August 22, 2022 | 10:23 AM EDT

Freight brokers say retaining customers is a major concern

For freight brokers who are moving contract freight, it's been a pretty good year so far. The good times won't last forever, so cheers to you and enjoy the ride while it lasts. For brokers who are living the spot market life, it's been a bumpy ride.

For freight brokers competition is pivoting to price, rather than finding trucks like the past couple of years. If you're relatively new to the industry and have only experienced a bull freight market, you'd better prepare for a long, cold winter of falling rates and excess truck capacity.

Pick your spots wisely and make sure you're not selling on having the cheapest rates.

Volatility returns to freight markets in 2022

Most freight brokers thought 2022 would be much like 2021. The bull market in trucking would continue with no end in sight. Imports would keep flowing into the ports, and consumers would keep binge shopping from their couches.

That wasn't the case, though. Without warning, consumers ventured out into the world again, shifting their spending back to services and experiences. Shippers, still in panic-buying mode, were surprised by declining sales and excess inventory. This happened just as shippers negotiated new contracts bringing trucking rates up to par with spot rates to secure capacity.

This created a perfect storm for the bottom to fall out of the spot market. Rates fell 30% from their February highs as more freight stayed in the contract market. After two years of tight capacity, there are now too many trucks in the spot market chasing too few loads.

That all adds up to a simple observation: We are now in another freight recession.

Spot market rates as of Aug. 17

NTI.USA	$2.69
NTIL.USA	$2.88
VPRM1.USA	$1.90
RATES.USA	-$0.83

Spot market capacity as of Aug. 17

VOTRI.USA	6%
ROTRI.USA	6.79%
FOTRI.USA	15.45%

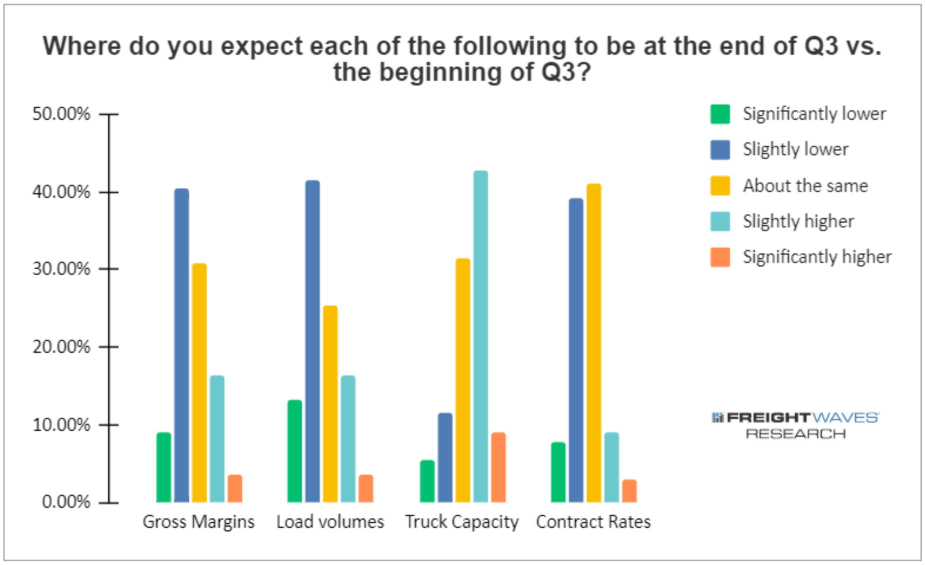
Kevin Hill
Head of Research and Communities
khill@freightwaves.com
646-731-4735

Joe Antoshak
Senior Editorial Researcher
jantoshak@freightwaves.com
410-937-5421

August 22, 2022 | 10:23 AM EDT

Freight broker sentiment shaky heading into Q3 2022

Our sentiment survey of 166 freight brokers on their outlook for the third quarter of 2022 shows that they are pessimistic about acquiring and retaining customers. This is normal when value shifts away from finding capacity on a regular basis. With outbound tender rejections dropping from over 20% to begin 2022 to 6% in August, finding a truck hasn't been easier since early 2020 when the freight market was in its last recession.



