FREIGHTWAVES SONAR

NOVEMBER 2021

# Monthly Market Update


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A deep dive into the freight markets with unprecedented charts, analysis and market commentary.

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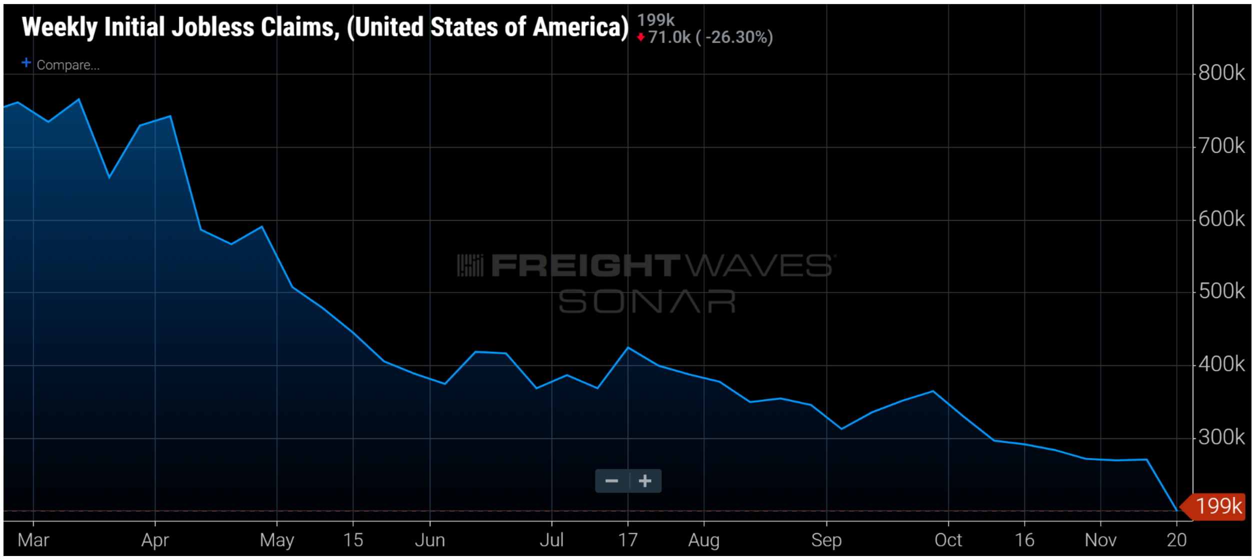
**Economic Outlook**

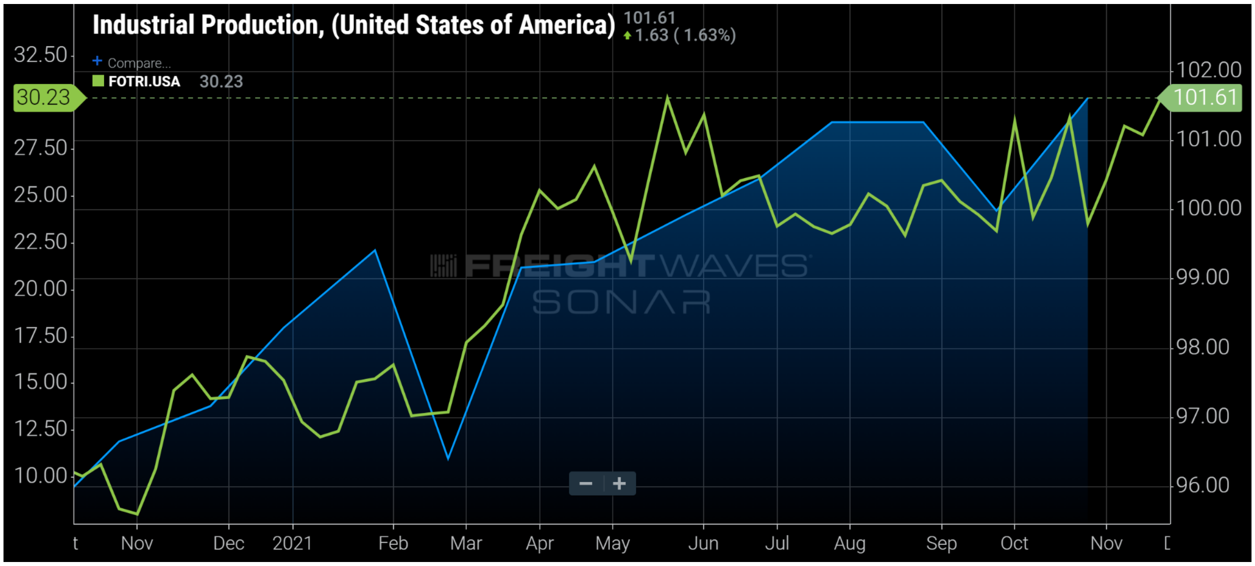
The health of the U.S. economy always comes back to the consumer. Personal consumption is nearing 70% of total economic output within the U.S. and can cover-up a lot of shortfalls in other parts of the economy. Consumer spending is persisting in the midst of inflation at levels that have not been seen in over 30 years. Consumer sentiment and confidence measures indicate that inflation is a substantial fear for many Americans; however, consumption in the fourth quarter of 2021 persists. The overwhelming demand from consumers drives freight volumes and has been ongoing for over a year. Americans got an earlier start this year to shopping during this peak season, which may lead to results that show a slight decline on certain weeks or days when looking at year-over-year trends. However, consumption is increasing overall on a monthly basis. Retail sales rose 1.7% in October, with a 4.0% increase for nonstore retailers on a monthly basis; this is 9.1% above the year-ago level and signals that consumers across the country began their shopping earlier this year. The conditions for consumers are favorable, aside from the concerning inflation



