

Transportation - Trucking

Survey Says: Demand view (49.5) up a tick; Inventory moves down

Industry Overview

Truck Shipper Survey #280, week of April 6th, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **increased to 49.5** from 48.3 last survey, up 3% sequentially. Nevertheless, the Demand Indicator remains sub-50 for the 12th time in the past 13 surveys and sub-60 for the 26th consecutive survey. The Demand Indicator is below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 23% y-y. This continued weakness in demand views suggests a sustained softness in early April, indicating larger economic pressure. Rail carloads fell 5% year-year this week, the 10th downtick in the past 12 weeks, and dry-van spot rates (ex-fuel) are \$1.35/mile, down 18% YTD, down 2% from March's \$1.38 avg. Shippers' short-term Negative outlooks were 33%, up from 27% last survey; Positive outlooks were 33%, up from 22% last survey; and Neutral outlooks were 35%, down from 51%. For the week of April 6, we surveyed 49 shippers to get views on freight demand and supply.

Rates view ticks up, Inventory view falls from highs

The Truck Capacity Indicator, which measures shippers' views of available truckload capacity, **rose to 73.5** from 68.6 last survey, as views of truck availability loosened.

The Rate Indicator, or shippers' views on truck rates, **increased to 34.7** from 31.4, up 11% sequentially, as shipper rate expectations rose into the March-May bid season (when annual contracts renew). **The Inventory Indicator fell to 58.2** from 65.3 last survey, down 11% sequentially, off its all-time high level as shippers see inventory levels improving. With respect to rates, 39% expect rates to fall from 42% last survey, 53% expect flat pricing, flat to last issue, and 8% expect rates to rise from 5% last issue. On capacity, 49% expect capacity to rise from 41% last issue, 49% expect capacity to remain flat from 56% last issue, and 2% expect capacity to be lower from 3% last issue.

SHIPPER COMMENTS: A Materials Shipper noted that calls for freight are increasing. It also noted that salespeople are more aggressive and motivated to find every stich of freight possible. An Industrial Shipper sees aggressive truck and intermodal pricing from asset and broker carriers in 1Q request-for-proposals. (*Shipper Comments cont'd p. 5*).

Bankruptcies a sign of capacity exits; demand still muted

In March, two trucking carriers (Flagship Transport with 455 drivers and Soler & Soler Hauling with 42 drivers) filed for bankruptcy. The carriers highlighted financing pressures and negative cash flows given operating costs and fuel prices in court filings, indicative of the challenging environment for carriers. The trend is reflected in revocations (carrier deactivations minus new authorizations) in January with ~4,000 carriers exiting per FTR and a sequential decline in trucking workforce per February data from the Bureau of Labor Statistics. Demand outlook remains soft yet have stabilized at lows. Freight broker DAT Analytics' load-to-truck ratio, a gauge of demand relative to capacity, is 2:1 since Feb compared to a historical average of 5:1. Spot trucking rates fell to \$1.38/mile in March, below costs of ~\$1.50-\$1.60/mile given the absence of a produce season due to weather. This sets the stage for a 2H rebound for larger carriers should demand remain stable as capacity exits the market. We are focused on leading operators in the truckload sector (JBHT, KNX, SNDR, WERN) since our Jan upgrade.

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Refer to important disclosures on page 8 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 6.

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Equity
Americas
Road Transport/Trucking

BofA
Data
Analytics



Ken Hoexter
Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

Adam Roszkowski, CFA
Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

Nathan Ho, CFA
Research Analyst
BofAS
+1 646 855 3599
nathan.m.ho@bofa.com

Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 49.5

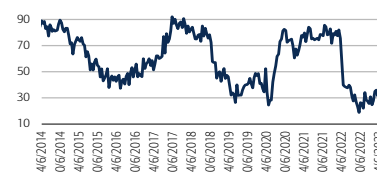


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 34.7



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 49.5, +1.2 pts sequentially

