

## Transportation - Trucking

## Survey Says: Demand view ticks up, equals prior freight recession avgs; base builds

Industry Overview

Truck Shipper Survey #304, week of March 7<sup>th</sup>, 2024

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **increased to 54.2** from 54.1 last survey, its 2<sup>nd</sup> highest level in 80 weeks (40 surveys). The Demand Indicator has been at- or above-50 for 6 consecutive issues and 12x over the past 17. This positive stretch follows a period at or below 50 for 21 of the prior 25 issues (since Feb 2023). The Indicator matches the 54.2 avg during the '12, '15, '19 Freight Recession periods, highlighting an improving but not a breakout backdrop. The Demand Indicator was up 16% year-year, its 13<sup>th</sup> yr-yr uptick in the past 14 issues. Rail carloads rose 2.9% year-year this week, its 5<sup>th</sup> week of upticks. Dry van spot rates ex-fuel were \$1.32/mile, down from \$1.36/mile last week. Of the respondents, 26% had a positive short-term demand outlook, in line with last survey; neutral outlooks were 64%, up from 60% last survey, and negative outlooks were 9%, down from 14% last survey. In the week of March 7<sup>th</sup>, we surveyed 53 shippers for views on truckload demand, supply, pricing, and inventory.

## Capacity ticks higher; Rates and Inventory views up

**The Rate Indicator**, or shippers' view on truck rates, **increased to 50.9** from 50.0 last issue, up 1% seq. **The Inventory Indicator increased to 58.5** from 54.7 last issue, up 7% sequentially, as inventories remain above the 49 historical average. **Truck Capacity Indicator**, which gauges shippers' views of available truck capacity, **increased to 58.5** from 58.1 last survey, yet was the 2<sup>nd</sup> lowest level in 13 surveys as capacity continues to tighten. With respect to rates, 15% of shippers expect rates to fall, up from 12% last issue, 68% expect pricing to be flat, down from 77% last issue, and 17% expect rates to rise, from 12% last issue. On capacity, 30% expect capacity to rise vs 28% last issue, 57% expect capacity to stay flat, from 60% last issue, 13% expect capacity to be lower, up from 12% last issue. **SHIPPER COMMENTS:** A Consumer Shipper noted its April contract rates will be implemented slightly below 2023 levels. A Forest Products shipper sees high customer inventories weighing on deliveries. (*Shipper commentary cont'd p.5*)

## Spot rates decline; Wait for imports to hit mid-March

Dry-van spot rates ex-fuel fell to \$1.32/mile this week from \$1.36/mile last week, down 11% from 2024's peak of \$1.49/mile and down 6% YTD. After an unseasonably tight Jan. due to severe weather, which followed a normalized '23 holiday peak, the momentum in rates moderated into the post-Chinese New Year demand lull. The dry van load to truck ratio fell to 1.0x from 3.0x in Jan. Tender rejection rates fell to 3.7% last week, down from 5.0% at YTD peak, yet still up from 2023's trough of 2.5% (vs 14.0% in post-COVID tightness). The continued softness in demand appears to also be weighing on early bid season. J.B. Hunt (JBHT) noted bid season has been competitive in Dedicated and Intermodal with 20% of its contract renewals completed. Werner noted increased competition in its One-Way (irregular route) bid process, and contractual renewal pressure in its Dedicated fleet. Nevertheless, we expect an improving truck supply-demand balance as capacity continues to exit (72+ weeks of net carrier deactivations since Oct. '22) and look for demand to seasonally improve, aided by the return of West Coast imports and an early produce season. We remain focused on Truckload/related carriers Knight-Swift and JBHT, and Less-than-Truckload (LTL) carriers XPO and SAIA.

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## Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 54.2



Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's rates view; Rate Indicator at 50.9



Source: BofA Global Research.

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# SHIPPERS VIEW OF DEMAND

**Table 1: BofA Truckload Demand Diffusion Indicator**

Demand Indicator: at 54.2, +0.1 pts sequentially.