Source: FreightWaves' Q3 2022 Freight Broker Outlook Survey

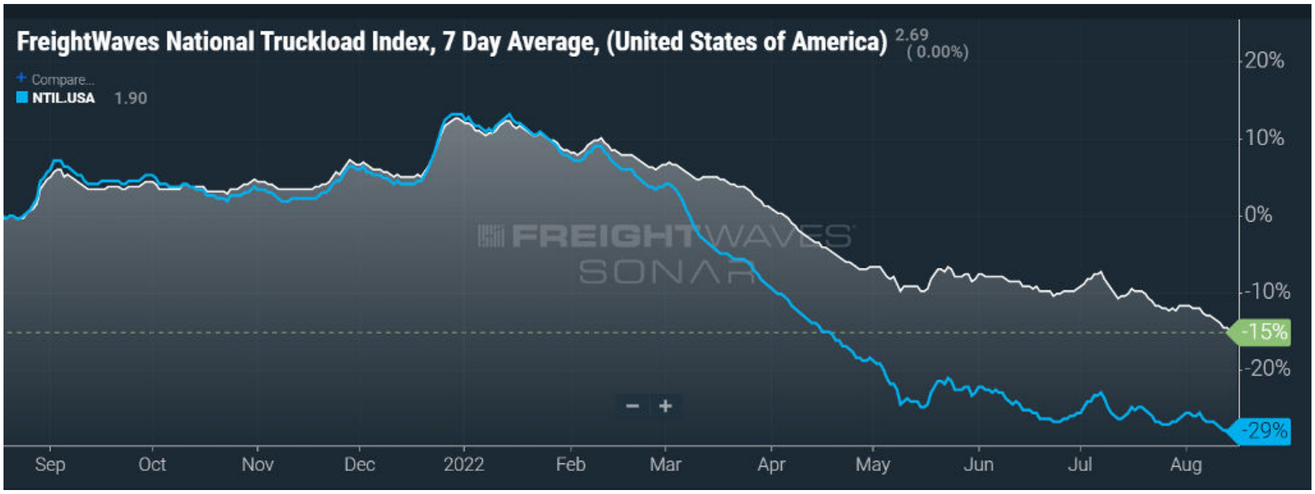
Landing new shippers and retaining existing ones are top of mind for all freight brokers now … and not in a good way. The loosening of capacity in the spot market means price competition is fierce. Any contract rates that haven't been negotiated to match the falling spot market with shippers by now will be soon.

Like all fears, the misery resides in the anticipation of what's about to happen. The exhilaration of hearing your phone ring off the hook when you post a load will be replaced with the bleak margins you eke out as contract rates continue to fall.

Gross margins are always a worry. It's been a tailwind for freight brokers who have contract rates in place. According to FreightWaves' National Truckload Index (NTI) the national average for dry van spot rates, excluding fuel, have sunk 29% since their highs in February.