	2019	2020	2021	2022	2023
Jan	1/4 67.3 1/18 76.7	1/3 55.1 1/17 58.1	1/14 63.8 1/28 63.8	1/13 75.0 1/27 70.0	1/12 47.5 1/26 51.3
Feb	2/1 69.8 2/14 53.7	1/31 56.7 2/13 53.1	2/11 67.5 2/25 68.8	2/10 69.5 2/24 71.9	2/9 45.1 2/23 47.6
Mar	2/28 59.2 3/14 60.1	2/27 51.3 3/12 46.1	3/11 72.9 3/25 68.8	3/10 70.3 3/24 69.2	3/9 46.9 3/23 48.3
Apr	3/28 59.2 4/11 61.2	3/26 43.5 4/9 37.2	4/8 73.0 4/22 75.7	4/7 64.1 4/21 58.0	4/6 49.5 4/20 49.5
May	4/25 58.3 5/9 56.6	4/23 33.3 5/7 37.8	5/6 77.6 5/20 78.3	5/5 57.5 5/19 55.0	5/4 5/18
Jun	5/23 52.5 6/6 61.1	5/21 46.2 6/4 54.6	6/3 78.3 6/17 78.1	6/2 58.5 6/16 54.0	6/1 6/15
Jul	6/20 52.5 7/4 52.3	6/18 56.4 7/2 59.3	7/1 75.7 7/15 70.9	6/30 55.5 7/14 50.9	6/29 7/13
Aug	7/18 50.6 8/1 52.6	7/16 62.5 7/30 59.1	7/29 74.3 8/12 73.0	7/28 53.9 8/11 50.0	7/27 8/10
Sep	8/15 51.9 8/29 55.0	8/13 63.5 8/27 71.1	8/26 73.0 9/9 73.6	8/25 54.5 9/8 51.6	8/24 9/7
Oct	9/12 51.9 9/26 55.6	9/10 75.8 9/24 78.1	9/23 75.0 10/8 69.4	9/22 50.0 10/6 47.6	9/21 10/5
Nov	10/10 48.7 10/24 53.8	10/8 73.3 10/22 70.0	10/21 68.3 11/4 76.6	10/20 45.6 11/3 42.4	10/19 11/2
Dec	11/7 55.7 11/21 51.3	11/5 72.5 11/19 69.9	11/18 67.7 12/2 69.7	11/17 50.4 12/1 47.8	11/16 11/30
	12/5 52.3 12/19 51.9	12/3 63.8 12/17 66.3	12/16 68.6 12/30 66.7	12/15 47.2 12/29 49.4	12/14 12/28
		12/31 67.7			

Source: BofA Global Research

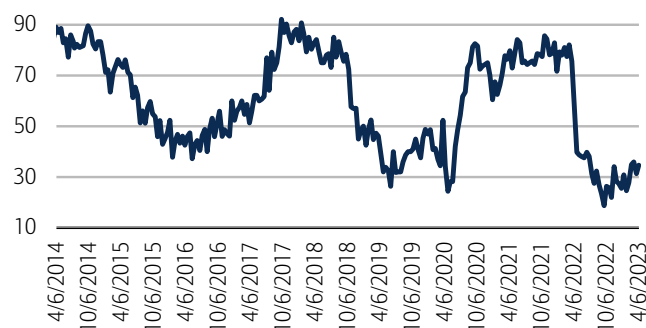
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Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark

SHIPPERS' VIEW OF RATES

Chart 5: Shippers' view of rates over next three months

Rate Indicator at 34.7, +3.3 pts sequentially



Source: BofA Global Research.

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Chart 3: BofA Truckload Demand Diffusion Indicator