	2020		2021		2022		2023		2024	
Jan	1/3	55.1	1/14	63.8	1/13	75.0	1/12	47.5	1/11	51.6
	1/17	58.1	1/28	63.8	1/27	70.0	1/26	51.3	1/25	52.8
Feb	1/31	56.7	2/11	67.5	2/10	69.5	2/9	45.1	2/8	50.5
	2/13	53.1	2/25	68.8	2/24	71.9	2/23	47.6	2/22	54.1
Mar	2/27	51.3	3/11	72.9	3/10	70.3	3/9	46.9	3/8	54.2
	3/12	46.1	3/25	68.8	3/24	69.2	3/23	48.3	3/22	
Apr	3/26	43.5	4/8	73.0	4/7	64.1	4/6	49.5	4/5	
	4/9	37.2	4/22	75.7	4/21	58.0	4/20	44.4	4/19	
	4/23	33.3	5/6	77.6	5/5	57.5	5/4	49.5	5/3	
May	5/7	37.8	5/20	78.3	5/19	55.0	5/18	44.3	5/17	
	5/21	46.2	6/3	78.3	6/2	58.5	6/1	42.6	5/31	
Jun	6/4	54.6	6/17	78.1	6/16	54.0	6/15	47.9	6/14	
	6/18	56.4	7/1	75.7	6/30	55.5	6/29	49.4	6/28	
Jul	7/2	59.3	7/15	70.9	7/14	50.9	7/13	47.1	7/12	
	7/16	62.5	7/29	74.3	7/28	53.9	7/27	50.0	7/26	
Aug	7/30	59.1	8/12	73.0	8/11	50.0	8/10	55.2	8/9	
	8/13	63.5	8/26	73.0	8/25	54.5	8/24	51.0	8/23	
Sep	8/27	71.1	9/9	73.6	9/8	51.6	9/7	52.4	9/6	
	9/10	75.8	9/23	75.0	9/22	50.0	9/21	50.0	9/20	
Oct	9/24	78.1	10/8	69.4	10/6	47.6	10/5	48.9	10/4	
	10/8	73.3	10/21	68.3	10/20	45.6	10/19	52.5	10/18	
	10/22	70.0	11/4	76.6	11/3	42.4	11/2	47.7	11/1	
Nov	11/5	72.5	11/18	67.7	11/17	50.4	11/16	44.4	11/15	
	11/19	69.9	12/2	69.7	12/1	47.8	11/30	49.0	11/29	
Dec	12/3	63.8	12/16	68.6	12/15	47.2	12/14	49.0	12/13	
	12/17	66.3	12/30	66.7	12/29	49.4	12/28	52.4	12/27	
	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 50.9, +2% 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 54.2

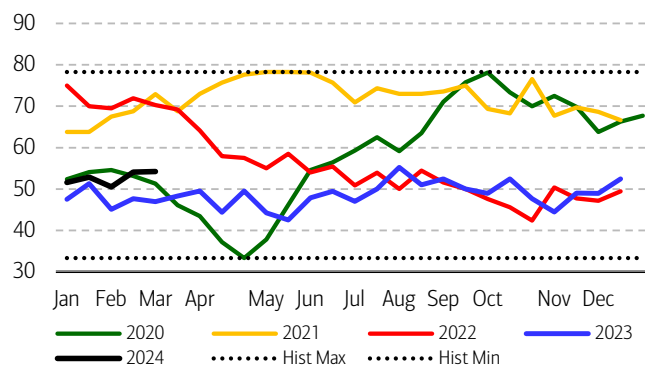


Source: BofA Global Research

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**Chart 4: BofA Truckload Demand Diffusion Indicator**