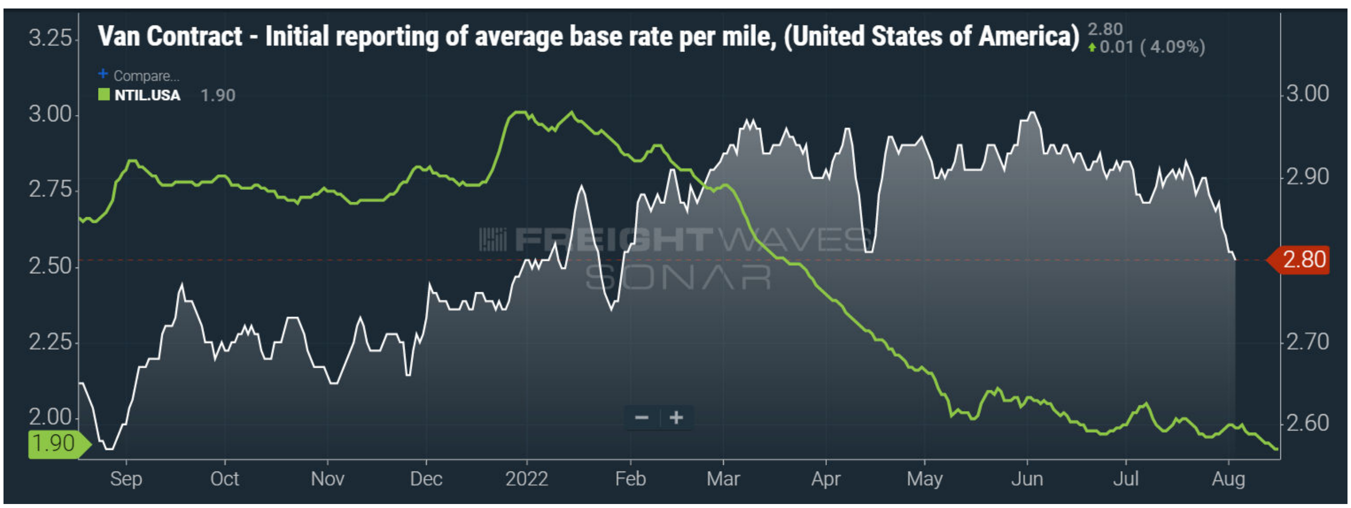
Not so for contract rates, though as we are only now seeing slippage from the recently negotiated higher rates. Contract rates are only down 3% over the past six months.

For freight brokers moving contract freight, gross margins have been widening with only a slight dip in load volumes.



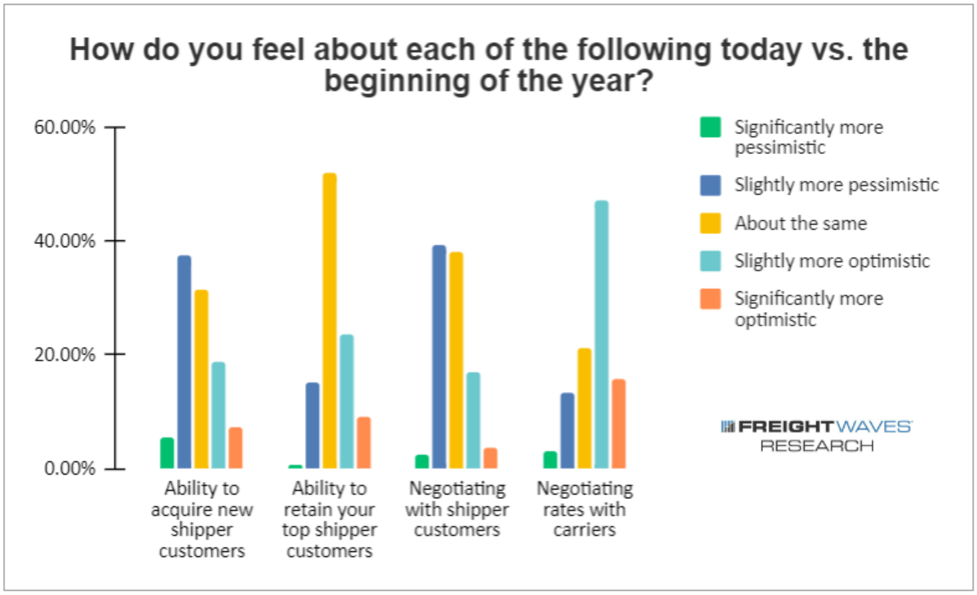
SONAR: NTI.USA (White, spot rates including fuel), NTIL.USA (Blue, spot rates excluding fuel) — FreightWaves' National Truckload Index of spot rates fell off a cliff in mid-February.

Expect the contract market to move further down from here, though, over the coming months. The spread between spot and contract rates is just too wide to continue much longer. The spread is wider now than it was during April 2020 at the height of the lockdowns.



