

Transportation - Trucking

Survey Says: Demand view (48.3) ticks up, but stays sub-50; Inventory to all-time high

Industry Overview

Truck Shipper Survey #279, week of March 23rd, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **increased to 48.3 from 46.9 last survey**, up 3% sequentially. Nevertheless, the Demand Indicator remains sub-50 for the 11th time in the past 13 surveys and sub-60 for the 25th consecutive survey. The Indicator is well below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 30% y-y. This continued weakness in demand views suggests a continued soft patch in early to mid-March, indicating larger than expected economic pressure. Rail carloads fell 6% year-year this week, the 8th downtick in the past 10 weeks, and dry-van spot rates (ex-fuel) are \$1.39/mile, down 15% YTD, down 10% from Feb's \$1.54 avg, but holding around that level for the 3rd consecutive week. Shippers' short-term Negative outlooks were 27%, down from 37% last survey, Positive outlooks were 22%, down from 26% last survey, and Neutral outlooks were 51%, up from 37%. For the week of March 23, we surveyed 59 shippers to get views on freight demand and supply.

Inventory reaches historic-high; Rates falls into bid season

The **Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **fell to 68.6 from 70.2 last survey**, as views of truck availability slightly tightened. The **Rate Indicator**, or shippers' views on truck rates, **decreased to 31.4 from 36.0**, down 13% sequentially, as shipper rate expectations fell into the beginning of the March-May bid season (when many annual contracts renew). The **Inventory Indicator increased to 65.3 from 57.0 last survey**, up 14% sequentially, reaching its prior all-time high level as shippers continue to see overstocked inventory. With respect to rates, 42% expect rates to fall, up from 37% last survey, 53% expect flat pricing, down from 54% last issue, and 5% expect rates to rise, down from 9% last issue. On capacity, 41% expect capacity to rise, down from 46% last issue, 56% expect capacity to remain flat, up from 49% last issue, and 3% expect capacity to be lower, down from 5% last issue. **SHIPPER COMMENTS:** An Industrial Shipper noted a lot of uncertainty with the economic slowdown. Carriers told the shipper to just keep them as whole on volume as possible and the carriers would put the rate where the shipper wants. It noted it has never seen this level of uncertainty in 30 years. A Consumer Shipper is seeing trucking companies close shop, as taking rate reductions was untenable. It believes this could help balance the market over the long-term. (*Shipper Comments cont'd p. 5*).

Large truckload operators see M&A opportunities

With spot dry-van rates ex-fuel declining to \$1.39 per mile from \$1.64 at the end of 2022, truck pricing has fallen below average carrier's cost floor for operations (American Transportation Research Institute's noted 10-year average carrier cost of \$1.62/mile and freight broker C.H. Robinson's estimates carrier breakeven range of \$1.50-\$1.60/mile). Schneider National noted more attractive pricing for takeover targets within the Dedicated trucking space as well as a rising number of family-ran trucking businesses looking to sell. Knight-Swift's moved to acquire US Xpress this week, the third largest truckload merger in history. We expect further moves by large truckers and remain focused on 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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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 48.3

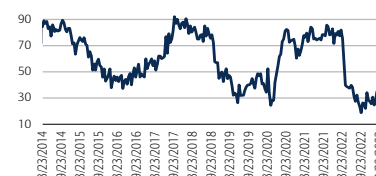


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 36.0



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 48.3, +1.4 pts sequentially