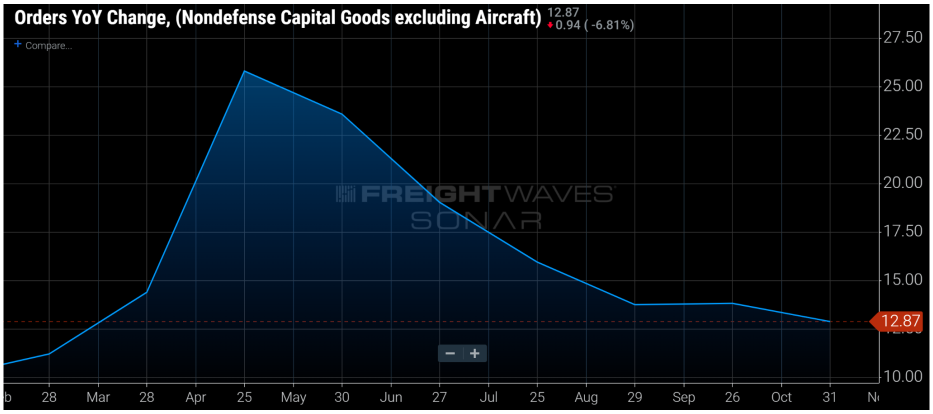

levels. Job opportunities are still plentiful, initial jobless claims dropped to 199,000 – a level not seen since 1969. The sudden drop in claims is likely a distortion from seasonal adjustment and will correct itself in the coming weeks. However, even before the drop, claims were at pre-pandemic levels. Inflation will take its toll eventually and consumer demand will not match the same levels in 2022.

## Manufacturing

The rate of growth upstream is robust but will ease in the coming months. The quarterly growth rate peaked earlier this year and annual trends will follow imminently. However, the descent will be slow, and there are no signs of recessionary trends. Industrial production increased 1.6% in October, up 5.1% from last year.



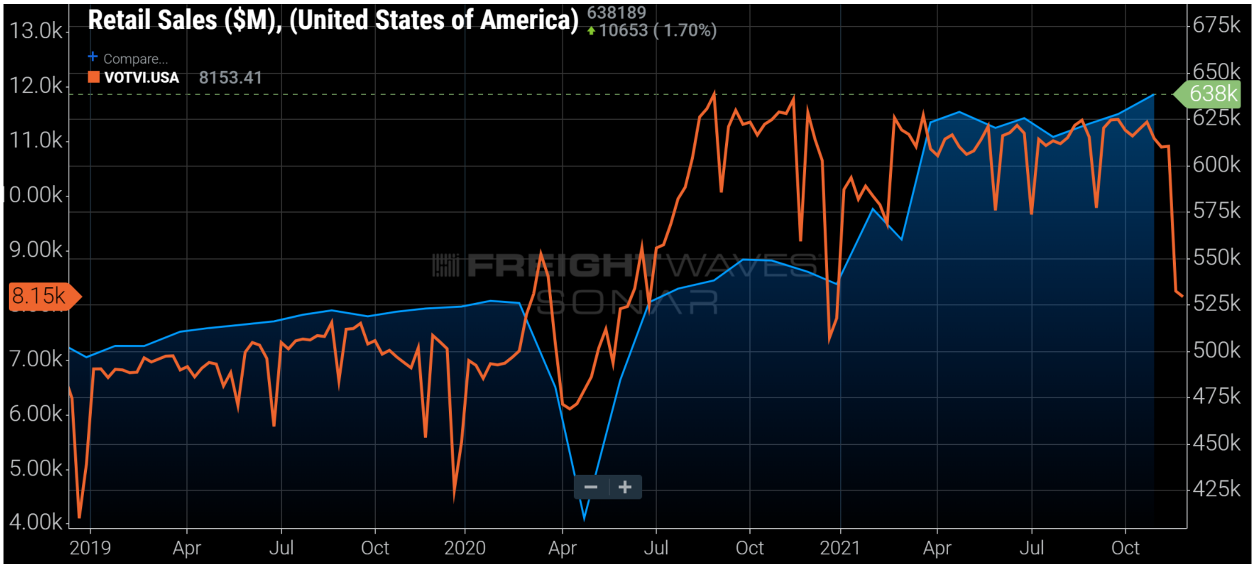

New orders are still high, backlogs are building, there are still commodities that are in short supply and a lack of workers is a major factor plaguing manufacturing. There is still a strong demand for new automobiles; manufacturers are still facing shortages. Although production for motor vehicles and parts increased 11.0% in the most recent month, it's still down 3.6% from year-ago levels. Overall activity will continue to provide volumes for flatbed trailers.