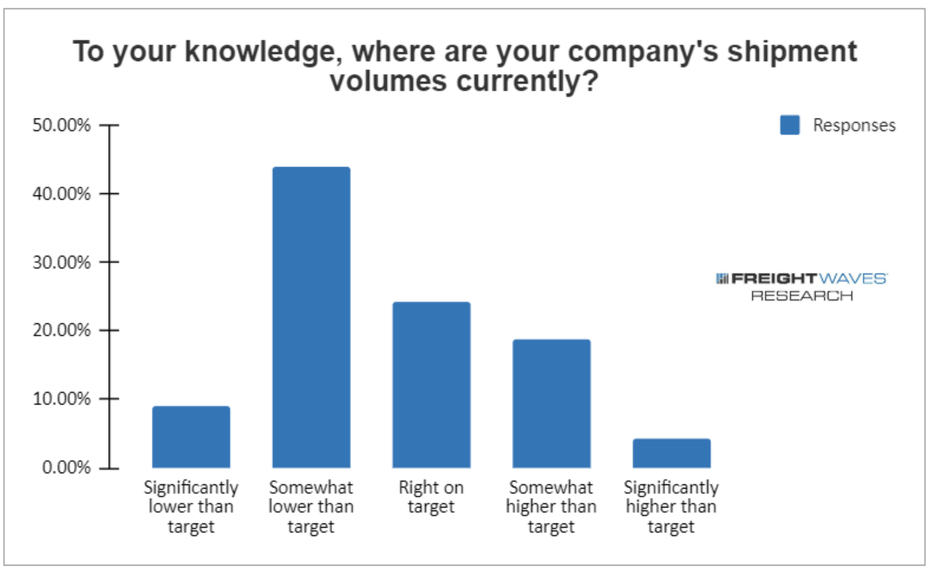
SONAR: VCRPM1.USA (White, dry van contract rates), NTIL.USA (Green, dry van spot rates) — The spread between spot and contract rates is as wide as it ever has been. Spot rates have reached a low of 98 cents below contract rates and are now still at record levels of 83 cents.

All of this to say there are fewer loads in the spot market now than a year ago. A lot fewer to be a bit more exact. Sub-6% outbound tender rejections tell us that carriers are not rejecting contract freight, as contract rates are paying better than the spot market.



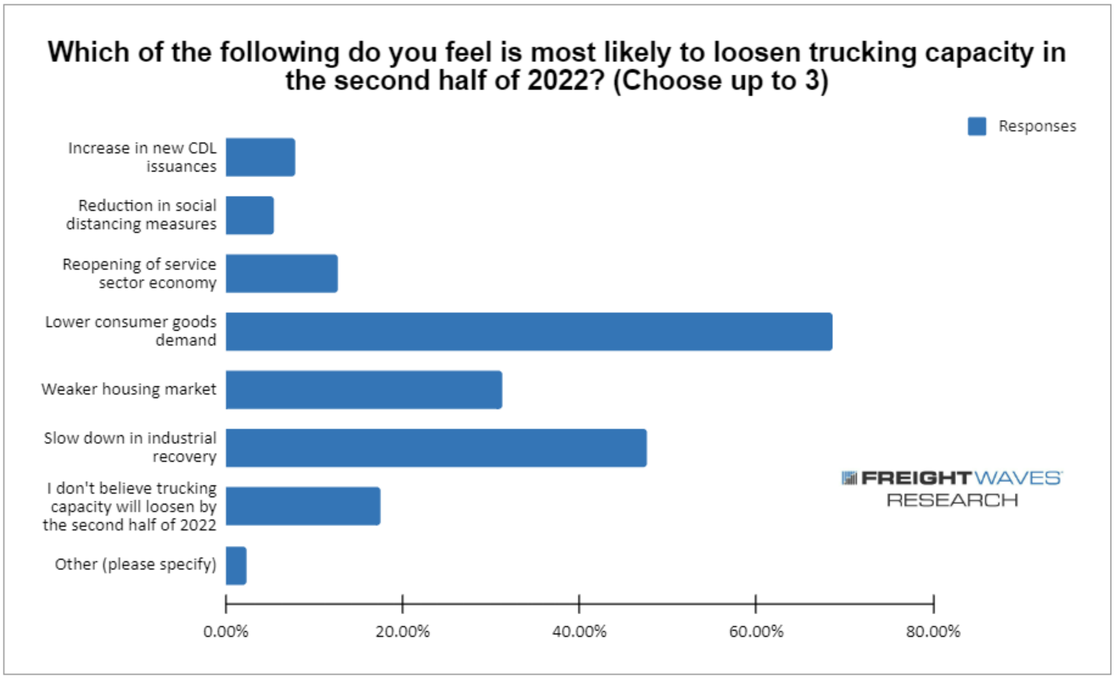
Source: FreightWaves' Q3 2022 Freight Broker Outlook Survey