0-3 months demand outlook – stack basis y-y; Demand Indicator at 54.2



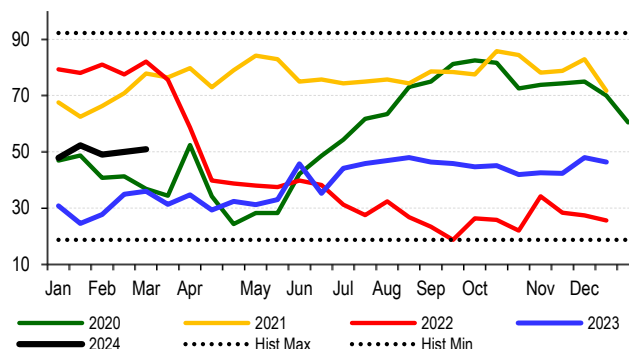
Source: BofA Global Research

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 50.9



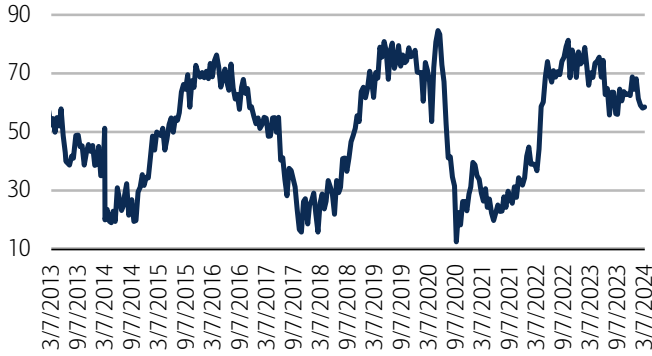
Source: BofA Global Research.

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# CAPACITY AVAILABILITY

**Chart 7: Shippers' view of available capacity**

Capacity Indicator at 58.5, up 1% sequentially

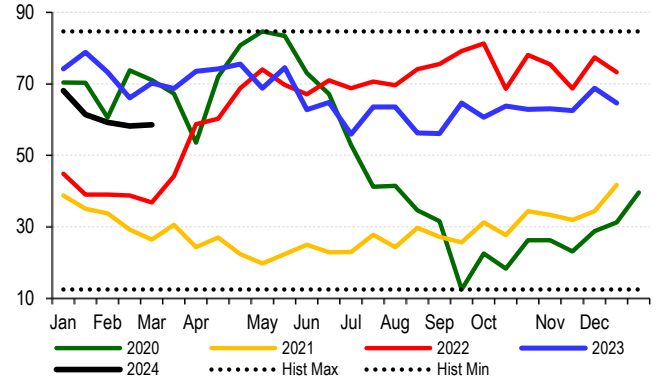


Source: BofA Global Research.

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**Chart 8: Shippers' view of available capacity**

Stack basis year-year; Capacity Indicator at 58.5



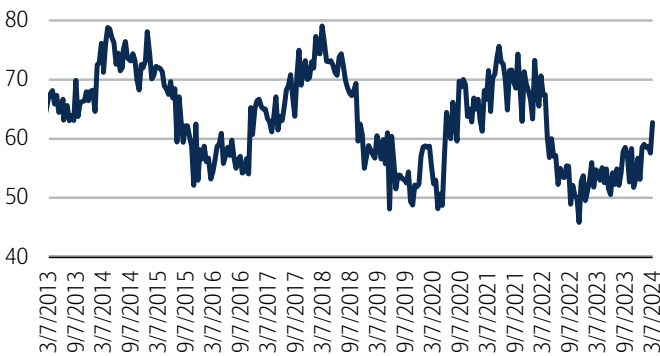
Source: BofA Global Research.

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# 6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 62.7, up 9% sequentially

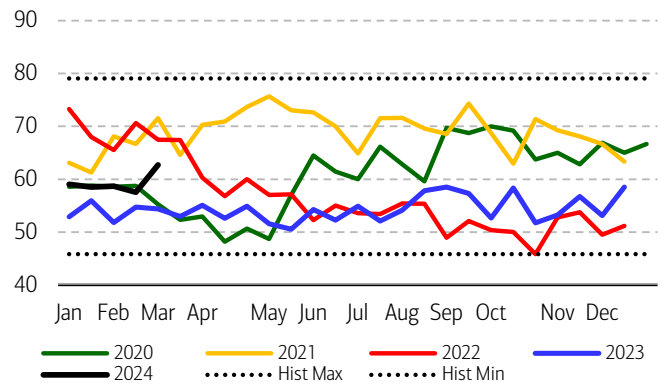


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 62.7



Source: BofA Global Research.