Business-to-business activity is still elevated, up 0.6% in October according to the nondefense capital goods new orders (excluding aircraft). Spending on infrastructure and some commercial construction will provide more momentum for manufacturing and prevent any persistent year-over-year decline in the coming months.

## Consumer Conditions & Retail

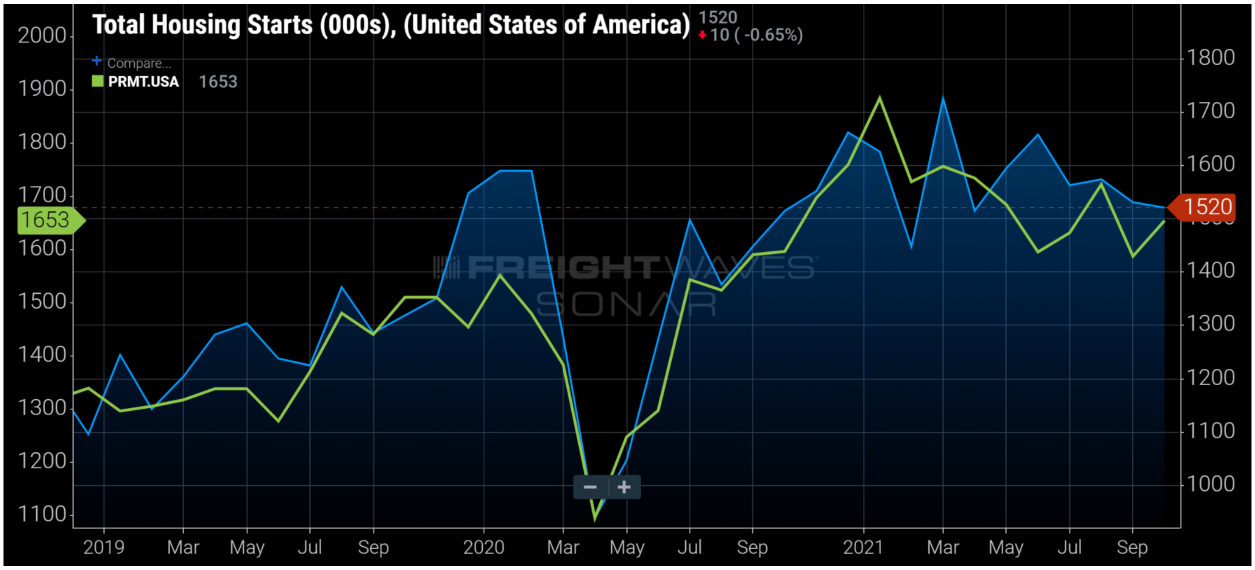
Inflation is the biggest headwind facing consumers. Consumer sentiment/confidence indices are reflecting growing concern over the increasing inflationary pressures. However, the actions of consumers have yet to ease. The jobs market is favoring employees in a big way and Americans are still quitting their jobs at a record rate with an overwhelming amount of openings to choose from. Diminished demand is coming, but at a much slower pace than what many were expecting. Consumer stamina is holding up so far this peak season as many Americans got an earlier start to holiday shopping this year. Inflationary pressures will set in for consumers in 2022.




The savings rate is back to pre-pandemic levels although revolving credit is still low, signalling that Americans are not over-encumbered at the moment, but big ticket items are starting to build up with expensive used car prices and housing trends. The diminished demand expected in 2022 will ease slowly without hitting recessionary levels – much like manufacturing.

## Housing and Construction

The housing market was incredibly unbalanced before the pandemic, and it has certainly been exacerbated over the last year. Existing home sales make up the vast majority of housing transactions and inventory is down 12% from one year ago. Further, homes under construction and authorized but not yet started are incredibly elevated and almost double the typical levels. Many builders are likely holding off taking new projects and downward movements in monthly figures like housing starts, which fell 0.7%, shouldn't be taken at surface level.




Demand for homes is still incredibly elevated and home prices are reflecting that. Materials and employment shortages will continue to be a limiting factor for housing and construction, but the segment will provide freight volume for flatbeds as more construction breaks ground. Downstream impacts will also provide volumes as those fortunate enough to lock down new homes will fill them with new furniture and appliances.