Fewer loads are hitting the spot market, which creates an oversupply of truck capacity. What we've witnessed in 2022 is a spot market that has gone from a gold mine to a shaft in the blink of an eye.



Source: FreightWaves' Q3 2022 Freight Broker Outlook Survey

Fears of a slowdown in load volumes is the focus of freight brokers' concerns for the second half of 2022. The mix shift of consumer spending away from goods and back to services means a decrease in load volumes across the board. Retailers and consumer product companies are battling bloated inventory levels, which are leading to reductions in future orders. A good rule of thumb is that the deeper a company is in the discretionary spending category, the more bloated its inventory levels are right now.



Source: FreightWaves' Q3 2022 Freight Broker Outlook Survey

Freight markets in retreat

2022 has been a roller-coaster year for the freight markets. The following tables describe the action and the sudden change in outbound volumes, tender rejections and spot rates for the trucking market.

	DAILY AVERAGES						
METRIC	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Tender Load Volumes Index **(OTVI.USA)**	**14,787.47**	**14,344.48**	**15,316.58**	**15,815.70**	**14,599.08**	**14,296.19**	**12,671.64**
Tender Rejection Rate **(OTRI.USA)**	**26.33%**	**24.62%**	**24.66%**	**22.46%**	**20.43%**	**18.98%**	**9.23%**
Inbound Ocean TEUs Index **(IOTI.USA)**	**175.32**	**182.61**	**217.22**	**198.48**	**179.19**	**191.27**	**174.24**
National Truckload Index **(NTI.USA)***	**$2.70**	**$2.88**	**$3.07**	**$3.21**	**$3.33**	**$3.42**	**$2.95**

* INCLUSIVE OF FUEL

Imports have propelled the trucking market since the pandemic as consumers sat at home and ordered physical goods, remodeled homes and at times loaded up on unnecessary trinkets. Looking into the freight pipeline, though, the cavalry of overseas imports isn't on the horizon in 2022. Inbound twenty-foot equivalent units of container freight have fallen off a cliff, which is not a good sign for an increase in truckload volumes.

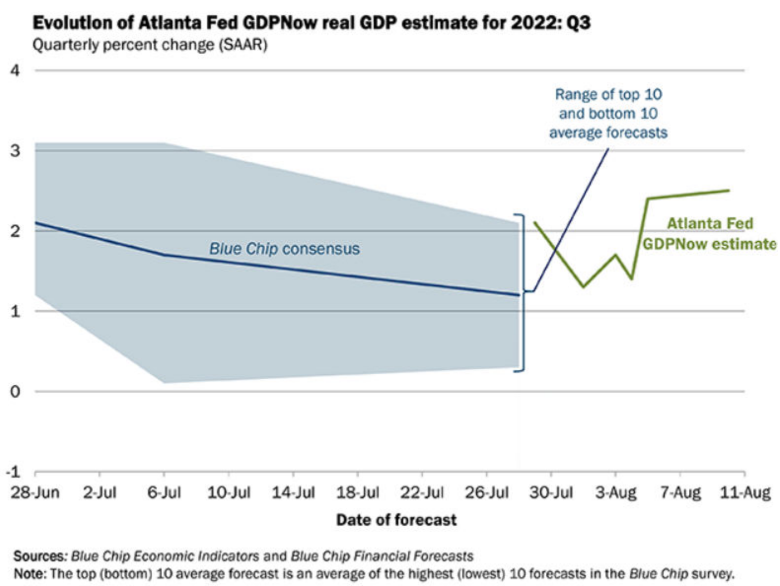
DAILY AVERAGES							
METRIC	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Tender Load Volumes Index **(OTVI.USA)**	5.0%	-3.0%	6.8%	3.3%	-7.7%	-2.1%	-11.4%
Tender Rejection Rate **(OTRI.USA)**	21.1%	-6.5%	0.2%	-8.9%	-9.0%	-7.1%	-51.4%
Inbound Ocean TEUs Index **(IOTI.USA)**	2.9%	4.2%	19.0%	-8.6%	-9.7%	6.7%	-8.9%
National Truckload Index **(NTI.USA)***	12.5%	6.7%	6.6%	4.6%	3.7%	2.7%	-13.7%