	2019	2020	2021	2022	2023
Jan	1/4 67.3	1/3 55.1	1/14 63.8	1/13 75.0	1/12 47.5
	1/18 76.7	1/17 58.1	1/28 63.8	1/27 70.0	1/26 51.3
Feb	2/1 69.8	1/31 56.7	2/11 67.5	2/10 69.5	2/9 45.1
	2/14 53.7	2/13 53.1	2/25 68.8	2/24 71.9	2/23 47.6
Mar	2/28 59.2	2/27 51.3	3/11 72.9	3/10 70.3	3/9 46.9
	3/14 60.1	3/12 46.1	3/25 68.8	3/24 69.2	3/23 48.3
Apr	3/28 59.2	3/26 43.5	4/8 73.0	4/7 64.1	4/6
	4/11 61.2	4/9 37.2	4/22 75.7	4/21 58.0	4/20
	4/25 58.3	4/23 33.3	5/6 77.6	5/5 57.5	5/4
May	5/9 56.6	5/7 37.8	5/20 78.3	5/19 55.0	5/18
	5/23 52.5	5/21 46.2	6/3 78.3	6/2 58.5	6/1
Jun	6/6 61.1	6/4 54.6	6/17 78.1	6/16 54.0	6/15
	6/20 52.5	6/18 56.4	7/1 75.7	6/30 55.5	6/29
Jul	7/4 52.3	7/2 59.3	7/15 70.9	7/14 50.9	7/13
	7/18 50.6	7/16 62.5	7/29 74.3	7/28 53.9	7/27
Aug	8/1 52.6	7/30 59.1	8/12 73.0	8/11 50.0	8/10
	8/15 51.9	8/13 63.5	8/26 73.0	8/25 54.5	8/24
Sep	8/29 55.0	8/27 71.1	9/9 73.6	9/8 51.6	9/7
	9/12 51.9	9/10 75.8	9/23 75.0	9/22 50.0	9/21
Oct	9/26 55.6	9/24 78.1	10/8 69.4	10/6 47.6	10/5
	10/10 48.7	10/8 73.3	10/21 68.3	10/20 45.6	10/19
	10/24 53.8	10/22 70.0	11/4 76.6	11/3 42.4	11/2
Nov	11/7 55.7	11/5 72.5	11/18 67.7	11/17 50.4	11/16
	11/21 51.3	11/19 69.9	12/2 69.7	12/1 47.8	11/30
Dec	12/5 52.3	12/3 63.8	12/16 68.6	12/15 47.2	12/14
	12/19 51.9	12/17 66.3	12/30 66.7	12/29 49.4	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 31.4, -4.6 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 48.3

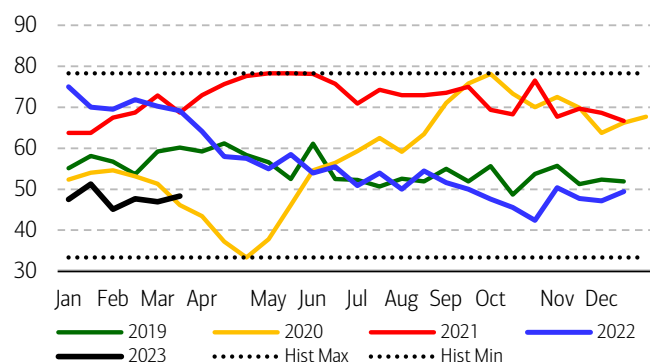


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 48.3



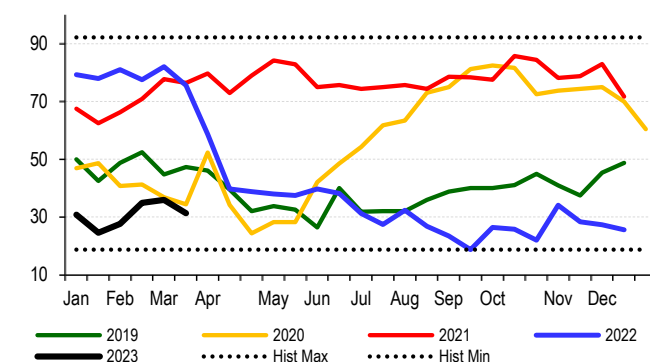
Source: BofA Global Research

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 31.4



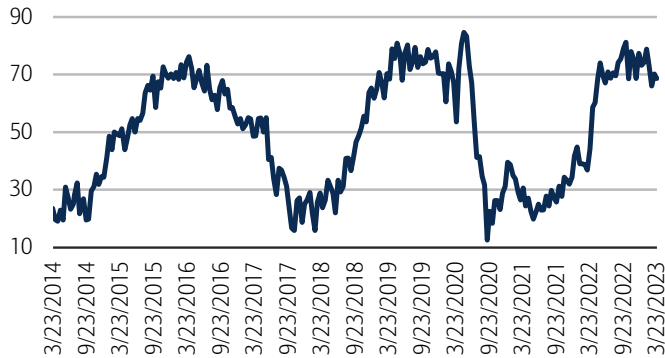
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator decreased to 68.6, still above its historic 50 avg

