March 31, 2020 | 10:44 AM EST

Trucking markets: Are carriers capitulating?

Overview

There are a couple of ways for a transportation company to play the freight market 'after the peak,' depending on the customer portfolio.

Carriers and brokers with business concentrated in food and beverage – commodities enjoying a period of extraordinary demand – might be tempted to raise rates on their customers to protect themselves against unpredictable spot markets and purchased transportation costs.

On the other hand, a defensive play would be to communicate with customers and try to lower or maintain rates where possible to hold on to contracted freight in the anticipation of asset-based carriers lowering their rates as they begin to manage for asset utilization rather than yield.

Transportation companies are placing their bets on a customer-by-customer basis according to what their business relationships will bear and their projections about freight markets, but we heard from multiple sources this week that small carriers hauling spot freight are beginning to capitulate on rates (see our 'Rates' section below).

For us, it's an early signal that capacity may loosen and drive down rates even for the most defensive food and beverage and consumer staple freight as carriers try to keep their trucks moving.

Dry van spot rates per mile, excluding fuel[1]

LAX-DAL	$2.09
CHI-ATL	$2.15
PHL-CHI	$2.30
ATL-PHL	$2.13
SEA-LAX	$2.05
DAL-LAX	$2.39

Freight volumes (weekly change)

Atlanta	505.01 (-5.27%)
Harrisburg, PA	441.51 (-3.28%)
Ontario, CA	378.77 (-11.27%)
Dallas, TX	370.99 (-10.08%)
Joliet, IL	323.63 (-5.22%)
Allentown, PA	316.87 (-17.85%)

Tender rejection rates

Atlanta	14.40%
Harrisburg	20.32%
Ontario	16.23%
Dallas	19.48%
Joliet	11.93%
Allentown	19.30%

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[1] SONAR Rate Predictor.

Trucking spot rates

Dry van spot rates on major lanes fell or were flat after rising sharply in the prior week. Note that SONAR now has the ability to display truckstop.com rates on a per-mile basis (including fuel surcharges), making it easier to compare pricing dynamics across lanes.

The decline in spot rates coincides with an overall decline in absolute contracted truckload volumes and the beginning of a deterioration in tender rejection rates (OTRI.USA is at 18.38% after peaking at 19.28% on March 28). For our full thesis on what happens to transportation markets in all modes as demand resets lower, see our March 26 note “After the peak.”

Keep in mind that even as volumes fall back to earth – in our view, truckload volume is likely to go negative year-over-year – tender rejections will probably stay elevated above the lows the market experienced in 2019. Major shippers are dealing with unpredictable volumes and are struggling to find secure suppliers with reliable production to replenish their supply chains; that makes it difficult for trucking carriers to position their assets optimally. As long as volumes are unpredictable (both positively and negatively), tender rejection rates will be significant.

That said, in addition to the market data we analyzed on a daily basis, we’re seeing anecdotal, qualitative information suggesting that carriers have already started adjusting to the new market reality.