0-3 months demand time series; Demand Indicator at 49.5

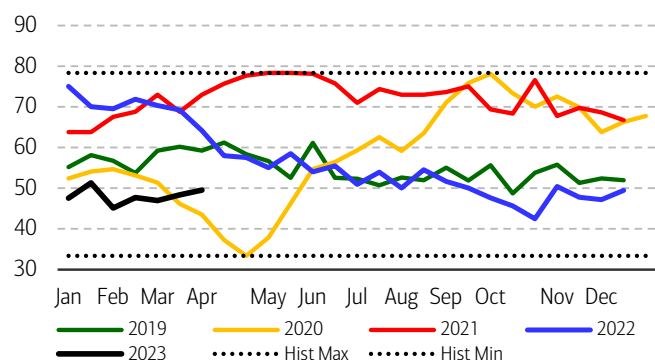


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 49.5



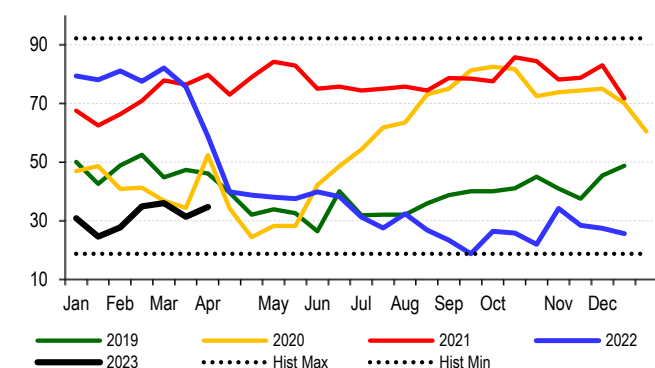
Source: BofA Global Research

Historical Max 04/03/14 (and 5/20-6/3/21). Historical Min 4/23/20. Survey began in mid 2012

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Chart 6: Shippers' view of rates

Stack basis year-over-year; Rate Indicator at 34.7



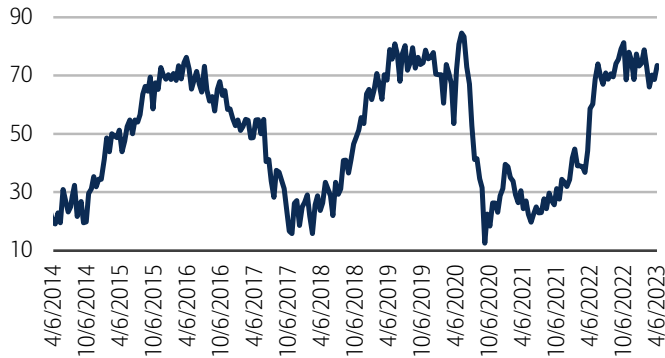
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator decreased to 73.5, still above its historic 50 avg

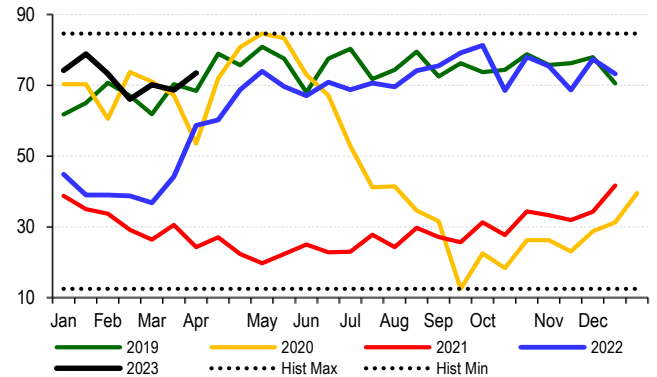


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 73.5



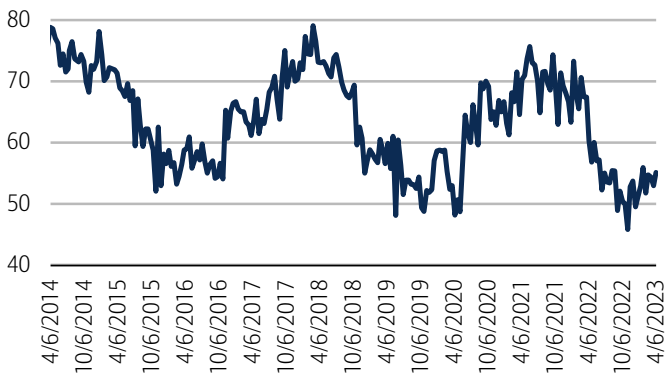
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

Chart 9: Shippers' 6-12 month outlook for freight demand

L-T Demand Indicator at 55.1, up 2.1 pts sequentially

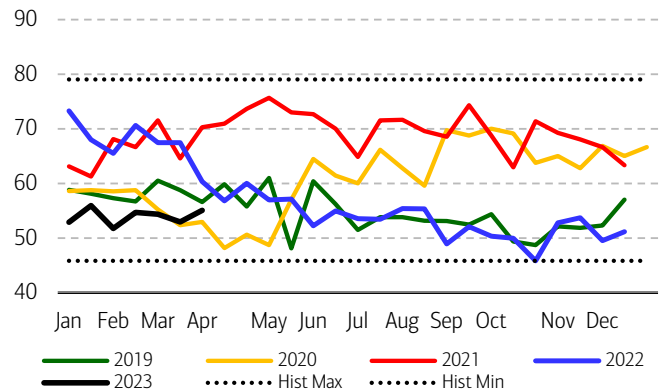


Source: BofA Global Research.