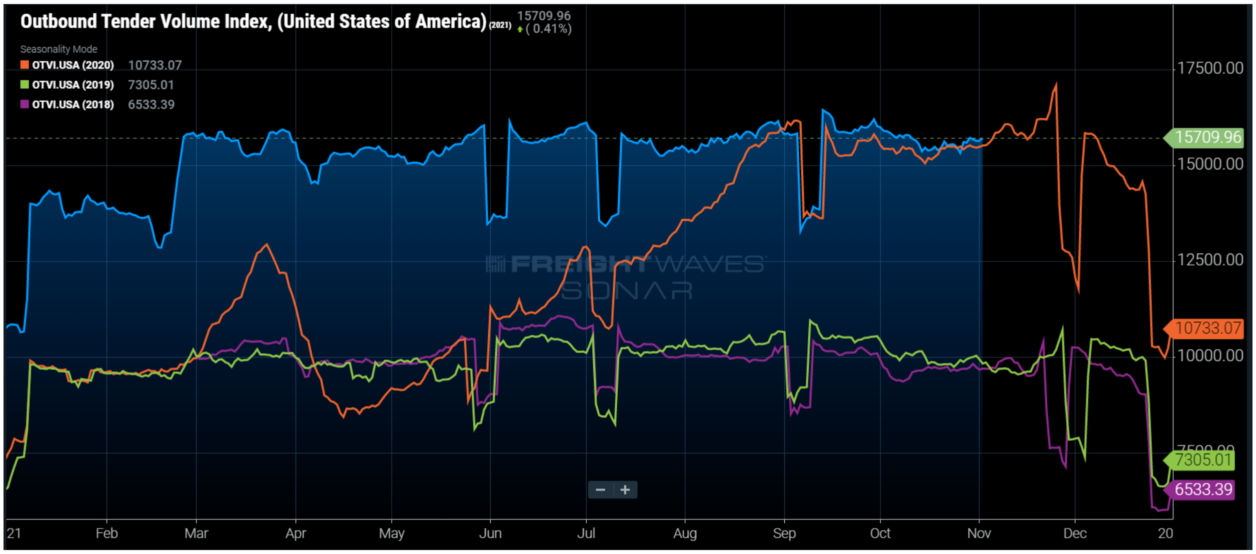
# Freight Market Overview

### National Summary

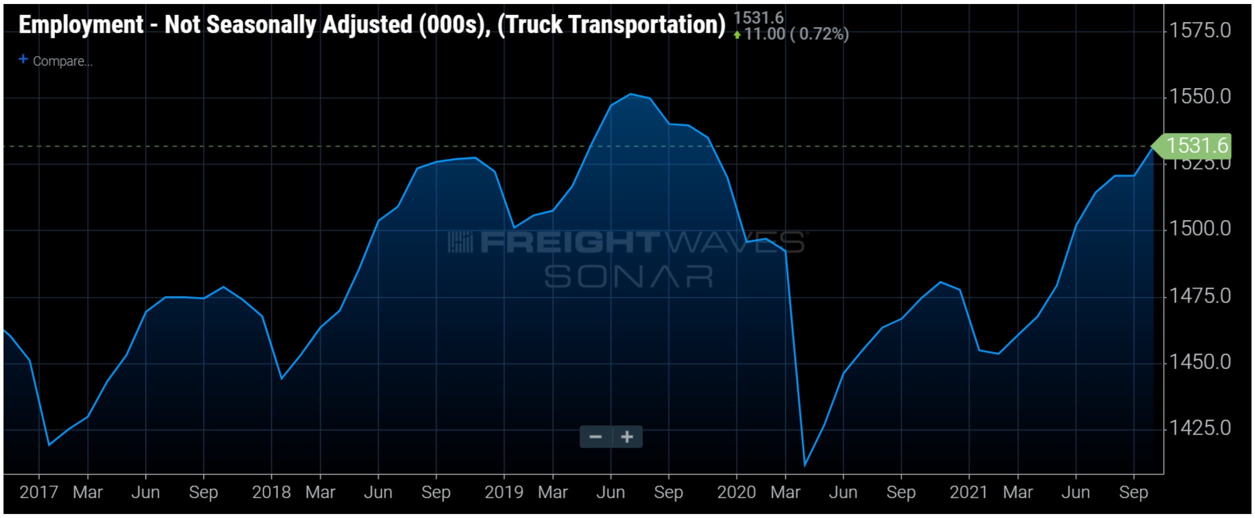
The freight market stabilized at a high level of activity in October. While this seems somewhat counterintuitive, demand was relatively consistent for maritime, intermodal rail and trucking throughout the month. While there was some sequential easing in September, volumes did not fall below a threshold that would signal an end to the current cycle coming over the next few months. Spot rates were relatively flat for trucking, but were well above last year's values. Intermodal rates jumped in the first week before flatlining while maritime rates eased slightly. All in all, there was little real change in the transportation market over the past month.

### Trucking

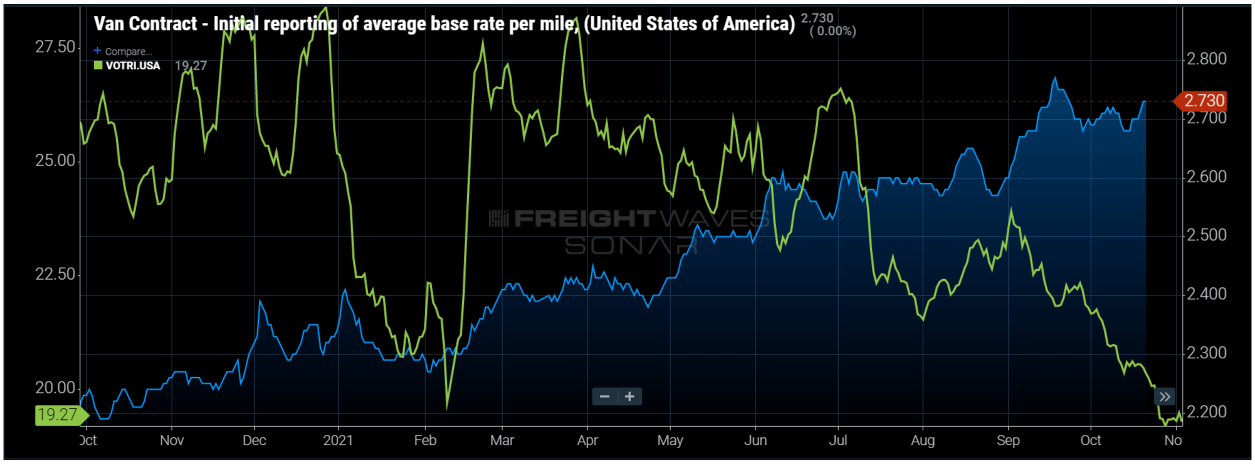
As mentioned above, truckload demand was consistent throughout October, taking a small sequential decline off September levels, excluding the impact of the holiday. The national Outbound Tender Volume index (OTVI) declined throughout the first two weeks before starting to edge higher at month-end. There were no dramatic changes in the overriding pattern or new developing trends as the OTVI largely followed the same direction and somewhat surprisingly the same level as it did in 2020.



