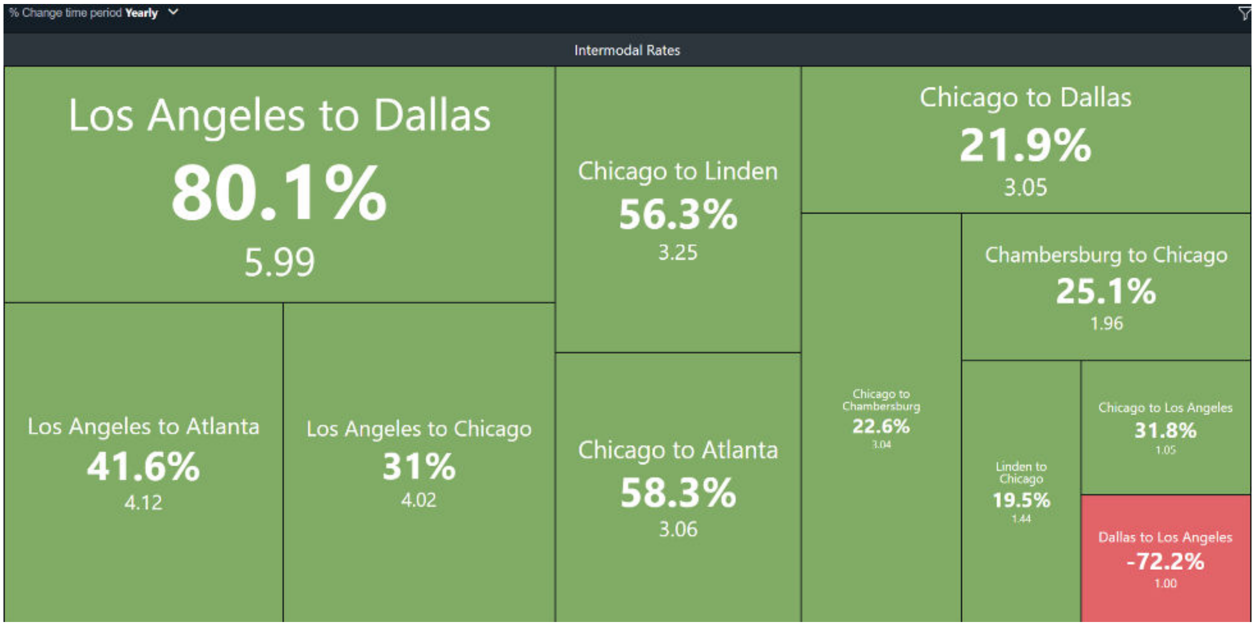


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door-to-door, including fuel surcharges, for the 11 densest domestic intermodal lanes and their respective year-over-year percent changes.

Comparing domestic door-to-door intermodal spot rates to move 53' containers (blue lines in the charts below) to dry van truckload spot rates (orange/yellow lines in the charts below) in the same lanes highlights the relative capacity constraints across modes in various dense freight corridors. Both data sets include fuel surcharges.

The chart on the left shows that the Class I railroads have purposely priced themselves out of the market for any incremental intermodal loads on the spot market in the L.A. to Dallas lane. They are protecting any available intermodal capacity for contractual shippers.

Meanwhile, the economics of domestic intermodal look far better for shippers in the Chicago to Elizabeth/Newark lane and the Chicago to Atlanta lane. While the intermodal spot rates in those lanes are far higher than they were at the beginning of the summer, intermodal spot rates in the Chicago-Linden and the Chicago-Atlanta lanes are 18% and 17% below dry van truckload rates in the same lanes, respectively. That spread has widened in the past few weeks amid rising truckload rates; therefore, FreightWaves expects that the Class I railroads may soon increase their intermodal spot rates in the Chicago-Linden/Newark and the Chicago-Atlanta lanes in the coming weeks.

Intermodal spot rates are significantly below dry van truckload spot rates in the CHI-EWR and CHI-ATL lanes. Whether shippers receive acceptable service in those lanes amid numerous intermodal capacity constraints is another question entirely.