* INCLUSIVE OF FUEL

Source: SONAR data

Are we in an economic recession?

Recessions are often defined as two consecutive quarters of negative growth. While this is a useful rule of thumb, a recession is not official until it is called by the National Bureau of Economic Research (NBER). The NBER calls recessions with a lag, however, so whether we are now in a recession or not is a matter of opinion for the most part. The Atlanta Federal Reserve Bank has its own GDPNow methodology, and as of mid-August it is predicting positive growth for the third quarter of 2022.

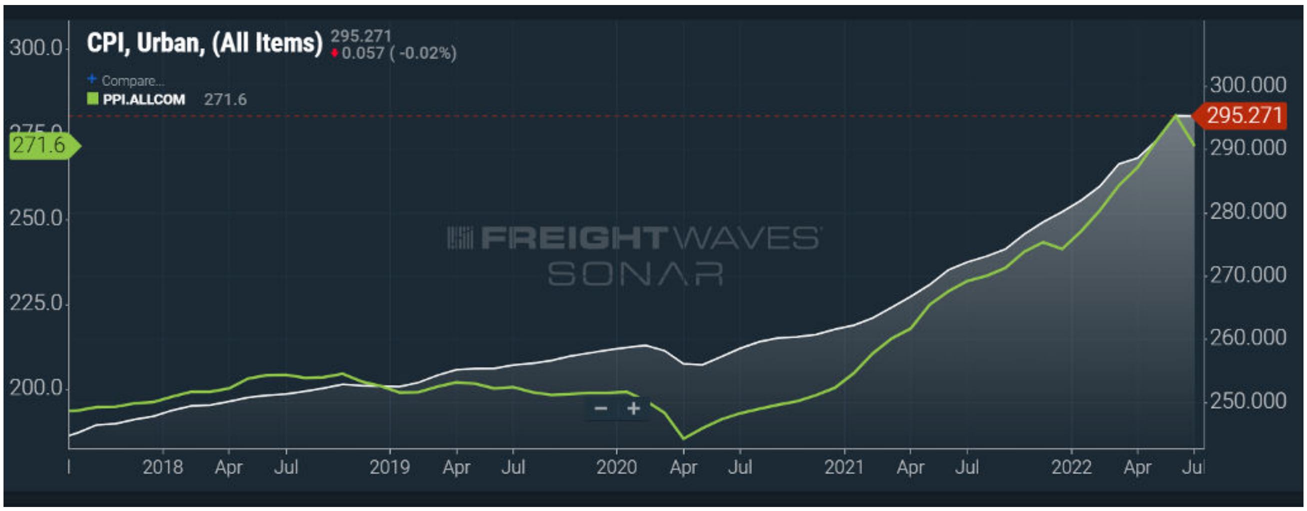


Source: [Federal Reserve Bank of Atlanta GDPNow Forecast]

August 22, 2022 | 10:23 AM EDT

Inflation, inflation, inflation

If there's a buzzword for 2022, it is inflation. One can't read, watch or listen to any media outlet that isn't constantly talking about inflation. The Consumer Price Index (CPI) is at its highest since the early 1980s, diesel and gasoline prices are parabolic, and commodities of all types have seen sharp moves up over the past 12 months.