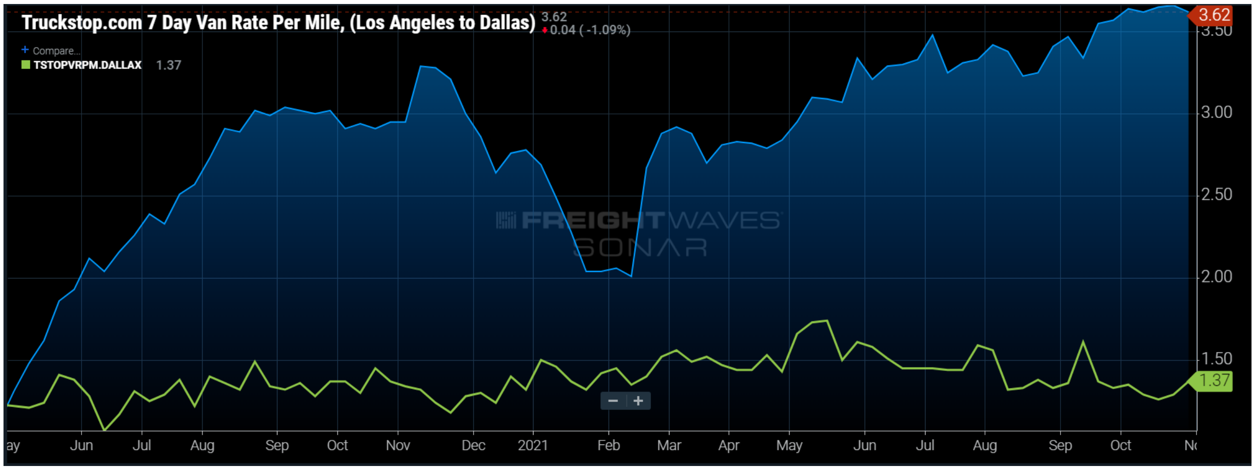

National rejection rates fell throughout the month. After starting around 22%, the national OTRI fell below 20% for the first time since July 31, 2020. Unlike the summer months when the biggest reason for declining rejection rates was diminishing long-haul and growing short-haul volume, price increases appear to be playing the largest role.



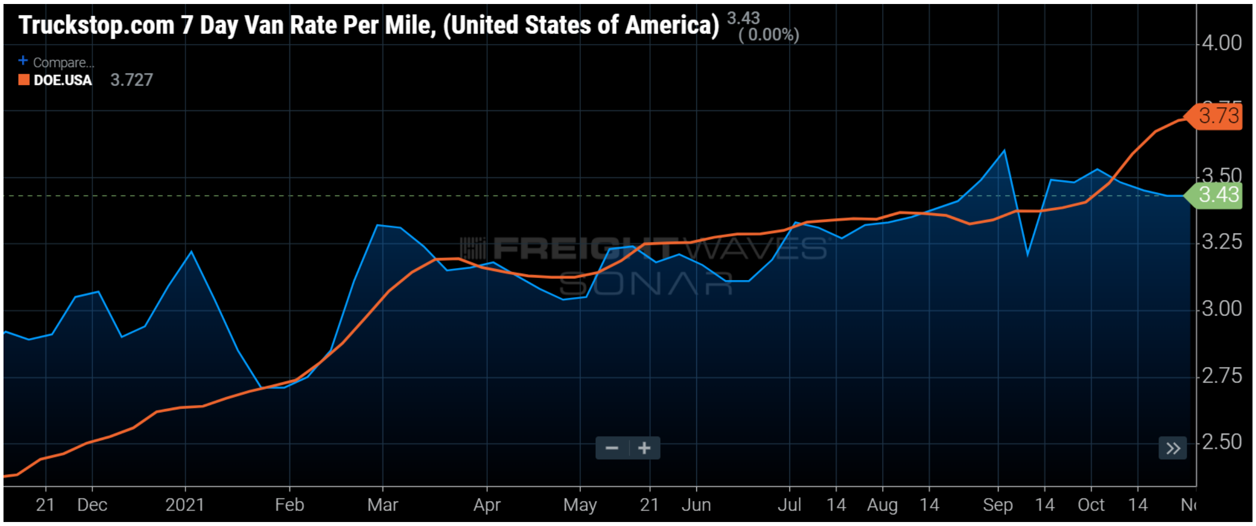

There is no data to suggest there has been a significant increase in capacity as many of the largest national carriers reported contraction in seated equipment in the third quarter, thanks to continued equipment shortages and driver recruiting shortfalls. Employment levels for truck transportation did take a pretty large sequential jump in October, but this number includes all back office jobs for the entire industry (including LTL) and is not isolated to drivers. Employment levels are still below 2019.