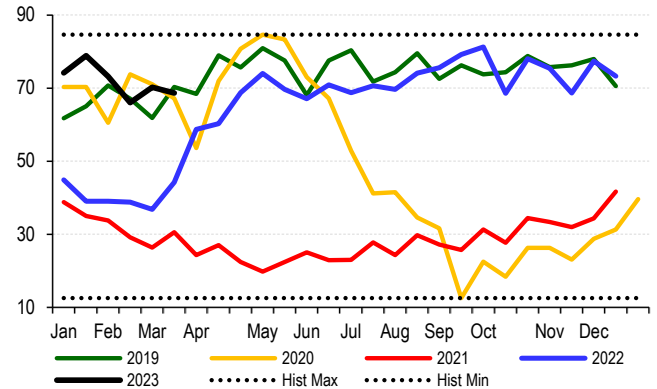


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 68.6



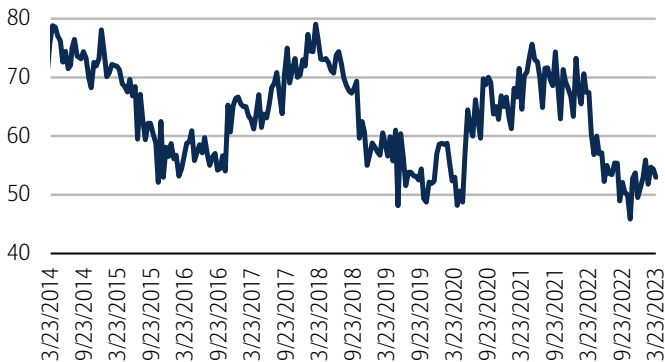
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 53.0, down 1.4 pts sequentially

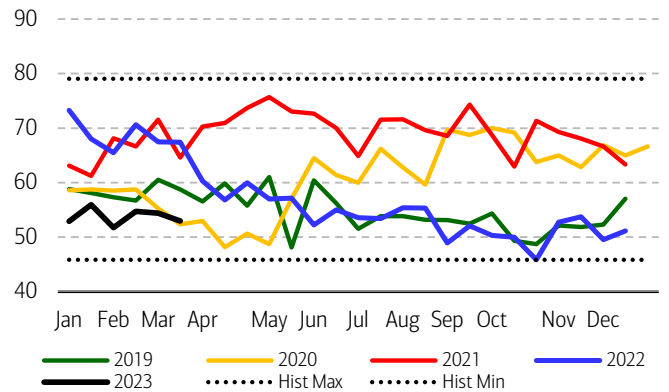


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 53.0



Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 65.3, its historic high, up 8.3 pts sequentially

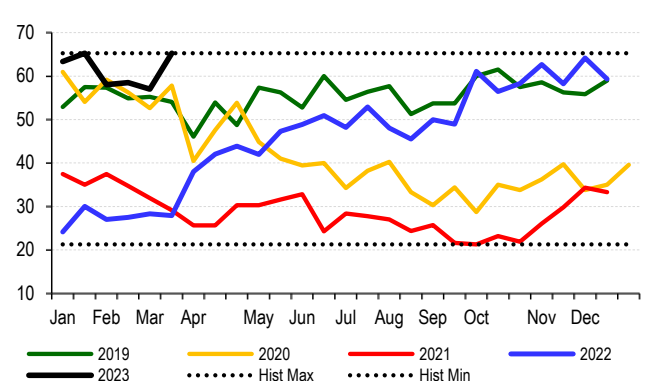


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 65.3



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



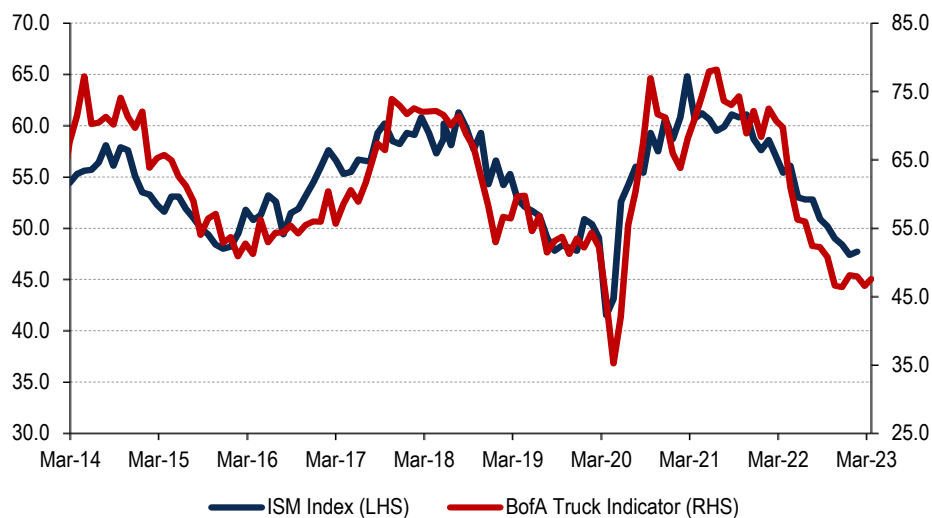
Source: BofA Global Research estimates.