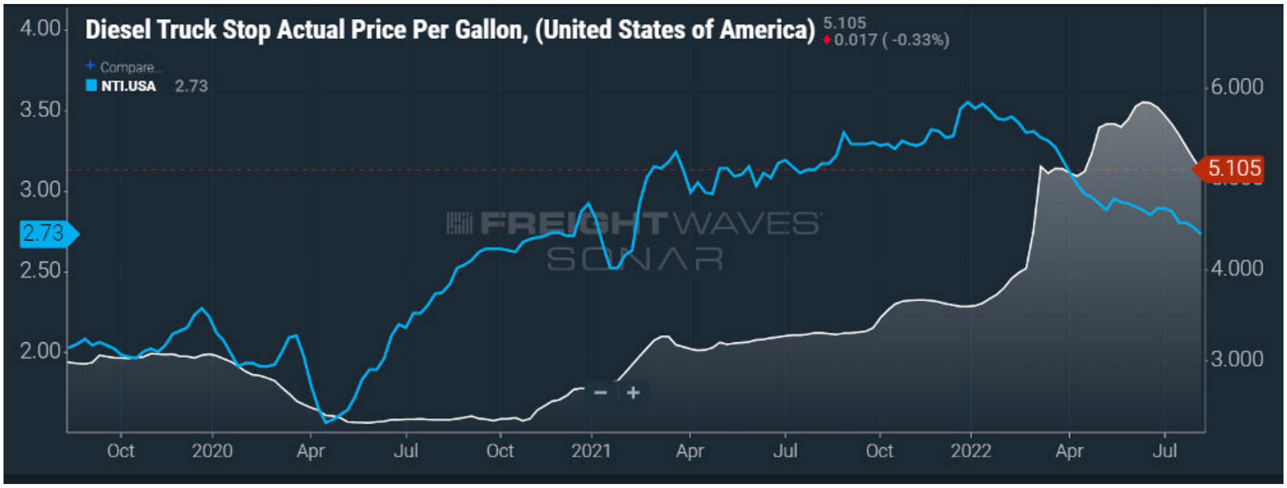


[SONAR: CPI.ALL (Consumer Price Index) and PPI.ALL (Purchasers Price Index)]

While commodity prices seem to have hit a peak and are trading down in mid-August, there is enough geopolitical and economic uncertainty in the world to be cautious of calling peak inflation anytime soon.

Source: Markets Insider (From left — aluminum, wheat and WTI crude oil) as of Aug. 15, 2022

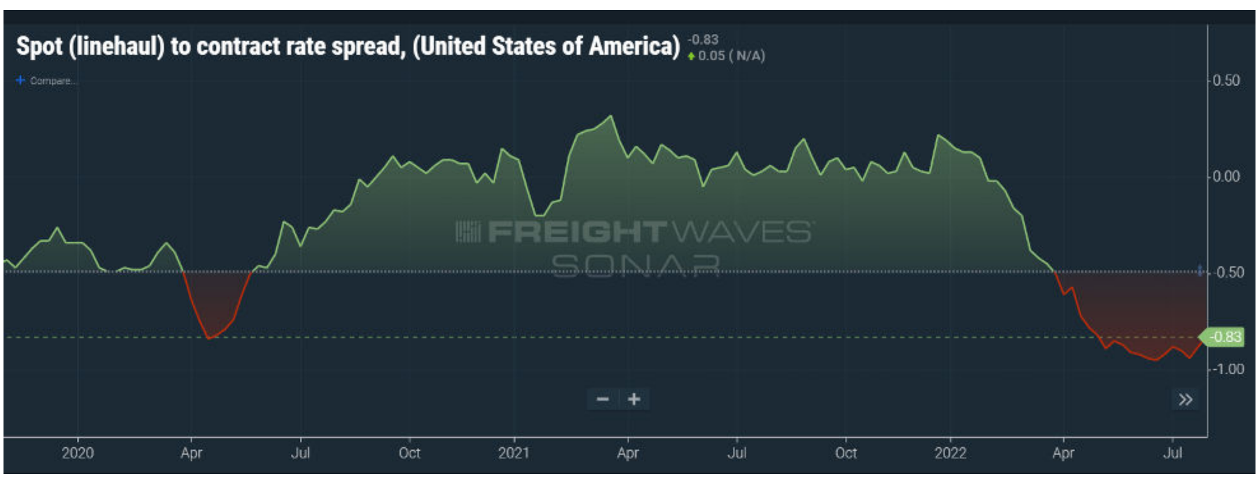
Talking about commodity prices, the trucking market has been roiling as diesel costs skyrocket at the pump. Where diesel prices go from here is an important concern for freight brokers. Bidding on contract lanes involves the dual inputs of linehaul rates and fuel surcharges. Both have been moving in opposite directions, which makes it difficult to forecast an accurate rate for more than a few weeks at a time.