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# INVENTORY

**Chart 11: Shippers' view of inventory levels**

Inventory Indicator at 58.5, up 7% from last issue.

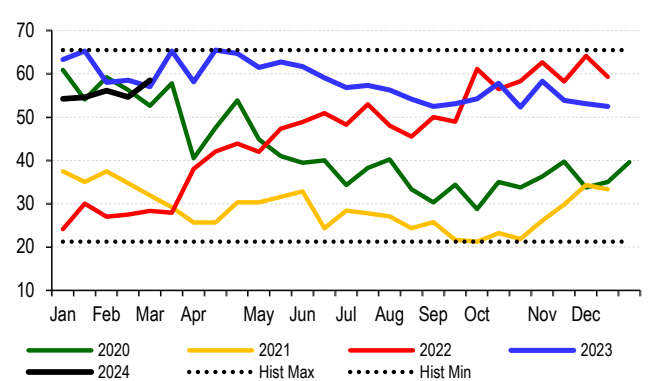


Source: BofA Global Research.

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**Chart 12: Shippers' view of inventory levels**

Stack basis year-year; Inventory Indicator at 58.5



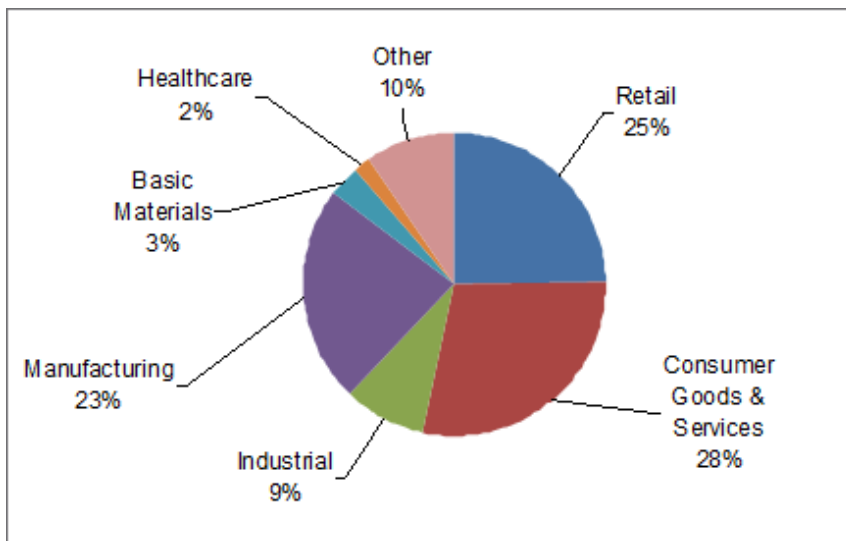
Source: BofA Global Research.

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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 truckload spot rates started off March weak and lost all momentum from harsh weather in Jan
- A Consumer Shipper noted its view of spot rates has shifted to "flat", from "up", from two weeks ago.

- A Consumer Shipper noted truckers are desperate for freight, and the near-record low spot market is driving down contracted rates.

### Exhibit 1: Stocks Mentioned

Stocks mentioned includes JBHT, KNX, XPO, ODFL, SAIA

Ticker	Company	QRQ	Rating	Price	PO
JBHT	J.B. Hunt Transport Services	B-1-7	Buy	\$ 202.29	\$ 228
KNX	Knight-Swift Transportation	B-1-7	Buy	\$ 56.39	\$ 64
XPO	XPO, Inc	C-1-9	Buy	\$ 127.97	\$ 137
ODFL	Old Dominion Freight Line	B-2-7	Neutral	\$ 443.07	\$ 446
SAIA	Saia, Inc	B-1-9	Buy	\$ 601.36	\$ 645

Source: BofA Global Research and Bloomberg.