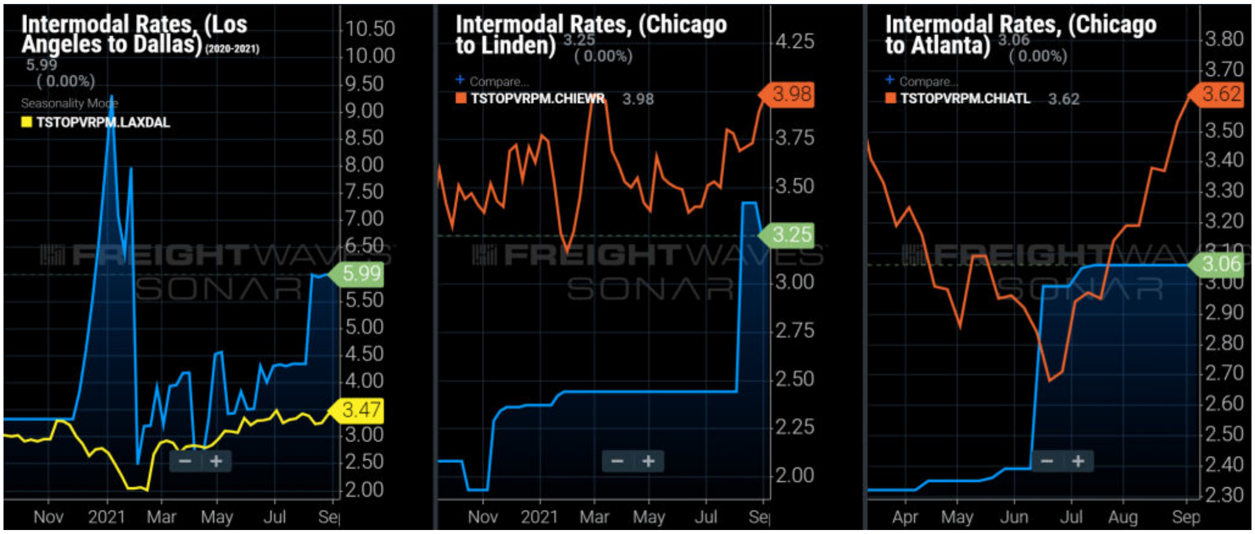


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door-to-door, including fuel surcharges, are shown in blue for three dense lanes. Dry van truckload spot rates on the same lanes are shown in orange/yellow.

Congested ports await arrival of late August booking spike, as CMA CGM caps spot rates

The maritime freight market has maintained course over the last two weeks, a feat that has become increasingly rare within the sector. Available space continues to be elusive for shippers, while spot rates, vessel charter prices and congestion show no signs of easing. While U.S. import demand remains elevated, the main driver of the tight market continues to be supply side capacity constraints. According to MarineTraffic, 46 container vessels wait at anchor or within drift areas in San Pedro Bay, a number that is expected to surge past 50 in the coming weeks.

Congestion has become a constant along the West Coast in the post-pandemic era, and is nowhere close to a resolution. Increased vessel traffic as a result of added services continues to build upon backups that are the main driver of significant delays, which in turn strip trans-Pacific capacity by up to 20%. Redirected volumes have now begun causing backlogs along the eastern seaboard, with congestion seen mounting in the ports of Savannah, Philadelphia and Norfolk.