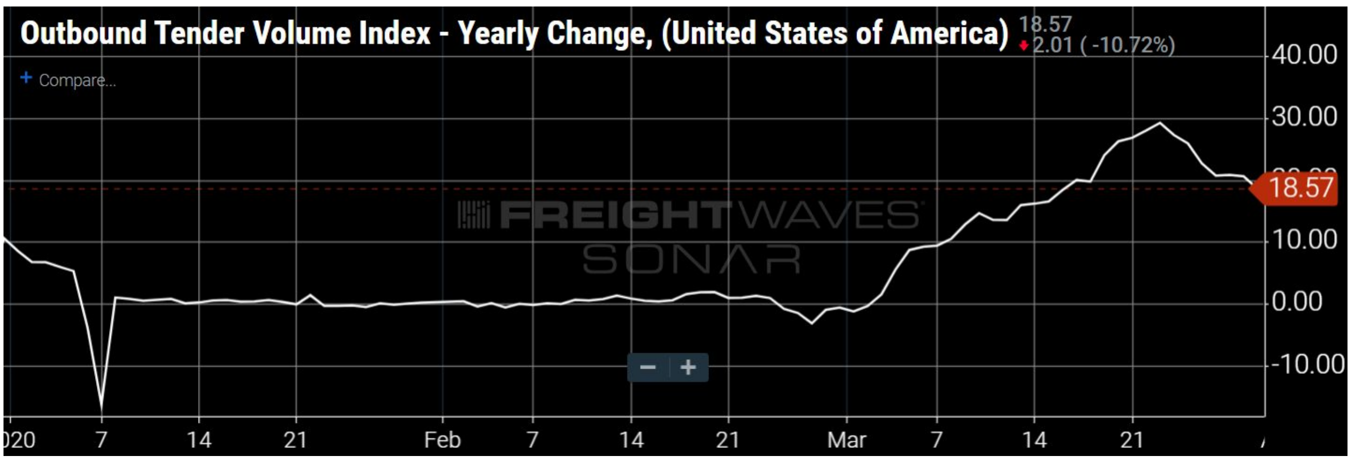
Yesterday afternoon, we spoke with one experienced Chicago freight brokerage executive who said, “The market tanked. Brokers will do very well this week. They all have spot pricing from last week for loads picking up this week. Carriers fought this morning but relented throughout the day.”

Dry van spot rates from Atlanta to Chicago were flat at $2.05/mile; rates from Los Angeles to Dallas fell 5% to $1.46/mile. Rates from Atlanta to Philadelphia fell 1.3% to $2.16/mile.

Meanwhile, spot rates for refrigerated equipment are still holding up and even increasing on the same lanes displayed above. As we noted last week, we’re still positive on food and beverage volumes. We believe that even as initial panic-buying subsides and households have stocked their pantries, grocery volumes will settle in 2-3x normal levels due to the closure of restaurants and school-aged children and college students staying home.

SONAR's rate predictor forecasts trucking spot rates up to one year in the future. We believe it is important to regularly check one major dry van lane from the East and West coasts. Our calculated rate for Philadelphia to Chicago one month from now is $1.82/mile, well below today's calculated rate of $2.30. Our calculated rate for Seattle to Los Angeles one month from now is $1.56/mile, again well below today's calculated rate of $2.05/mile.

Freight demand



The story of the past month is the massive surge in national contracted volumes. National contracted volumes are currently up 18.57% year-over-year. While this surge in volumes is unprecedented, we believe that the market has likely hit a peak. Panic-buying has been the story so far and while the pandemic will not end soon, consumers are likely to slow their spending in the near-term.