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## Price objective basis & risk

### J.B. Hunt Transport Services (JBHT)

Our \$228 price objective is based on a 28x target multiple of our 2024E EPS estimate. Our target multiple is above its 16x-23x one standard deviation trading band as earnings troughed in 2023 and begin to recover in 2024. We expect pricing pressure, a lagging indicator to volumes, to be somewhat countered with improved rail 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. The company also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network.

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)

Our \$64 price objective is based on a 25.5x target multiple on our 2024 EPS estimate. Our target multiple is above the upper end of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it moves past trough earnings. 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, 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.

### Old Dominion Freight Line (ODFL)



Our \$446 price objective is based on a 35.5x target multiple on our 2024 EPS estimate. Our target multiple is above the company's 20-year historical one-standard-deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as Yellow declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. A potential return of Yellow capacity could lead to increased freight capacity and negative pricing pressures.

Upside risks to our PO are stronger than expected pricing acceleration. A faster-than-anticipated recovery in macro demand could lead to more robust earnings given the high operating leverage built into ODFL's operating model. The sudden exit of a peer operator could potentially drive additional tightness in LTL capacity, leading to higher-than-expected pricing.

#### **Saia Inc. (SAIA)**

Our \$645 price objective is based on a 39x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business.

#### **XPO, Inc. (XPO)**

Our \$137 price objective is based on a 37x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan and its purchase of Yellow real estate.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

## **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.

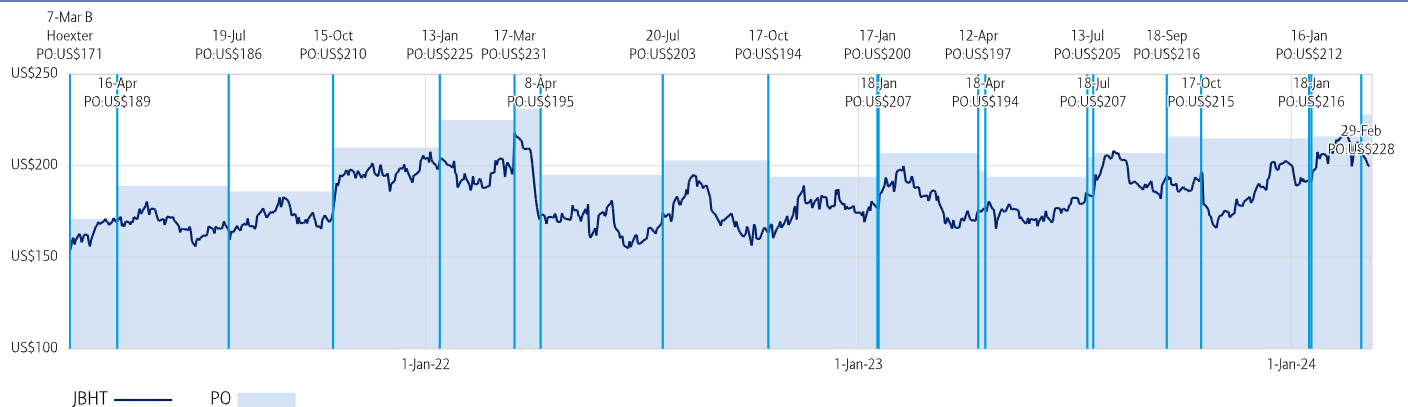
## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Canadian Pacific Kansas City Ltd	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
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>NEUTRAL</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL 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
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
<b>UNDERPERFORM</b>				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter
<b>RSTR</b>				
	Norfolk Southern	NSC	NSC US	Ken Hoexter