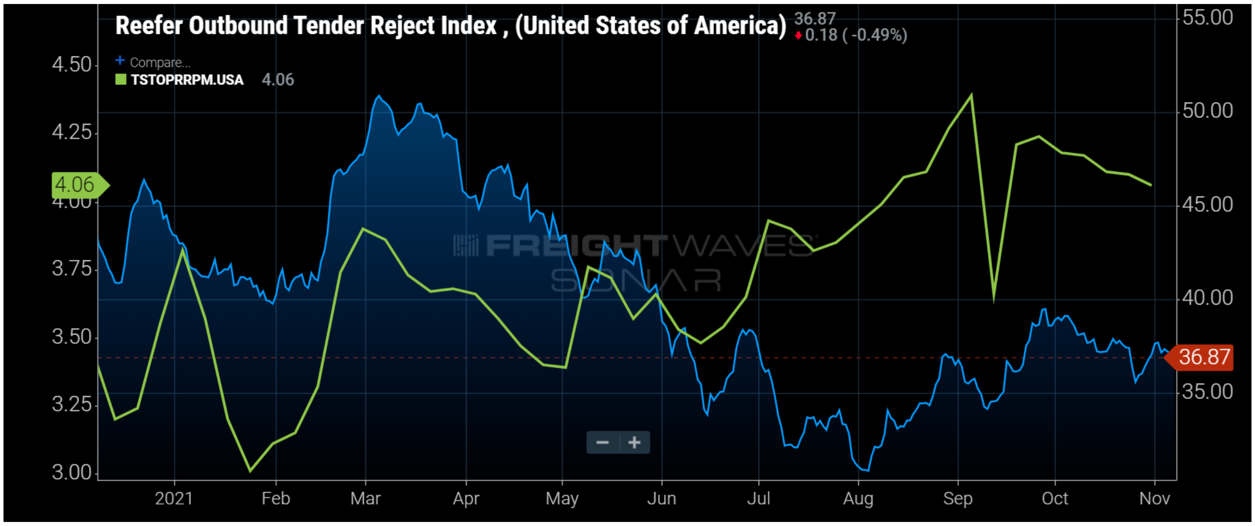

Dry van contract rates took another huge step up in September after plateauing through most of the summer months. This is narrowing the spread between spot and contract rates, but also helping fund some of the repositioning that is necessary to manage a market that is dramatically out of balance in terms of freight flow.




This imbalance is very apparent when looking at the spot rate differential for Los Angeles to Dallas and the return trip. Rates have grown marginally on the east to west lane, while expanding dramatically coming off the West Coast, where imports have flooded the market.




In aggregate, spot rates declined roughly 3% throughout the month, but possibly could have fallen much more if fuel prices had not jumped over 30 cents per gallon. The all-in spot rates reflected in Truckstop.com's top 100 van lanes include fuel surcharges, possibly masking a much stronger decline as carriers will pass along a large percentage of the fuel cost. Increasing contract rates combined with increasing compliance are pushing less capacity to the higher-priced spot market.

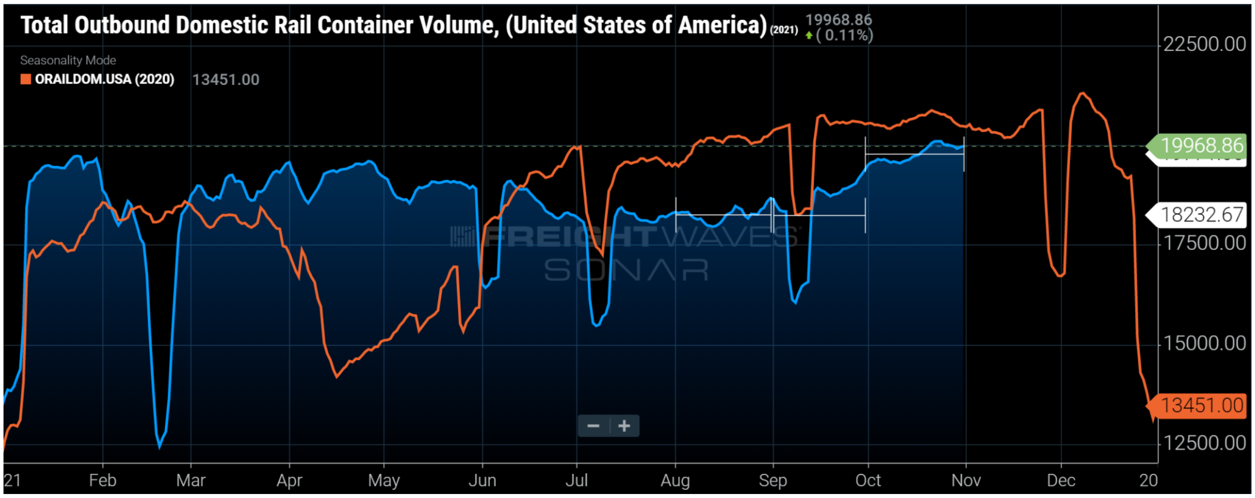



Reefer markets did not move differently than the overall market, but spot market rates declined at a faster pace from a higher level than dry van loads. Reefer rejection rates also eased slightly in October, but remained above September's levels for the most part.