SONAR: DTS.USA (National average of truckstop diesel price) and NTI.USA (FreightWaves' National Truckload Index, including fuel surcharges).

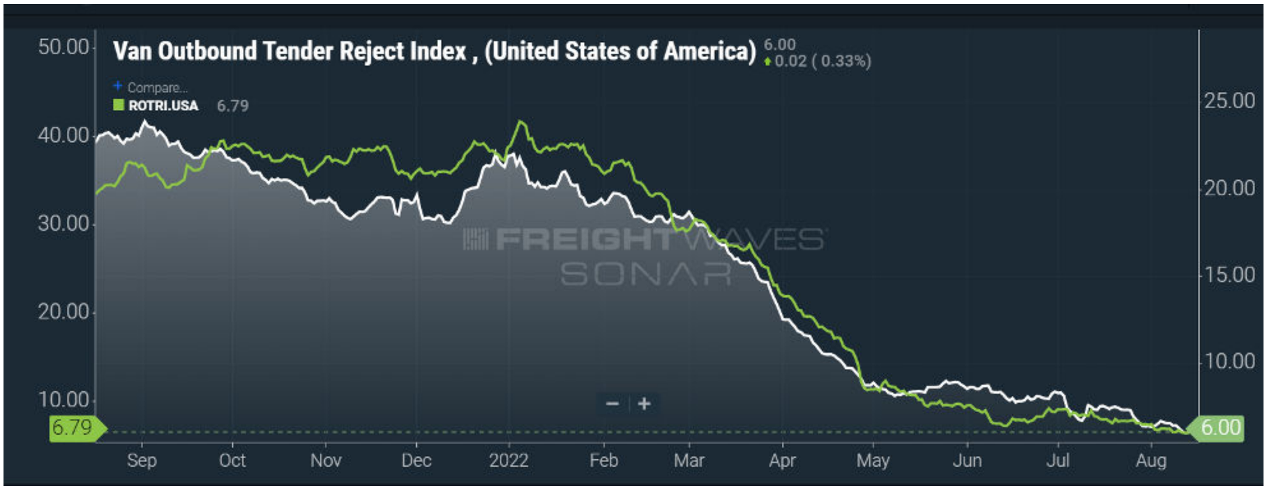
Trucking rates and capacity

The spread between spot and contract rates is starting to narrow as shippers negotiate new rates and move more freight into the spot markets. The spread was as high as negative 98 cents per mile in July but has narrowed to negative 83 cents in August.



SONAR: RATES.USA — The spread between spot and contract rates has started to narrow as shippers negotiate lower contract rates to better reflect the spot market.

As long as the spread between spot and contract rates remains this wide, we should expect rejection rates for contract freight to be extremely low. This is what we are seeing in almost all markets. Outbound and inbound tender load volumes that would normally drive up rejection rates tend to have little or no effect as contracted freight is just too rich to turn down.



SONAR: VOTRI.USA (White, dry van outbound tender rejections), ROTRI.USA (Green, refrigerated outbound tender rejections) — With contract rates at historic highs over spot market rates, it is no wonder that carriers are accepting as much freight on the contract market as they can handle.

Where to go from here?

The only certainty that we can point to for the freight markets in the second half of 2022 is that uncertainty will reign supreme. Inflation, inventory, consumer borrowing and spending will drive the market one way or another. It is looking more likely that it will be lower rather than higher at this point in the freight market cycle, though.

So, the best course of action is to focus on your customers, find ways to add value so you can maintain your pricing power and keep developing those carrier relationships that will see you through these down cycles in the freight markets.