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Chart 10: Shippers' 6-12 mo. outlook for freight demand

Stack basis year-year; Long-Term Demand Indicator at 55.1



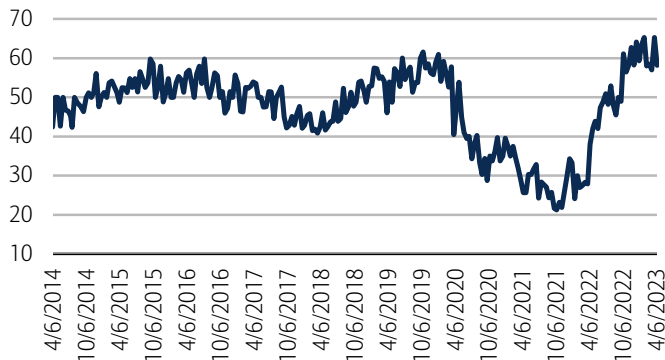
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 58.2, its historic high, down 7.1 pts sequentially

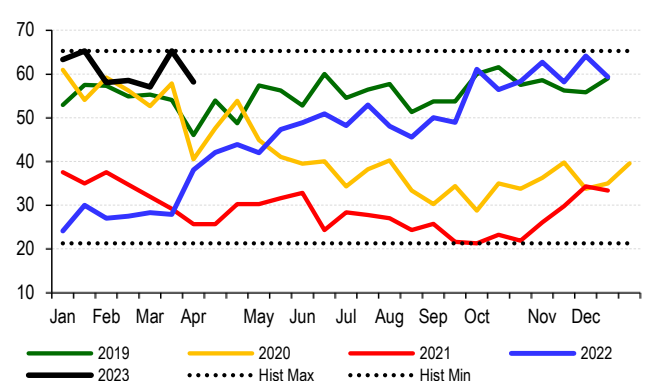


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 58.2



Source: BofA Global Research.

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The survey, which is distributed to approximately 1,300 shipping managers, received responses from a varied mix of all major end markets (retail, consumer goods, industrial, manufacturing, basic materials, healthcare, tech).

Figure 1: Shippers' core end-market

Retail and Manufacturing oriented end-markets



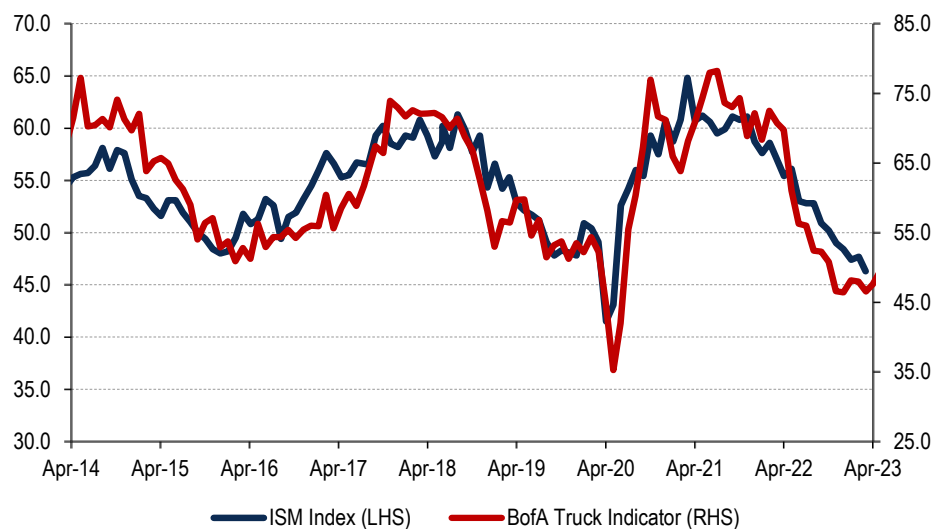
Source: BofA Global Research estimates.