## Disclosures

## Important Disclosures

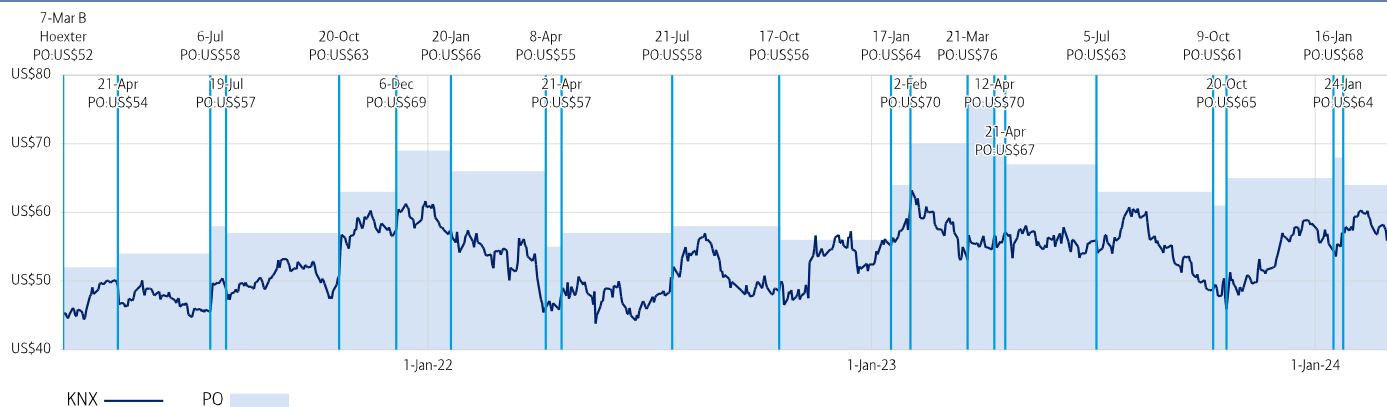
## J.B. Hunt Trans (JBHT) Price Chart



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

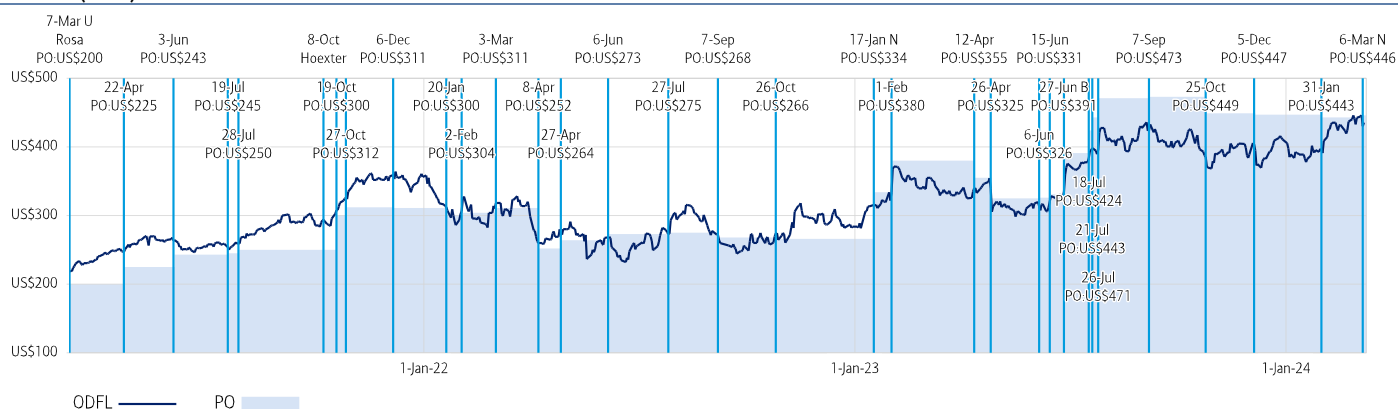
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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**