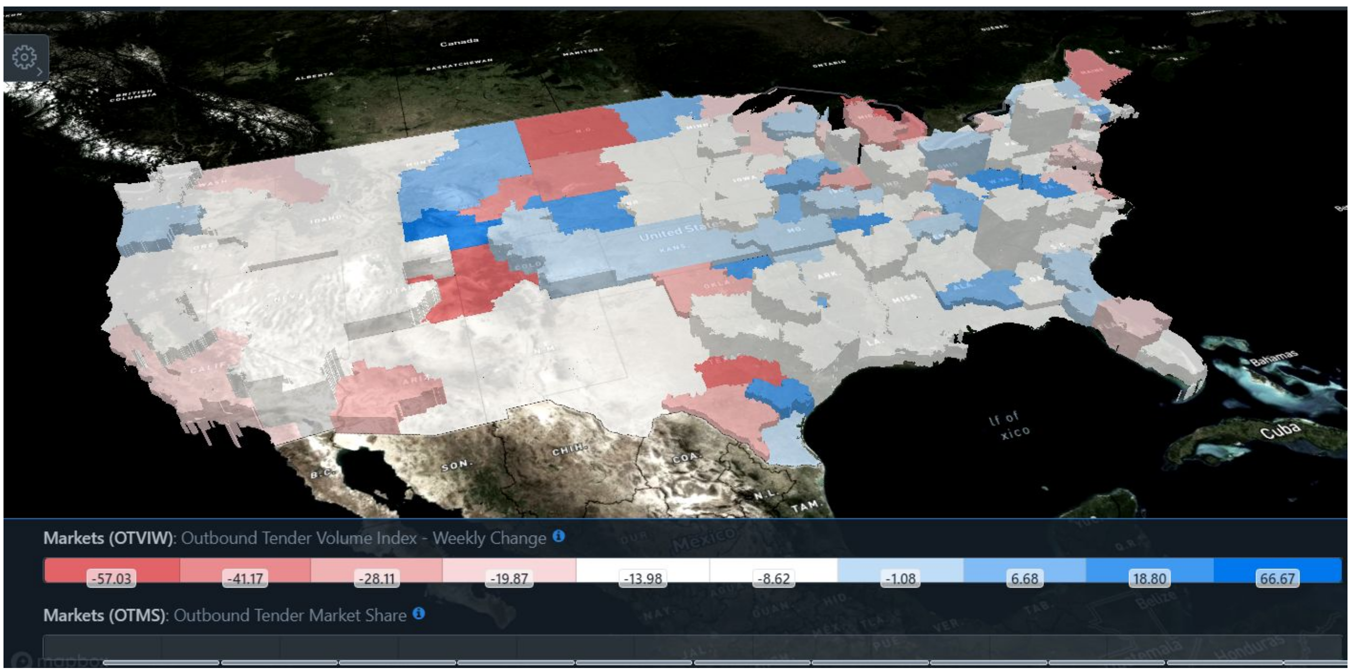
The biggest evidence of this slowdown is in reefer volumes. National reefer volumes seem to have peaked over the past week and have now rolled over, indicating less demand for the perishable goods that have been fueling the surge in volumes.

The economic outlook remains bleak for the short- to intermediate-term. The consensus estimate for the U.S. and global economy is a short-lived recession. The data continues to worsen with the Federal Reserve Bank reporting dismal data in its monthly Manufacturing Outlook Survey. The general business outlook activity index fell from 1.2 to -70.0. While this is a horrible data point, it should be noted that this is a "soft" data point – a survey of sentiment – and not hard data, like quantified economic output.

We expect that the hardest hit area from this slowdown in economic activity will be flatbed. Consumers will continue to need perishable goods and shelf-stable foods typically hauled in dry vans. With indications already showing that economic activity is expected to slow in the Dallas area, flatbed is likely to be the victim. Aside from a drop in the general business outlook activity, the new orders index dropped to -41.3, the lowest reading since the Great Recession.

A bright spot in the global economy continues to be China. We have mentioned for weeks that Chinese economic activity is slowly but steadily rebounding, whether it be increasing exports, increased signs of travel, or increasing pollution levels, indicating manufacturing plants are coming back online.

According to the China PMI release last night, the manufacturing and service segment has exited contraction. The manufacturing PMI came in at 52 while non-manufacturing had a reading of 52.3. While this data is directionally encouraging, Chinese government data is not reliable. We cite the China PMI data only as a clue to the internal narrative the Chinese Communist Party is telling its citizens, not economic reality.



(Map: FreightWaves SONAR. Color is weekly volume change; height is market share.)

National contracted truckload volumes fell 8.48% over the past week. We note that due to a decrease in contracted volumes nationwide, the white colored areas and some light blue areas are actually negative week-over-week (w/w). As mentioned previously, this is due to a marked slowdown in consumer spending. We expect volumes to trend downward as food-buying settles lower.