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Correlation between BofA Truck indicator and ISM Index

Chart 13: BofA Truck Indicator and ISM Index

Two data sets have shown correlation since survey inception (0.81 on a one-month leading basis)



Source: BofA Global Research estimates, ISM Index

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Shipper Comments Cont'd

- A Consumer Shipper noted that it is still in the process of receiving responses to its annual request-for-proposals for refrigerated full truckload carriers. It noted that rates are going down and it has been inundated with solicitations from brokers and asset-based carriers.

- A Consumer Shipper noted that things so far are good. It noted that things have been pretty steady the last three months.
- An Industrial Shipper noted that it is heading into a period that rates typically rise due to seasonality. It is still seeing plenty of capacity as well as fierce competition for volume driving rates down. It noted as consumers are getting hammered with inflation, it is starting to see a pullback in orders which is translating to lower volume.
- An Industrial Shipper noted that the market remains flat.
- A Logistics shipper noted that bulk transportation prices seem to be holding.
- An Industrial Shipper noted that dry-rate spot market rates are flat while contract rates are lower. It also noted that flatbed spot market rates are flat to slowly rising in the South, while flat elsewhere, and flatbed contract rates are lower.
- A Logistics Shipper noted that the spot market is still very active with specific lanes still dropping.

Exhibit 1: Stocks Mentioned in Report

Stocks mentioned in this report include: JBHT, KNX, SNDR, and WERN

Ticker	Rating	Price	PO	P/E Target
JBHT	BUY	\$ 170.03	\$ 207	21.5x
KNX	BUY	\$ 54.58	\$ 76	18.5x
SNDR	BUY	\$ 25.86	\$ 35	15.0x
WERN	BUY	\$ 44.41	\$ 56	16.5x

Source: BofA Global Research estimates and Bloomberg

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Price objective basis & risk

J.B. Hunt Transport Services (JBHT, B-1-7)

Our \$207 price objective is based on a 21.5x target multiple of our 2023e EPS. Our target multiple is above the mid-pt of its 16x-23x one standard deviation trading band as earnings are expected to trough in '23. We expect pricing pressure to be somewhat countered with improved operational performance as supply chains improve fluidity. We forecast solid double-digit EPS gains over time, robust Intermodal performance, and potential for improved box turns as rail service improves. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network post competitors shift to UNP.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to BNSF or Norfolk Southern's rail network or J.B. Hunt's relationship with either of those carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

Knight-Swift Transportation Holdings Inc (KNX, B-1-7)

Our \$76 price objective is based on a 18.5x target multiple on our 2023 EPS estimate. Our target multiple is above the bottom of its one-standard-deviation 22-year historical trading range of 15.5x-25x on year ahead estimates, as it nears trough earnings (led by pressure on economic growth and truck spot rate declines). We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions of AAA Cooper and MME, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete its acquisition of US Xpress, which may affect its growth outlook.

Schneider National (SNDR, B-1-7)

Our \$35 PO is based on a 15.0x target multiple on our 2023 EPS estimate. Our target multiple is the mid-point of its 10x-19x historical range. It is at a discount to average of best-in-class peer targets, which include a blend of peer historical averages (50% of SNDR's revs are Truck, which peers trade low double digits, currently, 20% is Intermodal and its peer trade at 20x, 20% is Logistics which peers trade at upper-teens multiples, and 10% is other, or low double-digits), yielding a mid-teen fair value multiple target. SNDR's diverse base is countered by increasing concerns of decelerating economic and freight flows.

Risks to our price objective are a cyclical downturn impacting freight flows, higher-than-expected costs from weather, driver pay, accident claims, fuel costs, and equipment prices. Given Schneider operates in a fragmented market, it may not have pricing power to adjust as costs rise in an improving market to offset an increased cost base.

Additionally, the company is a 'controlled company' given A shares have 10:1 votes and are completely controlled by the Schneider family and trusts.

Werner Enterprises (WERN, B-1-7)

Our \$56 price objective is based on an 16.5x target multiple on our 2023 EPS estimate. Our target multiple is at the midpoint of its 13x-20x historical trading range, as 2023 appears to be WERN's earnings trough as demand bottoms and pricing finds a floor. Werner continues to focus on operational improvements, led by CEO Derek Leathers, which it targets to drive margin improvement.