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Correlation between BofA Truck indicator and ISM Index

Chart 13: BofA Truck Indicator and ISM Index

2 data sets have shown strong correlation since survey inception



Source: BofA Global Research estimates, ISM Index

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Shipper Comments Cont'd

- A Forest Products Shipper is benefitting from aggressive bid pricing by asset and broker carriers in current sourcing activity.
- An Industrial Shipper noted activity levels remain flat.
- Another Industrial Shipper sees lower truck supply based on expectations of increased business closings and/or bankruptcies, mostly at smaller carriers.

- A Materials Shipper noted that contract rates are down 10% vs 2Q22.
- A Consumer Shipper noted service levels continue to improve across all modes.
- A Finance/Retail shipper noted a carrier is implement a 5% rate increase for 75% of its services. It noted the increase is effective April 1st and is expected to have low dollar value impact.

Exhibit 1: Stocks Mentioned in Report

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

Ticker	Rating	Price	PO	P/E	P/E Target
JBHT	BUY	\$ 165.96	\$ 207	17.3x	21.5x
KNX	BUY	\$ 55.56	\$ 76	13.6x	18.5x
SNDR	BUY	\$ 25.55	\$ 35	11.1x	15.0x
WERN	BUY	\$ 42.30	\$ 56	12.6x	16.5x

Source: BofA Global Research estimates and Bloomberg

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Price objective basis & risk

J.B. Hunt Transport Services (JBHT)

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)

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)

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)

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.

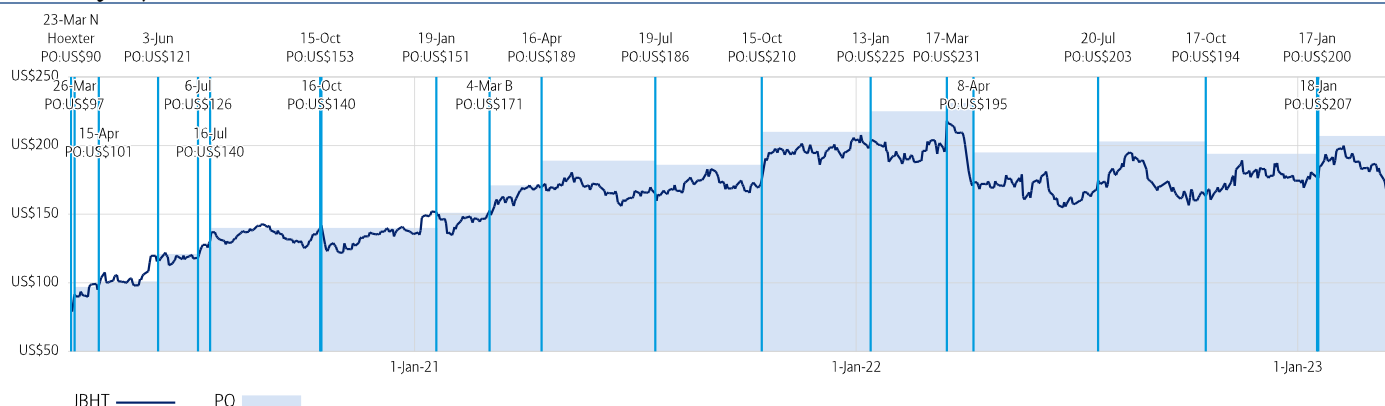
US - Transportation Coverage Cluster

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

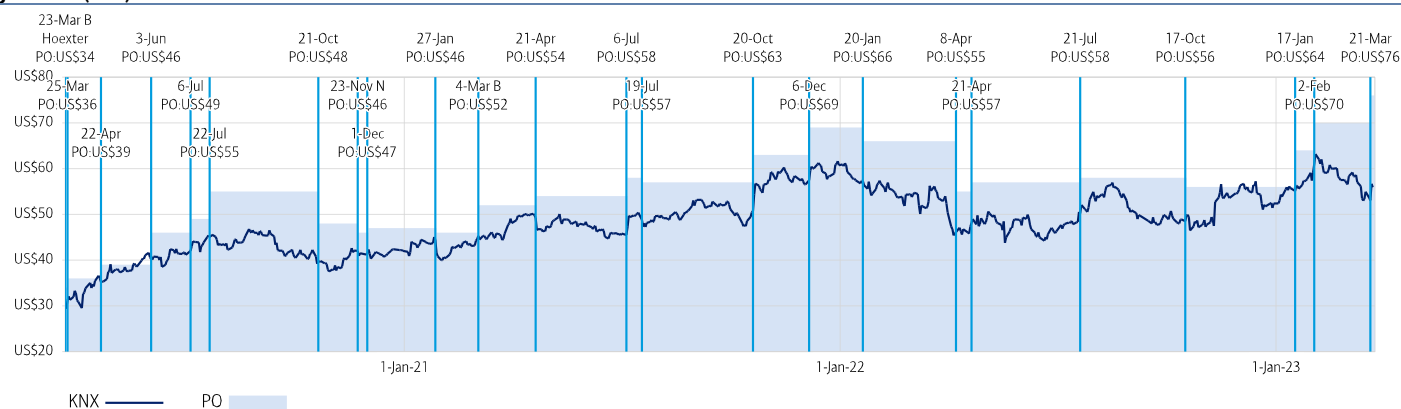
Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart