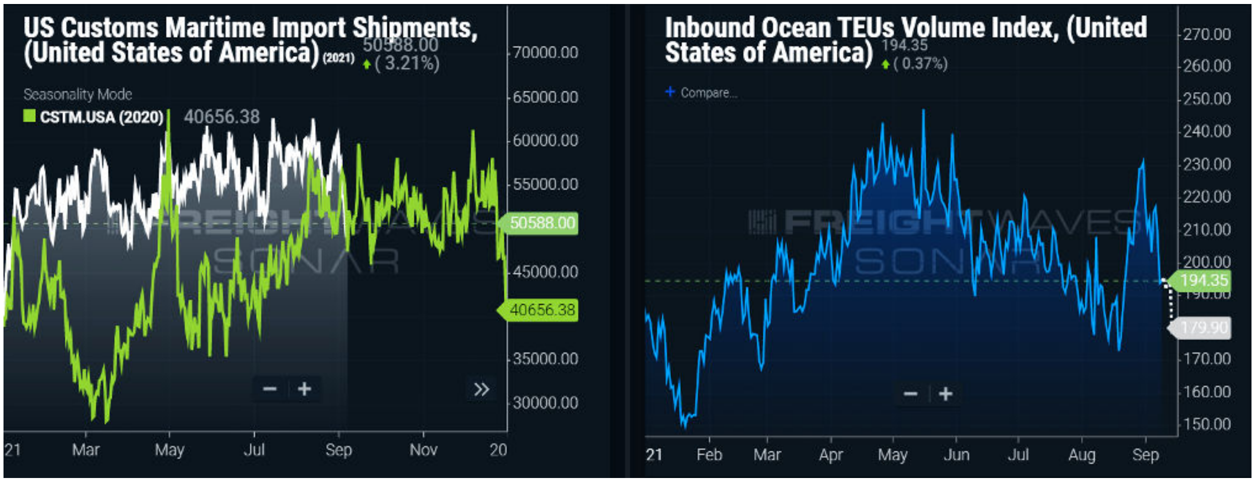


Chart: FreightWaves, SONAR. Inbound Ocean TEU Volume Index showing daily confirmed ocean bookings destined for the U.S. {Blue}, with future departures over the next 7 days {White}

Maritime import shipment volumes continued their sequential slide over the holiday, sinking 17% when compared to the preceding week. The reduction in containerized and non-containerized import volumes clearing U.S. Customs and Border Patrol are now down 3% y/y, and up 24% compared to the pre-pandemic market of 2019. While shipments being cleared for entry into the U.S. have stalled, demand in the form of new bookings remains slightly elevated at 194 index points, up 4% y/y. Shipment volumes clearing Customs are set to increase sharply in the next 2 to 4 weeks, as the end of August boom in bookings departures should begin reaching U.S. ports of entry.

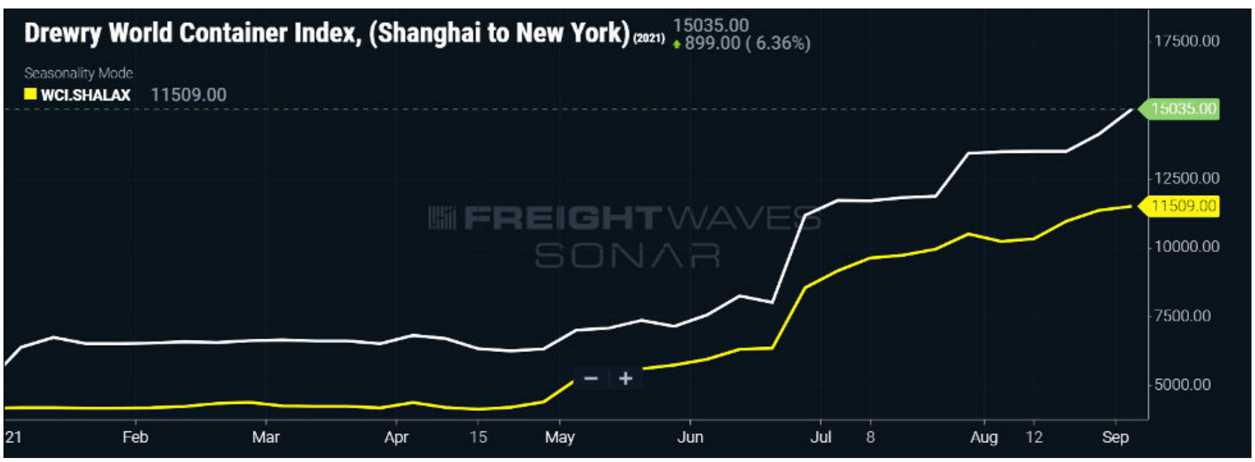


Chart: FreightWaves, SONAR. Drewry World Container Index rates assessment from Shanghai to New York {White} and Shanghai to Los Angeles {Yellow}