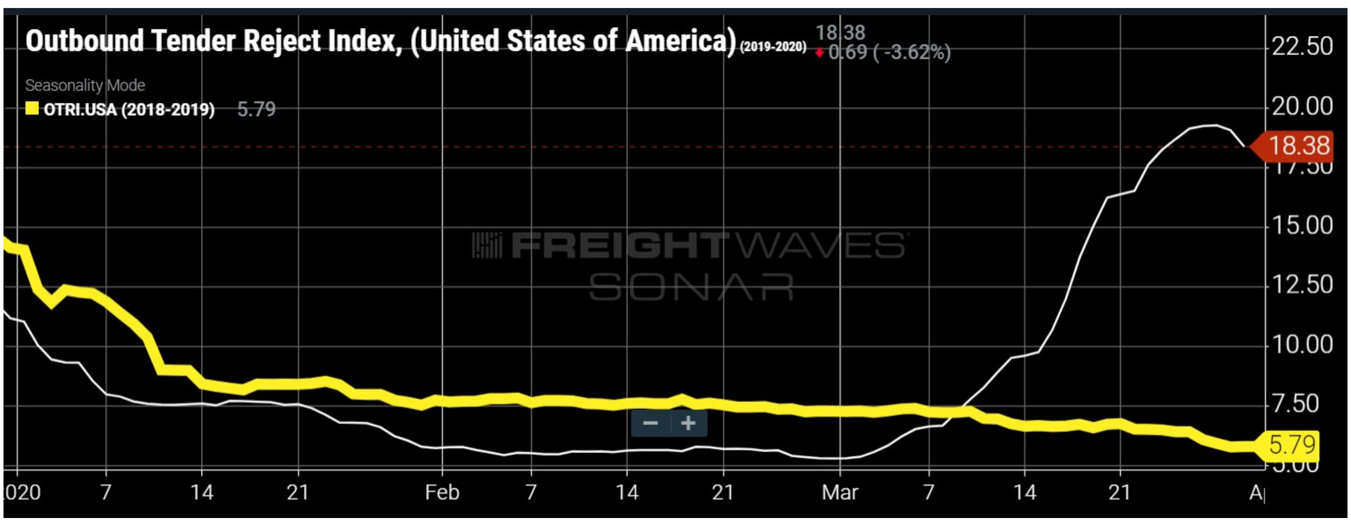
While most large markets experienced a volume drop over the past week, there were a few bright spots. Outbound tender volumes in Columbus, Ohio jumped 5.42% over the past week; this market is relatively large with a market share of 2.7%. On the West Coast, outbound tender volumes increased slightly in Portland (+4.37%).

It is much the same story in the reefer markets. National tendered reefer volumes contracted 8.66% over the past week. One bright spot on the East Coast is Savannah, where reefer volumes jumped 20% over the past week. The Port of Savannah is a large global port where fresh produce is imported during this time of the year. Heading westward, Spokane was a silver lining with outbound tender reefer volumes rising 53.45% w/w.

Import volumes into the Port of Los Angeles continue to trend higher, an encouraging sign for West Coast truck volumes and especially the Los Angeles market. We mentioned previously that Savannah appeared to have established a potential bottom in import volumes and it is becoming more clear that this could be the case. Import volumes in Savannah have risen ~124% off the lows of March 17.

One potential negative for the Port of Savannah is its dependence on European goods. Europe is currently in the heat of battle with the pandemic and major economies have had strict movement restrictions imposed, suppressing port activity. But encouraging data points out of Italy over the past several days – falling daily new cases and deaths – indicate that Italy, among the hardest-hit in Europe, might be near a turning point in the pandemic.