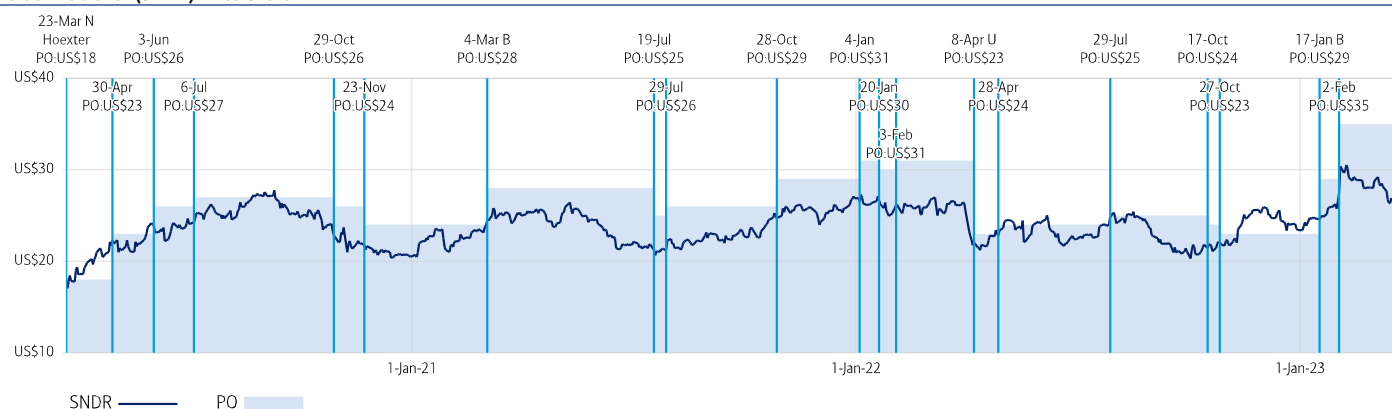
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

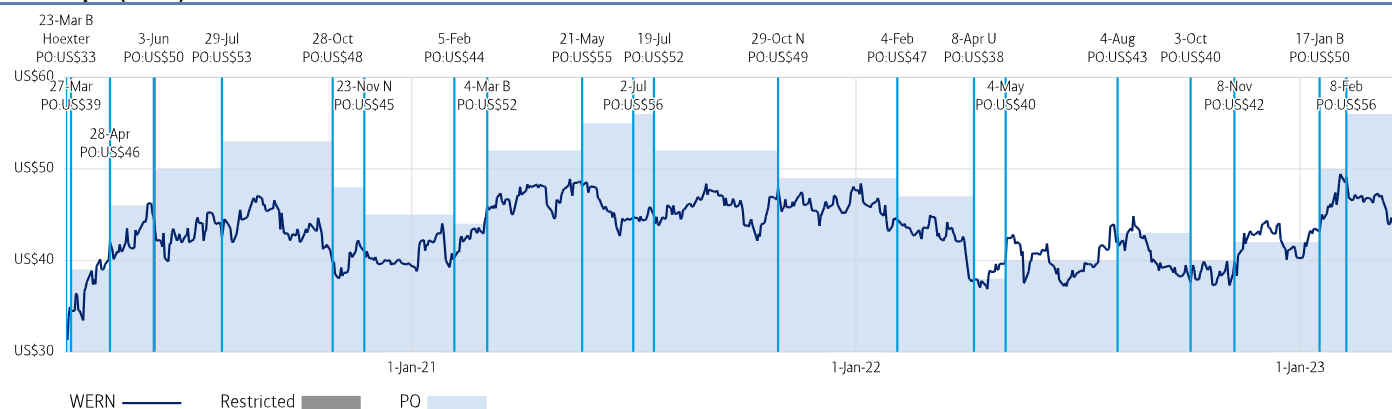
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	51.15%	Buy	40	59.70%
Hold	26	19.85%	Hold	15	57.69%
Sell	38	29.01%	Sell	19	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

^{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.

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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.

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