Eastbound trans-Pacific spot rates continue to trend ever higher, according to the Drewry World Container Index. The index, which records spot rates per 40' container, currently shows Shanghai to New York at $15,035/FEU, an increase of 6% w/w and 224% when compared y/y. The Shanghai to Los Angeles assessment is currently at $11,509/FEU, up just 1% in the most recent week (but 197% above 2020 levels). In the last two weeks, Shanghai to New York rates have increased at a higher trajectory than the Shanghai to Los Angeles rates. The variation in magnitude likely stemmed from increased demand for shipments to the East Coast, steering away from West Coast congestion. In a surprising move, French carrier CMA CGM announced on September 9 that effective immediately, it will suspend all spot rate increases across its brands until February 2021.

While spot rates are already astronomical and a majority of the line's capacity in that time frame is likely booked, the move may initiate reaction by the remaining ocean carriers to follow suit. The announcement won't commence a spot rate collapse, but could signify that carriers believe spot rates have reached their peak and will begin to slowly cool back down.

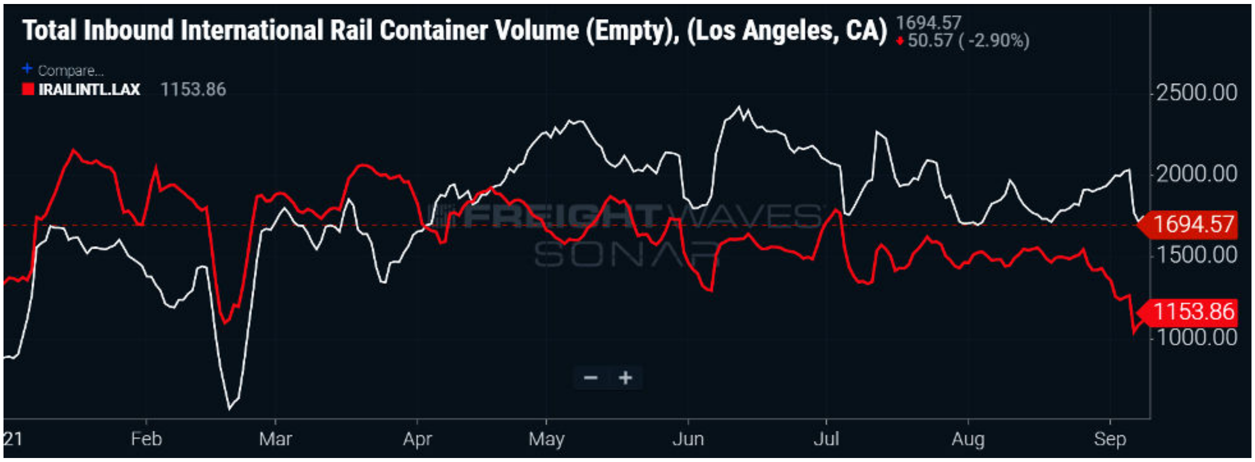


Chart: FreightWaves, SONAR. Empty inbound international rail container volumes being moved into the Los Angeles market {White} compared to loaded volumes {Red}

The heavy import-export imbalance continues to cause container shortages in the trans-Pacific routings. Ocean carriers have maintained pressure on the railroads to return empties to the West Coast port markets to send back to Asia for reloading. The Port of Long Beach alone reported a 20% y/y increase in August of empty containers moved through the port, equating to about 280,800 TEU. Empty international rail container volumes being moved into the Los Angeles market widened its gap over loaded containers at the end of August. On a daily basis, empty container volumes moving via rail into LAX were 47% higher than loaded volumes, the largest differential since the beginning of June (when it was 49% higher).

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