Downside risks to our price objective are an economic (or freight) downturn, trade of fleet growth for reduced incremental margins, a sustained rise in fuel prices which could increase costs, inability of the company to raise rates, a severe accident, rapidly rising costs (driver pay, insurance, claims, etc.), and larger-than-expected impact from regulatory changes (hours of service, CSA safety rules, electronic on board recorder enforcement, drug and alcohol clearinghouse limitations on drivers, which continue to cull the driver population).

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

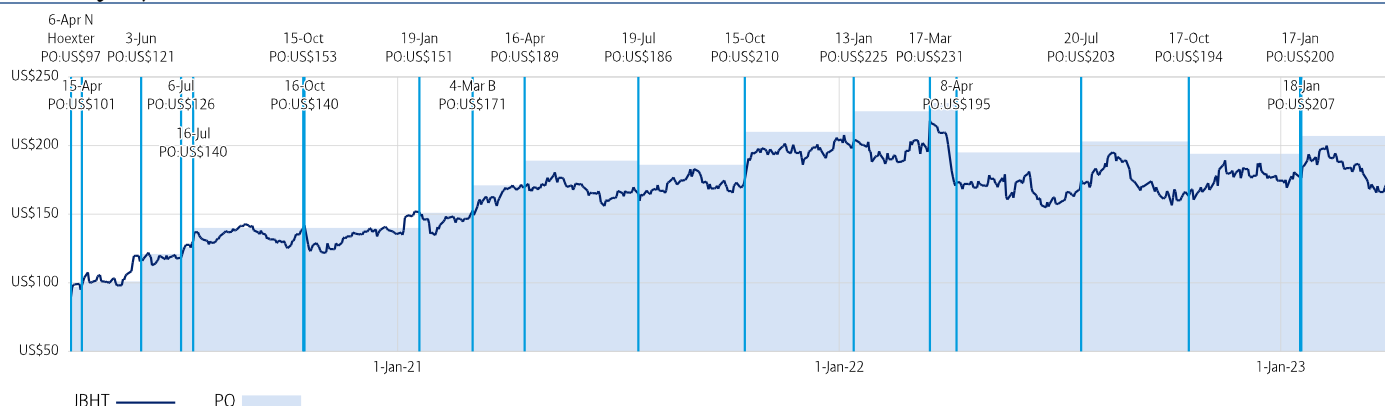
US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian National	CNI	CNI US	Ken Hoexter
	Canadian Pacific Railway	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
NEUTRAL				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
UNDERPERFORM				
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter
	TuSimple	TSP	TSP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter

Disclosures

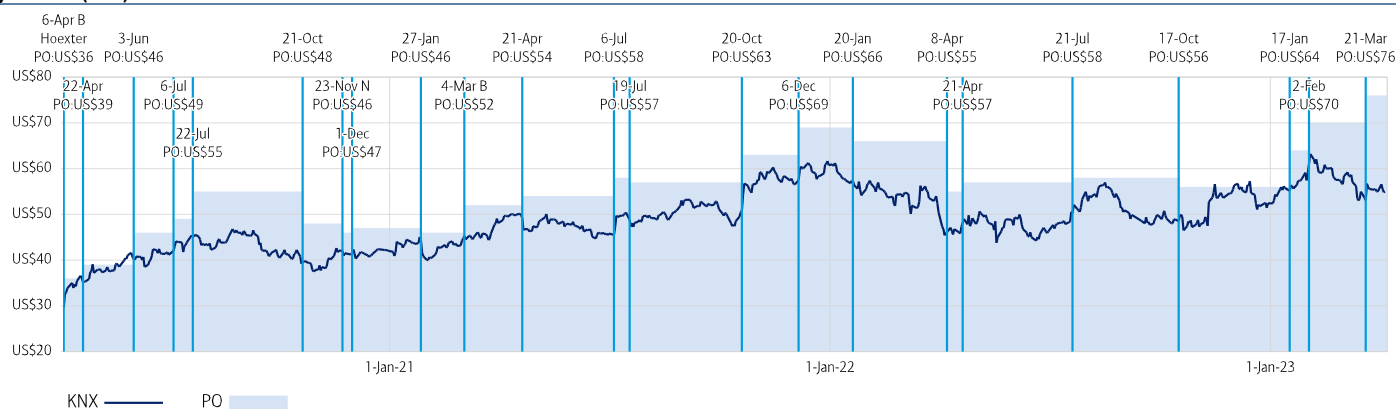
Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart



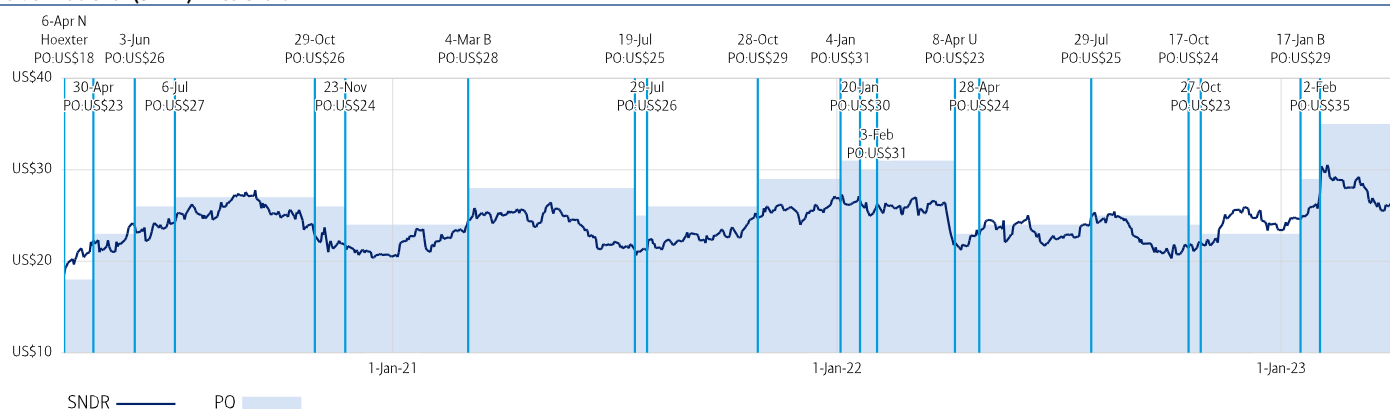
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Knight-Swift (KNX) Price Chart

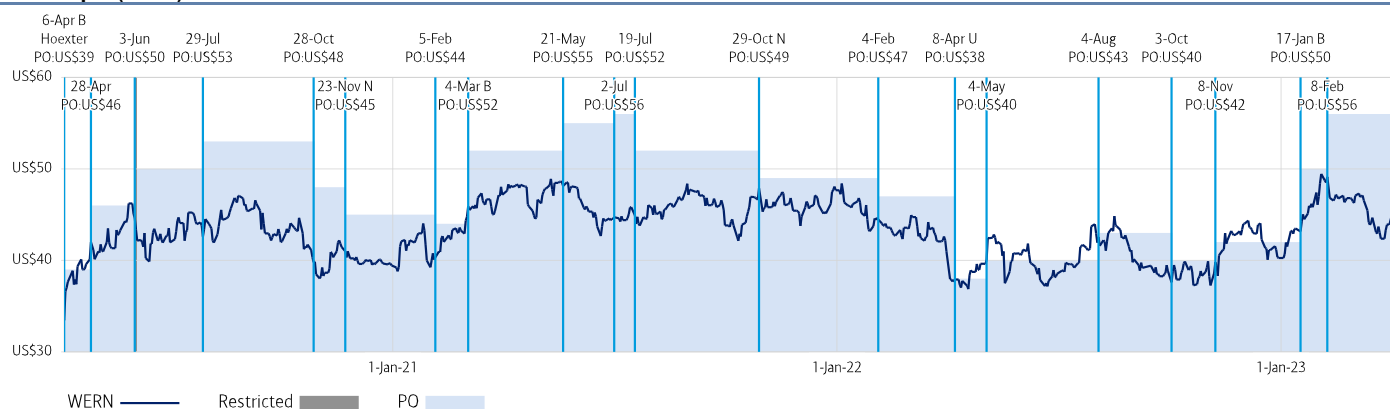
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Schneider National (SNDR) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Werner Enterprises (WERN) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	68	51.52%	Buy	38	55.88%
Hold	28	21.21%	Hold	15	53.57%
Sell	36	27.27%	Sell	18	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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