Trucking capacity

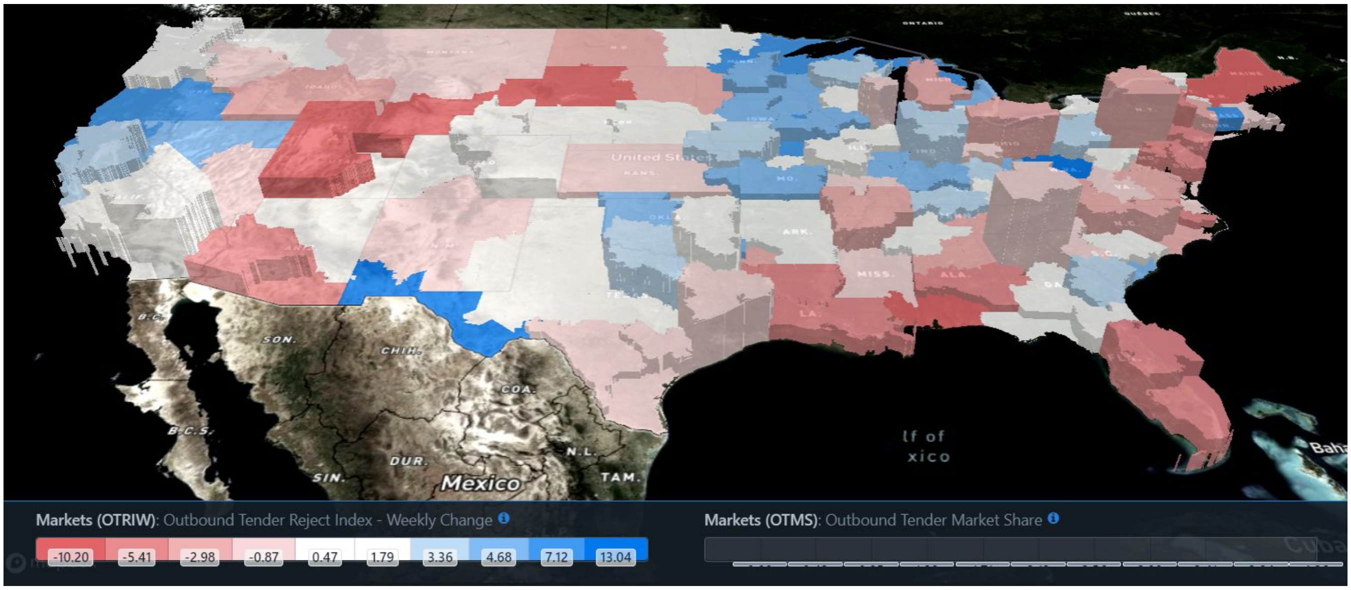


(FreightWaves SONAR: Outbound Tender Reject Index 2019 and 2020)

Tender rejection rates peaked on March 28 as panic-buying seems to have subsided for the moment. National contracted truckload tender rejections (OTRI.USA) surged to the highest level since September 2018, peaking at 19.28%. OTRI.USA has fallen nearly 5% from its peak in just two days but remains 217% above year-ago levels.

Carriers are continuing to have a difficult time positioning their assets to meet unpredictably high and low volumes from their customers. Trucks are rejecting freight due to heavy volume levels, flooding the spot market, holding rates at elevated levels. As demand returns back to a more rational level, capacity will loosen and rejections should return to numbers similar to 2019, although volume unpredictability will keep capacity from being optimally allocated.

As more states enact stricter “safer at home” orders, shipments outside of essential goods, medical supplies and consumer products will fall sharply. Trucking capacity that relies heavily on small- to medium-sized businesses will either have to venture outside their typical lanes and commodities or be temporarily forced to exit the market. If this happens, shippers will regain some of their pricing power – first tender acceptance rates will increase, spot market volume will dwindle, all while relative capacity continues to loosen.