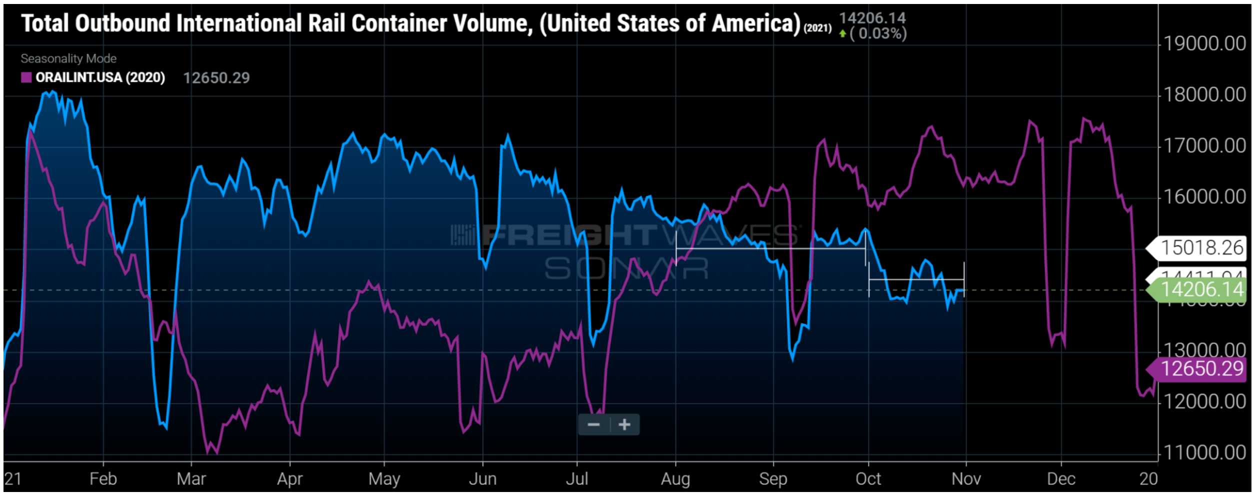

Harvest season in the western regions drove reefer rejection rates higher sequentially in October, while the Southeast and Midwest were slightly lower. The Northwest has had the largest increase in rejection rates post-Labor Day, while West Coast rates have risen slowly. Even with the increase in rejection rates, the Northwest has the second-lowest outbound regional rejection rates in the U.S. – behind the Northeast.

**Intermodal/Rail**

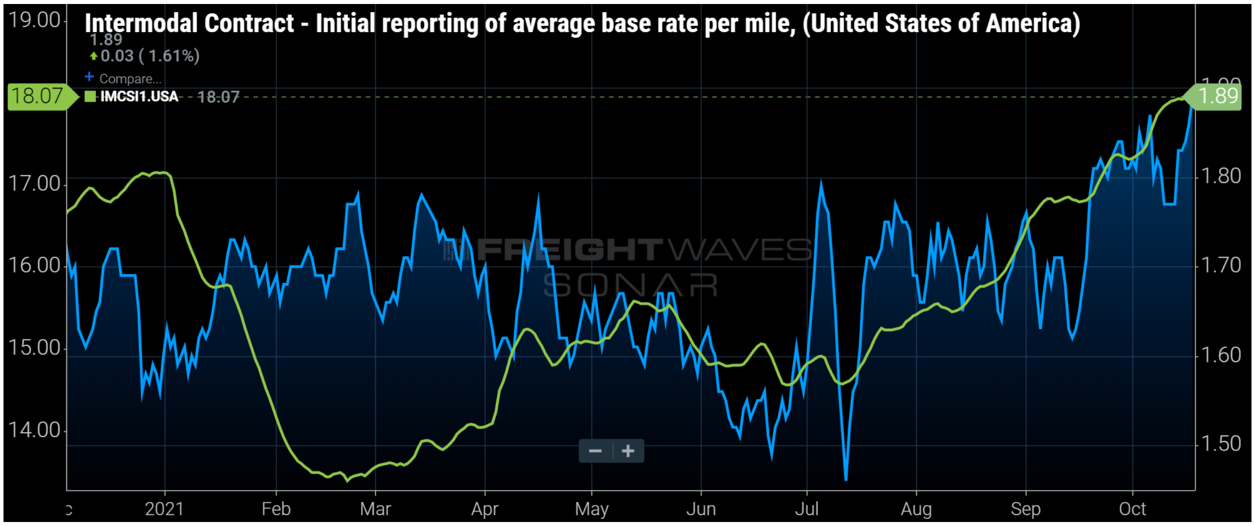
Domestic intermodal volume continues to be a data series in SONAR that is worth watching closely. In October, domestic intermodal volume increased 8.4% from the daily average in August and September. Normally, a rise in volume would suggest greater demand, but there has been plenty of demand for more than a year while capacity has been constrained in recent months by network fluidity and equipment availability issues. Therefore, we interpret the recent improvement in domestic intermodal volume to be the result of improvements in rail network fluidity. That was confirmed by truckload-based domestic intermodal companies (Schneider National and Hub Group); they noted that on their respective earnings conference calls.