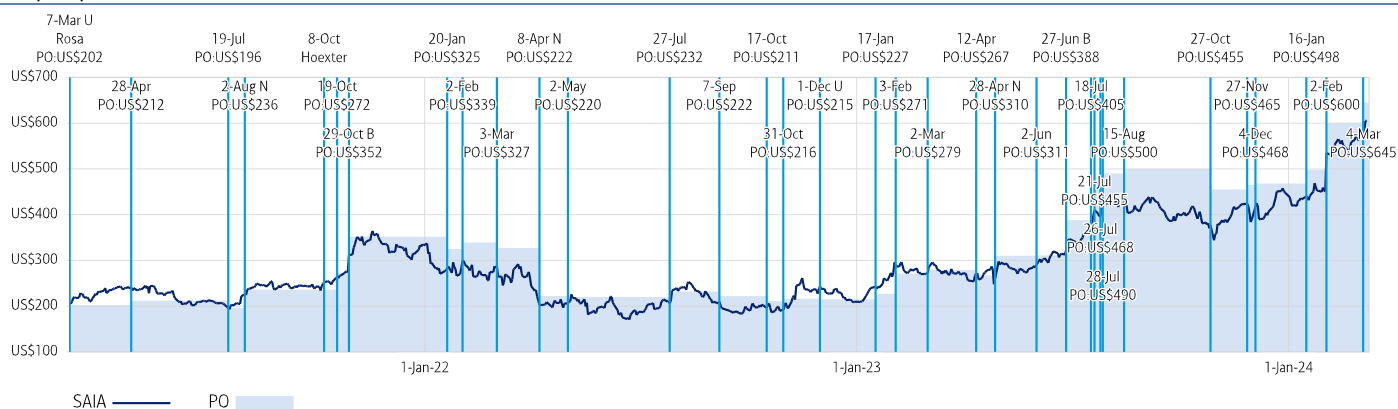
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Old Dominion (ODFL) Price Chart**

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

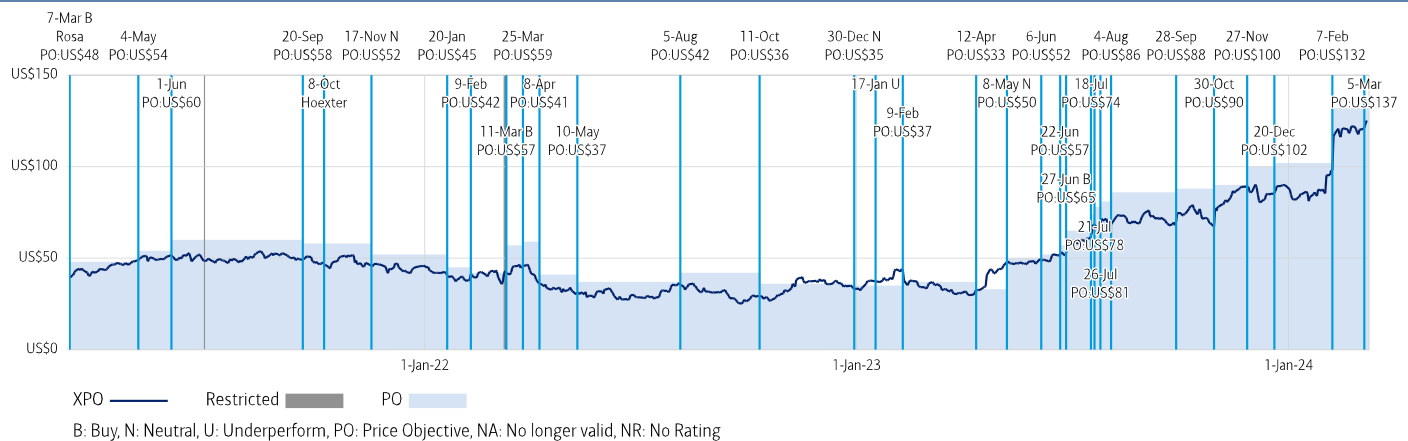
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**Saia Inc. (SAIA) Price Chart**

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.



**XPO, Inc. (XPO) Price Chart**

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 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> 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). Our investment ratings are: 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. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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