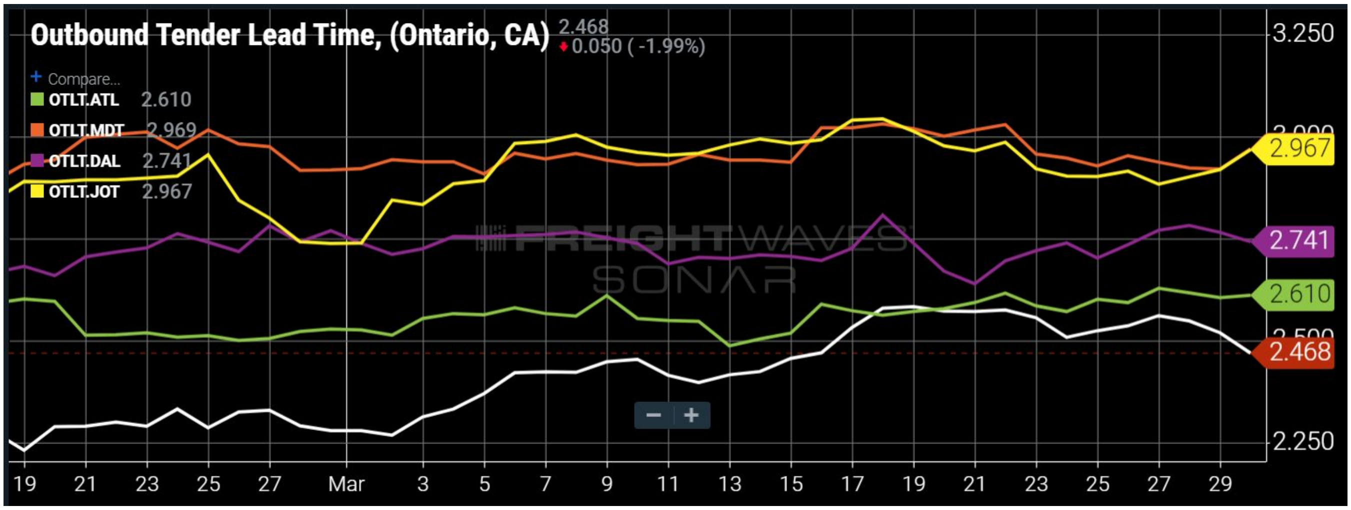


(Map: FreightWaves SONAR. Color is weekly tender rejection rate change; height is market share.)

Relative capacity tightened in 87 of the 135 markets across the U.S. this week. The biggest mover was El Paso as OTRI sits at 24.10%, more than 165% above week-ago levels. Tender rejections are only 693 basis points above year-ago levels. El Paso remains one of the most volatile markets in the country, as one of the largest cross-border markets between the U.S. and Mexico.

Tender rejections in Salt Lake City collapsed following a quick, near-vertical surge, falling more than 25% from the highs in the past week. While volumes have only fallen 13% in the past week, carriers are more likely to accept freight earlier in the routing guide.

While reefer capacity in Lakeland, Florida has fallen back to appropriate levels, reefer capacity in Indianapolis has surged in the past week. ROTRI.IND is up over 20% in the past week, up to 34.5%, the highest level since December 2018. Ontario, California was the only other major freight market that experienced reefer capacity tightening over the past week.



(FreightWaves SONAR: Outbound tender lead times in major markets)

Tender lead times (OTLT) in many of the major freight markets have remained relatively flat throughout the entire surge of volumes. Tender lead times in Ontario climbed steadily over the past month; however in the past week, OTLT hovered right around the 2.5 day mark. While relative capacity has tightened, shippers had to increase their lead times, especially in Southern California in order to ensure acceptance.

Tender lead time tends to be a complex signifier of shipper sentiment and watching its adjustments in context with other market data is almost always illuminating.

As loads are rejected, they have to be retendered, driving OTLT lower. Then shippers tender loads further in advance, almost anticipating that the load will move further down their routing guides. While Harrisburg is one of the hottest markets right now, OTLT shows that shippers are giving carriers nearly 3 days' notice before a load leaves the market. Because it's still shorter than holiday 2019 levels, OTLT suggests that drivers might not be staying home but instead that they are still searching for better freight or rates.

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