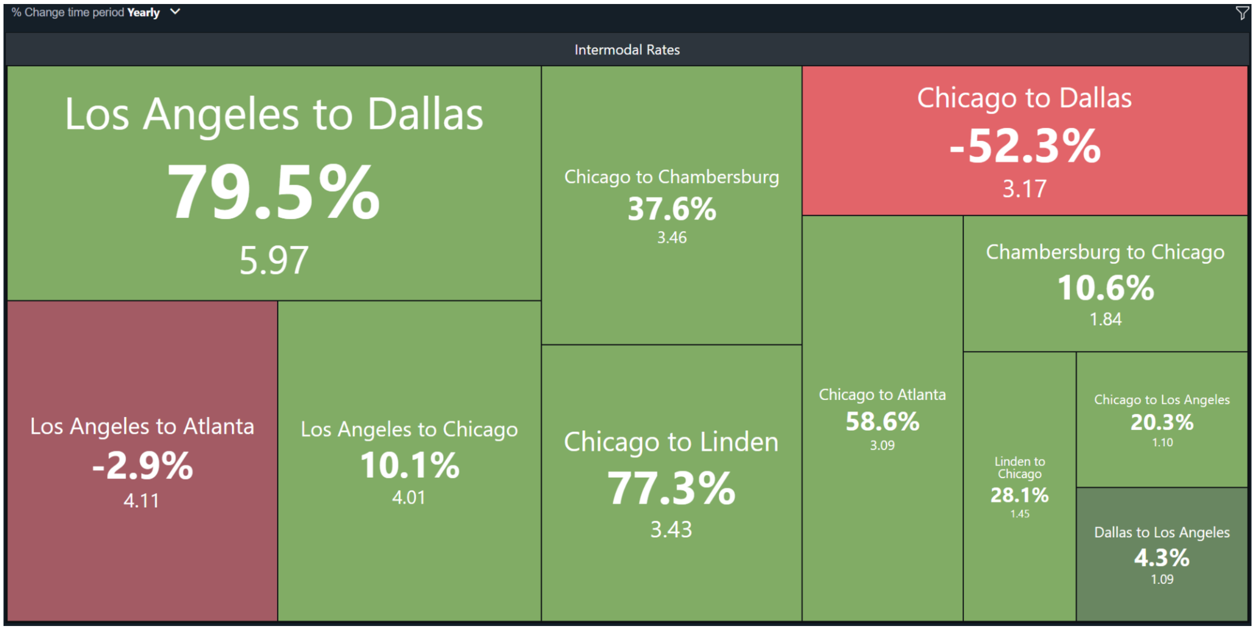

In contrast, international intermodal volume fell 4% in October from August-September levels. While that may indicate a greater volume of transloading on the West Coast (which is likely as ocean carriers continue to look to avoid sending international containers inland to preserve them for their headhaul ocean routes), additional transloading does not tell the whole story. Compared with volumes in August-September, domestic intermodal volume improved by about 1,500 loads per day in October while international intermodal volume declined by about 500 loads per day. In short, it appears that congestion seems to be having a greater negative impact on the international segment with less recent improvement.




The intermodal contract rate data shows intermodal contract rates rising (reaching a new high of $1.89/mile, not including fuel surcharges) at the same time as the “intermodal savings rate” (green line below, which shows the fuel-inclusive percent discount associated with intermodal as compared to truckload in the same lane) is rising. That suggests that truckload contract rates are rising higher than intermodal contract rates, at least when fuel surcharges are included (intermodal has about half the fuel surcharge as truckload so that spread will rise when energy prices are inflationary). The rising intermodal savings rate may also be related to seasonality with more intermodal contracting re-pricing in the first quarter (which also explains why the intermodal savings rate fell in the first quarter of 2021).



The year-over-year (y/y) change in domestic intermodal spot rates for the door-to-door movements of 53' containers (shown below) suggest that intermodal contract rates are also likely to rise further when they are renegotiated. While a small minority of intermodal volumes moves on the spot market at the rates shown below, the frequent changes in those rates indicate changes in market conditions as carriers will attempt to protect capacity for contracted shippers when capacity is tight or use lower rates to encourage the repositioning of equipment. While domestic intermodal spot rates are higher y/y in nine of the 11 densest intermodal lanes, most of those same lanes are flat to down in the past month with Chicago to Linden, New Jersey and Harrisburg/Chambersburg to Chicago being the exceptions.




**Outlook**

Peak season begins in earnest in November. While rejection rates have fallen over the past month, contracted rates have increased significantly, meaning that spot rates are probably as close to a near-term floor as they are going to be until after Christmas. Demand has not slowed nor is it showing any sign of easing. Capacity will only become scarcer over the next two months as drivers take well-earned vacations. Spot rates will more than likely hit new highs right around the holidays, but we do not necessarily expect it to be because of any significant increase in demand. Contracting service windows along with shrinking driver availability will be the main causes. The good news for shippers is that rising contract rates are starting to slowly erode the lack of compliance, meaning that January may not be the extended peak season that many were expecting. This all hinges on consumers taking a breather as well, which did not happen last year.